

## **Public-offer Prospectus of Ordinary Shares**

**Gorenje, d.d.**

Velenje, Slovenia, April 2007

# 1. Public-offer Prospectus Extract of Ordinary Shares Gorenje, d.d.

## 2. Issuer of Shares

Gorenje gospodinjski aparati, d.d., Partizanska 12, 3503 Velenje

The company's share capital, registered in the court register on the day 10 April 2007 amounts to EUR 50,909,697.88<sup>1</sup> (SIT 12,200,000,000.00).

## 3. Share Type

Issuer's share is an ordinary, registered share, freely transferable with no par value, issued in dematerialised form with the mark GRVG and ISIN code SI0031104076, which form the same class with already issued Issuer's shares.

## 4. Total Nominal Value of the Issue

The total share's issue subject to this prospectus shall amount to EUR 7,636,454.68 (SIT 1,830,000,000.00).

The company's present share capital amounts to EUR 50,909,697.88 (SIT 12,200,000,000.00) and is divided into 12,200,000 ordinary, freely transferable registered shares with no par value.

After the registration of conclusion for the increase of a company's share capital, the share capital will amount to EUR 58,546,152.56 (SIT 14,030,000,000.00) and will be divided into 14,030,000 ordinary, freely transferable, registered shares with no par value.

## 5. Number of Shares and Nominal Value of Single Share

The number of issued shares to which this prospectus relates is 1,830,000 shares GRVG. Shares will be issued as no par value shares without nominal value.

## 6. Share's Selling Price

Share's issues shall be sold at the selling price of EUR 30.00 per share, so the total emission value of the shares subject to this prospectus shall amount to EUR 54,900,000.00.

## 7. Rights from Shares

Shares to which this prospectus relates are in content equal to Issuer's already existing ordinary, freely transferable, registered shares with no par value with the mark GRVG, which give their holders a right to:

- one vote at Shareholders' meeting,
- proportional share of distributable profit, which is divided among shareholders,
- proportional share of assets from the remainder of bankrupt's or liquidation estate in the case of Company's insolvency proceeding or liquidation proceeding.

---

<sup>1</sup> All the amounts in this prospectus and the Issuer's Articles of association stated in SIT are already equivalently calculated to EUR in accordance with Company Act (ZGD-1). Proposal for recording a change in the court register concerning the change of amounts from SIT to EUR is already at the District court of Celje with Articles of association clean copy.

## **8. The Beginning and End of Public-offer Duration**

The offer for subscription of shares and their payment will be open for 14 days. The time limit begins on the fifth business day after prospectus publication, while the shareholders will be informed on exact dates with Management notice.

Shareholders, who will be registered in the share register on the day of prospectus publication (cut-off date) have in proportion to their shares in the share capital a priority claim to subscription of new shares. Shareholders can exercise priority claim to subscription of new shares within 14 days. The time limit begins on the fifth day after prospectus publication.

The Company's Management Board will also inform in writing all rightful claimants to subscription and payment of new shares about their right to subscription and payment of new shares.

The shareholders will be informed by a written notice by the Management Board about the proportional number of shares, which they can subscribe for and purchase with regard to their priority claim and with regard to the current number of shares.

## **9. Subscription Locations**

Issuer's subscription locations are at offices and agencies of Probanka, d.d. and some of the following addresses:

Probanka, d.d., Svetozarevska ulica 12, 2000 Maribor, Investment banking sector, Slovenia

Office Maribor, Svetozarevska ulica 12, 2000 Maribor, Slovenia

Office Maribor, Gosposka ulica 23, 2000 Maribor, Slovenia

Office Mercator Pobrežje, Puhova ulica 1, 2000 Maribor, Slovenia

Office Merkur Mercator, Tržaška cesta 14, 2000 Maribor, Slovenia

Place of business Celje, Stanetova ulica 7, 3000 Celje, Slovenia

Place of business Kranj, Koroška 1, 4000 Kranj, Slovenia

Place of business Koroška, Cankarjeva 1, 2380 Slovenj Gradec, Slovenia

Place of business Koper, Pri Velikih vratih 1-3, 6000 Koper, Slovenia

Place of business Ljubljana, Slovenska 56, 1000 Ljubljana, Slovenia

Place of business Novo mesto, Novi trg 10, 8000 Novo mesto, Slovenia

Agency Ravne na Koroškem, Partizanska 4, 2390 Ravne na Koroškem, Slovenia

Agency Zagorje ob Savi, Cesta zmage 16a, 1410 Zagorje ob Savi, Slovenia

Agency Murska Sobota, Ulica Staneta Rozmana 16, 9000 Murska Sobota, Slovenia

Employed and retired workers of the Gorenje Group can (registered shareholders on the date of publication of this prospectus) can also subscribe for and purchase new shares in a special subscription location at the following address: Gorenje, d.d., Razstavno prodajni salon Gorenja, Partizanska 12, 3503 Velenje.

## **10. Other Important Facts Concerning the Issuer**

On 12 December 2006 Issuer's Shareholders' meeting made a decision, and authorized the Management Board, that, in consensus with the Supervisory Board, five years after the recording of the Articles of Association changes in the court register, which were adopted at the Company's 10<sup>th</sup> Shareholders' meeting, will increase the share capital to 15 percent of the share capital, registered on the date of the decision. On the ground of stated the share capital can increase from the existing EUR 50,909,697.88 (SIT 12,200,000,000.00) by at most EUR 7,636,454.68 (SIT 1,830,000,000.00), so that after the increase, will amount to at most EUR 58,546,152.56 (SIT 14,030,000,000.00). The

share capital increase shall be affected with the issue of at most 1,830,000 new ordinary, freely transferable, registered shares with no par value.

With the issuing of new shares from authorized capital, the company will be able to realize the strategic plan for the Gorenje Group, which in the period from 2006 to 2010 anticipates at least 50 % growth of business activities, which will be generated with internal – organic or external – foreign (acquisition) growth, wherefore an adequate equity growth should follow. Shareholders' meeting decision for the issue of new shares allows the Management Board to respond – with Supervisory Board consensus – to originated needs of financing in connection with strategic company decisions.

The Issuer already started with activities in accordance with the Shareholders' meeting decision and Management Board authorization that are needed for the increase in share capital and issuing of new shares.

## Risks Connected with the Issuer and Shares

The Issuer is exposed daily to various risks in his business. Unceasing changes, accelerated internationalization of production and merchantable capabilities increase exposure to various forms of risks for the Gorenje Group. The Issuer is naturally aware that perception and stated risk management are both important for long-term existence and further development, which are the primary intentions of the Risk Management council, which is already acting in the Gorenje Group for a third year.

We can define Issuer's risk types in three groups:

- business risks
- financial risks
- operating risks

<b>Business risks</b>	<ul style="list-style-type: none"> <li>• external risks</li> <li>• sales risks</li> <li>• purchase risks</li> <li>• product risks</li> <li>• investment risks</li> <li>• human resource risks</li> <li>• property loss risks</li> </ul>
<b>Financial risks</b>	<ul style="list-style-type: none"> <li>• credit risks</li> <li>• currency risks</li> <li>• interest rate risks</li> <li>1. liquidity risks</li> </ul>
<b>Operation risks</b>	<ul style="list-style-type: none"> <li>• production risks</li> <li>• human resources risks</li> <li>• information system risks</li> <li>2. legislation risks</li> <li>3. project related risks</li> <li>4. fire risks</li> </ul>

In addition to those stated above, there are also risks connected with shares, among which we specify liquidity of shares and market risk.

All the above stated Issuer's risks are described in detail under point 2 of the prospectus »Risk factors«.

Other facts, important for the decisions of investors, are stated in the Public-offer prospectus of ordinary shares Gorenje, d.d.

## **11. Brokerage Company, Involved in the Subscription of Shares**

Probanka, d.d., Svetozarevska ulica 12, SI-2000 Maribor, Slovenia will be involved in the subscription of shares, which will undergo work without redemption obligation.

## **12. Prospectus**

The prospectus was made together with this extract, which allows access to the Issuer's legal and financial situation, business opportunities and rights deriving from shares.

The Issuer gives in accordance with Securities Market Act (ZTVP-1) the following warning texts:

1. Extract should be read as introduction to prospectus
2. Investor's decision to buy security should be based upon a thorough prospectus examination
3. Persons, who draw up the extract, are responsible for wrong and misleading data in the extract, subject to other prospectus parts.

The prospectus is available at the Issuer's registered office, on the website [www.gorenje.com](http://www.gorenje.com), on the Ljubljana Stock Exchange d.d., (SEOnet) website, and at all locations for subscription and payment of newly issued shares.

## Content

1	Persons liable.....	9
2	Risk factors.....	9
2.1	Risks connected with the Issuer.....	9
2.2	Risks connected with shares.....	14
2.2.1	Share liquidity.....	14
2.2.2	Market risk.....	15
3	Key information.....	15
3.1	Statement on current assets.....	15
3.2	Capitalisation and outstanding amounts.....	15
3.3	Interest of natural persons and legal entities, co-operating in offer.....	15
3.4	Grounds for the offer and revenue use.....	15
4	Information on shares, which will be offered for trading.....	16
4.1	Security description.....	16
4.2	Legislation on the basis of which the securities will be issued.....	16
4.3	Security form.....	16
4.4	Currency in which securities will be issued.....	16
4.5	Description of rights, related to securities.....	16
4.6	Statement with decisions, full powers and consents, on the grounds of which the shares will be issued.....	17
4.7	Anticipated date of new issue.....	17
4.8	Transferability of shares.....	17
4.9	Rules concerning takeover bid, redemption and sale of shares.....	17
4.10	Public-offers for the acquisition of Issuer's equity.....	17
4.11	Information on taxes.....	17
5	Offer conditions.....	19
5.1	Conditions, offer statistics, anticipated timetable and procedure, required for accession to offer.....	19
5.1.1	Conditions on which offer is conducted.....	19
5.1.2	Rightful claimants and subscription schedule.....	19
5.1.3	Subscription and payment.....	20
5.1.4	Successful bid threshold and publication of public-offer result.....	20
5.1.5	Public-offer failure.....	20
5.1.6	Share issue.....	20
5.2	Allocation and assignment plan.....	20
5.2.1	Potential investors categories.....	20
5.2.2	Data about persons intending to subscribe more than 5 % of the offer.....	20
5.2.3	Disclosure before assignment.....	20
5.2.4	Procedure of informing declared persons on assigned amount.....	20
5.2.5	Over-assignment and option »Green Shoe«.....	21
5.3	Pricing.....	21
5.4	Sale and redemption of the first securities issue.....	21
6	Admission to trading and regulation of transactions.....	21
6.1	Regulated market, where the shares will be listed.....	21
6.2	Banks involved at the public-offer of shares.....	21
7	Sale of securities by holders.....	21
8	Share issue costs.....	21
9	Thinning.....	22
10	Statutory auditor.....	22
11	Financial highlights of Gorenje Group.....	23
12	Information about the Issuer.....	24
12.1	Company history.....	24
12.1.1	Legal and business name of the Issuer.....	24
12.1.2	Place of registration and registration number.....	24
12.1.3	Date of entry into the register.....	24
12.1.4	Headquarters and legal status of the Issuer.....	24
12.1.5	Important events in Issuer's course of development.....	24

12.2	Investment.....	26
12.2.1	Major investments.....	26
12.2.2	Proposed investment.....	29
13	Overview of business operation.....	30
13.1	Core business.....	30
13.1.1	Issuer's business activities.....	30
13.1.2	List of all major new products/services, the development of which is a matter of public record	30
13.1.3	Essential markets nad other division programmes.....	31
13.2	Dependence on patents, licences, new industrial production processes, commercial or financial contracts.....	36
13.3	The premise of all statements made by the Issuer in relation to its competitive position..	36
14	Organisation structure.....	36
14.1	A brief overview of the group and the position of the issuer in the group.....	36
14.2	List of Issuer's subsidiary companies.....	36
15	Property, plant and equipment.....	38
15.1	Property, plant and equipment.....	38
15.2	Environmental issues, which may affect the use of tangible fixed assets.....	38
16	Business operation and financial overview.....	40
16.1	Sensitivity of company performance to government-, economic and monetary policies ...	40
17	Capital.....	41
17.1	Holdings of the Issuer.....	41
18	Trends.....	42
18.1	Vision, mission and strategic objectives of the Gorenje Group.....	42
18.1.1	Current trends in the household appliances industry.....	42
19	Management bodies.....	43
19.1	Governing bodies.....	43
19.2	Conflict of interest.....	44
20	Remuneration.....	44
20.1	Renmuneration settled by the Issuer.....	44
21	Management and executives.....	47
21.1	Members of the Management Board and the Supervisory Board.....	47
21.2	Agreements on services provided by members of the Management Board and the Supervisory Board.....	53
22	Employees.....	53
22.1	Number of employees.....	53
22.2	Interests and entitlements.....	54
22.3	Employee participation in the Issuer's capital.....	54
23	Major shareholders.....	54
23.1	Shareholder identity as known to the Issuer.....	54
23.2	Voting rights.....	54
23.3	Direct and indirect control.....	55
23.4	Potential for a change of control over the Issuer.....	55
24	Transactions with related parties.....	55
25	Financial details on the Issuer's assets and liabilities, financial position and performance.....	55
25.1	Financial statements of Gorenje, d.d.....	56
25.1.1	Balance sheets of Gorenje, d.d. for the financial years 2006, 2005 and 2004.....	56
25.1.2	Income statements of Gorenje, d.d. for the financial years 2006, 2005 and 2004....	57
25.1.3	Cash flow statements of Gorenje, d.d. for the financial years 2006, 2005 and 2004	58
25.1.4	Statements of changes in equity of Gorenje, d.d. for the financial years 2006, 2005 and 2004	59
25.2	Consolidated financial statements of the Gorenje Group.....	61
25.2.1	Consolidated balance sheets of the Gorenje Group for the financial years 2006, 2005 and 2004	61
25.2.2	Consolidated income statements of the Gorenje Group for the financial years 2006, 2005 and 2004.....	62

25.2.3	Consolidated cash flow statements of the Gorenje Group for the financial years 2006, 2005 and 2004 .....	63
25.2.4	Statements of changes in equity of the Gorenje Group for the financial years 2006, 2005 in 2004.....	64
25.3	Financial reports.....	67
25.4	Auditor's reports .....	68
25.4.1	Auditor's report for Gorenje, d.d. for 2006, 2005 and 2004 .....	68
25.4.2	Auditor's report for the Gorenje Group for 2006, 2005 and 2004 .....	69
25.5	Dividend policy .....	70
25.6	Involvement in legal and arbitration proceedings .....	70
26	Additional information .....	70
26.1	Share capital .....	70
26.1.1	Issued capital .....	70
26.1.2	Own shares.....	70
26.1.3	Book value of GRVG shares .....	71
26.1.4	Information on entitlements/obligations arising from approved but not issued capital i.e. obligation to increase company capital .....	71
26.1.5	Information on capital or a member of the group – options .....	71
26.1.6	History of share capital highlighting any changes .....	71
26.2	Articles of Association of the Issuer .....	72
26.2.1	The objectives and the intention of the Issuer .....	72
26.2.2	The summary of the provisions of the Issuer's Articles of Association applicable to members of administrative, Management and Supervisory Boards .....	72
26.2.3	Rights, special benefits and restrictions which apply to each class of existent shares	74
26.2.4	Measures, necessary for modification of shareholders' rights, with the indication of cases where conditions are more severe than required by law .....	74
26.2.5	The procedure for convening annual general meetings and extraordinary meetings of shareholders and conditions for acceptance .....	74
26.2.6	Brief description of all provisions of memorandum, Articles of Association, documents and rules which influence the adjournment, postponement or prevention of the Issuer's supervision modifications .....	75
26.2.7	Declaration of potential memorandum, Articles of Association, documents or rules which regulate threshold of ownership, above which the ownership of the shareholders must be revealed	75
26.2.8	Description of the conditions imposed by memorandum, Articles of Association, documents or rules which regulate capital modifications, when these conditions are more severe than required by law .....	75
27	Significant contracts .....	76
28	Information of third parties and expert statements and declarations on all interests .....	76
29	Documents available to public.....	76
30	Share percentage .....	77



## 1 Persons Liable

Gorenje gospodinjiski aparati, d.d. is liable for all information indicated in the prospectus. As far as is known, the Issuer, with all appropriate care, provides that his information is in accordance with fact, and that there is no other important information about his business, activity and financial situation besides that which is given, is stated in the prospectus.

Use of the prospectus is permitted only for the purpose for which it was issued. Multiplication of the prospectus for other purposes, in whole or partly, for use, data publication or text parts, is not permitted.

Velenje, Slovenia, April 2007

President of the Management Board  
Franc Bobinac



## 2 Risk Factors

### 2.1 Risks Connected with the Issuer

Continuous changes, accelerated internationalisation of production and sales included, increase exposure of the Group to various risks. Recognising that detection and management of such risks is key for its long-term survival and development, the Group established a risk management committee three years ago.

In 2006, the committee's attention focussed mainly on:

- re-definition of all risks that the Group is exposed to,
- re-assessment of these risks, and
- design and implementation of protection measures against these risks.

The committee itself has three sub-committees that cover:

- business risks,
- financial risks and
- operating risks.

The Sub-committees ensure that the Group's exposure to various risks remains acceptable, as defined in the Group's business plan.

#### **Business risks**

Business risk are risks associated with a Company's ability to generate operating revenues in the short and long term, the ability to manage operating cost, the ability to maintain asset value, and the ability to manage operating and financial liabilities.

The Group identified the following relevant types of business risks:

Business risks

- external risks
- sales risks
- purchase risks
- product risks
- investment risks
- human resource risks
- property loss risks

**External risks** influencing the Group's operations are mainly associated with political risks in certain East and South-East European markets, as well as with changes in macroeconomic conditions in its key markets. The Group protects itself against such risks with business and market diversification. **The Group's management has estimated the exposure to external risks as moderate.**

**Sales risks** are associated with the Group's competitive position in certain markets. They relate to the Group's marketing strategy (the appropriateness of branding, pricing, product functionality, etc.), the increasing negotiating power of industrial buyers and retailers, and the quality of after-sales services. The Group addresses these risks with appropriate marketing activities, customer diversification, continuous new product/service development, increasing own-brand sales and proper after-sales services in all its markets. **The Group's management has estimated the exposure to sales risks as moderate.**

The Group depends largely on suppliers of (raw) materials and services. For this reason, it pays special attention to **purchase risks**, i.e., risks associated with unexpected price changes, delivery times, and quality of inputs. In limiting its exposure to these risks, the most important measures taken by the Group are: long-term partnerships with key suppliers, reliance on global, cost-effective supply sources, joint product and process development, forward contracts on (raw) materials, etc. **Despite such measures, the unexpectedly high level of prices of strategic (raw) materials at year-end negatively affected the Group's performance in 2006. Due to such conditions in its key supply markets, the Group's management has estimated the exposure to purchase risks as enormous.**

**Product risks** are associated with product malfunction and – in extreme cases – product withdrawal and liability. The Group protects itself against such risks with appropriate development and quality management processes across its production, sales and after-sales functions. It also takes out product liability insurance. The Group has in place a quality management system compliant with the SIST EN ISO 9001:2000 standard, and also applies certain ISO 17025-accredited methods and the Six Sigma quality management concept. All these systems allow process control, management by objectives and monitoring of their achievement, as well as a systematic approach to continuous technological, and other, improvements. They also allow the Group to **continue** extending product guarantee terms. **The Group's management has estimated the exposure to product risks as moderate.**

Of the **investment risks**, the most important for the Group to manage are those associated with returns on investments in general, and investments in product development and technology in particular. Key activities aimed at managing such risks are appropriate investment return planning and monitoring, as well as the quality of preparations and realisation of investment projects. **The Group's management has estimated the exposure to investment risks as moderate.**

Recognising the value of highly motivated, skilled and experienced employees, the Group pays special attention to **human resource risks**. These comprise risks associated with the social dialogue with employees, loss of crucial employees and lack of skilled employees.

Social dialogue with employees takes the form of communication with employees and their representative bodies (workers' council and trade unions). Employees are regularly informed of all relevant matters through internal communication channels. The Group addresses the risk of loss of crucial and lack of skilled employees by:

- developing and implementing the annual interview system,
- organising and promoting continuing employee education and training,
- measuring organisational culture and climate,
- improving employee social security through additional insurance,
- ensuring health and safety at work, and
- having various remuneration systems in place.

**The Group's management has estimated the exposure to human resource risks as moderate.**

**Property loss risks** comprise property and transport risks. The Group and its companies systematically reduce such risks by passing them on to insurance companies or business partners. **The Group's management has estimated the exposure to property loss risks as minor.**

### Financial risks

In the area of financial risk management the Company pursued in the year 2006, the financial policies that include the starting points for efficient and systematic financial risk management. The objectives of the financial risk management process are:

- achievement of operation stability and reduction in exposure to individual risks to an acceptable level,
- increase in companies' value and the impact on their credit rating,
- increase in finance income or decrease in finance expenses, and
- elimination or reduction in the effect of exceptional loss events.

The Gorenje Group identified the following key types of financial risks:

<b>Financial risks</b>	• credit risks
	• currency risks
	• interest rate risks
	• liquidity risks

Exposure to individual types of financial risks and hedging measures are implemented and evaluated on the basis of impacts on cash flows. Appropriate measures in business, investment and financial areas are taken for the protection against financial risks during the normal course of activity.

In 2006, the **credit risks**, including all risks associated with partners' (buyers') failure to fulfil contractual obligations resulting in decreased economic benefit for the Company were managed by the following groups of measures:

- insurance of the major part of operating receivables and commodity loans against commercial risks with Slovenska izvozna družba, d.d. (Slovene Export Company) – Prva kreditna zavarovalnica, d.d. and other insurance companies,
- additional insurance of risky trade receivables by taking out mortgages, bank guarantees and other insurance instruments,
- regular supervision of operation and financial position of all new and existing business partners and reduction in exposure to individual business partners,
- systematic and active collection of receivables.

**In accordance with the hedging measures taken the Management Board of the Gorenje Group considers the exposure to credit risks is moderate.**

Due to its geographic diversification of operation the Gorenje Group is strongly exposed to **currency risk**, which can result in reduction of economic benefits for the Company on account of fluctuating currencies. Those risks prevail among business operations in the markets of Croatia, Serbia and

Montenegro, Great Britain, Poland, Hungary and all the dollar markets. In the majority of these markets the Company endeavours to reduce the long-term exposure by natural protection, namely by balancing sales with purchases the short-term the Company is protected against currency risks by future contracts, by short-term borrowing in local currency and to a minimum extent by other derivative financial instruments.

**In accordance with the hedging measures taken, the Management Board of the Gorenje Group considers the exposure to currency risks is moderate.**

In some recent years the Company has paid undivided attention also to **interest rate risks**, which may decrease the Company's economic benefits due to changed interest rates on the market. Due to relatively unfavourable price levels of derivative financial hedging instruments the Gorenje Group did not increase the scope of hedging in the financial year 2006. The share of fixed interest rates in the credit portfolio of the Gorenje Group amounted to 42.6 % of total financial liabilities at the end of the year 2006, which practically coincides with its total long-term financial liabilities. **In the accordance with the hedging measures taken the Management Board of the Gorenje Group considers the exposure to interest rate risk is minor.**

**Liquidity risks** include risks associated with the shortage of available financial funds and consequently the Company's inability to meet commitments associated with financial liabilities.

The risk of **short-term liquidity** of the Gorenje Group is considered low due to efficient cash management, appropriate credit lines for short-term management of cash flows, high level of financial flexibility and good access to favourable financial markets and sources.

The risk of **long-term liquidity** is considered low as a result of successful operation, efficient asset management, sustained capacity for generating cash flows from operating activities, and high credit rating.

**The Management Board of the Gorenje Group considers the exposure to liquidity risks is minor.**

## Operating risk

Operating risks refer to reduced economic benefit of the Gorenje Group arising from the possibilities of inadequate planning, performance and supervision of business processes and activities.

The Gorenje Group identified the following relevant types of operating risks:

<b>Operating risks</b>	• production risks
	• human resources risks
	• information system risks
	• legislation risks
	• project related risks
	• fire risks

In connection with **production risks** close attention is directed to the management of the following risks:

- operation of key equipment including key machines, tools, production lines and substance processing units, etc.
- operation of infrastructure including uninterrupted supply of energy products, assurance of infrastructural suitability when handling substances hazardous to the environment, operation of the central clarification plant and
- inappropriate direct handling of hazardous substances.

Risks associated with the operation of key equipment and infrastructure are reduced by the performance of regular preventive maintenance inspections, setting up systems for fast elimination of failure, by technically qualified employees and other measures. Risks of inappropriate handling of hazardous substances are reduced by inclusion of employees in training for safe work with hazardous substances and other preventive organisational measures. **The Management Board of the Gorenje Group considers the exposure to production risks is moderate.**

In the area of **human resource risks** the Company faces risks associated with eventual interruption of business processes due to major absenteeism from work. Especially in production, the exposure to such risks is reduced by systematic inclusion of employees in medical preventive programmes and consideration of principles of healthy and safe work. **The Management Board of the Gorenje Group considers the exposure to human resource risks is minor.**

Among the **information system risks** the risks relating to the assurance of quality application and current availability of hardware and software are important.

Impacts of these risks are managed by:

- gradual introduction of the uniform information system (SAP) into all the companies of the Household appliances division,
- measures prepared in advance relating to individual kinds of disturbances in the operation of the local computer network, supporting servers, global communications and network connections within the system,
- operation of the Disaster Recovery Centre – DRC,
- planning of procedures for action in case of break-down of information support,
- regular maintenance of software and hardware, communications and network connections,
- control of changes in the development of information systems,
- adequate training of employees and other measures.

**The Management Board of the Gorenje Group considers the exposure to information system risks is moderate.**

Risk management associated with the introduction of the Directive of the European Parliament on Waste, Electrical and Electronic Equipment Directive (WEEE) is especially emphasised in the area of **legislation risks**. Through national legal regulations the Directive mentioned imposes additional obligations on producers and distributors of electrical and electronic equipment. These obligations will influence the operation of the Gorenje Group in the future. In order to be able to meet the legally prescribed obligations in a clear and cost-effective manner, Gorenje has joined the founders of a company specialising in handling of waste, electrical and electronic equipment - ZEOS, d.o.o., Slovenia. **Regardless of the measures adopted, the Management Board of the Gorenje Group considers that the exposure to legislation risks, mainly to the environmental ones, is great due to transitional lack of clarity about the manners and consequences of harmonisation and implementation of legal regulations.**

Due to the fact that project work is often applied to the Gorenje Group, full attention is directed to **project-related risks**, especially in the case of large-scope and long-lasting projects where such risks may be related to their possibly inadequate implementation. These risks are reduced by adequate organisation of project activities, determination of suitable formal procedures for their implementation and regular supervision of project activities. **The Management Board of the Gorenje Group considers the exposure to project-related risks is moderate.**

**Fire risks** are reduced by regular estimates of fire exposure, on the basis of which all buildings were equipped with active fire protection systems, implementation of fire-security measures is strictly supervised, and employees were additionally trained in the area of fire protection, etc. **The Management Board of the Gorenje Group considers the exposure to fire risks is moderate.**

**Strategic map of risks in the Gorenje Group**

Types of risk	Size of damage				Probability			
	Minor	Moderate	Great	Enormous	High	Moderate	Low	Very low
<b>BUSINESS RISKS</b>								
1.1 External risks								
1.2 Sales risks (risk of failed appearance on individual markets)								
1.3 Risks associated with the purchase of raw materials, materials and services								
1.4 Product risks								
1.5 Investment risks								
1.6 Human resource & business risks								
1.7 Property loss risks								
<b>FINANCIAL RISKS</b>								
2.1 Credit risks								
2.2 Currency risks								
2.3 Interest rate risks								
2.4 Liquidity risks								
<b>OPERATING RISKS</b>								
3.1 Production risks								
3.2 Human resource & business risks								
3.3 Information system risks								
3.4 Legislation risks								
3.5 Project related risks								
3.6 Fire risks								

**2.2 Risks Connected with Shares**

**2.2.1 Share Liquidity**

Shares GRVG are admitted to trading in regulated market of securities, namely in first recognised exchange of Ljubljana Stock Exchange. The Issuer is obliged to fulfil the highest international comparable standards of reporting, with which an additional rapprochement is guaranteed.

### **2.2.2 Market Risk**

Risk factors involve the possibility of a sudden or continuous fall in exchange quotation on securities markets, for reasons of general market and economic conditions (systematic or market risk) and also risks connected with the Issuer of securities, his business and his activities (non-systematic or Issuer's risk).

## **3 Key Information**

### **3.1 Statement on Current Assets**

The Issuer on the day 31 December 2006 discloses SIT 118,775,021 thousand of short-term assets and SIT 107,821,264 thousand of short-term accounts payable. In the opinion of the Issuer the current assets subject to stated suffice the current Issuer's requests and concurrently provide balanced structure to the balance sheet, and high-quality and sound liquidity provision.

### **3.2 Capitalisation and Outstanding Amounts**

The whole Issuer's equity on the day 31 December 2006 amounts SIT 60,972,279 thousand and represents 28.1 % of the balance sheet total, and whole financial and business accounts payable represent 71.9 % of the balance sheet total, respectively totalling SIT 155,808,574 thousand.

In the financial and business accounts payable structure, received financial loans amount to SIT 75,267,481 thousand and are raised at different commercial banks and other financial institutions.

Received loans are secured only with borrower's security by means of bill of exchange and in smaller extent with borrower's guarantee to provide contracted financial commitments of the Gorenje Group, and with guarantees that were issued by companies Gorenje, d.d. and by Gorenje Beteiligungs GmbH for commitments of affiliated companies in the Group of commercial banks.

Issuer's financial situation, credit standing and other references were for lenders a sufficient ground that they didn't require additional security, in form of mortgage security or security of other proprietary unaffiliated institutions. The Issuer simultaneously provides all the equivalent position.

Received loans are to a large extent (92.2 %) denominated in EUR and bound by variable interest rate EURIBOR. Exposure to interest rate risk is minimized, since the share of loans with a fixed interest rate represents 42.6 % of the Issuer's loan portfolio, on the grounds of derivative financial instruments and in smaller extent also contracted fixed interest rates. Loans denominated in other currencies are harmonized with currency exposure of Issuer's affiliated companies.

### **3.3 Interest of Natural Persons and Legal Entities, Participating in Offer**

The Issuer is not familiar with natural persons and legal entities involved in share issue, who would have eventual interests, including opposing, that would be essential for the share issue.

### **3.4 Grounds for the Offer and Revenue Use**

Company's Shareholders' meeting on the day 12 December 2006 made a decision on the grounds of which the Management Board is authorized, with consensus of the Supervisory Board, in five years after the recording of the Articles of Association changes in the court register, to increase the share capital to 15 (fifteen) percent of the share capital, registered in the court register on the day of the decision, by at most EUR 7,635,454.68 (SIT 1,830,000.00) (authorized capital) respectively, namely

with the issue of 1,830,000 new ordinary, freely transferable, registered shares with no par value for monetary contribution.

With the issue of new shares from the authorized capital the Company will be able to realize the strategic plan of the Gorenje Group, which in the period from 2006 to 2010 anticipates a 50 % growth of business activities, which will be generated with internal – organic or external – foreign (acquisition) growth, which an adequate equity growth shall follow. The shareholders' meeting decision for the issue of new shares provides the Management Board to – with Supervisory Board consensus – respond to incurred needs for financing in connection with the Company's strategic decisions.

## **4 Information on Shares, Which Will be Offered for Trading**

### **4.1 Security Description**

The Issuer shall issue 1,830,000 new ordinary, freely transferable, registered shares with no par value in dematerialised form with the mark GRVG and ISIN code SI0031104076, which form the same class with already issued Issuer's shares. Before the new shares are issued the Issuer's share capital is divided into 12,200,000 ordinary, freely transferable, registered shares with no par value. After the issue of new shares the share capital will be divided into 14,030,000 ordinary, freely transferable, registered shares with no par value.

Total share issue value to which this prospectus refers to is EUR 54,900,000.00 (the value is equal to the number of newly issued shares 1,830,000, multiplied with the value of one new share EUR 30.00).

### **4.2 Legislation on the Basis of Which the Securities Will be Issued**

Shares shall be issued on the basis of Slovene legislation.

### **4.3 Security Form**

Shares GRVG will be registered, issued in dematerialised form and entered into the Central securities Depository, which is lead by the Central securities Clearing Corporation (in the following KDD).

### **4.4 Currency in Which securities Will be Issued**

Shares GRVG will be issued as shares with no par value.

### **4.5 Description of Rights, Related to Securities**

Shares to which this prospectus relates are in the content uniform with already existing Issuer's ordinary registered shares with the mark GRVG, which give their holders a right to:

- one vote at Shareholders' meeting,
- proportional part of distributable profit, which is divided among shareholders,
- proportional part of assets from the remainder of bankrupt's or liquidation estate in the case of Company's insolvency proceeding or liquidation proceeding.

Dividends are paid in the terms laid down by the Company's Articles of Association and the Shareholders' meeting decision concerning the distributable profit division.

With the Shareholders' meeting decision on the issue of shares, which are subject to this offer, it was decided that shareholders, entered in the share register on the day of the Shareholders' meeting,



have a priority claim to new shares in proportion to shares in the share capital. Shareholders can exercise the priority claim to subscription and purchase of new shares within 14 days of the prospectus publication. The term begins on the fifth business day after the prospectus publication.

The Company's Management Board will inform in writing all rightful claimants to subscription and purchase of new shares about their right to subscription and purchase of new shares.

Shareholders will be informed in written invitation – Management Board notice about the proportional number of shares, which they can subscribe and pay for with regard to their priority claim and subject to the current existing number of shares.

#### **4.6 Statement with Decisions, Full Powers and Consents, on the Grounds of Which the Shares Will be Issued**

New shares to which this prospectus relates will be issued on the grounds of the Company's Shareholders' meeting decision on the day 12 December 2006, which is available on the Issuer's web page.

#### **4.7 Anticipated Date of New Issue**

The Issuer anticipates that the shares will be issued on 31 July 2007.

#### **4.8 Transferability of Shares**

Shares are freely transferable in accordance with rules in force, Articles of Association and KDD rules of operation.

#### **4.9 Rules Concerning Takeover Bid, Redemption and Sale of Shares**

The Provisions of Mergers and Acquisitions Act apply to the Issuer's shares. Redemption, sale and trading of shares are conducted in accordance with the rules of the Code of Obligations, the Companies Act and Securities Market Act and on the basis of their adopted rules.

#### **4.10 Public-offers For the Acquisition of Issuer's Equity**

In the financial years of 2005 to 2006 no offer was published for the redemption of Issuer's shares in accordance with the Mergers and Acquisitions Act.

#### **4.11 Information on Taxes**

##### **Turnover imposition**

On the grounds of point 4. e of Article 44 of the Value Added Tax Act (Official Journal RS, No. 117/06) financial services are exempted from value-added tax payment, namely:

- transactions, including intervention (except management, deposit, investment consulting and services concerning acquisitions) with shares, capital shares in companies or associations, bonds and other securities, except with documents regarding property rights on goods, rights and capital shares.

## Output imposition – legal entities

Incomes of shares (received dividends and capital gains), issued by the Issuer, increase the tax base of persons liable to pay tax from legal entities income in accordance with the Corporation Tax Act (Official Journal RS, num. 117/06); in the following ZDDPO-2. These incomes have their source in Slovenia in accordance with Article 8 of ZDDPO-2, and as a consequence represent a taxable income for residents, as also for non-residents of the Republic of Slovenia and are included in the tax base of liable persons in accordance with provisions of chapter 5 of ZDDPO-2.

Received dividend is not included in the tax base of recipient in the event of the following conditions (Article 24 ZDDPO-2):

1. dividend recipient is a person liable to pay tax in accordance with provisions of ZDDPO-2,
2. disburser is a person liable to pay tax in accordance with provisions of ZDDPO-2 and is not a resident of the state, in the event of place of business he is not in the state with a preferential tax environment, which, for the purposes of this article, is the state, in which the general or average tax rate for the Company's profit is lower than 12.5 %.

The Company Gorenje d.d. is liable for calculation and payment of withholding tax from dividends and similar incomes at the rate of 15 %, except when the dividend recipient is (paragraph 2, Article 70 ZDDPO-2):

1. the Republic of Slovenia or a self-governing community within the Republic of Slovenia,
2. a Bank of Slovenia,
3. a liable person resident, who informs the disburser of his tax number,
4. a liable person non-resident, who is liable for income tax, which he achieves with business or transactions in the place of business or through the place of business in Slovenia and he informs the disburser of his tax number, if these incomes were paid to this place of business,
5. a liable person, who has one of the forms for which a general tax system is used, which applies to parent companies and subsidiaries from various EU state members, when:
  - a. the recipient has at least a 10 % value or number of shares or capital shares in registered capital, share capital or rights to vote as a person, dividing the profit,
  - b. the time of participation in the capital of the Company is at least 24 months,
  - c. the receiver is a person who has one of the forms, for which a general tax system is used, which applies to parent companies and subsidiaries from various EU state members.

A half of the profit, realised from disposal of Issuer's shares, is exempted from the tax base of a liable person, resident or non-resident of RS in accordance with the provisions of ZDDPO-2, if a liable person fulfils the following conditions (paragraph 1, Article 25 of ZDDPO-2):

1. the liable person is the owner of at least 8 % of Issuer's shares,
2. the time of the of participation in the capital of the Issuer's Company is at least 6 months and
3. the liable person has in this time continuously employed at least one person full time.

## **5 Offer Conditions**

### **5.1 Conditions, Offer Statistics, Anticipated Timetable and Procedure, Required for Accession to Offer**

#### **5.1.1 Conditions on Which Offer is Conducted**

Issuer's Shareholders' meeting on 12 December 2006 made a decision and authorised the Management Board to increase the share capital to 15 percent of the share capital, registered on the day of the decision, with Supervisory Board consensus, in five years after the recording of the Articles of Association changes, adopted at the Company's 10<sup>th</sup> Shareholders' meeting in the court register. On the basis of the above-stated the share capital can hitherto increase from EUR 50,909,697.88 (SIT 12,200,000,000.00) by at most EUR 7,636,454.68 (SIT 1,830,000,000.00), so that after the increase, will amount to at most EUR 58,546,152.56 (SIT 14,030,000,000.00). The increase of the share capital shall be executed with the issue of at most 1,830,000 new ordinary, freely transferable, registered shares with no par value.

Total issue value amounts to is EUR 54,900,000.00 (the value is equal to the number of newly issued shares 1,830,000, multiplied with the value of one new share EUR 30.00).

On the basis of the above-stated decision the Issuer offers subscribers to subscribe and purchase 1,830,000 new shares.

Each new share gives a right to one vote at the Company's Shareholders' meeting, proportional part of distributable profit, which is divided among shareholders, and the proportional part of assets from the remainder of bankrupt's or liquidation estate in the case of the Company's insolvency proceeding or liquidation proceeding. Dividends are paid in the stated terms of the Articles of Association and the Shareholders' meeting decision on division of distributable profit.

New shares will be transferable in accordance with provisions of the Articles of Association and will form the same class with already issued Company's shares.

#### **5.1.2 Rightful Claimants and Subscription Schedule**

Hitherto shareholders have a priority claim to subscribe new shares, therefore, persons who were, on the day of offer publication, entered into the share register as shareholders, have a priority claim to subscribe new shares in proportion to their shares in the share capital. Therefore these persons have a priority claim to subscribe 15 % of shares, whose holders they are, wherefore there is a valid rule that the number of new shares, to which existing holders are entitled, is rounded up. There is a scale of 0.15 of a share for one share, wherefore each holder is entitled to a subscription of at least one new share.

Shareholders can exercise the priority claim to subscription of new shares for a term of 14 days. The terms begins on the fifth day from the prospectus publication date.

New shares, which will not be subscribed on the basis of the previous paragraph, will be offered to EBRD and/or IFC, as well as to the Company established by the management of Gorenje INGOR d.o.o., for redemption, established by management of the Gorenje Group and the European Bank for Reconstruction and Development, which will subscribe and purchase new shares for a term of 7 days from the day when the Management Board sends them the invitation for subscription and purchase of new shares.

The final term for subscription and purchase of shares is 3 months from the date of this offer publication. The offer can conclude early, if all new offered shares are subscribed and paid for.

### **5.1.3 Subscription and Payment**

New shares are subscribed and purchased simultaneously.

New shares are subscribed with a written statement – subscription certification, which is available to subscribers at a subscription location.

New shares are paid for with money.

### **5.1.4 Successful Bid Threshold and Publication of Public-offer Result**

Public sales are successful if the offered shares are subscribed and paid for in defined terms in accordance with Securities Market Act.

The Issuer will publish the public-offer result within three days after the conclusion of new shares subscription and payment.

### **5.1.5 Public-offer Failure**

If the case of public-offer failure concerning new shares, the Issuer will return the money interest-free to contributors within 7 days after the public-offer result publication, at entities where the subscription and payment were conducted.

### **5.1.6 Share Issue**

Shares will be issued in dematerialised form after the recording of the share capital increase in the court register. The Company will file an order for the registration of shares in the central register of dematerialised securities, managed by Central Securities Clearing Corporation d.d., within eight days after the finality of decision on the share capital increase recording in the court register.

## **5.2 Allocation and Assignment Plan**

### **5.2.1 Potential Investors Categories**

New shares are primarily offered to existing Issuer's shareholders, including individuals and also legal entities. The biggest shareholders are stated under the point 23.1 of this prospectus. In the second cycle the shares which are not yet subscribed and paid for will be offered by the Management Board in redemption to the European Bank for Reconstruction and Development and/or IFC, as well as to the Company established by the management of Gorenje – INGOR, d.o.o..

### **5.2.2 Data About Persons Intending to Subscribe More Than 5 % of the Offer**

The Issuer does not have information about persons intending to subscribe more than 5 % of the offer.

### **5.2.3 Disclosure Before Assignment**

The offer can be immediately concluded when all the offered new shares are subscribed and paid for.

### **5.2.4 Procedure of Informing Declared Persons on Assigned Amount**

The Issuer will inform in writing each subscriber about the issue and the number of new shares that belong to the subscriber.

### **5.2.5 Over-assignment and Option »Green Shoe«**

Over-assignment and option »green shoe« do not exist.

### **5.3 Pricing**

The buying price of new shares is EUR 30.00 and is defined on the basis of the market value trends of the share GRVG in 2007. At subscription subscribers will not have to pay the cost of share subscription, except for the bank provision payment for payment transactions.

### **5.4 Sale and Redemption of the First Securities Issue**

Probanka d.d., Svetozarevska ulica 12, SI-2000 Maribor, Slovenia will offer the Issuer the technical support and coordination for subscription and payment of new shares.

## **6 Admission to Trading and Regulation of Transactions**

### **6.1 Regulated Market, Where the Shares Will be Listed**

The Issuer plans to place the shares in a regulated market of securities on the Ljubljana Stock Exchange d.d., Ljubljana, Slovenia in the Prime quotation, where already existing Issuer's shares are listed with the mark GRVG.

### **6.2 Banks Involved at the Public-offer of Shares**

Probanka d.d., Svetozarevska ulica 12, SI-2000 Maribor, Slovenia will cooperate with the Issuer at the public-offer of shares.

## **7 Sale of Securities by Holders**

The prospectus applies to the public-offer of newly issued shares. In the publication of holders no one offers for sale existing shares GRVG.

## **8 Share Issue Costs**

On the basis of Tariffs on fees and refunds of ATVP and the Price-list for the Ljubljana Stock Exchange d.d., Ljubljana services, the Issuer is expected to have with the issue of new shares to a regulated market the following costs:

Cost type	Amount
ATVP licence for organised trade	EUR 6,000.00
Fee for admission of shares to stock exchange listing	EUR 30,000.00 <sup>2</sup>
Fee for deciding on admission to stock exchange listing	EUR 1,958.04
Total	EUR 37,958.04

In addition to the above-stated costs, which represent the payment of services concerning the listing of shares in a regulated market, the Issuer will bear translation and printing costs of the prospectus, court fee costs and notary fees, according to the Articles of Association clean copy.

<sup>2</sup> Fee is specified on the basis of average uniform share price of shares GRVG for the last six months of trading in a regulated market.

## **9 Thinning**

Before the increase of the share capital with the issue of new shares, the Issuer had 12,200,000 of issued shares with no par value. With the issue of 1,830,000 new shares the total number of shares will be equal to 14,030,000. Newly issued shares will represent 13.0435 % of the Issuer's share capital after the share capital increase.

The issue of new shares in the procedure of the share capital increase is intended for existing shareholders. In the event of offer acceptance by all shareholders the shares of an individual shareholder could increase at most by 0.85 of a share, on account of rounding up to a whole share.

Existing shareholders who do not accept the offer, would hitherto decrease their share for each share that they have in the total number of shares from 1/12,200,000 to 1/14,030,000.

## **10 Statutory Auditor**

The Issuer's auditing firm for the financial years of 2006, 2005 and 2004 is the Company KPMG Slovenia, a Company for auditing, d.o.o., Ljubljana, Železna cesta 8a, Slovenia.

## 11 Financial Highlights of Gorenje Group

In millions of SIT, or as stated	2006	2005	2004	2003	2002
<b>From the Income Statement</b>					
Revenue	<b>266,248</b>	243,152	216,247	197,707	181,518
Gross operating yield	<b>271,770</b>	249,081	226,583	203,675	186,615
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	<b>19,268</b>	18,152	17,050	16,301	14,539
% of gross operating yield	<b>7.1%</b>	7.3%	7.5%	8.0%	7.8%
Earnings before interest and taxes (EBIT)	<b>7,386</b>	6,460	6,953	7,029	6,343
% of gross operating yield	<b>2.7%</b>	2.6%	3.1%	3.5%	3.4%
Total profit	<b>6,672</b>	5,707	5,367	4,793	5,427
% of gross operating yield	<b>2.5%</b>	2.3%	2.4%	2.4%	2.9%
Net profit or loss	<b>5,348</b>	5,121	5,079	4,899	4,640
% of gross operating yield	<b>2.0%</b>	2.1%	2.2%	2.4%	2.5%
Return on sales (ROS)	<b>2.0%</b>	2.1%	2.3%	2.5%	2.6%
Return on assets (ROA)	<b>2.6%</b>	2.7%	3.0%	3.3%	3.7%
Return on equity (ROE)	<b>8.9%</b>	8.7%	8.6%	8.9%	9.5%
<b>From the Balance Sheet (as of 31 December)</b>					
Assets	<b>216,781</b>	195,510	179,232	159,758	137,025
Equity	<b>60,972</b>	58,720	60,874	57,292	52,349
% of total liabilities	<b>28.1%</b>	30.0%	34.0%	35.9%	38.2%
Investments in property, plant and equipment and intangible assets	<b>17,041</b>	13,277	16,706	25,261	15,126
<b>Employees</b>					
Average number of employees	<b>10,556</b>	10,492	9,503	9,146	8,610
Number of employees on 31 December	<b>10,816</b>	10,509	9,568	9,427	8,772
<b>Shares of Gorenje, d.d.</b>					
Book value per share	<b>SIT 4,551</b>	SIT 4,393	SIT 4,480	SIT 4,421	SIT 4,386
Average daily price of share as of 31 Dec.	<b>SIT 6,386</b>	SIT 5,421	SIT 6,474	SIT 4,918	SIT 4,407
Dividends paid	<b>SIT 100</b>	SIT 100	SIT 100	SIT 95	SIT 80
Capital gain	<b>17.8%</b>	-16.2%	32.0%	12.0%	98.4%
Dividend yield	<b>1.6%</b>	1.8%	1.5%	2.2%	1.8%
Total yield	<b>19.4%</b>	-14.4%	33.5%	14.2%	100.2%

## 12 Information about the Issuer

### 12.1 Company History

#### 12.1.1 Legal and Business Name of the Issuer

Company Name: Gorenje gospodinjski aparati, d.d.

Short Company Name: Gorenje, d.d.

Registration Number: 5163676

VAT Number: SI72615320

#### 12.1.2 Place of Registration and Registration Number

The Issuer has been entered into the court register of the District Court in Celje under the registration file number 1/00461/00.

#### 12.1.3 Date of Entry into the Register

The Issuer was entered into the court register of the District Court in Celje on 31 December 1997.

#### 12.1.4 Headquarters and Legal Status of the Issuer

Headquarters: Velenje, Slovenia

Address: Partizanska 12, Velenje

Legal Status: Joint stock company

Applicable legislation: The Issuer is bound by Slovenian legislation.

#### 12.1.5 Important Events in Issuer's Course of Development

##### **Gorenje's challenges – yesterday, today, tomorrow**

Gorenje has been present in the market for more than 50 years. We are developing into a highly modernized manufacturing company that is focused on our customers, suppliers, associates, owners, and the local environments in which we operate.

We are aware that only through our joint efforts can we become the most original, design-oriented creator of products for the home in the world.

The Company's existence and development in the past was marked by some important milestones.

The beginnings of the Group date back to the early 1950's, when a local metal-working company engaged in the manufacture of agricultural machinery was established in the small village of Gorenje. In 1958 the Company began to manufacture solid fuel cookers. Soon afterwards, the idea of moving to Velenje and constructing the Company's own production facilities was realized. This was followed by the expansion of production to include washers and refrigerator-freezers. An important milestone was the year 1961, when the Company exported its first 200 cookers to the German market.



Intensive takeovers in the 1970's enhanced the further expansion of the system. The Company's development was broadened to include a wide range of products for the home: kitchen furnishings, ceramics, medical equipment, telecommunications, home electronics, and television sets. The enlarged product range was followed by the expansion of the sales and service network, first to the territory of the entire former Yugoslavia, and then to the countries of Western Europe (Germany, Austria, France, Denmark, Italy) and beyond (Australia). The system employed over 20,000 persons.

In the 1980's, the system developed in the direction of its basic activity – the manufacture and sale of household appliances.

In the early 1990's, the Company was confronted with the loss of previously domestic markets of the former Yugoslavia. This called for the intensive reorientation of exports to markets outside the former common state. The new sales orientation led to the restructuring of the entire Group, and the change in the political and economic systems triggered its ownership transformation process. The loss of markets in the former Yugoslavia soon called for the re-establishment of contacts, development of partner relations, and the gradual building of business cooperation through the establishment of new companies in all European markets, including the markets of former Yugoslavia. The ownership transformation process was successfully concluded in 1997.

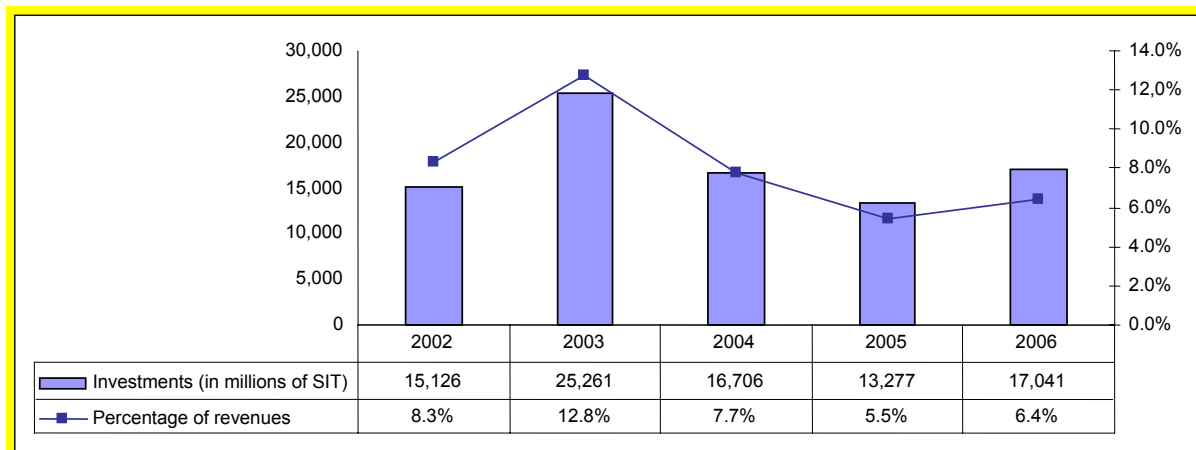
Today, the most advanced technological and environmental standards have been implemented in the Group's business processes. We are developing and strengthening our presence in the markets of former Yugoslavia, Eastern, South-eastern and Western Europe, Northern and Central Europe, and beyond (North America, Australia, Near and Far East). All of this has been possible through intensive investments in: the enlargement of production capacities, environment-friendly and advanced technologies, new products and new markets. With the takeover of the Czech manufacturer of cooking appliances, Mora Moravia s.r.o., we began a process of delocalization of production processes and increased our production capacities in the Czech Republic. The construction of a factory in Valjevo has enlarged the production capacities of our refrigerator-freezer programme in Serbia. With the purchase of a proportional share in the company Istrabenz energetski sistemi, d.o.o., we are expanding our activities to the area of energy management in line with our strategy.

The continuing growth of business activities and the Group's increasing competitiveness represent new challenges in our business operations. We are aware that our goal of being one of the five leading European manufacturers of household appliances will require the further expansion of our production capacities either through takeovers or other strategic partnerships.

At Gorenje, we are prepared and look forward to taking on new challenges. We firmly believe in our further successful operation within the frames of set strategic goals and activities. Naturally, as **the most innovative, design-minded creator of home appliances**.

## 12.2 Investment

### 12.2.1 Major Investments



In the period 2002-2006, SIT 87,411 million or EUR 371 million were invested altogether.

Investments in tangible and intangible assets by divisions:

in millions SIT	2006	2005	2004
Household appliances division	15,913.6	12,464.9	15,554.7
Home interior division	371.9	411.6	432.3
Trade and services division	755.2	400.8	719.1
<b>Total</b>	<b>17,040.7</b>	<b>13,277.3</b>	<b>16,706.1</b>

#### 2006

In 2006, the Gorenje Group invested SIT 17,040.7 altogether, of which SIT 16,157.2 million were in tangible fixed assets and SIT 883.5 million in intangible fixed assets.

#### Household appliances division

(investments of SIT 15,913.6 million)

The household appliances division invested the most amongst all divisions, SIT 15,913.6 million, of which SIT 6,950.2 million within the parent company and SIT 5,688.1 within the Gorenje aparati za domačinstvo, d.o.o., Valjevo, company.

The most important investments in 2006 were:

- construction and start-up of the Valjevo plant specialised in freezers and refrigerators;
- within the refrigerating programme – completion of development of a new generation of refrigerating appliances (which started in 2005) and modernisation of the enamelling plant;
- within the cooking programme – completion of renovation of the enamelling plant and thus elimination of nickel from the production process, which is important from cost-saving and ecological aspects;
- within the washing programme – introduction of lower-priced washing machines;
- within the Mekom product line – acquisition and application of the FPT (foiled PUR technology) technology for the production of doors for refrigerating appliances;
- in the area of information technology – completion of a Disaster Recovery Centre;

- completion of renovation of the Split logistics distribution centre, Croatia;
- within the Gorenje Tiki company – completion of a new warehouse and renovation of the newly acquired production and warehouse facilities in Stara Pazova, Serbia.

**Home interior division (investments of SIT 371.9 million)**

The majority of investments within this division (SIT 247.6 million) were made by the Gorenje Notranja oprema company to modernise the production equipment used for Gorenje and Marles kitchens and the Furniture programme. Investments of the Gorenje Kuchyne Spol company amounted to SIT 121.5 million. The majority went to the acquisition of land and construction of a production plant in Višnova, in the Czech Republic.

**Trade and services division (investments of SIT 755.2 million)**

Investments in the energy arm amounted to SIT 486.4 million. The majority relates to the Vitales (and went to the construction of a wood pellet plant) and Istrabenz Gorenje companies (and went to the construction of the Neretva hydro power plant). Other Group's divisions invested SIT 268.8 million, mainly in various renovations.

**2005**

**Household appliances division (total investment SIT 12,464.9 million)**

Most investment projects in the Gorenje Group were implemented within the Household Appliances Division i.e. SIT 12,464.9 million with SIT 8,877.1 million of this amount going towards investment projects in the Parent Company. Major investment projects implemented in 2005 were as follows:

- **Completion of selected projects started in 2004** (commissioning of equipment for the regular production of the next generation of 600 mm appliances; completion of the rehabilitation of facilities in the Šoštanj industrial estate; transfer of production of the *Mekom* product range);
- Continuation of the **Pininfarina 2** product development **project** (cooking appliances, refrigerators & freezers) incl. equipment purchase;
- Completion of the **Next Generation Washing Machines and Dryers** project;
- Completion of the **construction of the sales showroom, reconstruction of the façade** on the administration building of the Parent Company, and the **augmentation of premises** for the *Mekom* product range;
- Start of the **renovation of the logistics/distribution centre** in Split, Croatia;
- Completion of the **new business/distribution centre** in Bulgaria;
- **Purchase of land** in Poland for the construction of a business/distribution centre;
- **Construction of a new warehouse** for Gorenje Tiki, d.o.o..

**Home interior division (total investment SIT 411.6 million)**

The majority of the investment projects totalling SIT 379.0 million were implemented within Gorenje Notranja oprema, d.o.o., where for the most part the funds were expended on the modernisation of the manufacturing equipment for the *Gorenje Kitchens* and *Marles Kitchens* product lines. When it comes to the *Ceramics* product range, however, the money was largely spent on the acquisition of conveying equipment. Gorenje Glin, d.o.o. spent SIT 25.3 million for investment purposes in 2005, mainly to ensure infrastructure/spatial independence of the plant i.e. compressor station and technical protection. The total investment of the other companies in the Home Interior Division amounted to SIT 7.2 million.

**Trade and services division (total investment SIT 400.8 million)**

in the Trade and Services Division, SIT 112.6 million were spent on investments by Gorenje Gostinstvo, d.o.o.. The key expenditure involved the purchase of equipment for a new canteen, which started operating in October of the previous year. The canteen is situated next to the refrigerators & freezers plant, the central warehouse and the new showroom of Gorenje, d.d., the owner of the property. As the canteen is also open to external users of the services provided by Gorenje Gostinstvo, d.o.o., this opens up new opportunities for the company to expand into catering. The total investment of Imobilia, d.o.o., Serbia amounted to SIT 67.1 million. For the most part the funds were spent on the purchase and remodelling of business premises.

**2004**

**Household appliances division (Total investment: SIT 15,071.6 million)**

Most investment projects in the Group were implemented within the Household Appliances Division i.e. SIT 15,071.6 million with SIT 11,145.0 million of this amount going towards investment projects in Gorenje, d.d.. The expenditure focused on the acquisition of technological equipment and tools for technological modernisation and product development.

Major investments in fixed assets and intangible non-current assets in 2004 were as follows:

- Introduction of the next generation washing machines and dryers;
- Development of the next generation of refrigerators and freezers to be launched in 2005;
- Development of the new Pininfarina line to be launched in the second half of 2005;
- Completion of the new logistics centre;
- Completion of the new plant for the manufacture of synthetic materials (i.e. plastics);
- Completion of the new Styrofoam packaging plant;
- Completion of the new commercial/distribution centre in Ljubljana (Slovenia) and Podgorica (Montenegro);
- Completion of construction works in relation to the augmentation of facilities and infrastructure in the Šoštanj industrial estate; and
- Purchase of land in the Valjevo industrial zone (Serbia and Montenegro) for the construction of a household appliances plant.

**Home interior division (Total investment: SIT 432.3 million)**

Investment projects amounting to SIT 259.4 million were implemented within Gorenje Notranja oprema, d.d.<sup>3</sup>, as follows: SIT 175.7 million was spent on the modernisation of manufacturing equipment and machinery for the *Marles* product range, and on the re-roofing of production facilities and the modernisation of manufacturing equipment for the *Furniture* and *Ceramics* products. Gorenje Glin, d.o.o., invested SIT 141.7 million in 2004, mainly in the modernisation and automation of the packing line, and in the machines for the cleaning of furniture components. The total investment of the other companies in the Home Interior Division amounted to ST 31.2 million.

**Industrial equipment and tool&die making division (Total investment: SIT 483.1 million)**

Gorenje Tiki, d.o.o., spent SIT 231.2 million on the implementation of the following projects: completion of the new welding line started in 2003 in order to meet the demand of the new markets involving the expansion of the sales range and a continuous investment in the modernisation of technology. The total investment of Gorenje Orodjarna, d.o.o. amounted to SIT 216.2 million. A major part of the funds was invested in increasing the number of computer-aided design workstations and in the purchase and augmentation of computer equipment, with some funds being used for the acquisition of new production machinery and equipment.

<sup>3</sup> Gorenje notranja oprema, d.d., was converted into a proprietary limited company (d.o.o.) by order of the District Court in Celje, ref. no. Srg.2004/01077 of 28.1.2005.

**Services division**

**Total investment: SIT 527.4 million**

The companies in the Services Division spent the majority of available investment funds in 2004 on real estate with Hyundai auto Zagreb, d.o.o.<sup>4</sup>, Croatia buying land for the construction of a car park for their stocks of used cars, while Hyundai auto, d.o.o., Belgrade, Serbia, purchased business premises from Gorenje, d.o.o.. Gorenje GTI, d.o.o. spent most of their investment funds on the acquisitions of motor vehicles and forklifts, and office-, computer- and other equipment.

**Energy and environment protection division**

**Total investment: SIT 191.7 million**

In the Power Generation and Environment Division, Kemis, d.o.o., Radomlje, purchased land for the construction of a warehouse/commercial/processing centre. Kemis, d.o.o., Croatia, also purchased land and buildings for a hazardous waste storage facility with part of the funds being invested in a waste transfer system at the facility.

**12.2.2 Proposed Investment**

EUR 47,836,000 worth of investments in tangible fixed assets and intangible non-current assets have been proposed in 2007.

**Investment Projects per Asset Type, in EUR thousand and SIT thousand**

	Plan 2007 in EUR thousand	Plan 2007 in SIT thousand
Land	0	0
Buildings	11,624	2,785,575
Technical equipment	28,173	6,751,378
Furnishings and fittings	1,270	304,343
Motor vehicles/conveying equipment	1,941	465,141
Computer hardware	1,291	309,375
Computer software	985	236,045
Other intangible investments	2,552	611,561
<b>TOTAL</b>	<b>47,836</b>	<b>11,463,419</b>

The bulk of investment projects amounting to EUR 27.007 million are to be implemented within Gorenje, d.d., with major investments also being planned by Gorenje Invest, d.o.o., Serbia (refurbishment of a business centre – EUR 5 million), Gorenje Tiki, d.o.o., Serbia (purchase of manufacturing equipment for the new plant – EUR 3 million), Gorenje Notranja oprema, d.o.o. (construction of a new facility featuring equipment for the assembly of kitchen furniture – EUR 2.003 million), Mora Moravia s r.o., Czech Republic (production equipment, treatment plant and new tools – EUR 2.391 million), Vitales, d.o.o., Bosnia and Herzegovina (technical equipment for the production of wood pellets – EUR 1.296 million) and Gorenje Zagreb, d.o.o., Croatia (construction of a warehouse in Zagreb – EUR 979 thousand).

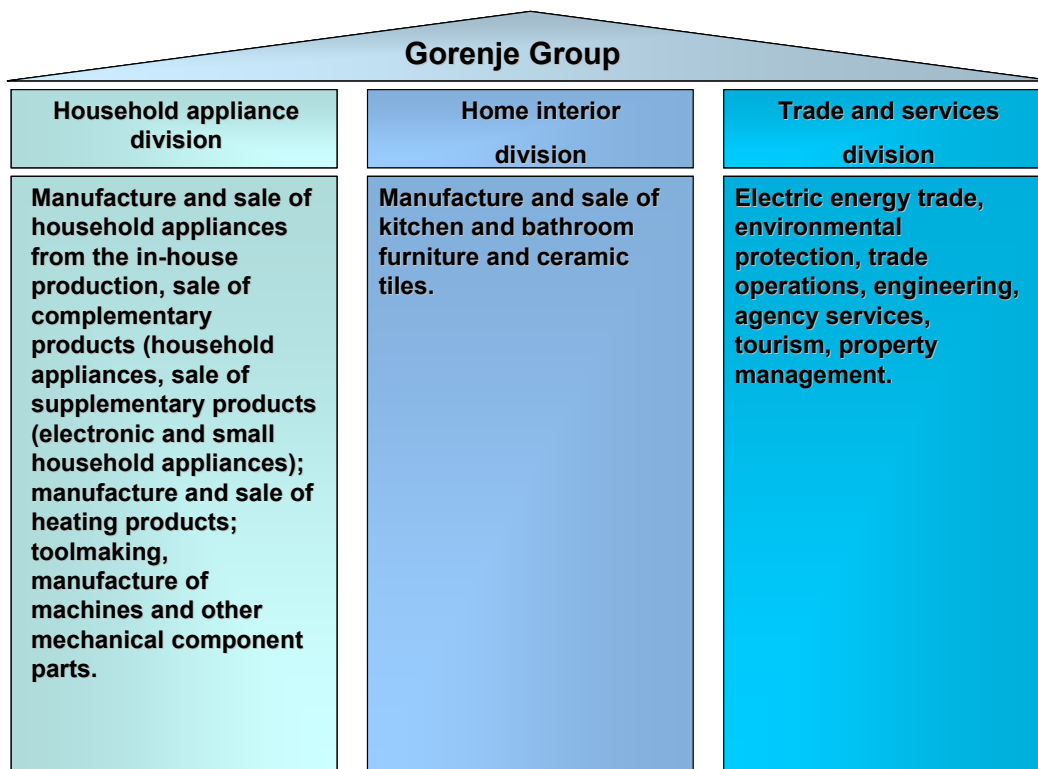
<sup>4</sup> Hyundai auto Zagreb, d.o.o. and Hyundai auto, d.o.o. Belgrade were sold in 2005.

## 13 Overview of Business Operation

### 13.1 Core Business

#### 13.1.1 Issuer's Business Activities

Core business activities in 2006



#### 13.1.2 List of All Major New Products/Services, the Development of Which Is a Matter of Public Record

##### New products in 2004:

- The next generation of washing machines;
- The next generation of dryers;
- Cooking island;
- Freestanding electric coil ranges, W = 60 cm;
- Ceramic glass cooktops with 85 cm reheat zone;
- The next generation of medium-size boilers.

##### New products in 2005:

- A new design line of Gorenje Pininfarina household appliances (freestanding ranges, built-in ovens and cooktops, freestanding refrigerators, rangehoods, décor access panels for microwave ovens and dishwashers);
- Refrigerators and freezers with crystallized – Swarovski elements;
- NGC 600 – the next generation of freestanding refrigerators and freezers, W = 60 cm (Stage One);
- Glass wine cabinets and bar refrigerator;
- Redesign of built-in ovens and freestanding ranges, W = 50 cm/60 cm;
- Electric coil cooktops, W = 60 cm/70 cm;
- Gas cooktops and electric ceramic glass cooktops, W = 30 cm;
- Freestanding gas ranges, W = 50 cm, for the French market (made by Mora);
- The next generation of washing machines featuring OEM design;
- The next generation of dryers featuring OEM design;
- Low spin speed washing machines with “A” washing performance;
- The next generation of large-size boilers and heat pumps.

#### **New products in 2006:**

- NGC 600 – the next generation of freestanding refrigerators and freezers, W = 60 cm (Stage Two);
- Freestanding gas ranges, W = 60 cm, featuring the next generation of electric coil cooktops;
- Combined gas/electric ranges (2+2), W = 50 cm (made by Mora);
- New models of gas burners installed in all cooktops and freestanding ranges;
- 7 kg washing machines and dryers;
- Introductory models of washing machines and dryers;
- New models of medium-size boilers.

### **13.1.3 Essential Markets and Other Division Programmes**

**SIT 222,337.2 million (EUR 927.9 million)**  
**or 83.5 percent of total Group revenues**

Sales of household appliances, both in value and volume terms, significantly exceeded the 2006 targets. Sales grew faster than the market, which means that Gorenje consolidated its market position and increased its market shares.

The **cooking programme** is the most important of all product classes of the household appliances division. In addition to robust growth, this class was also distinguished for the fact that sales revenues grew faster than sales volume, mainly due to the good sales of higher-priced products. In 2006, appliances falling within this programme were re-designed. An induction hob and various accessories for cookers were successfully launched. Sales of appliances produced by the Czech Mora Moravia subsidiary also followed an upward trend.

The **refrigerating programme** still plays an important role within the household appliances division. In 2006, refrigerating appliances 600 mm wide were launched within phase II of a project aimed at developing a new generation of refrigerating appliances. Certain gaps in the product class, mainly those related to appliances 180 cm high, were thus filled. The introduction of a NO FROST freezer will further support sales of this programme. Gorenje also continued to improve products in terms of energy efficiency, which will also favourably affect future sales. The new Valjevo plant in Serbia represents the basis for further product class growth, in particular of lower-priced products.

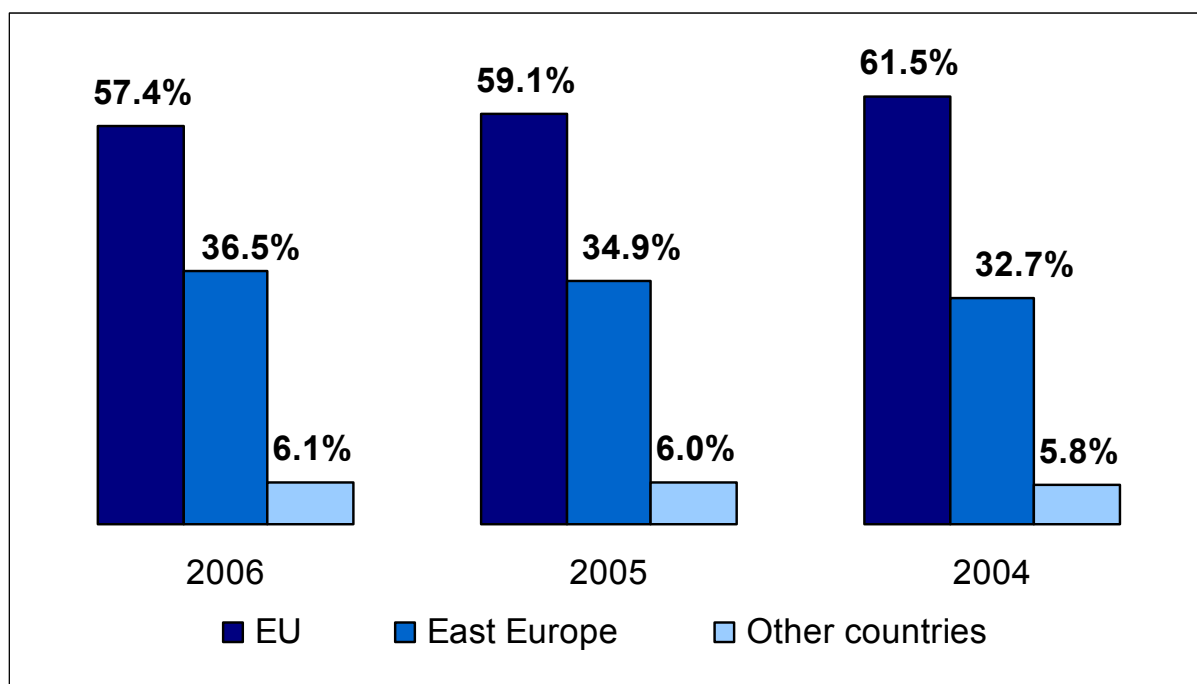
Sales of the **washing programme** also grew in 2006. Several new models were launched to appeal to all market segments, amongst them washing and drying machines with a capacity of 5 kg and 7 kg.

Sales of **complementary products**<sup>5</sup> grew rapidly and exceeded the 2006 targets, mainly on account of new products introduced.

Sales of **supplementary products**<sup>6</sup> continued to follow an upward trend and exceeded the 2005 sales. Not only did Gorenje introduce new products, it also consolidated its market position in its main markets. Gorenje also succeeded in increasing sales in Ukraine and consolidating its position in the Polish and Slovakian markets.

Sales of **space heating technology** grew robustly and increased by 24 percent in 2006. The main contributors to such growth were the above-average growth rates in east and west European markets. Also very important were the new markets entered, such as Turkey and Portugal. Sales in these markets more than compensated for the stagnating sales in the Balkans and in Central Europe. Radiators were successfully introduced in 2006; water heaters were developed to appeal to more demanding customers; and heat pumps also sold well, initially mainly in the domestic market.

As regards **sales by geographic regions**, the parent company saw the highest growth in sales of household appliances in East European markets, where it also significantly exceeded its targets. In the EU market, it saw a moderate sales growth but still exceeded its targets.



**Sales of household appliances by geographic regions in 2006, 2005 and 2004**

### Central and Northern Europe

The Group was very successful in terms of sales volume in the majority of central and north European markets. It increased its market shares and thus strengthened its brand position. It upgraded its relationships with its key buyers-retailers and partners-manufacturers. The positive consumer confidence, also expressed by Germans after many years, favourably affected developments in the household appliances market. In addition, sales were supported by the following

<sup>5</sup> Products not manufactured in-house but complementing the basic three product classes.

<sup>6</sup> Electronic and small household appliances, vacuum cleaners and microwave ovens.



factors: new buyers, products sold under the Mora brand, the new Gorenje Pininfarina product line, and new washing machines.

In **Germany**, the Group exceeded its targets. Compared to 2005, sales grew rapidly. Moreover, the main contributor to such sales growth was the 25-percent sales growth of own-brand products.

The Group also achieved its targets in **Austria**, despite increased competition, mainly in the form of recognised manufacturers entering the lower end of the market. The Group nevertheless managed to improve its sales mix, which is important for its future in this market.

The Group also achieved its targets in the **Scandinavian and Baltic markets**. In 2006, competition in these markets became fiercer due to the entry of low-price manufacturers and further centralisation of distribution. Gorenje enhanced its presence in the Latvian and Estonian markets by setting up its own distribution channels there. Most importantly, it carried out activities in 2006 that strengthened its position as a supplier of superiorly designed products with innovative functions.

In the **Czech Republic and Slovakia**, the Group achieved its targets, as well as exceeded sales from 2005. In both markets, it is presently with the Gorenje and Mora brands that together hold a majority market share in certain segments. In the **Polish** market, which grew in 2006, Gorenje achieved the target volume but was slightly below the target value. The **Hungarian** market was affected by economic difficulties, but the Group nevertheless saw an exceptional, more than 50-percent sales growth of products sold under the Gorenje and Mora brands, and significantly exceeded its targets.

#### **Western Europe and Mediterranean countries**

Sales in the entire Western Europe increased as compared to 2005. Moreover, sales in value terms, despite lagging slightly behind the target, grew faster than sales in volume terms. This was mainly due to the increased sales of own-brand products, in particular the Gorenje brand products.

Gorenje saw the highest growth rates in **England and Ireland**, where sales of the Gorenje brand products almost doubled. Sales in 2006 were also supported by longer guarantee terms and new designs introduced.

Gorenje also saw good sales growth in **France**. Entering new wholesale distribution channels increased sales of the Gorenje brand products. Similarly, it also achieved significant sales growth in **Spain, Portugal and Belgium**.

In **Greece, Cyprus and Italy**, sales were slightly below expectations, mainly due to unfavourable market conditions. In 2006, Gorenje started promoting the Gorenje brand products, which will favourably affect future sales.

An important contribution to the Group's sales is also expected from the **Turkish market**, particularly since a company was established in Istanbul to work on marketing.

#### **South-Eastern Europe and Slovenia**

In 2006, Gorenje encountered aggressive competition in the South-East European and Slovenian markets, most notably in those segments where it holds the highest market shares. This notwithstanding, sales were above the 2005 level.

The markets of **Croatia, Serbia, Montenegro, Bosnia and Herzegovina, Macedonia, Kosovo and Albania** continued to be affected by the low purchasing power, over-indebtedness of consumers, high unemployment rate and lack of market control. They are also still undergoing consolidation of

the relatively fragmented retail sector, which further exposes Gorenje to credit risks and limits its business expansion in this region.

Sales grew the most in Montenegro, Croatia and Bosnia and Herzegovina. In Serbia and Macedonia, sales slightly increased, whilst in Kosovo and Albania they were slightly below the targets.

Sales in **Slovenia** developed positively in 2006 and were in accordance with expectations.

Overall in 2006, Gorenje managed to maintain its leading position in the South-East European and Slovenian markets. However, in order to also maintain it in the longer term, it will have to continue its effective marketing and offer ever better and higher-value-added products to consumers there.

### **Overseas and Eastern Europe (outside EU)**

Sales in the Eastern European markets, which include **Russia, Ukraine, Bulgaria, Romania** and **Kazakhstan**, were significantly above the targets. They could have been even better, but Gorenje was limiting supplies in order not to increase its credit risk exposure.

Supported by effective marketing and sales activities, sales of household appliances in **Russia** and **Ukraine** grew faster than in 2005. However, there continues to be some uncertainty connected with these two countries due to their changing customs regulations.

Sales also grew significantly in comparison to 2005 in **Bulgaria**, where Gorenje opened a new sales and logistics centre, which represents the basis for further sales growth there.

In **Romania**, Gorenje adjusted its product mix to achieve higher margins, but nevertheless achieved the planned sales.

Market conditions in the **Middle and Far East**, which continued to be unpredictable in 2006, reflected significantly on sales. Despite this, Gorenje achieved its targets, most notably in Israel. To better manage these markets in the future, a company was established in Dubai under the name of Gorenje Gulf.

In **overseas markets** Gorenje also increased sales but still lagged slightly behind expectations.

**Revenue Gorenje Group**

In SIT thousand	EU			East Europe			Other countries			Group		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Net revenue from sales to third parties	178,922,883	164,736,415	145,374,855	77,558,798	69,619,014	62,095,843	9,766,775	8,796,997	8,776,346	266,248,456	243,152,426	216,247,044
Total assets	111,216,018	90,950,727	88,931,969	98,004,527	74,807,508	61,971,588	7,560,308	29,751,635	28,328,828	216,780,853	195,509,870	179,232,385
Investments	6,588,102	6,515,051	7,664,907	10,096,703	4,822,890	6,532,247	355,846	1,939,326	2,508,920	17,040,651	13,277,267	16,706,074

**Revenue Gorenje, d.d.**

In SIT thousand	EU			East Europe			Other countries			Group		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Net revenue from sales to third parties	101,864,121	90,538,901	88,635,097	64,504,927	53,575,567	47,127,930	8,990,107	9,243,663	8,359,083	175,359,155	153,358,131	144,122,110
Total assets	87,485,372	60,121,608	56,615,453	55,809,634	46,312,625	42,207,419	7,541,842	29,751,635	28,989,692	150,836,848	136,185,868	125,812,563
Investments	4,031,111	4,332,269	5,182,359	2,571,571	3,018,834	3,675,048	347,510	1,939,325	2,508,770	6,950,191	9,290,428	11,366,177

### **13.2 Dependence on Patents, Licences, New Industrial Production Processes, Commercial or Financial Contracts**

The operation of the Issuer is not subject to any patents, licenses, new industrial production processes, commercial or financial contracts. The products manufactured by the Issuer are mainly the result of its own know-how, technology and production processes.

### **13.3 The Premise of All Statements Made by the Issuer in Relation to Its Competitive Position**

The Gorenje Group generates approximately 90 % of its revenue by exporting into more than 70 countries around the globe. In 2006, the total production volume of the Group amounted to 3.7 million large household appliances. The Gorenje Group holds a roughly 4 % market share in the European household appliances market; 75 % of the products are sold under its own brand names.

## **14 Organisation Structure**

### **14.1A Brief Overview of the Group and the Position of the Issuer in the Group**

Issuer Gorenje, d.d. is the parent company and the founder i.e. direct or indirect owner of the subsidiary companies in the Gorenje Group. The companies in the Group are divided into three divisions, as follows: Household appliances division, Home interior division, and Trade and services division. The production of household appliances takes place at Gorenje, d.d., Mora Moravia s r.o., Czech Republic, and Gorenje aparati za domačinstvo, d.o.o., Serbia. In addition to the abovementioned subsidiaries, the Household appliances division also includes support manufacturing companies Gorenje I.P.C., d.o.o., Gorenje Orodjarna, d.o.o., and Gorenje Tiki, d.o.o., Ljubljana as well as Gorenje Tiki, d.o.o., Serbia. The remaining enterprises in the Household appliances division are trade corporations.

The Home interior division comprises three companies: Gorenje Notranja oprema, d.o.o., and its two subsidiaries Gorenje Küchen, GmbH, Austria and Gorenje Kuchyne s r.o., Czech Republic.

The Trade and services division includes the enterprises involved in trade and engineering (Gorenje GTI, d.o.o.), power generation and the environment (Kemis, d.o.o., Radomlje; Kemis, d.o.o., Croatia; Kemis BiH d.o.o., BiH; Kemis Valjevo, d.o.o., Serbia; and Zeos, d.o.o., as a joint venture prompted by the WEEE directive), restaurants and catering (Gorenje Gostinstvo, d.o.o.), property management (Linea SP, d.o.o., Velenje), and power generation (the companies involved in the power generation sector are Energygor, d.o.o., Velenje and Istrabenz Gorenje, d.o.o. with its subsidiary companies. Istrabenz Gorenje, d.o.o. is a joint venture of Gorenje, d.d., and Istrabenz, d.d.).

### **14.2 List of Issuer's Subsidiary Companies**

Also involved in the Gorenje Group for the year 2006 were, in addition to the umbrella company Gorenje, d.d, the following subsidiary companies:

	<b>Companies operating in Slovenija</b>	<b>Ownership share in %</b>	<b>Division</b>
1.	Gorenje I.P.C., d.o.o., Velenje	100.00	GA
2.	Gorenje Tiki, d.o.o., Ljubljana	99.982	GA
3.	Gorenje GTI, d.o.o., Velenje	100.00	STO
4.	Gorenje NO, d.o.o., Velenje	99.60	NO

5.	Gorenje Gostinstvo, d.o.o., Velenje	100.00	STO
6.	LINEA SP, d.o.o., Velenje	100.00	STO
7.	Energygor, d.o.o., Velenje	100.00	STO
8.	Opte Ptuj d.o.o., Ptuj	100.00	STO
9.	Kemis d.o.o., Radomlje	100.00	STO
10.	Gorenje Orodjarna, d.o.o., Velenje	100.00	GA
11.	ZEOS, d.o.o., Ljubljana	51.00	STO
12.	Istrabenz Gorenje, d.o.o., Nova Gorica	49.95	STO
13.	GEN-I, d.o.o., Krško	24.98	STO
14.	BIOTOPLOTA, d.o.o., Nova Gorica	49.95	STO

	<b>Companies operating abroad:</b>	<b>Ownership share in %</b>	<b>Division</b>
15.	Gorenje Beteiligungsgesellschaft m.b.H., Austria	100.00	GA
16.	Gorenje Austria Handelsgesellschaft m.b.H., Austria	100.00	GA
17.	Gorenje Vertriebsgesellschaft m.b.H., Germany	100.00	GA
18.	Gorenje Körting Italia S.r.l., Italy	100.00	GA
19.	Gorenje France S.A.S., France	100.00	GA
20.	Gorenje BELUX S.a.r.l., Belgium	100.00	GA
21.	Gorenje UK Ltd., Great Britain	100.00	GA
22.	Gorenje Skandinavien A/S, Denmark	100.00	GA
23.	Gorenje AB, Sweden	100.00	GA
24.	Gorenje spol. s r.o., Czech Republic	100.00	GA
25.	Gorenje real spol. s r.o., Czech Republic	100.00	GA
26.	Gorenje Slovakia s r.o., Slovakia	100.00	GA
27.	Gorenje Budapest Kft., Hungary	100.00	GA
28.	Gorenje Polska Sp. z o.o., Poland	100.00	GA
29.	Gorenje Bulgaria EOOD, Bulgaria	100.00	GA
30.	Gorenje Zagreb, d.o.o., Croatia	100.00	GA
31.	Gorenje Skopje, d.o.o., Macedonia	100.00	GA
32.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	GA
33.	Gorenje, d.o.o., Serbia	100.00	GA
34.	Gorenje Podgorica, d.o.o., Monte Negro	99.972	GA
35.	Gorenje OY, Finland	100.00	GA
36.	Gorenje AS, Norway	100.00	GA
37.	OÜ Gorenje, Estonia	100.00	GA
38.	SIA Gorenje, Latvia	100.00	GA
39.	Gorenje Romania S.R.L., Rumania	100.00	GA
40.	Gorenje aparati za domačinstvo, d.o.o., Serbia	100.00	GA
41.	Mora Moravia s r.o., Czech Republic	100.00	GA
42.	Gorenje Küchen GmbH, Austria	99.60	NO
43.	Gorenje kuchyne spol. s r.o., Czech Republic	99.60	NO
44.	Gorenje Imobilia, d.o.o., Serbia	100.00	STO
45.	Gorenje Adria Nekretnine d.o.o., Croatia	100.00	STO
46.	Kemis, d.o.o., Croatia	100.00	STO
47.	Kemis BiH, d.o.o., Bosnia and Herzegovina	100.00	STO
48.	Kemis Valjevo, d.o.o., Serbia	100.00	STO
49.	Gorenje Invest, d.o.o., Serbia	100.00	GA
50.	Gorenje Gulf FZE, United Arab Emirates	100.00	GA
51.	Gorenje Espana, S.L., Spain	100.00	GA
52.	Gorenje Tiki, d.o.o., Serbia	99.982	GA
53.	Istrabenz-Gorenje, d.o.o., Croatia	24.98	STO
54.	Austrian Power Vertriebs, GmbH, Austria	49.95	STO
55.	Intrade energija, d.o.o., Bosnia and Herzegovina	25.48	STO
56.	Vitales, d.o.o., Bosnia and Herzegovina	49.95	STO
57.	Gorenje Istanbul Ltd., Turkey	100.00	GA

## **gorenje**

### **Gorenje Group**

GA – Household Appliances  
 NO – Home Interior  
 STO – Trade and Services

The company Gorenje, d.d. has, in the framework of its operation, also organized the following representative offices, through which business activities are carried out in certain foreign markets :

#### **Representative offices abroad:**

1.	Moscow, Russian Federation
2.	Krasnoyarsk, Russian Federation
3.	Kiev, Ukraine
4.	Athens, Greek
5.	Shanghai, China
6.	Prishtine, Serbia

The company Gorenje, d.d. bought a 23,4 % share in the company Surovina, d.d., Maribor, Slovenia, on 31 January 2007, and in such manner became a 51 % owner of all shares in the Company's stock. The company Kemis Zagreb, d.o.o., Croatia took over the company Termoclean, d.o.o., Croatia on 31 January 2007. The representative office of the company Gorenje, d.d. was established on 08 January 2007 in Kazakhstan.

## **15 Property, Plant and Equipment**

### **15.1 Property, Plant and Equipment**

#### **Gorenje Group**

	in SIT thousand		
	2006	2005	2004
Land	7,311,511	6,844,136	6,613,030
Buildings	36,532,072	33,269,095	31,449,704
Production plant and equipment	36,847,985	35,862,338	34,784,893
Property, plant and equipment under construction	3,493,625	2,790,603	5,251,154
Advances	320,579	72,483	126,648
<b>Total</b>	<b>84,505,772</b>	<b>78,838,655</b>	<b>78,225,429</b>

#### **Issuer Gorenje, d.d.**

	in SIT thousand		
	2006	2005	2004
Land	3,191,851	3,191,851	3,067,609
Buildings	14,265,003	14,707,535	13,319,279
Production plant and equipment	27,720,292	28,895,933	27,136,697
Property, plant and equipment under construction	1,207,614	1,066,426	4,646,554
Advances	83,866	4,063	4,469
<b>Total</b>	<b>46,468,626</b>	<b>47,865,808</b>	<b>48,174,608</b>

### **15.2 Environmental Issues, Which May Affect the Use of Tangible Fixed Assets**

Protection of the environment is a priority in all areas of business operation of the Gorenje Group, from product/service development, purchasing, manufacturing and sales, to employee development and communication with employees and the local and broader social environment. It is therefore not

surprising that environmental protection, as a vital part of Gorenje's corporate culture, has been placed at the core of our short-term as well as long-term plans.

Both the vision and mission of Gorenje involve the manufacture and marketing of high quality, ergonomic, user- and environmentally-friendly products. The company is particularly focused on meeting the requirements of its customers, employees and society at large. Protection of the environment along the principles of sustainable development is an integral part of all of Gorenje's plans and decisions. The corporate environmental policy, goals and plans, and a positive attitude held by the management and employees towards the environment, is reflected in an ongoing reduction of consumption of natural resources both in the manufacture and use of products, introduction of cleaner technologies and reduced environmental impacts.

A strong commitment to ongoing investment in manufacturing facilities, with a view of augmenting the Company's production capacities and modernising the technology by way of Best Available Techniques, has resulted in a significant reduction of adverse effects to the environment, and in a decreasing consumption of natural resources. In addition to design and functionality, environmental considerations in particular play an increasingly important part in product development, which takes into account the entire product life cycle from the concept, development and manufacture, to use and eventual disposal. In this respect the company follows the guidelines provided by the EuP directive (Eco-design Requirements for Energy-Using Products).

A systematic approach to environmental issues is a long-standing tradition at Gorenje, with the Environmental Section having been established as early as 1985. Apart from purely operational jobs (wastewater treatment, waste management, monitoring,...) the Section has also been assigned a consulting, supervisory, and developmental role. In 2000, the environmental management system of Gorenje, d.d. was upgraded and certified to the ISO 14001 standard; other companies in the Group soon followed suit. However, even before Slovenia's accession to the European Union, Gorenje had already decided to participate in the EMAS scheme, which subsequently led to the aforementioned upgrade of the corporate environmental management system. During a period of strong investment in the modernisation of technological processes, the company succeeded in putting itself in a position where it could fully meet the environment-related requirements to be imposed by pending legislation. The 2003 Environmental Report already featured a certified environmental statement. In September 2004 Gorenje, d.d. received a certificate of entry into the EMAS register. In the beginning of 2007 Gorenje's environmental management system was augmented in line with the EMAS Regulation to include two Gorenje Group companies at five locations. The entry into the EMAS register provides clear evidence of Gorenje's commitment to the environment, continuous improvement in relation to addressing the environmental issues, and full compliance with the applicable legislative requirements.

Many years of hard work and ongoing investment in the environment have also been acknowledged by numerous commendations and awards in Slovenia and abroad.

As the winner of the *2003 Environmentally Friendly Business Award* at the national level, Gorenje qualified for the *2004 European Business Awards for the Environment* presented by the European Commission. The nominees included 100 businesses from 17 countries. The *2004 European Business Awards for the Environment* were presented in the following four categories: *The Management Award for Sustainable Development*, *The Product Award for Sustainable Development*, *The Process Award for Sustainable Development*, and *The International Co-operation Award for Sustainable Development*. Gorenje received a commendation in the category *Management Award for Sustainable Development*. The nomination for the *2004 European Business Awards for the Environment* and the awarded commendation validate Gorenje's commitment to environmentally sustainable business operation as a balance between environmental, social and economic considerations.

In 2005 Gorenje received the EMAS Award in the *Large Organisations* category. The awards ceremony took place at the 2005 EMAS Conference jointly organised by the Directorate-General for

the Environment of the European Commission, the Austrian Environment Agency and the Ministry of the Environment and Spatial Planning of the Republic of Slovenia.

In 2005 Gorenje took part in the *ADVANCE* international survey under the official title, "Sustainable Value of European Industry". The survey included 65 businesses in various sectors of industry from the entire European Union. The results of the survey were published in 2006. According to the survey, Gorenje was ranked third in terms of environmental management, due to the efficient utilisation of environmental resources (four times more efficient than the average manufacturing company in EU15). According to forecasts, Gorenje will move up to second place by 2012.

The Gorenje dryer marketed in Australia won the *2006 Top Energy Saving Award*. The *TESAW* award has been instituted by the Australian federal government with the purpose of identifying energy efficient products. The abovementioned appliance, which is part of the Gorenje next generation clothes dryers (dryer PG2), is the only clothes dryer to have received the *TESAW* award in 2006.

The Good Housekeeping Institute, with eighty year's tradition in consumer protection awarded the most points to the Gorenje's *Premium Touch* washing machine. Our product claimed the top spot among key brands. Gorenje's WA65205 washing machine was also tested and rated "Efficient Performer".

Waterwise, a UK non-profit, non-government organisation, ranked Gorenje's 7 kg washing machine from the *Premium* range and the *Premium Touch* washing machine second and third among the appliances marketed in the UK. Following tests into their respective water consumption efficiency, the two Gorenje appliances were declared "Waterwise Award Winning Water Savers".

In November 2006, at the 2006 Convention on the Environment the organisers i.e. the *Finance* magazine, the RS Environmental Agency and the Slovenian ECO Fund, also presented the *2006 Environment Awards*. Gorenje was the recipient of the *International Environmental Partnership Award* for the construction of a new refrigerators & freezers plant in Serbia, which in terms of design, emissions, use of environmentally friendly materials and manufacture of energy efficient products, represents the transfer of technologies that enable less developed countries to move to the next level with fewer potentially adverse environmental impacts.

## 16 Business Operation and Financial Overview

### 16.1 Sensitivity of Company Performance to Government-, Economic and Monetary Policies

A major aspect of business operation in 2007 will be the implementation of the EU directive on the recycling of electronic and electric products (WEEE Directive), applicable to the manufacture and sales of household appliances. The ambiguity of the national legislation in individual countries, in relation to the actual application and implementation of the provisions of the Directive in those national environments continues to represent an additional risk factor.



## 17 Capital

### 17.1 Holdings of the Issuer

	Holdings as at 31.12.2006	Holdings as at 31.12.2005	Holdings as at 31.12.2004
(in SIT thousand)			
Gorenje I.P.C., d.o.o., Velenje, Slovenia	90,370	90,370	90,370
LINEA SP, d.o.o., Velenje, Slovenia	29,974	29,974	29,974
Gorenje GTI, d.o.o., Velenje, Slovenia	2,107,575	2,107,575	2,107,575
BITERM, d.o.o., Bistrica ob Sotli, Slovenia	/	150,295	150,295
Gorenje Gostinstvo, d.o.o., Velenje, Slovenia	1,427,708	1,427,708	1,427,708
Gorenje Orodjarna, d.o.o., Velenje, Slovenia	728,132	728,132	728,132
Gorenje Indop, d.o.o., Velenje, Slovenia	/	87,524	413,008
Gorenje Notranja oprema, d.o.o., Velenje, Slovenia	4,338,667	4,338,667	4,336,672
Gorenje Tiki, d.o.o., Ljubljana, Slovenia	1,375,081	615,079	615,079
Energygor, d.o.o., Velenje, Slovenia	13,785	13,785	13,785
Kemis d.o.o., Radomlje, Slovenia	324,122	144,279	3,279
Istrabenz-Gorenje, d.o.o., Ljubljana, Slovenia	/	150,000	150,000
IG Prodaja, d.o.o., Nova Gorica, Slovenia	/	10,000	/
Opte Ptuj d.o.o., Ptuj, Slovenia	78,970	78,970	149,449
ZEOS, d.o.o., Ljubljana, Slovenia	51,000	51,000	/
Gorenje Zagreb, d.o.o., Croatia	3,020,530	2,407,433	2,271,915
Gorenje Skopje, d.o.o., Macedonia	129,018	128,892	118,729
Gorenje Beteiligungs GmbH, Austria	3,991,617	3,990,542	4,106,900
Gorenje Imobilia, d.o.o., Serbia	356,143	356,143	/
Gorenje aparati za domačinstvo, d.o.o., Serbia	/	988	/
Mora Moravia, a.s., Czech Republic	2,096,851	2,097,834	/
Gorenje Adria nekretnine d.o.o., Croatia	98,173	97,457	/
Istrabenz Gorenje energetski sistemi, d.o.o. Ljubljana	1,232,863	/	/
<b>Total</b>	<b>21,490,579</b>	<b>19,102,647</b>	<b>16,712,870</b>

The increase of holdings in subsidiary companies in the Group involved the purchase of a 49.95 percent share of Istrabenz Gorenje energetski sistemi, d.o.o. in the amount of SIT 1,232,863, additional capitalisation of Gorenje Tiki, d.o.o. in the amount of SIT 760 million, additional capitalisation of Gorenje Zagreb, d.o.o., Croatia, in the amount of SIT 604.933 million, and additional capitalisation of Kemis, d.o.o. in the amount of SIT 175.844 million.

The decrease in the holdings in subsidiary companies in the Group primarily involved subsidiary Biterm, d.o.o. in the amount of SIT 150.295 million due to the business operation being discontinued, the amalgamation of subsidiary Gorenje Indop, d.o.o. valued at SIT 87.524 million, and the divestment of subsidiary Istrabenz-Gorenje, d.o.o. in the amount of SIT 150 million.

Holdings in associated companies relate to the acquisition of a 27.6 percent share in Surovina, d.d. on 15 January 2006.

On 31 January 2007 Gorenje, d.d. purchased a 23.4 percent share in Surovina, d.d., Maribor from Probanka, d.d., thereby increasing its share in the business to 51 percent.

## 18 Trends

### 18.1 Vision, Mission and Strategic Objectives of the Gorenje Group

**The basic strategic objective** of the Gorenje Group is a successful and balanced expansion of its business, and a significant increase in its competitive capacity, which should guarantee its successful development in the future.

**The vision of the Gorenje Group** is to become the most original, design-oriented household appliances manufacturer in the world.

**The mission of the Gorenje Group** is to create original, technically perfect, superiorly designed and user- and environmentally-friendly products for an enjoyable home. We are focused on enhancing customer satisfaction while creating value for owners, employees and other interested parties in a socially responsible manner.

The Group companies pursue the mission while observing the **values** of the Gorenje Group, i.e., **Probity, Openness, Loyalty, Key to Creativity and Ambition (POLKA)**.

In addition to this basic strategic objective, the Group companies follow **other strategic objectives** in pursuing the Group's vision and mission:

- **organic growth of sales revenues** of all divisions resulting from higher average prices of the already higher-priced products, and from a balanced growth in sales volume;
- **business growth** resulting from takeovers of interesting household appliance manufacturers in Europe, and from other forms of strategic partnerships across all divisions;
- **increased value added and cash flow from operating activities** resulting from an improved sales mix, adequate sales, marketing and R&D activities, production internationalisation, increased productivity and cost optimisation;
- **increased production capacities outside Slovenia**, i.e., production in the Czech Republic, Serbia and other emerging markets, while still producing 3 million higher value added products in Slovenia.

Information on the trend of introducing new products is described in detail in chapter 13.1.2 of the prospectus.

#### 18.1.1 Current Trends in the Household Appliances Industry

- Following a few years of a sluggish sales growth in the European markets, 2006 recorded an increase in the sales of refrigerators and freezers, and washing machines. In the East-European markets in particular, this growth is the result of **falling product prices**. The reasons for the price cuts include surplus capacities of European manufacturers, increasingly aggressive marketing by Asian suppliers and a battle for supremacy between large, globally trading companies.

- In 2006 **Gorenje succeeded in increasing its market shares** in East Europe as well as in West Europe.
- Germany, one of the three major West European markets, experienced a revival in 2006. Compared to 2005, sales volumes were on the increase both in terms of value and the number of units sold. France posted a significant increase in the sales of washing machines. In Eastern Europe, sales skyrocketed in Bulgaria and Ukraine.
- Market volatility of energy products and commodities had a major impact on the rising costs of inputs and materials. Asian manufacturers of household appliances have stepped up their aggressive marketing campaign across the entire European market, particularly in relation to refrigerators and freezers. As a result, suppliers of household appliances have accelerated the implementation of **measures aimed at the rationalisation of their business operations**. The measures most frequently used include the relocation of production to Eastern Europe and Asia. The majority of these transfers of activity in 2006 involved Russia, Poland, Romania and Bulgaria. Another response to the tougher business conditions could be seen in the intensification of marketing and a focus on Eastern European markets.
- **Strategic alliances** between manufacturers and (primarily) distributors of household appliances continue. A complete centralisation of sourcing and distribution from regional warehousing centres is becoming increasingly prevalent.

## 19 Management Bodies

### 19.1 Governing Bodies

#### Management Board of Gorenje, d.d.

- Franc Bobinac, President of the Management Board and CEO,
- Franc Košec, Member of the Management Board responsible for development and quality,
- Mirjana Dimc Perko, Member of the Management Board responsible for finance and economics,
- Drago Bahun, Member of the Management Board responsible for organization and human resources, and Work Director.

The Management Board took up office on 18 July 2003 and shall serve a term of five years, with the exception of Mirjana Dimc Perko, who took up her office on 1st January 2006 and shall serve until the expiry of the Management Board's term, i.e. 18 July 2008.

The President of the Management Board, Franc Bobinac, is also a member of the Supervisory Board of ETI, d.d.. Member of the Board Mirjana Dimc Perko is a member of the Supervisory Board of Pivovarna Laško, d.d. and of the Supervisory Board of Skupna pokojninska družba, d.d..

#### Supervisory Board of the parent company Gorenje, d.d.

The Supervisory Board, which is comprised of ten members, served its term until 18 July 2006 in the following composition: Marko Voljč, M.Sc., as Chairman, Dr. Jože Zagožen and Ivan Atelšek as Deputy Chairmen, Bogdan Pušnik, Igor Kušar, M.Sc., Peter Tevž, Peter Kopal, Drago Krenker, Krešimir Martinjak and Jurij Slemenik.

On 29 June 2006 the General Meeting of Shareholders elected a new Supervisory Board, which took up office on 18 July 2006 for a term of four years.

The Supervisory Board is comprised of:

#### Representatives of capital

- Dr. Jože Zagožen, Chairman,
- Peter Ješovnik, M.Sc., member
- Milan Podpečan, member,
- Andrej Presečnik, member,
- Gregor Sluga, M.Sc., member.

#### Employee-elected representatives

- Ivan Atelšek, Deputy Chairman,
- Peter Kobal, member,
- Drago Krenker, member,
- Krešimir Martinjak, member,
- Jurij Slemenik, member.

The position of Supervisory Board member in other companies is held by the following members of the Supervisory Board: Peter Ješovnik, M.Sc. is Deputy Chairman of the Supervisory Board of NLB, d.d.; Milan Podpečan is Chairman of the Management Board of Slovenska odškodninska družba, d.d. and a member of the Supervisory Board of Petrol, d.d.; Andrej Presečnik is a member of the Management Board of Kapitalska Zadruga and a member of the Supervisory Board of Ljubljanske mlekarne, d.d.; Gregor Sluga, M.Sc. is a member of the Supervisory Board of Deželna banka Slovenije, d.d. and Vice-President of the Management Board of KD DeLux, SICAV, Luxembourg.

The Issuer declares that it is not known to him if the members of the Management Board and Supervisory Board would be convicted of frauds, or officially publicly accused under sanctions of the state authorities in the last five years, or that the membership in management or supervisory organs of any company would be prohibited to them by the court in the last five years. It is not known to the Issuer if the members of the Management Board or Supervisory Board would be related to bankruptcies, insolvency proceedings or winding up of companies in the last five years.

## 19.2 Conflict of Interest

The Issuer is not aware of any conflict of interest or potential conflict of interest involving the management bodies, which would interfere with the performance of their duties.

## 20 Remuneration

### 20.1 Remunerations Settled by the Issuer

#### Gorenje Group

In the companies of the Gorenje Group, the following gross emoluments were paid out to the below groups of persons in **2006**:

Type of emoluments	Management Board and Management	Supervisory Board	in SIT thousand
			Employees under individual employment contract
Wages and salaries	1,195,509		1,597,424
Fringe benefits and other emoluments	136,678	36,739	121,935
<b>Total</b>	<b>1,332,187</b>	<b>36,739</b>	<b>1,719,359</b>

No long-term or short-term loans were granted by the companies to the members of the Management Board, Supervisory Board, or internal owners.

In the companies of the Gorenje Group, the following gross emoluments were paid out to the below groups of persons in **2005**:

Type of emoluments	Management Board and Management	Supervisory Board	in SIT thousand
			Employees under individual employment contract
Wages and salaries	1,104,686		1,439,761
Fringe benefits and other emoluments	117,226	31,694	113,322
<b>Total</b>	<b>1,221,912</b>	<b>31,694</b>	<b>1,553,083</b>

**Issuer Gorenje, d.d.**

In accordance with the Securities Market Act, the total payments, reimbursements, and other benefits of the members of the Management Board are given below:

**Gross emoluments in 2006**

	Management Board	Supervisory Board	in SIT thousand
			Employees under individual employment contract
- salaries	167,534	0	1,131,175
- incentive bonuses	62,072	26,000	166,015
- fringe benefits	12,365	0	82,470
- other emoluments	800	0	16,726
- attendance fees		8,938	
- other refunds of expenses		1,801	
<b>Total</b>	<b>242,771</b>	<b>36,739</b>	<b>1,396,386</b>

**Net emoluments in 2006**

	Management Board	Supervisory Board	in SIT thousand
			Employees under individual employment contract
- salaries	66,785	0	537,449
- incentive bonuses	30,990	20,150	78,050
- fringe benefits	12,365	0	82,470
- other emoluments	434	0	10,553
- attendance fees		6,927	
- other refunds of expenses		1,396	
<b>Total</b>	<b>110,574</b>	<b>28,473</b>	<b>708,522</b>

**Gross emoluments in 2005**

	in SIT thousand		
	Management Board	Supervisory Board	Employees under individual employment contract
- salaries	165,460	0	979,439
- incentive bonuses	54,910	26,000	127,437
- fringe benefits	14,153	0	73,538
- attendance fees		4,569	
- other refunds of expenses	760	1,125	12,751
<b>Total</b>	<b>235,283</b>	<b>31,694</b>	<b>1,193,165</b>

**Net emoluments in 2005**

	in SIT thousand		
	Management Board	Supervisory Board	Employees under individual employment contract
- salaries	63,233	0	459,677
- incentive bonuses	23,433	20,150	60,703
- fringe benefits	14,153	0	73,538
- attendance fees		3,541	
- other refunds of expenses	412	246	7,761
<b>Total</b>	<b>101,231</b>	<b>23,937</b>	<b>601,679</b>

**Gross emoluments 2006**

	in SIT thousand				
	Franc Bobinac	Franc Košec	Žiga Debeljak	Mirjana Dimc Perko	Drago Bahun
- salaries	48,999	41,118	0	37,588	39,829
- incentive bonuses	18,257	14,605	14,605	0	14,605
- fringe benefits	4,114	2,574	0	2,798	2,879
- other emoluments	200	200	0	200	200
<b>Total</b>	<b>71,570</b>	<b>58,497</b>	<b>14,605</b>	<b>40,586</b>	<b>57,513</b>

**Net emoluments 2006**

	in SIT thousand				
	Franc Bobinac	Franc Košec	Žiga Debeljak	Mirjana Dimc Perko	Drago Bahun
- salaries	19,114	16,563	0	15,136	15,972
- incentive bonuses	7,513	6,073	11,319	0	6,086
- fringe benefits	4,114	2,574	0	2,798	2,879
- other emoluments	107	109	0	109	109
<b>Total</b>	<b>30,848</b>	<b>25,319</b>	<b>11,319</b>	<b>18,043</b>	<b>25,046</b>

**Gross emoluments 2005**

	in SIT thousand			
	<b>Franc Bobinac</b>	<b>Franc Košec</b>	<b>Žiga Debeljak</b>	<b>Drago Bahun</b>
- salaries	48,586	40,742	36,673	39,459
- incentive bonuses	16,150	12,920	12,920	12,920
- fringe benefits	5,327	2,998	3,036	2,792
- other emoluments	190	190	190	190
<b>Total</b>	<b>70,253</b>	<b>56,850</b>	<b>52,819</b>	<b>55,361</b>

**Net emoluments 2005**

	in SIT thousand			
	<b>Franc Bobinac</b>	<b>Franc Košec</b>	<b>Žiga Debeljak</b>	<b>Drago Bahun</b>
- salaries	17,841	15,712	14,104	15,576
- incentive bonuses	6,788	5,513	5,602	5,530
- fringe benefits	5,327	2,998	3,036	2,792
- other emoluments	102	103	104	103
<b>Total</b>	<b>30,058</b>	<b>24,326</b>	<b>22,846</b>	<b>24,001</b>

The Supervisory Board resolved that incentive bonuses in the amount equal to 5 basic gross salaries paid in December 2005 should be paid to the members of the Supervisory Board for their successful work in the year 2005. An incentive bonus for 2005 shall be paid to Mr. Žiga Debeljak, member of the Management Board from 18 July 2003 to 31 December 2005.

## 21 Management and Executives

### 21.1 Members of the Management Board and the Supervisory Board

#### Management Board

As of the date of this Prospectus, the Issuer's Management Board comprises four members, as follows:

- Franc Bobinac, Chairman.  
Appointed to the Management Board on 18 July 2003 until 18 July 2008.  
Member of the Issuer's Management Board since 1998.
- Mirjana Dimc Perko, Finance & Economics. Appointed to the Management Board on 1 January 2006 until 18 July 2008; this is her first appointment.
- Franc Košec, Development & Quality.  
Appointed to the Management Board on 18 July 2003 until 18 July 2008; this is his first appointment.
- Drago Bahun, Organisation & Human Resources, and Employee Director.  
Appointed to the Management Board on 18 July 2003 until 18 July 2008.  
Member of the Issuer's Management Board since 1997.

#### Executive Background of the Members of the Management Board

##### Franc Bobinac, Chairman

##### **Education:**

- Graduated from the Faculty of Economics, University of Ljubljana in 1982, majoring in international relations.

- MBA from Ecole Superieure de Commerce, Paris, in 1997.

**Career and Executive Background:**

- Started his career at Emo Celje in 1983.
- Assistant Manager – Export at Gorenje Commerce in 1986; appointed Manager – Export at Gorenje Household Appliances in 1990, and Manager – Marketing at Gorenje Household Appliances in 1991.
- Managing Director of Gorenje Sidex France, Gorenje's office in France, from 1993 to 1998.
- Member of the provisional Management Board and subsequently a member of the incumbent Management Board of Gorenje, d.d. since 1998.
- Chairman of the Management Board of Gorenje, d.d. since 18 July 2003.

**Other Positions:**

- Chairman of the *Združenje Manager* association
- Member of the General Assembly of CECED (the European association of household appliance manufacturers)
- Member of the Supervisory Board of ETI Izlake
- Member of the Management Board of IEDC – Bled School of Management
- Member of the Business Council of the University of Ljubljana
- Member of the Faculty Board at the Faculty of Economics, University of Ljubljana
- Member of the UNICEF Economic Committee
- Member of the Board of the Slovenian Handball Association.

**Franc Košec, Member of the Management Board, responsible for Development & Quality**

**Education:**

Electrician.

**Career and Executive Background:**

- Employed at Gorenje since 1971 in a variety of jobs and positions in the Household Appliances programmes, which represent Gorenje's core business.
- Started as an officer in the technical modifications section, steadily making his way up the corporate ladder as head of the technical modifications section, head of the product implementation section, head of engineering in the Washing Machines and Dishwashers plant, and eventually manager of the WMD department.
- His career in Gorenje translates to over 30 years of experience in manufacturing and engineering. He played a crucial role in the development of household appliance design, now a key competitive advantage of Gorenje in the battle for global markets. In particular, he was responsible for the management of the largest investment projects of Gorenje to date, including the new refrigerators & freezers plant, Galvana, the synthetic materials plant, the Styrofoam plant, the new high-bay warehouse, the new refrigerators & freezers plant in Valjevo, and the integration of Mora Moravia s r.o., Czech Republic, into the Gorenje Group after the takeover.
- Appointed to the Management Board as Executive Director – Manufacturing & Engineering in 1997.
- Member of the Management Board of Gorenje, d.d. since 18 July 2003.

**Other Positions:**

- Member of the Management Board of the Electrical Industry Association with the Chamber of Commerce and Industry of Slovenia.

**Mirjana Dimc Perko, Member of the Management Board, responsible for Finance & Economics**

**Education:**



- Graduated from the Faculty of Economics and Business in Maribor in 1990, specialising in banking and finance.
- Acquired the enterprise valuation license from the Slovenian Institute of Auditors in 1992.
- MBA from IEDC – Bled School of Management in 2001.

**Career and Executive Background:**

- Started her career at Profil, d.o.o., a private consulting company.
- Partner and Director of Inconsult d.o.o., a private company specialising in enterprise valuation and investment advice, from 1992 to 1995, rejoining the team in March 2005.
- Employed at the Triglav asset management company from 1995 to 2005, starting as Manager – Projects and Analyses; promoted to Vice-President and Director of the Triglav Steber I d.d. managed fund in 1999. During that time she acquired valuable experience in relation to enterprise management, restructuring, sales of companies to strategic partners, valuations and acquisitions of future Growth Plus companies, endowment capital, mergers, takeovers etc., and is considered an expert in corporate and global finance.
- Member of the Management Board of Gorenje, d.d. since 1 January 2006.

**Other Positions:**

- Member of the Supervisory Board of Pivovarna Laško, d.d.
- Member of the Supervisory Board of Skupna pokojninska družba, d.d.
- Actively involved in professional associations such as *MBA Alumni klub IEDC Slovenija*
- Member of the Management Board of *Mladi Manager at Združenje Manager*
- Member of the *Združenje YES* association
- Member of the *Združenje SDBP* association (Slovene-Dutch Business Platform).

**Drago Bahun, Member of the Management Board, responsible for Organisation & Staffing, and Employee Director**

**Education:**

- University degree in sociology from the Faculty of Social Sciences, University of Ljubljana, in 1979.
- Postgraduate degree in recruiting from the Faculty of Social Sciences, University of Ljubljana.

**Career and Executive Background:**

- Started his career as Manager – Organisation of Corporate Structure at Rudarsko elektroenergetski kombinat, Velenje, where he was employed until the end of 1984.
- Joined Gorenje in 1985 where he remains employed to this day. Vice-Chairman of the corporate Management Board responsible for Socio-economic Relations in the period 1985-1987; Member of the Gorenje Household Appliances Management Board from 1987 to 1990, responsible for Human Resources; Manager – Human Resources from 1990 to 1997.
- A former member of Gorenje's provisional Management Board and presently a member of the incumbent Management Board of Gorenje, d.d. since 18 July 2003, responsible for Organisation & Human Resources, and Employee Director.

**Other Positions:**

- Actively involved in various institutions and professional associations (Chamber of Commerce and Industry of Slovenia, Ministry of Labour, Employers' Association).
- Elected to the National Council of the Republic of Slovenia in 2002 where he represents the interests of nine communities in the Savinjsko-Šaleška regija region.
- Vice-Chairman of Employers' Association of Slovenia.

## **Supervisory Board**

The Issuer's Supervisory Board is comprised of ten members.

Five members of the Supervisory Board, who represent the interests of the capital, were elected at the General Meeting held on 29 June 2006, for a period of four years i.e. from 18 July 2006 until 18 July 2010.

The Board also has five members representing the interests of the employees, who were likewise appointed for a period of four years i.e. from 18 July 2006 until 18 July 2010.

The members of the Supervisory Board are as follows:

- Dr. Jože Zagožen, Chairman – represents the interests of the capital, first appointed on 4 July 2005
- Ivan Atelšek, Deputy Chairman – represents the interests of the employees, first appointment in 1997
- Peter Ješovnik, M.Ec., Member – represents the interests of the capital, first appointment
- Milan Podpečan, Member – represents the interests of the capital, first appointment
- Andrej Presečnik, Member – represents the interests of the capital, first appointment
- Peter Kobal, Member – represents the interests of the employees, first appointment in 1997
- Gregor Sluga, M.Sc., Member – represents the interests of the capital, first appointment
- Drago Krenker, Member – represents the interests of the employees, first appointment in 1998
- Krešimir Martinjak, Member – represents the interests of the employees, first appointment in 2002
- Jurij Slemenik, Member – represents the interests of the employees, first appointment in 2002.

## **Backgrounds of the Members of the Supervisory Board**

### **Dr. Jože Zagožen, Chairman of the Supervisory Board**

- PhD in economic science.
- Chairman of the Management Board of Holding slovenske elektrarne, d.o.o..
- Started his career at Gorenje as the manager of the corporate department of organisation and informatics; served on the business restructuring/rehabilitation committee as Vice-President of Gorenje.
- Joined the Ministry of Defence of the Republic of Slovenia in 1991 as Manager of the Logistics Department; later, he was employed at Tiskarna ljudske pravice and at TER d.o.o..
- Elected Member of the National Assembly of the Republic of Slovenia in 1996, where he was also Chairman of the Committee on the Economy.
- Minister of Economic Affairs in the Government of the Republic of Slovenia in 2000.
- Councillor at the Ljubljana City Council and Chairman of the Town Planning Committee from 1994 to 1998, and Councillor in the period 2002-2006.

### **Peter Ješovnik, M.Ec., Member of the Supervisory Board**

- Graduated from the Faculty of Social Sciences, University of Ljubljana in 1995, majoring in international relations; Master's degree in international economics from the Faculty of Economics in Ljubljana.
- Deputy Director of the RS Government Office for European Affairs since 2005.
- Associate Lecturer and Senior Lecturer on the subject of marketing and macroeconomic environment at the Faculty of Management in Koper from 1997 to 2001.
- Joined the Chamber of Commerce and Industry of Slovenia in 2001 as Head of Department of European Affairs, and was actively involved in the national Forum on the Convention for the EU Constitution.
- Appointed member of "Team Europe" in 2004 by the European Commission.

- Member of the Strategic Council for Economic Development and a member of the Reforms Council.
- Deputy Chairman of the Supervisory Board of NLB, d.d..
- Head of the Advisory Group on the Privatisation of NLB since autumn 2005.
- Member of the Supervisory Board of the Centre for the European Perspective, the Supervisory Board of the Shengen Treaty, the Supervisory Board of the Cohesion Fund, and the Management Board of the NK Maribor Pivovarna Laško football club.

**Milan Podpečan, Member of the Supervisory Board**

- University degree in economics; sound background in marketing, finance and enterprise management.
- Employed in the departments of sales & purchasing and finance & foreign trade at Metalka, Ljubljana from 1962 to 1975.
- Managing Director of Gorenje's sales-and-manufacturing company in Vienna from 1975 to 1986; a member of Gorenje's business restructuring/rehabilitation committee in 1982, responsible for the foreign trade network.
- Managing Director of Gorenje's investment company Beteiligungsgesellschaft m.b.H in Vienna from 1986 to 1994.
- Manager of Metalka's investment company, Vienna, in 1994 and 1995.
- Chairman of the Management Board of Slovenska odškodninska družba, d.d..
- Member of the Supervisory Board of Petrol, d.d..

**Andrej Presečnik, Member of the Supervisory Board**

- University degree in agriculture.
- Managing Director of Zgornjesavinjska kmetijska zadruga Mozirje z.o.o., where he has been working since 1981 in various capacities, including Manager – Consulting Services and Manager – Sales and Purchasing.
- Former Chairman of the Mozirje Community Board (1990-1992) and an active member of the Mozirje Community Council from 1994 to 2004.
- Member of the RTV Slovenija Council from 1998 to 2003.
- Served on various bodies of the Zadružna zveza Slovenje co-op association.
- Member of the Management Board of Kapitalska zadruga, the majority shareholder of Deželna banka Slovenije d.d.
- Member of the Supervisory Board of Ljubljanske mlekarne, d.d. since March 2007.

**Gregor Sluga, M.Sc., Member of the Supervisory Board**

- Master's degree in business management and organisation (financial management) from the Faculty of Economics, Ljubljana.
- Advisor to CEO of KD Group, d.d. and KD Holding d.d. since 2003.
- Secretary of the former Securities and Stock Exchange Commission at the Ministry of Finance in 1992.
- Head of the Licensing Department at the Securities Market Agency in 1994, continuing at the Agency in various capacities until 2003. Assistant Director and Manager of the Securities Market Department from 1999 to 2003.
- Member of the Supervisory Board of Deželna banka Slovenije d.d., Ljubljana.
- Vice-Chairman of the Management Board of KD DeLux, SICAV, Luxembourg.

**Employee Representatives:**

**Ivan Atelšek, Deputy Chairman of the Supervisory Board**

- Employee Representative on the Supervisory Board as a former Gorenje employee, currently an external associate, for the third consecutive term of office.
- CEO of Gorenje from 1953 to 1980; when he took over in 1953, Gorenje was only a small metal processing company in the village of Gorenje.
- Deputy President of Ljubljanska banka 1980-1982.
- Elected Chairman of the Energy Sector Committee of Slovenia in 1982.
- Retired in 1985, but remains in touch with the economy and with Gorenje.
- Winner of the awards for outstanding achievement in business presented by the Chamber of Commerce and Industry of Slovenia.
- Member of the first National Assembly of the Republic of Slovenia.

**Peter Kobal, Member of the Supervisory Board**

- Electrician.
- Head of Maintenance Department and Assistant Manager of Investment and Maintenance Services at Gorenje, d.d..
- Employed at Gorenje since 1971 in a variety of maintenance jobs and positions, from maintenance technician to assistant manager.
- Elected Chairman of the Employee Council of Gorenje d.d. in 1997; this is his third consecutive term in office.
- First appointed to the Supervisory Board of Gorenje, d.d. in 1998.
- Well-respected in his profession and in his role of Employee Representative.

**Drago Krenker, Member of the Supervisory Board**

- Commercialist.
- Assistant Manager in the Refrigerators & Freezers plant.
- Started his career in 1974 in electronics and was employed in the Household Appliances plant and in Process Equipment, a subsidiary of Gorenje, for 14 years; he also spent two years at Iskra Delta, where he worked mainly on medical electronic equipment.
- Joined the Refrigerators & Freezers plant in 1989 where he was the plant manager, Manager – Production Planning, Manager – Manufacturing, and Manager – General Services.
- First elected to the Supervisory Board of Gorenje, d.d. in 1998; he is presently a member of the Gorenje, d.d. Employee Council, serving his third consecutive term in office.
- Former Vice-Chairman of the Employee Council.
- Incumbent Chairman of the Occupational Health and Safety Committee (second term in office).

**Krešimir Martinjak, Member of the Supervisory Board**

- Bachelor of Law.
- President of the Gorenje SKEI union.
- Employed at Gorenje since 1986. Spent 16 years in the Corporate Legal Services, performing various jobs in the fields of industrial relations law, obligations law, and statutory and corporate law.
- Elected President of the Gorenje SKEI union in 2002 when he was also elected to the Supervisory Board of Gorenje, d.d. for the first time.
- Vice-President of the SKEI Velenje Regional Committee and a member of the regional committee and statutory commission of the SKEI Slovenia union.

**Jurij Slemenik, Member of the Supervisory Board**

- Mechanical technician.
- Manager – Manufacturing at the Washing Machines and Dryers plant.
- Employed at Gorenje since 1978, performing various jobs at the Washing Machines and Dryers plant.
- Member of the Employee Council since 2002, when he was also elected to the Supervisory Board of Gorenje d.d. for the first time.

- Member of the National Committee of the SKEI Slovenia union and its Occupational Health and Safety Committee, and incumbent Chairman of the Supervisory Board for the Gorenje SKEI union.

## 21.2 Agreements on Services Provided by Members of the Management Board and the Supervisory Board

The Issuer hereby declares that there are no agreements in place between the members of the Management Board or the members of the Supervisory Board and the Issuer or any of its subsidiaries, in relation to the services provided by the former, as to any special entitlements due to termination of their employment.

The Issuer operates in accordance with the legislation and regulations applicable to business management in the Republic of Slovenia.

## 22 Employees

### 22.1 Number of Employees

The table below shows the number of employees in Gorenje, d.d., and their levels of education and qualifications over the last three years.

Level of Education and Qualifications	31.12.2006	31.12.2005	31.12.2004
I.-III.	2,402	2,477	2,495
IV.-V.	2,611	2,586	2,596
VI. or higher	618	567	509
<b>Total</b>	<b>5,631</b>	<b>5,630</b>	<b>5,700</b>

The table below shows the number of employees in the Gorenje Group and their levels of education and qualifications over the last three years.

Level of Education and Qualifications	31.12.2006	31.12.2005	31.12.2004
I.-III.	4,439	4,322	3,956
IV.-V.	5,152	5,067	4,604
VI. or higher	1,225	1,120	1,008
<b>Total</b>	<b>10,816</b>	<b>10,509</b>	<b>9,568</b>

## 22.2 Interests and Entitlements

The relevant interests held by the members of the Supervisory Board and the members of the Management Board as of 31 December 2006 are detailed below:

	31.12.2006			31.12.2006	
<b>Supervisory Board</b>	<b>12,299</b>	<b>0.1008%</b>	<b>Management Board</b>	<b>11,037</b>	<b>0.0905%</b>
Ivan Atelšek	8,258	0.0677%	Franc Bobinac	1,822	0.0149%
Peter Kobal	1,178	0.0097%	Drago Bahun	7,932	0.0650%
Drago Krenker	800	0.0066%	Franc Košec	1,200	0.0098%
Krešimir Martinjak	100	0.0008%	Mirjana Dimc Perko	83	0.0007%
Jurij Slemenik	1,511	0.0124%			
Gregor Sluga	47	0.0004%			
Jože Zagožen	405	0.0033%			

The members of the Supervisory Board and the members of the Management Board have not been granted any entitlements in relation to the acquisition or purchase of the Issuer's Shares nor have they been granted any more entitlements arising from the ownership of Shares than any other Shareholders.

## 22.3 Employee Participation in the Issuer's Capital

The Issuer has not adopted any special provisions or schemes in relation to employee participation in the company capital or profit sharing.

## 23 Major Shareholders

### 23.1 Shareholder Identity as Known to the Issuer

Overview of the major Shareholders of Gorenje, d.d. as of 31 March 2007:

	Shareholder	No. of Shares	Share (%)
1.	KAPITALSKA DRUŽBA, D.D.	3,073,579	25.1933
2.	GORENJE, D.D. – own shares	1,183,342	9.6995
3.	KD GALILEO, VZAJEMNI SKLAD	506,963	4.1554
4.	RAIFFEISEN ZENTRALBANK OESTERREICH AG	480,652	3.9398
5.	PROBANKA, D.D.	408,446	3.3479
6.	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	380,951	3.1225
7.	KD RASTKO, DELNIŠKI VZAJEMNI SKLAD	360,447	2.9545
8.	KRONA SENIOR, DELNIŠKA ID, D.D.	224,697	1.8418
9.	BANK AUSTRIA CREDITANSTALT AG	177,231	1.4527
10.	KD ID, DELNIŠKA ID, D.D.	169,020	1.3854
	<b>Other Shareholders</b>	<b>5,234,672</b>	<b>42.9071</b>
	<b>TOTAL:</b>	<b>12,200,000</b>	<b>100.0000</b>

As of 31 March 2007, there were 17,332 Shareholders in total.

### 23.2 Voting Rights

All Shareholders have equal voting rights i.e. one vote for each Share held.

### **23.3 Direct and Indirect Control**

The Issuer is not controlled by any Shareholder or other entity.

### **23.4 Potential for a Change of Control over the Issuer**

The Issuer Entity is not aware of any agreements that could result in a change of control over the company.

## **24 Transactions with Related Parties**

All business dealings with related parties have been carried out on the basis of signed agreements with market prices being applied to the sale and purchase of products.

## **25 Financial Details on the Issuer's Assets and Liabilities, Financial Position and Performance**

The financial statements for the Gorenje Group and Gorenje, d.d. for 2006, 2005 and 2004 have been prepared in accordance with the International Financial Reporting Standards.

The financial statements shown below have been audited.

## 25.1 Financial statements of Gorenje, d.d.

### 25.1.1 Balance sheets of Gorenje, d.d. for the financial years 2006, 2005 and 2004

in SIT thousand	2006	2005	2004
<b>ASSETS</b>	<b>150,836,848</b>	<b>136,185,868</b>	<b>125,812,563</b>
<b>A. Non-current assets</b>	<b>76,375,745</b>	<b>74,233,321</b>	<b>71,848,874</b>
I. Intangible assets	4,157,802	3,990,025	3,030,403
II. Property, plant and equipment	46,468,626	47,865,808	48,174,608
III. Investment property	147,176	190,945	566,645
IV. Investments in subsidiaries	21,490,579	19,102,647	16,712,870
V. Investments in associates	1,347,108	0	
VI. Other non-current assets	1,503,478	1,803,742	3,234,064
VII. Deferred tax assets	1,260,976	1,280,154	130,284
<b>B. Current assets</b>	<b>74,461,103</b>	<b>61,952,547</b>	<b>53,963,689</b>
I. Non-current assets held for sale	22,200	0	
II. Inventories	21,166,867	18,073,100	15,682,877
III. Current investments	3,350,458	4,384,956	4,006,553
IV. Trade and other receivables	46,590,805	38,013,673	32,897,079
V. Other current assets	3,204,225	1,470,704	1,367,580
VI. Cash and cash equivalents	126,548	10,114	9,600
<b>EQUITY AND LIABILITIES</b>	<b>150,836,848</b>	<b>136,185,868</b>	<b>125,812,563</b>
<b>A. Equity</b>	<b>50,139,880</b>	<b>50,444,606</b>	<b>53,536,410</b>
I. Share capital	12,200,000	12,200,000	12,200,000
II. Share premium	18,832,556	18,832,556	18,832,556
III. Legal, statutory and other reserves	10,475,414	7,494,904	4,509,069
IV. Retained earnings	13,833,081	15,035,911	18,355,509
V. Equity revaluation adjustments	1,435,077	536,973	309,179
VI. Own shares	-6,636,248	-3,655,738	-669,903
<b>B. Non-current liabilities</b>	<b>33,079,998</b>	<b>29,417,339</b>	<b>21,484,977</b>
I. Provisions	6,389,077	6,483,925	4,066,766
II. Deferred tax liabilities	254,514	0	97,768
III. Non-current financial liabilities	26,436,407	22,933,414	17,320,443
<b>C. Current liabilities</b>	<b>67,616,970</b>	<b>56,323,923</b>	<b>50,791,176</b>
I. Current financial liabilities	18,087,360	13,541,741	13,355,890
II. Trade and other payables	45,742,984	39,200,697	34,679,177
III. Other current liabilities	3,786,626	3,581,485	2,756,109



**25.1.2 Income statements of Gorenje, d.d. for the financial years 2006, 2005 and 2004**

in SIT thousand	2006	2005	2004
<b>1. Revenue</b>	<b>175,359,155</b>	<b>153,358,131</b>	<b>144,122,110</b>
2. Changes in inventories of finished goods and work in progress	682,080	1,219,074	1,142,416
3. Other operating income	1,778,188	1,550,953	1,927,617
<b>4. Gross operating yield</b>	<b>177,819,423</b>	<b>156,128,158</b>	<b>147,192,143</b>
5. Cost of goods, materials and services	-139,855,821	-120,614,086	-113,251,689
6. Employee benefits expense	-24,945,346	-23,415,828	-22,240,903
7. Amortisation and depreciation expense	-8,092,116	-7,903,151	-7,466,257
8. Other operating expenses	-1,018,592	-1,439,059	-935,504
<b>9. Operating profit</b>	<b>3,907,548</b>	<b>2,756,034</b>	<b>3,297,790</b>
10. Finance income	2,328,398	2,485,068	2,364,281
11. Finance expenses	-2,991,498	-2,956,942	-3,509,769
<b>12. Profit before tax</b>	<b>3,244,448</b>	<b>2,284,160</b>	<b>2,152,302</b>
13. Income tax expense	-341,795	163,218	
<b>14. Profit for the period</b>	<b>2,902,653</b>	<b>2,447,378</b>	<b>2,152,302</b>

### 25.1.3 Cash Flow Statements of Gorenje, d.d. for the Financial Years 2006, 2005 and 2004

in SIT thousand	2006	2005	2004
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit for the period</b>	<b>2,902,653</b>	<b>2,447,378</b>	<b>2,152,302</b>
Adjustments for:			
Depreciation of property, plant and equipment	7,522,821	7,255,394	6,838,478
Amortisation of intangible assets	569,294	647,757	627,779
Foreign exchange loss	887,576	690,730	1,295,764
Investment income	-2,328,398	-2,464,103	-2,364,281
Finance expenses	2,103,922	1,652,249	2,028,296
Share of profit/loss of associates and subsidiaries	0	613,963	13,724
Gain on sale of property, plant and equipment	-483,384	-189,202	-161,702
Income tax expense	341,795	-163,217	
<b>Operating profit before changes in net operating current assets and provisions</b>	<b>11,516,279</b>	<b>10,490,949</b>	<b>10,430,360</b>
Increase in trade and other receivables	-10,291,475	-5,028,974	-1,013,513
Increase in inventories	-3,115,967	-2,286,753	-3,180,196
Decrease/Increase in provisions	-94,848	710,211	-86,980
Increase in trade payables and other payables	7,001,942	4,419,756	2,107,782
<b>Cash generated from operations</b>	<b>-6,500,348</b>	<b>-2,185,760</b>	<b>-2,172,907</b>
Interest paid	-2,447,361	-2,224,259	-3,004,005
Income tax paid	-757,814	0	-100
Gain on discontinuance of operation	298,172	0	
<b>Net cash from operating activities</b>	<b>2,108,928</b>	<b>6,080,930</b>	<b>5,253,348</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment	1,155,367	441,406	2,260,701
Interest received	901,298	1,061,159	2,256,681
Dividends received	420,027	1,100,018	78,304
Acquisition of subsidiary net of cash acquired	-2,378,841	-2,257,086	-3,013,566
Acquisition of property, plant and equipment	-6,233,987	-7,684,584	-9,469,704
Acquisition of other investments	933,175	1,225,712	-1,938,955
Acquisition of intangible assets	-716,203	-1,605,439	-1,896,473
<b>Net cash used in investing activities</b>	<b>-5,919,164</b>	<b>-7,718,814</b>	<b>-11,723,012</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repurchase of own shares	-2,980,510	-2,988,835	45,500
Proceeds from long-term borrowings	8,032,153	5,798,821	7,616,765
Dividends paid	-1,124,973	-1,171,588	-1,194,863
<b>Net cash used in financing activities</b>	<b>3,926,670</b>	<b>1,638,398</b>	<b>6,467,402</b>
Net increase in cash and cash equivalents	116,434	514	-2,262
Cash and cash equivalents at beginning of period	10,114	9,600	11,862
Cash and cash equivalents at end of period	126,548	10,114	9,600

## 25.1.4 Statements of Changes in Equity of Gorenje, d.d. for the Financial Years 2006, 2005 and 2004

Financial year 2006

in SIT thousand	Share capital	Share premium	Legal, statutory and other reserves	Retained earnings	Own shares	Equity revaluation adjustments	Total
Opening balance on 1 January 2006	12,200,000	18,832,556	7,494,904	15,035,911	-3,655,738	536,973	50,444,606
Net profit or loss for the period taken to equity				2,902,653			2,902,653
Equity revaluation adjustments in respect to investments taken to equity						1,152,618	1,152,619
Setting-up of provisions for deferred tax liabilities						-254,514	-254,515
Setting-up of reserves for own shares			2,980,510	-2,980,510			0
Dividends payout				-1,124,973			-1,124,973
Acquisition of own shares					-2,980,510		-2,980,510
Closing balance at 31 December 2006	12,200,000	18,832,556	10,475,414	13,833,081	-6,636,248	1,435,077	50,139,880

Financial year 2005

in SIT thousand	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Equity revaluation adjustments	Total
<b>Opening balance on 1 January 2005</b>	12,200,000	18,832,556	4,509,069	18,355,509	-669,903	309,179	53,536,410
Setting-up of provisions for termination pays and deferred tax assets as of 1 January 2005				-1,706,948			-1,706,948
Net profit or loss for the period taken to equity				2,447,378			2,447,378
Equity revaluation adjustments in respect to investments taken to equity						227,794	227,794
Reversal of deferred taxes				97,395			97,395
Setting-up of reserves for own shares			2,985,835	-2,985,835			0
Dividends payout				-1,171,588			-1,171,588
Acquisition of own shares					-2,985,835		-2,985,835
Closing balance on 31 December 2005	12,200,000	18,832,556	7,494,904	15,035,911	-3,655,738	536,973	50,444,606

Financial year 2004  
in SIT thousand

	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Equity revaluation adjustments	Total
Opening balance on 1 January 2004	12,200,000	18,787,056	4,275,684	17,720,296	-707,169	488,388	52,764,255
Net profit or loss for the period taken to equity				2,152,302			2,152,302
Setting-up of provisions and deferred tax assets				-51,575			-51,575
Allocation of net profit or loss for 2004 for formation of statutory reserves under the resolution of the Supervisory Board			270,651	-270,651			0
Dividends paid				-1,194,863			-1,194,863
Acquisition of own shares					37,266		0
Elimination of revaluation of assets		45,500				-179,209	-133,709
Closing balance on 31 December 2004	12,200,000	18,832,556	4,509,069	18,355,509	-669,903	309,179	53,536,410

## 25.2 Consolidated Financial Statements of the Gorenje Group

### 25.2.1 Consolidated Balance Sheets of the Gorenje Group for the Financial Years 2006, 2005 and 2004

in SIT thousand	2006	2005	2004
<b>ASSETS</b>	<b>216,780,853</b>	<b>195,509,870</b>	<b>179,232,385</b>
<b>A. Non-current assets</b>	<b>98,005,832</b>	<b>91,298,871</b>	<b>87,218,468</b>
I. Intangible assets	5,471,657	5,617,772	3,326,700
II. Property, plant and equipment	84,505,772	78,838,655	78,225,429
III. Investment property	235,695	212,836	588,536
IV. Non-current investments	4,128,833	4,811,676	5,008,476
V. Investments in associates	1,504,909	0	
VI. Deferred tax assets	2,158,966	1,817,932	69,327
<b>B. Current assets</b>	<b>118,775,021</b>	<b>104,210,999</b>	<b>92,013,917</b>
I. Assets classified as held for sale	101,361	0	
II. Inventories	46,179,157	40,747,501	38,458,861
III. Current investments	5,181,199	5,471,072	4,287,385
IV. Trade and other receivables	58,200,316	50,901,640	42,775,333
V. Other current assets	6,945,179	4,541,994	4,650,523
VI. Cash and cash equivalents	2,167,809	2,548,792	1,841,815
<b>EQUITY AND LIABILITIES</b>	<b>216,780,853</b>	<b>195,509,870</b>	<b>179,232,385</b>
<b>A. Equity</b>	<b>60,972,279</b>	<b>58,720,204</b>	<b>60,874,051</b>
I. Share capital	12,200,000	12,200,000	12,200,000
II. Share premium	23,113,258	23,113,258	23,113,258
III. Legal reserves, statutory reserves, and reserves for own shares	10,475,414	7,494,904	4,509,069
IV. Retained earnings	16,206,540	14,954,104	17,753,876
V. Own shares	-6,636,248	-3,655,738	-669,903
VI. Equity revaluation and translation adjustments	5,553,551	4,412,317	3,776,681
<b>A1. Equity attributable to equity holders of the parent</b>	<b>60,912,515</b>	<b>58,518,845</b>	<b>60,682,981</b>
<b>A2. Minority interest</b>	<b>59,764</b>	<b>201,359</b>	<b>191,070</b>
<b>B. Non-current liabilities</b>	<b>47,987,310</b>	<b>42,843,223</b>	<b>35,027,373</b>
I. Provisions	11,612,940	11,946,351	7,323,403
II. Provisions set up from government grants	1,893,450	1,789,926	1,777,690
III. Deferred tax liabilities	592,159	243,948	330,580
IV. Non-current financial liabilities	33,818,473	28,809,677	25,589,500
V. Other non-current liabilities	70,288	53,321	6,200
<b>C. Current liabilities</b>	<b>107,821,264</b>	<b>93,946,443</b>	<b>83,330,961</b>
I. Current financial liabilities	41,592,277	33,405,532	31,256,972
II. Trade and other payables	54,524,364	47,052,076	40,667,217
III. Other current liabilities	11,704,623	13,488,835	11,406,772

**25.2.2 Consolidated Income Statements of the Gorenje Group for the Financial Years 2006, 2005 and 2004**

in SIT thousand	2006	2005	2004
<b>1. Revenue</b>	<b>266,248,456</b>	<b>243,152,426</b>	<b>216,247,044</b>
2. Changes in inventories	1,477,850	1,929,476	1,211,192
3. Other operating income	4,043,767	3,999,555	4,672,737
<b>4. Gross operating yield</b>	<b>271,770,073</b>	<b>249,081,457</b>	<b>222,130,973</b>
5. Cost of goods, materials and services	-204,072,167	-184,158,970	-161,956,183
6. Employee benefits expense	-44,580,100	-43,375,610	-39,608,326
7. Amortisation and depreciation expense	-11,881,718	-11,692,539	-10,096,591
8. Other operating expenses	-3,849,797	-3,394,642	-3,516,756
<b>9. Operating profit or loss</b>	<b>7,386,291</b>	<b>6,459,696</b>	<b>6,953,117</b>
10. Finance income from shares in associates	157,801	0	
11. Finance income	4,599,092	4,071,056	3,726,548
12. Finance expenses	-5,470,745	-4,823,683	-5,312,303
<b>13. Profit before tax</b>	<b>6,672,439</b>	<b>5,707,069</b>	<b>5,367,362</b>
14. Income tax expense	-1,324,525	-586,391	-288,720
<b>15. Profit for the period</b>	<b>5,347,914</b>	<b>5,120,678</b>	<b>5,078,642</b>
16. Attributable to minority interest	-10,005	13,676	24,813
17. Attributable to equity holders of the parent	5,357,919	5,107,002	5,053,829
18. Earnings per share basic/diluted (in SIT)	478,69	445,94	423,08

**25.2.3 Consolidated Cash Flow Statements of the Gorenje Group for the Financial Years 2006, 2005 and 2004**

	in SIT thousand	2006	2005	2004
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	<b>Profit for the period</b>	<b>5,347,914</b>	<b>5,120,678</b>	<b>5,078,642</b>
	Adjustments for:			
	Depreciation of property, plant and equipment	11,044,603	10,830,979	9,674,811
	Amortisation of intangible assets	837,115	861,560	421,780
	Foreign exchange loss	1,659,483	1,449,583	2,264,740
	Investment income	-4,599,092	-4,071,056	-3,726,548
	Finance expenses	3,811,262	3,374,100	3,056,872
	Share of profit/loss of associates	-157,801		
	Gain on sale of property, plant and equipment	-548,962	-768,428	-522,438
	Income tax expense	1,324,525	586,391	288,720
	<b>Operating profit before changes in net operating current assets and provisions</b>	<b>18,719,047</b>	<b>17,383,807</b>	<b>16,536,579</b>
	Increase in trade and other receivables	-6,405,416	-6,345,015	-3,244,683
	Increase in inventories	-5,497,363	-4,095,705	-8,804,244
	Decrease in provisions	-268,410	0	
	Increase in provisions	0	1,068,725	1,233,028
	Increase in trade and other payables	2,804,334	5,921,943	5,339,773
	<b>Cash generated from operations</b>	<b>-9,366,855</b>	<b>-3,450,052</b>	<b>-5,476,126</b>
	Interest paid	-4,329,922	-3,898,567	-4,854,303
	Income taxes paid	-1,174,525	-547,621	-441,107
	Gain on liquidation of subsidiary	298,172	0	
	<b>Net cash from operating activities</b>	<b>4,145,917</b>	<b>9,487,567</b>	<b>5,765,043</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	Proceeds from sale of property, plant and equipment	1,290,001	1,328,820	1,468,709
	Interest received	4,212,183	3,867,503	2,987,981
	Dividends received	340,502	146,662	123,457
	Disposal of subsidiary, net of cash disposed of	160,000	1,890,524	
	Acquisition of subsidiary, net of cash acquired	-1,424,000	-2,476,654	-291,598
	Acquisition of property, plant and equipment	-16,157,157	-11,628,299	-15,352,537
	Acquisition of other investments	1,547,859	365,108	-2,898,919
	Acquisition of intangible assets	-883,494	-1,648,968	-1,353,537
	<b>Net cash used in investing activities</b>	<b>-10,914,106</b>	<b>-8,155,304</b>	<b>-15,316,444</b>
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	Repurchase of own shares	-2,980,510	-2,985,835	45,500
	Proceeds from long-term borrowings	10,475,450	3,370,737	9,840,860
	Dividends paid	-1,124,973	-1,171,588	-1,194,863
	<b>Net cash used in financing activities</b>	<b>6,369,967</b>	<b>-786,686</b>	<b>8,691,497</b>
	Net increase/decrease in cash and cash equivalents	-398,222	545,577	-859,904
	Cash and cash equivalents at beginning of period	2,566,031	2,003,215	2,701,719
	Cash and cash equivalents at end of period	2,167,809	2,548,792	1,841,815

## 25.2.4 Statements of Changes in Equity of the Gorenje Group for the Financial Years 2006, 2005 in 2004

Financial year 2006

	Share capital	Share premium	Legal reserves, statutory reserves, and reserves for own shares	Retained earnings	Own shares	Equity translation adjustments	Equity revaluation adjustments	Equity attributable to equity holders of the parent	Minority interest	Total
<b>Opening balance on 1 January 2006</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>7,494,904</b>	<b>14,954,104</b>	<b>-3,655,738</b>	<b>3,875,344</b>	<b>536,973</b>	<b>58,518,845</b>	<b>201,359</b>	<b>58,720,204</b>
Net profit or loss for the period taken to equity			5,357,919					5,357,919	-10,005	5,347,914
Increase in equity revaluation adjustments taken to equity						55,927		55,927		55,927
Equity revaluation adjustments in respect to investments taken to equity							1,027,153	1,027,153		1,027,153
Equity revaluation adjustments in respect to land taken to equity						187,203		187,203		187,203
Equity revaluation adjustments in respect to hedging of cash flow hedging taken to equity							125,466	125,466		125,466
Setting-up of provisions for deferred tax liabilities							-254,515	-254,515		-254,515
Setting-up of reserves for own shares			2,980,510	-2,980,510				0		0
Dividends payout				-1,124,973				-1,124,973		-1,124,973
Increase in own shares					-2,980,510			-2,980,510		-2,980,510
Decrease in minority interest									-131,590	-131,590
<b>Closing balance on 31 December 2006</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>10,475,414</b>	<b>16,206,540</b>	<b>-6,636,248</b>	<b>3,931,271</b>	<b>1,622,280</b>	<b>60,912,515</b>	<b>59,764</b>	<b>60,972,279</b>



Financial year 2005

	Share capital	Share premium	Legal reserves, statutory reserves, and reserves for own shares	Retained earnings	Own shares	Equity translation adjustments	Equity revaluation adjustments	Equity attributable to equity holders of the parent	Minority interest	Total
in SIT thousand										
<b>Opening balance on 1 January 2005</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>4,509,069</b>	<b>17,753,876</b>	<b>-669,903</b>	<b>3,467,502</b>	<b>309,179</b>	<b>60,682,981</b>	<b>191,070</b>	<b>60,874,051</b>
Setting-up of provisions for termination pays and deferred tax assets as at 1 January 2005				-3,749,351				-3,749,351		-3,749,351
Net profit or loss for the period taken to equity				5,107,002				5,107,002	13,676	5,120,678
Increase in equity revaluation adjustments taken to equity						407,842		407,842		407,842
Equity revaluation adjustments in respect to investments taken to equity							227,794	227,794		227,794
Setting-up of reserves for own shares			2,985,835	-2,985,835				0		0
Dividends payout				-1,171,588				-1,171,588		-1,171,588
Increase in own shares					-2,985,835			-2,985,835		-2,985,835
Decrease in minority interest									-3,387	-3,387
<b>Closing balance on 31 December 2005</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>7,494,904</b>	<b>14,954,104</b>	<b>-3,655,738</b>	<b>3,875,344</b>	<b>536,973</b>	<b>58,518,845</b>	<b>201,359</b>	<b>58,720,204</b>

Financial year 2004

	Share capital	Share premium	Legal reserves, statutory reserves, and reserves for own shares	Retained earnings	Own shares	Equity translation adjustments	Equity revaluation adjustments	Equity attributable to equity holders of the parent	Minority interest	Total
<b>Opening balance on 1 January 2004</b>	<b>12,200,000</b>	<b>23,067,758</b>	<b>4,275,684</b>	<b>14,165,561</b>	<b>-707,169</b>	<b>3,318,945</b>	<b>488,388</b>	<b>56,809,167</b>	<b>482,668</b>	<b>57,291,835</b>
Net profit or loss for the period taken to equity										
Increase in equity revaluation adjustments taken to equity				5,053,829		148,557		5,053,829	24,813	5,078,642
Transfer of capital revaluation adjustment to profit or loss							-179,209	148,557		148,557
Reversal of reserves for own shares			-37,266		37,266			-179,209		-179,209
Appropriation of net profit or loss for 2004 to statutory reserves under the resolution adopted by the Management Board and the Supervisory Board			270,651	-270,651						0
Gains on disposal of own shares		45,500						45,500		45,500
Dividends paid				-1,194,863				-1,194,863		-1,194,863
Decrease in minority interest									-316,411	-316,411
<b>Closing balance on 31 December 2004</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>4,509,069</b>	<b>17,753,876</b>	<b>-669,903</b>	<b>3,467,502</b>	<b>309,179</b>	<b>60,682,981</b>	<b>191,070</b>	<b>60,874,051</b>

### **25.3 Financial Reports**

Annual Reports of the Gorenje Group are available on the Gorenje Group website at <http://www.gorenjegroup.com/default.asp?id=244>

## 25.4 Auditor's Reports

### 25.4.1 Auditor's Report for Gorenje, d.d. for 2006, 2005 and 2004



#### Auditor's Report for Public Reporting purposes

We have audited the financial statements and the related notes of the company Gorenje d.d. for the years ended 31 December 2006, 31 December 2005, and 31 December 2004 prepared in accordance with the International Financial Reporting Standards, from which the summarized financial statements are derived, in accordance with International Standards on Auditing. As stated in our Auditor's Reports of 30 March 2006 and 6 April 2007, the financial statements with notes, used for the preparation of the summarized financial statements, give a true and fair view of the Company's operations in 2006, 2005, and 2004.

In our opinion, the attached summarized financial statements comply, in all material aspects, with the financial statements and the notes thereto from which they originate and on which we have expressed an unqualified audit opinion.

For a better understanding of the financial position of Gorenje d.d. as of 31 December 2006, 31 December 2005, and 31 December 2004, the results of its operations, and its cash flows for the years then ended, and the scope of our audit, it is necessary to read the summarized financial statements together with the financial statements and the notes thereto, and our audit report on these financial statements.

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

*Partner*

  
Andrej Korinsek, B.Sc.Ec.  
*Certified Auditor*  
*Partner*

*KPMG Slovenija, d.o.o.*

1

Ljubljana, 6 April 2007

**25.4.2 Auditor's Report for the Gorenje Group for 2006, 2005 and 2004**



**Auditor's Report for Public Reporting purposes**

We have audited the consolidated financial statements and the related notes of the Gorenje Group for the years ended 31 December 2006, 31 December 2005, and 31 December 2004 prepared in accordance with the International Financial Reporting Standards, from which the summarized consolidated financial statements are derived, in accordance with International Standards on Auditing. As stated in our Auditor's Reports of 30 March 2006 and 6 April 2007, the consolidated financial statements with notes, used for the preparation of the summarized consolidated financial statements, give a true and fair view of the Group's operations in 2006, 2005, and 2004.

In our opinion, the attached summarized consolidated financial statements comply, in all material aspects, with the consolidated financial statements and the notes thereto from which they originate and on which we have expressed an unqualified audit opinion.

For a better understanding of the financial position of the Gorenje Group as of 31 December 2006, 31 December 2005, and 31 December 2004, the results of its operations, and its cash flows for the years then ended, and the scope of our audit, it is necessary to read the summarized consolidated financial statements together with the consolidated financial statements and the notes thereto, and our audit report on these consolidated financial statements.

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.  
*Certified Auditor*  
*Partner*

Andrej Korinšek, B.Sc.Ec.  
*Certified Auditor*  
*Partner*

*KPMG Slovenija, d.o.o.*  
1

Ljubljana, 6 April 2007

## **25.5 Dividend Policy**

Gorenje has adapted its dividend policy to the Company's investment plans and the optimisation of the Company's capital structure while also meeting Shareholders' expectations and interests. The Strategic Plan provides for up to a third of net profits after tax generated in the current business year to be paid as dividend to Shareholders of Gorenje, d.d.. In 2006 the company paid its Shareholders a gross dividend in the amount of SIT 100 per share, which was also the case in 2005 and 2004.

## **25.6 Involvement in Legal and Arbitration Proceedings**

The Issuer is not a party in any major government-, legal or arbitration proceedings that could affect the position or business performance of the Issuer.

## **26 Additional Information**

### **26.1 Share Capital**

#### **26.1.1 Issued Capital**

All issued shares are of one class. No certificates are furnished for the shares issued. As provided by the law and secondary legislation, the shares are registered in the central share register managed by KDD. Entitlements arising from share holdings are transferred by way of share transfers in the central share register managed by KDD. A shareholder is a registered holder of shares in the share register managed for the Issuer by KDD.

#### **26.1.2 Own Shares**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Number of Own GRVG Shares (31 December)</b>	<b>1,183,342</b>	717,192	251,042

**The balance of own shares** as of **31 December 2006** was **1,183,342** or **9.6995 %** (the balance as of 31 December 2005 was 717,192 shares or 5.9 %).

On 21 June 2004 the Company signed an agreement establishing a put-and-call option with Slovenska odškodninska družba, d.d. for 932,300 own shares to be acquired by the company in 2005 and 2006.

On 19 January 2005 and on 4 August 2005 the Company exercised the option for the purchase of 466,150 own shares in total, in line with the abovementioned agreement. There were no divestments of own shares in 2005. As of 31 December 2005 the company held 717,192 own shares equivalent to 5.87 % of Shareholders' equity.

In line with the abovementioned agreement, on 03 February 2006 and on 3 August 2006 the Company exercised the option for the purchase of 466,150 own shares in total. There were no divestments of own shares in 2006. As of 31 December 2006 the company held 1,183,342 own shares equivalent to 9.6995 % of Shareholders' equity.

	<b>Held as of 01.01.2006</b>	<b>Purchased</b>	<b>Sold</b>	<b>31.12.2006</b>
Number of Shares				
Buy-back of Own Shares	717,192	466,150		1,183,342
	<b>Held as of 01.01.2005</b>	<b>Purchased</b>	<b>Sold</b>	<b>31.12.2005</b>
Number of Shares				
Buy-back of Own Shares	251,042	466,150	0	717,192
	<b>Held as of 01.01.2004</b>	<b>Purchased</b>	<b>Sold</b>	<b>31.12.2004</b>
Number of Shares				
Buy-back of Own Shares	264,540	0	-13,498	251,042

In 2004, in the period from 08 January 2004 to 14 July 2004 the company divested 13,498 own shares, as follows: 98 own shares for the acquisition of an additional share in Gorenje Tiki, d.o.o., Ljubljana; 5,318 own shares for the acquisition of an additional share in Gorenje Notranja oprema, d.d., Velenje; and 8,082 own shares for the acquisition of a 33,34 percent share in Kemis, d.o.o., Radomlje. As of 31 December 2004 the Company held 251,042 own shares equivalent to 2.06 % of Shareholders' equity.

By exchanging own shares for the abovementioned holdings the company made a profit of SIT 45.5 million, which was subsequently allocated to capital reserves.

### 26.1.3 Book Value of GRVG Shares

In SIT	2006	2005	2004
<b>Book Value of GRVG Share</b> (in SIT) (Parent Company Capital) / (Number of Shares – Number of Own Shares)	<b>4,551</b>	4,393	4,480

### 26.1.4 Information on Entitlements/Obligations Arising from Approved but Not Issued Capital i.e. Obligation to Increase Company Capital

Pursuant to Article 9 of the Company's Articles of Association, after five years of the amendments to the Articles of Association adopted at the 10th Meeting being entered into the court register, the Management Board shall have the authority and power to increase the Company's share capital to a maximum of 15 percent of the registered share capital as of the date of the resolution being adopted, which translates into a maximum of EUR 7,636,454.68 (SIT 1,830,000,000.00) (approved capital), by issuing up to 1,830,000 new, ordinary, freely transferable registered shares with no par value, for the purpose of financial investment.

### 26.1.5 Information on Capital or a Member of the Group – Options

The company share capital amounts to EUR 50,909,697.88 (SIT 12,200,000,000.00), and is divided into 12,200,000 ordinary, freely transferable registered shares with no par value (GRVG shares). All shares are fully paid.

### 26.1.6 History of Share Capital Highlighting Any Changes

The amount of share capital has not changed in the past three business years:

In SIT	2006	2005	2004
Share Capital	12,200,000,000.00	12,200,000,000.00	12,200,000,000.00

## **26.2 Issuer's Articles of Association**

### **26.2.1 The Objectives and the Intention of the Issuer**

The core business of the Issuer is the production of household appliances. In addition, the Issuer performs other activities which are, for the most part inseparably linked with the core business, or are performed with the intention of better use of free capacities, knowledge and experience.

The objectives and the intention of the Issuer are above all to maximize the value of the company and to create value for shareholders.

### **26.2.2 The Summary of the Provisions of the Issuer's Articles of Association Applicable to Members of Administrative, Management and Supervisory Boards**

#### **The Management Board of the company**

The company is represented and presented by the Management Board, which consists of the chairman and at least two members, among whom one is the workers' director. The term of office of the Management Board is 5 years, with reappointment option.

The Supervisory Board appoints and recalls the Management Board and with a resolution it determines the number of members and operating areas of individual members of the Management Board.

The workers' director is a member of the Management Board, and represents interests of workers with regard to personnel and social issues, but he/she does not have an authorization to represent the company, except if someone who is already a member of the Management Board is appointed as the workers' director.

The chairman and the members of the Management Board represent the company individually and without restrictions. When representing, the members of the Management Board take into account relations among the members of the Management Board as defined in The Rules of Procedure of the Management Board.

The Management Board makes decisions within its competence by a simple majority with each member having one vote. In the event of a tied vote, the chairman of the Management Board has a casting vote.

Remunerations of the Management Board members have to be in the appropriate proportion with the competences and responsibilities of each member and with the Company's financial situation. In the event of deterioration of the Company's financial situation, when economic conditions are at risk, the Supervisory Board may unilaterally reduce remuneration of the Management Board members.

The Management Board may, when implementing its authorities, which are determined in accordance with the legislation in force, the Articles of Association or a resolution of the Supervisory Board, devolve the performance of particular matters upon individual employees with special authorizations and responsibilities. It may also devolve the right for representation of the company upon these employees by means of authorization and within the scope of the area they manage. The Management Board cannot devolve its authorizations in its entirety.



The Management Board may receive part of the profit on the proposal of the Supervisory Board if the assembly concludes so.

### **The Supervisory Board**

The company has the Supervisory Board which consists of ten members.

Five members, who represent interests of the shareholders, are elected by the assembly, whereas five members, who represent interests of the workers, are elected by the workers' council, in accordance with The Workers Participation in Management Act and general acts of the workers' council.

The Supervisory Board members are elected for a period of four years and can renew their term of office illimitably.

The Supervisory Board elects the chairman among the members who represent interests of shareholders, and one or more deputy chairmen.

The Supervisory Board shall have a quorum when at least half of the members are present, and among these at least one has to be workers' representative. The Supervisory Board may adopt valid decisions also without the presence of the members who represent workers' interests, if workers' council did not elect any or if it did not notify the assembly about their election.

The Supervisory Board makes decisions by a simple majority of the votes cast. In the event of a tied vote, the chairman has a casting vote. When the session is conducted by the deputy chairman, by reason of a chairman being absent, he has the same status as the chairman.

The Supervisory Board supervises the business conduct of the company. It realizes its supervisory function by considering the Management Board reports about:

- planned business policy;
- profitability of the company, particularly about profitability of the capital;
- financial situation of the company;
- business operations which can significantly influence profitability and solvency of the company as well as
- other issues on business operations of the company and companies that relate to it.

The Supervisory Board performs other functions as well. Above all, it:

- appoints members and chairman of the Management Board and decides on recall of the Management Board;
- defines criteria for concluding managerial contracts and benefits for the chairman and members of the Management Board;
- proposes an auditor to the assembly;
- proposes resolutions to the assembly, if so stipulated by law;
- approves intermediary dividend;
- adjusts the text of the Company's Articles of Association with valid decisions of the assembly;
- performs other functions.

The chairman of the Supervisory Board represents the company against the Management Board members.

The Supervisory Board examines the annual report and the Management Board proposal for use of balance profit, both proposed by the Management Board of the company. It draws up the written report of the annual report examination results for the assembly, where it states the methods and extent of the examination of the Company's general management during the financial year and takes up a point of view on auditor's report. If the Supervisory Board approves the annual report it is considered accepted.

The Supervisory Board is obliged to hand its report over to the Management Board within one month from the date of annual report submission. If the Supervisory Board does not hand over the report in an additional one month period, set by the Management Board, it is considered that the Supervisory Board did not approve the annual report.

The Supervisory Board members accept payment and reimbursement of costs for their regular work, as defined by the decision of the assembly.

The Supervisory Board members may receive part of the profit if the assembly concludes so.

### **26.2.3 Rights, special benefits and restrictions which apply to each class of existent shares**

All shares of the Issuer are shares of one class and give all holders equal rights. The exceptions are only own shares which do not enable the Issuer to have the right to vote.

### **26.2.4 Measures, necessary for modification of shareholders' rights, with the indication of cases where conditions are more severe than required by law**

The Articles of Association of the Issuer does not include more severe conditions with regard to measurements or cases, which would modify the shareholders' rights.

### **26.2.5 The procedure for convening annual general meetings and extraordinary meetings of shareholders and conditions for acceptance**

The general meeting is convened by the Management Board in accordance with the law.

The Management Board is also obliged to convene the general meeting on request of the Supervisory Board or on written request of shareholders, whose overall shares total one twentieth of the share capital. The request of the shareholders must comprise the purpose and reason for the convocation of the general meeting.

The general meeting is conducted by the chairman, who is elected by shareholders, by a simple majority, on the proposal of the convener.

The general meeting is as a rule convened once a year. The general meeting takes place at the Company's registered office, or in another place if so decided by the Management Board.

The convocation of the general meeting is published in the newspaper DELO at least one month before the actual general meeting takes place. Convocation of the general meeting has to comprise of the agenda and resolution proposals for individual items of the agenda. The material for the general meeting is on approval at the Company's registered office.

The condition for participation at the general meeting and for carrying out the voting right is a written report by the shareholder in which he/she notifies the Company's Management Board about his/her participation at the general meeting and which has to be submitted three days before the actual general meeting.

The shareholder carries out his/her voting rights by himself/herself or by his/her legal representative directly or through the authorized person with his/her written authorization. Each share gives a holder one vote.

The assembly adopts resolutions by a majority of the votes cast, except in cases when for a particular resolution a different majority of votes cast is required by law or this Articles of Association or when concluding about represented share capital.

The assembly may define particulars with regard to decision-making with its internal rules.

The assembly has above all the authority to decide on the following:

4. Company's Articles of Association, its amendments and additions;
5. use of balance profit and discharge of the Management Board and Supervisory Board members;
6. annual report in cases stipulated by law;
7. measurements on increasing and decreasing the share capital;
8. appointment of auditor;
9. election and recall of the Supervisory Board members;
10. status modifications and winding up of the company;
11. other matters stipulated by law or this Articles of Association.

The assembly is bound by the accepted annual report when deciding on use of balance profit.

The assembly makes decisions on acceptance of the annual report only if the Supervisory Board did not approve the annual report, or if the Management Board and Supervisory Board leave the decision on acceptance of the annual report to the assembly.

If the assembly modifies the annual report, which has to be revised by the provisions of the law, it has to be revised again by the auditor within a two-week period after the general meeting.

#### **26.2.6 Brief description of all provisions of memorandum, Articles of Association, documents and rules which influence the adjournment, postponement or prevention of the Issuer's supervision modifications**

The Articles of Association of the Issuer does not comprise provisions which may determine or influence the adjournment, postponement or prevention of the Issuer's supervision modifications.

#### **26.2.7 Declaration of potential memorandum, Articles of Association, documents or rules which regulate threshold of ownership, above which the ownership of the shareholders must be revealed**

The Articles of Association of the Issuer does not comprise provisions which would regulate threshold of ownership, above which the ownership of the shareholders must be revealed.

#### **26.2.8 Description of the conditions imposed by memorandum, Articles of Association, documents or rules which regulate capital modifications, when these conditions are more severe than required by law**

The Articles of Association of the Issuer does not comprise provisions which would comprise more severe conditions in capital modification than required by law.

## **27 Significant Contracts**

The Issuer has not concluded contracts beyond regular business operations which would significantly influence its business operations.

## **28 Information of Third parties and Expert Statements and Declarations on all Interests**

The information prospectus consists of two reports with regard to the value of newly issued shares (fairness opinion), which were made by the company for auditing KPMG SLOVENIJA, d.o.o., and P&S SVETOVANJE D.O.O.

## **29 Documents Available to Public**

The following documents are at the disposal of the shareholders at the Issuer's registered office every business day from 9.00 to 12.00. They are also made public in an electronic system of informing of Ljubljanska borza,d.d., SEOnet and on the website [www.gorenje.com](http://www.gorenje.com) :

- Articles of Association of the Issuer
- Previous annual reports and audited financial statements of the Issuer's company
- Extracts of the reports on fair value of newly issued shares (fairness opinion)

If the Issuer announces quarterly results in the period from the preparation of this information prospectus to its publication, they will be published in an annex.

## 30 Share Percentage

Companies	Share capital (in SIT thousand)	Number of employees
Gorenje, d.d., Slovenia	12,200,000	5,631
Gorenje I.P.C., d.o.o., Slovenia	22,196	931
Gorenje Tiki, d.o.o., Slovenia	51,332	355
Gorenje GTI, d.o.o., Slovenia	2,019,170	109
Gorenje Notranja oprema, d.o.o., Slovenia	919,030	1,012
Gorenje Gostinstvo, d.o.o., Slovenia	908,148	196
LINEA SP, d.o.o., Slovenia	4,260	15
Energygor, d.o.o., Slovenia	2,100	0
Opte Ptuj d.o.o., Slovenia	241,857	41
Kemis d.o.o., Slovenia	347,478	20
Gorenje Orodjarna, d.o.o., Slovenia	222,076	196
ZEOS, d.o.o. Ljubljana, Slovenia	100,000	2
Istrabenz Gorenje, d.o.o., Slovenia	1,009,490	10
GEN-I, d.o.o., Slovenia	124,900	5
BIOTOPLOTA, D.O.O., Nova Gorica, Slovenia	1,049	0
Gorenje Beteiligungs GmbH, Austria	2,875,680	7
Gorenje Austria Handels GmbH, Austria	784,821	51
Gorenje Vertriebs GmbH, Germany	1,365,948	57
Gorenje Körting Italia S.r.l., Italy	249,849	11
Gorenje France S.A.S., France	772,839	21
Gorenje BELUX S.a.r.l., Belgium	4,455	4
Gorenje UK Ltd., UK	35,693	10
Gorenje Skandinavien A/S, Denmark	572,753	54
Gorenje AB, Sweden	52,999	4
Gorenje spol. s r.o., Czech Republic	1,069,719	44
Gorenje real spol. s r.o., Czech Republic	2,267,408	63
Gorenje Slovakia s.r.o., Slovak Republic	396,731	50
Gorenje Budapest Kft., Hungary	560,878	23
Gorenje Polska Sp. z o.o., Poland	415,735	35
Gorenje Bulgaria EOOD, Bulgaria	636,441	12
Gorenje Zagreb, d.o.o., Croatia	2,619,197	154
Gorenje Skopje, d.o.o., Macedonia	59,640	14
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	245	41
Gorenje, d.o.o., Serbia	1,137,508	45
Gorenje Podgorica, d.o.o., Montenegro	599,100	15
Gorenje OY, Finland	27,559	3
Gorenje AS, Norway	63,959	4
OÜ, Gorenje, Estonia	613	0
SIA Gorenje, Latvia	687	2
Gorenje Romania S.r.l., Romania	114,131	12
Gorenje aparati za domačinstvo, d.o.o., Serbia	2,719,215	504
Mora Moravia s r.o., Czech Republic	2,387,014	866
Gorenje Küchen GmbH, Austria	8,387	63
Gorenje - kuchyne spol. s r.o., Czech Republic	261,624	52
Gorenje Imobillia, d.o.o., Serbia	364,706	0
Gorenje Adria Nekretnine d.o.o., Croatia	98,173	0
Kemis, d.o.o., Croatia	185,380	15
Kemis BiH, d.o.o., , Bosnia and Herzegovina	2,450	2
Kemis Valjevo, d.o.o., Serbia	2,610	0
Gorenje Invest, d.o.o., Serbia	306,597	0
Gorenje Gulf FZE, United Arab Emirates	49,457	3

## **gorenje**

### ***Gorenje Group***

Gorenje Espana, S.L., Špain	743	0
Gorenje Tiki d.o.o., Serbia	990,923	15
Istrabenz-Gorenje, d.o.o., Croatia	163	1
Austrian Power Vertriebs, GmbH, Austria	170,139	13
Intrade energija, d.o.o., Bosnia and Herzegovina	2,497	1
Vitales, d.o.o., Bosnia and Herzegovina	61,074	5
Gorenje Istanbul Ltd., Turkey	4,946	0

---