

**REPORT OF THE SUPERVISORY BOARD OF GORENJE, d.d. ON THE REVIEW OF THE 2007 ANNUAL REPORT**

Dear shareholders,

In 2007 the Supervisory Board supervised the business operation of Gorenje, d.d. and the Gorenje Group within the scope of powers and authorisations bestowed by applicable legal regulations and the Articles of Association of the Company, and also performed other tasks within its competences.

The Supervisory Board, which is comprised of ten members, carried out its activities in 2007 in the following composition: Dr. Jože Zagožen as Chairman, Ivan Atelšek as Deputy Chairman, Peter Ješovnik, Milan Podpečan, Andrej Presečnik, Gregor Sluga, Peter Kobal, Drago Krenker, Krešimir Martinjak and Jurij Slemenik.

## **1. ACTIVITIES OF THE SUPERVISORY BOARD**

During the course of the year, the Supervisory Board devoted most of its attention to the business and financial development of the Gorenje Group and the parent company, significant business events, and to the implementation of general strategic and business policies. In 2007 the Supervisory Board held eight meetings, of which two were correspondence meetings.

In line with its established practice, the Supervisory Board adopted the business plan of the parent company and the Gorenje Group in December 2006, i.e. before the beginning of the financial year. Having thus determined the framework of its business goals for the year 2007, the Supervisory Board monitored their implementation during the year. The Management Board reported to the Supervisory Board, on a quarterly basis, on the current business operations and financial position of the Gorenje Group and the parent company. The Management Board regularly and promptly informed the Supervisory Board on the operating conditions, particularly the situation in global markets, changes in the prices of materials and raw materials, the environmental requirements to be met by manufacturers of white goods, hedging, and on the possibilities of expanding the activities of the Gorenje Group in the area of its basic activity, i.e. white goods, as well as in other areas of operation. Significant emphasis in reporting to the Supervisory Board was given to the area of interior furnishings, promotion of the Gorenje trademark, and the development of the Gorenje marketing network abroad, all with the goal of strengthening the Gorenje trademark and achieving synergies between the activities of the Gorenje Group, as well as continuing to work towards the goal that Gorenje become one of the leading producers of environment-friendly, superiorly designed technical products for the home. In December 2007 the Supervisory Board adopted the business plan of the parent company and the Gorenje Group for the year 2008.

The Supervisory Board has assessed the Company's business operation in 2007 as successful, having surpassed the 2007 business plan in all relevant categories. Despite the difficult operating conditions, particularly in the procurement market, Gorenje, d.d. and the Gorenje Group continued their trend of growth and exceeded the planned scope of business activities and achieved the planned goals with respect to profit or loss, assets, and financial results in all major areas of operation.

The Supervisory Board devoted special attention to issues relating to the implementation of the Strategic Plan up to the year 2010, in particular the possibilities for the Company's internal and external growth. Given the fact that until now, Gorenje has financed its development exclusively through internal sources, i.e. with its profits and by increasing its indebtedness, the Supervisory Board had already supported in 2006 the capital increase of Gorenje d.d. through the use of authorised capital for the purpose of providing the additional resources necessary for the Company's further internal and external growth. Based on a resolution adopted by the General Meeting of Shareholders in December 2006, the Management Board of the Company presented to the Supervisory Board for approval a prospectus for the public offering of ordinary shares of Gorenje, d.d., i.e. the increase of the Company's capital on the basis of authorised capital in the amount of 15% of the Company's share capital or EUR 7,636,454.68 through the issue of 1,830,000 new, ordinary, freely transferable, registered, no-par value shares for cash contributions. The Supervisory Board supported the Management Board's proposal for increasing the capital of the Company. Given their pre-emptive right to the subscription of new shares, all shareholders who were entered in the share register of Gorenje, d.d. on the date of publication of the invitation for the subscription and payment of new shares were invited to participate in the capital increase. The Supervisory Board also approved the Management Board's proposal that all shares not subscribed by existing shareholders on the basis of their pre-emptive rights shall be offered for purchase to the European Bank for Reconstruction and Development (EBRD) and/or the International Financial Corporation (IFC), and to the company established for this purpose by the Management of the Gorenje Group. The Supervisory Board was informed on the course of the capital increase, whose success can also be measured by the fact that a large majority of existing shareholders or shareholders with pre-emptive rights to the subscription and payment of shares participated in the capital increase, as well as on the reasons why EBRD and/or IFC are not willing to purchase the shares remaining unsubscribed by shareholders with pre-emptive rights, and on the subscription and payment of these shares by Ingor, d.o.o., a company established by the Management of the Gorenje Group.

Based on an authorisation of the General Meeting of Shareholders, the Supervisory Board harmonised the Company's Articles of Association after the introduction of the euro by translating the amount of share capital and all other SIT amounts specified in the Articles of Association into EUR using the applicable exchange rate, and determined a new, consolidated text of the Articles of Association of the Company. Also based on an authorisation granted by the General Meeting of Shareholders after the increase of share capital and the issue of new shares from authorised capital, the Supervisory Board adequately harmonised the Company's Articles of Association by bringing their provisions in line with the new facts arising from the capital increase, and determined a new, consolidated text of the Articles of Association.

In the middle of 2007, the Supervisory Board discussed a proposal of the President of the Management Board for enlarging the Management Board of Gorenje, d.d. and, owing to the significant increase in business activities and the complexity of controlling the Gorenje Group, supported the proposal. The Supervisory Board simultaneously decided, in line with paragraph 1 of Article 268 of the Companies Act (ZGD-1), which allows a new management board to be appointed one year before expiry of the term of the existing management board, to appoint a Management Board for the period from 18 July 2008 until 18 July 2013. On 17 September 2007 the Supervisory Board therefore appointed two members to the Management Board: Uroš Marolt as Member of the Management Board responsible for marketing and sales, and Branko Apat as Member of the Management Board responsible for complementary programmes, purchasing and logistics. For the next five-year term, the Supervisory Board appointed a Management Board in the following composition: Franc Bobinac as President, Mirjana Dimc Perko as Member of the Management Board responsible for finance and economics, Franc Košec as Member of the Management Board responsible for quality and development, Uroš Marolt as Member of the Management Board responsible for marketing and sales, Branko Apat as Member of the Management Board responsible for complementary programs, purchasing and logistics, and Drago Bahun as Member

of the Management Board responsible for organization and human resources, who was also appointed Work Director on the proposal of the Workers' Council of Gorenje, d.d..

## 2. ANNUAL REPORT

On 16 April 2007 the Management Board of the Company presented the audited Annual Report of Gorenje, d.d. and the Gorenje Group for the Year 2007 to the Supervisory Board for approval. The Supervisory Board discussed the Annual Report at its meeting held on 24 April 2008.

The Annual Report of Gorenje, d.d. and the Gorenje Group for the year 2007 was audited by the auditing company KPMG Slovenija, d.o.o.. The audit was also performed in all subsidiary companies of the Gorenje Group. On 10 April 2008 the auditing company presented a positive opinion on the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group for the Year 2007.

In reviewing the submitted Annual Report for the year 2007, the Supervisory Board took the following into consideration:

- the Company recorded a record-breaking sales volume and net profit in 2007,
- the Company realized the key categories of the economic plan in 2007,
- the Supervisory Board approved the proposed appropriation of net profit for 2007 and the determination of accumulated profit within the scope of powers granted to the Management Board and the Supervisory Board;
- the auditing company gave a positive opinion on the Annual Report for 2007 and the Supervisory Board had no remarks regarding the Auditor's Report;
- the Supervisory Board regularly monitored the management and operation of the Company and the Gorenje Group, and regularly discussed their operating results, financial position and assets.

The Supervisory Board has established that the Annual Report for 2007, as prepared by the Management board and reviewed by the auditing company, has been compiled clearly, transparently and in accordance with the provisions of the Companies Act and applicable International Accounting Standards. The Supervisory Board has also examined and approved the Auditor's Report. On the basis thereof, the Supervisory Board has assessed that the Annual Report presents a true and fair picture of the assets, liabilities, financial position and operating results, and gives a fair account of the business development and position of the Company and the Gorenje Group.

On the basis of the above-mentioned, the Supervisory approved, at its meeting held on 24 April 2008, the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group for the Year 2007 as proposed by the Management Board.

## 3. DETERMINATION AND PROPOSED APPROPRIATION OF ACCUMULATED PROFIT

In accordance with the Companies Act and the Articles of Association of Gorenje, d.d., the Management Board has decided that part of the net profit for 2007 in the amount of EUR 13,212,132.55, which, after the mandatory formation of statutory reserves in the amount of EUR 1,321,213.26, amounts to EUR 11,890,919.29, shall be utilized for the formation of other reserves in the amount of EUR 5,945,459.65, which has been approved by the Supervisory Board.

The Supervisory Board has approved the proposal of the Management Board on the determination of the Company's accumulated profit for 2007, which amounts to EUR 15,559,675.72.

The Management Board and the Supervisory board have proposed to the General Meeting of Shareholders that the accumulated profit for the 2007 financial year in the amount of EUR 15,559,675.72 be appropriated as follows:

- part of the accumulated profit in the amount of EUR 6,313,500.00 shall be used for the payment of dividends in the gross amount of EUR 0.45 per share,
- part of the accumulated profit in the amount of EUR 129,052.22 shall be used for the payment of remuneration to the Supervisory Board of the Company,
- part of the accumulated profit in the amount of EUR 4,558,561.75 shall be used for the formation of other revenue reserves;
- the remainder of the accumulated profit in the amount of EUR 4,558,561.75 shall remain unallocated.

In adopting decisions the Supervisory Board acted in line with the adopted policy of profit appropriation, which is subject to the development concept of Gorenje set forth in the goals embodied in the Strategic Plan for the period up to the Year 2010 and the shareholders' interest in increasing the value of shares in the long term. For this reason the Supervisory Board agreed with the determination and proposed appropriation of accumulated profit for 2007. The Supervisory Board proposes to the General Meeting of Shareholders that the Management Board be discharged of their duties in 2007.

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

Dr. Jože Zagožen  
Chairman of the Supervisory Board