

gorenje

Annual Report



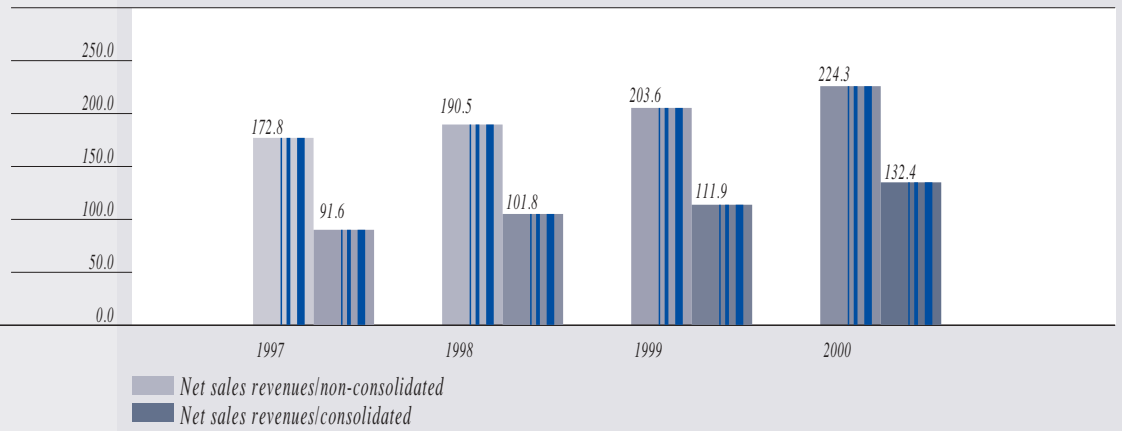
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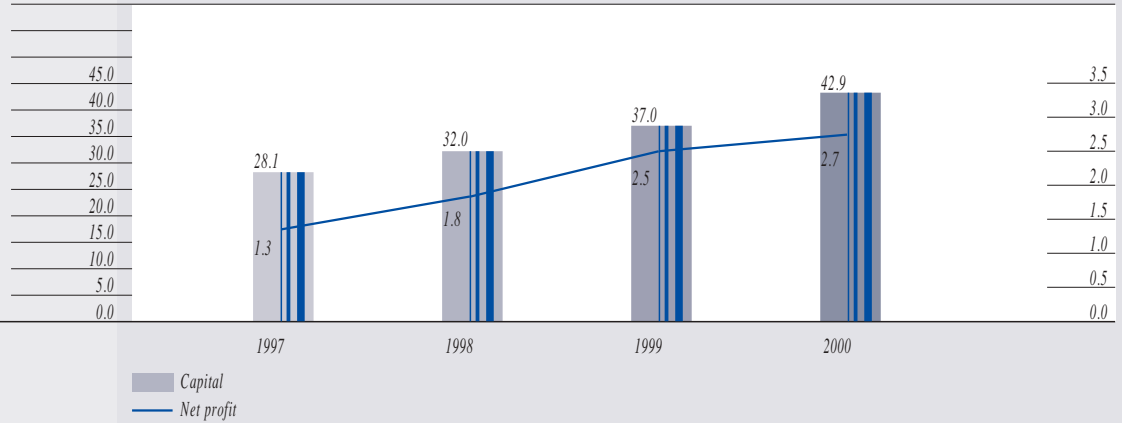
Trends : 1997-2000

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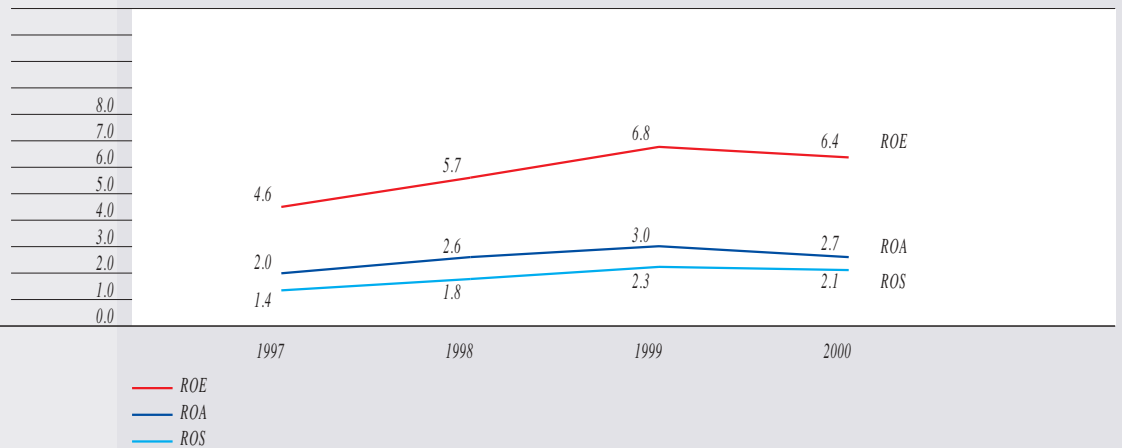
Net sales revenues
(in billions SIT), 1997 - 2000



Trends of capital and net profit
(in billions SIT), 1997 - 2000



Profitability ratios
(in %), 1997 - 2000



Return on sales (ROS) = (net profit / net sales revenues) * 100

Return on assets (ROA) = (net profit / assets) * 100

Return on equity (ROE) = (net profit / equity) * 100

Note: data based on balance sheet at last day of year

Performance 1997 – 2000**Cumulated average growth rates
1997 – 2000:**

- non-consolidated net sales revenues: 13.2%
- consolidated net sales revenues: 15.7%
- added value: 16.9%

Performance in 2000 compared to 1999:

- increase in non-consolidated net sales revenues by 10%
- increase in consolidated net sales revenues by 18%
- increase in added value by 19%
- investments amounting to 14.0 billion SIT, representing an increase by 46% compared to 1999

<i>in Billion SIT or as stated</i>	1997	1998	1999	2000
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From the profit and loss account

Net sales revenues (consolid.)	91.6	101.8	111.9	132,4
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Added value	24.4	25.2	28.7	34.0
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Net profit	1.3	1.8	2.5	2.7
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Net profit per share – EPS (in SIT)	106.8	149.6	206.3	224.3
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From the balance sheet

Assets	64.1	69.1	82.8	102.4
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Capital	28.1	32.0	37.0	42.9
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% of total liabilities and capital	43.8%	46.3%	44.7%	41.9%
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Output (pieces)

- household appliances	1,843,126	2,014,158	2,100,981	2,346,284
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- water heaters	237,661	248,952	264,639	300,563
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Employees

Average number of employees

(in companies subject to consolidation)	6,717	6,733	6,646	7,189
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Investments

Investments in tangible assets

and intangible long-term assets	3.7	4.7	9.6	14.0
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1. Letter of the Chairman of the Management Board

During its five decades Gorenje created and strengthened its image of a solid, vital and trustworthy company.

From its beginnings in 1950 in the village of Gorenje to the transfer of production facilities to Velenje and the decision to move from the production of agricultural machines to the production of cookers, washing machines and refrigerators as well as the development of the philosophy - Everything for the Home, following the restructuring in the eighties, the break-up of the Yugoslav market and the changes in the political and economic system as well as the privatisation process in the last decade of the past century, we have entered the new millennium as a group of companies, which is active in the field of manufacturing and sales of household appliances, tool-making and machine construction, kitchen furniture and the service sector.

In the year 2000 a total of 132.4 billion SIT in net sales revenues have been generated, so that the anticipated net revenues were exceeded by 7.5 %. This resulted in 2.7 billion SIT of net profit, which means an increase of 8.7 % compared to 1999. The total investments amounted to 14 billion SIT, 10.7 billion SIT in the parent company alone. The profit from operations and depreciation grew by 16 % compared to the year before, thus retaining a stable financial position despite the high investments. Once again we have achieved a high growth rate and exceeded the anticipated results. The four-year period shows that a 15.7 % growth rate in sales has been achieved, while between 1997 and 2000 the net profit growth rate was in average 28.9 % annually. The goals from the strategic plan regarding the physical output and net revenues generated by the sale of household appliances have been exceeded. The share of other activities in the structure of net revenues within the group is also growing successfully.

The constant focus on exports, maintaining existing and expansion to new markets, investments and the care for the environment as well as providing new production capacities, are constant features of our development. In Europe Gorenje is considered a competent manufacturer and vendor of household appliances with an extensive spectre of interesting, user- and environment friendly products with recognised brand names. The correctness of the decision that an integrated sales and distribution network is a basis for managing foreign markets has thus been proven.

The investment into a new production facility for refrigerators and freezers provides us with a maximum output of up to 6,000 pieces a day, and the expansion of the manufacturing lines for cookers, while featuring an existing modern production plant for washing machines and tumble dryers, represent a solid ground for further growth to up to 3.5 million household appliances annually. We are aware that we can ensure and maintain our position only by providing a high quality level, price competitiveness and flexibility towards customers. The investments during the last two years provide us with enhanced flexibility, the development of new products, implementation of new trends of a friendly and intelligent home as well as consequent meeting of high environmental standards. This is and will remain the most important segment for the sustainable growth as well as for strengthening our market position in Europe and elsewhere, while facing not only tough competition by other major manufacturers, but also a pressure on prices and an anticipated global recession.

Our growth and development are also based on some activities, which pave the way for providing synergistic effects. In the year 2000 the tool making and machine construction sector have witnessed an exceptional growth of 46.3 % compared to the year before. Both sectors proved that they are highly capable of coping with the most demanding projects, which was also proven by the construction of machines and tools for the manufacture of

household appliances, the cooperation with the automotive industry and renowned foreign companies as well as participation in international projects. The synergistic effects and increased growth will also result from the manufacturing and sale of kitchen furniture. By the acquisition of the Gorenje Notranja oprema d.d. company we have made a decisive step towards optimising production capacity and technological development in this field. The business strategy "Everything for the Home" is steadily back on its track. The development of the service sector is increasingly supporting this strategy. In the trade and engineering sector we see the largest opportunities in the field of selling equipment for large-scale infrastructure facilities and ecological projects, where our knowledge from different fields of the Gorenje group can be an important advantage.

Thanks to the favourable market situation in recent years and the responsiveness by our sales network to market developments, the development momentum, based on creativity of the staff, capability of adapting to higher market demands and extreme efforts in production, we will be able to meet the goals defined by the strategic plan until 2003 already by the end of 2001. Our persistence and vitality was once again put to the test by the fire at the galvanisation plant. The consequences of fire were overcome by promptly putting replacement production facilities and supplies in place and the effective search for subcontractors of galvanisation services. We have accepted the challenge to build on our own forces and dismissed the idea that the rescue of the company should be left to the state. A daring decision was taken to replace the lost manufacturing facility and to build a new one, but we made it. I would like to express my sincere gratitude to the many people who gave or offered us help and numerous individuals, who encouraged and supported us.

The progress witnessed during the past years is also the result of the decisions by our shareholders that the profits of previous years shall be reinvested for the future development of the company in all fields which provide technological development and contribute to a stronger market position of the company, as well as create better working conditions. This attitude has contributed to the increase of the investment in the Gorenje company and allowed for dividends to be paid out this year. We propose that at the shareholder's meeting which will be held in June, a pay-out of dividends in the amount of 70 SIT per share, shall be adopted.

Even in future we are counting on your trust and intensive monitoring of the implementation of the business philosophy as well as the meeting of strategic development goals by Gorenje.

Chairman of the Management Board
Jože Stanič



The Management

Jože Stanič, Chairman of the Management Board

Franjo Bobinac, Member of the Management Board,
responsible for sales and marketing

Marija Miheljak, Member of the Management Board,
responsible for finance and economics

Drago Bahun, Member of the Management Board,
responsible for human resources, social and general issues
and employee-elected manager

*The management of the company consists of a chairman
and members*



Drago Bahun

Marija Miheljak

Jože Stanič

Franjo Bobinac

The Supervisory Board

- - representatives of the shareholders

Marko Voljč, M.Sc., Chairman

Chairman of NLB, d.d., Ljubljana Management Board

Tomaž Kuntarič, M.Sc., Member

Deputy chairman of the Kapitalska družba, d.d.

Management Board for legal issues

Anton Majzelj, Member

General manager of Mobitel, Ljubljana

Branko Pavlin, M. Sc., Membe

Chairman of the KBM Infond, Maribor Management Board

Alojz Sočan, Ph. D., Member

University professor

- representatives of the employees

Ivan Atešček, Deputy Chairman

Retired Gorenje general manager

Irena Brložnik, Member

Consultant at the department for ecology

and analytical chemistry Gorenje, d.d.

Peter Kobal, Member

Maintenance manager, Gorenje, d.d.

Drago Krenker, Member

Production manager of the refrigerators and freezers

programme, Gorenje, d.d.

dr. Emil Rojc, Member

Secretary to the Management board, Gorenje, d.d.

2. Report by the Chairman of the Supervisory Board

In the year 2000 the Supervisory Board performed its tasks within its responsibility to monitor the business performance of Gorenje d.d. as well as the whole of the Gorenje Group. The business results were compared to the overall economic situation worldwide and in Slovenia, and the Supervisory Board considers, that the business performance of the Gorenje d.d. company as well as the Gorenje Group as a whole was successful.

After giving its approval of the project the Supervisory Board of Gorenje d.d. closely monitored the individual stages of the construction of the new refrigerator production facility, keeping in mind its importance for the development perspective of the household appliances sector and the business strategy of the Gorenje Group. We have been always aware that it was an extremely development-oriented and export-based investment. The challenges and process of globalisation demanded modernisation and flexibility of the production, cost-effective and competitively priced products, continuous improvement of the quality not only of the products but the production processes and business excellence as well. With the completed production facility featuring a state-of-the-art supervisory system and doubling the capacity to meet the various expectations and requirements of customers and end users, Gorenje will thus easier meet their requirements while facing tough world-wide competition in the field of household appliances.

The construction of the new plant was a great test and a challenge for the professionals and the whole Gorenje staff. It is needless to say that the people of Gorenje made a wonderful job.

The decision for going ahead with the new plant was also a tough challenge for the Gorenje shareholders. Based on their support the development oriented thinking and logic prevailed against a short-sighted one requiring dividends to be paid. For the first time ever the wisdom of such a decision was proven by the possibility of paying dividends, considering the performance of Gorenje in 2000. The dividends support the credibility of the views by the management and the Supervisory Board, who guaranteed shareholders long-term stability and economic viability of their investment in Gorenje.

The Supervisory Board would like to express its satisfaction and enthusiasm for the quick construction and start-up of the new galvanisation plant and of course the effective crisis management in times of facing tough consequences of the autumn fire. There are few companies in Slovenia with a management like Gorenje, and a staff with so much corporate loyalty and internal solidarity. They really deserve all the merits for the results and achievements shown.

The Supervisory Board would like to thank everybody who contributed its share to the construction of the new refrigerator production facility, the start-up of the new galvanisation plant as well as meeting of business goals for the last year. With this deed last year's 50th anniversary was accompanied by reassurances of the vitality of the company, its development and business continuity in the decades to come.

Chairman of the Supervisory Board

Marko Voljč M. Sc.



Essential data on the Gorenje, d.d. company

Company name	Gorenje, gospodinjski aparati, delniška družba, Velenje
Seat	Partizanska 12
Short form of the company name	Gorenje, d.d.
Registry number	5163676
VAT-number	72615320
Court register file number	97/01 044, file no. 1/00461/00
Equity	12,200,000,000 SIT
Nominal value of individual share	1,000 SIT
Trading stock exchange	Ljubljana stock exchange, listed shares
Stock acronym	GRVG

3. Gorenje Group corporate profile**3.1. Organisational structure of the Gorenje Group**

The Gorenje Group consists of the Gorenje, gospodinjski aparati, d.d., in short Gorenje d.d. parent company and 35 affiliates, members of the group subject to mutual stakes in their equities. The Gorenje d.d. parent company is also founder of the TCL institute, testing and certification laboratory, Velenje.

Gorenje maintains a strong world-wide network of affiliates and representative offices. The companies abroad are trading companies with a sales-network, warehousing, transportation and service departments in place. Companies based in Austria and the Czech republic also produce kitchen furniture, which is sold together with built-in household appliances.

In 2000 the following companies ceased to operate as independent legal entities or the interests in the following companies were sold:

- Gorenje Servis, EMKOR Rogatec and Gorenje Point, because of merging with the parent company;
- Gorenje Kućanski aparati and Gorenje Tuzla as well as EKI, Crnomelj for the sale of the interest;
- Gorenje Sarajevo for the purpose of liquidation;
- Gorenje Split because of merging with Gorenje Zagreb.

3.2. The Gorenje Group business activities

There are four major areas of business activities performed by the Gorenje Group:

- production and sale of household appliances, including refrigerators and freezers, gas, electric and combined cookers, washing machines and tumble dryers. This field also includes the sale of complementary range like dishwashers, small household appliances and the production and sale of water heaters as well as components for household appliances;
- production and sale of tools and industrial equipment;
- services like trading, catering and tourism, computer services;
- manufacture and sale of kitchen furniture;

Organisational chart

The Gorenje Group

	Household appliances		Machine construction and tool-making	Furniture	Services
Gorenje, d.d.	Gorenje Zagreb, d.o.o.	Gorenje Beteiligungs, GmbH	Gorenje Orodjarna, d.o.o.	Gorenje Interieri, d.o.o.	Gorenje GTI, d.o.o.
Gorenje Tiki, d.o.o. 51%	Gorenje NS, d.o.o.	Gorenje Vertriebs GmbH	Gorenje Indop, d.o.o.	Gorenje Kuchyne Spol s.r.o.	Gorentrade, d.o.o.
Bitern, d.o.o. 75%	Gorenje Skopje, d.o.o.	GKE GmbH Germany		Gorenje Austria Freistadt plant	Gorenje Gostinstvo, d.o.o.
Gorenje IPC, d.o.o.	Gorentrade, d.o.o.	Gorenje Austria Handels GmbH			Linea, d.o.o. 81,88%
	Gorenje Commerce, d.o.o.	Gorenje UK Lid Pty			Hyundai Auto Zagreb, d.o.o.
	Gorenje Podgorica, d.o.o.	Gorenje Pacific Ltd Pty			
		Gorenje Budapest Kft			
		Gorenje Bulgaria EOOD			
		Gorenje France S.A.			
		Gorenje Belux S.a.r.l			
		Gorenje Körting Italia Srl			
		Gorenje Skandinavien A/S			
		Gorenje Sverige AB			
		Gorenje Spol SRO			
		Gorenje Slovakia Spol s.r.o.			
		Gorenje Polska Sp.z.o.o.			
		Gorenje USA Inc.			

3.3. Vision and mission by Gorenje

The Gorenje Group is the largest Slovene net exporter and ranks among the 8 largest manufacturers of household appliances in Europe, where it has a stable 4 % market share.

The basic mission of Gorenje is the manufacture and marketing of high quality, user and environment-friendly household appliances.

Gorenje will also develop all existing business fields, which have a growth potential and provide a mutually beneficial effect with respect to its core business. Among them special emphasis is given to machine construction, manufacturing of tools, furniture, water heaters, computer services, catering, tourism and trade.

Gorenje will develop new activities which can in the long run contribute to the growth of the company and the contentment of owners, business partners, end-users of the products, the employees and the wider social environment.

3.4. Milestones, which shaped the history of Gorenje

Half a century ago Gorenje was founded in the village of Gorenje near Velenje, so the year 2000 was a year of celebrations.

The beginnings of Gorenje reach back to the year 1950 when the production of agricultural machines and the extraction of construction material were started. In 1958 the production of solid-fuel cookers was added. At the very beginning the management of the company adopted a clear strategy, which meant constant growth and introducing new programs. In those years some of the most important global players were just emerging. If back then Gorenje would operate in an environment accepting and promoting the principles of market economy, it would today be one of those few players.

The second milestone in the history of Gorenje was moving from the former wooden sheds in the village of Gorenje to the production facility of the Velenje coalmine. Very soon new production facilities at the present site of Gorenje in Velenje for the manufacture of cookers were built. In the sixties the production was expanded to include washing machines and refrigerators. In 1961 Gorenje exported its first appliances to Germany.

Gorenje expanded its program by adding the production of kitchen furniture, ceramic tiles, medical equipment, telecommunication devices, consumer electronics and TV sets. Its growth was based on the business philosophy - Everything for the Home. Those were the years of rapid growth and important expansion. In the seventies Gorenje was a major company with over 20,000 employees and production sites located practically throughout former Yugoslavia. At the same time an extensive network of companies in Western Europe was set-up, which supported all the market activities by Gorenje, particularly its sales and the promotion of the brand name. Since the sixties keeping an eye to the world was typical of Gorenje, while the set-up of its network in the seventies was followed by a considerable increase in sales on foreign markets.

In the eighties Gorenje had to cope with a serious crisis. The restructuring of the company became imminent, this also required consolidating the loss-making Körting programme in Germany.

The nineties were shaped by an important expansion of exports since Gorenje had to make up for the loss of the local market following the break-up of former Yugoslavia. It was a time of restructuring of the group and overall privatisation. The years were accompanied by disinvesting in loss-making activities and focusing on the business fields where Gorenje feature the largest know-how - the production of household appliances.

In 1997 following the completion of the privatisation process Gorenje was transformed to a joint stock company. Recent years brought the implementation of new technological and environmental standards as well as the return to the markets of former Yugoslavia. It were also a time of intensive investment and expansion of production capacity, environment friendly technologies and new product lines featuring high quality, modern design as well as user- and environment-friendliness. The former strategy of Gorenje - Everything for the Home - was readopted.

3.5. Events in festive 2000

The year of the anniversary was shaped particularly by the following events:

- At the largest exhibition of household appliances in 2000, the Confortec in Paris, Gorenje introduced its new jubilee line of products PININFARINA, which was developed in cooperation with the renowned designer house Pininfarina. Gorenje decided to produce this jubilee product line with the aim to bring to market a leading product as far as design, technical specifications and technology are concerned. The products feature subtle details, simple handling, low energy consumption and silent operation. The product line was introduced to the public in the cultural and congress centre Cankarjev dom in Ljubljana with the participation of the Pininfarina general manager Mr. Paolo Pininfarina.
- In March the 25th anniversary of the company Gorenje Austria seated in Vienna was celebrated. The company employs 138 people and has a central warehouse, showrooms, service centres throughout Austria and a furniture production site in Freistadt.
- Their 7th anniversary of operations was also celebrated by the companies Gorenje Orodjarna and Gorenje Indop. Gorenje has 40 years of experience in tool-die making. Both companies successfully participated at the 52nd international exhibition for craft IHM in Munich, Germany.
- On April 5th Gorenje celebrated its 50th anniversary. On that day in 1950 the Šoštanj based Municipal People's Committee Mozirje passed the decision to establish the District Metalworks Gorenje with its seat in the village of Gorenje.
- In April operations on two out of five production lines in the new Factory of refrigeration appliances were started, while by the end of this year four of them should be in full operation. The new production site will provide employees with considerably better working conditions, it will enhance productivity and increase the capacity in the field of refrigerators and deep-freezers to 1,5 million pieces annually.
- Students of the Academy of Fine Arts, department for design participated in the project "Gorenje Home 2000", by demonstrating their original solutions of new kitchens in Gorenje. Prizes were awarded to the best solutions, while the "Frajla" project, an integrated miniature kitchen also became one of the prize-winners at the 17th biennial of industrial design BIO 2000, held at the Ljubljana castle.
- By participating at the furniture trade fair in Poznan, Poland, the 11th furniture trade fair in Ljubljana and by opening a showroom of kitchen furniture in Limbu, Slovenia, Gorenje announced its come-back in the field of kitchen furniture. By its kitchen and bathroom furniture the Gorenje Interieri company has proven visitors that the company doesn't lag behind competition. By the acquisition of a stake in the Gorenje Notranja oprema company, the furniture programme has been rounded off.
- Gorenje opened a warehouse and business premises in Bosnia and Herzegovina as well as in Prague, the Czech republic. The new business centres will secure a long-term presence in both markets.
- September 3rd, a sunny Sunday will remain unforgettable for many generations. Around 5.30 p.m. Gorenje was covered in black smoke. A fire broke out at the galvanisation plant, which burnt to the ground. Several companies, institutions and individuals expressed their solidarity with Gorenje. Once again Gorenje has demonstrated that even in crisis situation it can emerge as a winner. Alternative solutions for the supply of semi-finished products were found, so that the production continued almost as if nothing had happened. Soon after the fire, construction works at the new plant were started, and the new plant literally shot up like mushrooms after the rain.
- On November 10th, after two and a half years of OTC trading, Gorenje d.d. became listed on the official market of the Ljubljana stock exchange. This way it joined the twenty most prestigious companies in Slovenia.
- In December Gorenje d.d. and Gorenje Indop were successfully certified according the requirements of the ISO 14001 environmental standard.
- In 2000 Gorenje celebrated the 30th anniversary of organised recreation. On this occasion several competitions were held, while at a special exhibition the work during the last 30 years was presented. Special acknowledgements were awarded to the most meritorious organisers of recreation activities.



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4. Household appliances

Production and marketing of household appliances has remained the core activity of the Gorenje Group throughout the year 2000. This business sector consists of the parent company Gorenje d.d. headquartered in Velenje and of 23 mainly Europe-based companies of the foreign sales network.

The household appliances sector furthermore includes the manufacture of water heaters produced by the Gorenje Tiki company in Ljubljana, as well as the manufacture of components for household appliances produced by the companies Gorenje I.P.C from Velenje and Biterm, from Bistrica ob Sotli.

4.1. Developments in the household appliances sector

The household appliances sector is in the mature phase for quite some time and is showing no notable growth, the key success factors being price competitiveness and a well-established brand name.

The global market for household appliances accounts for some 200 million appliances per year and is split up into three main domains, i.e. Europe, North and South America and Asia; each domain represents approximately one third of the global market. There are very few new players, since the access barriers are relatively high and demand high initial investments.

Gorenje is present with its products mainly on the European markets, which experienced a slight growth in 2000. The market grew slower in terms of value than in terms of quantity, which caused the price-cut trend setting in a couple of years ago to continue. The manufacturers made quite some efforts to introduce e-business and e-commerce in order to respond to the changes of the business environment better and to adapt to the emerging needs of optimising business processes.

In 2000, manufacturers in Western Europe increased their presence in the Eastern European markets, however, the trends of business mergers are still present. Europe witnessed also a breakthrough by Asian, especially Chinese, manufacturers.

The globalisation process is continuing also in the trade sector. The biggest global traders have increased their presence, especially in Eastern European countries.

The biggest trading companies focused particularly on promoting their own trademarks and introducing e-commerce, as well as on purchases through Internet auctions.

By the end of 2000, all key markets were facing the first signs of recession.

For the last ten years, 2000 was one of the toughest for the manufacturers of household appliances, since prices of raw materials and components increased considerably, which was more or less a consequence of the oil price increase and the strong US dollar.

In the light of the economic growth, consumers have adopted their own style and attitude towards consumer goods, which, in order to comply with future trends, require these goods to be developed with special emphasis on features like personal attitude and individual touch of the product.

This way the research and development departments are facing new challenges in the search for innovations regarding household appliances.

The year 2000 brought a breakthrough in the introduction of home automation, which is not likely to stop. Unlike previous years the products for the intelligent home started to flood the market. New functional possibilities for networked household appliances have thus opened. Apart from a good design and functional features of the products a lot of effort was made to cut their energy consumption.

The red thread of development and innovation still remains the increase in energy conservation, since both, the USA and the European Union are about to introduce new standards regulating this field based on a very restrictive legislation.

4.2. Current standings of Gorenje and the basic strategic guidelines for the household appliances sector

With the sale of almost 2.4 million of large household appliances, Gorenje ranks among the biggest European manufacturers and has a 4 % market share on the European market.

In 2000, Gorenje continued to strengthen sales of its own brand names, up-grading its own sales network and expanding its comprehensive product range.

Geographically, the Group focused on the European market, yet it also profited from opportunities arising on markets overseas.

As goes without saying, Gorenje closely followed the global development trends in the year 2000. To meet the expectations of the ever more demanding customers is one of the most important criteria and is as such anchored in the conscience of our researchers and developers, designers and constructors.

Elegant products with a personal touch, a pioneer in this field being the Old-timer refrigerator, enjoy increasing popularity within the Gorenje product range.

The development of energy-saving products remained a constant element of the Group's strategy also in the year 2000, sweeping away even the slightest fear that stringent energy-saving laws governing the most demanding markets might cause a decrease of our market share.

A major progress was reached in the field of home automation. This keeps Gorenje among the top players, researching and developing this currently very promising household appliances sector of the industrialised world.

4.3. Gorenje household appliances sales in the year 2000

Plan exceeded, growth of market shares

In 2000 the household appliances sector generated 197.9 billion SIT of non-consolidated net sales revenues and exceeded its plan by 11 %. Compared to the year 1999, sales in terms of quantity increased by 10 % and in terms of value as much as 20 %. The main reason for higher sales in terms of value was the improved structure of the product range, a result of the enhancement and additional features of appliances. In 2000, the sale of water heaters increased by 20 % compared to the year before.

Market

94 % of the total output was sold on foreign markets, whereby 70 % went to the common market of the European Union. The highest growth rate was recorded in Germany, the Scandinavian countries, in Bosnia and Herzegovina, Croatia and the United States. Furthermore, sales rose considerably in some of the emerging markets like India, where Gorenje has for the first time ever sold washing machines, as well as in Algiers, Iran and Israel.

Products

The highest growth rate in terms of value was achieved by the cookers range (+23 %) followed by the washing machines and dishwashers range (+21 %) and refrigerators and freezers range (+14 %). The household appliances range sold under our own brand names was supplemented by dishwashers, extractor hoods, built-in hobs and microwave ovens.

Gorenje offered the markets, where it has a well-established brand name, especially in South-Eastern Europe, an additional programme generating almost 10 % of its total sales. As compared to 1999, major growth was recorded in the sales of television sets.

In 2000, Gorenje introduced a considerable number of new products, which managed to secure the Group market shares in all segments of the market. Particularly successful were some innovative products, like the new Gorenje Pininfarina line, the new 500 cooker generation, the Prological electronic washing machines, the 1600-spin washing machines, the Old-timer refrigerators, etc., which make Gorenje as one of the major players of the industry.

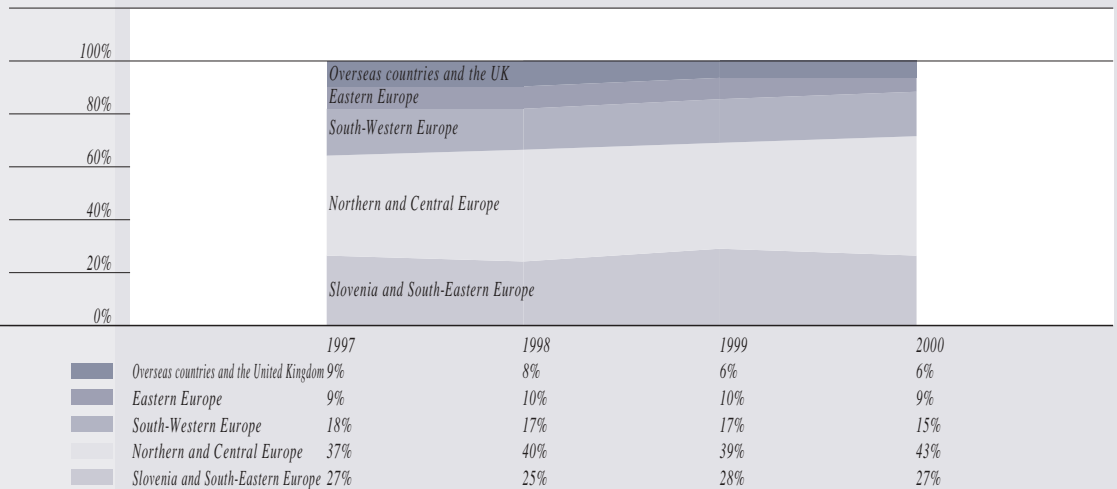
Brand names

In 2000 Gorenje sold almost 70 % of its products under its own brand names. The most important brand name remains GORENJE present in all markets and distribution channels. The brand name KÖRTING being well-established in Italy and Greece for several years, has in 2000 achieved final recognition in the biggest European market, in Germany. In 2000, Gorenje brought to German market the brand name GALANT aiming at the distribution channel of cooking studios. The brand name SIDEX remains to be a major distribution brand on the French market.

Almost a third of the production is sold under the brand names of Gorenje's business partners, all being renowned manufacturers or trading companies.

In 2000, the Gorenje Group allocated approximately 2 % of its total revenue for the promotion of its own brand names.

Geographical Focus of Sales



Geographical Focus of Sales

A flat and profiled organisation of sales divided up into five strategic market areas has resulted in better cost management, in the synergy of logistics, a better information exchange, a higher planning level, after-sales/customer service management and above all in simplifying the complexity of the product range and seeking for optimum distribution channels.

Northern and Central Europe (Germany, Scandinavia, Austria, the Netherlands, Switzerland)

Germany remains the driving market of this group; in 2000, the achieved sales results were exceptionally positive in all distribution channels due to the new 500 cooker generation, the Prological washing machines and the Pininfarina line. A record growth of market shares was recorded in Denmark being the result of a well-managed product policy and several years of investment into the brand name. Sweden is showing very encouraging results as well. A price battle is characteristic for the whole area forcing even the most renowned brands to cut prices.

Slovenia and South-Eastern Europe (Croatia, Slovenia, Bosnia and Herzegovina, Federal Republic of Yugoslavia, Macedonia)

In this area, all products are sold under the brand name GORENJE. Furthermore, the widest range of expandable and additional products marketed ensures the capitalising of the brand name.

The annual plan was exceeded and the best results were achieved in Bosnia and Herzegovina, which required constant monitoring payment and currency risks. As far as the Yugoslav market is concerned, the objectives in Serbia were an effective service organisation and organisational and logistic preparations until 2001, when a gradual opening of the market is expected. In Kosovo, Gorenje managed to grasp the opportunities emerging after the war period.

The high market share in Slovenia was maintained in 2000 and for 2001, the Group is planning an even stronger market penetration.

South-Western Europe (France, Italy, Greece, Spain, Belgium and Portugal)

Considering the economic situation in some other markets turning out to be more profitable and operating at full capacity, the sales in this area were deliberately reduced, so that the results are behind plan. The biggest markets remain France and Italy, which are recently showing some positive trends in the top price brackets, and, Gorenje was well represented on the Greek market as well. The Spanish market will require more attention in 2001, since the Group wishes to gain solid ground. As far as this area is concerned, we may say that large distribution channels are well in place and therefore more attention will have to be paid to issues from the development of a suitable product range, to the better management of overhead expenses and to the promotion of the GORENJE and KÖRTING brand names.

Eastern Europe (Poland, the Czech Republic, Russia, Bulgaria, Hungary, Slovakia, Romania, Ukraine)

The turnover is slightly behind plan. The plan was exceeded in the Czech Republic, where Gorenje has positioned itself well with its own brand name with the biggest retailers and through its own franchising network selling complete kitchens produced in the Czech Republic. The Russian market shows encouraging growth; most satisfying is the fact that the product range is aiming at the top price brackets. After quite some years of significant growth, Gorenje sales slowed down on the Polish market and in future more investment in the brand name will be required.

The results achieved on the Hungarian, Slovak, Ukrainian and Romanian markets are less than satisfactory, which means that a more active and innovative approach in all segments of the marketing mix will be required in order to ensure a growth of the market share.

Overseas Countries and the United Kingdom (USA, UK, Australia, Canada, other countries)

In terms of value, the plan was exceeded slightly, yet not in terms of quantity. The reason being the favourable exchange rate of the US dollar and pound sterling, as well as the improved structure of the sold appliances.

US sales were indeed encouraging, especially those with the most important buyer. The UK market still leaves space for improvement, yet new appliances ought to have been introduced on time.

In 2000, deficiencies of the new product range were most explicitly experienced on the Canadian and Australian markets, which will require special attention regarding development of new appliances aiming at these markets, especially of no-frost refrigerators.

As far as other countries are concerned, the sales were focused mainly on the Middle East and south-west Asia. The sales results were excellent and goals laid out in the plan were exceeded. The most promising are the markets of India, Algeria, Iran and Israel. Essential for the further growth of sales in this area is to adapt to the sale of disassembled products.

4.4. New product features

In 2000 Gorenje introduced a series of new features to its product range. The most important was certainly the **Gorenje Pininfarina line**. The main features of this line, besides the freshness of design, are the facts that it offers the complete range of the Gorenje product groups, features state-of-the-arts materials and that the appliances are microprocessor controlled.

Other new features

The cookers product group saw the completion of the 500 cooker generation product range. Compared to its competitors, Gorenje offered the widest range of design and functionality in this product family to the market. Original technical solutions highlight their functionality and recyclability.

The redesign of the built-in appliance programme started with the production of top-steered cookers providing a large working area with individual cooking spots arranged as to prevent excessive warming of the controls and their surrounding.

The stainless ovens and independent cookers were given a new look in line with the unique standard design. The electronic programming device facilitating simple operation of the oven functions will simplify the use of cookers and ovens.

In the washing machines and dishwashers group, Gorenje managed to catch up with the leading manufacturers by the introduction of the new Prological washing machine line. This line excels by simple handling through a completely electronic timer and a 1600-spin drum providing the machines with outstanding functionality including effective energy use (A), washing effect (A) and spin effect (A), as well as a truly low water consumption and silent operation. The new generation of tumble dryers (condensation and air vented) provides new marketing opportunities for products, which were due to the demanding production process for a long time the privilege of a small group of manufacturers, and for products with a comparatively low market penetration.

The refrigerators and deep-freezers group followed the global trends of lowering electricity consumption. The new super-efficient compressors qualify almost 70 % of the production programme for energy class A. Built-under integrated refrigerators and deep-freezers are demanding products for the kitchen industry. These products will take Gorenje into a new, highly competitive market segment. A similar objective is pursued with the built-in combined 1770 mm appliance with an evenly split refrigerating and deep-freeze compartment offering the possibility to purchasing one appliance instead of two. The 600 mm width tabletop appliances rounded off the transition to the environment-friendly R600a cooling liquid. The new design concept of the Gorenje line was based on the new individual door boxes and front elements, like handles and control panels.

4.5. New technologies

Product development is always closely connected to the development of technology. New tools and components most certainly represent a prerequisite for the development of new products; however in 2000 Gorenje also invested into technologies enhancing the production flexibility, provide better productivity and the possibility to produce user-friendly components in an environment-friendly production process. The new powder varnishing plant was only one of the investments into the technological redesign of the washing machines and dishwashers programme. The powder enamelling plant for the cooker programme represents an important new asset as far as environment protection, material consumption and productivity are concerned. The continued construction of the new refrigerator and deep-freezer plant concludes the technological upgrade of almost all refrigerators and deep-freezers production processes, from the production of components to the production of appliances (two-component injection of polymeric materials, vacuum moulding lines, polyurethane injection lines, a new refrigerator and deep-freezer function control system, transport to the central warehouse and in addition also the flexible high-output powder varnishing plant).

5. Machine construction and tool making

Two companies are involved in the field of machine construction and tool making: Gorenje Indop and Gorenje Orodjarna. Both companies show a remarkable growth matched by an insignificant growth in the number of staff. Both companies are strengthening their position and expanding its business as suppliers to the automotive industry, which is one of the fastest growing industries, while it demands from its suppliers quality, flexibility, short delivery times and competitive prices. The goal of both companies is to become part of as many production chains as possible thus becoming less dependant on one single buyer. Today, both companies are firmly incorporated into the Gorenje system, since three quarters of their turnover is generated within the system.

It is definitely an industry branch, where Gorenje wishes to expand faster in the future. Even sales outside the Gorenje Group are to grow faster in the future.

The rapid progress requires major efforts to be invested into the development of the branch per se and especially into workshop services, which calls for specialisation accompanied by a maximum use of the standard elements of machine construction and tool making.

In the year 2000 the sector generated 3.9 billion SIT of non-consolidated net sales revenue.

Gorenje Indop

The trend of an exceptional sales volume growth continued in 2000. Sales revenues amounted to 2,250 million SIT and have increased by 58 % compared to 1999. The volume has more than doubled in the last two years. The year 2000 was shaped by three major orders. Gorenje Indop was producing the equipment for the new refrigerator and deep-freezer plant and galvanisation plant and for Revoz a horizontal metal cutting line.

The Gorenje Group accounted for 75 % of the total sales, the automotive industry had a 19 % share, while other local and foreign buyers had a much lower share, only 6 % due to the fully booked production facilities.

The equipment was designed, produced and assembled on a high technical and quality level, which makes it suitable for the use in the production processes of the household appliances and automotive industry. The complete production is based on the "idea to tangible tool" concept.

At the end of 2000, Indop had 141 employees. The company has a well-trained and experienced engineering team and an adequate number of skilled workers in production to implement even the most demanding projects. The high level is maintained by constant training of personnel. In 2000, every employee of Gorenje Indop participated in average at 38.8 hours of training, which represent 1.87 % of the overall working time.

Important achievements as far as investments are concerned are the concluded modernisation of the assembly hall for large machines and the installation of a modern CNC processing centre. The Xelex programme has up-dated the design process. In compliance with RENAULT standards, for the first time ever an electronic cutting line project was drawn up.

In order to provide short lead times, a sales and design office focusing mainly on the needs of Revoz was opened in Novo mesto in July. This represents an important step of closer cooperation with important business partners.

The year 2000 was concluded by the ISO 14001 certification. This proves that environment-friendliness remains one of the primary objectives of every employee of Gorenje Indop.

Gorenje Orodjarna

The demand on the tool market was surprisingly high in 2000 so that Orodjarna was running at full production capacity throughout the year. The excessive demand was solved by cooperation businesses in tool design and production. They generated 1.68 billion SIT net sales revenue, which represents a 32 % growth compared to 1999, which makes Gorenje Orodjarna one of the leading Slovene tool manufacturers. An increase of the turnover share compared to the previous year was generated by the automotive industry on foreign markets, where tools in the amount of 400 million SIT were exported to, while within the Gorenje Group a 68 % share was reached.

Besides household appliances tools for the car industry remain the main market of Gorenje Orodjarna; in future, this market will continue to grow, so will the cooperation with reputable European partners.

Partnerships with buyers and simultaneous development are increasingly becoming a basis of cooperation which result in mutual benefits. Orodjarna intends to enter projects also in future right in the design phase and the development of new products, thus contributing its tool making know-how to designing rational solutions.

The main new asset of the year 2000 is the construction of the immersion erosion centre and the investment into horizontal processing centre. They represent a new approach to precise tool component production featuring a considerably increased productivity. Furthermore, modernisation of the grinding, high-speed milling and programming software for the design and programming of CNC machines was pursued further.

Gorenje Orodjarna continued its cooperation in the international Eureka Factory Actual project focusing on planning product development and injection of polymeric materials development and production with emphasis on tools with a structured surface. Orodjarna was one of the first companies in the tool making sector group established by the Ministry of Foreign Affairs facilitating joint presentation, exchange of experience and common research projects of tool making companies and scientific institutions. The tool-making sector is highly specialised, which requires a considerable amount of time to be spent on training of young experts on specific and company-relevant subject matters.

At the end of 2000 the company started a project of constant improvements according to the 20-keys method, which was also funded by the Ministry for the Economy.

The introduction of a new information system is to be concluded in the first half of 2001 with the identification and introduction of production monitoring points for monitoring the progress of tool components and tools providing a more effective production monitoring and management.

Special attention was paid to setting up work places and the working environment in production. Floors were refurbished, lighting renewed and a central exhaust system was installed. Special attention has always been paid to environment protection, which resulted in obtaining the ISO 14001 certificate.

6. Furniture

Gorenje's ambitions to develop the kitchen furniture segment aren't new. The "Everything for Your Home" idea is a fil rouge of Gorenje's business philosophy. Kitchen furniture bears potential growth and provides possibilities of creating synergetic effects with the production of household appliances and their indirect sales as parts of fully equipped kitchen.

The kitchen furniture production site in Freistadt, Austria and Višňova in the Czech Republic was expanded by the important acquisition of assets of former Marles Pohištvo which became integrated into the Gorenje Interieri, company. In 2000, a decision was taken to acquire Gorenje Notranja Oprema, d.d.. Joining forces will ensure an optimum capacity of kitchen furniture production; backed by Gorenje's experience in furniture, dating back to the seventies, including human resources and a wide marketing network plus new investments into the market. They will ensure further production, technological, sales and business development of this segment.

The acquisition of Gorenje Notranja Oprema, d.d. adds to the scope of the slogan "Everything for Your Home" the programme of bathroom furniture and tiles for outdoor and interior walls and floors.

One of the goals of Gorenje is to increase its market share on the local market, expand its sales programme of complete kitchens on foreign markets and to make decisive steps onto the markets of former Yugoslavia, where Gorenje enjoys some advantage due to the well-distinguished brand names Gorenje and Marles.

In 2000 the sector generated 1.6 billion SIT of non-consolidated net sales revenues.

Gorenje Interieri

The year 2000 was the initial year of business operations, which required all efforts to concentrate on redesigning the kitchen programme, modernising the hardware, consolidating human resources and setting out to succeed in the markets of Slovenia, Croatia, Bosnia and Herzegovina and member countries of the European Union. The complete kitchen and bathroom product range was upgraded and modernised.

A lot of effort was invested into old and new outlets in Slovenia, Croatia, Bosnia and Herzegovina and EU countries. 51 outlets were fitted out in Slovenia and 26 in Croatia and Bosnia and Herzegovina with more than 300 new samples. This was paralleled by staff training and printing of type charts and brochures. Most of the outlets have been equipped with computer software for kitchen planning and cost calculation.

This process was backed by an expansion of the authorised service network being a prerequisite for selling kitchen or bathroom furniture and related items.

In 2000, the net sales revenues amounted to 1.2 billion SIT and the company had 196 employees.

Gorenje Kuchyne

Its share of the Czech market amounts to 2.5 % and its mid-term objective is to achieve a 5 % share. The company is selling 85 % of its production on the local market and exports the rests mainly to Slovakia. The product range ranks within the middle price bracket.

The company generated 0.5 billion SIT net sales revenue with a staff of 58 people.

Gorenje Austria - Freistadt Furniture

Gorenje Küchenproduktion Freistadt ranks among the six biggest manufacturers of kitchen furniture in Austria. The annual production output is 85,000 kitchen elements or 8,000 complete kitchens. Their product range comprises 11 different kitchen models and as much as 67 kitchen fronts. Their vision focuses on producing built-in kitchens of excellent quality and functionality paying attention to the individual needs of the consumer within an affordable price bracket.

Gorenje Küchenproduktion received numerous Austrian awards for outstanding quality. Besides that, the company pays much attention to an environment-friendly kitchen production and has invested heavily in an environment-friendly kitchen front varnishing technology.

In 2000 the kitchen furniture sector employed 82 people and the net sales revenue amounted to 2.9 billion SIT.

7. Services

The service sector is indeed multifarious. This segment includes sales and representing foreign companies performed by Gorenje GTI and Hyundai Auto Zagreb, catering and tourist services by Gorenje Gostinstvo, as well as real estate management by LINEA

In 2000 the sector generated 17.8 billion SIT of non-consolidated net sales revenues.

Gorenje GTI, Sales, Engineering

The scope of Gorenje GTI operations includes trade and agency services, representation and engineering on the local and foreign markets and retailing. Through public tenders the company is increasingly contributing to public procurement. The basic pillars of the company are some well-established programmes ensuring stable business and generating the means required for investments into business expansion and new markets.

Since 1993, the company has been the exclusive distributor of Zetor tractors selling successfully on the Slovenian market and through international tenders also in Bosnia and Herzegovina. Last year, the Czech manufacturer was facing some severe problems, yet managed to solve them, which gives reason for optimism as far as future marketing of these products is concerned. In the field of transporting machines, the company signed a fork-lift truck contract with the German Clark company and expanded its range for the Swedish manufacturer BT supporting its success on the Slovenian market and those of South-Eastern Europe.

The company successfully introduced air conditioners sold under the brand name Gorenje on the Slovenian, Croatian and Bosnian market and made the first steps in penetrating the Serbian market.

The company has six retail units in Slovenia marketing household appliances, consumer electronics small kitchen appliances and kitchen furniture.

Marketing of mine and power plant equipment is an important segment as well. Sales of mine equipment were successful in Slovenia and Bosnia and Herzegovina. The power plant equipment sector experienced a slight slow-down due to delays in the implementation of the already confirmed projects, like the Soča Power Plants and the Trebinje thermal power plant in Bosnia and Herzegovina.

Another important activity is the long-term contract of coal sales to the Ljubljana heating and power plant. Gorenje GTI has furthermore made itself a name as an aluminium supplier to the Slovene industry, a supplier of wood and wood products and as a vendor of other raw materials and semi-finished parts.

The medical equipment programme is developing intensively ever since furnishing the hospital in Izola and the eye clinic in Ljubljana. Tenders were submitted also to calls for furnishing medical institutions on the territory of former Yugoslavia.

The company obtained the ISO 9002 certificate for the above listed sales sectors and the ISO 14001 certificate for environment-friendliness.

The organisation of product lines of Gorenje GTI and the building of new programmes comply with the market trends and facilitate an active search for new market opportunities.

Last year, the company employed 77 people and generated 9.2 billion SIT of net sales revenue.

Hyundai auto

The Zagreb based company is the exclusive importer for Hyundai cars in the republic of Croatia. The business activity is based on a network of authorised dealers and car repair shops. The market share of Hyundai among new cars in Croatia is around 3 %. The goal of the company is to provide a uniform presence in all regions of Croatia with dealerships and service centres providing a high level of services regarding sales and car repair. With this market strategy it aims to maintain its place among the 10 best sold car brands in Croatia.

In the year 2000 the company generated 6 billion SIT of net sales revenues.

Gorenje Gostinstvo

The company offers catering and tourist services. Its currently decreasing core activity is still providing meals for the employees of Gorenje. Furthermore, the company runs three facilities, namely the Paka Hotel, the Vila Herberstein and a coffeteria.

The Paka Hotel is a modern business and conference hotel offering its guests a pleasant stay, good-quality service and all technical equipment required for the organisation of the even most demanding seminars. The share of the Paka Hotel in the company turnover is 18 % and is gradually increasing. The hotel has all facilities to host major events organised in the municipality of Velenje and occasionally it also hosts entertainment venues.

The exterior, as well as the interior of the Vila Herberstein mansion built in the 19th century offers its guests a pleasant atmosphere and facilities for business lunches and other meetings, seminars and accommodation of participants. To individual guests, the Vila offers a complete range of hotel services from accommodation and breakfast, selected wines and cuisine, as well as regular guest lunches on Saturdays. The house is expanding its offer by organising culinary and culture evenings and events. Tourist guides rank the Vila among the 100 top restaurants in Slovenia.

Gorenje Gostinstvo is furthermore acting as a travel agency, organising spa tourism and conference tourism for Gorenje's business partners and selling flight tickets. It is open for cooperation to all tourist agencies in Slovenia, societies, institutions and trade union organisations; it is also increasing its cooperation with its competitors in pursuing common goals, namely promoting the interest in the city of Velenje and surroundings.

Recently, catering services to outside customers are developing quite well. The company estimates this service sector as its new market niche.

In the year 2000, the company employed 160 people and generated 1.4 billion SIT of net sales revenue, which represents a 10 % growth, compared to 1999. The business results of 2000 were shaped by the repayment of loans, a high depreciation and a rapid increase in maintenance costs for the buildings, as well as increase in the cost of material being a consequence of the general increase of prices.

8. Employees

In 2000, the average number of employees in the Gorenje Group was 7,220 representing a 9 % increase compared to the previous year. This is the consequence of the increased production volume of the parent company.

The educational structure is gradually improving, especially with regards to the 4th secondary school level (concluded vocational schooling).

The fluctuation is tolerable, since it is below 7 % for some years now. It needs to be mentioned, however, that a major part of the fluctuation is generated by temporary employment of people due to production fluctuation. Employment of new workers has relatively lowered the average age of staff.

	1999	2000	2000/1999
Average number of employees*	6,646	7,220	+8.6
Gorenje – Slovenia	6,064	6,615	+9.1
Gorenje – abroad	579	605	+4.5
Average age of employees	38 years	37 years 10 mth.	
Average service period	16 years	15 years 2 mth.	
Men/Women in %	49/51	49/51	
Fluctuation in %	6.7	7.0	

*The data apply to all employees of the Gorenje Group companies

Cost of labour and salaries

The cost of labour increased by one percent of the gross yield as a consequence of the growing number of staff and an increased volume and costs of overtime work. The average gross salary in the Slovenia-based Gorenje companies amounted to 152,862 SIT in 2000 and increased by 10 % compared to the year before. The base salary within Gorenje corresponds to the base salary as defined by the mutual agreement of the power industry.

8.1. Training and personal development of staff

Investing into knowledge and development of human resources remains one of Gorenje's key values. While in previous years emphasis was given to the constant growth of the volume of training manifesting by hours spent and the number of participants, we may say that last year more emphasis was given to quality. Training is becoming an integral part of the work process and is therefore harder to document. Besides the established forms of training, last year's training concentrated mainly on enhancing the know-how and skills of individuals preparing them to work with new technologies, training them in direct communication within the organisation, in effectively adapting to the requirements of new working processes and in seeking for solutions to problems.

As far as the development of human resources is concerned, attention was paid not only to tools and forms of improved communication between the managers and the employees, but also to additional, professional methods of assessing the individual's special skills. In order to facilitate the best possible personal development and development of professional skills, the potentials of the employees need to be assessed. Therefore, Gorenje introduced procedures assessing the individual's personal features, knowledge level, skills and interests, which resulted in successful staffing to the benefit of both sides, the individual employees and the company.

Training and studies at the Gorenje Management Academy facilitating the development and monitoring of the people with the largest potential proved to be indeed valuable and important. The Academy created a distinctive basis of key personnel ensuring a positive attitude to investments into knowledge, encouraging team work and contributing to the creation of Gorenje's vision and basic values.

8.2. Concerns for safety at work

In order to make better use of the synergetic effects, the Health and Safety Department and the Gorenje Professional Fire Squad were merged. The newly organised department drafted the expert's report grounding the environmental standard ISO 14001 (defining dangerous spots with regards to the nature of technology, ways of technical protection and instructions for measures to be taken in critical situations). Health-risk prevention actions for workers in production were continued in order to maintain an appropriate health level of employees, introducing to them a healthy way of living, thus lessening the number of sick leaves. A thorough research of accidents at work managed to decrease their number. In compliance with the Law on Health and Safety at Work requiring a Risk Assessment and Statement on Safety in Companies, a Guide and Methodology of Risk Assessment was set up. Furthermore, an expert's report on fire safety within Gorenje was put together considering various risk areas and defining measures to limit the risk of fire in individual production units.

8.3. Organised free time

The Gorenje Sporting Club and the Gorenje Culture Society provide the employees a possibility to spend quality time.

The Gorenje Sporting Club

Gorenje's employees and retirees are offered organised recreation in the Gorenje Sporting Club. The Club offers its 4,600 members a wide range of recreational possibilities.

The wide-ranged activities of the Club offer its members the possibility to participate in 9 different types of sports courses and to take skiing, tennis, riding, swimming, badminton and golf lessons, as well as to compete at sports events.

Training courses were offered to volunteer sports trainers encouraging their colleagues to a healthier life style.

The Gorenje Culture Society

The Gorenje Culture Society has been established in order to enhance the interest for cultural values, creativity, entrepreneurship and similar within the Gorenje business system and the wider environment.

By organising various seminars, discussion rounds, cultural events and exhibitions of renowned academic painters, the Society strives to inform about contemporary culture and creativity, about the results in the field of management and communication culture within the company. The Society members come together at club meetings, i.e. informal groups spurring various kinds of intellectual activity.

The book club is promoting reading as a life-long learning scheme for adults.

The manager club tackles topical and relevant issues bearing ethical, psychological and intellectual challenges, which at the same time represent an opportunity for personal growth and development.

8.4. Employees' satisfaction

The success of Gorenje depends on the professional success and satisfaction of each individual employee, therefore Gorenje considers its employees and their corporate loyalty as the key value of the Group. Gorenje is indeed concerned to provide its employees with a development scheme, to ensure a good working environment and encourage their creativity.

Ensuring employees' satisfaction is a complicated and comprehensive undertaking requiring their active participation. Gorenje encourages its employees to take initiative and to initiate changes. For this reason an innovation culture enhancing scheme was launched last year.

Communication with the employees is maintained through various channels and levels; important communication channels are the in-house weekly "Black on White" and the bi-monthly "Dot on the G". Gorenje was awarded an honorary diploma by the Council of the European Association of In-house Publication Editors at its London congress in October 2000 acknowledging the excellent work in encouraging the improvement of relationships within the company through the in-house magazine. The management holds regular meetings with the Council of Workers and Trade Union Representatives thus strengthening elements of workers' self-management.



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9. Investments

Investments in tangible assets and intangible long-term assets

In 2000 the Gorenje Group spent 14.0 billion SIT on investments, of which 13.8 billion SIT went for tangible assets and 0.2 billion SIT for intangible long-term assets.

Compared to 1999 the amount of investments rose by 46 %. The share of investments in the consolidated net sales revenues represented 10.6 % (8.6 % in 1999), and 13.7 % of the total assets (11.6 % in 1999).

The investment activity was strong particularly in the field of household appliances (13.1 billion SIT out of 14.0 billion SIT), since investments in the parent company amounted to 10.7 billion SIT. Most of the investments went to the construction of the new plant for the production of refrigerators, the new galvanisation plant and new product lines like: the Gorenje PiniFarina line, Old-timer line, new generation of cookers of 500 mm width, Prologic washing machines, 1600-spin Simple&Logical washing machines. The new products were successfully introduced to the market. When investing into technology and products the environment aspect was strongly considered, since the investment in the protection of the environment amounted to 1.6 billion SIT.

The new plant for refrigerators

Back in September 1998 the increase in demand for refrigerators and freezers and the lack of production capacities (maximum output of 3,800 appliances per day) were the main reasons for taking the decision to start the project. The construction was carried out in stages bringing a gradual increase in capacity. The project shall be completed by summer 2001. The total estimated cost of the project is around 10 billion SIT. By this investment Gorenje has implemented and mastered state-of-the-art technology of this component of household appliances in Europe and will increase its output to 5,300 units per day (in the second half of 2001).

The new galvanisation plant

The fire, which broke out September 3rd, 2000 completely devastated the galvanisation plant of the Mekom program (Mechanical components). Immediately after the fire available replacement capacities had to be found on the market, because the primary task was to ensure an uninterrupted production process. Parallel activities for activating proper capacities - the construction of a company owned galvanisation plant were started. The estimated cost of the investment was 4.7 billion SIT. The project is almost completed, operation with full capacity is expected by mid 2001.

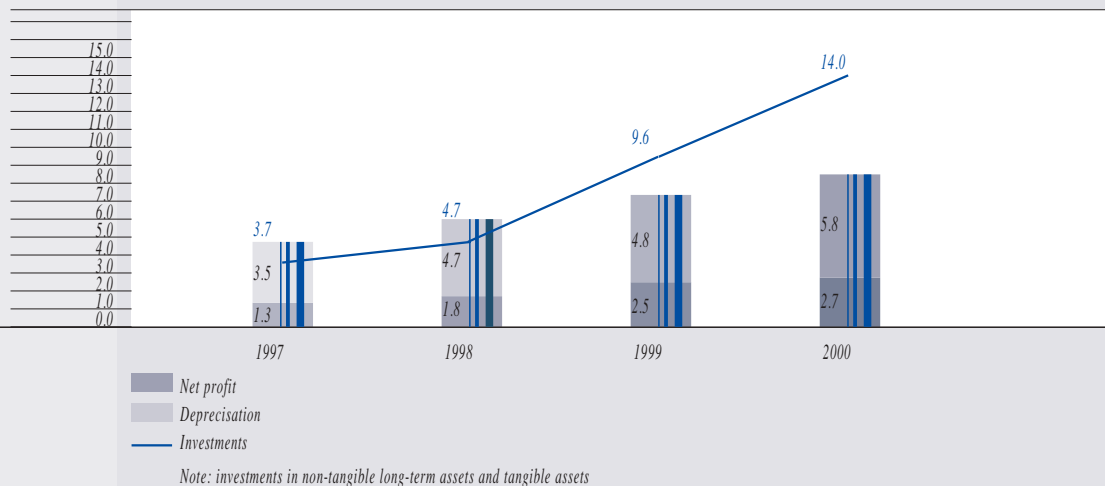
Regarding the household appliances division the investment in the construction and finalisation of the logistics centre in Prague in the amount of 1.0 billion SIT is also important as well as the investment in purchases of land for the construction of a business centre of Gorenje Zagreb d.o.o. in the amount of 325 million SIT and the investment in the modernisation of the production of the Gorenje I.P.C company in the amount of 111 million SIT.

Major investments in other business fields within the Gorenje Group:

- *purchase of equipment in the furniture division in the amount of 281 million SIT (wood processing machine, wood crushing machine and other types of machines),*
- *investments in the field of services in the amount of 100 million SIT,*
- *modernisation of the production premises and the purchase of a modern CNC processing centre Gorenje Indop,*
- *construction of the centre for immersion erosion and the purchase of milling and whetting machines at Gorenje Orodjarna.*

• Investments, depreciation and net profit (in billion SIT), 1997 – 2000

Investments, depreciation and net profit (in billion SIT), 1997 – 2000



Long-term financial investments

The long-term financial assets of the Gorenje Group increased by 1.0 billion SIT (1.3 billion SIT in 1999). The increase is due to the acquisition of shares and stakes of companies in the amount of 0.7 billion SIT and also long-term loans were given to the company in the amount of 0.3 billion SIT.

The increase consists mainly of the acquisition of a 14 % stake of the Notranja oprema d.d. as of 31.12.2000 and the subscription of capital of the Telemach company in the amount of 400 million SIT by Gorenje GTI.

• Structure of the Gorenje Group investments in 2000

In SIT m	Total
1. Intangible long-term assets	228
2. Tangible fixed assets	13,749
2.1. Land	406
2.2. Buildings	1,004
2.3. Equipment	12,262
2.4. Advances	77
3. Long-term financial investments	1,003
Total investments	14,980

10. In dialogue with the environment

At Gorenje total quality management and providing business excellence are integral parts of all the manufacturing and business operations. Special emphasis is given to providing the correct balance between the expectations of customers, employees, the wider social environment and suppliers, as well as managing natural resources. A total quality of business processes is the best way to maintain permanent competitiveness.

As laid out in the strategic plan, Gorenje will promote the following values in order to meet its mission:

- towards customers

In cooperation with its customers Gorenje is developing partnerships, based on the satisfaction of customers. Each partner is dealt with respectfully, and each order is fulfilled seriously, flexibly and responsibly. Gorenje constantly monitors the needs of the customers and organises regular meetings with them. Such meetings are aimed at exchanging experience and even educating customers. Numerous new products and improvements are the result of good relationships with customers

- towards employees

Gorenje provides carefully planned human resources development programs for its employees according to their abilities by providing good working conditions and encouraging their creativity. It develops a dynamic management, which responds to any changes in the environment, while giving great emphasis to encourage teamwork and entrepreneurship of the employees

- towards the wider social environment

Responding to the needs of the local environment is an investment with long-term effects. With its business activity Gorenje plays an important role in shaping the environment it is working in while having a certain responsibility towards it. Therefore its aim is to improve the quality of life in the local and even wider environment. Gorenje invests into technologies, which will during manufacture, application and recycling of products reduce the harmful effects on the environment. Through a carefully managed budget Gorenje is sponsoring projects in the field of culture, sports and science.

- towards shareholders

The successful growth of the company maintains the value of the shareholders' investment on a long-term basis. The confidence by shareholders is maintained by regular updates on the developments within the company concerning everything, which is important to them. By listing the shares on the Ljubljana stock exchange the strategy, which was laid out to the shareholders, is continuously implemented.

- towards suppliers

Gorenje builds long-term partnerships with suppliers based on continuous audits regarding their competitive advantages

Environment protection

Gorenje is continuously adapting its environment protection policy to the requirements by customers and the wider social environment, particularly the legal stipulations, guidelines by the local and wider community, and is pursuing environmental, economic and social goals.

Environment protection within the Gorenje group is an integral part of all planning and decision taking, so that it is considered an important part of the company management:

- technological processes are modernised following the principle of best available technology (BAT) thus reducing harmful effects on the environment;
- regular monitoring and assessing effects on the environment;
- education and training of employees and informing customers about environment guidelines and new features;
- cooperation with suppliers so that they use materials and components which are less harmful to the environment;
- cooperation with the interested internal and external public thus contributing to the joined success of ecological efforts.

In 2000 according to the environment management policy Gorenje achieved the following results compared to 1999:

- reduction the quantity of hazardous waste by 19 % per product;
- reduction of the nickel content at the output of the central waste-water treatment plant by 11 %;
- reduction of dust and organic solvents emission by 90 %;
- reduction of water consumption by 19 % per product;
- reduction of gas consumption by 12 % per product.

In 2000 Gorenje followed the trend of reducing the consumption of natural resources (power consumption, water consumption, washing agents consumption) and the noise level of devices, according to the given goals and restrictions contained in EU guidelines. The results are more cost-effective appliances. By its membership in the European Committee of Manufacturers of Domestic Equipment (CECED), Gorenje is actively involved in preparing new environment protection trends in the development of products and is quick to respond to them.

The growing requirements of standards are already giving directions to the industry and allow that the company follows international trends, which determine the terms and conditions of behaviour, more successfully. The Gorenje Group has made it its strategic goal to meet the requirements of the environmental standard ISO 14001. Audits have been so far successfully carried out at Gorenje d.d., Gorenje GTI, Gorenje Indop, and Gorenje Orodjarna.

A summary of ten years of achievements by Gorenje in the environmental field is presented in a special environment report.

11. Basic strategic focus and options for future development

The production of household appliances, including the broadening of the overall palette of products, development of our own distribution channels and our own brand names, remain the strategic goals of the Gorenje Group.

Gorenje will also develop all existing business fields, which have a growth potential and provide a mutually beneficial effect with respect to its main business activity. Among them special emphasis is given to machine construction, manufacturing of tools, furniture, water heaters, computer services, catering, tourism and trade.

Gorenje will develop new activities which can in the long run contribute to the growth of the company and the contentment of owners, business partners, end-users of the products, the employees and the wider social environment.

It will focus on the European market, where it sees new opportunities in East and Southeast Europe. Gorenje will pay special attention to cost-effectiveness and permanent improvement processes. It will play an active role in the integration of the industry while equity stakes have not been ruled out.

By their skills and long-term experience the employees of the Gorenje Group are a competitive advantage, therefore one of the priority tasks will be a consistent and continuous development of human resources.

The standing of Gorenje

With its core business Gorenje is mainly active in an industry sector shaped by globalisation and low growth rates. This requires constant improvements of competitive advantages in a mature globalised industry.

In the current market situation Gorenje can count on the following advantages:

- *great flexibility and ability to adapt to market requirements;*
- *well positioned and developed proper sales network in Europe;*
- *recognised brand name in key markets, particularly in SE Europe;*
- *good relations with customer base;*
- *skilled staff with strong corporate loyalty;*
- *50 years of tradition in the field of household appliances;*
- *export oriented.*

Growth rate and anticipated goals by division

The anticipated growth rates are based on the internal growth of the Gorenje Group. The strategic view has been prepared based on the independent development of the Gorenje Group, while possibilities for capital links have not been ruled out. This means that Gorenje will play an active role in the integration within the industry sector, which predominantly means mergers and acquisitions of companies in Eastern Europe and countries of former Yugoslavia.

In the next period the household appliance sector will probably grow at a slower pace than other activities. It was anticipated that by 2003 the sales should grow by 18 % compared to 1999, however sales figures have shown even higher current growth rates than laid out in the strategic plan. In 2001 Gorenje will already exceed the goals, anticipated for 2003. By growing investments a production output of 3.5 million large household appliances annually was achieved. Further growth will also focus on maintaining these figures. The sale of refrigerators and freezers will have a 47 % share of the total sales of final products, while for cookers this share will be 28 % and for washing machines and dishwashers 25 %.

This activity will focus on marketing the complete spectre of products under our own brand name. The sale under our own brand name will be gradually expanded so that by 2003 it would have a 75 % share (currently 70 %).

Gorenje will focus particularly on European markets, while it will seek new opportunities in the emerging Asian and Latin American markets. In the area of South-Eastern Europe, where the Gorenje brand name enjoys a good reputation, products from other vendors thus promoting our brand name will complement our own production programme. Gorenje will continue to enter the markets of consumer electronics, small household appliances, vacuum cleaners, air-conditioners etc.

The sales network of our own companies in Europe will be gradually restructured in the light of challenges brought about by EU membership, the European currency union (EMU) and information technology. The growth of the core business is anticipated with acquisitions of similar companies, particularly in the area of Eastern and South-Eastern Europe.

Other activities

Compared to 1999 other activities will grow faster (65 %) than the household appliances sector (18 %) in the overall break-up of sales. Considering different activities the methods for achieving the anticipated growth rates will vary considerably.

Even in the other activities sector the growth rates were higher than anticipated, so that already by 2001 the goals defined by the strategic plan until 2003 will be exceeded. In the coming years the growth rate will be even higher because of the acquisition of a stake in Gorenje Notranja oprema and some other investments into new programs

Investments

In the strategic plan the group anticipates investments in the amount of the calculated depreciation and up to 2/3 of the anticipated profit of the fiscal year, which the owners should allocate for the development of operations. Under normal business conditions the group as a whole can increase the value of assets by a good investment policy, which takes precedence over the financing structure. The dividend policy is strongly shaped by the investment policy and the financing structure policy.

Each missed investment opportunity in projects with a net present value will have a negative effect on competitiveness, lead to a lower market share, delays in development and similar. The major part of investments will go to tangible assets for meeting the anticipated internal growth of the individual activities, improving the quality and implementation of technologies, which will provide reasonable flexibility, based on cost-effectiveness and the concern for the environment. In 2001 the anticipated total investments will amount to 13,7 billion SIT.

12. The Gorenje shares

Turnover and price of share

Until November 8th, 2000 the Gorenje shares were traded on the OTC market, while on November 11th they became listed on the official market of the Ljubljana Stock Exchange (Ljubljanska borza, d.d.)

In 2000 the number of shares traded on the organised market increased to reflect the complete issue of 12,200,000 shares, which accompanied the privatisation process. On the first day of trading the restrictions regarding the trading of shares of B and D type expired. All the Gorenje shares have become subject to unrestricted trading carrying the acronym GRVG.

Compared to the year before in the year 2000 the turnover regarding the Gorenje shares amounting to 7.3 billion SIT, increased by 45.4 %. This is partly due to the increase in the number of shares, which were traded in 2000 following the lifting of restrictions concerning the shares of the B and D types.

On the official market the Gorenje shares rank absolutely first regarding market capitalisation and trading volume. By the end of October the total turnover of the Gorenje shares represented 16.3 % of the overall official stock market turnover.

Since the listing of the share on November 10th the trading volume with the Gorenje shares totalled 1.7 billion SIT. The shares represented more than 5 % of the overall trading volume making Gorenje one of the top 20 companies in Slovenia.

Entering the organised market has had an impact on the price of shares, which in two past years rose more than the SBI index. The price of the share during its trading on the official market has been shaped by two important events, the publication of good business results in mid 1999 and the fire in the galvanisation plant in September 2000.

Price of the GRVG share

	Entry on the OTC 2.6.1998	31.12.1998	31.12.1999	Last day on the OTC 8.11.2000
Price of GRVG shares in SIT	1,484	1,794	2,350	1,978

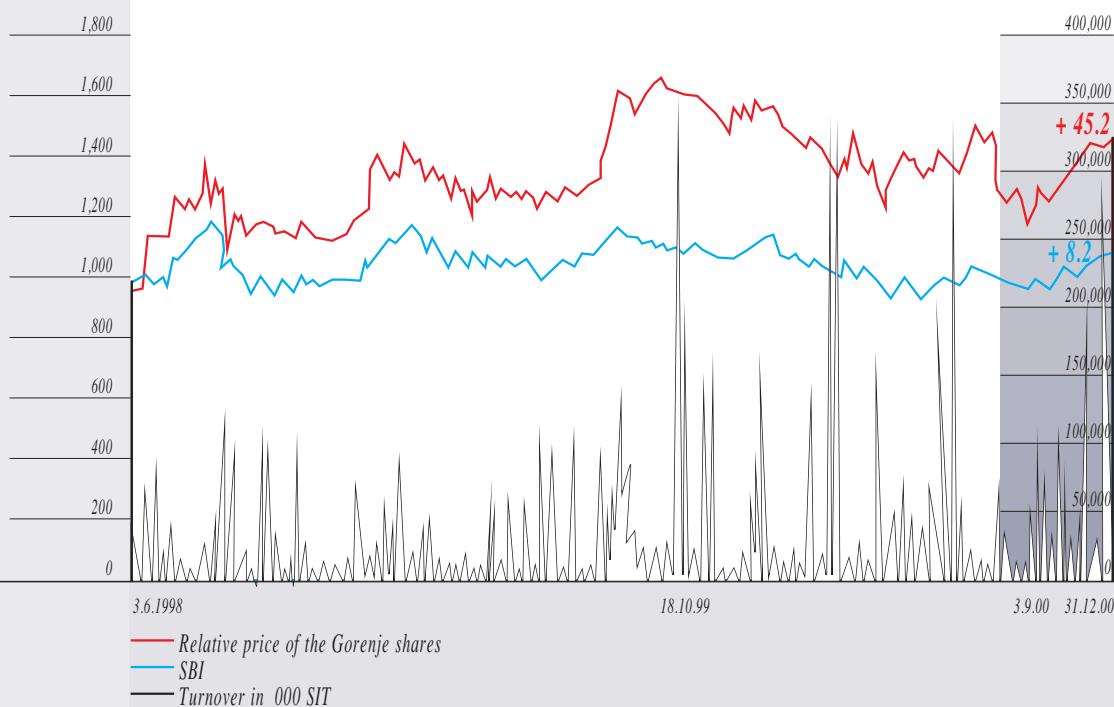
The listing of the share on the official market has doubtlessly had an impact on the increase of the price of shares by the end of 2000, since in that period the price rose by 8.1 %, while the SBI index only rose by 4.6 %. The increase in the price of shares was certainly due to the publication of encouraging results for the first nine months and complete control over the consequences of the fire, which spurred an excessive market reaction. The change of price was partly due to the information that Gorenje is considering entering foreign capital markets. Soon after the fire the price of the shares exceeded 2000 SIT.

Despite this fact in the year 2000 the Gorenje shares led to capital losses compared to the closing price the year before. But the performance of the SBI 20 index was also poor. Apart from the low liquidity on the capital market, the profitability of the share was certainly under pressure by the fire in the galvanisation plant, which made it impossible for Gorenje to perform as well as the year before.

	GRVG (sit)	SBI 20 (points)
Value per 31.12.1998	1,794	1,705.77
Value per 31.12.1999	2,350	1,806.26
Value per 31.12.2000	2,155	1,807.94
Maximum price in 2000	2,372	1,903.66
Minimum price in 2000	1,791	1,584.23
Maximum price in history	2,467	2,026.47
Minimum price in history	1,484	891.93

Indeks GRVG and SBI

Turnover in 000 SIT



Market capitalisation

On the last day of the year the market value of Gorenje was 26.3 billion SIT. The market capitalisation represented 4.5 % of the overall stock market capitalisation (579.4 billion SIT) or 2.3 % of the total capitalisation of all securities traded on the stock exchange (1,138.4 billion SIT).

Ownership structure

In 2000 the number of shareholders fell by 5070, which means a decrease by 26 % compared to the year before. Regarding the situation at the privatisation, the overall number of shareholders decreased by 11.267 or by 44 %. The large decrease in the number of shareholders in 2000 is mainly due to the lifting of restrictions in trading shares of the B and D types and documenting all the changes in the share register, which were a result of the option businesses since the privatisation process has been completed.



The concentration of ownership continued even in 2000 with growing purchases by institutional investors reaching a share of 70.4 % at the end of 2000. Among institutional investors a large stake is held by the Pension Fund and Indemnity Fund, which altogether have a 32.2 % stake. As far as other institutional owners are concerned the ownership remains very dispersed. Despite concentration, the stock is still widely held.

Trading trends

	2000	1999	1998
Number of shares trading	12,200,000	8,515,904	7,669,407
Turnover (in millions of SIT)	7,250	4,986	2,596
Average market capitalisation (in millions of SIT)*	26,283	16,992	12,362
Value turnover (turnover/average capitalisation)	0.28	0.28	0.21
Value of shares (in SIT) according to the books (Gorenje, d.d. capital./ number of shares)	3,509	3,004.7	2,600.37
Profitability of share			
- by capital gain in %	-9.1	33	20.9
- by dividend in %	0	0	0
- altogether in %	-9.1	33	20.9
P/E ratio			
(market price of share/ earnings per share)	9.11	11.4	10.3

*For calculating the total capitalisation the actual number of traded shares has been considered

Proposal of profit distribution

The profit distribution policy is one of the factors, which in the long run determine the growth, and development of the company.

The strategy of allocating profits as laid out in the strategic plan of Gorenje is subject to the investment requirements and the policy of capital structure, however the expectations of the investors have not been neglected, which in the light of the ownership structure vary considerably. It is anticipated that Gorenje will allocate up to 1/3 of the net profit for the period of the validity of the strategic plan until 2003 to pay out dividends.

Pending the approval by the Supervisory Board the management of the company will propose at the shareholders meeting in June the following:

1. net profit of the fiscal year 2000 in the amount of 2,884,829,006.39 SIT will be allocated as follows:

- reserves of the company in the amount of 1,730,897,403.83 SIT,
- non-allocated profit of the fiscal year in the amount of 1,153,931,602.56 SIT.

2. the non-allocated profit from the fiscal year 1998 with the corresponding appreciation will be distributed as follows:

- dividends for shareholders in the gross amount of 70 SIT per share, which totals 854,000,000 SIT.
- payment to the Management in the gross amount of 22,806,951 SIT arising from their share in the distribution of profit;
- payment of bonus to the Supervisory Board in the gross amount of 11,513,334 SIT.

In 2001 the shareholders will receive dividends for the first time. In preparing this proposal the Management and Supervisory Board have considered that dividends are to be paid out from the unallocated profit for the fiscal year 1998 and not the year 2000 due to optimising taxation effects.



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13. Business report of the Gorenje Group for the year 2000

The Gorenje Group

The consolidated financial statements of the Gorenje Group include the financial statements of the parent company Gorenje, d.d., Velenje and the financial statements of 33 subsidiaries, of which 10 operating in Slovenia and 23 abroad.

In addition, the financial statements of the company Gorenje Interieri, which started operating within the Gorenje Group in December 1999, were included in the consolidated statements of the Group in 2000. The company's principal activities are production and sale of kitchen and bathroom furniture.

On 1 January 2000 the parent company took over the subsidiary company Emkor, manufacturing radiators and parts for refrigerators & deep freezers and cooking appliances. Within the parent company a new programme MEKOM (mechanical components) was set up upon the merger of Emkor and the production plant Galvana in Velenje.

On 1 July 2000 the parent company also took over the subsidiary company Gorenje Servis, whose principal activity is after-sale servicing of Gorenje products.

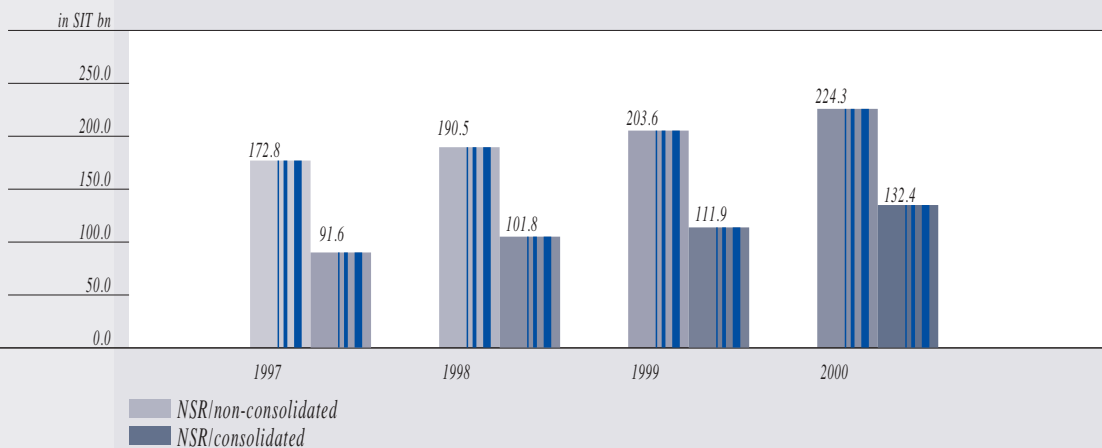
Revenues in 2000

Sales of household appliances (principal activity), water heaters, furniture, machine construction and tool&die making as well as provision of services earned SIT 132.4 billion of consolidated net sales revenues in 2000. This represented an 18.4 per cent increase over 1999. Lower growth in unconsolidated sales (10.2 per cent compared to 1999) was a reflection of attained strategic objectives aiming at reducing indirect supplies of material and component parts from companies abroad and changing over to direct purchases from suppliers abroad.

Other operating revenues of SIT 4.7 billion referred mainly to fire indemnity (Galvana plant).

Gross operating yield amounted to SIT 137.1 billion, 19.3 per cent over the 1999 figure.

Net sales revenues of the Gorenje Group



Sales by operational sector

The operations of 34 companies in the Gorenje Group are divided into four principal operational sectors:

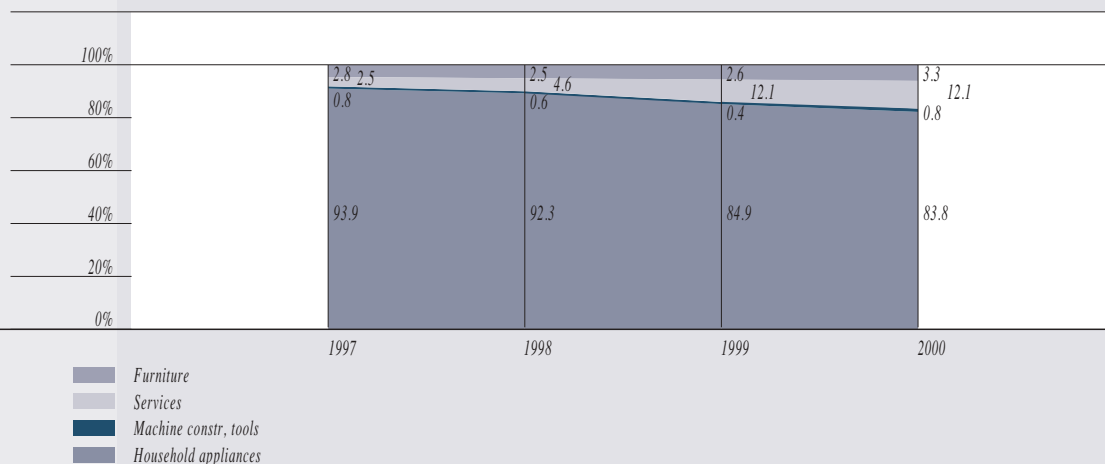
- household appliances sector,
- machine construction and tool&die making sector,
- furniture sector and
- services sector.

In 2000 the furniture sector was set as a separate operational sector. Before it was included in the household appliances sector. In order to assure comparability, the data from the previous years have been appropriately adjusted.

In 2000 the subsidiary companies Gorenje I.P.C and Biterm were included in the household appliances sector. Their principal activity is production of component parts for household appliances. The data for the previous years have been appropriately adjusted.

The most important operational sector remains the household appliances sector. In 2000 the sector generated SIT 111 billion of consolidated net sales revenues out of the total of SIT 132.4 billion or 83.8 per cent.

The remaining 16.2 per cent of consolidated net sales revenues were earned in the other sectors, 12.1 per cent in the services sector, 3.3 per cent in the furniture sector and 0.8 per cent in the machine construction and tool&die making sector.



*The Gorenje Group -
sales by Operational Sector*

Household Appliances Sector

The main operational sector, both in terms of organisation and operations, consists of Gorenje d.d., the parent company headquartered in Velenje and subsidiary companies in the marketing network based in 19 foreign countries, mainly in Europe. The marketing activity in Slovenia is carried out by Gorenje d.d.

This operational sector also includes the manufacture of component parts, which is carried out in the companies Gorenje, I.P.C. (manufacturing electrical components) and Biterm (manufacturing thermostats).

In 2000 sales of products increased by SIT 16 billion compared to the year before, while the share in the consolidated sales structure fell by 1.1 per cent due to faster growth in the machine construction and tools&die making sector and in the furniture sector.

The trend of sales in terms of value increasing faster than sales in terms of quantity continued in the year 2000. This was mostly contributed by strong sales of cookers, by higher range of products sold and by the raising foreign exchange rates.

In 2000 Gorenje exported 94 per cent of the total production. The major markets remained those in Germany, Croatia, Slovenia, France, Bosnia and Herzegovina, Austria and the Scandinavian countries.

Machine Construction and Tool&Die Making Sector

This operational sector includes the subsidiaries Gorenje Orodjarna and Gorenje Indop.

The sector generated SIT 3.9 billion of unconsolidated net sales revenues, 46.3 per cent more than in 1999. Most of these revenues, a considerable 74 per cent, were earned within the Gorenje Group as a consequence of intense engagement of both companies in building the new refrigerators and freezers plant.

The sector earned SIT 1 billion of sales outside the Gorenje Group, which influenced the minimal 0.4 per cent increase of its share in sales compared to the year before.

Furniture Sector

The furniture sector includes Gorenje Interieri, Gorenje Kuchyne, operating in Czech Republic and the plant Küchenmöbelfabrik Freistadt, operating within Gorenje Austria Handels.

The sector's share in sales grew markedly in 2000 as a result of inclusion of Gorenje Interieri in the Gorenje Group consolidation.

The sector generated SIT 4.4 billion of consolidated net sales revenues. Its share in sales increased by 0,7 per cent compared to 1999.

Services Sector

The services sector includes Gorenje Trgovina, Hyundai Auto Zagreb, Gorenje Gostinstvo, Gorenje Point, and Linea.

The sector earned SIT 2.5 billion consolidated net sales revenues more than the year before. The growth in net revenues was in line with the growth in the Gorenje Group, hence the sector retained its 12.1 per cent share in sales from the year 1999.

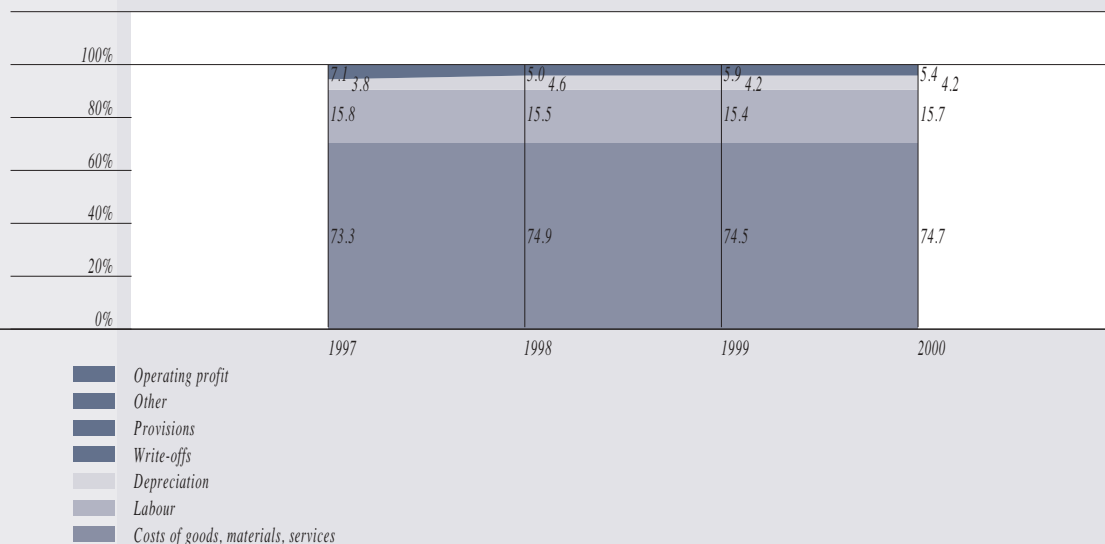
High growth in sales were recorded by the companies Hyundai Auto Zagreb(higher car sales) and Gorenje Gostinstvo(expansion of operations in Hotel Paka and introduction of catering services). The company Gorenje Point lagged behind its 1999 figures, when sales were particularly high due to change over to the year 2000.

Costs

The major share of gross operating yield was made up by costs of materials, goods and services, which amounted to 74.4 per cent. That was SIT 102.4 billion and 19.6 per cent over the year 1999. In 2000 the rise in costs of materials, goods and services was 0.3 per cent higher than the rise in gross operating yield.

The rising prices of oil products, also triggered by growing USD/EUR exchange rate and great demand for raw materials in the European market in the year 2000 resulted in heavily increased prices of raw materials and component parts needed by Gorenje. By strategic purchases of sheet metal and plastic resin and by negotiating for parent price increases, the price pressures on costs were limited.

In 2001 supply of and demand for most of the strategic raw materials are expected to stabilise, however, the increased prices of input materials, imposed especially in the second half of 2000, will only fully reflect on the results for 2001 (higher level of input prices at the beginning of the financial year). The above mentioned negative effects on operating costs will be controlled by measures, such as increasing the number of partner relationships for strategic and scarce materials, reducing the number of suppliers, setting up joint programmes with suppliers in order to reduce costs, faster introduction of sub-assembly and innovations, improvement of quality of input materials, introduction of internet business and other measures.



Labour costs, representing 15.7 per cent of gross yield, increased by 21.9 per cent compared to 1999. The growth was a result of additional employment due to increased production of household appliances in the parent company Gorenje, d.d. Labour costs grew also on account of Gorenje Interieri, which started operating in December 1999.

Depreciation, representing 4.2 per cent of gross yield, was SIT 1 billion higher than the year before as a result of activated high investments of the parent company Gorenje, d.d. in 2000.

In 2000, SIT 2.4 billion of **provisions** were set up, representing 1.8 per cent of gross yield (SIT 2.2 billion in 1999). Most of provisions were established for major repairs and warranties.

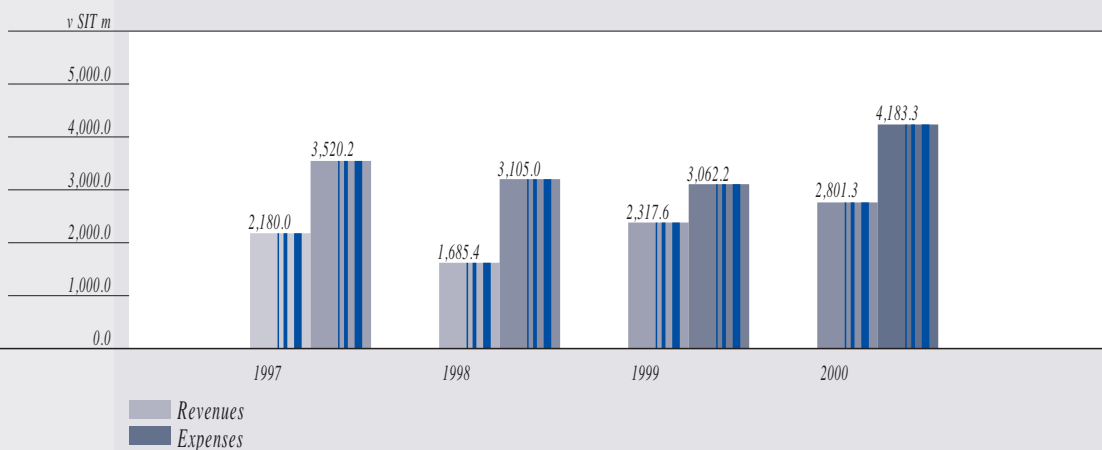
Operating profit was SIT 3.5 billion, 7.5 per cent over the 1999 figure. Compared with 1999 its share in gross yield fell from 2.8 per cent to 2.5 per cent as a consequence of faster growth dynamics achieved by costs of goods, materials and services as well as by labour costs.

Financial items

In 2000 the negative balance of financial items increased compared to the balance in 1999 and amounted to SIT 1.4 billion, representing 1 per cent of gross yield.

The negative balance of interest account grew due to increased borrowing as source of investments financing (SIT 1,063.7 million) and so did the positive balance of exchange rate differences (SIT 406.7 million).

Revaluation deficit represented an important part of financial expenses also in the year 2000. It amounted to SIT 1,047 million, SIT 309 million up the 1999 figure, which as a non-cash item positively influenced the Company's cash flows and liquidity.



Financial Items of Gorenje Group

Extraordinary items

The balance of extraordinary items was positive in 2000 and amounted to SIT 923.5 million, which was SIT 683.1 million up the 1999 figure.

In comparison with 1999 both extraordinary revenues and extraordinary expenses were higher in 2000. The major part of extraordinary revenues related to loss recovered by the parent company Gorenje, d.d. from the insurer for insurance against fire, recovered bad debts from previous years and elimination of provisions. The major cause of growth in extraordinary expenses was exclusion of fixed assets due to fire in the plant Galvana of the company Gorenje, d.d.

Tax on Profits

Tax on profits was SIT 282 million and was higher than in 1999 by 32.2 per cent.

On the level of individual companies we optimised the tax on profits and made optimum use of tax allowances on account of high investments, employment of invalids and additional employment.

Consolidated Net Profit

Consolidated net profit of the Gorenje Group for the financial year 2000 amounted to SIT 2,736 million, which was an increase of 8.7 per cent over the 1999 figure. It includes the profit of minority shareholders in the amount of SIT 93.2 million.

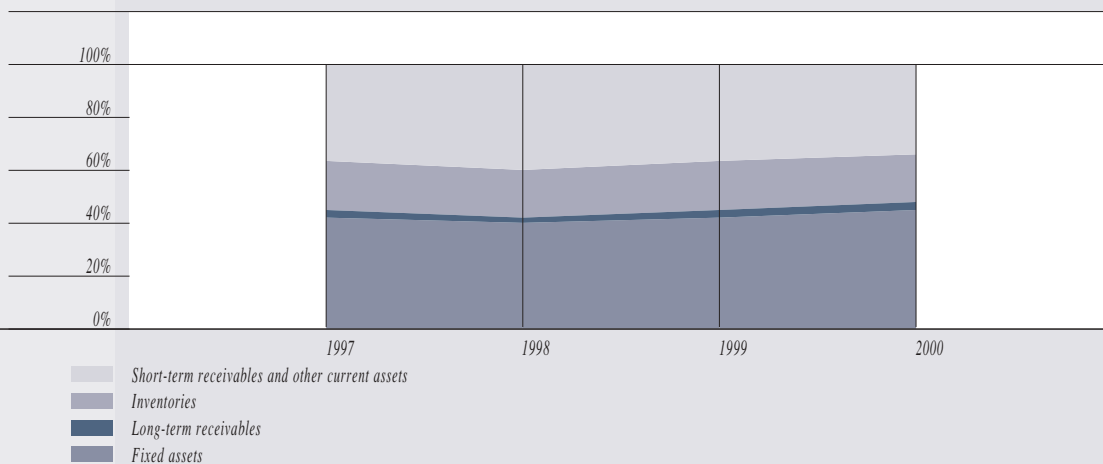
Changes in Balance Sheet Structure

The **balance sheet total** in the consolidated balance sheet of the Gorenje Group as at 31 December 2000 amounted to SIT 102.4 billion, which was 23.7 per cent over the end of 1999 figure. The increase was a result of higher volume of business and extensive investments.

Fixed assets grew by 27.3 per cent and current assets by 21 per cent. The share of fixed assets in the balance sheet structure rose from 42.9 per cent to 44.1 per cent and the share of current assets fell from 57.1 per cent to 55.9 per cent.

The increase in fixed assets was due to large investments amounting to SIT 14 billion in 2000. SIT 0,4 billion were allocated to land, SIT 1 billion to buildings, SIT 12.3 billion to production equipment and other equipment and SIT 0.2 billion to intangible long-term assets.

Within **current assets** a considerable growth was recorded by inventories, which make up 21 per cent of assets. Compared to 1999 inventories grew by SIT 4.5 billion or 26.7 per cent. Inventories of materials went up SIT 2 billion and inventories of products and merchandise SIT 2.1 billion. Increased inventories were due to higher output volume, real growth in prices of input materials, product range changes and strategic purchases of sheet metal and plastic resin.



The **inventory turnover** of finished products remained on the 1999 level (24 days) despite high sales growth.

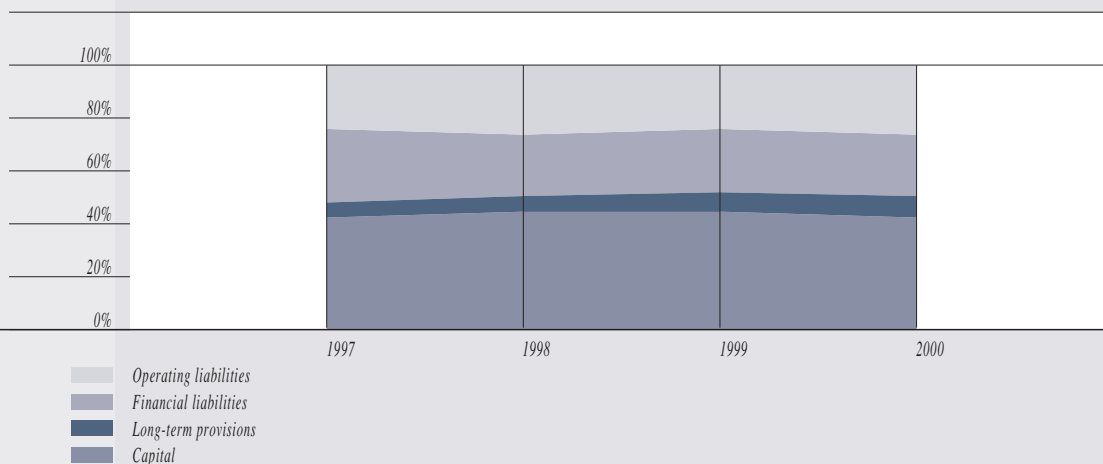
Short-term operating receivables represented 27.4 per cent in the consolidated balance sheet structure of the Gorenje Group. Compared to end of 1999 they were up SIT 3.5 billion or 14.2 per cent, while their share in the balance sheet structure was down 2.3 per cent due to smaller growth of short-term receivables compared to sales growth.

Most of short-term operating receivables related to short-term receivables due from customers, which rose by SIT 3.6 billion or 17.4 per cent compared to 1999. As a result the average receivables turnover in terms of days improved from 65 days to 64 days in 2000.

Short-term investments were SIT 4.7 billion at the end of 2000. Compared to the end of 1999 they were up SIT 2.2 billion. Most of short-term investments were reported by Gorenje, d.d. which increased its short-term deposits with banks on account of remittances representing loss recovered from the insurer.

The structure of **liabilities** recorded the following increases compared to the end of 1999: capital rose by 16 per cent, long-term provisions by 34.7 per cent, long-term liabilities by 71.7 per cent and short-term liabilities by 24.6 per cent. In 2000 the favourable coverage of fixed assets with long-term liabilities was retained with long-term liabilities exceeding by 26.6 per cent. The share of long-term provisions in the balance sheet structure continued to grow to reach 7.2 per cent at the end of 2000.

The increase in **capital** is due to net profit for the year 2000, which amounted to SIT 2,736 million and revaluation, which amounted to SIT 3,277 million. Capital structure also changed due to reserves, which grew on account of profits from previous years.



Long-term financial liabilities rose by SIT 2.9 billion, their share in the structure increased from 4.9 per cent to 6.8 per cent. Long-term debts grew on account of financing investments.

Short-term financial liabilities grew slower than short-term assets and their share in the structure fell from 17.5 per cent to 16.8 per cent.

Short-term operating liabilities were up SIT 5.7 billion compared to the end of 1999 figure. However, their share in the structure remained on the same level. Turnover ratio of liabilities to suppliers in terms of days increased from 67 days per year in 1999 to 71 days in 2000, mostly as a result of matching operating receivables and operating liabilities, which had a favourable effect on liquidity and lower costs of financing.

Cash Flow Statement

The consolidated cash flow statement was calculated on the basis of data from the consolidated balance sheet as at 31 December 2000 and 31 December 1999 and from the consolidated profit and loss account for 2000. According to Slovene Accounting Standards the balance sheet items of the preceding year are to be revalued using the consumer price index. The auditors are of the opinion that revaluing the opening balance of the balance sheet and of profit and loss account items to the new purchasing power of the domestic currency is not appropriate in all those cases where revaluation of particular items is calculated by exchange rate growth. If all items were revalued by using the consumer price index specific items could no longer be compared, therefore non-adjusted data for 1999 have been used.

- *Cash flow from operating activity amounted to SIT 6,792 million, 62.6 per cent over the 1999 figure. The increase was due to higher short-term operating liabilities (by SIT 5,743 million), higher depreciation (SIT 5,830 million), net profit (SIT 2,643 million) and increased accrued costs and deferred revenues (by SIT 471 million). Although inventories grew by SIT 4,530 million and short-term operating receivables by SIT 3,480 million, the cash flow from operating activity was SIT 2,616 million, which was better than the year before.*
- *Cash flow from investment activity was negative and amounted to SIT 17,715 million, 44.8 per cent over the 1999 figure. The major part related to tangible fixed assets and intangible fixed assets, which grew considerably on account of heavy investments in 2000 and partly due to mandatory revaluation of assets.*
- *Cash flow from financial activity was positive and amounted to SIT 10,777 million, an increase of 33.3 per cent compared to 1999. It grew on account of increased internal and borrowed sources of financing. The cash flow improved on account of capital, which increased by SIT 3,270 million due to mandatory revaluation and on account of long-term provisions, which rose by SIT 1,893 million. Due to extended investments, which could not be financed by internal resources, further funds had to be borrowed. On account of increased long-term and short-term financial liabilities, SIT 5,614 million of cash flow from financial activity was generated.*

Conclusion

In line with developments in the world markets, especially the European household appliances market, which in 2000 grew 5 per cent in terms of quantity and 1.5 per cent in terms of value, the business performance of Gorenje can be considered successful. Reconstruction of property damaged by the fire and completion of the new production plant for refrigerators and deep-freezers offer a solid base for even better business results in the future years.



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14. Financial statements prepared according to Slovene Accounting Standards (SAS)

14.1. Auditors' Opinion

KPMG

Audit opinion

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

We have audited the accompanying consolidated financial statements of the Gorenje d.d. and its subsidiaries (Gorenje Group), consisting of the consolidated balance sheet as of 31 December 2000, the consolidated profit and loss statement as well as the consolidated cash flow statement for the year then ended.

These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

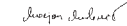
We conducted our audit in accordance with the fundamental auditing principles and the International Auditing Standards. Those principles and standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The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

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Gorenje Group as of 31 December 2000, the results of its operations and its cash flow for the year then ended, in conformity with the Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

KPMG SLOVENIJA d.o.o.,
management, consulting in revizija, Ljubljana

Vera Menard, B.Sc.Fc.
Partner and Certified Auditor

Marjan Mahnič, B.Sc.Ec.
Managing Director and Certified Auditor

Ljubljana, 23 March 2001

KPMG Slovenija d.o.o.
LJUBLJANA 2

KPMG

Audit opinion

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

We have audited the accompanying financial statements of Gorenje, d.d., Velenje, consisting of the balance sheet as of 31 December 2000, the profit and loss statement as well as the cash flow statement for the year then ended. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.



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

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2000, the results of its operations and its cash flow for the year then ended, in conformity with the Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

KPMG SLOVENIJA d.o.o.,
management, consulting in revizija, Ljubljana

Vera Menard, B.Sc.Ec.
Partner and Certified Auditor

Marjan Mahnič, B.Sc.Ec.
Managing Partner and Certified Auditor

Velenje, 7 March 2001

KPMG Slovenija d.o.o.
LJUBLJANA 2

14.2. Consolidated Profit and Loss Account of the Gorenje Group and the Profit and Loss Account of Gorenje d.d., the Parent Company

<i>In SIT m</i>	<i>Notes</i>	<i>Gorenje Group</i>		<i>Gorenje, d.d.</i>	
		<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
<i>Net sales revenues</i>		132,437.8	111,876.4	88,011.3	73,090.1
<i>Changes in the value of inventories</i>		1,247.9	923.9	1,149.0	894.1
<i>Value of capitalised own products and/or services</i>		266.2	639.6	201.0	558.2
<i>Other operating revenues</i>	1	3,149.2	1,446.2	2,271.0	629.4
<i>Gross operating yield</i>		137,101.1	114,886.1	91,632.3	75,171.8
<i>Costs of goods, materials and services</i>		-102,390.0	-85,618.2	-69,223.4	-57,888.5
<i>Labour costs</i>		-21,529.2	-17,656.6	-13,211.0	-10,103.0
<i>Depreciation</i>		-5,830.3	-4,810.6	-4,459.4	-3,450.7
<i>Current assets write-offs</i>		-828.2	-857.3	-369.8	-136.4
<i>Other operating expenses</i>	2	-636.7	-532.8	-232.3	-132.6
<i>Provisions</i>		-2,410.1	-2,175.6	-1,706.5	-1,586.8
<i>Operating profit or loss</i>		3,476.6	3,235.0	2,429.9	1,873.8
<i>Financial revenues</i>		2,801.3	2,317.6	2,780.2	2,423.1
<i>Financial expenses</i>		-4,183.3	-3,062.2	-2,895.5	-1,852.7
<i>Profit or loss from ordinary activities</i>		2,094.6	2,490.4	2,314.6	2,444.2
<i>Extraordinary revenues</i>	3	1,957.3	634.0	1,632.5	279.5
<i>Extraordinary expenses</i>	4	-1,033.8	-393.6	-1,061.2	-201.9
<i>Total profit or loss</i>		3,018.1	2,730.8	2,885.9	2,521.8
<i>Tax on profits</i>	5	-282.0	-213.3	-1.1	0
<i>Net profit or loss for the financial year</i>		2,736.1	2,517.5	2,884.8	2,521.8
<i>Profit of minority owners</i>		93.2	14.0		
<i>Profit of majority owners</i>		2,642.9	2,503.5		

14.3. Consolidated Balance Sheet of the Gorenje Group and the Balance Sheet of Gorenje, d.d., the Parent Company

In SIT m	Notes	Gorenje Group		Gorenje, d.d.	
		2000	1999	2000	1999
Assets		102,431.3	82,802.7	76,337.1	59,947.9
<i>Fixed assets</i>		45,191.6	35,510.9	41,683.4	33,704.4
<i>Intangible fixed assets</i>		1,275.0	1,072.7	449.4	370.0
<i>Tangible fixed assets</i>	6	42,151.2	32,244.2	30,218.9	20,563.5
<i>Long-term investments</i>	7	1,765.4	2,194.0	11,015.1	12,770.9
<i>Current assets</i>		57,239.7	47,291.8	34,653.7	26,243.5
<i>Inventories</i>	8	21,507.5	16,977.4	10,805.6	7,622.8
<i>Long-term operating receivables</i>		446.0	495.3	396.5	388.8
<i>Short-term operating receivables</i>	9	28,077.2	24,596.9	19,421.3	15,712.1
<i>Short-term investments</i>		4,683.4	2,479.3	3,667.9	2,311.6
<i>Cash</i>		2,150.3	2,296.5	351.4	150.7
<i>Deferred costs and accrued revenues</i>	10	375.3	446.4	11.0	57.5
Liabilities and capital		102,431.3	82,802.7	76,337.1	59,947.9
Capital		42,910.2	36,997.2	42,804.8	36,657.4
<i>Share capital</i>		12,200.0	12,200.0	12,200.0	12,200.0
<i>Reserves</i>		6,521.1	5,013.3	5,310.6	4,049.7
<i>Capital revaluation adjustment</i>		19,357.0	16,079.7	19,342.23	16,079.7
<i>Retained net profit from previous years</i>		1,725.4	858.9	3,067.1	1,806.2
<i>Loss from previous years</i>					
<i>Undistributed net profit for the year</i>		2,642.9	2,503.5	2,884.8	2,521.8
<i>Minority interest</i>		463.8	341.8		
Long-term provisions	11	7,347.2	5,453.7	4,658.8	3,250.1
Long-term liabilities		6,976.2	4,063.7	4,840.7	2,351.1
<i>Long-term financial liabilities</i>	12	6,971.3	4,053.2	4,840.1	2,350.4
<i>Long-term operating liabilities</i>		4.9	10.5	0.6	0.7
Short-term liabilities		43,505.6	35,066.8	23,310.0	17,330.7
<i>Short-term financial liabilities</i>	13	17,170.9	14,475.2	4,751.2	4,130.5
<i>Short-term operating liabilities</i>	14	26,334.7	20,591.6	18,558.8	13,200.2
Accrued costs and deferred revenues	15	1,692.1	1,221.3	722.8	358.6

14.4. Consolidated Cash Flow Statement of the Gorenje Group and the Cash Flow Statement of Gorenje, d.d., the Parent Company

In SIT m	Gorenje Group		Gorenje, d.d.	
	2000	1999	2000	1999
Opening balance of cash as at 1 January	2,296.5	2,273.7	150.7	10.0
Cash flow from operating activity				
Net profit	2,642.9	2,503.4	2,884.8	2,521.8
Depreciation	5,830.3	4,810.6	4,459.4	3,450.7
Long-term operating receivables	49.3	283.1	-7.7	592.3
Short-term operating receivables	-3,480.3	-3,999.2	-3,709.2	-2,171.3
Inventories	-4,530.1	-2,280.5	-3,182.7	-1,766.1
Long-term operating liabilities	-5.6	-3.9	-0.1	-297.0
Short-term operating liabilities	5,743.1	2,972.2	5,358.6	3,576.8
Deferred costs and accrued revenues	71.1	-224.9	46.4	-21.0
Accrued costs and deferred revenues	470.8	114.8	364.2	-0.5
Total	6,791.5	4,175.6	6,213.7	5,885.7
Cash flow from investment activity				
Intangible fixed assets	-499.8	-522.0	-184.2	-231.2
Tangible fixed assets	-15,439.8	-10,652.9	-14,009.9	-7,729.5
Long-term investments	428.6	-1,088.6	1,755.7	-2,863.8
Short-term investments	-2,204.1	27.3	-1,356.3	458.0
Total	-17,715.1	-12,236.2	-13,794.7	-10,366.5
Cash flow from financial activity				
Share capital				
Reserves	1,507.8	1,886.9	1,260.9	1,806.2
Retained profit from previous years	-1,637.0	-1,811.5	-1,260.9	-1,806.2
Capital revaluation adjustment	3,277.3	2,411.1	3,262.5	2,411.1
Minority interest	122.0	20.0		
Long-term provisions	1,893.5	1,871.1	1,408.8	1,512.4
Long-term financial liabilities	2,918.1	2,128.3	2,489.7	511.7
Short-term financial liabilities	2,695.7	1,577.5	620.7	186.3
Total	10,777.4	8,083.4	7,781.7	4,621.5
Total cash flow	-146.2	22.8	200.7	140.7
Closing balance of cash as at 31 december	2,150.3	2,296.5	351.4	150.7

14.5. Notes to the Financial Statements**Gorenje Group**

According to Slovene Accounting Standards (SAS) the consolidated financial statements of the Gorenje Group include the financial statements of the parent company Gorenje, d.d. and the financial statements of 33 subsidiaries operating in Slovenia and abroad:

Subsidiaries operating in Slovenia	Share in equity capital - %
Gorenje Orodjarna, d.o.o., Velenje	100.00
Gorenje Indop, d.o.o., Velenje	100.00
Gorenje I.P.C., d.o.o., Velenje	100.00
Gorenje POINT, 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	87.25
Gorenje TIKI, d.o.o., Velenje	51.00
Biterm, d.o.o., Bistrica ob Sotli	75.00
Gorenje Interieri, d.o.o., Maribor	100.0

Subsidiaries operating abroad	Share in equity capital - %
Gorenje Beteiligungsgesellschaft m.b.H., Austria	100.00
Gorenje Austria Handelsgesellschaft m.b.H., Austria	100.00
Gorenje Vertriebsgesellschaft m.b.H., Germany	100.00
Gorenje Körting Italia S.r.l., Italy	100.00
Gorenje France SA, France	100.00
Gorenje BELUX S.a.r.l., Belgium	100.00
Gorenje UK Ltd., Great Britain	100.00
Gorenje Skandinavien AIS, 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 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 Split, d.o.o., Croatia	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
Goretrade Beograd, d.o.o., F.R. of Yugoslavia	100.00

The financial year of all companies in the Group is equivalent to the calendar year.

Principles of Preparation of Consolidated Financial Statements

The consolidated balance sheet as at 31 December 2000 and the consolidated profit and loss account for the year 2000 have been prepared in accordance with Slovene Accounting Standards, with emphasis on fundamental accounting assumptions: going concern, consistency and accrual.

Accounting Policies of the Gorenje Group

Items in the financial statements are recorded and valued in accordance with the provisions of Slovene Accounting Standards, except for those items that may be, in accordance with the respective standards, accounted for at freely selected methods. In these cases the prudence principle has been observed.

- **Intangible fixed assets** and tangible fixed assets are upon purchase valued at the cost of purchase. It comprises the purchase price and all expenditures that are necessary to make the asset ready for its intended use. The straight-line method of depreciation is applied to tangible and intangible fixed assets, for each asset individually. However, if the value of individual item of tangible fixed assets is less than ECU 500, depreciation amounts may be consolidated. The selected depreciation rates are based on the estimated useful life of an asset, where in addition to the expected technical obsolescence the expected economic obsolescence is considered.
- **Long-term investments** are valued at the lower of cost and market value effective on the balance sheet date.
- **Inventories of materials and merchandise** are valued at the latest cost of purchase. Inventories of semi-finished and finished products are valued at costs of production. Costs of production include direct costs of materials, of labour, services, depreciation and general production costs.
- **Operating receivables** are initially reported at amounts recorded in the relevant bookkeeping documents under the assumption that the amounts owed will also be collected. Receivables denominated in foreign currency are translated in Slovene Tolars at the middle exchange rate of the Bank of Slovenia effective on the balance sheet date. Adjustments for bad debts are formed on the basis of estimated recovery of debts.
- **Long-term provisions** are charged against related costs or revenues in accordance with planned demands or projections and with growth dynamics. They are set up for a specific period. Provisions for future costs are reduced directly by the covered costs in respect of which they have been set up.
- **Financial liabilities** are reported at originally incurred amounts recorded in the relevant bookkeeping documents. Financial liabilities denominated in foreign currency are translated in Slovene Tolars at the middle exchange rate of the Bank of Slovenia effective on the date of occurrence and on the balance sheet date.
- **Both long-term and short-term operating liabilities** are initially reported at amounts recorded in the relevant bookkeeping documents. Operating liabilities denominated in foreign currency are translated in Slovene Tolars at the middle exchange rate of the Bank of Slovenia effective on the date of occurrence and on the balance sheet date..

Translation of the Financial Statements of Subsidiaries Operating Abroad

The financial statements of Gorenje, d.d. have been prepared in Slovene Tolars in accordance with the Slovene Accounting Standards.

The balance sheets of subsidiaries operating abroad have been translated from local currencies into Slovene Tolars at the middle exchange rate of the Bank of Slovenia ruling on 31 December 2000 and the profit and loss accounts at the average exchange rate in 2000.

Foreign exchange differences resulting from the translation of the financial statements at different exchange rates are accounted for and recorded as reserves under capital.

Principles of Consolidation

The consolidated financial statements are prepared in accordance with Slovene Accounting Standards that follow International Accounting Standards. Intragroup relations between companies within the Gorenje Group have been eliminated.

• Consolidation of Capital

Investments in companies in the Gorenje Group operating in Slovenia are accounted for by using the equity method and charged against the proportionate interest of these companies in the capital of the Group. Investments of Gorenje Beteiligungsgesellschaft m.b.H. in companies of the Gorenje Group are accounted for by using the purchase method and charged against the proportionate interest of these companies in the capital. The difference between investments and capital is adequately accounted for and recorded under reserves.

• Minority Interests

Minority Interests as at 31 December 2000 were:

	Share in capital in %	Minority interests in SIT 000	Share in net profit/loss in SIT 000
Gorenje Tiki, Ljubljana	49.00	411,740	83,032
Biterm, Bistrica ob Sotli	25.00	47,433	9,472
Linea, Velenje	12.75	4,613	669
Total		463,786	93,174

• Consolidation of Receivables and Liabilities

Intragroup receivables and liabilities have been eliminated on consolidation. The main difference between receivables and liabilities results from the discrepancies in the recording of transactions.

Intragroup receivables and liabilities as at 31 December 2000:

	in SIT 000	
	2000	1999
Total receivables	24,768,992	22,872,406
Total liabilities	24,838,662	22,901,417
Difference between eliminated receivables and liabilities	69,670	29,010

The consolidated profit and loss account for the year ended 31 December 2000 has only been influenced by the change in the difference between eliminated receivables and liabilities at the beginning and at the end of the year which amounts to:

	in SIT 000	
	2000	1999
Balance at the beginning of the year	29,011	51,324
Balance at the end of the year	69,670	29,011
Difference	40,659	22,313

The difference between consolidated receivables and liabilities is accounted for in the consolidated profit and loss account. Because the balance at the end of the year was higher than at the beginning of the year, and liabilities were higher than receivables, the effect in the amount of SIT 40,659 thousand is recorded under the item other operating revenues.

• Consolidation of Inventories and Elimination of Intragroup Profits

Profits resulting from intragroup sales of materials and products that were still included in inventories of individual companies in the Gorenje Group as of 31 December 2000 are eliminated from the consolidated financial statements.

Inventories of companies in the Gorenje Group as at 31 December 2000:

	in SIT 000		
	Inventories before elimination of intragroup profits	Elimination of intragroup profits	Inventories after elimination of intragroup profits
Materials	7,618,221	83,093	7,535,128
Work in process	1,181,081	0	1,181,081
Products and merchandise	14,157,003	1,689,732	12,467,271
Advances	323,973	0	323,973
Total	23,280,278	1,772,825	21,507,453

The consolidated profit and loss account for the year ended 31 December 2000 has only been influenced by the change in intragroup profits at the beginning and at the end of the year which amounts to:

	in SIT 000	
	2000	1999
Intragroup profits at the beginning of the year	1,514,374	1,423,843
Intragroup profits at the end of the year	1,772,825	1,514,374
Difference	258,451	90,531

Because intragroup profits in inventories at the end of the year are higher than at the beginning of the year, the difference in the amount of SIT 258,451 thousand represents a negative effect in the consolidated profit and loss account. The difference is recorded as an increase in costs of goods, materials and services.

Upon elimination of intragroup profits, merchandise supplied by companies in the Gorenje Group and recorded under inventories is re-posted to the balance sheet item products.

Inventories supplied by companies outside the Gorenje Group are recorded under merchandise.

• Consolidation of Revenues and Expenses

Intra-group revenues and expenses in the amount disclosed by separate companies in the Gorenje Group are eliminated from the consolidated profit and loss account.

The elimination of intra-group revenues and expenses has no effect on the consolidated results of operations.

Notes on some items of the financial statements are shown below:

Note 1 – Other Operating Revenues

SIT 3,149,254 thousand

	in SIT 000	
	2000	1999
Revenues from subsidies, grants, compensations	32,773	29,219
Revenues from leases and rents	174,409	93,762
Revenues from disposal and addition of tangible fixed assets	531	0
Revenues from use of provisions	283,645	634,157
Difference between consolidated receivables and liabilities	40,659	0
Other revenues	2,617,237	689,039
Total	3,149,254	1,446,177

The major item under other revenues relates to loss recovered from the insurer on account of fire in the Galvana plant of the Gorenje, d.d. company in the amount of SIT 2,153,796 thousand.

Another important item under other operating revenues is revenues from use of provisions. SIT 168,124 thousand were set up in Gorenje IPC for covering depreciation costs, SIT 46,551 thousand in Gorenje Spol for warranties and major repairs and SIT 36,601 thousand in Gorenje Split for warranties.

Note 2 – Other Operating Expenses**SIT 3,875,001 thousand**

	in SIT 000	
	2000	1999
Adjustments and write-offs of receivables	512,675	776,415
Adjustments and write-offs of inventories	315,518	80,846
Duties independent of the operating result	225,835	226,617
Other operating expenses	410,860	283,838
Difference between consolidated receivables and liabilities	0	22,313
Establishing of provisions	2,410,113	2,175,651
Total	3,875,001	3,565,680

Establishing of provisions is the major item included in other operating expenses. The major part of the amount was contributed by Gorenje, d.d., the parent company, which in 2000 set up SIT 1,706,530 thousand of additional provisions for major repairs. Gorenje Zagreb set up SIT 146,226 thousand of provisions for warranties and Hyundai Auto Zagreb set up SIT 106,157 thousand of provisions.

Adjustments and write-offs of receivables in the amount of SIT 96,376 thousand recorded by Gorenje, d.d. refer to receivables due from customers in Iran, Ukraine, Macedonia, Hungary and Russia. Adjustment of receivables recorded by Gorenje Beteiligungs amounted to SIT 70,012 thousand and referred to receivables from Yugoslavia and Bosnia and Herzegovina. The remaining adjustments of receivables were recorded by the companies Gorenje Vertriebs in the amount of SIT 56,993 thousand, Gorenje Commerce in the amount of SIT 48,082 thousand, Gorenje Zagreb in the amount of SIT 41,539 thousand, Gorenje Körting Italia in the amount of SIT 38,877 thousand and Gorenje Split in the amount of SIT 37,963 thousand.

A major part of adjustments and write-offs of inventories refers to SIT 273,387 thousand of un-saleable inventories of materials of Gorenje, d.d..

Note 3 – Extraordinary Revenues**SIT 1,957,329 thousand**

	in SIT 000	
	2000	1999
Release of provisions	344,654	70,470
Recovered bad debts	102,877	133,289
Profit on disposal of fixed assets	26,680	88,497
Other extraordinary revenues	1,483,118	341,771
Total	1,957,329	634,027

The major part of other extraordinary revenues in the amount of SIT 963,800 thousand refers to the loss recovered from the insurer on account of fire in the Galvana plant of the Gorenje, d.d. company.

SIT 162,766 thousand of provisions were released on account of major repairs and salaries in arrears in Gorenje, d.d. and SIT 148,292 thousand on account of warranties in Gorenje Zagreb

PNote 4 – Extraordinary Expenses**SIT 1,033,825 thousand**

in SIT 000

	2000	1999
Extraordinary expenses	1,033,825	393,635

SIT 922,292 thousand of extraordinary expenses derive from excluded fixed assets due to fire in the plant Galvana of the company Gorenje, d.d.

Note 5 – Tax on Profits**SIT 282,012 thousand**

in SIT 000

	2000	1999
Tax on profits	282,012	213,350

In 2000 tax on profits represented 9.3 per cent of the total profit while in 1999 it was 7.8 per cent.

A major share of tax on profits was recorded by companies operating abroad. Growth in the tax structure is a result of increased tax bases in companies operating in countries with higher tax rates than profits.

Note 6 – Tangible Fixed Assets**SIT 42,151,204 thousand**

in SIT 000

	2000	1999
<i>Land</i>	4,159,510	3,403,843
<i>Buildings</i>	15,490,087	12,781,532
<i>Plant and equipment</i>	16,990,874	11,828,580
<i>Tangible fixed assets under construction</i>	4,765,996	3,219,329
<i>Advances</i>	744,737	1,010,948
Total	42,151,204	32,244,232

Tangible fixed assets make up 41.2 per cent of the consolidated balance sheet total. In value terms, SIT 30,218,851 thousand refer to Gorenje, d.d., and represent 71.7 per cent of all tangible fixed assets.

Movements of Fixed Assets

Item	Net book value as at 31 Dec. 1999	Additions	Disposals	Effect of revaluation, exchange rate differences and transfers	Amortizacija	Depreciation value as at 31 Dec. 2000
<i>Intangible fixed assets</i>	1,072,714	228,208	10,305	288,762	304,422	1,274,957
<i>Tangible fixed assets</i>	32,244,232	13,748,781	1,382,382	2,758,760	5,218,187	42,151,204
<i>Long-term investments</i>	2,193,963	1,002,590	727,707	-702,935	509	1,765,402
Total fixed assets	35,510,909	14,979,579	2,120,394	2,344,587	5,523,118	45,191,563

In 2000 investments in tangible and intangible fixed assets amounted to a total of SIT 13,976,989 thousand, 46.1 per cent over the year 1999 figure.

The major increase in tangible fixed assets occurred in the buildings and equipment segment. Gorenje, d.d. contributed significantly with investments in the new factory of refrigerators and freezers and the new Galvana plant, manufacturing mechanical components. In the first half of the year the investments in warehouses in Prague and Sarajevo were completed.

Intangible fixed assets grew on account of investments in computer software and deferred organisation costs.

Note 7 – Long-term Investments

SIT 1,765,402 thousand

	in SIT 000	
	2000	1999
Shares and participating interests	1,270,140	922,484
Given long-term loans	394,612	1,188,256
Long-term deposits	100,650	83,223
Total	1,765,402	2,193,963

Gorenje, d.d. recorded SIT 602,442 thousand of acquired shares and participating interests, of which SIT 214,438 thousand representing shares in Gorenje Notranja oprama Velenje, SIT 114,378 thousand representing shares in banks and other financial organisations, SIT 37,649 thousand shares in associated companies and SIT 201,694 thousand other investments. A major part of investments amounting to SIT 637,420 thousand derives from the investment of the company Gorenje GTI in participating interest in the company Telemach.

Under given long-term loans SIT 206,623 thousand refer to Gorenje, d.d. and SIT 171,914 thousand to Gorenje Beteiligungs.

Note 8 – Inventories

SIT 21,507,453 thousand

	in SIT 000	
	2000	1999
Materials	7,535,128	5,569,408
Work in process	1,181,081	762,258
Products	9,842,259	7,901,624
Merchandise	2,625,012	2,495,493
Advances	323,973	248,619
Total	21,507,453	16,977,403

In 2000 total inventories increased by SIT 4,530,050 thousand or 26.7 per cent compared to the previous year.

Increase in inventories of materials of SIT 1,859,481 thousand was recorded by the company Gorenje, d.d. An important increase in inventories of products, amounting to SIT 843,120 thousand, was also recorded by the parent company.

Due to increased value of inventories, the intragroup profits of SIT 258,451 thousand, which were eliminated in the consolidation process, negatively affected the operating results for 2000.

Note 9 – Short-term Operating Receivables**SIT 28,077,221 thousand**

	in SIT 000	
	2000	1999
Short-term receivables due from customers	24,344,612	20,740,329
Short-term guarantee money	264,571	223,703
Other short-term receivables	2,438,329	2,533,791
Bills receivable	1,029,709	1,099,097
Total	28,077,221	24,596,920

Short-term operating receivables made up 27.4 per cent of consolidated total assets and were up by SIT 3,480,301 thousand from end of 1999.

The major item under short-term operating receivables relates to short-term receivables due from customers in the amount of SIT 24,344,612 thousand, an increase of SIT 3,604,283 thousand or 17.4 per cent compared to the end of 1999. The major amounts of short-term receivables due from customers were recorded by the following companies: Gorenje Split, Gorenje Zagreb, Gorenje, d.d., Gorenje Skandinavien, Gorenje France, Gorenje Czech Republic, Hyundai Auto Zagreb and Gorenje Slovakia.

A major amount under other short-term receivables refers to short-term receivables due on account of entry VAT, which in Gorenje, d.d. amounted to SIT 1,150,638 thousand at the end of 2000.

Note 10 – Deferred Costs and Accrued Revenues**SIT 375,268 thousand**

	in SIT 000	
	2000	1999
Short-term deferred costs and expenses	299,464	423,213
Accrued revenues	75,804	23,159
Total	375,268	446,372

Most of the deferred costs and accrued revenues consist of short-term deferred costs and expenses in the amount of SIT 299,464 thousand. Most of the amount was recorded by Hyundai Auto Zagreb on account of deferred costs related to the use of the brand name Hyundai.

Note 11 – Long-term Provisions**SIT 7,347,223 thousand**

	in SIT 000	
	2000	1999
Warranties	2,778,412	2,709,373
Opening up new markets	591,404	656,437
Major repairs	2,181,752	631,516
Other long-term provisions	1,795,655	1,456,411
Total	7,347,223	5,453,737

In 2000 long-term provisions were 34.7 per cent over the 1999 figure. They represented 7.2 per cent of total liabilities.

Provisions for warranties amounting to SIT 1,844,835 thousand refer to Gorenje d.d. Other significant amounts were recorded by the companies Gorenje Vertriebs, Gorenje Zagreb, Gorenje Skandinavien and Hyundai Auto Zagreb. Provisions for major repairs of SIT 2,153,933 thousand were recorded by Gorenje, d.d.

Other long-term provisions include provisions for termination payments, pensions, salaries in arrears, taxes and other. In terms of value the major part related to provisions for grants for fixed assets and disposed assets in the amount of SIT 966,325 thousand recorded by Gorenje I.P.C. and to provisions for termination payments in the amount of SIT 391,444 thousand.

Note 12 – Long-term Financial Liabilities

SIT 6,971,292 thousand

	in SIT 000	
	2000	1999
Long-term bank loans	5,631,678	3,517,787
Other long-term loans	1,339,614	535,442
Total	6,971,292	4,053,229

Long-term bank loans increased over the previous year by SIT 2,918,063 thousand, representing a 72 per cent growth, mostly due to investments in Gorenje d.d., which grew by SIT 2,489,696 thousand.

Note 13 – Short-term Financial Liabilities

SIT 17,170,861 thousand

	in SIT 000	
	2000	1999
Short-term bank loans	16,696,325	14,107,138
Other short-term loans	382,573	327,957
Short-term liabilities from interest payable	91,963	40,055
Total	17,170,861	14,475,150

Short-term bank loans in the Gorenje Group increased by SIT 2,589,187 thousand or 18.4 per cent compared to end of 1999: in Gorenje, d.d. by SIT 848,863 thousand, in Gorenje Beteiligungs by SIT 475,480 thousand, in Gorenje Vertriebs by SIT 458,629 thousand, in Gorenje Austria Handels by SIT 268,294 thousand and in Gorenje Polska by SIT 231,385 thousand.

Note 14 – Short-term Operating Liabilities

SIT 26,334,656 thousand

	in SIT 000	
	2000	1999
Suppliers	23,164,685	17,457,520
Interest payable	15,613	20,944
Employees	768,326	570,320
State	1,196,304	1,175,765
Other payables	1,189,728	1,367,077
Total	26,334,656	20,591,627

Short-term operating liabilities increased by SIT 5,707,165 thousand or 32.7 per cent compared to end of 1999. An important part of the increase refers to Gorenje, d.d. where liabilities to suppliers grew, compared to the year before, by SIT 4,896,123 thousand, of which SIT 2,302,940 thousand to suppliers in Slovenia and SIT 2,593,183 thousand to suppliers abroad.

Other payables included payables for advances, payables associated with issued bills and cheques and other short-term liabilities.

Note 15 – Accrued Costs and Deferred Revenues

SIT 1,692,127 thousand

	in SIT 000	
	2000	1999
Deferred revenues	302,454	210,255
Accrued costs and expenses	1,374,302	881,079
Other	15,371	129,996
Total	1,692,127	1,221,330

Accrued costs and expenses increased by SIT 493,223 thousand or 56 per cent compared to 1999. Gorenje, d.d. recorded an increase of SIT 351,347 thousand and reached SIT 507,000 thousand of accrued costs and expenses. Gorenje Vertriebs had SIT 266,460 thousand of accrued costs and expenses. Accrued costs and expenses were set up for accrued costs of unsolved complaints related to sales, accrued discounts and commissions and accrued litigation costs.

Deferred revenues refer mainly to revenues on account of default interest charged to customers.

14.6. Operations 1999 – 2000

<i>In SIT m or as indicated</i>	1999	2000	Difference (2000/1999)	Change (2000/1999)
From the Profit and Loss Account				
<i>Net sales revenues (consolidated)</i>	111,876	132,438	20,562	18%
<i>o household appliances</i>	94,997	110,968	15,971	17%
<i>o machine construction and tool&die making</i>	473	1,021	548	116%
<i>o furniture</i>	2,940	4,447	1,507	51%
<i>o services</i>	13,466	16,002	2,536	19%
<i>Added value</i>	28,735	34,074	5,339	19%
<i>Net profit</i>	2,517	2,736	219	9%
<i>Net profit per share-EPS (in SIT)</i>	206.3	224.3	18	9%
From the Balance Sheet				
<i>Total assets</i>	82,803	102,431	19,628	24 %
<i>Capital</i>	36,997	42,910	5,913	16%
<i>% in total liabilities and capital</i>	44.7%	41.9%		
<i>Net debt</i>	13,752	17,308	3,627	27%
<i>Net debt/Capital (Gearing in %)</i>	37.2%	40.3%		
Employees				
<i>Average number of employees</i>	6,646	7,189	543	8%
<i>Number of employees as at end of year</i>	6,691	7,386	695	10%
<i>Added value/average no. of employees(in SIT 000)</i>	4,324	4,740	416	10%
Investments				
<i>Investments in tangible and intangible fixed assets</i>	9,582	13,977	4,395	46%
Other ratios				
<i>Assets turnover ratio</i>	1.4	1.3		
Participation rate of current assets				
<i>(in %)</i>	57.1	55.9		
Participation rate of short-term				
<i>Liabilities and ACDR (in %)</i>	43.8	44.1		
<i>Long-term liabilities to long-term assets</i>	1.3	1.3		

<i>Net debt</i>	<i>Financial liabilities - (Cash + Short-term financial Investments)</i>
<i>Added value per employee</i>	<i>Gross operating yield - Costs of goods, materials and services - Other operating expenses (exclusive of depreciation, costs of provisions, current assets write-off and labour costs) / Average number of employees</i>
<i>Assets turnover ratio</i>	<i>Net sales revenues / Assets</i>
<i>Participation rate of current assets</i>	<i>(Current assets / Assets) * 100</i>
<i>Participation rate of short-term liabilities and ACRD</i>	<i>(Short-term financial liabilities + Short-term operating liabilities + Accrued costs and deferred revenues) / (Liabilities) * 100</i>
<i>Long-term liabilities to long-term assets</i>	<i>(Capital + Long-term provisions + Long-term liabilities) / (Long-term assets)</i>

Note: to calculate the ratios, data from the balance sheet as at year end have been used.

15. Financial statements prepared according to International Accounting Atandards (IAS)

15.1 Auditors' Opinion

OPINJA

Audit opinion

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

We have audited the accompanying consolidated balance sheet of Gorenje d.d. and its subsidiaries (the "Group") as of 31 December 2000 and the related consolidated statement of income for the year then ended. These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2000, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards as promulgated by the International Accounting Standards Committee.

KPMG SLOVENIJA d.o.o.,
 management, consulting in revizija, Ljubljana

Vera Menard, B.Sc.Ec.
 Partner and Certified Auditor

Vera Menard

Marjan Mahnič, B.Sc.Lic.
 Managing Partner and Certified Auditor

Marjan Mahnič

Ljubljana, 25 April 2001

KPMG Slovenija d.o.o.
 LJUBLJANA

15.2. Consolidated Profit and Loss Account of the Gorenje Group According to IAS

	<i>In SIT m</i>	2000	1999
Net sales revenues		132,437.9	111,683.1
Value of capitalised own products or services		266.2	639.6
Change in the value of inventories		1,247.9	923.9
Other operating revenues		5,113.0	2,389.0
Costs of goods, materials and services		102,566.2	85,893.1
Labour costs		21,523.6	17,680.0
Depreciation		5,084.4	4,651.3
Other operating expenses		2,647.0	2,550.1
Net financing costs		902.4	-83.8
Revenues from participation in profit		255.2	142.6
Provisions		2,700.1	1,825.1
Profit before taxation		3,896.5	3,262.4
Tax on profits		785.1	569.7
Profit after taxation		3,111.4	2,692.7
Extraordinary items			
Net profit for the financial year		3,111.4	2,692.7
Minority interests		64.5	-2.9
Majority interests		3,046.9	2,695.6

15.3. Consolidated Balance Sheet of the Gorenje Group as at 31 December According to IAS

	<i>In SIT m</i>	2000	1999
ASSETS		98,983.5	80,705.3
<i>Intangible fixed assets</i>		673.0	493.3
<i>Tangible fixed assets</i>		38,544.1	29,746.2
<i>Other long-term investments</i>		2,027.9	2,583.1
<i>Long-term receivables</i>		108.7	120.4
Total fixed assets		41,353.7	32,943.0
<i>Inventories</i>		21,643.5	17,022.4
<i>Receivables due from customers</i>		25,403.7	21,754.2
<i>Short-term investments</i>		4,646.4	2,464.2
<i>Cash and cash equivalents</i>		2,113.0	2,292.6
<i>Other receivables and other assets</i>		3,772.6	4,199.4
<i>Deferred tax</i>		50.6	29.5
Total short-term assets		57,629.8	47,762.3
CAPITAL AND LIABILITIES		98,983.5	80,705.3
<i>Shares</i>		12,200.0	12,200.0
<i>Reserves</i>		21,325.5	19,340.0
<i>Retained net profit</i>		6,112.3	4,422.2
<i>Minority interest</i>		368.3	305.2
Total equity capital and reserves		40,006.1	36,267.4
<i>Long-term loans</i>		6,773.0	4,053.2
<i>Other long-term liabilities</i>		4.9	10.4
<i>Deferred revenues</i>		211.4	210.2
<i>Provisions</i>		6,061.1	3,827.6
<i>Deferred tax</i>		1,078.2	515.1
Total long-term liabilities		14,128.6	8,616.5
<i>Payables to suppliers</i>		23,189.7	17,383.6
<i>Short-term loans</i>		17,170.9	14,475.2
<i>Other short-term liabilities</i>		3,435.1	3,373.2
<i>Accrued costs</i>		1,053.1	589.4
Total short-term liabilities		44,848.8	35,821.4

15.4. Notes to the Financial Statements

The companies of the Gorenje Group started compiling their consolidated financial statements according to International Accounting Standards (IAS) in 1999 and formally introduced them in the year 2000. IAS have been introduced to ensure comparability of companies operating in various foreign countries and application of uniform accounting standards within the Group.

The financial statements for 1999 and 2000 have been prepared in accordance with International Accounting Standards, adopted by the International Accounting Standards Committee and pursuant to clarifications issued by the advisory board of the Committee. They are based on bookkeeping records, which the companies keep in accordance with national accounting standards and in compliance with legal regulations governing accounting.

The consolidated financial statements of the Gorenje Group include the financial statements of the parent company Gorenje, d.d., and of 32 subsidiary companies. Financial statements of the company Goretrade, operating in Yugoslavia, have not been included in consolidation on the basis of provisions of IAS 27, Article 13, Section b.

In terms of contents the following adjustments to International Accounting Standards should be mentioned:

Revaluation Result

The financial statements have been prepared in accordance with the historical cost approach without taking into account revaluation effects stipulated by IAS 15.

In adjusting to IAS and to the provisions from the preceding paragraph, revaluation effects have been eliminated from all items on the assets and liabilities sides of the balance sheet. As a result, due to eliminated revaluation deficit, shown in the financial statements prepared in accordance with Slovene Accounting Standards (SAS), the consolidated net profit for the current year is higher.

Long-term Provisions

In setting up long-term provisions, the IAS 37 was applied. On this basis provisions, set up for major repairs and for opening up new markets, have been eliminated. Elimination of provisions as at 1 January 1999 has resulted in increased profit from previous years, while in order to set up provisions in current years the profits for current years have been increased.

Further to the above elimination, in 2000 additional long-term provisions have been established, also according to IAS 37, Article 70, Section d, for contingent liabilities arising from reorganisation of information systems

Tax on Profits

In accordance with IAS 12, recalculated tax on profits is shown under deferred liability or receivables for taxes. Adjustments of individual items of financial statements to IAS have affected profit before taxation and consequently the tax basis. Therefore another calculation for tax purposes had to be made for the difference between profits in accordance with SAS and IAS.

16. Brief outline of the companies within the Gorenje Group**Gorenje, gospodinjski aparati, d.d.**

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