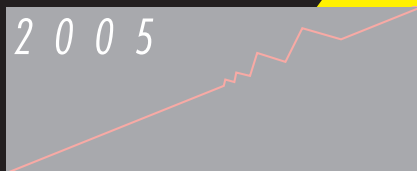


gorenje

Annual Report

2005



Annual Report of the Gorenje Group
for 2005 according to IFRS

- ***The identity of the Gorenje trademark***
combines tradition with youth and vitality, and a self-confidence originating from the vision of its own mission. The creativity and artistic passion that centre on the human being and the care for the natural and living environment, which both promote the unfolding of man's abilities and intentions, are the guidelines in responsible performance as well as the strategic goals of the Gorenje Group: to become the leading, most original and most innovative company focusing on design.

Form is like the visual image defined by the record of light. Lights as perception, awareness, spatial definition. A reflection of consciousness materialized in the Gorenje products along with visionary ambiances leads towards new horizons.

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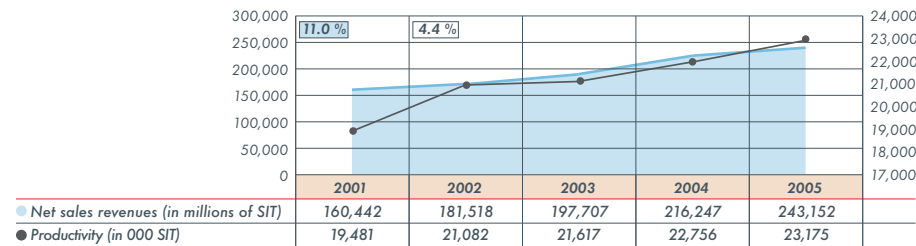
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Key Achievements of the Gorenje Group in 2005

Consolidated net sales revenues

With over EUR 1 billion in net sales revenues and with the inclusion of a household appliance manufacturer from outside Slovenia, the Gorenje Group continued its trend of sustainable growth in the volume of operations, ...

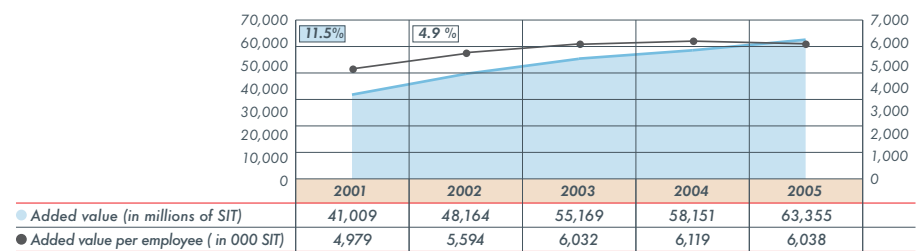
Legend:
Productivity: net sales revenues / average number of employees



Added value

... which, primarily due to the successful management of prices of raw materials and other materials and services, was followed by an increased ability to create added value,...

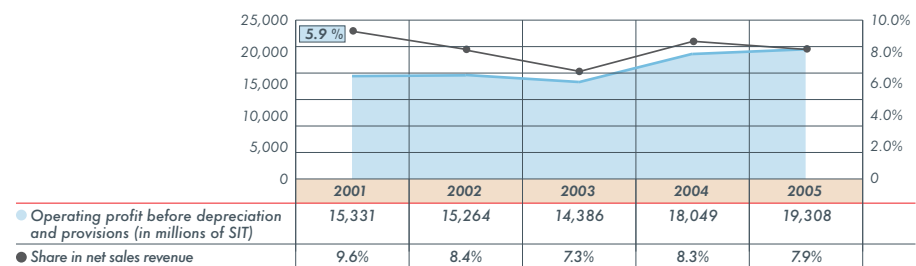
Legend:
Added value: gross operating yield – costs of goods, materials and services – other operating expenses
Added value per employee: added value / average number of employees



Operating profit before depreciation and provisions

... together with an increased ability to generate cash flows from business activities ...

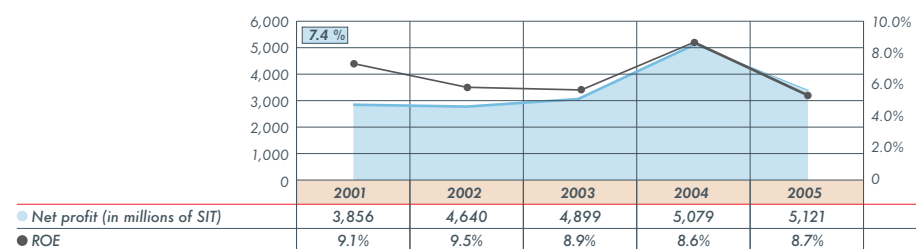
Legend:
Operating profit before depreciation and provisions: operating profit + depreciation and amortization expense + increase/decrease in long-term provisions
Net sales revenue: consolidated net sales revenue



Net profit

... and growth of net profit.

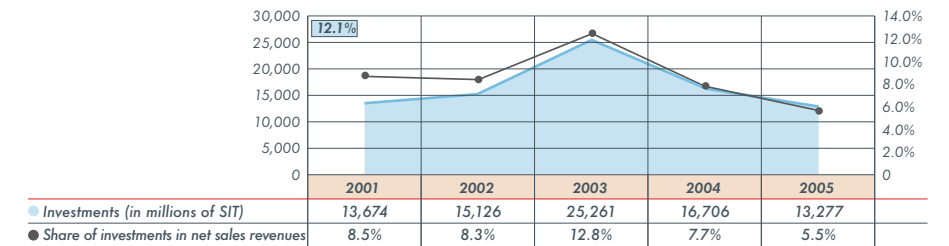
Legend:
ROE: Net profit (loss) / average equity



By optimizing investments and focusing them on the development of products, markets and cost-optimized production capacities outside of Slovenia, ...

Legend:
Investments: investments in property, plant and equipment and intangible assets
Net sales revenue: consolidated net sales revenue

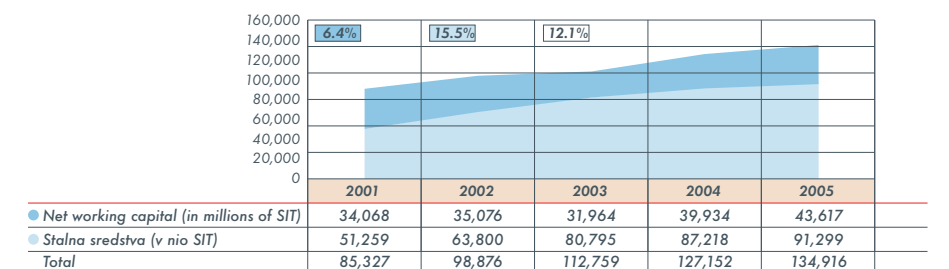
Investments



Structure of assets

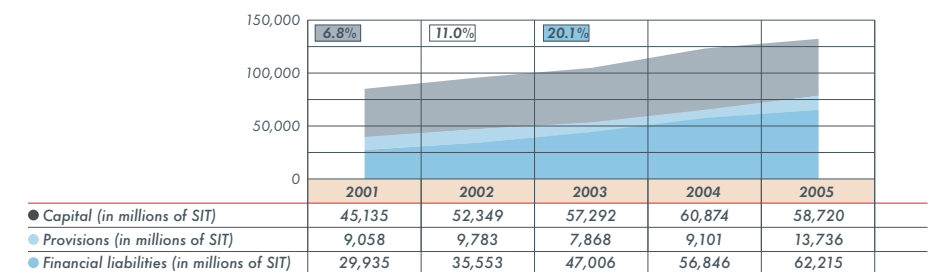
... we achieved a balanced growth of assets in 2005, ...

Legend:
Net working capital: current assets – (current trade liabilities + noncurrent liabilities + accrued costs and deferred revenues)



Structure of liabilities Average annual growth

... which, despite the increase in debt capital and the simultaneous increase in the scope of internal sources of financing, was supported by a balanced capital structure.



Notes:

- The data shown in the graphs refer to the Gorenje Group and are prepared in accordance with IFRS (also for comparative periods). The data are expressed in millions of SIT, unless specified otherwise.
- All accounting categories of assets and liabilities refer to the last day of the periods under review.
- Percentage shown in the top left corner of charts, represent the average annual growth of individual categories within the monitored period.

Significant Events in 2005

January

- Gorenje, d.d., became the owner of Mora Moravia, s.r.o., the Czech manufacturer of cooking appliances.
- The jury of the recognized German media association »Media Society Networks« granted the »Plus X Award™ 2004« to a household appliance of the new generation of washing machines, Topmodell WA 65205, in the »ease to use« category.

March

- In Dubrovnik the new generation of washing machines and tumble dryers was presented to business partners and journalists from Croatia and Bosnia & Herzegovina.
- Gorenje hosted the meeting of ambassadors of EU countries in Slovenia.
- Gorenje hosted one hundred members of the Association of Employee Councils of Slovene Companies.

April

- Gorenje Orodjarna, d.o.o., received the silver plaque for its Peugeot connecting component at the biennial Forma-tool fair in Celje.
- The solutions prepared on the basis of a tender for the design of the integral graphic image of the Gorenje Group were exhibited and awards presented for the best solutions.
- In April awards were presented to the best innovators of the Savinjska-Šaleška region; Gorenje received five gold, six silver and seven bronze awards.

May

- In the refrigerator and freezer programme, the 25 millionth appliance was manufactured.
- At the 22nd financial and business conference, Gorenje, d.d., received the Portal Prize for the best official market company, awarded since 1995 by the Ljubljana Stock Exchange to companies with best investor relations and informing of the broader public.

June

- In Düsseldorf the German media association »Media Society Networks« granted the »Plus X Award™ 2005« to the top model of the Premium line, a new generation of refrigerators and freezers.
- At a meeting organized by the Slovene Association of Journalists, the journalists of companies and institutions awarded this year for the fifth time the »Golden Pen 2005« award for best internal newspaper. Gorenje, d.d. took third place in the category of newspapers and bulletins.
- Gorenje was visited by Prime Minister Janez Janša, Minister of the Economy Andrej Vizjak, M.Sc., and Minister of Public Administration Dr. Gregor Virant.

July

- At the design awards presentation held at the Design Centrum Nordrhein Westfalen in Essen, Germany, Gorenje received two »Red Dot Design Award: Product Design 2005« awards in the product design category for its Premium Touch washing machine and tumble dryer.
- Gorenje became one of the leading Slovene commercial companies with a registered European trademark in the Community Trade Mark system.
- On 4th July 2005 the 8th General Meeting of Shareholders of Gorenje, d.d., was held in Hotel Paka.
- The Chamber of Commerce and

Industry of Slovenia awarded Gorenje, d.d., with a gold prize for innovativeness in a special category for broad team approach in the development of a top-level product line. Gorenje, d.d., was awarded for its new generation of refrigerators / freezers with a width of 600 mm.

- Gorenje initiated, in cooperation with the companies Avtotehna, BSH Hišni aparati, LTH, Mercator, Merkur and Mikropis, which are the largest companies obliged to manage waste electric and electronic equipment in Slovenia, the establishment of a company for the management of waste electric and electronic equipment under the name of ZEOS, d.o.o.

September

- In Moscow Gorenje presented a new line of products under the name of Gorenje Pininfarina. The event was attended by more than 180 business partners from all over Europe, and the special guest of the event was Catherine Deneuve.
- Slovenia was visited by a delegation of the European Commission for the Environment in order to monitor the implementation of the regulation on ozone-depleting substances. The members of the delegation also visited Gorenje to see how the directive is being implemented in practice.

October

- Gorenje opened the doors to a exhibition and sales centre in Velenje. The official opening was attended by numerous guests from across Slovenia working in the fields of economy, design, politics and culture.
- A in-house fair entitled Gorenje Trade Show 2005 was held from 3-7 October 2005.
- At the »Month of Design 2005« event organized on 20 October by

the Big Institute, issuer of »Hiše« (House) magazine, Gorenje received a special design award, »Success Story 2005«.

- At the 32nd international furniture fair »Ambienta 2005« held in Zagreb from 12-16 October, Gorenje Zagreb, d.o.o., Croatia was awarded first prize, a crystal Ambienta sculpture, for the best integral design of its exhibition area.
- Gorenje received an award for second best annual report for 2004 in Slovenia, with the best business and accounting parts of the report, granted by the »Finance« financial newspaper.

November

- At the 4th Annual Investor Relations Magazine Continental Europe Awards 2005 held in Vienna by IR Magazine, Gorenje, d.d. took first place in the category »Best IR by a Slovenian Company«.
- At »Trend 2005«, a Slovene fashion and visual creativity event, Gorenje, d.d., received the Trend 2005 award for achievements in design.
- Gorenje, d.d., was granted the TOP 10 2005 award for systematic investment in knowledge and concern for the education of employees. The awards were granted during the Educational Management 2005 conference organized by Gospodarski vestnik magazine.

December

- At its 25th meeting the Supervisory Board of Gorenje, d.d., discussed and approved the Strategic Plan of the Gorenje Group up to 2010.



Milestones in the Development of the Gorenje Group

1950-1960

- The Gorenje Group began its operation in the village of Gorenje, situated between the Saleška and Savinjska valleys, with the establishment of a local metal-working company.
- Initially the Company manufactured agricultural machinery.
- In 1958 the Company began to manufacture solid fuel cookers.

1961-1970

- The Company's production was extended to include washing machines and refrigerator-freezers.
- In 1961 the Company exported its first 200 cookers to the German market.

1971-1980

- The Group is enlarged through the takeover of other companies.
- New business sectors are developed, covering a wide range of products for the home: kitchen furnishings, ceramics, medical equipment, telecommunications, home electronics, television sets.
- A sales and services network is developed throughout Yugoslavia, employing over 20,000 persons.

1981-1990

- The development of the Group's operation was focused on its core activity: the manufacture and sale of household appliances.

1991-1996

- Following the break up of Yugoslavia and the subsequent loss of previously domestic markets, the Gorenje Group began to export its products to markets outside the former Yugoslavia.
- The new sales orientation led to the restructuring of the entire Group, and the change in the political and economic systems resulted in its ownership transformation.

1997-2005

- The parent company, Gorenje, d.d., became a joint-stock company.
- New technological and environmental standards were implemented in the Group's operations.
- With its broadening scope of activities, the Group's presence on the markets of former Yugoslavia began to strengthen.

- The idea of moving to Velenje and constructing the Company's own production facilities was realized.

- The Group begins to set up its own distribution network in Germany, Austria, France, Denmark, Australia and Italy.

- The Group began to establish companies in Eastern Europe and in the countries of the former Yugoslavia.

- This period is characterized by intensive investments in the enlargement of production capacities, modern and environment-friendly technologies, new products and new markets.
- The takeover of the Czech manufacturer of cooking appliances, Mora Moravia, s.r.o., was completed in the beginning of 2005 and the delocalization of production processes was begun.
- Production delocalization processes were continued and preparations were begun for the construction of a refrigerator-freezer factory in town Valjevo in the State Union of Serbia and Montenegro.

Letter to Shareholders

Dear Shareholders,

In 2005 the Gorenje Group surpassed, for the first time, the magical boundary of one billion Euros in net sales revenues with a 12.4 % growth in the volume of operations. The results are even more promising in the production and sale of white goods, our basic activities, where the sale of large household appliances increased by 15.7 %. The takeover of the Czech manufacturer of cooking appliances, Mora Moravia, s.r.o., was successfully concluded and its integration into the Gorenje Group is progressing much better than expected. Favourable results were also achieved in other areas of operation of the Gorenje Group: furniture and interior furnishings, heating equipment, home electronics, small household appliances, trade and services. I should, however, emphasize that our business results were generated in extremely difficult business conditions. The prices of key raw materials and energy resources continued to grow in the past year, and stabilized on historically high levels. Europe is still in a period of low economic growth resulting in the stagnation of demand, while facing strong pressures for the reduction of prices stimulated by the products of competitors from the Middle and Far East. All of these are reasons why the struggle with costs, which in a mature branch need to be managed carefully, was even more relentless in 2005.

In the past eight years since the completion of the ownership transformation process, the volume of operations of the Gorenje Group has more than doubled, rising from half a billion Euros to over a billion Euros. In this period the number of large household appliances manufactured by our companies rose to 3.4 million in 2005. Needless to say this growth was on a high quality level, as the structure of products sold was successfully improved by increasing quantities of products with a higher added value.

Gorenje has thus grown into a noteworthy competitor in the global market.

We are convinced that our successful operation is the result of clearly set strategic goals and in particular their consistent implementation. Investing in our own trademark, new technical and technological solutions, industrial design, new generations of products, environmental protection, renewal of production facilities and, last but not least, in the training and development of personnel have borne fruit. As a manufacturer of household appliances we have, in many segments, grown from a classical follower into a challenger of trends in the technical and design areas, which is not only acknowledged by our customers, but also by our competitors and the international professional environment, and confirmed by numerous awards for design achievements and technical solutions. In the European financial environment, Gorenje is an exemplary public joint-stock company on the prime listing of the Ljubljana Stock Exchange boasting recognized excellent investor relations and the highest international credit ratings.



With the abovementioned results, we attained and even surpassed in 2005 the key points and indicators defined in the goals set forth in the strategic plan up to 2006. Encouraged by excellent business results, we adopted at year end an ambitious strategic plan up to the year 2010, which foresees, together with takeovers, an increase in production and sales by approximately 50%, i.e. to the amount of EUR 1.5 billion. The further internationalization of production and entry into new markets with new, even better products, strengthening of the Gorenje trademark while continuously managing costs and improving processes and organization, are the goals that we will follow in future as well. Our vision is to become the world's most original, design-oriented creator of products for the home. With the objective of ensuring maximum economy of size, we are searching for partner connections and pursuing the goal of becoming one of the five largest manufacturers – sellers of white goods in Europe. Our mission is to create original, technically perfected, topmost conceptually designed, as well as user- and environment-friendly products for the home. We are focused on increasing the satisfaction of consumers, and in a socially responsible manner we are creating value for the owners, employees and other participants of the Gorenje Group.

I have faith in the management of Gorenje, which operates in more than 50 companies and branch offices within the country and abroad, as well as in all our employees, for without them there would be no presentday Gorenje and its results. We are guided in our work by the Company's values: honesty, openness, loyalty, creativity and ambition. This is why we believe the set goals can be achieved.

With this Annual Report the term of office of the Supervisory Board is coming to a close. On this occasion I would like to thank its Chairman, both deputies and members for their highly professional, loyal and motivated cooperation in planning and performing our business activities.

Dear shareholders, 2005 was an extremely demanding year, and considering the current trends and dynamics of development of global economic movements, the situation is not expected to get any easier in the current or upcoming years. At Gorenje we are aware of these movements and see them not only as a threat, but also as a challenge and opportunity. In our work we are supported by your trust, and I thank you sincerely for this on behalf of the Management Board and our associates. We shall do our very best to continue meeting your expectations, and the continuation of our mutual trust and openness will undoubtedly contribute to the realization of our ambitiously set strategic goals in future.

A handwritten signature in black ink, appearing to be 'FB', written in a cursive style.

Franjo Bobinac, MBA
President of the Management Board

Dear shareholders,

In 2005 the Supervisory Board supervised the business operation of Gorenje, d.d. and the Gorenje Group within the scope of the powers and authorizations set forth in applicable legal regulations and the Articles of Association of the Company.

The Supervisory Board, which is comprised of ten members, performed its activities in its full composition until 12 April 2005, when Tomaž Kuntarič, M.Sc., Member of the Supervisory Board and Deputy Chairman of the Supervisory Board, resigned from his post. On 4 July 2005 the General Meeting of Shareholders elected a new member of the Supervisory Board, Dr. Jože Zagožen, for the period until the expiry of the Supervisory Board's term of office. Dr. Jože Zagožen was elected Deputy Chairman of the Supervisory Board on 28 July 2005.

1. Activities of the Supervisory Board

During the course of the year, the Supervisory Board devoted its attention primarily to the business and financial development of the Gorenje Group and the parent company, significant business events, and to the implementation of general strategic and business policies. In 2005 the Supervisory Board met at eight meetings, of which two were circular meetings.

In line with established practice, the Supervisory Board adopted the economic plan of the parent company and the Gorenje Group already in December 2004, thus before the beginning of the financial year. The framework of business activities and goals for the year 2005 was thereby determined, and the Supervisory Board monitored their implementation during the year. The Management Board reported to the Supervisory Board, on a quarterly basis, on the current business achievements and assets of the Gorenje Group and the parent company. The Management Board regularly and promptly informed the Supervisory Board in detail on the broader operating conditions, in particular the situation in European markets, where Gorenje sells the greater part of its products, on changes in the prices of materials and raw materials and the possibilities of tapping new procurement markets, on price movements in the household appliance sector, and on the environmental requirements to be met by manufacturers of white goods. Significant emphasis in reporting to the

Supervisory Board was given to regular informing on the effects of the takeover of the Czech manufacturer of cookers, Mora Moravia, the development of activities in the areas of energy and environmental protection, and activities in the area of interior furnishings. In December 2005 the Supervisory Board adopted the economic plan for 2006 and the strategic plan of the Gorenje Group for the period from 2006 to 2010, and supported the Management Board's realization of the goal that Gorenje become one of the leading producers of technically perfected, superiorly designed and user-friendly products for the home.

The Supervisory Board of Gorenje, d.d., has assessed that despite the difficult operating conditions in 2005, the trend of growth continued and the Gorenje Group managed to significantly surpass the planned scope of business activities and meet the planned goals with respect to operating result, assets, and financial results in all major areas of operation.

In accordance with the Criteria for the Appraisal of Business Performance of the Gorenje Group, whose purpose is to determine the level of the Group's performance on the basis of objective economic measures, the Supervisory Board also decided on the amount of performance-related bonuses to the Management Board and on the variable part of the fixed salary of members of the Management Board.

In December 2005, Žiga Debeljak, member of the Company's Management Board, proposed to the Supervisory Board that his term of office as member of the Management Board be terminated by mutual agreement due to his appointment to the post of Chairman of the Management Board of Poslovni sistem Mercator, d.d.. The Supervisory Board approved the mutually agreed recall as of 31

December 2005. In accordance with the mandatory function granted to the Chairman of the Management Board upon its appointment, the Chairman of the Management Board proposed and the Supervisory Board appointed Mrs. Mirjana Dimc Perko as member of the Management Board in charge of economics and finance, whose term of office shall be from 1st January 2006 until 18 July 2008.

2. Annual Report

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

The Annual Report of Gorenje, d.d., and the Gorenje Group for 2005 was audited by the auditing company KPMG Slovenija, d.o.o. The audit was also performed in all subsidiary companies of the Gorenje Group. On 27 March 2006 the auditing company presented a positive opinion on the Annual Report of Gorenje, d.d., and the Consolidated Annual Report of the Gorenje Group for 2005.

In reviewing the submitted Annual Report for 2005, the Supervisory Board took the following into consideration:

- In 2005 the Company realized the key categories of the economic plan;
- The Supervisory Board approved the proposed distribution of net profit for 2005 and the calculation of accumulated profit within the scope of powers granted to the Management Board and the Supervisory Board;
- the auditing company gave a positive opinion to the Annual Report for 2005 and the Supervisory Board had no remarks regarding the Auditor's Report;
- the Supervisory Board regularly monitored the management and operation of the Company and the Gorenje Group, and regularly monitored their operating results, financial position and assets.

The Supervisory Board established that the Annual Report for 2005, as prepared by the Management Board and reviewed by the auditing company, has been compiled clearly, transparently and in accordance with the provisions of the Commercial Companies Act and applicable accounting standards. The Supervisory Board also examined and approved the Auditor's Report. On the basis thereof, the Supervisory Board has assessed that the Annual Report presents a true and fair picture of the assets, liabilities, financial position and operating results, and gives a fair account of the business development and position of the Company and the Gorenje Group.

On the basis of the above-mentioned, the Supervisory Board approved, at its meeting held on 11 April 2006, the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group for 2005 as proposed by the Management Board.

3. Calculation and Proposed Appropriation of Accumulated Profit

In accordance with Article 228 of the Commercial Companies Act, the Management Board of the Company decided that the net profit for 2005 in the amount of SIT 2,954,939,809.28 and a portion of the retained profit brought forward in the amount of SIT 30,894,735.47 SIT shall be appropriated for the mandatory formation of reserves for own shares, which are to be set up for the purpose of acquiring 466,150 own shares. The Supervisory Board approved the proposed formation of reserves for own shares, which is adequately recorded in the financial statements of the Company.

The accumulated profit of Gorenje, d.d., for 2005 in the amount of SIT 4,121,542,689.53 was formed from the remaining portion of net profit brought forward in the amount of SIT 1,534,854,038.53 and from other revenue reserves reversed in the amount of SIT 2,586,688,651.00.

The Management Board and the Supervisory Board propose to the General Meeting of Shareholders that the accumulated profit for the financial year 2005 in the amount of SIT 4,121,542,689.53 be allocated as follows:

- part of the accumulated profit in the amount of SIT 1,220,000,000.00 deriving from the net profit for 1998 shall be used for the payment of divi-

dends to shareholders in the value of SIT 100.00 per share;
- part of the accumulated profit in the amount of SIT 1,450,771,344.76 deriving from the net profit for 1998 in the amount of SIT 314,854,038.53 and from the net profit for 1999 in the amount of SIT 1,135,917,306.23 shall be used for the formation of other reserves from profit;
- the remainder of the accumulated profit in the amount of SIT 1,450,771,344.77 deriving from the net profit for 1999 shall remain unallocated.

During decision-making the Supervisory Board acted in line with the adopted policy of profit appropriation, which is subject to the development concept of Gorenje set forth in the goals of the strategic plan for the period up to the year 2010 and the shareholders' interest in increasing the value of shares in the long term. For this reason the Supervisory Board agreed with the calculation and proposed appropriation of accumulated profit for 2005. The Supervisory Board proposes to the General Meeting of Shareholders that the members of the Management Board be discharged of their duties in 2005.

This report was prepared by the Supervisory Board in accordance with the provisions of Article 274.a of the Commercial Companies Act and is addressed to the General Meeting of Shareholders.



Marko Voljč, M.Sc.
Chairman of the Supervisory Board

In millions of SIT, or as stated	2005	2004	2003	2002	2001
From the Income Statement					
Net sales revenues	243,152	216,247	197,707	181,518	160,442
Gross operating yield	249,968	226,583	203,675	186,615	164,779
Added value	63,355	58,151	55,169	48,164	41,009
Profit or loss from operations	6,460	6,953	7,029	6,343	5,885
% of gross operating yield	2.6%	3.1%	3.5%	3.4%	3.6%
Operating profit before depreciation and provisions	19,308	18,049	14,386	15,264	15,331
% of gross operating yield	7.7%	8.0%	7.1%	8.2%	9.3%
Net profit or loss	5,121	5,079	4,899	4,640	3,856
% of gross operating yield	2.0%	2.2%	2.4%	2.5%	2.3%
Return on sales (ROS)	2.1%	2.3%	2.5%	2.6%	2.4%
Return on assets (ROA)	2.7%	3.0%	3.3%	3.7%	3.6%
Return on equity (ROE)	8.7%	8.6%	8.9%	9.5%	9.1%
From the Balance Sheet (as at 31 December)					
Assets	195,510	179,232	159,758	137,025	116,716
Capital	58,720	60,874	57,292	52,349	45,135
% of total liabilities	30.0%	34.0%	35.9%	38.2%	38.7%
Investments in tangible and intangible fixed assets	13,277	16,706	25,261	15,126	13,674
Employees					
Average number of employees	10.492	9.503	9.146	8.610	8.236
Number of employees on 31 December	10.509	9.568	9.427	8.772	8.186
Shares of Gorenje, d.d.					
Book value per share	5,358 SIT	5,141 SIT	4,793 SIT	4,497 SIT	3,939 SIT
Average daily price of share as at 31 December	5,421 SIT	6,474 SIT	4,918 SIT	4,407 SIT	2,221 SIT
Dividend paid per share	100 SIT	100 SIT	95 SIT	80 SIT	70 SIT
Capital gain	-16.2%	32.0%	12.0%	98.4%	3.1%
Dividend yield	1.8%	1.5%	2.2%	1.8%	3.2%
Total yield	-14.4%	33.5%	14.2%	100.2%	6.3%

1 General information

1.1 Activities

Name
Gorenje, gospodinjski aparati, d.d.

Date of entry in court register
31 December 1997

Abbreviated name
Gorenje, d.d.
Registered office Partizanska 12,
Velenje, Slovenia

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

Activity code
29.710 Manufacture of electric
domestic appliances

Tax number
S172615320

Registration number
5163676

Issued share capital
SIT12,200,000,000

Shares
12,200,000 ordinary registered
shares with a nominal value of SIT
1,000 each; the shares of Gorenje,
d.d. are listed on the official market of
the Ljubljana Stock Exchange under
the trading code GRVG (www.ljse.si).

1.2 Organizational Structure and Composition of the Gorenje Group

In 2005 the Gorenje Group was com-
prised of the parent company, Goren-
je, d.d., 49 subsidiary companies
operating in Slovenia and abroad,
and two companies which are the
joint-ventures of two partners.

In 2005 the companies of the Goren-
je Group were organized in the fol-
lowing three divisions:

**Household Appliances Division
HA**
Manufacture and sales of household
appliances of its own production,
sales of products from the complemen-
tary programme of household appli-
ances of other manufacturers, sales of
supplementary programme of home
electronics and small household appli-
ances, and the manufacture and sales
of heating appliances.
Tool and Die making, manufacture of
industrial equipments and mechanical
components.

**Home Interior Division
HI**
Manufacture and sale of kitchen and
bathroom furnishings, bathroom fit-
tings and ceramic tiles.

**Trade and Services Division
TS**
Energy and environmental protection,
trade, engineering, agency services,
restaurant and catering services,
tourism and real estate management.

The changes in the structure of the
Gorenje Group in 2005 were as fol-
lows:

- In the beginning of January 2005,
Gorenje, d.d. purchased from Energy-
gor, d.o.o., a 100-percent share in
Opte Ptuj, d.o.o., and a 66.67-per-
cent share in Kemis, d.o.o..

- On 26 January 2005 Gorenje, d.d.
became the owner of all shares of the
Czech company Mora Moravia, s.r.o.,
in accordance with the underlying
sales/purchase agreement.

- The procedure for the transforma-
tion of the stock company Gorenje
Notranja oprema into a limited liabili-
ty company was completed with the
company's entry in the court register
on 28 January 2005. Gorenje, d.d.
has a 98.86-percent share in this limit-
ed liability company.

- On 30 March 2005 Gorenje, d.d.,
established the company Gorenje
Adria nekretnine, d.o.o., with its regis-
tered office in Zagreb, Croatia, in
which it has a 100-percent share.

- In 2005 the company IG Prodaja,
d.o.o., became operational. A 50-per-
cent ownership share in this company
is held by Gorenje, d.d. and a 50-per-
cent ownership share by Istrabenz
energetski sistemi, d.o.o..

- The company G.A Beteiligungs
GmbH, was established, whose owner
is Gorenje Beteiligungs GmbH, Vien-
na. The 100-percent ownership share
in Hyundai Auto Zagreb, d.o.o.,
Zagreb, and the 100-percent owner-
ship share in Hyundai Auto, d.o.o.,
Belgrade were transferred to this com-
pany. On 12 July 2005 the holding
company Gorenje Beteiligungsge-
sellschaft mbH, domiciled in Vienna,
concluded an agreement on the sale
of its 70-percent ownership share in
G.A Beteiligungs GmbH, with the
buyer Trdnjava Holding, d.d., Celje.

- On 20 July 2005 the companies
Avtotehna, BSH/Hišni aparati, Goren-
je, LTH, Mercator, Merkur in
Mikropis, which are the largest com-

panies with the obligation to manage
waste electric and electronic equip-
ment in Slovenia, established a com-
pany for the management of waste
electric and electronic equipment,
ZEOS, d.o.o., in which the parent
company has a 51-percent ownership
share.

- On 1st November 2005, Mora
Hungaria Kft., Hungary was annexed
to the company Gorenje Budapest
Kft.. In July a liquidation procedure
was initiated for Mora Slovakia s.r.o.
and concluded in the beginning of
2006.

- The companies Gorenje Kuhinje,
d.o.o., Bosnia and Herzegovina, and
Gorenje USA Inc., USA, were liqui-
dated in accordance with the resolu-
tions of their General Meetings.

- In July, pursuant to a resolution of
the Management Board, a procedure
for the establishment of a representa-
tive office in Shanghai, China, was
begun and will be completed in
2006.

- On 5 October 2005, Kemis, d.o.o.,
established the company Kemis,
d.o.o., with its registered office in Val-
jevo, Serbia and Montenegro, in
which it has a 100-percent ownership
share. On 14 October 2005, Kemis,
d.o.o., purchased a 10-percent share
in Kemis BiH, d.o.o., Lukavac, thus
acquiring a 100-percent ownership
share in this company.

- Pursuant to a resolution of its Gen-
eral Meeting, the company Gorenje
Skandinavien A/S established two
companies, one in Estonia and the
other in Latvia.

- On 24 August 2005, Gorenje,
d.o.o., Belgrade purchased the com-
pany Nacionalni brendovi, d.o.o., for
the purpose of acquiring land for the
construction of a business/commercial
centre.

- On 30 December 2005 Gorenje
Glin, d.o.o., was annexed to the com-
pany Gorenje Notranja oprema,
d.o.o..

1.3 Company Bodies

The subsidiary companies of the Gorenje Group that were operational in 2005 and held ownership shares on 31 December 2005 are listed in the tables.

Division HA – Household Appliance Division;
Division HI – Home Interior Division;
Division TS – Trade and Services Division.

Companies operating in Slovenia

	Ownership share (%)	Division
1. Gorenje I.P.C., d.o.o., Velenje	100.00	HA
2. Biterm, d.o.o., Bistrica ob Sotli	75.00	HA
3. Gorenje Notranja oprema, d.o.o., Velenje	98.86	HI
4. Gorenje Orodjarna, d.o.o., Velenje	100.00	HA
5. Gorenje Indop, d.o.o., Velenje	100.00	HA
6. Gorenje Tiki d.o.o., Ljubljana	99.795	HA
7. Gorenje GTI, d.o.o., Velenje	100.00	TS
8. Gorenje Gostinstvo, d.o.o., Velenje	100.00	TS
9. LINEA, d.o.o., Velenje	100.00	TS
10. Energygor, d.o.o., Velenje	100.00	TS
11. Opte Ptuj, d.o.o., Ptuj	100.00	TS
12. Kemis, d.o.o., Radomlje	100.00	TS
13. ZEOS, d.o.o., Ljubljana	58.00	TS
14. Istrabenz – Gorenje, d.o.o., Ljubljana (joint-venture)	50.00	TS
15. IG Prodaja d.o.o., Nova Gorica (joint-venture)	50.00	TS

Companies operating abroad

	Ownership share (%)	Division
16. Gorenje Beteiligungs GmbH, Austria	100.00	HA
17. Gorenje Austria Handels GmbH, Austria	100.00	HA
18. Gorenje Vertriebs GmbH, Germany	100.00	HA
19. Gorenje Körting Italia S.r.l., Italy	100.00	HA
20. Gorenje France S.A.S., France	100.00	HA
21. Gorenje BELUX S.a.r.l., Belgium	100.00	HA
22. Gorenje UK Ltd., Great Britain	100.00	HA
23. Gorenje Skandinavien A/S, Denmark	100.00	HA
24. Gorenje AB, Sweden	100.00	HA
25. Gorenje spol. s r.o., Czech Republic	100.00	HA
26. Gorenje real spol. s r.o., Czech Republic	100.00	HA
27. Gorenje Slovakia s r.o., Slovakia	100.00	HA
28. Gorenje Budapest Kft., Hungary	100.00	HA
29. Gorenje Polska Sp. z o.o., Poland	100.00	HA
30. Gorenje Bulharia EOOD, Bulharia	100.00	HA
31. Gorenje Zagreb, d.o.o., Croatia	100.00	HA
32. Gorenje Skopje, d.o.o., Macedonia	100.00	HA
33. Gorenje Commerce, d.o.o., Bosnia & Herzegovina	100.00	HA
34. Gorenje, d.o.o., Serbia and Montenegro	100.00	HA
35. Gorenje Podgorica, d.o.o., Serbia and Montenegro	99.972	HA
36. Gorenje OY, Finland	100.00	HA
37. Gorenje AS, Norway	100.00	HA
38. OU Gorenje, Estonia	100.00	HA
39. SIA Gorenje, Latvia	100.00	HA
40. Gorenje Romania S.R.L., Romania	100.00	HA
41. Gorenje aparati za domačinstvo, d.o.o., Serbia and Montenegro	100.00	HA
42. Mora Moravia s r.o., Czech Republic	100.00	HA
43. Mora Slovakia s.r.o., Slovakia	100.00	HA
44. Gorenje Küchen GmbH, Austria	98.86	HI
45. Gorenje - Kuchyne spol. s r.o., Czech Republic	98.86	HI
46. Gorenje Imobilia, d.o.o., Serbia and Montenegro	100.00	TS
47. Gorenje Adria Nekretnine, d.o.o., Croatia	100.00	TS
48. Kemis, d.o.o., Croatia	100.00	TS
49. Kemis BiH, d.o.o., Bosnia and Herzegovina	100.00	TS
50. Kemis, d.o.o., Serbia and Montenegro	100.00	TS
51. Nacionalni brendovi, d.o.o., Serbia and Montenegro	100.00	TS

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

1. Moscow, Russian Federation
2. Krasnojarsk, Russian Federation
3. Kijev, Ukraine
4. Athens, Greece
5. Barcelona, Spain
6. Shanghai, China
7. Belgrade, Serbia and Montenegro
8. Priština, Serbia and Montenegro

The Management Board of Gorenje, d.d.

Franjo Bobinac President of the Management Board and CEO
Franc Košec Member of the Management Board responsible for development and quality
Žiga Debeljak Member of the Management Board responsible for finance and economics
Drago Bahun Member of the Management Board responsible for organization and human resources, and Employee Director

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

Representatives of capital	Employee-elected representatives
Marko Voljč Chairman	Ivan Atelšek Deputy Chairman
dr. Jože Zagožen Deputy Chairman	Peter Kobal Member
Bogdan Pušnik Member	Drago Krenker Member
Igor Kušar Member	Krešimir Martinjak Member
Peter Tevž Member	Jurij Slemenik Member

The Management Board was appointed on 18 July 2003.

On the proposal of Žiga Debeljak that his term of office as member of the Management Board be terminated by mutual agreement due to his appointment to the post of Chairman of the Management Board of Poslovni sistem Mercator, d.d. as of 1st January 2006, the Supervisory Board recalled Mr. Debeljak from the post of Member of the Management Board. In his place the Supervisory Board appointed, on the proposal of the Chairman of the Management Board, Mrs. Mirjana Dimc Perko as member of the Management Board in charge of economics and finance, whose term of office shall be from 1st January 2006 until the expiry of the Management Board's term of office.

The President of the Management Board, Franjo Bobinac, is also a member of the Supervisory Board of ETI, d.d.. Mirjana Dimc Perko, Member of the Management Board, is a member of the Supervisory Board of Pivovarna Laško, d.d..

The Supervisory Board is appointed for a term of four years. Its term of office expires on 17 July 2006.

On 12 April 2005 Tomaž Kuntarič, Member and Deputy Chairman of the Supervisory Board, resigned from his post due to his employment in Gorenje, d.d.. On 4 July 2005 the General Meeting of Shareholders elected a new member of the Supervisory Board, Dr. Jože Zagožen, for the period until the expiry of the Supervisory Board's term of office. Dr. Jože Zagožen was elected Deputy Chairman of the Supervisory Board on 28 July 2005.

The following members of the Supervisory Board of the Company are also members of the supervisory boards of the following companies: Dr. Jože Zagožen is Chairman of the Supervisory Board of Petrol, d.d.. Igor Kušar is member of the Supervisory Board of Merkur, d.d.. Bogdan Pušnik is member of the Supervisory Board of DZS, d.d. and of the Supervisory Board of the Ljubljana Stock Exchange, Inc.. Peter Tevž is Chairman of the Supervisory Board of Radeče Papir, d.d. and member of the Supervisory Board of Avtotehna, d.d.. Ivan Atelšek is Chairman of the Supervisory Board of Termoelektrarna Šoštanj.



Franjo Bobinac
*President of the Management Board
and CEO*



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



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



Drago Bahun
*Member of the Management Board,
responsible for organisation
and human resources and worker director*

1.4 Statement of Compliance with the Corporate Governance Code

The corporate governance of the Company is presented in more detail in the 2004 Annual Report. In 2005 the Company developed good governance practice in line with the recommendations of the Code and on the basis of its own good business practice.

The Management Board and Supervisory Board of the Company declare that Gorenje, d.d. observes the Corporate Governance Code for public joint-stock companies. Certain deviations from the provisions of the Code signify good governance practice and contribute to its development, and point to the high degree of transparency of operations of the public joint-stock company and the responsibility of the Company's bodies towards all participants, particularly its owners.

In this Statement, which is also published in the 2005 Annual Report, the Company has given due consideration to the changed Corporate Governance Code for public joint-stock companies (Official Gazette of RS, no.118/05) relating to the period of the last year. In preparing the Statement, the Company considered the explanations in the Preamble of the Code, which distinguish between those recommendations which, in the opinion of the signatories of the Code, need to be disclosed in the event of any deviations, and the nonbinding provisions of a good governance system. The Code is published in the Slovene and English languages on the website: www.ljse.si.

In preparing this Statement the Management Board and the Supervisory Board could not avoid repeating certain known facts from the public announcements of the Company.

The Management Board and the Supervisory Board acknowledge that the Company has not implemented certain principles of the Code for the reasons specified below:

Chapter 1: Relationship between the Corporation, Shareholders and other Stakeholders

1.1. Company goals

● Recommendation under item 1.1.1. The goals of the Company are not defined in the Articles of Association of Gorenje, d.d.. The Company's bodies nevertheless function in accordance with the key goal defined by the Code, i.e. to maximize the Company's value.

Chapter 1: Relationship between the Corporation, Shareholders and other Stakeholders

1.2. Equal treatment of shareholders and protection of their rights

● Recommendation under item 1.2.5. On 7th July 2004 and 4th July 2005, the General Meeting of Shareholders

adopted a resolution granting authorization to the Management Board of the Company for the acquisition and disposal of own shares in accordance with the Commercial Companies Act. By virtue of this resolution, the General Meeting excluded the pre-emptive right to the acquisition and disposal of own shares. On the basis of this resolution, the Company acquires its own shares from Slovenska odškodninska družba, d.d. (Slovene Indemnity Company), i.e. under the Option Agreement concluded on 21 June 2004. Because the Contract comprises four call options, the General Meeting discussed these issues on two occasions due to legal restrictions on the term of acquisition of own shares to 18 months. Upon the adoption of the first resolution, the Management Board presented to the General Meeting a report on the reasons for the proposed total exclusion of the pre-emptive right in the acquisition and disposal of own shares. Upon the adoption of the second resolution, the Management Board also prepared a report on the acquisition of own shares on the basis of an authorization granted by the General Meeting of Shareholders. Both resolutions and the above-mentioned reports were published in their entirety upon the convening of the General Meeting. In the 2005 Annual Report, the Management Board reports on further acquisitions of shares under the above-mentioned Agreement in 2005 and 2006. The Management Board of the Company regularly informs the public on the execution of an individual option via the stock exchange's electronic information system. In accordance with the resolution, the Management Board also published the opinion of an independent financial advisor on the justness of the acquisition of own shares from the point of view of the Company and shareholders. The resolution adopted by the General Meeting also defines the purposes for which the own shares will be used and the conditions under which the Management

Board may dispose of such shares, all of which was published in the stock exchange's electronic information system and in the Delo newspaper.

● Recommendations under items 1.2.6. to 1.2.9. – The Company has always encouraged its shareholders to actively exercise their rights, in particular their voting rights, through the organized collection of proxies. The persons authorized to collect proxies were generally certain members of the Management Board, a member of the Supervisory Board, a representative of the Employee Council, and a representative of the trade union. This was specified in the proxy sent to all shareholders of the Company entered in the share register on the last day of the month prior to the commencement of collection of proxies. In this way the existing shareholders were precisely informed of the names of proxies authorized to collect proxies, and were able to select one proxy from the list who will exercise their voting rights at general meetings of shareholders. The proxies were collected in accordance with the provisions of the Take-over Act.

The Company shall also provide for the organized collection of proxies in future, as our long-standing practice has proven this to be an important institution for directly informing shareholders on resolutions proposed to the General Meeting of Shareholders and the reasons for proposed resolutions, as well as the means of exercising shareholders' rights during decision-making at general meetings. For these reasons the Company will continue to finance the organized collection of proxies in future. The Company shall publish in the stock exchange's electronic information system a list of persons authorized for the organized collection of proxies in order to ensure broader informing of the interested public.

Chapter 1: Relationship between the Corporation, Shareholders and other Stakeholders

1.3.: General meeting of shareholders

● Recommendation under item 1.3.1. - The Company does not observe this recommendation in the part relating to the use of modern technology in order to ensure the active exercise of shareholders' voting rights. The Company supports this proposal, but calls attention to its technical and legally appropriate implementation. Such information support must ensure the conduction of a general meeting of shareholders according to relevant laws regulating electronic operations and electronic signing, which is a complex task. It would be necessary to resolve issues such as: when is a shareholder provided with an electronic signature, how does he/she apply for attendance at a general meeting, and how to determine a shareholder's actual presence at a general meeting. All of these questions should be answered before the introduction of so-called electronic voting. It will also be necessary to observe all the provisions of the Commercial Companies Act: how to enable the giving of counterproposals during the course of a general meeting, how to inform other shareholders on counterproposals, and when to carry out voting on such counterproposals. An important issue is the time frame in which a general meeting is conducted (several hours). Furthermore, it should be determined whether notary publics are willing to accept such method of conducting a general meeting due to the obligation of preparing the minutes of a general meeting in notarized form. Such rules will have to be laid down in the Articles of Association and in the Rules of Procedure for the Work of the General Meeting. It would be very sensible if someone in Slovenia began to work on this kind of project. It would also be necessary to assess what this method of exercising voting rights would mean for shareholders – natu-

ral persons, who represent approximately 1/3 of all shareholders. For the time being, this method of voting poses some difficulties, as modern information technology and its use is not as easy for us as it may seem. We have noticed that even the job of collecting written proxies for representation and voting at general meetings, which contain all resolutions and relevant reasons, is for many a very demanding task despite very clear instructions.

- Recommendation under item 1.3.8. - The Company observes this provision of the Code, but will include in the statement of acceptance of candidacy for membership in the Supervisory Board of the Company a provision stipulating that the candidate deems there to be no conflict of interest in connection with his/her candidacy, as specified in the Code.

- Recommendation under item 1.3.9. - The General Meeting of Shareholders does not elect the members of the Supervisory Board – representatives of capital individually, but on the basis of a list of candidates proposed by the Supervisory Board of the Company. In preparing the list of candidates, the Supervisory Board gives due consideration to the balanced composition of the Supervisory Board and to the appropriate qualifications and complementarity of professional and other experience of candidates.

- Recommendation under item 1.3.12. - Until now it has not been the Company's practice to specify in its published resolutions the percentage of voting shares with which individual resolutions were voted, or the percentage of votes for and against a resolution. The Company's published resolutions specified the percentage of voting shares present at the general meeting (quorum). The Company will observe this provision in its first next publication of resolutions of the General Meeting of Shareholders.

Chapter 2: Management Board 2.2. Composition

- Recommendation under item 2.2.1. - The areas of responsibility and duties of the members of the Management Board are allocated by the Supervisory Board in a relevant resolution upon each appointment of the Management Board based on the Company's requirements and in accordance with the goals to be fulfilled by the Management Board.

- Recommendation under items 2.3.2. and 2.3.3. - The Company considers the contents of principles embodied in the Code. The Supervisory Board assesses the work of the Management Board as a whole or on the basis of the Criteria for the Appraisal of Business Performance of the Gorenje Group, which were adopted for this purpose by the Supervisory Board of the Company.

Chapter 3: Supervisory Board 3.1. Duties and responsibilities

- Recommendation under item 3.1.7. - The Supervisory Board has established the practice of meeting without the presence of Management Board members only in cases when a candidate mandated to set up the Management Board is being appointed, up to the phase of obtaining the candidate's acceptance of the candidacy. The Supervisory Board decides on the appointment of Management Board members in the presence of the candidate (mandatary) for President of the Management Board, and on the enlargement of the Management Board in the presence of the Management Board. The Supervisory Board has assessed this practice to be a good instrument of trust between the candidate for president of the Management Board and the Management Board.

- Recommendation under item 3.1.10. - The Supervisory Board evaluates the performance of the Supervisory Board as a whole and not of individual members. This is because the Supervisory Board generally meets in its full composition and its members contribute to the integral performance of the Supervisory Board in accordance with their responsibilities, professional and other experience. In remunerations paid to the Supervisory Board from the Company's profit, the Supervisory Board considers the higher responsibilities of the president and two deputy presidents of the Supervisory Board.

Chapter 3: Supervisory Board 3.4. Remuneration, compensation and other benefits and ownership of company's shares

- Recommendation under item 3.4.1. - For their work the members of the Supervisory Board are entitled only to meeting attendance fees and the reimbursement of expenses. At present the Supervisory Board has not considered proposing the introduction of any other types of remuneration to the members of the Supervisory Board.

Chapter 7: Disclosure 7.1. Disclosing information and reporting Annual report and semi-annual report

- Recommendation under item 7.1.4. - The Company prepares annual and interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and unconsolidated financial statements in accordance with Slovene Accounting Standards (SAS). For the needs of stock exchange reporting, the Company also prepares unconsolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

- Recommendation under item 7.1.9. and section 7.5. Companies' web sites: Recommendation under item 7.5.1. - In all publications of its periodical, semi-annual and annual reports, the Company has disclosed the information contained in its prospectus. The Company will also prepare an updated prospectus, which will be published on the web pages of the Company.

Velenje, 11 April, 2006



Supervisory Board of Gorenje, d.d.
Chairman
Marko Volič, M.Sc.



Management Board of Gorenje, d.d.
President
Franjo Bobinac, MBA



2 Business report

2.1 Vision, mission and strategic objectives of the Gorenje Group

The vision of the Gorenje Group is to become the most original, design-oriented household appliances manufacturer in the world.

The mission of the Gorenje Group is to create original, technically perfect, superiorly designed, and user and environment friendly products for an enjoyable home. We are focused on enhancing consumer satisfaction while creating value for owners, employees and other interested parties in a socially responsible manner.

The Group companies will pursue the mission while observing the values of the Gorenje Group, i.e., Probity, Openness, Loyalty, Key to Creativity and Ambition (POLKA).

Strategic activities of the Gorenje Group

The Gorenje Group will carry out its business activities within the following three divisions:

- Household appliances division, the activity of which remains the core activity of the Gorenje Group (i.e., the manufacturing and selling of household appliances, the selling of household appliances of other manufacturers, the selling of supplementary electronic and small household appliances, and the manufacturing and selling of space heating technology, including tool and die making, mechanical engineering and industrial equipment manufacturing);
- Home interior division (i.e., the manufacturing and selling of kitchen and bathroom furniture, sanitary equipment and ceramic tiles); and
- Trade and services division (i.e., energy, environment protection, trade, engineering, agency services, tourism and real estate management).

The main strategic objectives of the Gorenje Group

The basic strategic objective of the Gorenje Group is a successful and balanced expansion of its business and a significant increase in its competitive capacity, which should guarantee its successful development in the future.

Economic targets set out in the strategic plan

Net sales revenues	EUR 1,250 million through organic growth and up to EUR 1,550 million through takeovers
Operating profit before depreciation and provisions	EUR 112 million or 9 percent of net sales revenues
Investments in fixed assets	EUR 40 to 50 million per year on average
Growth in productivity of labour	4.7 percent year-on-year on average
Growth in productivity	1 percent year-on-year on average of capital employed

In addition to this basic strategic objective, the Group companies will follow other strategic objectives in pursuing the Group's vision and mission:

- organic growth of sales revenues of all divisions resulting from higher average prices of already higher-priced products and from a balanced growth in sales volume;
- business growth resulting from takeovers of interesting household appliances manufacturers in Europe and from other forms of strategic partnerships across all divisions;
- increased value added resulting from an improved sales mix, sales and marketing activities, adequate R&D activities, internationalisation of production, increased productivity and cost optimisation;
- production start up and expansion outside Slovenia, in the Czech Republic, in Serbia and Montenegro, and in Russia or Ukraine, while still producing 3.0 million higher value-added products in Slovenia;
- a production volume of 4.3 million of large household appliances to be achieved by 2010, of which 3.0 million will be produced in Slovenia and 1.3 million outside Slovenia, with the sales volume amounting to some 4.7 to 5 million units on the account of the supplementary programme.

2.2 Economic conditions

World

- *After being strong in 2004, world economic growth slowed down in 2005 to 4.3 percent. It was mainly driven by Asian and US economies, which shall not change in the future. Undeveloped countries will enjoy a higher economic growth than developed countries but not sufficiently higher to reduce the gap between them. World economic growth in 2006 is likely to stay the same as in 2005, but there will be a slight increase in world trade.*
- *The dramatic growth in prices for ferrous and non-ferrous metals stopped in 2005, but only when prices were already at a significantly higher level than ever before. In 2006, they are expected to grow at a lower pace.*
- *Oil prices grew sharply in the summer, well above the expected level. The average price for oil in 2005 is estimated to have been at USD 55 per barrel. Prices are expected to drop slightly in 2006, but still remain high on average.*

European Union

- The euro area did not achieve the expected economic growth in early 2005, and thus probably achieved an only 1.3- percent annual economic growth. This is explainable by slow growth in domestic consumption. New member states, with the exception of the Czech Republic, also revised their spring forecasts downwards. The 2005 European Union economic growth forecast was therefore reduced from 2.0 to 1.5 percent.
- As regards 2006, expectations for the euro area remain in line with such developments. Analysts expect a higher, 1.7- percent economic growth mainly on the account of a favourable business climate in the USA and Asia, which should encourage exports to these areas. Economic growth across the entire European Union should be 1.9 percent in 2006. Oil prices still represent a risk, but their effect on economic growth seems smaller as attached to them in early forecasts.
- Inflation across the European Union is estimated to have been 2.2 percent in 2005 and to be 1.8 percent in 2006.
- The US dollar/euro rate is estimated to have been some 1.25 dollars per euro in 2005. The growing euro represented a growing pressure on raw material and energy prices expressed in Euro: they increased by over 24 percent as compared to less than a 10 percent increase in prices expressed in dollars.

Slovenia

- At the end of 2005, analysts revised their earlier economic growth forecasts from 3.8 to 3.9 percent. Economic growth forecast for 2006 remained unchanged at 4 percent.
- The average annual inflation rate in 2005 was 2.5 percent and should stay the same also in 2006.
- International trade grew fast in 2005, most notably in November. However, imports grew faster than exports, which further increased the trade deficit.
- Since the entry of Slovenia into ERM 2, the euro exchange rate has not differed significantly from the central parity rate. The EUR/SIT conversion rate will probably be determined in mid-2006.

Household appliances market

- The low growth in sales of household appliances continued also in 2005 across Europe, most notably in Central and Western Europe. Such low or even negative growth as compared to 2004 in certain largest markets was mainly the consequence of low consumer confidence and economic growth. According to current forecasts, no improvement in the general situation can be expected in the first half of 2006.
- According to the GfK Group, a market research company, sales of large household appliances in 13 West European markets grew by 2.3 percent in value terms and 3.7 percent in volume terms in 2004. This points to falling prices for household appliances in Europe, in particular for refrigerating and washing appliances.

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

- Sales of household appliances behaved very differently across markets. In Germany, which is one of the largest markets, sales continued their downward trend and were 3.4 percent below the 2004 level. Sales in Austria and the Netherlands behaved similarly. Contrary to these trends, sales grew in the Mediterranean region and grew significantly in Great Britain. All in all, situation in the new member states was positive, and sales grew also in other central and east European markets, most notably in Russia, Slovakia, Bulgaria and Romania, but fell in Poland and Hungary.
- In the first three quarters of 2005 prices continued to fall due to excess capacities of European manufacturers, increasingly aggressive marketing of Asian manufacturers and fierce competition among global retailers. All large manufacturers continued to increase their production capacities, in particular in markets in which they wanted to consolidate their positions and in markets with lower operation costs. Unfavourable developments in raw material and energy prices continued to push input prices higher.
- The Waste Electrical and Electronic Equipment (WEEE) Directive which, in the case of Slovenia, entered into force in August 2005, will increase manufacturers' costs because it requires from member states to recover and dispose of old household appliances. The actual costs to meet, as well as the scope of and timeframe for meeting the requirements of the WEEE Directive are still not clear, given that as regards this Directive, member states have different opinions, interpretations and approaches to transposition into national law.

- Manufacturers of household appliances are rationalising their operations: most notably, they are moving their production to east European and Asian markets, in particular to Russia, Poland, Romania and Bulgaria. Manufacturers are responding to the worsened business conditions by adapting to the changes, strengthening their marketing activities and focusing on eastern Europe. Currently, in the entire European household appliances market, in particular so in the refrigerating appliances market, Asian manufacturers are employing aggressive measures.
- Manufacturers and distributors of household appliances continue establishing strategic partnerships. The latter in particular are undergoing a process of centralisation of purchasing and distribution, so that now retailers are serviced from just a few central warehouses.

2.3 Sales and market position

In 2005, the Gorenje Group posted SIT 243,152.4 million (EUR 1,014.7 million) in consolidated net revenues,

up 12.4 percent compared to 2004 and 3.4 percent above the target value.

Net sales revenues by divisions (million SIT)

	2005	%	2004	%	05/04
Household appliances division	211,826	84.8	186,424	83.3	113.6
Home interior division	15,373	6.2	16,327	7.3	94.2
Trade and services division	22,576	9.0	21,156	9.4	106.7
Total net sales revenues	249,775	100.0	223,907	100.0	111.6
Inter-division sales	6,623		7,660		86.5
Consolidated net sales revenues	243,152		216,247		112.4

2.3.1 Sales of the household appliances division

SIT 211,825.7 million (EUR 883.9 million) or 84.8 percent of total Group revenues

In 2005, the household appliances division consolidated its position in European markets, to which it dedicates the majority of resources, as it enjoyed faster growth in value terms than in volume terms, despite the extremely unfavourable market conditions and negative economic growth in certain markets.

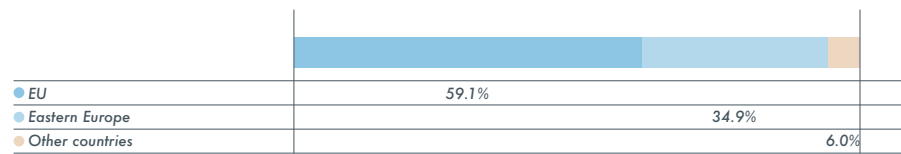
Sales of the refrigerating product class grew only slightly but still represented the majority of the division's sales. The division successfully launched a new generation of 600 mm wide refrigerating appliances, combined 2,000 mm high refrigerator-freezers »Pininfarina 2«, and liquid glass display cabinets. It also started regular production of prestigious appliances decorated with Swarovski crystals, and carried out further work on the later phases of the 600-mm wide appliance project.

Sales of the cooking product class showed the highest growth. This product class outperformed others also as regards the sales mix that favoured higher-priced products. In 2005, the division continued selling niche products, such as the newly-launched 300 mm wide glass ceramic hobs, glass ceramic induction hobs and »Pininfarina 2« appliances, and the revamped 500 mm and 600 mm wide cookers and built-in appliances.

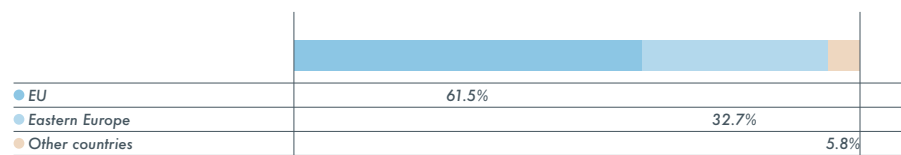
In January 2005, the Czech manufacturer of cooking appliances Mora Moravia became part of the Gorenje Group. In its first year as a Group company, the company not only exceeded its sales target but also improved the sales mix in favour of higher-priced products.

As regards the washing product class, a new generation of washing machines and dryers was launched in 2005. For this reason, unit volumes decreased, but at the same time the sales mix improved towards higher-priced products. Much effort was put into optimising value for money.

Sales by geographic regions in 2005



Sales by geographic regions in 2004



Sales of complementary products (i.e., products not manufactured in-house but complementing the basic three product classes) and supplementary products (i.e., electronic and small household appliances, vacuum cleaners and microwave ovens) continued their growth and exceeded the 2004 sales and the 2005 sales target. Both complementary and supplementary products nicely rounded off the offering of the household appliances division.

The Gorenje Tiki company achieved significant growth in sales of space heating technology in Ukraine and other east European markets, and maintained slight growth in south-east European markets and member states.

Sales of Gorenje Indop and Gorenje Orodjarna companies, which engage in industrial equipment and tool and die making, continued to be mainly to Group companies in 2005.

As regards sales by geographic regions, the parent company decreased sales of household appliances to member states by 2.4 per cent and increased sales to east European countries. This should shift the sales mix towards higher-priced products and eventually increase profits.

Central and Northern Europe

Household appliances markets in Central and Northern Europe continued to decline due to weak economic conditions, most notably in Germany, Austria, the Czech Republic, Poland and Denmark. One of the major problems faced in these markets is the downward pressure on prices as the largest brand manufacturers are entering the lower-priced segments and manufacturers from the Far East and Turkey are strengthening their presence.

Due to the above the 2005 sales targets were not achieved in the German and Austrian markets. Underachievement mainly existed in the segments reeling under price and competition pressure. Despite everything, sales in the German market were slightly above those made in 2004.

In Scandinavian and Baltic markets, the Group exceeded the 2004 sales and the 2005 sales target while, even more importantly, shifting the sales mix towards higher-priced products. The Group recorded the highest growth rates in Norway and Sweden, slightly lower growth rates in Finland and Baltic markets, and zero growth rates in Denmark.

Developments in the new member states markets (the Czech Republic, Slovakia, Hungary and Poland) were similarly unfavourable (although not quite so) as in the older member states markets. The Group nevertheless increased its sales while, even more importantly, improving the sales mix in favour of higher-priced products. In Slovakia and Hungary selling processes were optimised after the integration of the Mora Moravia company into the Group, which should yield long-term positive effects.

Despite unfavourable conditions for business in central and north European markets, the Group managed to maintain its market position in all segments served and, through intensive marketing activities, even increase considerably its sales in and share of the washing machines segment.

Western Europe and Slovenia

West European (France, Italy, Belgium, Spain, Greece and Great Britain) and Slovenian geographic regions achieved the 2005 sales target in volume and value terms, and were also above the 2004 levels. The Group achieved good sales in Western Europe despite the negative or very modest growth experienced by house appliances markets there. Such poor market conditions are attributable to the aggressive distribution strategies adopted by certain manufacturers when entering these markets, and putting a downward pressure on retail prices. The Group responded by reducing the sales of low-priced products and products with low profit margins, increasing the sales of products sold under its own brands, in particular the Gorenje brand, and incorporating new distribution channels.

Sales in Slovenia were above the 2005 sales target, mainly on the account of the successfully launched new generation of washing machines and dishwashers.

South-Eastern Europe and Overseas countries

In this region, sales grew faster in value terms than in volume terms and were above the 2005 value and volume sales targets.

In South-Eastern Europe (Croatia, Serbia and Montenegro, Bosnia and Herzegovina, Macedonia, Kosovo and Albania) competition became even fiercer as manufacturers continued their penetration of lower-priced segments. These markets were further negatively affected by the low purchasing power, high unemployment rate, new import duties (some of them) and high credit risk. This notwithstanding, the Gorenje Group maintained its leading position in the house appliances market, as it has an extremely strong and recognisable brand Gorenje.

The Group achieved high rates of growth in sales and substantially exceeded sales targets in Eastern Europe (Russia, Ukraine, Bulgaria and Kazakhstan) except in Bulgaria.

Sales were more than twice the planned sales target in Ukraine as a result of effective marketing activities, and were well above the planned sales targets also in Russia and Romania.

Sales in Overseas markets were above the 2005 value sales target. Sales of glass display cabinets in the USA grew most dynamically, while in the south-eastern Asia (Hong Kong, Korea and Thailand), the Group entered a niche for high-end European products.

In 2005, the Group focused on strengthening the Gorenje brand in all its markets by pursuing the newly defined brand vision that is included in the new strategic vision. According to this, the Gorenje brand will become the leading brand of household appliances in Europe, distinguished for its superior design.

Marketing

Among the most important brand-building activities was the launch of the new Gorenje Pininfarina products in Moscow, which are the ultimate in design. The event, which attracted much interest from business partners and the media, was only the introduction to intensive, pan-European marketing activities. One such subsequent event was the presentation at the in-house exhibition of the new refrigerator decorated with Swarovski crystals. This was one of the first products in line with the new original, fresh and creative approach to product development.

In addition to its core Gorenje brand, the Group dedicated resources also to building its newly acquired regional brand Mora.

The Group continued marketing its products also under the regional Körtling brand in Greece, Italy and Germany, as well as under the Sidex brand, but only lower-priced products that require minimal promotion expenses.

Sales under own brands remained a priority: in 2005, they accounted for 73 percent of total revenues from household appliances.

2.3.2 Sales of other divisions

Sales of the home interior division

SIT 15,373.0 million (EUR 64.2 million) or 6.2 percent of total Group revenues

In 2005, the home interior division did not exceed the 2004 sales or the 2005 sales target, which is mainly attributable to the decrease in sales in Austrian and German markets.

Kitchen furniture accounted for 43 percent of total division sales, the same as in 2004. The Group's strategy is to further increase this percentage.

The second most important product line was bathroom furniture and sanitary equipment with a 21 percent share of total division revenues. The division also substantially boosted sales of the ceramic tiles product line, despite fierce competition. The Gorenje Glin company, which produces furniture for living rooms and (children) bedrooms, as well as wardrobes, continued revamping its products and expanding the offering.

Geographically, sales generated in the European Union represented as much as 50 percent of total division sales. However, the furniture sector, while not seeing a significant increase in demand, it did see a significant increase in competition. For this reason, the Group's share of the European Union markets fell, but remained at 33 percent in Slovenia.

Sales generated in south-east European markets represented 17 percent of total division sales. The Group employed aggressive measures to increase its shares of all markets there, among which the Croatian market enjoyed the fastest growth of all.

Sales of the trade and services division

SIT 22,576.7 million (EUR 94.2 million) or 9.0 percent of total Group revenues

Companies falling within the energy and environment protection field tripled their sales in 2005. This growth is mainly attributable to the trading in and selling of electricity by the Istrabenz Gorenje and IG Prodaja companies.

The Kemis company and its subsidiaries contributed 7.7 percent to total division sales. The Kemis Zagreb reported the highest growth in sales revenues of all.

The most important company in the trade field, Gorenje GTI, successfully completed the 2005 financial year: it exceeded the 2004 sales and the 2005 sales target. Its activities comprised: sales of household appliances and supplementary products in Slovenia, but also sales of transport machinery, non-ferrous metals, chemicals, medical equipment, air conditioning equipment and heating equipment, as well as energy engineering services.

2.4 Purchasing

Throughout the last three years, raw material markets saw growth in demand, which happened after more than 20 years of stagnation. In 2005, prices were thus pushed still higher. The most important world input price indices again rose to record high levels in September, mainly reflecting rises in prices for strategic raw materials such as oil and basic metals.

2.4.1 Purchasing within the household appliances division

The Reuters CRB Commodity Index (a basket of 17 commodity futures) was up 22.5 percent against 2004, which was the highest increase after 1980. This was mainly attributable to oil and gas prices (up 42 percent), and zinc, copper and aluminium prices (up 30 percent). Metal prices began climbing rapidly in January 2004 and remained at record high levels in the first half of 2005. By December 2005, they then fell by 15 to 20 percent on average, but were still 25 percent above the January 2004 level.

The rising prices for oil and oil derivative products, and the unpredictability of oil markets affected significantly the input prices for raw materials purchased by manufacturers in petrochemicals and plastics industry. Their output prices and profits were below the 2004 level, as they were unable to pass on these higher input and transport prices to consumers, and also suffered from excess capacities, high inventory levels and lower European demand. The ICIS petrochemical index (IPEX), a basket of 12 essential petrochemical grades, was extremely volatile throughout 2005: the rise at the beginning of the year was followed by a decline until the index reached its lowest level for the year in July. Prices for the majority of grades

in the basket eventually rose again following the increase in demand, decrease in production and devastation wrought by hurricanes in the Mexican Gulf.

Under such difficult conditions in raw material markets, which, however, worsened business conditions for all manufacturers and did therefore not affect their individual competitive positions, the Gorenje Group managed the risk related to (raw) material prices by negotiating contracts throughout the year, and by responding quickly to changes. In 2005, it became clear that due to its lowest economic growth and thus low demand for raw materials, Europe was the right place to purchase raw materials, in particular in the light of the Group's closeness to its suppliers.

The negative effects of high prices were mitigated also through supply chain optimisation, a project started in 2004 and continued in 2005. In this context, the Group used the usual purchase price optimisation by groupings of materials, upgraded with a development-oriented optimisation by groupings of products. Under extremely unfavourable conditions in input and output markets, this continuous seeking for an optimal solution enabled the Group to keep material costs down despite higher (raw) material prices.

Within the above project of supply chain optimisation, new supply sources were also found in China and other Asian countries, and new raw material sources were found in Eastern Europe and Turkey. Important steps were made also to secure such sources in south-east European markets in view of the Group's intent to expand its production capacities there. The Group also continued developing its relationships with local suppliers and relied as much as possible on competitive domestic (raw) material suppliers.

2.4.2 Purchasing within other divisions

In addition to the household appliances division, those most exposed to supply market changes were the manufacturing companies within the home interior division. The division was involved in year-round negotiations with suppliers to standardise its purchasing processes: it imposed longer payment terms on suppliers, achieved more similar prices from different suppliers, reduced the number of suppliers and standardised strategic materials. The division was thus better prepared to defend itself from upward pressures on purchase prices, but still had to reconcile itself, toward year-end, to higher prices for particle boards, plastic films, polyester resins and varnishes.

The entire Group carried on with its activities started in 2004 aimed at optimising its supply chain and rationalising its purchasing processes across all its divisions.



2.5 Production

Production within this division fell into three main product classes of large household appliances, namely:

- the **refrigerating** product class which was manufactured by the parent company in its Velenje plant, Slovenia;
- the **washing** product class which was manufactured by the parent company in its Velenje plant, Slovenia; and
- the **cooking** product class which was manufactured by the parent company in its Velenje plant, Slovenia, and by the Mora Moravia company in the Czech Republic;

2.5.1 Production within the household appliances division

which were supplemented by three supporting product lines:

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

and additionally included the space heating product line manufactured by the Gorenje Tiki company in Ljubljana, Slovenia.

The majority of production activities was carried out by the parent Gorenje company. The Group acquired additional production capacities (amounting to 400,000 units of cooking appliances per year) after the take-over of the Czech manufacturer Mora Moravia at the beginning of 2005.

In 2005, the division focused on three key elements when trying to improve operations: optimisation of production and operation costs, continued implementation of the Six Sigma quality management concept, and preparations for production delocalisation. As regards cost optimisation, the division was mainly focused on costs of (raw) materials. Working groups were set up to optimise costs of various groups of materials (metal and plastic materials) and prepare relevant instructions, and eventually made significant savings. The division also substantially reduced excess material consumption (reject) by better managing materials handling and by optimising technical and technological processes.

The Six Sigma quality management concept was introduced into production processes that soon became more stable and effective. The improved product quality was one of the first effects of the introduction of Six Sigma, and should be followed by more positive effects in 2006 and 2007.

Within production optimisation, the Group paid much attention to planning of production delocalisation, i.e., its moving from Slovenia to lower-cost economies aimed at maintaining the Group's competitiveness. Delocalisation itself will be carried out under the 2006-2010 strategic plan using the »1+3« model, which means that all three main product classes will be manufactured at one location in Slovenia (in town Velenje) and three locations outside Slovenia. After the successful integration of the Czech manufacturer of cooking appliances, the Group prepared the technological, technical and economic basis for the construction of a manufacturing plant for refrigerating appliances in town Valjevo (Serbia and Montenegro). Ground should be broken on this construction project in March 2006.

No. of units of house appliances produced (2001-2005)

Units	2005	2004	2003	2002	2001
Slovenia	2,998,196	3,007,484	2,768,773	2,726,054	2,445,334
Czech Republic	388,090	/	/	/	/
Total	3,386,286	3,007,484	2,768,773	2,726,054	2,445,334
Average annual growth, Slovenia			+ 5.2 %		
Average annual growth, Total			+ 8.5 %		

Refrigerating product class

In March, the Group successfully started production of phase I products under the »New generation of 600 mm wide refrigerating appliances« product development project. It also continued developing phase II A NGC 600 products that should go into regular production in March 2006. At the same time, development of phase II B products started. These products will be phased into production over the period June 2006-March 2007. In September, the Group also started production of the combined 2,000 mm high refrigerator-freezers under the »Pininfarina 2« project. Liquid glass display cabinets were also developed for the American market and brought into production, and regular production of prestigious appliances decorated with Swarovski crystals started toward year-end.

The majority of production and technological activities were aimed at supporting the introduction of new products into production. Certain equipment segments had to be adjusted to these new products and some production bottlenecks had to be removed. Many activities were also aimed at improving energy efficiency of appliances and optimising costs.

The main activities in 2006 will be aimed at introducing the phase II A and B NGC 600 products into regular production, while the main challenge will be the relocation of one part of production (i.e., production of 500 mm wide refrigerators and freezers) to the new manufacturing location in town Valjevo, Serbia and Montenegro.

Washing product class

In 2005, the majority of old generation washing machines and dryers were replaced by new ones. The majority of activities were aimed at optimising quality and costs of the new generation appliances (the latter was achieved under the project entitled »Design to Cost« [DTC]). Production of A class slow spin speed washing machines started in the first half of 2005 to satisfy the demand coming from an important market segment. Otherwise, the majority of activities were aimed at enhancing productivity, completing the automation of production processes and removing production bottlenecks.

In 2006, regular production of input segments for washing machines should start. Given that production of old generation washing machines will be phased out by July 2006, production of input segments for dryers will start in that month as well. In the first quarter of 2006, regular production of 7 kg washing machines and dryers (PG 4 and PG 5) should also start.

Cooking product class

Development of niche cooking appliances continued in 2005. In the second half, the new glass ceramic (induction) hobs were brought into regular production. Redesign of 500 mm and 600 mm wide cookers and built-in appliances was also finished by year-end. In September, production was launched of a number of Pininfarina 2 products (such as built-in ovens,

free-standing cookers, and decorative boards for dishwashers and microwave ovens).

In 2006, appliances manufactured for the largest industrial buyer will be redesigned and, by year-end, new gas burners for gas and combined gas-electric cookers will be introduced.

Mekom mechanical components

Mekom mechanical components are manufactured in five plants located in Rogatec, Velenje (with plastics and galvanisation units), Bistrica ob Sotli and Šoštanj. In 2005, the plants successfully responded to development and production activities related to the three main product classes. In town Rogatec, they started production of the new tube on plate evaporator under the NGC 600 project, and transferred the production of pipe radiators to the Gorenje Tiki company.

The plastics unit (Plastika) reduced reject, increased production capacities and developed a new film required for the production of all three main product classes. The galvanisation unit (Galvana) started production of doors for the Pininfarina refrigerating appliances and (at year-end) of equipment for the production of evaporators required for the »top-mount« phase II A NGC 600 products. The plant in Bistrica ob Sotli started operations in August 2005 in premises of the Biterm subsidiary. They are responsible for production of gas ramps for cookers. In Šoštanj, they started production of pull-out rails for cooking appliances, and introduced robotised welding and brushing of rust-proof components for refrigerating appliances.

The biggest challenge in 2006 awaiting the Mekom programme will be to restructure the Biterm company and transfer some of its production activities to other plants.

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

The Gorenje I.P.C. subsidiary enjoys the status of a sheltered workshop. Its activities encompass development and production of cable circuits, assemblies and sub-assemblies, and printed materials and packaging required by the parent company.

Activities related to cable circuits and assemblies encompassed efforts to improve labour and machine productivity and product/service quality. Activities related to printed materials encompassed rationalisation of user manuals in terms of length and contents, and eventually resulted in a 30 percent decrease in costs. In 2005, the subsidiary also converted 2,900 tons of Styrofoam into packaging, up 33 percent from 2004.

In 2006, the subsidiary will continue its efforts to improve productivity and product/service quality. They also intend increasing Group and non-Group sales.

Biterm, d.o.o.

The subsidiary started organisational and programme restructuring in 2005, which shall enable accelerated replacement of thermostats with other product lines to be completed in the second half of 2006. One such line already brought into production are gas ramps for the Mekom programme.

Gorenje Tiki, d.o.o.

In the last couple of years, the subsidiary substantially revamped its technical and technological production equipment, and achieved an over 90 percent capacity utilisation in 2005 due to a significant increase in business.

The five main product families manufactured by this subsidiary are: ventilating fans, small, medium and large water heaters, and radiators. Production of radiators was transferred to it by the parent company in the second half of 2005.

As already mentioned, capacity utilisation was over 90 percent on average and over 98 percent in bottle-necks.

2.5.2 Production within other divisions

Production within the Home interior division

In 2005, the Gorenje Notranja oprema company took over the Gorenje Glin company and thus increased the effectiveness of operations across the entire division. Otherwise, it carried on with its technical and technological specialisation in kitchen furniture production. The kitchen furniture programme was expanded as the Velenje plant took over the entire production of the existing and new front panels for the plants in Freistadt, Austria, and Prague, the Czech Republic. Within the bathroom furniture programme, production of bathroom units was replaced with production of more high-end/high-priced modular bathroom furniture.

The Marles programme, which used to comprise only kitchen furniture, was expanded with the production of worktops for the entire division.

Ceramic tiles programme: production capacities were fully utilised, and production of various groups of ceramic tiles adapted to market demand. The Gorenje Glin company was responsible for the manufacturing of other furniture (living room, bedroom, entrance hall furniture), foot braces for bathrooms and laminated particle boards.

2.6 Development

Development activities of the Gorenje Group are driven by the necessity to understand the needs of customers and business partners alike, who in turn are affected by local and global social changes. Individuals, on the one side, are affected by phenomena such as their personality features, rising average age, use of electronic communications, and perceptions of brands and traditional values, such as the family.

Businesses, on the other side, are affected by vertical integrations between producers and distributors, improved product/service quality, Far East manufacturers strengthening their presence in Europe, and enlarged internal market.

Sustainable development of the entire Group in all aspects, economic, social and environmental, which drives an equally sustainable development of products, technologies and business processes, allows flexibility to respond to unforeseen events, and promotes confidence of customers and business partners alike.

Product development in 2005 with a special emphasis on household appliances resulted in superiorly designed, eco-compatible, energy saving and silent appliances incorporating also functional qualities. Moreover, their intelligent systems maximise energy savings, enhance functional qualities and allow linking into systems.

Alongside with product development, technologies, too, were developed to increase production automation and capacities. Material and labour costs were kept down by carefully selecting input materials and weighing up the costs and benefits of various solutions.

Business processes development and continuation of the information system renovation enabled the Gorenje Group to optimise its business development by doing the following:

- applying the simultaneous development model that shortened substantially product development time,
- continuing implementing the most demanding development and production control system within the Six Sigma project,
- applying the 20 Keys method in the continued assessment and improvement of its competitive position,
- running an innovation centre and

activating intellectual capital to construct new knowledge together with domestic and foreign R&D institutes,

- working in the European Committee of Manufacturers of Domestic Equipment (CECED) that represents the European manufacturers of household refrigerating appliances,
- upgrading the ISO 14001 environmental management standard, registering to the European Eco-Management and Audit Scheme (EMAS), and obtaining laboratory accreditation,
- continuing phasing in the integrated SAP business and information system across the Group.

2.6.1 Development within the household appliances division

The household appliances division applied the latest principles of product and technology development suitable for its line of business, and did the following:

- continued improving production processes by applying the 20 Keys method,
- informatised certain jobs and linked them into the central sales and production planning system,
- optimised technological processes and removed bottlenecks,
- optimised input (raw) material costs,
- continued implementing the Six Sigma quality management concept,
- prepared a new integrated product development model that consistently incorporates principles of simultaneous development and decision points,
- prepared the technological, technical and economic basis for production delocalisation.

Key achievements of the division in the field of product development were the following in 2005:

- completion of development and launching of the new generation of 600 mm wide refrigerating appliances (phase I),
- completion of development and launching of wine display cabinets and liquid glass drinks display cabinets,
- completion of development and launching of the Pininfarina 2 appliances,
- completion of development and launching of the Swarovski product line,
- continuation of development of the NGC 600 refrigerating appliances (phase II A/B),
- continuation of optimisation of energy efficiency of refrigerating appliances,
- completion of development and launching of the class A slow spin speed washing machines,
- completion of development and launching of the new glass ceramic (induction) hobs and revamped cookers and ovens,
- introduction of the new tube on plate evaporators (Mekom programme) required for the NGC 600 refrigerating appliances, which incorporate the latest technology,
- introduction of digital printing (Gorenje I.P.C.),
- revamping of small water heaters (Gorenje Tiki),
- complete redesign of large combined water heaters and heat pumps (Gorenje Tiki).

2.6.2 Development within other divisions

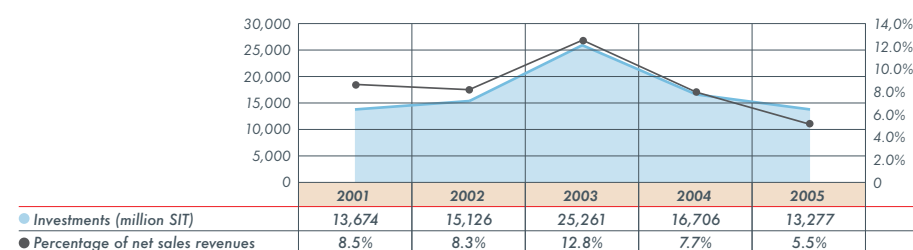
The home interior division dedicated the majority of its resources to the new Gorenje kitchens, and for the first time opted for a two-year implementation cycle. They substantially expanded their modern kitchens offering, introduced a new technology of front panel polishing, and for the first time offered high-gloss colours. Further, they successfully completed the two-year development cycle within the Marles kitchen project that resulted in a series of improvements. They started the standardisation of kitchen furniture packaging and of foot braces materials, as well as of foot braces and worktops production at individual locations. They also implemented an integrated kitchen furniture development system across the entire division.

2.7 Investments

2.7.1 Investments within the household appliances division

In 2005, the Gorenje Group invested SIT 13,277.3 altogether, of which SIT 11,628.3 million in tangible fixed assets and SIT 1,649.0 million in intangible fixed assets.

Investments within the household appliances division



In the period 2001-2005, SIT 84,044 million or EUR 363 million were invested altogether.

Investments in tangible and intangible assets by divisions:

million SIT	2005	2004
Household appliances division	12,464.9	15,554.7
Home interior division	411.6	432.3
Trade and services division	400.8	719.1
Total	13,277.3	16,706.1

As the table shows, the household appliances division invested the most of all divisions, SIT 12,464.9 million, of which SIT 8,877.1 million within the parent company.

Household appliances division (investments of SIT 12,464.9 million)

The most important investments in 2005 were:

- completion of certain projects launched in 2004 (activation of equipment required for the production of the new generation of 600 mm wide appliances, completion of redevelopment of the Šoštanj plant, relocation of the small-series production of mechanical components),
- equipment procurement under the »Pininfarina 2« product development project (cooking and refrigerating appliances),
- completion of development of the new generation of washing machines and dryers,
- completion of construction of Gorenje's flagship store, renovation of the head office's façade, and adaptation of premises housing the Mekom programme,
- start of renovation of the Split logistics distribution centre,
- completion of construction of a distribution centre in Bulgaria,
- acquisition of building land in Poland intended for a distribution centre,
- construction of a new warehouse (Gorenje Tiki).

2.7.2 Investments within other divisions

Home interior division (investments of SIT 411.6 million)

The majority of investments within this division (SIT 379.0 million) were made by the Gorenje Notranja oprema company to modernise the production equipment used for Gorenje and Marles kitchens. Within the ceramic tiles programme, the majority of funds were spent on trolleys. The Gorenje Glin company invested SIT 25.3 million, mainly in the infrastructure required for its independent operations (a compressor station and technical protection equipment). Investments of all other division companies amounted to SIT 7.2 million.

Trade and services division (investments of SIT 400.8 million)

The Gorenje Gostinstvo company invested SIT 112.6 million, of this the majority into a new food distribution centre that started operations in October 2005. The centre is adjacent to the refrigerating appliances plant, the central warehouse and the new flagship store. Being open to walk-in customers, the centre can become a provider of catering services. The Imobilia company invested SIT 67.1 million, the majority into business premises acquisition and renovation.

2.8 Quality management management

2.8.1 Quality management within the household appliances division

In 2005, the division focused its efforts on the renovation of product/service development processes. The division recognises that it is no exception to the rule that the development stage is decisive for a product's/service's quality. It therefore implemented a new project management system that allows it to achieve the set objectives and quality levels within the set timeframe and budget. To achieve its objectives, the division not only adheres to rules governing development processes, but is also able to use new knowledge of design. And it is the design effectiveness that is crucial to the cost-effectiveness of development, production and sales processes, as it defines a product's/service's cost and market position.

The division bases its entire quality management system on the ISO 9001 standard, which it continuously upgrades. In 2005, similarly as in previous years, the effectiveness of this system was assessed internally, but also externally, by suppliers and business partners alike. The division also passed an external re-certification assessment.

The year 2005 was marked by intensive training covering introducing and implementing the Six Sigma quality management concept. The first group of project mentors and a group of specialists acquired the required knowledge for running projects aimed at process improvement. The results of the first among such projects more than justified the costs related to the Six Sigma-related training and its implementation.

The division upgraded its quality management system with continuous improvement activities suggested by the 20 Keys method. This allowed the division to decrease inventories between different activities, shorten the time required for tools replacement, and improve product quality. The year 2005 was particularly successful as regards one of the 20 keys that promotes employee involvement through their useful suggestions for improvement. In 2005, the Czech Mora Moravia subsidiary started introducing the good practices system using the 20 Keys model.

2.8.2 Quality management within other divisions

Home interior division

The division managed quality across all of its programmes and activities, with a special emphasis on improving the quality of production and other business processes. Good results were achieved within the ceramic tiles and sanitary equipment programmes, and not so good results were achieved within the furniture programme. The division improved the quality of its products/services, as well as delivery and response times, which in turn improved customer relationships and satisfaction, and eventually the division's competitive advantage.

Trade and services division

In addition to the GTI company of Velenje, the Kemis company of Radomlje, too, has a quality management system in place. They are gradually upgrading the ISO 9001/2000 standard to ISO 14001 and OHSAS 18001 standards. Quality management with a special emphasis on security of operations is particularly important in the fields of energy engineering and environment protection that most affect the natural and social environment.

The Gorenje Group is aware that quality processes, products and services are the key to meeting rising customer expectations which, in turn, is crucial to its expansion possibilities and profitability. For the Gorenje Group, quality in operations means that business activities are carried out in an effective manner and thus perceived by buyers and other interested parties useful to them.

2.9 Information Technology

In 2005, the main activities of information technology were focused on the up-grade and optimisation of operation of the SAP business-information system in the parent company and on the expansion of subsidiaries of the Gorenje Group where the existing information systems were replaced by the SAP system.

In the companies within the Household Appliances Division the year 2005 marked the introduction of two important projects that rounded off the computer support to the basic business processes in a closed unit: the project aiming at the introduction of computer support to the development of new products and the project aiming at the introduction of human resource information system.

The first project, namely the project aiming at the introduction of computer support to the development of new products, is of essential importance for the parent production company that is very active in the field of development of new products. It namely introduces a system of computer support to the development of new products from their preliminary draft to mass production. Over 500 employees are involved in the development of new products and thus the meaning and size of this project are extremely large.

The second project that represented an extensive research project was the project aiming at the introduction of the human resource information system with a special emphasis on the organisational and human resource management. And these projects accomplished all the modules in the SAP business-information system, which enable comprehensive and integrated computer control of business processes.

The following activities are worth mentioning among other relevant activities in the area of information technology that significantly increased the efficiency or importantly regulated the information support to individual business processes of the parent company:

- development of the comprehensive range of tools for the support of process of business planning in the parent company in direct connection with the planning in subsidiaries of the Gorenje Group,
- optimisation of the SAP business-information system in all business processes with a special emphasis on the improvement of planning processes

and reduction in needed administrative activities,

- systematic up-grade of reporting systems for the needs of individual business areas and the parent company (the Gorenje Group) as a unit,
- development of new storing and production information systems,
- assurance of interface functioning to information sub-systems in the production that are not supported by the SAP system,
- development of a Web application with the purpose to connect contractual service organisations performing after sales services for the products of the Gorenje Group in the area of information,
- preparation of technical foundations for the information integration of the company Mora Moravia into the Gorenje Group.

Intensive introduction of the SAP system as the corporate information system was carried out into the subsidiaries of the Gorenje Group. The project ran simultaneously with the preparations for the introduction of the SAP system in the subsidiaries in Poland, Italy, France, Bulgaria and will be completed in 2006.

Development activities were performed in other divisions; they are related to the implementation of the project of operating cost optimisation that has been set up with the consulting company A.T. Kearney. The activities relating to the process and information centralisation of some basic business processes of the companies Gorenje Indop, Gorenje Orodjarna and Gorenje GTI within the parent company were undertaken in the second half of the year.

Those activities should be especially pointed out that transformed the area of information technology of the parent company to corporate information technology with key strategic projects of further information integration of subsidiaries of the Gorenje Group into a uniform information structure. The new organisation and the working method were put into force at the beginning of the year 2006.

2.10 Financial Management

The parent company has co-ordinated and pursued the basic principles of quality performance of financial management. These principles are based on the preparation and implementation of the uniform financial policy that defines the uniform operation method in the area of control of liabilities and receivables, financing and investing, financial risk management, co-operation with banks and insurance companies.

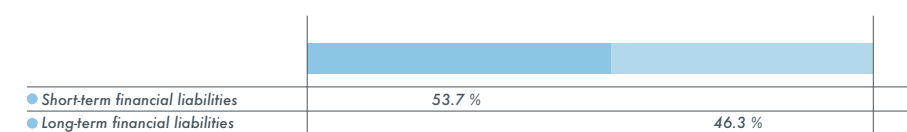
The parent company is responsible for the implementation of financial policy relating to banks and other financial institutions, for the control of processes of financial risk management and for the optimisation of cash management. The basic terms and conditions of financial operations are valid for all the companies in the Group, considering the characteristics and particularities of individual countries in which they operate.

The basic function of financial management is ensuring the liquidity of the Gorenje Group, which consequently enables uninterrupted operation of other business activities. In 2005, the Group's liquidity was ensured by efficient cash management, appropriate credit lines for short-term management of cash flows and systematic planning of expected cash flows at the Group's level.

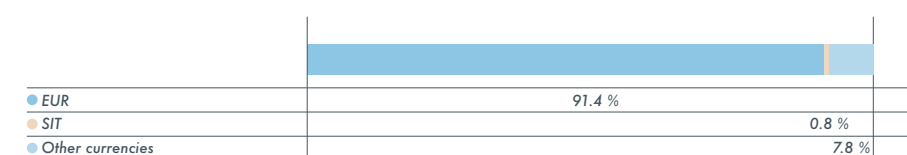
In 2005, the parent company strengthened its position also in financing of the Gorenje Group, especially in providing necessary financial sources under favourable conditions for all the Group's companies.

Due to a period of high investments and due to investments in the Group's working capital in 2005 the financial liabilities of the Group showed an increase of 5,368.7 million SIT. The Group ended the financial year 2005 with financial liabilities amounting to 62,215.2 million SIT; in terms of maturity they were divided into 53.7 % of short-term and 46.3 % of long-term liabilities. At the end of the year 2005 financial liabilities were divided by currency as follows: SIT (0.8 %), EUR (91.4 %) and other currencies (7.8 %).

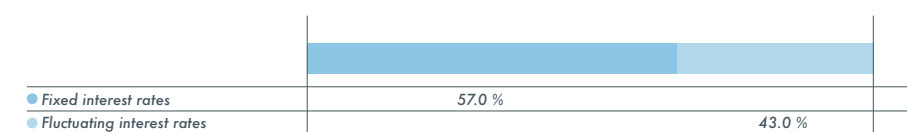
Structure of financial liabilities by maturity



Structure of financial liabilities by currency



Structure of financial liabilities by type of interest rate



2.11. Risk Management

In the process of financial risk management the Company continued to focus on credit risks, currency risks, interest rate risks and liquidity risks. In 2005, the centralisation of financial risk management was continued so that the major part of related activities was carried out by the parent company. In connection with the financial risk management the Group also controls the structure of financial liabilities relating to the type of interest rate. In view of favourable price levels during 2005 the Gorenje Group concluded interest rate swaps and increased the share of financial liabilities linked to the fixed interest rate to 57.0 % of total financial liabilities. The remaining interest rates were fluctuating, mostly linked to EURIBOR.

In the area of insurance the parent company concluded an international insurance programme for asset insurance, liability insurance and insurance of transport that regulates and optimises the insurance of the majority of companies in the Gorenje Group in 2005. The program is based on a contractual relation with the insurance companies Generali, d.d., and Triglav, d.d. The agreed terms and conditions of insurance for the year 2005 are valid from 1 January 2006 when the described method of insurance is put into force and is valid for all companies in the Gorenje Group that have joined the international insurance programme.

In 2005, the companies of the Gorenje Group made net long-term and short-term investments in the amount of 3.7 billion SIT; they mostly refer to the investments in own shares, shares and stakes, loans granted to business partners and receivables from received bills of exchange. In 2005 Gorenje, d.d. purchased 466,150 own shares from Slovenska odškodninska družba (the Slovene Indemnity Company) on the basis of the contract on the establishment of the sales and purchase option concluded on 21 June 2004. The shares amounted to a total of 2,985.8 million SIT which is a 3.821 % share in the capital of the company. Gorenje Notranja oprema, d.o.o., purchased shares in the amount of 181.0 million SIT and thus increased its ownership share in Probanka, d.d., to the total of 9.998 % share in the capital of the bank. When all suspensive conditions had been met, Gorenje, d.d., acquired 100 % ownership share in Mora Moravia, s.r.o., Czech manufacturer of cooking appliances, in January 2005.

In compliance with the strategy of focusing on the main activity of the Gorenje Group, i.e. on the production and sale of household appliances, Gorenje Beteiligungsgesellschaft mbH, Vienna, Austria concluded a contract for the sale of 70 % ownership share of G.A. Beteiligungs GmbH, Vienna, Austria in Hyundai in Zagreb and Belgrade. The activity of Hyundai is sale of passenger cars; the contract was concluded with the buyer Trdnjava Holding, d.d., Celje, Slovenia on 12 July 2005. .

The following three subcommittees function within the Risk Management Committee:

Subcommittee for business risks,	Subcommittee for financial risks and	Subcommittee for operating risks.
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The Gorenje Group identified the following relevant types of business risks:

Expansion of internationalisation in the Gorenje Group, especially in the production area, considerably influenced the growth of exposure to various forms of risks. Therefore special attention has been paid to risk management for several years. Systematic approach to risks management is thus of vital importance. Such approach is achieved in scope of the Risk Management Committee functioning at the level of the Gorenje Group since the end of 2004.

The main tasks, to which the Risk Management Committee of the Gorenje Group devoted its closest attention in 2005, were:

- identification of individual types of risks to which the Group is exposed,
- preparation of estimates of exposure to individual types of risks,

Business risks

- setting up of policies for managing individual risks,
- preparation of proposals for hedging against individual types of risks,
- implementation of measures for hedging against individual types of risks.

Individual subcommittees perform some basic activities necessary for the assurance that levels of exposure to various forms of risks are acceptable and thus expected, which is to improve reliability of achieving business targets set by the Gorenje Group.

Business Risk

Business risks are risks associated with the ability to ensure short-term and long-term generation of operating revenues, cost management (expense management), maintenance of asset value and control of operating and financial liabilities.

external risks
sales risks
purchase risks
product liability risks
investment risks
human resource risks
property loss risks

External risks influencing the operation of the Gorenje Group are mainly associated with political risks on certain markets of East and South-East Europe and with the changes in the macroeconomic conditions of operation on individual key markets. The Group's protection against external risks lies in diversified business activities and markets. The management board of the Gorenje Group has estimated that the exposure to such risks is moderate.

Sales risks are associated with the competitiveness of the Gorenje Group in selling products and services on individual markets. Sales risks involve risks of appropriate marketing strategy (brand name, competitiveness in terms of price and functionality of products), the risk of increasing negotiating power of big industrial buyers

and trade networks and the risk of quality of after-sales services. The Group reduces sales risks with appropriate marketing activities, by diversifying customers, diversifying products and services, with sustained development of new products and services, by ensuring that the largest possible share in sales is made under own brand names and by organising an appropriate network of after-sales services in all markets in which it operates. The management board of the Gorenje Group considers that the exposure to such risks is moderate.

Since the operation of the Gorenje Group largely depends on suppliers of raw materials, materials and services special attention is devoted to purchase risks; these risks are associated with the management of unexpected fluctuations in prices, quality and

terms of supply of input raw materials, other materials and services. The most important measures of limiting the exposure to the risks mentioned are long-term partnerships with key suppliers, acquisition of global, cost-effective purchasing sources, common development of products and processes, various deadlines referring to agreements about prices of individual raw materials and material, etc. Regardless of the measures mentioned the management board of the Gorenje Group has estimated that the exposure to purchase risk and especially to price risk is high due to the characteristics of key purchase markets.

In the group of product liability risks the Company is focused mainly on managing risks, which could result in irregular operation of our appliances on the market or in an extreme case, in mass failure or manufacturer liability. The Group reduces product liability risks by appropriate systems of developing and ensuring the quality during the production, sales and after-sales processes and by taking out insurance against product liability. A system of quality management has been established in accordance with the requirements of SIST EN ISO 9001/2000. By means of this system the following issues are discussed in great detail: supervision of processes, target management and monitoring of objectives and systematic approach to processes of constant improvements, technological equipment and modernisation of equipment. The measures adopted enable prolongation of time ensuring quality functioning of products (guarantee period). The management board of the Gorenje Group considers that the exposure to such risks is moderate.

Among investment risks special attention is paid to managing risks associated with the achievement of the planned economics of investments, by successful capitalisation of investments

in the development of new generations of products and by successful introduction of new technologies. This type of risks is reduced by appropriate economic planning, controlling the effects of investments and by the activities of constant increase in quality level of preparation and implementation of projects. The management board of the Gorenje Group considers that the exposure to such risks is moderate.

Motivated employees and their needed professional skills and wide work experience are the reason that special attention is paid to human resource risks, which include the risks associated with:

- consequences relating to the social dialogue with the employees,
- loss of key staff and
- shortage of professionally qualified staff.

In the area of social dialogue with the employees the Company endeavours to communicate well with the employees and the bodies, which represent them or their interests (workers' council and trade unions). Regular direct information is provided to the employees through the tools of internal communications. The exposure to the risks associated with eventual loss of key staff and the risk associated with eventual shortage of professionally qualified staff is reduced by the:

- implementation and development of the system of annual dialogues with associates,
- assurance and encouragement of constant education and training of the employees,
- measuring of organisational culture and climate in the Gorenje Group,
- strengthening of employees' social security by additional insurance schemes,
- care for safe and healthy work,
- appropriate remuneration systems and other measures.

In the Gorenje Group special attention is paid to the following key types of financial risks:

The management board of the Gorenje Group considers that the exposure to the human resource risks is low.

Property loss risks refer to the management of property and transport risks. The companies of the Gorenje

Group systematically transfer key property risks to insurance companies and thus reduce exposure to such risks. The management board of the Gorenje Group considers that the exposure to such risks is low.

Financial risks

credit risks
currency risks
interest rate risks
liquidity risks

In 2005, the Company pursued the adopted financial policy in managing financial risks. The financial policy includes the basis for efficient and systematic financial risk management. The objectives of the financial risk management process are:

- achievement of stability of operation and reduction of exposure to individual risks to an acceptable level,
- increase in the companies' value and influence on their credit rating,
- increase in financial revenues or decrease in financial expenses and
- elimination or reduction in the effects of extreme loss events.

At the Gorenje Group the exposure to individual types of financial risks and measures for the insurance against them are carried out and evaluated on the basis of impacts on cash flows. Appropriate measures in business, investment and financial areas are taken for the protection against financial risks during the normal course of activity.

In 2005, the credit risks including all risks associated with partners' (buyers') failure to fulfil contractual obligations resulting in decreased economic benefit for the Company were managed by the following groups of measures:

- insurance of the major part of operating receivables and commodity loans against commercial risks with Slovenska izvozna družba, d.d. (Slovene Export Company) and other insurance companies,
- additional insurance of risky trade receivables by taking out mortgages, bank guarantees and other insurance instruments,
- regular supervision of operation and financial position of all new and existing business partners and reduction in exposure to individual business partners,
- systematic and active collection of receivables.

In accordance with the measures relating to the insurance against credit risks the management board of the Gorenje Group considers that the exposure to these risks is moderate.

Due to its geographic diversification of operation the Gorenje Group is strongly exposed to currency risk, which can cause a decrease in economic benefits for the Company on account of fluctuating currencies. Those risks prevail among currency risks which are associated with business operations on the markets of Croatia, Serbia and Montenegro, Great Britain, Poland, Hungary and all the dollar markets. In all these mar-

kets the Company endeavours to reduce the long-term exposure by natural protection, namely by balancing sales with purchases, in short-term the Company is protected against currency risks by futures contracts, by short-term borrowing in local currency and to a minimum extent by other derivative financial instruments. Although the Gorenje Group, as a predominantly Europe-oriented company, has the highest net exposure in EUR, it is considered that after the entry into the ERM2 mechanism and due to consistent exchange rate policy of the Bank of Slovenia during the period until changeover to euro, the exposure is moderate and no measures will be taken to protect against it. In accordance with the measures taken for the insurance against exposure risks the management board of the Gorenje Group considers that the exposure to the currency risks is moderate.

In some recent years the Company has paid undivided attention also to interest rate risks, which may decrease the Company's economic benefit due to changed interest rates on the market. In line with the adopted financial policy and because of favourable interest rates due to the purchase of interest swaps during the year 2005 the share of liabilities with fixed interest rates increased in the structure of total financial liabilities. At the end of the year the Gorenje Group had 57.0% of its total financial liabilities with fixed interest rates, which practically coincides with its total long-term financial liabilities. In the accordance with the measures taken the management board of the Gorenje Group considers that the exposure to interest rate risks is low.

Liquidity risks include risks associated with the shortage of available financial funds and consequently the Company's inability to meet commitments associated with financial liabilities.

The risk of short-term liquidity of the Gorenje Group is considered low due to efficient cash management, appropriate credit lines for short-term management of cash flows, high level of financial flexibility and good access to favourable financial markets and sources.

The risk of long-term liquidity is considered low as a result of successful operation, efficient asset management, sustained capacity of generating cash flows from operating activities, conservative capital structure and high credit rating.

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

Operating risk

Operating risks refer to reduced economic benefits of the Gorenje Group arising from the possibilities of inadequate planning, performance and supervision of business processes and activities.

In connection with production risks close attention is directed to the management of the following risks:

- operation of key equipment including key machines, tools, production lines and substance processing units, etc.
- functioning of infrastructure including uninterrupted supply with energy sources, assurance of infrastructural suitability when handling substances hazardous to the environment, operation of the central clarification plant and
- inappropriate direct handling of hazardous substances.

Risks associated with the operation of key equipment and infrastructure are reduced by the performance of regular preventive maintenance inspections, setting up systems for fast elimination of failure, by technically qualified employees and other measures.

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

Operating risks

production risks
human resource risks
information system risks
legislation risks
project related risks
fire risks

Risks of inappropriate handling of hazardous substances are reduced by inclusion of employees in training relating to safe work with hazardous substances and other preventive organisational measures. The management board of the Gorenje Group considers that the exposure to production risks is moderate.

In the area of human resource risks the Company faces risks associated with eventual interruption of business processes due to major absenteeism from work. Especially in production, the exposure to such risks is tried to be reduced by systematic inclusion of employees in medical preventive programmes and consideration of principles of healthy and safe work. The management board of the Gorenje Group considers that the exposure to human resource risks is low.

Among the information system risks the risks relating to the assurance of quality application and present availability of hardware and software are important.

Impacts of these risks are managed by:

- gradual introduction of the uniform information system (SAP) into all the companies of the Household Appliances Division,
- by measures prepared in advance relating to individual kinds of disturbances in the operation of the local computer network, supporting servers, global communications and network connections within the system,

- planning of procedures for the action during eventual break-down of information support,
- regular maintenance of software and hardware, communications and network connections,
- control of changes in the development of information systems,
- adequate training of employees and other measures.

The management board of the Gorenje Group considers that the exposure to information system risks is moderate.

The management of risks associated with the introduction of Directive of the European Parliament about recycling of electronic and electrical equipment is especially emphasised in the area of legislation risks. Through national legal regulations the Directive mentioned imposes additional obligations on producers and distributors of electrical and electronic equipment. These obligations will influence the operation of the Gorenje Group in future. In order to be able to meet the legally prescribed obligations in a clear and cost-effective manner Gorenje has joined the founders of the company specialised in handling of waste electrical and electronic equipment - ZEOS, d.o.o., Slovenia. Regardless of the measures adopted, the management board of the Gorenje Group considers that the exposure to legislation risks, mainly the environmental ones, is high due to previous unclear issues relating to manners and consequences of harmonisation and implementation of legal regulations.

2.12 Generating Shareholder's Value

Due to the fact that project work is often applied to the Gorenje Group full attention is directed to project-related risks, especially in case of large-scope, and long-lasting projects when such risks may be related to their possible inadequate implementation. These risks are reduced by adequate project activities, determination of suitable formal procedures for their implementation and regular supervision of project activities. The management board of the Gorenje Group considers that the exposure to project-related risks is low.

Fire risks are reduced by regular estimates of fire exposure on the basis of which all buildings were equipped with active fire protection systems, supervision of implementation of fire-security measures is strict and employees were additionally trained in the area of fire protection, etc. The management board of the Gorenje Group considers that the exposure to fire risks is moderate.

Strategic map of risks in the Gorenje Group

Type of risk	Size of damage				Probability			
	Minor	Moderate	Great	Enormous	High	Moderate	Low	Very low
BUSINESS RISKS								
1.1 External risks								
1.2 Sales risks (risk of failed appearance on individual markets)								
1.3 Risks associated with the purchase of raw materials, materials and services								
1.4 Product risks								
1.5 Risks associated with obligatory changes due to changes in the legislation								
1.6 Investment risks								
1.7 Human resource & business risks								
1.8 Property loss risks								
FINANCIAL RISKS								
2.1 Credit risks								
2.2 Currency risks								
2.3 Interest rate risks								
2.4 Liquidity risks								
OPERATING RISKS								
3.1 Production risks								
3.2 Human resource & operating risks								
3.3 Risks associated with information system operation								
3.4 Legislation risks								
3.5 Project risks								
3.6 Fire risks								

The Articles of Association of Gorenje, d.d., do not contain provisions which would invalidate the proportional character of rights deriving from shares, such as rights of minority shareholders or limitation of voting rights. In 2005, the Company did not perform any activities which would cause changes in the share capital, in the nominal value per share or changes in rights deriving from shares; it did not issue any new shares either.

Gorenje, d.d., places great importance on the quality of communications with shareholders and other interested public. Due to this fact comprehensive interim reports and other information on the operation of Gorenje, d.d., and the Gorenje Group are regularly published. In 2005, quarterly consolidated financial statements of the Gorenje Group that were prepared in compliance with the International Financial Reporting Standards as well as the financial statements in compliance with the Slovene Accounting Standards for the parent company and the Gorenje Group were published.

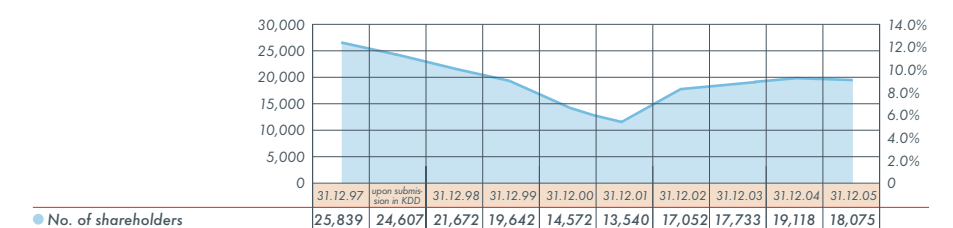
The annual report of Gorenje, d.d., and the Gorenje Group for the year 2004 received an award for the second best annual report and two first awards for the best annual report in

the financial year and for the best annual report in its financial section that is every year granted by the business newspaper Finance.

At the fourth annual conference on investor relations for the region of Central and Eastern Europe held in Vienna on 30 November 2005, Gorenje, d.d. was ranked first in the category best investor relations by a Slovenian company. The award was granted by the IR Magazine.

Number of Shareholders
As at 31 December 2005 Gorenje, d.d. had 18,075 shareholders. When compared to the balance as at 31 December 2004 (19,118 shareholders) the number of shareholders decreased by 1,043 or 5.5 %.

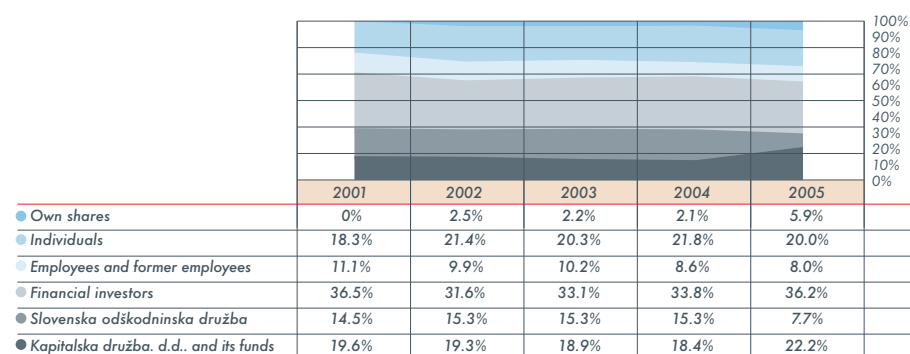
No. of shareholders



Changes in the Ownership Structure by Shareholders' Groups

As at 31 December 2005 the share of companies owned by the stated decreased over the balance as at 31 December 2004. It decreased from 33.7 % to 29.9 %, but the share of financial investors increased from 33.8 % to 36.2 %, these are mostly investment companies (from 21.0 % to 22.6 %). The share of banks and

insurance companies increased from 3.3 % to 3.7 %. The share of foreign owners increased from 1.63 % (198,931 shares) to 3.19 % (389,549 shares), of which 362,934 shares or a share of 2.97 % were available to foreign legal entities (177,846 shares as at 31 December 2004 or 1.46 %) and 26,615 shares or a share of 0.22 % were available to foreign individuals.



Ten Major Shareholders

As at 31 December 2005 the number of shares of ten major shareholders increased from 6,372,895 to 6,436,384 shares or by 63,489 shares when compared to 31 December 2004.

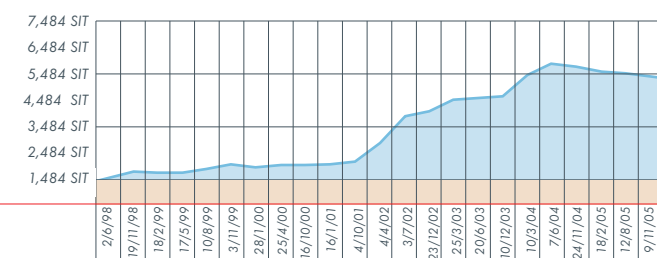
Shareholder / No. of shares	31 Dec. 2005	%
1. Kapitalska družba, d.d.	2,607,429	21.37
2. Slovenska odškodninska družba, d.d.	935,277	7.67
3. Gorenje, d.d. - own shares	717,192	5.88
4. KD Galileo, Mutual fund	485,133	3.98
5. VS Triglav Steber I	426,484	3.50
6. KD Rastko, Mutual fund	403,053	3.30
7. Maksima, 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
TOTAL 10 major shareholders	6,436,384	52.76

Price of GRVG Shares

Shares of Gorenje, d.d. were listed on the official market of the Ljubljana Stock Exchange of securities on 10 November 2000, but their trading had been carried out on the organised market since 1998. On 3 October 2005 the shares were ranked in the premier listing of the Ljubljana Stock Exchange. They are also included in the structure of the Slovene Stock Exchange Index SBI20. As at 31 December 2005 the uniform price

per share amounted to 5,421.45 SIT and was lower by 16 % (6,473.91 SIT) when compared to the last trading day in the year 2004. At the beginning of the year the price per share decreased constantly and on 14 April 2005 it dropped below 6,000 SIT and remained under this limit to the end of the year 2005. The index of shares of the Stock Exchange listing SBI20 showed a decrease of 6 % in 2005.

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



	2 June 98	31 dec. 98	31 Dec. 99	10 Nov. 00	31 Dec. 00	31 Dec. 01	31 Dec. 02	31 Dec. 03	31 Dec. 04	31 Dec. 05
1,484 SIT	1,794 SIT	2,350 SIT	1,978 SIT	2,155 SIT	2,221 SIT	4,407 SIT	4,918 SIT	6,474 SIT	5,421 SIT	
First trading day on the organised market			First trading day on Ljubljana Stock Exchange							

The shares kept the 4th position on the Ljubljana Stock Exchange with the turnover achieved in the amount of 12 billion SIT in the year 2005. Trading with GRVG shares reached a share of 8.6 % in the total turnover of the Ljubljana Stock Exchange (138.8 billion

SIT) and the share in the turnover of shares (96.7 billion SIT) amounted to 12.4%. At the end of the year 2005 the market capitalisation amounted to 79 billion SIT and the average daily market capitalisation amounted to 66.1 billion SIT.

Data	Value
Uniform share price as at 31 December 2004 (in SIT)	6,473.91
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 m)	11,998.27

Own Shares

As at 31 December 2005 the balance of own shares amounted to 717,192 or 5.8786 % (as at 31 December 2004 251,042 shares or 2.1 %).

On 19 January 2005 the Company exercised the option for the purchase of 233,075 of own shares (1.9105 % share in own capital) in accordance with the contract on the establishment and sales and purchase option concluded with Slovenska odškodninska družba, d.d. on 21 June 2004. The purchase price that equals the average market price of the GRVG share on the Ljubljana Stock Exchange from 1 July 2004 to 31 December 2004 amounted to 6,485.93 SIT per share in accordance with the contractual provisions.

On 5 July 2005 the Slovenian Indemnity Company (Slovenska odškodninska družba, d.d.) informed Gorenje, d.d., in accordance with the contract on establishment of the sales and purchase option that it wanted to exercise the option for the sale of 233,075 shares (1.9105 % in the capital) of Gorenje, d.d., at a sales price of 6,321.84 SIT. In accordance with the agreed upon conditions Gorenje, d.d., paid and acquired the shares on 4 August 2005. After the acquisition of the second package, the total number of own shares of Gorenje, d.d., amounted to 717,192 shares or it represented a 5.8786% share in the capital of the Company.

In accordance with the contract the sales price is determined by the increase in the basic price of 6,200.00 SIT per share by the net

profit of the company in 2004 per share and by the reduction in the dividend arising from the accumulated profit of the year 2004.

Number of shares owned by the supervisory board and management board of Gorenje, d.d.

Supervisory Board	14,800	0.1213%
Ivan ATELŠEK	8,258	0.0677%
Peter KOBAL	1,178	0.0097%
Drago KRENKER	2,098	0.0172%
Krešimir MARTINJAK	100	0.0008%
Bogdan PUŠNIK	1,250	0.0102%
Jurij SLEMENIK	1,511	0.0124%
Jože ZAGOŽEN	405	0.0033%
Management Board	12,154	0.0995%
Franjo BOBINAC	1,822	0.0149%
Žiga DEBELJAK	1,200	0.0098%
Drago BAHUN	7,932	0.0650%
Franc KOŠEC	1,200	0.0098%

The member of the management board Mirjana Dimc Perko started her term of office on 1 January 2006 and holds 83 shares (0.0007 %).

Dividend Policy and Dividend Pay-out

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.

Trading Ratios and Ratios of Share Profitability

	2001	2002	2003	2004	2005
No. of GRVG shares outstanding (in million SIT)	12.2	12.2	12.2	12.2	12.2
No. of own GRVG shares (31 Dec.)		307,105	264,540	251,042	717,192
No. of shareholders (31 Dec.)	13,540	17,052	17,733	19,118	18,075
Turnover (in million SIT)	6,416	17,919	8,914	11,220	11,998
Average market capitalisation (in million SIT)	26,266	42,102	53,617	76,614	70,868
Value turnover (turnover/average market capitalisation)	0.25	0.43	0.17	0.15	0.17
Book value of share (in SIT) (capital of the parent company - reserves for own shares) / (number of shares - number of own shares)	3,939	4,497	4,793	5,141	5,358
Market value per share (31 Dec.)	2,221	4,407	4,918	6,474	5,421
Market to book value Ratio of GRVG share	0.56	0.98	1.03	1.26	1.17
Yield of GRVG share:					
Capital gain	3.1%	98.4%	12.0%	32.0%	- 16.2%
Dividend yield	3.2%	1.8%	2.2%	1.5%	1.8%
Total yield of GRVG share	6.3%	100.2%	14.2%	33.5%	- 14.4%
Dividend per share (in SIT)	70	80	95	100	100
Earnings per share EPS (in SIT) (net profit of the parent company / (no. of issued shares - own shares))	274.1	328.5	400.6	226.5	257.3

Scheduled Periodical Releases for the year 2006

Type of Release	Anticipated release date
Summary of non-audited accounting statements of the Gorenje, d.d., and the Gorenje Group for the year 2005	Friday, 24.2.2006
Summary of Annual Report of the Gorenje, d.d., and the Gorenje Group for the year 2005 Annual Report of the Gorenje, d.d., and the Gorenje Group for the year 2005, according to IFRS	Friday, 11.4.2006
Summary of the Business Report of the Gorenje, d.d., and the Gorenje Group for the period January - March 2006	Friday, 12.5.2006
Call of the 9th Regular Assembly Meeting of the Gorenje, d.d.	Wednesday, 17.5.2006
Resolution of the 9th Regular Assembly Meeting of the Gorenje, d.d.	Thursday, 22.6.2006
Summary of the Business Report of the Gorenje, d.d., and the Gorenje Group for the period January - June 2006	Thursday, 27.7.2006
Summary of the Business Report of the Gorenje, d.d., and the Gorenje Group for the period January - September 2006	Friday, 27.10.2006
Summary of business operations assessment for the year 2006 and Business Plan 2007	Monday, 18.12.2006

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

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2.13 Plans and Conditions of Operation in the Year 2006

The planned operation in the new financial year is based on the analysis of events and characteristics of the current financial year under consideration of the expected conditions of operation, but mainly on the basis of strategic orientation and expectations of owners and other partners of the Company.

Conditions of Operation

The preparation of the business plan for the year 2006 was extremely difficult, since relevant changes occurred in the economic environment in the year 2005 that will probably continue also in the year 2006, and their scope is difficult to estimate reliably due to high level of uncertainty. In accordance with the estimate of analysts the conditions of operation will not improve significantly in the year 2006. Prices of strategic raw materials still represent considerable uncertainty, mainly the prices of steel sheet, other metals, plastic materials and components made of these raw materials. The foreseen increase in cost has been considered in the economic plan; at present the increase can be estimated in relation to trends expected on purchase markets. Nevertheless, it should be pointed out that reliability of these estimates of circumstances is relatively low. Another relevant factor influencing the achievement of the business results planned for the year 2006 is enforcement of the Directive on recycling of electrical and electronic equipment (OEEQ) that was put into force in Slovenia in August 2005. The Directive obliges producers of electronic and electrical equipment to recycle products and thus it incurs significant additional cost of operation. The influences and effects of the introduction and implementation of the Directive cannot be reliably measured due to lack of clarity in national legislations in the countries where the Company operates and relating to the actual beginning of validity of the directive and methods of its implementation. The described circumstances of operation in the year 2005 and their estimate for the year 2006 will require implementation of the following measures for the assurance of efficient economics of operation:

- assurance of quality growth of sales and increase in its profitability in case

of balanced utilisation of total production capacities and upon the achievement of highest possible integral contribution for the coverage,

- continuation of the development of new products and services that will enable better market competitiveness, ranking of products in higher price-brackets, generation of higher added value and thus better business results, simultaneous search for technical & technological possibilities for the reduction in production costs and distribution costs of existing products,
- continuation of optimisation of the supply chain and search for alternative or (and) new purchasing sources that will ensure price competitiveness of our products,
- assurance of productivity and efficient performance of production activities with even utilisation of production capacities over the complete financial year and assurance of economic and cost-efficient production,
- continuation of internationalisation of production capacities (implementation of the Valjevo project for the production of cooling & freezing appliances and continuation of the preparation of the Russian project for the production of washing machines and tumble driers), which will bring the advantages of local producers, enable optimisation of taxes and customs, reduce labour costs and enable increase in the supply from these areas,
- in-depth rationalisation of organisation of logistic, sales and after-sales activities of the Gorenje Group and the increase in efficiency of supporting functions in all its segments,
- selective realisation of new investments and their consistent limitation in the scope planned; when investing the priority will be mainly given to the investments in new products and markets,
- increase in efficiency of working capital management, mainly by receivables and inventories since the scope of working capital significantly influ-

ences the borrowing level and consequently the cost of financing of the Gorenje Group,

- assurance of efficient management of all types of risks to which the Company is exposed due to high level of changeability in the business environment, with the emphasis on credit (payment) risks, especially on risky and less liquid markets.

Business Plan of the Gorenje Group

The companies within the Gorenje Group have planned that the sales of products and services will generate 243,971.2 million SIT of consolidated

net sales revenues in the year 2006, which is an increase of 818.8 million SIT (0.3 %) over the year 2005. The budgeted sales are not completely comparable to the sales made in the year 2005 due to the sale of both Hyundai companies in July 2005. Under consideration of comparable data the projected sales of the Group was higher by 7,026.6 million SIT or 3.0 %.

In order to be able to compare data of the year 2006 with the data of the year 2005 the sale of Hyundai companies sold in 2005 was eliminated from net sales revenues.

Calculation of comparable data relating to changes in net sales revenues and gross operating yield (in million SIT)

Comparison	2005	Plan 2006	2006/2005
Net sales revenues	236,944.6	243,971.2	103.0 %
Gross operating yield	243,759.9	247,931.0	101.7 %

In compliance with the business organisation of the Group the operation of the companies within the Gorenje Group will be joined in three divisions:

- Household appliances division,
- Home interior division,
- Trade and services division.

Consolidated net revenues by divisions (in million SIT)

Division	Achieved 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%
Total revenues of divisions	249,775.4	100.0%	250,947.1	100.0%	100.5%
Sales among divisions	-6,623.0		-6,975.9		105.3%
Consolidated net revenues of the Group	243,152.4		243,971.2		100.3%

Summary

Projected results of operation of the Gorenje Group for the year 2006 comply with the adopted strategic orientation and objectives of the Gorenje Group. With their implementation the Group will contribute to further growth in 2006 and long-term achievement of strategic objectives; it will increase the level of competitiveness and thus increase the ability to meet its obligations to all partners in long-term as a

socially accountable company. Regardless of the difficult circumstances of operation the Company believes that in spite of the challenges that the following year will bring, it will implement the tasks set and achieve the planned business objectives of the following year with the ambitious and target-oriented operation. Thus, it will mainly contribute to the implementation of long-term strategic orientation of the Gorenje Group.



3 Report on social responsibility

3.1 Responsibility to the Employees

Number of Employees and the Level of Education

At the end of the year 2005 the Group employed 10,509 staff, which is an increase of 941 (9.8 %) over the end of the year 2004. The number of

employees increased significantly due to the integration of Mora Moravia, s.r.o., into the Group (935 employees). Without considering the company Mora Moravia, s.r.o., the level of staff would remain at the level of the year 2004.

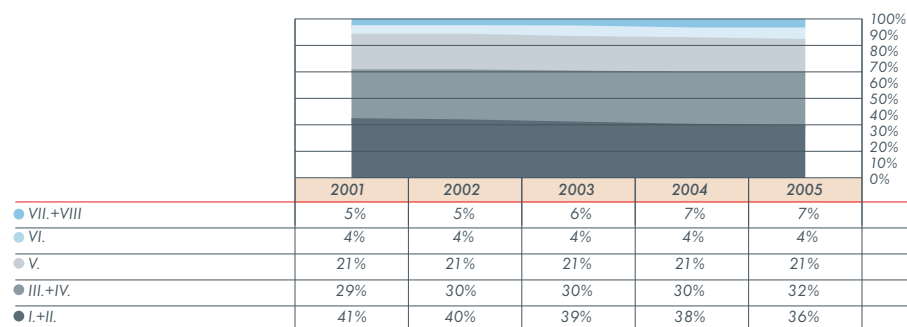
Number of employees by divisions

	As at 31 December		Average	
	2005	2004	2005	2004
Household appliances division	8,921	7,900	8,867	7,836
Home interior division	1,166	1,215	1,192	1,227
Trade and services division	422	453	433	440
Total	10,509	9,568	10,492	9,503

Level of professional education as at 31 December

	2005	2004
I.	3,243	3,082
II.	541	558
III.	538	316
IV.	2,792	2,551
V.	2,275	2,053
VI.	411	384
VII.	651	573
VIII.	58	51
Total	10,509	9,568

Changes in the level of education



Concern for Education and Training of Employees

When accepting the challenges of the global environment where changes are the only permanent factor, the Group searches for answers to key questions how to develop new abilities of the employees that the companies

within the Group need for the success at present and in future. It looks also for methods how to apply the existing, mostly human abilities to the best extent possible, since they have become an increasingly important area of diversification in relations to the environment of Company's operation.

Due to the facts described and the orientation of the corporate culture in the Gorenje Group the training activities have been greatly encouraged as well as personal progress of employees. Thus, discovery and acquisition of those key abilities of the employees is made possible that strongly support the implementation of strategic objectives of the Gorenje Group

Training and education, an increase in the formal level of education reflect the Company's close and significant relation to its employees. In spite of the size of the parent company and the Gorenje Group special attention is devoted to each employee. The employment policy, training and education policy are transferred also to subsidiaries and representative offices in Slovenia and abroad. Growth and long-term balanced operation of the Gorenje Group are ensured to all employees, regardless of the national environment of Company's operation, as well as suitable conditions for their professional and personal development, education and training.

In 2005, 7,579 employees took part in training in the parent company and they received a total of 98,331 train-

ing hours in courses, seminars, conventions and during on-the-job training. The majority of training courses is organised outside working time and implemented in the Company. Topical issues are discussed and presented to a large group of users and special care is taken when new knowledge is to be introduced and transferred to the largest group possible. When managing and transferring knowledge within the Gorenje Group the interdisciplinary approach is applied and in this way the acquisition of key work abilities of the employees is accelerated.

Gorenje, d.d., as the co-founder of the International after-graduate school of Jožef Stefan involves experts and attendees in the performance of programmes for after-graduate studies to become a M.Sc. or a Ph.D.

Criteria of successful training and education- functional education and training of employees (for the parent company)

No. of employees	5,630
(Annual) number of employees included in further education and training	4,587
Average number of hours per employee, included in further education and training	21.4
Share of employees, included in further education and training	81.5%
Annual number of hours of further education and training	98,331
Average number of hours of further education and training per employee	17.5
Average number of hours of further education and training of top management and executive officers	100
Annual number of all participants in further education and training	7,579
Average number of hours of further education and training per participant	13.0

Types of employees trainings

● Professional training	23.3%
● Computer and information science	22.2%
● Languages	8.5%
● Functional efficiency in management	24.1%
● Functional efficiency in communication	0.6%
● Functional efficiency in occupational health	12.7%
● Functional efficiency in quality treatment of the environment	8.5%

93.4 % of total training and further education was organised within the Gorenje Group in the premises of the Company. 47.5 % of programmes are subject to copyright law of the Company's associates. In this way care is taken for the transfer of knowledge within the Gorenje Group and reduction of cost of organisation and implementation of training.

Challenges of constant and important changing in economic, political, social and natural environment put the companies in a permanent position of testing their ability of successful adjustment and preparation for new changes.

Granting scholarships is an important source of acquiring human resources.

Concern for Young and Promising Staff

Every year up to thirty new scholarships are granted on the basis of planned selection. By appropriate scholarship policy care is taken for inflow of human resources, mainly from deficient professions, and the investment in their acquisition of formal education yields high interest when they are employed in Gorenje. There were 30 students with scholarships at the fifth level of vocational education in 2005, and there were 97 students at the level of university studies; the share of students of deficient, mostly technical studies reached 82.6 %.

The Gorenje Group has successfully co-operated with various educational institutions in the local and wide environment as well as with those at the state level. In scope of promotion and knowing of various professions Gorenje hosted pupils from primary schools, students of secondary schools from all over Slovenia and from abroad. In scope of its operation the Gorenje training centre participated in various training and presentation projects about individual professions. These programmes were implemented by the then Ministry of High Education, Science and Technology and the Ministry of Labour and Social Affairs of the Republic of Slovenia. The Centre participated also in the preparation of European qualification framework for the determination of professional standards of member countries in the European Union.

Development of Human Resources

The main function of the human resource development is to establish individual's advantages, wishes, ambitions and to develop them in accordance with the objectives of an individual as well as to harmonise them with the objectives of Gorenje. The basic tool of human resource development and strengthening of corporate

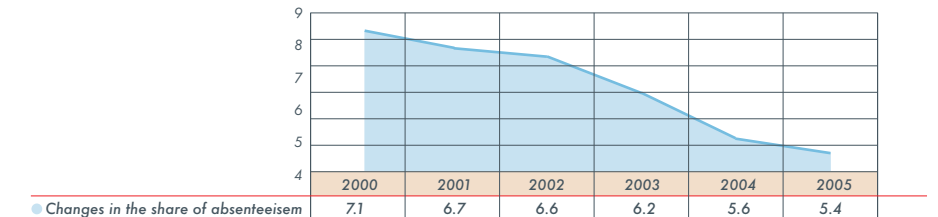
culture in the Gorenje Group is the internal program of further education and training of promising staff named the Manager Academy that has become a part of traditional operation in the Gorenje Group. The programme is intended for the development of promising employees who are assessed to have potential to achieve quality required by the top management and leading positions in individual companies. In 2005, the training of 25 participants of 17th generation of Manager Academy was concluded by the presentation of business plans.

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

The assessment process has become a part of accepted practice in Gorenje. In 2005, the use of the assessment process was improved and strengthened by a detailed determination of assessment procedures, mainly those for key work places. Its use will be further developed and strengthened also in future, mostly for optimal utilisation of abilities and creative potential of employees and for creation of better, stimulative working environment for personal and professional development of an individual.

Fundamental virtues of corporate culture in the Gorenje Group are based on the professional and personal development of the employees, with a special emphasis on future employees or young promising staff.

Changes in the share of absenteeism in the period 2000 - 2005



Measuring of Employees' Satisfaction

The primary purpose of performing measurements of employees' satisfaction is the establishment of satisfaction by working conditions and relations on a work place. The objective of measuring is to improve organisational climate by actions based on the results of questionnaires and on the improvement of working environment where the Company would have (very) satisfied and motivated and thus very efficient and successful employees.

In 2005, measurement of working conditions and relations in all production programmes of the parent company and in Mora Moravia s.r.o., Czech Republic, was carried out. On the basis of the results obtained action plans were drawn up and monitoring of the activities relating to the improvement of the organisational climate in all environments was defined according to the system.

The results of measurements carried out in 2005 showed an improvement on almost all areas. The majority of interviewees are satisfied with their work. They face most problems in (fast) pace of work and its changes, in the method of work organisation in a limited work space and poor climate conditions. They are slightly more satisfied with informing than in the previous year, but they mostly miss timely information about the changes in a work place. In mutual relations to superiors, where significant improvements were observed when compared

to the results of the last year, they wish more attention and understanding of the superiors. They would like to be noticed, taken into account and praised and they wish superiors had equal relations to them all.

Appropriate corrective activities based on the results were prepared and implemented in all production programmes. Primary, the activities for the improvement of working and climate conditions were considered. They were followed by careful selection of heads, their constant training, and introduction of annual dialogues also in the production. Of vital importance are also the establishment of a uniform system of training of new employees, care for presentation of accurate and timely information and informing of employees about the results of measurements and activities planned.

Healthcare for Employees

Health is definitely one of the most important values in a life of an individual, which is of extreme importance due to its influence on the efficiency of an employee, the parent company and the Gorenje Group as a unit.

In scope of the project with the working title "Healthcare for employees" the factors that have poor influence on the health of the employees were eliminated from the working environment. These eliminations were carried out on the basis of measures and activities such as first-aid clinic, performance of health education programme, presentation of a healthy way of life, direct

co-operation with doctors, treatment of employees with reduced working ability, assistance in troubles of psychical character, visits at home, individual discussions.

These activities were intended for the maintenance, promotion of better health of the employees, improvement of working conditions as well as encouragement of the responsibility of the employees for their health. Thus, the quality of their life and their working abilities increased. A working group for the management of absenteeism (due to sickness) played an important role in the performance of some tasks; this group co-ordinated the activities relating to the reduction of employee absenteeism among the programmes, proposed, reported, transferred experience, etc.

Generally, the results showed a lower level of absenteeism due to sickness and indirectly greater loyalty and better mutual relations among the employees. These effects - human and economic - have a positive influence on productivity and business results of the parent company and the Gorenje Group.

Care for Occupational Health and Safety

The year 2005 was marked by an extremely decreasing trend in the number of occupational accidents. Favourable trends were a consequence of system approach to their prevention in the last five years, mainly

Care for Occupational Health and Safety

	2001	2002	2003	2004	2005
No. of injuries	287	301	270	291	238
No. of injuries per 1 million of hours worked (P)	33	34	30	31	25
No. of lost days per 1 million of hours worked (R)	745	813	642	678	535

in constant training of the employees, implementation of the quality system of 20 keys, implementation of health-preventive programmes and the programme of safety measures arising from the risk assessment.

In the parent company and other companies in the Gorenje Group the programmes for the improvement of safe and healthy work were carried out; in accordance with the assessment they are considered a permanent task. In 2005, the most important measures were carried out in the area of noise reduction in the raw material plant of the PPA programme where the level of noise decreased by 4 db/A. The procedure of housing transfer was automated in scope of the PPA programme, which represents great progress in reduction of physical burdening of workers. Programmes of safety measures were carried out on all areas of work in the Group that did not demand large funds, but they significantly contributed to the creation and development of a working environment pleasant to the employees.

Last year, Gorenje accelerated the activities relating to the obtaining of the certificate for the Occupational Health and Safety (OHSAS 18001); it is estimated that the conditions for the issue of the certificate will be fulfilled in the first half of the year 2006.

Strengthening of Employees' Security by Additional Insurance Schemes

The companies of the Gorenje Group belong to such companies that ensure high level of social security to their

employees. An important aspect of assurance and increase in social security of the employees is also additional optional collective pension insurance. The orientation of the Gorenje Group related to additional insurance is to create conditions for adequate social security and to help co-financing those employees who want to do something for their own social security.

Additional pension insurance scheme is regulated on the basis of the umbrella act with the party carrying out this insurance. Gorenje co-finances the payment of the premium to a great extent. A share of co-financing is higher for the employees with lower salaries. Almost 70 % of employees are included in the optional additional pension insurance. Gorenje co-finances also the payment of the premium for additional optional health insurance to the employees. Over 80 % of the employees are included in this insurance scheme. Thus, a higher level of social security is ensured to the employees.

Internal Communications

In 2005, forty-seven volumes of the (informative) bulletin Črno na belem (Black on white) and of E-glasilo (E-bulletin) as well as seven volumes of the journal Pika na G (Point on G) were issued. Every year a group of journalists grants an award "Zlato pero" (Golden pen) to companies and institutions for their internal journals. As in all previous years the journal Pika na G was again among the best and awarded in 2005. But such awards do not mean a lot, if a journal is not read by those it is intended to: employees, business partners, owners,

etc. In accordance with the results of questionnaires collected by the human resource department the employees of Gorenje are satisfied with informing through internal bulletins and Pika na G is praised also by subscribers beyond Gorenje.

It is important that this year was the fortieth anniversary of publishing Informator or bulletin Črno na belem and the tenth anniversary of publishing the magazine Pika na G.

Internal bulletins are one of the tools for the achievement of objectives of the Company, such as close relations among the management and the employees and only among the employees. They increase the feeling of loyalty to the organisation, increase motivation, responsibility, initiative spirit, innovativeness of the employees, encourage employees to achieve the planned objectives of the Company, establish and maintain strong Company's own corporate culture, strengthen team work, increase and maintain internal credibility of the management, strengthen abilities relating to the adjustment of uncertain external environment and finally, increase the competitiveness of the Company.

An internal bulletin offers numerous possibilities for presentation of the areas of work, operation and personal professional enforcement of the employees. The more varied the contents, and the more different the bulletins are, the more will be contributed to the achievement of the objectives of the parent company and the Gorenje Group. And finally it still holds true that whatever is not written in the media, it has not happened.

Safety of users of Gorenje products is the main and fundamental principle that all product manufactured in Gorenje fulfil.

3.2 Responsibility to Users of Products and Services

Assurance of Product Safety

Through their national technical committees technical workers of Gorenje follow the international and national standards in the area of safety of electrical household appliances, similar appliances and gas devices as well as standards in the area of electro-magnetic compatibility.

New products are checked by esteemed foreign and Slovene institutions with international reputation before they are launched into the market. The institutions issue appropriate reports about testing and certificates. Safety of each product is checked already during the production and then in special licensed and well-equipped laboratories when the production has been completed.

Assurance of Environmentally Friendly Products and Services

Nowadays, when protection of the environment has become a social priority, it is clear and necessary to carry out and manufacture the production and its effects, i.e. its products and services, in a manner friendly to the environment and users.

The production of products that ensures low consumption of energy, low consumption of essential elements and low emission of hazardous substances Gorenje contributes to the preservation of clean environment and thus to the improvement of life conditions.

Meeting of Guarantee and Service Obligations

When a product is sold or repairs performed Gorenje obliges to ensure repair services to a buyer in the period of legal obligation (guarantee). Simultaneously, Gorenje offers repair services to its buyers also beyond the legally binding terms. By assurance of these services Gorenje additionally implements the basic principles of managing relations to buyers that are an increasingly important element of sale and distinction of producers and sellers of our products.

Measurement of Buyers' Satisfaction

Gorenje is well aware that satisfaction of buyers with products and services of Gorenje is one of the most relevant factors of success that defines changes and adjustment to business activities carried out. Due to this fact the satisfaction of buyers is established regularly and systematically. Two research projects were carried out in Slovenia in 2005; they referred to measuring of buyers' satisfaction with services and repair services of Gorenje and satisfaction of users with products in a high price-bracket which Gorenje has started entering by new, innovative and top-designed products. Both research projects showed a high level of satisfaction of users with the Company's products.

Besides individual, object-oriented measurements of satisfaction of buyers a web system of managing relations with buyers has been introduced. By means of this system the relation of buyers to our products and services is systematically monitored. Simultaneously information is given about the products and services in a comprehensive and systematic manner.

3.3 Responsibility to Close and Wide Social Environment

Gorenje, as an important economic factor in Slovenia and as an international company, it has built up its reputation also by sponsoring various activities that contribute to the recognition of its corporate values. Thus, it ensures its great accountability to the social and local environment.

In 2005, Gorenje allocated funds to the areas of culture, schooling, health care and humanitarian activities. Besides that an important share was allocated to the development of sports activities and top sports that additionally confirm the recognition of Gorenje in Europe. In the area of culture the Company assisted in the organisation of the traditional Herbertstein literary meetings of Slovene writers, of the PEN world congress, days of Slovene comedy in Celje, international graphic biennale in Ljubljana, cultural events in Cankarjev dom in Ljubljana, it contributed also to activities of various associations or institutions, such as project of art and business world synergy. Company's own activity plays an important role in social activities, in the area of culture within the Cultural Society in Gorenje, in the organisation of artistic and sculptural exhibitions in Gorenje; the Company has also supported the Choir of Gorenje that has achieved notable international success.

In the area of health care and humanitarian activities the contributions of Gorenje were specially donated to associations operating in this area. Contributions to Unicef and other institutions for the performance of international humanitarian activities are worth mentioning. Gorenje contributed also to the furnishing of one of the houses in the reconstruction after the earthquake in Posočje. In the area of schooling Gorenje supports better conditions of work in up-bringing and educational institutions, such as the Centre of up-bringing, education and training in Velenje and Music School of Fran Korun Koželjski, also in Velenje. In the area of sports Gorenje is the general sponsor of the Nordic team of the Skiing Association of Slovenia and volleyball club of Gorenje. Funds are contributed also to minor societies and activities involving young in sports activities, as a contribution to healthy and useful spending of free time.

3.4 Responsibility to the Natural Environment

Household Appliances Division

The Parent Company - Gorenje, d.d.

In 2005, the parent company continued its activities of environmental treatment by performing planned activities for the achievement of objectives of environmental protection. Besides striving for the achievement of measurable objectives (waste management, energy sources) special attention was paid to the introduction of requirements of the RoHS Directive (Restriction on the use of certain Hazardous Substances in electrical and electronic equipment) that represents one of the implementing directives of the environmental planning of products. Since the parent company is subject to the requirements of the new IPPC legislation (Integrated Pollution Prevention and Control) it checked the harmonisation of the applied technological processes in the production with the best available techniques in the previous year and these techniques will serve as the basis for the documentation submitted for obtaining the comprehensive environmental licence.

Due to meeting the requirements of the Directive on handling waste electrical and electronic equipment (OEEQ or WEEE Directive - Waste of Electronic and Electrical Equipment) the Gorenje Group played an important role last year in the establishment of the system for handling of OEEQ in Slovenia. In the European Union Gorenje is a co-founder or member of individual national schemes. Nevertheless, the parent company is one of the founders of the company ZEOS, d.o.o., Ljubljana that plays a leading role in Slovenia in this area.

In accordance with the strategy of waste management of the Gorenje Group the parent company acquired an ownership share in the company Surovina, d.o.o. Maribor at the end of 2005. All data about the influences of the company on the environment are collected in the section EMAS of the environmental statement of Gorenje, d.d.

Mora Moravia s.r.o., Czech Republic

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

The company is involved in the EKO-KOM system (company specialised in the treatment of waste electrical and electronic equipment) that assures meeting of obligations when treating waste packaging in the Czech Republic and in some other countries of the European Union. In 2005, the Company joined the Elektrowin system for the assurance of fulfilment of obligations arising from the provisions of the OEEQ directive. Simultaneously, it adjusted its operation to the requirements of the RoHS directive.

The measures implemented in technological processes contributed to the reduction in hazardous waste by 20.2 %, emissions into the air by 0.39 t and quantities of hazardous substance let out into the river Bistrica by 20.0 %. By the elimination of hazardous chemicals from technological processes the company started preparing for the introduction of the system of environmental treatment in compliance with standard ISO 14001.

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

Since 2002 the company has had an integrated system of quality and environmental treatment. Quantities and cost of waste management increased after moving two production programmes to a new location in Šoštanj and by the establishment of observation of waste material in the packaging programme. Since separate collection of waste material was put into practice in the company in 2003 and since it has worked very well the objective was set to reduce the cost of waste material by a selective approach and introduction of returnable packaging with longest possible useful life. In the following year the reduction of waste material (otherwise dumped) is planned to amount to approximately 30 %.

Similarly as in case of waste management the consumption of electricity increased in the company, but the consumption of other energy sources per product unit decreased in 2005. The reason of the increase in consumption of electricity is the introduction of monitoring system in the packaging system and moving of two production programmes to a new, large location.

The vision of the integrated system of quality and waste management of the company has remained unchanged: by innovative spirit to quality. Friendly to the environment. Comprehensive approach leading to business excellence – I.P.C.

Gorenje Tiki, d.o.o.

The company intensively and successfully continued to solve environmental problems. The reconstruction of the clarification plant reduced the emissions of hazardous technological waste waters into the environment and the arrangement of the warehouse of hazardous chemicals eliminated the possibility of unsupervised emission of water into the environment.

In the area of waste production the change in the enamel technological process resulted in the prevention of production of hazardous waste in technological processes and regulation of waste classification in individual groups.

In scope of environmental protection the company performed activities for the implementation of provisions of the RoHS Directive about the limitation of contents of hazardous substances in electrical and electronic equipment throughout the year.

The company regularly trains its employees in the area of correct environmental treatment at work. On the basis of informing about the changes in legislation performed by the parent company, the company is well informed about the novelties and changes in the legislation in the area of environmental protection.

Home interior division

In 2005, the companies of the Division performed activities for the improvement of the status of environmental protection in accordance with environmental treatment and legislative requirements. In the area of reduction of emissions into the air for the furniture programme of the Division with varnishing chambers for kitchen and bathroom furniture, obtained the confirmation of the plan for the reduction of emissions from the Environmental Agency of the Republic of Slovenia. This Division is obliged to reduce emissions and to achieve target emissions to November 2007. It carried out intensive preparations by testing of new materials and search for new technologies for timely achievement of target emissions.

The plans of waste management were renewed in the area of packaging treatment, treatment of waste waters and waste materials for the following four-year period in the programmes of

furniture, ceramics and bathrooms. Separate collection of waste was consistently carried out and thus individual programmes reduced quantities of waste material by 5 %; the companies within the Division reduced emissions of volatile organic compounds on work places and those into the environment and reduced quantities of hazardous waste.

Concerning reduction in energy consumption the Division implemented measures of introducing energy-efficient devices such as co-production of thermal and electric energy, co-generation, efficient consumption of thermal energy, recuperation and thus importantly reduced energy consumption and negative influences to the environment.

Trade and Services Division

ZEOS, d.o.o.

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

Since the beginning of its operation it connected companies that have directly faced the problems of managing waste electronic and electrical equipment in Slovenia. It also informed the public about the areas and objectives of its operation, prepared plans of its operation and confirmed them at the state level. In 2006, the company will start operating when it has arranged all formalities required for the beginning of operation with the state and

the formalities relating to the initial organisation and business consolidation of operation.

The beginning of the company's operation will importantly influence the reduction in burdening of the environment by waste electronic and electrical equipment.

Kemis, d.o.o.

The company is engaged in the removal of waste. Besides the subsidiaries in Croatia and Bosnia and Herzegovina it established a subsidiary in Serbia and Montenegro in 2005.

The most significant effect of positive operation of the company on the environment was achieved in the area of saving natural sources in 2005 since over 200 t of waste thinners were distilled, and over 11,000 t of waste was re-directed to substance and energy processing, about 8,000 t of solid and liquid waste was prepared for burning and 1,500 t of waste tyres were collected. Total collected quantities of waste that were transferred to substance and energy processing importantly contributed to lower consumption of natural sources – raw materials and energy sources.

Besides the facts mentioned the company prepared a detailed schedule of activities needed for the construction of the new recycling centre and organised the first spatial conference in Vrhnika in 2005.

3.5 EMAS – Environmental Statement of Gorenje, d.d.

A. Statement on Credibility of Environmental Data

EMAS statement of Gorenje, d.d. for the period from 1 January to 31 December 2005 supplements the EMAS environmental statement of Gorenje, d.d., for the year 2003. All facts and data stated in this EMAS environmental statement are credible and reflect the actual position of the system of environmental treatment in the Company. In 2003 Gorenje, d.d. adjusted its operation to the requirements of the EMAS system in compliance with the EU Directive No. 761/2001. The Slovene Institute for Quality and Metrology (SiQ) audited the operation of the EMAS system in March 2006 and established that the system complied with the requirements of the system EMAS Directive.



Vilma Fece,
Managing Director of the Environmental Protection Area
and Occupational Health and Safety

B. Scope of Activities of Gorenje, d.d. Included in the EMAS system

The EMAS system includes the activity of the parent company on the location in Velenje, in the area intended for industrial, repair and craftsmen services and service activities. The activity includes development, production and sale of household appliances of cooling & freezing programme, programme of washing and tumble driers, the programme of cooking appliances and the Mekom programme in the segment of metal and plastic components.

The EMAS system does not include the production of metal components of the Mekom programme on the locations in Rogatec and Šoštanj. In 2005 the parent company discontinued the production of tube radiators and transferred it to Gorenje Tiki, d.o.o. The production of household appliances is described in sub-section 2.5.1 Production of the Household Appliances Division of this annual report.

C. Assessment of Suitability of Environmental Policy

In 2005, the environmental policy was not re-formulated since it reflects the topical situation of relevant aspects (products and services, waste, energy sources, etc.) and related environmental objectives.

D. Efficiency of Environmental Treatment

D.1 Objectives of Environmental Protection from 2004 to 2006

In the transition period between 2003 and 2004, the parent company reassessed the environmental aspects. On their basis it defined new framework objectives from the year 2004 to the year 2006 due to new investments, changes in the legislation and organisation as well as human resource changes:

- introduction of requirements of the RoHS directive (production of appliances that comply with the directives relating to the contents of hazardous substances, checking of contents of hazardous substances with respect to the requirement of Directives 2002/95/EC and 2003/11/EC, replacement of components that contain hazardous substances, transfer of accountability relating to contents of hazardous substances also to suppliers),
 - decomposition of waste electrical and electronic devices,
 - reduction in the produced industrial waste packaging (reduction in quantities of waste packaging, increase in scope of returnable packaging, elimination of unsuitable packaging in cooperation with suppliers),
 - reduction in quantity of produced waste,
 - rational consumption of energy sources.
- Implementation of framework environmental objectives is carried out in scope of the defined environmental programmes and activities for the achievement of implementing objectives, and therefore there were no major deviations from the objectives mentioned.

D.2. Fulfilment of Objectives of Environmental Protection for the Year 2005

Aspect	Unit	Objective 2005	Realised 2005	2004	2003	2002	2001	2000
Decrease in quantity:								
- hazardous waste	kg/product	0.20	0.21	0.21	0.18	0.25	0.25	0.30
- dumped waste	kg/product	0.33	0.33	0.36	0.44	0.49	0.75	1.01
Rational consumption of energy sources:								
- water consumption	m3/product	0.18	0.20	0.20	0.19	0.18	0.21	0.30
- consumption of electricity	kWh/product	22.39	23.09	22.39	22.24	21.62	21.95	20.82
- consumption of thermal energy	kWh/product	13.30	13.42	13.72	13.28	12.47	15.05	15.81
- consumption of compressed air	m3/product	13.50	15.29	17.47	13.45	15.09	19.49	21.66
- consumption of natural gas	m3/product	1.01	1.04	1.02	1.03	1.02	1.09	1.16



Absolute quantity of hazardous waste produced in 2005 amounted to 636.7 ton which shows an increase of 0.25 % over the year 2004. The specific quantity of waste remained at the level of the year 2004, i.e. at the level of 0.21 kg/product.

Slime coming from the clarification plant contributed substantially to the quantity. In comparison with the year 2004 its quantity slightly decreased (up to 1 %). It should be emphasised that striving for the reduction in slime quantity was successful in 2005 in spite of all, since the quantity of waste technological waters flowing to the central clarification plant increased by 34 % in the same period.

The quantity of produced waste that is dumped (the quantity calculated per product) decreased by 8.5 % over the previous year and amounted to 0.33 kg/product. The objective set at 0.33 kg/product was achieved; the decrease in quantity can be ascribed mainly to more consistent separation of non-metal secondary raw materials.

The absolute consumption of water did not increase significantly in 2005 (by 1 %). The specific consumption of water remained practically at the level

of the year 2004, and thus the objective set at 0.18 m3/product was exceeded by 11.1 %. The reason of excess was mainly increased consumption in the process of enamel pre-processing. Due to unstable quality of sheet metal for enamelling larger quantities of water for rinsing are needed in order to achieve suitable quality of semi-finished goods. The consumption of water for the production of cooking appliances is more than three times higher than the consumption of water for the production of cooling-freezing appliances, washing machines or dish washers.

It was established in specific consumptions of individual energy sources that the consumption of electricity increased by 3.1% and natural gas by 2.0 %, but the consumption of thermal energy decreased by 2.0% and compressed air by 12.5 %.

The increase in consumption of electricity can be mainly ascribed to increased requirements for air-conditioning of the premises. The consumption of compressed air was reduced due to closing of systems at times when the production does not operate and due to planned approach to the replacement of worn out pipes with

end users. Deviations from the objective set can be also ascribed to the new system of acquiring data about the consumption of compressed air that was initially introduced in 2004 (the Landis system). In the previous year additional meters were installed, which enabled and will enable quality acquiring of data about the compressed air consumption.

The achieved deviations from the objectives set are deviations within a 15% interval of allowed deviations that were defined by the system of environmental treatment.

Introduction of requirements of the RoHS directive that defines the limitation of use of certain hazardous substances in electronic equipment

Adjustment of products to the requirements of the RoHS Directive was carried out during the year 2005.

A working group in charge of the introduction of the RoHS Directive has been active at the level of the parent company. Members of individual programmes and organisational units are joined in the group with the objective to co-ordinate and timely implement the transformation of products in accordance with the requirements of the Directive.

In the previous year the Company continued to acquire statements about the fulfilment of requirements of the RoHS Directive from suppliers. Simultaneously checking of composition of materials was carried out by safety data sheets. In the area of purchasing reviews of suppliers classified in relation to compliance of delivered components and materials with the requirements of the Directive RoHS were conducted. All the time activities relating to co-operation with suppliers were performed in order to ensure timely transition to components and materials in compliance with the provisions of the RoHS Directive. Procedures of replacement and eliminations of incompatible materials and components with compatible ones or changes in technological procedures were performed where certain materials became superfluous. Suppliers of Gorenje can be only those who supply materials or components in compliance with the provisions of the RoHS Directive. A system of marking delivered shipments was introduced on transition to the year 2006.

Besides the facts mentioned analytical methods for the establishment of contents of certain hazardous substances were also introduced (hexavalent chromium, cadmium, lead).



It is estimated that a limit was reached in the previous years and that no significant improvements of quality objectives could be reached (results).

Besides measurable implementing objectives in the area of waste management and management of energy sources the Company will continue the programmes in 2006 that will enable achievement of framework environmental objectives, mostly in the area of introduction of the requirements of the RoHS Directive and decomposition of waste electrical and electronic devices.

E. Communications with Interested Public

In the area of environmental treatment the parent company most often appeared in the Slovene media with topics relating to waste management, environmental awards and topics concerning social accountability. In 2005, fifty-four releases were given to the public.

In 2005, fourteen groups or individuals contacted the parent company since they wanted to get more information about the environmental treatment and several times they wanted answers to various questionnaires or they even visited Gorenje. Gorenje received only one complaint about the noise in 2005, it referred to the performance of construction carried out by an external contractor in the industrial zone. The work was stopped after the complained had been submitted.

The treatment of Gorenje was presented in eleven different seminars and/or conventions.

The inspectorate of the environment visited the parent company seven times and reviewed the areas of waste, storing and transport devices for hazardous and harmful substances, emissions into the air, treatment with substances harmful to

ozone, treatment of packaging, functioning and maintenance of oil traps, treatment of sewage sanitary waste waters and emissions of substances and heat when letting out waste waters. In 2005, the inspectorate issued no decisions to Gorenje.

Gorenje received the EMAS award for the year 2005 in the category of large companies. The awards were announced in the festive part of the EMAS conference 2005 that was held on 4th and 5th October in Villach (Austria). It was organised by the General inspectorate for the environment of the European Commission, Austrian Agency for the Environment and the Ministry of the Environment and Spatial Planning of the Republic of Slovenia.

F. Meeting of Legal and Other Requirements

It can be estimated that the operation of Gorenje d.d., has been in compliance with the legal and other requirements stated in the requirements ISO 14001 and EMAS on the basis of monitoring of legal and other requirements from the area of protection of the environment (in the area of emissions into waters, emissions into the air, waste, noise, packaging, chemicals, energy sources, construction of buildings and protection against natural catastrophes and other accidents), due diligence environmental review of company operation, results of environmental observations, accompanying documentation and results of inspection reviews.

It should be especially emphasised that the Company fulfils all legally determined limiting values for the following environmental areas: waste waters, emissions into the air and noise that are specially determined for this line of business. No limiting values are determined for the other environmental areas previously mentioned.

D.3 Implementing Objectives for the Year 2006

Aspect	Unit	2005	Objective 2006	2004	2003	2002	2001	2000
Decrease in quantity of :								
- hazardous waste	kg/product	0.21	0.20	0.21	0.18	0.25	0.25	0.30
- dumped waste	kg/product	0.33	0.30	0.36	0.44	0.49	0.75	1.01
Rational consumption of energy sources:								
- water consumption	m3/product	0.20	0.20	0.20	0.19	0.18	0.21	0.30
- consumption of electricity	kWh/product	23.09	23.00	22.39	22.24	21.62	21.95	20.82
- consumption of thermal energy	kWh/product	13.42	13.30	13.72	13.28	12.47	15.05	15.81
- consumption of compressed air	m3/product	15.29	15.30	17.47	13.45	15.09	19.49	21.66
- consumption of natural gas	m3/product	1.04	1.02	1.02	1.03	1.02	1.09	1.16



4 Analysis of business performance

Summary of the Analysis of Business Factors of Operating Performance in the Year 2005

In 2005, similar trends and circumstances continued on all markets of operation of the Gorenje Group as in the year 2004. Low level of economic activity, low level of trust of consumers and reduced international competitiveness were still characteristic of the European markets due to a weak American dollar that caused a decrease in the demand of durables, among them being also household appliances and other home products. Simultaneously it increased competition and price pressures on the European market.

Early entering of Slovenia into the EMR 2 mechanism in the last year and fixing of the exchange rate EUR/SIT at rather high rate of inflation in Slovenia in 2005 created additional pressures on the operation of the companies with the Gorenje Group.

Besides the enumerated negative circumstances of operation the greatest challenge of the year 2005 was an increase in prices of strategic raw materials and materials, especially steel sheet and other steel products, non-ferrous metals and petrochemical products and their stabilisation at historically highest levels.

In accordance with the announcements at the end of the last financial year a threat to successful operation of the companies within the Gorenje Group represented the directive on recycling of electronic and electrical waste that was adopted in August 2005. Estimates and expectations did not materialise in the European Union due to maladjustments in the contents relating to the discussed economic effects of its implementation, but the risk will still be there in future.

Negative effects of the described economic circumstances of operation were neutralised in an important scope in 2005 by:

- optimisation and search for costefficient substitute purchasing sources,
- selective increase in prices of household appliances and improvement of their sales structure and
- cost rationalisation on all areas of operation.

Achievement of operating objectives in figures

in million SIT	2005	Plan 2005	2004	2005/P2005	2005/2004
Consolidated net sales revenues	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 amortisation / depreciation and provisions	19,307.6	18,660.7	18,049.2	103.5	107.0
Total operating profit or loss	5,707.1	5,628.3	5,367.4	101.4	106.3
Net operating profit or loss	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

It is evident from the business part of the report that the influence of individual factors of operation on the final efficiency of operation contained in the profit or loss, property and financial situation of operation is very

different from the financial part of the report. Thus, only those factors will be discussed from the aspect of economics here whose influence importantly forms the scope and quality of individual economic categories.

Economic Analysis of Operating Performance of the Gorenje Group

Scope of business activities

in million SIT	2005	Plan 2005	2004	2005/P2005	2005/2004
Consolidated net sales revenues	243,152.4	235,208.4	216,247.0	103.4	112.4
Consolidated net sales revenues per employee (in thousand SIT)	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 sales among divisions	-6,623.0	-9,233.9	-7,660.3	71.7	86.5

The largest increase in business activities, measured by net sales revenues was achieved in the Household Appliances Division that significantly generated the achieved consolidated growth of revenues (12.4 % or 26,905.4 million SIT/ 109.3 million EUR) due to a 84.8 % share in the sales structure of the Group.

The achieved scope of business activities of the Gorenje Group and its growth in 2005 were the consequence of:

- organic growth of business activities mostly due to sale of products of high price brackets,
- growth, generated by the purchase of the company Mora Moravia, s.r.o., Czech Republic, production company of Household Appliances Division, and
- elimination of Hyundai companies operating in Croatia, Serbia and Montenegro from the Group.

The effect of the purchase of Mora Moravia, s.r.o., amounted to 14,305.6 million SIT (59.7 million EUR) or 6.6 percentage points of the increase in the acquired scope of business activities and the effect of elimination of Hyundai companies amounted to 6,207.8 million SIT (25.9 million EUR) or 2.7 percentage points of a decrease in business activities.

In spite of the facts mentioned, Trade and Services Division in which the mentioned companies operated reached an increase amounting to 6.7 % or 1,420.7 million SIT (5.6 million EUR) due to the effect of revenues of Istrabenz Gorenje, d.o.o., operating in the Gorenje Group as a joint venture since June 2004.

By the elimination of the influence of the purchase of Mora Moravia, s.r.o., and disposal of the Hyundai companies, both in 2005, a comparable scope and increase in business activities can be obtained when compared to the year 2004 and the scope projected for the year 2005:

in million SIT				
Comparison of the year 2005 with the year 2004	2005	2004	Growth	
= Net sales revenues	222,639.0	205,802.0	16,837.0	8.2 %
Comparison of the year 2005 with the plan	2005	Plan 2005	Growth	
= Net sales revenues	236,944.6	224,721.0	12,223.6	5.4 %

Ability of generating added value

in million SIT					
	2005	Plan 2005	2004	2005/P2005	2005/2004
Added value ¹	64,510.8	63,854.4	59,150.5	1.0 %	9.1 %
Added value per employee (in thousand SIT)	6,148.6	6,034.8	6,224.4	1.9 %	-1.2 %

¹ Calculated as a difference between gross operating yield and the sum of cost of goods, materials and services, other operating expenses and changes in the balance of long-term provisions from the balance sheet.

Added value is formed by two influential factors:

- gross operating yield (or operating revenues) – besides net sales revenues the yield is formed also by the change in inventories and other operating revenues and
- operating cost carried forward that are transferred from the business system from the business environment, i.e. cost of goods, materials and services, other operating expenses and a change in the balance of long-term provisions from the balance sheet.

Operating revenues increased by 10.3 % at 12.4% growth of net sales revenues (both over the year 2004). A gap in the growth is mostly a consequence of a decrease in inventories in 2005 by 50.3 % or 2,847.0 million SIT.

Operating cost carried forward increased faster than operating revenues when compared to the year 2004, mainly due to enormous increase in cost of goods sold (17.8 % growth at 22.0 % share in the structure of cost carried forward) and cost of materials (12.1% at 58.3% share in the structure of cost carried forward). Weighted growth of cost carried forward amounted to 11.2 %, which had an important influence on the decrease in the growth of added value when compared to the growth of operating revenues.

Added value per employee decreased due to the increase in the number of employees upon the inclusion of Mora Moravia, s.r.o., into the Gorenje Group and due to significantly lower added value of their production (production of household appliances in a low price bracket).

Ability of generating cash flow from operating activities (EBITDA)²

in million SIT					
	2005	Plan 2005	2004	2005/P2005	2005/2004
Gross cash flow from operation (EBITDA)	19,307.6	18,660.7	18,049.2	3.5 %	7.0 %
EBITDA Margin (as % of Gross operating yield)	7.7 %	7.8 %	8.0 %	-	-

² EBITDA = EBIT + depreciation and amortisation costs + changes in long-term provisions in the Balance Sheet.

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.

Efficiency of operating profit in operations at the level of income statement (EBIT)

in million SIT					
	2005	Plan 2005	2004	2005/P2005	2005/2004
Operating profit (EBIT)	6,459.7	7,556.1	6,953.1	-14.5 %	-7.1 %
EBIT Margin (as % of the net sales revenues)	2.7 %	3.2 %	3.2 %	-	-

In relation to the level of gross cash flow from operating activities (EBITDA) two cost items caused impairment of efficiency of profit or loss in operations: amortisation /depreciation expense and operating expenses from revaluation. Growth of amortisation / depreciation

expense was a direct consequence of capitalisation of assets in the last two years, growth of operating expenses from revaluation a consequence of conservative policy of allowances for inventories and receivables with an emphasis on those whose risk level (mostly commercial) was high.

5 Financial Statements

5.1 Financial Statements prepared under IFRS

Efficiency of operating profit in operations at the level of the total profit

in million SIT	2005	Plan 2005	2004	2005/ P2005	2005/ 2004
Total profit (PBT)	5,707.1	5,628.3	5,367.4	1.4 %	6.3 %
PBT Margin (as % of net sales revenues)	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 differ-

ences 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.

Efficiency of operating profit in operations at the level of net profit

in million SIT	2005	Plan 2005	2004	2005/ P2005	2005/ 2004
Net profit or loss	5,120.7	4,793.2	5,078.6	6.8 %	0.8 %
Return on sales at the level of net profit or loss / ROS	2.1 %	2.0 %	2.3 %	-	-
Return on assets at the level of net profit or loss / ROA	2.7 %	2.6 %	3.0 %	-	-
Return on equity at the level of net profit or loss / 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.

5.1.1 Consolidated financial statements of the Gorenje Group

5.1.1.1 Significant accounting policies

Presented below are the significant accounting policies applied in preparation of the consolidated financial statements of the Gorenje Group.

The financial statements were authorised for issue by the Management Board on 27 March 2006.

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

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 As explained in note 28 where the Company issues financial guarantees to guarantee the indebtedness of other Group entities, the Company considers these to be insurance arrangements and accounts for them as such.

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

Basis of preparation

The financial statements are presented in Slovene tolar (SIT), rounded to the nearest thousand. They are prepared on the historical cost basis, while derivative financial instruments, financial instruments held for trading, and financial assets classified as available-for-sale are stated at their fair value.

The accounting policies set out below have been applied consistently; they comply with the accounting policies applied in the previous period.

Foreign currency transactions

Transactions in foreign currency are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Slovene tolar at the middle exchange rate of the Bank of Slovenia ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign cur-

rencies that are stated at fair value are translated to SIT at foreign exchange rates ruling at the dates the fair value was determined.

Because foreign operations are not considered a component part of operations of the company, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Slovene tolar at the middle exchange rate of the Bank of Slovenia ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Slovene tolar at the average foreign exchange rate computed on the basis of monthly balance sheets.

Exchange differences arising from the translation of the net investment in foreign operations are presented as a separate component of equity (equity translation adjustment). They are released into the income statement upon disposal.

Financial instruments

Financial instruments are recognised in the financial statements. The accounting policies applied to recognition and measurement of these items are stated under the notes to the respective items.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Derivative financial instruments

The Group uses derivative financial instruments to hedge against exposure to foreign exchange and interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the

Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Net investments in foreign operations are not hedged against risks.

Impairment of assets

The carrying amounts of the Group's assets, investment property, and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life, and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of other assets is the greater of their fair value less selling cost and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Intangible assets

Intangible assets are stated at cost less accumulated straight-line amortisation and impairment losses.

Intangible assets include goodwill, industrial property rights, cost of R&D, and advances to suppliers of intangible assets.

Industrial property rights are amortised over the life of the contract.

Goodwill arising on a business acquisition represents the difference between the cost of the acquisition and the identifiable fair value of assets less debts. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy "Impairment of assets").

Negative goodwill arising on an acquisition is recognised directly in profit or loss

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see accounting policy "Impairment of assets").

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- patents and licenses
5 - 10 years
- recognised development costs
5 - 10 years

Property, plant and equipment

Items of property, plant and equipment are initially stated at cost as

deemed cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended, in particular delivery costs and installation costs.

The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of indirect production overheads.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. If an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity under the heading of specific equity revaluation adjustment. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. The decrease is debited directly to equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The revaluation of assets to their fair value is based on the appraisal report prepared by an independent appraiser.

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

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation rates are determined on the basis of the estimated useful lives. Land is not depreciated.

The estimated useful life of the main groups of items of property, plant and equipment is as follows:

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

Interest costs incurred in connection with the borrowing of funds for the acquisition of property, plant and equipment are recognised as an expense in the period in which they are incurred.

Subsequent costs

The subsequent cost of an item of property, plant and equipment is recognised in the carrying amount when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group. All other subsequent costs are recognised in the income statement as an expense as incurred.

Investments

Investments in debt and equity

Financial instruments held for trading are classified as current assets and are stated at fair value, which is determined quarterly by comparing the fair value with the quoted bid price. Any resultant gain or loss is recognised in the income statement.

This group also includes derivative financial instruments.

Other financial instruments held by the Group are classified as being available-for-sale and are stated at fair value. Any resultant gain or loss is recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date. Financial instruments classified as held for trading or available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase / sell the investments.

Inventories

Inventories of materials and merchandise are stated at the lower of cost or net realisable value. The cost is based on the first-in first-out principle and includes the purchase price, import duties and other taxes, and other costs directly attributable to the acquisition of inventories.

Inventories of finished products and work in progress are stated at cost of production. The cost of production comprises direct cost of materials, direct cost of services, direct cost of depreciation, and attributable production overheads. Production overheads include indirect cost of materials, indirect cost of services, indirect labour cost, and indirect cost of depreciation at the normal use of the production facilities.

Trade and other receivables

Trade and other receivables are stated at cost less impairment losses. Advances to suppliers are presented in the balance sheet under the items to which they refer.

To reflect their impairment, short-term trade and other receivables are revalued if their carrying amount exceeds their fair value. Receivables not believed to be settled by their due date or not having been settled by their due date are recorded as doubtful and disputable receivables. Receivables in connection with which a dispute has developed with the debtor are recorded as disputable receivables. In case of revaluation owing to impairment, allowances for doubtful and disputable receivables are formed and charged against operating expenses from revaluation.

Cash and cash equivalents

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

Dividends

Dividends are recognised as a liability in the period in which they are declared by the shareholders' meeting.

Provisions

A provision is recognised in the balance sheet when the company has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. A provision is recog-

nised only if a reliable estimate can be made of the amount of the obligation.

Provisions for warranties for products and services

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

Provisions for termination pays and anniversary bonuses

Health insurance, pension insurance, and social security contributions on gross wages and salaries are paid during the period at statutory rates. Contributions are recognised as an expense in the income statement as incurred.

In accordance with the statutory requirements, the collective agreement, and the internal regulations, the Group is liable to pay to its employees anniversary bonuses and termination pay upon retirement. For these obligations, long-term provisions are formed. There is no other obligation in respect of pension.

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

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowing are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowings on an effective interest basis.

Trade and other payables are stated at historical cost.

Revenue

Revenue from the sale of finished products, merchandise and materials is recognised in the income statement when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue is reduced by discounts and rebates approved either when the sale is made or subsequently, including those granted for early payment. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods.

Revenue from services rendered, except services from which financial revenue is earned, is recognised in the income statement at selling prices for services completed, or at selling prices for services not completed in proportion to the stage of completion of the transaction. The stage of completion is assessed by reference to surveys of work performed.

Government grants are recognised initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants are intended to compensate the Group for depreciation expense incurred in respect of the assets acquired by government grants awarded on the basis of the status of a company employing disabled people. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Expenses are recognised if a decrease in economic benefits during the accounting period is associated with a decrease in assets or an increase in liabilities (debt), and the decrease can be measured reliably. Operating expenses are recognised once the costs are no longer held in inventories of products and work in progress, or once goods have been sold.

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established, which in the case of quoted securities is usually the ex-dividend date.

Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Comparative information

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

Segment reporting

Financial information is presented in respect of the Group's business segments comprising the main production and sales programmes, and geographical segments.

Business segments of the Gorenje Group:

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

● Other business segments:

- **Home interior:** the manufacture and sale of kitchen furniture, bathroom furniture, sanitary fixtures and fittings, and ceramic tiles.
- **Trade and services:** Environmental protection and energy, trade, engineering, representation, catering, tourism, and real estate management.

Geographical segments of the Gorenje Group:

- **European Union:** Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland
- **East Europe:** Bulgaria, Ukraine, Russia, Macedonia, Croatia, Serbia and Montenegro, Albania, Bosnia and Herzegovina
- **Other:** other countries.

Cash flow statement

The cash flow statement has been prepared under the indirect method on the basis of the items in the balance sheet as at 31 December 2005, the balance sheet as at 31 December 2004, the income statement for the year ended 31 December 2005, and the additional information required for the adjustment of inflows and outflows.

5.1.1.2 Structure of the Gorenje Group

In accordance with International Financial Reporting Standards (IFRSs), the consolidated financial statements of the Gorenje Group comprise the

financial statements of the holding company Gorenje, d.d. and the financial statements of 49 subsidiaries in the Group operating in Slovenia and abroad, as well as of two jointly controlled companies.

Companies operating in Slovenia

	Share in equity in %
1. Gorenje IPC, d.o.o., Velenje	100.00
2. Bitern, d.o.o., Bistrica ob Sotli	75.00
3. Gorenje Notranja oprema, d.o.o., Velenje	98.86
4. Gorenje Orodjarna, d.o.o., Velenje	100.00
5. Gorenje Indop, d.o.o., Velenje	100.00
6. Gorenje Tiki d.o.o., Ljubljana	99.795
7. Gorenje GTI, d.o.o., Velenje	100.00
8. Gorenje Gostinstvo, d.o.o., Velenje	100.00
9. LINEA, d.o.o., Velenje	100.00
10. Energygor, d.o.o., Velenje	100.00
11. Opte Ptuj, d.o.o., Ptuj	100.00
12. Kemis, d.o.o., Radomlje	100.00
13. ZEOS, d.o.o., Ljubljana	58.00
14. Istrabenz - Gorenje, d.o.o., Ljubljana (joint venture)	50.00
15. IG Prodaja d.o.o., Nova Gorica (joint venture)	50.00

Companies operating abroad

	Share in equity in %
16. Gorenje Beteiligungs GmbH., Austria	100.00
17. Gorenje Austria Handels GmbH., Austria	100.00
18. Gorenje Vertriebs GmbH., Germany	100.00
19. Gorenje Körting Italia S.r.l., Italy	100.00
20. Gorenje France S.A.S., France	100.00
21. Gorenje BELUX S.a.r.l., Belgium	100.00
22. Gorenje UK Ltd., Great Britain	100.00
23. Gorenje Skandinavien A/S, Denmark	100.00
24. Gorenje AB, Sweden	100.00
25. Gorenje spol. s.r.o., Czech Republic	100.00
26. Gorenje real spol. s.r.o., Czech Republic	100.00
27. Gorenje Slovakia s.r.o., Slovak Republic	100.00
28. Gorenje Budapest Kft., Hungary	100.00
29. Gorenje Polska Sp. z o.o., Poland	100.00
30. Gorenje Bulgaria EOOD, Bulgaria	100.00
31. Gorenje Zagreb, d.o.o., Croatia	100.00

Companies operating abroad

	Share in equity in %
32. Gorenje Skopje, d.o.o., Macedonia	100.00
33. Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00
34. Gorenje, d.o.o., Serbia and Montenegro	100.00
35. Gorenje Podgorica, d.o.o., Serbia and Montenegro	99.972
36. Gorenje OY, Finland	100.00
37. Gorenje AS, Norway	100.00
38. OÜ Gorenje, Estonia	100.00
39. SIA Gorenje, Latvia	100.00
40. Gorenje Romania S.R.L., Rumania	100.00
41. Gorenje aparati za domačinstvo, d.o.o., Serbia and Montenegro	100.00
42. Mora Moravia s.r.o., Czech Republic	100.00
43. Mora Slovakia s.r.o., Slovak Republic	100.00
44. Gorenje Küchen GmbH, Austria	98.86
45. Gorenje - kuchyne spol. s r.o., Czech Republic	98.86
46. Gorenje Imobilia, d.o.o., Serbia and Montenegro	100.00
47. Gorenje Adria Nekretnine, d.o.o., Croatia	100.00
48. Kemis, d.o.o., Croatia	100.00
49. Kemis BiH, d.o.o., Bosnia and Herzegovina	100.00
50. Kemis, d.o.o., Serbia and Montenegro	100.00
51. Nacionalni brendovi, d.o.o., Serbia and Montenegro	100.00

5.1.1.3 Consolidation basis

Subsidiaries

A subsidiary is an entity that is controlled by another entity known as the parent. Control is presumed to exist when the parent owns the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of a subsidiary are included in the consolidated financial statements with effect from the date when the control is started until the date when the control is discontinued.

Joint venture

A joint venture is a contractual arrangement whereby the Group and the contracting party/parties undertake the economic activity that is sub-

ject to joint control. Consolidated financial statements include the venturer's proportionate share of each of the assets, liabilities, income and expenses of a jointly controlled entity combined line by line with similar items in the venturer's financial statements from the date on which it starts to have joint control to the date on which it ceases to have joint control over a jointly controlled entity.

Transactions excluded from consolidation

Intragroup balances, intragroup transactions and resulting unrealised profits and losses are eliminated from consolidated financial statements.

Minority interests as at 31 December 2005 are as follows

	2005			2004		
	Minority interest in %	Minority interest in TSIT	Share in net profit or loss in TSIT	Minority interest in %	Minority interest in TSIT	Share in net profit or loss in TSIT
Gorenje Tiki d.o.o.	0.205	3,069	361	0.205	2,997	210
Biterm, d.o.o.	25.00	128,554	11,364	25.00	124,684	24,607
Gorenje Podgorica, d.o.o.	0.028	15,299	403	0.028	210	24
Gorenje Notranja oprema, d.o.o.	1.14	53,347	2,433	1.224	62,517	2,313
Gorenje Glin, d.o.o.	0	0	0	1.224	0	-597
Gorenje Kuechen GmbH	1.14	-972	-857	1.224	0	-1,849
Gorenje - kuchyne spol s r.o.	1.14	2,062	-28	1.224	0	27
Kemis BiH, d.o.o.				10.00	662	78
Total		201,359	13,676		191,070	24,813

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

Acquisition of companies

Mora Moravia s.r.o., Czech Republic, and Mora Slovakia, s.r.o., Slovak Republic, were acquired on 26 January 2005. Nacionalni Brendovi,

d.o.o., Serbia and Montenegro was acquired on 24 August 2005. The impact of acquisition of companies on the assets and liabilities of the Group is as follows:

Mora Moravia s.r.o.

in TSIT	2005
Property, plant and equipment	2,222,904
Inventories	1,695,150
Trade and other receivables	3,348,536
Cash	19,005
Provisions	-219,690
Financial liabilities	-1,698,704
Trade and other payables	-3,823,227
Net difference between assets and liabilities	1,543,974
Acquisition cost	-2,097,834
Goodwill	553,860

Mora Slovakia, s.r.o.

in TSIT	2005
Property, plant and equipment	18,648
Inventories	0
Trade and other receivables	272,912
Cash	30,445
Provisions	0
Financial liabilities	0
Trade and other payables	-9,744
Net difference between assets and liabilities	312,261
Acquisition cost	-355
Negative goodwill	-311,906

Nacionalni brendovi, d.o.o.

in TSIT	2005
Property, plant and equipment	284,387
Inventories	0
Trade and other receivables	1,290
Cash	1,002
Provisions	0
Financial liabilities	-6,913
Trade and other payables	-151
Net difference between assets and liabilities	279,615
Acquisition cost	-414,813
Goodwill	135,198

Disposal of companies

In accordance with the strategy of focusing on the core business of the Gorenje Group, i.e. the manufacture and sale of household appliances, Gorenje Beteiligungs GmbH, Austria and the buyer Trdnjava Holding, d.d., Slovenia concluded on 12 July 2005

a contract of sale of a 70% ownership share in G.A Beteiligungs GmbH, Austria, which owns subsidiaries Hyundai in Zagreb and Belgrade. The business activity of the two subsidiaries is the sale of Hyundai cars.

The impact of disposal on the assets and liabilities of the Group is as follows:

in TSIT	2005
Property, plant and equipment	1,093,534
Inventories	2,604,715
Trade and other receivables	1,046,620
Cash	265,656
Provisions	-184,874
Financial liabilities	-1,474,471
Trade and other payables	-1,955,327
Net difference between assets and liabilities	1,395,853
Sales value	2,156,180
Net difference	760,327

Joint venture

The Group holds a 50% share in Istrabenz - Gorenje, d.o.o., Ljubljana and IG Prodaja, d.o.o., Nova Gorica. Their primary activity is trading electri-

cal power. Consolidated financial statements include proportionate share of the assets, liabilities, income and expenses of the companies.

Istrabenz – Gorenje, d.o.o.

in TSIT	2005	2004
Non-current assets	10,395	8,884
Current assets	1,231,400	592,442
Non-current liabilities	-183,275	-158,208
Current liabilities	-1,058,520	-443,118
Revenue	6,630,756	1,551,887
Expenses	-6,649,520	-1,545,615
Income tax	0	-1,505
Net profit or loss	-18,764	4,767

IG prodaja, d.o.o.

in TSIT	2005	2004
Non-current assets	9,253	0
Current assets	388,270	0
Non-current liabilities	-20,492	0
Current liabilities	-377,031	0
Revenue	863,722	0
Expenses	-851,979	0
Income tax	-1,251	0
Net profit or loss	10,492	0

5.1.1.4 Consolidated financial statements of the Gorenje Group

Consolidated income statement of the Gorenje Group

in TSIT	Note	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	1	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	2	-178,776,578	-6,268,636	-185,045,214	-166,407,683
6. Employee benefits expense	3	-43,187,545	-188,065	-43,375,610	-39,608,326
7. Amortisation and depreciation expense	4	-11,614,308	-78,231	-11,692,539	-10,096,591
8. Impairment loss	5	-1,631,785	-58,756	-1,690,541	-1,244,524
9. Other operating expenses	5	-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	6	3,974,619	96,437	4,071,056	3,726,548
12. Financial expenses	7	-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	8	-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 balance sheet of the Gorenje Group

in TSIT	Note	2005	2004
ASSETS		195,509,870	179,232,385
A. Non-current assets		91,298,871	87,218,468
I. Intangible assets	9	5,617,772	3,326,700
II. Property, plant and equipment	10	78,838,655	78,225,429
III. Investment property	11	212,836	588,536
IV. Non-current investments	12	3,956,761	4,399,640
V. Trade and other receivables		854,915	608,836
VI. Deferred tax assets	13	1,817,932	69,327
B. Current assets		104,210,999	92,013,917
I. Inventories	14	40,486,746	37,969,041
II. Trade and other receivables	15	55,055,965	47,165,108
III. Current investments	16	5,471,072	4,287,385
IV. Deferred costs (expenses) and accrued revenue	17	648,424	750,568
V. Cash and cash equivalents	18	2,548,792	1,841,815
Off balance sheet items	28	31,528,639	25,716,817
EQUITY AND LIABILITIES		195,509,870	179,232,385
A. Equity and minority interest	19	58,720,204	60,874,051
I. Share capital		12,200,000	12,200,000
II. Share premium		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. Fair value and translation reserve		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	20	11,946,351	7,323,403
II. Deferred government grant	21	1,789,926	1,777,690
III. Deferred tax liabilities	13	243,948	330,580
IV. Financial liabilities	22	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	23	33,405,532	31,256,972
II. Trade and other payables	24	56,297,540	49,571,515
III. Accrued costs (expenses) and deferred revenue	25	4,243,371	2,502,474
Off balance sheet items	28	31,528,639	25,716,817

Consolidated cash flow statement of the Gorenje Group

in TSIT	Notes	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	9	10,830,979	9,674,811
Amortisation of intangible assets	10	861,560	421,780
Foreign exchange loss	7	1,449,583	2,264,740
Investment income	6	-4,071,056	-3,726,548
Interest expense	7	3,374,100	3,056,872
Revenue from sale of property, plant and equipment	1	-768,428	-522,438
Tax expense	8	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	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	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
Foreign exchange translation differences						-384,061	791,903		407,842
Change in fair value of securities available for sale							227,794		227,794
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

Statement of changes in equity of the Gorenje Group

in TSIT	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	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
Foreign exchange translation differences						262,846	249,526		512,372
Change in fair value of securities available for sale							-543,024		-543,024
Reversal of reserves for own shares			-37,266		37,266				0
Appropriation of net profit 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

5.1.1.5 Notes to the financial statements

Note 1

Other operating income			3,999,555 TSIT	
in TSIT				
Income from subsidies, grants, and compensations	2005	2004	103,371	145,521
Rental income	168,734	122,207		
Income from use and reversal of long-term provisions	349,916	252,487		
Income from use and reversal of long-term provisions from ceded assets	710,341	631,680		
Gains on disposal of property, plant and equipment	768,428	562,824		
Reversal of negative goodwill	311,906	0		
Other income from tax liability	0	674,911		
Other operating income	1,586,859	2,283,107		
Total	3,999,555	4,672,737		

Rental income		
in TSIT		
Rental income - up to 1 year	2005	2004
168,734	122,207	
Anticipated rental income - from 2 to 5 years	685,060	488,828
Total	853,794	611,035

Note 2

Cost of goods, materials and services			185,045,214 TSIT	
in TSIT				
Cost of goods sold	2005	2004	40,692,837	34,529,362
Cost of materials	107,820,674	96,215,456		
Cost of services	36,531,703	35,662,865		
Total	185,045,214	166,407,683		

Note 3

Employee benefits expense			43,375,610 TSIT	
in TSIT				
Wages and salaries	2005	2004	30,216,354	27,065,825
Social security contributions	7,306,871	6,473,563		
Other employee benefits expense	5,852,385	6,068,938		
Total	43,375,610	39,608,326		

Gorenje IPC, d.o.o., which has the status of a company employing disabled people receives a waiver from paying social security contributions related to handicapped/disabled employees. A portion of cost of wages and salaries (726,497 TSIT) was used to set up as deferred government grant.

Other employee benefits expense includes vacation bonuses, meal allowance, commuting allowance, termination pays, and anniversary bonuses in compliance with the national labour legislation and the company's bylaws.

Number of employees by division

	31 December		Average	
	2005	2004	2005	2004
Household appliances division	8,921	7,900	8,867	7,836
Other divisions	1,588	1,668	1,625	1,667
Total	10,509	9,568	10,492	9,503

Note 4

Amortisation and depreciation expense			11,692,539 TSIT	
in TSIT				
Amortisation of intangible assets	2005	2004	747,474	318,444
Amortisation of intangible assets from government grant	114,086	103,336		
Depreciation of property, plant and equipment	10,247,604	9,168,517		
Depreciation of property, plant and equipment from government grant	583,375	506,294		
Total	11,692,539	10,096,591		

Note 5

Other operating expenses			3,394,642 TSIT	
in TSIT				
Taxes and fiscal charges irrespective of employee benefits expense and other types of expense	2005	2004	651,179	720,316
Impairment loss on receivables	1,274,526	722,237		
Impairment loss on inventories	380,325	522,287		
Other operating expenses	915,913	1,303,481		
Setting-up of provisions	172,699	248,435		
Total	3,394,642	3,516,756		

Taxes and fiscal charges irrespective of employee benefits expense and other types of expense include charges for the use of building site,

water tax, environmental levies, membership fees in mandatory associations, and other mandatory fiscal charges.

Note 6**Financial income** **4,071,056 TSIT**

in TSIT	2005	2004
Dividend income	146,661	123,457
Interest income	478,021	453,747
Foreign exchange gain	1,635,934	2,118,867
Other financial income	1,810,440	1,030,477
Total	4,071,056	3,726,548

Other financial income include gains on disposal of financial assets in Gorenje GTI, d.o.o., (disposal of a 10% share of Telemach, d.o.o. in the first quarter of 2005, the effect of 664,327 TSIT) and in Gorenje Beteiligungs GmbH (disposal of the majority share of Hyundai Auto Zagreb, d.o.o. and Hyundai Auto, d.o.o., Beograd in July 2005, the effect of 532,390 TSIT).

Note 7**Financial expenses** **4,823,683 TSIT**

in TSIT	2005	2004
Interest expense	2,942,150	2,746,291
Foreign exchange loss	1,449,583	2,264,740
Impairment loss on investments	3,917	9,309
Other financial expenses	428,033	291,963
Total	4,823,683	5,312,303

Note 8**Income tax expense** **586,391 TSIT**

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

in TSIT	2005	2004
Actual tax liability	1,299,722	547,621
Deferred tax assets recognised in the income statement	-737,844	-258,901
Deferred tax liabilities recognised in the income statement	24,513	0
Total	586,391	288,720

Survey of effective income tax rates

in TSIT	2005	2005	2004	2004
Profit before tax		5,707,069		5,367,362
Income tax using the general tax rate	25.0%	1,426,767	25.0%	1,341,841
Effect of tax rates in foreign jurisdictions	2.4%	135,652	1.8%	98,733
Non-deductible expenses	25.7%	1,465,655	8.9%	478,877
Tax exempt revenue	-5.0%	-285,541	-1.0%	-51,455
Tax incentives	-28.6%	-1,632,565	-27.8%	-1,490,327
Non-deductible provisions for termination pay	0.4%	24,520	1.0%	55,966
Reversal of provisions for major repairs under SAS	2.4%	135,654	1.1%	58,213
Non-deductible expense relating to change in fair value of derivatives	0.0%	-2,569	0.8%	42,996
Other non-deductible expenses	0.2%	10,889	0.2%	12,777
Allowances for investments	-2.7%	-153,490	0.0%	0
Allowances for receivables	-1.2%	-67,006	0.0%	0
Allowances for other assets	-1.3%	-75,776	0.0%	0
Provisions for warranties	-7.8%	-446,654	-4.8%	-258,901
Other increases in tax base	0.9%	50,855	0.0%	0
Income tax	10.3%	586,391	5.4%	288,720

Note 9**Intangible assets** **5,617,772 TSIT**

in TSIT	2005	2004
Long-term deferred R&D cost	3,019,527	1,950,560
Long-term property rights	1,652,075	1,121,997
Goodwill	933,283	244,225
Intangible assets under construction	12,495	9,630
Advances for intangible assets	392	288
Total	5,617,772	3,326,700

Movement in intangible assets in 2005

in TSIT	Long-term deferred R&D cost	Long-term property rights	Goodwill	Intangible assets under construction	Advances for intangible assets	Total
Cost 1 Jan 2005	3,229,554	3,166,247	407,042	9,630	288	6,812,761
Additions	64,071	391,711		1,192,794	392	1,648,968
Acquisitions through business combinations	156,424	957,150	689,058			1,802,632
Disposals of group Companies		-19,749				-19,749
Disposals, write-offs	-120	-61,802				-61,922
Transfers, foreign exchange differences	1,306,064	324,076		-1,189,929	-288	439,923
Cost 31 Dec 2005	4,755,993	4,757,633	1,096,100	12,495	392	10,622,613
Accumulated amortisation 1 Jan 2005	1,278,994	2,044,250	162,817			3,486,061
Acquisitions through business combinations		707,887				707,887
Disposals of group Companies		-11,805				-11,805
Disposals, write-offs		-58,270				-58,270
Amortisation	457,336	404,224				861,560
Transfers, foreign exchange differences	136	19,272				19,408
Accumulated amortisation 31 Dec 2005	1,736,466	3,105,558	162,817			5,004,841
Carrying amount 1 Jan 2005	1,950,560	1,121,997	244,225	9,630	288	3,326,700
Carrying amount 31 Dec 2005	3,019,527	1,652,075	933,283	12,495	392	5,617,772

The addition to intangible assets is mainly due to long-term deferred R&D cost of the new generation of appliances (width 600).

Note 10

Property, plant and equipment	78,838,655 TSIT	
in TSIT	2005	2004
Land	6,844,136	6,613,030
Buildings	33,269,095	31,449,704
Production plant and equipment	35,862,338	34,784,893
Property, plant and equipment under construction	2,790,603	5,251,154
Advances	72,483	126,648
Total	78,838,655	78,225,429

The appraisal of assets by certified appraisers was carried out as at 31 December 2003. In 2005, no indication of impairment of the items of property, plant and equipment was found.

Long-term borrowings from 1999 were secured by pledge of business premises entered in the land register at the District Court in Velenje, entry number 2801, c.m. Velenje, plot no.

1682/5, and entry number 1099, c.m. Velenje, plot no. 1712, 2843/4, and 1696. The value of borrowings secured by above pledge amounts to 83,295 TSIT as at 31 December 2005.

The book value of property (buildings) pledged as security amounted to 1,063,579 TSIT as at 31 December 2005 (1,070,370 TSIT as at 31 December 2004).

Movements in property, plant and equipment in 2005

in TSIT	Land	Buildings	Plant and equipment	PPE under construction	Advances for PPE	Total
Cost 1 Jan 2005	6,613,030	59,969,840	106,011,023	5,251,154	126,648	177,971,695
Additions	198,889	1,083,825	1,253,436	9,029,207	62,942	11,628,299
Acquisitions through business combinations	200,336	1,768,065	4,174,153	34,033		6,176,587
Disposals of group Companies	-310,251	-922,461	-443,055	-1,118		-1,676,885
Disposals, write-offs	-99,926	-588,067	-1,628,108	-232,931	-99,674	-2,648,706
Transfers, foreign exchange differences	242,058	2,576,509	8,220,350	-11,289,742	-17,433	-268,258
Cost 31 Dec 2005	6,844,136	63,887,711	117,587,799	2,790,603	72,483	191,182,732
Accumulated depreciation 1 Jan 2005		28,520,136	71,226,130			99,746,266
Acquisitions through business combinations		458,846	3,328,023			3,786,869
Disposals of group Companies		-83,929	-115,705			-199,634
Disposals, write-offs		-335,268	-1,546,559			-1,881,827
Depreciation		2,035,430	8,795,549			10,830,979
Transfers, foreign exchange differences		23,401	38,023			61,424
Accumulated depreciation 31 Dec 2005		30,618,616	81,725,461			112,344,077
Carrying amount 1 Jan 2005	6,613,030	31,449,704	34,784,893	5,251,154	126,648	78,225,429
Carrying amount 31 Dec 2005	6,844,136	33,269,095	35,862,338	2,790,603	72,483	78,838,655

The item of acquisition through business combinations includes, in addition to companies acquired in 2005,

companies established in 2005 (see for a detailed explanation under the item of 1.2. of the Business Report).

Note 11

Investment property		212,836 TSIT	
in TSIT		2005	2004
Land		119,736	301,613
Buildings		93,100	286,923
Total		212,836	588,536

Investment property includes land and buildings acquired for sale.

Movements in investment property

in TSIT	2005	2004
Opening balance at 1 January	588,536	106,127
Additions	46,210	482,409
Disposals	-421,910	0
Closing balance at 31 December	212,836	588,536

Note 12

Long-term investments		3,956,761 TSIT	
in TSIT		2005	2004
Equity shares available-for-sale		2,738,340	3,030,745
Long-term loans (1 to 5 years)		754,544	737,172
Works of art		134,323	93,436
Long-term deposits		137,729	344,918
Other long-term investments		191,825	193,369
Total		3,956,761	4,399,640

Movements in long-term investments in 2005

in TSIT	Balance 1 Jan 2005	Increase	Decrease	Impairment	Balance 31 Dec 2005
Equity shares available-for-sale	3,030,745	648,535	-938,915	-2,025	2,738,340
Long-term loans	737,172	109,725	-92,353	0	754,544
Works of art	93,436	41,001	-114	0	134,323
Long-term deposits	344,918	1,238	-206,535	-1,892	137,729
Other long-term investments	193,369	0	-1,544	0	191,825
Total	4,399,640	800,499	-1,239,461	-3,917	3,956,761

The impairment loss amounting to 1,892 TSIT in respect of deposits refers to the deposit of Gorenje,

d.o.o., Belgrade with RAI Bank, Belgrade, which is in bankruptcy proceedings.

in TSIT	2005	2004
Long-term loans	946,680	1,027,479
Transfer to short-term loans	-192,136	-290,307
Total	754,544	737,172

Long-term loans include loans granted by the parent company and the subsidiaries to the entities outside the Gorenje Group. The interest rate, which depends on the currency in which the loan is denominated, ranges from 2.9 % to 7.6 %.

Note 13**Deferred tax assets and liabilities**

in TSIT	Tax assets		Tax liabilities		Tax assets – tax liabilities	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	0	69,327	23,291	97,768	-23,291	-28,441
Investments	153,490	0	0	0	153,490	0
Receivables	235,006	0	0	0	235,006	0
Inventories	75,776	0	0	0	75,776	0
Liabilities arising from litigation	2,825	0	0	0	2,825	0
Provisions set up under the local standards and tax law	0	0	220,657	232,812	-220,657	-232,812
Provisions for termination pay	904,181	0	0	0	904,181	0
Provisions for warranties	446,654	0	0	0	446,654	0
Total	1,817,932	69,327	243,948	330,580	1,573,984	-261,253

in TSIT	Tax assets – tax liabilities		Recognised in the income statement		Recognised in equity	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	-23,291	-28,441	-200,420	0	200,420	0
Investments	153,490	0	153,490	0	0	0
Receivables	235,006	0	235,006	0	0	0
Inventories	75,776	0	75,776	0	0	0
Liabilities arising from litigation	2,825	0	2,825	0	0	0
Provisions set up under the local standards and tax law	-220,657	-232,812	0	258,901	17,305	0
Provisions for termination pay	904,181	0	0	0	904,181	7,642
Provisions for warranties	446,654	0	446,654	0	0	0
Total	1,573,984	-261,253	713,331	258,901	1,121,906	7,642

Note 14**Inventories 40,486,746 TSIT**

in TSIT	2005			2004		
	Household appliances	Other	Total	Household appliances	Other	Total
Materials	10,996,322	1,970,386	12,966,708	9,829,989	2,063,626	11,893,615
Write-off of obsolete materials	-142,258	-97,514	-239,772	-369,883	-152,404	-522,287
Materials - NV	10,854,064	1,872,872	12,726,936	9,460,106	1,911,222	11,371,328
Work in progress	2,653,056	764,287	3,417,343	2,198,700	839,324	3,038,024
Finished products	18,202,747	2,752,911	20,955,658	16,031,419	2,325,863	18,357,282
Write-off of obsolete finished products	-139,788	-765	-140,553	-	-	-
Finished products - NV	18,062,959	2,752,146	20,815,105	16,031,419	2,325,863	18,357,282
Merchandise	3,043,525	483,837	3,527,362	2,421,171	2,781,236	5,202,407
Total	34,613,604	5,873,142	40,486,746	30,111,396	7,857,645	37,969,041

Note 15**Current trade and other receivables 55,055,965 TSIT**

in TSIT	2005	2004
Current trade receivables	52,176,166	43,497,570
- impairment loss on trade receivables	-1,274,526	-722,237
Other current receivables	3,624,570	3,661,618
Current advances and collaterals	529,755	728,157
Total	55,055,965	47,165,108

Other current receivables include a significant portion of current input VAT receivable, which amounted to 1,531,025 TSIT at the year-end 2005 (2,587,757 TSIT at the year-end 2004).

Note 16**Current investments 5,471,072 TSIT**

in TSIT	2005	2004
Equity shares held for trading	297,627	1,696,913
Current deposits	2,654,719	224,992
Current loans	805,831	591,972
Current interest receivable	56,236	50,336
Bills receivable	1,656,596	1,496,856
Other current investments	63	226,316
Total	5,471,072	4,287,385

Equity shares held for trading include are recorded by Gorenje, d.d. in the amount of 105,939 TSIT and by Gorenje Notranja oprema, d.o.o. in the amount of 168,581 TSIT. The item includes equity shares held for trading, which are held by banks and entities. Investments held for trading are stated at fair value, which is determined quarterly by comparing the book value with the published bid price.

Current interest receivable includes interest receivable on current loans accounted for by the end of 2005.

Current loans include current cash surplus in time deposits with banks and entities. The interest rate for bank deposits and loans to entities operating in Slovenia ranges from 1.5% to 8.0%, and abroad from 1.8% to 4.0%.

Bills receivable include bills receivable due from Gorenje Zagreb, d.o.o. (668,029 TSIT), Gorenje France S.A.S. (576,045 TSIT), and Gorenje Austria Handels GmbH (270,487 TSIT).

Note 17**Current deferred costs (expenses) and accrued revenue 648,424 TSIT**

in TSIT	2005	2004
Current deferred costs and expenses	374,081	292,727
Accrued revenue	274,343	457,841
Total	648,424	750,568

The major portion of accrued revenue in the amount of 238,653 TSIT (2004: 399,607 TSIT) is recorded by

Gorenje, d.d. resulting from quantity discounts for materials and from VAT receivable from foreign countries.

Note 18**Cash and cash equivalents and accrued revenue 2,548,792 TSIT**

in TSIT	2005	2004
Cash in hand	73,740	61,762
Bank balances and cash with other financial institutions	2,475,052	1,780,053
Total	2,548,792	1,841,815

Note 19

Equity and minority interest **58,720,204 TSIT**

in TSIT	2005	2004
Share capital	12,200,000	12,200,000
Share premium	23,113,258	23,113,258
Legal and statutory reserves	4,509,069	4,509,069
Retained earnings	17,939,939	17,753,876
Own shares	-3,655,738	-669,903
Fair value and translation reserve	4,412,317	3,776,681
Minority interest	201,359	191,070
Total	58,720,204	60,874,051

Share capital of the company amounts to 12,200,000 TSIT and is divided into 12,200,000 ordinary shares at par value of 1,000 SIT. The share are designated as GRVG, The issued shares are subscribed and fully paid in.

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

2005

in TSIT	
Net profit or loss	5,120,678
Weighted average number of ordinary shares	11,482,808
Earnings per share (in SIT)	445.94

2004

in TSIT	
Net profit or loss	5,078,642
Weighted average number of ordinary shares	11,948,958
Earnings per share (in SIT)	425.03

All issued shares are of the same class and entitle their owner to participate

In 2005, earnings per share amounted to 445.94 SIT (2004: 425.03 SIT).

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

in the management of the company. Each share gives one vote and a right to dividend.

Note 20

Provisions **11,946,351 TSIT**

in TSIT	2005	2004
Provisions for warranties	6,377,119	5,501,973
Provisions for termination pays and pensions	4,973,698	1,247,220
Other provisions	595,534	574,210
Total	11,946,351	7,323,403

The actuarial calculation of estimated future payments of termination pays and anniversary bonuses was conducted as at 31 December 2005. The amount of estimated future payments of termination pays and anniversary bonuses, which result from a change in the number of employees and their structure in 2005, was charged against current profit or loss. The remaining amount was charged against retained earnings. The calcula-

tion was conducted separately for each employee, taking into consideration the cost of termination pay upon retirement and the cost of all anticipated anniversary bonuses until the day of retirement.

A significant portion of other long-term provisions include provisions for anticipated losses from claims for damages in the amount of 395,774 TSIT recorded by the parent company.

Movements in provisions in 2005

in TSIT	Balance 1 Jan 2005	Use, reversal, and exchange differences	Setting-up	Balance 31 Dec 2005
Provisions for warranties	5,501,973	-2,495,007	3,370,153	6,377,119
Provisions for termination pays and pensions	1,247,220	-62,897	3,789,375	4,973,698
Other provisions	574,210	-131,723	153,047	595,534
Total	7,323,403	-2,689,627	7,312,575	11,946,351

Note 21**Deferred government grant** **1,789,926 TSIT**

in TSIT	Balance 1 Jan 2005	Amortisation/ Depreciation	Setting-up	Balance 31 Dec 2005
Deferred government grant	1,777,690	-714,260	726,496	1,789,926
Total	1,777,690	-714,260	726,496	1,789,926

Note 22**Long-term financial liabilities** **28,809,677 TSIT**

in TSIT	2005	2004
Long-term financial liabilities to banks	32,460,117	28,524,641
Long-term financial liabilities to other entities	5,115,076	3,111,385
Transfer to short-term financial liabilities	-8,765,516	-6,046,526
Total	28,809,677	25,589,500

Maturity schedule of long-term financial liabilities

in TSIT	
1-2 years	9,528,829
2-4 years	15,419,805
4-6 years	3,595,045
6-8 years	265,998
Total	28,809,677

Long-term borrowings from banks

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%)	
			from	to
EUR	102,848	24,639,775	2.59	5.54
Other		290,014	2.85	8.26
Total		24,929,789		

Long-term borrowings from other entities

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%)	
			from	to
EUR	16,171	3,874,116	3.23	3.34
Other		5,772	2.38	2.38
Total		3,879,888		

Collateralisation

in TSIT	
Bills	23,948,047
Financial covenants	11,409,105
Guarantees	4,906,736
Mortgage	0

Some long-term borrowings are secured by several forms of security at the same time. Guarantees include guarantees and sureties issued by

Gorenje, d.d. and Gorenje Beteiligungs GmbH to the commercial banks to secure the liabilities incurred by the Group companies.

Note 23**Short-term financial liabilities** **33,405,532 TSIT**

in TSIT	2005	2004
Short-term borrowings from banks	24,182,300	24,553,165
Transfer from long-term financial liabilities	7,530,328	5,289,486
Short-term borrowings from other entities	203,976	294,557
Transfer from long-term financial liabilities	1,235,188	757,040
Interest payable	59,551	113,208
Dividend payable	32,544	77,532
Fair value of derivative financial instruments	161,645	171,984
Total	33,405,532	31,256,972

Short-term borrowings from banks

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%)	
			from	to
EUR	111,859	26,798,834	2.59	5.54
CZK	502,785	4,152,203	2.85	3.50
SIT	500,000	500,000	3.80	3.80
PLN	4,033	250,356	4.11	4.11
Other		11,235	3.20	8.26
Total		31,712,628		

Short-term borrowings from other entities

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate (%)	
			from	to
EUR	5,983	1,433,392	3.23	3.34
Other		5,772	2.38	2.38
Total		1,439,164		

Some short-term borrowings are secured by several forms of security at the same time. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje Beteiligungs GmbH to the commercial banks to secure the liabilities incurred by the Group companies. Some borrowings are secured by pledged real property (refer to Note 10).

Collateralisation

in TSIT	
Bills	15,145,255
Financial covenants	8,662,098
Guarantees	11,685,779
Mortgage	83,295

Note 24**Short-term trade and other payables** **56,297,540 TSIT**

in TSIT	2005	2004
Payables to suppliers	47,052,077	40,667,217
Payables to employees	1,567,608	1,381,818
Payables to state institutions	3,275,312	3,743,998
Other payables	4,402,543	3,778,482
Total	56,297,540	49,571,515

In 2005, trade and other payables increased by 6,726,025 TSIT or 13.6 % over the previous year's figure. An important increase in trade and other payables was recorded by Gorenje, d.d., where payables to suppliers increased by 4,447,481 TSIT over the previous year's figure. The increase is due to the actual extension of the period of payment allowed by suppliers.

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

Note 25**Short-term accrued costs (expenses) and deferred revenue** **4,243,371 TSIT**

in TSIT	2005	2004
Short-term deferred revenue	1,075,797	493,949
Short-term accrued costs and expenses	3,167,574	2,008,525
Total	4,243,371	2,502,474

Short-term accrued costs and expenses include accrued cost of discounts, accrued interest expense, accrued cost of unconsumed vacation, and other accrued costs of services.

Short-term deferred revenue mainly includes deferred revenue arising from default interest charged to buyers.

Note 26**Financial instruments**

The risk management is described under the items 2.10 and 2.11 of the Management Report in the Annual Report. Derivative financial instruments

are used to hedge against currency risk and interest rate risk.

Note 27**Fair value****Survey of fair value and book value of assets and liabilities:**

in TSIT	2005	2005	2004	2004
Long-term investments	3,956,761	3,956,761	4,399,640	4,399,640
Short-term investments	5,471,072	5,471,072	4,287,385	4,287,385
Short-term trade and other receivables	54,795,210	54,795,210	46,675,288	46,675,288
Cash and cash equivalents	2,548,792	2,548,792	1,841,815	1,841,815
Long-term financial liabilities	-28,809,677	-28,809,677	-25,589,500	-25,589,500
Short-term financial liabilities	-33,405,532	-33,405,532	-31,256,972	-31,256,972
Short-term trade and other payable	-56,297,540	-56,297,540	-49,571,515	-49,571,515
Total	-51,740,914	-51,740,914	-49,213,859	-49,213,859

Investments held for trading are carried at fair value based on quoted market prices.

Forward exchange transactions
As at 31 December 2005, the amount of hedged items for which forward exchange transactions were concluded by Gorenje, d.d. totalled 15,114,548.87 EUR. Forward exchange transactions are used to hedge against changes in the currency parity between: EUR/PLN, EUR/AUD, EUR/USD, EUR/HRK, EUR/SKK. The maturity of transactions is a short-term one (less than one year).

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

The fair value of forward currency transactions at the balance sheet date is the difference between the value of actually concluded forward exchange transactions and the value of the opposite forward exchange transactions at the balance sheet date, taking into consideration the same maturities of individual forward exchange transactions.

As at 31 December 2005, the total fair value of forward exchange transactions amounted to -121,608,822.87 SIT or -507,601.04 EUR and was recorded under short-term financial liabilities.

Interest rate swap transactions
As at 31 December 2005, the amount of hedged items for which interest rate swap transactions were concluded by Gorenje, d.d. totalled 105,965,814.86 EUR or 25,386,823,674.57 SIT. Interest rate swap transactions are used to hedge against changes in the variable interest rate EURIBOR. The maturity of transactions is a long-term one, i.e. successively until 31 January 2012.

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

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

As at 31 December 2005, the total fair value of interest rate swap transactions amounted to -40,036,672.15 SIT or -167,114.98 EUR and was recorded under short-term financial liabilities.

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

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

Note 28

Off balance sheet items	31,528,639 TSIT	
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in TSIT	2005	2004
Guarantees given	17,622,029	14,900,138
Guarantees received from third parties	11,394,082	7,309,977
Bills payable	1,709,747	2,021,632
Other off balance sheet liabilities	802,781	1,485,070
Total	31,528,639	25,716,817

Guarantees given include guarantees and sureties issued by Gorenje, d.d. and Gorenje Beteiligungs GmbH, Vienna, to the benefit of third parties to secure liabilities incurred by the subsidiaries in the Gorenje Group (in compliance with the provisions of IFRS 4). Guarantees received from third parties mainly include security provided for payments due by buyers in Gorenje Zagreb, d.o.o.

Other disclosures**Note 29**

Remuneration of the members of Management Board, Supervisory Board and Employees under individual contract	
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In the companies of the Gorenje Group, the following gross emoluments were paid out to the below groups of persons in 2005:

Type of emoluments	Management Board	Supervisory Board	Employees under individual employment contract
in TSIT			
Wages and salaries	1,104,686	62,885	1,401,734
Fringe benefits and other emoluments	117,226	6,836	113,322
Total	1,221,912	69,721	1,515,056

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

Note 30

Events after the balance sheet date	
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Significant events after the balance sheet date as at 31 December 2005:

- Restructuring, both in terms of substance and organisation, of operations of Gorenje Indop, d.o.o. and Gorenje Orodjarna, d.o.o. (centralisation of business functions);
- Restructuring, both in terms of substance and organisation, of operations of Gorenje GTI, d.o.o. (separation of the activity of sale of household appliances from other activities);
- Start-up of implementation of construction of the production plant for household appliance (refrigerators & freezers) in Valjevo, Serbia and Montenegro;
- Merger of Istrabenz-Gorenje, d.o.o. and IG Prodaja, d.o.o.;
- Business restructuring of Biterm, d.o.o. (change in production activity);
- Establishment of a subsidiary in Dubai, United Arab Emirates, for sale of household appliances;
- Exercise of option for the repurchase of 233,075 own shares (1.9105% share in the shareholders' equity) in accordance with the Call and Put Contract concluded with Slovenska odškodninska družba, d.d. (Slovenian Indemnity Company) on 21 June 2004;
- Acquisition of shares of Surovina, d.d. in the amount equal to 27.6% share in equity of the company.

Note 31

Related-parties transactions	
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The Group companies have carried out their related-party transactions on the basis of a contract of sale / purchase, under observance of the arm's length principle.

Note 32

Business segments

in TSIT	Household appliances		Other divisions		Eliminations		Group	
	2005	2004	2005	2004	2005	2004	2005	2004
Net revenue from sale to third parties	204,126,407	181,032,566	39,026,019	35,214,478	0	0	243,152,426	216,247,044
Intra-division sales	1,222,719	2,275,495	5,400,300	5,384,842	-6,623,019	-7,660,337	0	0
Total net revenue	194,441,356	173,933,788	55,334,089	49,973,593	-6,623,019	-7,660,337	243,152,426	216,247,044
Operating profit or loss	6,080,282	5,847,094	379,414	1,106,023	0	0	6,459,696	6,953,117
Net financial results	0	0	0	0	0	0	-752,627	-1,585,755
Income tax	0	0	0	0	0	0	-586,391	-288,720
Net profit or loss for the period	0	0	0	0	0	0	5,120,678	5,078,642
Total assets	165,875,692	145,578,940	29,634,178	33,653,445	0	0	195,509,870	179,232,385
Total liabilities	121,593,889	102,026,066	15,195,777	16,332,268	0	0	136,789,666	118,358,334
Investments	12,464,904	15,116,527	812,363	1,589,547	0	0	13,277,267	16,706,074
Operating current assets write-offs	1,225,460	949,075	429,391	295,449	0	0	1,654,851	1,244,524

Note 33

Geographical segments

in TSIT	EU		East Europe		Other countries		Elimination		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Net revenue from sale to third parties	164,736,415	145,374,855	69,619,014	62,095,843	8,796,997	8,776,346	0	0	243,152,426	216,247,044
Total assets	90,950,727	88,931,969	74,807,508	61,971,588	29,751,635	28,328,828	0	0	195,509,870	179,232,385
Investments	6,515,051	7,664,907	4,822,890	6,532,247	1,939,326	2,508,920	0	0	13,277,267	16,706,074

Enclosure 1: Information on the Gorenje Group companies

Companies	Share capital (in TSIT)	Number of employee
Gorenje, d.d., Slovenia	12,200,000	5,630
Gorenje Orodjarna, d.o.o., Slovenia	222,076	213
Gorenje Indop, d.o.o., Slovenia	139,748	134
Gorenje I.P.C., d.o.o., Slovenia	22,196	913
Gorenje GTI, d.o.o., Slovenia	2,019,371	112
Gorenje Gostinstvo, d.o.o., Slovenia	908,148	194
LINEA, d.o.o., Slovenia	4,260	14
Gorenje Tiki d.o.o., Slovenia	30,000	296
Biterm, d.o.o., Slovenia	42,897	100
Gorenje Notranja oprema, d.o.o., Slovenia	919,033	1,039
Energygor, d.o.o., Slovenia	2,100	0
Gorenje Beteiligungs GmbH, Austria	2,874,907	8
Gorenje Austria Handels GmbH, Austria	784,610	50
Gorenje Küchen GmbH, Austria	8,385	74
Gorenje Vertriebs GmbH, Germany	1,365,581	54
Gorenje Körting Italia S.r.l., Italy	249,782	9
Gorenje France S.A.S., France	772,631	21
Gorenje BELUX S.a.r.l., Belgium	4,454	3
Gorenje UK Ltd., Great Britain	34,868	5
Gorenje Skandinavien A/S, Denmark	572,254	54
Gorenje AB, Sweden	51,017	5
Gorenje spol. s r.o., Czech Republic	1,013,000	32
Gorenje real spol. s r.o., Czech Republic	2,032,805	42
Gorenje - kuchyne spol. s r.o., Czech Republic	247,752	53
Gorenje Slovakia s.r.o., Slovak Republic	360,742	52
Gorenje Budapest Kft., Hungary	271,319	25
Gorenje Polska Sp. z o.o., Poland	412,338	40
Gorenje Bulgaria EOOD, Bulgaria	637,551	11
Gorenje Zagreb, d.o.o., Croatia	2,609,784	158
Gorenje Skopje, d.o.o., Macedonia	59,583	15
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	245	47
Gorenje, d.o.o., Serbia and Montenegro	1,036,347	37
Gorenje Podgorica, d.o.o., Serbia and Montenegro	598,939	15
Gorenje OY, Finland	27,551	3
Opte Ptuj, d.o.o., Slovenia	241,857	44
Kemis d.o.o., Slovenia	167,635	19
Gorenje Romania S.r.l., Romania	106,999	10
Gorenje AS, Norway	65,883	4
Kemis, d.o.o., Croatia	5,854	14
Kemis BiH, d.o.o., Bosnia and Herzegovina	2,450	2
Istrabenz - Gorenje, d.o.o., Slovenia	150,000	7
Gorenje aparati za domačinstvo, d.o.o., Serbia and Montenegro	814	0
Mora Moravia s.r.o., Czech Republic	1,090,109	935
Mora Slovakia, s.r.o., Slovak Republic	1,266	0
Gorenje Imobillia, d.o.o., Serbia and Montenegro	332,272	0
IG Prodaja d.o.o., Slovenia	10,000	0
Nacionalni brendovi, d.o.o., Serbia and Montenegro	279,356	0
Gorenje Adria Nekretnine, d.o.o., Croatia	97,820	0
Kemis, d.o.o., Serbia and Montenegro	2,396	0
ZEOS, d.o.o., Slovenia	100,000	0
OÜ, Gorenje, Estonia	612	0
SIA Gorenje, Latvia	688	0

Enclosure 2: Company directors

Company	Managing director
Gorenje, d.d., Slovenia	Franjo Bobinac
Gorenje Orodjarna, d.o.o., Slovenia	Marjan Kovač
Gorenje Indop, d.o.o., Slovenia	Rihard Grudnik (until 24 May 2005) Boris Jurkošek (since 25 May 2005)
Gorenje I.P.C., d.o.o., Slovenia	Simon Kumer
Gorenje GTI, d.o.o., Slovenia	Vincenc Turk
Gorenje Gostinstvo, d.o.o., Slovenia	Saša Oprešnik
LINEA, d.o.o., Slovenia	Franjo Gjerkeš
Gorenje Tiki d.o.o., Slovenia	Brane Apat
Biterm, d.o.o., Slovenia	Daniilo Reher
Gorenje Notranja oprema, d.o.o., Slovenia	Gregor Verbič
Energygor, d.o.o., Slovenia	Marijan Penšek
Gorenje Beteiligungs GmbH, Austria	Ivan Vitežnik (until 11 January 2006) Marko Šefer (since 12 January 2006)
Gorenje Austria Handels GmbH, Austria	Stanko Kranjc (until 30 July 2005) Uroš Marolt (since 31 July 2005)
Gorenje Küchen GmbH, Austria	Benedikt Skok
Gorenje Vertriebs GmbH, Germany	Alajz Gabrovec
Gorenje Körting Italia S.r.l., Italy	Andrej Pucer
Gorenje France S.A.S., France	Matjaž Geratič
Gorenje BELUX S.a.r.l., Belgium	Matjaž Geratič
Gorenje UK Ltd., Great Britain	Matej Čufer
Gorenje Skandinavien A/S, Denmark	Klemen Prešeren
Gorenje AB, Sweden	Klemen Prešeren
Gorenje spol. s r.o., Czech Republic	Suad Hadžić
Gorenje real spol. s r.o., Czech Republic	Suad Hadžić
Gorenje - kuchyne spol. s r.o., Czech Republic	Viktor Faktor
Gorenje Slovakia s.r.o., Slovak Republic	Bogdan Urh
Gorenje Budapest Kft., Hungary	Bogdan Urh
Gorenje Polska Sp. z o.o., Poland	Uroš Marolt (until 30 September 2005) Matjaž Šuln (since 1 October 2005)
Gorenje Bulgaria EOOD, Bulgaria	Darko Mlinar
Gorenje Zagreb, d.o.o., Croatia	Janez Živko
Gorenje Skopje, d.o.o., Macedonia	Nenad Jovanović
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	Janez Kumer
Gorenje, d.o.o., Serbia and Montenegro	Marko Mrzel
Gorenje Podgorica, d.o.o., Serbia and Montenegro	Darko Vukčević
Gorenje OY, Finland	Klemen Prešeren
Opte Ptuj, d.o.o., Slovenia	Marjan Pišek
Kemis d.o.o., Slovenia	Emil Nanut
Gorenje Romania S.r.l., Romania	Tone Prisljan
Gorenje AS, Norway	Klemen Prešeren
Kemis, d.o.o., Croatia	Zoran Matić
Kemis BiH, d.o.o., Bosnia and Herzegovina	Nataša Ibrahimagić (until 30 June 2005) Damir Muratović (since 1 July 2005)
Istrabenz - Gorenje, d.o.o., Slovenia	Iztok Sotošek (until 30 September 2005) Dejan Paravan (since 1 July 2005)
Gorenje aparati za domačinstvo, d.o.o., Serbia and Montenegro	Mirko Meža
Mora Moravia s.r.o., Czech Republic	Vitezslav Ruzička
Mora Slovakia, s.r.o., Slovak Republic	Oleg Janci (until 23 February 2005) Bogdan Urh (since 24 February 2005)
Gorenje Imobillia, d.o.o., Serbia and Montenegro	Rudolf Krebl
IG Prodaja d.o.o., Slovenia	Dejan Paravan
Nacionalni brendovi, d.o.o., Serbia and Montenegro	Ivan Živanović
Gorenje Adria Nekretnine, d.o.o., Croatia	Rudolf Krebl
Kemis, d.o.o., Serbia and Montenegro	Franc Lipovšek
ZEOS, d.o.o., Slovenia	Emil Šehić
SIA Gorenje, Latvia	Klemen Prešeren
Gorenje, d.d., Slovenia	Klemen Prešeren

Enclosure 3: Foreign exchange rates

Country	Currency	Unit	2005		2004	
			Final exchange rate in SIT	Average exchange rate in SIT	Final exchange rate in SIT	Average exchange rate in SIT
Austria	EUR	1	239.576	239.637	239.743	238.861
Australia	AUD	1	148.500	146.876	136.497	141.581
Belgium	EUR	1	239.576	239.637	239.743	238.861
Czech Republic	CZK	1	8.258	8.051	7.882	7.493
Germany	EUR	1	239.576	239.637	239.743	238.861
Denmark	DKK	1	32.113	32.159	32.242	32.105
European Union	EUR	1	239.576	239.637	239.743	238.861
France	EUR	1	239.576	239.637	239.743	238.861
Great Britain	GBP	1	348.677	350.312	338.333	352.103
Croatia	HRK	1	32.520	32.395	31.406	31.888
Hungary	HUF	1	0.949	0.967	0.977	0.950
Norway	NOK	1	29.947	29.920	29.093	28.542
Italy	EUR	1	239.576	239.637	239.743	238.861
Poland	PLN	1	62.082	59.624	58.847	52.837
Sweden	SEK	1	25.509	25.840	26.641	26.175
Slovak Republic	SKK	1	6.329	6.214	6.189	5.969
USA	USD	1	202.430	192.705	176.243	192.381
Bosnia and Herzegovina	BAM	1	122.493	122.583	122.428	121.793
Bulgaria	BGN	1	122.371	122.469	122.254	122.019
Macedonia	MKD	1	3.899	3.900	3.730	3.857
Switzerland	CHF	1	154.038	154.782	155.113	154.721
Finland	EUR	1	239.576	239.637	239.743	238.861
Romania	ROL	1	65.483	65.850	0.006	0.006
Serbia and Montenegro	CSD	1	2.765	2.893	3.092	3.292

5.1.1.6 Auditor's Report





5.1.2 Financial statements of Gorenje, d.d.

5.1.2.1 Accounting policies

Gorenje, d.d. prepares its financial statements in compliance with the accounting policies of the Gorenje Group.

Stated below are the accounting differences that apply to Gorenje, d.d., Velenje only.

Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Real property held under a finance lease and leased under an operating lease is classified as investment property and accounted for using the fair value method.

Investments in subsidiaries

Subsidiaries are entities controlled by the parent company. Control exists when the parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Investments in subsidiaries are accounted for using the equity method. If there is objective evidence that an investment in a subsidiary is impaired, the impairment loss is recognised in equity under capital revaluation adjustment subject to prior increase in the value of investment, or an increase in expenses arising from impairment of investment by the amount of impairment loss on investment. Objective evidence that an investment in a subsidiary is impaired includes the following loss events: operating losses recorded by the company over a longer period of time, poor solvency of the company, the company's inability to pay dividends, deterioration in performance ratios.

Joint ventures

Joint ventures are those entities over whose activities the company has joint control, established by contractual agreement between the company and the contracting party. Investments in joint ventures are accounted for using the equity method. If there is objective evidence that an investment in a joint venture is impaired, the impairment loss is recognised in equity under capital revaluation adjustment subject to prior increase in the value of investment, or an increase in expenses arising from impairment of investment by the amount of impairment loss on investment.

When presenting information on results by business segment and geographical segment, the following segments are used:

Business segments of Gorenje, d.d. are:

- production and sale of refrigerators and freezers,
- production and sale of washing machines and dishwashers,
- production and sale of cooking appliances,
- other (purchase and sale of appliances from the supplementary and complementary purchase programme of white goods, and provision of other services).

Geographical segments are geographical areas in which Gorenje, d.d. performs its sales. The geographical segments of Gorenje, d.d. are:

- European Union: Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland
- East Europe: Bulgaria, Ukraine, Russia, Macedonia, Croatia, Serbia and Montenegro, Albania, Bosnia and Herzegovina
- other: other countries

5.1.2.2 Financial statements of Gorenje, d.d.

Income statement of Gorenje, d.d.

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

Balance sheet of Gorenje, d.d.

in TSIT	Notes	2005	2004
ASSETS		136,185,868	125,812,563
A. Non-current assets		74,233,321	71,848,874
I. Property, plant and equipment	10	47,865,808	48,174,608
II. Intangible assets	11	3,990,025	3,030,403
III. Investment property	12	190,945	566,645
IV. Investments in subsidiaries	13,15	19,102,647	16,712,870
V. Available-for-sale investments	15	1,304,126	988,588
VI. Non-current loans	14,15	499,616	2,245,476
VII. Deferred tax assets	16	1,280,154	130,284
B. Current assets		61,952,547	53,963,689
I. Inventories	17	17,877,000	15,590,247
II. Current investments	20	4,384,956	4,006,553
III. Trade receivables	18	38,013,673	32,897,079
IV. Other receivables	19	1,375,908	1,019,097
V. Deferred costs (expenses) and accrued revenue	21	290,896	441,113
VI. Cash and cash equivalents	22	10,114	9,600
Off balance sheet items	31	14,766,338	10,839,415
EQUITY AND LIABILITIES		136,185,868	125,812,563
A. Capital	23	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. Fair value reserve		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	24	6,483,925	4,066,766
II. Deferred tax liabilities		0	97,768
III. Financial liabilities	25	22,933,414	17,320,443
C. Current liabilities		56,323,923	50,791,176
I. Financial liabilities	26	13,541,741	13,355,890
II. Trade and other payables	27	41,428,025	36,723,826
III. Accrued costs (expenses) and deferred revenue	28	1,354,157	711,460
Off balance sheet items	31	14,766,338	10,839,415

Cash flow statement of Gorenje, d.d.

in TSIT	Notes	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	4,10	7,255,394	6,838,478
Amortisation of intangible assets	4,11	647,757	627,779
Foreign exchange loss	7,8	690,730	1,295,764
Investment income	7	-2,474,731	-2,364,281
Financial expenses	8	1,652,249	2,028,296
Impairment of associates and subsidiaries	8,9	613,963	13,724
Income from sale of property, plant and equipment		-189,202	-161,702
Tax expense		-163,217	0
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	17	-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		0	-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	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Fair value reserve	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
Change in fair value of investments available for sale						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	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Fair value reserve	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
Sale of own shares			-37,266		37,266		0
Gains on disposal of own shares		45,500				-179,209	-133,709
Closing balance at 31 December 2004	12,200,000	18,832,556	4,509,069	18,355,509	-669,903	309,179	53,536,410

5.1.2.3 Notes to financial statements

Income statement

Other operating income **1,550,953 TSIT**

in TSIT	2005	2004
Income from license fees	820,584	439,762
Rental income	330,573	359,698
Compensation for damage received	110,190	109,198
Gain on disposal of property, plant and equipment	189,202	161,702
Other operating income	100,404	857,257
Total	1,550,953	1,927,617

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

Rental income

in TSIT	2005	2004
Rental income - up to 1 year (Gorenje Group companies)	293,948	318,437
Rental income - up to 1 year (other entities)	36,625	41,261
Anticipated rental income - from 2 to 5 years (Gorenje Group companies)	1,343,341	1,273,748
Anticipated rental income - from 2 to 5 years (other entities)	149,410	165,011
Total	1,823,324	1,798,457

Cost of goods, materials and services **120,614,086 TSIT**

in TSIT	2005	2004
Cost of goods sold	14,455,002	11,064,723
Cost of materials	89,533,958	85,524,697
Cost of services	16,625,126	16,663,269
Total	120,614,086	113,251,689

Note 3

Employee benefits expense **23,415,828 TSIT**

in TSIT	2005	2004
Wages and salaries	16,011,020	15,017,504
Social insurance contributions	3,179,395	3,014,794
Formation of provisions for termination pays and anniversary bonuses	66,862	185,650
Other employee benefits expense	4,158,551	4,022,955
Total	23,415,828	22,240,903

Social insurance contributions include cost of additional voluntary pension insurance (collective) in the amount of 616,264 TSIT.

Other employee benefits expense includes vacation bonuses, meal allowances, commuting allowances, termination pays, and anniversary bonuses in compliance with the national labour legislation and the bylaws of the company.

Note 4

Depreciation / Amortisation expense **7,903,151 TSIT**

in TSIT	2005	2004
Depreciation of property, plant and equipment	7,255,394	6,838,478
Amortisation of intangible assets	647,757	627,779
Total	7,903,151	7,466,257

Note 5

Operating expense resulting from revaluation **831,957 TSIT**

in TSIT	2005	2004
Impairment loss on receivables	268,027	45,403
Impairment loss on inventories	563,930	369,882
Total	831,957	415,285

Note 6

Other operating expenses **607,102 TSIT**

in TSIT	2005	2004
Taxes and fiscal charges	256,680	241,618
Environmental levies	99,529	96,791
Scholarships	39,412	35,833
Other expenses	211,481	145,977
Total	607,102	520,219

Note 7

Financial income	2,485,068 TSIT	
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in TSIT	2005	2004
Dividend income	1,100,018	78,304
Interest income	304,854	447,267
Foreign exchange gain/loss on translation of receivables and investments	744,422	949,220
Change in fair value of financial instruments	10,337	0
Other financial income	325,437	889,490
Total	2,485,068	2,364,281

A significant portion of dividend income includes income from dividends from subsidiaries in the amount of 1,006,854 TSIT.

and financial investments, and commission income from commission on loan guarantees to subsidiaries and third parties.

Other financial income includes gain on disposal of investment property

Note 8

Financial expenses	2,956,942 TSIT	
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in TSIT	2005	2004
Interest expenses	1,609,474	1,900,524
Foreign exchange loss	690,730	1,295,764
Expenses relating to setting-up of provisions for financial instruments used to hedge against risk	0	171,983
Other financial expenses	656,738	141,498
Total	2,956,942	3,509,769

Other financial expenses include expenses relating to impairment of investments in the Gorenje Group companies in the amount of 613,963

TSIT, and expenses relating to commission on loan guarantees in the amount of 40,286 TSIT.

Note 9

Income tax expense	163,218 TSIT	
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Income tax expense is calculated taking into account actual income tax liabilities and determined deferred tax assets and liabilities.

in TSIT	2005	2004
Actual income tax liabilities	395,382	0
Deferred tax assets recognised in the income statement	-581,891	0
Deferred tax liabilities recognised in the income statement	23,291	0
Total	-163,218	0

Effective income tax rates:

in TSIT	2005	2005	2004	2004
Total profit before tax		2,284,160		2,152,302
Income tax calculated using the general tax rate	25.0%	571,040	25%	538,075
Non-deductible expenses	41.6%	950,904	16.8%	360,564
Tax exempt revenues	-12.5%	-285,541	0.0%	-132
Tax incentives	-42.4%	-967,910	-48.2%	-1,037,058
Non-deductible provisions for termination pays	0.7%	16,700	2.2%	46,400
Reversal of provisions for major repairs under SAS	4.9%	112,758	2.3%	49,155
Non-deductible expense relating to change in fair value of derivatives	-0.1%	-2,569	2.0%	42,996
Setting-up of provisions for warranties	-14.7%	-336,654	0	0
Allowance for loss on investments	-6.7%	-153,490	0	0
Allowance for accounts receivable	-2.9%	-67,006	0	0
Allowance for other assets	-1.1%	-24,741	0	0
Writedown of low value assets	1.0%	23,291	0	0
Income tax expense	-7.1%	-163,218	0	0

Balance sheet

Note 10

Property, plant and equipment	47,865,808 TSIT
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Movements in property, plant and equipment in 2005

in TSIT	Land	Buildings	Plant and equipment	PPE under construction	Advances for PPE	Total
Cost 1 January 2005	3,067,609	31,509,881	81,954,887	4,646,554	4,469	121,183,400
Additions	0	0	0	7,685,395	-406	7,684,989
Disposals, write-offs	-20,381	-203,851	-751,389	-640,013	0	-1,615,634
Transfers, exchange differences	144,623	2,445,380	8,035,507	-10,625,510	0	0
Cost 31 December 2005	3,191,851	33,751,410	89,239,005	1,066,426	4,063	127,252,755
Accumulated depreciation 1 January 2005	0	18,190,602	54,818,190	0	0	73,008,792
Disposals, write-offs	0	-136,894	-740,345	0	0	-877,239
Depreciation	0	990,167	6,265,227	0	0	7,255,394
Accumulated depreciation 31 December 2005	0	19,043,875	60,343,072	0	0	79,386,947
Carrying amount 1 January 2005	3,067,609	13,319,279	27,136,697	4,646,554	4,469	48,174,608
Carrying amount 31 December 2005	3,191,851	14,707,535	28,895,933	1,066,426	4,063	47,865,808

The additions to land are due to acquisition of land in the industrial zone of Gorenje in Velenje. The additions to buildings are due to capitalisation of the newly built Selling & Showroom, with parking lot, access roads, and landscaping. In 2005, the facade of the administration building was reconstructed and a new entrance was built, landscaping was carried out, and the roof on the building for raw materials (refrigerators & freezers programme) was improved. The addition to plant and equipment is due to capitalisation of technological equipment, computer hardware, and transportation means acquired and commissioned in 2005 within the regular modernisation, on a yearly basis, of production programmes and technological equipment. In addition,

the capitalisation of plant and equipment for the production of the new generation of washing machines and dryers, as well as the new generation of refrigerators and freezers, with 600, was carried out.

The major portion of property, plant and equipment under construction includes equipment for production of the new generation of refrigerators and freezers in the amount of 570,095 TSIT, equipment acquired due to change in the function and design of cooking appliances and refrigerators & freezers designed by Pininfarina in the amount of 150,025 TSIT, and tools and equipment acquired in respect of technological modernisation in the total amount of 141,592 TSIT.

The latest appraisal of property, plant and equipment was conducted as at 31 December 2003 by certified appraisers of immovable and movable property. No indication of impairment of the items of property, plant and equipment was found.

Long-term borrowings from 1999 were secured by pledge of business premises entered in the land register at the District Court in Velenje, entry number 2801, c.m. Velenje, plot no. 1682/5, and entry number 1099, c.m. Velenje, plot no. 1712, 2843/4, and 1696. As at 31 December 2005, the value of borrowings secured by the respective pledge amounted to 83,295 TSIT.

Note 11

Intangible assets	3,990,025 TSIT
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Movements in intangible assets in 2005

in TSIT	Long-term deferred R&D cost	Long-term property rights	Total
Cost 1 January 2005	2,489,597	2,251,190	4,740,787
Additions	1,306,013	299,426	1,605,439
Cost of acquisition 31 December 2005	3,795,610	2,550,616	6,346,226
Accumulated amortisation 1 January 2005	859,356	851,028	1,710,384
Disposals, write-offs	4,001	-5,941	-1,940
Amortisation	296,871	350,886	647,757
Accumulated amortisation 31 December 2005	1,160,228	1,195,973	2,356,201
Carrying amount at 1 Jan 2005	1,630,241	1,400,162	3,030,403
Carrying amount at 31 Dec 2005	2,635,382	1,354,643	3,990,025

The additions to intangible assets are mainly due to long-term deferred operating costs related to R&D cost of the new generation of appliances.

Note 12

Investment property	190,945 TSIT
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in TSIT	2005	2004
Land	119,736	301,613
Buildings	71,209	265,032
Total	190,945	566,645

Movements in investment property

in TSIT	2005	2004
Opening balance at 1 January	566,645	84,236
Additions	46,210	482,409
Disposals	-421,910	0
Closing balance at 31 December	190,945	566,645

Investment property is property acquired by the Company for sale.

Note 13

Long-term investments in subsidiaries	19,102,647 TSIT
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in TSIT	Share in equity of the company	Investment at 31 Dec 2005	Investment at 31 Dec 2004
Gorenje IPC, d.o.o., Velenje	100.00%	90,370	90,370
LINEA, d.o.o., Velenje	100.00%	29,974	29,974
Gorenje GTI, d.o.o., Velenje	100.00%	2,107,575	2,107,575
BITERM, d.o.o., Velenje	75.00%	150,295	150,295
Gorenje Gostinstvo, d.o.o., Velenje	100.00%	1,427,708	1,427,708
Gorenje Orodjarna, d.o.o., Velenje	100.00%	728,132	728,132
Gorenje Indop, d.o.o., Velenje	100.00%	87,524	413,008
Gorenje Notranja oprema, d.o.o., Velenje	98.86%	4,338,667	4,336,672
Gorenje Tiki, d.o.o., Velenje	99.79%	615,079	615,079
Energygor, d.o.o., Velenje	100.00%	13,785	13,785
Kemis, d.o.o., Radomlje	100.00%	144,279	3,279
Istrabenz-Gorenje, d.o.o., Ljubljana	50.00%	150,000	150,000
IG Prodaja, d.o.o., Nova Gorica	50.00%	10,000	-
Opte Ptuj, d.o.o., Ptuj	100.00%	78,970	149,449
ZEOS, d.o.o., Velenje	51.00%	51,000	-
Gorenje Zagreb, d.o.o., Croatia	100.00%	2,407,433	2,271,915
Gorenje Skopje, d.o.o., Macedonia	100.00%	128,892	118,729
Gorenje Beteiligungs GmbH, Austria	100.00%	3,990,542	4,106,900
Gorenje Imobilia, d.o.o., Serbia and Montenegro	100.00%	356,143	-
Gorenje Valjevo, d.o.o., Serbia and Montenegro	100.00%	988	-
Mora Moravia, s.r.o., Czech Republic	100.00%	2,097,834	-
Gorenje Adria nekretnine, d.o.o., Croatia	100.00%	97,457	-
Total		19,102,647	16,712,870

Note 14

Long-term loans	499,616 TSIT
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Maturities of long-term loans

in TSIT	2005	2004
Maturity from 1 to 2 years	323,654	1,798,450
Maturity from 2 to 3 years	24,757	286,932
Maturity from 3 to 4 years	11,999	0
Maturity from 4 to 5 years	11,000	0
Maturity in excess of 5 years	128,206	160,094
Total	499,616	2,245,476

Long-term loans bear interest at the nominal interest rate ranging from 2.8% to 7.6%.

Note 15

Movements in investments in subsidiaries, long-term loans, and long-term available-for-sale investments in 2005

in TSIT	Balance at 1 Jan 2005	Increase	Decrease	Impairment loss	Balance 31 Dec 2005
Investments into subsidiaries	16,712,870	3,011,780	-	-622,003	19,102,647
Long-term loans	2,245,476	39,713	-1,782,180	-3,393	499,616
Long-term available-for-sale investments	988,588	87,744	-	227,794	1,304,126
Total	19,946,934	3,139,237	-1,782,180	-397,602	20,906,389

Note 16

Deferred tax assets and liabilities	1.280.154 TSIT
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in TSIT	Tax assets		Tax liabilities		Tax assets – Tax liabilities	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	0	0	23,291	97,768	-23,291	-97,768
Investments	153,490	0	0	0	153,490	0
Receivables	67,006	0	0	0	67,006	0
Inventories	21,916	0	0	0	21,916	0
Liabilities arising from litigation	2,825	0	0	0	2,825	0
Provisions for termination pays	721,554	130,284	0	0	721,554	130,284
Provisions for warranties	336,654	0	0	0	336,654	0
Total	1,303,445	130,284	23,291	97,768	1,280,154	32,516

in TSIT	Tax assets – Tax liabilities		Recognised in the income statement		Recognised in equity	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	-23,291	-97,768	-23,291	0	97,768	- 97,768
Investments	153,490	0	153,490	0	0	0
Receivables	67,006	0	67,006	0	0	0
Inventories	21,916	0	21,916	0	0	0
Liabilities arising from litigation	2,825	0	2,825	0	0	0
Provisions for termination pays	721,554	130,284	0	0	591,270	46,434
Provisions for warranties	336,654	0	336,654	0	0	0
Total	1,280,154	32,516	558,600	0	689,038	- 51,334

Note 17

Inventories	17,877,000 TSIT
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in TSIT	2005	2004
Materials	9,982,917	9,287,533
Work in progress	2,486,686	2,176,300
Finished products	4,340,565	3,431,876
Merchandise	1,066,832	694,538
Total	17,877,000	15,590,247

The increase in inventories of materials is due to an increase in the prices of materials and raw materials in 2005, the scope of business activities, and the volume of strategic purchases of materials and raw materials.

The increase in inventories of work in progress over the previous year's fig-

ure is due to an increase in the scope of production activities and the prices of materials.

The increase in inventories of finished products is due to an increase in the scope of business activities.

Note 18

Trade receivables	38,013,672 TSIT
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in TSIT	2005	2004
Trade receivables due from the Gorenje Group companies	26,072,645	24,387,453
Trade receivables due from other entities	11,941,027	8,509,626
Total	38,013,672	32,897,079

Trade receivables by maturity

in TSIT	up to 60 days	in excess of 60 days	Total
Trade receivables due from the Gorenje Group companies	13,884,505	12,188,140	26,072,645
Trade receivables due from other entities	10,369,941	1,571,086	11,941,027
Total	24,254,446	13,759,226	38,013,672

Trade receivables due from the Gorenje Group companies

in TSIT	2005	2004
Gorenje Tiki, d.o.o., Ljubljana	951,179	16,359
Gorenje Gostinstvo, d.o.o., Velenje	19,220	11,904
Gorenje Notranja oprema, d.o.o., Velenje	61,922	48,943
Opte Ptuj, d.o.o., Ptuj	1,499	1,189
Gorenje I.P.C., d.o.o., Velenje	400,741	324,877
Gorenje GTI, d.o.o., Velenje	1,845,837	1,184,657
LINEA, d.o.o., Velenje	5,666	5,690
Gorenje Orodjarna, d.o.o., Velenje	56,564	19,858
Gorenje Indop, d.o.o., Velenje	18,486	17,387
Biterm, d.o.o., Bistrica ob Sotli	9,701	5,276
Gorenje Glin, d.o.o., Nazarje	17,204	5,519
Kemis, d.o.o., Radomlje	1,053	1,435
Energygor, d.o.o., Velenje	3,187	12
Istrabenz-Gorenje, d.o.o., Ljubljana	525	497
Gorenje Slovakia Spol. s.r.o., Slovak Republic	410,846	188,824
Gorenje Spol s.r.o., Czech Republic	-9,387	407,791
Gorenje Skopje, d.o.o., Macedonia	336,249	437,974
Gorenje Zagreb, d.o.o., Croatia	5,676,421	6,739,643
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	922,772	1,050,250
Gorenje Podgorica, d.o.o., Serbia and Montenegro	244,522	567,344
Gorenje Budapest KFT., Hungary	714,395	634,667
Gorenje Polska Sp.z.o.o., Poland	1,745,506	1,375,124
Gorenje Bulgaria EOOD, Bulgaria	569,976	594,107
Gorenje d.o.o., Serbia and Montenegro	3,121,197	2,560,343
Gorenje Belux S.a.r.l., Belgium	136,507	207,009
Hyundai avto d.o.o., Serbia and Montenegro	0	575
Kemis, d.o.o., Croatia	224	235
Gorenje Vertriebs GmbH, Germany	3,117,464	3,777,958
Gorenje Koerting Italia S.r.l., Italy	1,266,461	596,482
Gorenje Austria Handels GmbH, Austria	-326,958	187,747
Gorenje Beteiligungs GmbH, Austria	1,959	1,789
Gorenje Skandinavien A/S, Denmark	2,623,836	2,077,730
Gorenje France SA., France	1,706,522	1,013,368
Gorenje UK Ltd., Great Britain	290,129	324,890
Gorenje Real Spol s.r.o., Czech Republic	164	0
Gorenje Imobilia, d.o.o., Serbia and Montenegro	7,096	0
Mora Moravia, s.r.o., Czech Republic	123,960	0
Total	26,072,645	24,387,453

Trade receivables due from other entities

in TSIT	2005	2004
Trade receivables due from other entities operating in the Republic of Slovenia	1,711,082	1,792,838
Trade receivables due from other entities operating abroad	10,229,945	6,716,788
Total	11,941,027	8,509,626

Note 19

Other trade receivables	1,375,908 TSIT	
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in TSIT	2005	2004
Advance payments for services and inventories	276,949	128,503
Other trade receivables	1,098,959	890,594
Total	1,375,908	1,019,097

The major portion of other trade receivables includes input VAT receivable in the Republic of Slovenia in the amount of 1,017,440 TSIT.

Note 20

Short-term investments	4,384,956 TSIT	
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in TSIT	2005	2004
Shares held for trading	105,939	1,526,325
Short-term loans	4,216,733	2,379,011
Interest receivable	47,535	38,611
Other financial receivables	14,749	62,606
Total	4,384,956	4,006,553

Short-term loans

in TSIT	2005	2004
Current portion of long-term loans to the Gorenje Group companies	189,273	177,248
Short-term loans to the Gorenje Group companies	1,523,664	1,931,896
Current portion of long-term loans to other entities	47,525	7,950
Short-term loans to others	152,009	230,333
Short-term deposits with banks	2,297,177	0
Other short-term loans	7,085	31,584
Total	4,216,733	2,379,011

Short-term loans bear interest at the nominal interest rate ranging from 1.5% to 8.0%.

Short-term loans are not exposed to major risks, since the majority of loans include loans to banks and subsidiaries in the Gorenje Group.

Note 21

Short-term deferred costs (expenses) and accrued revenue	290,898 TSIT	
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in TSIT	2005	2004
Short-term deferred costs and expenses	52,245	41,506
Accrued revenue	238,653	399,607
Total	290,898	441,113

Short-term deferred costs include costs of services invoiced but not provided in 2005.

The major portion of accrued revenue includes accrued revenue from VAT receivables due from foreign countries in the amount of 124,000 TSIT, and from granted quantity discounts for materials in the amount of 98,393 TSIT.

Note 22

Bank balance, cheques, and cash in hand	10,114 TSIT	
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in TSIT	2005	2004
Cash in hand and readily liquid securities	747	868
Bank balances	9,367	8,732
Total	10,114	9,600

Note 23

Capital	50,444,606 TSIT	
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Share capital of Gorenje, d.d. amounts to 12,200,000 TSIT and is divided into 12,200,000 ordinary shares at par value of 1,000 SIT. The issued shares are subscribed and fully paid in.

As at 31 December 2005, Gorenje, d.d. held 717,192 own shares purchased at the amount of 3,655,738 TSIT. As at 31 December 2004, the Company held 251,042 own shares purchased at the amount of 669,903 TSIT.

Net earnings per share amounts to 213.13 SIT (in 2004: 180.12 SIT).

The calculation of net earnings per share was based on the profit for the period and a weighted average number of ordinary shares as follows:

in SIT	2005	2004
Profit for the period	2,447,378	2,152,302
Weighted average number of ordinary shares	11,482,808	11,948,958
Net earnings per share (in SIT)	213.13	180.12

No preference shares have been issued by Gorenje, d.d., therefore the diluted earnings per share is not calculated.

The amount of reserves totals 23,341,625 TSIT, of which 3,219,583 TSIT are not available for payout to shareholders.

Unappropriated profits recorded in the balance sheet prepared under IFRS differ from profits recorded in the company's books. Profits may be distributed to the shareholders up to the amount recorded in the books prepared under Slovenian Accounting Standards.

Note 24

Long-term provisions 6,483,925 TSIT

in TSIT	2005	2004
Long-term provisions for warranties	3,201,933	3,154,155
Long-term provisions for termination pays and pensions	2,886,218	521,137
Other long-term provisions	395,774	391,474
Total	6,483,925	4,066,766

Movements in long-term provision in 2005

in TSIT	Balance 1 Jan 2005	Use and reversal	Formation	Balance 31 Dec 2005
Long-term provisions for warranties	3,154,155	1,298,827	1,346,605	3,201,933
Long-term provisions for termination pays and pensions	521,137	0	2,365,081	2,886,218
Other long-term provisions	391,474	7,000	11,300	395,774
Total	4,066,766	1,305,827	3,722,986	6,483,925

Long-term provisions for warranties are formed on the basis of estimates of warranties prepared by taking into account the available data on the quality level of products and the recorded costs of warranties.

The actuarial calculation of estimated future payments of termination pays and anniversary bonuses was conducted as at 31 December 2005. The amount of estimated future payments of termination pays and anniversary bonuses, which result from a change in the number of employees and their

structure in 2005, was charged against current profit or loss. The remaining amount was charged against retained earnings. The calculation was conducted separately for each employee, taking into consideration the cost of termination pay upon retirement and the cost of all anticipated anniversary bonuses until the day of retirement.

Other long-term provisions include provisions for claims for damages in litigation.

Note 25

Long-term financial liabilities 22,933,414 TSIT

in TSIT	2005	2004
Long-term financial liabilities to banks	28,042,139	21,008,135
Long-term financial liabilities to other entities	3,083,132	1,903,693
Current portion of long-term financial liabilities to banks	-8,191,857	-5,591,385
Total	22,933,414	17,320,443

Long-term financial liabilities are denominated in EUR. Long-term borrowings bear interest at the nominal interest rate ranging from 2.8% to 6.2%.

Maturities of long-term financial liabilities

in TSIT	2005	2004
Maturity from 1 to 2 years	7,792,536	5,494,531
Maturity from 2 to 3 years	7,222,381	4,982,715
Maturity from 3 to 4 years	4,901,162	4,412,160
Maturity from 4 to 5 years	2,158,833	2,089,318
Maturity in excess of 5 years	858,502	341,719
Total	22,933,414	17,320,443

Collateralisation of long-term financial liabilities

in TSIT	2005	2004
Bills	21,711,655	15,755,214
Pari-Passu Clause, Negative Pledge Clause	21,659,547	13,519,470
Financial obligations (ratios)	7,775,512	9,785,644
Mortgage	0	83,353

Note 26

Short-term financial liabilities 13,541,741 TSIT

in TSIT	2005	2004
Short-term borrowings from banks	3,614,485	7,088,976
Short-term borrowings from other entities	1,506,130	410,746
Short-term interest payable	37,054	64,280
Short-term dividends payable	30,570	28,519
Current portion of long-term financial liabilities	8,191,857	5,591,385
Fair value derivatives	161,645	171,984
Total	13,541,741	13,355,890

Collateralisation of short-term financial liabilities

in TSIT	2005	2004
Bills	11,592,371	12,315,060
Pari-Passu Clause, Negative Pledge Clause	10,241,146	7,076,254
Financial obligations (ratios)	3,320,965	3,598,759
Mortgage	83,353	88,257

Short-term borrowings

Currency	Amount in currency (in 000)	Amount in TSIT	Interest rate	
			from	to
EUR	51,093	12,240,687	2.20 %	6.21 %
Other currencies		1,233,430	2.20 %	6.21 %
Total		13,474,117		

Short-term trade and other payables

41,428,025 TSIT

in TSIT	2005	2004
Payables to suppliers in the Gorenje Group	3,950,638	3,876,599
Payables to other suppliers	35,250,059	30,802,578
Payables to employees	1,538,302	1,469,435
Payables to state institutions	686,589	472,573
Other payables	2,437	102,641
Total	41,428,025	36,723,826

In 2005, trade and other payables increased by 4,704,199 TSIT or 12.8% over the previous year's figure. The increase in trade and other payables is mainly due to an increase in purchases and the extension of the period of payment allowed by suppliers.

Payables to state institutions include the employer's social security contributions payable for December 2005, and income tax payable for the current year.

Payables to suppliers in the Gorenje Group as at 31 December

in TSIT	2005	2004
Gorenje Tiki, d.o.o., Ljubljana	1,696	794
Gorenje Gostinstvo, d.o.o., Velenje	46,893	93,399
Gorenje Notranja oprema, d.o.o., Velenje	12,689	9,696
Opte Ptuj, d.o.o., Ptuj	1,532	1,201
Gorenje I.P.C., d.o.o., Velenje	1,278,997	1,304,843
Gorenje GTI, d.o.o., Velenje	800,188	756,657
LINEA, d.o.o., Velenje	1,998	694
Gorenje Orodjarna, d.o.o., Velenje	204,106	210,096
Gorenje Indop, d.o.o., Velenje	238,236	359,125
Biterm, d.o.o., Bistrica ob Sotli	185,837	132,416
Gorenje Glin, d.o.o., Nazarje	107	3,656
Kemis, d.o.o., Radomlje	936	1,891
IG Prodaja, d.o.o., Nova Gorica	38,815	0
Istrabenz-Gorenje, d.o.o., Ljubljana	13,590	0
Gorenje Slovakia Spol. s.r.o., Slovak Republic	23,421	0
Gorenje Spol s.r.o., Czech Republic	121,514	75,461
Gorenje Zagreb, d.o.o., Croatia	201,852	192,891
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	7,060	-372
Gorenje Budapest KFT., Hungary	22,659	248
Gorenje Polska Sp.z.o.o., Poland	241	110
Gorenje Romania S.r.l., Romania	34,056	36,564
Gorenje d.o.o., Serbia and Montenegro	21,746	69,613
Gorenje Belux S.a.r.l., Belgium	8,444	10,907
Gorenje Vertriebs GmbH, Germany	78,865	56,416
Gorenje Koerting Italia S.r.l., Italy	5,553	292,254
Gorenje Austria Handels GmbH, Austria	0	5,813
Gorenje Beteiligungs GmbH, Austria	130,471	2,929
Gorenje Kuechen GmbH, Austria	349	288
Gorenje Skandinavien A/S, Denmark	13,790	21,313
Gorenje France SA., France	120,241	199,536
Gorenje USA Inc., USA	0	2,477
Gorenje UK Ltd., Great Britain	54,522	35,683
Mora Moravia, s.r.o., Czech Republic	280,234	0
Total	3,950,638	3,876,599

As at 31 December, payables to employees include:

in TSIT	2005	2004
Wages and salaries, continued pay	770,125	721,619
Contributions on wages and salaries	303,475	290,012
Taxes on wages and salaries	165,849	159,163
Other emoluments from employment	24,573	23,307
Deductions from wages and salaries	270,264	271,296
Other payables	4,016	4,038
Total	1,538,302	1,469,435

Note 28**Accrued costs (expenses) and deferred revenue 1,354,157 TSIT**

in TSIT	2005	2004
Short-term deferred revenue	29,574	28,713
Short-term accrued costs and expenses	1,324,583	682,747
Total	1,354,157	711,460

Short-term accrued costs and expenses include accrued costs of services in the amount of 752,784 TSIT, accrued interest expenses on borrowings in the amount of 188,250 TSIT, accrued expenses relating to credit rating in 2005 in the amount of 189,987 TSIT,

and other accrued employee benefits expenses in the amount of 181,393 TSIT.

Short-term deferred revenue includes deferred revenue from default interest charged to buyers.

Note 29**Financial instruments**

The risk management is described under the items 2.10 and 2.11 of the Management Report in the Annual Report. Derivative financial instruments

are used to hedge against currency risk and interest rate risk.

Note 30**Fair value**

Investments held for trading are carried at fair value based on quoted market prices.

Forward exchange transactions
As at 31 December 2005, the amount of hedged items for which forward exchange transactions were concluded by Gorenje, d.d. totalled 15,114,548.87 EUR. Forward exchange transactions are used to hedge against changes in the currency parity between: EUR/PLN, EUR/AUD, EUR/USD, EUR/HRK, EUR/SKK. The maturity of transactions is a short-term one (less than one year).

The fair value of these transactions is the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. The data for determination of fair value of financial instruments is provided by Reuters; the decisive values are the values of the opposite forward exchange transactions with the same maturities, in effect at the balance sheet date. The fair value of forward currency transactions at the balance sheet date is the difference between the value of actually concluded forward exchange transactions and the value of the opposite forward exchange transactions at the balance sheet date, taking into consideration the same maturities of individual forward exchange transactions.

As at 31 December 2005, the total fair value of forward exchange transactions amounted to -121,608,822.87 SIT or -507,601.04 EUR and was recorded under short-term financial liabilities.

Interest rate swap transactions
As at 31 December 2005, the amount of hedged items for which interest rate swap transactions were concluded by Gorenje, d.d. totalled 105,965,814.86 EUR or 25,386,823,674.57 SIT. Interest rate swap transactions are used to hedge against changes in the variable interest rate EURIBOR. The maturity of transactions is a long-term one, i.e. successively until 31 January 2012.

The fair value of these transactions is the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. The data for determination of fair value of financial instruments is provided by Reuters; the decisive values are the values of interest rate swap transactions with the same maturities, in effect at the balance sheet date.

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

As at 31 December 2005, the total fair value of interest rate swap transactions amounted to -40,036,672.15 SIT or -167,114.98 EUR and was recorded under short-term financial liabilities.

Loans and borrowings are carried at the amount recalculated by use of the effective interest rates, which do not differ essentially from the contractual interest rates. Therefore, the contractual interest rate is used in the calculations. Short-term trade and other receivables are not discounted for the reason of being short term. However, impairment loss on fair value is taken into consideration.

Fair value and book value of assets and liabilities of Gorenje, d.d.

in TSIT	Book value 2005	Fair value 2005	Book value 2004	Fair value 2004
Long-term available-for-sale investments	1,304,126	1,304,126	988,588	988,588
Long-term loans	499,916	499,916	2,245,476	2,245,476
Short-term investments	4,384,956	4,384,956	4,006,553	4,006,553
Short-term trade and other receivables	38,013,673	38,013,673	32,897,079	32,897,079
Cash and cash equivalents	10,114	10,114	9,600	9,600
Long-term financial liabilities	-22,933,414	-22,933,414	-17,320,443	-17,320,443
Short-term financial liabilities	-13,541,741	-13,541,741	-13,355,890	-13,355,890
Short-term operating liabilities	-41,428,025	-41,428,025	-36,723,826	-36,723,826
Total	-33,690,395	-33,690,395	-27,252,863	-27,252,863

Note 31**Off balance sheet items**

in TSIT	2005	2004
Guarantees given	14,509,176	10,594,818
Other off balance sheet liabilities	257,162	244,597
Total	14,766,338	10,839,415

Liabilities under guarantees include guarantees in the amount of 12,730,380 TSIT given to secure financial liabilities of subsidiaries, payment guarantees, and performance guarantees. (in compliance with the provisions of IFRS 4).

Other off balance sheet liabilities include low-value assets that have been immediately written off, yet are still in use.

Note 32**Remuneration of Management Board, Supervisory Board and Employees under individual contract**

In 2005, the following gross personal emoluments were paid to the following groups of persons:

Gross emoluments

in TSIT	Management Board	Supervisory Board	Employees under individual employment contract
- salaries	165,460	35,325	944,114
- incentive bonuses	54,910	27,560	125,877
- fringe benefits	14,153	158	73,380
- other emoluments	760	6,678	11,767
Total	235,283	69,721	1,155,138

Net emoluments

in TSIT	Management Board	Supervisory Board	Employees under individual employment contract
- salaries	63,233	20,088	439,589
- incentive bonuses	23,433	20,150	60,703
- fringe benefits	14,153	158	73,380
- other emoluments	412	4,177	7,371
Total	101,231	44,573	581,043

Other emoluments include vacation bonuses and meeting attendance fees for the members of the Supervisory Board.

In accordance with the Securities Market Act, the total payments, reimbursements, and other benefits of the members of the Management Board are given below:

Gross emoluments

in TSIT	Franjo Bobinac	Franc Košec	Žiga Debeljak	Drago Bahun
- salaries	48,586	40,742	36,673	39,459
- incentive bonuses	16,150	12,920	12,920	12,920
- fringe benefits	5,327	2,998	3,036	2,792
- other emoluments	190	190	190	190
Total	70,253	56,850	52,819	55,361

Net emoluments

in TSIT	Franjo Bobinac	Franc Košec	Žiga Debeljak	Drago Bahun
- salaries	17,841	15,712	14,104	15,576
- incentive bonuses	6,788	5,513	5,602	5,530
- fringe benefits	5,327	2,998	3,036	2,792
- other emoluments	102	103	104	103
Total	30,058	24,326	22,846	24,001

The Supervisory Board resolved that incentive bonuses in the amount equal to 5 basic gross salaries paid in December 2004 should be paid to the members of the Supervisory Board for their successful work in the year 2004.

No long-term or short-term loans have been granted to the members of the Management Board, Supervisory Board, and internal owners.

Note 33**Events after the balance sheet date**

Significant events after the balance sheet date:

- On 15 January 2006, after payment of the purchase price for 32,074 shares of Surovina, d.d., Maribor and transfer of shares in the register of Central Securities Clearing Corporation, Gorenje, d.d. officially became the owner of a 27.6% share in the company.

- In accordance with the Call and Put Option Contract concluded on 21 June 2004 with Slovenska od_kodninska dru_ba, d.d. (Slovene Indemnity Company), Gorenje, d.d. exercised on 3 February 2006 the third call option for 233,075 own shares and became the owner of 950,267 own shares, or of 7.8% equity capital.

Note 34

Related party transactions

The Gorenje Group companies carried out their related party transactions on the basis of a contract of sale / purchase, under observance of the arm's length principle.

Note 35

**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
Share premium		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/fair value reserve	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.

Note 36

Explanation of transition to IFRSs – Reconciliation of profit for 2004

in TSIT	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
Staff cost	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.

Note 37

Business segments

in TSIT	Refrigerators and freezers		Washing machines and dishwashers		Cooking appliances		Other sale		Eliminations		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Net revenue from sale of products, goods and materials	57,205,286	52,942,225	31,872,630	34,150,515	47,636,480	44,095,757	13,503,881	11,988,074	0	0	150,218,277
Revenue from sale of services	767,804	269,410	1,254,210	97,865	332,520	123,444	785,320	454,820	0	0	3,139,854	935,539
Net revenue from sale to the Gorenje Group companies	37,808,200	40,304,240	20,575,077	21,965,654	29,856,654	28,145,851	11,856,450	9,656,523	0	0	100,096,381	100,072,268
Segment's results from operations	57,653	87,565	494,634	356,852	1,793,599	1,748,396	410,147	430,525	0	674,452	2,756,034	3,297,790
Financial results	0	0	0	0	0	0	0	0	-471,874	-1,145,488	-471,874	-1,145,488
Taxes	0	0	0	0	0	0	0	0	163,218	0	163,218	0
Net profit or loss	0	0	0	0	0	0	0	0	2,447,378	2,152,302	2,447,378	2,152,302
Segment's assets	42,506,824	39,394,385	31,616,544	29,817,365	31,626,396	27,989,145	27,429,312	25,093,655	0	0	133,179,076	122,294,550
Unallocated assets	0	0	0	0	0	0	0	0	0	0	3,006,792	3,518,013
Total assets	42,506,824	39,394,385	31,616,544	29,817,365	31,626,396	27,989,145	27,429,312	25,093,655	0	0	136,185,868	125,812,563
Segment's liabilities	31,913,841	25,155,435	20,040,043	17,735,549	23,870,731	19,726,711	9,917,037	9,658,458	0	0	85,741,262	72,276,153
Segment's investments	2,870,659	2,227,705	2,260,333	1,440,403	1,568,062	544,107	2,591,374	7,153,962	0	0	9,290,428	11,366,177
Write-off of operating current assets	165,347	45,652	427,218	282,527	127,784	74,540	107,538	12,566	0	0	827,887	415,285

Note 38

Geographical segments

in TSIT	EU		East Europe		Other areas		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	Net revenue	90,538,901	88,635,097	53,575,567	47,127,930	9,243,663	8,359,083	153,358,131
Segment's assets	60,121,608	56,615,453	46,312,625	42,207,419	29,751,635	28,989,692	136,185,868	125,812,563
Segment's investments	4,332,269	5,182,359	3,018,834	3,675,048	1,939,325	2,508,770	9,290,428	11,366,177

5.1.2.4 Auditor's Report



Household Appliances Division

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*Tekst: Gorenje d.d.
Design and photo: Studio Breg, d.o.o.,
Printed: Gorenjski Tisk, d.d.
Maj 2006*

