



annual report 2006
SAVATECH d.o.o.



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I. INTRODUCTION

COMPANY PROFILE

Firm: SAVATECH, družba za proizvodnjo in trženje gumeno-tehničnih proizvodov in pnevmatike, d.o.o.

Abbreviated firm: SAVATECH d. o. o.

Head office: Škofjeloška cesta 6, Kranj, Slovenija

Legal organisational form: limited liability company.

Registration: company was filed in the court register at District Court in Kranj, file No. 1/06910/00 according to the resolution Srg. 2001/03372 of 5 December 2001.

Registration No.: 1661205.

Tax No.: 13267949.

Nature of operations and important activities: company is registered for doing business in the area of manufacturing and sale of industrial rubber products

Code of activity: 25.110 manufacturing of tyres and tubes for vehicles.

Share capital: 6,007,754,613.00 SIT.

Ownership structure: the company Savatech is under 100 % Sava, d.d. ownership

Data about the parent company: Sava, družba za upravljanje in financiranje, d. d.,
Škofjeloška cesta 6, 4000 Kranj.

The consolidated annual report is available in the Legal Office, Sava, d.d. head office.

Company representatives: Director: Dušan Kveder

Director: Vesna Čadež

Worker Director: Marija Rjavec

Company bodies: the company bodies are the General Assembly composed of the only partner, Sava d.d., and the management board



Marija Rjavec, Worker Director

Dušan Kveder, Director

Vesna Čadež, Director

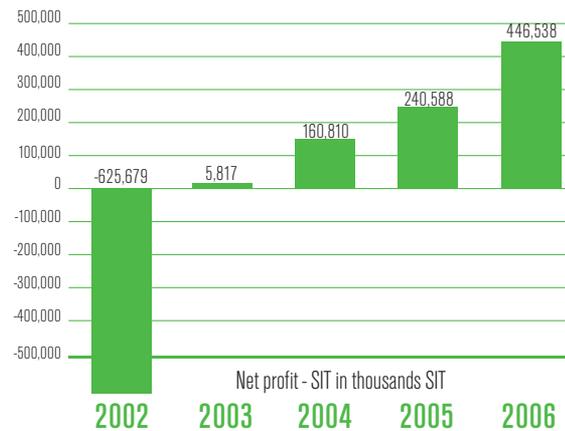
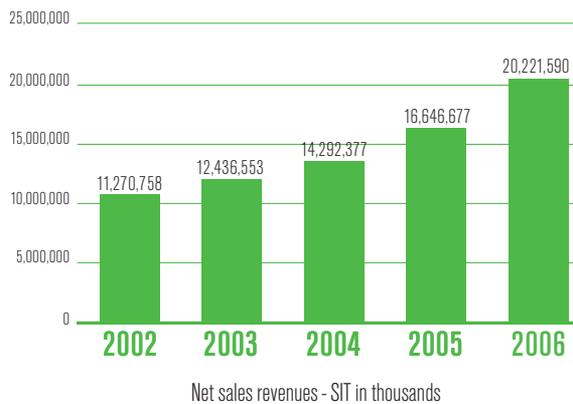
SAVATECH D.O.O. AT GLANCE

	2002*	2003*	2004*	2005*	2006**	Index 2006/2005
Net sales revenues SIT in thousands	11,270,758	12,436,553	14,292,377	16,646,677	20,221,590	121
Share of exports in %	68.6	72.7	73.0	74.4	74.2	100
Net profit for the year SIT in thousands	-625,679	5,817	160,810	240,588	446,538	186
Average number of employees	718	690	682	718	779	108
Net sales revenues per employee	15,697	18,024	20,957	23,185	25,958	112
Added value per employee SIT in thousands	3,185	4,208	5,421	5,417	6,677	123

*Data according to SAS 2001

** Data according to SAS 2006

Data is not completely comparable.



We continue a well-established tradition of rubber manufacturing in Kranj

The company Savatech d.o.o. that was formed in 2002 when rubber manufacturing in the Sava Group was reorganised, has continued the tradition of manufacturing industrial rubber products. Savatech d.o.o. is the holder of development in the Rubber Manufacturing division, one of the basic divisions which Sava has been developing in its Group. Besides the company Savatech the Rubber Manufacturing division includes the Kranj-based company Sava-Schäfer d.o.o., Sava Rol d.o.o. in Zagreb and Sava-GTI d.o.o. in Ptuj.

Sale through own sales network abroad

The company Savatech is outstandingly export-driven. By modernising, developing and rationalising its operations it makes a decisive contribution to a successful establishing of the Slovene economy in the international business streams. The company makes the majority of its export through its foreign trade companies in Great Britain, Germany, Poland and United States, and two representative offices in Italy and Russia.

A wide range of industrial rubber products

Savatech manufactures a variety of industrial rubber products. One of the most rapidly developing programmes with a great potential is the programme which manufactures environmental protection products and products used in rescue interventions. The company Savatech is noted for other programmes, too, such as manufacture of rubber profiles for the building industry, conveyor belts for various industrial applications. Savatech's programme Velo manufactures tyres for two-wheel vehicles such as scooters, moped, smaller motorcycles and go-karts, mini moto, industrial and farming vehicles as well as trailers. The Print programme manufactures offset printing blankets for the printing industry, a well-established product in the professional spheres. All named products are manufactured from the in-house developed compounds that we supply to external users too. The industrial rubber products and tyres that are manufactured in the company Savatech have all been developed on the basis of existing in-house expertise.

Savatech's Development Institute - the expertise developer

Savatech's Development Institute having an internal development network available is one of the expertise developers in the field of polymer materials and technologies in Slovenia. It includes 74 specialists from the area of chemical technology, physics and mechanical engineering. The institute has state-of-the-art development and laboratory equipment available and is actively involved in numerous organisations and associations, which establish links between the industry and research and academic institutions. The central laboratory of the Development Institute in the company Savatech has been accredited according to the SIST EN ISO/IEC 17025 standard. With this accreditation Savatech aims to make its name not only as a reliable supplier of high-quality rubber products under a renown brand name but also as a provider of quality laboratory services for other users.

The most successful year so far

As the presented data and facts show we have implemented all of the important goals set out in the business plan, therefore, we consider the year 2006 the most successful so far. Furthermore, the achieved results present a good platform for further implementation of the ambitious development strategy 2007-2011 adopted at the end of 2006.

COMPANY OPERATIONS

Presently, Savatech d.o.o. is organised in six profit centres or programmes:

- Elastomers (development and manufacture of rubber compounds)
- Eko (products for environmental protection and rescue actions)
- Print (offset printing blankets for the printing industry)
- Profiles (solid and cellular rubber profiles for the building industry)
- Velo (tyres for scooters, mopeds, bicycles, industrial vehicles, go-karts and solid tyres)
- Conveyor Belts (conveyor belts for various industrial applications)

The operations of the programmes are supported by the professional services which further provide their services for other companies in the Sava Group and, to a lesser extent, on the free market. The company Savatech d.o.o. includes two representative offices with head offices in Trieste and Moscow.



II. BUSINESS REPORT

MISSION, VISION AND VALUES

Mission of Savatech d. o. o.

We create integral solutions for various areas where industrial rubber and related products and tyres are used.

Vision of Savatech d. o. o.

In terms of revenues, **Savatech** will in 2011 be one of the first three in Europe, with all of its key products in its niches. Organically, the business will grow at the annual rate of **8.9** per cent on average, and return on capital employed will achieve **13.8** per cent. The quality of our products will be comparable to the quality of products made by the best competitors. The company Savatech will be the most flexible and adaptable niche manufacturer.

We will be a community of professional, creative and motivated associates who build their future by strengthening their competitive power.

Savatech will be the environment-friendly company and owing to its incorporation in the global economic streams it will become one of the most financially solid pillars in the Sava Group.

Key strategic orientations of Savatech d.o.o.

- Strategy of growth in the volume of business
- Development of the premises Labore in Kranj as a main (but not sole) production-logistics centre where the focus will be on products with a high added value
- Corresponding development of our own foreign trade network
- Relocating manufacture of simple products with low added value to other manufacturing sites (off-take, partnerships etc.)
- Active engagement in search for and introduction of new programmes
- Active search for possible take-overs
- Increase in the service providing sector

Values of Savatech d.o.o.

- Professionalism, knowledge and education
- Efficiency
- Company loyalty
- Meeting customer expectations
- Quality tradition
- Secure jobs and social responsibility
- Dynamics, shrewdness and uniqueness

CHARACTERISTICS OF THE ECONOMIC ENVIRONMENT IN 2006

ECONOMIC SITUATION

In 2006, favourable economic trends continued worldwide. The international economic growth should have amounted to 5.1 per cent in 2006. Inflation pressures, restrictive monetary policies, further increase in prices of oil and raw materials, slowing down the economic growth and a decline in the real estate markets in the USA are all the factors which increase future risks despite favourable global conditions.

In the euro region the economic growth rate increased in 2006 and stood at 2.6 per cent (1.4 per cent in 2005). In our most important foreign trade partner Germany GDP increased by 2.5 per cent in real terms. The main propelling force of the economic growth was the domestic demand. According to forecasts the economic growth in Germany will stabilise in 2007 mainly on account of the increased VAT, already in 2008 it should again surpass 2 per cent. In other member states in the euro region the economic growth in the future two years will slightly decrease, as a result of calming down the international growth.

The markets of eastern Europe and Russia, which grow ever more important to us, achieved a high economic growth in 2006 too. This is especially the case with Russia, which according to the initial estimates achieved a 6.5 per cent growth in GDP. A dynamic demand, investment activity, competition power of industries and growth in export will be the key factors of the economic growth in 2007, therefore the general estimate of conditions in the region further remains very positive.

Heavy investment activities and foreign demand are the main factors of a high industrial growth in Slovenia in 2006; initial estimates show it could amount to 5 per cent. Despite a rapid economic growth the inflation remained at the 2005 level. The key factor in reducing the price increase was the macro-economic policy introduced by the Bank of Slovenia and the government. Along with a stable tolar exchange rate the government proceeded with the restrictive policy in the increase of regulated prices. The stable salary&wages policy contributed to soothing down of prices as well. We expect the similar positive trends to continue in 2007 too.

SITUATION IN THE RUBBER MANUFACTURING INDUSTRY

In 2006, the competition in the market of industrial rubber products and tyres grew keener and so did price pressures. In west European countries the market developed slower, the situation was more favourable in eastern Europe, Russia and other developing countries. However, developed markets still have the largest share in the consumption of industrial rubber products.

In the first half of 2006, similarly as in the year 2005, the prices of strategic raw materials used in the rubber manufacturing industry and energy grew substantially. Owing to a keen competition manufacturers could not built-in higher costs of raw materials and energy entirely into selling prices, which reduced the margins and profitability. In the second half of the year the prices of raw materials dropped slightly, yet given the long-term nature of purchase contracts the majority of manufacturers did not experience a decrease in purchase prices in 2006. Due to the euro appreciation against other world currencies the European manufacturers in 2006 additionally lost in their competition power.

The existing demand for rubber products changes and new demands are appearing, new markets and niches are emerging. The demand for after-sale services enhanced considerably. The environmental protection standards are becoming ever stricter. The branch is experiencing an intensive horizontal and vertical concentration. In western Europe the trend of relocating the manufacture of technologically less demanding products to east Europe and Asia is continuing.

Nevertheless, we were able to maintain a rather favourable dynamics in sales growth thanks to a high flexibility and a short response time. Continual improvements in all areas of business are the guidelines for our success. The basic of sales activities is a distinct customer-orientation supported by a more than half a century of tradition in export in discerning European markets and a reputable brand name.

PRODUCTS AND SERVICES

The company **Savatech d.o.o.** manufactures and markets industrial rubber products and tyres, in which Sava d.d. has a tradition of more than 85 years. Recently, the company focuses on providing services as well.

Products

Rubber compounds

Since 1920 Sava has developed and mixed rubber compounds for rubber products, and as a result it gained vast expertise and experience in this field. Compounds are blended from natural and synthetic rubber such as EPDM, SBR, BR, NBR, CR, CSM, CIIR, HNBR etc.

We offer our customers:

- development and manufacture of rubber compounds of demanded properties, or according to customer specifications or specimen;
- high-quality compounds manufactured by using state-of-the-art equipment;
- adapting compounds to a specified purpose;
- technology support;
- measuring physical properties and performing chemical analyses of rubber, compounds and other materials in the laboratory.

Rubber conveyor belts

For more than 50 years conveyor belts have been manufactured at Sava and during all this time we have invested all of our knowledge and experience in the production of conveyor belts that meet customer demands and assure a safe and reliable operation. The production is subject to a strict and demanding supervision in all stages. Our conveyor belts are of high-tech level and continually checked in use as they are sold worldwide.

The main purpose or application area for conveyor belts is conveying various materials between more or less distant sites.

Our offer covers a wide range of conveyor belts to meet various application requirements such as through-shaped, rigid stable, sliding, reinforced RIPCHECK (with a textile ply or steel transversal reinforcement), elevator and pipe type conveyor belts.

With regard to the external conditions the belts have to correspond to we offer the belts resistant to the increased temperature, oil and fats, high-abrasion resistant (for gypsum), hardly flammable and antistatic conveyor belts.

A part of the production are white (food quality) conveyor belts, non-staining (for the timber industry), non-smooth belts from Feingrip/Supergrip to Chevron belts for inclined conveying with varied profile heights.

Furthermore, we offer a combination of the above mentioned types and are able to manufacture custom-made conveyor belts.

Solid and cellular rubber profiles

Since 1970 we have designed and manufactured rubber profiles, a product of our own expertise and experiences, made of quality rubber compounds for a wide range of applications and produced in accordance with all requirements as set out in the international standards ISO 9001 and ISO 14001.

We produce solid and cellular rubber profiles and combinations of both. All types of profiles are custom-made and used for:

- plastic, aluminium or wooden windows made by the leading European window manufacturers
- the construction, car, electrical industry, house appliances and many other industrial branches
- other profile types following customer requirements and wishes

We have developed several types of quality rubber compounds which are resistant to mechanical, chemical and heat influences and suitable for various applications.

Offset printing blankets for the printing industry

In 15 years of its operation the Print programme has become a notable European manufacturer of offset printing blankets used in the printing industry. Through a well-organised sales network the products and services are sold across the world.

Quality and reliability of rubber printing blankets are achieved by using the most sophisticated technologies, innovative approach and adapting to the changes in customer requirements.

The main benefits of our products originate from the blanket construction; the basis is a cord carcass that in addition to outstanding printing characteristics assures a high operational reliability.

Our products cover all important printing applications, e.g. sheet-fed printing with printing blankets using the conventional inks technology, UV technology and also spot varnishing. Recently, we have concentrated on the development of offset printing blankets for web printing as the most demanding segment in the offset printing blankets market. The third area where our printing blankets are applicable is metal decorating.

Products for environmental protection and rescue interventions

The programme EKO—environmental protection products and rescue actions—manufactures high-quality inflatable rubber products. Demanding high-tech and innovative products as well as the equipment for the small-series production are the result of our own expertise. One of key advantages of the EKO programme is its outstanding ability to adapt to customer requirements. With regard to the purpose of use the products are divided in two main groups:

Inflatable products for maintaining and testing conduits:

- pneumatic plugs
- pneumatic rehabilitation packers

Product for the environment protection and rescuing:

- **power lift** programme (low- and medium-pressure lifting bags 0.5 and 1bar; high-pressure lifting bags 8 bar; flat bag high-pressure lifting bags 8 bar)
- **sealing bags**
- **rescue** programme (inflatable stretchers, decontamination unit, inflatable tents, air bridges, water barriers)
- rubber containers
- floating anti-pollution booms
- custom-made inflatable products

When assessing the quality we take several criteria into a careful consideration: environment-friendliness, simplicity of use, construction, safety, reliability and packaging.

Tyres

The Velo programme produces and markets a wide range of tyres for scooters, motorcycles, mopeds, go-karts, mini moto vehicles and small industrial or farming tyres with corresponding tubes and tyres for trailers. In 2006 we started to market tyres for ATV vehicles and ultra-light planes.

We have capacities available for manufacturing special purpose tyres to meet customer requirements and wishes. In collaboration with customers and a highly-trained professional development team new innovative products have been developed as well as unique manners of their use.

In a well-developed sales network we successfully cooperate with reputed car manufacturers such as Piaggio, Aprilia, Suzuki, Honda, Peugeot, Tomos, and others. Owing to continual improvements and a successful break-through in the market we have succeeded to place our tyres on the markets of all continents in the world.



SERVICES

Central Laboratory services

Central Laboratory of Savatech's R & D Institute is a modern institution performing laboratory work in the field of physics, chemistry and technology of polymers. It consists of physics laboratory and chemistry laboratory, the former also possessing a prototype unit and armature laboratory unit. The quality of services is also proven by the accreditation deed verifying the competence of the laboratory in accordance with the standard SIST EN ISO/IEC 17025.

The **physical** laboratory encompasses a variety of measurements and tests in the field of physics and physical chemistry of polymers, their compounds, blends and composites, as well as some semi- and final products. In the prototype unit rubber compounds are cured on a laboratory scale. The armature unit deals with physical testing of reinforcement materials: textile fabric, cords, yarn, foils, cable cords, as well as steel cords and wires.

In the **chemical** laboratory the chemical structure, structural characteristics and certain physical chemical properties of polymers and other elements of rubber compounds are determined. We also provide analyses and tests of technology and waste water and materials which are used in processing polymers: oils and other softeners as well as other inorganic additions, organic additions and armatures.

Design Engineering

All programmes in the company Savatech have a strong technical support by an experienced team of engineers available. In addition to construction and design engineering of special parts of technology equipment we select in cooperation with users the most suitable equipment to be supplied by foreign suppliers. We demand improvements in the process groups to meet requirements of end users, assure renewal of existing equipment and reliable assembly and start-up of new equipment in suitably laid-out production halls.

By providing services in the field of design engineering we plan a rational use of space and supply industrial complex with energy systems. A 50-member team of experts with valuable experiences in defining project requirements for new buildings and devices, an effective supervision over construction works, conducting assembly of the entire technology lines and relocation of the entire production processes.

In addition to a rational use of energy, the development of programmes for a computer-assisted supervision over the line operations and process groups, the maintenance of these systems and a continual upgrade of the existing ones, are the key factors and help in expanding our services to the users outside of the company Savatech.

MARKETING AND CUSTOMERS

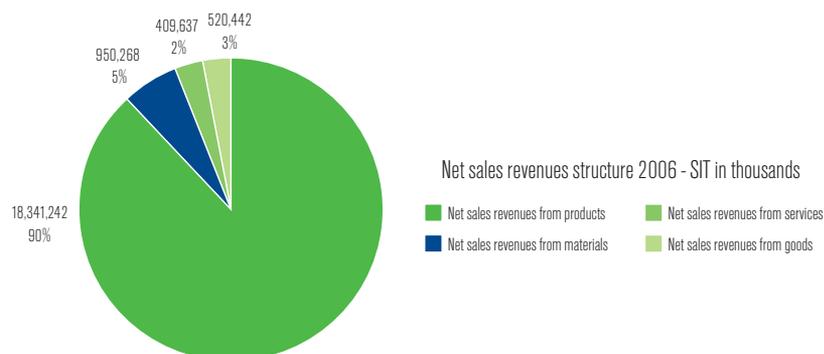
(SIT in thousands)

Net sales revenues structure	2004*	structure	2005*	structure	2006**	structure	2006/2005
Net sales revenues from products	12,491,318	87	14,622,355	88	18,341,242	90	125
Net sales revenues from material	830,413	6	1,025,789	6	950,268	5	92
Net sales revenues from services	496,785	4	442,134	3	409,637	2	92
Net sales revenues from goods	473,861	3	556,398	3	520,442	3	93
TOTAL net sales revenues	14,292,377	100	16,646,677	100	20,221,589	100	121

*data according to SAS 2001

** data according to SAS 2006

Data is not completely comparable.



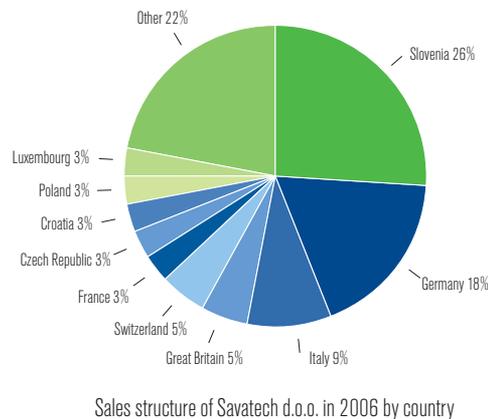
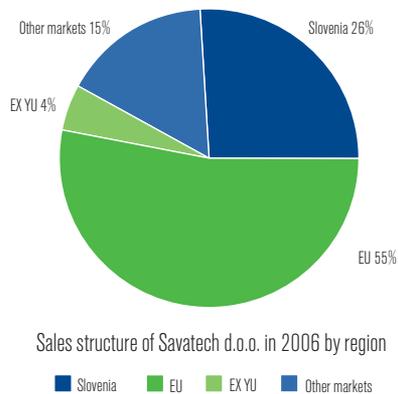
SALES OF PRODUCTS BY COUNTRY AND MARKET

In 2006 the growth trend in sales has continued. In a five-year period of the company operations the sales figures 2006 were record-breaking and surpassed the sales figures in the previous year by more than 21 per cent.

To achieve such an intensive growth rate the company had to adapt to the situation in the world market and establish competitive advantages in comparison with low-priced producers from Asia. We have succeeded in doing this by offering innovative custom-made products. Another competitive advantage of the company is a variety of products that are marketed for application in various seasons and markets. We have to point out that business results were negatively affected by higher prices in raw materials and energy sources, which due to a keen competition could not be totally transferred into selling prices. However, when considering sales results one should not neglect positive changes in the environment such as revival of the European economy.

The rubber manufacturing part of Savatech has been traditionally export-driven, this being a consequence of the small domestic market. In 2006, the company Savatech exported 74 per cent of its products.

Also in 2006 the majority of export, that is 55 per cent, was made to the EU countries. Last year the sale in the ex-Yu countries reduced by one percentage point. In the Slovene market we sold 26 per cent of products, which was the same as in 2005.



In last year we sold our products in 94 countries worldwide.

The most important trading partner in 2006 was Germany where we made 18 per cent of the total sales for the second year consecutively. Germany was followed by Italy with 9 per cent, and Great Britain and Switzerland with 5 per cent each.

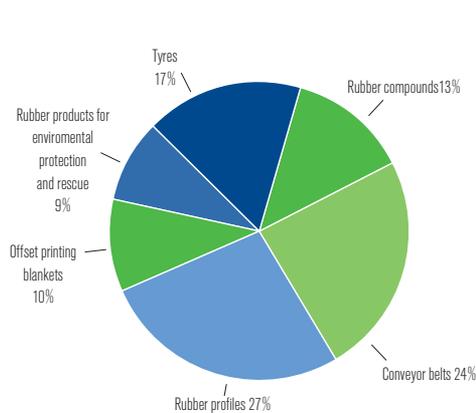
Through subsidised companies abroad such as Sava Trade Munich, Sava Trade Prague, Sava Trade Warsaw, Savatech Trade London and Savatech Corp. Port Orange, USA, which are all under Sava d.d. ownership, net sales revenues of 22 per cent were made.

In Savatech marketing activities are underway within individual programmes which each present its group of industrial rubber products and tyres. Individual product groups are differentiated as to the purpose of use and, consequently, markets in which they are sold and their specifics.

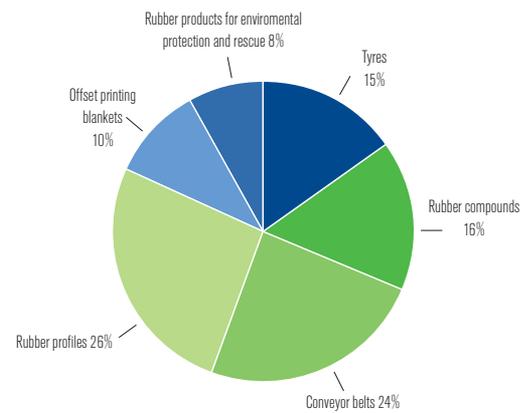
In 2006, too, the largest share with 26 per cent had the Profiles programme, followed by Conveyor Belts which lagged only 2 percentage points behind. Recently, the sale of rubber compounds to customers outside of Savatech has considerably enhanced. The rubber compound programme made 16 per cent of total sales which ranks it on the third place and one percentage point behind it is followed by the tyres programme which ranks it fourth.



Market position by product group



Sales structure of Savatech d.o.o. in 2005 by product group



Sales structure of Savatech d.o.o. in 2006 by product group

Rubber compounds

The competition in the market of rubber compounds is keen and has grown even keener after Slovenia accessed the European Union. We face the challenge by large mixing plants from Italy and the East owned by west European corporations.

The largest external market for our rubber compounds remains to be Slovenia where we meet about 60 per cent of requirements. The second important market is Croatia where the sales volume in 2006 has steadily enhanced. Within the European Union we supply some customers in Austria, Germany, France and England. These customers are mainly small- and medium-sized companies which require quality compounds and a good support in technology. In past year we carried out good marketing activities in the Serbian market where after eliminating initial problems the sale has considerably increased.

Conveyor belts

Recently, the market of conveyor belts in Europe has been marked by acquisitions by the biggest manufacturer Contitech and a favourable market situation. According to our information all significant competitors experienced problems with long delivery terms. In Europe we are facing a fierce competition on the part of conveyor belts manufacturers from Asia and Far East. Although their share for the time being does not exceed 10 per cent, we expect it to rise in the future.

The key market for the Conveyor Belts programme was Germany with 40 per cent. A considerable increase was shown in sales in Italy and Spain thanks to the marketing activities by our Trieste representative office. By assistance on the part of our Moscow representative office we have considerably enhanced sales in the Russian market. The London representative office obtained first orders for supplies in Great Britain. The foreign trade network is of key importance to the Conveyor Belts programme, for 70 per cent of products are sold through it.

Profiles

Unfavourable conditions which after a price increase were demonstrated in severe pressure on expenses, the Profile programme managed to reduce such effects by increasing prices of profiles out of the high season, which could have resulted in losing customers. We have increased our activity in other areas such as developing new products, customers and aggressive sales activity and further increased productivity. In 2006, the Profiles programme achieved a 17 per cent growth in comparison with the previous year. The highest growth so far has been noted with products with higher added value such as cellular rubber and combined profiles. We managed to enhance the sales volume in all important markets, with exception of Poland where the turnover has decreased last year. The Russian market has gained on importance. The more important markets for profiles in 2006 were Germany, Slovenia, Great Britain and Poland. Last year we won important new customers, windows manufacturers with whom we expect to establish a long-term cooperation.

Owing to new production lines and, as a result, technically exacting products we plan to enhance the production and sale of products with higher added value and search for special market niches.

Offset printing blankets

One of the main policies of the Print programmes is to offer a quality and reliable printing blanket with accompanying technical support to customers worldwide. Recently we managed to penetrate the most discerning European markets with perfected and new products. Offset printing blankets are sold in 70 countries across the world, the export achieving 95 per cent of the production. The largest share, or 58 per cent, in total sales have the European markets, followed by Asia with 20 per cent, North and South America with 12 and Africa with 10 per cent. The average annual sales growth has surpassed 20 per cent on average lately. Significant marketing shares in certain markets such as Great Britain, South Africa and Chile should be pointed out where our market shares exceed 10 per cent in sheet-fed printing. Slovenia is an important market for offset printing blankets despite its small share. In terms of the printing industry, Slovenia is very well-developed, Slovene printers rank in the higher quality class.

Products for environmental protection and rescuing

The markets where products for environmental protection and rescue actions are exported were marked by a relatively great demand and a fall in the value of American dollar. Establishing links among leading companies, so characteristic of this line of business, has continued. The influence of competitors from the East has been constantly enhancing.

Under these conditions we managed to increase sales by 12 per cent and acquire 52 new potential customers. The sales increase was achieved in all sales areas. In 2006, the sale of products for environmental protection and rescue intervention in the American market was record-breaking. The year 2006 was noted by the development of markets in the Near East and also winning of the Chinese market. With 33 per cent in sales German and American markets remain most important markets for these products. At the end of the year we offered a new series of products applicable in the fire-fighting rescue niche.

Tyres

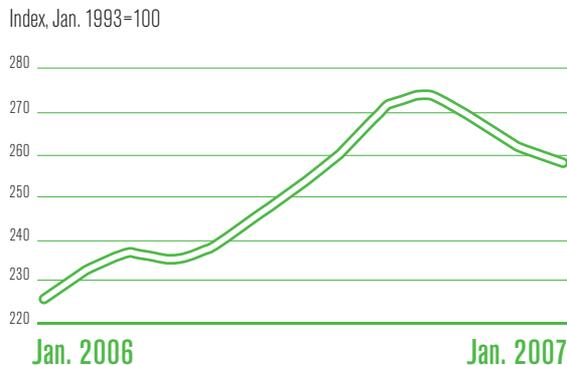
The economic environment in 2006 was repeatedly marked with a very high increase in raw material prices, which could not be entirely transferred to the market. Unlike low-priced Asian manufacturers, our most important competitors in the area of moto, scooter and go-kart tyres did not increase their prices. Despite a lower business profitability, all of the most important sales goals were achieved, sales figures were 18.7 per cent higher than in 2005.

Savatech exports tyres to all continents. In last year too, the European Union market where we exported 20.7 per cent more products than in the year before, was in the forefront. The export outside of EU increased by 5.4 per cent, whereas the sale in the Slovene market enhanced by even 33 per cent in comparison with the previous year.

In 2006, we successfully advertised and sold new high-priced category tyres Sporty3+. We started sales activities in the new segment of ATV tyres and development and sales activities for tyres for ultra-light planes. The sales was most enhanced in moped and motorcycle tyres group, even by 27 per cent, the sale of industrial tyres was 22 per cent and scooter tyres by 15 per cent higher in comparison with 2005.

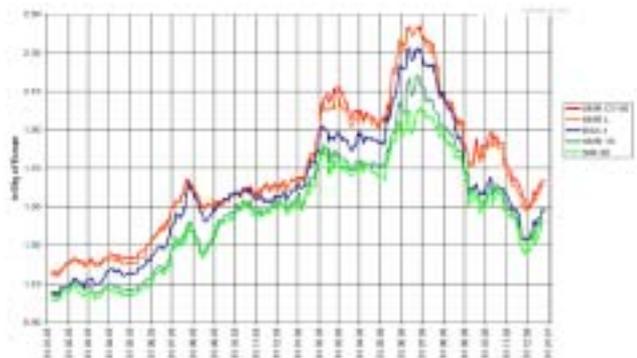
PURCHASING AND SUPPLIERS

It is characteristic for 2006 that prices of all rubber manufacturing raw materials (synthetic rubber, carbon black, oils, etc.) were increasing until the last quarter owing to high prices of monomers and a great demand.



Source: ECN, 15. 1. 2007

IPEX INDEX



Price fluctuations were much affected by a great demand and a high industrial growth in Europe and the Far East. Despite the growth in production, the offer still lags behind the demand, which in addition to other factors holds prices of all types of rubber and other rubber manufacturing raw materials at a high level.

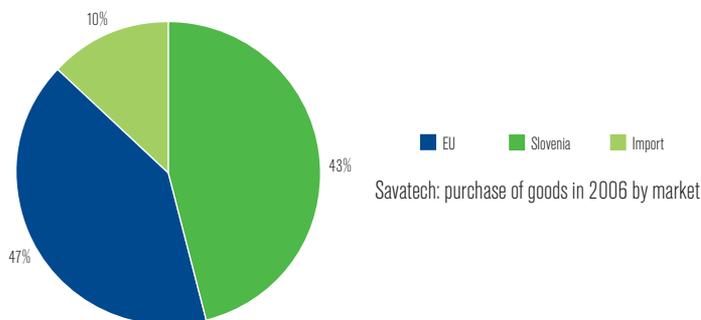
In the first half of the year prices of all types of natural rubber grew extremely rapidly and achieved its peak in the middle of the half-year. In the second half-year the prices started to fall, which showed not earlier than in purchase prices at the end of the year.

In Savatech purchasing department some important changes were introduced in the company strategy, which resulted in a systematic search for and introduction of new raw material sources.

In selecting the sources we took into consideration higher customer demands and growing globalisation.

We have developed and expanded relations with suppliers in order to eliminate unnecessary costs from the supplier's chain.

The incorporation in the Sava Group, joint purchasing policy and a close cooperation with internal users enabled to optimise purchasing sources despite the aggravated situation in the market and managed to maintain a relatively low level of material costs.



DEVELOPMENT AND RESEARCH

Development Institute

Development Institute Savatech (IR) with an internal development network is one of the expertise developers in the field of polymer materials and technologies in Slovenia. The network includes 74 experts, of whom 4 have a Phd degree in chemical technology, physics and mechanical engineering, 6 have Master's degree in chemical technology, mechanical engineering and economy and 24 have university degree in chemical technology, physics and mechanical engineering. The Development Institute is equipped with state-of-the-art development equipment for virtual development of products and laboratory equipment for chemical and physical characterisation and process control in polymer material processing. Since January 2005 the central laboratory, which is part of Development Institute, has been the accredited according to SIST ISO EN 17025 standard.

Integration in a broader development environment

The company Savatech d.o.o. has an active role in associations, which link the industry and academic institutions. As a founding member of the Technology Network for Intelligent Polymer Materials and Related Technologies (TM IPMT) it associates itself with related foreign networks. The Development Institute collaborates in establishing and operating of technology platforms Manufacture.si (processing technologies of the future), NaMat (nano-materials, products and technologies), STTP (Slovenia Textile Technology Platform) and SloKem (Slovenian Chemical Platform). The company is member of the cluster GIZ Grozd Plasttehnika, an association with more than 50 Slovene small-, medium and large-sized companies dealing with products and services in the field of polymer materials. Through the Chemical Institute we are involved in the network of excellence Nanofun-poly within the 6th Framework Programme of the European Union in the field of functional polymers and nano-composites.

Development projects in co-operation with partners

In 2006 we managed to make use of the already established links with other companies and institutes in the field of development for obtaining co-financing in several development-research projects:

- Development-investment project under the title of Increase in Competitiveness of Multifunctional Polymer Materials-Based Products, partly co-financed by the European Regional Development Fund. The project of four industrial and four academic partners within TM IPMT has been underway in 2006 and 2007. The project will bring about development-, technology- and ecology-based effects to the company.
- Savatech's programme Velo - tyres supported by the Development Institute involved in the scientific-technology project Safety in Motion (SIM), being held as part of the 6th Framework Programme of the European Union. The purpose of the SIM project is to prepare recommendations for two-wheel motorcycles in order to assure higher safety for users.
- In the National Research Programme of the Republic of Slovenia we collaborate with the Chemical Institute and the Faculty of Computer Science and Informatics in several application projects in the field of polymer and nano-materials.

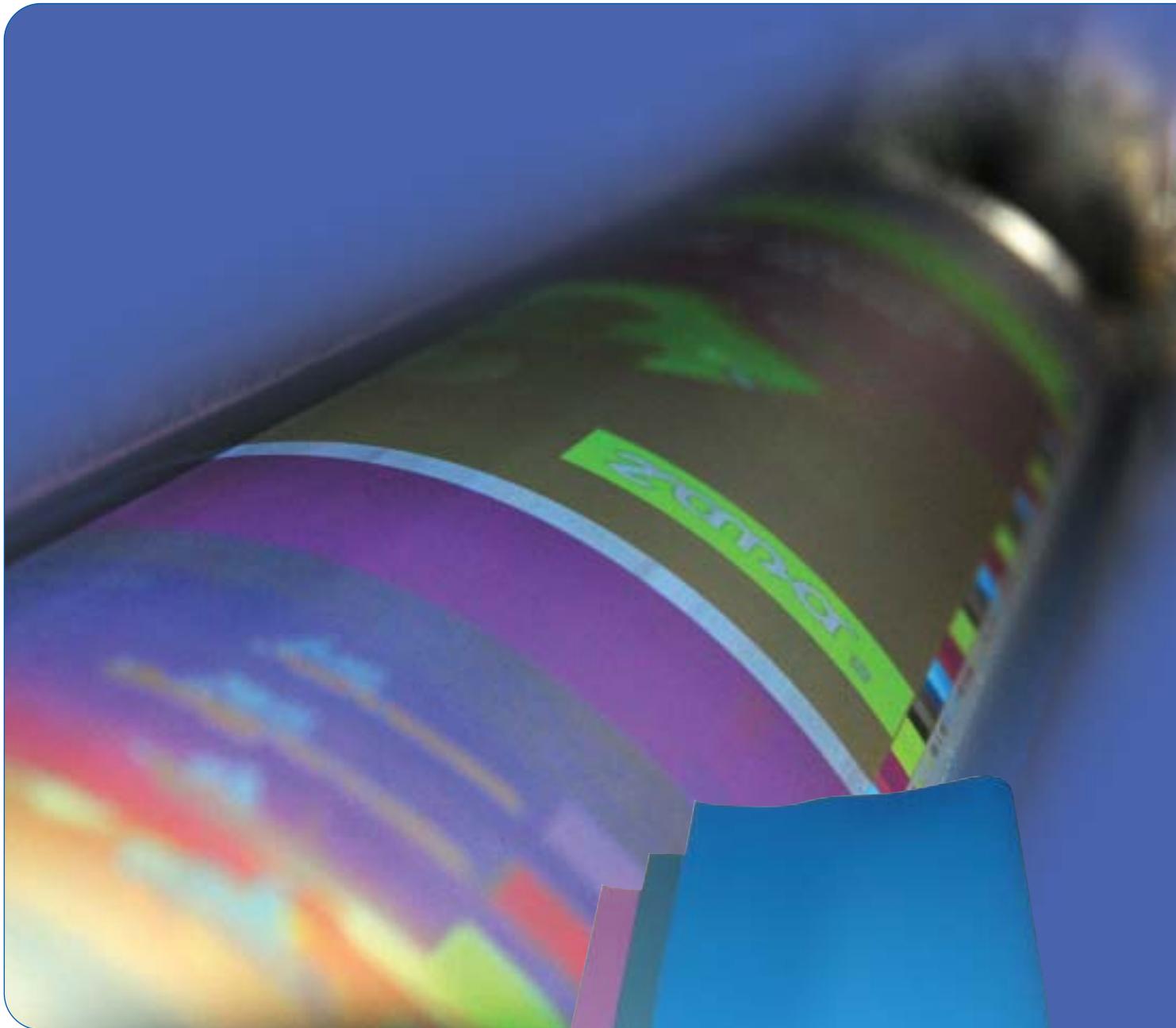
Results in the area of development by programme of Savatech d.o.o.

The main development activities in 2006 took place in the following area:

- development of new products
- development or improvements of existing products
- change in material and raw materials
- optimisation of work processes

In 2006, the programmes in Savatech d.o.o. developed, introduced and started to market 37 new products and introduced 144 new types of compounds. The estimated total sale of new product groups, which met the criteria of being regularly marketed less than two years, represented 10 per cent of total sales of the company Savatech and was at the 2005 level.

In 2006 the development team of the **Elastomers programme** introduced 30 new raw materials and 84 new types of compounds. Raw materials were introduced for the needs of new compounds types and in order to acquire compounds that are well-priced and/or whose quality is improved. New compound types were developed and introduced for internal customers and, to a larger extent than before, also for external customers.



The **Conveyor Belts programme** developed new products with a higher added value such as ripped conveyor belts in sliding variant and inflammable conveyor belts made from a softer, inflammable compound. Newly-developed were also NOPPEN conveyor belts used in the timber industry and new types of conveyor belts with steel cord which acts as an additional protection against puncture. In the development unit of the programme activities were underway to further develop compounds and test new fabrics for conveyor belts used in the wood working machines.

The **Profiles programme** manufactured 247 samples of new profiles, among them being profiles for windows Velfac and Velux - skylights and developed profiles for façade. We started to develop profiles for campers as a new market segment that we intend to enter.

In the **Print programme - offset rubber blankets** new products with a higher added value had a 4 per cent share in sales revenues in 2006. Thanks to a new product we managed to get into the niche market. We further developed WEB master products by introducing modifications in a composite. Web master is a product with a high potential in sheet-fed printing, the manufacture will start in January 2007. The following new product groups were developed: UV dual with a new technology procedure, EPDM red & black for printing plastic caps, plastic shells and packaging for eggs, Metal Deco with a higher micro-hardness and Tan Blanket for printing on plastic cone-shaped vessels, a product with a great potential in the USA market.

In the **EKO programme - products for environmental protection and rescue** we started to construct complete dams, not only a rubber part, but also all installations (machine and electrical). At the same time activities were underway to optimise and improve properties of rubber used for the manufacture of dams. We intensively developed high-pressure packers of working pressure up to 200 bar. In the field of containers we introduced a new technology of high-frequency splicing PVC and PU and expanded a range of products. We started to introduce the high-frequency technology in the weirs production. Three sizes of Jumbo bags were developed anew and met with a great success in America. We laid out plans and prepared all what is necessary to start the manufacture of bags for airplane lifting. Other new products were manufactured and tested: cone-shaped plug, gully plugs and vacuum and drainage bags.

In 2006, the offer by the **Velo-Tyres programme** was complemented with three new kart tyres of modern design and intended for racing. The tyres segment for trailers was extended with two new tyres noted for high load capacity and an up-to-date tread pattern. The already rich series of scooter tyres was variegated through new dimensions of the saleable Monsum tyre with superb performance on wet surfaces. In the motorcycle segment we started to develop a new line of enduro tyres MC 30 INVADER and MC 23 ROCKYRIDER. New tyres will be fitted on enduro motorcycles, the focus in the development was on an optimum tyre size, a specially developed compound providing a good grip, long service life and puncture resistance.

Innovations

In 2006, there were 365 proposals for innovation registered. The estimated economic benefits of 285 adopted proposals amounts to 154.2 million tolar (114 million tolar in 2005). To additionally promote the innovation activity we launched on 1 May 2006 a five-month campaign *Your Proposals 2006*.

TRADITION IN QUALITY

The quality of our products is competitive

Industrial rubber products, which have been produced in Kranj for more than 85 years, faced the international competition ever since the fifties in the former century. A major part of our products is exported, therefore we are well aware of the fact that only a quality product and service is competitive and finds its place in the global market. The same goes for the domestic market where the competition grows from year to year.

The company development and growth set new requirements for upgrading the quality system for products, services and business processes.

The quality component has been incorporated in the new company strategy thereby pointing out that **the quality of our products will be competitive with the quality of products made by best competitors.**

In 2006, we further developed programmes for improving the quality, policy, procedures and processes at all production levels establishing thereby a manner of process management, which is compatible and harmonised with the European systems. In this connection the following activities were underway:

- introduction of new and maintenance of already introduced procedures which regulate business processes and are result-driven in accordance with the business excellence principles;
- introduction of the business excellence model in the business processes of the Rubber Manufacturing division;
- way of thinking in line with the 6 sigma method; and
- decrease in costs which result from the poor quality of our work.

All of the above mentioned and other activities were carried out having our basic guideline in mind, which is to positively influence the increase in the competitive power of our products and services.

Our efforts resulted in the growth of sales of our products in discerning global markets and successfully performed audits by both customers and certification companies. The progress is observable in achieved indicators, which we use to directly pursue the achievements at the quality level, and is shown in savings. Savings in this field in 2006 totalled 24 million tolar (in five year about 134 million tolar). In 2006 all suppliers' audits were carried out as planned.

We started in 2005 and continued in 2006 with a numeric determination of process stability, which in individual areas (e.g. conveyor belts, compounds preparation, profiles) showed expected results. Process management matches expectations in the case of providing services for discerning customers where we devote more attention to performance of individual activities. The results in processes where a request for enhanced attention is not declared, are usually worse and therefore subject to corrective measures.

EMPLOYEES

We are a community of professional, creative and motivated associates who will build their future by increasing their competitive power.

The year 2006 was repeatedly marked with the growth in business volume, which required complementing the existing work teams and thus an increase in the employee number. The awareness that investments in the employee development are incorporated in the business result was our policy in the human resources management.

By a proper selection of qualified employees on one side and the planned education and employee development on the other, we managed to attain our goals and keep our competitive position in the demanding market.

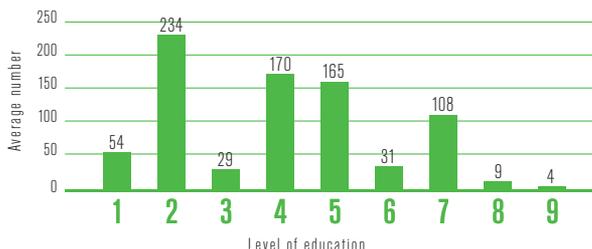
We assured the successful and qualified associates career advancements to more demanding jobs and involvement in various projects.

Company	Months												Aver. No.
	1	2	3	4	5	6	7	8	9	10	11	12	
SAVATECH	757	759	763	762	773	772	776	773	796	804	806	804	779

In 2006, 779 people were employed at Savatech d.o.o. on average and in comparison with 2005 this number grew by 61. 121 employees were employed in 2006 at Savatech, whereas 61 associates left the company, setting the fluctuation at 7.8 per cent.

The average number of employees on the basis of working hours in 2006 was 777.

36 associates have primary school education or less, 23 per cent vocational, 21 per cent secondary school and 18 per cent of associates higher and university education. The after-graduation study was finished by 1.7 per cent of employees.



Educational structure in Savatech d.o.o. per average number of employees in 2006

In 2006, the number of employees aged up to 30 years increased and had a 23.5 share (19 per cent share in 2005). The increase was due to employing mainly young associates. The largest share, or 40 per cent, had employees aged 31 to 45 years.

The average gross salary in 2006 amounted to 263,900 tolar. In comparison with 2005, the growth in the salary index amounted to 102.8 in 2006.

The company makes use of various types of employee incentives and rewards. In 2006 the *Model Worker* title was received by 72 employees, 5 employees received the *Company Worker* title, and one employees was awarded the *Sava Worker* title. Awards to employees with no sick leave were paid, as well as holiday allowance and Christmas bonus.

The utilisation of work hours stood at 77.7 per cent and was by 3.5 percentage points lower than in the previous year. The negative trend was due to a higher number of holidays on workdays and a slightly higher sick leave number.

Sick leaves in the company Savatech in 2006

Company	% up to 30 days	% more than 30 days	% total (without maternity leaves)	Index 06/05
SAVATECH	2.74	1.82	4.56	109

There were slightly more sick leaves, i.e. 0.41 percentage point, in 2006 than in the previous year. The sick leave figure up to 30 days increased by 0.18 percentage point, and long-term sick leave (more than 30 days) was higher by 0.26 percentage point. By using internal communication channels we continued to encourage employees to spend their spare time in an active manner and thus made a contribution to the employee health.

Education

At Savatech a lot of attention is devoted to various educational and training forms as this is conditioned by a rapid development and continual changes we are exposed to. Common education courses and trainings are carried out under the wing of the Sava Academy, whereas specialised on-the-job education and trainings are carried out by each organisational unit separately.

In 2006, we particularly focused on special knowledge in the field of rubber manufacturing technology and organised "rubber manufacturing school" to bridge the gap in the knowledge of all employees.

In 2006, Savatech d.o.o. earmarked 78,138 hours for education, the cost per employee being 32,055 tolar. The data includes functional education, part-time study, traineeship and on-the-job training. The trend of increasing the average number of education per employee continued and in 2006 each employee attended 100 hours of education, in the previous year 95 and 73 hours in 2004.

Annual interview Sava Dialogue

Sava Dialogue is an annual interview and in Savatech it is one of the established management tools. It is an in-depth, systematically conducted interview of the manager with every individual associate, and for two years consecutively it has been carried out in electronic form via the personnel-information system. The main purpose of Sava Dialogue is to assure accordance with the goals of the company (business plan) and daily tasks of an individual (goals, activities and development of an individual). It is intended to assist the employee to understand the long-term goals of the company more easily and identify his/her role in daily job more clearly. On the other hand, it analyses goals and activities up to the level of work teams. With this procedure we try to create and design a clear future vision that all employees are able to achieve.

In 2006, we continued with performance of development interviews whose short-term objective is to determine development activities for a period of one year and at the same time establish a basis of wishes for promotion and development of an individual at his/her career advancement. On the basis of a development interview associates identify advantages and disadvantages, opportunities and risks, define their career goals and a set of wishes including work places and areas of work.

Organisational climate

In last quarter 2006 the organisational climate was measured with all employees. After measuring the organisational climate steps are taken to improve individual areas. Last year measures were mainly directed to the internal communication, the personnel development system and remuneration. The results were presented at workers' assemblies, the activities for improvements involved workers' representatives too. The measures have a long-term character and have been continuing.

Communication with employees and workers' co-management

We at Savatech devote special attention to the communication with employees. The care for informing employees is first of all the commitment of managers and also workers' representatives. In last year managers attended additional trainings to perfect their knowledge and skills in this particular area. The basic function is carried out in teams that are organised with the *20 Keys* project. Workers' assemblies are a regular form of communicating with employees where employees are made familiar with strategic policies of the company, business results, personnel reports and other current information.

An important information source are notice boards with weekly news from the Sava Group, specific news from the rubber manufacturing companies, personnel, work safety and workers' representatives. Among printed media the Sava newspaper has the longest tradition for the entire Sava Group, whereas Informator is published monthly and brings current news from the rubber manufacturing area. Recently electronic media has become a standardised tool in internal communication.

RESPONSIBILITY TOWARDS THE ENVIRONMENT

Savatech - an environment-friendly company

In 2006 Savatech d.o.o. proceeded with the outlined activities in the field of the environmental protection with a common goal to reduce negative impacts by the company on the environment.

The area of the environment management, occupational health and safety and fire safety are inseparable and indispensable components of the business policy and indicators of a successful operation of a company and individual organisational unit. Our priority tasks are to achieve goals in the area of the environmental protection and occupational health and safety.

A successful implementation of the adopted Occupational Health and Safety Policy requests dedication to and personal accountability on the part of all employees.

We harmonise our operations with the principles of sustainable development and direct our development goals to attain a balance of economic, environmental and social processes.



Environmental protection

At Savatech we regularly adapt to the environmental standards as set out by legislation and strive for a continual decrease in environmental impacts. Our priority goals in this area are as follows:

- rational handling with energy, raw materials and natural sources;
- separate collection and recycling of waste and thereby reduction of landfilled waste;
- prevention of the environmental pollution;
- replacing hazardous substances with less hazardous ones; and
- education of employees.

Moreover we always strive for our suppliers and customers to respect the environmental responsibility.

A continual decrease in impacts by our operations on the environment is achieved and proven by a regular monitoring of environmental indicators and introduction of measures for decreasing the environmental load.

We monthly pursue environmental indicators to clear up achieving our goals and policies. We monitor the use of energy and drinking water, water and air pollution, occupation of space due to waste landfilling, use of hazardous substances and noise.

Achievements in the area of the environmental protection in 2006

On the basis of the annual environmental report for 2005 we repeatedly obtained an approval for using the Responsible Handling logotype in 2006. We introduced a new environment management standard ISO 14001/2004. We laid out an application form for obtaining an integral environmental licence. We organised meetings with the residents who live in the immediate vicinity of the factory to present them with the environmental indicators and performed technical improvements for reducing the environmental impacts and our plans for the future. In March we adopted a new policy titled Occupational Health and Safety and Environmental Protection.

The measures and campaigns carried out in the area of the environmental protection resulted in a reduction of drinking water consumption by 53.3 per cent in comparison with 2005 and a 21.7 per cent reduction in river water consumption. The quantity of landfilled rubber waste was reduced by 1.9 per cent, the quantity of landfilled sewage waste by 2.6 per cent.

Last year the natural gas consumption reduced by 15.1 per cent and steam consumption was 3.4 per cent lower than in the previous year.

The larger production results in a larger number of hazardous waste, which increased by 26 per cent, the specific amount of hazardous waste increased by 8.1 per cent.

In 2006, the Print programme processed its waste in a thermal procedure and landfilled it afterwards. During the year the waste was eliminated as hazardous.

26.8 per cent more solvents were used than in the previous year, in spite of that their emission was 4.8 per cent lower than in the previous year. The use of solvents increased due to the enhanced production.

Occupational safety and health

Occupational safety and health is one of the most important values in the company. We are aware that each task represents a kind of risk for safety and health at work. Globally, the level of safety and health at work is seen as one of the most obvious indicators of the quality and business reliability of the company. Occupational safety and health is much more than just reducing labour costs. We increase tidiness, satisfaction at work, productivity, the feeling of social security, responsibility and loyalty of employees to the company, its goals and development, as well as the general quality of work. The frequency of injuries and accidents at work and their seriousness are the criteria for a comparison and assessment of tidiness of working environment and the quality of work in the company. A modern concept of occupational safety is an upgrade of the notion safety and health at work. The fact is that assuring **occupational safety and health** is one of the fundamental human rights. In order to implement it we carried out activities in 2006 such as: identifying risks for safety and health at work and their continual decrease, prevention of injuries, occupational diseases and other work-related illnesses and providing each employee ability to work throughout his/her professional career. The goal of the occupational safety and health policy is to continually improve comfort at work. This concept includes physical, moral and social dimension. Furthermore, we concentrated last year on additional goals such as a continual decrease in frequency of work-related injuries, preventive measures and prevention of social-related risks. A special attention should be paid to factors such as stress, risks resulting from addiction to psycho-active substances and analysis of new types of risks.

Owing to the introduction of a systematic approach to the identification of hazardous occurrences that could lead to an accident with a material damage, or injury of a worker, resulted in a lower number of both the number and frequency of work-related injuries and their seriousness. Positive effects appear that originate from systematic actions and preventive approach to improvement of working conditions.

Savatech d.o.o.	2002	2003	2004	2005	2006	Index 2006/2005
Number of injures with sick leave	17	10	12	18	16	89
Frequency of injuries (number of injuries with sick leave per 200,000 work hours)	2.3	1.7	2,1	2.9	2.5	86

In comparison with 2006 the number of injuries with sick leave in 2006 decreased in absolute terms despite an increase in the number of employees. The goal we have set is to achieve only 1.6 injuries with sick leave per 200,000 work hours in 2007.

Employee healthcare

Pursuing the employee health and care for a sound working environment are two important tasks our company has 59 per cent of Savatech's employees received preliminary, periodic and specific health examinations in 2006.

Fire safety

Systematic operation of safety areas demonstrated positive effects also in the fire safety area. In 2006, one fire broke out in Savatech that was quickly and efficiently extinguished by employees. Regular trainings and checking the qualifications of intervention teams take place, which in addition to preventive actions is an important factor in reduction of risks arising from extraordinary events. Intervention teams are regularly checked as to their capacity to intervene in extraordinary events.

INVESTMENT ACTIVITIES

(SIT in thousands)

Activated investments in progress in 2006 in Savatech d.o.o.	
Savatech, d.o.o.	903,500
- Elastomers	53,343
- Conveyor Belts	67,937
- Profiles	385,107
- Print	31,421
- Eko	84,421
- Velo	159,623
- Business services	121,648

In line with the adopted business plan we continued in 2006 with the investment cycle which in terms of volume was similar to the cycle in the previous year.

At the end of 2006 a new modern line for profiles production was started up, which meets the highest environmental requirements. In accordance with the environmental policy of the European Union and the Republic of Slovenia we involve in the national programme for decreasing the environment pollution with hazardous substances. The investment meets also the requirements for a larger and more reliable profiles production at a higher quality level.

In the Velo programme we invested in curing presses to enhance productivity thereby improving the quality of tyre curing procedure. Thanks to a new tyre build-up machine we could start the production of a new segment of moto tyres (enduro tyres) and increase the capacity for production of go-kart tyres.

In Labore, Kranj we improved logistics and flow of material by arranging unloading places.

In other programmes smaller investments were underway aiming at a safer work, improvement of environmental influences, renewal of production process and rational use of energy.

FINANCIAL OPERATIONS AND MANAGING FINANCIAL SOURCES

The basic function of financial management is providing short- and long-term solvency for the company which further assures an undisturbed operation of other business processes.

In 2006, liabilities from financing due to an extensive growth in the business volume and investments increased by 347.8 million tolar. At 31/12/2006 the company had financial liabilities of 2,128 million tolar, of which 12.4 per cent had maturity over one year, and others were short-term.

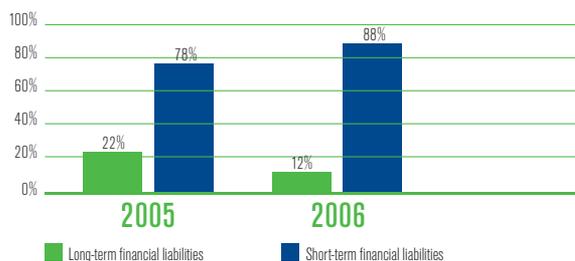
Due to a flexible financial structure we were able to quickly respond to changes in the international financial markets. New loans were hired, exclusively denominated in Swiss francs at a variable interest rate tied to LIBOR, and in tolar at a fixed interest rate. At the end of the year the foreign currency structure was as follows: in CHF - 70.0 per cent, in SIT - 18.3 per cent, and in EUR - 11.7 per cent of financing liabilities. 18.3 per cent of loans were at a fixed interest rate, and 81.7 per cent at a variable interest rate. Since we expect euro interest rate in 2007 will stabilise, we did not decide for insurance against the change in interest rates.

In 2006, the company Sava d.d. increased share capital of the company Savatech d.o.o. by an investment in kind in the amount of 946,370,563 tolar. The ratio between the ownership and debtor's capital at the end of 2006 amounted to 1.11 against 0.89. The ownership capital represented a 55.6 per cent share in liabilities. Long-term coverage of long-term with long-term liabilities amounted to 151.7 per cent at the end of 2006, meaning that the company covered all long-term assets with long-term liabilities and also a larger part of inventories and receivables. The quick ratio (1.67) and the current ratio (1.08) which statically show short-term solvency were improved in 2006 and show values which prove that the company did not have any difficulties with short-term solvency. The company settled liabilities to its business partners in terms agreed with contracts, which is clear from the payment key Dun&Bradstreet (value:80). At the same time this company ranked us in the respectable list of 50 best assessed Slovene companies.

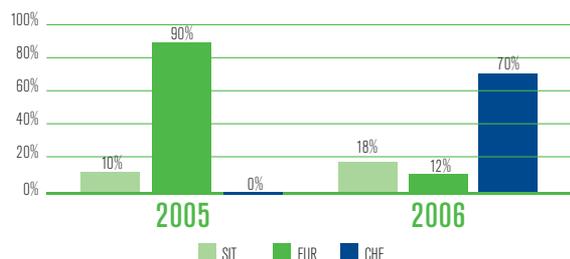
At 31/12/2006 the company had financial investments of 474.6 million tolar, or 4.4 per cent in total assets. Long-term financial investments (3.7 million tolar) refer to approved long-term loans to employees. A part of short-term financial investments which at a suitable yield was used to balance liquidity was invested with the company Sava d.d. The remaining short-term (especially euro-currency) financial investments were tied with Gorenjska Banka d.d. to avoid currency conversion and unfavourable exchange rate.

The cash flow statement shows that the company in 2006 created a positive cash flow from operations, which it totally used for financing investments in tangible fixed assets and expansion in the volume of operations (increase in current assets, especially operating receivables)

The presented financial situation facilitates to further implement the investment plan at an acceptable and manageable level of financial risks.



Savatech d. o. o.: Ratio between long- and short-term liabilities



Savatech d. o. o.: Ratio between financial liabilities in SIT, EUR and CHF

RISK MANAGEMENT

At its operations the company is exposed to various business risks. The company devotes a lot of attention to the systematic and efficient management of various risks.

Currency-based risk

Currency-based risk is the risk that the value of receivables and liabilities invoiced in a foreign currency may fluctuate due to the changes in exchange rates. Due to its geographic diversification of operations the company is exposed to foreign currency risk, particularly of foreign currency pairs such as EUR/SIT and USD/SIT. In 2006, we had the longest net position in euros, which due to the accession of Slovenia to ERM2 and foreseeable exchange rate policies of the Bank of Slovenia prior to taking over the euro does not represent any significant risk for the company. The American dollar exposure is decreased mainly with the internal protection techniques, that is by balancing sale and purchase. The fluctuations in the value of other currencies (British sterling pound, Polish zlot, Swiss franc) did not considerably affect our business in 2006.

Interest-based risk

This is the risk that the value of financial liabilities may fluctuate due to a change in interest rates. For financing its operations the company applies loans of various maturity dates at fixed and variable interest rates tied to EURIBOR and LIBOR. Due to the present favourable conditions in the financial markets and the expected slow growth of EURIBOR and LIBOR the company did not decide to insure against exposure to a change in the interest rate.

Credit-based risk

Credit risk connected with a possibility that business partners might not meet mutual obligations is managed with regular monitoring of partners' credit rating, introduced standards for collecting receivables and a system supervision of bad payers, on-going compensations, insurance of business receivables with the Slovene Export Company d.d. and diversification of sales. The results of all these activities were demonstrated in a low write-off in receivables in 2006, the value of which was substantially lower than planned - 0.5 per cent of net sales revenues.



Solvency-based risk

Short-term solvency-based risk, which presupposes a possible inability to currently settle liabilities and conduct a normal course of business, is estimated as low, which results from the efficient management of cash and other assets, good access to the banking sources and agreed credit lines with banks and the company Sava d.d.

Long-term solvency-based risk is estimated low as well due to good business operations, efficient managing of assets, a suitable capital structure and a high credit ability.

Risk of losing assets

Risk to lose assets refer to the management of fire risk, production standstill risk, transportation risk and other risks the assets are exposed to such as product liability. In the company we systematically transfer all identified asset-based risks to insurance companies thereby reducing exposure to the mentioned risks.

ANALYSIS OF BUSINESS PERFORMANCE

(SIT in thousands)

MORE IMPORTANT DATA ABOUT BUSSINES OPERATIONS	2002*	2003*	2004*	2005*	2006**
Operating revenues	11,277,600	12,508,164	14,325,221	16,710,759	20,251,743
Net sales revenues	11,270,758	12,436,553	14,292,377	16,646,677	20,221,590
Operating expenses	11,875,879	12,387,517	14,116,515	16,497,697	19,712,444
Profit/loss from operations	-598,279	120,647	208,706	213,062	539,299
Net profit/loss	-625,679	5,817	160,810	240,588	446,538

*data according to SAS 2001

** data according to SAS 2006

Data is not comparable.

In 2006, the company generated revenues of 20,349 million tolars. Almost the entire share had **operating revenues**, which in 2006 increased by 21.2 per cent and amounted to 20,252 million tolars.

By selling products, services, goods and materials the company generated net sales revenues of 20,222 million tolars in 2006, or 21.5 per cent more than in the previous year. The share of net sales revenues generated in the foreign markets was 74.2 per cent, our most important export market being west European states.

Operating expenses amounted to 19,712 million tolars in 2006. The largest share or 75.3 per cent was due to costs of goods, material and services. In the beginning of the year we faced a high price increase in oil in the world market and, consequently, price increase in our strategic raw materials and energy. The situation calmed down in the second half year.

Labour costs were 12.1 per cent higher than in 2005. The increase was due to the real growth in wages&salaries and a higher employee number in production on average due to a larger business volume.

In comparison with 2005 depreciation was 46.7 per cent higher due to investments in tangible fixed assets and increase in capital by Sava d.d. Operating expenses from revaluation of current assets were considerably lower, the remarkable improvement was a reduction in the volume of doubtful receivables and non-saleable inventories.

Other operating expenses include 143,8 million tolars in provisions formed for a lawsuit in connection with provided services.

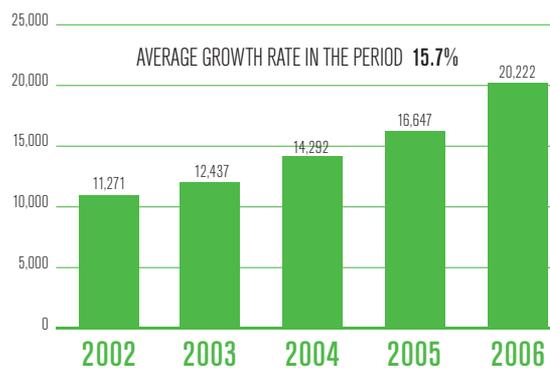
Profit from operations in the amount of 539 million tolars was 155.5 per cent higher than in 2005.

Financial revenues surpassed financial expenses by 28.7 million tolars.

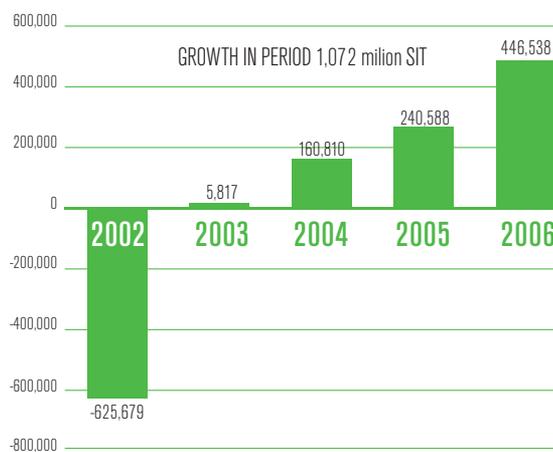
Such a result was due to realised exchange difference losses (especially EUR/USD), and a further increase in interest rates for raised loans.

In 2006, the company generated a **net profit** of 447 million tolars, or 85.6 per cent more than last year.

Despite a higher number of employees on average the added value per employee was 23.3 per cent higher than in 2005 and totalled 6.7 million tolars.



Savatech, d. o. o.: INCREASE IN NET SALES REVENUES IN THE PERIOD 2002 - 2006 (SIT in millions)



Savatech, d. o. o.: INCREASE IN NET PROFIT/LOSS IN THE PERIOD 2002 - 2006 (SIT in thousands)

(SIT in thousands)

MORE IMPORTANT DATA						
ON OPERATION	31/12/2002*	31/12/2003*	31/12/2004*	31/12/2005*	01/01/2006**	31/12/2006**
Assets	4,563,933	4,772,788	7,342,795	8,833,592	8,922,498	10,717,075
- long-term assets	117,073	177,942	2,405,250	2,878,490	2,967,396	4,104,470
- short-term assets	4,446,860	4,594,846	4,937,545	5,955,102	5,955,102	6,612,605
Equity and liabilities	4,563,933	4,772,788	7,342,795	8,833,592	8,922,498	10,717,075
- Equity	2,252,734	2,258,551	4,602,332	4,842,920	4,576,205	5,962,000
- Liabilities	2,311,199	2,514,237	2,740,463	3,990,672	4,346,293	4,755,075

*data according to SAS 2001

** data according to SAS 2006

Data is not comparable

The assets of the company at 31/12/2006 totalled 10,717 million tolars and increased by 20.1 per cent since the beginning of the year.

In the assets structure **long-term assets** had a 38.3 per cent share. Due to new investments and increase in capital tangible fixed assets increased by 38.9 per cent.

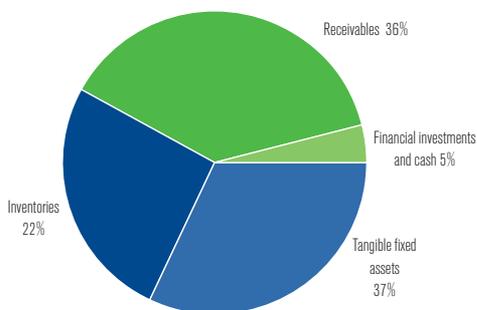
Short-term assets increased by 11 per cent and at the end of 2006 totalled 6,613 million tolars. Higher inventories and receivables contributed to this increase particularly due to the considerably larger quantity volume of production and sales. Thanks to a strict control over inventories and short-term receivables we managed to shorten tied-up short-term assets, which had a positive influence on cash flow.

Due to the already mentioned increase in capital the **equity** as of 01/01/2006 increased by 1,386 million tolars. Its share in the liabilities structure amounted to 55.6 per cent.

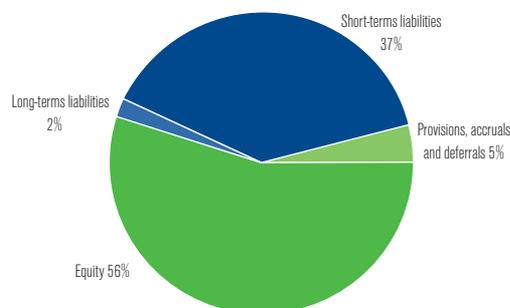
In comparison with the previous year **liabilities** increased by 9.4 per cent, which was especially due to the formation of provisions on the basis of actuary calculations of future liabilities for pensions and similar obligations as well as lawsuit for services provided. By additional indebtedness we financed investments in tangible fixed assets and higher inventories and receivables. This year too we did not succeed to balance supplier's and customer's terms of payment, even worse, supplier's terms of payment shortened, on average.

In comparison with 2005 the indicators for operating efficiency and net return on equity improved in 2006; the former totalled 1.03 (1.01 in 2005), the latter 0.09 (0.05 in 2005).

Based on the presented data and the fact that for the first time we have implemented all more important goals that we had set in the business plan, we can consider the year 2006 as the most successful so far. The achieved results present a good platform for the implementation of the ambitious development strategy 2007-2011 adopted at the end of 2006.



Savatech, d. o. o. ASSETS STRUCTURE AT 31/12/2006



Savatech, d. o. o. LIABILITIES STRUCTURE AT 31/12/2006

PLANS FOR THE FUTURE

The existent demand for rubber products is changing, while new needs are opening for rubber products, new markets and market niches are emerging. After-sales services are in high demand by customers. In the branch, an intensive horizontal and vertical concentration is underway. In west Europe production of technology less-demanding products is relocated to east Europe and Asia. We should be aware that more than one half of our sales includes products in the mature life phase which are subject to the global competition and we will have to consider it. In addition to the continual improvements process—a traditional one in our company—more attention should be devoted to radical innovations. Completely new products, processes and services should be created either on the basis of in-company expertise, or bought.

For the next year we plan to further increase sales, for the medium-term period we plan to rise growth by 9 per cent annually. However, in the next period the focus will be on tasks which are not ordinary to our present manner of work. We will undertake to build a plant for manufacturing profiles in Russia. Some programmes will continue with an intensive search for partners to manufacture products with a competitive potential in the fierce battle for the market. Owing to a shortage on space only higher added-value products will be manufactured in Kranj-based plant. All plans will require substantial investments in Kranj and abroad, not only in the manufacturing facilities but also in the trading network.

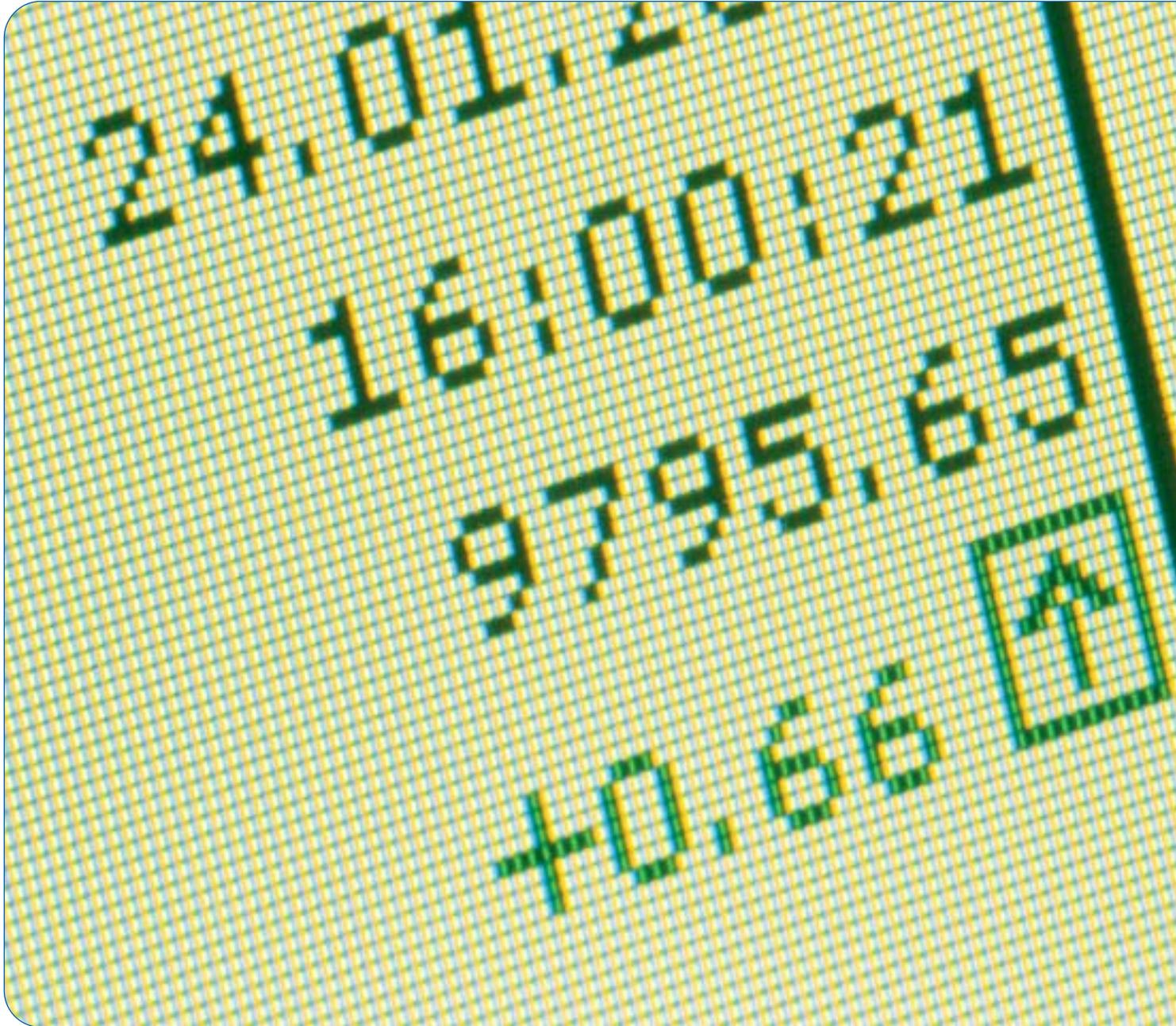
In a five-year time our company is to double the volume of operations, offer the quality and service competitive with the best competitors. We see ourselves as the most flexible and adaptable niche manufacturer of industrial rubber products in Europe.

EVENTS AFTER THE BALANCE SHEET DATE

There were no important events after the balance sheet date.



III. FINANCIAL REPORT



FINANCIAL STATEMENTS OF THE COMPANY SAVATECH D.O.O. FOR THE YEAR 2006

BALANCE SHEET AT 31. 12. 2006

(SIT in thousands)

	SRS 2006 31/12/2006	SRS 2006 01/01/2006*	SRS 2001 31/12/2005**	INDEX 31/12/2006/ 01/01/2006
ASSETS				
A. FIXED ASSETS	4,104,470	2,967,396	2,878,490	138
I. INTANGIBLE FIXED ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUES	343	657	657	52
1. Long-term industrial property rights	343	657	657	52
II. TANGIBLE FIXED ASSETS	3,982,282	2,867,054	2,867,054	139
2. Plant and machinery	3,360,761	2,430,045	2,430,045	138
3. Other equipment	220,006	215,403	215,403	102
4. Tangible fixed assets under construction	401,515	221,606	221,606	181
a) Tangible fixed assets under construction and manufacture	393,630	221,606	221,606	178
b) Advances for tangible fixed assets	7,885	0	0	0
III. INVESTMENT PROPERTY	0	0	0	0
IV. LONG-TERM FINANCIAL INVESTMENTS	3,722	5,128	5,128	73
2. Long-term loans	3,722	5,128	5,128	73
b) Long-term loans to other entities	3,722	5,128	5,128	73
V. LONG-TERM OPERATING RECEIVABLES	499	852	852	59
3. Long-term receivables to other entities	499	852	852	59
VI. DEFERRED TAX RECEIVABLES	117,624	93,705	4,799	126
B. CURRENT ASSETS	6,604,824	5,948,047	5,948,047	111
I. ASSETS (GROUPS FOR DISPOSAL) FOR SALE	0	0	0	0
II. INVENTORIES	2,329,212	2,268,356	2,268,356	103
1. Material	1,067,802	887,617	887,617	120
2. Work in process	452,802	461,658	461,658	98
3. Products and merchandis	808,608	919,081	919,081	88
III. SHORT-TERM FINANCIAL INVESTMENTS	470,831	332,907	332,907	141
2. Short-term loans	470,831	332,907	332,907	141
a) Short-term loans to companies in the Group	127,326	230,120	230,120	55
b) Short-term loans to other entities	343,505	102,787	102,787	334
IV. SHORT-TERM OPERATING RECEIVABLES	3,776,584	3,337,621	3,337,621	113
1. Short-term operating liabilities to companies in the Group	1,292,807	1,157,767	1,157,767	112
2. Short-term trade receivables	2,283,160	1,992,678	1,992,678	115
3. Short-term operating receivables to other entities	200,617	187,176	187,176	107
V. CASH	28,197	9,163	9,163	308
1. Cash in hand and on accounts	28,197	9,163	9,163	308
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES	7,781	7,055	7,055	110
ASSETS TOTAL	10,717,075	8,922,498	8,833,592	120

BALANCE SHEET AT 31. 12. 2006

(SIT in thousands)

	SRS 2006 31/12/2006	SRS 2006 01/01/2006*	SRS 2001 31/12/2005**	INDEX 31/12/2006/ 01/01/2006
LIABILITIES				
A: CAPITAL	5,962,000	4,576,205	4,842,920	130
I. CALLED-UP CAPITAL	6,007,754	5,061,384	5,061,384	119
1. Share capital	6,007,754	5,061,384	5,061,384	119
II. CAPITAL RESERVES	0	0	0	0
III. REVENUE RESERVES	0	0	0	0
IV. SURPLUS FROM REVALUATION	0	0	0	0
V. RETAINED NET PROFIT OR LOSS FROM PREVIOUS PERIODS	-45,754	-485,179	-218,464	9
VI. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	0	0	0	0
B: PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	520,462	365,987	10,366	142
1. Provisions for pensions and similar liabilities	366,624	355,621	0	103
2. Other provisions	144,784	1,000	10,366	14,478
3. Long-term accrued costs and deferred revenues	9,054	9,366	0	97
C: LONG-TERM LIABILITIES	264,941	387,759	387,759	68
I. LONG-TERM FINANCIAL LIABILITIES	264,941	387,759	387,759	68
2. Long-term financial liabilities to banks	172,541	249,159	249,159	69
4. Long-term financial liabilities to other entities	92,400	138,600	138,600	67
II. LONG-TERM OPERATING LIABILITIES	0	0	0	0
III. DEFERRED TAX LIABILITIES	0	0	0	0
D: SHORT-TERM LIABILITIES	3,968,093	3,592,426	3,592,426	110
I. LIABILITIES INCLUDED IN GROUPS FOR DISPOSAL	0	0	0	0
II. SHORT-TERM FINANCIAL LIABILITIES	1,863,184	1,392,615	1,392,615	134
2. Short-term financial liabilities to banks	1,816,984	1,346,415	1,346,415	135
4. Short-term financial liabilities to other entities	46,200	46,200	46,200	100
III. SHORT-TERM OPERATING LIABILITIES	2,104,909	2,199,811	2,199,811	96
1. Short-term operating liabilities to Group companies	126,071	138,103	138,103	91
2. Short-term trade payables	1,415,748	1,636,473	1,636,473	87
4. Short-term operating liabilities arising from advances	22,162	48,737	48,737	45
5. Other short-term operating liabilities	540,928	376,498	376,498	144
E: SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	1,579	121	121	1,305
TOTAL LIABILITIES	10,717,075	8,922,498	8,833,592	120

* At transition to SAS 2006 the company adjusted and recalculated comparison balance sheet data at 01/01/2006 in accordance with Item 15 of the introduction to SAS 2006.

** At transition to SAS 2006 the comparison data at 31/12/2005 is shown according to SAS 2001 following Item 15 of the introduction to SAS 2006; the data is not recalculated according to SAS 2006, but logically reclassified under items of assets and liabilities in the valid balance sheet scheme according to SAS 2006.

INCOME STATEMENT FOR THE YEAR 2006

(SIT in thousands)

	JAN-DEC 2006	JAN-DEC 2005 *
1. NET SALES REVENUES	20,221,590	16,646,677
a) Revenues in domestic market	5,218,133	4,262,349
To companies in the Group	461,824	555,484
To associates	28,714	703
To others	4,727,595	3,706,162
b) Revenues in foreign market	15,003,457	12,384,328
To companies in the Group	4,570,901	3,577,504
To others	10,432,556	8,806,824
2. CHANGE IN THE VALUE OF INVENTORIES OF PRODUCTS AND WORK IN PROGRESS (+) (-)	-122,816	265,977
3. CAPITALISED OWN PRODUCTS AND SERVICES	0	0
4. OTHER OPERATING REVENUES (with operating revenues from revaluation adjustment)	30,153	64,082
5. COSTS OF MERCHANDISE, MATERIALS AND SERVICES	-14,848,238	-12,788,769
a) Cost of merchandise and material sold and cost of material used (-)	-11,952,192	-10,054,519
b) Cost of services (-)	-2,896,046	-2,734,250
6. LABOUR COSTS	-3,799,030	-3,389,946
a) Salaries and wages (-)	-2,665,071	-2,355,172
b) Social security cost (pension insurance cost shown separately)	-489,058	-433,547
- Social security cost (-)	-193,510	-170,357
- Pension insurance cost (-)	-295,548	-263,190
c) Other labour cost (-)	-644,901	-601,227
7. AMORTISATION AND DEPRECIATION EXPENSE, WRITE-OFFS	-739,997	-552,387
a) Amortisation (-)	-731,072	-498,481
b) Operating expenses from revaluation of intangible and tangible fixed assets(-)	-2,141	-6,862
c) Operating expenses from revaluation of current assets (-)	-6,784	-47,044
8. OTHER OPERATING EXPENSES (-)	-202,363	-32,572
9. PROFIT /LOSS FROM OPERATIONS	539,299	213,062
10. FINANCIAL REVENUES FROM SHARES	0	0
11. FINANCIAL REVENUES FROM GRANTED LOANS	54,645	25,972
a) Financial revenues from loans granted to Group companies	5,510	7,834
b) Financial revenues from loans granted to other entities	49,135	18,138
12. FINANCIAL REVENUES FROM OPERATING RECEIVABLES	32,854	93,697
a) Financial revenues from operating receivables due from Group companies	17,514	33,493
b) Financial revenues from operating receivables due from other entities	15,340	60,204
13. FINANCIAL EXPENSES FROM IMPAIRMENT AND WRITE-OFFS IN FINANCIAL INVESTMENTS (-)	0	0
14. FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES	-66,223	-55,202
b) Financial expenses from borrowings obtained from companies in the Group (-)	-66,223	-49,940
d) Financial expenses from other financial liabilities (-)	0	-5,262
15. FINANCIAL EXPENSES FROM OPERATING LIABILITIES	-50,018	-46,716
a) Financial expenses from operating liabilities due to Group companies (-)	-26,499	-4,461
b) Financial expenses from trade payables and bill payables(-)	-21	-1,546
c) Financial expenses from other operating liabilities (-)	-23,498	-40,709
16. OTHER REVENUES	10,069	9,900
17. OTHER EXPENSES (-)	-7,842	-4,924
18. TAX ON PROFIT (-)	-97,278	0
19. DEFERRED TAXES (+) (-)	31,032	4,799
20. NET PROFIT FOR THE FINANCIAL YEAR	446,538	240,588

* At transition to SAS 2006 the comparison data for the year 2005 is shown according to SAS 2001 following Item 15 of the introduction to SAS 2006 and not recalculated according to SAS 2006, but logically reclassified in the valid income statement scheme according to SAS 2006.

CASH FLOW STATEMENT FOR THE PERIOD JANUARY - DECEMBER 2006

(SIT in thousands)

	JAN-DEC 2006	JAN-DEC 2005 *
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit for the financial year		
Pre-tax profit	512,784	235,789
Profit tax and other taxes	-66,246	4,799
	446,538	240,588
b) Adjustments for:		
Depreciation (+)	731,072	498,481
Operating revenues from revaluation related to items of investing activity and financing (-)	-2,434	46,157
Operating expenses from revaluation related to items of investing activity and financing (+)	2,141	6,862
Financial revenues excluding financial revenues from operating receivables (-)	-54,645	-25,972
Financial expenses excluding financial expenses from operating liabilities (+)	66,223	55,202
	742,357	580,730
c) Change in net current assets (and accruals, deferrals, provisions and deferred tax receivables and liabilities) of balance sheet item		
opening minus closing operating receivables	-438,610	-518,710
opening minus closing deferred costs and accrued revenues	-726	-4,248
opening minus closing deferred tax receivables	-31,032	0
opening minus closing inventories	-60,856	-478,224
closing minus opening operating liabilities	-95,927	255,284
closing minus opening accrued costs and deferred revenues and provisions	155,933	-15
	-471,218	-745,913
d) Net cash from operating activities (a + b)	717,677	75,405

CASH FLOW STATEMENT FOR THE PERIOD JANUARY - DECEMBER 2006 (continued)

(SIT in thousands)

	JAN-DEC 2006	JAN-DEC 2005 *
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Inflows from investing activities		
revenues from received interests and shares in profit related to investing activity	8,574	27,444
revenues from disposal of tangible fixed assets	12,063	0
revenues from disposal of long-term financial investments	512	2,474
revenues from disposal of short-term financial investments	6,006,176	0
	6,027,325	29,918
b) Outflows from investing activities		
expenses for purchase of tangible fixed assets	-911,386	-975,406
expenses for purchase of short-term financial investments	-6,143,206	-63,623
	-7,054,592	-1,039,029
c) Net cash from used in investing activities (a + b)	-1,027,267	-1,009,111
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Inflows from financing activities		
revenues from paid-in capital	0	0
revenues from increase in long-term financial liabilities	0	202,959
revenues from increase in short-term financial liabilities	3,903,850	792,615
	3,903,850	995,574
b) Outflows from financing activities		
expenses for interests related to financing	-65,131	-56,422
expenses for repayment of short-term financial liabilities	-3,510,095	0
	-3,575,226	-56,422
c) Net cash used in financing activities (a + b)	328,624	939,152
D. CASH AND CASH EQUIVALENTS AT END OF PERIOD	28,197	9,163
x) Net increase in cash and cash equivalents (sum of Ac, Bc and Cc)	19,034	5,446
y) Cash and cash equivalents at beginning of period	9,163	3,717

*At transition to SAS 2006 the comparison data for the year 2005 is logically reclassified in the valid cash flow statement scheme according to SAS 2006.

The cash flow statement has considered the data from the income statement for the period January -December 2006, balance sheet data as at 31/12/2006 and 31/12/2005 and other required data. The cash flow statement has been prepared according to the indirect method as the Variant II. Cash flows in investing activities and financing are reported in the same way, irrespective of the method.

The company excluded important items in the balance sheet and income statement which do not present a financial flow in order to near inflows to revenues and outflows to expenses as much as possible.

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY SAVATECH FROM 1 JANUARY 2005 TO 31 DECEMBER 2005

(SIT in thousands)

	Share capital	Retained profit/loss from previous periods	Net profit/loss for the financial year	CAPITAL TOTAL
	I/1	IV/1	V/1	
A. Balance at 01/01/2005	5,061,384	-459,052	0	4,602,332
B. Transfer to equity	0	0	240,588	240,588
- entry of net profit/loss for the financial year	0	0	240,588	240,588
C. Transfer within equity	0	240,588	-240,588	0
- balancing the loss as deductible capital item	0	240,588	-240,588	0
D. Transfer from equity	0	0	0	0
E. Balance at 31/12/2005	5,061,384	-218,464	0	4,842,920

The comparison data for the year 2005 shown according to SAS 2001 is not recalculated according to SAS 2006 but logically reclassified in the valid statement of changes in equity scheme according to SAS 2006.

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY SAVATECH FROM 1 JANUARY 2006 TO 31 DECEMBER 2006

(SIT in thousands)

	Share capital	Retained profit/loss from previous periods	Net profit/loss for the financial year	CAPITAL TOTAL
	I/1	V/2	V/1	
Balance at 31/12/2005	5,061,384	-218,464	0	4,842,920
Adjustments to opening balance – new SAS	0	-266,715	0	-266,715
A. INITIAL BALANCE AT 01/01/2006	5,061,384	-485,179	0	4,576,205
B. Transfer to equity	946,370	0	446,538	1,392,908
a) entry of called-up share capital	0	0	0	0
d) entry of net profit for the financial year	0	0	446,538	446,538
f) other allocations in capital items	946,370	0	0	946,370
C. Transfer within equity	0	446,538	-446,538	0
c) balancing loss as deductible capital item	0	446,538	-446,538	0
D. Transfer from equity	0	-7,113	0	-7,113
d) other decreases in capital items	0	-7,113	0	-7,113
E. END BALANCE at 31/12/2006	6,007,754	-45,754	0	5,962,000

At transition to SAS 2006 the company carried out adjustments and recalculations of items in comparison balance sheet data at 01/01/2006 in accordance with item 15 of the introduction to SAS 2006.

ACCUMULATED PROFIT OR LOSS

(SIT in thousands)

CALCULATION OF ACCUMULATED PROFIT OR LOSS	31/12/2006	31/12/2005
20. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	446,538	240,588
21. Retained net profit / retained loss	-492,292	-459,052
25. ACCUMULATED PROFIT (ACCUMULATED LOSS)	-45,754	-218,464

SUMMARY OF IMPORTANT ACCOUNTING POLICIES

Basis for drawing the financial statements

The financial statements of the joint stock company Sava were drawn in conformity with Slovene Accounting Standards 2006, which had been issued by the Slovene Institute of Auditors. These standards were used for the first time therefore we explained the features of this transition on page 69.

The financial statements are drawn in Slovene tolar rounded to one thousand units.

Segment reporting

The company has not defined either business or geographical segments.

Exchange rate and conversion method in domestic currency

All of the items shown in the accounts books and expressed in foreign currency are converted to the tolar value at the medium exchange rate of the Bank of Slovenia as valid on the last day of the accounting period.

Intangible long-term fixed assets

Intangible long-term fixed assets include investments in property rights. An intangible fixed asset is initially recognised at cost. If the book value exceeds the substitutable value, the value in intangible fixed assets will impair. The substitutable value is determined on the basis of revenues and expenses estimation, which arise from further use of the asset considering thereby a suitable discount rate in future cash flows.

Tangible fixed assets

At initial recognition a tangible fixed asset is valued at cost. The value includes its cost of purchase, import and non-refundable purchasing taxes and costs which can be attributed directly to its being put in service for the intended use, especially costs for its transportation and installation.

The impairment effects reflect in operating expenses from revaluation.

The difference between the net sales value and the book value of a disposed fixed asset is transferred under the operating revenues from revaluation, if the former is higher than the latter and under the operating expenses from revaluation, if the latter is higher than the former, respectively.

Subsequent expenditures in connection with a tangible fixed asset increase its cost value if the future economic benefits embodied in the assets are higher than originally estimated. The costs that assure a prolongation of useful lives of a tangible fixed assets first decrease the depreciation adjustment of its value calculated by then.

Repairs of or maintaining the tangible fixed assets are intended for renewing or preserving the future economic benefits expected on the basis of the originally estimated level of asset efficiency. They are recognised as expenses as incurred.

Depreciation

The value of a tangible fixed asset and intangible fixed asset that is not written off is decreased through depreciation. We use the method of depreciation on a straight-line basis.

The intangible fixed asset and tangible fixed asset start to be depreciated on the first day of the next month when it is available for use.

The depreciation rates are based on the useful lives of the assets and amount to:

	2006-in %	2005-in %
Intangible assets	10.0	20.0
Production equipment	5.0 - 33.3	5.0 - 33.3
Other equipment	10.0 - 25.0	10.0 - 25.0

The decrease in value of depreciable assets due to an impairment is not depreciation costs but operating expense from revaluation of depreciable assets.

Financial investments

In the balance sheet financial investments are stated as long- and short-term financial investments. Long-term financial investments are those which are in possession for more than one year, and are not held for trading.

Long-term financial investments which are reclassified under short-term financial investments are transferred individually according to their book value.

Receivables

At their initial recognition the receivables of all types are shown in the amounts that arise from the corresponding documents on condition that they will be paid. The original receivables can later be increased, or irrespective of payment or any other settlement, decreased by every amount, which is proven by an agreement.

The advances in the balance sheet are shown in relation with things they refer to.

Receivables, which are assumed not be settled within the due term and in total amount respectively, are considered doubtful and, if a court procedure has already begun, disputable.

The revaluation adjustments in receivables are formed as follows:

- a 100 per cent adjustment in all sued receivables and receivables filed in a bankruptcy proceeding and current receivables when in professional opinion of the responsible person reasonable grounds exist;
- a 100 per cent adjustment in and obligatory enforcement proceeding.

Inventories

The quantity unit of inventories in material and merchandise is initially recognised at cost price, which consists of purchase price, import and other non-refundable purchase taxes and direct costs of purchase.

The quantity unit of a product or work in process is initially recognised at manufacturing cost. The purchase value of the quantity unit of work in process and products does not include interests from received loans used to finance such inventories.

Company uses the method of weighted average pricing for evaluating the consumption of raw materials.

The inventories of semi-products and products are valued at manufacturing cost. Manufacturing costs include direct costs of manufacturing and costs of manufacturing overhead.

Direct manufacturing costs include cost of manufacturing material (a product of average weighted prices for raw materials and quantity according to the valid bill of material) and general variable and fix manufacturing cost (a product of planned price of operations and quantity according to the valid work plan). General variable and fix costs of manufacturing are cost planned at the manufacturing cost centres. They include cost of auxiliary materials, energy, manufacturing services, spare parts, maintenance cost, labour cost, depreciation cost and facility rental.

In the calculation of a semi product and product the cost of manufacturing overhead is computed as an addition to variable manufacturing cost. The addition is computed as planned percentage.

Inventories are revalued due to impairment if their book value, including that according to the recent actual purchase prices and costs, respectively, exceeds their market value. For inventories that have not changed for more than one year (obsolete) a revaluation adjustment is formed (for raw materials 180 days, for the rest one year).

Cash and cash equivalents

Cash represents book money. Book money is money on accounts at a bank or any other financial institution and can be applied for payment. It consists of immediately available cash.

Book value of cash equals its initial nominal value until the need for revaluation appears. Cash in foreign currency is translated to a domestic currency at the exchange rate on the day of receipt.

The revaluation adjustment of cash in foreign currency is carried out on the balance sheet date using the medium exchange rate of the Bank of Slovenia at translation. Revaluation of cash is shown as financial revenue or expense, respectively.

Capital

The total capital comprises called-up capital, retained loss from previous periods, net profit from previous years and not yet distributed net profit.

Share capital is managed in the domestic currency.

Long-term provisions

Long-term provisions are formed from long-term accrued costs or expenses and earmarked for covering contingent liabilities arising from lawsuits, liabilities for jubilee benefits and retirement bonus on the basis of an actuary calculation.

Liabilities

Liabilities are either financial or operating, short-term or long-term.

All liabilities are initially recognised with the amounts arising from the corresponding documents about their appearance, which prove the receipt of cash or redemption of any operating liability; in the case of long-term operating liabilities the receipt of tangible fixed assets, in the case of short-term operating liabilities the receipt of a product or a service or performed work and charged costs, expenses or a share in the net profit respectively.

Long-term liabilities are further increased by imputed interests or decreased by repaid amounts and any other settlements, agreed upon with a creditor. The book value of long-term liabilities equals their original value decreased by repayment of the principal and transfers under short-term liabilities until the need for a revaluation adjustment of long-term debts appears.

The book value of short-term liabilities equals their original value adjusted by their increases or decreases as agreed upon with the creditors until the need for their revaluation adjustment appears.

Short-term and long-term liabilities of all kinds are initially shown with the amounts, which arise from the corresponding documents on condition that the creditors request their repayment. The liabilities are later increased with imputed yields (interests, other compensations), about which an agreement is made with the creditor. Liabilities are decreased by repaid amounts and any other settlements in agreement with the creditor. Long-term liabilities are decreased for the part, which should be paid in less than a year, which is shown under short-term liabilities.

Short-term accruals and deferrals

Deferred costs and accrued revenues include short-term deferred costs.

Short-term accrued costs and deferred revenues include short-term deferred revenue.

The basis for short-term accruals and deferrals are determined facts written down in a form of a resolution about the formation of short-term accruals and deferrals and acquired bookkeeping documents from external business partners.

Recognition of revenues

Revenues are recognised if the enhancement of economic benefits in the accounting period is connected with an increase in an asset or decrease in a liability and such an increase could be reliably measured.

Revenues are recognised when it is legitimate to expect they will result in earnings if these were not already implemented at their appearance.

Operating revenues

Operating revenues from the sale of products, merchandise and materials are measured with selling prices quoted in the invoices and other documents and decreased by discounts, which are approved upon the sale or later on also owing to a premature payment. Revenues from provided services with exception of provided services that result in financial revenues are measured at the selling prices of finished services or at the selling prices of services in progress with respect to the level of their completion.

Revenues in connection with subventions and endowments are measured according to amounts approved for this purpose.

Operating revenues from revaluation arise upon the disposal of tangible fixed assets.

Financial revenues

Financial revenues are revenues from investing activities. They arise in relation to long-term and short-term financial investments and also receivables. Financial revenues are recognised upon accounting irrespective of the proceeds if their size, maturity and redemption are not doubted. Interests are charged in proportion to the period expired and with regard to the not yet redeemed share of the principal and the valid interest rate.

Other revenues consist of extraordinary items. They appear in actually incurred amounts.

Recognition of expenses

Expenses are recognised if a decrease in economic benefits in the accounting period is connected with a decrease in assets or an increase in liabilities and this decrease could be reliably measured.

Operating expenses

Operating expenses are recognised when the material is used and service provided, respectively, in the period, to which they relate.

Operating expenses from revaluation are recognised when a corresponding revaluation adjustment is carried out irrespective of their influence on the operating profit or loss.

Operating expenses from revaluation arise in connection with tangible fixed assets, intangible fixed assets and current assets due to their impairment.

Financial expenses

Financial expenses are expenses for financing and investing activities. Financial expenses are recognised after balancing irrespective of payments that are in relation with them.

Financial expenses from revaluation arise in connection with increase in value of long- and short-term liabilities.

Other expenses

Other expenses include extraordinary items that are shown in actually arisen amounts.

BREAKDOWN AND NOTES TO THE FINANCIAL STATEMENTS

Balance sheet

Intangible fixed assets

MOVEMENT OF INTANGIBLE FIXED ASSETS

(SIT in thousands)

	Long-term property rights
COST VALUE	
Balance at 31/12/2005	1,570
Adjustment to opening balance – new SAS	0
Balance at 01/01/2006	1,570
Balance at 31/12/2006	1,570
ACCUMULATED DEPRECIATION	
Balance at 31/12/2005	-913
Adjustment to opening balance – new SAS	0
Balance at 01/01/2006	-913
Depreciation	-314
Balance at 31/12/2006	-1,227
CARRYING AMOUNT	
Balance at 31/12/2005	657
Adjustments	0
Balance at 01/01/2006	657
Balance at 31/12/2006	343

Industrial property rights include the software programmes ARCADIA AVTO -CAD-LT 2002 and SOLID EDGE.

Tangible fixed assets

MOVEMENT OF TANGIBLE FIXED ASSETS

Tangible fixed assets in the amount of 3,982,282,000 tolar present 37.15 per cent of the balance sheet total of the company.

Significant changes in tangible fixed assets were as follows:

- accounted depreciation of tangible fixed assets totalling 730,758,000 tolar;
- investments in 2006 totalling 903,501,000 tolar; and
- increase in capital of the company totalling 946,370,000 tolar.

The highest investments were made in the Print programme in the UHF line and extruder, in the Velo programme in curing presses and tyre build-up machines and in the Eko programme in hydraulic presses.

MOVEMENT OF TANGIBLE FIXED ASSETS

(SIT in thousands)

COST VALUE	Plant and machinery	Other equipment	Tangible fixed assets under construction	Advances for tangible fixed assets	TOTAL
Balance at 31/12/2005	3,278,602	320,777	221,606		3,820,985
Adjustment to opening balance – new SAS	0	0	0	0	0
Balance at 01/01/2006	3,278,602	320,777	221,606	0	3,820,985
Increases, purchases	481,328	47,455	374,718	120,451	1,023,952
Capitalisation	202,694	0	-202,694	0	0
Increases due to increase in capital	916,188	30,182	0	0	946,370
Transfers	0	0	0	-112,566	-112,566
Decreases	-17,051	-1,353	0	0	-18,404
Write-off	-3,120	-20	0	0	-3,140
Impairments	-7,676	-125	0	0	-7,801
Balance at 31/12/2006	4,850,965	396,916	393,630	7,885	5,649,396
ACCUMULATED DEPRECIATION					
Balance at 31/12/2005	-848,557	-105,374	0	0	-953,931
Adjustment to opening balance – new SAS	0	0	0	0	0
Balance at 01/01/2006	-848,557	-105,374	0	0	-953,931
Decreases	8,045	730	0	0	8,775
Write-offs	3,070	7	0	0	3,077
Impairments	5,629	94	0	0	5,723
Depreciation	-658,391	-72,367	0	0	-730,758
Balance at 31/12/2006	-1,490,204	-176,910	0	0	-1,667,114
CARRYING AMOUNT					
Balance at 31/12/2005	2,430,045	215,403	221,606	0	2,867,054
Adjustment	0	0	0	0	0
Balance 01/01/2006	2,430,045	215,403	221,606	0	2,867,054
Balance 31/12/2006	3,360,761	220,006	393,630	7,885	3,982,282

Long-term financial investments

(SIT in thousands)

	Long-term loans to other entities
Balance at 31/12/2005	5,128
Adjustments to opening balance – new SAS	0
Balance at 01/01/2006	5,128
Decreases	-512
Transfer	-894
Revaluation	0
Balance at 31/12/2006	3,722

Long-term financial investment includes receivables from loans for flats approved at an interest rate of TOM+3%. The short-term part totalling 894,000 tolar is shown under short-term financial investments.

Inventories

Inventories by type are clear from the balance sheet. The item B/II/3 products and merchandise is further broken down in:

- finished products 685,952,000 tolar
- merchandise 122,656,000 tolar.

At the end of the year the company compared the book value and net saleable value of inventories by individual type. The company also examined the obsolescence of products; an impairment was ascertained, therefore expenses from revaluation were formed totalling 6,732,000 tolar.

Long-term operating receivables

Long-term operating receivables are receivables due from employees for tuition fees in the amount of 499,000 tolar.

Deferred tax receivables

23 per cent of deferred tax receivables are receivables due from the state arising from formed provisions for pensions and jubilee benefits according to the actuary calculation and receivables due from the state for provisions formed for possible law suits. In opening balance according to SAS 2006 receivables increased by 88,906,000 tolar on the account of retirement bonus, which represents 25 per cent of deferred tax. Adjustment of receivables from 25 to 23 per cent is the amount of 7,112,000 tolar, which reflects in the change in capital.

Changes during the year were due to the additionally formed provisions and their drawing. The survey below shows their movement.

(SIT in thousands)

	2006
Balance of deferred tax receivables at 31/12/2005	4,799
Adjustments to SAS 2006	88,906
Balance of deferred tax receivables at 01/01/2006	93,705
Change in receivables for deferred taxes according to SAS	-7,112
Reversal of receivables from previous year	-4,799
Change in receivables for provisions for retirement bonus	2,530
Other changes (taxes from provisions for law suits)	33,300
Balance of deferred tax receivables at 31/12/2006	117,624

Operating receivables

Short-term trade receivables arise from the sale of products, services goods and materials.

Insuring receivables

The company has about one half of receivables insured with the Slovene Export company. Receivables due from the Sava Group in Slovenia and receivables that are compensated out are not insured.

A detailed survey of receivables is shown in the table below.

B/IV/1. SHORT TERM RECEIVABLES DUE FROM GROUP COMPANIES

(SIT in thousands)

	31/12/2006	01/01/2006	31/12/2005
Receivables due from subsidiaries in Slovenia	59,844	70,697	70,697
Receivables due from subsidiaries abroad	1,232,963	1,087,070	1,087,070
Other receivables	0	0	0
Revaluation adjustment in receivables	0	0	0
TOTAL	1,292,807	1,157,767	1,157,767

B/IV/2. SHORT-TERM TRADE RECEIVABLES

(SIT in thousands)

	31/12/2006	01/01/2006	31/12/2005
Receivables due from customers in Slovenia	663,153	618,861	618,861
Receivables due from customers abroad	1,602,188	1,402,817	1,402,817
Receivables from interests due from customers	1,171	1,252	1,252
Receivables due from agents	0	1,522	1,522
Receivables due from customers in associates	27,004	0	0
Receivables from interests due from customers in associates	3	0	0
Revaluation adjustment in receivables	-10,359	-31,774	-31,774
TOTAL	2,283,160	1,992,678	1,992,678

B/IV/3. SHORT-TERM OPERATING RECEIVABLES DUE FROM OTHER ENTITIES

(SIT in thousands)

	31/12/2006	01/01/2006	31/12/2005
Receivables for VAT	186,238	172,727	172,727
Receivables for VAT from abroad	2,004	3,852	3,852
Other receivables due from associates	16	0	0
Receivables from wages & salaries	5,937	3,853	3,853
Receivables due from employees	22	233	233
Advances for current assets	3,750	2,243	2,243
Receivables due from other entities	2,650	4,268	4,268
TOTAL	200,617	187,176	187,176

MOVEMENT IN REVALUATION ADJUSTMENTS

(SIT in thousands)

	2006	2005
Balance of revaluation adjustments at 01/01	31,774	129,937
Increase in revaluation adjustments	51	14,280
Decrease in revaluation adjustments	-21,467	-112,443
Balance of revaluation adjustment at 31/12	10,358	31,774

BREAKDOWN OF RECEIVABLES BY TERM OF MATURITY

(SIT in thousands)

	TOTAL	DUE	NOT DUE
IV) Short-term operating receivables	3,776,584	410,907	3,365,677
1. Short-term operating receivables due from Group companies	1,292,807	46,590	1,246,217
2. Short-term trade receivables	2,283,160	364,317	1,918,843
3. Short-term operating receivables due from other entities	200,617	0	200,617

Short-term financial investments

Short-term financial investments include a short-term loan to Sava d.d. in the amount of 127,326,000 tolar at an interest rate of 2.9%, a deposit with Gorenjska Banka d.d. in the amount of 342,611,000 tolar and a part of a long-term loan in the amount of 894,000 tolar, which falls due in 2007.

The contracts about a tied-up foreign currency deposit were concluded in December 2006, the interest rate being from 2.1 % on at the annual level. Deposits fall due in January 2007.

Deferred expenses and accrued revenues

Deferred expenses and accrued revenues include short-term deferred expenses for trade shows and literature in 2007 and deferred VAT in received advances.

Capital

The share capital was enhanced by an increase in capital totalling 946,370,000 tolar. Due to adjustment in the opening balance according to SAS 2006 the retained loss from the year 2005 increased by 266,715,000 tolar to the total of 485,179,000 tolar. According to the Companies Act the company earmarked the net profit for the financial year in the amount of 446,538,000 tolar to cover the loss from previous years.

Provisions

Provisions include long-term deferred revenues from received funds by the Ministry of the Economy for co-financing development projects, provisions for retirement bonus and jubilee benefits and contingent liabilities.

In the opening balance at 01/01/2006 the company formed provisions according to SAS 2006 in the amount of 355,621,000 tolar for jubilee benefits and retirement bonus.

In the current year the company formed provisions for a lawsuit for a damage that was allegedly caused in the amount of 15 per cent of the total sued amount. The company estimates that it is not responsible for the damage, but formed a provision under presumption that the court could partly find for the plaintiff. A decrease in provisions is due to the payment of retirement bonus and jubilee benefits and the depreciation amount for fixed assets for the current year that were co-financed.

Movement and maturity is shown in the tables below.

(SIT in thousands)

	Balance at 01/01/2006	Drawing	Forming	Balance at 31/12/2006
Provisions for severance and similar liabilities	355,621	10,811	21,814	366,624
Other provisions	1,000		143,784	144,784
Long-term accrued costs and deferred revenues	9,366	1,622	1,310	9,054
TOTAL	365,987	12,433	166,908	520,462

Long-term financial liabilities

At 31/12/2006 the company shows a long-term liability to domestic banks totalling 172,541,000 tolar and a liability to the EKO Fund in the amount of 92,400,00 tolar. The interest rate for the bank loan is EUR +0.65 %, and for others 4%. The loan is insured with bills of exchange and a bank guarantee. The bank loan falls due in 2010, the EKO Fund loan in 2009.

Maturity of non-current loans

(SIT in thousands)

Maturity term	31/12/2006
Between 1 and 2 years	122,885
Between 2 and 5 years	142,056
More than 5 years	0
Total	264,941

(SIT in thousands)

Movement of long-term financial liabilities in 2006	
Balance of loans at 01/01/2006	387,759
Hiring new loans and exchange rate differences in 2006	67
Repayment in 2006	0
Transfer to a short-term part	122,885
Balance of loans at 31/12/2006	264,941

Short-term financial liabilities

Short-term financial liabilities include two foreign currency loans obtained from domestic banks in the amount of 1,740,299,000 tolar. Interest rate amounts from 2.8 to 4.2 per cent.

Short-term liabilities include a long-term part of loans totalling 122,885,000 tolar, which fall due in 2007. The loans are insured with bills of exchange.

Short-term operating liabilities

D/III/1. SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

(SIT in thousands)

	31/12/2006	01/01/2006	31/12/2005
Operating liabilities to subsidiaries in Slovenia	122,225	130,257	130,257
Operating liabilities to subsidiaries abroad	3,846	7,836	7,836
Other liabilities	0	2	2
Interest from operations - subsidiaries in Slovenia	0	10	10
TOTAL	126,071	138,105	138,105

D/III/2. SHORT-TERM TRADE PAYABLES

(SIT in thousands)

	31/12/2006	01/01/2006	31/12/2005
Trade payables in Slovenia	763,429	810,654	810,654
Trade payables abroad	627,324	822,227	822,227
Trade payables for material not invoiced	373	108	108
Liabilities for interest to suppliers	2,167	3,484	3,484
Trade payables to associates	22,455	0	0
TOTAL	1,415,748	1,636,473	1,636,473

D/III/5. OTHER SHORT-TERM OPERATING LIABILITIES

(SIT in thousands)

	31/12/2006	01/01/2006	31/12/2005
Liabilities for wages&salaries and other personal contributions	327,680	263,128	263,128
Liabilities for VAT	1,722	7,234	7,234
Liabilities for corporate income tax	97,278	0	0
Liabilities to state arising from other taxes	88,546	79,788	79,788
Other operating liabilities	25,702	26,348	26,348
TOTAL	540,928	376,498	376,498

1.4 per cent of total trade payables outside of the Group have already matured.

Off-balance assets

The value of off-balance assets represents a customs guarantee in the amount of 40,000,000 tolar, payment guarantee of 138,600,000 tolar and a contract about a guarantee totalling 42,000,000 tolar.

INCOME STATEMENT

A detailed survey of net sales revenues is shown in the tables below.

(SIT in thousands)

	2006	2005
REVENUES FROM PRODUCTS	3,667,814	2,619,776
to subsidiaries	257,613	305,727
to associates	18,374	703
to other entities	3,391,827	2,313,346
REVENUES FROM SERVICES	365,898	402,354
to subsidiaries	203,775	204,566
to associates	15	0
to other entities	162,108	197,788
REVENUES FROM MERCHANDISE	258,395	237,019
to subsidiaries	0	43,729
to associates	9,992	0
to other entities	248,403	193,290
REVENUES FROM MATERIALS	926,026	1,003,200
to subsidiaries	436	1,462
to associates	333	0
to other entities	925,257	1,001,738
REVENUES IN DOMESTIC MARKET	5,218,133	4,262,349

	2006	2005
REVENUES FROM PRODUCTS	14,673,428	12,002,579
to subsidiaries	4,522,520	3,537,915
to associates	0	0
to other entities	10,150,908	8,464,664
REVENUES FROM SERVICES	43,740	39,781
to subsidiaries	18,295	27,174
to associates	0	0
to other entities	25,445	12,607
REVENUES FROM MERCHANDISE	259,296	319,379
to subsidiaries	29,959	12,415
to associates	0	0
to other entities	229,337	306,964
REVENUES FROM MATERIALS	26,993	22,589
to subsidiaries	127	0
to associates	0	0
to other entities	26,866	22,589
REVENUES IN FOREIGN MARKET	15,003,457	12,384,328
TOTAL SALES REVENUES IN DOMESTIC AND FOREIGN MARKET	20,221,590	16,646,677

Costs of goods, materials and services

(SIT in thousands)

	JAN-DEC 2006	JAN-DEC 2005	INDEX 2006/2005
Costs of merchandise and materials sold and costs of raw materials and consumables used	11,952,192	10,054,519	119
Costs of services	2,896,046	2,734,250	106
COSTS OF GOODS, MATERIALS AND SERVICES	14,848,238	12,788,769	116

The cost value of sold goods amounts to 1,346,594,000 tolar, cost of consumables totalled 10,605.598,000 tolar.

Labour costs

In comparison with last year labour costs increased by 12 per cent on average. Labour costs include also provisions for additional payments in accordance with managerial contracts in gross amount of 136,504,000 tolar.

Under labour costs the company shows accounted premiums for voluntary additional pension insurance in the amount of 50,963,000 tolar. Paid premiums for voluntary pension insurance amounted to 50,841,000 tolar.

Financial revenues from interest-bearing borrowings

A survey of financial revenues from interest-bearing borrowings is shown below.

(SIT in thousands)

	2006	2005
Financial revenues from borrowings to Group companies	5,510	7,834
interest from borrowings	5,510	7,834
Financial revenues from borrowings to associates	48,642	17,376
exchange rate differences to associated banks	47,795	14,893
interest from banks' deposits	847	2,075
other financing revenue	0	408
Financial revenues from borrowings to other entities	493	762
interest from borrowings	286	587
exchange rate differences in debts from financing	25	0
interest from a vista funds	182	175
TOTAL	54,645	25,972

Financial revenues from operating receivables

(SIT in thousands)

	2006	2005
Financial revenues from operating receivables to Group	17,514	33,493
interest from customers	0	17
exchange rate differences customers	17,280	33,295
exchange rate differences suppliers	234	181
Financial revenues from operating receivables to associates	4	0
interest from associates	4	0
Financial revenues from operating receivables due from other entities	15,336	60,204
interest to customers	3,015	1,504
interest to other receivables	75	0
exchange rate differences in receivables	5,956	19,666
exchange rate differences in debts	4,992	3,472
exchange rate differences foreign currency account	1,298	4,275
discounts	0	31,287
TOTAL	32,854	93,697

Financial expenses from financial liabilities

(SIT in thousands)

	2006	2005
Financial expenses from bank loans	66,223	49,940
interest from loans	16,653	15,788
interest from loans by associated banks	44,151	34,152
exchange rate differences in debts	101	0
exchange rate differences in loans by associated banks	5,318	0
Financial expenses from other financial liabilities	0	5,262
exchange rate differences in associated companies	0	5,262
TOTAL	66,223	55,202

Financial expenses from operating liabilities

(SIT in thousands)

	2006	2005
Financial expenses to Group companies	26,499	4,461
for interests from operations	0	13
for exchange rate differences	26,499	4,448
Financial expenses for trade payables	21	1,546
interest	21	1,546
Financial expenses from other operating liabilities	23,498	40,709
interest to suppliers	0	0
interest for taxes and contributions not paid	46	179
discounts	0	23,319
exchange rate differences in receivables	17,308	6,713
foreign currency account	2,922	2,338
exchange rate differences in debts	3,222	8,160
TOTAL	50,018	46,716

Expenses by functional group

(SIT in thousands)

	JAN-DEC 2006	Structure	JAN-DEC 2005	Structure
Manufacturing costs of products sold	17,362,792	88.1	14,582,690	88.4
Selling costs	1,288,112	6.5	1,073,372	6.5
Overheads	1,061,540	5.4	841,635	5.1
TOTAL	19,712,444	100.0	16,497,697	100.0

Corporate income tax

In 2006 the company generated a pre-tax profit of 512,784,000 tolar. The tax liability for 2006 was calculated at 97,278,000 tolar, which is an effective tax rate of 18.97 per cent. The deferred tax in the amount of 31,032,000 tolar is formed from long-term provisions.

Net profit after converting capital into euros and cost of living

(SIT in thousands)

	Capital	% growth	Calculated effect	Decrease in profit
CAPITAL / calculation in euro	5,522,575	0.00	0	0
CAPITAL / calculation for cost of living*	5,522,575	2.80	154,632	291,906

*cost of living

DATA ABOUT GROUP OF PERSONS

The income that groups of persons received for performing their functions and tasks in the business year according to the Companies Act:

Board members 49,651,000 tolar
Employees with managerial contracts 402,730,000 tolar

The company has receivables due from employees with managerial contract in the amount of 4,087,000 tolar, the interest rate being TOM+3%. The receivable falls due in 2014.

DISCLOSING AUDITOR'S EXPENSES

The expenses for auditing the annual report for 2006 totalled 4,194,000 tolar, and tax consultation expenses 108,000 tolar.

BUSINESS OPERATIONS INDICATORS

BUSINESS OPERATIONS INDICATORS	31/12/2006	01/01/2006	31/12/2005
1. BASIC FINANCING INDICATORS			
a) Participation rate of equity equity / liabilities	0.56	0.51	0.55
b) Participation rate of long-term financing total equity + long-term liabilities (incl. provisions and deferred taxes) + long-term accruals and deferrals / liabilities	0.63	0.60	0.59
2. BASIC INVESTING INDICATORS			
a) Basic investment rate Fixed assets (carrying amount) / asset	0.37	0.32	0.32
b) Long-term investment rate Total fixed assets + long-term financial investments + long-term operating receivables / assets	0.37	0.32	0.33
3. INDICATORS OF HORIZONTAL FINANCIAL STRUCTURE			
a) Equity of fixed operating assets ratio Equity/ fixed assets (at carrying amount)	1.50	1.60	1.69
b) Acid test ratio Liquid assets / short-term liabilities	0.01	0.00	0.00
c) Quick ratio Total liquid assets + short-term receivables and short-term financial investments / short-term liabilities	1.08	1.02	1.02
d) Current ratio Short-term assets / short-term liabilities	1.67	1.66	1.66
4. BASIC ECONOMIC INDICATORS			
a) Operating efficiency ratio Operating revenues / operating expenses	1.03	1.01	1.01
5. BASIC PROFITABILITY INDICATORS			
a) Net return on equity ratio Net profit for financial year / average equity less net operating results for the year	0.09	0.05	0.05
b) Dividends to share capital ratio Total dividends paid in financial year / average share capital	0.00	0.00	0.00

All basic operations indicators in 2006 show an improvement in comparison with 2005, meaning that we have preserved the trend of growth in success and operations consolidation in 2006 too.

EXPLANATIONS IN CONNECTION WITH A TRANSITION TO SAS 2006

The financial statements in this report have been prepared on the basis of Slovene Accounting Standards 2006 for the first time. In line with Item 15 of the introduction to SAS 2006 the company carried out the following adjustments and recalculations of the comparison data in the financial statements, which in 2005 were prepared on the basis of SAS 2001.

Adjustments and recalculation of the comparison balance sheet data

- According to SAS 2001 at 31/12/2005 and not recalculated according to SAS 2006, but logically rearranged in the valid balance sheet scheme under individual items of assets and liabilities:
From long-term operating receivable to deferred tax liability in the amount of 4,799,000 tolar.
- According to the recalculated data at 01/01/2006, in line with Item 15 of the introduction to SAS 2006:
Forming long-term provisions for retirement bonus and jubilee benefits in the amount of 355,621,000 tolar, on the basis of an actuary calculation;
Forming deferred receivables due from the state for taxes in the amount of 88,906,000 tolar for retirement bonus and jubilee benefits.

The effect of adjustment was shown as a decrease in retained net profit/loss in the amount of 266,715,000 tolar. The mentioned changes increased the balance sheet total of Savatech d.o.o. by 88,906,000 tolar at 01/01/2006.

Adjustments and recalculation of the comparison data in the income statement

In the income statement the comparison data for 2005 is shown according to SAS 2001 and is not recalculated according to SAS 2006. The company carried out a logical rearrangement of the comparison data in the valid income statement scheme.

Adjustments and recalculation of the comparison data in the cash flow statement

In the cash flow statement the comparison data for 2005 is shown according to SAS 2001 and is not recalculated according to SAS 2006. The company carried out a logical rearrangement of the comparison data in the valid cash flow statement scheme.

Adjustments and recalculation of the comparison data in the statement of changes in equity

In the statement of changes in equity the data about the initial balance at 01/01/2006 was shown in recalculated amounts in line with Item 15 of the introduction to SAS 2006 and relate to the following adjustments:
Increase in retained loss by 266,715,000 tolar, originating from the formation of provisions for retirement bonus and jubilee benefits.

STATEMENT BY THE BOARD OF MANAGEMENT

The Board agrees with the financial statements of the company Savatech d.o.o. for the year that ended on 31 December 2006.

The Board confirms that when drawing up the financial statements it consistently applied the corresponding accounting policy and the accounting estimates were elaborated according to the principle of prudence and cost efficiency, and that the annual report gives a true and fair view of the company's assets and its business performance in the year 2006.

The Board is responsible for the proper managing of its accounting procedures, adopting suitable measures for securing assets and other funds, and confirms herewith that the financial statements and notes have been produced based on the assumption that the company will proceed with its operations in accordance with the current legislation and Slovene Accounting Standards.

Kranj, 12 February 2007

Director
Vesna Čadež



Director
Dušan Kveder



INDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report

To the Shareholder of Savatech, d.o.o. Kranj

We have audited the accompanying financial statements of the company Savatech, d.o.o., Kranj 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 the Slovenian Accounting 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 company Savatech, d.o.o., Kranj as at 31 December 2006, the result of its operations and its cash flows for the year then ended in accordance with the Slovenian Accounting Standards.

The Management Report is in conformity with the audited financial statements.

KPMG SLOVENIJA,
poštetje za reviziranje, d.o.o.

Marija Kancilijan-Kozjek, B.Sc.Ec.
Certified Auditor

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

Ljubljana, 28 February 2007

KPMG Slovenija, d.o.o.

This auditor's report is a translation of the original auditor's report in Slovenian, issued on the financial statements and the notes thereto in Slovenian. This translation is provided for reference purposes only and is not to be signed.

IV. WHO'S WHO IN THE COMPANY SAVATECH d.o.o.

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APPENDICES

REPORT ABOUT RELATIONS WITH THE CONTROLLING COMPANY IN 2006

In accordance with Article 545 of the Companies Act the management board of the company Savatech d.o.o. has prepared a report about relations with the controlling company and subsidiaries for the business year 2006.

1. Sava d.d., Družba za upravljanje in financiranje, Škofjeloška cesta 6, Kranj is the superior/controlling company and has a 100 per cent ownership stake in the company Savatech d.o.o. Sava d.d. has the following members in the general meeting of the company Savatech d.o.o.:

1. Janez Bohorič
2. Vinko Perčič
3. Emil Vizovišek

2. The report relates to the deals concluded in 2006 with the controlling company, and the deals that the company in 2006 concluded with subsidiaries of the controlling company.

2.1. Description of legal business that the company concluded with the controlling company:

According to the contract No. 00458 Sava d.d. is charged with costs for services provided by the financial accounting department, purchasing, logistics, telephone exchange, Plant Engineering, maintenance and projects, Workers' Council, costs of energy and phone with regard to the actual consumption.

The controlling company charges Savatech d.o.o. with rental costs for real property and movables, use of brand name, information technology services, others services provided by corporate departments.

2.2. Description of legal business that the company concluded with the subsidiaries of the controlling company

The company Savatech d.o.o. carries out the following legal business for other companies which are subsidised to the controlling company: the sale of raw materials and products, financial accounting services, purchasing, logistics, HR department, Plant Engineering, Trade Union, Workers' Council.

Other companies carry out services in the area of safeguarding, archiving, photocopying, cleaning, technical safety and car renting for Savatech.

2.3 Values of business concluded with the controlling company and subsidiaries of the controlling company in 2006

(SIT in thousands)

	Sales revenues	Operating costs	Financial revenues	Financial expenses
RUBBER MANUFACTURING	339,434	52,962	1	0
SAVATECH d.o.o., Kranj	0	0		
SAVA-GTI d.o.o., Kranj	198,954	45,439		
SAVA-ROL d.o.o., Zagreb	4,450	0	1	
SAVA-SCHÄFER d.o.o., Kranj	136,030	7,523		
Foreign Trade Network	4,566,451	61,378	17,513	26,504
SAVA TRADE GmbH, Munich, Germany	2,461,794	2,692	220	116
SAVA TRADE sp.z.o.o., Warsaw, Poland	491,754	3,139	7,342	6,531
SAVA TRADE spol.s.o.o., Prague, Czech Republic	577,759	31,109	48	20
SAVA TRADE d.o.o., Split, Croatia	16,144	0	2	0
SAVATECH TRADE Ltd., London, Great Britain	816,402	22,883	8,391	3,603
SAVATECH CORP., Port Orange, Florida	202,598	1,555	1,510	16,234
TOURISM	135	5,016	0	-5
GOLF IN KAMP BLEĐ d.d., Bled	0	54		-5
GRAND HOTEL TOPLICE d.o.o., Bled	135	2,140		
G&P HOTELI BLEĐ d.o.o., Bled	0	1,242		
TERME 3000 d.d., Moravske Toplice	0	800		
- Terme Lendava, d.d., Lendava (owned by Terme 3000 d.d.)	0	0		
- Terme Radenci, d.o.o., Radenci (owned by Terme 3000 d.d.)	0	682		
TERME PTUJ d.o.o., Ptuj	0	98		
REAL ESTATE	0	0	0	0
SAVA IP d.o.o., Ljubljana				
- IP Nova d.o.o., Ljubljana (owned by Sava IP d.o.o.)				
- IP NOVA A d.o.o., Ljubljana (owned by Sava IP d.o.o.)				
- SAVA IPN d.o.o., Ljubljana (owned by Sava IP d.o.o.)				
- PC AG d.o.o., Velenje (owned by Sava IP d.o.o.)				
- SAVA IMG d.o.o., Poreč (owned by Sava IP d.o.o.)				
SAVA NOVA d.o.o., Zagreb				
OTHER OPERATIONS	26,659	206,723	0	0
SAVA MEDICAL IN STORITVE d.o.o., Kranj	23,419	206,723		
ENERGETIKA SAVA d.o.o., Kranj	3,240	0		
ENERGETIKA ČRNOMELJ d.o.o., Kranj	0	0		
GEA SOL International d.o.o., Kranj **	0	0		
BIOOL d.o.o., Kranj **	0	0		
Sava d.d., družba za upravljanje in financiranje	100,046	855,398	5,510	
TOTAL	5,032,725	1,181,477	23,024	26,499

Note:

- sales revenues: company's revenues charged to a subsidiary or the controlling company
- operating expenses: company's expenses relating to a subsidiary or the controlling company
- financial revenues: company's financial revenues created by financial transactions with a subsidiary or the controlling company
- financial expenses: company's financial expenses relating to a subsidiary or the controlling company

2.4 Balance of receivables and liabilities at 31/12/2006 to the controlling company and subsidiaries (SIT in thousands)

	Operating receivables	Financial investments	Operating liabilities	Financial liabilities
RUBBER MANUFACTURING	48,311	0	14,809	0
SAVATECH d.o.o., Kranj				
SAVA-GTI d.o.o., Kranj	29,113		13,304	
SAVA-RÖL d.o.o., Zagreb	1,072			
SAVA-SCHÄFER d.o.o., Kranj	18,126		1,505	
Foreign Trade Network	1,231,891	0	3,846	0
SAVA TRADE GmbH, Munich, Germany	559,613			
SAVA TRADE sp.z.o.o., Warsaw, Poland	189,107			
SAVA TRADE spol.s.o.o., Prague, Czech Republic	164,240		3,507	
SAVA TRADE d.o.o., Split, Croatia	6,003			
SAVATECH TRADE Ltd., London, Great Britain	185,636			
SAVATECH CORP., Port Orange, Florida	127,292		339	
TOURISM	0	0	940	0
GOLF IN KAMP BLEĐ d.d., Bled				
GRAND HOTEL TOPLICE d.o.o., Bled			540	
G&P HOTELI BLEĐ d.o.o., Bled			15	
TERME 3000 d.d., Moravske Toplice			376	
- Terme Lendava d.d., Lendava (owned by Terme 3000 d.d.)			0	
- Terme Radenci d.o.o., Radenci (owned by Terme 3000 d.d.)			9	
TERME PTUJ d.o.o., Ptuj			0	
REAL ESTATE	0	0	0	0
SAVA IP d.o.o., Ljubljana				
- IP Nova d.o.o., Ljubljana (owned by Sava IP d.o.o.)				
- IP NOVA A d.o.o., Ljubljana (owned by Sava IP d.o.o.)				
- SAVA IPN d.o.o., Ljubljana (owned by Sava IP d.o.o.)				
- PC AG d.o.o., Velenje (owned by Sava IP d.o.o.)				
- SAVA IMG d.o.o., Poreč (owned by Sava IP d.o.o.)				
SAVA NOVA d.o.o., Zagreb				
OTHER OPERATIONS	2,782	0	21,462	0
SAVA MEDICAL IN STORITVE d.o.o., Kranj	2,340		21,462	
ENERGETIKA SAVA d.o.o., Kranj	442			
ENERGETIKA ČRNOMELJ d.o.o., Kranj				
GEA SOL International d.o.o., Kranj **				
BIOOL d.o.o., Kranj **				
Sava d.d., družba za upravljanje in financiranje	9,823	127,326	85,014	0
TOTAL	1,292,807	127,326	126,071	0

Note: Balance of receivables and liabilities at 31/12/2006

Legal business as mentioned under item 2.3 and 2.4 was concluded with a corresponding counter-contribution, therefore the assets of the company Savatech were not directly reduced. The management board declares that in the business year 2006 there were no such legal business and other acts that would have been done or not done driven by the interest or initiative on the part of the controlling company and its subsidiaries and would have resulted in a deprivation for the company in the sense of Article 545 of the Companies Act.

Kranj, 12 February 2007

PROPOSAL FOR APPROPRIATION OF ACCUMULATED PROFIT

According to the final account the company Savatech generated a net profit of 446,538,000 tolar in 2006. The total profit 2006 is allocated to the covering of a loss accumulated from previous years. The balance sheet loss of the company at 31/12/2006 amounts to 45,754,000 tolar and remains not covered.

Kranj, 12 February 2007

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