

**Non-audited and non-consolidated Financial Statements of Gorenje, d.d., for the 2006 Financial Year  
in accordance with  
the International Financial Accounting Standards (IFRS)**

Published by corporation Gorenje, d.d., Partizanska 12, SI-3503, Velenje, as provided by the Companies Act, Article 38. a of the Regulations of Ljubljanska borza vrednostnih papirjev d.d. (the Ljubljana Stock Exchange), and the Securities Market Act.

## **Achieved Business Objectives**

In the opinion of the Management Board of Gorenje, d.d., despite unfavourable business conditions planned objectives as regards business performance and asset- and financial objectives of the company were largely achieved in the 2006 financial year.

### **Achieved Business Objectives in Figures (in line with IFRS provisions)**

Million SIT	2006	Plan 2006	2005	2006/ Plan 2006	2006/2005
Revenue	<b>175,359.2</b>	168,485.8	<b>153,358.1</b>	104.1	114.3
Gross Operating Yield	<b>177,819.4</b>	169,904.7	<b>156,128.2</b>	104.7	113.9
EBITDA	<b>11,999.7</b>	12,485.2	<b>10,659.2</b>	96.1	112.6
Profit before tax (PBT)	<b>3,244.4</b>	2,982.4	<b>2,284.2</b>	108.8	142.0
Net Profit	<b>2,902.7</b>	2,455.4	<b>2,447.4</b>	118.2	118.6
Average Number of Employees	<b>5,591</b>	5,467	<b>5,557</b>	102.3	100.6

#### **Revenue**

The achieved growth of revenue is in comparison with the year 2005 **exceeded by 14.3 %** and, to a large extent, a result of more favourable pricing of products, goods and services sold, and a favourable geographic sales structure.

#### **EBITDA**

Earnings before interest, tax, and amortization are higher than in 2005 in spite of 13.4 % increase of costs from the operations and mainly on account of the higher growth of business activities.

#### **Profit before tax (PBT)**

The increase in PBT is connected with the favourable dynamics of business activities and of operating costs growth; the business activities volume in comparison with 2005 exceeds by 0.5-percentage points the operating costs growth.

#### **Net Profit**

In spite of the increase in income tax actually charged in comparison with the previous year, net profit for the accounting period **exceeded by 18.6 % and plan for the year 2006 by 18.2 %**.

#### **Distributable net profit**

amounted to SIT 2,405.9 million. Distribution of balance sheet profit included the allocation of part of net profit from the year 1999 for reserves of own shares in line with the Company By-Laws, to gain 466,150 own shares; and also included the released reserves from net profit for the year 2001 and of the remaining net profit for the year 1999. Net profit allocations are of course subject to the approval of the Supervisory Board in the course of approving the Annual Report of the Company. On the net profit allocations in comparison with the previous year have a major impact the use of the IFRS rules.

## Business Environment

There was no significant improvement in business conditions in 2006. **Commodity prices** remain the biggest uncertainty, in particular the prices of sheet metal and other metals, plastics, and components made of these materials.

The other major factor affecting business performance in 2006 was the **implementation of the directive on the recycling of electronic and electrical waste (WEEE)**, which entered into force in Slovenia in August 2005. The Directive has introduced mandatory product recycling for the manufacturers of electronic and electrical equipment, thereby significantly increasing their costs of operation. Due to the ambiguities in the national legislations of the countries of Gorenje's operation regarding the date of its actual introduction and the manner of its implementation, the impacts of the Directive cannot be estimated with any degree of certainty.

In order to ensure **efficient and effective economy of operation** in 2006, the following measures were implemented:

- **Quality sales growth and profitability** while ensuring a balanced utilization of all production capacities and maximising our profit margin;
- **Development of new products and services**, which increased our market competitiveness, enable high-end product placement and higher value added, and consequently lead to improved company performance in the future, while simultaneously seeking engineering-technological solutions to lower the costs of production and distribution of existing products;
- **Optimisation of the supply chain** and alternative and/or new sources of supply so as to ensure price competitiveness of our products;
- **Cost optimisation**;
- **Manufacturing productivity and efficiency of operation in manufacturing** by even utilization of production capacities throughout the year with a view of maximising production economy and cost efficiency.
- **Internationalisation of production capacities** (opening of the Valjevo plant – manufacture of refrigeration-freezer appliances) in order to realise the benefits available to local manufacturers, enable the optimisation of tax- and customs duties, lower the cost of labour and facilitate the growth of supply from these regions;
- **Rationalisation of the organisation of logistics, sales and after-sales services** of the Group, and improving the efficiency of support systems in all their aspects;
- **Selective implementation of new investment projects** and ensuring that they staid within the planned volume; priority was given to investments in new products and markets;
- **Management of current assets**, in particular of receivables and inventories, since current assets have a considerable effect on the level of debt and consequently the cost of financing of the Group;
- **Effective management of all types of risk**, which the company is exposed to due to the highly changeable business environment in which we operate, with the focus on credit (payment) risks, in particular in more uncertain markets and those characterised by lower liquidity.

## Ownership Structure as at 31 December 2006

Ownership shares of ten major shareholders are shown in the table below.

	Shareholder/Number of Shares	31.12.2006	%
1.	Kapitalska družba, d.d.	3,073,579	25.1933
2.	Gorenje, d.d.-Own shares	1,183,342	9.6995
3.	KD Galileo, Vzajemni sklad	506,963	4.1554
4.	Delniški vzajemni sklad Triglav Steber I	420,816	3.4493
5.	KD Rastko, Delniški vzajemni sklad	360,447	2.9545
6.	Maksima, Delniška ID, d.d.	257,084	2.1072
7.	Raiffeisen Zentralbank AG, Austria	240,046	1.9676
8.	Krona Senior, Delniška ID, d.d.	233,697	1.9155
9.	Probanka, d.d.	232,751	1.9078
10.	Zlata Moneta II, d.d.	217,130	1.7798
	<b>Major Shareholders – Total:</b>	<b>6,725,855</b>	<b>55.1300</b>
	<b>Other Shareholders:</b>	<b>5,474,145</b>	<b>44.8700</b>
	<b>TOTAL:</b>	<b>12,200,000</b>	<b>100.0000</b>

## Own Shares

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

In accordance with the Agreement on establishing a put and call option, signed on 21 June 2004 by the Slovenian Indemnity Fund (Slovenska odškodninska družba d.d.) and Gorenje, d.d., on 5 January 2006 the Slovenian Indemnity Fund notified Gorenje, d.d., of its intent to exercise its sales option for the sale of 233,075 Gorenje, d.d., shares (1.9105 % of the company capital) at the price of SIT 6,321.84 per share. On 3 February 2006 Gorenje, d.d., repurchased 950.267 of own shares on the agreed terms, thereby increasing its share in total capital stock to 7.7891 percent.

In accordance with the Agreement on establishing a put and call option, signed on 21 June 2004 by the Slovenian Indemnity Fund and Gorenje, d.d., on 7 July 2006 the Slovenian Indemnity Fund notified Gorenje, d.d., of its intent to exercise its sales option for the sale of 233,075 Gorenje, d.d., shares (1.9105 % of the company capital) at the price of SIT 6,464.05 per share.

## Book Value of Shares and Earnings per Share

Gorenje shares (GRVG) made the prime listing of the Ljubljana Stock Exchange on 3 October 2005 and on 31 December 2006 **traded at the uniform price of SIT 6,386.18**, which is **40.4 % above** their **book value**, which on 31 December 2006 amounted to **SIT 4,551.27**. The book value of a share is calculated as the ratio between the total company equity at 31 December 2006, and the number of shares issued minus the number of own shares (11,016,658) as 31 December 2006.

**Net profit per share**, calculated as the ratio between the net profit made in the accounting period and the number of shares issued minus the average number of own shares (11,172,041), amounted to **SIT 259.81** in 2006.

## Supervisory Board

As at 31 December 2006, members of the **Supervisory Board** held **12,299 shares (0.1008 %)**, as follows: Mr Ivan Atelšek 8,258 (0.0677 %); Mr Jurij Slemenik 1,511 (0.0124 %); Mr Krešimir Martinjak 100 (0.0008 %); Mr Peter Kobal 1,178 (0.0097 %); Mr Drago Krenker 800 (0.0066 %); Dr Jože Zagožen 405 (0.0033 %) and Mr Gregor Sluga 47 (0.0004 %).

On 29 June 2006 the General Meeting of Gorenje, d.d., elected the following candidates as the members of the Supervisory Board acting on behalf of the shareholders, for the period of four years: **Mr. Peter Ješovnik, Mr. Milan Podpečan, Mr. Andrej Presečnik, Mr. Gregor Sluga, Mr. Jože Zagožen**. The newly elected members of the Supervisory Board took office on 18 July 2006.

In line with the provisions of the Employee Council Rules of Procedure, at the meeting of the Gorenje, d.d. Employee Council held on 26 May 2006 five employee representatives were elected onto the Gorenje, d.d., Supervisory Board for the period of four years. Of this, the General Meeting was duly notified. The newly elected employee representatives are **Mr. Peter Kobal, Mr. Krešimir Martinjak, Mr. Jurij Slemenik, Mr. Drago Krenker** and **Mr. Ivan Atelšek**, who took office on 18 July 2006.

On 5 May 2006 a member of the Supervisory Board, Mr. Drago Krenker, sold 100 Gorenje, d.d., shares (GRVG shares), and on 21 September 2006 additional 1,198 GRVG shares. All transactions were made public in the SEOnet electronic system and on the Gorenje website, [www.gorenje.com](http://www.gorenje.com).

The number and percentage of shares owned by members of the Supervisory Board remained unchanged from 31 December 2006 to the date of this publication.

## Management Board

As at 31 December 2006, members of the **Management Board** held **11,037 shares (0.0905 %)**, as follows: Mr Franjo Bobinac 1,822 (0.0149 %); Mr Franc Košec 1,200 (0.0098 %); Mrs Mirjana Dimc Perko 83 (0.0007 %) and Mr Drago Bahun 7,932 (0.0650 %).

The number and percentage of shares owned by members of the Management Board remained unchanged from 31 December 2006 to the date of this publication.

## Financial Statements in Accordance with IFRS

### Non-audited Balance Sheet of Gorenje, d.d.

In SIT' 000	31 December 2006	31 December 2005
<b>ASSETS</b>	<b>150,836,848</b>	<b>136,185,868</b>
<b>A. Non-current assets</b>	<b>76,375,745</b>	<b>74,233,321</b>
I. Intangible assets	4,157,802	3,990,025
II. Property, plant and equipment (PPE)	46,468,626	47,865,808
III. Investment property	147,176	190,945
IV. Investments into subsidiaries	21,490,579	19,102,647
V. Investments into associated companies	1,357,108	10,000
VI. Other investments	1,493,478	1,793,742
VII. Deferred tax assets	1,260,976	1,280,154
<b>B. Current assets</b>	<b>74,461,103</b>	<b>61,952,547</b>
I. Non-current assets for sales	22,200	0
II. Inventories	21,166,867	18,073,100
III. Other investments	3,350,458	4,384,956
IV. Trade receivables	46,590,805	38,013,673
V. Other current assets	3,204,225	1,470,704
VI. Cash and cash equivalents	126,548	10,114
<b>EQUITY AND LIABILITIES</b>	<b>150,836,848</b>	<b>136,185,868</b>
<b>A. Total equity</b>	<b>50,139,880</b>	<b>50,444,606</b>
I. Shares	12,200,000	12,200,000
II. Share premium	18,832,556	18,832,556
III. Legal, statutory and other reserves	10,475,414	7,494,904
IV. Retained earnings	13,833,081	15,035,911
V. Fair value reserve	1,435,077	536,973
VI. Own shares	-6,636,248	-3,655,738
<b>B. Non-current liabilities</b>	<b>33,079,998</b>	<b>29,417,339</b>
I. Provisions	6,389,077	6,483,925
II. Deferred tax liabilities	254,514	0
III. Loans and borrowings	26,436,407	22,933,414
<b>C. Current liabilities</b>	<b>67,616,970</b>	<b>56,323,923</b>
I. Short-term borrowings	18,087,360	13,541,741
II. Trade liabilities	45,742,984	39,200,697
III. Other liabilities	3,786,626	3,581,485

## Non-audited Profit and Loss Statement of Gorenje, d.d.

	In SIT' 000	2006	2005
<b>1.</b>	<b>Revenue</b>	<b>175,359,155</b>	<b>153,358,131</b>
2.	Changes in inventories	682,080	1,219,074
3.	Other operating income	1,778,188	1,550,953
<b>4.</b>	<b>Gross operating yield</b>	<b>177,819,423</b>	<b>156,128,158</b>
5.	Cost of goods, materials and services	-139,855,821	-120,614,086
6.	Personnel expenses	-24,945,346	-23,415,828
7.	Depreciation and amortization expense	-8,092,116	-7,903,151
8.	Other operating expenses	-1,018,592	-1,439,059
<b>9.</b>	<b>Operating profit</b>	<b>3,907,548</b>	<b>2,756,034</b>
10.	Financial income	2,328,398	2,485,068
11.	Financial expenses	-2,991,498	-2,956,942
<b>12.</b>	<b>Profit before tax</b>	<b>3,244,448</b>	<b>2,284,160</b>
13.	Income tax expense	-341,795	163,218
<b>14.</b>	<b>Net profit for the year</b>	<b>2,902,653</b>	<b>2,447,378</b>

**Non-audited Cash Flow Statement of Gorenje, d.d.**

	In SIT' 000	2006	2005
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
	<b>Net profit</b>	<b>2,902,653</b>	<b>2,447,378</b>
	Adjustments for:		
	Depreciation of PPE	7,521,338	7,255,394
	Depreciation of intangible assets	570,778	647,757
	Foreign currency translation loss	887,576	690,730
	Investments income	-2,328,398	-2,464,103
	Financial expenses	2,103,922	1,652,249
	Impairment investment into associated companies	0	613,963
	Revenues from sales of PPE	-515,585	-189,202
	Income tax expense	341,795	-163,217
	<b>Operating profit before changes in net working capital and provisions</b>	<b>11,484,079</b>	<b>10,490,949</b>
	Increase in trade and other receivables	-9,383,433	-5,028,974
	Increase in inventories	-3,115,967	-2,286,753
	Decrease in provisions	-94,848	0
	Increase in provisions	0	710,211
	Increase in trade and other liabilities	5,660,537	4,419,756
	<b>Cash generated from the operations</b>	<b>-6,933,711</b>	<b>-2,185,760</b>
	Interest paid	-2,147,361	-2,224,259
	Income taxes paid	-757,814	0
	Profit from subsidiary liquidation	298,172	0
	<b>Net cash from operating activities</b>	<b>1,943,365</b>	<b>6,080,930</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
	Proceeds from sales of plant and equipment	2,299,949	441,406
	Interest received	481,298	1,061,159
	Dividends received	420,027	1,100,018
	Acquisition of subsidiary, without net of cash acquired	-2,378,841	-2,257,086
	Acquisition of property, plant and equipment	-6,802,627	-7,684,584
	Other investments	933,175	1,225,712
	Acquisition of intangible assets	-706,582	-1,605,439
	<b>Net cash from investing activities</b>	<b>-5,753,601</b>	<b>-7,718,814</b>
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	Repurchase of own shares	-2,980,510	-2,988,835
	Borrowings	8,032,153	5,798,821
	Dividend payout	-1,124,973	-1,171,588
	<b>Net cash from financing activities</b>	<b>3,926,670</b>	<b>1,638,398</b>
	Net increase in cash and cash equivalents	116,434	514
	Cash and cash equivalents at 1 January	10,114	9,600
	Cash and cash equivalents at 31 December	126,548	10,114

## Non-audited Statement of Changes in Equity of Gorenje, d.d.

In SIT' 000	Share Capital	Share Premium	Legal, statutory and other reserves	Retained Earnings	Own shares	Fair value reserve	Total
<b>Balance at 1 January 2006</b>	<b>12,200,000</b>	<b>18,832,556</b>	<b>7,494,904</b>	<b>15,035,911</b>	<b>-3,655,738</b>	<b>536,973</b>	<b>50,444,606</b>
Net profit for the year				2,902,653			2,902,653
Change in fair value of investments AFS						1,152,619	1,152,619
Liabilities for deferred tax						-254,515	-254,515
Formation reserves for own shares			2,980,510	-2,980,510			0
Dividend payout				-1,124,973			-1,124,973
Purchase of own shares					-2,980,510		-2,980,510
<b>Balance at 31 December 2006</b>	<b>12,200,000</b>	<b>18,832,556</b>	<b>10,475,414</b>	<b>13,833,081</b>	<b>-6,636,248</b>	<b>1,435,077</b>	<b>50,139,880</b>

In SIT' 000	Share Capital	Share Premium	Legal, statutory and other reserves	Retained Earnings	Own shares	Fair value reserve	Total
<b>Balance at 1 January 2005</b>	<b>12,200,000</b>	<b>18,832,556</b>	<b>4,509,069</b>	<b>18,355,509</b>	<b>-669,903</b>	<b>309,179</b>	<b>53,536,410</b>
Net profit for the year				2,447,378			2,447,378
Change in fair value of investments AFS						227,794	227,794
Release of deferred tax				97,395			97,395
Formation reserves for termination pays and receivables for deferred tax				-1,706,948			-1,706,948
Formation reserves for own shares			2,985,835	-2,985,835			0
Dividend payout				-1,171,588			-1,171,588
Purchase of own shares					-2,985,835		-2,985,835
<b>Balance at 31 December 2005</b>	<b>12,200,000</b>	<b>18,832,556</b>	<b>7,494,904</b>	<b>15,035,911</b>	<b>-3,655,738</b>	<b>536,973</b>	<b>50,444,606</b>

## Important Notes to the Statements

### Principles Applied in the Preparation of Financial Statements

The non-audited non-consolidated financial statements of Gorenje, d.d., for 2006 have been prepared in accordance with the International Financial Accounting Standards. Transition to IFRS was passed on the 9<sup>th</sup> Annual General Meeting (AGM) of Gorenje, d.d., held on 29 June 2006. All comparable financial statements of Gorenje, d.d., for 2005 and 2006 have been prepared in accordance with IFRS.

Also included in the non-audited financial statements of Gorenje, d.d., are the operations of its subsidiary Gorenje Indop, d.o.o., in line with the provisions of the Agreement on Gorenje Indop, d.o.o. being amalgamated into Gorenje, d.d., whereby 31 December 2005 was set as the date of amalgamation for financial reporting purposes. Pursuant to Article 581, paragraph two, Item 7 of the Corporations Act, from that date onwards the activities of the company being amalgamated (Gorenje Indop, d.o.o.) are considered as having been undertaken on behalf of the amalgamating company (Gorenje, d.d.). The data, however, are not entirely comparable, since the provided financial statements for the previous period and the plan for 2006 do not include the financial details for the amalgamated subsidiary Gorenje Indop, d.o.o.. The impact of Gorenje Indop, d.o.o., operations on the net profit of the Company is reflected on higher profit before tax by SIT 125.7 m.

### Major Events Following the Balance Sheet Date

**Major events following the Balance Sheet date** 31 December 2006 will be as follows:

- The transfer of business activities (cooling and heating program) from the company Gorenje GTI, d.o.o., to the company Gorenje Tiki, d.o.o., on 1 January 2007 was realized.
- Pursuant to the resolutions adopted by the General Meeting on 12 December 2006, the decision of the Celje district court of 22 December 2006 on the registration of amendments in the court register in relation to business activity, powers conferred on the Management Board to increase the (approved) share capital, and the company Statute, entered into force on 16 January 2007.
- As provided by Rule No. KD 1820 of 25 January 2007, KDD Ljubljana, the central securities clearing corporation amended on 26 January 2007 the nominal value of the Gorenje, d.d., GRVG shares in the central register of securities to read, "1 no par value share", with no actual replacement of shares being made.
- On 31 January 2007, Gorenje, d.d., purchased from Probanka, d.d., a 23.4 % share in the company Surovina, d.d., Maribor, that effectively translates into 51 % of all shares in Surovina, d.d.
- On 31 January 2007, the Gorenje company Kemis, d.o.o., Zagreb, Croatia, signed the purchase agreement of 100% share in Termoclean, d.o.o., Zagreb, Croatia.
- On 8 January 2007 the representative office of Gorenje, d.d., in Kazakhstan was established.

Gorenje, d.d., Management Board

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