

Direction is more important than
s p e e d .

03

AR 2003	Susceptible to excellence, susceptible to change.	Excellence in all areas of business activity.
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Annual Report of the Gorenje Group
for 2003

03

AR 2003	Susceptible to excellence, susceptible to change.	Excellence in all areas of business activity.
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...Gorenje is one of the leading European manufacturers of household appliances with technical, technological and business excellence...			03
AR 2003	...understands and develops its responsibility to the customers, shareholders, employees and the environment...	...it is prepared for new business challenges - with optimism and a strategy of international excellence...	

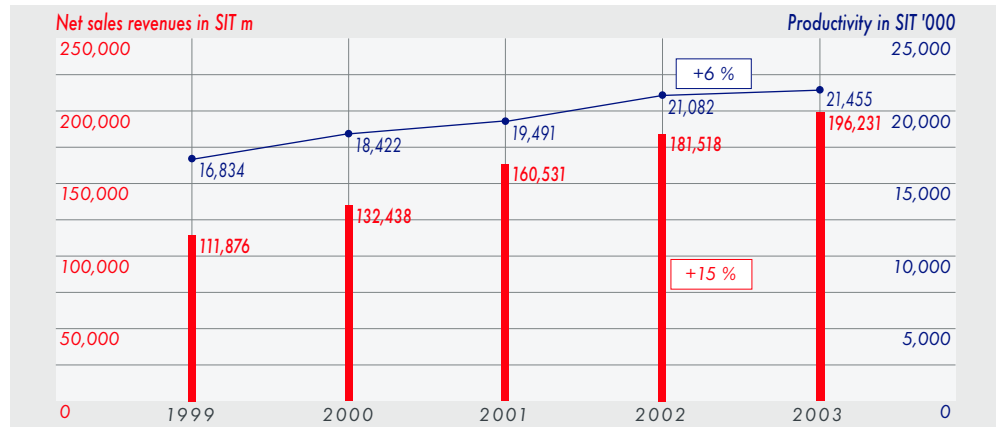
This document is not a translation of the legal version of the Annual Report of the company Gorenje, d.d., and the Gorenje Group for the year 2003, which was adopted by the Supervisory Board of the company Gorenje, d.d., on 5 May 2004.

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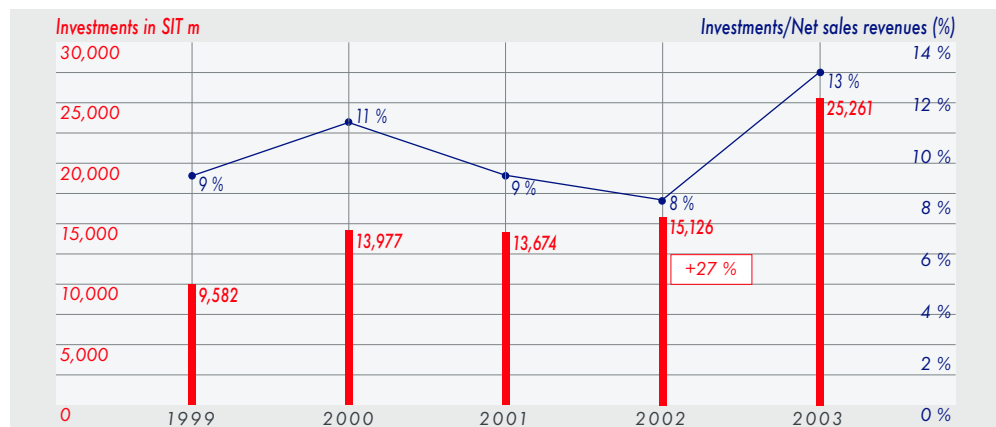
Key Achievements of 2003

Sustainable growth in the volume of operations of the Gorenje Group...



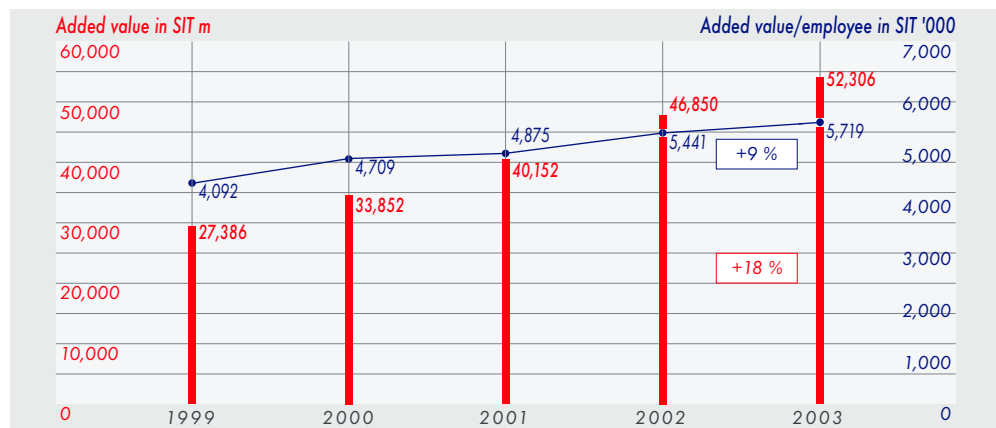
Legend:
Productivity = Net sales revenues/average number of employees

...stimulated by the modernisation of production and sales capacities...



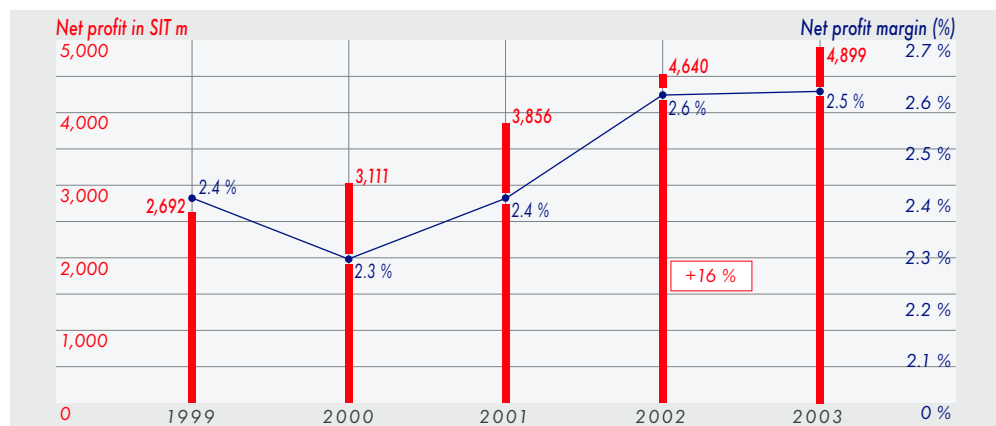
Legend:
Investments = Investments in tangible and intangible fixed assets
Investments/Net sales revenues = Investments in tangible and intangible fixed assets/Net sales revenues

... improved the ability to create added value, ...



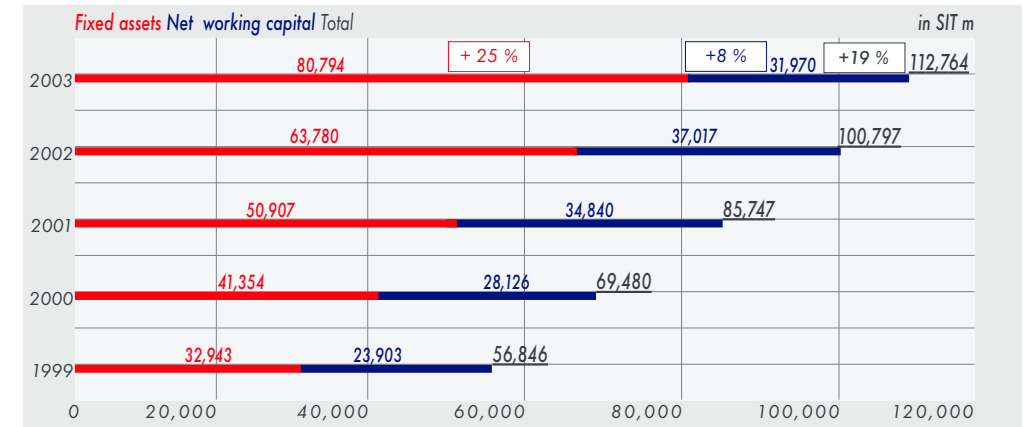
Legend:
Added value = Gross operating yield - costs of goods, materials and services - other operating expenses
Added value / Employee = Added value/average number of employees

... which resulted in higher net profit.



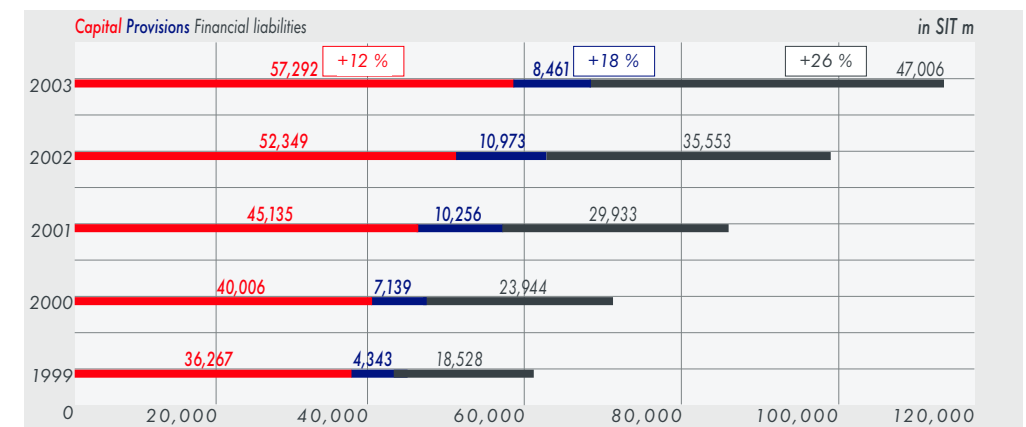
Legend:
Net revenues to sales = Net profit /Net sales revenues

Extensive investments and higher volume of operations, lead to increased assets, ...

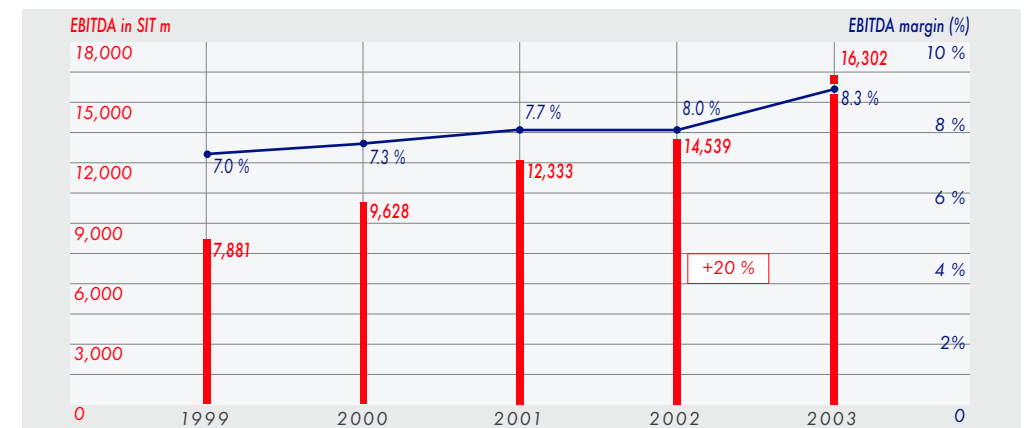


Legend:
Net working capital = Current assets - long-term operating receivables + deferred costs and accrued revenues - (short-term operating receivables + accrued costs and deferred revenues)

...while the Group's capital structure remained strong, ...



... on account of high financial strength and growing EBITDA margin.



Legend:
EBITDA = Profit from operations + depreciation

Remarks:
All data shown refer to the Gorenje Group.
All data shown are expressed in million SIT or otherwise stated.
The percentage growth, shown in the graphs, represent the cumulated average growth rate (CAGR) of individual categories in the period 1999-2003.

Significant Events of 2003

January

- Dr. Vlado Dimovski, Minister of Labour, Family and Social Affairs visited Gorenje I.P.C., d.o.o.
- The line ALUX and the business plans for the Romanian market were presented in Bucharest. The presentation was attended by about one hundred businessmen from 39 trade companies.
- Opening of a new representative office in Spain.

February

- Visit of dr. Tea Petrin, Minister of the Economy and presentation of the Gorenje Group's development over the last years and of plans for the future, especially the goals of the "Centre of Innovations and Transfer of Knowledge" and the "White Book of Knowledge Management".
- The Minister of Education, Science and Sport, dr. Slavko Gaber visited Gorenje, d.d., with the aim to establish inter-relations between science and the economy and stimulate greater interest in engineering and natural sciences studies.
- The last renovation phase of the central purification plant was carried out.
- The Marketing Magazine presented Gorenje, d.d., with the award "Golden MM" for Christmas cards and the "Golden MM" Diploma for the Annual Report for 2002.

March

- The Management Board of the company Gorenje, d.d., presented the business results for 2002, plans for the year 2003 and the project of implementation of the management information system SAP.
- The Supervisory Board of Gorenje, d.d., gave to Franjo Bobinac, M.Sc. the mandate to select the members of a new Management Board.

April

- The official award-giving ceremony for the graduates of the 15th generation of the Gorenje Managers' Academy was held in the Paka Hotel.
- In the cookers programme of the company Gorenje, d.d., the project of development of a new generation of built-in cookers was completed.

May

- The Learning Company Institute of Ljubljana presented Gorenje, d.d., with the award "A Company Encouraging Life-long Learning" for the third consecutive time.
- Gorenje, d.d., obtained the "Grand Prix" for the best promotion campaign at the International Fair for Technique and Technical Achievements in Belgrade.
- The Association of Journalists from companies and institutes awarded Gorenje, d.d., "Golden Pen" diplomas for the third place in the category "Newspapers" for the internal newspaper "Pika na G" and for the fourth place in the category "Newsletter" for "Črno na belem".
- Representative Office Gorenje Ukraine opened a new store in Kiev in co-operation with its business partner.
- The company Gorenje Indop, d.o.o., celebrated its tenth anniversary of operation.

June

- On 3 June the Supervisory Board of Gorenje, d.d., appointed a new, five-member Management Board whose term of office began on 18 July 2003.
- Gorenje Orodjarna, d.o.o., celebrated its 10th anniversary and Gorenje Gostinjstvo, d.o.o., its 5th anniversary of operation and a reopening of the Paka Hotel.
- Gorenje Notranja oprema, d.d., opened a renovated showroom in Maribor.

July

- Gorenje Zagreb, d.o.o., opened a new sales and distribution center in Zagreb.
- On 17 July, Jože Stanič, President of the Management Board of many years, passed on the key to Franjo Bobinac, M.Sc. the new President during a symbolic ceremony.

August

- Within the washing machine and tumble dryer programme of the company Gorenje, d.d., a bulk production of tumble dryers started in line with the designing demands of a German buyer.
- The start-up of the new factory of polystyrene packaging in Velenje occurred.

September

- Gorenje Group presented its Alux, Pininfarina and Metalic lines and other products at the 36th International Crafts and Trades Fair in Celje.
- At the fair "Futura" in Salzburg, Austria new design production lines of Gorenje, d.d., were introduced to the Austrian public.
- The project of a new plastics factory was completed.
- The processes of planning for 2004 began.

October

- In Ljubljana a new business unit of the company Gorenje Indop, d.o.o., started operating to carry on activities in developing, designing and marketing storage and transport systems.
- Gorenje Orodjarna, d.o.o., was presented with the award of the Regional Chamber of Commerce for the best kept company in the category of large companies.
- At the Advertising Festival Golden Drum in Portorož and Piran Gorenje, d.d., obtained the "Golden Stick" award for the Web site of the Alux line, which was prepared by the Agency Profano/Futura.
- The newspaper Finance ranked the Annual Report for 2002 of Gorenje, d.d., fourth among the best annual reports for the year.
- The Interior Furnishings Division made its presentation at "Ambienti", International Exhibition of Furniture, Interior Design and Complementary Industry in Zagreb.

November

- The Interior Furnishings Division was present, among 300 exhibitors, at the 14th Ljubljana Furniture Trade Fair, with products of Gorenje Notranja oprema, d.d., and with household appliances.
- Within the project EKO 2003, Gorenje, d.d., was presented with "An Environment-friendly Company" award by the magazine "Gospodarski vestnik" and the Environmental Development Fund of the Republic of Slovenia, at the official celebration in Portorož.

December

- Completion of the project of the construction of a new logistic centre NAVIS, which started operating on 5 January 2004.

Letter to Shareholders

Dear Shareholders,

In the spring of last year the Supervisory Board entrusted me with the mandate to form a new Management Board who began with its work on 18 July 2003. In composing the Board I tried to balance experience against youthful talent, theoretical knowledge against professional expertise, continuity against new viewpoints on the operation and development of the Gorenje Group. By appointing a new, five-member Management Board, Gorenje experienced the last phase of the change-over to the new generation of top management and I am sure that we set the foundations and conditions for a continuous dynamic development of the whole Group.

Last year was a successful year for Gorenje, despite the fierce market conditions prevailing in the European Union and on other markets in which the Gorenje Group operates. This economic situation was mainly a result of slow rate of economic growth, unfavourable exchange cross rates of the two world leading economies, the United States of America and Europe, and of difficult political situation caused by the threat of terrorist attacks and local wars. The already difficult position was further worsened by crisis in the construction sector and restrained customers on account of the existing economical and political atmosphere, both having a strong impact on the dynamics of purchases of consumer durables, which include household appliances and other household products.

Manufacturing household appliances belongs to mature industries where the globalisation effects are pronounced in both, production and sales. In an extremely demanding environment Gorenje controls about four percent of the European large household appliances' market. In the last years the Company achieved one of the highest growth rates in the industry and in terms of profitability succeeded in coming closer to the leading competitors in the industry. Despite a weakening household appliances market in 2003 the Gorenje Group recorded a 8.1 per cent growth in net sales revenues compared with the year before and a net profit of SIT 4,747 million (according to Slovene Accounting Standards), which represented a 15.1 per cent increase compared with 2002.

My vision as well as that of Gorenje's management is future oriented.

The European Union membership is an extraordinary challenge and the principal driving force behind changes in the domestic economy in the future years. The reputation of Slovenia as a member country will positively influence the reputation of our companies and brand names. At present Gorenje is at a turning point and a time that is very important for its future development. Despite the fact that it exports over half of its own production to the countries of the European Union, where it has an excellent business infrastructure, the European Union will have a significant impact on its operation.

Because of greater market transparency, development of distribution throughout Europe and reduction in the number of brand names on the markets, Gorenje will need to build a strong, pan-European and uniformly positioned brand name. Competitiveness in terms of price and costs, development of innovative products, original and state-of-the-art design and efficient organisational structure, together with a strong brand name, will be the key factors of success. All this will be needed also to compensate for the deteriorated terms of doing business with some countries of South-east Europe due to higher customs duty in Macedonia, Bosnia and Herzegovina and Croatia.

2004 will have to be marked by a considerable growth in operations arising from the efficient launch of new generations of products on our markets, further expansion of markets, growth in productivity, optimum use of assets and selective investments in the development and perception of brand names. As we manufacture products for the consumer in conditions of fierce



competition, we shall continue to launch and market new generations of products which will present innovative features for the end-users and consolidate our market position.

Despite all business opportunities and wishes for achieving highly set targets we have to keep our feet firmly on the ground. Working with customers and for the customers is and will remain our first priority and our principal challenge. This is the advantage of Gorenje in which it excelled in the past and will in the future as well.

Gorenje faces great variety and diversity on its markets which reflects in higher complexity of production and of business activities. Therefore control of all operational processes is of great significance. More importantly, Gorenje avails of extraordinary human resources, characterised by versatile professional skills and loyalty to the collective. For this reason we wish to make knowledge accessible to all our employees, develop their career and be open to the most highly qualified experts from the domestic and international environment. All this with the aim to strengthen our competitive power, improve the business growth, increase added value, manage costs effectively and respond promptly to new business opportunities. Therefore it is not unusual for us to focus our short-term and long-term strategies and goals on the employees, their health, wellbeing, their participation in the corporate culture of Gorenje and their professional training.

On this occasion I wish to thank members of the Supervisory Board of

the company Gorenje, d.d., for their close co-operation and their contribution to the Company's performance and development.

I am sure that the Gorenje Group, with its excellent people, will in the future, as it did in the past, successfully respond to challenges of the increasingly difficult economic environment, and by improving its key competitive powers, strengthen its position in all the markets in which it operates and further improve its business performance.

I should like to take this opportunity to thank our shareholders for their support and their trust.

A handwritten signature in blue ink, appearing to read 'Franjo Bobinac'.

Franjo Bobinac
President of the Management Board
and CEO

Report of the Supervisory Board

1. Activities of the Supervisory Board

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.

During the year the Supervisory Board paid special attention to the business and financial development of the Gorenje Group and the parent company, to significant business events and implementation of general strategic and business policies. The Company's Management Board reported quarterly to the Supervisory Board on current business achievements and the assets of the Gorenje Group and the parent company, on current investment activities, acquiring financial sources and execution of resolutions adopted by the Supervisory Board. In line with established practice the Supervisory Board adopted the economic plan of the parent company and the Gorenje Group already before the beginning of the financial year in December 2002. With this the framework of business activities and goals for 2003 were set and the Board monitored their realisation during the year. In December 2003 the last Board meeting was dedicated to adoption of the economic plan for 2004. In 2003 the Supervisory Board met at seven meetings, one of which was by correspondence.

In 2003 the Supervisory Board dealt with one of its most demanding tasks, appointment of the Management Board for the next five-year term of office. At the 5th meeting of the Supervisory Board, held on 28 March 2003, Jože Stanič, President of the Management Board notified the Board of the forthcoming expiry of the Management Board's term of office and announced that he did not intend to apply for the next term of office but to go into retirement. After careful deliberation the Supervisory Board gave to Franjo Bobinac, Member of the Management Board in charge for sales and marketing, the mandate to select the members of a new Management Board.

The mandatary presented to the Supervisory Board a programme of future development of the parent company and the Gorenje Group and proposed the new Management Board members for the new term of office at the 8th meeting held on 3 June 2003. The Supervisory Board approved his proposal and appointed the new Management Board who began its term of office on 18 July 2003. The five members of the Management Board include two members with work experience in Gorenje, one had already been a member of the Management Board, who are in charge of organisation and human resources, development and quality and two newly appointed members, who are in charge of finance and economics and sales and marketing. The combination of continuity, fresh ideas and international experience that exists in the new Management Board will be a good basis for successful running of Gorenje in the future years.

Gorenje achieved the key business goals also in 2003. On the basis of market position and achieved business results the Supervisory Board considered that the Gorenje Group and the parent company performed successfully. The trend of growth, characteristic of the previous period, continued last year. This indicates that the Management Board was correct in deciding on the past investments in increasing production capacities, in continuous development of products with new functions and attractive image, on investments in own brand name. In addition the development of the sales network on the European markets proved successful as did its capability to adjust to changed market conditions. The employees' contribution was significant and with their knowledge and experience and loyalty to the Company they represent a clear competitive advantage. In addition to considering and

supervising achievement of goals the Supervisory Board monitored the functioning of mechanisms of internal control and the implementation of agreed financial reporting standards compared with the Slovenian and international accounting standards. Already in 2003 Gorenje reported on its quarterly financial results thus exceeding the valid reporting standards. Special attention was also paid to management of all types of risks.

2. 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.

3. 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:

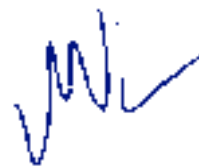
- net profit for 2003 of SIT 2,151,832,585.44,
- net profit for 2002 of SIT 1,658,217,119.70,
- net profit for 2001 of SIT 356,051,481.80,
- net profit for 1998 of SIT 29,174,975.00,
- net profit for 1997 of SIT 2,334,141,336.00.

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.

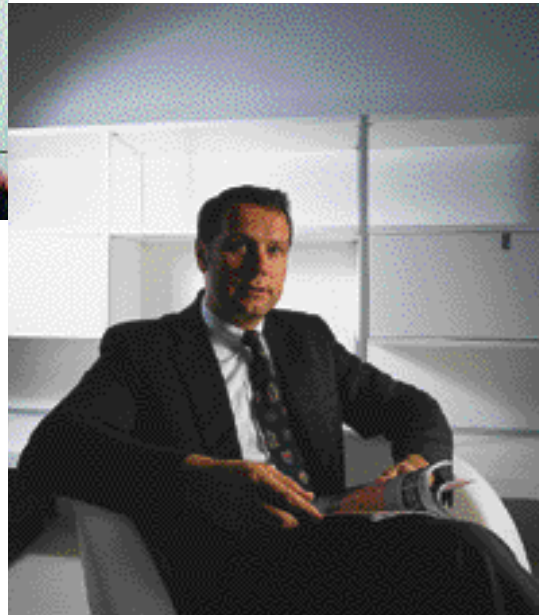


Marko Voljč, M.Sc.
Chairman of the Supervisory Board

	in SIT m or as stated				
	2003	2002	2001	2000	1999
From the Profit and Loss Account					
Net sales revenues	196,231	181,518	160,531	132,438	111,876
Gross operating yield	202,198	186,615	165,586	139,065	115,829
Added value	52,306	46,850	40,152	33,852	27,386
Profit or loss from operations	7,030	6,343	5,884	4,544	3,230
% of gross operating yield	3.5%	3.4%	3.6%	3.3%	2.8%
Net profit or loss	4,899	4,640	3,856	3,111	2,692
% of gross operating yield	2.4%	2.5%	2.3%	2.2%	2.3%
Return on equity (ROE)	9.4%	9.7%	9.3%	8.4%	8.0%
Return on assets (ROA)	3.1%	3.4%	3.3%	3.1%	3.3%
Return on sales (ROS)	2.5%	2.6%	2.4%	2.3%	2.4%
From the Balance Sheet (as at 31 Dec.)					
Assets	159,758	137,025	116,716	98,983	80,705
Capital	57,292	52,349	45,135	40,006	36,267
% of total liabilities	35.9%	38.2%	38.7%	40.4%	44.9%
Investments in tangible and intangible fixed assets	25,261	15,126	13,674	13,977	9,582
Employees					
Average number of employees	9,146	8,610	8,236	7,189	6,646
No. of employees as at 31 December	9,427	8,772	8,186	7,386	6,691
Shares of the company Gorenje, d.d.					
Book value per share	4,723	4,267	3,408	3,194	2,939
Shares' average daily price as at 31 Dec.	4,918	4,407	2,221	2,155	2,350
Dividend paid per share (SIT)	95	80	70	0	0
Capital gain	12.0 %	98.4 %	3.1 %	-9.1 %	33.0 %
Dividend yield	2.2 %	1.8 %	3.3 %	0 %	0 %
Total return	14.2 %	100.2 %	6.4 %	-9.1 %	33.0 %



Franjo Bobinac
President of the Board and CEO



Andrej Vizjak
Member of the Board responsible for sales and marketing



Drago Bahun
Member of the Board responsible for organization and human resources



Žiga Debeljak
Member of the Board responsible for finance and economics



Franc Košec
Member of the Board responsible for development and quality

1. General information

1.1. Activities

Company name:
Gorenje, gospodinjski aparati, d.d.

Date of entry into the court register:
December 31st, 1997

Short name of the company:
Gorenje, d.d.

Registered address:
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 code:
29.710 Production of electricity operated household appliances

VAT number:
SI 72615320

Registry number:
5163676

Issued 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 stock symbol GRVG.

1.2. Composition of the Group

In 2003 the Gorenje Group was composed of the parent company Gorenje, d.d., and 47 subsidiary companies, operating in Slovenia and abroad.

The following changes occurred in the Group's composition in 2003:

- on 1st August 2003 the representative office in Bucharest began operating as an independent company Gorenje Romania s.r.l.;
- the company Gorenje Skandinavien A/S, Denmark arranged for the start of operation of the subsidiary company Gorenje AS in Norway;
- the company Gorenje, d.d., acquired an additional 31.56% stake in the company Gorenje Tiki, d.o.o., so that the total shareholding amounts to 82.56%.

Key:

GA Household Appliances Division
 NO Interior Furnishings Division
 TSO Heating and Industrial Equipment Division
 ST Services Division
 EVO Energy and Environment Protection Division

Subsidiaries	Country	Division	Share %
1. Gorenje I.P.C., d.o.o.	Slovenia	GA	100.00%
2. Biterm, d.o.o.	Slovenia	GA	75.00%
3. Gorenje Notranja oprema, d.d.	Slovenia	NO	98.05%
4. Gorenje Glin, d.o.o.	Slovenia	NO	98.05%
5. Gorenje TIKI, d.o.o.	Slovenia	TSO	82.56%
6. Gorenje Orodjarna, d.o.o.	Slovenia	TSO	100.00%
7. Gorenje Indop, d.o.o.	Slovenia	TSO	100.00%
8. Gorenje GTI, d.o.o.	Slovenia	ST	100.00%
9. Gorenje Gostinstvo, d.o.o.	Slovenia	ST	100.00%
10. LINEA, d.o.o.	Slovenia	ST	98.69%
11. Energygor, d.o.o.	Slovenia	EVO	100.00%
12. Opte Ptuj, d.o.o.	Slovenia	EVO	100.00%
13. Kemis, d.o.o.	Slovenia	EVO	66.66%
14. Elgor, d.o.o.	Slovenia	EVO	100.00%

Subsidiaries	Country	Division	Share%
1. Gorenje Beteiligung GmbH	Austria	GA	100.00%
2. Gorenje Austria Handels GmbH	Austria	GA	100.00%
3. Gorenje Vertriebs GmbH	Germany	GA	100.00%
4. Gorenje Körting Italia S.r.l.	Italy	GA	100.00%
5. Gorenje France SA	France	GA	100.00%
6. Gorenje BELUX S.a.r.l.	Belgium	GA	100.00%
7. Gorenje UK Ltd.	United Kingdom	GA	100.00%
8. Gorenje Skandinavien A/S	Denmark	GA	100.00%
9. Gorenje Sverige AB	Sweden	GA	100.00%
10. Gorenje Pacific Pty. Ltd.	Australia	GA	100.00%
11. Gorenje USA Inc.	USA	GA	100.00%
12. Gorenje Spol, s r.o.	Czech Republic	GA	100.00%
13. Gorenje Commerce, d.o.o.	Bosnia and Herzegovina	GA	100.00%
14. Gorenje Slovakia s r.o.	Slovakia	GA	100.00%
15. Gorenje Budapest Kft.	Hungary	GA	100.00%
16. Gorenje Polska Sp. z o.o.	Poland	GA	100.00%
17. Gorenje Bulgaria EOOD	Bulgaria	GA	100.00%
18. Gorenje Zagreb, d.o.o.	Croatia	GA	100.00%
19. Gorenje Podgorica, d.o.o.	Serbia and Montenegro	GA	98.00%
20. Gorenje OY	Finland	GA	100.00%
21. Gorenje Skopje, d.o.o.	Macedonia	GA	100.00%
22. Gorenje, d.o.o.	Serbia and Montenegro	GA	100.00%
23. Gorenje Romania S.R.L.	Romania	GA	100.00%
24. Gorenje AS	Norway	GA	100.00%
25. Gorenje Küchen GmbH	Austria	NO	100.00%
26. Gorenje Kuchyne spol, s r.o.	Czech Republic	NO	100.00%
27. Gorenje Kuhinje, d.o.o.	Bosnia and Herzegovina	NO	98.05%
28. Hyundai Auto, d.o.o.	Serbia and Montenegro	ST	100.00%
29. Hyundai auto Zagreb d.o.o.	Croatia	ST	100.00%
30. Gorenje Real Spol. s r.o.	Czech Republic	ST	100.00%
31. Gorenje Real Kft.	Hungary	ST	100.00%
32. Kemis Zagreb, d.o.o.	Croatia	EVO	66.66%
33. Kemis BiH, d.o.o.	Bosnia and Herzegovina	EVO	62.73%

1.3. Organisational Structure of the 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.

Core activity

Household appliances division

Refrigerators and deep freezers, cookers, washing machines and dryers, complementary programme, supplementary programme, components for household appliances, Point programme,...

Other activities

Interior furnishing division	Heating and industrial equipment division	Services division	Energy and environment protection division
<ul style="list-style-type: none"> • furniture: <ul style="list-style-type: none"> - kitchens - anterooms - living rooms • ceramics • bathrooms 	<ul style="list-style-type: none"> • machine building • tool making • heating appliances: <ul style="list-style-type: none"> - radiators - air-conditioners - water heaters 	<ul style="list-style-type: none"> • trade • agency services and engineering • sale of motor vehicles, • hotels, restaurants and tourism • real estate business activities 	<ul style="list-style-type: none"> • energy • environment protection

1.4. The Company's Bodies

Management Board

Franjo Bobinac

President

Andrej Vizjak

Member

Franc Košec

Member

Žiga Debeljak

Member

Drago Bahun

Member

Supervisory Board

Representatives of shareholders

Marko Voljč

Chairman

Tomaž Kuntarič

Deputy Chairman

Bogdan Pušnik

Member

Igor Omerza

Member

Anton Majzelj

Member (resigned on June 11st, 2003)

Employee-elected representatives

Ivan Atelšek

Deputy Chairman

Jurij Slemenik

Member

Krešimir Martinjak

Member

Peter Kobal

Member

Drago Krenker

Member

On 18 July 2003 the Management Board was appointed for a five-year term of office. The Supervisory Board's term of office ends on 18 July 2006.

2. Business Report

2.1. Vision, Mission, Values and Strategic Goals

2.1.1. Vision, Mission, Values

Throughout their history the Gorenje Group companies have responded to numerous challenges prompted by their business environment: the need for dynamic development and for being in step with the competition, the need to actively monitor and promptly adjust to the changes in the business environment, the need to segregate their operations into business divisions. The above principal challenges of the past, present and future time have been included by the parent company and the Gorenje Group in the vision of their strategic plan:

»Gorenje strives to have a flexible and manageable business system in all areas of activities.«

The strategy of flexible corporate structure required that the companies of the Gorenje Group constantly followed the changes in business environment, evaluated their ability to adjust to the changes, created conditions for such adjustment and implemented them. These processes occurred in all areas of operation of the companies and the Group as a whole: in business activities, in engineering and technology of manufacturing products or providing services, they regarded customers, suppliers, employees...

Business operations, which had to be constantly adjusted as a result of flexible response to challenges of the environment, were complex and incurred relatively higher costs than if they had resulted from stable, balanced and evolutionary adjustments to changes. For this reason one of the Gorenje Group's principal strategies was and remains to optimise operational processes and the related costs management on all levels and in all forms of operation.

The before mentioned flexible corporate structure strategy and optimisation of costs management affected the Group companies in various business activities, where there is synergy with the core activity or with the activities of the other companies within the Group, all resulting in better possibilities for optimising the

operations. Development of various activities enables the parent company and the subsidiaries a cost-effective inclusion in the business environment, mutual intertwining and maximising of economic potentials and a balanced redistribution of business risks.

The goals of the Gorenje Group are not only to maximise its financial result, but also to achieve a balanced long-term operation, which shall, in the long run, balance the expectations of shareholders with those of the employees, business partners and other partners. In performing the mission of producing, providing and marketing high quality and user friendly products and services, the Group fosters the value of long-term value for shareholders, fosters relations with customers and business partners, cares for employees, for their knowledge, maintains and strengthens their loyalty to Gorenje, develops corporate identity and Gorenje brand names and encourages ecological awareness of employees and of its business environment.

Gorenje Competitive Advantages

- Tradition in Household Appliances Business
- Present and active on international markets
- Good Key - Customers' Relationship
- Well established and strong Sales and After-Sales Network in Europe
- Well positioned Brand Name in the Key Markets
- Modern design, high quality and competitive prices
- Flexibility and Ability to quick respond
- Employees' Loyalty and Well Trained Staff

2.1.2. Strategic Goals

In the strategic plan for the period 2003 - 2006, which was adopted in 2002, the Gorenje Group clearly determined the key strategic objectives and policies, which had been possible mainly on account of clear targets of its operation. With the strategically oriented corporate structure model the following principle targets were set:

- excellence in dealing with customers and in relations with other business partners by applying a strategy of differentiation at various levels (at the level of products, services and of customers and other business partners),
- excellence in managing internal operational processes by applying a strategy of optimisation of operational processes, control over them, optimisation of the chain of values and development of innovative ideas,
- implementation of the learning and growth model by applying a strategy of development and strengthening of corporate culture, by developing the remuneration system, managing knowledge and ensuring employees' autonomy, and
- generating greater value for shareholders by applying a strategy of increasing revenues and profitability and cost-effectiveness.

The above indicated principal targets and deriving strategic objectives are the basis for achieving the goals of long-term balanced operation of individual companies of the Gorenje Group and the Group as a whole.

2.2. Economic Conditions and Market Position in 2003

Slow dynamics of economic activities, characteristic for the European Union in 2003, and disappointment with the fact that a turnaround in the economic growth of the most advanced world economies did not occur, affected the pulse of business activities and caused economic conditions in Europe to deteriorate.

In autumn the international economic environment became more active, especially after a livelier American market had been anticipated, however the European economists forecast that greater dynamics of economic growth could only be expected in the later quarters of 2004. In 2003 the world trade volume increased by 3.7% and is anticipated to go up by 6.3% in 2004, when the U.S. A. will experience more intense economic activities and higher exports, since they were more successful in influencing the cyclic economic movements by their economic policy than Europe. Economic growth in the U.S.A. is expected to reach 2.3% and 4.1% in 2004. Last year's average exchange rate of USD against EUR was 1.13 with Europe losing its competitive power. Structural problems and weak economic activity of countries such as Germany, France and Italy hindered the creation of a stronger economic revival as they exceeded the allowed budget deficit and inflation rate. The outlook for economic growth in 2004 is modest for the existing members of the European Union - 1.8% upon all the effects of the working calendar of 2004. Some countries, especially Germany, faced a zero growth rate and the threat of deflation in 2003. Hence Slovenian exporters of goods and services to the German market were under increasing pressure to lower prices in EUR. In addition to cost inflation (growth in the price of energy products, raw materials and labour costs) this worsened their business opportunities and business results. Inflation in the EU member countries was between 0.5% (Germany) and 5% (Ireland), and it was expected that next year the average annual inflation in these countries would not exceed 2%. Further cuts of the already low interest rates cannot be expected, while the fiscal policies of the countries, members of the European Union, are typically oriented towards lowering the duties which should stimulate domestic consumption and investment activities.

2.3. Sales

Assessment of trends in demand and economic growth in **Slovenia** in 2003 and for 2004 presently confirms the possibility of further moderate economic growth, although this is below the rate which could, in the long run, ensure a realistic move closer to the European Union. **GDP growth** was 2.3 % in 2003 and is anticipated to reach 3.6 % in 2004. The average annual inflation, measured with growth in the cost of living, was 5.6% at the end of 2003. During the year the inflation rate was 4.6% (December 2003 to December 2002). In 2004 a further fall in inflation rate is expected, depending mainly on possibilities and success in managing macroeconomic risks.

The most extensive and the best prepared **enlargement of the European Union** so far, which will take place in May 2004 and will increase the number of the European market consumers by 16% and the total strength of the Union by 8.4%, is expected to positively influence the European economic growth.

With the **entry of Slovenia into the European Union** business conditions will change significantly since an additional cut in interest rates is expected, a fall in inflation and slow down in depreciation of Tolar against the Euro. With the implementation of the foreign trade regime and customs tariffs of the European Union business operations will run without customs formalities and customs duties for non-members of the European Union will on average fall from 11% to 6.2%. Termination of trade agreements between Slovenia and Bosnia and Herzegovina and Macedonia will increase the average customs duties for imports to these countries.

Market position... The household appliances market was marked by a setback in the majority of West European countries as a result of restrained

customers on account of economic conditions and market saturation, and a strong drop in prices of individual product groups. East European markets recorded a slight growth (with the exception of some markets in South-east Europe), while competition in these markets increased.

Deteriorating conditions on the markets reflected in decreasing demand, slow customers, low purchasing power, scarce payment insurance instruments, which resulted in higher exposure to risks and unfair competition of grey imports.

The leading manufacturers of household appliances continued to invest in building new production plants and takeovers of local companies and brand names, which enabled greater competitiveness in terms of price and higher volume of sales.

The presence of large distribution was increasingly felt as it continued to invest intensively in almost all the markets of East Europe. The majority of markets of Near East and Middle East was affected by the Iraqi crisis which considerably reduced the demand for household appliances.

Despite deteriorated economic conditions the sales of the company Gorenje, d.d., increased at a slightly faster pace from that of the market's growth and with it its market share in the Europe grew slightly to reach between 3.5% and 4%.

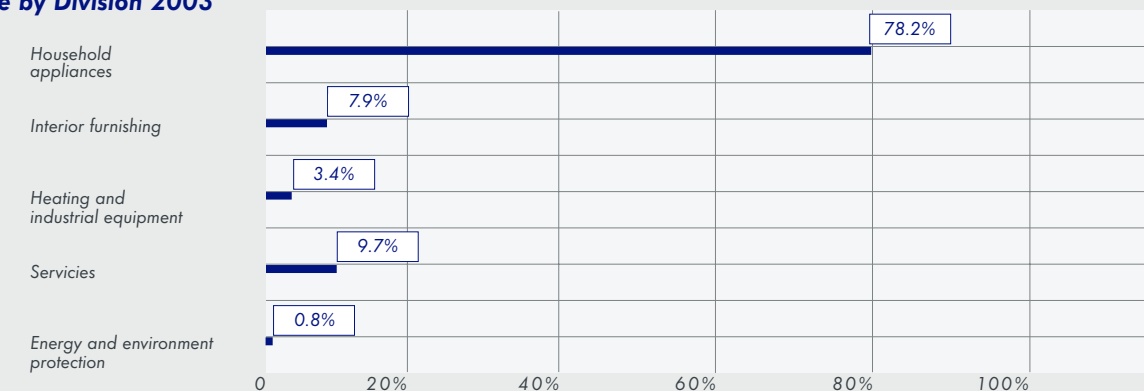
In 2003 the Gorenje Group generated **SIT 196,230.7 million consolidated net sales revenues**, which was a **8.1% increase** compared with the 2002 figure.

company Glin, d.o.o., in the Group and the share of Energy and Environment Protection due to the integration of the companies Kemis, d.o.o., and Opte, d.o.o., in the Group.

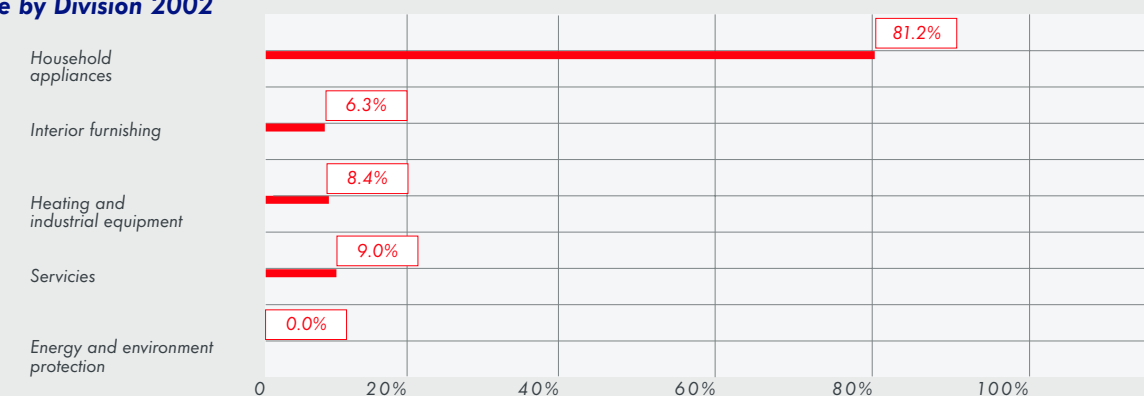
In total revenues the share of Household Appliances Division slightly decreased while the share of Interior Furnishings recorded a significant increase on account of inclusion of the

Net sales revenues by Division in SIT m	2003	2002
Household Appliances Division	153,502.3	148,284.3
Interior Furnishings Division	15,514.9	11,404.4
Heating and Industrial Equipment Division	6,633.6	5,516.3
Services Division	19,007.9	16,313.0
Energy and Environment Protection Division	1,572.0	-
Total	196,230.7	181,518.0

Sales structure by Division 2003



Sales structure by Division 2002



2.3.1. Sales of the Household Appliances Division

The Household Appliances Division succeeded in **increasing its sales in terms of value by 3.5% in 2003** despite fierce competition on the market, while the share of revenues deriving from sales of products of medium or high priced segment was close to 60%. In total revenues the major share was recorded by refrigerators and deep freezers programme, where a new generation of 540 mm wide appliances was successfully launched in 2003 and good sales results were achieved with the niche segment of cooling glass doors; they were followed by the cooking appliances programme where good and well balanced sales results were achieved and the washing and drying machines programme where in 2004 we expect sales to increase on account of the launch of a new generation of washing machines and tumble dryers on the European market.

In 2003, 48.8% of sales were made on the markets of the European Union, which is our principal market. In **Northern and Central Europe** sales exceeded the budgeted figure by 6% despite a very unfavourable market situation. Sales increased in terms of value while the market stagnated or suffered setbacks. In 2003 the average price went up compared with the year before as a result of increased sales of products of medium or high priced segment and increase of sales on the markets with higher selling price. Particularly successful were sales of the Alux line products, a new generation of built-in ovens and electronically controlled glass ceramic hobs.

Sales to **South-west Europe** were up 4%, especially sales in Greece and Italy, while the volume of sales on the French market went down as a result of continuing negative market trends and a withdrawal from less profitable market segments.

In the period between 1993 and 2003 stable and dynamic annual growth rates were recorded in sales on the markets of **South-east Europe**. In 2003 this growth halted and the sales remained on the 2002 level. Despite demanding market conditions we estimate to have kept our market shares the same on all the markets in which we operate. In Slovenia and Croatia intensive activities were carried out in developing the distribution of household appliances and an improved sales structure was achieved due to the higher share of products belonging to the higher priced segment. In Serbia we exceeded the sales plan and further consolidated our market position. The same happened in Montenegro, where projections were exceeded as import quotas were lifted and imports relaxed. Macedonian market kept the sales volume on the same level despite large volumes of grey imports. Kosovo was marked by a weak market and a reduction in the sales volume as a result of lower inflow of international aid funds. In Bosnia and Herzegovina we recorded stable sales also in 2003.

In **East Europe** our sales increased significantly, exceeding the market growth and our own projections. In terms of value the sales increased by 17% and were 20% higher than the increase recorded in terms of quantity, which indicates a trend of improved sales structure. The fastest growth in sales was recorded on the markets of Russia, Bulgaria and Romania, elsewhere growth was moderate, although the markets Czech Republic and Poland remained important.

In the markets of **Overseas Countries and the UK** sales reached planned levels. Events in this region were characterised by strong currency fluctuations which we lessened by changing the offered product range. In the UK, where we continued to introduce the Gorenje brand name to the local market, the sales grew significantly. The number of sales outlets where we are present was increased and we intensified our offer of built-in appliances and developed special appliances for the English market. In 2003 the highest increase in sales was recorded in the USA (cooling glass doors by 67%) and Canada (washing machines and tumble dryers). The region of Near and Middle East failed to reach the 2002 levels or projections for 2003, due to the weak US Dollar, Iraqi crisis and tensions in Israel and Palestine.

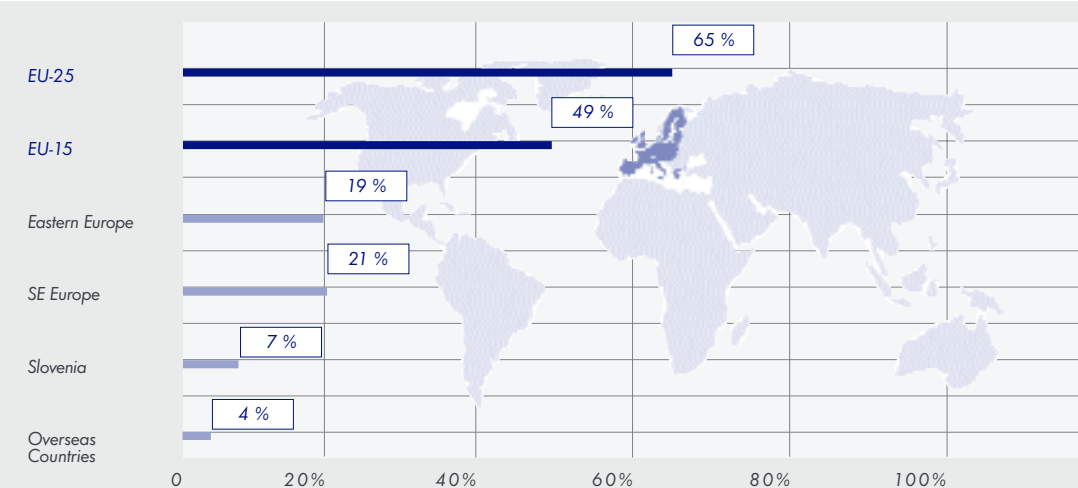
Well recognised brand name on the key markets...In 2003 Gorenje, d.d., increased the sale of products under its own brand names which reached 75% of total sales. We continued to extensively invest in the creation of strong Gorenje brand name to extend their recognition all over Europe, as they are and will in future be the brand in which we shall invest most of our marketing funds.

We developed a new identity of the **Gorenje** brand name, which will gradually be introduced into the market in 2004 to rejuvenate it and to adjust communications to target customer groups.

In addition to sales under the Gorenje brand name, sales were made under regional brand names; under the brand **Sidex**, which is marketed in France and to a lesser extent in Germany and **Körting**, which is present in Italy and Greece.

The Gorenje brand name encompasses a comprehensive range of products for home which in 2003 we complemented with products made by other manufacturers.

The regional sales structure of household appliances (value)



2.3.2. Sales of Other Divisions

In the **Interior Furnishings Division**, which manufactures and sells furniture, bathroom equipment and ceramics, a 36% growth in sales was achieved in 2003. This growth was importantly affected by the integration of the company Gorenje Glin, d.o.o., in the Group. The Slovenian market experienced a decline in furniture sales, but the downward trend moved upwards in the second half of the year, especially the sales of **the kitchen programme**.

The bathroom programme recorded a very favourable growth on account of increased presence on the sales outlets. A positive trend was evident in a more favourable structure of sales of systemic products deriving from appropriate policy of exhibits. The remaining markets of South-east Europe were marked by a sales growth in Croatia and weak purchasing power in other countries. We continued to intensively place exhibits on the Croatian market and on this basis we took over the leading role in the sales of kitchen and bathroom programmes and consolidated our position of a reliable producer.

We launched new models of kitchens and bathrooms of higher price bracket which were well received. We carried out intensive training of customer sales staff which further improved the quality of the total offer.

On the basis of activities planned for 2004 we expect further growth in sales.

On other European markets the Division's sales failed to reach projections when, after a promising start, our largest business partner in Germany suffered financial difficulties and a major retail chain reduced its number of orders. However, the majority of planned targets were met with the help of improved sales structure in the principal segment of small bathroom units, with the development and launch

of a line of bathroom furniture with wash basin and with presentations at the furniture fairs in Cologne and Frankfurt. A significant increase in sales on the Dutch market was achieved and penetration into the demanding French market. A real challenge for 2004 remains the development of sales in Eastern Europe (Russia), development of new and marketing of existing kitchenettes and small kitchen units.

In the **Heating and Industrial Equipment Division** a 20.3% sales growth was reached, which was importantly affected by the 10% growth in sales of water heaters, while the sale of Mekom radiators fell compared with the year before due to the termination of contract with the majority buyer.

Sales of the company **Gorenje Tiki, d.o.o.**, grew especially in East Europe and North and Central Europe. Despite unfavourable market conditions and high saturation of the water-heater market the company sold 420,000 pieces and joined the five major water heater producers in Europe. In marketing radiators intensive activities were started to gain new buyers and markets due to the loss of the key buyer.

Gorenje Indop, d.o.o., obtained larger orders of Gorenje d.d., which will be partly carried out also in 2004. Construction of a logistic centre and a new production line for washing machines are, in addition to the production of equipment for established European manufacturers, the main references for the Company's future development.

Gorenje Orodjarna, d.o.o., introduced a new programme "Thermoforming", which comprises tools for moulding synthetic materials by supplying heat (vapour, electric heaters...)

In the **Services Division** sales exceeded projections and the 2002 figures by 16.5%. This was achieved by successful performance of the companies operating as agents for Hyundai cars in Croatia and Serbia, by the rapid growth of **Gorenje Gostinstvo, d.o.o.**, and exceeding of projections by the company **Gorenje GTI, d.o.o.** On 1 July 2003 activities relating to the sale of household appliances in Slovenia were transferred from the parent company to the company Gorenje GTI, d.o.o., which significantly affected the Company's sales in terms of volume and structure. In 2003 the five-year agreement on the sale of hard coal expired which had an important influence on the Company's revenues. Within the agency services the most successful was the sale of air-conditioners in Slovenia and in South-east Europe, which, compared with 2002, grew by 7.5% in terms of quantity and in Slovenia by 20%. Sale of aluminium alloy and isocyanate was successful as well while the sale of transport and agricultural machinery failed to reach set projections. Below expectations was also the sale and fitting of medical equipment Philips Medical Systems in hospitals and health centres due to postponement of completion of some projects into the year 2004. In engineering the project of construction of hydroelectric power station Soške elektrarne was completed, while the construction of Celje wastewater treatment plant was delayed. Gorenje Gostinstvo, d.o.o., reached a 17% increase in sales in 2003 on account of enriched offer in the restaurants DK in Velenje and Golovec in Celje. In other areas of the Company's activity

a moderate growth was recorded. **The Energy and Environment Protection Division** focused on services related to treatment of waste. In 2003 the newly formed Division generated over SIT 1,500 million of sales, where the best performer was the company **Kemis, d.o.o.**, which increased its sales on the markets of Slovenia and Croatia by as much as 38% compared with 2002.

Direction is more important than speed.

We are on the right track. Our horizon is communication openness.

Annual Report
2003



Values

- *Generating shareholder's value*
- *Fostering relations with consumers and business partners*
- *Concern for employees and their knowledge base, to maintain and strengthen their loyalty towards Gorenje*
- *Developing corporate and the Gorenje brand name identity*
- *Encouraging ecological awareness of employees and the environment it operates in*

VISION:

Gorenje strives to be

a flexible and

manageable business system

in all areas

of activities.



2.4. Production

2.4.1. Production of the Household Appliances Division

Production of the Household Appliances Division is based on four principal programmes: refrigerators and freezers, washing machines and tumble dryers, cookers and the production of radiators and mechanic components (Mekom), which are carried out in Gorenje, d.d. 2003 was characterised by increased flexibility of production capacities which will be continued in 2004 on account of a slow down in investment dynamics. In 2003 we changed over to our own production of polystyrene packaging and prepared for the storage of finished products in the new logistic centre. We continued to implement the 20 keys method, which represents a thorough assessment of the effectiveness of the operational processes functioning within the programmes, we started to implement the 6 sigma quality philosophy and continued with the project of improving productivity.

In the refrigerators and freezers programme the project of manufacture and development of appliances for the American market entered the second phase, which includes Cooling glass doors with electronic control, Double-drawer refrigerators, Bar unit, Wine Chiller, Out-door unit, Beverage centre and Gourment fresh food refrigerators. Work on the new generation of 600-mm wide refrigerators and freezers marked the beginning of their full renovation.

In the second half of 2003 the project of development and implementation of a new generation of washing machines and tumble dryers was being finalised. As a result about one quarter of the whole range of household appliances will be renovated from the first half of 2004 onwards.

2.4.2. Production of Other Divisions

After over five years of intensive development of new products and renovation of all families of cookers the development dynamics was slowed down in the cookers programme. A new generation of built-in ovens, gas and combined 50 cm wide cookers were included into production, and some niche products such as hobs centre, glass ceramic built-in hobs 85 cm wide, with re-heating zone, and 60 cm wide free standing cooker with induction heating hob.

In the Mekom programme manufacturing of component parts was rounded up in the new plastics plant, where we started our own production of glass doors for refrigerators and freezers for the American market and in the plant in Rogatec, where we started producing dynamic condensers of refrigerators and freezers for the American market, developed a new radiator for drying footwear and prepared the project of a new production hall.

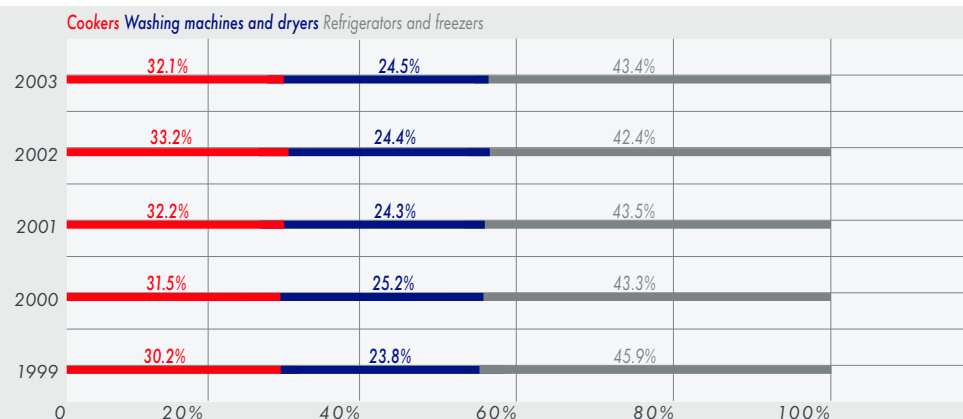
The company Biterm, d.o.o., increased production in terms of quantity by 14.3% to a total of over 3 million thermostats. The growth was mainly due to increased sales to customers outside the Gorenje Group, with which Biterm, d.o.o., further consolidated its position within the Danfoss Thermostat Division, which is the leading global provider of thermostats with a 20% share of the world market. Productivity grew by 9% and was a result of modernisation and automation of production processes.

The principal goal of the company Gorenje I.P.C., d.o.o, which employs disabled persons, was to follow, with all available capacities, the development and production and technological trends of the programmes of Gorenje, d.d. The company started its own production of polystyrene packaging in the new factory, implemented the standard computer system SAP and implemented the Insulation Displacement Connection technology in the field of cable sets.

The company Gorenje Notranja oprema, d.d., has the principal role in the Interior Furnishings Division, which includes the programmes of furniture, ceramics and bathrooms. In the furniture programme, which includes kitchen and bathroom elements, small bathroom units and doors, productivity grew by 8% on account of a decreased number of employees and increased sales. They began manufacturing doors for the needs of all companies within the Division, with the emphasis on foil fronts and Marles programme, where production increased by 429% and productivity by 8%. Production was characterised by strong seasonal fluctuation which required high flexibility in the use of workforce. In the ceramics programme the technology of single baking and the technology of additional decoration produced 1,579,000 m² of tiles. The production capacity of single baking technology enables an annual production of 2 million m² or 1 million m² of each type of tiles. Capacity utilisation was 80%, the ratio between production of floor tiles and wall tiles was constant. Due to unsatisfactory utilisation of economies of scale in the production and to the nature of technology, 746,900 m² of wall tiles were made and 807,300 m² of floor tiles or 60,400 m² more. In the technology of additional decoration 79,500 pieces of central decorations and listel tiles were made and 16,200 m² of decorated tiles for the table programme. In 2003 the share of production of additional decoration was 1.6% of total production of ceramic tiles. In the bathroom programme productivity improved by investments in modernisation: automation of chariots, automatic drilling of overflow bore, moulding by use of new technology (without glue

Comprehensive offer of high quality products...

Production(pcs)	Cookers	Washing machines and dryers	Refrigerators and freezers	Total
1999	634,809	500,833	965,339	2,100,981
2000	739,467	590,315	1,016,502	2,346,284
2001	788,247	594,098	1,062,989	2,445,334
2002	904,635	666,324	1,155,095	2,726,054
2003	888,546	679,442	1,200,785	2,768,773
Average annual growth	+9.5%	+6.4%	+5.0%	+6.7%



2.5. Purchasing

and after-treatment, sinks without edge grinding) and by improving the existing technologies.

In the **Heating and Industrial Equipment Division** the company **Gorenje Tiki, d.o.o.**, produced 389,000 products of the four principal families of their own production programme of ventilators and small, medium and large size water heaters. With a new technological equipment of the powder varnishing plant the quality of varnished products improved, the quantity of rejects was reduced and work conditions improved. Machine capacity utilisation was over 80%, while at individual technological bottlenecks (enamelling, injection moulding) it was up to 95%.

The company **Gorenje Indop, d.o.o.**, finalised two big projects, the project of transport equipment for the new logistic centre and the project of fully automatic forming and welding line for manufacturing sheet casings of the new generation of washing machines and tumble dryers for Gorenje, d.d. For this a new programme of storage and transport systems was designed in the operational unit in Ljubljana, which

is and remains specialised in the programme of logistic centres. Emphasis was put on project management, to meet the requirements of the automobile industry, with which a number of bigger projects was successfully finalised. In engineering and construction **Gorenje Indop, d.o.o.**, succeeded in acquiring new knowledge in modelling and three-dimensional construction, designing controls, programming controls for robots and welding controls.

In **Gorenje Orodjarna, d.o.o.**, a new profit centre for making thermoforming tools, which represents a completely new production area.

Quality, price effectiveness and flexibility are the key tasks of suppliers and of the purchasing activities in the companies of the Gorenje Group. We are aware that we can offer our customers competitive appliances only in co-operation with suppliers, who are capable of following, with their products and work organisation, the world development trends.

Strategies and activities, lead by the purchasing departments of the Gorenje Group, are fundamental to achieve efficient purchasing:

Optimisation of the number of suppliers... In the past the Gorenje Group had a too extensive range of suppliers, therefore a task of priority for the purchasing activities was to reduce the number of suppliers and establish a closer co-operation from the phase of product development onward. With this the complexity of purchasing products was increased and utilisation of synergy effects improved.

Co-operation in processes... By placing trust in co-operation and promoting co-operation between the companies of the Gorenje Group and partners and with open communication, sharing of information and common decision-making, we searched for optimal solutions. Purchasing processes were considered integrally, suppliers' processes and our own were paid equal attention.

Development of new products... Purchasing departments co-operated in the projects of launching new products and ensured that suppliers were early included in their development, thus contributing to innovative product features, reduction of duration of launch processes and to cost-effectiveness. On the basis of long-term co-operation with key suppliers we implemented the most up-to-date innovative solutions. With mutual co-operation in the form of mixed groups we implemented the 6 sigma quality philosophy of supplier's production processes into some new projects.

Managing the risks of the environment... The executives of the purchasing departments monitored the favourable economic trends on the purchasing markets, amendments to national laws, global competition and alliances of suppliers.

The purchasing departments in the Gorenje Group recognised the dangers and braved the pressures arising from lively political and marketing circumstances during the year. With ongoing adjustments to changes on raw material and foreign exchange markets and with correct positioning in relation to the purchasing sources and suppliers we succeeded in reducing our exposure to irregular supplies and cost increases.

The purchasing activities of the company Gorenje, d.d., 2003 were characterised by the introduction of a new information system SAP, which set the base for a new, more efficient flow of information between the Company and suppliers. In 2003 the first effects were already evident, however the process of optimisation was not finalised and will be one of the key tasks in 2004.

In the second half of the year Gorenje, d.d., began with the project of optimising the purchasing chain. On the basis of project work organisation we wish to develop and implement the purchasing strategy of the Gorenje Group. The key leverage of the project are further reduction of the number of suppliers, ensuring global sources, common development of products and processes and restructuring of purchasing relations. In future we wish to establish closer partnership relations with the suppliers who will be capable of following the competitive global environment and offer innovative products of high quality, which will contribute to the Company's planned growth.

The company Gorenje, d.d., will in future ensure that the purchasing departments of the whole Group will deliver on common purchasing policy and related activities.

2.6. Development

All development activities of the Gorenje Group are focussed on the best possible understanding of the needs of customers and business partners. These needs are materially affected by global social changes which are shown in people's individuality, their increasing average age, their communications through the electronic media, their attitude to brand names and to traditional values such as family, and in the business world is evident in concentration of producers and distribution, improved quality of services and products, arrival of competition from the Far East to traditional European markets, unease of the European market on account of the entry of new members into the European Union etc.

A proper response to these circumstances can only be a sustainable development of the whole society in terms of economy, social life and the environment on the one hand, and simultaneous and balanced development of products, technologies and operational processes on the other. Such measures prepare us for appropriate reaction to unexpected events and instils confidence in customers and business partners.

Excellence of products' design, combined with optimal functional solutions, low consumption of electric power, silent operation, built-in intelligent systems, which add to saving and affect the quality of basic functions and combine the products into compact, electronically linked systems, and well designed technical solutions, all of the above provided a basis for product development also in 2003. Development of technologies and development of products were carried out simultaneously and were directed towards higher automation and higher production capacities, which are adjusted to the strategic goals. Adequate use of materials and

effectively priced development solutions ensured appropriate management of material and labour costs.

Great attention was paid to the development of business processes and continuation of the renovation of the information system, which enabled the optimisation of business processes;

- the most demanding system of controlling the development, implementation and production of product within the 6 sigma quality philosophy and its implementation in the production lead to new customers;
- the 20 keys method for assessing the competitive position of the Company and its continual improvement was carried out in almost all the companies of the Group;
- use of concurrent development where techniques are applied which materially shorten the development times, was strengthened and enhanced;
- establishment of the Centre for Innovations, whose mission is to activate intellectual capital in the field of new knowledge in co-operation with the faculties and research and development institutions in Slovenia and abroad;
- membership of Gorenje, d.d., in the European Association of Manufacturers of Household Appliances - CECED, which the major European manufacturers see as the common initiative, which will enable long-term development of the industry and satisfaction of customers on standard bases.

2.6.1. Development of the Household Appliances Division

Due to products, which the households use daily and are displayed to the critical eye of the public, the Household Appliances Division took account of all modern principles of own development, development of technologies and of products. Ongoing improvement of production processes through the 20 keys method, computerisation of each work post and its linkage to the central system of planned sales and production, optimisation of technological processes, implementation of the 6 sigma quality philosophy, computer supported communications in the field of development and a clear strategy of project management with consistent adherence to the principles of simultaneous development, are the fundamentals of further development of the Division which were applied in 2003.

Preparation of production processes for manufacturing 3.5 million of large household appliances, technological preparation for the production of a new generation of washing machines and tumble dryers, rounding up of production of large plastic components with injection machines for production of plastic tubs, new polystyrene packing plant which enables the production of higher quality and technically improved packaging, are just some of the investments in technologies which will enable optimal and competitively priced production.

Development in the field of products reflects in their new generations...

- The new Alux line achieved very good results on the market already in its first year of production and sales; similarly successful was a new generation of built-in ovens with a number of original and therefore protected solutions.
- The beginning of the implementation phase of the project of the new generation of washing machines and tumble dryers with orders for the principal lines, tools, machines and components. Methodical approach to the new generation, original technical solutions which take into account the existing and future trends in doing laundry, a new family of narrow built-under machines will insure that sales are made on the markets where Gorenje is not present yet, all this being a stimulus to successful marketing in 2004.
- A new generation of 540 mm wide refrigerators and freezers went into production with after sales seal replacement available. Stainless editions of the appliances offered the opportunity of sales on some markets, typical for this type of appliances.
- In addition to the development of a new 600mm free standing refrigerators, cooling glass doors for wine and other drinks, intended for the American and European markets, were the products which required completely new approaches, especially the mastering of new methodological and engineering knowledge.

2.6.2. Development of Other Division

Organisation into Divisions enabled a new approach to the development of production technologies since optimisation of production capacities, concentration of suppliers, unified approach to customers and concentration of knowledge are only a few of parameters which will insure faster development and generation of higher added value. The goals of all other Divisions followed the goals of the parent company both, in relations to business partners and in relations to end users.

The *Interior Furnishings Division* concentration of production capacities and suppliers started which will enable their optimisation and at the same time greater variety of the sales programme, adjusted to various customers requirements and needs. The new kitchen lines, which were developed in 2003, follow fashion trends and new approaches to cooking, while the introduction of new tools for their sale positions Gorenje's kitchen one step ahead of competition. Introduction of a new technology of ceramic tiles production with new graphic designs fully complements the trends in the kitchen industry and those in bathroom furniture where *Gorenje Notranja oprema, d.d.*, prepared new products and optimised technological processes.

That the goals were correctly set is indicated in the *Heating and Industrial Equipment Division*, which succeeded in obtaining business deals in the most demanding production industries, such as automotive industry, where *Gorenje Indop, d.o.o.*, started a new activity in the field of logistics, while on the basis of own know-how acquired from Gorenje's own production of polystyrene foam packaging *Gorenje Orodjarja, d.o.o.*, developed a programme of development and production of special tools for these products.

The *Services Division* experienced important landmarks in its operation as the Paka Hotel, which operates within the company *Gorenje Gostinstvo, d.o.o.*, was nominated the best small business hotel, and is the leader of a cluster of small business hotels in Slovenia. Growth in hotel and restaurant business was possible by the acquisition of another restaurant in the centre of Velenje and by implementing the HACCP standard which places the Group's hotel and restaurant activities among the leading providers of these services in Slovenia.

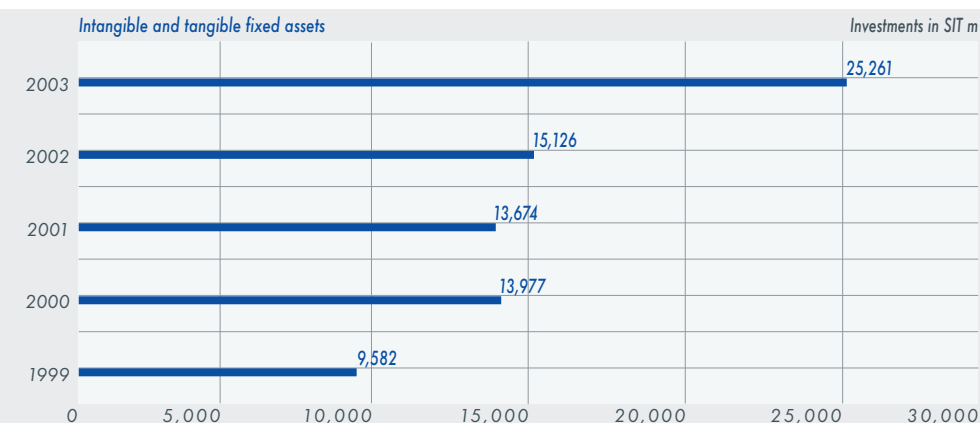
The activities of the *Energy and Environment Protection Division* in treatment of dangerous waste were directed to acquiring know-how, in co-operation with partners, on treatment of acid tear pits including solidification of acid tear and its removal and in the field of energy the basis for further development of operation was formed.

2.7. 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.

A five-year period of intensive investments is ended during which the Gorenje Group earmarked SIT 77,620 million for intangible and tangible fixed assets.



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

	2003	2002
Household Appliances Division	22,496.7	11,639.8
Interior Furnishings Division	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 Gorenje Group investments in SIT m

	2003	2002
Intangible fixed assets	1,207.9	866.7
Tangible fixed assets	24,053.3	14,259.4
- Land	623.0	1,201.8
- Buildings	6,601.8	5,392.0
- Technical equipment	14,874.5	6,531.2
- Other equipment	1,954.0	1,134.4
Total	25,261.2	15,126.1

2.7.1. Investments of the Household Appliances Division

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 6 kg 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.

New logistic centre in Velenje

- Total area 50,000 m²;
- computer system ensures co-ordination of all elements and automatic functioning;
- throughput of the whole system is adjusted to the production of 4 million household appliances per year or 20,000 appliances per day;
- possibility of simultaneous loading of 10 trucks and up to ten wagons;
- 116 workers working in two shifts;
- the investment in technology and plant totalled EUR 30.2 m

- Finalisation of the project of increasing production capacities in the last link of the supply chain - logistics;
- more efficient work and utilisation of the advantage of single production location;
- basis for further optimisation of exit logistics

New plastics plant in Velenje

- Production facility with 9,650 m²;
- automatic processes of extrusion, vacuum pumping, spraying and marking plastics;
- 2,380 pallet spaces (3.5 days stock);
- 60% share of refrigerators and freezers, 35% share of washing machines and dryers and 5% share of cookers;
- annual processing of 8,400 tons of plastics;
- 220 workers working in three shifts;
- the investment in technology and plant totalled EUR 10.09 m.

- Increased production due to the new refrigerators and freezers plant;
- transfer of equipment from the refrigerators plant due to the project of the new 602 generation;
- modernisation and purchase of new equipment for spraying and extrusion;
- increased capability and improved quality, productivity, flexibility and tidiness of work environment.

New polystyrene packaging plant in Velenje

- Production facility of 4,750 m²;
- the latest LTH technology of the German producer KURTZ;
- production fully supported by the production information system MES and standard information system SAP;
- final capacity of processed EPS: 3,500 t/year;
- 42 workers working three shifts;
- the investment in technology and plant totalled EUR 12.5 m.

- Ensured prompter response in packaging supply;
- reduced transport costs;
- modernisation of packaging and reduced number of pieces of packaging;
- prompt and direct transport of packaging from assembly line without intermediate unloading;
- less storage space in the yard of Gorenje, d.d.;
- cheaper packaging;
- possible production of modern and high quality packaging.

2.8. Quality Management

2.7.2. Investments of Other Divisions

2003 was also marked by the construction of a new sales and distribution centre in Ljubljana. The building with 11,000m² of space will contain a showroom with the complete range of products of the Gorenje Group, a warehouse with capacity of between 15,000 and 20,000 products, intended for distribution throughout Slovenia, after-sale service unit for Ljubljana and its suburbs and business premises where all sales and logistics departments for Slovenia will be moved from Velenje and Celje. For the first time the Group presented on one location the latest achievements in the field of small and large household appliances, kitchen and bathroom furniture, heating and cooling appliances and audio and video equipment, and they will focus on training customer sales staff and promotion campaigns.

Gorenje I.P.C., d.o.o., invested in the production of electric components to increase their capacity and improve quality, in graphics programme by purchasing a new printing machine and in the polystyrene packaging plant (in tools and logistic equipment).

In the subsidiary companies of the Household Appliances Division operating abroad three important investments were carried out totalling SIT 1,917.9 million:

- construction of a business and storage centre in Podgorica began, its conclusion is scheduled for the first quarter of 2004,
- a storage and sales centre was built in Budapest and
- a new sales and distribution centre with 14,150 m² of space was built in Zagreb, with which Gorenje Zagreb, d.o.o., rounded up all its activities on the Croatian market on one location.

The goal of the above investments was to consolidate the market position with presentation and sale of the complete product range of the Group and improve the quality of logistic services provided to business partners.

Within the Interior Furnishings Division investments totalled SIT 282.7 million for the company Gorenje Notranja oprema, d.d., in 2003. SIT 111 million were allocated to the furniture programme and as much as SIT 97 million to the extension of the facility for assembly and despatch of kitchen furniture. In the Marles programme SIT 105 million were spent of which SIT 79 million for showroom renovation.

SIT 36 million were invested in the ceramics programme of which SIT 5.6 million in deposition appliance on the principal lines and SIT 14 million in the bathroom programme for the modernisation of existing technologies.

Within the Heating and Industrial Equipment Division the company Gorenje Tiki, d.o.o., invested SIT 400.8 million to pursue their strategy to increase competitiveness, continue to improve the quality of products, reduce the costs of production and modernisation of technology. Investments in new products and quality improvement included a renovation of small 5 and 10 litre non-pressure heaters, and 10 and 15 litres pressure heaters, the project of a new generation of medium-sized heaters of 420 mm in diameter was finalised. By renovating the small-sized heaters we simplified production and reduced the cost due to universal heaters, reduction in heat loss due to improved insulation, we improved the technological operations related to production of heaters, simplified construction and improved the quality of products by making maintenance and repair easier, by improving capacity and extending their useful life. Renovation of medium-sized heaters made truck loading simpler and lowered transport costs, by introducing the 150 litre heaters the sales programme of heaters was extended. The investment in new machinery and technological lines included automatic and robotic welding line; automatic varnishing heater lining

and machinery and appliances for production of spirals for combined heaters. The new automatic varnishing line improved the quality of varnishing, reduced the quantity of rejects and increases production and surface capacity. On account of the automatic welding line the number of workers was reduced, but productivity increased and the quality of welding improved. New machines for production of spirals for combined heaters enabled own production and consequently abandonment of outsourcing, which considerably reduced the material costs of products.

In 2003 the goals of the Energy and Environment Protection Division were directed towards setting up of an independent Division. Acquisition of the company Kemis, d.o.o., in 2002 was one of the basis for forming the Division since the company deals in collecting, processing and disposing waste with emphasis on treatment of dangerous waste. Kemis, d.o.o., carries out its activity independently, and has its own space for it. We purchased a storage facility in Zagreb, where the company will carry out its principal activity on the Croatian market.

Companies within the Gorenje Group are committed to satisfy customers' requirements, needs and expectations, which they achieve by continually improving operational processes.

The quality management system is based on ISO 9001/2000 standard requirements. Adherence to the standard has been successfully confirmed by assessments of our customers and independent institutions.

Since the year 2000, five companies in the Group have been upgrading the quality management system by implementing a constant progress programme, a so called 20 keys whose success has been confirmed by achieved quality targets. Costs of poor quality grew less than projected, compared to the growth in sales volume, the remaining quality management targets were met in 2003.

2.8.1. Quality Management in the Household Appliances Division

In 2003, Gorenje, d.d., paid special attention to quality of production processes by implementing the 6 sigma quality philosophy in production and development. With the arrival of new generations of washing machines and tumble dryers new technologies were introduced and suitable methods of quality management system developed.

In 2003 the SAP standard information support of operations was implemented which includes the basic control mechanisms of managing operational processes. Since the SAP project was given priority the goals of close monitoring of costs of poor quality had to be set for 2004.

In the company Biterm, d.o.o., the quality of product was assessed with the buyers and in own production. The majority of activities were carried out in relations with suppliers and customers where the company was assessed by two major buyers: the companies Gorenje, d.d., and BSH.

In 2003 the company Gorenje I.P.C., d.o.o., operated for the first year within the integrated system ISO 9001 and ISO 14001. After an analysis of the year's work has been carried out activities will be planned and performed for improving and continuing the quality management system. The company implemented the quality management system also in the new polystyrene packaging programme.

2.8.2. Quality Management in Other Divisions

Within the *Interior Furnishings Division* the company *Gorenje Notranja oprema, d.d.*, reached and exceeded the majority of set goals. For the very few unfavourable indicators which are below projections the reasons and causes are known. In other companies of the Division the quality management targets were met.

In 2003 the activities of the *Heating and Industrial Equipment Division* were marked by adjusting the quality management system to the requirements of the ISO 9001/2000 standard. The renovation was successfully completed in the companies *Gorenje Indop, d.o.o.*, and *Gorenje Orodjarna, d.o.o.*, while in *Gorenje Tiki, d.o.o.*, the completion is scheduled for the beginning of 2004.

The company *Gorenje Indop, d.o.o.*, began to renovate the quality management system. Results of the projects were incorporated in their regular work. Constant progress arising from the 20 key method affected positively the employees' corporate culture in the company *Gorenje Orodjarna, d.o.o.*, Loyalty of employees increased and they were better informed about the company's activities. Part of the constant progress process was the introduction of target management which directs company's targets to the lowest levels and helps to build a growth-oriented company.

The goal of the company *Gorenje Tiki, d.o.o.*, was to reduce the costs of poor quality, which was not achieved despite appropriate activities, especially due to the introduction of new technologies and increased complexity of production.

Gorenje GTI, d.o.o., is the only representative of the *Services Division* which has already implemented the quality management system according to the requirements of

ISO 9001/2000 standard. In 2003 they successfully carried out most of the planned activities.

Within the *Energy and Environment Protection Division* the companies *Kemis, d.o.o.*, *Energygor, d.o.o.*, and *Elgor, d.o.o.*, had implemented the quality management system according to ISO 9001/2000 standard, so that in 2003 mainly the activities related to the system were carried out.

2.9. Human Resources Management

Employees are the key factor of successful future performance... With their knowledge, motivation and loyalty to the company they are an important asset which needs investing, developing and protecting.

The strategy of investing in the development and continuous training of employees, which had been adopted in the past, is still being pursued with special emphasis put on providing for personal development of employees which over years are appointed to key positions within the company.

In 2003, after a five-year interval, a survey of professional requirements and satisfaction at work was conducted. Results of the survey show a positive attitude of the key employees to knowledge and development orientations of the Gorenje Group and draw attention to the importance of management in motivating and developing 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.

Gorenje = Employees

- High level of Employee's Loyalty.
- Flat and process oriented organisation structure.
- Team work and Project Management.
- Wide-spread innovative and entrepreneurial spirit.
- Permanent educational and training process in Slovenia and abroad.

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.

Educational structure of employees at end of 2003

Key:

- I.-III. = primary school level
- IV. and V. = secondary school level
- VI. = higher education diplomas
- VII. and over = university graduates, MSc and DSc degrees

Level of professional education	Gorenje Group No. of employees		Gorenje, d.d., No. of employees	
	2003	2002	2003	2002
I.	3,093	2,950	1,984	1,948
II.	537	511	393	393
III.	315	316	183	180
IV.	2,529	2,328	1,395	1,355
V.	2,008	1,881	1,159	1,112
VI.	376	304	169	162
VII.	531	453	271	241
VIII.	38	29	25	20
Total	9,427	8,772	5,579	5,411

Knowledge, a wealth of work experience, strong loyalty and motivation of employees warrant that the Group is ready for entry into the European Union and for achieving set business goals.

Learning for the future... Human Resources Management and the Educational Centre operate on the Group's level, which enables integrated and uniform activities in recruitment, deployment of staff, in preparing common legal and organisational bases, uniform methods of monitoring personal development of staff and planning, carrying out and measuring the effects of education.

4,692 employees of the parent company participated in the various forms of education in 2003. Almost half of educational activities were professional training courses, which indicates a great need for acquiring know-how for the use of new technologies and approaches. Special attention was paid to increasing the level of quality of training already during the drafting of the various forms of education, where participants, heads and expert departments co-operated.

Last year the 15th generation of young colleagues graduated at the *Gorenje Managers' Academy* with international participation. Over the years the Academy developed a unique form of educating prospective employees, which in such a large corporate structure enables the integration and transfer of knowledge from various fields and the formation of valuable human resources. Participants expanded their knowledge and searched for new opportunities for the Group's development in the form of team work on drafting business plans, where they looked for solutions to their daily work tasks.

An important achievement in our concern for health and safety at work in 2003 was a decreased number of injuries at work. Compared to 2002 there were 31 injuries less, in relative terms the index was 89.7. A positive trend was shown in the number of lost days per injury where the index fell to 90.4; the index of lost days in the parent company was 81.2. Positive trends were a result of interdisciplinary approach to optimisation of production processes by considering the principle of health and safety at work. By applying this principle in implementing new and updated technologies, by pursuing the 20 keys method and with analytical approach in analysing the reasons for injuries at work, by implementing the programmes of safety measures based on the assessed risks, we expect an even stronger downward trend in sick-leave periods of absence on account of work-related injuries.

Educational activities in 2003 focussed on *training for safety in working with dangerous substances*. The programme was attended by 500 employees who are exposed to the risks of dangerous chemical substances. New instructions for safe handling of dangerous substances were prepared. In the autumn and winter term 1,400 employees working in the refrigerators and freezers programme underwent on-the-job-training for correct and safe work at their work posts. This form has and will have, also due to legal requirements in the future a major role in increasing employees' awareness about health and safety at work and consequently in reducing absenteeism related to sickness and work-related injuries. 700 employees participated in *preventive check up programmes*. The programme intends to arouse awareness about healthy lifestyle, how to handle stress, what kind of physical exercise is required for maintaining a flexible body and prevent work-related injuries.

Successful performance of the parent company and the Gorenje Group is conditioned also by employees. Motivated employees make the difference between average and excellent. The best business strategies disappear into thin air if employees are not capable, ready and committed to deliver. Employees wish and have the right to be informed of matters which are related to them and have an impact on their work. With prompt and regular disclosure of information we ensure that it is so. One of the tools of *internal communication* are the Company's publications: weekly newsletter *Crno na belem* and the newspaper *Pika na G* and at the year end the first issue of the weekly newsletter *E-glasilo* will be published.

2.10. IT and Telecommunications

In terms of information support to operational processes 2003 was a landmark year as it marked the end of a three-year period of preparing expert bases for the renovation of operational processes and information support, seeking for and selecting appropriate providers and of preparing for the implementation of integrated information system. In the beginning of 2003 the new information system SAP began to be used on a daily, regular basis.

Information support to operational processes in the parent company Gorenje, d.d.... In January we changed over to the *integrated information system SAP* in which the operational processes of sales, production, purchasing, logistics, quality management, development, financial management, controlling and accounting were included. In the beginning of March we implemented *new information support to after sale-service processes* which connected 9 maintenance and repair outlets in Slovenia with the central after-sale service department in the parent company. *The first phase* of the

project was thus completed. Followed a period of *adapting the system, clearing up difficulties, optimising the system's response* to end users and getting users to know the system.

In the second half of 2003 the *SAP information support was upgraded and enhanced and reporting and profitability analysis programs* were implemented. The reporting system has been created with the business warehouse support (BW) as the upgraded transaction SAP system. The first priority was a reporting system for sales. Profitability analysis dealt with preparing the environment for ensuring data about profitability of sales on all levels, from the elementary level of the product and customer to the combined levels of programmes, markets and other generators of earnings and expenses.

Support to the planning processes for 2004 which have been carried out in terms of contents and adjustments, was given a new information support for the first time. It was necessary to set up the system, test it and co-ordinate between various business areas.

For the *logistic centre project* interfaces had to be built for integrating the management information system SAP and an automated warehouse system. In the system environment of the computer centre new hardware was integrated which operates the information support to processes in the warehouse. Testing in the actual environment was only possible at the end of December so that the new warehouse started operating in the beginning of January 2004. Some important functions were set up such as visualisation of loading and intranet overviews of the status of some processes in the warehouse in real time.

Other activities included *setting up direct interfaces to production systems*

2.11. Financial Management

which form part of the technology and optimisation of the central computer equipment.

Management information system in the Gorenje Group ensures an integrated and transparent information environment with on-line access to information.

Gorenje Austria Handels GmbH was the first subsidiary company to have SAP implemented in support to its operation simultaneously with the parent company Gorenje, d.d. Regular use of SAP support started in January 2003. Some new functions were successfully implemented, such as warehouse operation (WM) and support to after-sale service processes. The experience gained was a valuable basis for further development of SAP support to operational processes in subsidiary companies.

The renovation carried out in the parent company will be continued by linking the sales network of subsidiary companies abroad to the central SAP information system, with which the Household Appliances Division will be fully covered.

The implementation strategy consists of developing standard pilot solutions which will be implemented in all trade subsidiaries.

The project team prepared the information support for the subsidiary company Gorenje Skandinavien A/S, which was put in use on 1 April 2004.

Information support to the operation of the new polystyrene packaging plant introduced "just in time" despatch of polystyrene packaging to the factories for production of household appliances, warehouse management system (WM) and direct integration between the management

information system SAP and production systems.

Process and information renovation of the Interior Furnishings Division and its six companies, whose production is organised on different locations, represent a new step towards integration information support in the Group; the project will start in the middle of 2004. In 2003 the operational infrastructure was set up for moving computer data processing of the company Gorenje Glin, d.o.o., to the computer centre of Gorenje, d.d.

In other Divisions activities were carried out relating to the provision of expert assistance, distribution of Microsoft licensed software, ensuring information safety and communication infrastructure to subsidiary companies on the Velenje site.

The Gorenje Group pursues a uniform financial policy which sets the strategies and methods of operation in the financial field with our external partners and with the companies in the Group. To improve the efficiency of our financial operations we continued, on the Group's level, to set up uniform activities in the fields of managing payables and receivables, financing and investing, managing financial risks, working with banks and insurance business.

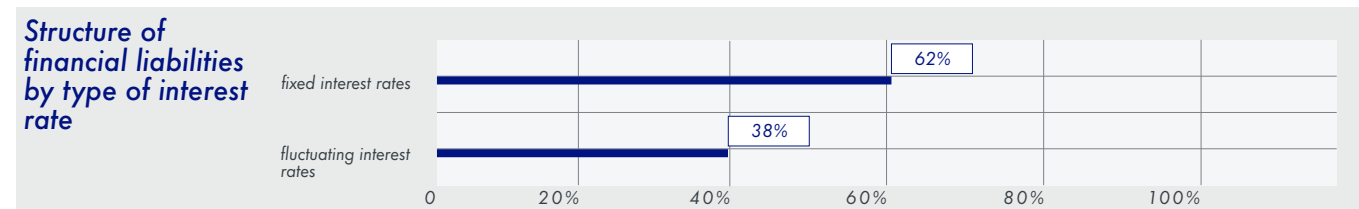
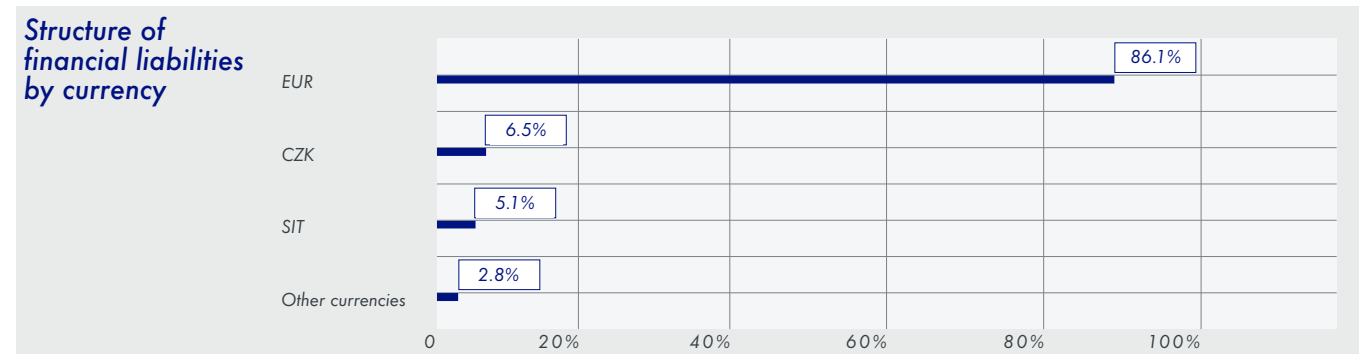
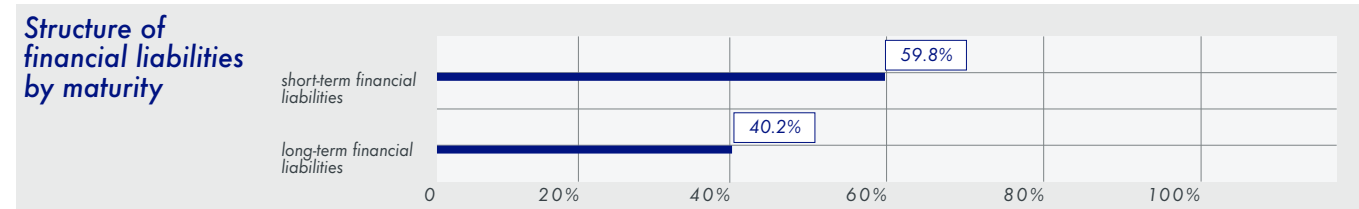
On behalf of the Group the parent company Gorenje, d.d., is responsible for carrying out the adopted financial policy in relation to banks and financial institutions and for optimising cash management. The basic terms and conditions of financial operations, agreed with banks by the parent company, are valid for all the companies in the Group, considering the characteristics of individual countries in which they operate.

In 2003 financial liabilities of the Gorenje Group increased by SIT 11.4 billion, mainly as a result of intensive investments.

The Group ended the year with SIT 47.0 billion of financial liabilities, which in terms of contractual maturity were divided into 59.8% of short-term and 40.2% of long-term liabilities.

Financial liabilities by currency are divided as follows: EUR (86.1%), CZK (6.5%), SIT (5.1%) and other currencies (2.8%).

At the end of 2003, 37.7% of total financial liabilities were linked to fixed interest rate, the rest were either short-term or linked to fluctuating interest rate, mostly linked to EURIBOR.



2.12. Risk Management

Due to its international orientation and diversified business activities the Gorenje Group is exposed to some types of financial risk. To manage such risks with maximum efficiency we began to prepare a financial risks management process for the Gorenje Group. The purpose of the financial risks management process is:

- to obtain stability of operation and reduce exposure to individual risks to acceptable levels
- increase the Company's value and influence its credit rating,
- increase financial revenues and reduce financial expenses and
- eliminate or reduce the effects of extreme damages incurred.

The bases for financial risk management in the Gorenje Group are expected cash flows so that the measures chosen for risk management are intended to protect the cash flows. The Gorenje Group divides financial risks into the following types: credit risks, currency risks, interest rate risk, liquidity risk and property-linked risks and legal risks. The Group protects itself against the risks during the normal course of activity by taking appropriate measures in business, investment and financial areas, in addition it takes out insurance or purchases derivative financial instruments.

The next section highlights the exposure to risks and measures taken to protect against individual types of financial risks.

Credit risks... In 2003 we managed credit risks, which included all risks associated with partners' failure to fulfil mutual business obligations, by taking the following measures:

- we ensured the major part of operating receivables and commercial credits against commercial risks with the Slovene Export Corporation and other insurance companies,

- we additionally secured trade receivables associated with higher risks by taking out mortgages, bank guarantees and by other instruments,
- we regularly monitored the operation and financial status of all new and existing business partners and limited our exposure to individual business partners,
- systemic active collection of receivables.

We consider that the Gorenje Group's exposure to credit risks is moderate.

Currency risks... Due to its international operations the Gorenje Group is exposed to currency risks, especially when operating in the countries with fluctuating currencies such as Croatia, Poland, Hungary, Serbia and Montenegro, Czech Republic, Slovakia, Great Britain and all Dollar markets. In all markets we try to reduce long-term exposure by balancing sales with purchases, on a short-term we protect against currency risks by forward contracts, by borrowing in local currency and to a lesser extent by other derivative financial instruments. Since it is predominantly Europe-oriented the Gorenje Group's highest net exposure is in EUR, however, due to consistent exchange rate policy of the Bank of Slovenia and the planned entry into the ERM2 mechanism, we consider the exposure moderate and take no measures to protect against it.

We consider that the Group's exposure to currency risks is moderate.

Interest rate risks... On account of extremely low interest rates in 2003 we decided to change part of the fluctuating interest rates of our long-term financial liabilities, by making interest rate swaps, into fixed interest rates. At 31 December 2003, 37.7% of total financial liabilities were linked to fixed interest rates.

2.13. Responsibility to the Environment

We consider that the Group's exposure to interest rate risks is moderate.

Property-linked risks and legal risks...

Companies in the Gorenje Group systemically transfer to insurance companies the principal property-linked risks (fire and earthquake insurance, production fall-out, transport risks etc.) and legal risks (professional liability, product liability, accident insurance, etc.)

Liquidity risks... Liquidity risk of the Gorenje Group is low due to efficient cash management, appropriate credit lines for short-term management of cash flows, high level of financial flexibility and access to favourable financial sources. Solvency risk of the Gorenje Group is low due to successful performance, efficient asset management, cash generating capability, conservative capital structure and high credit rating.

Environment protection as a component part of annual business plans, which are in line with strategic policies of the Gorenje Group...

The business plan of the company Gorenje, d.d., for 2003 included the goal to continue with activities related to supporting the existing process of environmental protection and developing marketing systems in environmental protection. The company Gorenje, d.d., pursued the policy, goals and programmes included in the environmental management system and adhered to the requirements of ISO 14001. Since in 2003 the intensive investments in production processes were being completed, the steep growth of indicators of reduction of environmental impacts of production of household appliances, characteristic of the past years, slowed down as did the trend of reducing the use of natural resources. Realisation of goals and programmes became more dependent on the employees who underwent intensive training in practising environmental protection.

Consequently, on the production site in Velenje we managed, compared with 2002, to:

- reduce the total quantity of dangerous waste by 27.5%,
- reduce the quantity of silt in the central purification plant by 27.6%,
- within the secondary raw material waste reduce the quantities of enamel, varnished and polyurethane filled sheets by 3.1%,
- reduce the quantity of waste for disposal by 10.2%,
- reduce the specific use of compressed air by 11%,
- reduce the discharge of concentrated waste water into the central purification plant by 7%,
- reduce the use of chemicals: fritting for enamelling and salt for electrocoating by 7% and use of powder varnish by 6.9%.

All environmental objectives are in accordance with legal regulations, which is one of important conditions for attaining the European Environment Certificate EMAS. The intention is to upgrade the environmental management system in line with ISO 14001 and gain an important competitive advantage after the 1 May 2004. In preparing for some new business terms and conditions related to environmental directives of the EU, required by the EU upon Slovenia's entry into the Union, we strengthened our activities in line with the EU directive on restricted use of some dangerous substances (RoHS) and the directive on waste electric and electronic equipment (WEEE):

- by participating in the European Association of Producers of Household Appliances CECED;
- by participating in the implementation of directives into the national legislation;
- by respecting the requirements of both directives in the new generations of household appliances;
- by starting to prepare a business plan for processing electric and electronic equipment (WEEE) in Slovenia with emphasis on technology and economical processes.

The **Energy and Environment Protection Division** is composed of the principal company Energygor, d.o.o., companies Elgor, d.o.o., Opte Ptuj, d.o.o., and Kemis, d.o.o.,. The latter two have the licence to deal in various types of waste.

In line with the requirements of ISO 14001 environmental management systems are established and certified also in the following companies of the Gorenje Group: Gorenje Orodjarna, d.o.o., Gorenje Indop, d.o.o., Gorenje I.P.C., d.o.o., Gorenje GTI, d.o.o., Elgor, d.o.o., and Energygor, d.o.o. All these companies achieved the following goals:

- **Gorenje Orodjarna, d.o.o.**, reduced the quantities of waste aluminium chip by changing input materials, by introducing emulsion washers in the hardware department they extended the useful life of emulsion and reduced the quantity of waste emulsion and prevented bad odour;
- **Gorenje Indop, d.o.o.**, reduced waste by 5%, renovated the sewer system, reduced the use of electrical energy by 3% and of in-house heating energy by 5%;
- In the first year of practising environmental management within the certified ISO 14001 system, **Gorenje I.P.C., d.o.o.**, set up the monitoring of total and specific consumption of energy products and their costs, monitoring of the use of raw materials, management of dangerous waste and chemicals, set up separate collection of waste and in accordance with legal regulations monitored individual environmental parameters;
- **Gorenje GTI, d.o.o.**, directed its activities towards preparations for adjustment with legal requirements in management of packaging and disposable packaging, waste and substances harmful to the ozone layer. In line with the annual plan they trained employees and carried out an exercise to test the readiness and response to emergency circumstances. In the last months of the year they started with activities related to the setting up of a waste management system and adjusting to other environmental requirements in the new distribution centre in Ljubljana;
- **Biterm, d.o.o.**, reduced the use of energy products such as electricity and water, by 3% and reduced the use of lead solders, alcohol and tin.

Environment protection was managed regularly and in accordance with plans in the companies which have not yet certified their systems according to the requirements of international standards and directives or law:

- **Gorenje Notranja oprema, d.d.**, carried out monitoring of industrial waste water, emission of substances in the air, production of noise in the environment and made the prescribed assessments of production waste. They started with activities related to the reduction of emission of vaporisable organic compounds into the air, took measures for reducing the noise produced, introduced separate collection of waste and reintroduced the processing of wood waste to make energy products, lowered the use of heating energy and continued to carry out the project of efficient use of electricity;
- **Gorenje Tiki, d.o.o.**, renewed the agreement on the disposal and separate collection of waste with the company Dinos d.d., which resulted in a 50% reduction in municipal refuse. Dangerous waste and waste which cannot be disposed of on communal dumping grounds, were removed by authorised companies (Opte Ptuj, d.o.o., Kemis, d.o.o.,). They conducted legally prescribed monitoring of waste water, emissions into the air and of noise levels. In co-operation with expert departments from Gorenje, d.d., they carried out activities related to implementation of disposable waste regulations, they trained employees in treating dangerous substances and set environment protection goals for 2004;
- **Gorenje Gostinstvo, d.o.o.**, organised the collection and disposal of waste edible oil on all its locations in accordance with legal requirements. In the project of refurbishment of self-service restaurant, kitchen and

auxiliary premises a system for processing organic waste was included, which will enable an 80% reduction in the quantity of waste;

- **Opte Ptuj, d.o.o.**, which has a licence to dispose and process waste (removal of electrocoating silts and processing waste oil), introduced stricter control when accepting individual types of waste, adopted and took measures to improve the management of technological procedures in disposal and processing, carried out monitoring of emission of substances into the air and acted in accordance with other legal and technical regulations applicable to waste management;
- **Kemis, d.o.o.**, started to gradually introduce the requirements of ISO 14001 and 18001 into the existing ISO 9001 (2000) related management system. Within a programme of improvements they tidied up the surroundings of the crusher by arranging the handling space and building a roof, thus reducing the possibility of environmental impact during the process of crushing waste. In the appropriately rearranged space they moved the equipment for distillation, purchased a new prefabricated shelf-warehouse and improved the equipment for interior logistics.

In 2003 **Gorenje, d.d.**, was presented, for the second time, with the award "**Environment-friendly Company**" by the magazine *Gospodarski vestnik* and the Environmental Development Fund of the Republic of Slovenia within the project EKO 2003. The environmental award is a confirmation and encouragement for ongoing investments in environment protection which is one of important segments written in the strategic policies of the Gorenje Group.

2.14. Generating Shareholder's Value

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.

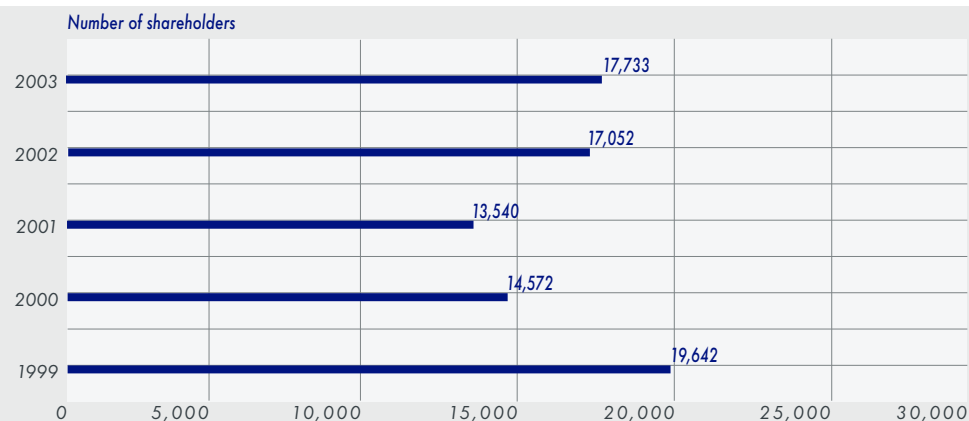
All issued shares are of the same class and give to the holder the right to

participate in managing the company with one share carrying one vote.

The Company's Articles of Association do not contain provisions which would invalidate proportionate rights carried by shares such as minority shareholders' rights or limitation of voting rights. In 2003 the Company did not carry out activities which would cause a change in the share capital, in its nominal value or in the rights carried by shares, and did not issue new shares.

The number of shareholders increases...

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).



Changes 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%.

	2003	2002	2001	2000	1999
Treasury Stock	2.2%	2.5%	/	/	/
Individuals	20.3%	21.4%	18.3%	17.5%	9.6%
Employees	10.2%	9.9%	11.1%	12.1%	34.3%
Other legal entities	9.8%	9.4%	12.2%	13.4%	8.3%
Brokerage firms	0.5%	0.6%	1.3%	1.8%	/
Banks & Insurance	3.0%	6.1%	8.3%	7.4%	/
Investment Trust - PIDI	19.8%	15.5%	14.7%	13.7%	14.0%
Indemnity Fund	15.3%	15.3%	14.5%	14.3%	14.3%
Pension Fund	18.9%	19.3%	19.6%	19.8%	19.5%

Pension Fund and the Indemnity Fund remain the largest shareholders...

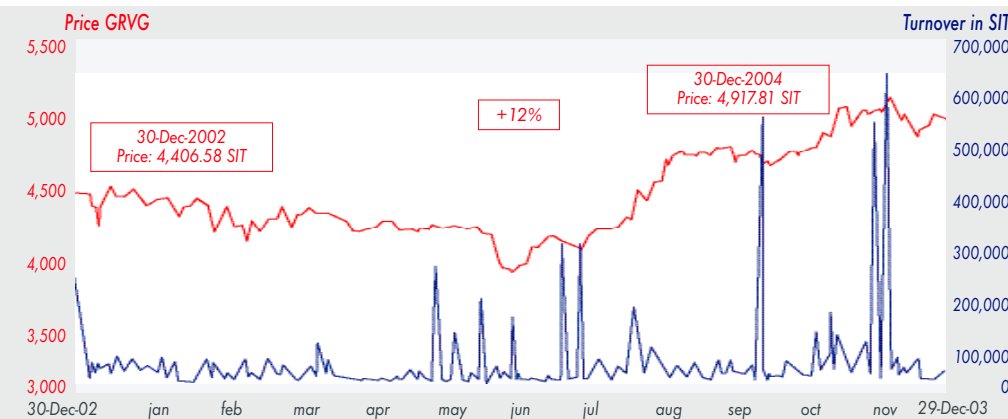
Shareholder/No. of shares	31 December 2003	Participation in %
1 Pension fund	2,144,309	17.58
2 Slovenian Indemnity Fund	1,864,601	15.28
3 KD Investments d.d. VS Galileo	448,070	3.67
4 ID Maksima, d.d.	339,365	2.78
5 Gorenje, d.d., Velenje	264,540	2.17
6 Triglav Steber I, ID, d.d.	243,278	1.99
7 Krona Senior, d.d.	235,981	1.93
8 KD Investments d.d. VS Rastko	191,795	1.57
9 Pomurska Investicijska družba 1, d.d.	155,102	1.27
10 Pension Trust - PPS	153,486	1.26
Total 10 major shareholders	6,040,527	49.5
Other shareholders	6,159,473	50.5
TOTAL	12,200,000	100.00

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.

The shares keep their 4th rank on the Ljubljana Stock Exchange with a turnover of SIT 8.9 bn, 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.

Share price and trading



Market capitalisation was SIT 60 bn at the end of 2003, the average market capitalisation was SIT 53.6 bn.

Data	Value
Average daily price on 31-Dec-2002 (SIT)	4,406.58
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 m)	8,914.00

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).

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%).

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	2001	2000	1999
Number of shares on the market	12,200,000	12,200,000	12,200,000	12,200,000	8,515,904
Number of shareholders	17,733	17,052	13,540	14,572	19,642
Turnover (in SIT m)	8,914	17,919	6,416	7,250	4,986
Average market capitalisation (in SIT m)	53,617	42,102	26,266	26,283	16,992
Value turnover (Turnover/Average market capitalisation)	0.17	0.43	0.25	0.28	0.28
Book value of share in SIT (Equity minus reserves for own stake)/(No. of shares minus Treasury Stock)	4,723	4,267	3,408	3,194	2,939
Market Price	4,918	4,407	2,221	2,155	2,350
Market to book value of share	1.03	0.98	0.56	0.61	0.78
Profitability of share:					
by capital gain %	12.0	98.4	3.10	-9.1	33
by dividend in %	2.2	1.8	3.25	0	0
overall in %	14.2	100.2	6.35	-9.1	33
Dividend per share in SIT	95	80	70	0	0
EPS in SIT (Net Profit/(No. of shares minus Treasury Stock))	400.6	328.5	274.1	224.3	206.3

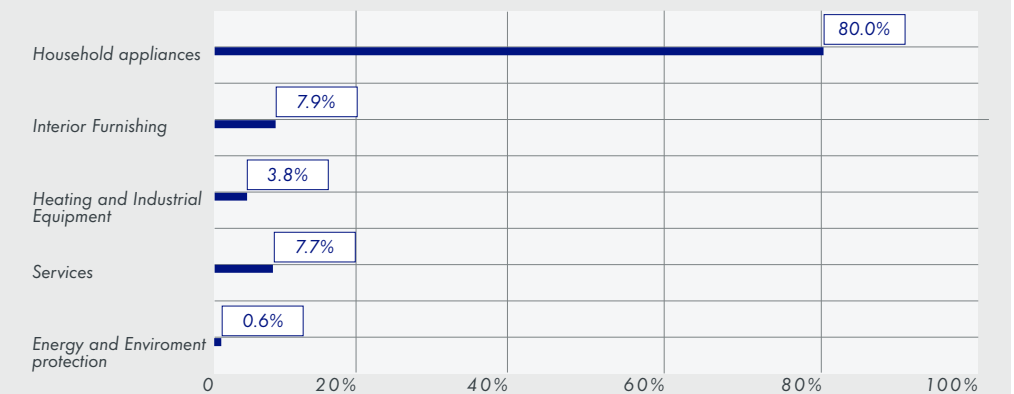
2.15. Plans and Conditions of Operation in 2004

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 sales revenues 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 sales revenues 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 "It's good to be Home". Our new slogan is **Gorenje mine.yours.home.**, which reflects the most important value - family.

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.

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.

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.

Direction is more important than speed.

We are on the right track. Our horizon is communication openness.

All the best from Gorenje, for the 54 years already...



Strategic goals

- Excellence in dealing with customers and in relation with other business partners
- Excellence in managing internal business processes
- Implementation of the learning and business growth model
- Generating shareholder's value

MISSION:

Producing and

marketing

high quality and user friendly

products

and services.



3. Financial statements of the Gorenje Group

3.1. Gorenje Group

The financial statements were authorised for issue by the directors on 19 April 2004. The parent company Gorenje, d.d., Velenje is a company domiciled in Slovenia. The consolidated financial statements of the Company for the year ended 31 December 2003 comprise the Company and its subsidiaries (together referred to as the "Group") of which there are 47 and the Groups interest in associates.

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.

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, France, S.a.	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

3.2. Summary of essential accounting policies

The essential accounting policies used in the preparation of the consolidated financial statements of the Gorenje Group are presented below.

Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (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 new 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 operations 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.

Adjustments were above all required to adjust the values of property, plant and equipment, and of intangible assets to the market values. Adjustments were also required owing to calculation of deferred taxes in companies domiciled in the countries where calculation of deferred taxes is not provided for under the local regulations, and owing to a different treatment of provisions.

Basis for preparation

The financial statements are presented in Slovene Tolar, rounded to the nearest thousand (TSIT). The financial statements have been prepared on the fair value basis for tangible and intangible assets. In other cases the historical cost basis method were in use. The applied accounting policies are consistent with those used in the previous year.

Foreign currency transactions

Revenues and expenses in foreign currencies are translated into Slovene Tolar at the rates of exchange ruling at the date of transaction. Exchange gains or exchange losses arising on these transactions are recognised in the income statement.

Monetary Assets and liabilities in foreign currencies are translated into Slovene Tolar at the middle exchange rate of Banka Slovenije ruling at the balance sheet date. Exchange gains or exchange losses arising from translation are recognised in the income statement. Non monetary assets denominated in foreign currency are translated at the middle exchange rate of Banka Slovenije ruling at the balance sheet date.

Accordingly the assets and liabilities, including goodwill and fair value adjustment (arising on consolidation) are translated to Slovene Tolar at the middle exchange rate of Banka Slovenije ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Slovene Tolar at the average exchange rate calculated on the basis of monthly balances. Foreign exchange differences arising on translation are recognised directly in equity.

Financial instruments

The financial instruments are recognised in the financial statements. The accounting policies applied in respect of recognition and measurement of these items are stated under the notes to 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 its exposure to foreign exchange and interest rate risk arising from operational and financing 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.

Where a derivative financial instrument is designated as hedge of the variability in cash flows of a recognised liability, the ineffective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

Impairment of assets

The company reviews the carrying amount of an asset, other than inventories and deferred taxes, 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 to be formally estimated.

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

Intangible assets are carried at cost less accumulated amortisation computed on a straight-line basis, and impairment losses.

The revaluation of an intangible asset is the change in its carrying amount. The recoverable amount of an intangible asset is determined on the basis of periodic appraisals of intangible assets, by verified appraisers. In the period between two appraisals of intangible assets undertaken by verified appraisers, a special team for valuation of intangible assets assesses at each balance sheet date the recoverable amount of significant groups of assets. As a rule, revaluation is due to impairment of intangible assets. Impairment loss on an intangible asset is recognised as an operating expense arising from revaluation of an asset in the period in which the asset is assessed to be impaired. As a rule, intangible assets are not revalued due to increase in value.

Intangible assets comprise goodwill, industrial property rights, development costs and advances for acquisition of intangible assets. Intangible assets are amortised over a period of eight years.

Property, plant and equipment is stated at its cost less accumulated depreciation. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working conditions for its intended use, in particular delivery costs and installation costs.

The cost of a self-constructed asset includes the cost of construction or

manufacture and an appropriate portion of production overheads. The recoverable amount of property, plant and equipment is determined on the basis of periodic appraisals of assets by verified appraisers. In the period between two appraisals of property, plant and equipment undertaken by verified appraisers, a special team for valuation of property, plant and equipment assesses at each balance sheet date the recoverable amount of significant groups of property, plant and equipment.

Impairment loss on property, plant and equipment is recognised as an operating expense arising from revaluation of an item of property, plant and equipment in the period in which the asset is assessed to be impaired. Property, plant and equipment may be revalued due to reversal of impairment loss. Land, buildings and equipment may be revalued due to increase in value.

Impairment of property, plant and equipment is treated as occurrence carried out in the accounting period in which an asset is identified to be impaired.

An item of property, plant and equipment is eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are recognised as income or expense in the income statement.

The unit depreciation is carried out on a straight-line basis. The group depreciation may be applied only if the value of an item of property, plant and equipment does not exceed 500 Euro. The depreciation rates are determined on the basis of the estimated useful life of an asset.

Land is not depreciated.

The useful life of the principal groups of property, plant and equipment:

	Useful life from-to
Buildings	20 - 50 years
Plant and equipment	5 - 10 years
Computer equipment	2 - 4 years
Transportation vehicles	2 - 5 years
Office equipment	3 - 5 years
Tools	3 - 10 years

Interest on borrowings for additions to property, plant and equipment are charged against profit or loss for the period.

Subsequent Expenditure on property, plant and equipment is recorded as an item of increase in property, plant and equipment, if the future economic benefits are expected to be received. All other subsequent expenditure is charged against current operating costs.

Investments:

Financial investments are initially recognised at cost, which is the value of consideration given.

Investments in debt and equity securities

Non-current investments in subsidiaries and associates included in consolidation are accounted for in the separate financial statements using the equity method.

Investments held for trading are classified as current assets and are stated at fair value, which is determined quarterly. Any resultant gain or loss is recognised in the income statement. Other investments are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Inventories of materials and merchandise are stated at the lower of cost and net realisable value. Cost comprises the purchase price, import duties and other non-refundable taxes,

and costs directly attributable to the acquisition. The cost of inventories is based on FIFO principle. Inventories of products and work in progress are recognised at cost of production. Cost of production includes direct cost of materials, direct cost of services, direct cost of depreciation, and production overheads. Production overheads include indirect cost of materials, indirect cost of services, indirect labour cost, and indirect cost of depreciation based on normal operating capacity.

Trade Receivables are initially recognised at amounts recorded in the relevant bookkeeping documents under the assumption that they will be collected. Trade receivables are stated at cost less impairment losses. Original receivables may subsequently be increased or reduced by any contractually justified amount, irrespective of received payment or another form of collection. Paid advances are disclosed in the balance sheet in respect of items, which they refer to.

To reflect their impairment, short-term operating receivables are revalued if their carrying amount exceeds their recoverable amount. Receivables not believed to either be settled in their full amount or by their due date are recorded as doubtful receivables. Receivables in connection with which a dispute has developed with the debtor are recorded as disputable receivables. Allowances for doubtful and disputable receivables are formed in their full amount, and charged against operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash balances with banks and call deposits.

Equity and reserves

Dividends are recognised as a liability in the period, in which the shareholders' meeting adopts a resolution on dividend payout.

Provisions are formed when an enterprise has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are formed only if a reliable estimate can be made of the amount of the obligation.

Government grants related to assets

Government grants related to assets are presented in the balance sheet as provisions in the amount of the grant. They are intended to compensate the costs of depreciation of these assets. The grant is recognised to income on a straight line basis over the life of the depreciable asset.

3.3. Consolidation basis

Interest-bearing borrowings

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

The fair value of borrowings does not deviate materially from their carrying amount due to the fact that the applied interest rates are equal to the market interest rates

Employee benefits

Contributions for health insurance, pension insurance, and social insurance from gross wages and salaries are paid during the year at statutory rates. Contributions are recognised as an expense in the income statement as incurred (in the same period as the related wages and salaries).

In accordance with the legal regulations, the Collective Agreement, and the internal rules and regulations, the Company undertakes to pay to its employees anniversary bonuses and terminal bonuses on retirement. The Company's obligation is calculated by estimating the amount of future benefit that employees have earned; the benefit is discounted to determine the present value. The discount rate is equivalent to the interest rate applied to government bonds that have maturity dates approximating the terms of Company's obligations.

Other obligations in respect of pension benefits do not exist.

Trade payables are stated at their cost.

Revenue is recognised if increases in economic benefits during the account-

ing period are associated with increases in assets or decreases in liabilities, and the increases can be measured reliably. Revenue is recognised when it is probable that cash receipts will flow from it, unless they were achieved on origin.

Revenue from sale of products, merchandise and material is recognised when the significant risks and rewards of ownership have transferred to the buyer. Amounts exclude discounts and rebates approved either when the sale is made or subsequently, including those granted for early payment.

Revenue from rendering of services, except the services from which financial revenue is earned, are recognised at selling prices for services completed or, when the percentage of completion method is applied by reference to the stage of completion, at selling prices stated in invoices or other documents.

Financial revenue is the revenue arising in association with long-term and short-term investments (profit shares, dividends, etc.) as well as in association with receivables (interest). Financial revenue is recognised if there exists no uncertainty associated with its amount and collectability. Interest is recognised on a time proportion basis taking account of the principal outstanding and the rate applicable. Financial revenue includes exchange gains.

Expenses are recognised if decreases in economic benefits during the accounting period are 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.

Financial expenses include expenses incurred in connection with financing and expenses incurred in connection with investment (interest on borrowings, etc.). Financial expenses arise in association with the impairment of long-term and short-term investments, and in association with an increase in value of short-term and long-term debts. Interest expenses and exchange losses are recognised when incurred.

For risk management, refer to Note 2.12.

Income tax

Income tax comprises current tax payable in respect of the taxable profit for the period, and deferred taxes. 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 or substantially 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. Deferred tax is determined by using tax rates enacted or substantially enacted at the balance sheet date.

Comparative information

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

Segment reporting

Financial information is reported by business segment which covers the main production and sales programs and by geographical segment.

Business segments of the Gorenje Group are: household appliances, furniture, thermal and mechanical equipment, services, energy supply, and environmental protection.

Geographical segments are the geographical areas in which the companies of the Gorenje Group are domiciled. The geographical segments of the Gorenje Group are: European Union, East Europe, Southeast Europe and Albania, Overseas countries, and Slovenia.

Cash flow statement

The cash flow statement has been prepared, using the indirect method, on the basis of the items in the balance sheet as of 31 December 2003, the balance sheet as of 31 December 2002, the income statement for the year ended 31 December 2003, and the additional data required for the adjustment of inflows and outflows.

Subsidiaries

A subsidiary is an enterprise that is controlled by another enterprise known as the parent. Control is presumed to exist when the parent has the power, directly or indirectly, to govern the financial and operating policies of the enterprise 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.

Associates

An associate is an enterprise in which the Group has significant, but not controlling influence. The Group's share in profit or loss of an associate is included in the consolidated financial statements and accounted for using the equity method. The financial statements of an associate are included in the consolidated financial statements with effect from the date when the significant influence is obtained until the date when the significant influence is discontinued. If the Group's share of loss of an associate equals or exceeds

the carrying amount of an investment in the associate, the carrying amount is decreased and reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the associate.

Transactions excluded from consolidation

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

Minority interest
As of 31 December 2003,
minority interests include:

	Share in capital in %	Minority interests in SIT' 000	Share in net profit or loss in SIT '000
Gorenje Tiki, d.o.o.	17.44	239,920	26,305
Biterm, d.o.o.	25.00	100,077	19,957
Linea, d.o.o.	1.31	674	86
Gorenje Notranja oprema, d.d.	1.95	98,307	956
Gorenje Podgorica, d.o.o.	2.00	3,115	355
Gorenje Kuhinje, d.o.o.	1.95	0	-423
Gorenje Glin, d.o.o.	1.95	0	502
Kemis, d.o.o.	33.34	41,775	15,344
Kemis Zagreb, d.o.o.	33.34	0	5,254
Kemis BiH, d.o.o.	37.27	-1,201	190
Total		482,668	68,528

3.4. Consolidated Financial statements

**Consolidated income
statement of the Gorenje
Group for the year ended
31 December 2003**

	Notes	2003	In SIT' 000 2002
1. Net sales revenue	1	196,230,665	181,517,971
2. Changes in inventories of finished goods and work in progress	2	2,295,496	508,754
3. Other operating income	3	3,672,107	4,588,325
4. Raw material and consumables used	4	-147,645,343	-137,225,364
5. Staff costs	5	-35,913,806	-30,644,764
6. Depreciation and amortisation expense	6	-9,271,624	-8,195,863
7. Other operating expenses	7	-2,247,291	-2,539,893
8. Provisions		-90,972	-1,665,822
9. Operating profit		7,029,232	6,343,344
10. Net finance cost	8	-2,369,013	-1,006,711
11. Revenues from participation in profit	8	133,063	90,330
12. Profit before tax		4,793,283	5,426,963
13. Income tax expense/benefit	9	105,588	-787,328
14. Profit after tax		4,898,871	4,639,635
15. Minority interest		68,528	83,846
16. Net profit for the year		4,830,343	4,555,789
17. Basic earnings per share	17	404.04 SIT	382.82 SIT

The accompanying notes are an
integral part of these
consolidated financial
statements.

Consolidated balance sheet of the Gorenje Group as at 31 December 2003

		in SIT '000	
	Notes	2003	2002
ASSETS			
A. Non-current assets		80,794,856	63,799,846
Property, plant and equipment	10	73,739,635	57,149,847
Intangible assets	11	2,420,694	901,858
Non-current investments	12	4,275,173	5,126,696
Non-current receivables		293,749	378,765
Deferred tax	16	65,506	242,679
B. Current assets		78,963,273	73,225,087
Inventories	13	29,344,376	26,095,555
Trade receivables	14	40,890,775	35,533,569
Current investments	15	2,160,535	4,031,500
Cash and cash equivalents		2,651,862	3,090,159
Other receivables and financial assets	14	3,915,726	4,474,304
EQUITY AND LIABILITIES			
A. Equity and minority interest	17	57,291,835	52,349,348
Issued capital		12,200,000	12,200,000
Reserves		29,439,315	28,674,503
Revaluation and translation 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
B. Non-current liabilities		27,386,985	23,833,313
Provisions	18	7,868,065	9,782,772
Deferred tax	19	593,301	1,190,761
Interest bearing borrowings	20	18,919,501	12,838,168
Other non-current liabilities		6,118	21,612
C. Current liabilities		75,079,309	60,842,272
Deferred revenue	23	511,630	462,493
Trade liabilities	22	39,494,444	31,567,768
Short-term borrowings	21	28,086,111	22,715,145
Other non-current liabilities	24	5,581,990	4,641,981
Accrued cost	23	1,405,134	1,454,885
Off balance sheet items	25	21,757,231	12,974,802

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement of the Gorenje Group for the year ended 31 December 2003

		in SIT '000	
	Notes	2003	2002
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		4,793,283	5,426,963
Adjustments for:			
Depreciation		9,271,624	8,195,863
Deferred revenue and accrued costs		-609	236,258
Interest expense		2,285,193	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		14,014,496	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		8,900,433	6,523,850
Cash generated from operations		938,000	-2,767,908
Interest paid and foreign exchange losses		-2,124,336	-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	12,15	1,878,811	-251,506
Decrease in non current and current investments	12,15	843,577	
Purchase of property, plant and equipment and intangible assets	10,11	-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	17	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

The accompanying notes are an integral part of these consolidated financial statements.

Statement of changes in equity and minority interest of the Gorenje Group for the year ended 31 December

In SIT '000	Issued capital	Reserves from surplus	Net profit or loss from previous periods	Net profit or loss for the period	Own shares	Revaluation and translation adjustment	Minority interest	Total equity and minority interest
Balance at 1 Jan 2003	12,200,000	28,674,503	2,919,722	2,190,403	-823,941	6,417,328	771,334	52,349,348
Net profit or loss for the period				4,830,343			68,528	4,898,871
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 reserves from surplus		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 reserves from surplus under the resolution adopted by the managing board		2,151,833		-2,151,833				0
Reversal and transfer of other reserves from surplus 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

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 reserves from surplus		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
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	6,417,328	771,334	52,349,348

Note 1

3.5. Notes to the consolidated financial statements

Consolidated income statement

Net sales revenue SIT 196,230,665 thousand

	in SIT '000	
	2003	2002
Sales revenue - domestic market	31,864,248	29,884,667
Sales revenue - foreign market	164,366,417	151,633,304
Total	196,230,665	181,517,971

Sales revenue includes revenue from sale of products, services, goods, and material to parties outside the Group, less discounts and rebates approved either when the sale is made or subsequently, including those granted for early payment. In 2002, a portion of provisions for warranties (formed by companies operating abroad in the amount of 1,213,297 TSIT) was recorded under cost. In 2003, provisions for warranties were charged in full against net sales revenue. For the purpose of formation

of provisions, net sales revenue was decreased by 2,341,805 TSIT in 2003 and by 4,999,933 TSIT in 2002.

Sales revenue from services amounted to 20,780.9 mio SIT in 2003 (17,283.3 mio SIT in 2002)

The structure of revenue by business segment and by geographical segment, as well as elimination of intragroup revenue is shown under Note 29 and Note 30.

Note 2

Changes in inventories SIT 2,295,496 thousand

An increase in inventories in the amount of 2,295,496 TSIT results from the difference between the

opening and the closing balance of inventories of finished goods and work in progress.

Note 3

Other operating income SIT 3,672,107 thousand

	in SIT '000	
	2003	2002
Income from subsidies, grants, and compensations	128,320	41,730
Income from indemnities		236,771
Income from reversal and use of provisions	1,183,648	2,603,517
Gains on disposal of property, plant and equipment	1,476,210	280,289
Difference resulting from consolidation of receivables and liabilities	46,504	
Other	837,425	1,426,018
Total	3,672,107	4,588,325

Gains on disposal of property, plant and equipment are recorded by Gorenje spol. s r.o. and Gorenje Real spol s r.o.

The prevailing portion of income from reversal and use of provisions includes

income from reversal of provisions for costs of business reorganisation recorded by Gorenje, d.d., in the amount of 638,111 TSIT, and income from reversal of provisions recorded by Gorenje IPC, d.o.o, in the amount of 290,152 TSIT.

Note 4

Cost of raw material and consumables used	SIT 147,645,343 thousand
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	In SIT '000	
	2003	2002
Cost of goods sold	32,734,762	33,100,400
Cost of material	82,798,950	78,217,861
Cost of services	32,111,631	25,907,103
Total	147,645,343	137,225,364

Note 5

Staff costs	SIT 35,913,806 thousand
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	In SIT '000	
	2003	2002
Wages and salaries	24,463,822	21,297,864
Contributions for social and retirement benefits	5,883,487	4,319,927
Other staff costs	5,566,497	5,026,973
Total	35,913,806	30,644,764

Other staff costs include vacations bonuses, meal allowances, commuting allowances, termination pay, and anniversary bonuses in accordance

with the local labour legislation and the internal regulations of the Group companies.

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

Note 6

Depreciation and amortisation expense	SIT 9,271,624 thousand
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	in SIT '000	
	2003	2002
Amortisation expense - intangible assets	315,789	396,028
Depreciation expense - property, plant and equipment	8,955,835	7,799,835
Total	9,271,624	8,195,863

Note 7

Other operating expenses	SIT 2,247,291 thousand
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	In SIT '000	
	2003	2002
Allowances for bad debt	944,557	1,108,624
Allowances for inventories	305,716	148,102
Duties and charges	494,347	444,562
Other operating expenses	502,671	799,152
Difference from consolidation of receivables and liabilities		39,453
Total	2,247,291	2,539,893

A significant portion of allowances for bad debt includes allowances for bad debt recorded by Gorenje Vertriebs GmbH in the amount of 203,111 TSIT, by Gorenje, d.d., in the amount of 126,064 TSIT, by Gorenje, d.o.o. Beograd in the amount of 93,879 TSIT, and Gorenje Zagreb, d.o.o., in the amount of 88,610 TSIT.

A major portion of allowances for inventories includes allowances for

obsolete inventories of materials recorded by Gorenje, d.d., in the amount of 239,815 TSIT.

Duties and charges irrespective of operating result include charges for the use of building land, charges for water pollution and environmental pollution, obligatory membership fees, and other statutory taxes.

Note 8

Net finance cost SIT 2,369,013 thousand

	In SIT '000	
	2003	2002
Finance income		
Interest income	582,134	583,662
Exchange gains	1,272,201	1,607,239
Other finance income	338,194	962,316
Total	2,192,529	3,153,217
Finance cost		
Write-off of investments	353,895	220,048
Interest expense	2,285,193	1,796,222
Exchange losses	1,807,965	2,072,412
Other finance cost	114,489	71,246
Total	4,561,542	4,159,928
Net finance cost	-2,369,013	-1,006,711

Revenues from participation in profit trading) in the amount of refers to dividend income from companies (that the Group held them for 133,063 TSIT in 2003 (90,330 TSIT in 2002).

Note 9

Income tax expense (benefit) SIT -105,588 thousand

In 2003, the actual tax rate was 9.2 % (in 2002: 14.8 %). A significant portion of income taxes was recorded by group companies operating abroad. A decrease in current tax recorded by Gorenje, d.d. is due to tax allowances used (investments in intangible assets and in property, plant and equipment), and to dividend payout from sources that did not increase the tax base.

	in SIT '000	
	2003	2002
Current tax	441,108	685,870
Deferred tax	-546,695	101,458
Total	-105,588	787,328

Deferred tax, which was recorded in the income statement as a sum of increases (decreases) in deferred tax assets and deferred tax liabilities, resulted in a decrease in income tax expense. The major impact came from decreases in deferred tax liabilities recorded by group companies operating in Slovenia. A decrease in deferred tax liabilities was mainly due to harmonisation of Slovenian Accounting Standards with international Financial Reporting Standards, in particular in respect of formation and use of provisions.

	In SIT '000
	2003
Profit before tax	4.793.283
Actual tax rate	9.2 %
Tax	441.108
Deferred tax	-546.695
Total tax	-105.588

Consolidated balance sheet

Note 10

Property, plant and equipments SIT 73,739,635 thousand

	In SIT '000	
	2003	2002
Land	6,415,594	5,976,390
Buildings	24,308,445	20,151,824
Plant and equipment	26,162,696	22,114,763
Property, plant and equipment under construction	16,491,076	8,148,106
Advances	361,823	758,765
Total	73,739,635	57,149,847

The item represents a 46.1 share of assets in the consolidated balance sheet. The major portion of property, plant and equipment in the amount of 48,048,943 TSIT is recorded by Gorenje, d.d., and represents a 65.2 % share of property, plant and equipment of the Gorenje Group.

In the land register at the District Court in Velenje and Maribor, lien is entered against the following real property of Gorenje, d.d., Velenje: Land register, entry no. 2801, plot no. 1682/5, c.m. Velenje, Land register, entry no. 1099, plot no. 1712, 2843/4, and 1696, c.m. Velenje,

as a security for borrowings in the amount of 5,000,000.00 DEM; NBV of the property under lien is 1.278.778 TSIT (at 31 December 2003); Land register, entry no. 2887, plot no. 2853/2, c.m. Velenje, Land register, entry no. 2888, plot no. 2869/2, c.m. Velenje, Land register VI. no. E7-B/51, c.m. Tabor, plot no. 253, 248, 252, as a security for borrowings in the amount of 2,556,459.41 EUR; NBV of the property under lien is 1.360.151 TSIT (at 31. December 2003).

Significant additions to buildings, production plant and equipment were recorded. The most important additions were recorded by Gorenje, d.d., which invested in technology, thus ensuring higher productivity, flexibility, and reliability of production processes. The latest additions include a logistics centre in Velenje, a plastics manufacturing plant in Velenje, styropor packaging manufacturing plant, and distribution centre in Ljubljana. In 2003, significant investments were recorded by Gorenje IPC, d.o.o. (equipment for the styropor packaging manufacturing plant), Gorenje Zagreb, d.o.o. (construction of business premises), Gorenje Budapest (construction of a warehouse - distribution centre), Gorenje Real spol. s r.o. (acquisition of franchise shops), and Gorenje Podgorica, d.o.o. (start of construction of a business - warehouse centre).

As at 31 December 2003, assets were appraised by verified appraisers. No impairment of assets was identified. An increase in value of plant and equipment was carried out.

Movement of property, plant and equipment in 2003

In SIT '000	Land	Buildings	Production plant and equipment	PPE under Pconstruction	Advances for PPE	Total
Cost at 1 Jan 2003	5,976,390	40,810,995	72,114,279	8,148,106	758,765	127,808,535
Additions	228,682	921,940	2,990,515	20,199,483	609,233	24,949,853
Disposals, write-offs	-127,238	-902,024	-1,787,805	-363,139		-3,180,206
Transfers	337,760	5,300,073	6,861,716	-11,493,374	-1,006,175	0
Revaluations			1,389,112			1,389,112
New members of the Group		145,852	89,988			235,840
Cost at 31 Dec 2003	6,415,594	46,276,836	81,657,805	16,491,076	361,823	151,203,134
Accumulated depreciation at 1 Jan 2003		20,659,171	49,999,516			70,658,687
Depreciation expense		1,800,513	7,155,471			8,955,984
Disposals, write-offs		-576,777	-1,737,795			-2,314,572
New members of the Group		85,484	78,066			163,550
Accumulated depreciation at 31 Dec 2003		21,968,391	55,495,109			78,648,700
Carrying amount at 1 Jan 2003	5,976,390	20,151,824	22,114,763	8,148,106	758,765	57,149,847
Carrying amount at 31 Dec 2003	6,415,594	24,308,445	26,162,696	16,491,076	361,823	73,739,635

Note 11

Intangible assets SIT 2,420,694 thousand

	2003	In SIT '000 2002
Development costs	985,161	77,948
Other non-current assets and property rights	1,149,091	496,939
Goodwill	284,929	325,633
Advances	1,513	1,338
Total	2,420,694	901,858

Movement of intangible assets in 2003

In SIT '000	development costs	property rights	Goodwill	Advances	Total
Cost at 1 Jan 2003	264,921	1,640,765	405,543	1,338	2,312,567
Additions	16,617	294,888		175	311,680
Disposals and write-offs		-17,277			-17,277
Transfers	620,807	382,240			1,003,047
New members of the Group	337,254	246,248			583,502
Cost at 31 Dec 2003	1,239,599	2,546,864	405,543	1,513	4,193,519
Accumulated amortisation at 1 Jan 2003	186,973	1,143,826	79,910		1,410,709
Amortisation expense	19,487	255,598	40,704		315,789
Disposals and write-offs		-16,526			-16,526
New members of the Group	47,978	14,875			62,853
Accumulated amortisation at 31 Dec 2003	254,438	1,397,773	120,614		1,772,825
Carrying amount at 1 Jan 2003	77,948	496,939	325,633	1,338	901,858
Carrying amount at 31 Dec 2003	985,161	1,149,091	284,929	1,513	2,420,694

An increase in development costs is in respect of the introduction and further development of the new IT system SAP. An increase in other intangible assets is due to the acquisition of computer software.

Goodwill arises from the merger of Gorenje Interieri d.o.o. with Gorenje Notranja Oprema d.d. in 2001.

Note 12

Non-current financial investments SIT 4,275,173 thousand

	2003	In SIT '000 2002
Shares in enterprises and banks	2,693,118	3,474,978
Non-current loans maturing in 1-5 years	568,416	697,656
Non-current loans maturing in 5 years and over	390,440	244,040
Bonds	603,753	623,802
Other investments	19,546	86,220
Total	4,275,173	5,126,696

Movement of non-current financial investments in 2003

	Balance 31 Dec 2003	Increase	Decrease	Revaluation	Balance 31 Dec 2003
Shares	3,474,978	839,960	-1,617,857	-3,963	2,693,118
Non-current loans	941,696	308,630	-291,470		958,856
Other non-current investments	710,022	131,122	-217,845		623,299
Total	5,126,696	1,279,712	-2,127,172	-3,963	4,275,273

Shares held for trading are stated at fair value, which is determined quarterly.

Other non-current financial investments include investments in enterprises, of which investments in enterprises recorded by Gorenje, d.d., amount to 1,583,673 TSIT.

Non-current loans include non-current loans recorded by Gorenje France S.a. in the amount of 376,933 TSIT. Other non-current investments include investments recorded by Gorenje Notranja oprema, d.d., in the amount of 333,003 TSIT (investments in bank bonds).

Note 13

Inventories SIT 29,344,376 thousand

In SIT '000	2003			2002		
	Household appliances	Other	Total	Household appliances	Other	Total
Material	7,569,252	1,734,782	9,304,034	7,796,501	1,272,012	9,068,513
Work in progress	1,710,556	646,825	2,357,381	1,363,593	376,656	1,740,249
Products	11,577,160	1,819,494	13,396,654	10,928,503	789,787	11,718,290
Merchandise	1,878,248	2,228,479	4,106,727	1,835,678	1,276,414	3,112,092
Advances	120,297	59,283	179,580	232,709	223,702	456,411
Total	22,863,811	6,488,863	29,344,376	22,156,984	3,938,571	26,095,555

In 2003, total inventories increased by 3,249,227 TSIT over 2002. An increase in inventories of products and work in progress is due to an increase

in production volume, a change in product range, and a higher valuation due to a price increase, in real terms, of incoming materials.

Note 14

Trade receivables and other receivables and financial assets SIT 44,806,501 thousand

	In SIT '000	
	2003	2002
Current trade receivables	38,430,960	34,523,353
Other current receivables	5,466,635	4,783,427
Accrued income and deferred costs	679,544	395,436
Current advances and collaterals	229,362	305,657
Total	44,806,501	40,007,873

Other current receivables include a significant portion of input VAT receivable that amounted to 3,221,245 TSIT in the Gorenje Group at the balance sheet date.

Accrued income includes accrued income from quantity rebates granted by third parties for material to Gorenje, d.d., Velenje in the amount of 380,042 TSIT.

Note 15

Current financial investments SIT 2,160,535 thousand

	In SIT '000	
	2003	2002
Shares held for trading	856,627	1,953,578
Current loans	430,126	2,027,460
Current interest receivable	11,504	50,462
Bonds received	834,902	
Other current receivables from investments	27,376	
Total	2,160,535	4,031,500

Shares held for trading include shares held for trading recorded by Gorenje, d.d., in the amount of 466,809 TSIT and by Gorenje Notranja oprema, d.d., in the amount of 195,504 TSIT. The item includes shares of banks and other enterprises held for trading. Investments held for trading stated at fair value, which is determined quarterly.

Negative effect of calculating fair value of interest swap is booked under current loans in the amount of 65,054 TSIT.

Current interest receivable includes interest receivable from current loans accounted for as at the year-end 2003.

Bonds received include bonds received by Gorenje France S.a. in the amount of 528,856 TSIT.

Current loans include cash surplus deposited short term with banks and enterprises.

	up to 30 days	30 to 90 days	90 days	Total
Banks	30,076		128,918	158,994
Enterprises	14,282	5,500	251,350	271,132
Total	44,357	5,500	380,269	430,126

Loans to banks and enterprises operating in Slovenia pay interest at rates ranging from 4.7% to 14 %; loans to

banks and enterprises operating abroad pay interest at rates ranging from 3% to 12.5 %.

Note 16

Deferred taxes SIT 65,506 thousand

Deferred tax assets are recorded in the amount of 65,506 TSIT; they arise from overstated assets recorded in the

financial statements prepared under the local tax regulations.

Direction is more important than speed.

We are on the right track. Our horizon is communication openness.

Annual Report
2003



*The Gorenje Group will
pursue its principal
strategic objectives and achieve goals
through the synergy between its
five business areas / divisions.*

Business Divisions

- Household Appliances Division
- Internal Furnishings Division
- Heating and Industrial Equipment Division
- Services Division
- Energy and Environment Protection Division

**The Household Appliances Division
is comprised of four
principal programmes**

- Cooking programme
- Washing and drying programme
- Cooling programme
- Radiators and mechanic components



Note 17

Equity and minority interest

SIT 57,291,835 thousand

	In SIT '000	
	2003	2002
Issued capital	12,200,000	12,200,000
Reserves	29,439,315	28,674,503
Revaluation and translation 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
Equity and minority interest	57,291,835	52,349,348

Reserves increased mainly due to the use of profits appropriated under the resolutions adopted by the shareholders' meetings in 2003, and due to the utilisation of possibilities under Article 228, Companies Act of the Republic of Slovenia, by companies operating in Slovenia. According to Article 228, the managing board and the supervisory board of a stock corporation may appropriate up to 50% of profit for the year to other reserves.

From the total amount of reserves (29.439.315 TSIT in the end of the year 2003), the reserves in the amount of 3.653.629 TSIT is restricted from distribution.

The effect arising from calculation of fair value of derivatives is booked under revaluation adjustment in the amount of 126,805 TSIT for hedging the foreign exchange exposure and 65,054 TSIT for interest rate swaps.

Foreign exchange translation Reserve include exchange differences arising on translation of the opening balance of investments in the Group companies, and exchange differences arising on translation of the income statement of subsidiaries operating abroad by use of the average exchange rate.

Net profit from previous periods and net profit for the period recorded in the balance sheet prepared under IFRS differ from net profit for the period recorded by the Group companies in their books. Net profits may be distributed to shareholders only up to the amount recorded in the books kept in accordance with the local regulations .

Minority interest decreased due to an increase in the share of the parent company in Gorenje Tiki, d.o.o..

Earnings per share amounts to 404,04 SIT (in 2002: 382,82 SIT).

For the purpose of calculating basic earnings per share, the net profit of the Group and weighted average of

ordinary shares outstanding during the period was used:

	In SIT '000	
	No. of shares	2003
Net profit of the Group		4,830,343
Weighted average number of ordinary shares	11,954,824	
Basic earnings per share		0.40404
		2002
Net profit of the Group		4,555,789
Weighted average number of ordinary shares	11,900,457	
Basic earnings per share		0.38282

Gorenje d.d. does not have any preference shares or convertible bonds therefore no diluted earnings per share can be calculated.

For more information about Gorenje share , refer to Note 2.14. Generating Shareholder Value.

Determination and proposed appropriation of accumulated profit in accordance with the provisions of the Companies Act of the Republic of Slovenia and the provisions of Slovenian Accounting Standards

Net profit for 2003 amounted to 4,781,850,189.86 SIT under SAS, of which 478,185,018.98 SIT were appropriated to statutory reserves. The managing board of the Company adopted a resolution on appropriation of a portion of the remaining balance of 4,303,665,170.88 SIT to other reserves in the amount of 2,151,832,585.44 SIT. In 2003, other revenue reserves formed in 1997 in the amount of 2,334,141,336.00 SIT were reversed and transferred to accumulated profit for 2003. The supervisory board approved the proposed appropriation, which is adequately recorded in the financial statements of the Company.

The managing board and the supervisory board proposed to the shareholders' meeting the appropriation of

accumulated profit for 2003 in the amount of 6,529,417,497.94 SIT as follows:

- a portion of accumulated profit in the amount of 1,220,000,000.00 SIT resulting from net profit for 1997 shall be appropriated for dividend distribution to shareholders in the amount of 100.00 SIT gross per share;
- a portion of accumulated profit in the amount of 4,166,101,186.94 SIT resulting from net profit for 2001, 2002, and 2003 shall be appropriated for other revenue reserves;
- the remaining balance of accumulated profit in the amount of 1,143,316,311.00 SIT resulting from net profit for 1997 and 1998 shall remain unappropriated.

Note 18Provisions SIT 7,868,065 thousand

	In SIT '000	
	2003	2002
Provisions for warranties	5,051,617	6,268,558
Provisions for termination pays and pensions	725,714	686,584
Other provisions	2,090,734	2,827,630
Total	7,868,065	9,782,772

Provisions for warranties were formed and used to cover cost of repair of household and other appliances in the warranty period. Provisions for warranties in the amount of 3,181,961 TSIT are recorded by Gorenje, d.d.. A significant amount of provisions for warranties is also recorded by Gorenje Skandinavian A/S, Gorenje Vertriebs GmbH, and Gorenje Commerce, d.o.o.

A significant portion of other provisions includes provisions for subsidies for property, plant and equipment, and for ceded funds in the amount of 1,719,260 TSIT recorded by Gorenje IPC, d.o.o., and provisions for liabilities from labor disputes in the amount of 152,254 TSIT.

Non-current provisions for subsidies for property, plant and equipment, and for ceded social security contributions are recorded by Gorenje IPC, d.o.o., that has the status of an enterprise employing disabled people. Provisions are formed from subsidies granted by the Pension Fund and from ceded social security contributions for employees. Provisions are used to cover cost of amortisation and depreciation of intangible assets and property, plant and equipment. Amortisation and depreciation expense is charged against income from reversal of respective provisions.

Movement of provision in 2003

	Balance 1 Jan 2003	Reverse	Use, exchange, differences	Formation	Balance 31 Dec 2003
Provisions for warranties	6,268,558		2,693,641	1,476,700	5,051,617
Provisions for termination pay and pensions	686,584		3,696	42,826	725,714
Other provisions	2,827,630	1,183,648	375,527	822,279	2,090,734
Total	9,782,772	1,183,648	3,072,864	2,341,805	7,868,065

Note 19Deferred tax SIT 593,301 thousand

Deferred tax liabilities result from provisions recorded by some of the companies in the Gorenje Group in accordance with local legislation. The use of these provisions will result in an increase in tax base. These provisions include, in particular provisions for major repairs, provisions for opening up new markets, and other provisions. In accordance with the possibilities as

defined in the local law, accrued costs were increased. The tax impact of this increase will be reflected in an increase in tax base in the following years.

The difference between deferred tax liabilities in current and previous year resulted in a decrease in tax expense.

	In SIT '000	
	2003	2002
Deferred tax liabilities	593,301	1,190,761
Difference between provisions with local legislation and IFRS	997,908	1,685,420
Used tax rate	25%	25%
Deferred tax	249,477	421,355
Revaluation reserves from assets	1,375,292	3,077,624
Used tax rate	25%	25%
Deferred tax	343,824	769,406

Note 20Non-current financial liabilities SIT 18,919,501 thousand

	in SIT '000	
	2003	2002
Non-current financial liabilities to banks	17,028,951	10,504,444
Non-current financial liabilities to other enterprises	1,890,550	2,333,724
Total	18,919,501	12,838,168

Maturity of non-current financial liabilities

at 31 December 2003	In SIT '000
1-2 years	6,704,124
2-4 years	8,437,343
4-6 years	3,680,621
6-8 years	88,507
8-10 years	8,905
Total	18,919,501

Non-current financial liabilities (borrowings) increased by 6,081,333 TSIT over the previous year's figure, or 47.4 %. The prevailing portion of the increase was recorded by Gorenje, d.d., Gorenje Zagreb, d.o.o., and Gorenje Real spol s r. o..

Non-current interest bearing borrowings from banks

Currency	Amount in currency (in '000)	Amount In SIT '000	Interest rate from	to
EUR	69,939	16,553,786	2.6	6.2
CKZ	50,000	363,870	3.25	
DKK	3,500	111,295	3.0	
Total		17,028,951		

Non-current interest bearing borrowings from other enterprises

Currency	Amount in currency (in '000)	Amount In SIT '000	Interest rate from	to
EUR	7,840	1,859,080	2.78	2.84
SIT	31,470	31,470	4.83	
Total		1,890,550		

Note 21

Current financial liabilities	SIT 28,086,111 thousand
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	In SIT '000	
	2003	2002
Current interest bearing borrowings from banks	27,260,575	22,053,484
Current interest bearing borrowings from other enterprises	581,641	661,661
Current interest payable	42,311	
Current dividend payable	74,779	
Current liabilities under the forward contracts	126,805	
Total	28,086,111	22,715,145

As at the balance sheet date, current interest bearing borrowings from banks increased by 5,207,091 TSIT over the previous year's figure. The major portion of the increase was recorded by Gorenje, d.d. and Gorenje Beteiligung GmbH.

With regard to the change in exchange rates as at 31 December 2003, liabilities to banks under forward contracts were recorded by Gorenje, d.d., in the amount of 126,805 TSIT.

Current interest bearing borrowings from banks

Currency	Maturity	Amount in currency (in '000)	Amount In SIT '000	Interest rate from	to
EUR	1 year	89,982	21,297,891	2.59	7.80
CZK	1 year	369,789	2,691,106	2.80	3.08
SIT	1 year	2,334,100	2,334,100	7.00	8.20
USD	1 year	4,455	843,631	1.82	1.92
PLN	1 year	469	23,716	6.34	
DKK	1 year	2,205	70,131	3.00	3.45
Total			27,260,575		

Current interest bearing borrowings from other enterprises

Currency	Maturity	Amount in currency (in '000)	Amount In SIT '000	Interest rate from	to
EUR	1 year	2,440	577,617	2.78	2.84
SIT	1 year	4,024	4,024	3.78	
Total			581,641		

Predominant part of the Gorenje Group loans is insured with bianco drafts, though a part of them is also insured with financial covenants and clauses, stipulated by individual loan

contracts. A part of the loan, granted to subsidiaries, is insured with the guarantee of the parent company Gorenje, d.d., or Gorenje Beteiligungs GmbH Wien.

Note 22

Current trade liabilities	SIT 39,494,444 thousand
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	in SIT '000	
	2003	2002
Current trade payables	39,451,406	31,537,645
Current interest payable to suppliers	43,038	30,123
Total	39,494,444	31,567,768

As at the balance sheet date, current trade liabilities increased by 7,926,676 TSIT over the previous year's figure. A significant portion of the increase was recorded by Gorenje, d.d.. An increase in current trade

liabilities was due to an increase in purchases, the extension of payment terms agreed with the suppliers, and an increase in liabilities from investments in property, plant and equipment.

Note 23

Accrued costs (expenses) and deferred income SIT 1,916,764 thousand

	in SIT '000	
	2003	2002
Deferred income	511,630	462,493
Accrued costs (expenses)	1,405,134	1,454,885
Total	1,916,764	1,917,378

Current accrued costs and expenses include accrued costs of customer complaints not yet resolved, accrued costs of discounts, accrued interest expenses, accrued costs of vacations not consumed, and other accrued costs of services.

Current deferred income includes deferred income from default interest charged to buyers.

Note 24

Other current liabilities SIT 5,581,990 thousand

	In SIT '000	
	2003	2002
Payables to employees	1,251,736	1,124,910
Tax and contribution payable to the state	1,585,849	1,537,876
Other payables to the state	331,632	158,854
Payables for advances	658,704	942,797
Other payables	1,754,068	877,326
Total	5,581,990	4,641,981

Payables to employees, tax and contribution payable to the state refer to wages and salaries accounted for in December and paid out in January of the following year.

Other payables include payables arising from claims, consignment sale and other payables to business partners.

Note 25

Off balance sheet items

	In SIT '000	
	2003	2002
Guarantees issued	19,710,077	10,509,673
Bills payable	270,363	568,909
Other off balance sheet items	1,776,791	1,896,220
Total	21,757,231	12,974,802

Issued guarantees include guarantees and warranties issued to the third parties by the parent company for liabilities of subsidiaries within the Group.

Other disclosures

Note 26

Remuneration of the members of the managing board, the supervisory board, and employees under individual employment contracts

Emoluments	In SIT '000		
	Managing board	Supervisory board	Employees under Individual contracts
Salaries	792,212	35,919	615,174
Profit shares	30,262	21,715	0
Bonuses	57,399	48,400	8,109
Other emoluments	22,904	10,191	40,135
Total	902,777	116,225	663,418

Note 27**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. The invested amount was 220.9 mio SIT.

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. The investment amounted to 174.5 mio SIT.

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 subscribed capital amounts to 300.0 mio SIT. 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, energetski sistemi, 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 %. The subscribed capital amounts to 7.6 mio SIT.

Note 28**Transactions with related parties**

All intragroup transactions were executed based on the arm-length principle, using market prices for all

sales and purchases of goods, materials and services between related parties.

Net revenues from sale parent company Gorenje, d.d., to companies in the Group in the year 2003

Subsidiary	In SIT '000
Gorenje Orodjarna, d.o.o., Velenje	64,467
Gorenje Indop, d.o.o., Velenje	47,331
Gorenje IPC, d.o.o., Velenje	261,822
Gorenje GTI, d.o.o., Velenje	4,975,274
Gorenje Gostinstvo, d.o.o., Velenje	19,357
LINEA, d.o.o., Velenje	1,409
Gorenje Tiki, d.o.o., Ljubljana	135,132
Biterm, d.o.o., Bistrica ob Sotli	61,670
Gorenje Notranja oprema, d.d., Velenje	196,906
Gorenje Glin, d.o.o., Nazarje	12,155
Opte Ptuj, d.o.o., Ptuj	2,446
Kemis, d.o.o., Radomlje	2,355
Gorenje Austria Handelsgesellschaft m.b.H., Austria	4,718,048
Gorenje Vertriebsgesellschaft m.b.H., Germany	26,574,228
Gorenje Körting Italia S.r.l., Italy	3,739,004
Gorenje France S.a., France	5,788,786
Gorenje BELUX S.a.r.l., Belgium	256,951
Gorenje UK Ltd., Great Britain	679,454
Gorenje Skandinavien A/S, Denmark	9,504,419
Gorenje USA Inc., USA	20
Gorenje Spol. s r.o., Czech Republic	3,365,126
Gorenje Slovakia Spol. s r.o., Slovak Republic	1,957,841
Gorenje Budapest Kft., Hungary	918,667
Gorenje Polska sp. z o.o., Poland	2,729,394
Gorenje Bulgaria EOOD, Bulgaria	3,233,002
Gorenje Zagreb, d.o.o., Croatia	12,816,321
Hyundai auto Zagreb, d.o.o., Croatia	804
Gorenje Skopje, d.o.o., Macedonia	1,494,259
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	5,189,270
Gorenje, d.o.o., Serbia and Montenegro	2,734,458
Gorenje Podgorica, d.o.o., Serbia and Montenegro	694,062

Note 29 – Business segments (the primary segment reporting format)

	Household appliances		Furniture			Services		Thermal and mechanical equipment		Energy supply and environmental protection		Eliminations		Group	
	2003	2002	2003	2002		2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
<i>In SIT '000</i>															
Net revenue from sale to third parties	153,502,325	148,284,329	15,514,896	11,404,376		19,007,847	16,312,990	6,633,613	5,516,276	1,571,984	0	0	0	196,230,665	181,517,971
Net revenue from sale to c. in the Group	104,489,970	97,470,864	4,159,235	3,665,870		1,752,548	1,943,827	7,490,562	4,880,962	39,910	0	-117,932,225	-107,961,523	0	0
Raw material and consumables used	112,997,371	112,545,221	9,078,684	5,870,759		17,863,115	16,943,888	6,420,195	3,978,291	1,285,978	486	0	0	147,645,343	137,225,364
Staff costs	27,362,835	23,974,579	3,979,844	3,212,102		1,444,629	1,194,044	2,885,095	2,355,039	241,403	0	0	0	35,913,806	30,644,764
Amortisation and depreciation expense	7,645,481	6,739,897	745,930	799,828		289,964	207,094	564,267	449,044	25,982	0	0	0	9,271,624	8,195,863
Segment result	5,583,989	5,632,748	106,323	-118,191		907,415	471,900	392,114	357,373	39,391	-486	0	0	7,029,232	6,343,344
Net finance cost															-2,369,013
Revenues from participation in profit															133,063
Minority interest															68,528
Income tax															-105,588
Net profit or loss for the period															4,830,343
Segment assets	186,713,118	165,249,151	11,328,331	9,217,181		17,613,067	10,793,475	7,616,751	6,640,996	1,384,607	113,875	-64,897,745	-54,989,745	159,758,129	137,024,933
Property, plant and equipment	59,259,668	47,868,505	3,356,727	2,776,692		6,907,463	3,325,836	3,641,428	3,178,813	574,349	0	0	0	73,739,635	57,149,847
Trade receivables	34,216,414	31,972,753	1,685,257	1,173,022		3,677,083	1,974,309	1,013,576	413,484	298,445	0	0	0	40,890,775	35,533,569
Investments in subsidiary	25,472,384	21,683,355	957,800	20,498		0	0	0	0	286,422	0	-26,716,606	-21,703,853	0	0
Other investments	1,658,772	1,393,648	142,668	1,069,125		884,611	899,189	1,020	1,020	6,047	111,990	0	0	2,693,118	3,474,977
Total assets	186,713,118	165,249,151	11,328,331	9,217,181		17,613,067	10,793,475	7,616,751	6,640,996	1,384,607	113,875	-64,897,745	-54,989,745	159,758,129	137,024,933

**Bussines segments
continued**

	Household appliances		Furniture			Services		Thermal and mechanical equipment		Energy supply and environmental protection		Eliminations		Group	
	2003	2002	2003	2002		2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
In SIT '000															
Segment liabilities	107,727,197	90,821,045	4,707,908	3,701,297		12,434,064	7,244,549	4,553,614	3,945,249	1,162,551	113,086	-35,987,100	-33,625,173	94,598,229	74,892,813
Provisions-segment	7,177,835	8,922,708	256,467	271,316		111,477	134,210	79,826	115,256	9,478	0	-232,982	-339,281	7,868,065	9,782,772
Investment in associates	0	0	0	0		0	0	0	0	0	0	0	0	0	0
Unallocated liabilities	0	0	0	0		0	0	0	0	0	0	0	0	0	0
Total liabilities														94,598,229	74,892,813
Capital expenditure	22,496,700	11,639,800	420,200	363,900		1,151,000	2,319,000	962,400	803,400	230,900	0	0	0	25,261,200	15,126,100
Allowances (bed dept)	794,216	1,038,021	58,766	27,968		78,280	21,660	11,070	20,975	2,225	0	0	0	944,557	1,108,624

**Note 30
Geografical segments**

	Slovenia		SE Europe			EU		Overseas countries		East Europe		Eliminations		Group	
	2003	2002	2003	2002		2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
In SIT '000															
Net revenue from sale to third parties	65,515,038	53,799,018	40,996,252	38,650,433		71,781,481	70,991,834	708,425	587,422	17,229,469	17,489,264	0	0	196,230,665	181,517,971
Raw material and consumables used	116,075,759	107,156,478	11,727,023	9,492,960		15,746,633	15,817,554	203,217	135,681	3,892,711	4,622,790	0	0	147,645,343	137,225,364
Trade receivables	15,432,439	11,631,474	10,132,697	8,300,189		11,519,105	11,848,661	263,649	195,361	3,542,885	3,557,884			40,890,775	35,533,569
Assets total	150,562,482	123,764,544	23,058,681	19,090,455		34,784,823	35,154,147	861,544	632,428	15,388,344	13,600,758	-64,897,745	-55,217,400	159,758,129	137,024,933
Trade liabilities	33,905,595	25,083,891	1,424,438	971,978		3,470,917	3,555,851	22,470	3,528	671,024	1,952,520	0	0	39,494,444	31,567,768
Capital expenditure	21,624,448	10,175,059	2,006,358	2,745,797		215,060	266,668	7,428	13,740	1,407,916	1,924,794	0	0	25,261,210	15,126,100

Note 31
Ratios

	2003	2002
PROFIT RATIOS		
Net rate of return on sales	2.5 %	2.6 %
Net rate of return on assets	4.9 %	4.5 %
Net rate of return on equity	9.7 %	10.5 %
Gross cash flow/net sales revenue	8.3 %	8.0 %
ACTIVITY RATIOS		
Assets turnover ratio	1.23	1.32
Inventory turnover ratio	6.69	6.96
Short-term operating receivables turnover ratio	4.38	4.54
INVESTMENT RATIOS		
Operating fixed assets rate	0.48	0.42
Long-term assets rate	0.51	0.46
FINANCING STATE RATIOS		
Total capital to long-term assets	1.05	1.20
Equity financing rate	0.36	0.38
Long-term financing rate	0.53	0.56
Equity to operating fixed assets	0.75	0.90
Acid test ratio	0.07	0.12
Quick ratio	0.68	0.80
Current ratio	1.07	1.24
Net financial liabilities/Capital	0.66	0.45
Operating profit or loss/Interest expense	3.07	3.53
OPERATING EFFICIENCY RATIOS		
Operating efficiency ratio	1.04	1.04
Net sales revenue per employee (In SIT '000)	21,455	21,082
Added value per employee (In SIT '000)	4,840	4,761

**Method of calculation of
accounting ratios**

Net return on sales	Net profit or loss/Net sales revenue
Net return on assets	(Net profit or loss + interest expenses)/ Average total assets
Net return on equity	Net profit or loss/(Average equity - average reserves for own shares - net profit or loss for the period)
Gross cash flow to net sales revenue	(Operating profit or loss + depreciation/amortisation expense)/Net sales revenue
Assets turnover ratio	Net sales revenue/Assets
Inventory turnover ratio	Net sales revenue/Inventories
Short-term operating liabilities turnover ratio	Net sales revenue/Short-term operating receivables
Operating fixed assets rate	Fixed assets/Assets
Long-term assets rate turnover ratio	(Tangible fixed assets + long-term investments + long- operating receivables)/Assets
Total capital to long-term assets	(Capital + provisions + long-term liabilities)/ (Fixed assets + long-term operating receivables)
Equity financing rate	Equity/Liabilities
Long-term financing rate	(Equity + long-term liabilities + provisions)/ Liabilities (in broader sense)
Equity to operating fixed assets	Equity/operating fixed assets
Acid test ratio	Liquid assets/Short-term liabilities
Quick ratio	(Liquid assets + short-term receivables)/ Short-term liabilities
Current ratio	Short-term assets/Short-term liabilities
Net financial liabilities to equity	(Financial liabilities - financial investments - cash)/Equity
Operating profit or loss	Operating profit or loss/ Interest expenses
Operating efficiency ratio	Operating revenue/Operating expenses
Net sales revenue per employee	Net sales revenue/Average number of employees
Added value per employee	(Gross operating yield - cost of materials, goods and services - other operating expenses)/ average number of employees

3.6. Auditor's Report



3.7. Business performance analysis

Operations in 2003 in comparison with 2002 and the business plan for 2003

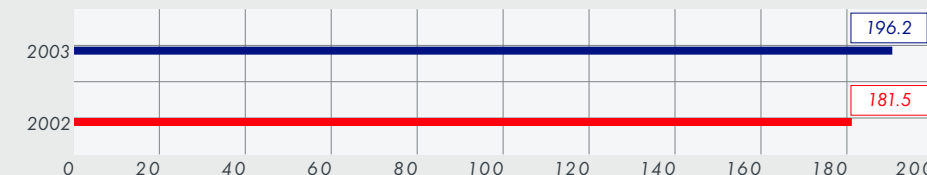
	Difference with regard to 2002 (in million SIT)	Comparison to with 2002(index)
Net sales revenue	14,712.7	108.1
Net profit or loss for the period	259.2	105.6
Gross cash flow	-1,992.3	89.1

Revenue

In 2003, consolidated net sales revenue from sale of household appliances, furniture, water heaters,

machines and tools, and services 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 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; the increase was due to an increase in sales of Gorenje Orodjarna, d.o.o. and Gorenje Indop, d.o.o. to enterprises outside the Group.

Other operating income amounted to 3,672.1 million SIT and showed a decrease of 20% over 2002. The prevailing portion of other operating income includes operating income from revaluation and income from utilisation and reversal of provisions.

Gross operating yield amounted to 202,198.2 million SIT and showed an increase of 8,3% over 2002.

Costs (expenses)

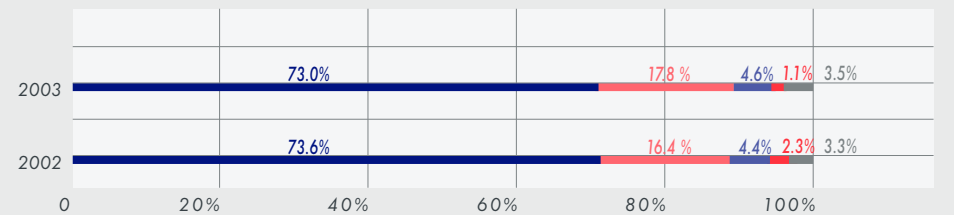
The cost of **raw material and consumables used** represented a 73.0% share in the structure of gross operating yield. They amounted to 147,645.3 million SIT and showed an increase of 7.6 % over 2002 and an increase of 6.5 % over the projected figure for 2003.

The costs of raw material and consumables used increased slower

than gross operating yield. Hence, their share in the structure of gross operating yield decreased by 0.4 percentage point. The decrease in share was due to a higher cover in respect of products as a result of a more favourable structure of products sold, to markets, and to management of consumption and prices of raw material and consumables used.

Shares of significant items in gross operating yield

- raw materials
- staff costs
- depreciations
- other operating expenses
- operating profit or loss



Shares of significant items in gross operating yield

Staff costs, which represented a 17.8 % share in the structure of gross operating yield, increased by 17.2 % over the previous year's figure and showed an increase of 7.3% over the projected staff costs for 2003. The increase in staff costs is due to linkage of wages and salaries and other staff costs to the wage rates defined in the national labour law, an increase in the average number of employees, and the inclusion of Gorenje Glin, d.o.o., Opte Ptuj, d.o.o., and Kemis, d.o.o., in the Gorenje Group. The increase is also due to the Decision issued by the tax audit. Under this Decision, the parent company was obliged to pay taxes, contributions, and default interest in the amount of 362.8 million SIT.

Depreciation and amortisation expense, which represented a 4.6 % share in gross operating yield, showed an increase of 13.1 % over the

previous year's figure, which was mainly due to capitalisation of new investments.

Other operating expenses amounted to 2,247.2 million SIT and showed a decrease of 11.5% over 2002. The majority of other operating expenses included debt written off due to the buyer's bankruptcy, compulsory composition, and litigation, as well as due to its doubtful collectability.

Operating profit or loss increased by 10.8% over the previous year's figure and reached 81.8 % of the projected operating profit or loss for 2003. The item represented a 3.5% share in the structure of gross operating yield, thus showing an increase of 0.15 percent point over 2002.

Added value amounted to 52,435.7 million SIT (an increase of 4.7 % over the projected added value). Added value showed an increase of 9.0 % over 2002 due to a growth that was quicker than the growth of revenue.

Changes in net financing cost

The changes in net financing cost resulted in a decrease in the share of profit or loss from ordinary activities in gross operating yield by 1.1 percentage point. The negative financial results increased in 2003 over the previous year's figure due to an increase in negative balance of interest.

Income taxes

Income taxes amounted to - 105.5 million SIT and decreased by 681.7 million SIT over 2002. A decrease in income taxes was due to a reconciliation of deferred taxes with the tax base of assets and liabilities of the companies.

In accordance with the national tax laws, income taxes were optimised and tax relief utilised at the level of individual group companies.

Net profit or loss for the period

Net profit or loss 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 or loss 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 intracompany profits on net profit or loss for the period amounted to 103.2 million SIT in 2003.

Net profit or loss for the period also included the minority shareholders' share in net profit or loss in the amount of 68.5 million SIT.

Balance sheet

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.

Fixed assets increased by 26.6 % and current assets by 7.8 %. The structure of the balance sheet changed in favour of fixed assets; the share of fixed assets increased from 46.6 % to 50.6 %.

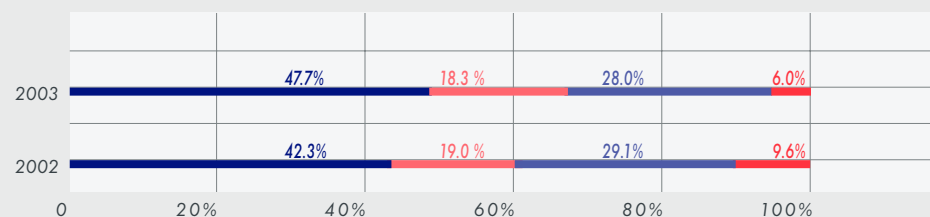
Property, plant and equipment and intangible assets increased nominally by 18,108.6 million SIT over the previous year's figure. In the structure of assets, their share increased by 4.4 percentage points. The increase is

partly due to inclusion of Gorenje Glin, d.o.o., Opte Ptuj, d.o.o., and Kemis, d.o.o., in the Gorenje Group, and partly to a high level of investments in 2003. Investments in property, plant and equipment and intangible assets amounted to 25,261.2 million SIT. Investments included investments in land in the amount of 623.0 million SIT, investments in buildings in the amount of 6,601.8 million SIT, investments in plant and equipment in the amount of 16,828.5 million SIT, and investments in intangible assets in the amount of 1,207.9 million SIT.

Non-current financial investments, which decreased by 851.5 million SIT over the previous year's figure, represented a 2.7 % share in the structure of assets. The decrease was due to inclusion of Gorenje Glin, d.o.o., and Opte Ptuj, d.o.o., in consolidation.

Structure of assets

■ property, plant and equipment
■ inventories
■ receivables
■ other assets



Under current assets, **inventories** increased significantly and represented a 18,3 % share in the structure of assets. Inventories increased by 12.4 % over the previous year's figure, i.e. an increase of 3,248.8 million SIT. The major portion of inventories included inventories of products and work in progress. An increase in inventories is due to an increase in production volume, an increase in prices of incoming materials, a change in product range, and strategic purchases of certain raw materials.

Days of inventories of products increased by 2 days over 2002, and ran up to 23 days.

Days of inventories of materials remained unchanged (39 days).

Current operating receivables represented a 28.0 % share in the structure of assets of the Gorenje Group. Current operating receivables increased by 4,798.6 million SIT, or by 11.9 %, over the previous year's figure. In the structure of the balance sheet, current operating receivables decreased by 1.1 percentage point.

Current trade receivables, which represented the major item under current operating receivable, increased by 5,357.2 million SIT, or by 15.0 %, over the previous year's figure. Days of trade receivables

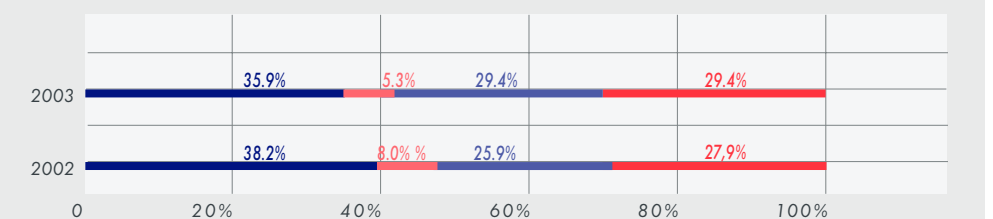
increased from 65 days in 2002 to 67 days in 2003 due mainly to a more critical solvency position in the markets of SE Europe.

Current investments amounted to 2,160.5 million SIT as at the year-end 2003. They decreased by 1,879.9 million SIT over the previous year's figure. A significant portion of current investments included investments recorded by the holding company, under which a decrease was shown by securities held for trading and current loans.

In the structure of **equity and liabilities**, the amount of the following items changed over the previous year's figure: equity and minority interests increased by 9.4 %, provisions decreased by 19.6 %, non-current liabilities increased by 47.3 %, and current liabilities increased by 23.6 %. In 2003, the favourable level of cover of non-current assets by non-current source of financing was maintained. Non-current assets exceeded non-current liabilities by 2.5 %.

Structure of equity and liabilities

■ equity and minority interest
■ provisions and differed tax
■ financial liabilities
■ operating liabilities



Structure of equity, minority interest and liabilities

Equity and minority interest 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 Gorenje Tiki, d.o.o. and Gorenje Notranja oprema, d.d., and to an increase in the structure of financial liabilities.

Provisions decreased over the previous year's figure because the amount of used and reversed provisions was higher than the amount of additionally formed provisions. Provisions decreased by 1,914,7 million SIT, or 19.6 %, mainly due to use of provisions for warranties and to reversal of provisions for costs of reorganisation. The share of provisions in the structure of equity and liabilities decreased by 2.2 percentage points over 2002 and amounted to 4.9 %.

Deferred taxes decreased by 597.4 million SIT due to reconciliation of tax bases and carrying amounts of assets and liabilities.

Summary Financial Statements of the Gorenje Group and the parent company Gorenje, d.d., according to Slovenian Accounting Standards (SAS)

Non-current financial liabilities increased by 6,081.3 million SIT, or 47.4 %. The major portion of the increase was recorded by Gorenje Zagreb, d.o.o., Gorenje, d.d., and Gorenje real spol s r.o.. The increase was partly due to inclusion of Gorenje Glin, d.o.o. and Opte Ptuj, d.o.o., in the Group. The major portion of the increase in non-current financial liabilities was due to financing of investments. Non-current financial liabilities represented a 11.8 % share in the structure of equity and liabilities as at the year-end 2003 (as at the year-end 2002: 9.4 %).

Current financial liabilities increased by 5,370.9 million SIT over the previous year's figure and represented a 17.6 % share in the structure of equity and liabilities. The major portion of current financial liabilities included liabilities to banks. The increase in current financial liabilities was due to an increase in volume of funds required for financing of increased receivables and inventories. The share of current financial liabilities in the structure of equity and liabilities increase by 1.0 percentage point over 2002.

Current operating liabilities increased by 8,866.6 million SIT, or 24.5 %, over 2002. The major portion of the increase was recorded by the holding company. The increase was due to an increase in supplies, and the extension of payment terms agreed with the suppliers. Days of trade liabilities amounted to 85 days in 2003. The share of accrued costs and deferred income in the structure of equity and liabilities ran up to 1.2 % and did not change over the previous year's figure.

Cash flow statement

Cash flow from operating activities was positive. Depreciation, profit before taxation, and an increase in operating liabilities (debts) had a positive impact on cash flow. On the other hand, an increase in operating receivables and inventories had a negative impact on cash flow from operating activities.

Cash flow from investing activities was negative, mainly due to an increase in property, plant and equipment, and intangible assets. The increase was due to a relatively large volume of investing in 2003. Investments amounted to 25,261.2 million SIT, which represented 143,5 % of projected investments for 2003. The negative balance was decreased by disposal of current and non-current financial investments.

Cash flow from financing activities showed an increase over the previous year's figure. The increase was due to an increase in current and non-current financial liabilities (debts). The decrease was due to a decrease in equity and provisions.

The translated summary Financial Statements of Gorenje, d.d., and the summary Consolidated Financial Statements of the Gorenje Group for the year 2003, prepared in compliance with Slovenian Accounting Standards are based on financial statements of the company and the

Group published in Slovene version of the Annual Report, which have been audited by KPMG Slovenija, d.o.o.. On 20 April 2004 an unqualified opinion has been expressed on each set of financial statements which the summaries are based on.

Income statement of Gorenje, d.d. prepared according to SAS

	In SIT '000	
	2003	2002
1. Net sales revenue	128,944,883	119,577,258
2. Changes in inventories of finished goods and work in progress	1,050,130	170,697
3. Capitalised own products	1,979,502	667,166
4. Other operating revenue	666,990	693,207
5. Gross operating yield	132,641,505	121,108,328
6. Cost of goods, materials and services	-100,805,389	-93,102,449
7. Labour cost	-20,228,053	-17,727,784
8. Depreciation and amortisation cost	-6,779,545	-6,482,622
9. Operating expenses from revaluation	-445,138	-414,713
10. Other operating expenses	-350,591	-264,082
11. Provisions	0	-151,928
12. Operating profit or loss	4,032,789	2,964,750
13. Financial revenue	3,639,010	3,223,615
14. Financial expenses	-2,527,399	-2,230,208
15. Profit or loss from ordinary activities	5,144,400	3,958,157
16. Extraordinary revenue	0	176,310
17. Extraordinary expenses	-362,450	-100,936
18. Total profit or loss	4,781,950	4,033,531
19. Income tax	-100	-126,700
20. Net profit or loss for the period	4,781,850	3,906,831

**Balance sheet of
Gorenje, d.d.,
according to SAS**

	In SIT '000	
	2003	2002
ASSETS	120,658,135	103,259,621
A. Fixed assets	72,435,594	59,134,078
I. Intangible fixed assets	1,761,708	616,666
II. Tangible fixed assets	48,096,377	38,553,307
III. Long-term investments	22,577,509	19,964,105
B. Current assets	47,830,765	43,894,096
I. Inventories	12,410,051	11,546,400
II. Operating receivables	33,377,685	29,462,774
a) Long-term operating receivables	293,596	368,819
b) Short-term operating receivables	33,084,089	29,093,955
III. Short-term investments	2,031,167	2,581,227
IV. Cash in banks, cheques, cash in hand	11,862	303,695
C. Deferred costs (expenses) and accrued revenues	391,776	231,447
Off balance sheet items	15,437,609	9,462,430
EQUITY AND LIABILITIES	120,658,135	103,259,621
A. Capital	57,918,141	54,310,490
I. Issued capital	12,200,000	12,200,000
II. Capital reserves	83,753	0
III. Reserves from surplus	17,124,688	16,162,032
IV. Net profit or loss from previous periods	4,377,584	2,357,602
V. Net profit or loss for the period	2,151,832	1,541,445
VI. Equity revaluation adjustments	21,980,284	22,049,411
B. Provisions	4,153,745	6,433,407
C. Financial and operating liabilities	58,241,106	41,574,701
I. Long-term financial liabilities	10,984,319	9,049,317
II. Long-term operating liabilities	1,004	1,004
III. Short-term financial liabilities	11,903,265	6,515,628
IV. Short-term operating liabilities	35,352,518	26,008,752
D. Accrued costs (expenses) and deferred revenues	345,143	941,023
Off balance sheet items	15,437,609	9,462,430

**Cash flow statement of
Gorenje, d.d.,
according to SAS**

	In SIT '000	
	2003	2002
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Inflows	7,486,255	4,978,915
Profit before taxation	4,781,950	4,033,531
Depreciation	6,779,545	6,482,622
Opening less closing operating receivables	-3,914,911	-5,321,857
Opening less closing deferred costs (expenses) and accrued revenues	-160,329	-215,381
b) Outflows	7,884,135	2,856,933
Income taxes	-100	-126,700
Closing less opening inventories	-863,651	-2,014,862
Opening less closing operating liabilities (debts)	9,343,766	4,920,913
Opening less closing accrued costs (expenses) and deferred revenues	-595,880	77,582
c) Net cash from operating activities	15,370,390	7,835,848
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Inflows	404,039	2,491,326
Offset decrease in short-term investments	404,039	2,491,326
b) Outflows	-20,004,167	-10,987,267
Offset increase in intangible fixed assets	-1,453,842	-129,626
Offset increase in tangible fixed assets	-16,013,815	-8,064,320
Offset increase in long-term investments	-2,536,510	-2,793,321
c) Net cash used in investing activities	-19,600,128	-8,495,941
C. CASH FLOW FROM FINANCING ACTIVITIES		
a) Inflows	7,322,639	1,633,180
Offset increase in provisions	0	403,563
Offset increase in long-term financial liabilities	1,935,002	433,376
Offset increase in short-term financial liabilities	5,387,637	796,241
b) Outflows	-3,384,734	-1,000,843
Decrease in capital	-1,105,072	-1,000,843
Offset decrease in provisions	-2,279,662	0
c) Net cash used in financing activities	3,937,905	632,337
D. CASH AND CASH EQUIVALENTS AT END OF PERIOD	11,862	303,695
x) Net increase/decrease in cash and cash equivalents	-291,833	-27,756
y) Cash and cash equivalents at beginning of period	303,695	331,451

Statement of changes in equity of Gorenje, d.d. according to SAS

	Issued capital	Capital reserves	Legal reserves	Reserves for own share	Statutory reserves	Reserves from surplus	Net profit or loss from previous periods	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total
<i>In SIT '000</i>											
Balance at 1 Jan 2003	12,200,000	0	3,090,330	823,941	0	12,247,761	2,357,602	1,541,445	18,703,303	3,346,108	54,310,490
Transfer to equity		83,753					29,175	4,781,850		76,895	4,971,673
Net profit or loss for the period								4,781,850			4,781,850
Special equity revaluation adjustments										76,895	76,895
Gains on sale of own shares		83,753									83,753
Dividends on own shares not yet paid							29,175				29,175
Transfer within equity				-116,772	478,185	1,715,189	2,094,861	-4,171,463			0
Appropriation of accumulated profit for 2002 to other reserves from surplus						1,897,497	-1,897,497				0
Appropriation of net profit or loss for 2003 to statutory reserves under the resolution adopted by the managing board and the supervisory board					478,185			-478,185			0
Appropriation of net profit or loss for 2003 to other reserves from surplus under the resolution adopted by the managing board and the supervisory board						2,151,833		-2,151,833			0
Reversal and transfer of other reserves from surplus to net profit or loss from previous periods						-2,334,141	2,334,141				
Reversal of reserves for own shares				-116,772			116,772				0
Net profit or loss for 2002 brought forward							1,541,445	-1,541,445			0
Transfer from equity						-1,113,946	-104,054			-146,022	-1,364,022
Dividend payout						-1,113,946	-104,054				-1,218,000
Decrease in special equity revaluation adjustments										-146,022	-146,022
Balance at 31 Dec 2003	12,200,000	83,753	3,090,330	707,169	478,185	12,849,004	4,377,584	2,151,832	18,703,303	3,276,981	57,918,141

Direction is more important than speed.

We are on the right track. Our horizon is communication openness.

Annual Report
2003



"My vision as well that of

Gorenje's management

is future oriented."

President of the Management Board

Key Goals for 2004

- *Strengthening the market position on existing markets*
 - *Further expansions and penetrating into the new markets*
 - *Developing a pan-European Gorenje brand name*
 - *Launching a new generation of washing machines and tumble dryers*
-
- *Developing a new generation of refrigerators and deep freezers*



**Income statement of
Gorenje Group according
to SAS**

	In SIT' 000	
	2003	2002
1. Net sales revenue	196,230,665	181,517,971
2. Changes in inventories of finished goods and work in progress	2,235,397	508,754
3. Capitalised own products	2,205,670	815,223
4. Other operating revenue	3,019,744	2,548,785
5. Gross operating yield	203,691,476	185,390,733
6. Cost of goods, materials and services	-148,739,991	-136,909,814
7. Labour cost	-35,673,655	-30,664,115
8. Depreciation and amortisation cost	-9,406,731	-8,862,570
9. Operating expenses from revaluation	-1,386,749	-1,524,047
10. Other operating expenses	-861,179	-831,556
11. Provisions	-90,972	-1,427,823
12. Operating profit or loss	7,532,199	5,170,808
13. Financial revenue	2,381,828	3,420,356
14. Financial expenses	-4,561,932	-4,159,668
15. Profit or loss from ordinary activities	5,352,095	4,431,496
16. Extraordinary revenue	414,380	590,226
17. Extraordinary expenses	-566,151	-209,542
18. Total profit or loss	5,200,324	4,812,180
19. Income tax	-452,910	-685,870
20. Net profit or loss for the period	4,747,414	4,126,310
21. Minority interest	74,820	65,330
22. Majority interest	4,672,594	4,060,980

**Consolidated balance
sheet of the Gorenje
Group according to SAS**

	In SIT' 000	
	2003	2002
ASSETS	161,439,581	139,883,511
A. Fixed assets	82,139,131	66,254,880
I. Intangible fixed assets	2,823,366	1,868,138
II. Tangible fixed assets	73,739,635	58,243,396
III. Long-term investments	5,576,130	6,143,346
B. Current assets	78,620,906	73,233,196
I. Inventories	29,352,674	26,167,525
II. Operating receivables	44,420,706	38,993,089
a) Long-term operating receivables	293,749	393,859
b) Short-term operating receivables	44,126,957	38,599,230
III. Short-term investments	2,195,664	4,972,641
IV. Cash in banks, cheques, cash in hand	2,651,862	3,099,941
C. Deferred costs (expenses) and accrued revenues	679,544	395,435
Off balance sheet items	21,819,879	12,974,802
EQUITY AND LIABILITIES	161,439,581	139,883,511
A. Capital	58,901,763	55,239,118
I. Issued capital	12,200,000	12,200,000
II. Capital reserves	83,753	0
III. Reserves from surplus	17,124,688	16,162,032
IV. Net profit or loss from previous periods	2,997,434	823,303
V. Net profit or loss for the period	2,042,576	1,695,594
VI. Equity revaluation adjustments	23,970,581	23,586,388
VII. Minority interest	482,731	771,801
B. Provisions	8,941,274	10,843,799
C. Financial and operating liabilities	91,679,779	71,481,092
I. Long-term financial liabilities	18,919,501	12,838,168
II. Long-term operating liabilities	6,118	21,612
III. Short-term financial liabilities	27,959,318	22,820,366
IV. Short-term operating liabilities	44,794,842	35,800,946
D. Accrued costs (expenses) and deferred revenues	1,916,765	2,319,502
Off balance sheet items	21,819,879	12,974,802

Statement of changes in equity of the Gorenje Group according to SAS

	Issued capital	Capital reserves	Legal reserves	Reserves for own share	Statutory reserves	Reserves from surplus	Net profit or loss from previous periods	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total
<i>In SIT '000</i>											
Balance at 1 Jan 2003	12,200,000	0	3,090,330	823,941	0	12,247,761	823,303	1,695,594	23,586,388	771,801	55,239,118
Transfer to equity		83,753					29,175	4,672,594	530,215	74,820	5,390,557
Net profit or loss for the period								4,672,594		74,820	4,747,414
Special equity revaluation adjustments									530,215		530,215
Gains on sale of own shares		83,753									83,753
Dividends on own shares not yet paid							29,175				29,175
Transfer within equity				-116,772	478,185	1,715,189	2,249,010	-4,325,612			0
Appropriation of accumulated profit for 2002 to other reserves from surplus						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 from surplus under the resolution adopted by the managing board and the supervisory board						2,151,833		-2,151,833			0
Reversal and transfer of other reserves from surplus to net profit or loss from previous periods						-2,334,141	2,334,141				0
Reversal of reserves for own shares				-116,772			116,772				0
Net profit or loss for 2002 brought forward							1,695,594	-1,695,594			0
Transfer from equity						-1,113,946	-104,054		-146,022	-363,890	-1,727,912
Dividend payout						-1,113,946	-104,054				-1,218,000
Decrease in minority interest										-363,890	-363,890
Decrease in special equity revaluation adjustments									-146,022		-146,022
Balance at 31 Dec 2003	12.200.000	83.753	3.090.330	707.169	478.185	12,849,004	2,997,434	2.042.576	23.970.581	482.731	58.901.763

Organisation chart of the Gorenje Group

Gorenje Group

Consolidated cash flow statement of the Gorenje Group according to SAS

	In SIT '000	
	2003	2002
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Inflows	8,895,329	8,936,714
Profit before taxation	5,200,324	4,812,180
Depreciation	9,406,731	8,862,570
Opening less closing operating receivables	-5,427,617	-4,735,090
Opening less closing deferred costs (expenses) and accrued revenues	-284,109	-2,946
b) Outflows	4,937,606	1,222,291
Income taxes	-452,910	-685,870
Closing less opening inventories	-3,185,149	-4,845,740
Opening less closing operating liabilities (debts)	8,978,402	6,729,591
Opening less closing accrued costs (expenses) and deferred revenues	-402,737	24,310
c) Net cash from operating activities	13,832,935	10,159,005
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Inflows	3,259,129	2,927,405
Offset decrease in long-term investments	628,174	0
Offset decrease in short-term investments	2,630,955	2,927,405
b) Outflows	-25,858,198	-18,790,499
Offset increase in intangible fixed assets	-1,554,471	-922,577
Offset increase in tangible fixed assets	-24,303,727	-14,835,687
Offset increase in long-term investments	0	-3,032,235
c) Net cash used in investing activities	-22,599,069	-15,863,094
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Inflows	11,220,285	6,419,064
Offset increase in provisions	0	695,261
Offset increase in long-term financial liabilities	6,081,333	1,776,202
Offset increase in short-term financial liabilities	5,138,952	3,947,601
b) Outflows	-2,902,230	-303,671
Decrease in capital	-999,705	-303,671
Offset decrease in provisions	-1,902,525	0
c) Net cash used in financing activities	8,318,055	6,115,393
D CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,651,862	3,099,941
x) Net increase/decrease in cash and cash equivalents	-448,079	411,304
y) Cash and cash equivalents at beginning of period	3,099,941	2,688,637

Household appliances division	Interior furnishings division	Heating and industrial division	Services division	Energy & Environment protection division	Business network	
Gorenje, d.d., Slovenia	Gorenje NO, d.d., Slovenia	Gorenje Tiki, d.o.o., Slovenia	Gorenje GTI, d.o.o., Slovenia	Energygor, d.o.o., Slovenia	Gorenje Beteiligungs m.b.H., Austria	Gorenje Polska Sp.zo.o., Poland
Gorenje IPC, d.o.o., Slovenia	Gorenje Glin, d.o.o., Slovenia	Gorenje Orodjarna, d.o.o., Slovenia	Gorenje Gostinstvo, d.o.o., Slovenia	Opte Ptuj, d.o.o., Slovenia	Gorenje Vertriebs GmbH, Deutschland	Gorenje USA Inc., USA
Biterm, d.o.o., Slovenia	Gorenje Küchen GmbH, Austria	Gorenje Indop, d.o.o., Slovenia	Linea, d.o.o., Slovenia	Elgor, d.o.o., Slovenia	Gorenje Austria Handels mbH, Austria	Gorenje Belux S.a.r.l., Belgium
	Gorenje Kuchyne Spol.s.r.o., Czech R.		Hyundai auto Zagreb, d.o.o., Croatia	KEMIS, d.o.o., Slovenia	Gorenje UK Ltd., United Kingdom	Gorenje AB, Sweden
	Gorenje Kuhinje d.o.o., Sarajevo BiH		Hyundai auto d.o.o., Beograd, SCG	KEMIS, d.o.o., Zagreb, Croatia	Gorenje Pacific Ltd.Pty., Australia	Gorenje OY, Finland
			Gorenje Real, Spol.s.r.o., Czech R.	KEMIS BIH, d.o.o., Bosnia and Herzegovina	Gorenje Budapest Kft., Hungary	Gorenje AS, Norway
			Gorenje Real Kft, Hungary		Gorenje Bulgaria EOOD, Bulgaria	Gorenje, d.o.o., Serbia and Montenegro
			Duhanpromet, d.o.o., Sarajevo BiH		Gorenje France S.a., France	Gorenje Commerce, d.o.o., Sarajevo, BiH
					Gorenje Körting Italia S.r.l., Italy	Gorenje Podgorica, d.o.o., SCG
					Gorenje Skandinavien A/s, Denmark	Gorenje Zagreb, d.o.o., Croatia
					Gorenje Spol s r.o. Czech Republic	Gorenje DOOEL Skopje, Macedonia
					Gorenje Slovakia Spol s r.o., Slovakia	Gorenje Romania S.r.l., Romania

Companies within the Gorenje Group

Household Appliances Division

Gorenje gospodinjski aparati, d.d.
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**Gorenje I.P.C.,
Invalidsko podjetniški
center, d.o.o.**
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(until 31.3.2004)
Simon Kumer
(from 1.4.2004)
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**BITERM,
Proizvodnja termostatov,
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Danilo Reher (from 1.4.2004)
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Heating and Industrial Equipment Division

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orodja/gorenje-slo.htm

Gorenje Indop, Projektiranje, proizvodnja in trženje industrijske opreme, d.o.o.
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Services Division

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Relja Mirović
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Gorenje Real Kft.
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**Energy and Environment
Protection Division**

ENERGYGOR,
Ravnanje z odpadki, trgovina
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Business Network Abroad

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