Annual Report of the Gorenje Group
for 2006 according to IFRS

Our path to successful future has been guided by decades of experience, ample expertise, and numerous received awards. Because of them, the realization of our values and our mission, have been our greatest pleasure. We are proud of the fact that we are able to listen to the wishes and requirements of our customers, and to understand the circumstances on the market.

Realization of our vision understands open and clear communication with all involved public. At the level of consumer experience with the Gorenje brand we have established special relationship which supersedes the level of a product. We are constant hunters in the quest for new challenges which move the boundaries. We discover new development trends and new dimensions of expression which inspire consumers all over the world. We create new life styles, and inspire design of new residential spaces. Top design, as the most recognizable element of technologically advanced brand name Gorenje, today supersedes the trends, and is well on its way to become a legend.

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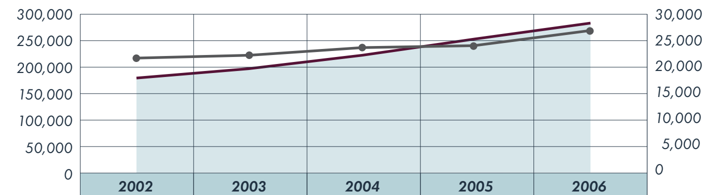
Key achievements of the Gorenje Group in 2006

Consolidated revenue

In 2006 the Gorenje Group continued its almost 10-percent growth of revenues and productivity of employees.

Legend:
Productivity: Revenue / Average number of employees

Average annual growth: 10.1% 4.6%
2006/2005 growth: 9.5% 8.8%

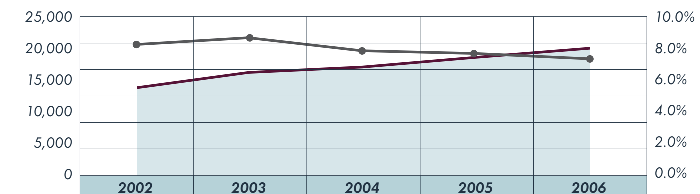


	2002	2003	2004	2005	2006
Cosolidated revenue (in millions of SIT)	181,518	197,707	216,247	243,152	266,248
Productivity (in 000 SIT)	21,082	21,617	22,756	23,175	25,222

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Despite the high growth of prices of raw materials in world markets, we have managed to increase cash flows from business activities...,

Average annual growth: 7.3%
2006/2005 growth: 6.1%

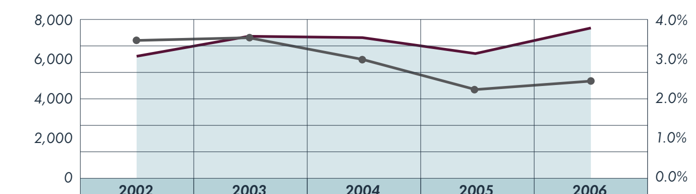


	2002	2003	2004	2005	2006
EBITDA (in millions of SIT)	14,539	16,301	17,050	18,152	19,268
Share in gross operating yield	7.8%	8.0%	7.5%	7.3%	7.1%

Earnings before interest and taxes (EBIT)

...which, owing to the optimal utilisation of production capacities, was followed by a more than 14-percent increase in the operating profit.

Average annual growth: 3.9%
2006/2005 growth: 14.3%



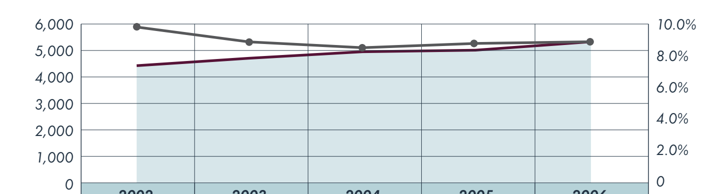
	2002	2003	2004	2005	2006
EBIT (in millions of SIT)	6,343	7,029	6,953	6,460	7,386
Share in gross operating yield	3.4%	3.5%	3.1%	2.6%	2.7%

Net profit

In spite of an increase in tax on the profit before tax, we also recorded an increase in net return on equity.

Legend:
ROE: Net return on equity

Average annual growth: 3.6%
2006/2005 growth: 4.4%



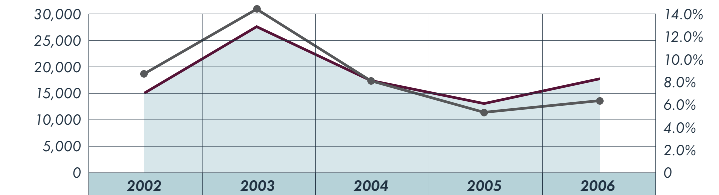
	2002	2003	2004	2005	2006
Net profit (in millions of SIT)	4,640	4,899	5,079	5,121	5,348
ROE	9.5%	8.9%	8.6%	8.7%	8.9%

Investments

Despite the gradual stabilization of investment activities, we continued to realize our plans by investing in activities in Slovenia as well as at new locations, primarily in Serbia ...,

Legend:
Investments: Investments in property, plant and equipment, and intangible assets

Average annual growth: 3.0%
2006/2005 growth: 28.3%



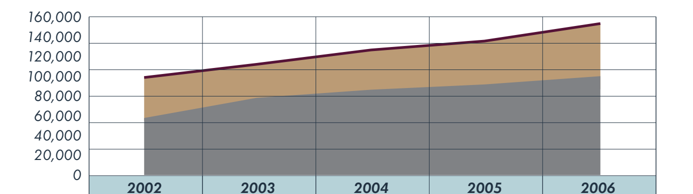
	2002	2003	2004	2005	2006
Investments (in millions of SIT)	15,126	25,261	16,706	13,277	17,041
Share of investments in revenue	8.3%	12.8%	7.7%	5.5%	6.4%

Structure of assets

... which was followed by the balanced growth of non-current assets and net operating current assets ...,

Legend:
Net operating current assets: current assets – (short-term trade liabilities + long-term operating liabilities + other short-term payables)

Average annual growth: 11.3% 10.6% 11.1%

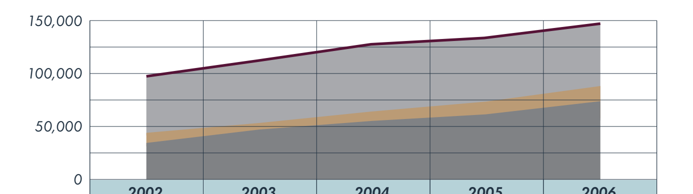


	2002	2003	2004	2005	2006
Net operating current assets (in millions of SIT)	35,076	31,964	39,934	43,617	52,476
Non-current assets (in millions of SIT)	63,800	80,795	87,218	91,299	98,006
Total	98,876	112,759	127,152	134,916	150,482

Structure of liabilities

... which, despite the increase in debt capital and the simultaneous increase in the scope of internal sources of financing, was supported by a balanced capital structure. Since the existing capital structure will not be sufficient for further rapid growth, we are planning a capital increase in 2007.

Average annual growth: 20.7% 8.4% 3.9%



	2002	2003	2004	2005	2006
Equity (in millions of SIT)	52,349	57,292	60,874	58,720	60,972
Provisions (in millions of SIT)	9,783	7,868	9,101	13,736	13,506
Financial liabilities (in millions of SIT)	35,553	47,006	56,846	62,215	75,411

Notes:

- The data shown in the graphs relate to the Gorenje Group and are prepared in accordance with the provisions of International Financial Reporting Standards (also for comparative periods). The data are expressed in millions of SIT, unless specified otherwise.
- All accounting categories of assets and liabilities refer to the last day of the periods under review.

Significant events in 2006

1 January
- Gorenje signed a letter of intent on business and technical cooperation with the company Schefenacker Grah SG Automotive, d.o.o., from Slovenske Konjice, Slovenia.
- Gorenje received the »Rating of the Year« award for the highest rating for safe operations, granted by the international credit rating company Dun & Bradstreet and the credit rating Company I, d.o.o.
- Gorenje received the Get Connected Product of the Year Award 2006 granted by the British magazine Get Connected for the Gorenje Pininfarina line of products.

February
- Gorenje hosted a delegation of the National Council of the Slovak Republic during a visit to Slovenia.
- Lucija Rožič, Director of Logistics at Gorenje, d.d., was named »Golden Logistician 2005« at the LOGI – STIK 2006 event.
- Gorenje was included in the Southeast Europe Traded Index – SETX launched by the Vienna Stock Exchange. SETX is comprised of 14 companies listed on the Ljubljana, Bucharest, Sophia and Zagreb stock exchanges.
- At a public competition, Gorenje as the most advantageous bidder was awarded a contract for the supply of Indonesian coal to the Ljubljana heating and power station, Termoelektrarna Toplarna Ljubljana (TE-TOL), for the next three years.

March
- Gorenje began to build a new refrigerator-freezer factory in Valjevo, Serbia.
- Gorenje donated to Unicef Slovenia the proceeds from the sale of the unique Premium Touch luxury fridge-freezer, hand-embedded with 7,000 crystallized - Swarovski elements, in the value of SIT 3 million, for the education of children in Burkina Faso.

April
- The Regional Chamber of Commerce and Industry granted awards to innovators in the Savinjska-Šaleška region, 11 of whom were innovators from Gorenje.
- Gorenje received the »Golden MM Award« for its Christmas web card from Marketing Magazin.

May
- In Düsseldorf, Gorenje received the international Plus X Award 2006 for the design of the Gorenje Pininfarina refrigerator-freezer.
- At a charity auction held in Moscow, the unique Premium Touch luxury fridge-freezer, hand-embedded with 7,000 crystallized - Swarovski elements, was sold for 110,000 American dollars and the proceeds allocated for aid to Russian homeless children.
- Within the scope of the international symposium entitled Competences in Learning Organizations in Finnish Practice, Gorenje was one of the three best companies in Slovenia to receive the recognition »On the Path to a Learning Company in 2005«.
- In an international survey entitled »Sustainable Value of European Industry«, Gorenje was ranked in third place for its efficient use of environmental resources based on the average of manufacturing companies in old EU member states (EU-15).

June
- A new line of Gorenje Pininfarina appliances in Slovenia was unveiled at an exclusive social event held in Ljubljana.
- Gorenje and the companies Rotis, d.o.o. and Patria Oyj announced the participation of Slovene industry in a project involving the supply of vehicles to the Slovene Army.
- Gorenje hosted the Ambassador of the Netherlands to Slovenia, His Excellency John C.M. Groffen, and the representatives of the Slovene-Dutch Business Platform (SDBP).
- The 9th General Meeting of Shareholders of Gorenje, d.d. was held in Velenje and a new Supervisory Board was elected.

July
- In a survey conducted by the Delo daily newspaper, Gorenje was ranked among the most well-known, distinguished and investment-attractive companies in Slovenia. Franc Bobinac, Chairman of the Management Board, received the title of most distinguished director in Slovenia.
- Gorenje signed an agreement with the Istrabenz company on the sale and purchase of shares in the company Istrabenz energetski sistemi, d.o.o., which lays the foundations for the joint development of projects in the areas of energy management and electricity in the domestic and foreign markets.
- Gorenje was visited by Dr. Hugo Tschirky, Professor of Business Management at the Swiss Federal Institute of Technology in Zurich and Director of its Center for Enterprise Science.

August
- During the Company's vacation shutdown, manufacturing equipment began to be transported to the plant in Valjevo, Serbia.

September
- The trial manufacture of appliances at the refrigerator-freezer plant in Valjevo was begun.
- Gorenje's plant in Rogatec celebrated the 30th anniversary of its operation.
- At a charity auction in Glasgow, the next in a series of unique Premium Touch fridge-freezers, embedded with 7,000 crystallized - Swarovski elements, was sold.
- Gorenje hosted Andrej Vizjak, Ministry of the Economy, Dr. Andrej Kitanovski, Director of the Directorate for Entrepreneurship and Competition, and Dr. Andrej Horvat, State Secretary of the Government Office for Development.
- In Velenje, the Management Board of Gorenje presented the Company's long-standing successful cooperation with the automobile industry, in particular Revoz in Novo Mesto and the Renault Group. Among other things, Gorenje is a successful manufacturer of tools and equipment for the automobile industry.
- The Good Housekeeping Institute, an independent English institute for product testing, awarded 1st place to Gorenje's Premium Touch washing machine for efficiency, among competitors representing key trademarks.
- In Australia, Gorenje received the recognizable Australian State Award for its air-vented tumble dryer of the Exclusive line – 1st prize for the energy-saving TESAW 2006.

October
- Gorenje received the OHSAS 18001 certificate for its effective and adequate occupational health and safety management system.
- On 16 October, Gorenje opened the doors of the new refrigerator-freezer plant in Valjevo, Serbia. The ribbon was cut by Milan Parivodić, Serbian Minister of International Economic Relations, together with Franc Bobinac, Chairman of the Management Board of Gorenje.
- The Public Relations Society of Slovenia awarded Gorenje with the prize Prizma 2006 for the communicational excellence of the Gorenje Swarovski project.
- Gorenje announced its cooperation in design with the internationally acclaimed designer, Ito Morabit, owner of the Ora-ïto trademark.
- Gorenje received the ICSID Design Excellence Award 2006 for the design of the Gorenje Pininfarina refrigerator-freezer.
- Within the scope of the Hevreka event, Gorenje received the Most Entrepreneurial Idea 2006 award for 'Smart Table' as the best innovation of the year 2006/07.

November
- Within the scope of a charity event entitled »BBC Children In Need 2006« Gorenje sold the next in a series of unique Premium Touch refrigerator-freezers, hand-embedded with 7,000 crystallized - Swarovski elements, for 33,000 English pounds.
- The luxury fridge-freezer with hand-embedded crystallized - Swarovski elements was displayed in the shop winder of Harrods in London.
- At the Ljubljana Furniture Fair, Gorenje received the Golden Link 2006 award for the study of the technological centre of the Delta multicolour kitchen.
- A British non profit and non governmental organization, Waterwise, granted the Waterwise Award Winning Water Saver award to two Gorenje washers for their efficient use of water.
- Gorenje received a recognition for international environmental partnership for the erection of its plant in Valjevo from the Agency of the Republic of Slovenia for Environment and the Environmental Development Fund of RS in cooperation with the Finance newspaper.
- Gorenje received a special award for best annual report for 2005 with respect to risk management, granted each year by the Finance business newspaper.

December
- During a visit to the Municipality of Velenje, Gorenje hosted the British Ambassador to the Republic of Slovenia, His Excellency Tim Simmons.
- The 10th General Meeting of Shareholders was held in Velenje, where the Management Board of the Company was authorized to increase its share capital by 15 percent, thus supporting the proposed development strategy of the Gorenje Group.
- The Faculty of Electrotechnics, Computer and Information Science in Maribor awarded a recognition to Gorenje for joint work and cooperation.

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 concern 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 program 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 operation. 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.

Dear shareholders,

Letter to Shareholders

The results indicate that 2006 was a successful year for Gorenje. In a demanding business environment marked by soaring prices of raw materials, the Gorenje Group boldly implemented the set goals and managed to improve its results in all key categories in comparison with those attained two years ago. In 2006 the Gorenje Group recorded a significant growth in the volume of operations, generating SIT 266,248.5 million (EUR 1,111,216 thousand) in revenue, which is almost 10 % above the 2005 figure and 9.1 % higher than planned. The net profit of the Gorenje Group in 2006 amounted to SIT 5,347.9 million (EUR 22,320 thousand) and was, despite the increased tax burden, higher than the profit attained in the previous year by 4.4 %.

On 29 June a new Supervisory Board began its term of office and I am pleased to have this opportunity to thank its Chairman, his deputy, and members for enthusiastically embarking on the tasks entrusted to them, and actively monitoring the planning and implementation of our business activities from the very beginning.

Products for the home (household appliances and furniture), which in 2006 accounted for 89 percent of Gorenje's total revenue, will remain first and foremost in future as well. In the mature industry of household appliances, we are struggling for market shares primarily by offering exclusively designed and technically innovative products. Investing in our own trademark, new technical and technological solutions, industrial design, new generations of products, environmental protection, renewal of production facilities and, last but not least, the training and development of personnel, have borne fruit. As a manufacturer of household appliances we have, in many segments, grown from a classical follower into a trend-setter in the technical and design areas, which is not only acknowledged by our customers, but also by our competitors and the international professional environment, and confirmed by numerous awards for design achievements, technical solutions and innovative communication. In cooperation with top designers and creators such as Pininfarina, Swarovski and Ora Ïto, we are developing appliances that will have a highly positive influence on the reputation of the Gorenje brand name all over the world.

However, continuous development and the introduction of the most advanced technical, technological and functional design solutions in a saturated branch are not enough. The prices of key raw materials and energy resources continued to grow in the past year and stabilized on historically high levels. We are preserving our competitiveness by increasing productivity, work efficiency and the high growth of added value, and are fulfilling our ambitiously set goals by maintaining a broad scope of business activities, optimizing the supply chain, rationalizing business processes, and containing costs on all levels of business operation.

Every day, almost 11,000 employees working in more than fourty countries around the world are devoting their best efforts to the Company's excellence in all areas of operation through their responsible attitude towards work, high productivity, and the continuous search for improvements.

One of the orientations laid down in the strategic plan is that Gorenje will retain its present scope of production capacities in Slovenia, and generate growth abroad. The first step towards internationalizing our production of household appliances was the takeover of the Czech manufacturer of cooking appliances, Mora Moravia, at the end of 2004. And on 16 October 2006 we opened a new plant for the manufacture of refrigerators and freezers in Valjevo, Serbia. By establishing production facilities abroad, Gorenje is acquiring the status of a local manufacturer and thus creating conditions for high market shares in the long term. Production activities abroad also allows for the optimization of tax and customs contributions, reduces labour costs, and enables the growth of supply from these areas.

It is satisfying to observe how, in more than seventy markets world-wide, our excellent household appliances are strengthening the recognition and broadening the reputation of the Gorenje brand name as the best designed and most innovative brand name for the home. In 2006 Gorenje strengthened its presence primarily in the region of Eastern Europe, and increased sales predominantly in its traditional markets, i.e. Ukraine, Russia, and the Czech Republic. In Great Britain we introduced our own brand name and increased sales by 40 percent, while in Germany the Company's sales under our own brand names rose by 25%. We are also conquering new sales markets in the Near and Far East, where we have opened representative offices in the United Arab Emirates, China, and Turkey.
One of our five unique refrigerators with 7,000 crystallized - Swarovski elements was sold at a charity auction in Moscow for USD 110,000. The proceeds from the sale of these prestigious products amounted to more than EUR 150,000, which we denoted in its entirety to children's aid funds.

The revenues of the Gorenje Group in the past five years have increased by 50 percent. The number of large household appliances made in our own plants rose steeply in this period and will attain 4 million appliances this year. Of this figure, production outside Slovenia will account for approx. 20 percent. It is important that such growth is on a high quality level, as we are successfully improving the structure of products sold by increasing the quantity of products with high added value.

The Management is convinced that our successful operation is the fruit of clearly set strategic goals, and particularly their consistent implementation. We are determined that, despite the demanding operating conditions, Gorenje will continue to strengthen its presence and market shares, and successfully pursue its ambitious goals. This will require that we quickly and effectively implement solutions aimed at winning new orders, launching new products, and containing receivables and inventories. One of the challenges significantly influencing our operations is the implementation of the directive on the recycling of electronic and electric wastes.

Our mission is to create innovative, technically accomplished, superbly designed, user- and environment-friendly appliances for the home. We are focused on increasing the satisfaction of consumers, while being aware of the responsibility for our activities, which have an impact on persons and the narrow and broader environments, including the natural environment. The concept of social responsibility incorporated in our corporate governance strategy binds us to ethical conduct, economic development, and to improving the quality of life of our employees, their families, the local community, and society in general.

I promise you that we will persist on this path. A broad scope of business activities, innovative products and cost containment have and will continue to be the key factors for success in our mature branch. The tasks ahead include capital increase, decisions on strategic partnerships, i.e. takeovers of smaller manufacturers, and the diversification of business into sectors where we can draw on Gorenje's wealth of experience, know-how, technology and production capacities.

Dear shareholders, in fulfilling our mission we are supported by your trust, and I thank you for this on behalf of the Management Board and our associates. By approving the increase of share capital proposed at the General Meeting of Shareholders held in December, you have given us the green light for capital increase and thus supported our bold strategy for the future development of Gorenje. We shall do all in our power to justify your trust and meet your expectations, and our exemplary mutual informing and openness will undoubtedly contribute to the realization of our ambitious plans in future.

Franc Bobinac, MBA
President of the Management Board

Dear shareholders,

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

1. Activities of the Supervisory Board

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

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

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

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

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

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

2. Annual Report

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

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

In reviewing the submitted Annual Report for the Year 2006, the Supervisory Board took the following into consideration:
- *In 2006 the Company realized the key categories of the economic plan;*
- *The Supervisory Board approved the proposed distribution of net profit for 2006 and the calculation of accumulated profit within the scope of powers granted to the Management Board and the Supervisory Board;*
- *The auditing company gave a positive opinion on the Annual Report for 2006 and the Supervisory Board had no remarks regarding the Auditor's Report;*
- *The Supervisory Board regularly monitored the management and operation of the Company and the Gorenje Group, and regularly discussed their operating results, financial position and assets.*

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

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

3. Calculation and Proposed Appropriation of Accumulated Profit

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

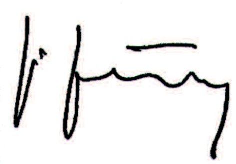
The accumulated profit of Gorenje, d.d. for 2006 in the amount of SIT 2,405,865,734.57 was formed from the net profit for 2001 in the amount of SIT 2,388,696,589.70 and from the net profit for 1999 in the amount of SIT 17,169,144.87.

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

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

During decision-making the Supervisory Board acted in line with the adopted policy of profit appropriation, which is subject to the development concept of Gorenje set forth in the goals of the Strategic Plan for the period up to the year 2010 and the shareholders' interest in increasing the value of shares in the long term. For this reason the Supervisory board agreed with the calculation and proposed appropriation of accumulated profit for 2006. The Supervisory Board proposes to the General Meeting of Shareholders that the members of the Management Board be discharged of their duties in 2006.

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



Dr. Jože Zagožen
Chairman of the Supervisory Board

Financial highlights of the Gorenje Group

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

1 Genaral information

1.1 Activities

Name
Gorenje, gospodinjski aparati, d.d.

Date of entry in court register
31 December1997

Abbreviated name
Gorenje, d.d.

Registered office
Partizanska 12, Velenje,
Slovenia

Activities
Manufacture, sale, maintenance and repair of electric and non-electric domestic and electro-thermic appliances

Activity code
29,710 Manufacture of electric domestic appliances

Tax number
SI72615320

Registration number
5163676

Share capital
SIT 12,200,000,000

Shares
12,200,000 ordinary registered shares with-no-par value; the shares of Gorenje, d.d., are listed on the official market of the Ljubljana Stock Exchange under the trading code GRVG (www.ljse.si).

1.2 Organizational structure and composition of the Gorenje Group

At the end of 2006, the Gorenje Group was comprised of the parent company, Gorenje, d.d., 50 subsidiary companies operating in Slovenia and abroad, and 7 companies which are the joint ventures of two partners.

In 2006 the companies of the Gorenje Group were organized in the following three divisions:

Household appliances division
Manufacture and sale of household appliances of its own production, sale of products from the complementary program of household appliances of other manufacturers, sale of additional program of home electronics and small household appliances, and the manufacture and sale of heating-thermic appliances.
Tool-making, manufacture of machinery and mechanical components.

Home interior division
Manufacture and sale of kitchen and bathroom furnishings, bathroom fittings and ceramic tiles.

Trade and services division
Energy management and environmental protection, trade, engineering, agency services, restaurant and catering services, tourism and real estate management.

Changes in the structure of the Gorenje Group in 2006:

- At the beginning of the year, the liquidation procedure of the company Mora Slovakia s r.o., Slovakia was completed.

- At the end of 2005, the company Istrabenz-Gorenje, d.o.o., established the company Istrabenz-Gorenje, d.o.o., Zagreb, in Croatia.

- At the end of 2005, the company Gorenje Tiki, d.o.o., established the company Gorenje Tiki, d.o.o., Stara Pazova, in Serbia.

- On 21 February 2006 the company Gorenje France, established the company Gorenje Espana, S.L., Barcelona.

- On 4 March 2006 the company Gorenje Beteiligungs GmbH, Vienna established the company Gorenje Gulf FZE, United Arab Emirates.

- On 11 May 2006 a merger by acquisition contract was concluded, under which Gorenje Indop, d.o.o., was annexed to Gorenje, d.d., as of the accounting date of the merger by acquisition, i.e. 31 December 2005. From this day onward it was deemed, pursuant to item 7 of paragraph two of Article 581 of the Companies Act, that the actions of the company being acquired (Gorenje Indop, d.o.o.) had been carried out for the account of the acquiring company (Gorenje, d.d.).

- At the end of May, the company Gorenje, d.d., increased the capital of Gorenje Tiki, d.o.o. Gorenje, d.d., now has a 99.982 percent ownership share in Gorenje Tiki, d.o.o.

- On 1st July 2006 an agreement was concluded on the transfer of the entire ownership share (100 percent) of Gorenje aparati za domaćinstvo, d.o.o., Valjevo from Gorenje, d.d. to the company Gorenje Beteiligungs GmbH, Vienna.

- On 31 July 2006 the company IG Prodaja, d.o.o., was annexed to the company Istrabenz - Gorenje, d.o.o.

- On 18 July 2006 Gorenje, d.d., by signing an agreement on the sale and purchase of shares, became the 49.95-percent owner of the company Istrabenz Energetski sistemi, d.o.o., together with the holding company Istrabenz, d.d., which has preserved its 49.95-percent share in the company. Gorenje, d.d. has thus become the 49.95-percent holder of the shares of subsidiary companies of Istrabenz Gorenje energetski sistemi, d.o.o., namely: GEN-I, d.o.o., Krško; Istrabenz – Gorenje, d.o.o., Zagreb; Austrian Power Vertriebs, GmbH; Biotoplota, d.o.o.; Intrade energija, d.o.o., and Vitales, d.o.o., which represent the joint achievement of two partners, Gorenje, d.d. and Istrabenz, d.d.. On 6 October 2006 Istrabenz Gorenje energetski sistemi, d.o.o., sold its 50-percent ownership share in the company GEN-I, d.o.o., to the company GEN energija, d.o.o.

- On 30 September 2006 the company Gorenje Beteiligungs GmbH, Vienna increased the capital of the company Mora Moravia s r.o., Czech Republic, thus attaining a 32.05-percent ownership share in this company.

- On 10 October 2006 the company Gorenje Beteiligungs GmbH, Vienna established the company Gorenje Istanbul Ltd., Turkey.

- 16 October 2006 marked the official opening and beginning of operation of the new refrigerator-freezer plant in Valjevo, Serbia.

- On 30 November 2006 the company Biterm, d.o.o., was liquidated due to the transfer of production of its other partner, the Danfoss company, to Slovakia.

The subsidiary companies of the Gorenje Group that were operational in 2006 and held ownership shares on 31 December 2006 are listed below.

Division GA – Household appliances division,
Division NO – Home interior division;
Division STO – Trade and services division

Companies operating in Slovenia

	Ownership share (%)	Division
1. Gorenje I.P.C., d.o.o., Velenje	100.00	GA
2. Gorenje Tiki d.o.o., Ljubljana	99.98	GA
3. Gorenje GTI, d.o.o., Velenje	100.00	STO
4. Gorenje Notranja oprema, 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 energetski sistemi, 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

Within the scope of its operations abroad, Gorenje, d.d. has the following representative offices through which it carries out its business activities in foreign markets:

Representative offices abroad
1. Moscow, Russian Federation
2. Krasnojarsk, Russian Federation
3. Kijev, Ukraine
4. Athens, Greece
5. Shanghai, China
6. Priština, Serbia

Companies operating abroad

	Ownership share (%)	Division
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 Espana, S.L., Spain	100.00	GA
22. Gorenje UK Ltd., Great Britain	100.00	GA
23. Gorenje Skandinavien A/S, Denmark	100.00	GA
24. Gorenje AB, Sweden	100.00	GA
25. Gorenje OY, Finland	100.00	GA
26. Gorenje AS, Norway	100.00	GA
27. OÜ Gorenje, Estonia	100.00	GA
28. SIA Gorenje, Latvia	100.00	GA
29. Gorenje spol. s r.o., Czech Republic	100.00	GA
30. Gorenje real spol. s r.o., Czech Republic	100.00	GA
31. Gorenje Slovakia s. r.o., Slovakia	100.00	GA
32. Gorenje Budapest Kft., Hungary	100.00	GA
33. Gorenje Polska Sp. z o.o., Poland	100.00	GA
34. Gorenje Bulgaria EOOD, Bulgaria	100.00	GA
35. Gorenje Zagreb, d.o.o., Croatia	100.00	GA
36. Gorenje Skopje, d.o.o., Macedonia	100.00	GA
37. Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	GA
38. Gorenje, d.o.o., Serbia	100.00	GA
39. Gorenje Podgorica , d.o.o., Montenegro	99.97	GA
40. Gorenje Romania S.R.L., Romania	100.00	GA
41. Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	GA
42. Mora Moravia s r.o., Czech Republic	100.00	GA
43. Gorenje Küchen GmbH, Austria	99.60	NO
44. Gorenje - kuchyne spol. s r.o., Czech Republic	99.60	NO
45. Gorenje Imobilia, d.o.o., Serbia	100.00	STO
46. Gorenje Adria Nekretnine, d.o.o., Croatia	100.00	STO
47. Kemis, d.o.o., Croatia	100.00	STO
48. Kemis BiH, d.o.o., Bosnia and Herzegovina	100.00	STO
49. Kemis, d.o.o., Serbia	100.00	STO
50. Gorenje Invest, d.o.o., Serbia	100.00	GA
51. Gorenje Gulf FZE, United Arab Emirates	100.00	GA
52. Gorenje Tiki, d.o.o., Serbia	99.98	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

1.3 Governing bodies

Management Board of Gorenje, d.d.

Mr. Franc Bobinac
President of the Management Board and CEO

Mr. Franc Košec
Member of the Management Board responsible for development and quality

Mrs. Mirjana Dimc Perko
Member of the Management Board responsible for finance and economics

Mr. Drago Bahun
Member of the Management Board responsible for organization and human resources, and Work Director

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

Representatives of capital	Employee-elected representatives
Mr. Dr. Jože Zagožen Chairman	**Mr. Ivan Atelšek** Deputy Chairman
Mr. Peter Ješovnik, M.Sc. Member	**Mr. Peter Kobal** Member
Mr. Milan Podpečan Member	**Mr. Drago Krenker** Member
Mr. Andrej Presečnik Member	**Mr. Krešimir Martinjak** Member
Mr. Gregor Sluga, M.Sc. Member	**Mr. Jurij Slemenik** Member

The Management Board took up office on 18 July 2003 and shall serve a term of five years, with the exception of Mrs. 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, Mr. Franc Bobinac, is also a member of the Supervisory Board of ETI, d.d. Member of the Board Mrs. 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.

The Supervisory Board, which is comprised of ten members, served its term until 18 July 2006 in the following composition: Mr. Marko Voljč, M.Sc., as Chairman, Mr. Dr. Jože Zagožen and Mr. Ivan Atelšek as Deputy Chairmen, Mr. Bogdan Pušnik, Mr. Igor Kušar, M.Sc., Mr. Peter Tevž, Mr. Peter Kobal, Mr. Drago Krenker, Mr. Krešimir Martinjak and Mr. 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 position of supervisory board member in other companies is held by the following members of the Supervisory Board: Mr. Peter Ješovnik, M.Sc. is Deputy Chairman of the Supervisory Board of NLB, d.d.; Mr. 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.; Mr. Andrej Presečnik is a member of the Management Board of Kapitalska Zadruga and a member of the Supervisory Board of Ljubljanske mlekarne, d.d.; Mr. Gregor Sluga, M.Sc. is a member of the Supervisory Board of Deželna banka Slovenije, d.d., and Vice-President of the Board of Directors of KD DeLux, SICAV, Luxemburg.

Franc Bobinac
President of the Management Board and CEO

Mirjana Dimc Perko
Member of the Management Board, responsible for finance and economics

Franc Košec
Member of the Management Board, responsible for development and quality

Drago Bahun
Member of the Management Board, responsible for organization and human resources, and Work Director

1.4 Declaration of compliance with the corporate governance code for Joint Stock Companies

The goal of the governance and management system in Gorenje, d.d., and the Gorenje Group is to observe and surpass the agreed and established standards. In the European financial environment, Gorenje is recognized as an exemplary public stock company listed on the official market of the Ljubljana Stock Exchange, with a high degree of transparency of operations, outstanding communications with shareholders, and the highest international credit ratings. The Company is continuously improving and upgrading the attained level in this area according to the best practice principle.

The Management Board and the Supervisory Board of the Company hereby state that Gorenje, d.d. observes the Corporate Governance Code for Joint Stock Companies in its work and operation, except in the cases disclosed below together with relevant explanations:

Chapter 1. Relationship between the Corporation, Shareholders and other Stakeholders
1.1. Company goals
- *Recommendation under item 1.1.1.:*

The key goals of the Company are not specifically defined in the Articles of Association, but are included and clearly defined in the mission of the Company: »To create original, technically perfected, superiorly designed as well as user- and environment-friendly products for the home. We are focused on improving the satisfaction of customers while creating value for our owners, employees and other participants of the Gorenje Group in a socially responsible manner.«

1.3. General meeting of shareholders
- *Recommendation under item 1.3.18.:*

The General Meeting of Shareholders does not elect the members of the Supervisory Board representing the shareholders individually, but from a list of candidates. The list of candidates is proposed by the Supervisory Board of the Company following the principle of balanced composition of the Supervisory Board with regard to appropriate qualifications and a combination of professional and other experience of candidates.

- *Recommendation under item 1.3.19.:*

According to the current practice, the General Meeting of Shareholders adopts resolutions on discharges of the Management and Supervisory Boards jointly, which given the established work practices and the recognized high standards of cooperation between these two bodies in jointly addressing issues relevant for the Company and its development, the legally prescribed equal treatment of duties and responsibilities of their members and the attained level of trust, and showed as adequately. Further on can members of the Management Board and the Supervisory Board, as far as they are shareholders and attending the General Shareholders Meeting, voting of discharge of their duties. Regarding the small numbers of shares they held, the limitation of the voting rights in practice has no mayor meaning. Therefore under this circumstances the Company is not planning to exercise the limitation of the voting rights and gives the dicision making to the members.

- *Recommendation under item 1.3.20.:*

In the announcement of the resolutions passed on the General Shareholders Meeting, so far did not quote first five mayor shareholders, the numbers of their shares and the percentage of their voting rights with regard to all Company's rights. For the future the Company will respect this recommendation.

Chapter 2. Management Board
2.3. Remuneration, compensations and other benefits, and the ownership of company shares
- *Recommendations under items 2.3.2. and 2.3.3.:*

The Company observes the principles of the Code in that the Supervisory Board assesses the performance of the Management Board as a whole, i.e. on the basis of the Criteria for the Determination of Corporate Performance of the Gorenje Group, which were adopted for this purpose by the Supervisory Board of the Company.

Chapter 3. Supervisory Board
3.1. Duties and responsibilities
- *Recommendation under item 3.1.7.:*

The Supervisory Board has established the practice of meeting without the presence of the Management Board members only in cases when a candidate mandated to set up the Management Board is being appointed, up to the phase of obtaining the candidate's acceptance of the candidacy. The Supervisory Board decides on the appointment of Management Board members in the presence of the candidate (mandatary) for President of the Management Board, and on the enlargement of the Management Board in the presence of the Management Board. The Supervisory Board has assessed this practice to be a good instrument of trust between the members of the Management Board and between the Management Board and the Supervisory Board. The cooperation of both bodies is thus incorporated in the organizational culture of the Company and maximally contributes to the achievement of the Company's goals.

- *Recommendation under item 3.1.10.:*

The Supervisory Board evaluates the performance of the Supervisory Board as a whole and not of individual members. The Supervisory Board generally meets in its full composition and all its members regularly take an active part in discussions and in this manner contribute to the integral performance of the Supervisory Board in accordance with their responsibilities, professional and other experience. The Company has therefore assessed that individual evaluations are not necessary.

3.4. Remuneration, compensation and other benefits, and ownership of company's shares
- *Recommendation under item 3.4.1.:*

For their work, the members of the Supervisory Board are entitled only to meeting attendance fees and the reimbursement of expenses. According to current practice, the members of the Supervisory Board are also entitled to a remuneration for performance, if so decided by the General Meeting of Shareholders. So far, the higher responsibility of the Chairman and Deputy Chairman has been considered. The Supervisory Board is presently not considering any proposals for other types of payments to members of the Supervisory Board.

Chapter 7. Audit and the System of Internal Control
7.1. External auditors
- *Recommendation under item 7.1.5.:*

The audit of the financial statements of Gorenje, d.d. has been conducted by the selected auditing company, KPMG Slovenija, d.o.o., for more than 5 years. However, the composition of the audit group auditing the annual report of the Company has changed several times in this period.

This statement and the disclosure of deviations and their explanations relate to the provisions of the Corporate Governance Code for Joint Stock Companies, which was jointly phrased and adopted by the Ljubljana Stock Exchange, Inc., Ljubljana, the Association of Supervisory Board Members of Slovenia, and the Managers' Association of Slovenia on 18 March 2004, which agreed on and adopted amendments thereto on 14 December 2005 and 5 February 2007. The Code is accessible on the website of the Ljubljana Stock Exchange (www.ljse.si) in the Slovene and English languages.

The contents of this Statement comprise the period from the adoption of the previous Statement of Compliance with the Corporate Governance Code for Joint Stock Companies, i.e. from 11 April 2006 to 23 April 2007, when its contents were jointly phrased and adopted by the Management Board and the Supervisory Board of Gorenje, d.d..

Velenje, 23 April 2007

Dr. Jože Zagožen
Chairman of the Supervisory Board

Franc Bobinac
President of the Management Board

2.1 Vision, mission and strategic objectives of the Gorenje Group

The vision of the Gorenje Group is to become the most innovative, design-minded creator of home appliances in the world.

The mission of the Gorenje Group is to create original, technically accomplished, superbly designed, and user- and environment-friendly appliances 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, K(C)reativeness and Ambition (POLKA).

The Gorenje Group is organised into three divisions:

- *household appliances division,*
- *home interior division, and*
- *trade and services division.*

The main 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.

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 revenue 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 appliances 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 of higher value added products in Slovenia.*

Economic targets set out in the strategic plan

Pursuant to its strategic plan, the Gorenje Group will achieve the following economic targets by 2010:

Economic targets set out in the strategic plan

revenue	EUR 1,250 million through organic growth and up to EUR 1,550 million through takeovers
earnings before interest, taxes, depreciation and amortization and provisions	EUR 112 million or 9 percent of revenue
investments in fixed assets	EUR 40 to 50 million per year on average
growth in physical productivity of labour	4.7 percent year-on-year on average
growth in productivity of capital employed	1 percent year-on-year on average

2.2 Economic conditions

World:

According to forecasts, world economic growth in 2006 should have been 5.1 percent. Indeed, developments in the majority of major economies were favourable throughout the year. In 2007, growth of USA and Japan is expected to slow down, which should reflect on a slightly lower, 4.9-percent world economic growth. Risks to this outlook are mainly related to unexpected rises in oil and commodities prices.

Growth in prices of ferrous and non-ferrous metals in 2006 did not moderate as expected. On the contrary, the metals market saw a price growth that was above the long-term average. Despite the mid-year moderation, prices at year-end were still significantly higher than a year earlier. Prices of crude steel, which is one of the most important commodities, grew by as much as 18 percent. The main reasons behind such price growth were developments in the fast-growing Asian economies, China and India in particular.

Oil prices grew sharply in summer, well above the expected level. The average price for oil in 2006 was USD 65.5 per barrel. Forecasts for oil prices in 2007 are based on a slightly weaker demand and stronger supplies.

European Union:

Economic growth in the European Union is estimated to have been 2.6 percent in 2006. According to analysts, the main reasons for it were growth in private consumption and in investments in Germany and Italy. The European Commission's estimate for the 2007 growth is 2.4 percent. Growth is expected to slow down mainly due to the expected appreciation of the euro against the US dollar, the slowdown in the US economy, the restrictive monetary policy of the European Central Bank, and the increase in the German VAT rate.

Inflation rate in the European Union was 2.0 percent in 2006 according to analysts' estimates, and shall remain such in 2007 too.

The US dollar-euro exchange rate was 1.25 in 2006, 1.32 at year-end, which was higher than a year earlier. In 2007 and 2008, the US dollar-euro exchange rate shall be 1.265 according to analysts.

Slovenia:

In line with expectations, economic growth in Slovenia was 4.7 percent in 2006, as compared with 3.9 percent in 2005. Supposedly, the main reasons for such growth were: the higher investment growth, the increased exports of goods and services, growth in residential construction, and the accelerated highway construction. Economic growth is expected to moderate in 2007 to 4.3 or 4.2 percent, mainly reflecting a similar trend in world economic growth and a slowdown in government spending.

The average annual rate of inflation reached 2.5 percent in 2006, and should reach 2.7 percent in 2007 according to analysts.

On 1 January 2007, Slovenia joined the euro zone. The conversion rate between the Slovenian tolar and the euro was fixed at 239.640. The changeover went smoothly.

Household appliances market:

After several years of low growth in household appliances sales, 2006 saw an increase in sales of refrigerating and washing appliances. Growth was due to a decrease in retail prices, in particular in east European markets. These continue to follow a downward trend due to excess production capacities of European manufacturers, aggressive marketing of Asian manufacturers, and competition amongst global retailers.

In 2006, Gorenje successfully increased its market shares both in Eastern and Western Europe.

Germany, which is one of the three largest west European markets, regained momentum in 2006. Compared with 2005, sales were up both in value and volume. France saw a significant increase in sales of washing machines. Of the east European countries, Bulgaria's and Ukraine's markets achieved high growth too.

Unfavourable price developments in the energy and commodity markets affected significantly (raw) material prices. Asian manufacturers of household appliances acted increasingly aggressively in the European market, in particular as regards refrigerating appliances. This forced other manufacturers to speed up rationalisation of operations.

Most often, this comprised further relocations of production to east European and Asian countries, in particular to Russia, Poland, Romania and Bulgaria. Manufacturers responded also buy strengthening their marketing activities and focusing in East European markets.

Manufacturers and distributors of household appliances continue establishing strategic partnerships. The latter are also undergoing a complete centralisation of purchasing and distribution in regional distribution centres.

The Waste Electrical and Electronic Equipment (WEEE) Directive, which entered into force in August 2005, increases manufacturers' costs because it requires from member states to recover and dispose of old household appliances. The actual costs of, as well as the scope of and timeframe for meeting the requirements of the WEEE Directive are still not clear, given that member states have different opinions on and interpretations of this Directive, as well as different timeframes for its transposition into national law.

2.3 Sales and market position

Sales structure by divisions

in million SIT	2006	%	2005	%	06/05
Household appliances division[1]	222,337.2	83.5 %	207,229.0	85.2 %	107.3
Home interior division[1]	15,001.8	5.6 %	14,928.6	6.2 %	100.5
Trade and services division[1]	28,909.5	10.9 %	20,994.8	8.6 %	137.7
Consolidated revenue	266,248.5	100.0 %	243,152.4	100.0 %	109.5

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.

2.3.1 Sales of the household appliances division

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

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

The cooling program 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 program, mainly those related to appliances 180 cm high, were thus filled. The introduction of a NO FROST freezer will further support sales of this program. Gorenje also continued to improve products in terms of energy efficiency, which too will favourably affect future sales. The new Valjevo plant in Serbia represents the basis for further program growth, in particular of lower-priced products.

Sales of the washing and drying program too 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[2] grew rapidly and exceeded the 2006 targets, mainly on the account of new products introduced.

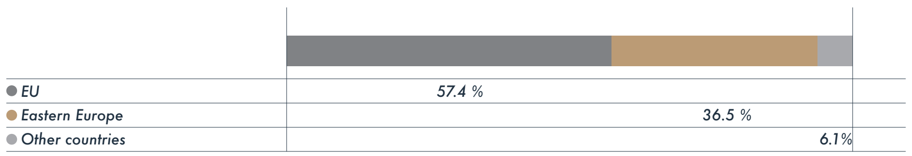
Sales of supplementary products[3] continued to follow an upward trend and exceeded the 2005 sales. Not only did Gorenje introduce new products, it also consolidated its market position in its main markets. Gorenje also succeeded in increasing sales in Ukraine and consolidating its position in the Polish 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. Very important were also the new markets entered, such as Turkey and Portugal. Sales in these markets more than compensated for the stagnating sales on the Balkan and in the Central Europe. Radiators were successfully introduced in 2006; water heaters were developed to appeal to more demanding customers; and heat pumps too sold well, initially mainly in the domestic market.

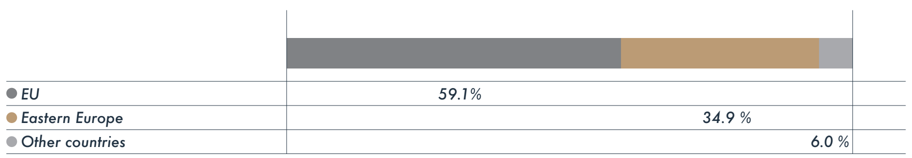
As regards sales by geographic regions, the parent company saw the highest growth in sales of household appliances in east European markets, where it also significantly exceeded its targets. In the EU market, it saw a moderate sales growth but still exceeded its targets.

[1] The revenues of particular divisions comprise consolidated revenues of the division, minus the revenues related to other divisions.
[2] Products not manufactured in-house but complementing the basic three product programs.
[3] Electronic and small household appliances, vacuum cleaners and microwave ovens.

Sales of household appliances by geographic regions in 2006



Sales of household appliances by geographic regions in 2005



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, after many years expressed also by Germans, favourably affected developments in the household appliances market. In addition, sales were supported by the following 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.

In Austria too the Group achieved its targets, 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 such 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 the 2005 sales. In both markets, it is present 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.

In France too Gorenje saw good sales growth. By entering new wholesale distribution channels it mainly increased sales of the Gorenje brand products. Similarly, it achieved significant sales growth also 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 favourable affect future sales.

An important contribution to the Group sales is expected also from the Turkish market, in particular 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 were slightly above, 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 maintain it also 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 East 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 grew significantly as compared to 2005 also 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 too Gorenje increased sales but still lagged slightly behind expectations.

Marketing

The marketing function was mainly focused on activities aimed at strengthening own brand names, amongst which the Gorenje pan-European brand name shall remain the core brand for household appliances. All marketing activities mentioned below were steered towards this goal.

In all European markets, the year 2006 was marked by intensive presentations of the new, Superiorly designed Gorenje Pininfarina line. Presentations to business partners and the media In certain European markets took a very innovative form, and in all markets there was classic advertising as well. The new line successfully found its way on shelves and from there to homes of buyers of higher-priced, superiorly-designed and innovative products.

The original and creative product line made with crystallized - Swarovski elements also increased brand recognition. The line characterised by a fresh approach to design was presented to the market also through charity auctions of refrigerators "sprinkled" with 7,000 crystallized - Swarovski elements. All the money raised, more than EUR 150,000, went for children in need. The most generous of all was a bidder at the Moscow auction who offered nothing less than USD 110,000 for a refrigerator.

The Group adopted a creative approach also to development of another line of household appliances, and invited the world-renowned Ito Morabito to design it. This line is intended for the trendy urban population that wants superiorly designed yet reasonably priced products, and will hit the market in April 2007.

Gorenje also adapted its marketing activities to suit each market in which it operates in order to maximise returns on marketing investments.

In addition to its core Gorenje brand, the Group dedicated resources also to its other brands, mainly to the newly acquired Mora brand, which is the Czech's strongest brand for cooking appliances. In 2006, products marketed under this brand were launched also in other markets, such as Russia and Ukraine. The Körting brand remained geographically limited to Italy, Greece, Germany and Bulgaria. The Sidex brand, on the contrary, was geographically expanded but remained limited to lower-priced products.

Sales under own brands remained a priority: in 2006, they accounted for 75 percent of total revenues from household appliances.

In 2006, the home interior division did not achieve its targets due to sales in Austria and Germany that continued declining.

Sales of kitchen furniture increased to account for 43 percent of the division's sales. It is the division's strategy to further increase this percentage.

2.3.2 Sales of other divisions

Sales of the home interior division

SIT 15,001.8 million (EUR 62.6 million)
or 5.6 percent of total Group revenues

The second most important product line was bathroom furniture and sanitary equipment with a 17-percent share of the division's sales. Sales of bathroom units lagged the most behind past achievements, whilst sales of bathroom elements and sanitary equipment grew moderately.

Other furniture (living room and (children) bedroom furniture and wardrobes) was revamped in 2006. Its sales represented 14 percent of the division's sales. Sales of ceramic tiles were solid. The line was expanded by cold-resistant ceramic tiles and maintained its 13-percent share of the division's sales.

Western, Central and Eastern Europe remained the division's most important markets. However, due to new competitors and changes in distribution channels, the division struggled to maintain its market shares in the west European markets, despite a gradual rebound in demand. On the other hand, sales in east European markets grew, most notably in the Czech Republic, Ukraine and Russia.

Despite being very much export-oriented, the division still sees the domestic market as very important. In 2006, it managed to strengthen its position there.

Sales of the trade and services division

SIT 28,909.5 million (EUR 120.7 million)
or 10.9 percent of total Group revenues

Companies falling within the trade and services division significantly increased their sales compared to 2005 (by 37.7 percent). Inclusion in the group of the Istrabenz Gorenje energetski sistemi company in late July 2006 is the main factor behind such growth. It also marked completion of the rounding-off process of the Group's energy arm, both in terms of capital and organisational structure.

The Kemis company and its subsidiaries contributed 6.6 percent to the division's sales. The parent company (Kemis, d.o.o., Radomlje) reported the highest growth in sales revenues of all companies in the Group's ecology arm (12 percent).

The most important company in the Group's trade arm, Gorenje GTI, exceeded its target by 14.9 percent. Besides sales of household appliances and supplementary products, sales of tractors, fork lifts, non-ferrous metals and air conditioning equipment were the most important. Sales of medical equipment were worse than expected, as certain projects had to be postponed until 2007 because of certain lengthy procedures involved.

2.4 Purchasing

Prices of strategic commodities (sheet steel, non-ferrous and other precious metals, oil, plastic granulates, etc.) reached historically high levels in 2006.

2.4.1 Purchasing within the household appliances division

This was mainly due to the increased demand from China and other emerging markets, which could not be met by suppliers due to their limited investments over the past few years. The situation was rendered worse by various frequent interruptions in supply, such as strikes and natural disasters, and delays in development of new supply sources (barriers to entry: ecological standards, lack of equipment and experts, high infrastructure costs, etc.)

Price growth moderated towards year-end. Prices of oil and non-ferrous metals decreased but their growth in 2006 was still above expectations. The average price of crude oil in 2006 was 26 percent (or USD 14 a barrel) above the 2005 average. The London Metal Exchange (LMEX) Index (a basket of several non-ferrous metals) rose by 54 percent. In the west European steel market, prices of cold rolled sheet rose by 18 percent (to EUR 90 a tone), prices of hot tinned sheet rose by 29 percent (to EUR 144 a tone), whilst prices of stainless steel sheet rose by as much as 89 percent (to EUR 930 a tone). Surcharges for zinc-nickel alloys that reached historical heights further increased steel sheet prices. Higher oil prices reflected on higher prices for raw materials purchased by the petrochemical industry, and these in turn reflected on higher prices for plastic granulates, amongst which polystyrene prices rose the most (by more than 30 percent).

Such conditions in the world's commodity markets affected significantly the Group's cost-effectiveness. Despite the intensive efforts to find new supply sources, the Group failed to neutralise the rise in prices of commodities and components in the second half of 2006, which might reflect on its costs in 2007. However, by opening a China office, the Group accelerated the process of finding local suppliers. The Group also shifted some of its purchasing to the east of Europe, and negotiated contracts across all plants within the division to achieve additional synergy effects.

2.4.2 Purchasing within other divisions

Home interior division

Unfavourable supply market developments affected also the manufacturing companies falling within the home interior division. The division was involved in year-round strategic negotiations with suppliers to standardise its purchasing processes: it imposed longer payment terms on suppliers, achieved more similar prices from different suppliers, reduced the number of suppliers, and standardised strategic materials across all plants. This notwithstanding, the division still had to reconcile itself, toward year-end, to higher prices for particle boards, plastic films, polyester resins and varnishes.

Trade and services division

The most important aspect of purchasing by the trade and services division are its long-term contracts with suppliers. These are particularly important as regards exchange commodities (such as energy) exposed to daily fluctuations. The division thus tries to conclude as many exclusive agency contracts as possible. In 2006, it managed to find a permanent domestic electricity source through the joint company Istrabenz Gorenje. As regards coal, it managed to expand the range of prospective suppliers.

The household appliances division comprises also the space heating product line, manufactured by the Gorenje Tiki company in its plants in Ljubljana, Slovenia, and Stara Pazova, Serbia.

2.5.1 Production within the household appliances division

The household appliances division has three basic programs of large household appliances:

- the cooking program, which is manufactured by the parent company in its Velenje plant, Slovenia, and by the Mora Moravia company in Marianske Udoli, the Czech Republic;
- the cooling program, which is manufactured by the parent company in its Velenje plant, Slovenia, and by the Gorenje aparati za domaćinstvo company in Valjevo, Serbia;
- the washing and drying program, which is manufactured by the parent company in its Velenje plant, Slovenia.

The division also has two supporting product lines, i.e., components for the above-mentioned large household appliances:

- the Mekom mechanical components product line, which is manufactured by the parent company in its Velenje, Šoštanj, Bistrica ob Sotli and Rogatec plants, Slovenia;
- the electro components and printing product lines, manufactured by the Gorenje I.P.C. company in its Velenje and Šoštanj plants, Slovenia.

The parent company still manufactures the majority of units. Mora Moravia's production capacity amounts to 400,000 units of cooking appliances per year. In October 2006, the new Valjevo plant in Serbia started manufacturing refrigerating appliances, thus increasing the division's annual production capacity by at least 550,000 units.

In 2006, the division focused on three key elements to improve its performance: continued quality improvement, production cost optimisation, and the Valjevo plant's construction and start-up.

Trying to improve product quality, the division continued to implement the Six Sigma quality management concept into all production processes, those of the Mora Moravia company included. Monitoring of critical dimensions and deviations was introduced, and monitoring and analysing of defective products was further improved to concentrate on the most urgent deviations. Due to an increased number in defective input components, the system aimed at insuring input quality was also upgraded.

As regards cost optimisation, the division was mainly focused on costs of (raw) materials. It also took further measures to reduce excess material consumption (reject), and increased productivity.

A lot of effort was put in the construction and start-up of the new Valjevo plant, which specialises in refrigerating appliances. Ground on this construction project was broken in March 2006, and in October 2006 production already started. The plant manufactures freezers and refrigerators 500 and 540 mm wide.

No. of units of household appliances produced (2002-2006)

Units	2006	2005	2004	2003	2002
Slovenia	3,167,252	2,998,196	3,007,484	2,768,773	2,726,054
Czech Republic	434,766	388,090	/	/	/
Serbia	52,972	/	/	/	/
Total	**3,654,990**	**3,386,286**	**3,007,484**	**2,768,773**	**2,726,054**
Average annual growth, Slovenia			+3.8%		
Average annual growth, total			+7.6%		

Cooling program

In March, the division successfully launched the phase II A refrigerators 600 mm wide. At the same time, it developed certain industrial projects and the phase II B refrigerators 600 mm wide. Their production started in the second half of 2006, marking completion of revamping of refrigerators 600 mm wide.

Many activities were also aimed at improving energy efficiency of appliances and optimising costs, those of materials in particular. Supported by an external consultant, it achieved significant savings. It also continued its efforts to increase productivity.

Washing and drying program

In 2006, the washing and drying program was expanded. The division started producing washing and drying machines ("premium") with a capacity of 7 kg, and washing machines with a capacity of 6.5 kg ("classic" and "exclusive"). It also developed and started producing a new generation washing machines with a capacity of 5 kg.

A new polymer cradle for shallow washing machines was also developed by the end of 2006 to reduce costs and increase the maximum spin speed from 1,200 rpm to 1,400 rpm.

In the second half of 2006, the division carried on with development of a new generation of washing and drying machines with a capacity of 7 kg ("classic" and "exclusive"). Their production started in February 2007.

It also improved the automatic residual moisture control feature that will be used for all drying machines from February 2007, and for all new generation drying machines from April 2007 on.

Cooking program

At the beginning of 2006, the cooking appliances' design was revamped. In May, production of free-standing induction hobs started. At year-end, the project of new gas burners for gas and combined gas-electric cookers was completed, and their energy efficiency thus increased.

The program also completed renovation of the enamelling plant, and integrated a new production line for pre-processing of sheet steel semi-products.

Mechanical components - Mekom

In 2006, all plants manufacturing mechanical components successfully responded to the development and production activities related to the underlying programs.

Gorenje I.P.C., d.o.o., Velenje, Slovenia

The Gorenje I.P.C. subsidiary enjoys the status of a sheltered workshop. Its activities encompass production of cable circuits, assemblies and sub-assemblies, printed materials and Styrofoam packaging needed by the parent company. In 2006, the subsidiary performed all the activities required for the parent's smooth operations.

In 2007, it will continue its efforts to improve productivity and product/service quality, to respond to the development and production activities of its customers, and to meet the expectations of all its stakeholders. It also intends increasing its sales, both within and outside the Group.

Gorenje Tiki, d.o.o., Ljubljana, Slovenia

The main product families manufactured by this subsidiary are: small, medium and large water heaters, ventilating fans, and pipe and wire radiators. In 2006, the subsidiary significantly increased its production volume.

It also won new customers and developed new products, and thus increased production complexity. For this reason, it took measures and made investments mainly to reduce bottlenecks and thus increase production capacity.

An important step towards future development was made with the acquisition of a production plant in Stara Pazova, Serbia. When production starts there in the second quarter of 2007, the subsidiary will have precious additional production capacities.

Mora Moravia s r.o., Czech Republic

Further steps were made by this subsidiary in 2006 towards its inclusion within the Group. More than 95 percent of the cooking appliances produced by it were sold through the Group's sales network.

It also successfully developed new products and started their production. In the first half of 2006, these were the combined free-standing cookers, the free-standing glass ceramic and electric cookers, and the higher-voltage glass ceramic hobs. In the second half of 2006, these were the free-standing glass ceramic cookers with an integrated water boiler, and the free-standing glass ceramic hobs with a wooden frame. New oven doors were also introduced that are EN-compliant, and gas burners were re-designed.

Within production process modernisation, the enamelling line was replaced and a robot integrated for the production of reduction stations. Projects aimed at reducing bottlenecks and increasing production capacities were launched too.

Gorenje aparati za domaćinstvo, d.o.o., Serbia

This is the youngest manufacturing company within the household appliances division. It mainly specialises in refrigerating appliances.

Construction of this plant began in March 2006. In September of the same year it was already ready for test production, and in October regular production started after the grand opening. The first to go into production were freezers and refrigerators 500 mm wide, a programme abandoned by the Velenje plant. A gradual relocation of production of appliances 540 mm wide also started, and shall be completed in the first quarter of 2007.

In order to ensure smooth operations of the company, other business functions had to be set up in addition to the production function.

2.5.2 Production within other divisions

Home interior division

After the takeover of the Gorenje Glin company by the parent Gorenje Notranja oprema company, the home interior division has three manufacturing companies at eight locations. Five of them are in Slovenia (in Velenje, Maribor, Šoštanj, Gorenje and Nazarje), and three are abroad (in the Czech Republic (Višnova and Prague) and Austria (Freistadt)).

In 2006, the division carried on with its technical and technological specialisation in furniture production. Production of worktops (Marles program) and front panels (Kitchen program) was centralised. Additional activities were carried out to standardise semi-products and materials at different locations, which has already resulted in cost savings. Further rationalisation will be achieved when production in the Czech Republic is centralised in one location only.

The Velenje-based Kitchen program comprises certain higher-priced kitchens (marketed under the "Kuhinje Gorenje" ("Gorenje Kitchens") brand) and bathroom furniture. Within the Furniture program, the following product lines were cut down due to conditions in the market of laminated particles boards: living rooms, bedrooms and entrance hall furniture.

2.6 Development

Development activities of the Gorenje Group are driven by its understanding of the needs of customers and business partners alike, who in turn are affected by significant social changes at local and global levels. Individuals are affected by phenomena such as their personality features, rising average age, use of electronic communications, and perception of brands and traditional values, such as the family.

Product development is therefore focused on aesthetic superiority and practical functionality. Products are made from environment-friendly materials, incorporate intelligent systems and components that allow linking into systems, and also increase energy efficiency.

2.6.1 Development within the household appliances division

In 2006, the household appliances division revamped the product development process to incorporate development-related knowledge and experience of all business areas. This division is now able to consistently use the simultaneous development approach and, through the application of decision points, ensure greater transparency of each step of the development process.

Key achievements of the division in the area of product development were the following in 2006:

- *completion of development and launching of – the new generation refrigerators 600 mm wide, the basic washing machines with a 5 kg capacity, other washing and drying machines with a 7 kg capacity, the new free-standing induction hobs 600 mm wide, and the new medium-sized water heaters;*
- *replacement of gas burners for all families of cookers; and*
- *continued optimisation of energy and functional features of all appliances.*

In the second half of 2006, in addition to the development projects completed in 2006, the division was mainly focused on the development of products to be launched in 2007 and 2008.

2.6.2 Development within other divisions

Home interior division

The home interior division dedicated the majority of its resources to finalisation of the two-year development cycle of Marles and Gorenje kitchens, models 2007 and 2008. The focus was on: improved functionality, improved design, and quality of work and materials. In the forefront of its development activity was also the higher-priced bathroom furniture, which requires high-quality materials with a lacquered or high-gloss finish.

The sanitary equipment and ceramic tiles product lines were also expanded with new technical products, as well as revamped with new decorations and colour effects in line with fashion trends and design of other division's products.

Trade and services division

The trade and services division focused its development activities on energy and ecology, including hazardous waste handling.

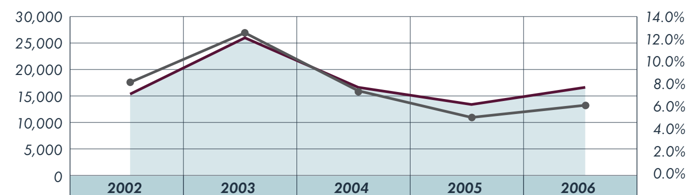
Within the Istrabenz Gorenje company, the division carried on with its development activities in the following areas: expansion of electricity trading, investments in electricity production, and investments in biomass production and trading.

With the founders of the ZEOS company, the division continued to develop a system aimed at handling waste electric and electronic equipment. Both the system and the company shall be operative in early 2007.

Within the Kemis company, the division strengthened its south-east European network by adding new and enhancing existing locations there in order to have more waste recycled internally. The division aims at independence as regards hazardous waste handling, and started with mergers and acquisitions to that effect already in 2005. This increased stability of the company's operations and strengthened its position in certain markets. As regards future, the company's main goals are a modern storing and processing centre in Slovenia, and growth of south-east European markets. Mergers and acquisitions too are amongst its goals to round-off the area of secondary raw materials.

2.7 Investments

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



	2002	2003	2004	2005	2006
Investments (in millions of SIT)	15,126	25,261	16,706	13,277	17,041
Share of investments in revenue	8.3%	12.8%	7.7%	5.5%	6.4%

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 million SIT	2006	2005
Household appliances division	15,913.6	12,464.9
Home interior division	371.9	411.6
Trade and services division	755.2	400.8
Total	17,040.7	13,277.3

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 aparat za domaćinstvo, d.o.o., Valjevo, company.

2.7.1 Investments within the household appliances division

Household appliances division
(investments of SIT 15,913.6 million)

The most important investments in 2006 were:
- construction and start-up of the Valjevo plant specialised in freezers and refrigerators;
- within the refrigerating program – completion of development of a new generation of refrigerating appliances (which started in 2005) and modernisation of the lacquering plant;
- within the cooking program – 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 program – 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;
- completion of renovation of the Split logistics distribution centre;
- within the Gorenje Tiki company – completion of a new warehouse and renovation of the newly acquired production and warehouse facilities in Stara Pazova, Serbia.

2.7.2 Investments within other divisions

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 program. Investments of the Gorenje Kuchyne Spol company amounted to SIT 121.5 million. The majority went for the acquisition of land and construction of a production plant in Višnova, the Czech Republic.

Trade and services division
(investments of SIT 755.2 million)

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

Total quality management is one of the fundamental guidelines applied by Gorenje, as it is fully aware that only high-quality processes and technologically advanced and superiorly designed products/services can assure it a place amongst the world's leading home appliances manufacturers.

2.8.1 Quality management within the household appliances division

The division uses a total quality management system compliant with the ISO 9001:2000 standard. It continuously maintains, updates and develops it to ensure greater efficiency and quality of its operations. The employees too, committed to the Group's ongoing growth, act so as to earn customers trust and maintain their satisfaction.

In 2006, the quality management system was assessed internally, but also externally, by suppliers and business partners alike. The division also passed an external re-certification assessment.

To ensure continuous development, the division additionally applies ISO 17025-accredited methods, which in 2006 became 19.

When seeking complex solutions for its technological, development, control, finance and other processes, the division applies also the Six Sigma quality management concept. In 2006, the second group of ten experts and the first two specialists in Six Sigma were trained.

The costs of such training, as well as the costs of concept implementation, have been more than justified by the results of the hitherto projects.

The division further upgraded its quality management system with the 20 Keys method. This allowed it to reduce inventories between different production phases, shorten the tool-changing time, and improve product quality. The good practices system using the 20 Keys model is being implemented also by the Czech Mora Moravia subsidiary.

There is also a system in place named »Sparks« to encourage employee creativity. In 2006, there was more than one useful »creative spark« per employee.

2.8.2 Quality management within other divisions

Home interior division

In 2006, the division's quality management system was assessed against the ISO 9001:2000 standard across all programs and activities, with a special emphasis on improving the quality of production and other business processes. The division is aware that improved quality of its products/services, as well as its delivery and response times, improve customer relationships and satisfaction, and eventually its competitive advantage.

Trade and services division

The division followed the general quality guidelines applied by the home appliances divisions, and continued to build quality standards into its operations.

2.9 Information technology

In the area of information technology and telecommunications, the main focus was on further expansion and upgrading of the integrated SAP R/3 system across the Group. A part of the information technology infrastructure and local area network was also renovated.

The household appliances division implemented the SAP R/3 system in the new Valjevo plant in Serbia. It also continued to implement it in its foreign trade subsidiaries: Gorenje Körting Italia S.r.l., Gorenje Polska Sp. z o.o., Gorenje Skandinavien A/S and Gorenje France S.A.S. (towards year-end).

The parent company and other Group companies established in Slovenia paid special attention to the changeover to the euro. By the changeover date, 1 January 2007, they carried out all the necessary activities and the changeover went smoothly. In 2007, after the 2006 financial statements have been prepared and audited, they past financial statements will have to be converted from the tolar to the euro.

Other important projects:
- renovation of the local area network (LAN) in the parent company that ensured greater network stability and made the information technology system less sensitive to interruptions and more manageable;
- introduction of multi-function devices for printing, copying, scanning, faxing, etc., which has already resulted in significant cost savings;
- further expansion of e-business to key customers and suppliers.

Preparation works also started for the introduction of SAP R/3-supported project management.

2.10 Financial management

Financial management of the Group is based on a uniform financial policy in the area of accounts receivable/payable management, financing and investing, financial risk management, and relationships with banks and insurance companies.

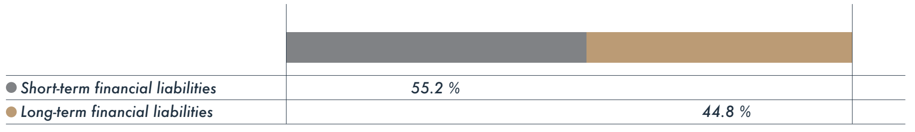
The latter, as well as financial risk and cash-flow management, are in the parent company's domain. Other Group companies must adhere to the uniform financial policy, save for adjustments to account for country-specific factors.

The main objective of financial management is liquidity, which in turns allows smooth functioning of all business functions. In 2006, the Group's short-term liquidity was ensured through effective cash-flow management and an appropriate use of credit lines to fill in short-term cash-flow gaps. Additional attention was paid to a systematic planning of expected cash flows at Group-level.

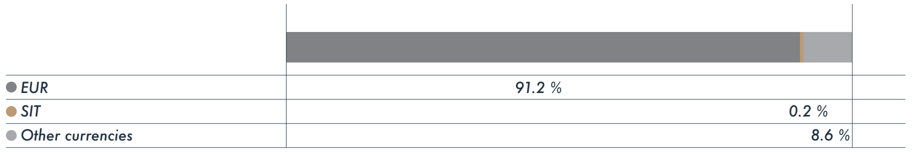
In 2006, the parent company's role in Group financing was strengthened to ensure that all Group companies have access to financial sources under the same favourable conditions. The parent company also got more involved in the short-term financing of Group companies established in Slovenia.

Due to the high level of investments in the Group's working capital, financial liabilities increased by SIT 13,195.5 million (EUR 55.0 million) in 2006. At year-end, they stood at SIT 75,410.7 million (EUR 314.7 million). Of these, 55.2% were short-term and 44.8% were long-term, and as much as 91.2% were denominated in the euro. The rest were denominated in the tolar (0.2%) and other currencies (8.6%).

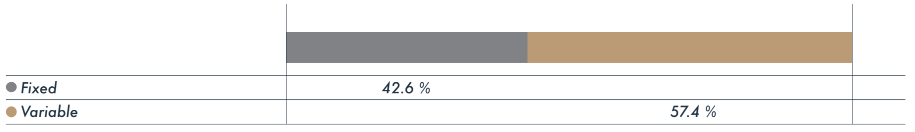
Financial liabilities by maturity



Financial liabilities by currency



Financial liabilities by interest rate type



As regards financial risk management, the main focus was on liquidity, as well as on credit, currency and interest rate risks. The majority of activities in this area were carried out by the parent company. As regards interest rate risk, the Group closely monitors the interest rate profile of its financial liabilities. However, due to not-so-favourable prices of interest rate derivatives the Group made no transactions with these. Accordingly, the Group reduced its fixed-rate borrowings and they were 42.6% at year-end. Such reduction is partly due to maturing of the existing instruments, and partly to the higher overall indebtedness. The remaining borrowings were at variable rates, the majority of them linked to EURIBOR.

In the area of insurance, the parent company bought an international insurance package comprising property and liability insurance. The package optimises insurance efficiency across almost all Group companies. It is based on a contractual relationship with the Generali insurance company and its partners. As regards transport and vehicle insurance, the Group negotiated uniform terms and conditions for all Group companies with the Triglav insurance company.

The level of long-term and short-term financial investments made by the Group fell by SIT 972.7 million (EUR 4.1 million) in 2006. This is mainly explainable by the lower level of deposits placed by the parent company, and by the lower level of loans to companies not Group members.

2.11 Risk management

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 went mainly to:

- 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.

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

The Group identified the following relevant types of business risks:

Business risks
external risks
sales risks
purchase risks
product risks
investment risks
human resources risks
property loss risks

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.

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 are 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 applies also 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 keep 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 itself 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 Groups 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

The Gorenje Group identified the following key types of financial risks:	
	credit risks
	currency risks
	interest rate risks
	liquidity risks

Financial risks

In the area of financial risk management the Company pursued in the year 2006 the financial policies that include the staring 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

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 – 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 that 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 currency risks which are associated with business operations on the markets of Croatia, Serbia, 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, in short-term the Company is protected against currency risks by futures 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 that 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 that the exposure to interest rate risks 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 of generating cash flows from operating activities, and high credit rating.

The management board of the Gorenje Group considers that the exposure to liquidity risks is minor.

Operating risks

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

- *production risks*
- *human resources risks*
- *information system risks*
- *legislation risks*
- *project related risks*
- *fire risks*

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.

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 with 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 that 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 tried to be reduced by systematic inclusion of employees in medical preventive programs and consideration of principles of healthy and safe work. The management board of the Gorenje Group considers that 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 the action during eventual 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 that the exposure to information system risks is moderate.

Risk management associated with the introduction of 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 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 the company specialised 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 case of large-scope, and long-lasting projects when such risks may be related to their possible 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 that 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, supervision of implementation of fire-security measures is strict and employees were additionally trained in the area of fire protection, etc. The management board of the Gorenje Group considers that the exposure to fire risks is moderate.

Strategic map of risks in the Gorenje Gorup

	Size of damage				Probability			
Types of risk	Minor	Moderate	Great	Enormous	High	Moderate	Low	Very low
Business risks								
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	■							■
Financial risks								
2.1 Credit risks		■				■		
2.2 Currency risks		■					■	
2.3 Interest rate risk	■							■
2.4 Liquidity risks	■							■
Operating risks								
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		■					■	

2.12 Creating Shareholders' Value

Parent company Gorenje, d.d.	Public limited company since 1997, after the conclusion of the ownership transformation
Nominal value of share capital:	SIT 12,200,000,000
Number of ordinary no par value registered shares:	12,200,000 shares
Own shares:	1,183,342 shares or 9.6995 percent
Stock exchange listing:	GRVG (since 3 October 2005 the share has been listed on the Ljubljana Stock Exchange and since 3 April 2006 in the SBI TOP stock exchange index)
Nominal share value: No par value share:	SIT 1,000 (up to 21 December 2006) 1 no par value share (from 22 December 2006 –from the date of entry of changes in the articles of association in the court register)
Issued shares:	Are of the same class and entitle their holders to proportional management i.e. one vote per share.

There are no provisions in the Articles of Incorporation of Gorenje, d.d., that would invalidate the proportionality of rights arising from share ownership, such as the rights of minority shareholders or restrictions of voting rights.

At the 10th Annual General Meeting (AGM) of Gorenje, d.d., held on 12 December 2006, the Management Board received the authority and power, subject to approval by the Supervisory Board, to increase the company's share capital by a maximum of 15 percent of the registered share capital as at the date of the resolution or by a maximum of SIT 1,830,000,000.00 (approved capital) by issuing up to 1,830,000 ordinary transferable registered shares with no par value, for investment in money.

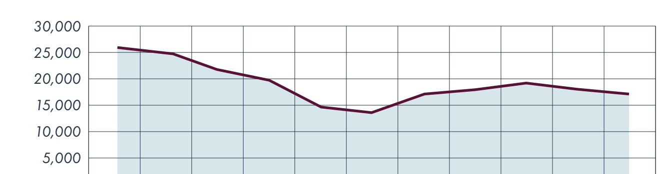
Relations to investors

The Company places great importance on the quality of communications with shareholders and other interested public. Due to this fact comprehensive interim reports and other information on the operation of Gorenje, d.d., and the Gorenje Group are regularly published.

Number of shareholders

As at 31 December 2006 Gorenje had 17,168 shareholders entered in the shareholder register. When compared to the balance as at 31 December 2005 (18,075 shareholders), the number of shareholders decreased by 907 or 5.0 percent.

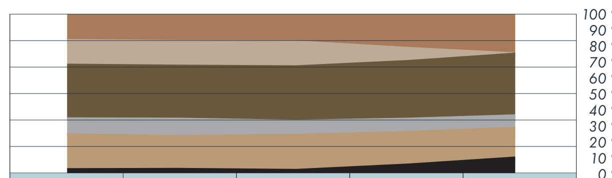
Number of shareholders



	31.12.97	upon submission in KDD	31.12.98	31.12.99	31.12.00	31.12.01	31.12.02	31.12.03	31.12.04	31.12.05	31.12.06
Number of shareholders	25,839	24,607	21,672	19,642	14,572	13,540	17,052	17,733	19,118	18,075	17,168

Changes in the ownership structure by group of shareholders

When compared to the end of the year 2005 a share in other legal entities increased (from 36.2 percent to 38.4 percent) in the ownership structure, but the share in legal entities owned by the state decreased from 29.9 percent to 26.1 percent and the share of individuals decreased from 28.0 percent to 25.9 percent. The share of foreign investors increased from 3.19 percent to 5.68 percent, of which foreign legal entities hold 5.46 percent (as at 31 December 2005 2.97 percent) and foreign individuals 0.22 percent, which is equal to the balance as at 31 December 2005.



	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
Own shares	2.5 %	2.2 %	2.1 %	5.9 %	9.7 %
Individuales	21.4 %	20.3 %	21.8 %	20.1 %	18.4 %
Employees and former employees	9.9 %	10.2 %	8.6 %	8.0 %	7.4 %
Financial investors	31.6 %	33.1 %	33.8 %	36.2 %	38.4 %
Slovenska odškodninska družba, d.d.	15.3 %	15.3 %	15.3 %	7.7 %	0.0 %
Kapitalska družba, d.d., and its funds	19.3 %	18.9 %	18.4 %	22.1 %	26.1 %

Ten major shareholders

As at 31 December 2006 the number of shares of ten major shareholders increased from 6,436,384 to 6,725,855 shares or by 289,471 shares when compared to 31 December 2005.

Shareholder/Number of Shares

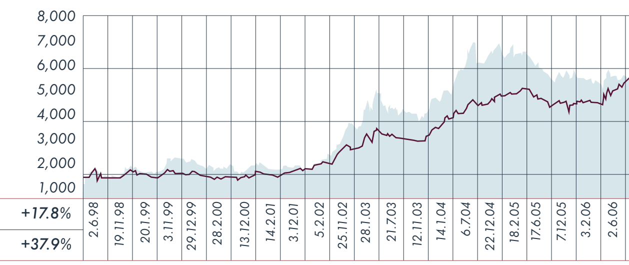
	31 Dec.2006	%
Kapitalska družba, d.d.	3,073,579	25.1933
Gorenje, d.d.- own shares	1,183,342	9.6995
KD Galileo, Vzajemni sklad	506,963	4.1554
Delniški vzajemni sklad Triglav Steber I	420,816	3.4493
KD Rastko, Delniški vzajemni sklad	360,447	2.9545
Maksima, Delniška ID, d.d.	257,084	2.1072
Raiffeisen Zentralbank Oesterreich AG	240,046	1.9676
Krona Senior, Delniška ID, d.d.	233,697	1.9155
Probanka, d.d.	232,751	1.9078
Zlata Moneta II, d.d.	217,130	1.7798
Total	6,725,855	55.1300

Uniform price of GRVG shares

Shares of Gorenje, d.d. were listed on the official market of the Ljubljana Stock Exchange of securities on 10 November 2000, but their trading had been carried out on the organised market since 1998. On 3 October 2005 the shares were ranked in the first listing of the Ljubljana Stock Exchange. They have been also included in the structure of the Slovene Stock Exchange Index SBI20 and since 3 April 2006 in the stock exchange index.

As at 31 December 2006 the uniform price per share amounted to SIT 6,386.18 and was higher by 17.8 % (SIT 5,421.45) when compared to the last trading day in the year 2005. The index of shares of the Stock Exchange listing SBI 20 showed an increase of 37.9 % in 2006.

Changes in the uniform price of GRVG and in the Stock Exchange Index - SBI20 since the first trading day were as follows:



02/06/98	31/12/98	21/12/99	10/11/00	31/12/00	31/12/01	31/12/02	31/12/03	31/12/04	31/12/05	**31/12/06**
SIT 1,484 First trading day on organised market	SIT 1,794	SIT 2,350	SIT 1,978 First trading day on the Ljubljana Stock Exchange	SIT 2,155	SIT 2,221	SIT 4,407	SIT 4,918	SIT 6,474	SIT 5,421	**SIT 6,386**

In the year 2006, the share kept the 4 position in compliance with the turnover in the First stock exchange listing by achieving SIT 7 billon turnover (without blocks). In the total turnover of the Ljubljana Stock Exchange (SIT 238.8 billion) trading with the GRVG share amounted to 3 percent, and 3.8 percent in the share turnover (SIT 192 billion). At the end of the year the market capitalisation amounted to SIT 77.9 billion, and the average daily market capitalisation to SIT 67.7 billion.

Data	Value
Uniform price as at 31 December 2005 (SIT)	5,421.45
Uniform price as at 31 December 2006 (SIT)	6,386.18
Average uniform price in the year 2006 (SIT)	5,495.79
Highest uniform price in the year 2006 (SIT)	6,433.49
Lowest uniform price in the year 2006 (SIT)	5,109.35
Average daily quantity (in lots)	5,392
Highest daily quantity (in lots)	26,337
Lowest daily quantity (in lots)	255
Turnover in the year 2006 – without blocks (in millions of SIT)	7,267

Own shares

In the year 2006, Gorenje, d.d. obtained the third even lot of 233,075 shares (on 3 February 2006) at a price of SIT 6,321.84 and the fourth even lot of 233,075 shares (on 3 August 2006) at a price of SIT 6,464.05 on the basis of the Contract on the establishment of sales and purchase option concluded with Slovenska odškodninska družba, d.d. on 21 June 2004. The contract concluded with Slovenska odškodninska družba, d.d. has been exhausted by the purchase of the fourth even lot of shares.

As at 31 December 2006 the Company had 1,183,342 own shares or a 9.6995 % share in the nominal capital of the Company (As at 31 December 2005 the balance was 717,192 shares or 5.9%).

Number of shares held by members of the Supervisory Board and the Management Board

31 December 2006		
Supervisory Board	**12,299**	**0.1008%**
Mr. Ivan Atelšek	8,258	0.0677%
Mr. Peter Kobal	1,178	0.0097%
Mr. Drago Krenker	800	0.0066%
Mr. Krešimir Martinjak	100	0.0008%
Mr. Jurij Slemenik	1,511	0.0124%
Mr. Gregor Sluga	47	0.0004%
Mr. Jože Zagožen	405	0.0033%
31 December 2006		
Management Board	**11,037**	**0.0905%**
Mr. Franc Bobinac	1,822	0.0149%
Mr. Drago Bahun	7,932	0.0650%
Mr. Franc Košec	1,200	0.0098%
Mrs. Mirjana Dimc Perko	83	0.0007%

Dividend policy and dividend pay-out

Gorenje adjusted the dividend policy to the investment plans and policy of optimal capital structure. Simultaneously, it did not neglect the expectations and interests of shareholders.

It has been foreseen in the strategic plan that Gorenje, d.d. will allocate up to a third of net operating profit or loss of the current financial year to the dividend pay-out. In 2006, the Company paid out a gross dividend amounting to SIT 100 per share to the shareholders.

Trading ratios and share profitability

	2006	2005	2004	2003	2002
No. of GRVG shares outstanding (in SIT million)	**12.2**	12.2	12.2	12.2	12.2
No. of own shares (31 December)	**1,183,342**	717,192	251,042	264,540	307,105
No. of shareholders (31 December)	**17,168**	18,075	19,118	17,733	17,052
Turnover– excl. of blocks (in SIT million)	**7,267**	5,061	9,624	6,120	13,077
Average market capitalisation (in SIT million)	**67,733**	70,868	76,614	53,617	42,102
Value turnover (turnover/average market capitalisation)	**0.11**	0.07	0.13	0.11	0.31
Book value (in SIT) (capital of the parent company) / (no. of shares– no. of own shares)	**4,551**	4,393	4,480	4,421	4,386
Market value per share (31 December)	**6,386**	5,421	6,474	4,918	4,407
Market to book value Ratio	**1.40**	1.23	1.45	1.11	1.01
Yield of GRVG share:					
Capital gain	**17.8%**	- 16.2%	32.0%	12.0%	98.4%
Dividend yield	**1.6%**	1.8%	1.5%	2.2%	1.8%
Total yield	**19.4%**	- 14.4%	33.5%	14.2%	100.2%
Dividend per share (in SIT)	**100**	100	100	95	80
Earnings per share (in SIT) (net profit of the parent company /(no. of issued shares – own shares))	**259.81**	213.13	180.18	182.69	192.13

Scheduled Periodical Releases for the year 2007

Type of Release	Anticipated release date
Summary of non-audited accounting statements of the Gorenje, d.d., and the Gorenje Group for the year 2006	Tuesday, 27.2.2007
Summary of Annual Report of the Gorenje, d.d., and the Gorenje Group for the year 2006 **Annual Report** of the Gorenje, d.d., and the Gorenje Group for the year 2006	Monday, 23.4.2007
Summary of the Business Report of the Gorenje, d.d., and the Gorenje Group for the period **January - March** 2007	Thursday, 24.5.2007
Resolution of the 11th Regular Assembly Meeting of the Gorenje, d.d.	Thursday, 14.6.2007
Summary of the Business Report of the Gorenje, d.d., and the Gorenje Group for the period **January – June** 2007	Thursday, 23.8.2007
Summary of the Business Report of the Gorenje, d.d., and the Gorenje Group for the period **January - September** 2007	Thursday, 8.11.2007
Summary of business operations assessment for the year 2006 and **Business Plan 2008**	Tuesday, 18.12.2007

Planned periodical releases and other price sensitive information will be published on Ljubljana Stock Exchange web sites via the SEOnet system (www.ljse.si) and on Gorenje web site www.gorenje.com .

2.13 Plans and conditions of operation in the year 2007

Conditions of operation and the activities planned

For the Gorenje Group the year 2007 will be most probably still under the influence of unfavourable trends in prices of strategic raw materials and materials. Key raw materials, mainly steel sheet, precious and non-ferrous metals, materials made of plastics, etc. will – in accordance with some forecasts – keep the high price levels from the year 2006. The Waste Electrical and Electronic Equipment Directive (WEEE) still represents an additional risk factor since it involves additional cost loading for producers of such equipment. The scope of costs in the year 2007 relating to the Directive is difficult to estimate due to lack of clarity in national legislations on various markets at the time of preparation of the economic plan.

For the management of the above-mentioned circumstances and the achievement of cost-efficiency of the Group's operation, several activities will be implemented in the Household appliances division in the year 2007 and in future:

- continuation of growth in sales of Company's own production and complementary program, and thus improvement in profitability of the sales structure;
- in scope of refrigerators and freezers program of the parent company part of transferred production (sales) to the new factory in Valjevo will be replaced by appliances of higher price segments;
- complete inclusion of the new factory of refrigerators and freezers in Valjevo will be carried out, in terms of organisation and business;
- complete inclusion of the factory of cooking appliances Mora Moravia s r.o. as the production centre with optimised cost-efficient operation will be accomplished, this centre is comparable to the centres in Velenje and Valjevo; the introduction of the SAP system at the beginning of the year 2007 marks an important step on the way to the achievement of this objective;
- continuation of successful growth in the supplementary program including the sales of entertainment electronics, small household appliances, vacuum cleaners;
- continuation of the economically least burdening introduction of the Waste Electrical and Electronic Equipment Directive in individual markets; special attention will be paid to this area since the complete introduction of the Directive will have an important impact on the cost efficiency of Group's operation;
- acceleration of the development of supply sources in Asia, on other dollar purchase markets and in the countries of South-East Europe and thus long-term possibilities of purchasing affordable raw materials and materials will be developed; the objective of the required reduction in the structural share in the cost of items mentioned in the value of products made will be pursued;
- continuation and gradual improvement of cost rationalisation in all areas of Division's operation with a special emphasis placed on the reorganisation of logistic and sales network.

Further successful growth in scope of business activities will be promoted also in other divisions. In scope of the Home interior division the consolidation will continue, especially in the area of optimisation of international production capacities; special emphasis will be put on the use of synergies in the purchasing and sales area in scope of the division and in co-operation with other divisions.

Some joint activities that are relevant from the Group's aspect will be carried out in all divisions:

- more efficient management of current assets (inventories, trade receivables and trade payables);
- selective investment policy focused mostly on the development of new products;
- disinvestment of property in kind and financial property that is unnecessary in terms of business;
- efficient management of all kinds of risks that we are exposed to due to a high degree of changeability of the business environment, with the emphases on cost risks and credit (payment) risks on more risky and less liquid markets;
- studying of possibilities and search for new opportunities for further strategic connections or acquisitions of minor producers of household appliances.

Summary of key data on the planned operation of the Gorenje Group in the year 2007

	2006		Plan 2007		P.2007/2006
	in SIT m	in TEUR	in SIT m	in TEUR	(in %)
Consolidated revenue	266,248.5	1,111,216	287,848.4	1,201,170	108.1
Gross Operating Yield	271,770.1	1,134,261	293,179.2	1,223,415	107.9
EBITDA	19,268.0	80,417	23,300.2	97,230	120.9
Profit before tax (PBT)	6,672.4	27,848	7,083.5	29,559	106.2
Net Profit	5,347.9	22,320	5,520.1	23,035	103.2
Average Number of Employees	10,556		10,736		101.7

The plan for the Gorenje Group has been prepared in accordance with International Financial Reporting Standards.

In 2007, Gorenje Group plans to generate revenue amounting to SIT 287,848.4 million (EUR 1,201,170 thousands), which is an increase of 8.1 percent over the year 2006. In the Household appliances division an increase in sales mostly resulted in the increased sales of the refrigerators and freezers due to new production capacities in Valjevo. Important growth drivers are also the sale of additional program, purchase program and programs of thermal and heating technique (new factory in Serbia). In 2007, the planned structural share of the Division amounts to 80.2 percent. The planned increase in revenue of the Trade and services division is not completely comparable to the growth of the year 2006 due to inclusion of the companies of Istrabenz Gorenje energetski sistemi into the Gorenje Group as of 1 July 2006.

It is planned that earnings before interest, taxes, depreciation, amortisation (EBITDA) will be generated in the amount of SIT 23,300.2 million (EUR 97,230 thousands) in the year 2007, which is an increase of 21 percent when compared to the year 2006. Net profit has been planned in the amount of SIT 5,520.1 million (EUR 23,035 thousands), which is an increase of over 3 percent when compared to the year 2006.

Investments in property, plant and equipment are planned in the amount of SIT 11,463.4 million (EUR 47,836 thousands) in the year 2007. The major part of assets amounting to SIT 6,471.9 million (EUR 27,007 thousands) will be allocated to the development of new products, expansion of production programs and technologies in all production programs of the parent company Gorenje, d.d.. Relevant investments are also planned in the following companies: Gorenje Invest, d.o.o. - reconstruction of the business centre, Gorenje Tiki, d.o.o., Serbia - purchase of production equipment in the new factory, Gorenje Notranja oprema, d.o.o. - construction of a new building with equipment for the assembly of kitchen furniture, Gorenje Zagreb, d.o.o. - construction of a warehouse in Zagreb.

In 2007, development of new markets, products and services will continue and it shall ensure quality growth in sales, better competition on the market, better price positioning of products, generation of high added value and thus better business results in future.

3.1 Responsibility to employees

Number of employees and the level of education

At the end of the year 2006 the Group employed 10,816 staff, which is an increase of 307 (2.9 percent) over the end of the year 2005. An increase is due to the beginning of operation of the company Gorenje aparati za domaćinstvo, d.o.o., Valjevo, Serbia, where 504 staff was employed at the end of the year 2006.

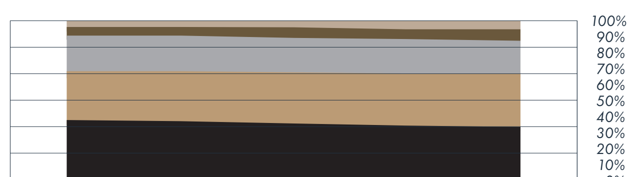
Number of employees by division

	As at 31 December		Average	
	2006	2005	**2006**	2005
Household appliances division	9,298	8,921	9,039	8,867
Home interior division	1,127	1,166	1,146	1,192
Trade and services division	391	422	371	433
Total	10,816	10,509	10,556	10,492

Level of education

	2006	2005
I.	3,081	3,238
II.	633	540
III.	618	537
IV.	2,845	2,788
V.	2,183	2,271
VI.	466	410
VII.	676	650
VIII.	54	58
Total	10,556	10,492

Changes in the level of education



	2002	2003	2004	2005	2006
VII.+VIII.	5%	6%	7%	7%	7%
VI.	4%	4%	4%	4%	4%
V.	21%	21%	21%	21%	21%
III.+IV.	30%	30%	30%	32%	33%
I.+II.	40%	39%	38%	36%	35%

Concern for education and training of employees

The dilemma to invest only in material assets or also in knowledge is actually the dilemma between to »have« and to »be«. Knowledge and skills acquired in the process by education, training and living in an organised society enables facing of new challenges. Simultaneously, this is the motive for further development.

For years, Gorenje has introduced and accepted the concept of a learning company. We are aware that work with people is one of soft approaches in the process of constant company changing. Relations among employees, the organisational climate and culture are the factors that importantly support the accomplishment of our strategic objectives.

Activities of the Gorenje education centre were mainly focused on the increase in awareness about the meaning of the complete company management. Our orientation to foreign markets requires the employees to simultaneously and quickly adjust to new, more demanding technologies and to respond quickly to new procedures and routines at work, to establish suitable relations and to know quality, as well as to create suitable, innovative climate in the Group.

In the year 2006, the parent company trained a total of 5,171 staff, which represents a share of 91.8 percent of all employees. The number of all participants in education programs and trainings amounted to 11,215. Many employees took part in several trainings. On average, an individual training or education program lasted 11.4 hours. More than 85 percent of all training and education programs were organised outside working time. Each employee of Gorenje, d.d., received 22.8 training hours on average in 2006. Over 128,497 hours were spent on education and training programs.

Over 92 percent of total education and training programs were organised in scope of the Gorenje Group in the Group's premises. Over 89 percent of education programs is considered copyright work of our assistants. In this way knowledge is transferred within the Gorenje Group and the cost of organisation and implementation of education and training reduced.

Concern for young and promising staff

Granting scholarships is an important source of acquiring human resources. The appropriate scholarship policy ensures a regular inflow of human resources, mainly from the group of deficient professions.

The share of students of technical studies reached 83.6 %. Thirty scholarships were granted in the academic year 2006/07, mainly to the group of the above-mentioned deficient professions.

As the co-founder of the International Postgraduate School Jožef Stefan we are involved in the implementation of post-graduate programs. Our co-operation with various education institutions in the local environment and at the state level is also successful. Through the education centre we are involved in various state education projects and presentations.

Development of human resources

The mission of the human resource development is establishment of individual's advantages, wishes and ambitions and their development in accordance with his/her objectives and the objectives of Gorenje.

The basic tool of human resource development and strengthening of corporate culture is the training program for promising staff named the Manager Academy that has become part of traditional operation in the Gorenje Group. The program has been developed for promising employees who have been assessed to have the potential to develop their own career in top management or on leading professional positions in Gorenje. The training lasts a year and involves five modules: Human resource management and team work; Project management and business planning; Marketing and business processes; Development of corporate culture and Accounting, finance and cost-effectiveness. In 2006, the 18th generation with 25 promising employees from Gorenje received training in scope of the Manager Academy.

Another very important tool in assessment, development and utilisation of abilities of an individual is the assessment process that enables acquisition of objective data about individual's intellectual abilities and personal characteristics. It is especially intended for a person assessed and the heads as help when taking decisions on further development of an employee associate relating to his/her abilities and development objectives.

The third key tool for the development and planning of individual's career is the annual discussion. It represents an efficient tool for the establishment of confidence between the head, employee and the working group. It is exclusively intended for heads, since it gives an opportunity to the head and the employee to discuss the course of work and further career development. It enables the head to plan succession easily and more efficiently as well as to develop potential employees. By means of a formal discussion the employees receive feed-back about their work and an insight in development possibilities and further steps of their career development. In Gorenje, annual discussions have been held for years. In 2006, monitoring of the number of discussions started and this has now become one of the ratios of efficiency of heads in their work.

Measuring of organisational climate and employees' satisfaction

Measuring of organisational climate in Gorenje is used for the establishment of satisfaction of employees with their working conditions and relations at work. The survey results represent a basis for taking measures for the improvement of working environment, which is a precondition for success and satisfaction of employees.

In 2006, two different measurements were carried out for the first time. The research establishing the organisational climate in professional departments of the parent company Gorenje, d.d. was a novelty. For the fifth successive year, working conditions and relations among employees of production programs have been measured.

On the basis of measurement results systems were created with the task to monitor implementation of planned activities relating to the improvement of organisational climate in all measuring environments. Suitable activities were organised and carried out in working groups. In production programs, activities relating to the improvement of working and climate conditions were of utmost importance, then application of a suitable system of trainee education and care for good atmosphere and adequate personal relations in production working groups.

In professional departments special attention has been paid to the distribution of work tasks and thus to the utilisation of knowledge and potential of all employees. Additionally, innovativeness has been encouraged in relation to the transparent awarding, promotion systems and development of individual's career.

We have also created activities that are mutual to both measuring environments, such as: careful selection of suitable heads at all levels, their constant training, annual performance of work efficiency assessment and annual discussions. Accuracy and timeliness have also become increasingly important as well as additional motivation levers, recognition and awarding of successful individuals.

Healthcare for employees

The fact that only a healthy and satisfied employee can be successful at work is the basic guidance of all persons involved in the project »Healthcare for employees and management of sick absenteeism«.

In scope of the project, parallel to the promotion of health with various preventive and curative measures we influence the improvement of healthcare of employees. A health education and preventive program is intended for the encouragement of positive attitude to life and work, since it emphasises the care for one's own health. We are included in the project CINDI Slovenia (lectures, tests of body capacity and similar). Preventive recreational holidays are organised since they have favourable and motivation influences on the participants.

In order to know better sick absenteeism, problems, expectations and wishes of colleagues at work, visits of employees during their sick leaves were introduced some years ago. Simultaneously, it is checked how employees follow the instructions for treatment and behaviour at the time of absence from work. The purpose of discussions with department heads and employees after returning back from sick leave is similar. Records of these findings serve for planning for improvements in working groups.

In Gorenje, special attention is paid to employees with reduced working capacity. In compliance with the legislation the employees mentioned are placed to suitable easier jobs. In future, eventual lack of easy jobs will be solved by planning and introduction of assessment analysis of jobs or ergonomic solutions.

Assurance of suitable employment to disabled persons

In 2006, the Employment Rehabilitation and Employment of Disabled Persons Act introduced a system of employment quotas for the disabled in Slovenia. On the basis of the act the state would like to encourage the employment of the disabled, creation of suitable jobs and employment possibilities. The system of quotas defines that a certain share of disabled persons relating to the number of employees and kind of activity shall be employed. A 6 percent quota applies to the majority of the companies in Gorenje. In 2006, the prescribed system of quotas was implemented in Gorenje without any disturbances due to good preparation.

Care for occupational health and safety

Due to the development of new technologies, changing economic and social conditions the working environment has changed. Gorenje has successfully adapted to these changes in all segments of occupational health and safety, in all companies of the Group and in all countries of operation. This can be achieved only by a systematic approach, clearly defined objectives, programs and responsibilities.

Gorenje operates in accordance with the requirements of occupational health and safety contained in standard OHSAS 18001 (Occupation health and safety management systems) that the parent company Gorenje, d.o.o obtained in March 2006.

The basic objectives of the strategy of occupational health and safety in the EU in the period from 2003 to 2006 were creation of safe, healthy and stimulative working environment with the emphasis on the management of the existing and newly appearing risks. These objectives can be achieved only by the conviction that »good health and safety is good business«, which has been often confirmed in the area of occupational health and safety.

The basic objectives of occupational health and safety defined by the EU strategy are:
- reduction in the number of accidents and seriousness of injuries at work,
- reduction in the number of reasons of occupational diseases,
- maintenance of employees' good health,

and they have been considered also in the objectives set in Gorenje in the year 2006. The objectives have been selected in relation to the importance of individual areas of occupational health and safety and are incorporated into the strategy of development of occupational health and safety in Gorenje.

In 2006, we succeeded in slight reduction of injuries suffered at work at the annual level. Considerable effort was put in the improvement of indicators of the number, frequency and seriousness of accidents by training the employees. It is estimated that the effects of safety training upgraded by some practical training for correct and safe work will be evident in the year 2007.

Communications with employees

The most important target public of the Gorenje Group is its employees. They are the first voices advertising the trade mark and the first ones representing the culture and values of the Group to the external world. Thus, they shall be familiar with the events and policies of the Group. Gorenje has ensured the level of information also by the weekly Črno na belem (Black on white) and the sporadic journal Pika na G (Point on G).

In 2006, Gorenje celebrated 40th anniversary of publishing company bulletins and 10th anniversary of issuing the journal Pika na G. Forty-five volumes of the bulletin Črno na belem were published and a suitable number of E-bulletins and 5 numbers of Pika na G.

Internal bulletins are one of the tools for the achievement of objectives of the Company, such as close relations among the management and the employees and only among the employees. They increase the feeling of loyalty to the organisation, increase motivation, responsibility, and innovativeness of the employees, encourage employees to achieve the planned objectives of the Company, establish and maintain strong Company's own corporate culture, strengthen team work, etc.

3.2 Responsibility to users of products and services

It is of vital importance that safety of each product is checked already at the stage of production and after the completed production in special licensed and well-equipped laboratories.

Assurance of product safety

When developing products, our most relevant guidance is assurance of product safety which is checked by Slovene and esteemed foreign institutions. The institutions issue appropriate reports on tests and certificates before products are launched into the market.

In co-operation with experts in technical councils we follow the development of international and national standards in the area of safety of electric household and similar appliances, gas devices and electromagnetic compatibility. All requirements are immediately introduced into product development.

Assurance of environmentally friendly products

Gorenje is the member of Conseil Européen de la Construction d'appareils Domestiques – European Committee of Domestic Equipment Manufactures (CECED). Through CECED, we would like to be a partner and companion in talks to the European commission in preparation of the legislation. The mission of the CECED is to improve technical properties of appliances along with simultaneous reduction in the environmental influence.

Within the Committee, views of different manufacturers on the adopted legislation are being harmonized and brought into coherence, in order to ensure coherent and consistent reactions, as well as meeting the requirements. The Committee also became proactive in the preparation of own proposals with regard to energy efficiency and effects on the environment. The manufacturers are trying mutually to bring into line their goals which we undertake to attain by predefined deadlines. Attainment of the goals set in such agreements is quite challenging, despite the fact that they are defined and set by the manufacturers, i.e. by ourselves. In the past periods, manufacturers had to make considerable adjustments of appliance designs by improving electromagnetic engines, compressors, insulation etc., in order to fulfill their own commitments. Thus, the consumers could note that the stores ceased to offer appliances of inferior energy classes (C, D, E, etc.), and that new labels have appeared indicating classes A+ and A++. Attaining the latter called for additional investment into new concepts of household appliance generations. However, the activities were not beneficial only in the sense of accomplishing the said goals; they also contributed to improvement of competitiveness and securing our existence in all markets.

Meeting of guarantee and service obligations

In accordance with the legislation, repair services are ensured to buyers of our products. Due to the fact that Gorenje is focused on the increase in customer satisfaction by its vision and mission, it often offers repair services also beyond the legally defined period binding for the producer.

3.3 Responsibility to close and wide social environment

Gorenje has built up its reputation also by contributions to various activities. In 2006, Gorenje allocated funds to the areas of culture, schooling, health care and humanitarian activities. Besides that an important share was allocated to the development of sports activities and top sports that additionally confirm the recognition of Gorenje in Europe.

In the area of culture the Company assisted in the organisation of the:
- *exhibition of the sculptor Ivan Napotnik in the National Gallery in Ljubljana, Slovenia and in the Gallery in Velenje, Slovenia;*
- *program of Cankarjev dom in Ljubljana, Slovene Philharmonic Orchestra and the Festival Lent as well as concerts organised by Narodni dom Maribor, Slovenia;*
- *Herberstein's literature meetings of Slovene writers;*
- *traditional days of the Slovene comedy in Slovensko ljudsko gledališče Celje, Slovenia;*
- *exhibition A(rt)coustics in scope of the International Graphic Centre Ljubljana, Slovenia.*

Gorenje contributed also to the activities of various societies or institutions, such as:
- *foundation of the academic painter Karel Peček Slovenj Gradec that grants scholarships to graduate and post-graduate students in art academies,*
- *auspice of Biennial of industrial design BIO 20.*

Company's own activity plays an important role in social activities, in the area of culture within the Cultural Society in Gorenje, in the organisation of artistic and sculptural exhibitions in Gorenje. The Company has also supported the Choir of Gorenje that has achieved notable international success.

In the area of health care and humanitarian activities Gorenje donated to associations operating in this area. Sponsoring of various events where proceeds are intended for humanitarian activities is also of vital importance. Gorenje contributed also funds for the equipment of the Institute of Oncology in Ljubljana in scope of the activity "good thought" and to the Faculty of Economics, University of Ljubljana for the erection of a lift which will help overcome some architectural hindrances.

In the area of schooling Gorenje supports better conditions for work in up-bringing and educational institutions, such as the Centre of up-bringing, education and training in Velenje, School Centre and Music School of Fran Korun Koželjski, also in Velenje. It also helped in the establishment of better conditions for living of students in students' halls of residence in Maribor and in implementation of some students' projects.

In the area of sports Gorenje is the general sponsor of the Nordic team of the Skiing Association of Slovenia and volleyball club of Gorenje. Especially important was also co-financing of the annual FIS cup in ski jumping in Velenje and the international table tennis competition in Velenje that belongs to this sport's world cup. In the previous season Gorenje sponsored the hockey club Acroni Jesenice. Simultaneously with advertising in various sports events we contributed to easier organisation, implementation of various sports competitions and recreational activities for a wide society. Funds were contributed also to minor amateur societies and activities involving young in sports activities, as a contribution to healthy and useful spending of free time. Employees are also encouraged to become members of the Recreational Society Gorenje that receives some funds.

In accordance with corporate values that are being developed we supported also the activities of the Pensioners' Club of Gorenje and thus showed our concern for the third life period of the Company's former employees.

3.4 Responsibility to the natural environment

In 2006, the parent company continued its activities of environmental management by performing the activities planned for the achievement of objectives of environmental protection. Besides striving for the achievement of measurable objectives (waste management, energy products – all objectives were achieved) special attention was paid to the introduction and meeting of requirements of the RoHS Directive (Restriction on the use of certain hazardous substances in electrical and electronic equipment).

Household appliances division

The parent company Gorenje, d.d.

Since the parent company is subject to the requirements of the new IPPC legislation (Integrated Pollution Prevention and Control) it filed an application for obtaining the comprehensive environmental licence with the Ministry of Environment and Spatial Planning.

In the parent company, our EMAS system located in Velenje was expanded to the activities located in Šoštanj and Rogatec.

All data about the influences of the Company on the environment, including the Environmental Statement were stated in an independent Report on social accountability of the Gorenje Group that can be read on the website www.gorenje.com.

Mora Moravia s r.o., Czech Republic

In the area of environmental protection the company continued the activities undertaken in relation to further reduction in burdening of the environment that arises from its production activity and has a negative influence on the environment. The area of environmental protection is especially important since the company operates in the natural park, in the valley of the river Bystřice.

The company is involved in the EKO-KOM system (company specialised in the treatment of waste electrical and electronic equipment) that assures meeting of obligations when treating waste packaging in the Czech Republic and in some other EU countries. Since 2005 the Company has been included in the Elektrowin system that ensures fulfilment of obligations arising from the provisions of the WEEE directive. Simultaneously, it adjusted its operation to the requirements of the RoHS directive.

When compared to the year 2005 the quantities of hazardous waste were importantly reduced due to the measures implemented in technological processes in production. The quantities of other waste and quantities of waste water and total water consumed were also successfully reduced. Preparations for the waste water purification on the neutralisation station of the enamel plant will have some additional favourable influences on the environment.

Some activities were carried out in scope of the preparation for the introduction of the system of environmental management in accordance with ISO 14001. The project "cleaner production" was successfully implemented; it was focused on the reduction of production waste and their further use.

Gorenje aparati za domaćinstvo, d.o.o., Serbia

As a difference from the parent company in Velenje, the standard of the environmental protection system in accordance with ISO 14001 has not been formally introduced yet. Regardless of this fact, special attention was paid to the environmental protection in the factory. All internal standards of the Group were adequately introduced and valid provisions and procedures relating to environmental management in compliance with the legislation were followed.

In future, great attention will be still paid to the area of environmental protection and special emphasis will be placed on the training of employees, rational utilisation of energy products and raw materials as well as constant monitoring and harmonisation of processes with legal provisions.

Gorenje, IPC, d.o.o.

In Gorenje, IPC, d.o.o. the year 2006 was devoted to waste management. We were successful in implementation of the drawn up plan of waste management.

The method of 20 keys was used in the management of energy cost with a special emphasis on saving in energy and materials. In the year 2007 the company will focus on the reduction of electricity consumption. Additionally, the system of environmental management will be integrated into the system of the parent company Gorenje, d.d. and up-graded by the EMAS system in the year 2007.

Gorenje, Tiki, d.o.o.

In 2006, Gorenje Tiki, d.o.o. continued to establish conditions for ecological control of technological processes.

A special place was arranged on the company's location that will be used for collection of waste and consistent waste separation will result in the number of separate waste fractions. Introduction of pressing, separately collected waste (paper, plastics) influenced the reduction in waste volume and frequency of waste removal.

The improved organisation of collection of secondary raw materials influenced the increase in such waste in the year 2006. Quantities of municipal waste were reduced significantly. Hazardous substances were regularly delivered to a licensed company for treatment of hazardous waste and simultaneously we took care of quantity reduction. We were successful in the completion of the first stage of modernisation of the purification plant for technological waste water and arrangement of a chemical warehouse and pumping station of polyurethane components.

Constant training will take care of regular education of employees in the area of environmental protection in future.

Gorenje Orodjarna, do.o.

By the purchase of a microprocessor controller and electro motor optimiser the company substantially reduced the consumption of electricity on a hydraulic press for tool testing. The purchase proved economically justified since the press with the nominal loading operates only 25 percent of working time due to the specific operating regime. It is estimated that slightly less than 30 percent of electricity will be saved every year due to the investment when compared to the starting situation before the investment.
In 2007, the company will continue upgrading the system of environmental management by the system of environmental management of the parent company.

Home interior division

In 2006, the companies of the Division performed activities for the improvement of the status of environmental protection in accordance with environmental management and legislative requirements.

In the area of reduction of emissions into the air the emission of dust was reduced by the implementation of the suction project in the Ceramics program. Simultaneously, working conditions improved. In the Kitchen program the plan for the reduction of solvent emissions was approved; it obliges the Division to further reduce emissions to the target level. In both programs we filed an application for obtaining the environmental licence for an IPPS device. The Bathroom program continued reducing the emissions of volatile organic compounds.

In the waste area all programs continued carrying out waste separation. Additionally, the Ceramics program started the project of hot waste exhaust gas recuperation from the furnace for ceramic tile burning. In the Marles program the system of waste collection program started already in the production process, i.e. on the place of waste origin.

Trade and services division

ZEOS, d.o.o.

The company was established in 2005 for the efficient management of waste electronic and electrical equipment.

Activities were organised on the location of the company's registered office. Special attention was paid to informing of wide public and expansion of the collective scheme by new liable parties. We continued establishing business relations with the parties carrying out collection, transport, processing and removal of waste electrical and electronic equipment. By the introduction of the company's own information system we consolidated the conditions for the establishment of final business relations with business partners including founders, adhering parties and contractors for treatment of waste equipment and public utility companies. Thus all conditions for successful beginning of the complete scheme operation were fulfilled.

As approval of the quality of company's own strategy and activities the company became a member of the WEEE forum (European Association of collective schemes of waste electrical and electronic equipment) in the year 2006.

As a joint scheme of waste of electrical and electronic equipment we will start operating fully in February 2007. Then founders and parties supporting the company will become fully liable for their own products also after the expiry of their useful lives.

Kemis, d.o.o.

The company is engaged in collection, processing and removal of hazardous substances. Our knowledge and experience are expanded also to other countries of south-east Europe through subsidiaries in Croatia, Bosnia and Herzegovina and in Serbia.

The company offers its customers professional and complete, versatile, safe and affordable solutions in the area of waste management. Thus, we take care of saving natural resources since part of waste is processed into secondary raw materials and secondary energy products. In 2006, over 150 tons of waste solvents were processed. Over 5,000 t waste was prepared for burning. And over 10,000 t waste was directed to processing and thermal utilisation (among them over 2,000 t waste tyres).

In 2006, additional scientific bases were prepared for the construction of a new recycling centre and the second spatial conference was organised in Vrhnika, Slovenia.

The conditions of operation did not improve considerably in the year 2006. The greatest uncertainty still represented prices of strategic raw materials, mainly those of steel sheet, other metals, plastic materials, and components made of these raw materials.

Another relevant factor that influenced the business results of the year 2006 was the implementation of the Waste Electrical and Electronic Equipment Directive (WEEE) that was put into force in Slovenia in August 2005. The Directive obliges producers of electrical and electronic equipment to recycle their products and thus considerable costs of operation incurred. Final influences of the effects of the Directive introduction and implementation can be hardly assessed due to lack of clarity in national legislations in the countries of our operation relating to the actual beginning of the Directive validity and the methods of its implementation.

The following was necessary for the assurance of business performance in the financial year 2006

- *achievement of quality growth in sales and increase in its profitability along with balanced filling of production capacities and achievement of the highest possible integral covering contribution,*
- *development and successful introduction of new products and services that enabled better market competition, higher price positioning of products, creation of higher added value, and thus better business results with simultaneous search for technical – technological possibilities for the decrease in production costs and distribution costs of existing products,*
- *optimisation of the supply chain and search for alternative or (and) new purchasing sources that would ensure price competition of our products,*
- *optimisation of operating costs,*
- *achievement of production productivity and efficient implementation of production activities with even utilisation of production capacities over the complete financial year and with the objective to assure economic and cost-efficient production,*
- *internationalisation of production capacities (implementation of the project Valjevo for the production of refrigerators and freezers), which will bring advantages of the position of local producers, optimisation of taxes and customs duties, decrease in the level of labour costs and growth of supply from these areas,*
- *rationalisation of logistic, sales and after-sales activities of the Gorenje Group and increase in efficiency of supporting functions in all its parts,*
- *selective new investing and limitation of its scope to the scope planned; investments in new products and markets will take the priority,*
- *successful management of working capital, mainly of receivables and liabilities since the scope of working capital importantly influenced the debt ratio and consequently financing costs of the Gorenje Group,*
- *efficient management of all kinds of risks we are exposed to during our operation due to high level of changeability of the business environment, with the emphasis on credit risks, especially on more risky and less liquid markets.*

Achievement of operating objectives in figures

in million SIT	2006	Plan 2006	2005	2006/ Plan 2006	2006/ 2005
Revenue	266,248.5	243,971.2	243,152.4	109.1	109.5
Gross Operating Yield	271,770.1	247,931.0	249,081.5	109.6	109.1
EBITDA	19,268.0	20,533.1	18,152.2	93.8	106.1
Profit before tax (PBT)	6,672.4	6,119.4	5,707.1	109.0	116.9
Net Profit	5,347.9	5,299.7	5,120.7	100.9	104.4
Average Number of Employees	**10,556**	**10,568**	**10,492**	**99.9**	**100.6**

In 2006, the Gorenje Group achieved enormous growth in business activities and exceeded the value of EUR 1.1 billion of revenue, which is an increase of 9.5 percent over the year 2005 and an increase of 9.1 percent over the budgeted revenue.

Sales by division[4]

in million SIT	2006	Plan 2006	2005	2006/ Plan 2006	2006/ 2005
Household appliances division	222,337.2	214,155.0	207,229.0	103.8	107.3
Home interior division	15,001.8	16,268.7	14,928.6	92.2	100.5
Trade and services division	28,909.5	13,547.5	20,994.8	213.4	137.7
Revenue	**266,248.5**	**243,971.2**	**243,152.4**	**109.1**	**109.5**
Revenue per employee (in TSIT)	**25,222**	**23,086**	**23,175**	**109.3**	**108.8**

[4]The revenues of particular divisions comprise consolidated revenues of the division, minus the revenues related to other divisions.

In 2006, Household appliances division generated SIT 222,337.2 million consolidated revenue, which is a share of 83.5 percent of the Division in the structure of total consolidated revenue. The structural share achieved is by 1.7 percent lower than the share of the year 2005 due to faster growth of the Trade and services division. Other divisions achieved a share of 16.5-percent of consolidated revenue, out of this Home interior division a share of 5.6 percent and Trade and services division a share of 10.9 percent. The increase in the Trade and services division is a result of inclusion of Istrabenz – Gorenje energetski sistemi into the Gorenje Group in the second half of July 2006.

Costs of goods, materials and services of the Group achieved a share of 75.1 percent in the structure of gross operating yield, which is 1.2 percent more than in the year 2005. Their value amounted to SIT 204,072.2 million, which is an increase of 10.8 percent over the year 2005.
The increase in costs discussed was slightly faster than the growth in gross operating yield and revenue which is mainly a result of inclusion of IGES companies into the Gorenje Group, and partly of higher cost of goods sold.

Added value amounted to SIT 65,831.3 million (98.0 percent of the annual plan), which is a share of 24.2-percent in the gross yield structure. When compared to the year 2005 it increased by 3.9 percent. Lower growth is the result of higher costs of goods, materials and services.
The added value per employee amounted to SIT 6,236 thousands, which is an increase of 3.3 percent over the year 2005.

EBITDA calculated as earnings increased by depreciation / amortisation expenses was by 6.1 percent higher than in 2005 in spite of growth of costs of raw materials and materials, mainly due to a favourable increase in operating income and successful management of other operating costs (expenses).

PBT or profit before tax grew twice as fast as the scope of business activities in the year 2006. The Group achieved the highest growth to the level of operating profit and strengthened it in the financial part; the total growth amounted to 16.9 percent.

Net profit was lower due to a significant increase in taxation of profit (increase in income tax amounts to 125.9 percent), and grew slower than the total profit and revenue. In spite of that, it is higher by 4.4 percent over the year 2005 and exceeds the valued budgeted for the year 2006.

The value of property, plant and equipment and intangible assets increased nominally at the end of 2006 over the year 2005, mainly due to investments in the company Gorenje Aparati za domaćinstvo, d.o.o., Serbia and intclusion of the IGES companies into the Gorenje Group; its share decreased by 1.7 percent in the asset structure.

The share of current assets increased in the asset structure of the Gorenje Group; it grew by 14.0 percent when compared to the beginning of the year.

To a great extent, the increase in current assets is a consequence of an increase in receivables that represent 26.9 percent of total assets at the end of the year 2006. When compared to the beginning of the year they increased by SIT 7,298.7 million; this is mainly a consequence of inclusion of the IGES companies into the Gorenje Group, greater scope of business activities and prolonged terms of payment on the East European markets.

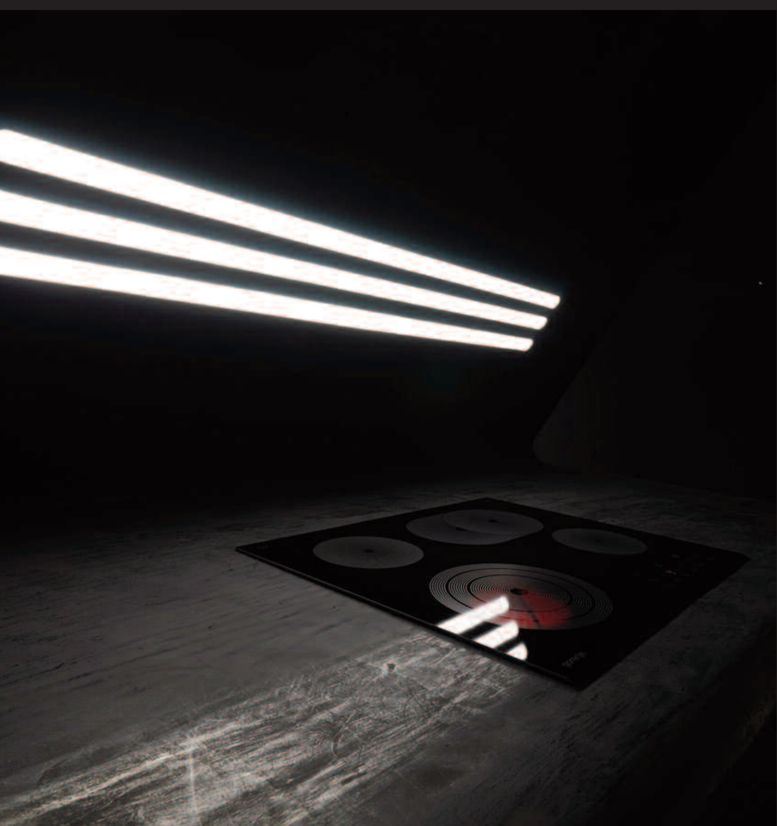
At the end of the year 2006 the equity represented a share of 28.1 percent in the share of equity and liabilities. When compared to the balance at the end of the year 2005 its share decreased by 1.9 percent in the structure. The equity decreased nominally, mainly due to additional purchase of own shares and dividend pay-out in accordance with the decision of the shareholders' meeting; in the structure of equity and liabilities its share decreased due to structural increase in financial liabilities.

Short-term trade and other payables increased by SIT 7,472.3 million over the end of 2005, which was favourable from the aspect of net current assets. The major part of the increase refers to the parent company where the increase is the result of increased deliveries and achievement of actually prolonged terms of payment granted by suppliers.

Total financial liabilities increased by SIT 13,195.5 million over the balance at the end of the year 2005. The increase in debts is mainly the consequence of an increase in employment of net working capital, mainly receivables and inventories. In the structure of financial liabilities long-term and the rest of short-term financial liabilities represented 44.8 percent. Total non-current assets and part of current assets were covered by constant and long-term financing sources ensuring additional financial stability.

In serious conditions of operation in the year 2006 the Gorenje Group continued to grow and significantly exceeded the planned scope of business activities and achieved the budgeted results, property and financial objectives in all relevant elements of operation.

THE IDENTITY
of Gorenje combines
TRADITION
with youth and
VITALITY



5.1 Accounting report prepared under IFRS

5.1.1 Accounting report of the Gorenje Group

5.1.1.1 Consolidated financial statements of the Gorenje Group

Consolidated income statement of the Gorenje Group

in TSIT	Notes	2006	2005
1. Revenue	1	266,248,456	243,152,426
2. Changes in inventories		1,477,850	1,929,476
3. Other operating income	2	4,043,767	3,999,555
4. Gross operating yield		271,770,073	249,081,457
5. Cost of goods, materials and services	3	-204,072,167	-184,158,970
6. Employee benefits expense	4	-44,580,100	-43,375,610
7. Amortisation and depreciation expense	5	-11,881,718	-11,692,539
8. Other operating expenses	6	-3,849,797	-3,394,642
9. Operating profit or loss		7,386,291	6,459,696
10. Finance income from shares in associates	7	157,801	0
11. Finance income	8	4,599,092	4,071,056
12. Finance expenses	9	-5,470,745	-4,823,683
13. Profit before tax		6,672,439	5,707,069
14. Income tax expense	10	-1,324,525	-586,391
15. Profit for the period		5,347,914	5,120,678
16. Attributable to minority interest		-10,005	13,676
17. Attributable to equity holders of the parent		5,357,919	5,107,002
18. Earnings per share basic/diluted (in SIT)		478.69	445.94

Consolidated balance sheet of the Gorenje Group

in TSIT	Notes	2006	2005
ASSETS		216,780,853	195,509,870
A. Non-current assets		98,005,832	91,298,871
I. Intangible assets	11	5,471,657	5,617,772
II. Property, plant and equipment	12	84,505,772	78,838,655
III. Investment property	13	235,695	212,836
IV. Non-current investments	14	4,128,833	4,811,676
V. Investments in associates	15	1,504,909	0
VI. Deferred tax assets	16	2,158,966	1,817,932
B. Current assets		118,775,021	104,210,999
I. Assets classified as held for sale		101,361	0
II. Inventories	17	46,179,157	40,747,501
III. Current investments	18	5,181,199	5,471,072
IV. Trade and other receivables	19	58,200,316	50,901,640
V. Other current assets	20	6,945,179	4,541,994
VI. Cash and cash equivalents	21	2,167,809	2,548,792
EQUITY AND LIABILITIES		216,780,853	195,509,870
A. Equity	22	60,972,279	58,720,204
I. Share capital		12,200,000	12,200,000
II. Share premium		23,113,258	23,113,258
III. Legal reserves, statutory reserves, and reserves for own shares		10,475,414	7,494,904
IV. Retained earnings		16,206,540	14,954,104
V. Own shares		-6,636,248	-3,655,738
VI. Equity revaluation and translation adjustments		5,553,551	4,412,317
A1. Equity attributable to equity holders of the parent		60,912,515	58,518,845
A2. Minority interest		59,764	201,359
B. Non-current liabilities		47,987,310	42,843,223
I. Provisions	23	11,612,940	11,946,351
II. Provisions set up from government grants	24	1,893,450	1,789,926
III. Deferred tax liabilities	16	592,159	243,948
IV. Non-current financial liabilities	25	33,818,473	28,809,677
V. Other non-current liabilities		70,288	53,321
C. Current liabilities		107,821,264	93,946,443
I. Current financial liabilities	26	41,592,277	33,405,532
II. Trade and other payables	27	54,524,364	47,052,076
III. Other current liabilities	28	11,704,623	13,488,835

Consolidated cash flow statement of the Gorenje Group

in TSIT	Notes	2006	2005
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**5,347,914**	**5,120,678**
Adjustments for:			
Depreciation of property, plant and equipment	11	11,044,603	10,830,979
Amortisation of intangible assets	12	837,115	861,560
Foreign exchange loss	9	1,659,483	1,449,583
Investment income	8	-4,599,092	-4,071,056
Finance expenses	9	3,811,262	3,374,100
Share of profit/loss of associates	7	-157,801	
Gain on sale of property, plant and equipment	2	-548,962	-768,428
Income tax expense	10	1,324,525	586,391
Operating profit before changes in net operating current assets and provisions		**18,719,047**	**17,383,807**
Increase in trade and other receivables		-6,405,416	-6,345,015
Increase in inventories		-5,497,363	-4,095,705
Decrease in provisions		-268,410	0
Increase in provisions		0	1,068,725
Increase in trade and other payables		2,804,334	5,921,943
Cash generated from operations		**-9,366,855**	**-3,450,052**
Interest paid		-4,329,922	-3,898,567
Income taxes paid		-1,174,525	-547,621
Gain on liquidation of subsidiary		298,172	0
Net cash from operating activities		**4,145,917**	**9,487,567**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		1,290,001	1,328,820
Interest received		4,212,183	3,867,503
Dividends received		340,502	146,662
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
Acquisition of property, plant and equipment		-16,157,157	-11,628,299
Acquisition of other investments		1,547,859	365,108
Acquisition of intangible assets		-883,494	-1,648,968
Net cash used in investing activities		**-10,914,106**	**-8,155,304**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of own shares		-2,980,510	-2,985,835
Proceeds from long-term borrowings		10,475,450	3,370,737
Dividends paid		-1,124,973	-1,171,588
Net cash used in financing activities		**6,369,967**	**-786,686**
Net increase/decrease in cash and cash equivalents		-398,222	545,577
Cash and cash equivalents at beginning of period		2,566,031	2,003,215
Cash and cash equivalents at end of period		2,167,809	2,548,792

Statement of changes in equity of the Gorenje Group

in TSIT	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**
Opening balance at 1 Jan 2006	12,200,000	23,113,258	7,494,904	14,954,104	-3,655,738	3,875,344	536,973	58,518,845	201,359	58,720,204
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 of investments taken to equity							1,027,153	1,027,153		1,027,153
Equity revaluation adjustments in respect of land taken to equity							187,203	187,203		187,203
Equity revaluation adjustments in respect of 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
Closing balance at 31 Dec 2006	12,200,000	23,113,258	10,475,414	16,206,540	-6,636,248	3,931,271	1,622,280	60,912,515	59,764	60,972,279

Statement of changes in equity of the Gorenje Group

in TSIT	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**
Opening balance at 1 Jan 2005	12,200,000	23,113,258	4,509,069	14,004,525	-669,903	3,467,502	309,179	56,933,630	191,070	57,124,700
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 of 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
Closing balance at 31 Dec 2005	12,200,000	23,113,258	7,494,904	14,954,104	-3,655,738	3,875,344	536,973	58,518,845	201,359	58,720,204

5.1.1.2 Notes to the consolidated financial statements

1. Reporting entity
Gorenje, d.d. is a company domiciled in Slovenia. The address of the Company's registered office is Partizanska 12, 3503 Velenje. The consolidated financial statements of Gorenje, d.d. as at and for the year ended 31 December 2006 comprise the parent company and its subsidiaries (together referred to as the "Group"), the Group's interest in associates, and jointly controlled entities.

2. Basis of preparation

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU.

The financial statements were approved by the Management Board on 2 April 2007

(b) Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis, except for the following items which are measured at fair value:
- derivative financial instruments
- financial instruments at fair value through profit or loss
- available-for-sale financial assets
- investment property

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency
These consolidated financial statements are presented in SIT, which is the parent company's functional currency. All financial information presented in SIT has been rounded to the nearest thousand.

(d) Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 11 – measurement of the recoverable amounts of cash-generating units,
- Note 13 – valuation of investment property,
- Note 2 – accounting for an arrangement containing a lease,
- Note 23 – provisions,
- Note 30 – valuation of financial instruments.

3. Significant accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation
(i) Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Acquisitions from entities under common control
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated.

The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iii) Associates (equity accounted investees)
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Joint ventures
Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the venturer's share of the assets, liabilities, income and expenses of the jointly controlled entity, linked with similar items in the venturer's financial statements, from the date that joint control commences until the date that joint control ceases.

(v) Transactions eliminated on consolidation
Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency
(i) Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge.

(ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to SIT at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to SIT at exchange rates at the date of translation.

Foreign currency differences are recognised directly in equity. Since 1 January 2004, the Group's date of transition to IFRS, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

(c) Financial instruments

(i) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3 (m).

Available-for-sale financial assets
The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses (see note 3(j)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)(i)) are recognised in profit or loss.

Investments at fair value through profit or loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments
The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

(d) Share capital

Ordinary shares
Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Repurchase of own shares
Upon repurchase of own shares recognised as a portion of share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends
Dividends are recognised as a liability in the period in which they are declared.

(e) Property, plant and equipment

(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Fair value model or revaluation model is applied to land. Revaluation effects are recorded through equity. The revaluation of land is based on an independent appraisal report. The requirement for revaluation of land is reassessed annually by the Group.

An item of property, plant and equipment is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is recognised in profit or loss as revenue or expense.

(ii) Reclassification to investment property
Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in equity. Any loss is recognised immediately in profit or loss.

(iii) Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. All other costs (e.g. day-to-day servicing of property, plant and equipment) are recognised in profit or loss as incurred.

(iv) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

buildings	20 - 50 years
plant and equipment	5 - 10 years
computer equipment	2 - 5 years
transportation vehicles	3 - 10 years
office equipment	3 - 10 years
tools	3 - 10 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(f) Intangible assets
(i) Goodwill
Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates, and joint ventures.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets
Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

(v) Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

patents and trademarks	5 -10 years
capitalised development costs	5 -10 years

(g) Investment property
Investment property is property held either to earn rental income or for capital appreciation or for both.

(h) Leased assets
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

The Group adopted IFRIC 4 Determining whether an Arrangement Contains a Lease, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2006 consolidated financial statements.

(i) Inventories
Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average price, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment
(i) Financial assets
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets
The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(l) Employee benefits

(i) Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranties
A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Provisions for warranties are decreased directly by expenditure for which they were set up. Such expenditure is no longer recognised in the income statement for the period. At the end of the period for which provisions are set up, the total amount of unused provisions is transferred to other operating income.

(ii) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(iii) Provisions for termination pays and anniversary bonuses
In accordance with the statutory requirements, the collective agreement, and the internal regulations, the Group is liable to pay to its employees anniversary bonuses and termination pay upon retirement. For these obligations, long-term provisions are formed.

Provisions are determined by discounting, at the balance sheet date, the estimated future benefits in respect of termination pays and anniversary bonuses. The obligation is calculated separately for each employee by estimating the costs of termination pay upon retirement and the costs of all expected anniversary bonuses until retirement. The selected discount rate is 2.75% p.a. and represents the real interest rate. The calculation is performed by a certified actuary using the projected unit method.

(n) Revenue

(i) Revenue from the sale of products, merchandise and materials
Revenue from the sale of products, merchandise and materials is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Revenue is not recognised when there are significant uncertainties regarding recovery of the consideration, the associated costs, or possible return of goods, or continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of goods, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier.

(ii) Revenue from the sale of services
Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Commissions
When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iv) Rental income
Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(v) Government grants
Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(o) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(p) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Earnings per share (EPS)

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. The Group has not issued any preference shares or convertible notes. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

(s) Comparative information

Comparative information has been mainly harmonised with the presentation of information in the current year. Where required, adjustment of comparative data was carried out in order to comply with the presentation of information in the current year.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- *IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.*

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.*

- *IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.*

- *IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.*

- *IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004).*

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investment property

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every five years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

(iv) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(v) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(vi) Derivatives
The fair value of an interest rate swap is the estimated amount to be received or paid by the Company upon termination of the interest rate swap at the balance sheet date, taking into account the current interest rate and the current financial standing of the parties to the interest rate swap. The fair value of forward transactions is their offered market price at the balance sheet date, which is the current offered price of a forward transaction.

(vii) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.
Inter-segment pricing is determined on an arm's length basis.
Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments
The Group comprises the following main business segments:

(i)Household appliances business segment
Household appliances business segment: the manufacture and sale of household appliances of own manufacture, the sale of household appliance of other producers (supplementary programme), the sale of products from the complementary programme outside of the three main programmes of large household appliances, the manufacture and sale of heating appliances of own manufacture, tool manufacture, machine construction, and manufacture of mechanical components.

(ii)Other business segments
Home interior: the manufacture and sale of kitchen furniture, bathroom furniture, sanitary fixtures and fittings, and ceramic tiles.
Trade and services: Environmental protection and energy, trade, engineering, representation, catering, tourism, and real estate management.

Geographical segments
When showing information by geographical segment, the revenue of individual segments is shown by geographical area in which the clients are domiciled. The assets of a segment are shown with regard to their geographical position.
The Group comprises the following key geographical segments:
European Union: Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Norway, Great Britain, Greece, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland.
East Europe: Bulgaria, Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina.
Other: other countries.

6. Cash flow statement

The cash flow statement has been prepared under the indirect method on the basis of the items in the balance sheet as at 31 December 2006, the balance sheet as at 31 December 2005, the income statement for the year ended 31 December 2006, and the additional information required for the adjustment of inflows and outflows.

7. Structure of the Gorenje Group

In accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements of the Gorenje Group comprise the financial statements of the holding company Gorenje, d.d., the financial statements of 50 subsidiaries, and the financial statements of 7 jointly controlled companies:

Companies operating in Slovenia

		Share of equity in %
1.	Gorenje IPC, d.o.o., Velenje	100.00
2.	Gorenje Tiki d.o.o., Ljubljana	99.982
3.	Gorenje GTI, d.o.o., Velenje	100.00
4.	Gorenje Notranja oprema, d.o.o., Velenje	99.60
5.	Gorenje Gostinstvo, d.o.o., Velenje	100.00
6.	LINEA SP, d.o.o., Velenje	100.00
7.	Energygor, d.o.o., Velenje	100.00
8.	Opte Ptuj, d.o.o., Ptuj	100.00
9.	Kemis, d.o.o., Radomlje	100.00
10.	Gorenje Orodjarna, d.o.o., Velenje	100.00
11.	ZEOS, d.o.o., Ljubljana	51.00
12.	Istrabenz Gorenje energetski sistemi, d.o.o., Nova Gorica	49.95
13.	GEN-I, d.o.o., Krško	24.98
14.	BIOTOPLOTA, d.o.o., Nova Gorica	49.95

Companies operating abroad

	Share of equity in %
15. Gorenje Beteiligungsgesellschaft m.b.H., Austria	100.00
16. Gorenje Austria Handelsgesellschaft m.b.H., Austria	100.00
17. Gorenje Vertriebsgesellschaft m.b.H., Germany	100.00
18. Gorenje Körting Italia S.r.l., Italy	100.00
19. Gorenje France S.A.S., France	100.00
20. Gorenje BELUX S.a.r.l., Belgium	100.00
21. Gorenje UK Ltd., Great Britain	100.00
22. Gorenje Skandinavien A/S, Denmark	100.00
23. Gorenje AB, Sweden	100.00
24. Gorenje spol. s r.o., Czech Republic	100.00
25. Gorenje real spol. s r.o., Czech Republic	100.00
26. Gorenje Slovakia s r.o., Slovak Republic	100.00
27. Gorenje Budapest Kft., Hungary	100.00
28. Gorenje Polska Sp. z o.o., Poland	100.00
29. Gorenje Bulgaria EOOD, Bulgaria	100.00
30. Gorenje Zagreb, d.o.o., Croatia	100.00
31. Gorenje Skopje, d.o.o., Macedonia	100.00
32. Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00
33. Gorenje, d.o.o., Serbia	100.00
34. Gorenje Podgorica , d.o.o., Montenegro	99.972
35. Gorenje OY, Finland	100.00
36. Gorenje AS, Norway	100.00
37. OÜ Gorenje, Estonia	100.00
38. SIA Gorenje, Latvia	100.00
39. Gorenje Romania S.R.L., Rumania	100.00
40. Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00
41. Mora Moravia s r.o., Czech Republic	100.00
42. Gorenje Küchen GmbH, Austria	99.60
43. Gorenje kuchyne spol. s r.o., Czech Republic	99.60
44. Gorenje Imobilia, d.o.o., Serbia	100.00
45. Gorenje Adria Nekretnine, d.o.o., Croatia	100.00
46. Kemis, d.o.o., Croatia	100.00
47. Kemis BiH, d.o.o., Bosnia and Herzegovina	100.00
48. Kemis Valjevo, d.o.o., Serbia	100.00
49. Gorenje Invest, d.o.o., Serbia	100.00
50. Gorenje Gulf FZE, United Arab Emirates	100.00
51. Gorenje Espana, S.L., Spain	100.00
52. Gorenje Tiki, d.o.o., Serbia	99.982
53. Istrabenz-Gorenje, d.o.o., Croatia	24.98
54. Austrian Power Vertriebs, GmbH, Austria	49.95
55. Intrade energija, d.o.o., Bosnia and Herzegovina	25.48
56. Vitales, d.o.o., Bosnia and Herzegovina	49.95
57. Gorenje Istanbul Ltd., Turkey	100.00

8. Minority interests

Minority interests as at 31 December 2006 are as follows:

	2006			2005		
	Share of equity in %	Minority interest in TSIT	Share in net profit or loss in TSIT	Share of equity in %	Minority interest in TSIT	Share in net profit or loss in TSIT
Gorenje Tiki d.o.o., Ljubljana	0.018	415	9	0.205	3,069	361
Gorenje Tiki d.o.o., Serbia	0.018	76	-4			
Biterm, d.o.o., Bistrica ob Sotli	0	0	0	25.00	128,554	11,364
Gorenje Podgorica, d.o.o., Montenegro	0.028	227	10	0.028	15,299	403
Gorenje Notranja oprema, d.o.o., Velenje	0.4	20,059	782	1.14	53,347	2,433
Gorenje Kuechen GmbH, Austria	0.4	-784	-478	1.14	-972	-857
Gorenje - kuchyne spol s r.o., Czech Republic	0.4	1,135	82	1.14	2,062	-28
ZEOS, d.o.o., Ljubljana	49.0	38,636	-10,406			
Total		59,764	-10,005		201,359	13,676

The transfer of ownership among the companies of the Gorenje Group had no impact on the consolidated financial statements of the Gorenje Group, as the intra-group transactions were eliminated from consolidation.

9. Discontinued operation

As from 30 November 2006, the company Biterm, d.o.o. has been liquidated due to the transfer of production facilities of Danfoss, the second shareholder, to Slovakia.

in TSIT	2006
Investments	596,785
Trade receivables	664
Cash	508
Net difference between assets and liabilities	**597,957**
Appurtenant share (75.0%)	**448,468**
Investment	150,296
Net difference	**298,172**

10. Joint ventures

On 18 July 2006, Gorenje, d.d. signed a contract for sale and purchase of business shares and became a 49.95 percent owner of Istrabenz Energetski sistemi, d.o.o., jointly with the holding company Istrabenz, d.d. that keeps its equivalent share, i.e. 49.95 percent, of equity in the company. Thus, Gorenje, d.d. became a 49.95 percent shareholder of the following subsidiaries of Istrabenz Gorenje energetski sistemi, d.o.o.: GEN-I, d.o.o., Krško, Istrabenz-Gorenje, d.o.o., Zagreb, Austrian Power Vertriebs, GmbH, Biotoplota, d.o.o., Intrade energija, d.o.o., and Vitales, d.o.o., which are a joint venture of the two partners: Gorenje, d.d. and Istrabenz, d.d.. On 6 October 2006, Istrabenz Gorenje energetski sistemi, d.o.o. sold its 50 percent ownership participation in GEN-I, d.o.o. to the company GEN energija, d.o.o.

The consolidated financial statements comprise a proportionate share of assets, liabilities, income and expenses of the companies stated at fair value.
The effect of acquisition on individual assets and liabilities of the Group:

Istrabenz Gorenje energetski sistemi, d.o.o.

in TSIT	2006
Property, plant and equipment	149,933
Inventories	21,416
Investments	2,126,660
Trade receivables	454,793
Cash	1,868
Provisions	-22,040
Financial liabilities	-1,306,332
Trade payables	-212,271
Net difference between assets and liabilities	**1,214,027**
Acquisition cost	-1,232,864
Goodwill	**18,837**

The impairment of goodwill was carried out in 2006.

Istrabenz Gorenje energetski sistemi, d.o.o.

in TSIT	2006	2005
Non-current assets	2,021,639	0
Current assets	733,031	0
Non-current liabilities	- 2,356,127	0
Current liabilities	- 398,543	0
Revenue	459,419	0
Expenses	- 341,735	0
Income tax	- 42,272	0
Net profit or loss	75,412	0

GEN-I, d.o.o.

in TSIT	2006	2005
Non-current assets	21,304	10,395
Current assets	783,251	1,231,400
Non-current liabilities	- 290,642	-183,275
Current liabilities	- 513,913	-1,058,520
Revenue	11,514,378	6,630,756
Expenses	- 11,325,491	-6,649,520
Income tax	- 42,479	0
Net profit or loss	146,408	-18,764

Intrade energija, d.o.o., Sarajevo

in TSIT	2006	2005
Non-current assets	610,015	0
Current assets	6,469	0
Non-current liabilities	- 559,531	0
Current liabilities	- 56,953	0
Revenue	6,050	0
Expenses	- 23,097	0
Income tax	0	0
Net profit or loss	-17,047	0

Austrian Power Vertriebs, GmbH, Vienna

in TSIT	2006	2005
Non-current assets	18,119	0
Current assets	3,491,421	0
Non-current liabilities	- 391,796	0
Current liabilities	- 3,117,744	0
Revenue	13,031,903	0
Expenses	- 12,911,270	0
Income tax	- 38,843	0
Net profit or loss	81,790	0

Vitales, d.o.o.

in TSIT	2006	2005
Non-current assets	348,364	0
Current assets	30,815	0
Non-current liabilities	- 140,216	0
Current liabilities	- 238,963	0
Revenue	5,237	0
Expenses	- 9,945	0
Income tax	0	0
Net profit or loss	-4,708	0

11. Associates

The Group has a 27.6 percent share in Surovina, d.d., Maribor. In the consolidated financial statements, the investment is accounted for using the equity method.

Surovina d.d., Maribor

in TSIT	2006	2005
Non-current assets	4,622,913	0
Current assets	3,292,788	0
Non-current liabilities	- 5,874,637	0
Current liabilities	- 2,041,064	0
Revenue	11,964,806	0
Expenses	-11,226,804	0
Income tax	- 184,259	0
Net profit or loss	553,743	0

12. Income statement

Note 1

Revenue	266,248,456 TSIT

in TSIT	2006	2005
Revenue from sale of products and merchandise	250,510,969	230,956,817
Revenue from sale of services	10,362,998	7,493,165
Other revenue from sale	5,374,489	4,702,444
Total	266,248,456	243,152,426

Note 2

Other operating income	4,043,767 TSIT

in TSIT	2006	2005
Income from subsidies, grants and compensations	185,288	103,371
Rental income	193,047	168,734
Income from use and reversal of long-term provisions	612,486	349,916
Income from use and reversal of long-term provisions for government grants	674,440	710,341
Gains on disposal of property, plant and equipment	591,780	768,428
Reversal of negative goodwill	0	311,906
Other operating income	1,786,726	1,586,859
Total	4,043,767	3,999,555

Rental income

in TSIT	2006	2005
Rental income – up to 1 year	193,047	168,734
Anticipated rental income - from 2 to 5 years	791,493	685,060
Total	984,540	853,794

Note 3

Cost of goods, materials and services	204,072,167 TSIT

in TSIT	2006	2005
Cost of goods sold	53,301,320	39,806,593
Cost of materials	114,552,615	107,820,674
Cost of services	36,218,232	36,531,703
Total	204,072,167	184,158,970

Cost of services comprise cost of setting-up of provisions for warranties in the amount of 3,687,766 TSIT (in 2005: 3,370,153 TSIT).

Note 4

Employee benefits expense — 44,580,100 TSIT

in TSIT	2006	2005
Wages and salaries	31,138,412	30,216,354
Social security contributions	7,505,553	7,306,871
Other employee benefits expense	5,936,135	5,852,385
Total	44,580,100	43,375,610

Other employee benefits expense includes expenses for setting-up of provisions for termination pays in the amount of 202,523 TSIT. A portion of cost of wages and salaries (779,164 TSIT) was used for setting-up provisions for government grants in Gorenje I.P.C., d.o.o., which has the status of a company employing disabled persons. Other employee benefits expense includes vacation bonuses, meal allowance, commuting allowance, termination pays, and anniversary bonuses in compliance with the national labour legislation and the company's bylaws.

Number of employees by division

	at 31 December		Average	
	2006	2005	2006	2005
Household appliances division	9,298	8,921	9,039	8,867
Other divisions	1,518	1,588	1,517	1,625
Total	10,816	10,509	10,556	10,492

Note 5

Amortisation and depreciation expense — 11,881,718 TSIT

in TSIT	2006	2005
Amortisation of intangible assets	760,383	747,474
Amortisation of intangible assets from government grants	76,732	114,086
Depreciation of property, plant and equipment	10,459,400	10,247,604
Depreciation of property, plant and equipment acquired from governments grants	585,203	583,375
Total	11,881,718	11,692,539

Note 6

Other operating expenses — 3,849,797 TSIT

in TSIT	2006	2005
Impairment loss on receivables	1,487,430	1,274,526
Impairment loss on inventories	438,737	380,325
Taxes and fiscal charges irrespective of employee benefits expense and other types of expense	595,467	651,179
Other operating expenses	1,328,163	1,088,612
Total	3,849,797	3,394,642

Taxes and fiscal charges irrespective of employee benefits expense and other types of expense include charges for the use of building site, water tax, environmental levies, membership fees in mandatory associations, and other mandatory fiscal charges.

Other operating expenses mainly include expenditure on environmental protection, scholarships and compensations in damages.

Based on impairment test, the goodwill of Gorenje Notranja oprema, d.o.o. generated through the merger with Marles, d.o.o. in 2002, and the goodwill generated through the acquisition of Istrabenz Gorenje energetski sistemi, d.o.o. were impaired.

Note 7

Finance income from shares in associates — 157,801 TSIT

Finance income from shares in associates in the amount of 157,801 TSIT includes, in full, finance income from shares in the associated company Surovina, d.d., Maribor, of which Gorenje, d.d. was a 27.6 percent shareholder.

Note 8

Finance income — 4,599,092 TSIT

in TSIT	2006	2005
Dividend income and income from other profit sharing	182,702	146,661
Interest income	1,316,527	478,021
Foreign exchange gain	2,191,842	1,635,934
Other finance income	908,021	1,810,440
Total	4,599,092	4,071,056

A significant increase in interest income relates to Gorenje, d.d., in which positive effects of hedging of fair value of interest rate swap transactions are recorded in the amount of 492,850 TSIT. The majority of increase in foreign exchange gains relates to Gorenje, d.o.o. and AD, d.o.o., Valjevo, which operate in Serbia.

Other finance income includes gains on discontinuance of operation of Biterm, d.o.o. in the amount of 298,172 TSIT.

Note 9

Finance expenses — 5,470,745 TSIT

in TSIT	2006	2005
Interest expense	3,396,270	2,942,150
Foreign exchange loss	1,659,483	1,449,583
Impairment loss on investments	36,935	3,917
Other finance expenses	378,057	428,033
Total	5,470,745	4,823,683

Note 10

Income tax expense — 1,324,525 TSIT

Income tax expense is presented by taking into consideration the actual income tax liability and the determined deferred tax assets and liabilities.

in TSIT	2006	2005
Actual tax liability	1,368,378	1,299,722
Deferred tax assets	-84,953	-737,844
Deferred tax liabilities	41,100	24,513
Total	1,324,525	586,391

Survey of effective income tax rates

in TSIT	2006	2006	2005	2005
Profit before tax		6,672,439		5,707,069
Income tax using the domestic corporation tax rate	25.0%	1,668,110	25.0%	1,426,767
Effect of tax rates in foreign jurisdictions	3.0%	198,521	2.4%	135,652
Non-deductible expenses	13.3%	888,500	29.0%	1,655,409
Tax exempt revenue	-1.2%	-82,500	-5.0%	-285,541
Tax incentives	-19.5%	-1,304,253	-28.6%	-1,632,565
Other differences	-0.7%	-43,853	-12.5%	-713,331
Income tax	19.9%	1,324,525	10.3%	586,391

13. Balance sheet

Note 11

Intangible assets — 5,471,657 TSIT

in TSIT	2006	2005
Long-term deferred R&D cost	2,965,754	3,019,527
Long-term property rights	1,630,759	1,652,075
Goodwill	689,058	933,283
Intangible assets under construction	168,827	12,495
Advances for intangible assets	17,259	392
Total	5,471,657	5,617,772

Additions to intangible assets include long-term deferred R&D cost of a new generation of appliances in Gorenje, d.d.

Goodwill was generated in 2005 through a takeover of Mora Moravia , s r.o. in the Czech Republic and Gorenje Invest, d.o.o. in Serbia. Based on impairment tests, there was no need for impairment of goodwill.

Impairment loss in the amount of 244,225 TSIT relates to Gorenje Notranja oprema, d.o.o., in which goodwill was generated through the merger with Marles in 2002. Based on an impairment test, impairment of goodwill was carried out in 2006.

Changes in intangible assets in 2006

in TSIT	Long-term deferred R&D cost	Long-term property rights	Goodwill	Intangible assets under construction	Advances for intangible assets	Total
Cost 1 Jan 2006	4,755,993	4,757,633	933,283	12,495	392	10,459,796
Additions	47,693	95,626		722,916	17,259	883,494
Impairment			-244,225			-244,225
Acquisitions through business combinations	12,023	62,647				74,670
Disposal of group companies		-24,563				-24,563
Disposals, write-offs	-246,714	-222,662				-469,376
Transfer to PPE	-53,479	-5,534		-1,417		-60,430
Other transfers	-79,499	645,090		-565,199	-392	0
Foreign exchange differences	11,877	81,613		32		93,522
Cost 31 Dec 2006	4,447,894	5,389,850	689,058	168,827	17,259	10,712,888
Accumulated amortisation 1 Jan 2006	1,736,466	3,105,558	0	0	0	4,842,024
Disposal of group companies		-24,507				-24,507
Disposals, write-offs	-228,355	-207,118				-435,473
Amortisation	369,992	467,123				837,115
Transfer to PPE	9,659	-5,417				4,242
Other transfers	-412,205	412,205				0
Foreign exchange differences	6,583	11,247				17,830
Accumulated amortisation 31 Dec 2006	1,482,140	3,759,091	0	0	0	5,241,231
Carrying amount 1 Jan 2006	3,019,527	1,652,075	933,283	12,495	392	5,617,772
Carrying amount 31 Dec 2006	2,965,754	1,630,759	689,058	168,827	17,259	5,471,657

Changes in intangible assets in 2005

in TSIT	Long-term deferred R&D cost	Long-term property rights	Goodwill	Intangible assets under construction	Advances for intangible assets	Total
Cost 1 Jan 2005	3,229,554	3,166,247	244,225	9,630	288	6,649,944
Additions	64,071	391,711		1,192,794	392	1,648,968
Acquisitions through business combinations	156,424	249,263	689,058			1,094,745
Disposal of group companies		-19,749				-19,749
Disposals, write-offs	-120	-61,802				-61,922
Transfer to PPE				415,385		415,385
Other transfers	1,306,064	299,541		-1,605,605		0
Foreign exchange differences		24,535		291	-288	24,538
Cost 31 Dec 2005	4,755,993	4,049,746	933,283	12,495	392	9,751,909
Accumulated amortisation 1 Jan 2005	1,278,994	2,044,250	0	0	0	3,323,244
Disposal of group companies		-11,805				-11,805
Disposals, write-offs		-58,270				-58,270
Amortisation	457,336	404,224				861,560
Foreign exchange differences	136	19,272				19,408
Accumulated amortisation 31 Dec 2005	1,736,466	2,397,671	0	0	0	4,134,137
Carrying amount 1 Jan 2005	1,950,560	1,121,997	244,225	9,630	288	3,326,700
Carrying amount 31 Dec 2005	3,019,527	1,652,075	933,283	12,495	392	5,617,772

Note 12

Property, plant and equipment	84,505,772 TSIT

in TSIT	2006	2005
Land	7,311,511	6,844,136
Buildings	36,532,072	33,269,095
Production plant and equipment	36,847,985	35,862,338
Property, plant and equipment under construction	3,493,625	2,790,603
Advances	320,579	72,483
Total	84,505,772	78,838,655

The last appraisal of property, plant and equipment was conducted by certified appraisers as at 31 December 2003. No need for impairment of property, plant and equipment was found in 2006.

Long-term borrowings from 1999 were secured by pledge of business premises entered in the land register at the District Court in Velenje, under the entry number 2801, c.m. Velenje, plot no. 1682/5, and the entry number 1099, c.m. Velenje, plot no. 1712, 2843/4, and 1696. The value of borrowings secured by above pledge amounts to 39,208 TSIT as at 31 December 2006.

Changes in property, plant and equipment in 2006

in TSIT	Land	Buildings	Production plant and equipment	PPE under construction	Advances for PPE	Total
Cost 1 Jan 2006	6,844,136	63,428,865	114,259,776	2,790,603	72,483	187,395,863
Additions	79,675	3,574,744	4,216,702	8,029,716	256,320	16,157,157
Acquisitions through business combinations	1,768	490,028	181,992	201,721		875,509
Disposal of group companies	-2,000	-25,537	-781,451			-808,988
Disposals, write-offs	-17,238	-200,765	-5,530,892	-39,271		-5,788,166
Revaluation	187,203					187,203
Transfers	179,081	989,815	6,753,166	-7,538,656	-8,324	375,082
Foreign exchange differences	38,886	550,830	303,925	49,512	100	943,253
Cost 31 Dec 2006	7,311,511	68,807,980	119,403,218	3,493,625	320,579	199,336,913
Accumulated depreciation 1 Jan 2006	0	30,159,770	78,397,438	0	0	108,557,208
Disposal of group companies		-8,508	-692,020			-700,528
Disposals, write-offs		-38,640	-4,363,321			-4,401,961
Depreciation		2,122,768	8,921,835			11,044,603
Transfers		-28,021	15,833			-12,188
Foreign exchange differences		68,539	275,468			344,007
Accumulated depreciation 31 Dec 2006	0	32,275,908	82,555,233	0	0	114,831,141
Carrying amount 1 Jan 2006	6,844,136	33,269,095	35,862,338	2,790,603	72,483	78,838,655
Carrying amount 31 Dec 2006	7,311,511	36,532,072	36,847,985	3,493,625	320,579	84,505,772

The item "acquisitions through business combinations" includes the companies acquired in 2006 as well as the companies newly founded in 2006 (for a detailed explanation refer to Item 1.2 of the Business Report).

The item "disposal of group companies" includes the company Biterm, d.o.o., which was liquidated at the end of 2006.

The revaluation of land in the amount of 187,203 TSIT refers to the company Opte Ptuj, d.o.o., in which the land was revalued on the basis of the appraisal report prepared by a certified appraiser.

Changes in property, plant and equipment in 2005

in TSIT	Land	Buildings	Production plant and equipment	PPE under construction	Advances for PPE	Total
Cost 1 Jan 2005	6,613,030	59,969,840	106,011,023	5,251,154	126,648	177,971,695
Additions	198,889	1,083,825	1,253,436	9,029,207	62,942	11,628,299
Acquisitions through business combinations	200,336	1,309,219	846,130	34,033		2,389,718
Disposal of group companies	-310,251	-922,461	-443,055	-1,118		-1,676,885
Disposals, write-offs	-99,926	-588,067	-1,628,108	-232,931	-99,674	-2,648,706
Transfers	210,271	2,425,916	8,156,559	-11,189,914	-20,622	-417,790
Foreign exchange differences	31,787	150,593	63,791	-99,828	3,189	149,532
Cost 31 Dec 2005	6,844,136	63,428,865	114,259,776	2,790,603	72,483	187,395,863
Accumulated depreciation 1 Jan 2005	0	28,520,136	71,226,130	0	0	99,746,266
Disposal of group companies		-83,929	-115,705			-199,634
Disposals, write-offs		-335,268	-1,546,559			-1,881,827
Depreciation		2,035,430	8,795,549			10,830,979
Foreign exchange differences		23,401	38,023			61,424
Accumulated depreciation 31 Dec 2005	0	30,159,770	78,397,438	0	0	108,557,208
Carrying amount 1 Jan 2005	6,613,030	31,449,704	34,784,893	5,251,154	126,648	78,225,429
Carrying amount 31 Dec 2005	6,844,136	33,269,095	35,862,338	2,790,603	72,483	78,838,655

Note 13

Investment property 235,695 TSIT

in TSIT	2006	2005
Land	75,967	119,736
Buildings	159,728	93,100
Total	235,695	212,836

Investment property includes land and buildings acquired for resale or increase in investment.

Investment property is stated using fair value mode. An impairment test is conducted annually.

Changes in investment property

in TSIT	2006	2005
Opening balance at 1 January	212,836	588,536
Additions	0	46,210
Disposals	-43,460	-421,910
Transfer from PPE	77,298	0
Other transfers	-10,979	0
Closing balance at 31 December	235,695	212,836

Note 14

Non-current investments 4,128,833 TSIT

in TSIT	2006	2005
Equity securities available-for-sale	2,609,416	2,738,340
Long-term loans (from 1 to 5 years)	1,273,295	1,609,459
Works of art	135,086	134,323
Long-term deposits	107,806	137,729
Other long-term investments	3,230	191,825
Total	4,128,833	4,811,676

Changes in non-current investments in 2006

in TSIT	Balance 1 Jan 2006	Increase	Decrease	Change in fair value	Transfer to current investments	Balance 31 Dec 2006
Equity securities available-for-sale	2,738,340	356,707	-170,678	372,727	-687,680	2,609,416
Long-term loans	1,609,459	552,811	-100,032	26	-788,969	1,273,295
Works of art	134,323	3,168	-2,405	0	0	135,086
Long-term deposits	137,729	6,540	-35,876	-587	0	107,806
Other long-term investments	191,825	268	-188,863	0	0	3,230
Total	4,811,676	919,494	-497,854	372,166	-1,476,649	4,128,833

Changes in non-current investments in 2005

in TSIT	Balance 1 Jan 2005	Increase	Decrease	Change in fair value	Balance 31 Dec 2005
Equity securities available-for-sale	3,030,745	648,535	-938,915	-2,025	2,738,340
Long-term loans	1,346,008	355,804	-92,353	0	1,609,459
Works of art	93,436	41,001	-114	0	134,323
Long-term deposits	344,918	1,238	-206,535	-1,892	137,729
Other long-term investments	193,369	0	-1,544	0	191,825
Total	5,008,476	1,046,578	-1,239,461	-3,917	4,811,676

in TSIT	2006	2005
Long-term loans	2,062,264	1,801,595
Transfer to short-term loans	-788,969	-192,136
Total	1,273,295	1,609,459

Long-term loans include loans extended by the holding company and its subsidiaries to entities outside the Gorenje Group.

The interest rate, which depends on the currency in which the loan is denominated, ranges from 2.8 % to 7.6 %.

Note 15

Investments in associates — 1,504,909 TSIT

Investments in associates include the acquisition of a 27.6 percent share in Surovina, d.d., Maribor by the 15 January 2006.

Note 16

Deferred tax assets and liabilities

in TSIT	Tax assets		Tax liabilities		Tax assets – tax liabilities	
	2006	2005	**2006**	2005	**2006**	2005
PPE	0	0	17,468	23,291	-17,468	-23,291
Investments	23,881	153,490	254,514	0	-230,633	153,490
Receivables	176,762	235,006	0	0	176,762	235,006
Inventories	83,572	75,776	0	0	83,572	75,776
Liabilities arising from litigation	2,825	2,825	0	0	2,825	2,825
Provisions set up under the local standards and tax law	67,492	0	141,608	220,657	-74,116	-220,657
Provisions for termination pay	1,045,852	904,181	0	0	1,045,852	904,181
Provisions for warranties	758,582	446,654	178,569	0	580,013	446,654
Total	**2,158,966**	**1,817,932**	**592,159**	**243,948**	**1,566,807**	**1,573,984**

in TSIT	Tax assets – Tax liabilities		Recognised in the income statement		Recognised in equity	
	2006	2005	**2006**	2005	**2006**	2005
PPE	-17,468	-23,291	5,824	-200,420	0	200,420
Investments	-230,633	153,490	-129,609	153,490	-254,514	0
Receivables	176,762	235,006	-58,244	235,006	0	0
Inventories	83,572	75,776	7,796	75,776	0	0
Liabilities arising from litigation	2,825	2,825	0	2,825	0	0
Provisions set up under the local standards and tax law	-74,116	-220,657	0	0	146,542	17,305
Provisions for termination pay	1,045,852	904,181	141,671	0	0	0
Provisions for warranties	580,013	446,654	76,414	446,654	56,944	0
Total	**1,566,807**	**1,573,984**	**43,852**	**713,331**	**-51,028**	**217,725**

Note 17

Inventories — 46,179,157 TSIT

in TSIT	**2006**			2005		
	Household appliances	Other	Total	Household appliances	Other	Total
Materials	14,928,051	465,072	15,393,123	10,996,322	1,970,386	12,966,708
Write-off of obsolete inventories of materials	-117,892	-2,290	-120,182	-142,258	-97,514	-239,772
Materials – at cost	14,810,159	462,782	15,272,941	10,854,064	1,872,872	12,726,936
Work in progress	3,069,304	664,352	3,733,656	2,653,056	764,287	3,417,343
Products	20,825,067	3,097,701	23,922,768	18,202,747	2,752,911	20,955,658
Write-off of obsolete inventories of products	-309,661	-8,894	-318,555	-139,788	-765	-140,553
Products – at cost	20,515,406	3,088,807	23,604,213	18,062,959	2,752,146	20,815,105
Merchandise	2,845,628	208,970	3,054,598	3,043,525	483,837	3,527,362
Advances	513,749	0	513,749	260,755	0	260,755
Total	**41,754,246**	**4,424,911**	**46,179,157**	**34,874,359**	**5,873,142**	**40,747,501**

Note 18

Current investments — 5,181,199 TSIT

in TSIT	**2006**	2005
Equity securities held for trading	1,901,753	297,627
Short-term deposits	908,974	2,654,719
Short-term loans	1,023,984	805,831
Interest receivable	106,842	56,236
Bills receivable	1,239,646	1,656,596
Other current investments	0	63
Total	**5,181,199**	**5,471,072**

Equity securities held for trading mainly include equity security recorded by Gorenje, d.d. in the amount of 1,366,263 TSIT; they are stated at fair value which is determined quarterly by comparing the book value and the announced offered price.

Interest receivable includes interest receivable on current loans accounted for by the end of 2006.

Current loans include current cash surplus in time deposits with banks and entities. The interest rate for bank deposits and loans to entities operating in Slovenia ranges from 2.75 % to 6.95 %, and abroad from 4.0 % to 4.5 %.

Bills receivable mainly include bills receivable due from Gorenje France S.A.S. (1,019,136 TSIT), and Gorenje Austria Handels GmbH (136,010 TSIT).

Note 19

Trade and other receivables	58,200,316 TSIT

Trade and other receivables include trade receivables.

Note 20

Other current assets	6,945,179 TSIT

in TSIT	2006	2005
Other receivables	4,521,008	3,624,570
Advances and collaterals given	293,514	269,000
Deferred costs and expenses	1,283,498	374,081
Other current assets	847,159	274,343
Total	6,945,179	4,541,994

Other receivables include input tax receivable in the Gorenje Group in the amount of 2,835,140 TSIT as at the year-end 2006 (in 2005: 1,531,025 TSIT).

A significant portion of other current assets includes receivables. The majority of receivables in the amount of 415.568 TSIT is recorded by Gorenje, d.d. The receivables include receivables from granted quantity rebates for materials and VAT receivables from foreign countries.

Short-term deferred costs include costs of services accounted for, but not yet provided.

Note 21

Cash and cash equivalents	2,167,809 TSIT

in TSIT	2006	2005
Cash in hand	82,498	73,740
Cash balances with banks and other financial institutions	2,085,311	2,475,052
Total	2,167,809	2,548,792

Note 22

Equity	60,972,279 TSIT

Until December 21st 2006, company share capital with nominal value of 12,200,000 TSIT was divided into 12,200,000 ordinary shares with the code GRVG, and nominal value of 1,000 SIT per share. As at December 22nd 2006, the shares were transformed into ordinary registered no par value shares. The shares were subscribed and entirely paid-up.

Share premium contains payments in excess of the book value in case of disposal of temporarily repurchased own shares in the amount of 129,253 TSIT, general equity revaluation adjustment in the amount of 18,703,303 TSIT, and other effects of the transition to IFRS.

Legal reserves, statutory reserves and other reserves include legal reserves in the amount of 3,090,330 TSIT, statutory reserves, which are set up annually in the amount equivalent to 10 percent of net profit for the period that remains after covering of loss, setting up of legal reserve and setting up of reserves for own shares, in the amount of 748,836 TSIT, and the reserves for own shares in compliance with the Companies Act and Statute in the amount of the purchase value of own shares, totaling 6,636,248 TSIT.

Equity translation adjustments include foreign exchange differences arising from the translation of data presented by subsidiaries into the reporting currency.

Equity revaluation adjustments result from the change of the fair value of financial instruments available for sale. Revaluation of hedge results from effective cash flow hedge (interest rate swaps).

Net profit or loss is divided to shareholders in the amount presented in the accounting records in compliance with the local regulations.

Own shares are measured at cost and stated as a deductible item of equity. At the 2006 year-end, 1,183,342 own shares were recorded (at the 2005 year-end: 717,192).

In 2006 earnings per share amounted to 478.69 SIT (in 2005: 445.94 SIT). No preference shares are held by the Company, hence basic earnings and diluted earnings per share are equal.

To calculate the ratio of earnings per share, net profit or loss of the Group and the weighted average number of ordinary shares in the period are taken into consideration:

in TSIT	2006	2005
Net profit or loss	5,347,914	5,120,678
Weighted average number of ordinary shares	11,172,041	11,482,808
Earnings per share basic / diluted (in SIT)	478.69	445.94

All issued shares are of the same class and entitle their owner to participate in the management of the company. Each share gives one vote and a right to dividend.

Note 23

Provisions — 11,612,940 TSIT

in TSIT	2006	2005
Provisions for warranties	6,491,163	6,377,119
Provisions for termination pays and pensions	4,629,450	4,973,698
Other provisions	492,327	595,534
Total	11,612,940	11,946,351

Long-term provisions for warranties are set up taking into account the estimated costs of warranties, which are prepared on the basis of known data on the quality level of products and the costs of warranties.

Provisions for termination pays and pensions are based on the actuarial calculation. A significant portion of other provisions includes provisions for anticipated losses related to claims for damages in the amount of 394,672 TSIT recorded by the holding company.

Changes in provisions in 2006

in TSIT	Balance 1 Jan 2006	Use, reversal and exchange differences	Discontinued companies	Setting-up	Merger	Balance 31 Dec 2006
Provisions for warranties	6,377,119	-3,573,722		3,687,766		6,491,163
Provisions for termination pays and pensions	4,973,698	-547,921	-41,421	210,222	34,872	4,629,450
Other provisions	595,534	-130,392		27,185		492,327
Total	11,946,351	-4,252,035	-41,421	3,925,173	34,872	11,612,940

Changes in provisions in 2005

in TSIT	Balance 1 Jan 2005	Use, reversal and exchange differences	Setting-up	Balance 31 Dec 2005
Provisions for warranties	5,501,973	-2,495,007	3,370,153	6,377,119
Provisions for termination pays and pensions	4,910,211	-62,897	126,384	4,973,698
Other provisions	574,210	-131,723	153,047	595,534
Total	10,986,394	-2,689,627	3,649,584	11,946,351

Note 24

Provisions set up from government grants — 1,893,450 TSIT

in TSIT	Balance 1 Jan 2006	Depreciation	Setting-up	Balance 31 Dec 2006
Provisions set up from government grants	1,789,926	-675,640	779,164	1,893,450
Total	1,789,926	-675,640	779,164	1,893,450

in TSIT	Balance 1 Jan 2005	Depreciation	Setting-up	Balance 31 Dec 2005
Provisions set up from government grants	1,777,690	-714,260	726,496	1,789,926
Total	1,777,690	-714,260	726,496	1,789,926

Note 25

Non-current financial liabilities — 33,818,473 TSIT

in TSIT	2006	2005
Non-current financial liabilities to banks	38,422,703	32,460,117
Non-current financial liabilities to other entities	5,703,242	5,115,076
Transfer to current financial liabilities	-10,307,472	-8,765,516
Total	33,818,473	28,809,677

Maturity schedule of non-current financial liabilities

in TSIT	
1-2 years	12,426,659
2-4 years	14,007,459
4-6 years	7,377,198
6-8 years	7,157
Total	33,818,473

Long-term borrowings from banks

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%) from	to
EUR	121,303	29,068,996	2.40	5.56
Other		130,521	3.61	4.20
Total		29,199,517		

The effective interest rate is equal to the contractual interest rate.

Long-term borrowings from other entities

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%) from	to
EUR	19,275	4,618,956	4.44	4.56
Other		0		
Total		**4,618,956**		

Collateralisation

in TSIT	
Bills	25,755,693
Financial covenants	20,244,591
Guarantees	6,226,471
Mortgage	0

Some long-term borrowings are secured by several forms of security at the same time. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje Beteiligungs GmbH to the commercial banks to secure liabilities incurred by the Group companies.

Note 26

Current financial liabilities — 41,592,277 TSIT

in TSIT	2006	2005
Short-term borrowings from banks	30,849,092	24,182,300
Transfer from non-current financial liabilities	9,223,186	7,530,328
Short-term borrowings from other entities	292,444	203,976
Transfer from non-current financial liabilities	1,084,286	1,235,188
Interest payable	108,169	59,551
Dividend payable	35,100	32,544
Fair value of derivative financial instruments	0	161,645
Total	**41,592,277**	**33,405,532**

Short-term borrowings from banks

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%) from	to
EUR	141,305	33,862,337	3.74	6.14
CZK	630,484	5,498,322	3.17	3.61
SIT	130,000	130,000	3.75	3.75
PLN	3,345	209,349	4.62	4.62
Other		372,270	4.20	9.26
Total		**40,072,278**		

Short-term borrowings from other entities

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%) from	to
EUR	5,745	1,374,363	4.44	4.56
Other		2,367	2.38	2.38
Total		**1,376,730**		

The effective interest rate is equal to the contractual interest rate.

Collateralisation

in TSIT	
Bills	17,687,475
Financial covenants	9,713,481
Guarantees	8,024,913
Mortgage	39,208

Some short-term borrowings are secured by several forms of security at the same time. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje Beteiligungs GmbH to the commercial banks to secure liabilities incurred by the Group companies.

Note 27

Trade and other payables — 54,524,364 TSIT

Trade and other payables include trade payables to suppliers.

Note 28

Other current liabilities — 11,704,623 TSIT

in TSIT	2006	2005
Payables to employees	1,689,224	1,567,608
Payables to state institutions	3,356,822	3,275,312
Short-term accrued costs and expenses	3,734,505	3,167,574
Other payables	2,924,072	5,478,341
Total	**11,704,623**	**13,488,835**

Payables to employees and state institutions in respect of contributions and taxes result from wages and salaries for December paid out in January of the following year.

Short-term accrued costs and expenses are set up for accrued discounts, accrued interest expense, and other accrued costs of services.

Note 29

Financial instruments

In the area of financial risk management the Company pursued in the year 2006 the financial policies that include the staring 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:

Financial risks	
	credit risk
	currency risk
	interest rate risk
	liquidity risk

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 – 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 that 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 currency risks which are associated with business operations on the markets of Croatia, Serbia, 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, in short-term the Company is protected against currency risks by futures 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 that 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 that the exposure to interest rate risks 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 of generating cash flows from operating activities, and high credit rating.

The management board of the Gorenje Group considers that the exposure to liquidity risks is minor.

Note 30

Fair value

The fair value and the book value of assets and liabilities is as follows:

in TSIT	Book value 2006	Fair value 2006	Book value 2005	Fair value 2005
Available-for-sale investments	4,649,485	4,649,485	3,362,115	3,362,115
Long-term loans	1,381,101	1,381,101	1,747,188	1,747,188
Short-term loans	3,279,446	3,279,446	5,173,445	5,173,445
Derivative financial instruments	464,333	464,333	-161,645	-161,645
Short-term trade receivables	58,200,316	58,200,316	50,901,640	50,901,640
Other current assets	6,480,846	6,480,846	4,541,994	4,541,994
Cash and cash equivalents	2,167,809	2,167,809	2,548,792	2,548,792
Non-current financial liabilities	-33,818,473	-33,818,473	-28,809,677	-28,809,677
Current financial liabilities	-41,592,277	-41,592,277	-33,243,887	-33,243,887
Short-term trade payables	-54,524,364	-54,524,364	-47,052,076	-47,052,076
Other short-term payables	-11,704,623	-11,704,623	-13,488,835	-13,488,835
Total	-65,016,401	-65,016,401	-54,480,946	-54,480,946

Investments, available-for-sale, are stated at fair value based on market prices.

Forward exchange transactions
As at 31 December 2006, the amount of hedged items for which forward exchange transactions were concluded by Gorenje, d.d. totalled 16,180 TEUR. Forward exchange transactions are used to hedge against changes in the currency parity between: EUR/PLN, EUR/AUD, EUR/USD, EUR/HRK, EUR/HUF. The maturity of transactions is a short-term one (less than one year).

The data for determination of fair value of financial instruments is provided by Reuters; the decisive values are the values of the opposite forward exchange transactions with the same maturities, in effect at the balance sheet date. The fair value of forward currency transactions at the balance sheet date is the difference between the value of actually concluded forward exchange transactions and the value of the opposite forward exchange transactions at the balance sheet date, taking into consideration the same maturities of individual forward exchange transactions.

As at 31 December 2006, the total fair value of forward exchange transactions amounted to 7,661 TSIT or 31,969.84 EUR and was recorded under short-term receivables.

Interest rate swap transactions
As at 31 December 2006, the amount of hedged items for which interest rate swap transactions were concluded by Gorenje, d.d. totalled 93,133 TEUR or 22,318,368 TSIT. Interest rate swap transactions are used to hedge against changes in the variable interest rate EURIBOR. The maturity of transactions is a long-time one, i.e. successively until 31 January 2012.

The data for determination of fair value of financial instruments is provided by Reuters; the decisive values are the values of interest rate swap transactions with the same maturities, in effect at the balance sheet date.

The fair value of interest rate swap transactions at the balance sheet date is the discounted difference between the cash flow for interest payments under the interest rate swap contracts and the cash flow for interest payments under the interest rate swap contracts of equal value at the balance sheet date.

As at 31 December 2006, the total fair value of interest rate swap transactions amounted to 456,672 TSIT or 1,906 TEUR and was recorded under short-term receivables.

Loans and borrowings are carried at the amount recalculated by use of the effective interest rates, which do not differ essentially from the stipulated interest rates. Therefore, the stipulated interest rate is applied in the calculations.

Current trade and other receivables are not discounted for the reason of being short term. However, impairment loss on fair value is taken into consideration.

Note 31

Related party transactions

The related party transactions of the companies of the Gorenje Group have been consummated on the basis of contracts concluded with related parties on terms equivalent to those that prevail in arm's-length transactions.

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

in TSIT Type of emoluments	Management Board and Management	Supervisory Board	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
Total	1,332,187	36,739	1,719,359

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

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

in TSIT Type of emoluments	Management Board and Management	Supervisory Board	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
Total	1,221,912	31,694	1,553,083

Note 32

Events after the balance sheet date

Significant events after the balance sheet date as at 31 December 2006:

- As from 1 January 2007, the operation of sale of cooling and heating technique has been transferred from Gorenje GTI, d.o.o. to Gorenje Tiki, d.o.o.;
- On 31 January 2007, Gorenje, d.d. purchased from Probanka, d.d. a 23.4 share in Surovina, d.d., Maribor and thus became a 51 percent owner of shares in the equity of the company;
- On 31 January 2007, Kemis Zagreb, d.o.o. took over the company Termoclean-Zg, d.o.o.;
- On 8 January 2007, a representative office of Gorenje, d.d. was founded in Kazakhstan.

Note 33

Business segments

in TSIT	Household appliances		Other divisions		Eliminations		Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Revenue from sale to third parties	226,660,199	210,603,060	39,588,257	32,549,366			266,248,456	243,152,426
Intra-division sales	2,101,316	1,222,719	6,192,489	5,400,300	-8,293,805	-6,623,019	0	0
Total revenue	228,761,515	211,825,779	45,780,746	37,949,666	-8,293,805	-6,623,019	266,248,456	243,152,426
Operating profit or loss	6,586,549	5,885,350	799,742	574,346			7,386,291	6,459,696
Net financial results							-713,852	-752,627
Income tax							-1,324,525	-586,391
Net profit or loss for the period							5,347,914	5,120,678
Total assets	189,582,324	173,245,331	27,198,529	22,264,539			216,780,853	195,509,870
Total liabilities	143,183,045	125,161,741	12,625,529	11,627,925			155,808,574	136,789,666
Investments	15,913,628	12,492,806	1,127,023	784,461			17,040,651	13,277,267
Operating current assets write-offs	1,784,852	1,401,457	141,315	253,394			1,926,167	1,654,851

Note 34

Geographical segments

in TSIT	EU		East Europe		Other countries		Elimination		Group	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Revenue from sale to third parties	178,922,883	164,736,415	77,558,798	69,619,014	9,766,775	8,796,997			266,248,456	243,152,426
Total assets	111,216,018	90,950,727	98,004,527	74,807,508	7,560,308	29,751,635			216,780,853	195,509,870
Investments	6,588,102	6,515,051	10,096,703	4,822,890	355,846	1,939,326			17,040,651	13,277,267

Enclosure 1: Information on the Gorenje Group companies

Companies	Share capital (in TSIT)	Number of employee
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., Slovenia	100,000	2
Istrabenz Gorenje energetski sistemi, d.o.o., Slovenia	1,009,490	10
GEN-I, d.o.o., Slovenia	124,900	5
BIOTOPLOTA, d.o.o., 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., Great Britain	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., Rumania	114,131	12
Gorenje aparati za domaćinstvo, 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 Espana, S.L., Spain	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

Enclosure 2: Managing directors of the Gorenje Group companies

Companies	Managing Director
Gorenje, d.d., Slovenia	Franc Bobinac, President of the Management Board
	Franc Košec, Member of the Management Board
	Mirjana Dimc Perko, Member of the Management Board
	Drago Bahun, Member of the Management Board
Gorenje Orodjarna, d.o.o., Slovenia	Marjan Kovač (until 30 Sept 2006), dr. Blaž Nardin (since 1 Oct 2006)
Gorenje I.P.C., d.o.o., Slovenia	Simon Kumer
Gorenje GTI, d.o.o., Slovenia	Vincenc Turk (until 31Dec 2006), Cita Špital-Meh (since 1 Jan 2007)
Gorenje Gostinstvo, d.o.o., Slovenia	Saša Oprešnik
LINEA SP, d.o.o., Slovenia	Franjo Gjerkeš
Gorenje Tiki d.o.o., Slovenia	Brane Apat
Gorenje Notranja oprema, d.o.o., Slovenia	Gregor Verbič
Energygor, d.o.o., Slovenia	Marijan Penšek
Istrabenz Gorenje energetski sistemi, d.o.o., Slovenia	dr. Robert Golob
GEN-I, d.o.o., Slovenia	dr. Robert Golob
BIOTOPLOTA, d.o.o., Slovenia	Borut Del Fabbro
Gorenje Beteiligungs GmbH, Austria	Ivan Viteznik (until 11 Jan 2006), Marko Šefer (since 12 Jan 2006)
Gorenje Austria Handels GmbH, Austria	Uroš Marolt
Gorenje Küchen GmbH, Austria	Benedikt Skok
Gorenje Vertriebs GmbH, Germany	Alojz Gabrovec
Gorenje Körting Italia S.r.l., Italia	Andrej Pucer
Gorenje France S.A.S., France	Matjaž Geratič
Gorenje BELUX S.a.r.l., Belgium	Matjaž Geratič
Gorenje UK Ltd, Great Britain	Matej Čufer
Gorenje Skandinavien A/S, Denmark	Klemen Prešeren (until 31 Mar 2007), Kristian Hansen (since 1 Apr 2007)
Gorenje AB, Sweden	Klemen Prešeren (until 31 Mar 2007), Kristian Hansen (since 1 Apr 2007)
Gorenje spol. s r.o., Czech Republic	Suad Hadžić
Gorenje real spol. s r.o., Czech Republic	Suad Hadžić
Gorenje - kuchyne spol. s r.o, Czech Republic	Viktor Faktor
Gorenje Slovakia s.r.o., Slovak Republic	Bogdan Urh
Gorenje Budapest Kft, Hungary	Bogdan Urh
Gorenje Polska Sp. z o.o., Poland	Matjaž Šuln
Gorenje Bulgaria EOOD, Bulgaria	Darko Mlinar
Gorenje Zagreb, d.o.o., Croatia	Janez Živko
Gorenje Skopje, d.o.o., Macedonia	Nenad Jovanović
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	Janez Kumer
Gorenje, d.o.o., Serbia	Marko Mrzel
Gorenje Podgorica, d.o.o., Montenegro	Darko Vukčević
Gorenje OY, Finland	Klemen Prešeren (until 31 Mar 2007), Kristian Hansen (since 1 Apr 2007)
Opte Ptuj, d.o.o., Slovenia	Marjan Pišek
Kemis, d.o.o., Slovenia	Emil Nanut
Gorenje Romania S.r.l., Rumania	Tone Prislan
Gorenje AS, Norway	Klemen Prešeren (until 31 Mar 2007), Kristian Hansen (since 1 Apr 2007)
Kemis d.o.o., Croatia	Zoran Matić
Kemis BiH, d.o.o., Bosnia and Herzegovina	Damir Muratović
Gorenje aparati za domaćinstvo, d.o.o., Serbia	Mirko Meža
Mora Moravia s.r.o., Czech Republic	Vitezslav Ružička
Gorenje Imobilia, d.o.o. Serbia	Rudolf Krebl
Gorenje Invest, d.o.o., Serbia	Ivan Živanović (until 26 Sept 2006), Marko Mrzel (since 27 Sept 2006)
Gorenje Adria Nekretnine, d.o.o., Croatia	Rudolf Krebl
Kemis, d.o.o., Serbia	Franc Lipovšek
ZEOS, ravnanje z električno in elektronsko opremo, d.o.o., Slovenia	Emil Šehić
OÜ Gorenje, Estonia	Klemen Prešeren (until 31 Mar 2007), Kristian Hansen (since 1 Apr 2007)
SIA Gorenje, Latvia	Klemen Prešeren (until 31 Mar 2007), Kristian Hansen (since 1 Apr 2007)
Gorenje Gulf FZE, United Arab Emirates	Nermin Salman
Gorenje Espana, S.L., Spain	Matjaž Geratič
Gorenje Tiki, d.o.o., Serbia	Brane Apat
Istrabenz-Gorenje, d.o.o., Croatia	Igor Koprivnikar
Austrian Power Vertriebs, GmbH, Austria	Astrid Obermaier
Intrade energija, d.o.o., Bosnia and Herzegovina	Emir Avdić
Vitales, d.o.o., Bosnia and Herzegovina	Aleksander Krofl
Gorenje Istanbul Ltd., Turkey	Samo Ivančič

Enclosure 3: Foreign exchange rates

Country	Currency	Unit	2006 Final exchange rate in SIT	2006 Average exchange rate in SIT	2005 Final exchange rate in SIT	2005 Average exchange rate in SIT
Austria	EUR	1	239.64	239.601	239.576	239.637
Australia	AUD	1	143.635	143.848	148.500	146.876
Belgium	EUR	1	239.64	239.601	239.576	239.637
Czech Republic	CZK	1	8.721	8.459	8.258	8.051
Germany	EUR	1	239.64	239.601	239.576	239.637
Denmark	DKK	1	32.141	32.122	32.113	32.159
European Union	EUR	1	239.64	239.601	239.576	239.637
France	EUR	1	239.64	239.601	239.576	239.637
Great Britain	GBP	1	356.926	351.432	348.677	350.312
Croatia	HRK	1	32.637	32.734	32.520	32.395
Hungary	HUF	1	0.952	0.909	0.949	0.967
Norway	NOK	1	29.072	29.797	29.947	29.920
Italy	EUR	1	239.64	239.601	239.576	239.637
Poland	PLN	1	62.594	61.569	62.082	59.624
Sweden	SEK	1	26.500	25.893	25.509	25.840
Slovak Republic	SKK	1	6.960	6.444	6.329	6.214
USA	USD	1	181.931	191.028	202.430	192.705
Bosnia and Herzegovina	BAM	1	122.520	122.505	122.493	122.583
Bulgaria	BGN	1	122.158	122.344	122.371	122.469
Macedonia	MKD	1	3.903	3.903	3.899	3.900
Switzerland	CHF	1	149.023	152.341	154.038	154.782
Finland	EUR	1	239.64	239.601	239.576	239.637
Rumania	RON	1	69.848	67.738	65.483	65.850
Serbia	RSD	1	3.035	2.822	2.765	2.893
Estonia	EEK	1	15.332	15.314	15.311	15.327
Latvia	LVL	1	343.696	344.106	344.236	344.433
United Arab Emirates	AED	1	49.457	52.153	55.392	51.899

5.1.1.3 Auditor's Report

KPMG

Independent Auditor's Report

To the Shareholder's of Gorenje, d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Gorenje Group which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We also read the Management Report.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements prepared in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Gorenje Group as at 31 December 2006, the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The Management Report is in conformity with the audited 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

Ljubljana, 6 April 2007

KPMG Slovenija, d.o.o.
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5.1.2 Accounting report of the parent company (IFRS)

5.1.2.1 Financial statements of Gorenje, d.d.

Income statement of Gorenje, d.d.

in TSIT	Notes	2006	2005
1. Revenue	1	175,359,155	153,358,131
2. Changes in inventories		682,080	1,219,074
3. Other operating income	2	1,778,188	1,550,953
4. Gross operating yield		177,819,423	156,128,158
5. Cost of goods, materials and services	3	-139,855,821	-120,614,086
6. Employee benefits expense	4	-24,945,346	-23,415,828
7. Amortisation and depreciation expense	5	-8,092,116	-7,903,151
8. Other operating expenses	6	-1,018,592	-1,439,059
9. Operating profit or loss		3,907,548	2,756,034
10. Finance income	7	2,328,398	2,485,068
11. Finance expenses	8	-2,991,498	-2,956,942
12. Profit before tax		3,244,448	2,284,160
13. Income tax expense	9	-341,795	163,218
14. Profit for the period		2,902,653	2,447,378

Balance sheet of Gorenje, d.d.

in TSIT	Notes	2006	2005
ASSETS		150.836.848	136.185.868
A. Non-current assets		76,375,745	74,233,321
I. Intangible assets	10	4,157,802	3,990,025
II. Property, plant and equipment	11	46,468,626	47,865,808
III. Investment property	12	147,176	190,945
IV. Investments in subsidiaries	13	21,490,579	19,102,647
V. Investments in associates	14	1,347,108	0
VI. Other non-current assets	15	1,503,478	1,803,742
VII. Deferred tax assets	16	1,260,976	1,280,154
B. Current assets		74,461,103	61,952,547
I. Assets classified as held for sale		22,200	0
II. Inventories	17	21,166,867	18,073,100
III. Current investments	18	3,350,458	4,384,956
IV. Trade and other receivables	19	46,590,805	38,013,673
V. Other current assets	20	3,204,225	1,470,704
VI. Cash and cash equivalents	21	126,548	10,114
EQUITY AND LIABILITIES		150,836,848	136,185,868
A. Equity	22	50,139,880	50,444,606
I. Share capital		12,200,000	12,200,000
II. Share premium		18,832,556	18,832,556
III. Legal reserves, statutory reserves and reserves for own shares		10,475,414	7,494,904
IV. Retained earnings		13,833,081	15,035,911
V. Equity revaluation adjustments		1,435,077	536,973
VI. Own shares		-6,636,248	-3,655,738
B. Non-current liabilities		33,079,998	29,417,339
I. Provisions	24	6,389,077	6,483,925
II. Deferred tax liabilities	16	254,514	0
III. Non-current financial liabilities	25	26,436,407	22,933,414
C. Current liabilities		67,616,970	56,323,923
I. Current financial liabilities	26	18,087,360	13,541,741
II. Trade and other payables	27	45,742,984	39,200,697
III. Other current liabilities	28	3,786,626	3,581,485

Cash flow statement of Gorenje, d.d.

in TSIT	Notes	2006	2005
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		2,902,653	2,447,378
Adjustments for:			
Depreciation of property, plant and equipment	5,11	7,522,821	7,255,394
Amortisation of intangible assets	5,10	569,295	647,757
Foreign exchange loss	8	887,576	690,730
Investment income	7	-2,328,398	-2,464,103
Finance expenses	8	2,103,922	1,652,249
Share of profit/loss of associates and subsidiaries		0	613,963
Gain on sale of property, plant and equipment		-483,385	-189,202
Income tax expense	9	341,795	-163,217
Operating profit before changes in net operating current assets and provisions		11,516,279	10,490,949
Increase in trade and other receivables		-10,291,475	-5,028,974
Increase in inventories	17	-3,115,967	-2,286,753
Decrease/Increase in provisions		-94,848	710,211
Increase in trade and other payables		7,001,942	4,419,756
Cash generated from operations		-6,500,348	-2,185,760
Interest paid		-2,447,361	-2,224,259
Income taxes paid		-757,814	0
Gain on liquidation of subsidiary		298,172	0
Net cash from operating activities		2,108,928	6,080,930
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		1,155,367	441,406
Interest received		901,298	1,061,159
Dividends received		420,027	1,100,018
Acquisition of subsidiary net of cash acquired		-2,378,841	-2,257,086
Acquisition of property, plant and equipment		-6,233,987	-7,684,584
Acquisition of other investments		933,175	1,225,712
Acquisition of intangible assets		-716,203	-1,605,439
Net cash used in investing activities		-5,919,164	-7,718,814
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of own shares		-2,980,510	-2,988,835
Proceeds from long-term borrowings		8,032,153	5,798,821
Dividends paid		-1,124,973	-1,171,588
Net cash used in financing activities		3,926,670	1,638,398
Net increase in cash and cash equivalents		116,434	514
Cash and cash equivalents at beginning of period		10,114	9,600
Cash and cash equivalents at end of period		126,548	10,114

Statement of changes in equity of Gorenje, d.d.

in TSIT	Share capital	Share premium	Legal reserves, statutory reserves and reserves for own shares	Retained earnings	Own shares	Equity revaluation adjustments	Total
Opening balance at 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 of investments taken to equity						1,152,618	1,152,618
Setting-up of provisions for deferred tax liabilities						-254,514	-254,514
Setting-up of reserves for own shares			2,980,510	-2,980,510			0
Dividends payout				-1,124,973			-1,124,973
Increase in 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

Statement of changes in equity of Gorenje, d.d.

in TSIT	Share capital	Share premium	Legal reserves, statutory reserves and reserves for own shares	Retained earnings	Own shares	Equity revaluation adjustments	Total
Opening balance at 1 January 2005	12,200,000	18,832,556	4,509,069	18,355,509	-669,903	309,179	53,536,410
Setting-up provisions for termination pays and deffered tax assets at 1.1.2005				-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 of 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
Increase in own shares					-2,985,835		-2,985,835
Closing balance at 31 December 2005	12,200,000	18,832,556	7,494,904	15,035,911	-3,655,738	536,973	50,444,606

5.1.2.2 Notes to the financial statements

1. Reporting entity

Gorenje, d.d. is a company domiciled in Slovenia. The address of the Company's registered office is Partizanska 12, 3503 Velenje. The consolidated financial statements of Gorenje, d.d. have been prepared for the financial year that ended 31 December 2006.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU.

The financial statements were approved by the Management Board on 2 April 2007.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following items which are measured at fair value:

- derivative financial instruments,
- financial instruments at fair value through profit or loss,
- available-for-sale financial assets,
- investment property.

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These financial statements are presented in SIT, which is the company's functional currency. All financial information presented in SIT has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- notes 10,11 – business combinations,
- note 12 – valuation of investment property,
- note 2 – accounting for an arrangement containing a lease,
- note 24 – provisions,
- note 31 – valuation of financial instruments.

3. Significant accounting policies

Except in points 3 d, f, the Company consistently applies the Group's accounting policies.

(a) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3 (n).

Available-for-sale financial assets

The company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

(b) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Repurchase of own shares

Upon repurchase of own shares recognised as a portion of share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends
Dividends are recognised as a liability in the period in which they are declared.

(c) Subsidiaries, equity accounted investees and associates

Investments in subsidiaries, equity accounted investees and associates are accounted for using the investment method, where revenues are recognised by payout of dividends.

(d) Property, plant and equipment
(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Fair value model or revaluation model is applied to land. Revaluation effects are recorded through equity. The revaluation of land is based on an independent appraisal report. The requirement for revaluation of land is reassessed annually by the company.

An item of property, plant and equipment is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is recognised in profit or loss as revenue or expense.

(ii) Reclassification to investment property
Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in equity. Any loss is recognised immediately in profit or loss.

(iii) Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. All other costs (e.g. day-to-day servicing of property, plant and equipment) are recognised in profit or loss as incurred.

(iv) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. In case of finance lease, the leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

buildings	20 - 50 years
plant and equipment	5 - 12 years
computer equipment	2 - 5 years
transportation vehicles	4 - 10 years
office equipment	4 - 10 years
tools	4 - 8 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Intangible assets
(i) Goodwill
Goodwill (negative goodwill) arises upon business combinations of subsidiaries, associates, and joint ventures.

Goodwill acquired on the basis of a business combination is measured at the rest of the business combination's cost upon the recognition of identifiable assets, liabilities and contingent liabilities of the acquiree.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. Goodwill acquired through a business combination is not subject to depreciation. Instead an impairment test is carried out once a year, provided that events or changed circumstances indicate the possible occurrence of impairment.

(ii) Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets
Other intangible assets that are acquired by the company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

(v) Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

patents and trademarks	10 years
capitalised development costs	10 years

(f) Investment property
Company's investment property includes land and buildings, held for further sale or capital appreciation, and is recorded at fair value. An impairment test is carried out If required. Property held by the company for lease to its subsidiaries and connected with the performance of its activity, is recorded among property, plant and equipment. Investment property includes also that property, in which the lessees possess more than 50% of the available area. Investment property is property held either to earn rental income or for capital appreciation or for both.

(g) Leased assets
Leases in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the company's balance sheet.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories of materials and merchandise is based on the weighted average price, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the company's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the company's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to assets held for sale, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, and investment property, which continue to be measured in accordance with the company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(k) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(l) Provisions

A provision is recognised if, as a result of a past event, the croup has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for warranties are directly decreased by the amount of costs for which they were set up. Hence, these costs are no longer recorded in the income statement for the current financial year. Upon expiry of the period to which provisions refer to, their total unutilised part is transferred among other operating income.

(i) Warranties for products and services

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the company recognises any impairment loss on the assets associated with that contract.

(iii) Provisions for termination pays and anniversary bonuses

In accordance with the statutory requirements, the collective agreement, and the internal regulations, the company is liable to pay to its employees anniversary bonuses and termination pay upon retirement. For these obligations, long-term provisions are formed.

Provisions are determined by discounting, at the balance sheet date, the estimated future benefits in respect of termination pays and anniversary bonuses. The obligation is calculated separately for each employee by estimating the costs of termination pay upon retirement and the costs of all expected anniversary bonuses until retirement. The selected discount rate is 2.75% p.a. and represents the real interest rate. The calculation is performed by a certified actuary using the projected unit method.

(m) Revenue

(i) Revenue from the sale of products, merchandise and materials

Revenue from the sale of products, merchandise and materials is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Revenue is not recognised when there are significant uncertainties regarding recovery of the consideration, the associated costs, or possible return of goods, or continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of goods, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier.

(ii) Revenue from the sale of services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Royalties

Royalties accrued in accordance with the terms of the relevant agreement and with attained sale in individual geographical area and are recognised on that basis.

(iv) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(v) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the company will comply with the conditions associated with the grant. Grants that compensate the company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. The company has not issued any preference shares or convertible notes. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

(r) Comparative information

Comparative information has been mainly harmonised with the presentation of information in the current year. Where required, adjustment of comparative data was carried out in order to comply with the presentation of information in the current year.

(s) Segment reporting

A segment is a distinguishable component of the company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The company's primary format for segment reporting is based on business segments.

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- *IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the company's 2007 financial statements, will require extensive additional disclosures with respect to company's financial instruments and share capital.*

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the company's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.*

- *IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the company's 2007 financial statements, with retrospective application required. The company has not yet determined the potential effect of the interpretation.*

• IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the company's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

• IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004).

4. Determination of fair values

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of land, buildings, plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets
The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investment property
An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio every five years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the company and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

(iv) Trade and other receivables
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(v) Derivatives
The fair value of an interest rate swap is the estimated amount to be received or paid by the company upon termination of the interest rate swap at the balance sheet date, taking into account the current interest rate and the current financial standing of the parties to the interest rate swap. The fair value of forward transactions is their offered market price at the balance sheet date, which is the current offered price of a forward transaction.

(vi) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. Segment reporting

Segment information is presented in respect of the company's business and geographical segments. The primary format, business segments, is based on the company's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items refer to other current assets, deferred tax assets, and cash and cash equivalents.

Business segments
The Company comprises the following main business segments:
(i)production and sale of refrigerators and freezers,
(ii)production and sale of washing machines and dishwashers,
(iii) production and sale of cooking appliances,
(iv) other (purchase and sale of appliances from the supplementary and complementary purchase programme of white goods, and provision of other services).

Geographical segments
When showing information by geographical segment, the revenue of individual segments is shown by geographical area in which the clients are domiciled. The assets of a segment are shown with regard to their geographical position.

The Company comprises the following key geographical segments:
European Union: Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Norway, Great Britain, Greece, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland.
East Europe: Bulgaria, Romania, Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina.
Other: other countries.

6. Cash flow statement
The cash flow statement has been prepared under the indirect method on the basis of the items in the balance sheet as at 31 December 2006, the balance sheet as at 31 December 2005, the income statement for the year ended 31 December 2006, and the additional information required for the adjustment of inflows and outflows.

7. Income statement

Note 1

Revenue	175,359,155 TSIT

in TSIT	2006	2005
Revenue from the sale of products – domestic market	9,247,683	8,295,397
Revenue from the sale of products – foreign market	131,011,241	124,193,047
Revenue from the sale of merchandise – domestic market	5,132,167	3,163,442
Revenue from the sale of merchandise – foreign market	16,212,309	8,349,064
Revenue from the sale of services – domestic market	1,292,769	1,596,571
Revenue from the sale of services – foreign market	4,196,809	1,543,283
Revenue from the sale of materials and work in progress – domestic market	4,579,758	4,156,270
Revenue from the sale of materials and work in progress – foreign market	3,686,419	2,061,057
Total	175,359,155	153,358,131

Increase in revenue from sale of merchandise in the amount of 9,831,970 TSIT refers to the increase in sale of products by subsidiaries Mora Moravia, s.r.o. Czech Republic and Gorenje aparati za domaćinstvo, d.o.o., Serbia, and to introducing of new products outside its production that directly complete the three production and sales programmes of large household appliances. Increase in the sale of services refers to the increase in sale of products on the East European markets, which is a direct result of the sales promotion by marketing, advertising and other services of promotion.

Revenue from the sale to subsidiaries in the Gorenje Group are recorded at 105,023,997 TSIT i.e. denoting an increase of 4.9% if compared to previous year's figures.

Note 2

Other operating income	1,778,188 TSIT

in TSIT	2006	2005
Income from license fees	640,651	820,584
Rental income	370,797	330,573
Compensation for damage received	180,432	110,190
Gain on disposal of property, plant and equipment	483,384	189,202
Other operating income	102,924	100,404
Total	1,778,188	1,550,953

Income from license fees includes income from fees for the right to use the Gorenje trademark.

Rental income

in TSIT	2006	2005
Rental income – up to 1 year (Group companies)	344,062	293,948
Rental income – up to 1 year (other companies)	26,735	36,625
Anticipated rental income – from 2 to 5 years (Group companies)	1,376,248	1,343,341
Anticipated rental income – from 2 to 5 years (other companies)	106,940	149,410
Total	1,853,985	1,823,324

Rental income mostly refers to real properties that are partly leased to subsidiaries and partly used by the Company itself.

Note 3

Cost of goods, materials and services — 139,855,821 TSIT

in TSIT	2006	2005
Cost of goods sold	24,404,492	14,455,002
Cost of materials	95,369,769	89,533,958
Cost of services	20,081,560	16,625,126
Total	139,855,821	120,614,086

Cost of services comprise cost of setting-up of provisions for warranties in the amount of 2,049,281 TSIT.

Note 4

Employee benefit expense — 24,945,346 TSIT

in TSIT	2006	2005
Wages and salaries	17,223,430	16,011,020
Social security contributions	3,467,604	3,179,395
Formation of provisions for termination pays and anniversary bonuses	57,134	66,862
Other employee benefits expense	4,197,178	4,158,551
Total	24,945,346	23,415,828

Social security contributions include cost of additional voluntary pension insurance (collective) in the amount of 671,316 TSIT (2005: 616,264 TSIT).

Other employee benefits expense includes vacation bonuses, meal allowance, and commuting allowance.

Note 5

Amortisation and depreciation expense — 8,092,116 TSIT

in TSIT	2006	2005
Amortisation of intangible assets	569,295	647,757
Depreciation of property, plant and equipment	7,522,821	7,255,394
Total	8,092,116	7,903,151

Note 6

Other operating expenses — 1,018,592 TSIT

in TSIT	2006	2005
Impairment loss on receivables	154,406	268,027
Impairment loss on assets	3,919	4,070
Impairment loss on inventories	357,460	559,860
Taxes and fiscal charges irrespective of employee benefits expense and other types of expense	272,870	256,680
Environmental levies	95,665	99,529
Scholarships	47,099	39,412
Other operating expenses	87,173	211,481
Total	1,018,592	1,439,059

Taxes and fiscal charges irrespective of employee benefits expense and other types of expense include charges for the use of building site, water tax, environmental levies, and other mandatory fiscal charges. Other expenses mostly comprise compensations paid for work accidents in the amount of 57,779 TSIT.

Note 7

Finance income — 2,328,398 TSIT

in TSIT	2006	2005
Dividend income and income from other profit sharing	420,027	1,100,018
Gain on discontinuance of operation	298,172	0
Interest income on transactions with group companies	226,264	242,151
Interest income on transactions with other companies	103,075	62,703
Income on hedging of fair value of interest rate swaps	492,850	0
Foreign exchange gain on transactions with group companies	393,446	377,018
Foreign exchange gain on transactions with other companies	349,829	367,404
Adjustment to fair value	0	10,337
Other finance income	44,735	325,437
Total	2,328,398	2,485,068

Major part of finance income refers to income from profit sharing and dividend income in the amount of 330,000 TSIT (2005: 1,006,854 TSIT) and to positive effects of hedging of fair value of interest rate swap transactions in the amount of 492,850 TSIT. Gain on discontinuance of operation in the amount of 298,172 TSIT refers to the company Biterm, d.o.o., whose operations were discontinued on 12 December 2006.

Other finance income mostly represents commissions charged for guarantees given at loans extended to subsidiaries and other entities.

Note 8

Finance expenses	2,991,498 TSIT

in TSIT	2006	2005
Interest expenses from transactions with group companies	52,445	29,364
Interest expenses from transactions with other companies	1,990,638	1,580,110
Foreign exchange loss on transactions with group companies	450,952	602,839
Foreign exchange loss on transactions with other companies	436,624	87,891
Other finance expenses	60,839	656,738
Total	2,991,498	2,956,942

Other finance expenses mostly relate to payment guarantees and performance guarantees.

Note 9

Income tax expense	341,795 TSIT

Income tax expense is presented by taking into consideration the actual income tax liability and the determined deferred tax assets and liabilities.

in TSIT	2006	2005
Actual tax liability	322,619	395,382
Deferred tax assets	24,999	-581,891
Deferred tax liabilities	-5,823	23,291
Total	341,795	-163,218

Survey of effective income tax rates:

v TSIT	2006	2006	2005	2005
Profit before tax		3,244,448		2,284,160
Income tax using the domestic corporation tax rate	25.0%	811,112	25.0%	571,040
Non-deductible expenses	10.5%	340,723	22.7%	519,193
Tax exempt revenue	-2.5%	-82,500	-12.5%	-285,541
Tax incentives	-22.4%	-727,540	-42.3%	-967,910
Income tax	10.6%	341,795	-7.1%	-163,218

8. Balance sheet

Acquisition of Gorenje Indop, d.o.o.

The effect of acquisition on individual assets and liabilities of Gorenje, d.d.:

Gorenje Indop, d.o.o.

in TSIT	30 June 2006
Intangible assets	58,727
Property, plant and equipment	502,576
Inventories	258,574
Trade receivables	805,407
Cash	345
Provisions	-89,602
Financial liabilities	-744,464
Trade payables	-704,049
Net difference of assets and liabilities	87,514
Cost	-87,514
Difference	0

The acquisition of the company Gorenje Indop, d.o.o. was carried out at fair value. The subsidiary Gorenje Indop, d.o.o. was acquired by the parent company on 30 June 2006.

Note 10

Intangible assets	4,157,802 TSIT

in TSIT	2006	2005
Long-term deferred R&D costs	2,870,279	2,635,382
Long-term property rights	1,132,096	1,350,628
Intangible assets under construction	155,427	4,015
Total	4,157,802	3,990,025

Changes in intangible assets in 2006

in TSIT	Long-term deferred R&D costs	Long-term property rights	Intangible assets under construction	Total
Cost 1 Jan 2006	3,795,610	2,546,601	4,015	6,346,226
Additions			716,203	716,203
Acquisition of Gorenje Indop, d.o.o.	18,060	40,667		58,727
Disposals, write-offs		-3,749		-3,749
Transfers to PPE	-73,884	37,442		-36,442
Other transfers	504,338	60,453	-564,791	0
Cost 31 Dec 2006	4,244,124	2,681,414	155,427	7,080,965
Accumulated amortisation 1 Jan 2006	1,160,228	1,195,973		2,356,201
Disposals, write-offs		-2,332		-2,332
Amortisation	213,617	355,677		569,294
Accumulated amortisation 31 Dec 2006	1,373,845	1,549,318		2,923,163
Carrying amount 1 Jan 2006	2,635,382	1,350,628	4,015	3,990,025
Carrying amount 31 Dec 2006	2,870,279	1,132,096	155,427	4,157,802

Changes in intangible assets in 2005

in TSIT	Long-term deferred R&D costs	Long-term property rights	Intangible assets under construction	Total
Cost 1 Jan 2005	2,489,597	2,251,190	0	4,740,787
Additions	1,306,013	295,411	4,015	1,605,439
Cost 31 Dec 2005	3,795,610	2,546,601	4,015	6,346,226
Accumulated amortisation 1 Jan 2005	859,356	851,028		1,710,384
Disposals, write-offs	4,001	-5,941		-1,940
Amortisation	296,871	350,886		647,757
Accumulated amortisation 31 Dec 2005	1,160,228	1,195,973		2,356,201
Carrying amount 1 Jan 2005	1,630,241	1,400,162		3,030,403
Carrying amount 31 Dec 2005	2,635,382	1,350,628	4,015	3,990,025

Additions to intangible assets mostly relate to the project of cutting costs in the areas of purchase, logistics and other support functions (392,742 TSIT) and costs of packaging development and inductive powering (81,400 TSIT). As for long-term property rights, additions refer to licences and computer software (54,273 TSIT).

Note 11

Property, plant and equipment	46,468,626 TSIT

in TSIT	2006	2005
Land	3,191,851	3,191,851
Buildings	14,265,003	14,707,535
Production plant and equipment	27,720,292	28,895,933
Property, plant and equipment under construction	1,207,614	1,066,426
Advances	83,866	4,063
Total	46,468,626	47,865,808

Changes in property, plant and equipment in 2006

in TSIT	Land	Buildings	Production plant and equipment	PPE under construction	Advances for PPE	Total
Cost 1 Jan 2006	3,191,851	33,751,410	89,239,005	1,066,426	4,063	127,252,755
Additions				6,154,184	79,803	6,233,987
Acquisition of Gorenje Indop, d.o.o.		300,131	202,445			502,576
Disposals, write-offs		3,555	-4,238,979			-4,235,424
Transfers from intangible assets			36,442			36,442
Other transfers		304,198	5,708,798	-6,012,996		0
Cost 31 Dec 2006	3,191,851	34,359,294	90,947,711	1,207,614	83,866	129,790,336
Accumulated depreciation 1 Jan 2006		19,043,875	60,343,072			79,386,947
Disposals, write-offs		-15,978	-3,572,080			-3,588,058
Depreciation		1,066,394	6,456,427			7,522,821
Accumulated depreciation 31 Dec 2006		20,094,291	63,227,419			83,321,710
Carrying amount 1 Jan 2006	3,191,851	14,707,535	28,895,933	1,066,426	4,063	47,865,808
Carrying amount 31 Dec 2006	3,191,851	14,265,003	27,720,292	1,207,614	83,866	46,468,626

Changes in property, plant and equipment in 2005

in TSIT	Land	Buildings	Production plant and equipment	PPE under construction	Advances for PPE	Total
Cost 1 Jan 2005	3,067,609	31,509,881	81,954,887	4,646,554	4,469	121,183,400
Additions				7,685,395	-406	7,684,989
Disposals, write-offs	-20,381	-203,851	-751,389	-640,013		-1,615,634
Transfers	144,623	2,445,380	8,035,507	-10,625,510		0
Cost 31 Dec 2005	3,191,851	33,751,410	89,239,005	1,066,426	4,063	127,252,755
Accumulated depreciation 1 Jan 2005		18,190,602	54,818,190			73,008,792
Disposals, write-offs		-136,894	-740,345			-877,239
Depreciation		990,167	6,265,227			7,255,394
Accumulated depreciation 31 Dec 2005		19,043,875	60,343,072			79,386,947
Carrying amount 1 Jan 2005	3,067,609	13,319,279	27,136,697	4,646,554	4,469	48,174,608
Carrying amount 31 Dec 2005	3,191,851	14,707,535	28,895,933	1,066,426	4,063	47,865,808

Buildings — 14,265,003 TSIT

Additions to buildings include the reconstruction of the enamelling in the cookers programme. With this investment, the Company not only saved costs but made a major technological step as the new system eliminates the ecologically controversial nickel during the production process. The acquisition of the company Gorenje Indop, d.o.o., was carried out at fair value; its share within the item of buildings amounts to 300,131 TSIT.

Long-term borrowings from 1999 were secured by pledge of business premises entered in the land register at the District Court in Velenje, entry number 2801, c.m. Velenje, plot no. 1682/5, and entry number 1099, c.m. Velenje, plot no. 1712, 2843/4, and 1696. As of the balance sheet date, the value of borrowings secured by the respective pledge amounted to 39,208 TSIT.

Production plant and equipment — 27,720,292 TSIT

The addition to plant and equipment is due to capitalisation of technological equipment, computer hardware, and transportation means acquired and commissioned in 2006 within the regular modernisation, on a yearly basis, of production programmes and technological equipment. In addition, a reconstruction of the white and colour enamelling line of the cookers was carried out in the amount of 1,388,687 TSIT. As for the programme of refrigerators and freezers, the investment in the new generation of refrigerators width 600 and the modernisation of the varnishing chamber totalling to 960,617 TSIT, was concluded. The programme of washing machines and dryers successfully introduced the low-priced version of the washing machine PG 05, and completed the automatic shifting of varnished housings in the total amount of 960,617 TSIT. As for the Mekom programme, investments were made in the modernisation and the reconstruction of the technological equipment as well as increasing capacities of the programme's activity by purchasing new technologies in the total amount of 1,390,383 TSIT.

The acquisition of Gorenje Indop, d.o.o. was conducted at fair value; its share within the item of production plant and equipment amounts to 202,445 TSIT.

The disposals and write-offs relate to equipment sold and equipment eliminated due to obsolescence.

Property, plant and equipment under construction — 1,207,614 TSIT

Major part of property, plant and equipment under construction refers to the product line extension in individual production programmes of household appliances.

Advances for property, plant and equipment — 83,866 TSIT

Advances for property, plant and equipment in the amount of 83,866 TSIT for the most part refer to the import of equipment used in the »old timer« product line for the programme of refrigerators and freezers.

The latest appraisal of property, plant and equipment was conducted as at 31 December 2003 by certified appraisers of immovable and movable property. No indication of impairment of the items of property, plant and equipment was found.

Note 12

Investment property — 147,176 TSIT

v TSIT	2006	2005
Land	75,967	119,736
Buildings	71,209	71,209
Total	147,176	190,945

Investment property includes land and buildings acquired for resale or increase in investment.

Note 13

Investments in subsidiaries — 21,490,579 TSIT

in TSIT	Share in equity of the company	Investment at 31 Dec 2006	Investment at 31 Dec 2005
Gorenje IPC, d.o.o., Velenje	100.00%	90,370	90,370
LINEA SP, d.o.o., Velenje	100.00%	29,974	29,974
Gorenje GTI, d.o.o., Velenje	100.00%	2,107,575	2,107,575
BITERM, d.o.o., Bistrica ob Sotli	75.00%	0	150,295
Gorenje Gostinstvo, d.o.o., Velenje	100.00%	1,427,708	1,427,708
Gorenje Orodjarna, d.o.o., Velenje	100.00%	728,132	728,132
Gorenje Indop, d.o.o., Velenje	100.00%	0	87,524
Gorenje Notranja oprema, d.o.o., Velenje	99.6%	4,338,667	4,338,667
Gorenje Tiki, d.o.o., Ljubljana	99.982%	1,375,080	615,079
Energygor, d.o.o.,Velenje	100.00%	13,785	13,785
Kemis, d.o.o., Radomlje	100.00%	324,123	144,279
Istrabenz-Gorenje, d.o.o., Ljubljana	50.00%	0	150,000
IG Prodaja, d.o.o., Nova Gorica	50.00%	0	10,000
Opte Ptuj, d.o.o., Ptuj	100.00%	78,970	78,970
ZEOS, d.o.o., Ljubljana	51.00%	51,000	51,000
Gorenje Zagreb, d.o.o., Croatia	100.00%	3,020,530	2,407,433
Gorenje Skopje, d.o.o., Macedonia	100.00%	129,018	128,892
Gorenje Beteiligungs GmbH, Austria	100.00%	3,991,617	3,990,542
Gorenje Imobilia, d.o.o., Serbia	100.00%	356,143	356,143
Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00%	0	988
Mora Moravia, s r.o., Czech Republic	100.00%	2,096,851	2,097,834
Gorenje Adria Nekretnine, d.o.o., Croatia	100.00%	98,173	97,457
Istrabenz Gorenje energetski sistemi, d.o.o. Nova Gorica	49.95%	1,232,863	0
Total		21,490,579	19,102,647

Increase of investments in subsidiaries includes the acquisition of a 49.95 percent share in Istrabenz Gorenje energetski sistemi, d.o.o. (1,232,863 SIT), the increase of share capital in Gorenje Tiki, d.o.o., (760,000 TSIT), the increase of share capital in Gorenje Zagreb, d.o.o. (613,097 TSIT), and the increase of share capital in Kemis, d.o.o., (179,844 TSIT).

Decrease of investments in subsidiaries relate to the discontinuance of operations in Biterm, d.o.o. (150,295 TSIT), to the acquisition of Gorenje Indop, d.o.o. (87,524 TSIT), and to the sale of Istrabenz-Gorenje, d.o.o. (150,000 TSIT).

Note 14

Investments in associates	1,347,108 TSIT

Investments in associates include the acquisition of a 27.6 percent share in Surovina, d.d., Maribor, dated 15 January 2006.

Note 15

Other non-current investments	1,503,478 TSIT

Other non-current investments relate to financial instruments available for sale in the amount of 1,354,253 TSIT and to long-term loans granted in the amount of 149,225 TSIT.

Maturity of long-term loans

in TSIT	2006	2005
Maturity from 1 to 2 years	24,760	323,654
Maturity from 2 to 3 years	12,003	24,757
Maturity from 3 to 4 years	11,002	11,999
Maturity from 4 to 5 years	0	11,000
Maturity in excess of 5 years	101,460	128,206
Total	149,225	499,616

Long-term loans bear interest at the nominal interest rate ranging from 5.0 % to 5.4 %.

The loans with the maturity in excess of 5 years represent housing loans under the Housing Act of 1991.

Changes in non-current investments in 2006

in TSIT	Balance 1 Jan 2006	Increase	Decrease	Transfer to current investments	Change in fair value	Balance 31 Dec 2006
Investments in subsidiaries	19,102,647	2,787,721	-399,789			21,490,579
Investments in associates	0	1,347,108				1,347,108
Financial securities available for sale	1,304,126	250,488		-573,088	372,727	1,354,253
Long-term loans	499,616		-289,113	-61,278		149,225
Total	20,906,389	4,385,317	-688,902	-634,366	372,727	24,341,165

The fair value of financial instruments available for sale was changed to the market or the last audited carrying exchange rate.

Changes in non-current investments in 2005

in TSIT	Balance at 1 Jan 2005	Increase	Decrease	Change in fair value	Balance 31 Dec 2005
Investments in subsidiaries	16,712,870	3,011,780		-622,003	19,102,647
Financial instruments available for sale	988,588	87,744		227,794	1,304,126
Long-term loans	2,245,476	39,713	-1,782,180	-3,393	499,616
Total	19,946,934	3,139,237	-1,782,180	-397,602	20,906,389

Impairment of investments made in subsidiaries in 2005 and amounting to 622,003 TSIT refers to the losses of subsidiaries.

As for non-current investments, the Company is not exposed to major financial risks since most of investments are made in subsidiaries. Long-term loans extended to others are secured by bills.

Long-term loans extended to special groups of persons

No long-term loans were granted to members of the Management Board, Supervisory Board, and internal owners.

Note 16

Deferred tax assets and liabilities

in TSIT	Tax assets		Tax liabilities		Tax assets-Taxs liabilities	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	-17,468	-23,291	0	0	-17,468	-23,291
Investments	23,881	153,490	254,514	0	-230,633	153,490
Receivables	101,762	67,006	0	0	101,762	67,006
Inventories	18,572	21,916	0	0	18,572	21,916
Liabilities arising from litigation	2,825	2,825	0	0	2,825	2,825
Provisions for termination pays	657,342	721,554	0	0	657,342	721,554
Provisions for warranties	474,062	336,654	0	0	474,062	336,654
Total	1,260,976	1,280,154	254,514	0	1,006,462	1,280,154

in TSIT	Tax assets-Taxs liabilities		Recognised in the income statemant		Recognised in equity	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	-17,468	-23,291	5,823	-23,291	0	97,768
Investments	-230,633	153,490	-129,609	153,490	254,514	0
Receivables	101,762	67,006	34,757	67,006	0	0
Inventories	18,572	21,916	-3,344	21,916	0	0
Liabilities arising from litigation	2,825	2,825	0	2,825	0	0
Provisions for termination pays	657,342	721,554	-64,213	0	0	0
Provisions for warranties	474,062	336,654	137,410	336,654	0	0
Total	1,006,462	1,280,154	-19,176	558,600	254,514	97,768

Note 17

Inventories	21,166,867 TSIT

in TSIT	2006	2005
Materials	11,587,925	9,982,917
Work in progress	2,457,515	2,486,686
Finished products	5,133,794	4,340,565
Merchandise	1,527,998	1,066,832
Advances for inventories	459,635	196,100
Total	21,166,867	18,073,100

The increase in inventories of materials is due to an increase in the prices of materials and raw materials in 2006, the scope of business activities, including the production of technically more onerous products.

The increase in inventories of finished products is due to an increase in the scope of business activities.

The increase in the value of merchandise is due to an increase in inventories of coal in the amount of 304,949 TSIT.

Note 18

Current investments	3,350,458 TSIT

in TSIT	2006	2005
Equity securities held for trading	1,366,263	105,939
Short-term loans	1,977,861	4,216,733
Interest receivable	2,571	47,535
Other current investments	3,763	15,749
Total	3,350,458	4,385,956

Short-term loans:

in TSIT	2006	2005
Current portion of long-term loans to the Gorenje Group companies	0	189,273
Short-term loans to the Gorenje Group companies	1,526,847	1,523,664
Current portion of long-term loans to other entities	61,479	47,525
Short-term loans to others	234,635	152,009
Short-term deposits with banks	154,900	2,297,177
Other short-term loans	0	7,085
Total	1,977,861	4,216,733

Short-term loans bear interest at the nominal interest rate ranging from 2.75 % to 6.95 %.

No short-term loan is exposed to major financial risk as the parent company granted most of the loans to its subsidiaries. Short-term loans to other companies are partly secured by bills and mortgages.

Short-term loans granted to special groups of persons

No short-term loans were granted to members of the Management Board, Supervisory Board, and internal owners.

Note 19

Trade and other receivables	46,590,805 TSIT

in TSIT	2006	2005
Trade receivables - Gorenje Group companies	31,400,814	26,072,645
Trade receivables - other entities	15,189,991	11,941,028
Total	46,590,805	38,013,673

Trade receivables by maturity

	up to 60 days	in excess of 60 days	Total
Trade receivables - Gorenje Group companies	18,390,135	13,010,679	31,400,814
Trade receivables - other entities	13,477,563	1,712,428	15,189,991
Total	31,867,698	14,723,107	46,590,805

Trade receivables due from Group companies

in TSIT	2006	2005
Trade receivables due from domestic customers	5,264,184	3,393,488
Trade receivables due from foreign customers	26,136,630	22,679,157
Total	31,400,814	26,072,645

Trade receivables – Group companies located in Slovenia

Company	2006	2005
Gorenje Tiki, d.o.o., Ljubljana	222,240	951,179
Gorenje Gostinstvo, d.o.o., Velenje	18,203	19,220
Gorenje Notranja oprema, d.o.o., Velenje	82,442	61,922
Opte Ptuj, d.o.o., Ptuj	2,111	1,499
Gorenje I.P.C., d.o.o.,Velenje	488,679	400,741
Gorenje GTI, d.o.o., Velenje	4,395,705	1,845,837
LINEA SP, d.o.o., Velenje	6,128	5,666
Gorenje Orodjarna, d.o.o., Velenje	30,456	56,564
Gorenje Indop, d.o.o., Velenje	0	18,486
Biterm, d.o.o., Bistrica ob Sotli	0	9,701
Gorenje Glin, d.o.o., Nazarje	0	17,204
Kemis, d.o.o., Radomlje	3,456	1,053
Gorenje Beteiligungs, GmbH, Ljubljana	392	704
Energygor, d.o.o., Ljubljana	0	3,187
GEN –I, d.o.o., Krško	13,347	0
ZEOS, d.o.o., Ljubljana	1,025	0
Istrabenz-Gorenje, d.o.o., Ljubljana	0	525
Total	5,264,184	3,393,488

Trade receivables – Group companies located abroad

Company	2006	2005
Gorenje Slovakia s.r.o., Slovak Republic	474,379	410,846
Gorenje spol s.r.o., Czech Republic	190,571	-9,387
Gorenje Skopje, d.o.o., Macedonia	337,961	336,249
Gorenje Zagreb, d.o.o., Croatia	5,425,366	5,630,899
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	775,030	922,772
Gorenje Podgorica, d.o.o., Montenegro	423,414	244,522
Gorenje Budapest KFT., Hungary	1,171,909	714,395
Gorenje Polska Sp.z.o.o., Poland	2,221,360	1,745,506
Gorenje Bulgaria EOOD, Bulgaria	20,558	569,976
Gorenje d.o.o., Serbia	2,096,382	3,121,197
Gorenje Belux S.a.r.l., Belgium	334,575	136,507
Kemis, d.o.o., Croatia	0	224
Gorenje Vertriebs GmbH, Germany	2,790,766	3,117,494
Gorenje Koerting Italia S.r.l., Italy	1,075,267	1,266,461
Gorenje Austria Handels GmbH, Austria	490,279	-326,958
Gorenje Beteiligungs GmbH, Austria	382,410	1,225
Gorenje Skandinavien A/S, Denmark	2,867,344	2,623,836
Gorenje France S.A.S., France	2,078,302	1,706,522
Gorenje UK Ltd., Great Britain	683,174	290,129
Gorenje real spol s.r.o., Czech Republic	33	164
Gorenje Imobilia, d.o.o., Serbia	1,733	7,096
Mora Moravia, s r.o., Czech Republic	252,051	123,960
Gorenje aparati za domaćinstvo, d.o.o., Serbia	1,372,368	0
Gorenje Espana, s.l., Spain	278,194	0
Gorenje Tiki, d.o.o., Stara Pazova	272,250	0
Gorenje GULF FZE, United Arab Emirates	38,674	0
Exchange differences	82,280	45,522
Total	26,136,630	22,679,157

Trade receivables – other entities

in TSIT	Gross value	Allowance	Net value 2006	Net value 2005
Trade receivables due from domestic customers	2,969,208	-288,778	2,680,430	1,711,082
Trade receivables due from foreign customers	13,351,941	-842,380	12,509,561	10,229,946
Total	16,321,149	-1,131,158	15,189,991	11,941,028

Note 20

Other current assets — 3,204,225 TSIT

in TSIT	2006	2005
Advance payments for services	365,064	80,847
Other current assets	2,512,133	1,337,612
Current tax receivables	39,815	0
Short-term deferred costs and expenses	287,213	52,245
Total	3,204,225	1,470,704

The major portion of advance payments for services includes advances for coal transport in the amount of 304,742 TSIT.

Other current assets include current receivables for input tax paid in the Republic of Slovenia in the amount of 1,419,868 TSIT, receivables for derivative financial instruments in the amount of 464,333 TSIT, VAT receivables from foreign countries in the amount of 279,453 TSIT, receivables from granted quantity rebates for materials in the amount of 136,115 TSIT and other short-term assets in the amount of 212,364 TSIT.

Short-term deferred costs include costs of services accounted for, but not yet provided.

Note 21

Cash and cash equivalents — 126,548 TSIT

in TSIT	2006	2005
Cash in hand and readily liquid securities	2,214	747
Bank balances	124,334	9,367
Total	126,548	10,114

Note 22

Equity	50,139,880 TSIT

Share capital in the amount of 12,200,000 TSIT

The Company's share capital has been set forth in the Company's bylaws and appropriately registered with the competent Court. Until 21 December 2006 it consisted of 12,200,000 freely transferable registered shares at nominal value of 1,000 SIT per share. Pursuant to the resolution adopted at the 10th General Meeting of Gorenje, d.d., held on 12 December 2006, all shares have been transformed to no-par value shares. The change was entered into the Central registry of dematerialised securities on 22 December 2006.

Share premium in the amount of 18,832,556 TSIT

Share premium contains payments in excess of the book value in case of disposal of temporarily repurchased own shares in the amount of 129,253 TSIT, and general equity revaluation adjustment in the amount of 18,703,303 TSIT resulting from the transition to IFRS.

Legal reserves, statutory reserves, and other reserves in the amount of 10,475,414 TSIT

They include legal reserves in the amount of 3,090,330 TSIT, statutory reserves, which are set up annually in the amount equivalent to 10 percent of net profit for the period that remains after covering of loss, setting up of legal reserve and setting up of reserves for own shares, in the amount of 748,836 TSIT, and reserves for own shares in the amount of 6,636,248 TSIT pursuant to the Companies Act and the bylaws corresponding to the cost value of own shares.

Retained earnings in the amount of 13,833,081 TSIT

According to the Companies Act, retained earnings comprise other revenue reserves in the amount of 11,427,215 TSIT formed pursuant to the resolutions adopted by the management and supervisory boards on the appropriation of the profit for the current period and resolutions of the Shareholders Meeting on the distribution of the accumulated profit and the determined accumulated profit in the amount of 2,405,866 TSIT.

Equity revaluation adjustment in the amount of 1,435,077 TSIT

Equity revaluation adjustments refer to hedging reserves in the amount of 125,466 TSIT resulting from effective cash flow hedge (interest rate swaps) and to fair value reserves in the amount of 1,564,125 TSIT arising from the decrease in fair value of financial instruments available for sale, decreased by the amount of deferred tax liabilities amounting to 254,514 TSIT.

Own shares in the amount of 6,636,248 TSIT

Own shares are recorded under equity as deductible item and carried at cost.

Number of shares	1 Jan 2006	Purchase	Sale	31 Dec 2006
Repurchased own shares	717,192	466,150	0	1,183,342

In accordance with the Call and Put Option Contract concluded on 21 June 2004 with Slovenska odškodninska družba, d.d. (Slovene Indemnity Company), Gorenje, d.d. exercised on 3 February 2006 and on 3 August 2006 the call option for 466,150 own shares. No sales of own shares were made in 2006. As at 31 December 2006, the Company holds 1,183,342 own shares, or of 9.6995 % equity capital.

In 2006 earnings per share amounted to 259.81 SIT (in 2005: 213.13 SIT).

To calculate the ratio of earnings per share, the following information on the Company's profit or loss and the weighted average number of ordinary shares in the period are taken into consideration:

in TSIT	2006	2005
Net profit or loss	2,902,653	2,447,378
Weighted average number of ordinary shares	11,172,041	11,482,808
Earnings per share basic / diluted (in SIT)	259.81	213.13

No preference shares are held by the Company, hence basic earnings and diluted earnings per share are equal.

The amount of reserves totals 29,307,970 TSIT, of which 3,219,583 TSIT are not available for payout to shareholders.

Note 23

Establishment of the accumulated profit and proposal on its appropriation in accordance with the provisions of the Companies Act

In accordance with the Companies Act and the Company's bylaws, the net profit for the period in the amount of 2,902,653,414.62 SIT and a portion of the retained earnings from 1999 in the amount of 77,857,555.13 SIT were allocated to reserves for own shares, whose formation was necessary due to the acquisition of 466,150 of own shares. The proposed allocation to reserves for own shares was approved by the Supervisory Board, as appropriately disclosed in the Company's financial statements.

The formation of accumulated profit for 2006 is presented in the following chart:

SIT	
Net profit for the period	2,902,653,414.62
+ retained earnings	95,026,700.00
+ decrease in other revenue reserves	2,388,696,589.70
- allocation to reserves for own shares	2,980,510,969.75
= accumulated profit	2,405,865,734.57

Accumulated profit for 2006 in the amount of 2,405,865,734.57 SIT comprises:
- retained earnings from 2001 in the amount of 2,388,696,589.70 SIT and
- net profit for 1999 in the amount of 17,169,144.87 SIT.

The management and the supervisory board of the Company propose to the shareholders' meeting to use the accumulated profit for 2006 in the amount of 2,405,865,734.57 SIT or 10,039,499.81 EUR for the following purposes:

- 1,227,915,360.00 SIT or 5,124,000.00 EUR of accumulated profit arising from the net profit for 2001 shall be distributed to shareholders; the gross dividend payout shall amount to 100.6488 SIT or 0.42 EUR per share;
- 592,932,867.28 SIT or 2,474,265.01 EUR of accumulated profit arising from net profit for 2001 (592,932,867.28 SIT or 2,474,265.01 EUR) shall be allocated to other revenue reserves;
- the remaining amount of accumulated profit amounting to 585,017,507.29 SIT or 2,441,234,80 EUR arising from net profit for 2001 (567,848,362.42 SIT or 2,369,589,23 EUR) and net profit for 1999 (17,169,144.87 SIT or 71,645,57 EUR) shall remain unallocated.

Note 24

Non-current provisions 6,389,077 TSIT

in TSIT	2006	2005
Non-current provisions for warranties	3,365,035	3,201,933
Non-current provisions for termination pays and pensions	2,629,370	2,886,218
Other non-current provisions	394,672	395,774
Total	6,389,077	6,483,925

Movements in non-current provisions in 2006

in TSIT	Balance 1 Jan 2006	Use and reversal	Setting-up	Balance 31 Dec 2006
Non-current provisions for warranties	3,201,933	-1,886,179	2,049,281	3,365,035
Non-current provisions for termination pays and pensions	2,886,218	-313,982	57,134	2,629,370
Other non-current provisions	395,774	-1,342	240	394,672
Total	6,483,925	-2,201,503	2,106,655	6,389,077

Movements in non-current provisions in 2005

in TSIT	Balance 1 Jan 2005	Use and reversal	Setting-up	Balance 31 Dec 2005
Non-current provisions for warranties	3,154,155	-1,298,827	1,346,605	3,201,933
Non-current provisions for termination pays and pensions	2,797,068	0	89,150	2,886,218
Other non-current provisions	391,474	-7,000	11,300	395,774
Total	6,342,697	-1,305,827	1,447,055	6,483,925

Non-current provisions for warranties are formed on the basis of estimates of warranties prepared by taking into account the available data on the quality level of products and the recorded costs of warranties.

The actuarial calculation of estimated future payments of termination pays and anniversary bonuses was conducted as at 31 December 2005. In 2006, 57,134 TSIT of provisions were formed and charged against current profit or loss. The newly formed provisions are due to new recruitments and the method applied in the actuarial calculation.

Other non-current provisions include provisions for claims for damages in litigation.

Note 25

Non-current financial liabilities 26,436,407 TSIT

in TSIT	2006	2005
Non-current financial liabilities to banks	30,669,528	28,042,139
Non-current financial liabilities to other entities	5,480,360	3,083,132
Current portion of non-current financial liabilities	-9,713,481	-8,191,857
Total	26,436,407	22,933,414

Non-current financial liabilities are denominated in EUR. As at 31 December 2006, long-term borrowings bear interest at the nominal interest rate ranging from 3.8% to 4.8%. Variable interest rates are applied.

Maturity schedule of non-current financial liabilities

in TSIT	2006	2005
Maturity from 1 to 2 years	9,126,672	7,792,536
Maturity from 2 to 3 years	7,061,584	7,222,381
Maturity from 3 to 4 years	4,310,894	4,901,162
Maturity from 4 to 5 years	4,755,933	2,158,833
Maturity in excess of 5 years	1,181,324	858,502
Total	26,436,407	22,933,414

Collateralisation of non-current financial liabilities

in TSIT	2006	2005
Bills	25,559,667	21,711,655
Pari-Passu Clause, Negative Pledge Clause	24,443,040	21,659,547
Financial obligations (ratios)	16,148,839	7,775,512

The major portion of borrowings was collateralised by blank bills and the Pari-Passu and Negative Pledge Clauses, as stipulated by the individual contracts. Several types of collaterals are applied simultaneously in some loan contracts.

Note 26

Current financial liabilities 18,087,360 TSIT

in TSIT	2006	2005
Long-term borrowings from banks	7,368,570	3,614,485
Long-term borrowings from related entities	921,226	1,506,130
Current interest payable	50,957	37,054
Current dividends payable	33,126	30,570
Current portion of non-current financial liabilities	9,713,481	8,191,857
Fair value of derivative financial instruments	0	161,645
Total	18,087,360	13,541,741

Collateralisation of current financial liabilities

in TSIT	2006	2005
Bills	16,803,770	11,592,371
Pari-Passu Clause, Negative Pledge Clause	15,042,875	10,241,146
Financial obligations (ratios)	5,327,320	3,320,965
Mortgage	39,208	83,353

A significant portion of borrowings was collateralised by blank bills and the Pari-Passu and Negative Pledge Clauses, as stipulated by the individual contracts. A mortgage was obtained for a loan in 1999; several types of collaterals are applied simultaneously in some loan contracts.

Long-term borrowings

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%) from	to
EUR	69,965	16,766,397	3.8	4.8
SIT	1,062,226	1,062,226	3.2	3.75
USD	960	174,654	5.8	5.8
Total		18,003,277		

Note 27

Trade and other payables 45,742,984 TSIT

in TSIT	2006	2005
Payables to suppliers in the Gorenje Group	6,053,513	3,950,638
Payables to other suppliers	39,689,471	35,250,059
Total	45,742,984	39,200,697

In 2006, trade and other payables increased by 6,542,287 TSIT or 16.7% over the previous year's figure. The increase in trade and other payables to suppliers in the Gorenje Group is mainly due to an increase in purchases from the subsidiaries Mora Moravia, s.r.o., Czech Republic and Gorenje aparati za domaćinstvo, d.o.o., Serbia. Payables to other suppliers increased by 4,439,412 TSIT against 2005, due to the extension of the period of payment allowed by suppliers.

Payables to suppliers in the Gorenje Group

in TSIT	2006	2005
Payables to domestic suppliers	2,441,561	2,825,620
Payables to foreign suppliers	3,611,952	1,125,018
Total	6,053,513	3,950,638

Payables to domestic suppliers in the Gorenje Group

Company	2006	2005
Gorenje Tiki, d.o.o., Ljubljana	9,599	1,696
Gorenje Gostinstvo, d.o.o., Velenje	75,191	46,893
Gorenje Notranja oprema, d.o.o, Velenje	23,141	12,689
Opte Ptuj, d.o.o., Ptuj	1,405	1,532
Gorenje I.P.C., d.o.o., Velenje	1,444,463	1,278,997
Gorenje GTI, d.o.o., Velenje	609,651	800,188
LINEA SP, d.o.o., Velenje	1,807	1,998
Gorenje Orodjarna, d.o.o., Velenje	180,432	204,106
Gorenje Indop, d.o.o., Velenje	0	238,236
Biterm, d.o.o., Bistrica ob Sotli	0	185,837
Kemis, d.o.o., Radomlje	7,948	936
Gorenje Glin, d.o.o., Nazarje	0	107
GEN-I, d.o.o., Krško	86,843	13,590
ZEOS, d.o.o., Ljubljana	1,081	0
IG Prodaja, d.o.o., Nova Gorica	0	38,815
Total	2,441,561	2,825,620

Payables to foreign suppliers in the Gorenje Group

Company	2006	2005
Gorenje Polska, Sp.z.o.o., Poland	21,905	241
Gorenje spol. s.r.o., Czech Republic	78,846	121,514
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	7,086	7,060
Gorenje Zagreb, d.o.o., Croatia	0	201,852
Gorenje Budapest KFT., Hungary	6,917	22,659
Gorenje d.o.o., Serbia	19,809	21,746
Gorenje Belux S.a.r.l., Belgium	23	8,444
Gorenje Vertriebs GmbH, Germany	85,266	78,865
Gorenje Koerting Italia S.r.l., Italy	84,326	5,553
Gorenje Kuechen, GmbH, Austria	0	349
Gorenje Beteiligungs GmbH, Austria	96,231	130,471
Gorenje Skandinavien A/S, Denmark	24,663	13,790
Gorenje France S.A.S., France	105,501	120,241
Gorenje UK Ltd., Great Britain	14,037	54,522
Gorenje Romania S.r.l., Rumania	67,956	34,056
Mora Moravia, s r.o., Czech Republic	2,018,663	280,876
Gorenje Slovakia, s.r.o., Slovakia	29,046	23,421
Gorenje aparati za domaćinstvo, d.o.o., Serbia	946,338	0
Gorenje Espana, s.l., Spain	4,688	0
Exchange differences	651	-642
Total	3,611,952	1,125,018

Payables to other suppliers

in TSIT	2006	2005
Payables to domestic suppliers	15,184,585	13,519,691
Payables to foreign suppliers	24,504,886	21,730,368
Total	39,689,471	35,250,059

Note 28

Other current liabilities — 3,786,626 TSIT

in TSIT	2006	2005
Payables to employees	1,731,218	1,538,302
Payables to state institutions	297,665	686,589
Current liabilities from advances	300,606	2,437
Other current liabilities	87,142	29,574
Short-term accrued costs and expenses	1,369,995	1,324,583
Total	3,786,626	3,581,485

As at 31 December 2006, payables to employees include:

in TSIT	2006	2005
Wages and salaries and continued pay	887,098	770,125
Contributions on wages and salaries	340,444	303,475
Taxes on wages and salaries	171,215	165,849
Other emoluments from employment	27,142	24,573
Deductions from wages and salaries	299,848	270,264
Other payables	5,471	4,016
Total	1,731,218	1,538,302

Payables to state institutions are lower due to the already paid advances of corporate income tax for 2006, as payables to state institutions were decreased by the overpaid amount of income tax (39,814 TSIT). Current liabilities from advances mostly refer to the Indop projects (252,385 TSIT).

Short-term accrued costs and expenses include accrued costs of services in the amount of 577,369 TSIT, accrued interest expenses on borrowings in the amount of 285,532 TSIT, accrued expenses relating to bonus payments in 2006 in the amount of 326,049 TSIT, and other accrued employee benefits expenses in the amount of 181,045 TSIT.

Note 29

Contingent liabilities

The Company keeps separate records of contingent liabilities arising from guarantees granted to financial institutions for liabilities recorded by subsidiaries (14,891,279 TSIT) and by third entities (671,170 TSIT).

Note 30

Financial instruments

In the area of financial risk management the Company pursued in the year 2006 the financial policies that include the staring 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, d.d., identified the following key types of financial risks:

Financial risks	
	credit risk
	currency risk
	interest rate risk
	liquidity risk

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 – 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, d.d., considers that the exposure to credit risks is moderate.

Due to its geographic diversification of operation the Gorenje, d.d. 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 currency risks which are associated with business operations on the markets of Croatia, 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, in short-term the Company is protected against currency risks by futures 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, d.d. considers that 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, d.d. 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, d.d. amounted to 50.7 % 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, d.d. considers that the exposure to interest rate risks 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, d.d. 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 of generating cash flows from operating activities, and high credit rating.

The management board of the Gorenje, d.d. considers that the exposure to liquidity risks is minor.

Note 31

Fair value

Financial instruments available for sale are stated at fair value based on market prices.

Forward exchange transactions

As at 31 December 2006, the amount of hedged items for which forward exchange transactions were concluded by Gorenje, d.d. totalled 16,179,599.87 EUR. As at the balance sheet date, forward exchange transactions are used to hedge against changes in the currency parity between: EUR/PLN, EUR/HRK, EUR/USD, EUR/AUD, EUR/HUF. The maturity of transactions is a short-term one (less than one year).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The data for determination of fair value of financial instruments is provided by Reuters; the decisive values are the values of the opposite forward exchange transactions with the same maturities, in effect at the balance sheet date. The fair value of forward currency transactions at the balance sheet date is the difference between the value of actually concluded forward exchange transactions and the value of the opposite forward exchange transactions at the balance sheet date, taking into consideration the same maturities of individual forward exchange transactions.

As at 31 December 2006, the total fair value of forward exchange transactions amounted to 7,661,253 SIT or 31,969.84 EUR and was recorded under other non-current assets.

Interest rate swap transactions

As at 31 December 2006, the amount of hedged items for which interest rate swap transactions were concluded by Gorenje, d.d. totalled 22,318,367,909.10 SIT or 93,132,898.97 EUR. Interest rate swap transactions are used to hedge against changes in the variable interest rate EURIBOR. The maturity of transactions is a long-time one, i.e. successively until 31 January 2012.

Fair value of the aforesaid transactions is the amount for which an individual financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The data for determination of fair value of financial instruments is provided by Reuters; the decisive values are the values of interest rate swap transactions with the same maturities, in effect at the balance sheet date.

The fair value of interest rate swap transactions at the balance sheet date is the discounted difference between the cash flow for interest payments under the interest rate swap contracts and the cash flow for interest payments under the interest rate swap contracts of equal value at the balance sheet date.

As at 31 December 2006, the total fair value of interest rate swap transactions amounted to 456,671,907.08 SIT or 1,905,658.10 EUR and was recorded under other non-current assets.

The fair values of the interest rate swaps which refer to the individual loans and represent a cash flow hedge are stated at 125,466 TSIT and recorded under equity revaluation adjustment, whereas the fair value hedges of the interest rate swaps (the latter were based on the expected scope of loans) are stated at 331,206 TSIT and recorded under finance income.

Loans and borrowings are carried at the amount recalculated by use of the effective interest rates, which do not differ essentially from the stipulated interest rates. Therefore, the stipulated interest rate is applied in the calculations.

Current trade and other receivables are not discounted for the reason of being short term. However, impairment loss on fair value is taken into consideration.

Current trade and other payables are not discounted for the reason of being short term. They are stated at fair value.

Fair value and book value of assets and liabilities of Gorenje, d.d., Velenje:

The fair value and the book value of assets and liabilities is as follows:

in TSIT	Book value 2006	Fair value 2006	Book value 2005	Fair value 2005
Financial assets available for sale	1,354,253	1,354,253	1,304,126	1,304,126
Long-term loans	149,225	149,225	499,916	499,916
Current investments	3,350,458	3,350,458	4,384,956	4,384,956
Trade and other receivables	46,590,805	46,590,805	38,013,673	38,013,673
Derivative financial instruments	464,333	464,333	-161,645	-161,645
Cash and cash equivalents	126,548	126,548	10,114	10,114
Non-current financial liabilities	-26,436,407	-26,436,407	-22,933,414	-22,933,414
Current financial liabilities	-18,057,360	-18,057,360	-13,380,096	-13,380,096
Trade and other payables	-48,072,473	-48,072,473	-41,428,025	-41,428,025
Total	-40,530,618	-40,530,618	-33,690,395	-33,690,395

Note 32

Related party transactions

The related party transactions of the Company have been consummated on the basis of contracts concluded with related parties on terms equivalent to those that prevail in arm's-length transactions. The individual transactions with related parties were disclosed under the respective balance sheet disclosures.

Information on emoluments

In the Company, the following gross emoluments were paid out to the below groups of persons in 2006:

Gross emoluments in 2006

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

Net emoluments in 2006

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

Gross emoluments in 2005

in TSIT	*Management Board*	*Supervisory Board*	*Employees under individual contract*
- salaries	165,460		979,439
- incentive bonuses	54,910	26,000	127,437
- fringe benefits	14,153		73,538
- attendance fees		4,569	
- other refund of expenses	760	1,125	12,751
Total	**235,283**	**31,694**	**1,193,165**

Net emoluments in 2005

in TSIT	*Management Board*	*Supervisory Board*	*Employees under individual contract*
- salaries	63,233		459,677
- incentive bonuses	23,433	20,150	60,703
- fringe benefits	14,153		73,538
- attendance fees		3,541	
- other refund of expenses	412	246	7,761
Total	**101,231**	**23,937**	**601,679**

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

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

Net emoluments in 2006

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

Gross emoluments in 2005

in TSIT	*Franc Bobinac*	*Franc Košec*	*Žiga Debeljak*	*Drago Bahun*
- 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
Total	**70,253**	**56,850**	**52,819**	**55,361**

Net emoluments in 2005

in TSIT	*Franc Bobinac*	*Franc Košec*	*Žiga Debeljak*	*Drago Bahun*
- 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
Total	30,058	24,326	22,846	24,001

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.

No long-term or short-term loans have been granted to the members of the Management Board, Supervisory Board, and internal owners.

Note 33

Events after the balance sheet date

Significant events after the balance sheet date as at 31 December 2006:

- *As from 1 January 2007, the operation of sale of cooling and heating technique has been transferred from Gorenje GTI, d.o.o. to Gorenje Tiki, d.o.o.;*
- *On 31 January 2007, Gorenje, d.d. purchased from Probanka, d.d. a 23.4 share in Surovina, d.d., Maribor and thus became a 51-percent owner of shares in the equity of the company;*
- *On 31 January 2007, Kemis Zagreb, d.o.o. took over the company Termoclean-Zg, d.o.o.;*
- *On 8 January 2007, a representative office of Gorenje, d.d. was founded in Kazahstan.*

Note 34

Transactions with the audit firm

In accordance with Article 57, Companies Act, an audit was carried out by the auditing company KPMG Slovenija , d.o.o., in the period between 19 January and 05 February 2007 and an auditor's opinion was issued on 6 April 2007. In 2006, the fee for audit services amounted to 38.929 TSIT; 29,000 TSIT of accrued expenses were recorded for the audit of the Annual Report.

Note 35

Business segments

in TSIT	Refrigerators and freezers		Washing machines and dishwashers		Cooking appliances		Other sale		Eliminations		**Total**	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Net revenue from sale of products, goods and materials	50,746,968	57,205,286	33,732,353	31,872,630	53,152,923	47,636,480	32,237,333	13,503,881			169,869,577	150,218,277
Revenue from sale of services	670,420	767,804	1,213,968	1,254,210	481,973	332,520	3,123,217	785,320			5,489,578	3,139,854
Net revenue from sale to the Gorenje Group companies	26,783,647	37,808,200	22,764,824	20,575,077	37,227,682	29,856,654	18,247,844	11,856,450			105,023,997	100,096,381
Segment's results from operations	93,781	57,653	656,468	494,634	2,375,789	1,793,599	781,510	410,148			3,907,548	2,756,034
Financial results											-663,100	-471,874
Taxes											-341,795	163,218
Net profit or loss											2,902,653	2,447,378
Segment's assets	47,838,884	42,506,824	34,906,287	31,616,544	34,886,405	31,626,396	28,613,523	27,429,312			146,245,099	133,179,076
Unallocated assets											4,591,749	3,006,792
Total assets	47,838,884	42,506,824	34,906,287	31,616,544	34,886,405	31,626,396	28,613,523	27,429,312			150,836,848	136,185,868
Segment's liabilities	33,270,278	31,913,451	23,502,672	20,040,043	26,845,812	23,870,731	17,078,206	9,917,037			100,696,968	85,741,262
Segment's investments	2,270,783	2,870,659	1,220,793	2,260,333	1,622,589	1,568,062	1,836,025	2,591,374			6,950,190	9,290,428
Write-off of operating current assets	145,659	165,347	97,999	427,218	165,051	127,784	103,157	107,538			511,866	827,887

Note 36

Geographical segments

in TSIT	EU		East Europe		Other areas		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Net revenue	101,864,121	90,538,901	64,504,927	53,575,567	8,990,107	9,243,663	175,359,155	153,358,131
Segment's assets	87,485,372	60,121,608	55,809,634	46,312,625	7,541,842	29,751,635	150,836,848	136,185,868
Segment's investments	4,031,110	4,332,269	2,571,570	3,018,834	347,510	1,939,325	6,950,190	9,290,428

5.1.2.3 *Auditor's Report*

KPMG

Independent Auditor's Report

To the Shareholder's of Gorenje, d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the Gorenje, d.d., Velenje which comprise the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We also read the Management Report.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements prepared in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Gorenje, d.d., Velenje as at 31 December 2006, the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The Management Report is in conformity with the audited 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

Ljubljana, 6 April 2007

KPMG Slovenija, d.o.o.
2

Household Appliances Division

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This document is the designed version of Gorenje, d.d. Annual Report for 2006, which was adopted by the Supervisory Board on 23 April 2007. This Annual Report, in the form adopted by the Supervisory Board, was published by the Stock Exchange reporting system and is available at the company's headquarters.

Annual Report 2006
available at www.gorenje.com

Tekst: Gorenje d.d.
Design and photo: Studio Breg, d.o.o.,
Printed: Gorenjski Tisk, d.d.
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