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S u m m a r y
Audited Annual Report of Gorenje, d.d., and Consolidated Annual Report of the Gorenje Group for the Year 2005

Velenje, Slovenia, April 2006

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General

The published **Summary of the Audited Annual Report of Gorenje, d.d., and the Consolidated Annual Report of the Gorenje Group for 2005** complies with the Regulations of the Ljubljana Stock Exchange (Ljubljanska borza, d.d., Ljubljana) (Article 35) and the Securities Market Act.

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

The 2005 Audited Annual Report of Gorenje, d.d., and of the Gorenje Group was discussed and adopted by the company Supervisory Board at its regular meeting on 11 April 2006.

The complete Annual Report can be viewed at the company headquarters every business day between 8 am and 1 pm. The 2005 Audited Annual Report of the parent company and the Group, along with the Auditor's Report, will be forwarded to the national Agency for Public-Legal Records and Related Services, in accordance with applicable regulations.

Audit and Auditor's Report

The 2005 Financial Statements of Gorenje, d.d., and of the Gorenje Group have been audited by the authorised auditor KPMG Slovenija, d.o.o., Ljubljana. The Auditor's Report was received on **31 March 2006**. The Authorised Auditor on 27 March 2006 made a positive recommendation in relation to the Annual Report of Gorenje, d.d., and the Gorenje Group.

Consolidated Financial Statements

The consolidated financial statements of the Gorenje Group for 2005 have been prepared in accordance with the provisions of the Corporations Act and the International Financial Reporting Standards as published by the International Accounting Standards Board (IASB), and the interpretations of the International Financial Reports Interpretation Committee (IFRIC) as adopted by the European Union.

In accordance with the International Financial Reporting Standards, the consolidated financial statements of the Gorenje Group include the financial statements of parent company Gorenje, d.d., the financial statements of 49 subsidiary companies of the Group in Slovenia and abroad, and two joint venture companies.:

The changes in the structure of the Gorenje Group in 2005 were as follows:

- In early January 2005, corporation Gorenje, d.d. purchased a 100 % share in **Opte Ptuj, d.o.o.**, a proprietary limited company, and a 66.67 % share in another proprietary limited company, **Kemis, d.o.o.** from Energygor, d.o.o..
- On 26 January 2005, corporation Gorenje, d.d., in line with the purchase agreement, became the owner of 100 % of shares in the Czech company **Mora Moravia, a.s.**.
- Entry into the court register on 28 January 2005 concluded the process of restructuring of the joint-stock company **Gorenje Notranja oprema** into a proprietary limited company where corporation Gorenje, d.d, holds a 98.86 % share.
- On 30 March 2005, corporation Gorenje, d.d., founded **Gorenje Adria nekretnine, d.o.o.,** a proprietary limited company with headquarters in Zagreb, with a 100 % ownership share.
- 2005 marks the start of operation of proprietary limited company **IG Prodaja, d.o.o.** where Gorenje, d.d. holds a 50 % ownership share with Istrabenz energetski sistemi, d.o.o. holding the other 50 %.
- Proprietary limited company **G.A. Beteiligungs GmbH** was founded. **G.A. Beteiligungs GmbH** is fully owned by Gorenje Beteiligungs GmbH, to which a 100 % ownership share in Hyundai Avto Zagreb, d.o.o., Zagreb, and a 100 % ownership share in Avto Zagreb, d.o.o., Beograd was transferred. On 12 July 2005, holding company Gorenje Beteiligungsgesellschaft mgB with headquarters in Vienna signed an agreement with buyer Trdnjava Holding, d.d., Celje, for the sale of a 70 % ownership share of G.A. Beteiligungs GmbH. The Gorenje Group decided on selling the

majority share in the enterprises involved in car sales, in line with the strategy of focusing on the core business.

- On 20 July 2005, Avtotehna, BSH/Home Appliances, Gorenje, LTH, Mercator, Merkur and Mikropis, which are among the biggest companies involved in the handling of scrap electrical and electronic equipment in Slovenia, founded a company for the handling of scrap electrical and electronic equipment, **ZEOS, d.o.o.**, in which the mother company holds a 51 % ownership share.
- On 1 November 2005, **Mora Hungaria Fft., Hungary** was amalgamated into **Gorenje Budapest Kft.**. **Mora Slovakia s.r.o.**, Slovakia, has been in receivership since July 2005. The process is expected to be completed by the beginning of the year 2006.
- Proprietary limited companies **Gorenje Kuhinje, d.o.o.**, Bosnia and Herzegovina, and **Gorenje USA Inc.**, USA, have been liquidated in accordance with the resolutions adopted by their respective assemblies.
- In July, pursuant to the resolution adopted by the Management Board, we started the process of setting up a **representative office in Shanghai, China**, which should be finalised by the end of this year.
- Kemis, d.o.o., on 5 October 2005 established a proprietary limited company in Serbia and Montenegro, **Kemis, d.o.o. with headquarters in Valjevo**, in which it holds a 100 % ownership share; on 14 October 2005 it purchased a 10 % share in **Kemis BiH, d.o.o., Lukavac**, which brought its total share in the business to 100 %.
- Pursuant to the resolution adopted by the company assembly, Gorenje Skandinavien A/S founded two companies in **Estonia** and **Latvia**.
- On 24 August 2005, Gorenje, d.o.o., Beograd purchased **Nacionalni Brendovi, d.o.o.,** a proprietary limited company, for the purpose of acquiring land for the construction of a business/shopping centre.
- On 30 December 2005, **Gorenje Glin, d.o.o.**, was amalgamated into Notranja oprema, d.o.o..

In addition to the ***mother company*** – Gorenje, d.d., the ***Consolidated Financial Statements*** of the Gorenje Group for 2005 ***also include*** the following ***subsidiary companies:***

Companies, operating in Slovenia: Gorenje IPC, d.o.o., Velenje; Biterm, d.o.o., Bistrica ob Sotli; Gorenje Notranja oprema, d.o.o., Velenje; Gorenje Orodjarna, d.o.o., Velenje; Gorenje Indop, d.o.o., Velenje; Gorenje Tiki d.o.o., Ljubljana; Gorenje GTI, d.o.o., Velenje; Gorenje Gostinstvo, d.o.o., Velenje; LINEA, d.o.o., Velenje; Energygor, d.o.o., Velenje; Opte Ptuj, d.o.o., Ptuj; Kemis, d.o.o., Radomlje; Istrabenz – Gorenje, d.o.o., Ljubljana (JV); IG Prodaja d.o.o., Nova Gorica (JV)

Companies, operating outside Slovenia: Gorenje Beteiligungsgesellschaft m.b.H., Austria; Gorenje Austria Handelsgesellschaft m.b.H., Austria; Gorenje Vertriebsgesellschaft m.b.H., Germany; Gorenje Körting Italia S.r.l., Italy; Gorenje France S.A.S., France ; Gorenje BELUX S.a.r.l., Belgium; Gorenje UK Ltd., Great Britain; Gorenje Skandinavien A/S, Denmark; Gorenje AB, Sweden; Gorenje Spol. s r.o., Czech Republic; Gorenje Real Spol. s r.o., Czech Republic; Gorenje Slovakia Spol. s r.o., Slovakia; Gorenje Budapest Kft., Hungary; Gorenje Polska sp. z o.o., Poland; Gorenje Bulgaria EOOD, Bulgaria; Gorenje Zagreb, d.o.o., Croatia; Gorenje Skopje, d.o.o., Macedonia; Gorenje Commerce, d.o.o., Bosnia and Herzegovina; Gorenje, d.o.o., Serbia and Montenegro; Gorenje Podgorica , d.o.o., Serbia and Montenegro; Gorenje OY, Finland; Gorenje AS, Norway; Gorenje Romania S.R.L., Romania; Gorenje aparati za domačinstvo, d.o.o., Serbia and Montenegro; Mora Moravia a.s., Czech Republic; Mora Slovakia s r.o., Slovakia; Gorenje Küchen GmbH, Austria; Gorenje Kuchyne Spol. s r.o., Czech Republic; Gorenje Imobilia, d.o.o., Serbia and Montenegro; Gorenje Adria nekretnine, d.o.o., Croatia
Kemis, d.o.o., Croatia; Kemis BiH, d.o.o., Bosnia and Herzegovina; Nacionalni brendovi, d.o.o., Serbia and Montenegro

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

Business Climate in 2005

In 2005, we witnessed the continuation of **similar trends and conditions** as in 2004 in all areas of operation of the Gorenje Group. **European markets** were once again characterised by a **low level of economic activity, low level of consumer confidence** and **diminished international**

competitiveness due to a weak US dollar, which resulted in a reduced demand for durable goods including household appliances and other products for the home, and in increased competition and price pressures on the European market.

Early admission of Slovenia into the ERM 2 mechanism, which took place in 2004 and the EUR/SIT exchange rate being fixed, coupled with a comparatively high level of inflation in 2005 put additional pressure on the operation of the Gorenje Group.

Apart from the abovementioned negative factors, the biggest challenge of 2005 was a **price hike in commodities and raw materials**, in particular steel sheet metal and other steel products, non-ferrous metals and petrochemicals, eventually reaching and settling at their all time highs.

According to forecasts made at the end of 2004, a major and possibly negative impact on the business performance of the Gorenje Group was to be expected with the entry into force of the directive on the recycling of electronic and electrical waste in August 2005. Due to the lack of conceptual harmonization of the consideration of economic impacts as a result of the directive's application in the European Union, the dire forecasts and expectations did not eventuate. While the uncertainty remains, it is however not a threat in 2006.

To a large extent, negative impacts of the economic conditions on business operation in 2005 described above were **neutralised** as follows:

- By optimisation and search of low cost **substitute sources of supply**;
- By selective **price raises** of household appliances and by improving their **sales structure**; and
- By **cost rationalisation** in all areas of operation.

In the opinion of the Management Board of Gorenje, d.d., the Group withstood the pressures of the unfavourable economic climate well and continued to grow and prosper. It significantly exceeded the planned business volume and achieved the objectives as regards business performance as well as its asset- and financial targets in all key elements of business operation.

Risk Management

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

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

Business Risks

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

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

Financial Risks

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

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

Operating Risks

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

A change in tax legislation had a major impact on the net profitability of Gorenje, d.d., in 2005; as a result, the reported company liabilities arising from taxes on profits due amounted to SIT 395,382 thousand.

Amended tax legislation was also the basis for the recognition of deferred tax liabilities in the amount of SIT 558,600 thousand. Included in the deferred tax liabilities are long-term provisions for liabilities arising from warranties, write-offs of receivables and write-downs of raw materials inventories due to established obsolescence.

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

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

The audited consolidated financial statements of the Gorenje Group for 2005 have been prepared in accordance with the provisions of the Corporations Act and the International Financial Accounting Standards as published by the International Accounting Standards Board (IASB), and the interpretations of the International Financial Reports Interpretation Committee (IFRIC). The Gorenje Group's financial statements have been prepared in line with the international financial accounting standards since 1999, hence for 2005 the continuation of their application has been preserved in all vital respects.

The audited non-consolidated financial statements of Gorenje, d.d., for 2005 have been prepared in accordance with the provisions of the Corporations Act, the Slovenian Accounting Standards and the International Financial Accounting Standards. The Gorenje, d.d., financial statements, including those for the purposes of consolidated financial statements, have been complying with the provisions of the international financial accounting standards since 1999, hence for 2005 the continuation of their application has been preserved in all vital respects.

In the preparation of financial statements in accordance with the provisions of the international financial accounting standards the corporation complied with the MSRP 1 provisions – First Application of the International Financial Accounting Standards.

In applying the abovementioned standard, figures in certain categories in the financial statements prepared in accordance with IFRS, significantly differ from those reported in the financial statements prepared in accordance with SAS.

The reasons for the reporting differences in the **Income Statement** are as follows:

- Different accounting treatment of capitalized own products,
- A change in the setting up and use of provisions in relation to liabilities arising from warranties,
- Reversal of long-term provisions from major repairs, not recognised under IFRS,
- Additional setting up and use of provisions not admitted under SRS,
- The cost method being applied to the valuation of financial investments, and
- Recognition of deferred taxes.

In case of the **Balance Sheet**, significant differences between the two reporting methods have arisen in certain accounting categories, as follows:

- Consistent with IFRS provisions, the value of long-term financial investments shown is determined using the cost method, which, compared to the equity method of valuation, is reflected in the elimination of profits of subsidiary companies.
- Consistent with IFRS provisions, own shares are shown as a tax deductible item under equity, while in case of SAS provisions being applied, they are reported as long-term financial investments.
- Investment property and provision for deferred tax are shown as separate Balance Sheet items, while in case of the SAS provisions being applied, they are included in long-term financial investments.
- Long-term provisions also include provisions established for the purposes outside the SAS provisions (provisions for termination payments and jubilee awards).

All of the abovementioned differences in the Income Statement and the Balance Sheet are reflected in individual equity items in the **Balance Sheet** and in the **Income Statement** items prepared in accordance with IFRS.

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

Parent company Gorenje, d.d.

Achieved Business Objectives in Figures (in line with SRS provisions)

Million SIT	2005	Plan 2005	2004	2005/ Plan 2005	2005/2004
Net Sales Revenue	**153,310.3**	153,634.5	144,149.9	99.8	106.4
Gross Operating Yield	**157,222.5**	155,813.4	147,297.3	101.0	106.7
EBITA plus Long-Term Provisions	**10,785.9**	10,556.6	10,314.9	102.2	104.5
Profit before tax	**2,791.7**	2,757.0	2,706.5	101.3	103.1
Net Profit	**2,954.9**	2,373.0	2,706.5	124.5	109.2
Average Number of Employees	**5,557**	5,312	5,542	104.6	100.3

Net Sales Revenue

The achieved growth of net sales revenue is in accordance with the plan and, to a large extent, a result of more favourable pricing of products, goods and services sold, and a favourable geographic sales structure.

EBITDA plus Long-Term Provisions

Earnings before interest, tax, amortization and the net increase in long-term provisions in the balance sheet are higher than in 2004 mainly on account of higher operating profit (9.2 % increase) and higher costs of amortization. The planned figure was exceeded mainly on account of the balance of long-term provisions being reduced by a lesser amount than originally anticipated.

Gross Profit

Due to substantial extraordinary income shown in the previous year, the increase in gross profit i.e. profit before tax is lower than the increase in net revenue from sales and consequently also lower than other Profit and Loss Statement items. Nevertheless, it is still higher than planned and exceeds the level reached in 2004.

Net Operating Profit

In spite of the increase in income tax actually charged in comparison with the previous year, net profit for the accounting period exceeded gross profit i.e. profit before tax. This is a result of the introduction of deferred taxes, which are higher than the taxes charged; to a large extent they relate to deferred taxes on long-term provisions for warranty.

Achieved Business Objectives in Figures (in line with MSRP provisions)

Million SIT	2005	Plan 2005	2004	2005/ Plan 2005	2005/2004
Net Sales Revenue	**153,358.1**	-	144,122.1	-	106.4
Gross Operating Yield	**156,128.1**	-	147,192.1	-	106.1
EBITA plus Long-Term Provisions	**10,777.5**	-	10,891.1	-	98.9
Gross Profit	**2,284.1**	-	2,152.3	-	106.1
Net Profit	**2,447.3**	-	2,152.3	-	113.7
Average Number of Employees	**5,557**		5,542		100.3

Performance Analysis of the Gorenje Group

Achieved Business Objectives in Figures

Million SIT	2005	Plan 2005	2004	2005/ N2005	2005/ 2004
Consolidated Net Sales Revenue	**243,152.4**	235,208.4	216,247.0	103.4	112.4
Gross Operating Yield	**249,967.7**	239,836.8	226,582.5	104.2	110.3
Operating Profit Before Depreciation/Amortisation and Provisions	**19,307.6**	18,660.7	18,049.2	103.5	107.0
Profit Before Tax	**5,707.1**	5,628.3	5,367.4	101.4	106.3
Net Profit	**5,120.7**	4,793.2	5,078.6	106.8	100.8
Average Number of Employees	**10,492**	10,581	9,503	99.2	110.4

As can be gleaned from the business part of the report, the impact of individual business factors on corporate performance, outlined in the Income Statement, the Balance Sheet and the Statement of Cash Flows, is very different. For that reason, from the economic point of view only the factors which have a significant effect on the extent and quality of individual economic categories are being considered.

Economic Performance Analysis of the Gorenje Group

Business Volume

Million SIT	2005	Plan 2005	2004	2005/ N2005	2005/ 2004
Consolidated Net Sales Revenue	**243,152.4**	235,208.4	216,247.0	103.4	112.4
Consolidated Net Sales Revenue per Employee (in TSIT)	**23,175**	22,229	22,756	104.3	101.8
Household Appliances Division	**211,825.7**	205,370.9	186,424.2	103.1	113.6
Home Interior Division	**15,373.0**	17,386.4	16,327.1	88.4	94.2
Trade and Services Division	**22,576.7**	21,685.0	21,156.0	104.1	106.7
= Total	***249,775.,4***	***244,442.3***	***223,907.3***	***102.2***	***111.6***
Elimination of Inter-Divisional Trade	**-6,623.0**	-9,233.9	-7,660.3	71.7	86.5

The strongest growth of business volume, in terms of net revenue from sales, was achieved in the Household Appliances Division, whose 84.8 percent share in the Group sales structure was a major factor in the recorded consolidated revenue growth (12.4 % or SIT 26,905.4 million / EUR 109.3 million).
The business volume posted by the Gorenje Group and its growth rate in 2005 were the result of the following:

- **Organic growth** of business volume owing mainly to the sales of high-end products in terms of price,
- **Growth** brought about by the **acquisition** of Mora Moravia, s.r.o., Czech Republic, a manufacturing company in the Household Appliances Division, and
- **Divestment** of the Hyundai companies operating in Croatia and in Serbia and Montenegro from the Group.

The acquisition of Mora Moravia boosted the business volume by SIT 14,350.6 million (EUR 59.7 million), accounting for 6.6 percentage points of the growth, while the divestment of the Hyundai companies resulted in a SIT 6,207.8. million (EUR 25.9 million) drop, translating into a 2.7 percent contraction.

The Trade and Services Division, within which the two companies had been operating, nevertheless posted a 6.7 % growth equivalent to SIT 1,420.8 million (EUR 5.6 million). To a large extent, this was the due to the revenues of Istrabenz Gorenje d.o.o., which has been operating within the Gorenje Group as a joint venture enterprise since June 2004.

By excluding the impact of the acquisition of Mora Moravia and the divestment of both Hyundai companies on business volume in 2005, we get a comparable business volume and its growth rate, both with reference to 2004 as well as the plan for 2005:

Comparability 2005 vs. 2004 (million SIT)	**2005**	**2004**	**Growth**	
= Net Sales Revenue	222,639.0	205,802.0	**16,837.0**	**8.2 %**
Comparability 2005 vs. Plan	**2005**	**Plan 2005**	**Growth**	
= Net Sales Revenue	236,944.6	224.721,0	**12,223.6**	**5.4 %**

Value Added

Million SIT	**2005**	**Plan 2005**	**2004**	**2005/ N2005**	**2005/ 2004**
Value Added[2]	**64,510.8**	63,854.4	59,150.5	1.0 %	9.1 %
Value Added per Employee (in TSIT)	**6,148.6**	6,034.8	6,224.4	1.9 %	-1.2 %

Value Added is the result of two powerful factors:

- **Gross operating yield,** the sum of net sales revenue, changes in inventories and other operating income, and
- **Operating expenses**, which flow into the Group from the business environment i.e. costs of goods, materials and services, other operating expenses and changes in long-term provisions in the Balance Sheet.

Operating income at a 12.4 percent growth of net sales revenue rose by 10.3 % (both compared to 2004). The disparity in the growth rate in largely due to the depreciation of inventories in 2005 by 50.3 % or SIT 2,847 million.

Operating expenses compared to 2004 grew at a higher rate than operating income, mainly on account of a strong growth of the purchase cost of goods sold (17.8 percent growth at a 22 % share in the structure of operating expenses) and the costs of materials (12.1 percent growth at a 58.3 % share in the structure of operating expenses). Weighed growth of operating costs consequently amounted to 11.2 %, which significantly contributed to the drop in the growth rate of the overall value added in comparison with the growth of operating income.

Value added per employee fell due to the increase in employee numbers as a result of the addition of Mora Moravia, s.r.o., to the Gorenje Group, and owing to a significantly lower value added of their production (production of lower-end household appliances in terms of price).

Ability to Generate EBITDA[3]

Million SIT	**2005**	**Plan 2005**	**2004**	**2005/ N2005**	**2005/ 2004**
EBITDA	**19,307.6**	18,660.7	18,049.2	3.5 %	7.0 %
EBITDA / Gross Operating Yield	**7.7 %**	7.8 %	8.0 %	-	-

EBITDA, calculated as the sum total of EBIT, depreciation and amortisation costs, plus changes in long-term provisions in the Balance Sheet, is a rough estimate of earnings designed to demonstrate the company's ability to generate earnings from operating activities.

A comparison with the year 2004 and the plan for 2005 showed balanced earnings of the Gorenje Group, characterised by strong growth (exceeding all levels of business performance in terms of EBIT) and amounting to just over 30 % of Company's debt as at 31 December 2005.

[2] Calculated as the balance of gross operating yield and the sum total of costs of goods, materials and services, other operating income and changes in long-term provisions in the Balance Sheet.
[3] EBITDA = EBIT + depreciation and amortisation costs + changes in long-term provisions in the Balance Sheet .

Operating Profit (EBIT)

Million SIT	2005	Plan 2005	2004	2005/ N2005	2005/ 2004
Operating Profit (EBIT)	**6,459.7**	7,556.1	6,953.1	-14.5 %	-7.1 %
EBIT Margin	**2.7 %**	3.2 %	3.2 %	-	-

In relation to the achieved level of EBITDA, the drop in performance was occasioned by two cost items: **amortisation and depreciation expense, and operating expenses from revaluation.** The increase in the cost of amortisation and depreciation was a direct result of the commissioning of new fixed assets in the last two years, while the rise in revaluation related operating expenses was caused by a conservative revaluation policy being applied to inventories and receivables with the emphasis on those featuring a high degree of (largely commercial) risk.

Profit Before Tax

Million SIT	2005	Plan 2005	2004	2005/ N2005	2005/ 2004
Profit Before Tax (PBT)	**5,707.1**	5,628.3	5,367.4	1.4 %	6.3 %
PBT Margin (as % of Sales)	**2.4 %**	2.4 %	2.5 %	-	-

A relatively lower level and poor growth of operating profit was **improved by financial income/financial expenses items**, where a significant growth of financial income was recorded in relation to divestment of financial investments coupled with a lesser reduction in income from foreign exchange differences in absolute terms (both compared to 2004). At the same time, financial expenses were significantly lower than in 2004, owing to favourable foreign exchange differences, as a result of which the balance of financial activities in 2005 improved by 52.5 % or SIT 833.1 million.

Net Profit

Million SIT	2005	Plan 2005	2004	2005/ N2005	2005/ 2004
Net Profit	**5,120.7**	4,793.2	5,078.6	6.8 %	0.8 %
Return on Sales (ROS)	**2.1 %**	2.0 %	2.3 %	-	-
Return on Assets (ROA)	**2.7 %**	2.6 %	3.0 %	-	-
Return on Equity (ROE)	**8.7 %**	7.8 %	8.6 %	-	-

The lower rate of growth of net profit when compared to gross profit i.e. profit before tax was the result of the 2005 **profits being taxed at the double of the tax rate** applicable in 2004. Such an increase in the applicable tax rate was occasioned by a change in taxation legislation in Slovenia and in certain other countries.

The **analysis** of all three profitability indicators of the Gorenje Group exposed the following:

- **A slightly lower return on sales (ROS)** as a result of the industry and the prevalent business conditions, and also on account of the nature of operation of the companies in the Gorenje Group (high responsiveness to market demands resulting in a comparatively high complexity in all segments of business operation); however, ROS is still above plan;
- **A slightly lower asset utilisation rate (ROA)**, primarily owing to a high growth rate of business volume in the current assets segment, and a high growth rate of investment in non-current assets in the non-current assets segment, both occurring in the past few years; however, ROA is still above plan;
- **High return on equity (ROE)** on account of diminished equity as a result of purchases of own shares and a comparatively high level of debt occasioned by a strong growth of business volume over the past few years and the extent of financing of current and non-current assets.

Major Events Following the Balance Sheet Date

Major events following the Balance Sheet date 31 December 2005 will be as follows:

- Conceptual and organisational **restructuring of business operation** of subsidiaries **Gorenje Indop, d.o.o.** and **Gorenje Orodjarna, d.o.o.** (centralization of certain corporate functions);
- Conceptual and organisational **restructuring of business operation of Gorenje GTI, d.o.o.** (separation of sales of household appliances from other business operations);
- **Completion of construction of the plant** for the manufacture of household appliances for the **Valjevo refrigerators and freezers division;**
- **Amalgamation** of **Istrabenz-Gorenje, d.o.o.,** and **IG Prodaja, d.o.o.**, on 1 April 2006.
- **Restructuring of business operations of Biterm, d.o.o.,** (changes in production).
- **Founding of a subsidiary** for the sales of household appliances **in Dubai**, United Arab Emirates;
- On 3 February 2006, Gorenje, d.d. took up the **option for the purchase** of 233,075 **of own shares** (1.9105 % share in owners' equity) in accordance with the agreement on establishing put and call option signed on 21 June 2004 with Slovenska odškodninska družba, d.d. (the Slovenian Indemnity Fund);
- On 15 January 2006, Gorenje, d.d., paid the purchase price for 32,074 shares in **Surovina, d.d., Maribor,** thereby becoming a 27.6 % shareholder.

Ownership and Share Data

Parent Company Gorenje, d.d.	Joint-stock company since 1997, following ownership restructuring.
Share Capital	SIT 12,200,000,000
Number of Ordinary Shares:	12,200,000 shares
Own shares:	717,192 shares
Stock Exchange Listing:	GRGV (listed on the Prime Quotation of the Ljubljana Stock Exchange since 3 October 2005)
Nominal share value:	SIT 1,000
Issued Shares:	Are of the same class and entitle their holders to proportional management i.e. one vote per share.

There are no provisions in the Articles of Incorporation of Gorenje, d.d., that would invalidate the proportionality of rights arising from share ownership, such as the rights of minority shareholders or restrictions of voting rights. In 2005 the company did not engage in activities that would result in changes to share capital, changes in nominal share value or changes of rights arising from share ownership, and it also did not issue any new shares. Gorenje, d.d., has adopted no decisions on approved capital and no decisions on a conditional increase of capital.

As at 31 December 2005, Gorenje, d.d., had 18,075 shareholders; in comparison with 31 December 2004 (19,118 shareholders), the number of shareholders fell by 1,043 or 5.5 %.

Ownership Structure as at 31 December 2005

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

	Shareholder/Number of Shares	31.12.2005	%
1.	Kapitalska družba, d.d.	**2,607,429**	21.37
2.	Slovenska odškodninska družba d.d.	**935,277**	7.67
3.	Gorenje, d.d. – Own shares	**717,192**	5.88
4.	KD Galileo, Mutual fund	**485,133**	3.98
5.	VS Triglav Steber I	**426,484**	3.50
6.	KD Rastko, Delniški Vzajemni Sklad	**403,053**	3.30
7.	Maksima, Delniška ID, d.d.	**314,702**	2.58
8.	Zlata Moneta II, d.d.	**217,130**	1.78
9.	KD ID, Delniška ID, d.d.	**165,040**	1.35

10.	Krona Senior ID, d.d.	**164,944**	1.35
	Major Shareholders – Total:	**6,436,384**	**52.76**
	Other Shareholders:	**5,763,616**	**47.24**
	TOTAL:	**12,200,000**	**100.00**

Number of Shares Owned by the Members of the Management Board and the Supervisory Board as at 31 December 2005

On 2 March 2005, members of the Management Board purchased GRVG shares on the Ljubljana Stock Exchange as follows: Chairman of the Management Board Mr Franjo Bobinac, 1,000 shares; Mr Žiga Debeljak, 800 shares; Mr Drago Bahun, 800 shares; Mr Franc Košec, 800 shares. All transactions were made public in the SEOnet electronic system of the Ljubljana Stock Exchange and on the Gorenje website, www.gorenje.com.

As at 31 December 2005, members of the **Management Board** held **12,154 shares (0.0995 %)**, as follows: Mr Franjo Bobinac 1,822 (0.0149 %); Mr Franc Košec 1,200 (0.0098 %); Mr Žiga Debeljak 1,200 (0.0098 %) and Mr Drago Bahun 7,932 (0.0650 %).

Accordingly, as of 1 January 2006, Mrs Mirjana Dimc Perko as the new member of the Management Board responsible for finance and economics, held 83 shares.

On 12 April 2005, Mr Tomaž Kuntarič resigned as a member of the Supervisory Board. At the 8th Annual Shareholder Meeting of Gorenje, d.d., held on 4 July 2005, Dr Jože Zagožen, who held od 30 June 2005 405 GRVG shares, was elected in his place with the term of office from the date of appointment until 17 July 2006.

As at 31 December 2005, members of the **Supervisory Board** held **14,800 shares (0.1213 %), as follows:** Mr Ivan Atelšek 8,258 (0.0677 %); Mr Jurij Slemenik 1,511 (0.0124 %); Mr Krešimir Martinjak 100 (0.0008 %); Mr Peter Kobal 1,178 (0.0097 %); Mr Drago Krenker 2,098 (0.0172 %); Dr Jože Zagožen 405 (0.0033 %) and Mr Bogdan Pušnik 1,250 (0.0102 %).

Own Shares

The balance of own shares as at 31 December 2005 was **717,192 or 5.8786 %** (251,042 or 2.1% on 31 December 2004).

On 19 Janunary 2005, corporation Gorenje, d.d., exercised the option for the purchase of 233,075 of own shares (1.9105 % of the Gorenje, d.d. capital) in accordance with the agreement on establishing put and call option, signed on 21 June 2004 with Slovenska odškodninska družba, d.d. (the Slovenian Indemnity Fund). The price was set at the average market price per GRVG share in the period from 1 July 2004 to 31 December 2004, amounting to SIT 6,485.93 per share. The average purchase price of 484,117 own shares on 30 June 2005 amounted to SIT 4,507.37 per share.

As provided by the agreement, on 5 July 2005 Slovenska odškodninska družba, d.d. (the Slovenian Indemnity Fund) informed Gorenje, d.d., of the option for the purchase of 233,075 shares of Gorenje, d.d., (1.9105 % of the Gorenje, d.d., capital) priced at SIT 6,321.84 per share. In accordance with the agreed payment conditions, Gorenje, d.d., made the payment and acquired the shares on 4 August 2005. The total number of own shares after the transaction was 717,192 or 5.8786 % of the Gorenje, d.d., capital. The purchase price was determined in line with the agreement, as follows: SIT 6,200.00 per share plus net profit per share in 2004 minus dividend per share for 2004.

Book Value of Shares and Earnings per Share

The shares of Gorenje, d.d., made the official market of the Ljubljana Stock Exchange on 10 November 2000, however they had been traded on the organized market since 1998. Since 3 October 2005, the shares have been included in the Prime Quotation of the Ljubljana Stock exchange. They are also included in the SBI20 Slovenian stock exchange index. On 31 December 2005, the shares traded at the uniform price of SIT 5,421.45 i.e. 16 % below that of the last trading day in 2004 (SIT 6,473.91). The share price kept falling in the beginning of the year and on 14 April 2005 dropped below SIT 6,000 where it remained until the end of 2005. The Slovenian stock exchange index, SBI20, also fell in 2005, by 6 %.

Item	Price	
Uniform share price as at 31 December 2004 (in SIT)	**6,473.91**	In terms of turnover, the share retained the fourth place on the Ljubljana Stock Exchange, with a SIT 12 billion turnover in 2005. In the overall trading volume of the Ljubljana Stock Exchange (SIT 138.8 billion), the trading of GRGV shares accounted for 8.6 %, and 12.4 % in the share trading volume (SIT 96.7 billion). Market capitalization at the end of 2005 was SIT 79 billion with average daily market capitalization of SIT 66.1 billion.
Uniform share price as at 31 December 2005 (in SIT)	**5,421.45**	
Average uniform share price in 2005 (in SIT)	**5,808.82**	
Highest uniform share price in 2005 (in SIT)	**6,572.24**	
Lowest uniform share price in 2005 (in SIT)	**5,301.04**	
Average daily turnover (in lots)	**7,879**	
Highest daily turnover (in lots)	**468,720**	
Lowest daily turnover (in lots)	**161**	
Trading volume in 2005 (in SIT)	**11,998.27**	

Gorenje shares (GRVG) made the premier listing of the Ljubljana Stock Exchange on 3 October 2005 and on 31.12.2005 **traded at the uniform price of SIT 5,421.45**, which is 1.2 % above their **book value**, which on 31.12.2005 amounted to **SIT 5,358.11**. The book value of a share is calculated as the ratio between the total company capital less reserves for own shares as at 31.12.2005, and the number of shares issued minus the number of own shares (717,192) as 31.12.2005.

Net profit per share, calculated as the ratio between the net profit made in the accounting period and the number of shares issued minus the number of own shares, amounted to **SIT 257.33** in 2005.

Dividend Policy and Dividend Payments

Gorenje has adapted its dividend policy to the investment plans and optimised structure of capital while also keeping in mind the expectations and interests of its shareholders. The corporate strategic plan provides for up to one third of net profits of the current financial year to be paid as dividends. In 2005 the company paid its shareholders a gross dividend of SIT 100 per share.

Remuneration of the Members of the Management Board and the Supervisory Board, and of the Employees under Individual Employment Contracts for 2005 (Parent Company)

The following remuneration was paid to the members of the Gorenje, d.d., Management Board and the Supervisory Board, and to the employees under individual employment contracts for 2005:

Gross Remuneration

in TSIT	Management Board	Supervisory Board	Employees under Individual Employment Contracts
- Salaries	165,460	35,325	944,114
- Performance Bonuses	54,910	27,560	125,877
- Fringe Benefits	14,153	158	73,380
- Other Remuneration	760	6,678	11,767
Total	**235,283**	**69,721**	**1,155,138**

Net Remuneration

in TSIT	Management Board	Supervisory Board	Employees under Individual Employment Contracts
Total Remuneration			
- Salaries	63,233	20,088	439,589
- Performance Bonuses	23,433	20,150	60,703
- Fringe Benefits	14,153	158	73,380
- Other Remuneration	412	4,177	7,371
Total	**101,231**	**44,573**	**581,043**

Other remuneration includes annual leave bonuses and meeting attendance fees payable to the members of the Supervisory Board.

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

Gross Remuneration

in TSIT	**Franjo Bobinac**	**Franc Košec**	**Žiga Debeljak**	**Drago Bahun**
- Salaries	48,586	40,742	36,673	39,459
- Performance Bonuses	16,150	12,920	12,920	12.920
- Fringe Benefits	5,327	2,998	3,036	2.792
- Other Remuneration	190	190	190	190
Total	**70,253**	**56,850**	**52,819**	**55,361**

Net Remuneration

in TSIT	**Franjo Bobinac**	**Franc Košec**	**Žiga Debeljak**	**Drago Bahun**
- Salaries	17,841	15,712	14,104	15,576
- Performance Bonuses	6,788	5,513	5,602	5,530
- Fringe Benefits	5,327	2,998	3,036	2,792
- Other Remuneration	102	103	104	103
Total	**30,058**	**24,326**	**22,846**	**24,001**

The Supervisory Board approved performance bonuses for 2004, equivalent to five gross base salaries paid in December 2004, payable to the members of the Management Board in office for the entire 2004.

Summary of the Report of the Supervisory Board of Gorenje, d.d., on the 2005 Annual Report

On April 3, 2006 the Management Board of the company submitted to the Supervisory Board the audited Annual Report of the company Gorenje, d.d., and Gorenje Group for the year 2005 for approval. The Supervisory Board discussed the Annual Report on its meeting held on April 11, 2006.

Audit of the Annual Report of the company Gorenje, d.d. and Gorenje Group for the year 2005 was carried out by the audit company KPMG Slovenia, d.o.o. Audit was carried out also in all subsidiaries of the Gorenje Group. On March 27, 2006 the auditor issued positive opinion of the Annual Report of Gorenje d.d. and the consolidated Annual Report of Gorenje Group for the year 2005.

In reviewing the annual report of for the year 2005 the Supervisory Board took the following assumptions into consideration:

- During 2005 the company succeeded in accomplishing important categories of the economic plan;
- The Supervisory Board approved the proposed allocation of net profit for the year 2005 and the allocation of distributable profit within the competencies of the Management Board and the Supervisory Board;
- Audit company gave positive opinion to the Annual Report for the year 2005; Supervisory Board had no comments to the auditor's report;
- Supervisory Board regularly monitored the management and operations of the Company and of Gorenje Group, and regularly discussed their business results, finances and assets.

Supervisory Board found that the Annual Report for the year 2005, prepared by the Management Board and verified by the Auditor, has been compiled clearly, concisely, and in accordance with the Commercial Corporations Act and currently valid accounting standards. The Supervisory Board had reviewed and confirmed also the Auditor Report. Due to this the Board acknowledge that the Annual Report truly and fairly reflects the company assets, liabilities, financial position and results, and discloses fair image of the operations and business position of the Company and of Gorenje Group.

In line with all the above, the Supervisory Board on its meeting held on April 11, 2006 approved the Annual Report of the company Gorenje, d.d. and the Consolidated Annual Report for the Gorenje Group for the year 2005 submitted by the Management Board.

Net Distributable Profit and Its Proposed Appropriation

In accordance with the provisions of the Corporations Act and the Gorenje, d.d. Articles of Incorporation, the Management Board used the net profit for the 2005 financial year in the amount of SIT 2,954,939,809.28 and part of the net profit carried forward from 1998 in the amount of 30,894,735.47 to create reserves for own shares on account of the purchase of 466,150 of own shares. The Supervisory Board approved the proposed reserves for own shares, which are shown in the corporate financial statements.

Net distributable profit for 2005 amounting to SIT 4,121,542,689.53 comprises:

- Net profit from 1999 in the amount of SIT 2,586,688,651.00, and
- Net profit from 1998 in the amount of SIT 1,534,854,038.53.

The recommendation of the Management Board and the Supervisory Board to the General Meeting is for the net distributable profit for the 2005 financial year in the amount of SIT 4,121,542,689.53 to be appropriated as follows:

- That part of the net distributable profit in the amount of SIT 1,220,000,000.00 originating from the 1998 net profit be paid as a dividend to the shareholders in the amount of SIT 100.00 per share;
- That part of the net distributable profit in the amount of SIT 1,450,771,344.76 originating from the 1998 net profit in the amount of SIT 314,854,038.53 and from the 1999 net profit in the amount of SIT 1,135,917,306.23 be retained as reserves from surplus;

That the remainder of the net distributable profit in the amount of SIT 1,450,771,344.77 originating from the 1999 net profit be carried forward into the next year.

The decision of the Supervisory Board to approve the proposed appropriation of the net distributable profit for 2005 was based on the adopted profit appropriation policy, which follows Gorenje's development concept and shareholders' interest in long-term share price growth. At the same time, the Supervisory Board recommends to the General Meeting that the Management Board be relieved of further liability in relation to company business operation in 2005.

Audited non-consolidated financial statements of Gorenje, d.d., for the year 2005, in accordance with the Slovenian Accounting Standards (SAS)

Balance sheet of the Gorenje, d.d.

	in TSIT	2005	2004
	ASSETS	**147,875,647**	**134,037,261**
A.	**Fixed assets**	**85,149,181**	**79,564,036**
I.	Intangible fixed assets	3,990,025	3,030,403
II.	Tangible fixed assets	47,865,808	48,174,608
III.	Long-term investments	33,293,348	28,359,025
B.	**Current assets**	**62,435,568**	**54,032,112**
I.	Inventories	18,073,100	15,682,877
II.	Operating receivables	39,967,398	34,333,081
	a) Long-term operating receivables	773,918	509,535
	b) Short-term operating receivables	39,193,480	33,823,546
III.	Short-term investments	4,384,956	4,006,554
IV.	Cash in banks, cheques, cash in hand	10,114	9,600
C.	**Deferred costs (expenses) and accrued revenues**	**290,898**	**441,113**
	Off balance sheet items	**14,927,983**	**11,011,399**
	EQUITY AND LIABILITIES	**147,875,647**	**134,037,261**
A.	**Capital**	**65,181,858**	**62,100,198**
I.	Issued capital	12,200,000	12,200,000
II.	Capital reserves	129,253	129,253
III.	Reserves from surplus	22,827,555	21,173,216
IV.	Net profit or loss from previous periods	4,121,543	2,774,603
V.	Net profit or loss for the period	0	1,217,927
VI.	Equity revaluation adjustments	25,903,507	24,605,199
B.	**Provisions**	**3,597,707**	**3,996,665**
C.	**Financial and operating liabilities**	**77,741,925**	**67,228,938**
I	Long-term financial liabilities	22,933,414	17,320,443
II.	Long-term operating liabilities	390	763
III.	Short-term financial liabilities	13,380,096	13,183,906
IV.	Short-term operating liabilities	41,428,025	36,723,826
D.	**Accrued costs (expenses) and deferred revenues**	**1,354,157**	**711,460**
	Off balance sheet items	**14,927,983**	**11,011,399**

Income statement of Gorenje, d.d.

	in TSIT	2005	2004
1.	**Net sales revenue**	**153,310,353**	**144,149,916**
2.	Changes in inventories of finished goods and work in progress	1,219,074	1,142,416
3.	Capitalised own products	691,119	645,242
4.	Other operating revenue	2,001,989	1,359,706
5.	**Gross operating yield**	**157,222,535**	**147,297,280**
6.	Cost of goods, materials and services	-121,198,827	-113,788,047
7.	Labour cost	-23,407,566	-22,102,375
8.	Depreciation and amortisation cost	-7,903,151	-7,466,257
9.	Operating expenses from revaluation	-831,957	-415,285
10.	Other operating expenses	-587,985	-456,542
11.	Provisions	-11,300	-63,045
12.	**Operating profit or loss**	**3,281,749**	**3,005,729**
13.	Financial revenue	2,474,731	2,364,281
14.	Financial expenses	-2,956,942	-3,337,784
15.	**Profit or loss from ordinary activities**	**2,799,538**	**2,032,226**
16.	Extraordinary revenue	0	674,911
17.	Extraordinary expenses	-7,816	-632
18.	**Total profit or loss**	**2,791,722**	**2,706,505**
19.	Income tax	-395,382	0
20.	Deferred tax	558,600	0
21.	**Net profit or loss for the period**	**2,954,940**	**2,706,505**

Cash flow statement of Gorenje, d.d.

	in TSIT	2005	2004
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Inflows	5,210,771	9,168,029
	Profit before taxation	2,791,722	2,706,505
	Depreciation	7,903,151	7,466,257
	Opening less closing operating receivables	-5,634,317	-955,396
	Opening less closing deferred costs (expenses) and accrued revenues	150,215	-49,337
b)	Outflows	3,119,518	-1,535,442
	Income taxes	163,218	0
	Closing less opening inventories	-2,390,223	-3,272,826
	Opening less closing operating liabilities (debts)	4,703,826	1,371,067
	Opening less closing accrued costs (expenses) and deferred revenues	642,697	366,317
c)	Net cash from operating activities	8,330,289	7,632,587
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Outflows	-12,568,390	-13,945,170
	Offset increase in intangible fixed assets	-1,607,377	-1,896,474
	Offset increase in tangible fixed assets	-6,946,596	-6,916,709
	Offset increase in long-term investments	-3,642,612	-2,947,572
	Offset increase in short-term investments	-371,805	-2,184,415
b)	Net cash used in investing activities	-12,568,390	-13,945,170
C.	CASH FLOW FROM FINANCING ACTIVITIES		
a)	Inflows	5,809,161	7,616,765
	Offset increase in long-term financial liabilities	5,612,971	6,336,124
	Offset increase in short-term financial liabilities	196,190	1,280,641
b)	Outflows	-1,570,546	-1,306,444
	Decrease in capital	-1,171,588	-1,149,363
	Offset decrease in provisions	-398,958	-157,081
c)	Net cash used in financing activities	4,238,615	6,310,321
D.	CASH AND CASH EQUIVALENTS AT END OF PERIOD	10,114	9,600
x)	Net increase / decrease in cash and cash equivalents	514	-2,262
y)	Cash and cash equivalents at beginning of period	9,600	11,862

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

in TSIT	Share capital	Capital reserves	Legal reserves	Reserves for own share	Statutory reserves	Reserves from surplus	Net profit or loss from previous periods	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total
Balance at 1 January 2005	**12,200,000**	**129,253**	**3,090,330**	**669,903**	**748,836**	**16,664,147**	**2,774,603**	**1,217,927**	**18,703,303**	**5,901,896**	**62,100,198**
Movements to capital								**2,954,940**		**3,941,643**	**6,896,583**
Net profit for the year								2,954,940			2,954,940
Special equity revaluation adjustments										227,819	227,819
Specific equity revaluation adjustment due to the value increase of investments in subsidiaries accounted for in accordance with the equity method										3,713,824	3,713,824
Movements within capital				**2,985,835**		**-1,331,496**	**2,518,528**	**-4,172,867**			**0**
Transfer of net profit from 2004 to forming other reserves under the resolution adopted by shareholder's assembly meeting						1,255,193	-1,255,193				**0**
Transfer of net profit from year 2005 to reserves for own shares				2,954,940				-2,954,940			**0**
Transfer of net profit from year 1998 to reserves for own shares				30,895			-30,895				**0**
Reversal and transfer of other reserves from surplus to net profit or loss from the year 1999						-2,586,689	2,586,689				**0**
Transfer of net profit for 2004							1,217,927	-1,217,927			**0**
Movements from capital							**-1,171,588**			**-2,643,335**	**-3,814,923**
Dividend payout							-1,171,588				-1,171,588
Decrease in special equity revaluation adjustments										-944,058	-944,058
Specific equity revaluation adjustment due to the value decrease of investments in subsidiaries accounted for in accordance with the equity method										-1,699,277	-1,699,277
Balance at 31 December 2005	**12,200,000**	**129,253**	**3,090,330**	**3,655,738**	**748,836**	**15,332,651**	**4,121,543**	**0**	**18,703,303**	**7,200,204**	**65,181,858**

in TSIT	Share capital	Capital reserves	Legal reserves	Reserves for own share	Statutory reserves	Reserves from surplus	Net profit or loss from previous periods	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total
Balance at 1 Jan 2004	**12,200,000**	**83,753**	**3,090,330**	**707,169**	**478,185**	**12,849,004**	**4,377,584**	**2,151,832**	**18,703,303**	**3,276,981**	**57,918,141**
Transfer to equity		**45,500**						**2,706,505**		**2,902,744**	**5,654,749**
Net profit or loss for the period								2,706,505			2,706,505
Special equity revaluation adjustments										778,649	778,649
Specific equity revaluation adjustment due to the value increase of investments in subsidiaries accounted for in accordance with the equity method										2,124,095	2,124,095
Gains on sale of own shares		45,500									45,500
Transfer within equity				**-37,266**	**270,651**	**3,815,143**	**-408,118**	**-3,640,410**			**0**
Transfer of net profit or loss from 2003 to other reserves from surplus under the resolution adopted by shareholder's assembly meeting						4,166,101	-4,166,101				
Appropriation of net profit or loss for 2004 to statutory reserves					270,651			-270,651			**0**
Appropriation of net profit or loss for 2004 to other reserves from surplus under the resolution adopted by the managing board and the supervisory board						1,217,927		-1,217,927			**0**
Reversal and transfer of other reserves from surplus to net profit or less from year 1998						-1,568,885	1,568,885				**0**
Reversal of reserves for own shares				-37,266			37,266				**0**
Net profit or loss for 2003 brought forward							2,151,832	-2,151,832			**0**
Transfer from equity							**-1,194,863**			**-277,829**	**-1,472,692**
Dividend payout							-1,194,863				-1,194,863
Decrease in special equity revaluation adjustments										-277,829	-277,829
Balance at 31 Dec 2004	**12,200,000**	**129,253**	**3,090,330**	**669,903**	**748,836**	**16,664,147**	**2,774,603**	**1,217,927**	**18,703,303**	**5,901,896**	**62,100,198**

Auditor's Report

KPMG

Auditor's Report

To the Shareholders of Gorenje, d.d., Velenje

We have audited the accompanying balance sheet of the Gornje d.d., Velenje as of 31 December 2005, the related income statement, the cash flow statement, the statement of changes in equity, and the notes thereto for the year then ended. These financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the notes thereto are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the Management's Report on operation with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2005, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with International Financial Reporting Standards as adopted by the EU.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

Managing Partner and Certified Audit

Andrej Korinšek, B.Sc.Ec.

Managing Partner and Certified Audit

Ljubljana, March 30, 2006

KPMG Slovenija, d.o.o.

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Balance Sheet of Gorenje, d.d.

	in TSIT	2005	2004
	ASSETS	**136,185,868**	**125,812,563**
A.	**Non-current assets**	**74,233,321**	**71,848,874**
I.	Property, plant and equipment	47,865,808	48,174,608
II.	Intangible assets	3,990,025	3,030,403
III.	Investment property	190,945	566,645
IV.	Investments in subsidiaries	19,102,647	16,712,870
V.	Available-for-sale investments	1,304,126	988,588
VI.	Non-current loans	499,616	2,245,476
VII.	Deferred tax assets	1,280,154	130,284
B.	**Current assets**	**61,952,547**	**53,963,689**
I.	Inventories	17,877,000	15,590,247
II.	Current investments	4,384,956	4,006,553
III.	Trade receivables	38,013,673	32,897,079
IV.	Other receivables	1,375,908	1,019,097
V.	Deferred costs (expenses) and accrued revenue	290,896	441,113
VI.	Cash and cash equivalents	10,114	9,600
	Off balance sheet items	14,766,338	10,839,415
	EQUITY AND LIABILITIES	**136,185,868**	**125,812,563**
A.	**Capital**	**50,444,606**	**53,536,410**
I.	Share capital	12,200,000	12,200,000
II.	Capital reserves	18,832,556	18,832,556
III.	Legal and statutory reserves	4,509,069	4,509,069
IV.	Capital revaluation adjustments	536,973	309,179
V.	Retained earnings	18,021,746	18,355,509
VI.	Own shares	-3,655,738	-669,903
B.	**Non-current liabilities**	**29,417,339**	**21,484,977**
I.	Provisions	6,483,925	4,066,766
II.	Deferred tax liabilities	0	97,768
III.	Financial liabilities	22,933,414	17,320,443
C.	**Current liabilities**	**56,323,923**	**50,791,176**
I.	Financial liabilities	13,541,741	13,355,890
II.	Trade and other payables	41,428,025	36,723,826
III.	Accrued costs (expenses) and deferred revenue	1,354,157	711,460
	Off balance sheet items	14,766,338	10,839,415

Income statement of Gorenje, d.d.

	in TSIT	2005	2004
1.	**Revenue**	**153,358,131**	**144,122,110**
2.	Changes in inventories of finished goods and work in progress	1,219,074	1,142,416
3.	Other operating income	1,550,953	1,927,617
4.	**Gross operating yield**	**156,128,158**	**147,192,143**
5.	Cost of goods, materials and services	-120,614,086	-113,251,689
6.	Employee benefits expense	-23,415,828	-22,240,903
7.	Amortisation and depreciation expense	-7,903,151	-7,466,257
8.	Operating expenses from revaluation	-831,957	-415,285
9.	Other operating expenses	-607,102	-520,219
10.	**Operating profit**	**2,756,034**	**3,297,790**
11.	Financial income	2,485,068	2,364,281
12.	Financial expenses	-2,956,942	-3,509,769
13.	**Profit before tax**	**2,284,160**	**2,152,302**
14.	Income tax expense	163,218	0
15.	**Profit for the period**	**2,447,378**	**2,152,302**

Cash flow statement of Gorenje, d.d.

	in TSIT	2005	2004
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
	Profit for the period	**2,447,378**	**2,152,302**
	Adjustments for:		
	Depreciation of property, plant and equipment	7,255,394	6,838,478
	Amortisation of intangible assets	647,757	627,779
	Foreign exchange loss	690,730	1,295,764
	Investment income	-2,474,731	-2,364,281
	Financial expenses	1,652,249	2,028,296
	Share of loss of associates and subsidiaries	613,963	13,724
	Income from sale of property, plant and equipment	-189,202	-161,702
	Tax expense	-163,217	
	Operating profit before changes in net operating current assets and provisions	**10,480,321**	**10,430,360**
	Increase in trade and other receivables	-5,028,974	-1,013,513
	Increase in inventories	-2,286,753	-3,180,196
	Increase in trade payables and provisions	5,129,967	2,020,802
	Cash generated from operations	**-2,185,760**	**-2,172,907**
	Interest paid	-2,224,259	-3,004,005
	Income tax paid		-100
	Net cash from operating activities	**6,070,302**	**5,253,348**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
	Proceeds from sale of property, plant and equipment	441,406	2,260,701
	Interest received	1,061,159	2,256,681
	Dividends received	1,100,018	78,304
	Acquisition of subsidiary net of cash acquired	-2,257,086	-3,013,566
	Acquisition of property, plant and equipment	-7,684,584	-9,469,704
	Acquisition of other investments	1,225,712	-1,938,955
	Acquisition of intangible assets	-1,605,439	-1,896,473
	Net cash used in investing activities	**-7,718,814**	**-11,723,012**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
	Repurchase of own shares	-2,988,835	45,500
	Proceeds from long-term borrowings	5,798,821	7,616,765
	Dividends paid	-1,171,588	-1,194,863
	Net cash used in financing activities	**1,638,398**	**6,467,402**
	Net increase in cash and cash equivalents	514	-2,262
	Cash and cash equivalents at beginning of period	9,600	11,862
	Cash and cash equivalents at end of period	10,114	9,600

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

In TSIT	Share capital	Capital reserves	Legal and statutory reserves	Retained earnings	Own shares	Capital revaluation adjustments	Total
Opening balance at 1 January 2005	**12,200,000**	**18,832,556**	**4,509,069**	**18,355,509**	**-669,903**	**309,179**	**53,536,410**
Net profit or loss for the period taken to equity				2,447,378			2,447,378
Capital revaluation adjustments from investments taken to equity						227,794	227,794
Reversal of deferred taxes				97,395			97,395
Formation of provisions for termination pay and deferred tax assets				-1,706,948			-1,706,948
Dividends payout				-1,171,588			-1,171,588
Increase in own shares					-2,985,835		-2,985,835
Closing balance at 31 December 2005	**12,200,000**	**18,832,556**	**4,509,069**	**18,021,746**	**-3,655,738**	**536,973**	**50,444,606**

in TSIT	Share capital	Capital reserves	Legal and statutory reserves	Retained earnings	Own shares	Capital revaluation adjustments	Total
Opening balance at 1 January 2004	**12,200,000**	**18,787,056**	**4,275,684**	**17,720,296**	**-707,169**	**488,388**	**52,764,255**
Net profit or loss for the period taken to equity				2,152,302			2,152,302
Formation of provisions and deferred tax assets				-51,575			-51,575
Allocation of net profit or loss for 2004 to statutory reserves under the resolution adopted by the Management Board and the Supervisory Board			270,651	-270,651			0
Dividends payout				-1,194,863			-1,194,863
Increase in own shares			- 37,266		37,266		0
Reversal of revaluation of assets		45,500				-179,209	-133,709
Closing balance at 31 December 2005	**12,200,000**	**18,832,556**	**4,509,069**	**18,355,509**	**-669,903**	**309,179**	**53,536,410**

Explanation of transition to IFRSs – Reconciliation of equity

in TSIT	Note	Balance sheet under SAS	Effects of transition to IFRS	Balance sheet under IFRS	Balance sheet under SAS	Effects of transition to IFRS	Balance sheet under IFRS
			1 January 2004			31 December 2004	
ASSETS		**120,658,135**	**-5,466,749**	**115,191,386**	**134,037,261**	**-8,224,698**	**125,812,563**
Non-current assets		**72,729,190**	**-5,466,749**	**67,262,441**	**80,073,572**	**-8,224,698**	**71,848,874**
Property, plant and equipment		48,096,377	0	48,096,377	48,174,608	0	48,174,608
Intangible assets		1,761,708	0	1,761,708	3,030,403	0	3,030,403
Investment property	a.	0	84,236	84,236	0	566,645	566,645
Investments in subsidiaries	b.	17,971,213	-4,333,878	13,637,335	23,214,213	-6,501,343	16,712,870
Available-for-sale investments	c.	2,968,865	-1,300,957	1,667,908	3,408,872	-2,420,284	988,588
Long-term loans		1,931,027	0	1,931,027	2,245,476	0	2,245,476
Deferred tax assets	d.	0	83,850	83,850	0	130,284	130,284
Current assets		**47,928,945**	**0**	**47,928,945**	**53,963,689**	**0**	**53,963,689**
Inventories		12,410,051	0	12,410,051	15,682,877	-92,630	15,590,247
Trade receivables		33,084,089	0	33,084,089	32,897,079	0	32,897,079
Short-term investments		2,031,167	0	2,031,167	4,006,553	0	4,006,553
Other receivables		0	0	0	926,467	92,630	1,019,097
Short-term deferred costs (expenses) and accrued revenue		391,776	0	391,776	441,113	0	441,113
Cash and cash equivalents		11,862	0	11,862	9,600	0	9,600
EQUITY AND LIABILITIES		**120,658,135**	**-5,466,749**	**115,191,386**	**134,037,261**	**-8,224,698**	**125,812,563**
Capital and minority interests		**57,918,141**	**-5,153,886**	**52,764,255**	**62,100,198**	**-8,563,788**	**53,536,410**
Shares		12,200,000	0	12,200,000	12,200,000	0	12,200,000
Capital reserves		17,208,441	1,578,615	18,787,056	21,302,469	-2,469,913	18,832,556
Legal and statutory reserves		0	4,275,684	4,275,684	0	4,509,069	4,509,069
Capital revaluation adjustment	e.	21,980,284	-21,491,896	488,388	24,605,199	-24,296,020	309,179
Retained earnings	f.	6,529,416	11,190,880	17,720,296	3,992,530	14,362,979	18,355,509
Own shares	g.	0	-707,169	-707,169	0	-669,903	-669,903
Non-current liabilities		**15,139,068**	**-312,863**	**14,826,205**	**21,317,871**	**167,106**	**21,484,977**
Provisions	h.	4,153,745	-311,859	3,841,886	3,996,665	70,101	4,066,766
Deferred tax	i.	0	0	0	0	97,768	97,768
Long-term borrowings		10,984,319	0	10,984,319	17,320,443	0	17,320,443
Other non-current liabilities		1,004	-1,004	0	763	-763	0

Current liabilities		**47,600,926**	**0**	**47,600,926**	**50,619,192**	**171,984**	**50,791,176**
Trade liabilities		35,352,518	0	35,352,518	36,723,826	0	36,723,826
Short-term borrowings	j.	11,903,265	0	11,903,265	13,183,906	171,984	13,355,890
Short-term accrued costs (expenses) and deferred revenue		345,143	0	345,143	711,460	0	711,460

Notes to the reconciliation of equity:

a) Consistent with SAS, investment property is recorded under long-term investments. Upon transition to IFRS, investment property is reported as a separate item under non-current assets.

b) Consistent with SAS, investments in subsidiaries in the Gorenje Group are accounted for under the equity method. Under the equity method, investment is increased by the amount of the investor's share of profits and decreased by the amount of the investor's share of losses. At the same time, an investment denominated in a foreign currency is increased by the amount of change in foreign currency (exchange difference). Consistent with IFRS, investments in subsidiaries are accounted for in the separate financial statements of the parent company under the cost method. Upon reconciliation, profits added to investments were eliminated.
The elimination of profits added to investments under the equity method was recorded as a decrease in profits brought forward from previous periods (in individual periods, profits recorded by subsidiaries were recognised under financial income) or as a decrease in capital revaluation adjustment (when profits added to investment were recognised under capital revaluation adjustment).

c) Long-term investments also include investments in own shares that are recorded in the equity as a tax deductible item under IFRS. As at 1 January 2004, investments in own shares amounted to 1,305,000 TSIT, and as at 31 December 2004, investments in own shares amounted to 1,625,223 TSIT.

d) Under SAS and the tax legislation of the Republic of Slovenia in effect until 2005, deferred tax assets and liabilities were not set up. Upon transition to IFRS, deferred tax assets were set up in relation to provisions for termination pays and anniversary bonuses that were not subject to recognition under the national legislation. Deferred tax assets increased retained earnings.

e) As at 1 January 2004, the amount represents the elimination of retained earnings from valuation of long-term investments under the equity method (2,054 million SIT), the increase in retained earnings by the amount of provisions for major repairs set up under SAS (647 million SIT), the setting up of provisions for termination pays and anniversary bonuses in the amount of 335 million SIT, and the setting up of deferred tax assets in the amount of 83 million SIT. As at 31 December 2004, the amount represents the elimination of profits added to investments under the equity method under SAS and the lower profit for 2004 recorded under IFRS compared to the profit recorded under SAS.

f) Recording of own shares as a tax deductible item in the equity in the amount paid by the company for the purchase of own shares.

g) Setting up of provisions for termination pays and anniversary bonuses (335 million SIT as at 1 January 2004 and 521 million SIT as at 31 December 2004). At the same time, provisions for major repairs were recorded under SAS (647 million SIT as at 1 January 2004 and 451 million SIT as at 31 December 2004).

h) Setting up of provisions for deferred tax in the amount of 97 million SIT charged against retained earnings (from provisions set up under SAS).

i) Recognition of the effect of financial instruments to hedge against risk exposure.

Explanation of transition to IFRSs – Reconciliation of profit for 2004

	Note	Profit for 2004 under SAS	Effect of transition to IFRSs	Profit for 2004 under IFRS
Net revenue	a	**144,149,916**	**-27,806**	**144,122,110**
Changes in inventories		1,142,416	0	1,142,416
Other operating income	b	2,033,985	-106,368	1,927,617
Capitalised own products (under SAS)	c	645,242	-645,242	0
Gross operating yield		**147,971,559**	**-779,416**	**147,192,143**
Cost of goods, materials and services	d	-113,788,047	536,358	-113,251,689
Employee benefits expense	e	-22,102,375	-138,528	-22,240,903
Amortisation / depreciation expense		-7,466,257	0	-7,466,257
Operating expenses from revaluation		-415,285	0	-415,285
Other operating expenses		-519,587	-632	-520,219
Operating profit		**3,680,008**	**-382,218**	**3,297,790**
Financial income		2,364,281	0	2,364,281
Financial expenses	f	-3,337,784	-171,985	-3,509,769
Profit before tax		**2,706,505**	**-554,203**	**2,152,302**
Income tax expense		0	0	0
Profit for the period		**2,706,505**	**-554,203**	**2,152,302**

Notes to the reconciliation of profit:

a) Due to the changed method of setting up provisions for warranties under SAS and IFRS (Under SAS, provisions for warranties are recognised by deducting relevant amounts from revenue. Upon use of provisions, the cost of obligations arising from warranties is treated as the cost of services provided in the current period. The use of provisions is recorded as an increase in revenue.), revenue is decreased under IFRS due to a higher amount of provisions used compared to the amount of provisions set up in 2004.

b) A decrease in revenue due to the reversal of provisions for major repairs that are not recognised under IFRS. Consistent with IFRS, the amount of retained earnings was increased by the amount of provisions for major repairs in the balance sheet.

c) Consistent with SAS, capitalised own products are recognised as revenue, and the relevant cost of production is recognised in accordance with its respective form. Consistent with IFRS, capitalised own products are recognised directly as assets of the company. Under SAS, capitalised own products were recorded as cost of materials and services in the amount of 598 million SIT and as employee benefits expense in the amount of 47 million SIT.

d) Consistent with IFRS, cost of goods, materials and services is lower due to a different presentation of capitalised own products (a decrease by 598 million SIT), lower cost in respect of provisions for warranties (a decrease by 27.8 million SIT), and higher cost of maintenance of property, plant and equipment (an increase by 89.3 million SIT - provisions for major repairs were used to cover these costs under SAS).

e) Higher employee benefits expense is due to setting up provisions for termination pays and anniversary bonuses in the amount of 185,6 million SIT and to a decrease in employee benefits expense under a different treatment of capitalised own products (refer to Note c).

f) The effect of financial instruments used to hedge against risk exposure (interest rate risk and foreign exchange risk) is recognised in the income statement as an increase in financial expenses.

Audited consolidated financial statements of the Gorenje Group for the year 2005, accordance to the IFRS

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB) and the interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC), as accepted by European Union.

The Group keeps accounting records and prepares its mandatory financial statements in compliance with the new Slovenian Accounting Standards (SAS), which were mainly harmonised with International Financial Reporting Standards in 2002. The accompanying financial statements have been prepared on the basis of accounting records kept by the parent company and the subsidiaries in compliance with the local standards, and the relevant adjustments required to give a true and fair view of the financial position of the Gorenje Group and the results of its operation in compliance with International Financial Reporting Standards. The accounting records provide, accurately enough, all data required for adjustments and disclosures in the financial statements prepared under International Financial Reporting Standards.

When preparing the financial statements, **the following new standards not yet in effect have not been complied with**:

IFRS - 6 Exploration for and Evaluation of Mineral Resources
IFRS - 7 Financial Instruments (Disclosures)
Amendment to IFRS 1 – First-time Adoption of International Financial Reporting Standards and **IFRS 6** – Exploration for and Evaluation of Mineral Resources
Amendment to IAS 1 – Presentation of financial statements – Capital disclosures
Amendment to IAS 19 – Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures
Amendment to IAS 39 - Financial Instruments: Recognition and Measurement - Cash Flow Hedges of Forecast Intragroup Transactions
Amendment to IAS 39 – Financial Instruments: Recognition and Measurement - The Fair Value Option
Amendment to IAS 39 - Financial Instruments: Recognition and Measurement and **IFRS 4** – Insurance Contracts – Financial Guarantee Contracts
Amendment to IAS 21 – The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
IFRIC 4 (International Financial Reporting Interpretations Committee) – Determining whether an Arrangement contains a Lease
IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6 – Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 – Scope of IFRS 2
IFRIC 9 – Reassessment of Embedded Derivatives

KPMG

Auditor's Report

To the Shareholders of Gorenje, d.d., Velenje

We have audited the accompanying consolidated balance sheet of the Gorenje Group as of 31 December 2005, the related consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity, and the notes thereto for the year then ended. These consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the notes thereto are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2005, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with International Financial Reporting Standards as adopted by the EU.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

Managing Partner and Certified Audit

Andrej Korinšek, B.Sc.Ec.

Managing Partner and Certified Audit

KPMG Slovenija, d.o.o.

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Ljubljana, March 30, 2006

Consolidated balance sheet of the Gorenje Group

	in TSIT	2005	2004
	ASSETS	**195,509,870**	**179,232,385**
A.	**Non-current assets**	**91,298,871**	**87,218,468**
I.	Intangible assets	5,617,772	3,326,700
II.	Property, plant and equipment	78,838,655	78,225,429
III.	Investment property	212,836	588,536
IV.	Non-current investments	3,956,761	4,399,640
V.	Trade and other receivables	854,915	608,836
VI.	Deferred tax assets	1,817,932	69,327
B.	**Current assets**	**104,210,999**	**92,013,917**
I.	Inventories	40,486,746	37,969,041
II.	Trade and other receivables	55,055,965	47,165,108
III.	Current investments	5,471,072	4,287,385
IV.	Deferred costs (expenses) and accrued revenue	648,424	750,568
V.	Cash and cash equivalents	2,548,792	1,841,815
	Off balance sheet items	**31,528,639**	**25,716,817**
	EQUITY AND LIABILITIES	**195,509,870**	**179,232,385**
A.	**Equity and minority interest**	**58,720,204**	**60,874,051**
I.	Share capital	12,200,000	12,200,000
II.	Capital reserves	23,113,258	23,113,258
III.	Legal and statutory reserves	4,509,069	4,509,069
IV.	Retained earnings	17,939,939	17,753,876
V.	Own shares	-3,655,738	-669,903
VI.	Capital revaluation and translation adjustment	4,412,317	3,776,681
VII.	Minority interest	201,359	191,070
B.	**Non-current liabilities**	**42,843,223**	**35,027,373**
I.	Provisions	11,946,351	7,323,403
II.	Provisions formed from ceded assets	1,789,926	1,777,690
III.	Deferred tax liabilities	243,948	330,580
IV.	Financial liabilities	28,809,677	25,589,500
V.	Non-current collaterals	53,321	6,200
C.	**Current liabilities**	**93,946,443**	**83,330,961**
I.	Financial liabilities	33,405,532	31,256,972
II.	Trade and other payables	56,297,540	49,571,515
III.	Accrued costs (expenses) and deferred revenue	4,243,371	2,502,474
	Off balance sheet items	**31,528,639**	**25,716,817**

Consolidated income statement of the Gorenje Group

	In TSIT	2005 (continuing operations)	2005 (discontinued operations)	2005 (total)	2004
1.	**Revenue**	**236,516,773**	**6,635,653**	**243,152,426**	**216,247,044**
2.	Changes in inventories of finished goods and work in progress	2,815,720		2,815,720	5,662,692
3.	Other operating income	3,825,718	173,837	3,999,555	4,672,737
4.	**Gross operating yield**	**243,158,211**	**6,809,490**	**249,967,701**	**226,582,473**
5.	Cost of goods, materials and services	-178,776,578	-6,268,636	-185,045,214	-166,407,683
6.	Employee benefits expense	-43,187,545	-188,065	-43,375,610	-39,608,326
7.	Amortisation and depreciation expense	-11,614,308	-78,231	-11,692,539	-10,096,591
8.	Impairment loss	-1,631,785	-58,756	-1,690,541	-1,244,524
9.	Other operating expenses	-1,631,465	-72,636	-1,704,101	-2,272,232
10.	**Operating profit**	**6,316,530**	**143,166**	**6,459,696**	**6,953,117**
11.	Financial income	3,974,619	96,437	4,071,056	3,726,548
12.	Financial expenses	-4,746,469	-77,214	-4,823,683	-5,312,303
13.	**Profit before tax**	**5,544,680**	**162,389**	**5,707,069**	**5,367,362**
14.	Income tax expense	-565,132	-21,259	-586,391	-288,720
15.	**Profit for the period**	**4,979,548**	**141,130**	**5,120,678**	**5,078,642**
16.	**Minority interest**	**13,676**	**0**	**13,676**	**24,813**
17.	**Equity holders of the parent**	**4,965,872**	**141,130**	**5,107,002**	**5,053,829**
18.	**Earnings per share (in SIT)**			**445,94**	**425,03**

Consolidated cash flow statement of the Gorenje Group

	in TSIT	2005	2004
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
	Profit for the period	**5,120,678**	**5,078,642**
	Adjustments for:		
	Depreciation of property, plant and equipment	10,830,979	9,674,811
	Amortisation of intangible assets	861,560	421,780
	Foreign exchange loss	1,449,583	2,264,740
	Investment income	-4,071,056	-3,726,548
	Interest expense	3,374,100	3,056,872
	Revenue from sale of property, plant and equipment	-768,428	-522,438
	Tax expense	586,391	288,720
	Operating profit before changes in net operating current assets and provisions	**17,383,807**	**16,536,579**
	Increase in trade and other receivables	-6,345,015	-3,244,683
	Increase in inventories	-4,095,705	-8,804,244
	Increase in provisions	1,068,725	1,233,028
	Increase in trade and other payables	5,921,943	5,339,773
	Cash generated from operations	**-3,450,052**	**-5,476,126**
	Interest paid	-3,898,567	-4,854,303
	Income taxes paid	-547,621	-441,107
	Net cash from operating activities	**9,487,567**	**5,765,043**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
	Proceeds from sale of property, plant and equipment	1,328,820	1,468,709
	Interest received	3,867,503	2,987,981
	Dividends received	146,662	123,457
	Sale of subsidiary, net of cash disposed	1,890,524	0
	Acquisition of subsidiary net of cash acquired	-2,476,654	-291,598
	Purchase of property, plant and equipment	-11,628,299	-15,352,537
	Other investments	365,108	-2,898,919
	Purchase of intangible assets	-1,648,968	-1,353,537
	Net cash used in investing activities	**-8,155,304**	**-15,316,444**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
	Repurchase of own shares	-2,985,835	45,500
	Proceeds from long-term borrowings	3,370,737	9,840,860
	Dividends paid	-1,171,588	-1,194,863
	Net cash used in financing activities	**-786,686**	**8,691,497**
	Net increase in cash and cash equivalents	545,577	-859,904
	Cash and cash equivalents at beginning of period	2,003,215	2,701,719
	Cash and cash equivalents at end of period	2,548,792	1,841,815

Statement of changes in equity of the Gorenje Group

in TSIT	Share capital	Capital reserves	Legal and statutory reserves	Retained earnings	Own shares	Capital translation adjustment	Capital revaluation adjustment	Minority interest	Total
Opening balance at 1 Jan 2005	**12,200,000**	**23,113,258**	**4,509,069**	**17,753,876**	**-669,903**	**1,320,653**	**2,456,028**	**191,070**	**60,874,051**
Net profit or loss for the period taken to equity				5,107,002				13,676	5,120,678
Capital revaluation and translation adjustments taken to equity						-384,061	791,903		407,842
Capital revaluation adjustments from investments taken to equity							227,794		227,794
Formation of provisions for termination pay and deferred tax assets				-3,749,351					-3,749,351
Dividends payout				-1,171,588					-1,171,588
Increase in own shares					-2,985,835				-2,985,835
Decrease in minority interest								-3,387	-3,387
Closing balance at 31 Dec 2005	**12,200,000**	**23,113,258**	**4,509,069**	**17,939,939**	**-3,655,738**	**936,592**	**3,475,725**	**201,359**	**58,720,204**

in TSIT	Share capital	Capital reserves	Legal and statutory reserves	Retained earnings	Own shares	Capital translation adjustment	Capital revaluation adjustment	Minority interest	Total
Opening balance at 1 Jan 2004	**12,200,000**	**23,067,758**	**4,275,684**	**14,165,561**	**-707,169**	**1,057,807**	**2,749,526**	**482,668**	**57,291,835**
Net profit or loss for the period taken to equity				5,053,829				24,813	5,078,642
Capital revaluation and translation adjustments taken to equity						262,846	249,526		512,372
Transfer of capital revaluation adjustment to profit or loss							-543,024		-543,024
Reversal of reserves for own shares			-37,266		37,266				0
Appropriation of net profit or loss for 2004 to statutory reserves under the resolution adopted by the Management Board and the Supervisory Board			270,651	-270,651					0
Gains on disposal of own shares		45,500							45,500
Dividends payout				-1,194,863					-1,194,863
Decrease in minority interest								-316,411	-316,411
Closing balance at 31 Dec 2004	**12,200,000**	**23,113,258**	**4,509,069**	**17,753,876**	**-669,903**	**1,320,653**	**2,456,028**	**191,070**	**60,874,051**

Forecasts and Business Climate in 2006

Forecasts and plans in a new financial year are always based on the analysis of events and characteristics of the current financial year while taking into account the anticipated business climate; in particular, they are based on strategic directions and expectations of company owners and other stakeholders. Preparing the business plan for 2006 was a huge challenge owing to major changes which took place in the economic environment in 2005, which are expected to continue in 2006 as well and whose impact is hard to quantify with any degree of accuracy due a high level of uncertainty.

According to analysts, it is unlikely that we will see a significant improvement in business conditions in 2006. The prices of **commodities** remain the biggest uncertainty, in particular of sheet metal and other metals, plastics, and components made of these materials. Our economic forecast provides for the anticipated growth of supply prices, which can be estimated using the anticipated trends in the supply markets; however, the reliability of such estimates in the present climate is comparatively low.

The other major factor affecting the achievability of planned business performance in 2006 is the application of the **WEEE Directive**, which entered into force in Slovenia in August 2005. The Directive has introduced mandatory product recycling for the manufacturers of electronic and electrical equipment, thereby significantly increasing our costs of operation. Due to ambiguities in the national legislations of the countries of Gorenje operation in relation to the date of its application and manner of implementation, the impacts of the introduction and implementation of the Directive cannot be estimated with any degree of certainty.

In order to ensure **efficient and effective economy of operation**, the described business climate in 2005 and its forecast for 2006 will necessitate the implementation of the following measures:

- Achieving **quality growth of sales and their profitability** while ensuring a balanced utilization of all production capacities and maximising our profit margin,
- Continued **development of new products and services**, which will increase our market competitiveness, enable high-end product placement and higher value added, and consequently lead to better company performance in the future, while simultaneously seeking engineering-technological solutions to lower the costs of production and distribution of existing products;
- Continued **optimisation of the supply chain** and seeking alternative and/or new sources of supply so as to ensure price competitiveness of our products;
- Ensuring **manufacturing productivity and efficient operation in manufacturing** by as far as possible even utilization of production capacities throughout the year to maximise production economy and cost efficiency.
- Continued **internationalisation of production capacities** (implementation of the Valjevo project – manufacture of refrigeration-freezer appliances; continued preparations for the Russia project – manufacture of washing machines and dryers) in order to realise the benefits of being a local manufacturer, allow the optimisation of tax- and customs duties, lower the costs of labour and enable the growth of supply from these regions;
- Comprehensive **rationalisation of the organisation of logistic-, sales-, and after-sales functions** of the Gorenje Group, and improving the efficiency of support systems in every way;
- **Selective implementation of new investment projects** and ensuring that they stay within the planned volume; precedence to be given to investments in new products and markets;
- Improving the **management of current assets**, in particular of receivables and inventories, since current assets have a considerable effect on the level of debt and consequently the cost of financing of the Gorenje Group;
- Ensuring **effective management of all types of risk**, which the company is exposed to due to the highly changeable business environment in which we operate, with the focus on credit (payment) risks, in particular in more uncertain markets and those characterised by lower liquidity.

The companies of the Gorenje Group are planning the **consolidated net revenue from the sales of products and services in 2006** to reach **SIT 243,971.2 million**, which is **SIT 818.8 million (0.3 %) more** than in 2005. The forecast **is not entirely comparable** with the sales achieved in 2005 due to the divestment of both Hyundai companies in July 2005. Using comparable data, the plan exceeds the 2005 figure by **SIT 7,026.6 million** or **3.0 %**.

To be able to compare the 2005 and 2006 figures, the proceeds of the divestment of the Hyundai companies were deducted from net sales revenue in 2005.

Calculation of Comparable Figures in Relation to Net Sales Revenue and Gross Operating Yield (in SIT million)

Comparison	Plan 2006	2005	2006/2005
Net Sales Revenue	243,971.2	236,944.6	103.0 %
Gross Operating Yield	247,931.0	243,759.9	101.7 %

In line with the business organisation of the Group, the operation of the Gorenje Group companies has been grouped in three divisions, as follows: **Household Appliances Division, Home Interior Division** and **Trade and Services Division.**

Consolidated Net Revenue by Division (in SIT million)

Division	Achieved Volume 2005	Share (%)	Plan 2006	Share (%)	2006/2005
Household Appliances	211,825.7	84.8%	219,990.9	87.7%	103.9%
Home Interior	15,373.0	6.2%	16,411.0	6.5%	106.8%
Trade and Services	22,576.7	9.0%	14,545.2	5.8%	64.4%
Divisions Total	**249,775.4**	**100.0%**	**250,947.1**	**100.0%**	**100.5%**
Elimination of Inter-Divisional Trade	-6,623.0		-6,975.9		105.3%
Consolidated Net Revenue of the Group	**243,152.4**		**243,971.2**		**100.3%**

The planned performance of the Gorenje Group for 2006 is in line with the adopted strategic directions and goals of the Gorenje Group. Their implementation is set to contribute to a further growth and long-term attainment of strategic objectives, improve the competitiveness of the Group and enhance its long-term ability to meet its obligations to stakeholders in a socially responsible manner.

Tough business conditions notwithstanding, we are confident that despite the challenges posed by the coming year, ambitious and goal-oriented action will enable us to accomplish the set tasks and achieve the targeted business objectives, and above all play our part in the realization of long-term strategic plans of the Gorenje Group.

Gorenje, d.d., Management Board