

SUMMARY

ANNUAL REPORT 2003

(According to International Financial Reporting Standards)

Gorenje Group

A. BUSINESS REPORT

1. Basic information on Parent Company Gorenje, d.d. and on Gorenje Group

Full name: Gorenje, gospodinjiski aparati, d.d. as parent Company

Date of entry in the court register: 31 December 1997

Abbreviated name: Gorenje, d.d.

Registered office: Velenje, Partizanska 12

Activity: Manufacture, sale, maintenance and repair of electric and non-electric domestic appliances and electro-thermic appliances:

- refrigerators, freezers and cooling equipment,
- washing and drying machines,
- electric, gas cookers and ovens

Activity's code: 29.710 Manufacture of electric domestic appliances

Tax number: 72615320

Identification number: 5163676

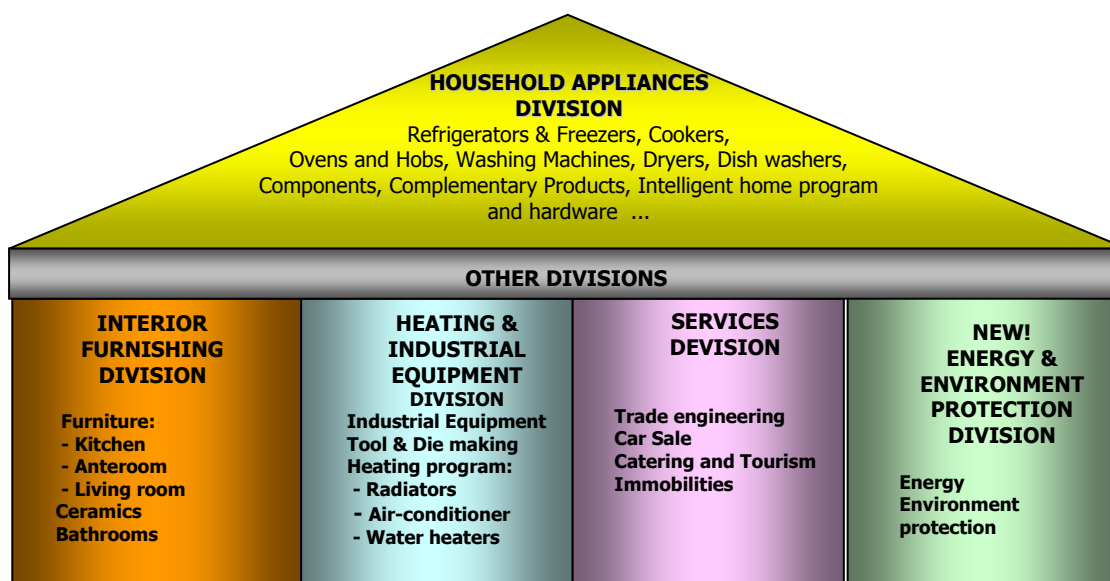
Share capital: SIT 12,200,000,000

Shares: 12,200,000 ordinary registered shares with the nominal value of SIT 1,000 per share; shares of the company Gorenje, d.d. are listed on the official market of the Ljubljana Stock Exchange under the trading code GRVG.

Organisational Structure of the Gorenje Group

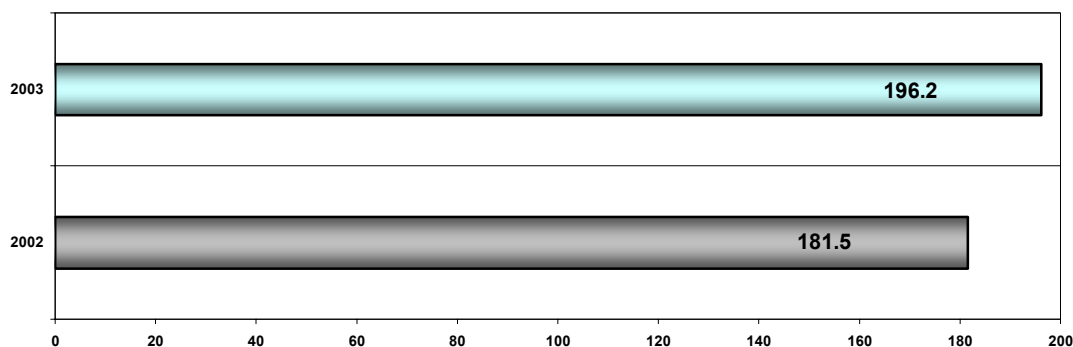
The companies of the Gorenje Group are organised into five Divisions:

- **Household Appliances Division**, which comprises companies manufacturing and selling household appliances.
- **Interior Furnishings Division**, which comprises companies manufacturing and selling kitchen and bathroom furniture, bathroom equipment and ceramic tiles,
- **Heating and Industrial Equipment Division**, which comprises companies manufacturing and selling water heaters, tools and industrial equipment,
- **Services Division**, which comprises companies operating in trading, engineering, agency services, hotel and restaurant business, tourism and real estate business activities, and
- **Energy and Environment Protection Division**, which comprises companies operating in treatment of special waste, collection and processing of silt and making and selling bricks, ceiling girders and partitions.



2. Sales

In 2003, consolidated net revenues from sales amounted to 196,230.7 million SIT, showing an increase of 8.1% over 2002.



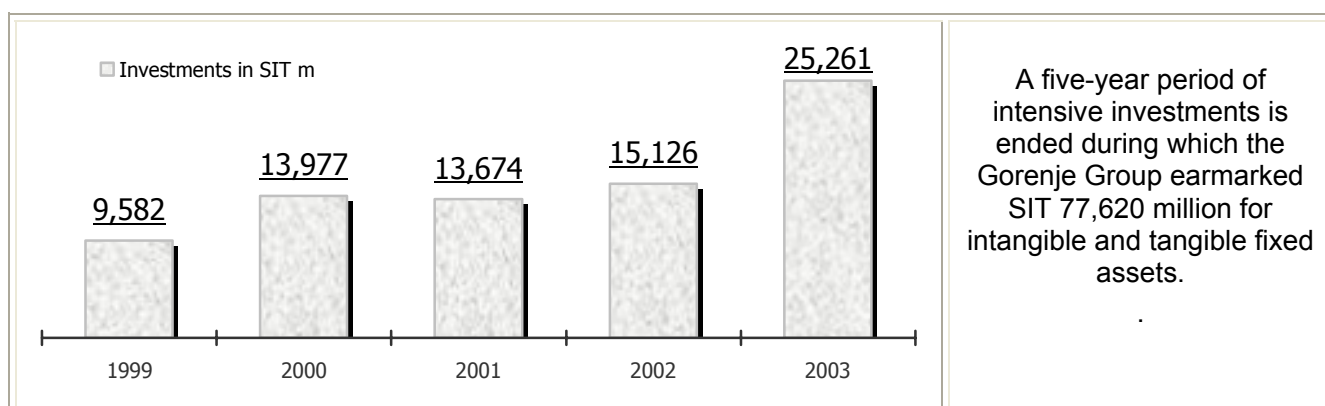
Net sales revenue (in billion SIT)

Consolidated net sales revenue realised by Household Appliances Division amounted to 153,502.3 million SIT, which represented a 78.2 % share in total consolidated net sales revenue. The division's share decreased by 3.5 percentage points over the previous year's figure, which is due to a quicker growth of sales realised by Furniture Division and Services Division.

Other divisions realised a 21.8 % share in total consolidated net sales revenue, of which Services Division a 9.7 % share, Furniture Division a 7.9 % share, Heating and Industrial Equipment Division a 3.4 % share, and Energy and Environmental Protection Division a 0.8 % share. The share of other divisions showed an increase over the previous year's figure. The highest increase in share was shown by Furniture Division and Services. An increase in share was shown also by Heating and Industrial Equipment Division.

3. Investments

With investments in tangible and intangible fixed assets in 2003 the Gorenje Group ended a period of intensive investing... The Gorenje Group invested SIT 25,261.2 million of which SIT 24,053.3 million in tangible fixed assets and SIT 1,207.9 million in intangible fixed assets.



Overview of investments of the Gorenje Group in intangible fixed assets and tangible fixed assets by Division

| in SIT m | 2003 | 2002 |
|--|-----------------|-----------------|
| Household Appliances Division | 22,496.7 | 11,639.8 |
| Interior Furnishings | 420.2 | 363.9 |
| Heating and Industrial Equipment Division | 962.4 | 803.4 |
| Services Division | 1,151.0 | 2,319.0 |
| Energy and Environment Protection Division | 230.9 | 0 |
| Total | 25,261.2 | 15,126.1 |

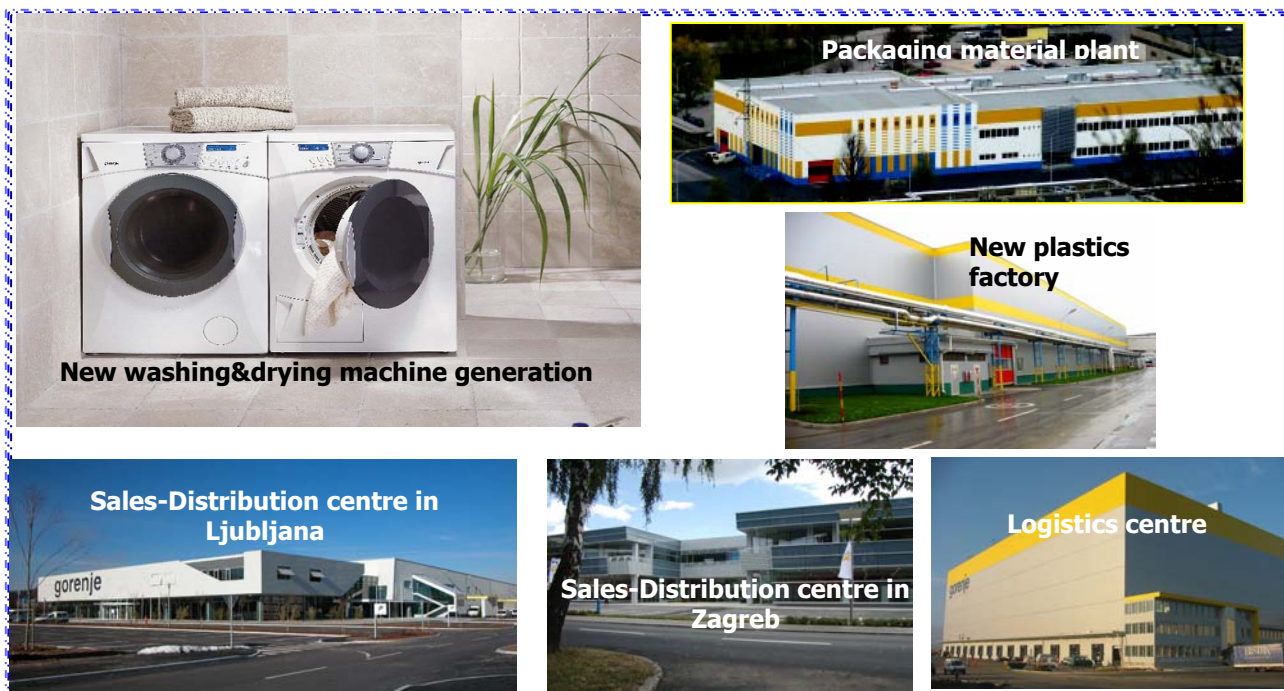
Overview of investments of the Gorenje Group by type

| in SIT m | 2003 | 2002 |
|----------------------------|-----------------|-----------------|
| Intangible fixed assets | 1,207.9 | 866.7 |
| Tangible fixed assets | 24,053.3 | 14,259.4 |
| <i>Land</i> | <i>623.0</i> | <i>1,201.8</i> |
| <i>Buildings</i> | <i>6,601.8</i> | <i>5,392.0</i> |
| <i>Technical equipment</i> | <i>14,874.5</i> | <i>6,531.2</i> |
| <i>Other equipment</i> | <i>1,954.0</i> | <i>1,134.4</i> |
| Total investments | 25,261.2 | 15,126.1 |

The highest investments in the Gorenje Group were recorded in the Household Appliances Division, SIT 22,496.7 million, of which SIT 17,824.1 million for investments in the company Gorenje, d.d. Intensive market and technology related investments lead to higher productivity, flexibility and reliability of production processes and especially costs reduction.

Among the [market related investments](#) the project of developing cooling glass doors for the American market and the project of developing a [new generation of washing machines and tumble dryers](#) should be emphasised. In the new generation mechanical timers will be replaced by electronic devices, fitted with microprocessors - with small and big displaying screens. The spinning drum speed increases up to 2,000 rpm. The basic family will comprise machines with larger drums, for 6kg of laundry. The door's diameter will be bigger. Another new product of the new generation will be built-under machines, which can be fitted into the row of kitchen appliances. Other new machines are planned which will be narrower (420mm) and their filling capacity will be 4 kg. The new generation appliances incorporate completely new materials. The concept of balanced washing machines group has been changed. Small and larger graphic displays with programme selection controls will enable a wider selection of programmes. Various sensors will be built in for individual functions. External design will be changed and marked by four conceptual lines: Basic, Prestige, Premium and Special. The new generation will be classified under energy class A and A+, which is the best that can be achieved. The management concept, size and external image are transferred to the new generation of tumble dryers. For the washing machines and tumble dryers programme a production site is being prepared, and after renovation has been finalised a production of one million appliances per year should be reached.

The most recent investments of the Division in 2003 were the completion of the new [logistic centre](#), of the [polystyrene plant](#) and of the [plastics plant](#). In the new plants in Velenje 378 people are employed, and state of the art equipment will enable a more efficient and safer work with optimum capacity utilisation. 2003 was also marked by the construction of a [new sales and distribution centre in Ljubljana and in Zagreb \(Croatia\)](#).



4. Employees

Business results of the Gorenje Group were achieved by employees whose number at the end of 2003 was 9,427, which was 7.5% more than the year before. The number of employees increased due to the organic growth of the Gorenje Group and to the increased business volume, which enabled that planned targets for 2003 were met.

| No. of employees by Division | No. of employees as at 31 December | | Average no. of employees | |
|--|------------------------------------|--------------|--------------------------|--------------|
| | 2003 | 2002 | 2003 | 2002 |
| Household Appliances Division | 7,092 | 6,760 | 6,821 | 6,620 |
| Interior Furnishings Division | 1,228 | 1,073 | 1,243 | 1,081 |
| Heating and Industrial Equipment Division | 666 | 628 | 653 | 600 |
| Services Division | 361 | 311 | 352 | 309 |
| Energy and Environment Protection Division | 80 | - | 77 | - |
| Total | 9,427 | 8,772 | 9,146 | 8,610 |

In 2003 the average number of employees in Gorenje, d.d., which forms part of the Household Appliances Division, was 5,409 and on 31 December 2003 the number was 5,579.

5. Shareholder Structure and Share Price

Information about issued shares and capital...The company Gorenje, d.d. became a joint-stock company in 1997 after successful completion of ownership transformation. The Company's share capital, with nominal value of SIT 12,200,000,000, is divided into 12,200,000 ordinary registered shares with trading code GRVG and nominal value of SIT 1,000 per share.

On 31 December 2003 the **number of shareholders** of Gorenje, d.d. was 17,733, which was an increase of 681 or 4% compared with the figure on 31 December 2002 (17,052).

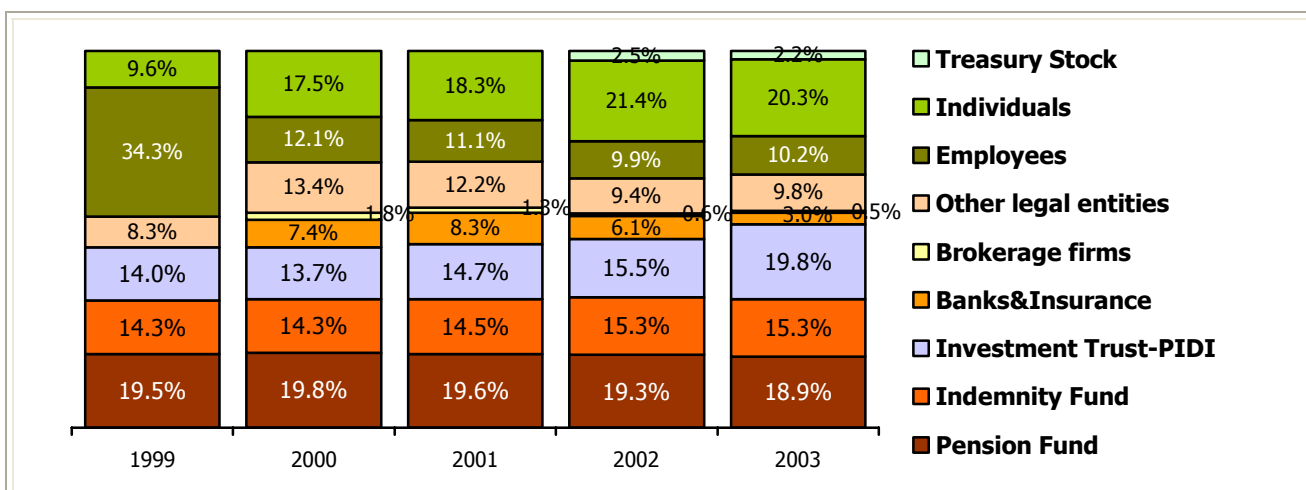
Movements in the shareholders structure did not change considerably... In the ownership structure the participation of authorised investment companies grew from 15.5% to 19.8% compared with 31 December 2002 and of other legal entities from 9.4% to 9.8% (domestic and foreign). Banks and

insurance Companies participation fell from 6.1% to 3%. Foreign investors participated with 1.65% (199,505 shares) of which foreign legal entities held 168,982 shares or 1.39% and foreign individuals 30,583 shares or 0.25%.

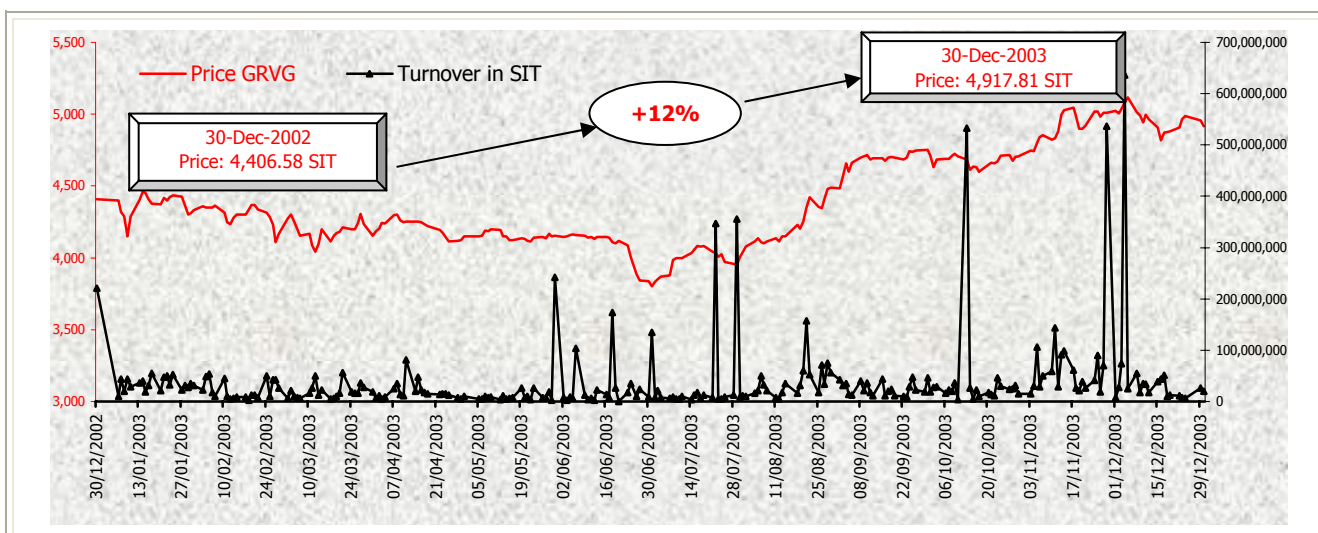
On 31 December 2003 the Members of the Management Board of the company Gorenje, d.d. held 11,254 shares (0.092%): Franjo Bobinac 822 shares (0.007%), Andrej Vizjak 2,500 shares (0.021%), Franc Košec 400 shares (0.0033%), Žiga Debeljak 400 shares (0.0033%) and Drago Bahun 7,132 shares (0.059%).

On 31 December 2003 the Members of the Supervisory Board held 18,409 shares (0.151%): Ivan Atelšek 12,058 shares (0.099%), Tomaž Kuntarič 400 shares (0.0033%), Anton Majzelj 1,064 shares (0.009%), Jurij Slemenik 1,511 shares (0.012%), Krešimir Martinjak 100 shares (0.001%), Peter Kobal 1,178 shares (0.010%) and Drago Krenker 2,098 shares (0.017%).

As at 1 January 2003 the company Gorenje,d.d. held 307,105 treasury stock, which represented 2.52% of ownership. In 2003 the Company disposed of 42,565 shares exchanging them with shares of the company Gorenje Tiki, d.o.o., so that on 31 December 2003 it held 264,540 treasury stocks (2.17% ownership).



The shares price followed an upward trend... The shares were listed on the official market of the Ljubljana Stock Exchange on 10 November 2000, but they had been traded on the organised market since 1998. They are a constituent part of the Stock Exchange Index SBI 20. On 31 December 2003 the shares' daily average price was SIT 4,917.81, which was 12% over the last trading day in 2002. The shares' price continued to grow in the second half of the year, after a plunge recorded in June. The SBI 20 index went up 18% in the same period.



| Data | Value | |
|--|----------|---|
| Average daily price on 31-Dec-2002 (SIT) | 4,406.58 | The shares keeps their 4 th rank on the Ljubljana Stock Exchange with a turnover of <u>SIT 8.9 bn</u> , despite a fall by almost half their value compared with 2002. Trades in GRVG represented 3% of the total turnover of the Ljubljana Stock Exchange. Market capitalisation was <u>SIT 60 bn</u> at the end of 2003, the average market capitalisation was <u>SIT 53.6 bn</u> . |
| Average daily price on 31-Dec-2003 (SIT) | 4,917.81 | |
| Average daily price in 2003 (SIT) | 4,394.82 | |
| Annual high in 2003 (SIT) | 5,114.57 | |
| Annual low in 2003 (SIT) | 3,801.76 | |
| Average daily quantity (in lots) | 8,019 | |
| Highest daily quantity (in lots) | 126,075 | |
| Lowest daily quantity (in lots) | 54 | |
| Turnover in 2003 (in SIT mn) | 8,914.00 | |

Deliverance of dividend policy and payment of dividends... Gorenje subjected its dividend policy to investment needs and capital structure requirements, but without disregarding shareholders' expectations and interests. The strategic plan foresees that Gorenje, d.d. will allocate up to one third of net profit to dividend pay-out. In 2003 the Company paid to shareholders a **gross dividend of SIT 95 per share**.

Share trading and profitability data

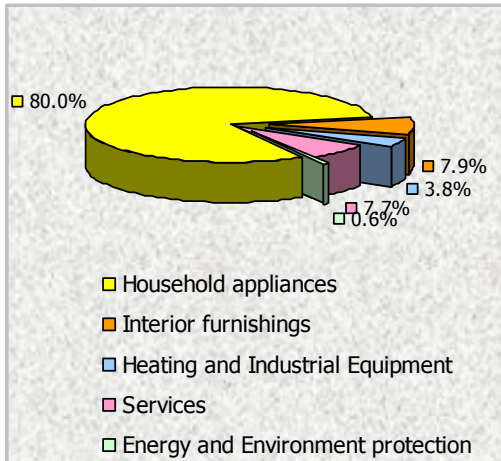
| At year end | 2003 | 2002 |
|--|------------|------------|
| Number of shares on the market | 12,200,000 | 12,200,000 |
| Number of shareholders | 17,733 | 17,052 |
| Turnover (in SIT m) | 8,914 | 17,919 |
| Average market capitalisation (in SIT m) | 53,617 | 42,102 |
| Value turnover (Turnover/Average market capitalisation) | 0.17 | 0.43 |
| Book value of share in SIT (Equity minus reserves for own stake) / (Number of shares minus Treasury Stock) | 4,723 | 4,267 |
| Market Price | 4,918 | 4,407 |
| Market to book value of share | 1.03 | 0.98 |
| Profitability of share | | |
| - by capital gain in % | 12.0 | 98.4 |
| - by dividend in % | 2.2 | 1.8 |
| - overall in % | 14.2 | 100.2 |
| Dividend per share in SIT | 95 | 80 |
| EPS in SIT (Net Profit / (Number of shares minus Treasury Stock)) | 400,6 | 346.9 |

6. Business Outlook for the Year 2004

The Gorenje Group enters into the year 2004 with moderate optimism... In 2004, in which Slovenia will become an equal member of the European Union, the Group will face numerous challenges, which on the one hand will be associated with the general economic conditions in Europe and the world, and on the other with changes in the economic environment created for the Slovenian companies by the accession. The business plan of the Gorenje Group and of the parent company Gorenje, d.d. for 2004 was considered and approved by the Supervisory Board at its regular 11th meeting on 19 November 2003.

Projected consolidated **net revenues from sales of the Gorenje Group amount to SIT 200.9 billion**, which is a 2.4% growth compared with 2003. **Net profit** for 2004 is projected to reach **SIT 5.3 billion**, 9.3% over the 2003 figure.

Planned structure of the Group's net sales revenues by Division in 2004...



Net revenues from sales of the parent company Gorenje, d.d. are projected to reach SIT 134.8 billion, which is a 4.5% increase on 2003. Projected net profit for 2004 is SIT 5.1 billion, 6.7% up on 2003.

- To the Gorenje Group the markets of the European Union have always been the most traditional and important since the Group has been present on them for over 40 years and has generated there about 49% of its revenues. With the accession of new members this share will grow to a good 65% of total revenues.
- Slovenia's reputation as a member country will have a positive influence on the reputation of the Group and the Gorenje brand name. The brand name is namely one of the key stimuli for efficient sales in the European Union and to increasing added value. Our goal is to create a strong pan-European brand name **gorenje**.



In 2004 we began to renovate the brand name Gorenje with regard to its content of "Nice to be Home".

Our new slogan is

gorenje | mine. yours. home.

which reflects the most important value - family life.



Design has become an important brand name component. Our new image has been rounded up with innovative details.

- Launching new products and as a result, gaining higher reputation, will be continued in 2004 by the launch of a new generation of washing machines and tumble dryers.
- World trends, which were complied with in the new Logistic centre, which was officially opened in the beginning of 2004, will enable efficient performance of logistic activities. The new plastics factory, with modern equipment for spraying and extrusion, will ensure higher capacity and improved quality, productivity and flexibility. The new factory of polystyrene packaging will help

reduce transport costs, ensure faster response in supplying packaging, improve packaging quality and lower its price. With the two new [sales and distribution centres in Ljubljana and Zagreb](#) the Group presented, for the first time, on one location the latest achievements in the field of large and small household appliances and its other sales programmes and further consolidated its position on these markets.

- The Group will establish its competitiveness by a flexible and prompt response to customers' needs and changes on the market, by a flexible selection of products and customers, by the economies of scale and original top design of appliances and a higher share of sales under own brand name.
- An expanded European region means [fierce competition](#) as no considerable economic recovery can be detected in 2004 and consumers' confidence remains low. All of this will affect consumers' demand and place further pressures on price levels.
- [The weak American Dollar in relation to Euro](#) continues to lower the comparable competitiveness of the whole European economy and sales opportunities of European companies on Dollar markets, thus increasing competition on the European market.
- In the beginning of 2004 [trade unions' demands for pay rises](#) occur, which could, in the event that the agreed growth in wages exceeded productivity growth, have a negative impact on the performance of the Gorenje Group.
- In the beginning of 2004 the [prices of crude oil, raw materials for production of steel and non-ferrous metals, which reached record highs, continue to grow](#) and are being incorporated in the prices of semi-products. Such trends in prices can have a significant impact on the performance of European companies in the electric and metal industries, the Gorenje Group included.
- Due to the planned entry of Slovenia into the [ERM2 mechanism](#) the linking of the exchange rate EUR / SIT is forecast to happen shortly, which will lag behind domestic inflation by a few percentage points for a year or two. Such conditions can be unfavourable for net exporters, as they lower their competitiveness and cost-effectiveness on foreign markets.
- [Markets of the former Yugoslavia](#) are also very important for the Gorenje Group since about 20% of products of own productions are sold there. In 2004 unfavourable economic conditions are expected also on these markets and will hinder operations in addition to low liquidity in Croatia and political instability in Serbia. Another problem faced will be termination of trade agreements between Slovenia, Bosnia and Herzegovina and Macedonia which means increased average customs duties for household appliances on these markets.

gorenje The Gorenje Group takes all of the above as [a challenge and an opportunity for further development](#). Its bet is on some features in which it excels: strong loyalty of its employees, teamwork and project management, widely established innovative and entrepreneurial atmosphere, relaxed and process oriented organisational structure and diversified and efficient network abroad.

gorenje Due to still existing unpredictable business environment and the before mentioned unfavourable factors of business risks, the [business plan for 2004 is ambitiously set](#).

[For these reasons in 2004 further attention will have to be paid to managing processes and costs, sales growth, strengthening of own brand name, risk management, assets management and prompt control of planned projects and activities, thus achieving the goals of the business plan in line with adopted strategic policies.](#)

B. FINANCIAL REPORT

1. Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC").

The Group keeps accounting records and prepares its statutory financial statements in compliance with the Slovenian Accounting Standards (SAS), which were predominantly harmonized 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 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.

2. Group Structure

In accordance with International Financial Reporting Standards, the consolidated financial statements of the Gorenje Group include the financial statements of the holding company Gorenje, d.d. and the financial statements of 47 subsidiaries operating in Slovenia and abroad:

| Subsidiaries operating in Slovenia: | Share in capital in % |
|--|------------------------------|
| Gorenje Orodjarna, d.o.o., Velenje | 100.00 |
| Gorenje Indop, d.o.o., Velenje | 100.00 |
| Gorenje IPC, d.o.o., Velenje | 100.00 |
| Gorenje GTI, d.o.o., Velenje | 100.00 |
| Gorenje Gostinstvo, d.o.o., Velenje | 100.00 |
| LINEA, d.o.o., Velenje | 98.69 |
| Gorenje Tiki d.o.o., Ljubljana | 82.56 |
| Biterm, d.o.o., Bistrica ob Sotli | 75.00 |
| Gorenje Notranja oprema, d.d., Velenje | 98.05 |
| Energygor, d.o.o., Velenje | 100.00 |
| Gorenje Glin, d.o.o., Nazarje | 98.05 |
| Opte Ptuj, d.o.o., Ptuj | 100.00 |
| Kemis, d.o.o., Radomlje | 66.66 |
| Elgor, d.o.o., Velenje | 100.00 |

| Subsidiaries operating abroad | Share in capital in % |
|---|------------------------------|
| Gorenje Beteiligungsgesellschaft m.b.H., Austria | 100.00 |
| Gorenje Austria Handelsgesellschaft m.b.H., Austria | 100.00 |
| Gorenje Kuechen GmbH, Austria | 100.00 |
| Gorenje Vertriebsgesellschaft m.b.H., Germany | 100.00 |
| Gorenje Körting Italia S.r.l., Italy | 100.00 |
| Gorenje France SA, France | 100.00 |
| Gorenje BELUX S.a.r.l., Belgium | 100.00 |
| Gorenje UK Ltd., Great Britain | 100.00 |
| Gorenje Skandinavien A/S, Denmark | 100.00 |
| Gorenje Sverige AB, Sweden | 100.00 |
| Gorenje Pacific Pty. Ltd., Australia | 100.00 |
| Gorenje USA Inc., USA | 100.00 |
| Gorenje Spol. s r.o., Czech Republic | 100.00 |
| Gorenje Real Spol. s r.o. Czech Republic | 100.00 |
| Gorenje Kuchyne Spol. s r.o., Czech Republic | 100.00 |
| Gorenje Slovakia Spol. s r.o., Slovak Republic | 100.00 |
| Gorenje Budapest Kft., Hungary | 100.00 |
| Gorenje Polska sp. z o.o., Poland | 100.00 |

| | |
|--|--------|
| Gorenje Bulgaria EOOD, Bulgaria | 100.00 |
| Gorenje Zagreb, d.o.o., Croatia | 100.00 |
| Hyundai auto d.o.o., Zagreb, Croatia | 100.00 |
| Gorenje Skopje, d.o.o., Macedonia | 100.00 |
| Gorenje Commerce, d.o.o., Bosnia and Herzegovina | 100.00 |
| Gorenje Kuhinje, d.o.o., Bosnia and Herzegovina | 98.05 |
| Gorenje, d.o.o., Serbia and Montenegro | 100.00 |
| Hyundai Auto, d.o.o., Serbia and Montenegro | 100.00 |
| Gorenje Podgorica, d.o.o., Serbia and Montenegro | 98.00 |
| Gorenje OY, Finland | 100.00 |
| Gorenje Real Kft., Hungary | 100.00 |
| Gorenje Romania S.R.L., Romania | 100.00 |
| Kemis, d.o.o., Croatia | 66.66 |
| Kemis BiH, d.o.o., Bosnia and Herzegovina | 62.73 |

Duhanpromet, d.o.o., Sarajevo, in which Gorenje Group holds a 100 % share as at 31 December 2003, was not included in consolidation because it was acquired for resale. The financial year of the companies in the Gorenje Group is equal to the calendar year.

3. Audited Consolidated Financial Statements According to IFRS

Audited Consolidated Income Statement of Gorenje Group

| | in TSIT | 2003 | 2002 |
|------------|---|--------------------|--------------------|
| 1. | Net sales revenue | 196,230,665 | 181,517,971 |
| 2 | Changes in inventories of finished goods and work in progress | 2,295,496 | 508,754 |
| 3 | Other operating income | 3,672,107 | 4,588,325 |
| 4. | Raw material and consumables used | -147,645,343 | -137,225,364 |
| 5 | Labour costs | -35,913,806 | -30,644,764 |
| 6. | Depreciation and amortisation expense | -9,271,624 | -8,195,863 |
| 7. | Other operating expenses | -2,247,291 | -2,539,893 |
| 8. | Net finance costs | -2,369,013 | -1,006,711 |
| 9. | Income from associates | 133,063 | 90,330 |
| 10. | Provisions | -90,972 | -1,665,822 |
| 11. | Profit before tax | 4,793,283 | 5,426,963 |
| 12. | Income tax expense | 105,588 | -787,328 |
| 13. | Profit after tax | 4,898,871 | 4,639,635 |
| | | | |
| 14. | Minority interest | 68,528 | 83,846 |
| 15. | Majority interest | 4,830,343 | 4,555,789 |
| | | | |
| 16. | Net profit for the period | 4,898,871 | 4,639,635 |
| | | | |
| 17. | Basic earnings per share | 409,79 SIT | 389,87 SIT |

Audited Consolidated Balance Sheet of Gorenje Group

| | in TSIT | 2003 | 2002 |
|-----------|--|--------------------|--------------------|
| | ASSETS | 159,758,129 | 137,024,933 |
| | Property, plant and equipment | 73,739,635 | 57,149,847 |
| | Intangible assets | 2,420,694 | 901,858 |
| | Non-current investments | 4,275,173 | 5,126,696 |
| | Non-current receivables | 293,749 | 378,765 |
| | Deferred tax | 65,506 | 242,679 |
| A. | Non-current assets | 80,794,856 | 63,799,846 |
| | | | |
| | Inventories | 29,344,376 | 26,095,555 |
| | Trade receivables | 40,890,775 | 35,533,569 |
| | Current investments | 2,160,535 | 4,031,500 |
| | Cash and cash equivalents | 2,651,862 | 3,090,159 |
| | Other receivables and financial assets | 3,915,726 | 4,474,304 |
| B. | Current assets | 78,963,273 | 73,225,087 |
| | | | |
| | EQUITY AND LIABILITIES | 159,758,129 | 137,024,933 |
| | | | |
| | Shares | 12,200,000 | 12,200,000 |
| | Reserves | 29,439,315 | 28,674,503 |
| | Equity revaluation adjustments | 8,088,032 | 6,417,328 |
| | Retained earnings | 7,788,986 | 5,110,125 |
| | Own shares | -707,169 | -823,941 |
| | Minority interest | 482,668 | 771,334 |
| A. | Capital | 57,291,835 | 52,349,348 |
| | | | |
| | Provisions | 7,868,065 | 9,782,772 |
| | Deferred tax | 593,301 | 1,190,761 |
| | Interest bearing borrowings | 18,919,501 | 12,838,168 |
| | Other non-current liabilities | 6,118 | 21,612 |
| B. | Non-current liabilities | 27,386,985 | 23,833,313 |
| | | | |
| | Deferred revenue | 511,630 | 462,493 |
| | Trade liabilities | 39,494,444 | 31,567,768 |
| | Short-term borrowings | 28,086,111 | 22,715,145 |
| | Other non-current liabilities | 5,581,990 | 4,641,981 |
| | Accrued cost | 1,405,134 | 1,454,885 |
| C. | Current liabilities | 75,079,309 | 60,842,272 |
| | Off balance sheet items | 21,757,231 | 12,974,802 |

Audited Consolidated Cash flow Statement of Gorenje Group

| | in TSIT | 2003 | 2002 |
|-----------|--|------------------|------------------|
| A. | CASH FLOWS FROM OPERATING ACTIVITIES | | |
| | Profit before taxation | 4,793,282 | 5,426,963 |
| | Adjustments for: | | |
| | Depreciation | 9,271,624 | 8,195,863 |
| | Deferred revenue and accrued costs | -609 | 236,258 |
| | Interest expense | 2,235,950 | 916,381 |
| | Increase in provisions | -1,914,707 | 724,305 |
| | Increase in deferred taxes | -420,287 | -7,825 |
| | Operating profit before change in net operating current assets | 13,965,254 | 15,491,945 |
| | Increase in receivables | -4,713,612 | -4,505,183 |
| | Increase in inventories | -3,248,821 | -4,786,575 |
| | Increase in operating liabilities | 9,061,290 | 6,523,850 |
| | Cash generated from operations | 1,098,857 | -2,767,908 |
| | Interest paid and foreign exchange losses | -2,235,950 | -916,381 |
| | Income taxes paid | 105,588 | -361,516 |
| | Net cash from operating activities | 12,933,749 | 11,446,140 |
| B. | CASH FLOWS FROM INVESTING ACTIVITIES | | |
| | Proceeds from sale of shares | 2,722,388 | -251,506 |
| | Purchase of property, plant and equipment | -26,264,580 | -15,465,395 |
| | Net cash used in investing activities | -23,542,192 | -15,716,901 |
| C. | CASH FLOWS FROM FINANCING ACTIVITIES | | |
| | Proceeds from non-current borrowings | 6,081,333 | 1,776,200 |
| | Proceeds from current borrowings | 5,160,867 | 3,842,381 |
| | Dividends paid | -1,188,825 | -1,008,843 |
| | Proceeds from sale of own shares | 116,771 | |
| | Net cash used in financing activities | 10,170,146 | 4,617,738 |
| D. | BALANCE OF CASH AT END OF PERIOD | | |
| | Cash flow from foreign exchange differences | 0 | 59,910 |
| | Net increase (decrease) in cash and cash equivalents | -438,297 | 406,887 |
| | | | |
| | Cash and cash equivalents at 1 January | 3,090,159 | 2,683,272 |
| | Cash and cash equivalents at 31 December | 2,651,862 | 3,090,159 |

Audited Consolidated Statement of changes in equity of Gorenje Group

| in TSIT | Share Capital | Revenue Reserves | Net profit or loss from previous periods | Net profit or loss for the period | Own Shares | Equity revaluation and translation adjustments | Minority Interest | Total |
|--|---------------|-------------------|--|-----------------------------------|----------------|--|-------------------|-------------------|
| Balance at 1 Jan 2003 | 12,200,000 | 28,674,503 | 2,919,722 | 2,190,403 | -823,941 | 6,417,328 | 771,334 | 52,349,349 |
| Net profit or loss for the period | | | | 4,830,342 | | | 68,528 | 4,898,870 |
| Equity revaluation and translation adjustments | | | | | | 1,670,704 | | 1,670,704 |
| Gains on sale of own shares | | 83,753 | | | | | | 83,753 |
| Dividends on own shares not yet paid | | | 29,175 | | | | | 29,175 |
| Sale of own shares | | | | | 116,772 | | | 116,772 |
| Appropriation of accumulated profit for 2002 to other revenue reserves | | 1,897,497 | -1,897,497 | | | | | 0 |
| Appropriation of net profit or loss for 2003 to statutory reserves | | 478,185 | | -478,185 | | | | 0 |
| Appropriation of net profit or loss for 2003 to other revenue reserves under the resolution adopted by the managing board | | 2,151,833 | | -2,151,833 | | | | 0 |
| Reversal and transfer of other revenue reserves to net profit or loss from previous periods | | -2,334,141 | 2,334,141 | | | | | 0 |
| Transfer of net profit or loss for 2002 | | | 2,190,403 | -2,190,403 | | | | 0 |
| Dividend payout | | -1,113,946 | -104,054 | | | | | -1,218,000 |
| Decrease in minority interest | | | | | | | -357,194 | -357,194 |
| Reversal of revaluation adjustments from previous periods | | -398,369 | 116,772 | | | | | -281,597 |
| Balance at 31 Dec 2003 | 12,200,000 | 29,439,315 | 5,588,662 | 2,200,324 | -707,169 | 8,088,032 | 482,668 | 57,291,835 |

| in TSIT | Share Capital | Revenue Reserves | Net profit or loss from previous periods | Net profit or loss for the period | Own Shares | Equity revaluation and translation adjustments | Minority Interest | Total |
|--|---------------|------------------|--|-----------------------------------|-----------------|--|-------------------|-------------------|
| Balance at 1 Jan 2002 | 12,200,000 | 24,955,241 | 3,505,867 | 1,960,627 | | | 2,513,745 | 45,135,480 |
| Net profit or loss for the period | | | | 4,555,789 | | | 83,846 | 4,639,636 |
| Equity revaluation and translation adjustments | | | | | | 6,225,273 | 116,347 | 6,341,620 |
| Appropriation of accumulated profit for 2001 to other revenue reserves | | 1,541,445 | | -1,541,445 | | | | 0 |
| Appropriation of net profit or loss for 2002 to reserves for own shares | | 823,941 | | -823,941 | | | | 0 |
| Appropriation of net profit or loss for 2002 to other revenue reserves under the resolution adopted by the managing board and the supervisory board | | | | | | | | 0 |
| Transfer of net profit or loss for 2001 | | 1,960,627 | | -1,960,627 | | | | 0 |
| Transfer of revaluation adjustments | | -606,751 | 414,698 | | | 192,053 | | 0 |
| Dividend payout | | | -1,000,843 | | | | | -1,000,843 |
| Decrease in minority interest | | | | | | | -1,942,604 | -1,942,604 |
| Purchase of own shares | | | | | -823,941 | | | -823,941 |
| Balance at 31 Dec 2002 | 12,200,000 | 28,674,503 | 2,919,722 | 2,190,403 | -823,941 | 6,417,326 | 771,334 | 52,349,348 |

4. Comments to the Financial Statements

In 2003, consolidated **Net revenues from sales** of the Group amounted to 196,230.7 million SIT, showing an increase of 2.3% over the projected sales for 2003. Sales increased by 8.1% over 2002.

Net profit for 2003 showed an increase of 5.6% over 2002 and reached 87.5% of the projected figure for 2003. An increase in net profit was due to an increase in inventories of finished products and merchandise in comparison with the beginning of the year. The negative impact of elimination of intra-company profits on net profit for the period amounted to 103.2 million SIT in 2003. Net profit for the period also included the minority shareholders' share in net profit in the amount of 68.5 million SIT.

Balance sheet total recorded in the balance sheet of the Gorenje Group amounted to 159,758.1 million SIT as at 31 December 2003 and showed an increase of 16.5% over the previous year's figure. The increase was due to an increase in volume of operations and a high level of investments.

Equity represented a 35.9% share in the structure of equity and liabilities as at the year-end 2003. The share of equity in the structure of equity and liabilities decreased by 2.3 percentage points over the previous year's figure. The balance sheet total increased quicker than equity. Equity increased by 9.4%, and the balance sheet total by 16.5%. Equity increased nominally by 4,942.4 million SIT, also due to revaluation of assets recorded by the companies domiciled in Slovenia. The share of equity in the structure of equity and liabilities decreased due to a decrease in capital available for dividend distribution, and to a decrease in minority interests due to the change in ownership structure of two companies and to an increase in the structure of financial liabilities.

The Summary of the Supervisory Board Report

In 2003 the Supervisory Board supervised the operations of the company Gorenje, d.d. and the Gorenje Group in accordance with its powers and responsibilities conferred by law and the Company's Articles of Association.

In the second half of the year the Supervisory Board, which is composed of 10 members, performed its activities with one member less, as Anton Majzelj on 11 June 2003, after expiry of the term which allows for the agenda of the Shareholders' General Meeting to be extended, notified to the Chairman of the Supervisory Board his intention to resign as Member of the Supervisory Board. The Chairman informed of the resignation the shareholders, present at the General Meeting on 20 June 2003. The resignation entered into force on 11 June 2003 and was published together with other resolutions of the General Meeting of Shareholders.

Annual Report

On 23 April 2004 the Company's Management Board submitted the Annual Report for 2003 for adoption by the Supervisory Board. The Supervisory Board considered the Annual Report at its meeting on 5 May 2004. The Auditors' Report on the Financial Statements of the company Gorenje, d.d. and the Auditors' Report on the Consolidated Financial Statements of the Gorenje Group were attached to the Annual Report.

Auditing of financial statements and consolidated financial statements was conducted by the auditing firm KPMG Slovenija, d.o.o. The audit was carried out also in all the companies of the Gorenje Group. A certified auditor reported on the auditing to the Supervisory Board. A positive report was submitted for all the audited companies and the auditors were able to give a positive opinion on the consolidated financial statements, which were prepared in accordance with Slovenian Accounting Standards and with International Financial Reporting Standards.

On 20 April 2004 the auditing firm gave a positive opinion on the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group.

In reviewing the submitted Annual Report for 2003 the Supervisory Board took into account:

- that the Company realised the key categories of the economic plan in 2003;
- the Supervisory Board approved the proposed distribution of net profit for 2003 and setting up of distributable net profit in line with the responsibilities of the Management Board and the Supervisory Board;
- the auditing firm gave a positive opinion to the Annual Report for 2003 and the Supervisory Board had no comments on the auditors' report;
- the Supervisory Board regularly monitored the running and operation of the parent company and the Gorenje Group and promptly monitored their financial results, financial position and their assets.

The Supervisory Board established that the Annual Report for 2003 has been drawn up clearly, transparently and in accordance with the Companies Act and valid accounting standards. The Annual Report presents a true and fair picture of total 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.

Consequently at its meeting held on 5 May 2004, the Supervisory Board adopted the Annual Report of the company Gorenje, d.d. and Consolidated Annual Report of the Gorenje Group for 2003 in the form submitted by the Management Board.

Allocation of Net Profit and Setting up and Allocation of Distributable Net Profit

Net profit for 2003 amounted to SIT 4,781,850,189.86 and shall be allocated to setting up statutory reserves in the amount of SIT 478,185,018.98 and other reserves from profit in the amount of SIT 2,151,832,585.44. Distributable net profit for 2003 included other reserves from profit in the amount of SIT 2,334,141,336.00, which were formed out of net profit for 1997. The Supervisory Board agreed to the proposed setting up and allocation of distributable net profit.

Distributable net profit for 2003 of the company Gorenje, d.d. amounts to SIT 6,529,417,497.94 and derives from:

- net profit for 2003 of SIT 2,151,832,585.44,
- net profit for 2002 of SIT 1,658,217,119.70,
- net profit for 2001 of SIT 356,051,481.80,
- net profit for 1998 of SIT 29,174,975.00,
- net profit for 1997 of SIT 2,334,141,336.00.

The Management Board and the Supervisory Board propose to the General Meeting of Shareholders that the distributable net profit for 2003 in the amount of SIT 6,529,417,497.94 be allocated as follows:

- part of the distributable net profit in the amount of SIT 1,220,000,000.00, deriving from net profit for 1997 to be paid as dividend to shareholders resulting in a gross dividend of SIT 100.00 per share;
- part of the distributable net profit in the amount of SIT 4,166,101,186.94, deriving from net profits for 2001, 2002 and 2003 to other reserves from profit;
- the remaining distributable net profit in the amount of SIT 1,143,316,311.00, deriving from net profits for 1997 and 1998 remains undistributed.

In its decision the Supervisory Board acted in line with the adopted policy of profit distribution, which is subject to the development concept of Gorenje and shareholders' interest in increasing the value of shares over a long-term period. Therefore it agreed to the proposed setting up and allocation of distributable net profit for 2003. The Board also proposes to the General Meeting of Shareholders to discharge from duties for 2003 the members of the Management Board.

The Supervisory Board has prepared this report in accordance with Article 274.a of the Companies Act and addressed it to the General Meeting of Shareholders.

Events after the balance sheet date

The following events occurred after the balance sheet date:

- At the beginning of 2004, the Company started to use the new logistics centre in Velenje, which shall increase the efficiency of logistic services;
- A new sales and distribution centre was opened in Ljubljana in February 2004, in which the product range of Gorenje is presented and sold as well as service and distribution activities for the territory of Slovenia are performed;
- In February 2004, Gorenje, d.d. purchased a 100 % business share in Elgor, d.o.o. from Gorenje GTI, d.o.o., and increased the share capital of Elgor d.o.o.. The name of Elgor d.o.o. was changed to Istrabenz – Gorenje, d.o.o.. The owners of the company are the companies Gorenje, d.d. (50.0%) and Istrabenz, energetska sistem, d.o.o. (50.0%);
- In March 2004, Gorenje, d.d., acquired a 33.33% share in Kemis, d.o.o.. The second of the two owners of Kemis, d.o.o. is Energygor, d.o.o., therefore Kemis, d.o.o., is indirectly owned by Gorenje, d.d. in 100%.

Gorenje, d.d.,
Management Board