

Non-audited Consolidated Financial Statements of the Gorenje Group for the year 2005
 in accordance with the
International Financial Accounting Standards (IFRS)

Published by corporation Gorenje, d.d., Partizanska 12, SI-3503, Velenje, as provided by Article 51, paragraph 10 of the Corporations Act, Article 38a of the Regulations of Ljubljanska borza vrednostnih papirjev d.d. (the Ljubljana Stock Exchange), and the Securities Market Act.

Achieved Business Objectives

Business Environment

In 2005, we witnessed the continuation of **similar trends and conditions** as in 2004 in all areas of operation of the Gorenje Group. **European markets** were once again characterised by a **low level of economic activity, low level of consumer confidence** and **diminished international competitiveness** due to a weak US dollar, which resulted in a reduced demand for durable goods including household appliances and other products for the home, and in increased competition and price pressures on the European market.

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

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

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

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

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

Summary of Business Performance in Figures:

Million SIT	2005	Plan 2005	2004	2005/ Plan 2005	2005/2004
Net sales revenue	243,152.4	235,208.4	216,247.0	103.4	112.4
Gross Operating Yield	249,967.7	239,836.8	226,582.5	104.2	110.3
EBITDA plus Long-Term Provisions	19,307.6	18,660.7	18,049.2	103.5	107.0
Profit before tax	5,707.1	5,628.3	5,367.4	101.4	106.3
Net Profit	5,120.7	4,793.2	5,078.6	106.8	100.8
Average Number of Employees	10,492	10,581	9,503	99.2	110.4

Net Sales Revenue

In 2005, the Gorenje Group achieved a significant growth in business operations with net sales revenue exceeding EUR 1.0 billion, which is 12.4 % more than in 2004 and 3.4 % above plan.

To a large extent, the growth of net sales revenue achieved and shown in the financial statements can be contributed to the integration of the Czech company Mora Morava into the Group in early January 2005 on one hand, which boosted consolidated net revenue from sales (5.7 percentage points), and to the divestment of both Hyundai companies operating in Croatia and in Serbia and Montenegro on the other.

EBITDA Plus Net Increase of Long-Term Provisions

Earnings before interest, tax, amortization and the net increase in long-term provisions in the balance sheet are higher than in 2004 by 7 % and 3.5 % above plan despite higher costs of raw materials due to the global price hike in resources and commodities (steel sheet metal and other steel products, non-ferrous metals and petrochemicals), mainly on account of keeping other expenditure low and higher revenues than originally anticipated.

Gross Profit

Gross profit i.e. profit before tax is particularly important in the light of business conditions in 2005, on account of a high tax rate on profit (203.1 index applicable income tax index compared to 2004) and the clarification of such a rise compared to the growth of net profit i.e. profit after tax. The planned figures were exceeded as the gross operating revenue (gross profit) also grew at the same rate.

Net Profit

Irrespective of the already mentioned tax burden increase, net profit was higher than in the year before, however, its actual growth rate was lower than the growth rate of gross profit i.e. profit before tax. Net profit was also higher than planned, due to poorly formulated taxation legislation and the resulting overestimation of the tax burden in the planning period.

Non-audited Consolidated Balance Sheet of the Gorenje Group

	In SIT '000	31.12.2005	31.12.2004
	ASSETS	195,509,870	179,232,385
A.	Non-current assets	91,298,871	87,218,468
I.	Intangible assets	5,617,772	3,326,700
II.	Property, plant and equipment	78,838,655	78,225,429
III.	Investment property	212,836	588,536
IV.	Non-current investments	3,956,761	4,399,640
V.	Non-current receivables	854,915	608,836
VI.	Deferred tax	1,817,932	69,327
B.	Current assets	104,210,999	92,013,917
I.	Inventories	40,747,501	38,458,861
II.	Current investments	5,471,072	4,287,385
III.	Trade and other receivables	54,795,210	46,675,288
IV.	Cash and cash equivalents	2,548,792	1,841,815
V.	Deferred costs (expenses) and accrued income	648,424	750,568
	EQUITY AND LIABILITIES	195,509,870	179,232,385
A.	Total equity	58,720,204	60,874,051
I.	Shares	12,200,000	12,200,000
II.	Reserves	36,326,717	37,814,045
III.	Net profit from previous years	4,128,547	3,996,907
IV.	Net profit for the year	5,107,002	3,565,251
V.	Own shares	-3,655,738	-669,903
VI.	Revaluation reserves	4,412,317	3,776,681
VII.	Minority interest	201,359	191,070
B.	Non-current liabilities	42,843,223	35,027,373
I.	Provisions	11,946,351	7,323,403
II.	Deferred government grant	1,789,926	1,777,690
III.	Deferred tax	243,948	330,580
IV.	Interest bearing borrowings	28,809,677	25,589,500
V.	Other non-current liabilities	53,321	6,200
C.	Current liabilities	93,946,443	83,330,961
I.	Short-term borrowings	33,405,532	31,256,972
II.	Trade and other current liabilities	56,297,540	49,571,515
III.	Accrued costs and deferred revenues	4,243,371	2,502,474

Non-audited Consolidated Profit and Loss Statement of the Gorenje Group

	In SIT '000	2005	2004
1.	Net sales revenue	243,152,426	216,247,044
2.	Changes in inventories	2,815,720	5,662,692
3.	Other operating income	3,999,555	4,672,737
4.	Gross operating yield	249,967,701	226,582,473
5.	Cost of goods, materials and services	-185,045,214	-163,750,045
6.	Personnel expenses	-43,375,610	-39,608,326
7.	Depreciation and amortization expense	-11,692,539	-10,096,591
8.	Operating expenses from revaluation	-1,690,541	-1,244,524
9.	Other operating expenses	-1,704,101	-4,929,870
10.	Operating profit	6,459,696	6,953,117
11.	Financial revenue	4,071,056	3,726,548
12.	Financial expenses	-4,823,683	-5,312,303
13.	Profit before tax	5,707,069	5,367,362
14.	Income tax expense	-586,391	-288,720
15.	Profit after tax	5,120,678	5,078,642
16.	Minority interest	13,676	24,813
17.	Net profit for the year	5,107,002	5,053,829
18.	Basic earnings per share (in SIT)	445.94	425.03

Non-audited Consolidated Cash Flow Statement of the Gorenje Group

	in SIT '000	2005	2004
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
	Net profit	5,120,678	5,078,642
	Adjustments for:		
	Depreciation of tangible fixed assets	10,753,630	9,674,811
	Depreciation of intangible fixed assets	860,678	421,780
	Currency translation loss	1,396,935	2,264,740
	Financial revenue	-4,071,056	-3,726,548
	Financial expenses	3,426,748	3,056,872
	Profit from sale of fixed assets	-752,621	-522,438
	Income tax expense	586,391	288,720
	Operating profit before changes in working capital and provisions	17,321,383	16,536,579
	Increase in trade and other receivables	-6,574,080	-2,934,442
	Increase in inventories	-3,866,640	-9,114,485
	Increase in provisions	1,068,725	1,233,028
	Increase in trade and other payables	5,921,943	5,339,773
	Cash generated from the operations	-3,450,052	-5,476,126
	Interest paid	-4,051,347	-4,854,303
	Income taxes paid	-547,621	-441,107
	Net cash from operating activities	9,272,363	5,765,043
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
	Proceeds from sale of plant and equipment	1,328,820	1,468,709
	Interest received	3,867,503	2,987,981
	Dividends received	146,662	123,457
	Disposal of subsidiary, net of cash disposed of	2,156,180	0
	Acquisition of subsidiary, net of cash acquired	-2,527,106	-291,598
	Acquisition of property, plant and equipment	-11,628,299	-15,352,537
	Other investments	365,108	-2,898,919
	Acquisition of intangible fixed assets	-1,648,968	-1,353,537
	Net cash from investing activities	-7,940,100	-15,316,444
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
	Repurchase of own shares	-2,985,835	45,500
	Borrowings	3,370,737	9,840,860
	Dividends paid	-1,171,588	-1,194,863
	Net cash from financing activities	-786,686	8,691,497
	Net increase in cash and cash equivalents	545,577	-859,904
	Cash and cash equivalents at 1 January	2,003,215	2,701,719
	Cash and cash equivalents at 31 December	2,548,792	1,841,815

Non-audited Consolidated Statement of Changes in Equity of the Gorenje Group

in SIT '000	Share capital	Reserves	Net profit or loss from previous periods	Net profit or loss for the year	Own shares	Revaluation reserves	Minority interest	Total
Balance at 1 January 2005	12,200,000	37,814,045	3,996,907	3,565,251	-669,903	3,776,681	191,070	60,874,051
Net profit for the year				5,107,002			13,676	5,120,678
Revaluation and translation adjustments						407,842		407,842
Special equity revaluation reserves due to the value increase of long and short term investments						227,794		227,794
Formation provisions for termination pays and pensions and deferred tax assets			-3,749,351					-3,749,351
Transfer of net profit from previous periods to other reserves under the resolution adopted by shareholder's assembly meeting		1,255,193	-1,255,193					0
Reversal and transfer of other reserve to net profit or loss from the year 1999		-2,742,521	2,742,521					0
Transfer of net profit for 2004			3,565,251	-3,565,251				0
Dividend payout			-1,171,588					-1,171,588
Own shares acquired					-2,985,835			-2,985,835
Decrease in minority interest							-3,387	-3,387
Balance at 31 December 2005	12,200,000	36,326,717	4,128,547	5,107,002	-3,655,738	4,412,317	201,359	58,720,204

in SIT '000	Share capital	Reserves	Net profit or loss from previous periods	Net profit or loss for the year	Own shares	Revaluation reserves	Minority interest	Total
Balance at 1 January 2004	12,200,000	29,439,315	5,588,662	2,200,324	-707,169	8,088,035	482,668	57,291,835
Net profit for the year				5,053,829			24,813	5,078,642
Revaluation and translation adjustments						512,372		512,372
Transfer of revaluation and translation adjustments to IS						-543,024		-543,024
Reversal of reserve of own shares		-37,266			37,266			0
Appropriation of net profit for 2004 to statutory reserves		270,651		-270,651				0
Gains of sale of own shares		45,500						45,500
Transfer of accumulated profit for 2003 to other reserves under the resolution adopted by shareholder's assembly meeting		4,166,101	-4,166,101					0
Appropriation of net profit for 2004 to other reserves under the resolution adopted by the managing board and supervisory board		1,217,927		-1,217,927				0
Reversal and transfer of other reserves to net profit from previous periods		-1,568,885	1,568,885					0
Transfer of general equity revaluation adjustment to reserves		4,280,702				-4,280,702		0
Transfer of net profit for 2003			2,200,324	-2,200,324				0
Dividend payout			-1,194,863					-1,194,863
Decrease in minority interest							-316,411	-316,411
Balance at 31 December 2004	12,200,000	37,814,045	3,996,907	3,565,251	-669,903	3,776,681	191,070	60,874,051

Important Notes to the Statements

Principles Applied in the Preparation of Financial Statements

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

Gorenje Group Structure

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

- In early January 2005, corporation Gorenje, d.d. purchased a 100 % share in **Opte Ptuj, d.o.o.**, a proprietary limited company, and a 66.67 % share in another proprietary limited company, **Kemis, d.o.o.** from Energygor, d.o.o..
- On 26 January 2005, corporation Gorenje, d.d., in line with the purchase agreement, became the owner of 100 % of shares in the Czech company **Mora Moravia, a.s.**
- Entry into the court register on 28 January 2005 concluded the process of restructuring of the joint-stock company **Gorenje Notranja oprema** into a proprietary limited company where corporation Gorenje, d.d. holds a 98.86 % share.
- On 30 March 2005, corporation Gorenje, d.d., founded **Gorenje Adria nekretnine, d.o.o.**, a proprietary limited company with headquarters in Zagreb, with a 100 % ownership share.
- 2005 marks the start of operation of proprietary limited company **IG Prodaja, d.o.o.** where Gorenje, d.d. holds a 50 % ownership share with Istrabenz energetski sistemi, d.o.o. holding the other 50 %.
- Proprietary limited company **G.A. Beteiligungs GmbH** was founded. **G.A. Beteiligungs GmbH** is fully owned by Gorenje Beteiligungs GmbH, to which a 100 % ownership share in Hyundai Avto Zagreb, d.o.o., Zagreb, and a 100 % ownership share in Avto Zagreb, d.o.o., Beograd was transferred. On 12 July 2005, holding company Gorenje Beteiligungsgesellschaft mgB with headquarters in Vienna signed an agreement with buyer Trdnjava Holding, d.d., Celje, for the sale of a 70 % ownership share of G.A. Beteiligungs GmbH. The Gorenje Group decided on selling the majority share in the enterprises involved in car sales, in line with the strategy of focusing on the core business.
- On 20 July 2005, Avtotehna, BSH/Home Appliances, Gorenje, LTH, Mercator, Merkur and Mikropis, which are among the biggest companies involved in the handling of scrap electrical and electronic equipment in Slovenia, founded a company for the handling of scrap electrical and electronic equipment, **ZEOS, d.o.o.**, in which the mother company holds a 51 % ownership share.
- On 1 November 2005, **Mora Hungaria Fft., Hungary** was amalgamated into **Gorenje Budapest Kft.. Mora Slovakia s.r.o.**, Slovakia, has been in receivership since July 2005. The process is expected to be completed by the beginning of the year 2006.
- Proprietary limited companies **Gorenje Kuhinje, d.o.o.**, Bosnia and Herzegovina, and **Gorenje USA Inc.**, USA, have been liquidated in accordance with the resolutions adopted by their respective assemblies.
- In July, pursuant to the resolution adopted by the Management Board, we started the process of setting up a **representative office in Shanghai, China**, which should be finalised by the end of this year.
- Kemis, d.o.o., on 5 October 2005 established a proprietary limited company in Serbia and Montenegro, **Kemis, d.o.o. with headquarters in Valjevo**, in which it holds a 100 % ownership share; on 14 October 2005 it purchased a 10 % share in **Kemis BiH, d.o.o., Lukavac**, which brought its total share in the business to 100 %.

- Pursuant to the resolution adopted by the company assembly, Gorenje Skandinavien A/S founded two companies in **Estonia** and **Latvia**.
- On 24 August 2005, Gorenje, d.o.o., Beograd purchased **Nacionalni Brendovi, d.o.o.**, a proprietary limited company, for the purpose of acquiring land for the construction of a business/shopping centre.
- On 30 December 2005, **Gorenje Glin, d.o.o.**, was amalgamated into Notranja oprema, d.o.o..

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

Companies, operating in Slovenia		Ownership share, %	Division
1.	Gorenje IPC, d.o.o., Velenje	100.00	GA
2.	Biterm, d.o.o., Bistrica ob Sotli	75.00	GA
3.	Gorenje Notranja oprema, d.o.o., Velenje	98.86	NO
4.	Gorenje Orodjarna, d.o.o., Velenje	100.00	GA
5.	Gorenje Indop, d.o.o., Velenje	100.00	GA
6.	Gorenje Tiki d.o.o., Ljubljana	99.795	GA
7.	Gorenje GTI, d.o.o., Velenje	100.00	STO
8.	Gorenje Gostinstvo, d.o.o., Velenje	100.00	STO
9.	LINEA, d.o.o., Velenje	100.00	STO
10.	Energygor, d.o.o., Velenje	100.00	STO
11.	Opte Ptuj, d.o.o., Ptuj	100.00	STO
12.	Kemis, d.o.o., Radomlje	100.00	STO
13.	Istrabenz – Gorenje, d.o.o., Ljubljana (JV)	50.00	STO
14.	IG Prodaja d.o.o., Nova Gorica (JV)	50.00	STO

Companies, operating outside Slovenia		Ownership share, %	Division
15.	Gorenje Beteiligungsgesellschaft m.b.H., Austria	100.00	GA
16.	Gorenje Austria Handelsgesellschaft m.b.H., Austria	100.00	GA
17.	Gorenje Vertriebsgesellschaft m.b.H., Germany	100.00	GA
18.	Gorenje Körting Italia S.r.l., Italy	100.00	GA
19.	Gorenje France S.A.S., France	100.00	GA
20.	Gorenje BELUX S.a.r.l., Belgium	100.00	GA
21.	Gorenje UK Ltd., Great Britain	100.00	GA
22.	Gorenje Skandinavien A/S, Denmark	100.00	GA
23.	Gorenje AB, Sweden	100.00	GA
24.	Gorenje Spol. s r.o., Czech Republic	100.00	GA
25.	Gorenje Real Spol. s r.o., Czech Republic	100.00	GA
26.	Gorenje Slovakia Spol. s r.o., Slovakia	100.00	GA
27.	Gorenje Budapest Kft., Hungary	100.00	GA
28.	Gorenje Polska sp. z o.o., Poland	100.00	GA
29.	Gorenje Bulgaria EOOD, Bulgaria	100.00	GA
30.	Gorenje Zagreb, d.o.o., Croatia	100.00	GA
31.	Gorenje Skopje, d.o.o., Macedonia	100.00	GA
32.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	GA

33.	Gorenje, d.o.o., Serbia and Montenegro	100.00	GA
34.	Gorenje Podgorica , d.o.o., Serbia and Montenegro	99.972	GA
35.	Gorenje OY, Finland	100.00	GA
36.	Gorenje AS, Norway	100.00	GA
37.	Gorenje Romania S.R.L., Romania	100.00	GA
38.	Gorenje aparati za domačinstvo, d.o.o., Serbia and Montenegro	100.00	GA
39.	Mora Moravia a.s., Czech Republic	100.00	GA
40.	Mora Slovakia s r.o., Slovakia	100.00	GA
41.	Gorenje Küchen GmbH, Austria	98.86	NO
42.	Gorenje Kuchyne Spol. s r.o., Czech Republic	98.86	NO
43.	Gorenje Imobilia, d.o.o., Serbia and Montenegro	100.00	STO
44.	Gorenje Adria nekretnine, d.o.o., Croatia	100.00	STO
45.	Kemis, d.o.o., Croatia	100.00	STO
46.	Kemis BiH, d.o.o., Bosnia and Herzegovina	90.00	STO
47.	Nacionalni brendovi, d.o.o., Serbia and Montenegro	100.00	STO

Division GA – Household Appliances Division.

Division NO – Home Interior Division.

Division STO – Trade and Services Division.

Gorenje, d.d. also has the following **representative offices** abroad, which are instrumental in doing business in certain foreign markets:

Representative offices abroad	
1.	Moscow, Russia
2.	Krasnojarsk, Russia
3.	Kiev, Ukraine
4.	Athens, Greece
5.	Barcelona, Spain
6.	Shanghai, China

Major Events Following the Balance Sheet Date

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

- Conceptual and organisational **restructuring of business operation** of subsidiaries **Gorenje Indop, d.o.o.** and **Gorenje Orodjarna, d.o.o.** (centralization of certain corporate functions);
- Conceptual and organisational **restructuring of business operation of Gorenje GTI, d.o.o.** (separation of sales of household appliances from other business operations);
- **Start up of construction of the plant** for the manufacture of household appliances for the Valjevo refrigerators and freezers division;
- **Amalgamation of Istrabenz-Gorenje, d.o.o., and IG Prodaja, d.o.o.,** on 1 April 2006.
- **poslovno prestrukturiranje družbe Biterm, d.o.o.,** (sprememba proizvodne dejavnosti);
- **Restructuring of business operations of Biterm, d.o.o.,** (changes in production).
- **Founding of a subsidiary** for the sales of household appliances **in Dubai**, United Arab Emirates;

- On 3 February 2006, Gorenje, d.d. took up the **option for the purchase of 233,075 of own shares** (1.9105 % share in the shareholders' equity) in accordance with the agreement on establishing put and call option signed on 21 June 2004 with Slovenska odškodninska družba, d.d.;
- On 15 January 2006, Gorenje, d.d., paid the purchase price for 32,074 shares in **Surovina, d.d., Maribor**, thereby becoming a 27.6 % shareholder.

Conclusion

In the opinion of the Management Board of Gorenje, d.d., despite unfavourable economic conditions in the 2005 financial year the Group continued to grow and prosper, and significantly exceeded the planned volume of business operations and achieved the planned objectives as regards business performance as well as its asset- and financial targets.

Gorenje, d.d., Management Board