

**S u m m a r y**  
**Audited Annual Report of Gorenje, d.d., and**  
**Consolidated Annual Report of the Gorenje Group**  
**for the Year 2006**



*Velenje, Slovenia, April 2007*

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## General

The published **Summary of the Audited Annual Report of Gorenje, d.d., and the Consolidated Annual Report of the Gorenje Group for 2006** complies with the Regulations of the Ljubljana Stock Exchange (Ljubljanska borza, d.d., Ljubljana) (Article 35) and the Securities Market Act.

Gorenje, d.d., has headquarters at Partizanska 12, Si-3503 Velenje. Major changes of information provided in the stock exchange listing prospectus are duly and regularly published on the Ljubljana Stock Exchange electronic information system SEOnet, in the Delo newspaper, as provided by the law, and on the company website at [www.gorenje.com](http://www.gorenje.com).

The 2006 Audited Annual Report of Gorenje, d.d., and of the Gorenje Group was discussed and adopted by the company Supervisory Board at its regular meeting on 23 April 2007.

The complete Annual Report can be viewed at the company headquarters every business day between 8 am and 1 pm. The 2006 Audited Annual Report of the parent company and the Group, along with the Auditor's Report, will be forwarded to the national Agency for Public-Legal Records and Related Services, in accordance with applicable regulations.

## Audit and Auditor's Report

The 2006 Financial Statements of Gorenje, d.d., and of the Gorenje Group have been audited by the authorised auditor KPMG Slovenija, d.o.o., Ljubljana. The Auditor's Report was received on 6 April 2007 and the Auditor's Report for Public Reporting purposes on 13 April 2007. The Authorised Auditor on 6 April 2007 made a positive recommendation in relation to the Annual Report of Gorenje, d.d., and the Gorenje Group.

## Consolidated Financial Statements

The non-audited consolidated financial statements of the Gorenje Group for 2006 have been prepared in accordance with the International Financial Accounting Standards as published by the International Accounting Standards Board (IASB), and the interpretations of the International Financial Reports Interpretation Committee (IFRIC). The Gorenje Group's financial statements have been prepared in line with the international financial accounting standards since 1999, hence for 2006 the continuation of their application has been preserved in all vital respects.

**The changes in the structure** of the Gorenje Group in 2006 were as follows:

- The beginning of 2006 saw the completion of the liquidation process of Mora Slovakia s r.o., Slovakia.
- Gorenje Beteiligungs GmbH, Vienna, established a subsidiary company Gorenje Gulf FZE, United Arab Emirates, on 4 March 2006.
- At the end of 2005, Istrabenz-Gorenje, d.o.o. established a proprietary limited company Istrabenz-Gorenje, d.o.o., Zagreb, Croatia.
- Gorenje Tiki, d.o.o. founded a proprietary limited company Gorenje Tiki, d.o.o., Belgrade, Serbia at the end of 2005.
- On 21 February 2006, Gorenje France, S.A.S., founded a subsidiary company Gorenje Espana, S.L., Barcelona.
- On 11 May 2006 the agreement on the amalgamation of Gorenje Indop, d.o.o. into Gorenje, d.d., was signed with 31 December 2005 being 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.).
- On 1 July 2006, an agreement was signed for the entire ownership share (100 %) in Gorenje AD d.o.o., Valjevo, to be transferred from Gorenje, d.d., to Gorenje Beteiligungs GmbH.
  - Amalgamation of Istrabenz-Gorenje d.o.o. and IG Prodaja d.o.o. is proposed to take place at the end of July 2006.
  - With the agreement signed on 18 July 2006, Gorenje, d.d., purchased a 49.95 percent share in Istrabenz Energetski sistemi, d.o.o.. This has made it an equal partner with holding company Istrabenz, d.d., which has retained an equal 49.95 percent share in the company. Gorenje thereby effectively acquired a 49.95 percent share in the following subsidiaries of Istrabenz Gorenje energetski sistemi, d.o.o.: Istrabenz – Gorenje, d.o.o., Ljubljana; Istrabenz – Gorenje, d.o.o., Zagreb; Austrian Power Vertriebs GmbH; Biotoplota, d.o.o.; Intrade energija, d.o.o.; and Vitales, d.o.o., a joint venture company of Gorenje, d.d. and Istrabenz, d.d. The company Istrabenz Gorenje energetski sistemi, d.o.o. has on 6 October 2006 sold 50 % stake of the company GEN-I, d.o.o. to GEN energija, d.o.o.
  - At the end of May Gorenje, d.d., carried out additional capitalisation of Gorenje Tiki, d.o.o.. This brought up the ownership share of Gorenje, d.d., in Gorenje Tiki, d.o.o. to 99.982 %.
  - On 30 September 2006 Gorenje Beteiligungs GmbH, Vienna, carried out additional capitalisation of Mora Moravia s.r.o., Czech Republic, which gave it a 32.5 % share in the company.
  - On 16 October 2006 was official opening of the new refrigerators and freezers plant in Valjevo, Serbia.
  - On 30 November 2007 the liquidation process of the company Biterm, d.o.o., was completed.
  - On 10 October 2007, Gorenje Beteiligungs GmbH, Vienna, founded a subsidiary company Gorenje Istanbul Ltd., Turkey.

In addition to the ***mother company*** – Gorenje, d.d., the ***Consolidated Financial Statements*** of the Gorenje Group for 2006 ***also include*** the following ***subsidiary companies***:

**Companies, operating in Slovenia:** Gorenje I.P.C., d.o.o., Velenje; Gorenje Tiki, d.o.o., Ljubljana; Gorenje GTI, d.o.o., Velenje; Gorenje Notranja oprema, d.o.o., Velenje; Gorenje Gostinstvo, d.o.o., Velenje; LINEA SP, d.o.o., Velenje; Energygor, d.o.o., Velenje; Opte Ptuj d.o.o., Ptuj; Kemis d.o.o., Radomlje; Gorenje Orodjarna, d.o.o., Velenje; ZEOS, d.o.o., Ljubljana; Istrabenz Gorenje energetski sistemi, d.o.o., Nova Gorica; GEN-I, d.o.o., Krško ; BIOTOPLOTA, d.o.o., Nova Gorica.

**Companies, operating outside Slovenia:** Gorenje Beteiligungsgesellschaft m.b.H., Austria; Gorenje Austria Handelsgesellschaft m.b.H., Austria; Gorenje Vertriebsgesellschaft m.b.H., Germany; Gorenje Körting Italia S.r.l., Italy; Gorenje France S.A.S., France; Gorenje BELUX S.a.r.l., Belgium; Gorenje UK Ltd., Great Britain; Gorenje Skandinavien A/S, Denmark; Gorenje AB, Sweden; Gorenje spol. s r.o., Czech Republic; Gorenje real spol. s r.o., Czech Republic; Gorenje Slovakia s r.o., Slovak Republic; Gorenje Budapest Kft., Hungary; Gorenje Polska Sp. z o.o., Poland; Gorenje Bulgaria EOOD, Bulgaria; Gorenje Zagreb, d.o.o., Croatia; Gorenje Skopje, d.o.o., Macedonia; Gorenje Commerce, d.o.o., Bosnia and Herzegovina; Gorenje, d.o.o., Serbia; Gorenje Podgorica, d.o.o., Montenegro; Gorenje OY, Finland; Gorenje AS, Norway; OÜ Gorenje, Estonia; SIA Gorenje, Latvia; Gorenje Romania S.R.L., Romania; Gorenje aparati za domačinstvo, d.o.o., Serbia; Mora Moravia a.s., Czech Republic; Gorenje Küchen GmbH, Austria; Gorenje kuchyne spol. s r.o., Czech Republic; Gorenje Imobilia, d.o.o., Serbia; Gorenje Adrija nekretnine, d.o.o., Croatia; Kemis, d.o.o., Croatia; Kemis BiH, d.o.o., Bosnia and Herzegovina; Kemis Valjevo, d.o.o., Serbia; Gorenje Invest, d.o.o., Serbia; Gorenje Gulf FZE, United Arab Emirates; Gorenje Espana, S.L., Spain; Gorenje Tiki, d.o.o., Serbia; Istrabenz-Gorenje, d.o.o., Croatia; Austrian Power Vertriebs, GmbH, Austria; Intrade energija, d.o.o.,

Bosnia and Herzegovina; Vitales, d.o.o., Bosnia and Herzegovina; Gorenje Istanbul Ltd., Turkey.

Gorenje, d.d. also has the following **representative offices** abroad, which are instrumental in doing business in certain foreign markets: Moscow, Russia; Krasnojarsk, Russia; Kiev, Ukraine; Athens, Greece; Shanghai, China and Priština, Kosovo, Serbia.

## Business Climate in 2006

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.

## **Risk Management**

The growing internationalisation of the Gorenje Group, primarily in relation to manufacturing, had a major effect on the rise of the rate of risk exposure for different types of risk. This has brought risk management to the forefront of our concerns. The key to the management of the abovementioned risks, however, is a systematic approach, which at the level of the Group is being achieved by the operation of the Risk Management Board since the end of 2004.

Core activities, performed by individual bodies, are aimed at achieving acceptable i.e. expected exposure to various types of risk in order to improve the probability of the planned business goals of the Gorenje Group being accomplished.

## **Business Risks**

The following major types of business risks for the Gorenje Group have been identified: external risks, sales risks, purchasing risks, product risks, investment risks, HR business risks and loss of property risks.

**The Management Board of the Gorenje Group believe the exposure to business risks to be high owing to high purchasing (mainly price-related) risks inherent in our key supply markets.**

## **Financial Risks**

The following key financial risks for the Group have been identified: credit (payment) risks, currency risks, interest risks and liquidity risks.

**The Management Board of the Gorenje Group believes that given the safeguards and hedging mechanisms in place, exposure to financial risks is low to moderate.**

## **Operating Risks**

The following major types of operating risks for the Gorenje Group have been identified: production risks, HR related risks, information system risks, legislation related risks, project related risks, fire risks.

**Irrespective of adopted measures, in the opinion of the Management Board of the Gorenje Group, after a transitory period of ambiguity in relation to the methods and outcomes of harmonisation and implementation of legal regulations, the exposure to legislation risks, particularly in relation to environmental legislation, will be high.**

## **Principles Applied in the Preparation of Financial Statements and Important Notes to Financial Statements**

The non-audited consolidated financial statements of the Gorenje Group for 2006 have been prepared in accordance with the International Financial Accounting Standards as published by the International Accounting Standards Board (IASB), and the interpretations of the International Financial Reports Interpretation Committee (IFRIC). The Gorenje Group's financial statements have been prepared in line with the international financial accounting standards since 1999, hence for 2006 the continuation of their application has been preserved in all vital respects.

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.

The audited financial statements and the non-audited financial statements are virtually identical.

## Parent company Gorenje, d.d.

### 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>	12,485.0	<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 %**.

## Performance Analysis of the Gorenje Group

### Achieved Business Objectives in Figures

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 a significant growth in business operations with revenue exceeding EUR 1.1 billion, which is 9.5 % more than in 2005 and 9.1 % above plan. Revenue in 2006 is not fully comparable with revenue achieved in 2005, due to the divestment of both Hyundai companies in July 2005. With the comparable data's revenue increased by 12.4 %.

### Economic Performance Analysis of the Gorenje Group

#### Business Volume

Million SIT	2005	Plan 2005	2004	2005/ N2005	2005/ 2004
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
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
= Total	266,248.5	243,971.2	243,152.4	109.1	109.5

In 2006, **Household Appliances Division** generated 222,337.2 million consolidated sales, which is a share of 83.5 percent of the Division in the structure of total consolidated sales. 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 sales, out of this **Interior Furnishings 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 integration of Istrabenz – Gorenje energetski sistemi into the Gorenje Group in the second half of July 2006.

**Cost of goods, materials and services** of the Gorenje 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 204,072.2 million SIT, 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 sales which is mainly a result of integration of IGES companies into the Gorenje Group, and partly of higher cost of goods sold.

**Added Value** amounted to 65,831.3 million SIT (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.

**Added Value per employee** amounted to 6,236 TSIT, 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).

**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 or loss 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 or loss (increase in income tax amounts to 125.9 percent), and grew slower than the total profit or loss and sales. In spite of that, it is higher by 4.4 percent over the year 2005 and exceeds the valued budgeted for the year 2006.

## 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.
- 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.

## Ownership and Share Data

<b>Parent Company Gorenje, d.d.</b>	Joint-stock company since 1997, following ownership restructuring.
<b>Share Capital:</b>	SIT 12,200,000,000
<b>Number of Ordinary no par value Shares:</b>	12,200,000 shares
<b>Own shares:</b>	1,183,342 shares or 9.6995 %
<b>Stock Exchange Listing:</b>	GRVG (listed on the Prime Quotation of the Ljubljana Stock Exchange since 3 October 2005 and since 3 April 2006 on index <b>SBITOP</b> )
<b>Nominal share value: No par value share:</b>	SIT 1,000 ( till 21 December 2006) 1 no par value share (from 22 December 2006 – date of the registration in the court register)
<b>Issued Shares:</b>	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.

As at 31 December 2006, Gorenje, d.d., had **17,168 shareholders**; in comparison with 31 December 2005 (18,075 shareholders), the number of shareholders fell by 907 or 5.0 %.

### 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.	<b>Kapitalska družba, d.d.</b> , Dunajska cesta 119, SI-1000, Ljubljana	3,073,579	25.1933
2.	<b>Gorenje, d.d.</b> , Partizanska 12, SI-3503, Velenje (Own shares)	1,183,342	9.6995
3.	<b>KD Galileo, Vzajemni sklad</b> , Celovška 206, SI-1000, Ljubljana	506,963	4.1554
4.	<b>Delniški vzajemni sklad Triglav Steber I</b> , Slovenska cesta 54, SI-1000, Ljubljana	420,816	3.4493
5.	<b>KD Rastko, Delniški vzajemni sklad</b> , Celovška 206, SI-1000, Ljubljana	360,447	2.9545
6.	<b>Maksima, Delniška ID, d.d.</b> , Čopova ulica 3, SI-1000, Ljubljana	257,084	2.1072
7.	<b>Raiffeisen Zentralbank Oestereich AG</b> , Am Stadtpark 9, A-1030 Vienna, Austria	240,046	1.9676
8.	<b>Krona Senior, Delniška ID, d.d.</b> , Štefanova 13a, SI-1000, Ljubljana	233,697	1.9155
9.	<b>Probanka, d.d.</b> , Svetozarevska ulica 12, SI-2000, Maribor	232,751	1.9078
10.	<b>Zlata Moneta II, d.d.</b> , Svetozarevska ulica 12, SI-2000, Maribor	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>

### Number of Shares Owned by the Members of the Management Board and the Supervisory Board as at 31 December 2006

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

### Own Shares

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 3 February 2006 Gorenje, d.d., repurchased 233,075 of own shares at the price of SIT 6,321.84 and on 3 August 2006 additional 233,075 of own shares at the price of SIT 6,464.05. With this last fourth parcel of the own shares, the Agreement on establishing a put and call option was completed.

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).

## 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.

Item	Price	
Uniform share price as at 31 December 2005 (in SIT)	<b>5,421.45</b>	In terms of turnover, the share retained the fourth place on the Ljubljana Stock Exchange Prime Quotation, with a SIT 7 billion turnover in 2006. In the overall trading volume of the Ljubljana Stock Exchange (SIT 238.8 billion), the trading of GRGV shares accounted for 3 %, and 3.8 % in the share trading volume (SIT 192 billion). Market capitalization at the end of 2006 was SIT 77.9 billion with average daily market capitalization of SIT 67.7 billion.
Uniform share price as at 31 December 2006 (in SIT)	<b>6,386.18</b>	
Average uniform share price in 2006 (in SIT)	<b>5,495.79</b>	
Highest uniform share price in 2006 (in SIT)	<b>6,433.49</b>	
Lowest uniform share price in 2006 (in SIT)	<b>5,109.35</b>	
Average daily turnover (in lots)	<b>5,392</b>	
Highest daily turnover (in lots)	<b>26,337</b>	
Lowest daily turnover (in lots)	<b>255</b>	
Trading volume in 2006 (in SIT m)	<b>7,267</b>	

## Dividend Policy and Dividend Payments

Gorenje has adapted its dividend policy to the investment plans and optimised structure of capital while also keeping in mind the expectations and interests of its shareholders. The corporate strategic plan provides for up to one third of net profits of the current financial year to be paid as dividends. In 2006 the company paid its shareholders a **gross dividend of SIT 100 per share**.

## Remuneration of the Members of the Management Board and the Supervisory Board, and of the Employees under Individual Employment Contracts for 2006 (Parent Company)

The following remuneration was paid to the members of the Gorenje, d.d., Management Board and the Supervisory Board, and to the employees under individual employment contracts for 2006:

### Gross Remuneration

in TSIT	Management Board	Supervisory Board	Employees under Individual Employment Contracts
- Salaries	167,534	0	1,131,175
- Performance Bonuses	62,072	26,000	166,015
- Fringe Benefits	12,365	0	82,470
- Other Remuneration	800	0	16,726
- Meeting attendance Fees		8,938	
- Costs Refund		1,801	
<b>Total</b>	<b>242,771</b>	<b>36,739</b>	<b>1,396,386</b>

## Net Remuneration

in TSIT	Management Board	Supervisory Board	Employees under Individual Employment Contracts
- Salaries	66,785	0	537,449
- Performance Bonuses	30,990	20,150	78,050
- Fringe Benefits	12,365	0	82,470
- Other Remuneration	434	0	10,553
- Meeting attendance Fees		6,927	
- Costs Refund		1,396	
<b>Total</b>	<b>110,574</b>	<b>28,473</b>	<b>708,522</b>

As provided by the Securities Act, total remuneration, reimbursements, allowances and other benefits received by the members of the Gorenje, d.d., Management Board are listed below as follows:

## Gross Remuneration

in TSIT	Franjo Bobinac	Franco Košec	Žiga Debeljak	Mirjana Dimc-Perko	Drago Bahun
- Salaries	48,999	41,118	0	37,588	39,829
- Performance Bonuses	18,257	14,605	14,605	0	14,605
- Fringe Benefits	4,114	2,574	0	2,798	2,879
- Other Remuneration	200	200	0	200	200
<b>Total</b>	<b>71,570</b>	<b>58,497</b>	<b>14,605</b>	<b>40,586</b>	<b>57,513</b>

## Net Remuneration

in TSIT	Franjo Bobinac	Franco Košec	Žiga Debeljak	Mirjana Dimc-Perko	Drago Bahun
- Salaries	19,114	16,563	0	15,136	15,972
- Performance Bonuses	7,513	6,073	11,319	0	6,086
- Fringe Benefits	4,114	2,574	0	2,798	2,879
- Other Remuneration	107	109	0	109	109
<b>Total</b>	<b>30,848</b>	<b>25,319</b>	<b>11,319</b>	<b>18,043</b>	<b>25,046</b>

The Supervisory Board approved performance bonuses for 2005, equivalent to five gross base salaries paid in December 2005, payable to the members of the Management Board in office for the entire 2005. To Mr. Žiga Debeljak, as the member of the Management Board in the period from 18 July 2003 to 31 December 2005, the performance bonus for 2005 is belonging.

The company didn't approve any long-term and short-term loans to the members of the Management Board, to the members of the Supervisory Board and to internal stakeholders.

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

## **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.

**Audited non-consolidated financial statements of Gorenje, d.d., for the year 2006,  
In accordance with the International Financial Reporting Standards (IFRS)**

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



## Auditor's Report for Public Reporting purposes

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

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

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

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

*Partner, Managing Director*

**KPMG SLOVENIJA,**

podjetje za revidiranje, d.o.o.

Andrej Korinšek, B.Sc.Ec.

*Certified Auditor*

*Partner, Managing Director*

*KPMG Slovenija, d.o.o.*

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Ljubljana, 13 April 2007



## Balance Sheet of Gorenje, d.d.

in TSIT	2006	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	46,468,626	47,865,808
III. Investment property	147,176	190,945
IV. Investments in subsidiaries	21,490,579	19,102,647
V. Investments in associates	1,347,108	0
VI. Other non-current assets	1,503,478	1,803,742
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 held for sale	22,200	0
II. Inventories	21,166,867	18,073,100
III. Current investments	3,350,458	4,384,956
IV. Trade and other 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. Equity</b>	<b>50,139,880</b>	<b>50,444,606</b>
I. Share capital	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. Equity revaluation adjustments	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. Non-current financial liabilities	26,436,407	22,933,414
<b>C. Current liabilities</b>	<b>67,616,970</b>	<b>56,323,923</b>
I. Current financial liabilities	18,087,360	13,541,741
II. Trade and other payables	45,742,984	39,200,697
III. Other current liabilities	3,786,626	3,581,485



## Income statement of Gorenje, d.d.

	in TSIT	2006	2005
<b>1.</b>	<b>Revenue</b>	<b>175,359,155</b>	<b>153,358,131</b>
2.	Changes in inventories of finished goods and work in progress	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.	Employee benefits expense	-24,945,346	-23,415,828
7.	Amortisation and depreciation 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.	Finance income	2,328,398	2,485,068
11.	Finance 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>Profit for the period</b>	<b>2,902,653</b>	<b>2,447,378</b>

## Cash flow statement of Gorenje, d.d.

	in TSIT	2006	2005
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
	Profit for the period	2,902,653	2,447,378
	Adjustments for:		
	Depreciation of property, plant and equipment	7,522,821	7,255,394
	Amortisation of intangible assets	569,294	647,757
	Foreign exchange loss	887,576	690,730
	Investment income	-2,328,398	-2,464,103
	Finance expenses	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	-483,384	-189,202
	Income tax expense	341,795	-163,217
	<b>Operating profit before changes in net operating current assets and provisions</b>	<b>11,516,279</b>	<b>10,490,949</b>
	Increase in trade and other receivables	-10,291,475	-5,028,974
	Increase in inventories	-3,115,967	-2,286,753
	Increase in trade payables and provisions	-94,848	710,211
	<b>Cash generated from operations</b>	<b>7,001,942</b>	<b>4,419,756</b>
	Interest paid	-6,500,348	-2,185,760
	<b>Operating profit before changes in net operating current assets and provisions</b>	<b>-2,447,361</b>	<b>-2,224,259</b>
	Income taxes paid	-757,814	0
	Gain on discontinuance of operation	298,172	0
	<b>Net cash from operating activities</b>	<b>2,108,928</b>	<b>6,080,930</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
	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
	<b>Net cash used in investing activities</b>	<b>-5,919,164</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
	Proceeds from long-term borrowings	8,032,153	5,798,821
	Dividends paid	-1,124,973	-1,171,588
	<b>Net cash used in 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 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 SIT' 000	Share Capital	Share Premium	Legal, statutory and reserves for own shares	Retained Earnings	Own shares	Equity revaluation adjustments	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
Equity revaluation adjustments in respect of investments taken to equity						1,152,618	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 reserves for own shares	Retained Earnings	Own shares	Equity revaluation adjustments	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>
Formation reserves for termination pays and receivables for deferred tax at 1 January 2005				-1,706,948			-1,706,948
Net profit for the year				2,447,378			2,447,378
Equity revaluation adjustments in respect of investments taken to equity						227,794	227,794
Release of deferred tax				97,395			97,395
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>

**Audited consolidated financial statements of Gorenje Group for the year 2006,  
In accordance with the International Financial Reporting Standards (IFRS)**

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

## Auditor's Report for Public Reporting purposes

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

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

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



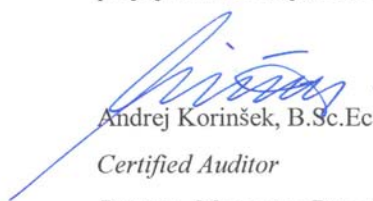
Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

*Partner, Managing Director*

**KPMG SLOVENIJA,**

podjetje za revidiranje, d.o.o.



Andrej Korinšek, B.Sc.Ec.

*Certified Auditor*

*Partner, Managing Director*

KPMG Slovenija, d.o.o.  
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Ljubljana, 13 April 2007

## Consolidated balance sheet of the Gorenje Group

	in TSIT	2006	2005
	<b>ASSETS</b>	<b>216,780,853</b>	<b>195,509,870</b>
<b>A.</b>	<b>Non-current assets</b>	<b>98,005,832</b>	<b>91,298,871</b>
I.	Intangible assets	5,471,657	5,617,772
II.	Property, plant and equipment	84,505,772	78,838,655
III.	Investment property	235,695	212,836
IV.	Non-current investments	4,128,833	4,811,676
V.	Investments in associates	1,504,909	0
VI.	Deferred tax assets	2,158,966	1,817,932
<b>B.</b>	<b>Current assets</b>	<b>118,775,021</b>	<b>104,210,999</b>
I.	Assets classified as held for sale	101,361	0
II.	Inventories	46,179,157	40,747,501
III.	Current investments	5,181,199	5,471,072
IV.	Trade and other receivables	58,200,316	50,901,640
V.	Other current assets	6,945,179	4,541,994
VI.	Cash and cash equivalents	2,167,809	2,548,792
	<b>EQUITY AND LIABILITIES</b>	<b>216,780,853</b>	<b>195,509,870</b>
<b>A.</b>	<b>Equity</b>	<b>60,972,279</b>	<b>58,720,204</b>
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
<b>A1.</b>	<b>Equity attributable to equity holders of the parent</b>	<b>60,912,515</b>	<b>58,518,845</b>
<b>A2.</b>	<b>Minority interest</b>	<b>59,764</b>	<b>201,359</b>
<b>B.</b>	<b>Non-current liabilities</b>	<b>47,987,310</b>	<b>42,843,223</b>
I.	Provisions	11,612,940	11,946,351
II.	Provisions set up from government grants	1,893,450	1,789,926
III.	Deferred tax liabilities	592,159	243,948
IV.	Non-current financial liabilities	33,818,473	28,809,677
V.	Other non-current liabilities	70,288	53,321
<b>C.</b>	<b>Current liabilities</b>	<b>107,821,264</b>	<b>93,946,443</b>
I.	Current financial liabilities	41,592,277	33,405,532
II.	Trade and other payables	54,524,364	47,052,076
III.	Other current liabilities	11,704,623	13,488,835

## Consolidated income statement of the Gorenje Group

	in TSIT	2006	2005
<b>1.</b>	<b>Revenue</b>	<b>266,248,456</b>	<b>243,152,426</b>
2.	Changes in inventories	1,477,850	1,929,476
3.	Other operating income	4,043,767	3,999,555
<b>4.</b>	<b>Gross operating yield</b>	<b>271,770,073</b>	<b>249,081,457</b>
5.	Cost of goods, materials and services	-204,072,167	-184,158,970
6.	Employee benefits expense	-44,580,100	-43,375,610
7.	Amortisation and depreciation expense	-11,881,718	-11,692,539
8.	Other operating expenses	-3,849,797	-3,394,642
<b>9.</b>	<b>Operating profit or loss</b>	<b>7,386,291</b>	<b>6,459,696</b>
10.	Finance income from shares in associates	157,801	0
11.	Finance income	4,599,092	4,071,056
12.	Finance expenses	-5,470,745	-4,823,683
<b>13.</b>	<b>Profit before tax</b>	<b>6,672,439</b>	<b>5,707,069</b>
14.	Income tax expense	-1,324,525	-586,391
<b>15.</b>	<b>Profit for the period</b>	<b>5,347,914</b>	<b>5,120,678</b>
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 cash flow statement of the Gorenje Group

in TSIT	2006	2005
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the period	5,347,914	5,120,678
Adjustments for:		
Depreciation of property, plant and equipment	11,044,603	10,830,979
Amortisation of intangible assets	837,115	861,560
Foreign exchange loss	1,659,483	1,449,583
Investment income	-4,599,092	-4,071,056
Finance expenses	3,811,262	3,374,100
Share of profit/loss of associates	-157,801	
Gain on sale of property, plant and equipment	-548,962	-768,428
Income tax expense	1,324,525	586,391
<b>Operating profit before changes in net operating current assets and provisions</b>	<b>18,719,047</b>	<b>17,383,807</b>
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
<b>Cash generated from operations</b>	<b>-9,366,855</b>	<b>-3,450,052</b>
Interest paid	-4,329,922	-3,898,567
Income taxes paid	-1,174,525	-547,621
Gain on liquidation of subsidiary	298,172	0
<b>Net cash from operating activities</b>	<b>4,145,917</b>	<b>9,487,567</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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
<b>Net cash used in investing activities</b>	<b>-10,914,106</b>	<b>-8,155,304</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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
<b>Net cash used in financing activities</b>	<b>6,369,967</b>	<b>-786,686</b>
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 SIT '000	Share capital	Share premium	Legal, statutory and reserves for own shares	Retained Earnings	Own shares	Equity translation adjustments	Equity revaluation adjustments	Equity attributable to equity holders of the parent	Minority interest	Total
<b>Balance at 1 January 2006</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>7,494,904</b>	<b>14,954,104</b>	<b>-3,655,738</b>	<b>3,875,344</b>	<b>536,973</b>	<b>58,518,845</b>	<b>201,359</b>	<b>58,720,204</b>
Net profit for the year				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 of own shares					-2,980,510			-2,980,510		-2,980,510
Decrease in minority interest									-131,590	-131,590
<b>Balance at 31 December 2006</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>10,475,414</b>	<b>16,206,540</b>	<b>-6,636,248</b>	<b>3,931,271</b>	<b>1,622,280</b>	<b>60,912,515</b>	<b>59,764</b>	<b>60,972,279</b>



in SIT '000	Share capital	Share premium	Legal, statutory and reserves for own shares	Retained Earnings	Own shares	Equity translation adjustments	Equity revaluation adjustments	Equity attributable to equity holders of the parent	Minority interest	Total
<b>Balance at 1 January 2005</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>4,509,069</b>	<b>14,004,525</b>	<b>-669,903</b>	<b>3,467,502</b>	<b>309,179</b>	<b>56,933,630</b>	<b>191,070</b>	<b>57,124,700</b>
Net profit for the year				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
Formation reserves for own shares			2,985,835	-2,985,835				0		0
Dividends payout				-1,171,588				-1,171,588		-1,171,588
Increase of own shares					-2,985,835			-2,985,835		-2,985,835
Decrease in minority interest									-3,387	-3,387
<b>Balance at 31 December 2005</b>	<b>12,200,000</b>	<b>23,113,258</b>	<b>7,494,904</b>	<b>14,954,104</b>	<b>-3,655,738</b>	<b>3,875,344</b>	<b>536,973</b>	<b>58,518,845</b>	<b>201,359</b>	<b>58,720,204</b>

## 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 Directive on Waste Electrical and Electronic Equipment (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 programme**, and thus improvement in **profitability of the sales structure**;
- in scope of **cooling & freezing appliances** of the parent company **part of transferred production** (sales) to the new factory in Valjevo **will be replaced** by appliances of higher price brackets;
- **complete integration of the new factory of cooling and freezing appliances in Valjevo** will be carried out, in terms of organisation and business;
- **complete integration 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 **purchase programme** including the sales of entertainment electronics, small household appliances, Hoovers;,,
- continuation of the economically least burdening introduction of the **Directive on Waste Electrical and Electronic Equipment** 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 **Interior Furnishings 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 **control of current assets** (inventories, trade receivables and trade liabilities);
- 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		Plan 2007/ 2006
	in SIT m	in TEUR	in SIT m	in TEUR	
Consolidated sales	266,248.5	1,111,216	<b>287,848.4</b>	<b>1,201,170</b>	108.1
Gross Operating Yield	271,770.1	1,134,261	<b>293,179.2</b>	<b>1,223,415</b>	107.9
EBITDA	19,268.0	80,417	<b>23,300.2</b>	<b>97,230</b>	120.9
Profit before tax (PBT)	6,672.4	27,848	<b>7,083.5</b>	<b>29,559</b>	106.2
Net Profit	5,347.9	22,320	<b>5,520.1</b>	<b>23,035</b>	103.2
Average Number of Employees	10,556		<b>10,736</b>		101.7

The plan for the Gorenje Group has been drawn up in compliance with International Financial Reporting Standards.

In 2007, Gorenje Group plans to generate **sales** amounting to 287,848.4 million SIT (1,201,170 TEUR), 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 cooling & freezing appliances due to new production capacities in Valjevo. Important growth drivers are also the sale of additional programme, purchase programme and programmes 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 integration 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 23,300.2 million SIT (97,230 TEUR) in the year 2007, which is an increase of 21 percent when compared to the year 2006. **Net profit or loss** has been planned in the amount of 5,520.1 million SIT (23,035 TEUR), 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 11,463.4 million SIT (47,836 TEUR) in the year 2007. The major part of assets amounting to 6,471.9 million SIT (27,007 TEUR) will be allocated to the **development of new products, expansion of production programmes and technologies** in all production programmes 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.

Gorenje, d.d., Management Board