gorenjegroup

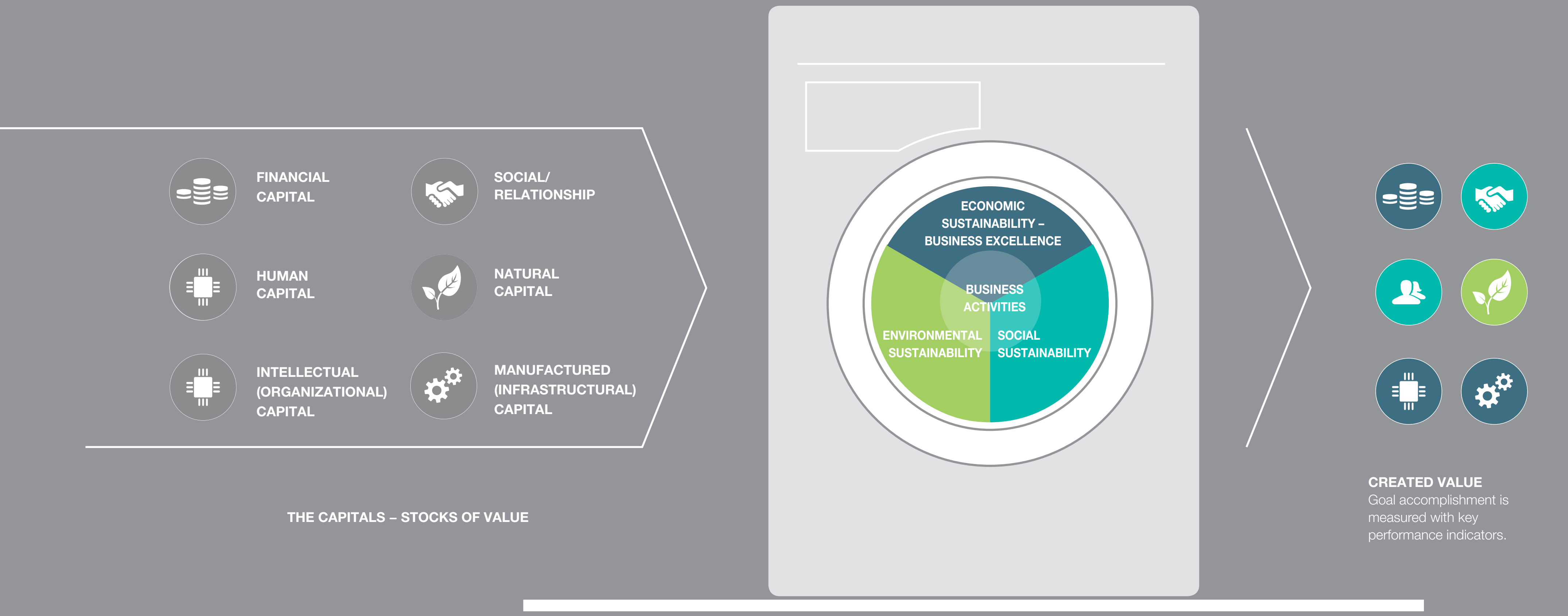
ANNUAL REPORT GORENJE GROUP 2017

Contents

GORENJE GROUP IS CREATING VALUE FOR ITS STAKEHOLDERS IN THE SHORT, MEDIUM, AND LONG RUN.

With the processes and activities aimed at economic sustainability – business excellence, environmental sustainability, and social sustainability, we efficiently use and advance our resources. These include six capitals that we employ to create and increase value for the Gorenje Group and our key stakeholders.

The Annual Report is compiled in compliance with the GRI (Global Reporting Initiative) Guidelines, version G4, and it is consistent with the select guiding principles and content elements of integrated reporting, pursuant to the fundamental concepts developed by the International Integrated Reporting Council (IIRC).



THE CAPITALS – STOCKS OF VALUE

CREATED VALUE
Goal accomplishment is measured with key performance indicators.

PROCESSES AND ACTIVITIES
aimed at economic sustainability - business excellence, environmental sustainability, and social sustainability.

1 Gorenje Group

1.1 2017 Performance Highlights

Sales revenue: EUR 1.31 billion This is **4.1%** more than in 2016, and consistent with the Gorenje Group sales plans.

We have increased the **sales of premium brands Asko and Atag, and the share of innovative appliances** in our total sales.

We are focused on our core activity of **Domestic Appliances** (82.6% of total sales revenue, or 3 p.p. less than in 2016 due to steep growth of sales in Other Businesses).

Sales revenue in our core activity – Domestic Appliances: EUR 1.082 billion, which is **0.4% more** than in 2016.

Our **net profit amounts to EUR 1.3 million.**

EBITDA: EUR 76.4 million.
EBITDA EBITDA margin: 5.7%
EBIT: EUR 21.7 million.
EBIT margin: 1.6%

Gorenje Group's **relative debt increased in 2017.** Our **net financial liabilities/EBITDA ratio** in comparable terms has worsened, from 3.9 in 2016 to 4.7 in 2017. On the other hand, we cut the share of net working capital in sales revenue by 0.6 percentage point.

At the IFA tradeshow in Berlin, we unveiled our virtual assistant Anna, smart induction hob Gorenje IQ, upgraded designer line of major and small domestic appliances Ora-Ïto, the next generation of the WaveActive washing machines, and we chose the new colour for the popular Gorenje Retro refrigerator.

Investment into new appliance development was stepped up to EUR 33.3 million, which accounts for **2.5 percent of total Gorenje Group revenue. We also increased our marketing and sales promotion investments to 2.2%** of Gorenje Group's total sales revenue.

Environment protection policy: Intensive adjustment to the requirements of the new ISO 14001:2015 standard. **Reduction in the amount of waste,** hazardous (-92%) and disposed (-99.6%), relative to the base year 1997.

Decrease in the use of resources, energy and fuels in manufacturing processes, especially water (-83.6%), compressed air (-28.3%) and natural gas (-44.7%). Increase in power consumption (+6.6%) (all data relative to the base year 1997).

Carbon footprint: 10.93 kg CO_2/product (10.94 kg CO_2/product in 2016).

Average number of employees: 11,039, of which 6,643 in Slovenia.

Employee training and education: 70.2% employees involved for **203,704 total hours** of training and education (19 hours per employee).

Key topics in training and education: Development of innovativeness and leadership and coaching skills for leaders; improving communication skills, public appearance skills, negotiations, and teamwork.

Corporate University of Gorenje: 24 participants of the **26th generation of the Management Academy of Gorenje** completed their training with a presentation of their business plans Graduation of the **second generation of academy for new product development (GCA – Gorenje Create Academy)** with 23 participants, and the third **International Business Academy (IBAG)** that included 21 talented employees working in an international environment Annual conference **Driving Growth Through Innovation organized as a part of the Executive Business Academy of Gorenje (EBAG)** Programs within the **Digital Business Academy of Gorenje (DBAG),** which included more than 400 employees from across the globe. 63 participants from 10 countries tackled the challenges of the digital future at the **1st international Gorenje Hackathon.**

1.2 Key events in 2017

01

JANUARY

Listing of GRV05 commercial paper of the company Gorenje d. d. for trading on regulated market

The company Gorenje d.d. successfully completed the issue of commercial paper. Commercial paper with the codes GRV05 bear an interest rate of 1.3 percent, and the total nominal value of the issue is EUR 40 million. The purpose of the commercial paper issue is to diversify the short-term financing sources, financing of operations with a pronounced seasonal dynamic, and optimization of financing costs.

02

FEBRUARY

Gorenje, a proud sponsor of the Slovenian Nordic Ski Team for the past 25 years

In 2017, Gorenje celebrated a quarter century of partnership with the Slovenian Nordic Ski Teams – ski jumpers, cross-country skiers, and the Nordic combined team. Years of general sponsorship have turned into an inspiring and honest friendship. With persistent support through all these years, we made it possible for Slovenian ski jumping and cross-country skiing to be at the very top in the world today. To commemorate 25 years of our cooperation with the Nordic Ski Team, Gorenje prepared a travelling exhibition and many promotional activities. Moreover, we invited the buyers of our products to the grand finale of the ski jumping season in Planica.

03

MARCH

Asko unveils its new line Pro Home Laundry in Stockholm

Asko, Gorenje Group's premium brand specializing in high-quality kitchen and laundry care appliances, announced in Stockholm, Sweden, the launch of a new line of Asko Pro Home Laundry products.

Gorenje donates a cooking hob adapted for blind and visually impaired persons to the Iris Centre

We donated a cooking hob from of our premium brand Atag, with a specially adapted silicone cover for safe use by blind and visually impaired persons, to the students at the Slovenian Iris – Centre for Education, Recovery, Inclusion, and Counselling for the Blind and Visually Impaired Persons.

APRIL

Gorenje Group wins 4 new Red Dot awards for superior design

In tough competition with over 5,500 product entries from across the globe, four Gorenje Group products – two under the Gorenje brand and two under the premium brand Asko – won this year's Red dot award. Thus, Gorenje Group won the international Red Dot »seal of quality« for the 18th consecutive year.

04

06

JUNE

Gorenje is becoming one of largest partners of European handball

By signing the sponsorship agreement for three competitive seasons of the VELUX EHF Champions League and sponsorship agreement for the EHF EURO 2018 and 2020, we are becoming one of the largest partners of European handball. Sponsorship of top-tier handball competition on a global scale further improves the recognition of the Gorenje brand across the world, and supports the pursuit of the strategy of Gorenje Group's global growth.

Gorenje and its co-owners divest the environmental research company ERICo

Eurofins Scientific, a leading global corporation in environmental testing, signed with the owners of the company ERICo (Gorenje Group, Šoštanj coal power plant, and Velenje Coal Mine) and sale and purchase agreement for the acquisition of this leading independent environmental testing laboratory in Slovenia.

05

MAY

Gorenje a part of the European summit of electrical appliance manufacturers and distributors

As a leading European home appliance manufacturer, Gorenje Group took part in this year's European Technical Consumer Goods Summit, an international forum of technical consumer goods dealers that brings together the world's key dealers and manufacturers of domestic appliances, consumer electronics, and telecommunication and IT equipment.

Fire at the company Kemis

A fire broke out at the industrial facility of Gorenje's subsidiary Kemis in Vrhnika, Slovenia, which also included a hazardous waste warehouse. The fire destroyed a part of the office building and a warehouse with less hazardous solid and liquid waste. After examination of all factors regarding this event, we shall adopt a decision on the future strategic and business policies of the company Kemis.

Gorenje Group is the first Slovenian company to introduce a case of practical use of the HoloLens technology

At the NT Conference in Portorož, Slovenia, organized by Microsoft, Gorenje representatives presented the Gorenje Group digital strategy and a case of using the HoloLens technology in the development of new products and appliance features.

JULY

Corporate University of Gorenje – established to promote innovation

In its UBC (University-Business Cooperation in Europe) project, the European Commission recognized the Corporate University of Gorenje as a case of sound practice that promotes corporate growth and development.

07

09

SEPTEMBER

At the IFA 2017 tradeshow, Gorenje Group presents new developments for more connected and simplified life.

At the IFA tradeshow in Berlin – Europe's largest home appliance and consumer electronics tradeshow – Gorenje Group presented the latest achievements of its global Gorenje and Asko brands, and offered a glimpse of the future that belongs to smart connectible appliances and interactive technologies. With our products and services, which include our virtual assistant Anna, presented for the first time at the IFA, Gorenje Group proves that the needs and wishes of the users rank just as high among our priorities as design and technology.oblikovanje in tehnologijo

Gorenje's SmartFlex dishwashers win gold award for the best Slovenian innovation

In 2017, Gorenje's innovators won another gold national award of the Slovenian Chamber of Commerce and Industry for the most innovative enterprises and innovators, with their new generation of Gorenje SmartFlex dishwashers.

08

AUGUST

Gorenje and Peter Prevc donate school supplies to children in need

Teaming up with Peter Prevc (the 2016 World Cup Ski Jumping champion), we made the back-to-school experience easier and more pleasant for 1,000 children in need: Gorenje and Peter Prevc presented to the Friends of the Youth Association (ZPM) Ljubljana Moste-Polje, Slovenia 3,000 notebooks and 1,000 sets of coloured pencils.

OCTOBER

Gorenje Group's Atag supplies connectible appliances to equip 44 smart homes.

The largest Dutch real estate investment manager Syntrus Achmea selected the company Atag, a subsidiary of the Gorenje Group, to equip 44 luxury smart apartments with Atag's smart kitchen appliances Connect Life. Thus, Gorenje Group entered the market segment of connectible smart appliances, and Atag's experience will later be used as a platform for connectible appliances for the entire Group.

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NOVEMBER

Gorenje actively examines the possibilities for strategic partnerships

Based on a preliminary analysis of trends in the household appliances industry and related potential strategic alliance opportunities, prepared by Rothschild & Co, the Management Board, after informing the Supervisory Board in this respect, decided to start to actively search for a suitable strategic partner who would support Gorenje Group's long-term and sustainable growth and development, which could also lead to a participation of the selected strategic partner in Gorenje's share capital.

Excellent ideas at the first Gorenje Group Hackathon

The Corporate University of Gorenje teamed up with the companies CorpoHub and Microsoft Slovenia to organize a Hackathon at which 63 participants from 10 countries looked to develop solutions for the business challenges of the digital future. Hackathon is among the activities we conduct as a part of the Gorenje Group digital strategy.

Gorenje gets its postage stamp

Pošta Slovenije (the Slovenian postal service) issued a special-edition postage stamp from the Slovenian Industrial Design series, depicting the Gorenje Simple & Logical washing machine. The revolutionary product – the first touch-controlled home appliance – was a global innovation. For Gorenje, it meant the start of a user-centric design approach that emphasized simplicity of use and which Gorenje continues to pursue under the slogan Life Simplified.

DECEMBER

Convocation of a Shareholders Assembly

Based on a request by the shareholders Home Products Europe of Netherlands, Raiffeisenbank Austria Zagreb, and Splitska banka, both of Croatia, and Unicredit Bank Hungary ZRT, of Hungary, the Management Board convened for January 9, 2018, the 25th Shareholders Assembly of the company Gorenje d.d.

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1.3 President and CEO's Report

Innovative and premium appliances generate nearly a third of our sales

Dear shareholders,

In the second year of executing our 2016–2020 Strategic Plan, we were off to a good start and we were even ahead of the budget at the half-year mark in the key categories of the annual plan. However, the third quarter fell well short of our expectations and we issued a warning in November that we most likely would not fully accomplish all our goals for 2017. At the end of the year, Gorenje Group revenue amounted to EUR 1.31 billion, which is 4.1 percent more than in 2016 and consistently with the budgeted sales. Contributing the most to such revenue growth were sales in the markets of Russia, Ukraine, the Netherlands, the Middle and Far East, the USA and Australia. Operating profit reached EUR 21.7 million, and the Group's bottom line for the year was net profit of EUR 1.3 million.

We continued to grow in Eastern Europe and non-European markets, but our sales were down significantly in our largest market, i.e. Germany where we changed our business model and sought to boost our sales of built-in and premium appliances, and sales through specialized retail chains that are better suited for sales of innovative appliances. This resulted in major fluctuation of sales in Germany in the transitory period, which had an immediate impact on our performance.

There was also a considerable surge in the global prices of sheet metal and plastic granulate, which are key raw materials for our production. In addition, labour costs were also somewhat higher, especially on account on the increase of the number of employees in a period of high order volume.

We responded swiftly and we are conducting sales promotion activities in the markets; we are looking to improve cost efficiency and process productivity in all areas; and we are looking to improve working capital turnover with intensified supply chain financing. At the same time, we are also cutting our inventories and complexity.

We are striving for continuous creation of value for our stakeholders. In doing so, however, we do not focus only on the short-term, but rather also on the medium- and long-term goals.

New generations of appliances are the foundation for solid sales

In the second half of the year, we launched mass production of new generations of free-standing cookers, premium dishwashers, washing machines and dryers, thus updating our offer of appliances in the majority of categories for all Gorenje Group brands. Thus, we are completing a few-year cycle of higher investments that exceeded depreciation and amortization.

A suitable product assortment that is a precondition for boosting the sales of innovative products and premium brands that are more profitable, and for stepping up our sales beyond Europe, which alleviates our reliance on the mature European markets.

Structural changes driving our growth

It is our strategic policy to boost sales of innovative products and premium brands which today already for nearly 30 percent of total Gorenje Group sales, and of course bring in considerably more earnings. We are focused heavily on markets beyond Europe, which is also where our growth was the steepest last year, and which already account for over 11.5 percent of Gorenje's total sales. The most important markets in this segment are Australia, USA, China, and countries of the Middle East.

We wish to ensure Gorenje Group's long-term development

The trends of globalization and consolidation which have been the hallmarks of the white goods industry in recent years have compelled us to actively seek opportunities for strategic business combination. Gorenje remains one of the few companies in the industry, which is not yet a part of one of the large multinational corporations. Our products have found their way to the homes of end users across the globe while competing with the giants in the industry. Although we could last for a few more years on our own, we believe that laying the foundations of Gorenje's long-term competitive edge, further development, and hiring is the responsible thing to do.

The goal of our combination with strategic partners is to boost sales volume, as economies of scale play an important role in managing the costs and the resulting long-term competitiveness in our industry. If we make more appliances, we can, for example, negotiate much better prices and payment terms with our suppliers. Similar logic applies to development that today focuses on digitalization and connectible appliances as a part of a smart home. A suitable strategic partnership would not only allow us to accelerate our product innovations, but also afford access to key distribution channels and help us strengthen the power of our brand.

We have a solid foundation for sales growth

Today, Gorenje Group can take pride in a very solid market position in Central and Eastern Europe and the former Soviet Union countries, suitable factory locations in Slovenia, Serbia and the Czech Republic, powerful development at our competence centres in Slovenia, Sweden, the Netherlands, and the Czech Republic, a comprehensive range of major and small domestic appliances, and of course highly skilled and experienced employees.

We are successfully developing the status of a niche manufacturer of premium and innovative appliances and designer lines that set the trends in the industry. On the other hand, economies of scale are highly important for cost management and the resulting long-term competitiveness.

By focusing on the core activity of home appliances, and gradually divesting companies from non-core activities, we shall continue to deleverage. Constant decrease of working capital, and of course increase in profitability, also remain an important source for cutting our debt – and a key goal for us in the future.

Dear shareholders,

Gorenje Group's long-term development will be driven by developing and strengthening of our key competence and development abilities and our international competitive edge. We will continue to think in a comprehensive and integrated manner, and care for sustainable creation of value for our key stakeholders.

Franjo Bobinac
PRESIDENT AND CEO

1.4 Supervisory Board Chairman's Report

Supervisory Board chairman's report on the audit of the Annual Report of the company Gorenje d.d. and the Gorenje Group for the year 2017

Introduction

Within the powers and responsibilities set forth in the relevant legislation, company Articles of Association, Rules of Procedure, and Code of Conduct, the Supervisory Board supervised in 2017 the operations of the company Gorenje d.d. and the Gorenje Group, as well as performed other tasks and duties. The Board received regular reports on the company's operations, performance, and key activities, and adopted relevant resolutions, monitored their implementation, and found that the Management Board implemented all resolutions adopted by the Supervisory Board.

General information

Since the approval of the 2016 Annual Report, the Supervisory Board has held ten sessions, of which six were regular meetings and four were correspondence sessions.

The company Supervisory Board consists of eleven members of which seven represent shareholder interests and four are employee representatives.

Shareholder representatives:

- Marko Voljč, chairman,
- Bernard C. Pasquier, deputy chairman,
- Uroš Slavinec, deputy chairman,
- Bachtiar Djalil,
- Corinna Claudia Graf,
- Toshibumi Tanimoto (Supervisory Board member until April 21, 2017),
- Miha Košak,
- Karlo Kardov (Supervisory Board member since July 14, 2017).

Employee representatives:

- Krešimir Martinjak, deputy chairman,
- Peter Kobal,
- Drago Krenker,
- Jurij Slemenik.

Supervisory Board members are appointed for a term of four years, alternate members have been appointed for a shorter term, and their current term expires on July 20, 2018.

Supervisory Board Activities

Monitoring various aspects of operations and performance

The Supervisory Board received regular reports on a number of aspects of operations and performance. In addition to the periodic quarterly business reports, the Management Board informed the Supervisory Board on a monthly basis about the key activities and business events, sales conditions in the markets, changes in raw and processed material prices, and management of all types of risk. The Management Board responded to all Supervisory Board questions or inquiries in reasonable time. Thus, the Supervisory Board was kept up to date with the most important activities at the Group, which in turn allowed it to perform the function assigned by the shareholders and the employees in the best way possible. The Supervisory Board monitored in detail the company operations and performance, and execution of the Gorenje Group 2016–2020 Strategic Plan; sadly, the trend from 2016 of being on track with the strategic plan did not continue in 2017.

Changes in the Gorenje Group organization

The Supervisory Board was presented the new Gorenje Group business organization introduced as of February 1, 2017, and approved the change in Management Board areas of responsibility, consistently with the new organization. Moreover, the Supervisory Board was regularly informed about the status of implementation of the new Gorenje Group organization in the year 2017.

Approving our business plans

In January 2018, we approved the Business Plan of the company Gorenje d.d. and the Gorenje Group for the year 2018. In 2018, Gorenje Group is planning further growth of sales revenue and net profit. The Group's sales revenue is budgeted at EUR 1.328 billion, which is 1.4 percent more than in 2017, despite the planned divestment in the Other Business (non-core) segment. Sales revenue in the core activity of Domestic Appliances shall amount to EUR 1,188.7 million in 2018, which is 9.9 percent more than in 2017. Budgeted gross profit in this segment exceeds the figure estimated for 2017 by 6.6 percent. Net profit for the

2018 fiscal year is planned at EUR 8.1 million. The Group is planning a considerable decrease of net financial liabilities, largely on account of planned divestments of non-core businesses and assets (Other Business), alignment of investment with depreciation and amortization, working capital optimization, and positive cash flow from operating activities. To support the improvement of profitability, the Group shall ensure adequate investment into marketing and development, and improve cost efficiency regarding raw and processed materials, logistics, and labour.

Based on the activities presented in detail in all fields of operation, both in terms of revenue and expenses, we found that the Business Plan as presented by the Management Board was realistic and we approved it.

Supervisory Board self-assessment – an important indicator of the Supervisory Board's work

With assistance from the Supervisory Board secretary, the Supervisory Board conducted its self-assessment using the questionnaire from the Slovenian Director's Association. Based on the analysis, the Supervisory Board is devoted to the measures in the fields with the lowest scores. As early as at the next session, we have launched the activities to improve the work of the Supervisory Board, making it even more effective.

Appointment of the President and CEO for the next term of office

The Supervisory Board invited the current President and CEO Franjo Bobinac to head the Management Board in the next five-year term of office. Bobinac consented to being in charge of the Management Board in the next term of office, and thus he was appointed the Gorenje d.d. President and CEO for the term of office from July 20, 2018, to July 20, 2023. At the same time, the Supervisory Board extended to him the mandate to propose future Management Board members and their respective areas of responsibility, and submit such proposal to the Supervisory Board for discussion and approval.

Changes in the Management Board personnel

In late February 2017, we approved the consensual termination of the term of office of the CFO (Management Board member in charge of corporate finance and the business area of ecology, trade, and industrial services) Peter Groznik. Until the appointment of a new Management Board member, this area was managed by Jožica Turk, executive vice president of corporate finance. At the Supervisory Board session held on April 201, 2017, Žiga Debeljak was appointed Management Board member in charge of the business area of ecology, trade, and industrial services, and corporate finance (the CFO), for the period from May 1, 2017, to July 19, 2018. As of May 23, 2017, Management Board member Žiga Debeljak has also been in charge of IT and telecommunications, and organization and processes.

Other issues addressed by the Supervisory Board

The Supervisory Board approved the 2017 Internal Audit annual plan, and examined the new Slovenian Corporate Governance Code for Listed Companies, regulations on competition protection, report by the Gorenje d.d. Works Council for 2016, information about the fire at the company Kemis d.o.o., and other major topics concerning further development of the Gorenje Group operations.

The Supervisory Board was also informed about the current strategic challenges faced by the Gorenje Group, and about the Group's intent to start systematically examining the opportunities for strategic partnerships, consistently with the currently relevant strategic policies and activities for finding a suitable strategic partner who would support the Group in its long-term and sustainable growth and development. These activities could result in such potential strategic partners acquiring an interest in the company equity.

Pursuant to the provisions of the Companies Act (ZGD-1), we approved the contents and the signing of an agreement with an independent auditor, for the audit of the parent company and our subsidiaries.

Supervisory Board committees

Supervisory Board committees are an inseparable part of the Supervisory Board, performing important functions. Specific issues were first discussed by committees. Based on their findings and judgement, the Supervisory Board adopted relevant measures. Observing the relevant legislation, and to maintain the sound practice of Supervisory Board committees, the Supervisory Board approved the topics or issues to be addressed by its respective committees.

Audit Committee

Until the August session, the Audit Committee included the following four members: Bachtiar Djalil as chairman, and members Drago Krenker, Miha Košak, and Aleksander Igličar, as the external independent member of the Audit Committee. As of August 24, 2017, when Karlo Kardov was appointed a Committee member, the Audit Committee consists of five members.

The Audit Committee operated consistently with the relevant powers and authorizations specified by the effective legislation. The Audit Committee reviewed the compliance with the principle of prudence and consistency of reporting

Since the approval of the most recent Annual Report, the Audit Committee has held seven sessions. In addition to reviewing the periodic or interim reports, the Committee regularly reviewed the periodic reports on the work of the Internal Audit, and other financial and accounting issues related to Gorenje Group's operations. The Committee proposed to the Supervisory Board a candidate for the company auditor for the 2017 fiscal year.

In addition to regular issues and topics, the Audit Committee also discussed the following:

- raw material purchasing procedure,
- sponsorship and donation agreements,
- competition protection,
- report on the IT audit with a third-party consultant,
- investment (capex),
- transfer pricing,
- succession plan for key employees in finance, accounting, and internal audit,
- report on the audit at the company Gorenje Commerce,
- ethics and compliance of operations, and the whistleblowing system,
- effects of the newly adopted International Financial Reporting Standards,
- repayment of the loan extended to the company Intersolar,
- selection of an external auditor to assess the performance of the company's Internal Audit,
- risk management system and the policies for managing the currency, interest rate, and credit risks,
- information security risks,
- review of implementation of recommendations from the auditor's management letters received to date.

Audit Committee members conducted self-assessment and, based on the results, adopted measures to improve their work where necessary.

Benchmark Committee

The Benchmark Committee consists of chairwoman Corinna Graf and members Bernard Pasquier, Peter Kobal, Miha Košak, and Karlo Kardov (member since August 24, 2017). Toshibumi Tanimoto was a committee member until April 21, 2017. Since the approval of the most recent Annual Report, the Benchmark Committee has held five sessions. It is the goal of the Committee to be informed about benchmarks against the competition in as many fields as possible. Results of analyses are the basis for improvement of operations and performance in virtually all aspects of business. The Comm d the benchmarks in the following fields:

- brands,
- business and operational excellence in production programs,
- small domestic appliances,
- market shares of the Gorenje Group and its competitors,
- price positioning,
- salaries and labour costs,
- development, purchasing, quality, and logistics,
- complexity, supply chain management, and cost efficiency,
- attainment of our strategic goals,
- trends in the industry,
- business organization,
- financial results,
- and benchmark of other fields against the best in the industry.

Remuneration Committee

The Remuneration Committee consists of chairman Bernard Pasquier and members Uroš Slavinec, Marko Voljč, Drago Krenker, Jurij Slemenik, Miha Košak, Karlo Kardov (member since August 24, 2017), and Corinna Graf (member since August 24, 2017).

Following the announcement of the resignation by the Supervisory Board member Toshibumi Tanimoto, the Supervisory Board authorized the Remuneration Committee to evaluate the candidates for the substitute Supervisory Board member. Based on the previously specified criteria, the Remuneration Committee evaluated the candidates and proposed Karlo Kardov as a candidate for the substitute Supervisory Board member. The Supervisory Board agreed with the proposal and proposed to the Shareholders Assembly to appoint Karlo Kardov as a Supervisory Board member; the Shareholders Assembly approved such proposal.

The Remuneration Committee evaluated the work of the Management Board in 2016, and proposed, consistently with the adopted Management Board Performance Criteria, to the Supervisory Board to pay out to the Management Board a performance bonus for the 2016 fiscal year in the amount of five salaries.

After a consensual termination of the term of office of Peter Groznik, CFO/Management Board member in charge of corporate finance and the business area of ecology, trade, and industrial services, the Remuneration Committee short-listed and evaluated the candidates for a new Management Board member and proposed to the Supervisory Board to appoint, upon proposal by the President and CEO, Žiga Debeljak as the CFO/Management Board member in charge of the business area of ecology, trade and industrial services, and corporate finance.

Nomination Committee

The Supervisory Board's term of office expires on July 20, 2018. Therefore, a new Supervisory Board Nomination Committee was appointed in December 2017, consisting of chairman Bernard Pasquier and members Marko Voljč, Miha Košak (all three are the Supervisory Board members), and external members Irena Prijović, Veit Walkner, Toshikazu Kudo, and Saša Žiković. The Nomination Committee short-listed and evaluate the candidates for the Supervisory Board members for the next term of office and proposed them to the Supervisory Board for approval.

Corporate Governance Committee

The Corporate Governance Committee consists of chairman Bernard Pasquier and members Marko Voljč, Peter Kobal, Krešimir Martinjak, and Bachtiar Djalil (member since August 24, 2017). The Corporate Governance Committee did not hold any sessions in 2017.

Annual Report review and approval

On February 28, 2018, the company Management Board presented to the Supervisory Board for adoption the audited Annual Report of Gorenje d.d. and the Gorenje Group for the year 2017. The Supervisory Board reviewed and discussed the Annual Report at the session held on March 8, 2018.

The Annual Report of the company Gorenje d.d. and the Gorenje Group for the year 2017 was audited by the auditing company Deloitte Revizija d.o.o. Members of the Deloitte network also audited the majority of Gorenje Group's material subsidiaries, as previously agreed upon with this auditing company. On February 26, 2018, the auditing company issued an unqualified opinion on the Annual Report of Gorenje d.d. and the consolidated Annual Report of the Gorenje Group for 2017.

Pursuant to the sound practice to date, the Audit Committee examined with due diligence before the Supervisory Board session the 2017 Annual Report, complete with Audit Report, additional Report and Management Letter, to propose amendments and put forth their positions and opinions, which were observed.

Based on these findings, the Supervisory Board approved at the session held on March 8, 2018, the Annual Report for the company Gorenje d.d. and the consolidated Gorenje Group Annual Report for the fiscal year 2017, as presented by the Management Board.

Distributable profit and proposal for its allocation

In the calculation of the distributable profit for the year 2017, the Management Board and Supervisory Board observed the effective provisions of the Companies Act and Gorenje's Articles of Association. Pursuant to the Companies Act and the Company Articles of Association, the Management Board decided to allocate a part of the Company net profit for the fiscal year 2017, amounting to a total of EUR 473,260.16, for statutory reserves in the amount of EUR 47,326.02. The Management Board proposed that the remainder of the net result for 2017, amounting to EUR 425,934.14, retained net profits from previous years in the amount of EUR 54,484,284.73, decreased by EUR 56,786.43 due to drawing of actuarial deficit for retirement benefits, and release of other reserves from profit in the amount of EUR 12,931,561.56, for the formation of distributable profit, since the long-term deferred development costs as at balance sheet date have to be recorded, pursuant to the Companies Act, as a debit item.

Distributable profit as at December 31, 2017, amounts to EUR 0.

The Supervisory Board proposes to the Shareholders Assembly to grant discharge from liability to the Management Board and Supervisory Board for their work in 2017.

The Supervisory Board compiled this report in compliance with the provisions of Article 282 of the Companies Act (ZGD-1); it is intended for the Shareholders Assembly.

Velenje, March 8, 2018

Marko Voljč
SUPERVISORY BOARD CHAIRMAN

1.5 Gorenje Group Profile

Corporate Profile

Design driven innovators.

IN 90 COUNTRIES WORLDWIDE

Gorenje Group is one of the leading home product manufacturers.

CORE BUSINESS
Major and small domestic appliances

Sales REVENUE (2017)
EUR **1.310** bilion

EMPLOYEES
11,039

EXPORT
95%

GLOBAL PRESENCE
in 90 countries worldwide, mostly in Europe (91%), also in USA, Australia, Middle and Far East

PRODUCTION FACILITIES FOR DOMESTIC APPLIANCES

62.8% Slovenia
Velenje

13.6% Czech Republic
Mariánské údolí

23.6% Serbia
Valjevo, Zaječar

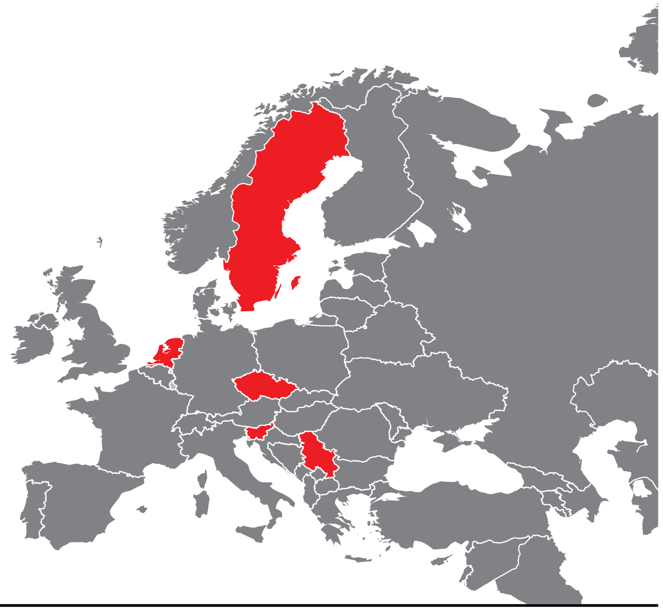
RESEARCH AND DEVELOPMENT COMPETENCE CENTRES

Slovenia
Velenje

Czech Republic
Mariánské údolí

Netherlands
Duiven

Sweden
Lidköping



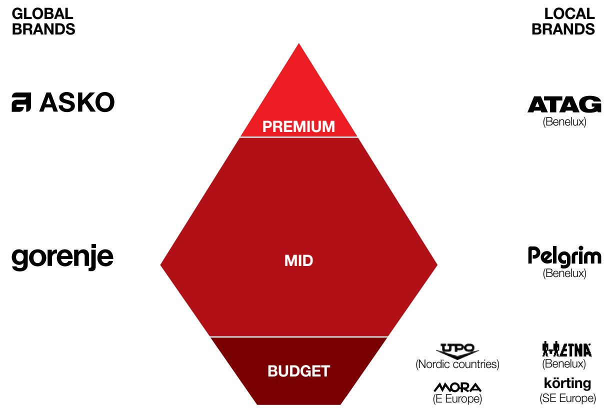
Brands

In over 90 countries across the globe, customers trust and rely on Gorenje Group's innovative products that deliver simplicity of use, sophisticated aesthetics, and excellent quality. Products designed in such way are a result of in-depth knowledge of trends, user habits and expectations, and the possibilities of modern technologies.

Digital transformation has become a key goal of business strategy at Gorenje Group as well. It means an even greater focus on the end users and their needs and experiences with use of products and related services, which add major value. Simultaneously, we are in the **process of building the Gorenje brand identity** with clearly defined added value and unique positioning.

Gorenje Group portfolio consists of:

- 2 global brands (Gorenje and Asko) and
- 6 local brands.



Gorenje Group History

1950 **Founded** in the village Gorenje

1958 **Manufacturing of stoves**

1960 **Production in Velenje begins**

1961 **First export** (to Western Germany)

1961–1970 Production of **washing machines and refrigerators**

1964 Production in Velenje, **New plant for cooking appliances**

1971 **First sales subsidiary** abroad (Munich)

1971–1980 **Acquisitions of companies** bringing synergies to the core business **"Everything for Home"**

Setting-up **own distribution network** in Western Europe

1991 **Slovenia becomes independent,** loss of the former domestic market

1991–1996 **Strong expansion** abroad

1998 Gorenje, d.d., becomes a **public company,** listing on the Ljubljana Stock Exchange

2005 **Acquisition** of the Chech cooking appliances manufacturer Mora Moravia

2006 **New refrigerator & freezer plant** in Valjevo, Serbia

2008 **Acquisition** of the company Atag, the Netherlands

2010 **Acquisition** of the company Asko, Sweden

2010 **IFC,** a member of the World Bank, **enters the ownership structure**

2012 **Restructuring** of production facilities and sales organization begins, disposal of furniture manufacturing business

2013 **Strategic Alliance** with Panasonic **Listing on WSE**

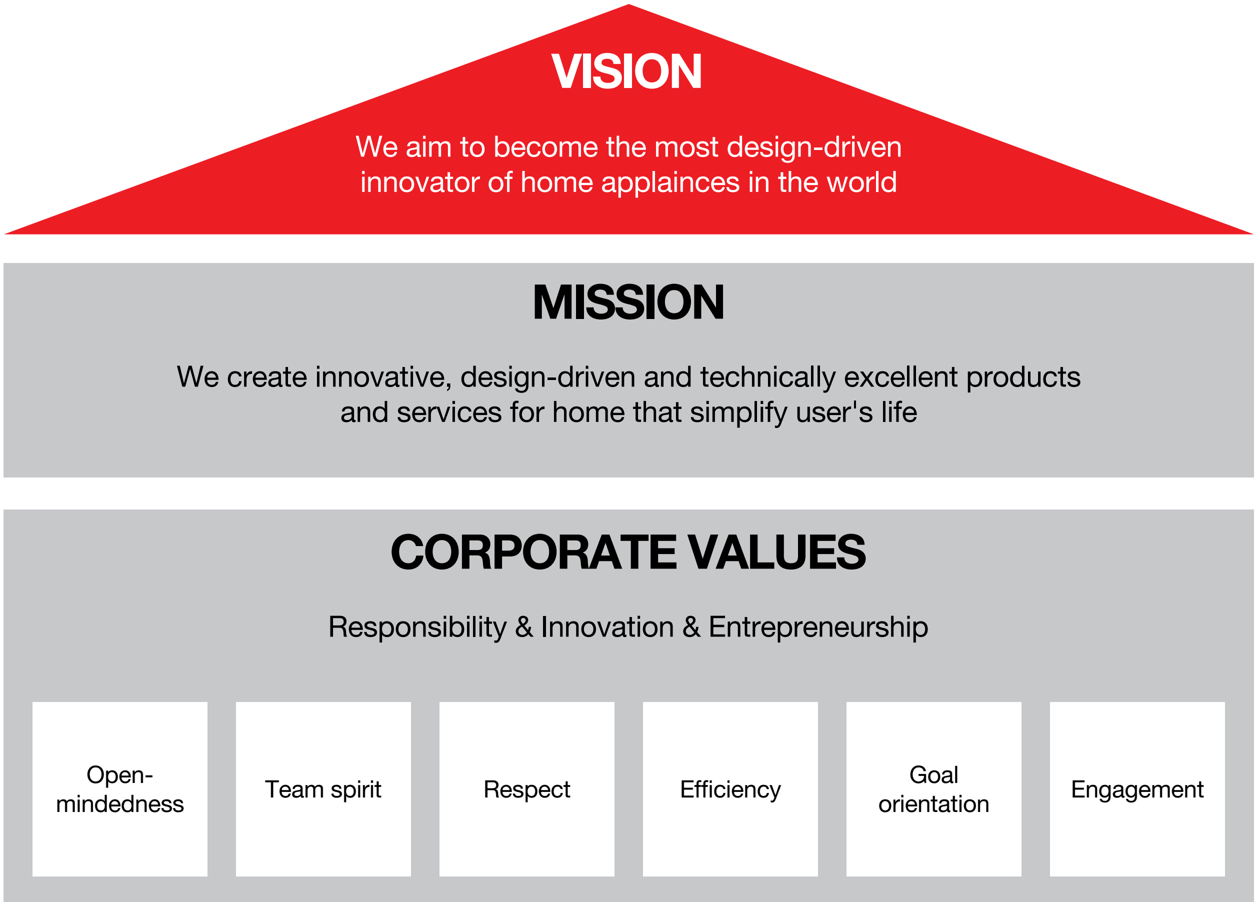
2014 **Positive effects of restructuring**

2015–2016 **The beginning of new 2016-2020 Strategy execution: key objectives accomplished**

Vision, mission, values

Vision is the fundamental orientation of our operation. It is the inspiration leading us to the accomplishment of **ambitiously set goals.** The basic elements of our vision are **innovation and design** in which we have strong competencies. They are the source of our key competitive advantages.

We are pursuing our vision and fulfilling our mission with integrated approach and implementation of integrated reporting on the creation of value at the Gorenje Group for our stakeholders in the short, medium, and long run.



Business model

To create value for our stakeholders, we employ six capitals: financial, human, intellectual, social, natural, and manufactured capital. By **conducting our business activities, and consistently with our business model, our capitals are accumulating.** We carefully **measure the success of our efforts in this respect.** We employ an integrated approach when considering the results of our operations, and we are implementing **integrated reporting on value creation.**

Gorenje Group's business model is based on business excellence. It is interwoven with our corporate culture reflected in our values, rules, and conduct.

Our fundamental mission is sustainable creation of value for the shareholders, employees, customers, and other key stakeholders, in the short, medium, and long run.

In pursuit of our mission, we pursue our **strategic policies.** We are focused on the core activity of home products where our distinctiveness is based on design-driven innovation: aesthetics, ergonomics, and user-friendly controls.

Growth will mainly be generated in markets beyond Europe. We shall enter **strategic partnerships** in order to reap the synergies; we shall use our competitive advantages and create positive effects for all Gorenje Group stakeholders.

We are aware that **employees** with a wealth of knowledge and experience in the home appliance industry and strong competencies in research and development are our major asset. By managing our own production capacities, we control an important link in our value chain. For over 50 years, we have been expanding our sales network across the world and closely following the trends of the global economy.

Based on our **competencies,** our competitive advantages rely on our superiorly designed products in all home appliance product categories, and the smart portfolio of brands and products across a varied range of market segments. It is also important that our size allows flexibility and responsiveness on the one hand, and economies of scale on the other.

In a mature industry with excess capacity, **managing the costs** of material, labour, and services, is of key importance.

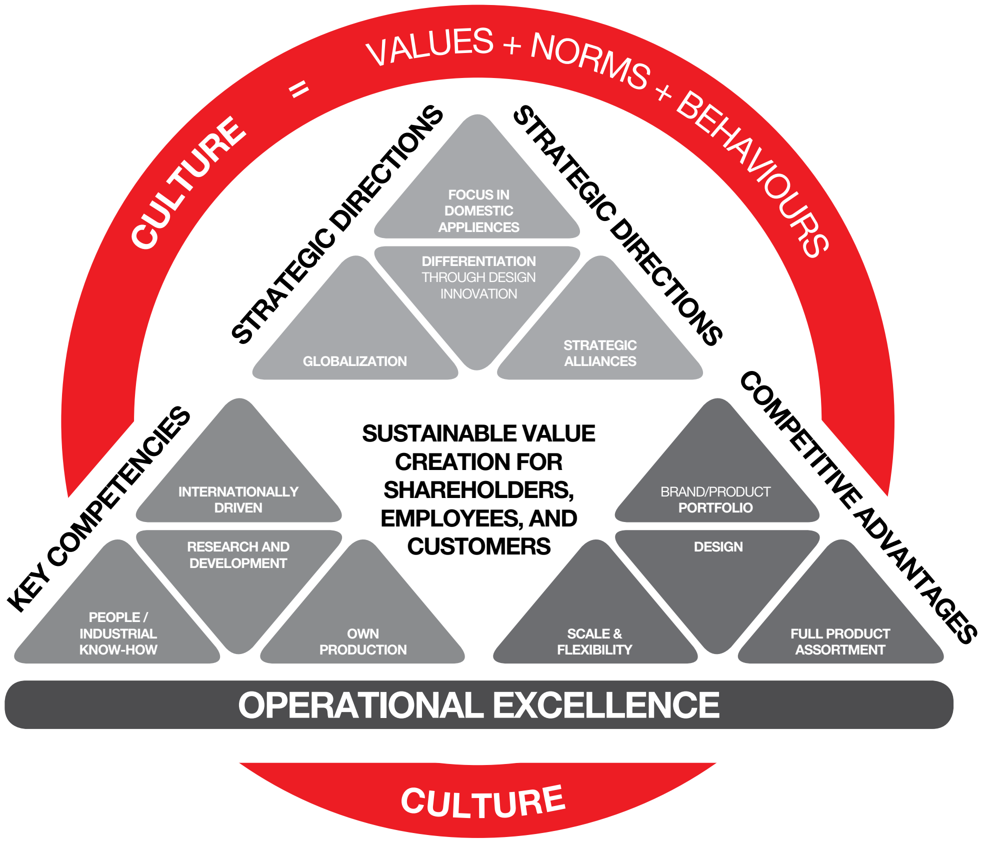
We strive for **operational excellence** with improvements in process management and key projects.

Responsibility and sustainability mindset

Our concept of **responsibility** involves **responsible conduct** and attitude towards fellow employees, business partners, buyers, shareholders, the society, and the environment.

We honour committed effectiveness and goal-orientation. We strive for **sustainable development** by **balancing our business excellence, environmental sustainability and social sustainability.**

In 2017, we continued to pursue our **2016–2020 Strategic Plan** the central policy of which is **global profitable growth** by which we are looking to attain sales revenue of EUR 1.56 billion in 2020, with 9-percent EBITDA margin.



Integrated reporting and business reorganization

On our way to **integrated reporting, which in turn is based on integrated thinking**, we carried out in 2017 a reorganization of our business in order to more effectively pursue the strategic goals laid down. This **business reorganization** allows us to **manager our brands and programs, with all key functions, in a more integrated and comprehensive manner.**

Taking into account the processes and results of the business reorganization, we are striving to:

- **concisely present the ways in which value is created and added** for our diverse stakeholders, i.e. the employees, shareholders, buyers, business partners, local communities, and others;
- **clearly reflect the relations between key financial and non-financial information** about our operations and performance;

exceed mere reporting about the accomplished results, and afford an **insight into Gorenje Group's business future**, i.e. strategically oriented generation of sustainable value in the short, medium, and long run.

Measuring the attainment of our strategic goals

Success of our pursuit of strategic goals is measured with **key performance indicators (KPI)** that cover the financial and non-financial aspects of operations.

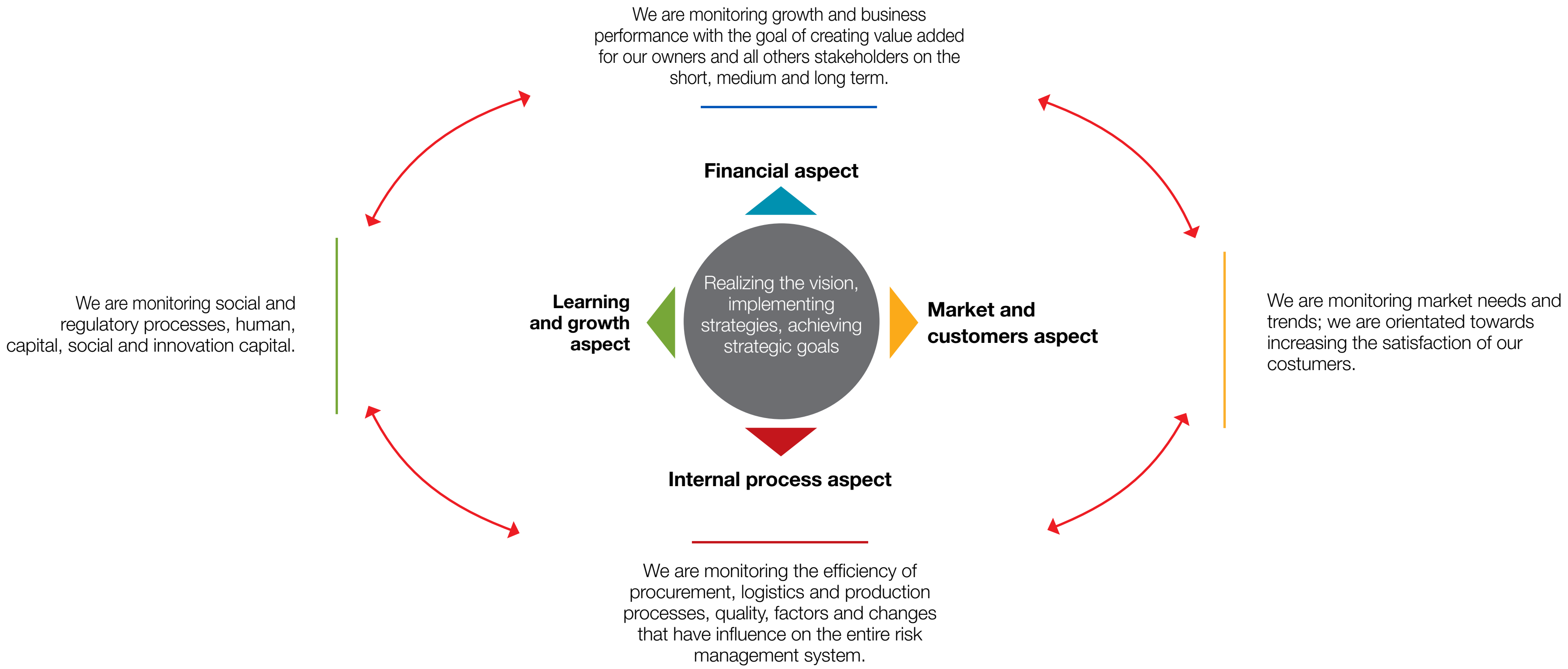
At the Gorenje Group level, we have defined **30 indicators** through which we monitor the pursuit of the strategic goals laid down. These KPIs afford a comprehensive insight into **how Gorenje Group creates value for its stakeholders in the short, medium, and long run.** The purpose of monitoring is to perceive in a timely manner any discrepancies or deviations from the specified goals, to identify the causes for such deviations, and to take action.

Key performance indicators are monitored **across the following areas:**

- financial aspect,
- market and customers aspect,
- internal process aspect, and
- learning and growth aspect.

The range of specific indicators that we report, results for 2017, and goals for 2018 and 2020, are presented in more detail in the chart **Our Capitals for Sustainable Creation of Value and Key performance Indicators (KPI)** (introduction to Chapter 2).

The link between measurement of goal accomplishment and risk management is presented in more detail in the chart **Risk management and key performance indicators (KPI)** in the Risk management section.



Our Capitals and Creation of Value

IN CREATING VALUE, GORENJE GROUP EMPLOYS SIX MUTUALLY INTERTWINED CAPITALS

Financial capital
financial sources available to an organization for producing goods or rendering services. Financial sources can be obtained through equity or debt, financing, drawing on grants, conducting business processes, and investing.

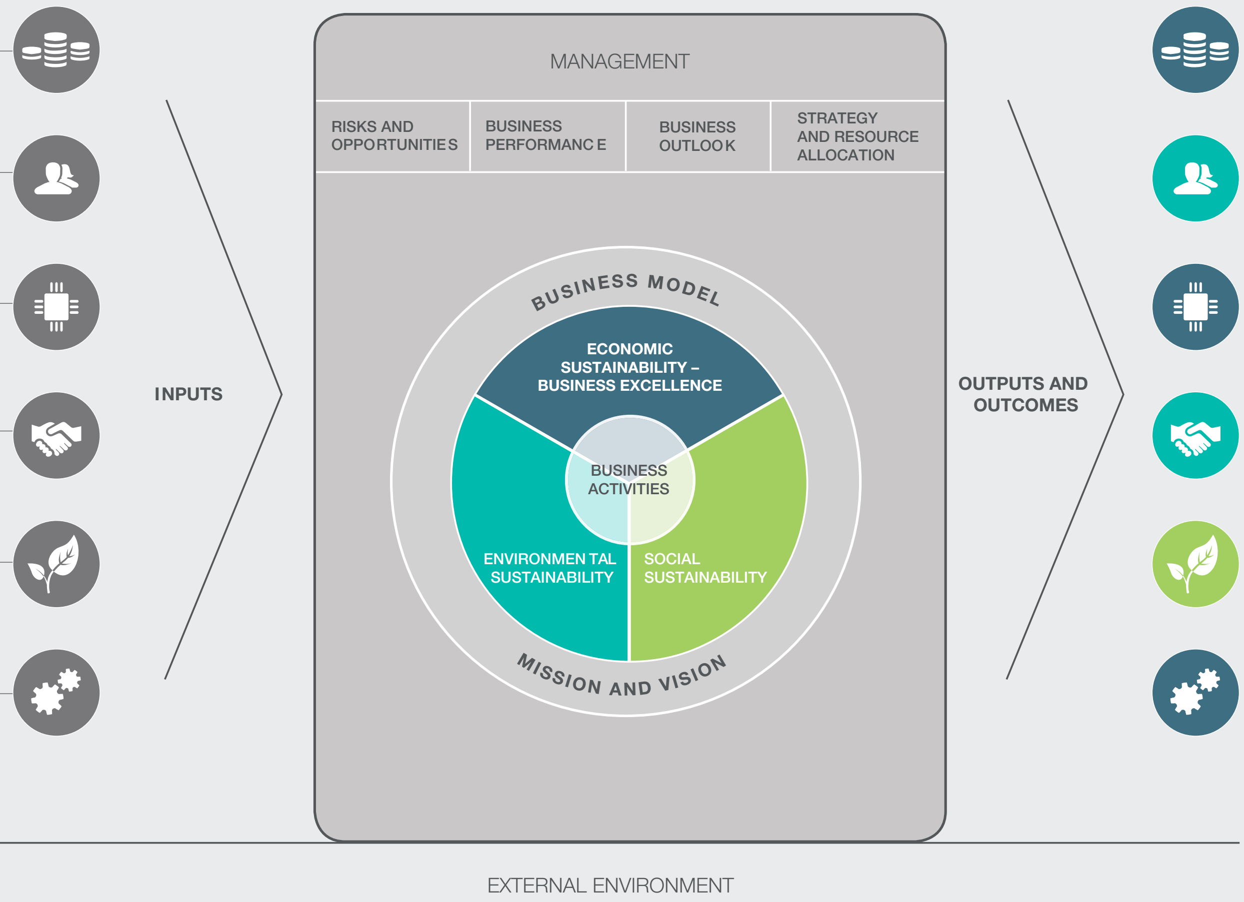
Human capital
knowledge, competencies, and experience of our employees. Their dedication to innovation and improvements in performing the work duties.

Intellectual (organization) capital
Gorenje Group brands, intellectual property (patents, copyrights), and tacit knowledge (systems and procedures).

Social and relationship capital
relations with investors, suppliers, and business partners, buyers, consumers, local communities, decision-makers, expert and non-government organizations, media, and other stakeholders who have a decisive impact on our operations. Ability to exchange material information with the stakeholders in order to generate value and advance individual and social welfare.

Natural capital
water, energy, and other natural resources needed in the process of manufacturing our products.

Manufactured (infrastructural) capital
property, manufacturing plants, and equipment, other machinery and buildings, and infrastructure (including logistics) needed for efficient performance of production process at our manufacturing plants.



Key stakeholders

	Owners, shareholders, investors (including organized shareholder associations)	Employees	Business partners (buyers, suppliers etc.)
Why do we communicate?	Generating value for the shareholders is the fundamental mission of each joint stock company and the most important management objective. Successful performance and sustainable growth generate long-term value of our shareholders' investment.	Motivated employees are the key to Gorenje's success. Together, we are building a culture of mutual trust, respect, continuous learning, and responsible and efficient work. Recruitment of outstanding employees, promotion and compensation policy is based on merit (performance) with equal opportunity for all.	Our long-term relations with business partners (buyers, suppliers, contractors, partners in joint ventures) are based on respect, confidence, honesty, integrity and fairness.
What do we communicate? (Focus 2017)	We are strengthening shareholder trust and confidence with regular communication about the events and developments at the company. Key topics: Operations and performance: pursuit of the 2016–2020 Strategic Plan, major business events, interim business results, search for a strategic partner, fire at the subsidiary Kemis, activities at trade shows and fairs, awards received.	We educate our employees about the pursuit of the company strategy and its values – communication campaign Fit for the Future. Information about our products, their functionality and services, Gorenje Group employee of the year contest, we plan employee development (annual reviews), we train our employees for use of digital technologies, we provide good working conditions, we encourage creativity, innovation, and entrepreneurial spirit among our employees, we are developing a dynamic management team responsive to changes in the environment.	Information on perations, major business events, organizational changes and our environment protection efforts throughout the life cycle of a product: from conception and design, through production and use, to disposal after the expiry of its useful life.
How do we communicate? (Communication channels and tools)	Shareholders Assembly, Annual Report, Delničar.g (Shareholder.g) newsletter, public announcements in the electronic notification systems of the LSE and the WSE, website www.gorenjegroup.com with a dedicated page for investors, meetings at the company head offices, participation in investor conferences at home and abroad, webcasts and meetings with investors and analysts following the announcements of major business events, proactive communication and provision of response to reporters' inquiries.	Internal online Gorenje Portal (multilingual), info.g newsletter, GIB magazine (information on professional achievements and in-depth articles by our employees), bulletin boards, e-inbox (I wonder ...) and inboxes for notes, proposals, and questions. Electronic notification, works Council and European Works Council, extended councils, regular worker assemblies (staff meetings), social dialogue, open door to the President and CEO's office (personal discussions).	Constant contact (in person, telephone, electronic mail, video conferences), letter to suppliers, brand and corporate websites, use of B2B tools and applications, materials with information about our products and Group operations.
Links to Annual Report contents	2.1.2 Creating value for the shareholders 1.5.9 Corporate Governance Statement 3 Financial report **Relation to the six capitals:** • Financial capital • Social and relationship capital **Risk management:** Process/operational risks > (1) financial risks	2.3.1 Relations with employees 2.1.1 Development of key segments 1.5.4 Vision, mission, values **Relation to the six capitals:** • Human capital **Risk management:** Process/operational risks > (2) Operational risks	2.1.1 Development of key segments 2.1.3 Business performance 2.2.1 Gorenje's eco cycle **Relation to the six capitals:** • Intellectual (organizational) capital • Natural capital **Risk management:** Process/operational risks > (2) Operational risks

	Consumers, users	Media	Government institutions, local community
Why do we communicate?	Customer and user satisfaction is of key importance for company operations and performance as stagnation in sales will threaten the pursuit of all other objectives we have laid down. Our work is determined by continuous monitoring of needs and desires of our buyers, and a quest for safe and high-quality products and services, fair prices, quality and rapid service, and appropriate after-sales services.	The media, or the press, is a key link between Gorenje and the broad public. Therefore, we maintain regular and proactive relations with them in order to provide timely and quality information.	We consistently observe and regularly fulfil our obligations to the government or the state. We comply with all relevant regulations, including non-binding and non-mandatory codes and guidelines. We support socially beneficial activities and decisions with lasting positive effect which improve the quality of life in the local and broader environment, and contribute to the progress of society.
What do we communicate? (Focus 2017)	New developments, innovative user functions of our products, energy efficiency, efficiency and ergonomics, tips for safe and efficient use of our products, and support in after-sales services.	Operations and performance: pursuit of the 2016–2020 Strategic Plan, major business events, interim business results, search for a strategic partner, fire at the subsidiary Kemis, activities at trade shows and fairs, awards received.	'3rd development axis', competitive conditions for economic development, digitization of society, internationalization of Slovenian economy, company activities within local entrepreneurship (founding of the entrepreneurs' club, development strategy for the local community.
How do we communicate? (Communication channels and tools)	Call centre, product websites, social media, brand magazines, electronic newsletter, promotional materials, user research	Public announcements and press releases, press conferences and events, daily communication by telephone and electronic media, personal relations with the journalists/reporters, new innovative approaches and tools.	Dialogue with the government and social partners – directly and via representative chambers (Chamber of Commerce and Industry of Slovenia, Chamber of Commerce and Industry of the Savinja-Šalek Region, participation in Strategic Development and Innovation Partnerships (clusters), round tables focusing on specific problems, regional development conference, meetings with the mayor and municipal administration, and inspection authorities relations with educational, cultural, and sports institutions.
Links to Annual Report contents	2.3.2 Quality for our users 2.2.3 Environmental aspects of our operations 2.2.4 Efficient resource management **Relation to the six capitals:** • Intellectual (organizational) capital • Natural capital **Risk management:** Process/operational risks > (2) Operational risks	2.1.2 Creating value for the shareholders 2.1.3 Business performance 1.2 Key events in 2015 **Relation to the six capitals:** All six capitals **Risk management:** Process/operational risks > (4) Risks of reputation and goodwill	2.3.3 Cooperation with local communities 2.2.3 Environmental aspects of our operations 1.5.6 Responsibility and sustainability mindset **Relation to the six capitals:** All six capitals **Risk management:** Process/operational risks > (2) Operational risks, (3) Market risks, (4) Risks of reputation and goodwill

Participation and membership in organizations

Gorenje Group has a very broad arsenal of technical knowledge and knowledge in natural sciences and humanities. With membership and participation in professional, education and research, and business organizations and associations, our experts and executives establish professional and business ties with the key stakeholders as they strengthen, develop, and exchange knowledge and experience. Our employees are also active members of steering committees, boards, professional and strategic councils and other key bodies in several organizations at the international, national, and regional level.

Gorenje is a member of representative organizations advancing the interests of the business community and employers, a member of educational and research institutions, national professional or expert organizations (key fields: marketing, maintenance, human resource management, engineering, library science/bibliothecography, tax consulting, auditing, public relations, purchasing, corporate finance, management, safety and security engineering etc.), and organizations promoting international cooperation and friendship among nations, development of metrology, quality, standardization, acoustics, innovation, toolmaking, electric machinery, occupational health and safety, industrial democracy, photovoltaics, corporate security studies, data identification and electronic data exchange.

International organizations:

- AHAM – Association of Home Appliance Manufacturers for USA and Canada, Washington DC, USA
- CECED – European Committee of Domestic Equipment Manufacturers, Brussels, Belgium
- HKI Industrieverband E.V., Frankfurt/Main, Germany
- ISLA E.V., Munich, Germany
- Slovenian Business and Research Association, Brussels, Belgium
- Summit 100 – Association of Business Leaders of Southeastern Europe, Ljubljana (Slovenia), Belgrade (Serbia), Zagreb (Croatia).

Awards received in 2017

Gorenje Group received numerous awards for its activities in a variety of fields in 2017. These awards are important in confirming that our approach to planning and managing our relations with the key stakeholders, especially buyers and users, business partners, and employees.

Gorenje's innovators won the **gold national award of the Slovenian Chamber of Commerce and Industry for the most innovative enterprises and innovators,** with their new generation of Gorenje SmartFlex dishwashers.

At the Design Month national award ceremony, Gorenje was presented a **special award for persistent promotion of superior design in the domestic appliance industry.** Gorenje's commitment to design is evident in the innovative products that have won numerous international design awards and ranked among the finalists throughout the 15 years since the first Design Month.

At the Days of Professional and Employment Rehabilitation, or the REHA Days, 2017, Gorenje received an award for good practice of hiring disabled persons, and the **Disabled-Friendly Company certificate.**

We won the **Licensing Award 2017** for the Gorenje Retro Special Edition refrigerators, licensed by the German Volkswagen, as the winners in the best innovation category.

The Finance daily paper and the Eko Fund awarded Gorenje with the title of **the most environmentally friendly company.** At Gorenje, successful pursuit of our strategy of developing environmentally friendly products is also accompanied by systematic reduction of energy and water consumption, and reduction of waste in manufacturing processes.

At the Slovenian conference on digital communication Diggit, we won the gold award for our online promotion of "Gorenje Retro Special Edition: Wrong parking".

Gorenje Group receives the **Sarajevo Business Forum Bridge 2017** award for innovator of the year.

Gorenje brand won the **Top Serbian Brands 2016** award in Serbia, which means it was voted the most popular electronics brand among Serbian users.

We were also awarded the **"April 28 certificate"** by the Serbian Ministry of Labour, Employment, Veteran and Social Affairs, for quality occupational health and safety system in Gorenje's cooling appliance factory in Valjevo.

Gorenje Orodjarna won the **golden award at the International Industrial Fair 2017.**

Gorenje Group won **4 more Red dot design awards for superior design.** Two were awarded for products under Gorenje brand, and two Red Dot Best of the Best were awarded for products under our premium brand Asko.

At the Muse international creative award contest, Asko won **three Muse awards** for its campaign #inspiredbyscandinavia: Two platinum awards in the categories Product or Service branding, and Social Media Campaign, respectively, and golden award in the category of Magazine Advertising.

Organizational structure and geographical presence

Organization of core activity of Domestic Appliances

PARENT COMPANY
Gorenje, d. d.

HOLDING COMPANIES
3

SALES BUSINESS UNITS
(incl. representative offices)
42

PRODUCTION COMPANIES
5

Gorenje Group organizational structure is presented in more detail in the Financial Report.

Key market map for the Domestic Appliances business

Our most important markets are Russia, the Netherlands, and Germany.

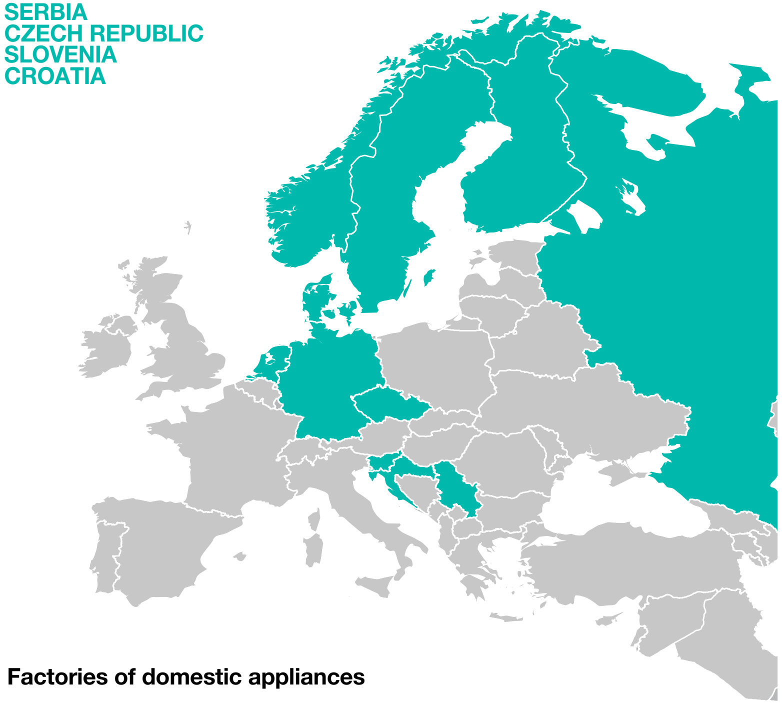
RUSSIA
THE NETHERLANDS
GERMANY

SCANDINAVIA
SERBIA
CZECH REPUBLIC
SLOVENIA
CROATIA

AUSTRALIA
USA

UKRAINE
HUNGARY
BIH
AUSTRIA
POLAND
ITALY

SLOVAKIA
RUMANIA
BULGARIA
BELGIUM
FRANCE
GREAT BRITAIN
CHINA



Factories of domestic appliances

SLOVENIA, VELENJE
High value-sdded products – cooking appliances, dishwashers, and advanced wahing machines and dryers, and niche refrigeration appliances

CZECH REPUBLIC, MARIÁNSKÉ UDOLÍ
Freestanding cookers

SERBIA, VALJEVO, ZAJEČAR
Cooling appliances and entry-level washing machines and dryers

Gorenje Group Other Businesses

ETIS (business area of ecology, trade, and industrial services)

The business area ETIS follows the Gorenje Group's strategic policy of focusing on the core activity. Therefore, we were searching in 2017 for potential strategic investors for respective companies of this segment (business area). We have divested Gorenje's share in the company Erico.

In the ETIS business area, we are looking to develop those businesses and services that yield **synergistic effects with the core activity,** while at the same time bear the **potential for independent development and expansion from Slovenia to the broad territory of Southeastern Europe.** Maximum possible autonomy and independence of our subsidiaries also translates into greater possibilities when looking for potential strategic partners for such companies.

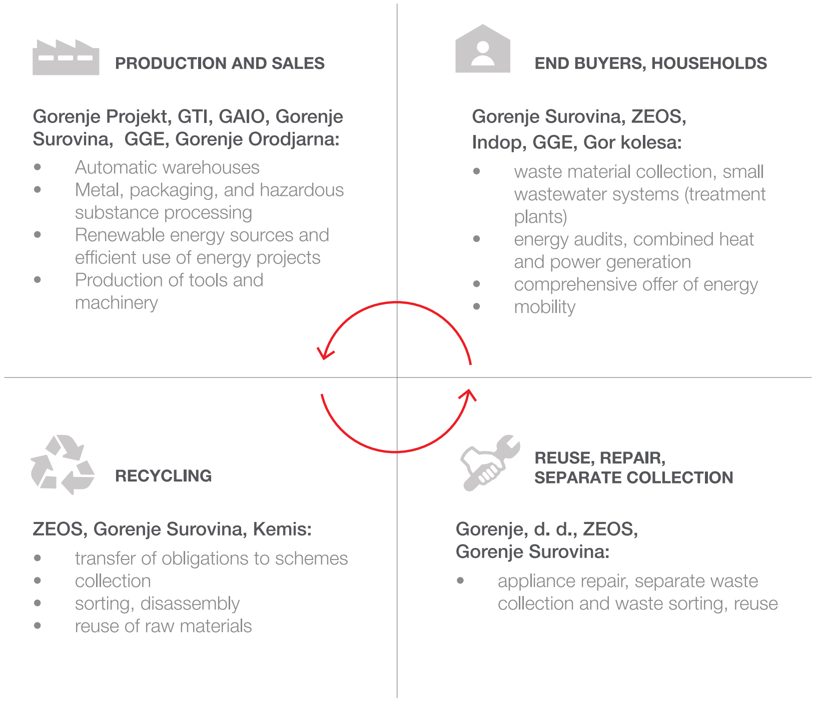
Corporate values, innovativeness, and digitalization processes for business process, products, and services are, in addition to care for the brand, the foundations of development for the ETIS business area.

Key policies of the ETIS business area:

- minimum dependence on the core activity,
- organization of all operations as independent legal entities,
- independent development and expansion in their own fields of operation,
- openness to business/ownership combinations,
- preparing the companies for potential divestment,
- integration in Gorenje Group's core activity with business models and specialist knowledge where possible.

Key areas of development for the ETIS business area:

- activities based on services and products for the core activity, or derived from technological or other knowledge within the core activity: hospitality services, toolmaking, machine building, engineering (companies: GTI, Gorenje Gostinstvo, Gorenje Orodjarna, GAIO, Gorenje Projekt, Energygor),
- activities supporting the circular economy and entering the value chain either at the beginning, during, or at the end of the product's life cycle (companies: ZEOS, Surovina, Kemis),
- activities in rational use of energy and renewable sources of energy (companies: GGE, Indop).



HVAC BAK business area

The HVAC BAK business area combines activities in manufacturing and marketing of products intended for heating, ventilation and air conditioning (HVAC) and manufacturing and marketing of products for sanitary equipment, ceramics, and kitchen and bathroom furniture (BAK).

Key policies of the HVAC BAK business area:

- Sales growth of appliances for air conditioning, heating, humidifying, and ventilation,
- Expanding own development of heat pumps and water heaters,
- Production of highly energy-efficient water heaters,
- Boosting the marketing of kitchen and bathroom furniture,
- Expanding the manufacturing and marketing operations for ceramic tiles and high-quality ceramic tiles made of gres porcelain,
- Advancing own development and production of kitchen sinks and bathroom washbasins for industrial customers.

Corporate Governance Statement

Management Board

Management Board composition and appointment

The Management Board consists of the President and CEO, and at least two Management Board members, of which one is a labour director. The number of Management Board members is specified by the Supervisory Board. The term of office of a Management Board lasts five years, after which period the Management Board may be reappointed. The current Management Board started their term of office on July 19, 2013. Their term expires on July 19, 2018.

The Supervisory Board appoints the Management Board members based on their expertise, work experience, and abilities to manage and coordinate different aspects and fields of operations. Until February 28, 2017, the Management Board member had five members; thereafter, it had four members, and from May 1, 2017 on, it again consisted of five members.

MANAGEMENT BOARD COMPOSITION IN THE FISCAL YEAR 2017

Franjo Bobinac

Peter Kukovica

Žiga Debeljak

Branko Apat

Drago Bahun

Link to detailed presentations of Management Board members:
http://www.gorenjegroup.com/en/gorenje-group/corporate-governance

First and last name	Function (president / CEO, member)	Field of work within the Management Board	First appointment to position	Gender	Nationality	Year of Birth	Education	Professional profile	Membership in other supervisory bodies of non-associated companies
Franjo Bobinac	President and CEO	Responsible for the major and small domestic appliance segment and for corporate support functions, corporate marketing, HR and general affairs, and joint development	July 18, 2003	Male	Slovenian	1958	Bachelor of Economics, Faculty of Economics, University of Ljubljana MBA, École Supérieure de Commerce, Paris	Economics	IEDC – Poslovna šola Bled d.o.o., Supervisory Board member

First and last name	Function (president / CEO, member)	Field of work within the Management Board	First appointment to position	Gender	Nationality	Year of Birth	Education	Professional profile	Membership in other supervisory bodies of non-associated companies
Peter Kukovica	Management Board member	Co-responsible for the business segment of major and small domestic appliances and in charge of operational support functions (until May 23, 2017, also in charge of IT and telecommunications, and organization and processes)	April 28, 2014	Male	Slovenian	1966	BS Mechanical Engineering, Faculty of Mechanical Engineering, University of Ljubljana Specialist in Management, Faculty of Economics, University of Ljubljana MA Business Policy and Organization, Faculty of Economics, University of Ljubljana PhD, Business Administration and Organization, Faculty of Economics, University of Ljubljana	Mechanical engineering, business administration and organization	/
Žiga Debeljak	Management Board member	In charge of corporate finance, digital business, IT and organizational support, and the business area of ecology, trade, and industrial services	May 1, 2017	Male	Slovenian	1971	BS computer science, Faculty of Mechanical Engineering, University of Ljubljana MA business administration and organization (MBA), Faculty of Economics, University of Ljubljana	Computer engineering business administration and organization	/
Branko Apat	Management Board member	In charge of the business segment of heating systems, bathrooms, and kitchens, and corporate procurement	September 17, 2007	Male	Slovenian	1958	BA Economics, Faculty of Economics, University of Maribor Specialist in Marketing, Cleveland State University, Ohio, USA	Economics marketing	/
Drago Bahun	Management Board member, labour director	Co-responsible for HR and general affairs	July 18, 2003	Male	Slovenian	1955	BA Sociology – Specialist, Faculty of Sociology, Political Science, and Journalism, University of Ljubljana	Sociology	/
Peter Groznik	Management Board member	In charge of corporate finance and the business area of ecology, trade, and industrial services	July 19, 2013 Completion of term of function/ office February 28, 2017	Male	Slovenian	1973	BA Economics, Faculty of Economics, University of Ljubljana MA Economics, Kelley School of Business, University of Indiana, USA PhD Finance, Kelley School of Business, University of Indiana, USA	Economics Finance	/

Statement of Management Responsibility

The Management Board is responsible for the development and compilation of the Annual Report of Gorenje d.d. and the Gorenje Group, as well as the financial statements, in a manner that provides to the interested public a true and accurate account of the financial position and performance of the company and its subsidiaries in 2017.

The Management Board hereby confirms that the financial statements of Gorenje d.d. and the Gorenje Group have been prepared pursuant to the relevant accounting policies; that the accounting estimates have been developed according to the principles of prudence and diligence of a good manager; and that the financial statements of the Company and the Group give a true and fair account of their financial position and performance in 2017.

The Management Board is also responsible for adequate and orderly accounting and the adoption of appropriate measures for safeguarding property and other assets. The Management Board confirms that the financial statements of Gorenje d.d. and the Gorenje Group, complete with the accompanying notes and explanations, were prepared under the assumption of going concern and in compliance with applicable legislation and the International Financial Reporting Standards as adopted by the European Union.

The Management Board confirms that, to the best of its knowledge, the financial report has been prepared in compliance with the accounting reporting framework, and that it provides a true and fair account of the assets and liabilities, financial position, and profit or loss of the parent company and other companies included in the consolidation of the Gorenje Group. The Management Board also confirms that the Business Report delivers a fair account of the information on relevant transactions with related persons or parties, and that it complies with relevant legislation and International Financial Reporting Standards. The report follows the international Global Reporting Initiative (GRI) G4 and introduces the concept, principles, and contents elements of integrated reporting pursuant to the International Integrated Reporting Framework developed within the global alliance IIRC – International Integrated Reporting Council.

The President and CEO, and Management Board members are familiar with the contents of integral parts of the Annual Report of Gorenje d.d. and the Gorenje Group for 2017, and thus also with their entire Annual Report. We approve the report and confirm such approval with our respective signatures.

Franc Bobinac,	Peter Kukovica,	Žiga Debeljak,	Branko Apat,	Drago Bahun,
PRESIDENT AND CEO	MANAGEMENT BOARD MEMBER	MANAGEMENT BOARD MEMBER	MANAGEMENT BOARD MEMBER	MANAGEMENT BOARD MEMBER

Supervisory Board

Supervisory Board powers and authorizations

In addition to its rights and obligations specified by the relevant law, the Supervisory Board endeavours to conduct its work in a manner that surpasses the prescribed, recommended and agreed standards. It devotes its best efforts to ensuring that the highest standards of corporate governance are implemented at the Gorenje Group. A high degree of transparency of operations and proper communication with shareholders and other stakeholders are also recognised in our environment as being Gorenje's values. International composition of the Supervisory Board is particularly important in this respect as its members are able to directly apply their rich international experience in practice.

All Supervisory Board members meet the independence criterion as defined in the Slovenian Corporate Governance Code for Public Limited Companies. The powers and obligations of the Supervisory Board members are the same for each member, the only difference being that some members are also members of respective Supervisory Board committees. These committees conduct their activities in accordance with the relevant law and the authorizations granted by the Supervisory Board.

The Supervisory Board is regularly involved in the development of the corporate governance policy which is constantly being upgraded and improved, also based on proposals submitted by its members. The Supervisory Board works transparently and efficiently.

Supervisory Board composition

The Supervisory Board consists of seven capital representatives elected by the shareholders, and four employee representatives elected by the Gorenje d.d. Works Council. The Supervisory Board started a new four-year term on July 20, 2014.

Composition of the Supervisory Board and its committees in the fiscal year 2017

First and last name	Marko Voljč	Uroš Slavinec	Bernard C. Pasquier	Corinna Claudia Graf	Bachtiar Djalil	Miha Košak	Toshibumi Tanimoto	Karlo Kardov	Krešimir Martinjak	Peter Kobal	Drago Krenker	Jurij Slemenik
Function (chair, deputy chair, member)	Chairman	Deputy chairman	Deputy chairman	Member	Member	Member	Member	Member	Deputy chairman	Member	Member	Member
First appointment to position	July 17, 1998	July 19, 2010	July 19, 2010	July 20, 2014	July 5, 2013	July 9, 2016	July 20, 2014	July 14, 2017	May 15, 2002	April 7, 1997	June 19, 1998	May 15, 2002
Completion/end of term							April 21, 2017					
Representative of capital / employees	capital	capital	capital	capital	capital	capital	capital	capital	employees	employees	employees	employees
Attendance at SB sessions and total number of sessions (e.g. 5/7)	10/10	9/10	10/10	8/10	9/10	10/10	4/4	3/4	10/10	9/10	10/10	10/10
Gender	Male	Male	Male	Female	Male	Male	Male	Male	Male	Male	Male	Male
Nationality	Slovenian	Slovenian	French	German	Slovenian	British, Slovenian	Japanese	Croation	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1949	1951	1954	1979	1975	1968	1952	1975	1963	1953	1956	1960
Education	MA Economics	BA Economics	Public administration	MA Business administration	LL.B.	MA Economics of European Community MBA	BA Business administration – international trade	MA Finance and banking	LL.B.	Electrical engineering	Sales and purchase manager	School, Mechanical Engineering

Ime in priimek	**Marko Voljč**	**Uroš Slavinec**	**Bernard C. Pasquier**	**Corinna Claudia Graf**	**Bachtiar Djalil**	**Miha Košak**	**Toshibumi Tanimoto**	**Karlo Kardov**	**Krešimir Martinjak**	**Peter Kobal**	**Drago Krenker**	**Jurij Slemenik**
Professional profile	Economics	Economics	Public administration	Business, technology, and social work	Law	Economics	Business administration	Finance, banking	Law	Electrical engineering	Commerce	Mechanical engineering
Independence pursuant to Article 23 of the Code (YES/NO)	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Occurrence of conflict of interests in the fiscal year (YES/NO)	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Membership in supervisory boards of other companies	/	/	IFC representative in the board of directors of Davivienda, Colombia, and Sogebank, Haiti	/	Loterija Slovenije d.d. (Lottery of Slovenia)	Šiauliu Bankas, Lithuania	/	JP Elektroprivreda HZ HB d.d., Bosnia and Herzegovina and Infosistem d.d., Zagreb, Croatia	/	/	/	/
Membership at committees (audit, remuneration etc.)	Remuneration Committee Corporate Governance Committee Nomination Committee	Remuneration Committee	Remuneration Committee Corporate Governance Committee Benchmark Committee Nomination Committee	Benchmark Committee Remuneration Committee	Audit Committee Corporate Governance Committee	Audit Committee Benchmark Committee Remuneration Committee Nomination Committee	Benchmark Committee	Audit Committee Benchmark Committee Remuneration Committee	Corporate Governance Committee	Benchmark Committee	Audit Committee Remuneration Committee	Remuneration Committee
Chair / member	Member Member Member	Member	Chairman Chairman Member Chairman	Chairwoman Member	Chairman Member	Member Member Member Member	Member	Member Member Member	Member	Member	Member Member	Member
Attendance at committee sessions and total number of sessions (e.g. 5/7)	1/1	1/1	7/7	6/7	6/6	13/13	4/4	2/2	0/0	5/6	7/7	1/1

Third party member in committees (Audit Committee)

First and last name	Membership in committees	Attendance at committee sessions and total number of sessions (e.g. 5/7)	Gender	Nationality	Education	Year of birth	Professional profile	Membership in other supervisory bodies of non-associated companies
Aleksander Igličar	Audit Committee, member	5/6	Male	Slovenian	MA Business policy and organization	1962	Economics	Iskra Mehanizmi Holding, d. d., Lipnica pri Kropi, Javni zavod RTV SLO, Ljubljana

Supervisory Board committees

→ Link to detailed presentations of Supervisory Board members: http://www.gorenjegroup.com/en/gorenje-group/corporate-governance/supervisory-board

- **Audit Committee**
  The Audit Committee operates according to the authorizations specified by Article 280 of the Companies Act. The Committee includes Bachtiar Djalil as chairman, members Drago Krenker, Miha Košak, and Karlo Kardov (member as of August 24, 2017), and Aleksander Igličar as an independent member. Mr Igličar is a senior lecturer of accounting and auditing at the Faculty of Economics in Ljubljana.

- **Benchmark Committee**
  The committee has the following members: chairwoman Corinna Graf and members Bernard Pasquier, Peter Kobal, Miha Košak, and Karlo Kardov (member since August 24, 2017). Toshibumi Tanimoto was a committee member until April 21, 2017.
  The basic task of the Benchmark Committee is to identify the companies to which Gorenje Group will be compared and benchmarking. The Committee deals mostly with methodological issues and specifying the basic benchmarking criteria.

- **Corporate Governance Committee**
  The committee consists of chairman Bernard Pasquier and members Marko Voljč, Krešimir Martinjak, Peter Kobal, and Bachtiar Djalil who is a member since August 24, 2017.
  The task of the Corporate Governance Committee is to find the best possible way of organizing the Gorenje Group given its increasing international recognition and the need for flexibility in all areas of its business operations.

- **Remuneration Committee**
  The committee consists of chairman Bernard Pasquier and members Uroš Slavinec, Marko Voljč, Jurij Slemenik, Drago Krenker, Miha Košak, Corinna Graf (since August 24, 2017) and Karlo Kardov (since August 24, 2017). Powers of the Committee are specified in Corporate Governance Code for Publicly Traded Companies (the LJSE Code).

- **Nomination Committee**
  The Supervisory Board's Nomination Committee was appointed in December 2017 and it consists of chairman Bernard Pasquier and members Marko Voljč, Miha Košak (all three are the Supervisory Board members), and external members, Irena Prijović, Veit Walkner, Toshikazu Kudo, and Saša Živković. The responsibility of the Nomination Committee is to support the Supervisory Board and to prepare proposals regarding criteria and selection of candidates for membership in the Supervisory Board.

Management Board and Supervisory Board compensation and rewards

The President and CEO, and Management Board members signed new employment contracts for the new term lasting from July 19, 2013, to July 19, 2018, according to which the receipts of the President and CEO and Management Board members consist of fixed and variable part. At the 37th session held on June 25, 2013, the Supervisory Board adopted the Management Board Performance Criteria. The criteria pertain to the variable part of the reward, and they include both quantitative and qualitative criteria. Performance criteria also include sustainable development and non-financial criteria of relevance for generating long-term company value. Variable part of the reward may amount to no more than two thirds of the annual compensation of the President and CEO or respective Management Board member. In case of satisfactory results, the President and CEO and Management Board members shall be entitled to reward amounting to base salary multiplied by up to one; in case of successful results, salary bonus multiplier shall be from at least one to no more than three; in case of very successful results, it shall be four to eight. The qualitative part of the criteria pertains to new product development and innovation, business criteria, financial criteria, and criteria regarding the organization and human resource management. Quantitative criteria are defined by specific quantitative goals.

Considering the fact that Gorenje Group is organized as a corporate group and that Management Board members are also tasked with supervising the operations of Gorenje Group subsidiaries through their formal membership in the Supervisory Board of the holding company Gorenje Beteiligungs GmbH, Vienna, Gorenje Supervisory Board agreed that they receive a reward for their supervisory work at this holding company. President and CEO, and Management Board members (Drago Bahun has been a Supervisory Board member since September 14, 2016), had been receiving since the start of their current term compensation for their work in the Supervisory Board of the company Gorenje Beteiligungs GmbH, Vienna. All taxes and contributions related to this compensation are duly paid, as disclosed in the Annual Report. Pursuant to Supervisory Board resolution dated August 29, 2013 the President and CEO, and the Management Board members were entitled to the payment of session fees for supervision of the companies Gorenje Beteiligungs GmbH and Gorenje Nederland B.V. Consistently with reorganization in which the tasks and powers of holding companies were also changed, and the change in the business model within the Gorenje Group, the President and CEO and Management Board members no longer receive any compensation for supervision of holding companies Gorenje Beteiligungs and Gorenje Nederland since June 1, 2017, pursuant to the relevant resolution by the Supervisory Board. Therefore, gross salaries at the parent company were adjusted, following Supervisory Board approval, in such way that the changes have a neutral effect on the net receipts of the Management Board members. The Company has not adopted a stock option remuneration plan.

Composition and amount of compensation* of Management Board members in the fiscal year 2017, in EUR

First and last name	Function	Fixed compensation – gross (1)	Variable compensation – gross			Deferred compensation (3)	Severance payment (4)	Benefits / perquisites (5)	Return of paid-out bonus – „claw-back“ (6)	Total gross (1+2+3+4+5-6)	Total net
			Based on quantitative criteria	Based on qualitative criteria	Total (2)						
Franc Bobinac	President and CEO	339,882	42,362	92,543	134,905	0	0	31,146	0	505,933	205,310
Žiga Debeljak	Member since May 1, 2017	196,718	0	0	0	0	0	5,912	0	202,630	82,671
Branko Apat	Member	279,467	34,665	78,097	112,762	0	0	22,977	0	415,206	176,509
Peter Kukovica	Member	278,192	34,333	77,600	111,933	0	0	5,295	0	395,420	188,334
Drago Bahun	Member	252,133	34,379	58,094	92,473	0	0	19,808	0	364,414	151,204
Peter Groznik	Member until February 28, 2017	48,671	39,259	84,989	124,248	0	234,911	1,080	0	408,910	188,850
Skupaj		**1,395,063**	**184,998**	**391,323**	**576,321**	**0**	**234,911**	**86,218**	**0**	**2,292,513**	**992,878**

* For the purpose of this disclosure, travel expenses, reimbursed expenses, and daily allowances do not have to be disclosed as they do not represent compensation to the Management Board.

Diversity policy

The company has not adopted diversity policy with regard to representation in the managerial or supervisory bodies. When recruiting candidates for members of managerial and supervisory bodies, the company focuses on expert knowledge, work experience, and competences, and does not discriminate based on gender, age, or education.

Composition and amount of compensation of Supervisory Board and Committee members in the fiscal year 2017, in EUR

EUR	Function	Function-related payments – gross per year (1)	Attendance fees of SB and Committees – gross per year (2)	Total gross (1+2)	Total net	Commuting allowances (gross)	Commuting allowance (net)
Uroš Slavinec	Deputy Chairman of the Supervisory Board	20,250	3,025	**23,275**	**16,928**	2,014	1,465
Miha Košak	Supervisory Board member	18,750	5,885	**24,635**	**17,917**	17,151	12,474
Bachtiar Djalil	Supervisory Board member	20,625	3,905	**24,530**	**17,841**	148	108
Bernard C. Pasquier	Deputy Chairman of the Supervisory Board	22,125	4,565	**26,690**	**19,412**	15,983	11,625
Corinna Claudia Graf	Supervisory Board member	20,625	3,630	**24,255**	**17,641**	13,039	9,483
Toshibumi Tanimoto	Supervisory Board member since 21 April 2017	5,781	1,705	**7,486**	**5,445**	8,336	6,063
Marko Voljč	Chairman of the Supervisory Baord	26,250	3,245	**29,495**	**21,452**	42,008	30,553
Jure Slemenik	Supervisory Board member	18,750	3,245	**21,995**	**15,997**	287	209
Drago Krenker	Supervisory Board member	18,750	4,565	**23,315**	**16,957**	287	209
Krešimir Martinjak	Deputy Chairman of the Supervisory Board	20,250	2,585	**22,835**	**16,608**	0	0
Peter Kobal	Supervisory Board member	18,750	2,970	**21,720**	**15,797**	0	0
Aleksander Igličar	Audit Committee member	12,000	1,320	**13,320**	**9,688**	449	327
Karlo Kardov	Supervisory Board member since 14 July 2017	8,306	1,430	**9,736**	**7,081**	3,570	2,596
Total		**231,212**	**42,075**	**273,287**	**198,764**	**103,272**	**75,112**

* Amount transferred to the individual's current account as payment after withholding of personal income tax; the amount does not take into account any subsequent additional payments of the individual's personal income tax

For their work, the Supervisory board members are entitled to regular monthly payments, session attendance fees, training and the reimbursement of expenses for meeting attendance. These expenses are funded from the company's current operations. At the 22nd Shareholders Assembly held on July 3, 2015, the Shareholders Assembly adopted the resolution on the payments to the Supervisory Board members, which brings the payments into line with the provisions of the Corporate Governance Code for Companies with State Capital Investments, as adopted on December 19, 2014, by Slovenski državni holding d.d. (Slovenian Sovereign Holding Company).

Transactions with Gorenje (GRVG) shares conducted by Management Board and Supervisory Board members

Pursuant to relevant laws and the Company rules and regulations, all recipients of insider information, i.e. members of the Management Board, Supervisory Board and the Audit Committee, are required to observe special rules for trading in Gorenje d.d., shares, which are commonly referred to as trading windows. Such persons are not allowed to trade company shares thirty days prior to the announcement of periodical results or other information that could affect the price per share. In case of any other information that may affect the price per share, the restriction of trading shall be valid for the entire duration until such information has been made public. Secretary to the Management Board shall be responsible for compliance with the Rules and Regulations on Insider Information and for informing the relevant persons with regard to trading windows and trading restrictions.

As at December 31, 2017, Supervisory Board members held a total of 37,136 Gorenje d.d. shares. Karlo Kardov has been a Supervisory Board member since July 14, 2017, and he holds 33,566 shares which he had acquired prior to his appointment as the company Supervisory Board member. As a result, the sum of shares held by the Supervisory Board members increased by 33,566 shares compared to the situation as at December 31, 2016.

As at December 31, 2017, Management Board members held a total of 22,848 Gorenje d.d. shares. Peter Groznik, who as of February 28, 2017, no longer serves as the Management Board in charge of corporate finance and the business area of ecology, trade, and industrial services, held 7,140 Gorenje d.d. shares upon the end of his appointment. Since May 1, 2017, Žiga Debeljak has been the Management Board member in charge of corporate finance, digital business, IT and organizational support, and the business area of ecology, trade, and industrial services. He acquired the shares he holds prior to his appointment as the Management Board member. As a result, the sum of shares held by the Management Board members increased by 1,904 shares compared to the situation as at December 31, 2016.

GRVG share transactions by Management and Supervisory Board Members

	Ownership		Net acquisition in the year	
	2016	**2017**	**2016**	**2017**
Supervisory Board total	**3,570**	**37,136**	–	–
Marko Voljč[1]	–	–	–	–
Uroš Slavinec[1]	–	–	–	–
Bernard Pasquier[1]	–	–	–	–
Corinna Graf[1]	–	–	–	–
Toshibumi Tanimoto[1,2]	–	–	–	–
Bachtiar Djalil[1]	–	–	–	–
Krešimir Martinjak[1]	115	115	–	–
Drago Krenker[1]	–	–	–	–
Jurij Slemenik[1]	2,038	2,038	–	–
Peter Kobal[1]	1,355	1,355	–	–
Miha Košak[3]	62	62	–	–
Karlo Kardov[4]	–	33,566	–	–
Management Board total	**20,944**	**22,848**	–	–
Franjo Bobinac	4,096	4,096	–	–
Drago Bahun	9,082	9,082	–	–
Peter Groznik[5]	7,140	–	–	–
Branko Apat	626	626	–	–
Peter Kukovica	–	–	–	–
Žiga Debeljak[6]		9,044		

1 Supervisory Board in the term from July 20, 2014, to July 20, 2018.
2 Toshibumi Tanimoto was a Supervisory Board member until April 21, 2017.
3 Miha Košak has been a Supervisory Board member since July 9, 2016.
4 Karlo Kardov has been a Supervisory Board member since July 14, 2017.
5 Peter Groznik was a Management Board member until February 28, 2017.
6 Žiga Debeljak has been a Management Board member since May 1, 2017.

Audit

External audit

Pursuant to the Companies Act, audit of financial statements is mandatory for Gorenje Group companies. Audit has been conducted at the Gorenje Group since 1994. The purpose of the audit is to increase the level of confidence among the users of financial information. The auditor employs relevant auditing procedures and methods to review the financial statements of the controlling company and the Group, and provides opinion on whether such statements comply in all material aspects with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the provisions and requirements of the Companies Act.

The financial statements of the parent company and consolidated financial statements of the Group for the 2017 fiscal year were audited by the auditing company Deloitte Revizija d.o.o. that was appointed as the company auditor at the Gorenje Shareholders Assembly held on July 14, 2017. Members of the Deloitte network also audited most of the subsidiaries for the 2017 fiscal year. Third-party (external) auditors report their findings to the Management Board, Supervisory Board, and the Audit Committee of the Supervisory Board. The transactions of the parent company and the Gorenje Group with the company Deloitte Revizija d.o.o. are presented in the Notes to Financial Statements.

Internal audit

Also active at the company is the Internal Audit department which organizationally reports directly to the President and CEO, and functionally to the Audit Committee or the Supervisory Board. Internal audits are conducted throughout the Gorenje Group in compliance with the International

Standards and Core Principles for the Professional Practice of Internal Auditing. The department is pursuing its mission based on a work plan spanning several years. Internal Audit provides objective assurances to the Management Board and the Audit Committee, and conducts consulting tasks. With their operation, they support the pursuit of strategic and business goals, and contribute to mitigation of risks to an acceptable level. It regularly reports on its work to the Management Board, and it reports at least on a quarterly basis to the Supervisory Board's Audit Committee. Pursuant to the Internal Auditing Standard 1110, organizational independence of the internal audit department is periodically reviewed and confirmed.

The Internal Audit also contributes added value by constructive cooperation with the Audit Committee, external auditor, and other functions at the Gorenje Group, which conduct a preventive and supervisory role. Value added is also generated by providing assessments about the comprehensiveness of the business process system. Assurances and evaluations or assessments of particular processes allow a more reliable risk assessment for each process, which in turn yields better foundations for audit planning and preparation for each audit.

Improvement in the quality of internal auditing at the Gorenje Group is evident in the attainment of strategic goals and in the implementation of Internal Audit's the quality assurance and improvement program. The program involves regular internal and external assessments as we make sure the operations of internal audit meets the expectations of the Management Board and the Audit Committee. Pursuant to the Standards 1300, we can confirm compliance with the International Standards for the Professional Practice of Internal Auditing.

By consulting on setting up and improvement of the internal controls system, we have improved transparency, traceability, and responsibility in many processes, which in turn has improved our operations and overall performance. We are working with the Organization Department and the Risk Management Department to align and harmonize the internal control systems, which will lead to their comprehensiveness and simplify monitoring and control testing.

In 2017, a certified IT system auditor joined the department and thus the scope of department competencies increased accordingly. In addition to the increase in the number of employees and educational profile in recent years, we used an application to automate many support activities, which in turn allowed a greater number of audits per employee and a shorter auditing cycle.

In the future, we will continue the activities that lead the department towards continuous auditing, key risk management, and key control monitoring.

Compliance with the Slovenian Corporate Governance Code for Public Limited Companies

The company Management Board and the Supervisory Board hereby declare that Gorenje d.d., observes in its work and operations the Slovenian Corporate Governance Code for Public Limited Companies as defined and adopted in 2016 by Ljubljanska borza d.d. (the Ljubljana Stock Exchange) and the Slovenian Director's Association, which is available at the Ljubljana Stock Exchange website at http://www.ljse.si in Slovenian and English, with particular discrepancies or deviations disclosed and explained below.

The contents of the statement pertain to the period from January 1, 2017 when the new Code was adopted, to March 8, 2018, when its contents were jointly drawn up and adopted by the Gorenje d.d., Management Board and Supervisory Board.

Recommendation 1

The fundamental goals of the company are not specified in the Articles of Association; however, they are clearly specified in the company mission: »We create innovative, technologically superior products and services for the home, inspired by design, which bring simplicity to the lives of our users.«

Recommendation 4

The company has not adopted a diversity policy with regard to representation in the managerial or supervisory bodies. When recruiting candidates for members of managerial and supervisory bodies, the company focuses on expert knowledge, work experience, and competences, and does not discriminate based on gender, age, education, or other personality traits.

Recommendation 8.8

According to the current practice, the General Meeting of Shareholders votes on the discharge to the members of the Management Board and Supervisory Board simultaneously. This has been proven appropriate and consistent with the method of work employed so far, the high standards of cooperation of the two bodies in their joint response to issues of relevance for the Company and its development, the reasonable equal treatment of the duties and responsibilities of their members as stipulated by law, and the attained level of trust.

Recommendation 12.9

The company has not established processes for ordering of third-party services required for the work of the Supervisory Board, separately for services in which the company is represented by the Management Board, and services in which the company is represented by the Supervisory Board chairman, as this is not reasonable considering the frequency of ordering of such services.

Recommendation 13.1
The Supervisory Board does not adopt an annual plan for Supervisory Board member training and approximate training costs, since Supervisory Board members take part in training and education programs based on currently available courses and seminars.

Recommendation 15.4
The Supervisory Board has three deputy chairs; two are representatives of capital, and one is a representative of employees.

Recommendation 15.5
Pursuant to the effective Supervisory Board Rules of Procedure, expansion of agenda at the session is permissible if it is proposed in writing with relevant explanation or justification, and complete with resolution proposals, and if none of the Supervisory Board members oppose such expansion of the agenda.

Recommendation 18.1
The issue of Supervisory Board committee founding is regulated by the Supervisory Board Rules of Procedure. The Supervisory Board includes an Audit Committee, Corporate Governance Committee, Benchmark Committee, Remuneration Committee, and Nomination Committee appointed in December 2017.

Recommendation 21.3
Recommendation on severance payments to the Management Board shall be observed and implemented to the greatest extent possible, except for the case of dismissal pursuant to Article 268, Paragraph 2, Section 4 of the Companies Act.

Corporate governance rules for companies listed on the Warsaw Stock Exchange

Best Practices for WSE Listed Companies are a set of corporate governance rules that apply to companies listed on the Warsaw Stock Exchange. The purpose of the said Best Practices is to improve transparency of WSE-listed companies, to improve communication between companies and investors, and to protect the rights of shareholders, including the rights not regulated by law, without imposing unnecessary burden on the WSE-listed companies to an extent when such burden would exceed the benefits resulting from market requirements. The Best Practices for WSE Listed Companies are available at the Warsaw Stock Exchange website at https://www.gpw.pl/root_en in English and Polish.

The Management Board and the Supervisory Board hereby declare that Gorenje d.d. complies with the Best Practices for WSE Listed Companies in its work and operations, with particular discrepancies or deviations disclosed and explained hereinafter.

The contents of the statement pertain to the period from the adoption of the previous Statement on the compliance with the Best Practices for WSE Listed Companies, i.e. from April 20, 2017, to March 8, 2018, when its contents were jointly drawn up and adopted by the Gorenje d.d., Management Board and Supervisory Board.

- **Detailed principle I.Z.1.15: announcement of information on the company website about the diversity in the managerial and supervisory bodies, and in key positions:**
  The company has not adopted any document specifying or providing a policy of diversity in the managerial or supervisory bodies and key positions.

- **Detailed principle I.Z.1.16: announcement of information on the company website regarding the planned broadcast of the Shareholders Assembly:**
  The company does not offer a Shareholders Assembly broadcast; therefore, such information is not provided.

- **Detailed principle I.Z.1.20: release of audio or video recording of the Shareholders Assembly on the company website.**
  Neither the Companies Act nor the Corporate Governance Code (the LJSE Code) or the Rules of Procedure of the Shareholders Assembly require the Company to record the Shareholders Meeting in any other form than in writing; therefore, the company does not publish such recordings in audio and/or video format.

- **Recommendation IV.R.2: regarding the provision of possibilities to the shareholders to attend the Shareholders Assembly by means of a live broadcast of the Shareholders Assembly and the possibility of direct communication during the Shareholders Assembly, despite the fact that the shareholder is at another location, other than the location of the assembly.**
  The Company does not offer such options to its shareholders.

- **Detailed principle IV.Z.2: regarding provision of a publicly available broadcast of the Shareholders Assembly:**
  According to the Shareholders Assembly Rules of Procedure, only shareholders (and their representatives or proxies) and members of the Management Board and Supervisory Board may be present at the Shareholders Assemblies. This is due to the fact that during the Shareholders Assembly sessions, discussions on matters that are classified as company's business or professional

secret may take place, which the company is not willing to share with the general public. Therefore, the Company does not allow a publicly available broadcast of the Shareholders Assembly.

- **Detailed principle IV.Z.3: allowing the presence of the press (media representatives) at the Shareholders Assembly:**
  According to the Shareholders Assembly Rules of Procedure, only shareholders (and their representatives or proxies) and members of the Management Board and Supervisory Board may be present at the Shareholders Assemblies. This is due to the fact that during the Shareholders Assembly sessions, discussions on matters that are classified as company's business or professional secret may take place, which the company is not willing to share with the general public.

- **Detailed principle IV.Z.17 regarding the conditional dividend payment** does not apply to the Company due to the fact that under the Slovenian Companies Act, the Shareholders Assembly may not vote on or adopt decisions on conditional dividend payment.

- **Detailed principle IV.Z.18 regarding the minimum possible nominal value of the shares following the share split** does not apply to the company due to the fact that company shares are no par value shares.

- **Recommendation VI.R.1: in part which refers to the Company adopting rules defining the remuneration policy for the Supervisory Board members:**
  The Company has not adopted rules for defining the remuneration of the members of the Supervisory Board. According to the Articles of Association and the Shareholders Assembly Rules or Procedure, the Shareholders Assembly shall be entitled to set forth the remuneration of the members of the Supervisory Board upon their sole discretion. The Management Board does not have any influence on the decisions of the Shareholders Assembly regarding the remuneration of the Supervisory Board members.

- **Recommendation VI.Z.2, pertaining to the options and other instruments related to company shares** is not in use since the company has not adopted a plan for rewarding the Management Board with options.

Shareholders Assembly

The Shareholders Assembly is the highest body of corporate governance at the company. It consists of shareholders who vote and adopt resolutions on all issues specified by law, the most important being the appropriation of accumulated profit (allocation of distributable profit) and statutory issues. The Management Board convenes the Shareholders Assembly at least once per year. The Assembly session takes place in Velenje at the company headquarters. All shareholders have equal voting rights as all shares of the company are of the same class and each share bears the right to one vote. Treasury shares (or own shares) are an exception in this respect as they do not bear voting rights pursuant to the relevant law.

Shareholders may participate in the Shareholders Assembly sessions directly or indirectly by selecting one of the proposed proxies who collect shareholder authorizations in accordance with the law. The option of indirect participation in Shareholders Assemblies, which the Company has been providing for several years now, is in particular to encourage minority shareholders to exercise their voting rights.

Proposed resolutions and explanations thereof, as well as information on the resolutions adopted by the Shareholders Assembly, are announced pursuant to the Rules and Regulations of the Ljubljana Stock Exchange on the LJSE website (http://seonet.ljse.si/, at the Warsaw Stock Exchange website (www.gpw.pl), and on the Gorenje Group corporate website (http://www.gorenjegroup.com). Moreover, information on Shareholders Assembly convocation and resolutions are announced in the Delo daily newspaper (http://www.delo.si/). Such communication ensures equal treatment and information to all shareholders and the interested public.

Official language of the Shareholders Assembly is Slovenian. Simultaneous translation into English and from English to Slovenian is also provided.

Shareholders Assembly sessions are closed to the public and only the shareholders present are aware of the entire contents and the course of the meetings. After the Assembly session, the adopted resolutions are publicly announced and any other events at the session are explained as required in a press release or a public announcement.

Shareholders Assembly in 2017

At the 24th Shareholders Assembly which took place on July 14, 2017, the shareholders were presented the 2016 Annual Report, receipts by the Management Board and Supervisory Board members, Auditor's Report, and the Supervisory Board Report on the results of Annual Report audit for the year 2016, and its approval. The company Shareholders Assembly approved the proposal to allocate the distributable profit for the 2016 fiscal year, in the amount of EUR 2,430,330.20, to dividend payment. Dividend amounted to EUR 0.10 gross per share. The shareholders granted discharge to the company Management Board and

Supervisory Board for the 2016 fiscal year. The shareholders appointed the company Deloitte revizija d.o.o. Dunajska cesta 165, Ljubljana, as the company auditor for the 2017 fiscal year. The company Shareholders Assembly appointed Karlo Kardov as Supervisory Board member representing the interests of the shareholders, with a term of office from July 14, 2017, to July 20, 2018. No challenging action was announced at the Assembly.

Shareholders Assembly in 2018

Based to the request by the shareholder Home Products Europe B.V., shareholder Raiffeisenbank Austria d.d., Zagreb, shareholder Splitska banka d.d., and shareholder Unicredit Bank Hungary ZRT for the convocation of the Shareholders Assembly of the company Gorenje d.d., filed pursuant to Article 295, Paragraph 3, of the Companies (ZGD-1), and Article 27, Paragraph 2 of the Company Articles of Association, the Management Board of the company Gorenje d.d. convened the 25th Shareholders Assembly that took place on January 9, 2018. In the request for convocation, the shareholders proposed to terminate the term of office of two Supervisory Board members, and to appoint two new Supervisory Board members. The Shareholders Assembly did not vote in favour of the proposal to replace the two Supervisory Board members. No challenging action was announced at the Assembly.

2
Business Report

Our capitals for sustainable creation of value and key performance indicators (KPI)

We employ the six capitals to **generate value** in the short, medium, and long run.

We are striving to balance the **business, environmental, and social aspects** of our operations. In doing so, we are pursuing the goals laid down in the Strategic Plan for the period 2016–2020. Success in the pursuit of our goals is measured with the following key performance indicators:

- Financial capital
- Human capital
- Intellectual (organizational) capital
- Social/relationship capital
- Natural capital
- Manufactured (infrastructural) capital

- Economic Sustainability – Business Excellence
- Environmental responsibility
- Corporate social responsibility

Focusing on the core activity of Domestic Appliances (share of sales revenue from core activity in total Group revenue)

RESULTS IN 2017

82.6%

2018 PLAN

Gorenje Group revenue growth +1.4%
Growth of revenue from sales in the core activity of Domestic Appliances +9.9% (89.5% share)

TARGET BY 2020

92,3%[1]

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence / Performance

[1] The figures are not entirely comparable as pursuant to the change in Gorenje Group organization the core activity of Domestic Appliances since 2017 no longer includes the HVAC segment (production and marketing or products for heating, ventilation, and air conditioning) that was included in the core activity Home during the development of the Strategic Plan for the period until 2020.

Revenue from sales beyond Europe and its share in total revenue in the core activity Domestic Appliances

RESULTS IN 2017

Revenue from sales beyond Europe:
EUR 125.3 million; share: **11.6%**

2018 PLAN

In 2018, further revenue growth is planned in markets outside Europe.

TARGET BY 2020

Revenue EUR 196 million; share 14%

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence / Performance

Revenue from sales of the premium brand Asko and its share in total revenue in the core activity Domestic Appliances

RESULTS IN 2017

Revenue EUR **120.6 million;** share: **11.2%**
Sales of the premium brand Asko in 2017 was successful as it was higher relative to 2016 in all geographic segments.

2018 PLAN

We are planning further growth of sales for the products of the premium brand Asko, consistently with the goals specified in the Strategic Plan.

TARGET BY 2020

Revenue EUR 205.6 million; share 14.3%

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence / Performance

Share of revenue from sales of premium products in major domestic appliance revenue, within the core activity of Domestic Appliances

RESULTS IN 2017

28.8%

2018 PLAN

Growth of revenue from sales of premium appliances will be supported by investment into marketing and development.

TARGET BY 2020

30%

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence / Performance

Gorenje Group revenue

RESULTS IN 2017
EUR 1.31 billion

2018 PLAN
1.33 billion

TARGET BY 2020
1.56 billion

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence/Performance

Net financial liabilities to EBITDA ratio

RESULTS IN 2017
4.7

2018 PLAN
3.2

TARGET BY 2020
<2.5

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence/Performance

Share of employees participating in training and education

RESULTS IN 2017
70.2%

2018 PLAN
We shall strive to keep the approaches, activities and various training programs we conduct modern and innovative, and that they will allow our employees to better connect, transfer their knowledge, and develop the required skills for their personal and career development, and of course for the growth of the company.

TARGET BY 2020
90%

→ **Link to Annual Report contents**
Social sustainability/Relations with employees

Attainment of EBITDA margin

RESULTS IN 2017
5.7%

2018 PLAN
6.5%

TARGET BY 2020
9%

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence/Performance

Attainment of cash flow from operating and investing activities

RESULTS IN 2017
EUR -14.5 million

2018 PLAN
We shall continue to optimize our working capital and generate positive cash flow.

TARGET BY 2020
Goal for 2019 is EUR 25 million.

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence/Performance

Number of work accidents

RESULTS IN 2017
Increase in the number of work accidents by 5% (relative to 2016).

2018 PLAN
We shall strive for decrease of the number of work accidents as a part of zero-tolerance policy for work accidents and encouragement of a healthy lifestyle.

→ **Link to Annual Report contents**
Social sustainability/Relations with employees (occupational safety and health)

Investments into product development (% of Gorenje Group total revenue)

RESULTS IN 2017

2.5%

2018 PLAN

2.9%

TARGET BY 2020

Consistently with our strategic policies, we support the growth of sales with targeted investment into new product development.

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence/Development of key areas

Retailer satisfaction (measured indirectly through sales representative satisfaction with the Salesforce tool)

RESULTS IN 2017

Our sales representatives find during their visits to our key accounts (in terms of revenue generated with them) that the share of those who are very pleased about Gorenje (rating 5 or 4) has increased by 5 p.p. relative to the year before.

2018 PLAN

Our goal is to improve the satisfaction of our sales representatives and thereby indirectly the satisfaction of our retailers (buyers). Satisfaction is measured using the Salesforce tool which was introduced at the end of 2017 in 35 countries, while in 2018 we intend to implement it in some markets beyond Europe, as we come even closer to the customer, consistently with our strategy.

→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence/Quality for the users

Hazardous waste (kg/unit)

RESULTS IN 2017

0.044

2018 PLAN

0.05

TARGET BY 2020

0.05

→ **Link to Annual Report contents**
Environmental sustainability / Efficient resource management

Waste for disposal (kg/unit)

RESULTS IN 2017

0.005

2018 PLAN

0.005

TARGET BY 2020

0.005

→ **Link to Annual Report contents**
Environmental sustainability / Efficient resource management

Manufacturing plants

RESULTS IN 2017

Key manufacturing plants and information about domestic appliance production volume: Slovenia (62.8%), Serbia (23.6%), and Czech Republic (13.6%).

2018 PLAN

We shall develop and optimize the Gorenje Group manufacturing plants and provide their cost efficiency and competitiveness.

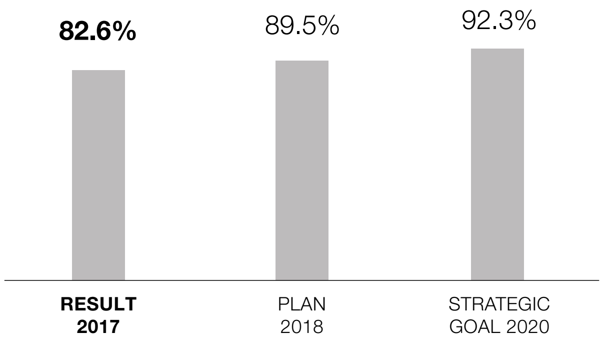
→ **Link to Annual Report contents**
Economic Sustainability – Business Excellence/Development of key areas

2.1 Economic Sustainability – Business Excellence

Business excellence – results 2017 and plans/budgets 2018, complete with outlook until 2020:

Focus on the core activity Domestic Appliances

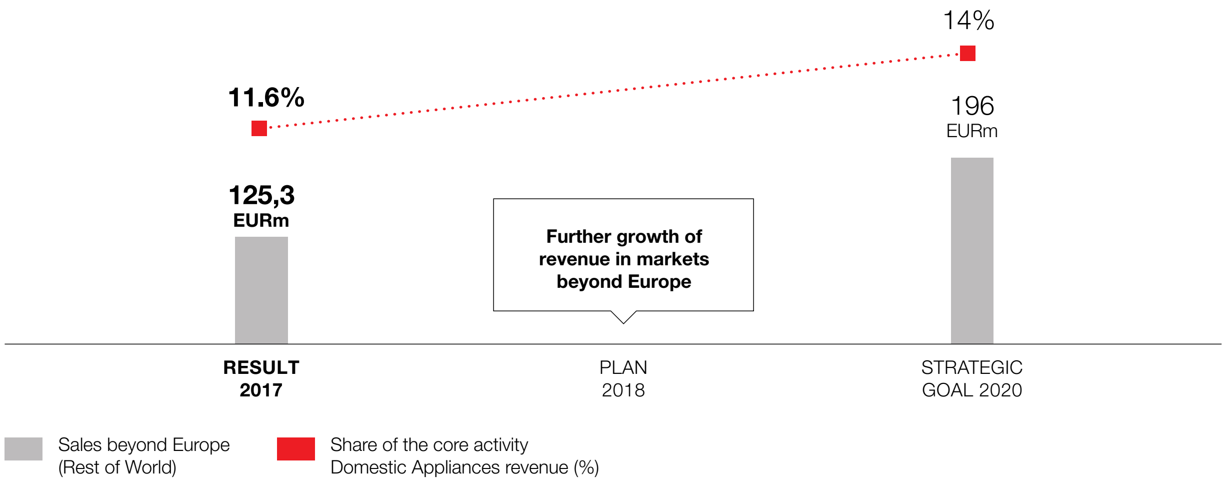
Our core activity Domestic Appliances generated 82.6 percent of total Group sales revenue in 2017 Consistently with our strategic focus on our core activity, our plans for 2018 include increasing the share of sales revenue in the core activity Domestic Appliances by 6.9 percentage point (89.5 percent of total Group sales revenue), and the revenue at the Group level by 1.4 percent. By 2020, revenue in the core activity will account for over 92[2] percent of total Gorenje Group revenue.



[2] The figures are not entirely comparable as pursuant to the change in Gorenje Group organization the core activity of Domestic Appliances since 2017 no longer includes the HVAC segment (production and marketing or products for heating, ventilation, and air conditioning) that was included in the core activity Home during the development of the Strategic Plan for the period until 2020.

Revenue from sales beyond Europe and its share in total revenue in the core activity Domestic Appliances

Our sales revenue in markets beyond Europe (Rest of World) in 2017 amounted to EUR 125.3 million, which is 12.4 percent more than in 2016. The share of sales outside Europe in total revenue of the core business of Domestic Appliances increased relative to 2016 by 1.2 percentage point, to 11.6 percent. In addition to the change in currency exchange rates, sales in non-European markets were affected by the change in dynamics of orders from industrial/ OEM deal partners and lower sales in some markets of South America. We saw significant growth in Australia, North America, some markets in South America, Asia, and in the markets of the Middle and Far East (especially Saudi Arabia).



In 2018, we are planning a significant increase in sales in the following markets:

- **Australia:** due to growth of sales of the new generation of washing machines and dryers, with higher average sales prices, higher sales of washing machines and dishwashers with higher average sales prices, and sales of cooking appliances;
- **Middle and Far East:** due to sales of kitchen appliances on account of expansion, with higher average sales prices, sales growth of the new generation of washing machines and dryers, and washing machines and dishwashers;
- **Thailand:** on account of rapid growth of sales of cooking appliances with higher average sales prices, sales growth for refrigerator freezers, with higher average sales prices; and sales growth in other programs;
- **Rest of Asia:** on account of rapid growth of sales of cooking appliances with higher average sales prices, sales growth for washing machines and dryers from the new generation, with higher average sales prices; and rapid sales growth of dishwashers.

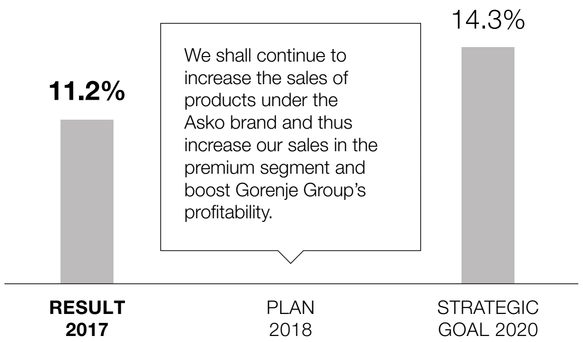
By expanding our sales to markets beyond Europe, our revenue in this sales region will reach EUR 196 million by 2020, or 14 percent of total sales in the Domestic Appliances business. This will have a positive effect of reducing our reliance on the mature European markets.

Revenue from Asko brand sales and its share in total revenue in the core activity Domestic Appliances

By increasing our sales under the Asko brand, we are increasing sales of our products in the premium segment. In the structure of sales in our core activity segment Domestic Appliances, sales of products under the Asko premium platform accounted for 11.2 percent in 2017 (+1 percentage point relative to 2016).

Significant growth of sales under the Asko brand was seen in the markets of Australia, Russia, the USA, Asia, and Scandinavia.

By 2020, we will reach by marketing the products of the Asko premium platform revenue of EUR 206 million. Thus, the figure will have been doubled relative to 2015 as the base year for development of the 2016–2020 Strategic Plan.



Revenue from Asko brand sales and its share in total revenue in the core activity Domestic Appliances (%)

Share of sales of the premium segment

In 2017, we further increased the share of sales of premium and innovative products. In the structure of revenue from sales of major domestic appliances within the core activity Domestic Appliances, premium appliances account for a 28.8-percent share.

In 2018, we shall gradually further development and add new product platforms in all key MDA product categories. We are planning to increase the share of premium appliances in total sales revenue from major domestic appliances within the core activity Domestic Appliances to 30.4 percent in 2018. Thus, the goal of reaching a 30-percent share of MDA sales revenue within the Domestic Appliances activity by 2020 will already have been exceeded at the end of 2018.

Share of premium segment salesin major domestic appliance revenue in the core activity Domestic Appliances (%)

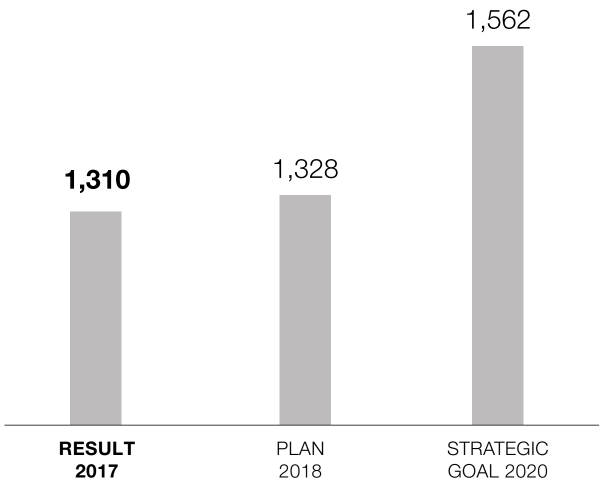
Innovative appliances: appliances within respective product categories (or groups of products) with so-called "innovative functionalities" are more energy-efficient, afford greater load capacities, lower power consumption, water consumption etc.
Premium appliances: appliances of the brands Atag, Asko, and Gorenje's designer lines (Gorenje Simplicity, Gorenje Ora-Ïto, Gorenje Pininfarina, Gorenje Classico, Gorenje One, Gorenje Karim Rashid, Gorenje Color Edition, Gorenje+, Gorenje Retro, and Gorenje by Starck).

Gorenje Group revenue

In 2017, Gorenje Group's sales revenue amounted to EUR 1.31 billion, which is 4.1 percent more than in the year before and consistent with the 2017 sales budget.

In 2018, sales revenue is planned to increase by 1.4 percent to EUR 1.33 billion. The 2018 annual plan does not include the revenue from the companies in the Ecology business (Gorenje Surovina, Kemis BiH, Kemis Valjevo, Surovina RECE) for the second half of the year, and companies from the heating equipment business (Gorenje Tiki Stara Pazova) for the last quarter.

Strategic plan by the year 2020 did not include the companies from the Ecology area which were in the process of divestment at the time of Strategic Plan development. Our main goal is profitable growth by which we are aiming for revenue of EUR 1.56 billion by the year 2020.

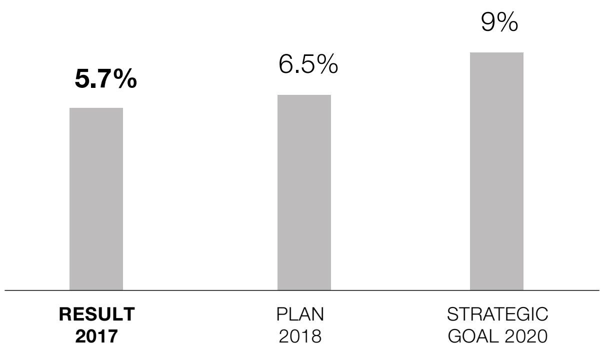


Gorenje Group revenue, EUR million

Attainment of EBITDA margin

EBITDA in 2017 amounted to EUR 76.4 million, which is 4.8 percent less than the comparable EBITDA[3] for 2016. EBITDA margin was at 5.7 percent, which is 0.5 p.p. less than the comparable EBITDA in 2016.

We reached 78.7 percent of the planned EBITDA. In 2018, we are planning to increase our EBITDA margin to 6.5 percent. By 2020, we are planning to reach EBITDA margin of over 9 percent.



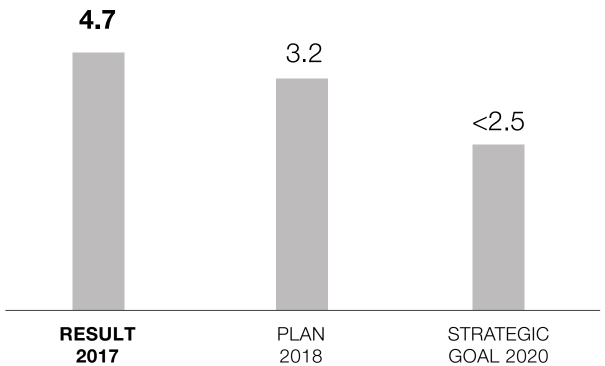
EBITDA margin (%)

[3] In the performance analysis, data for previous years is presented in terms that are comparable to the data for 2017; therefore, it deviates from the data (other operating income and expenses, EBITDA, and EBIT) reported for 2016 in the financial report within this Annual Report. Comparable figures for previous years are adjusted for the effect of revaluation adjustment to receivables, which were reported in previous years as finance income and expenses, while in 2017, they are reported as other operating income and expenses.

Net financial liabilities to EBITDA ratio

Net financial liabilities stood at EUR 358.7 million at the end of 2017, which is EUR 17.1 million higher than as at the end of 2016. Our net financial liabilities to comparable EBITDA ratio worsened by 0.4, which is mostly a result of the fact that the Group's profitability is lower than budgeted.

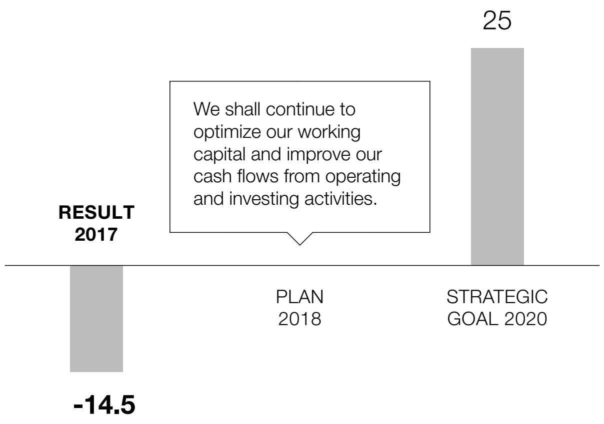
By the end of 2020, we intend to cut the net debt to EBITDA ratio to less than 2.5.



Net financial liabilities / EBITDA ratio

Attainment of cash flow from operating and investing activities

Our cash flow from operating and investing activities was negative at EUR 14.5 million, which, in absolute terms, is EUR 0.2 million worse than in the equivalent period of last year, and which is a result of poorer Group profitability than budgeted. The amount of funds tied up in net working capital is EUR 1.6 million lower than as at the end of 2016.



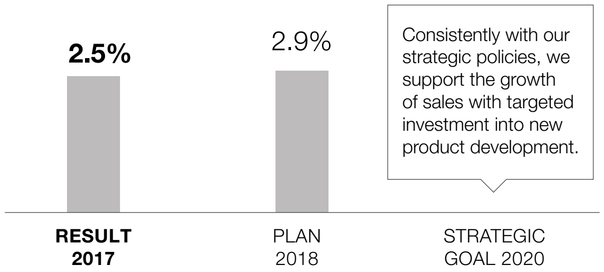
Cash flow from operating and investing activities (EUR million)

Investments into product development (% of Gorenje Group total revenue)

- Consistently with our strategic goal, we **invested 3.1 percent of total sales revenue from the core activity Domestic Appliances, and 2.5 percent of total Group revenue, into new product development.**
- Key development achievements in 2017 included the following:
  - new generation of free standing cookers,
  - new generation of premium washing machines and dryers,
  - new generation of premium dishwashers,
  - new generation of gas hobs,
  - Gorenje Retro Special Edition refrigirators,
  - new versions of dishwashers for our OEM customers,
  - line of kitchen appliances Ora-Ïto 2.

New built-in cooling appliances and connectible appliances are in the final stage of development, undergoing intensive testing and system optimization. We started supplying connectible appliances under the Atag brand to our partners for installation in smart homes in the Netherlands.

In 2018, we are **planning to increase the share of total Gorenje Group sales revenue allocated to investment into development, to 2.9 percent.** We intend to launch new products in all product categories, with innovative, simple and user-friendly features and functions.



Share of development investments in Gorenje Group total revenue

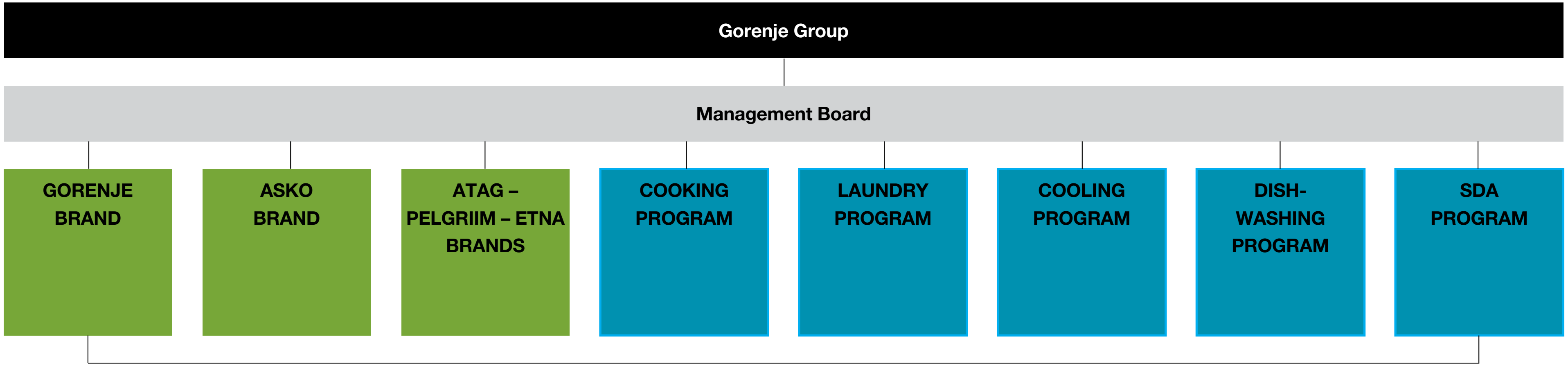
Manufacturing plants

Gorenje Group products are made in Europe, which means they conform to the very strict European standards and often exceed the international standards of quality and responsible environmental management.

European manufacturing location also means shorter delivery time for final products to our sales business units and direct buyers. Thus, we are looking to get closer to our customers and improve their satisfaction.

Production output will grow in the period of the 2020 Strategic Plan execution; it will be developed in all current locations (Slovenia, Serbia, Czech Republic). In volume terms, 62.8 percent of all our appliances were made in Slovenia, 23.6 percent in Serbia, and 13.6 percent in the Czech Republic in 2017.

2.1.1 Development of key segments



MAJOR AND SMALL DOMESTIC APPLIANCES (M&SDA) BUSINESS AREA

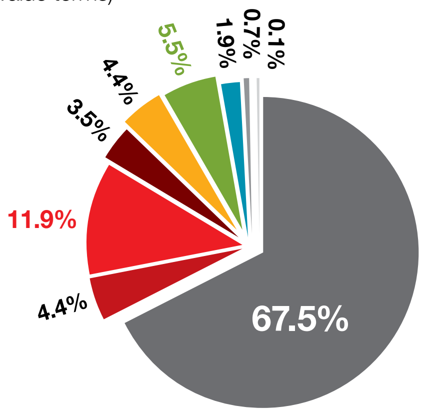
2.1.1.1 Brands

Gorenje Group has a carefully developed portfolio of brands spanning all price segments. We are focused in particular on the upper-mid (Gorenje) and the premium segment (Asko and Atag). Global brands Gorenje and Asko are supplemented by European regional brands.

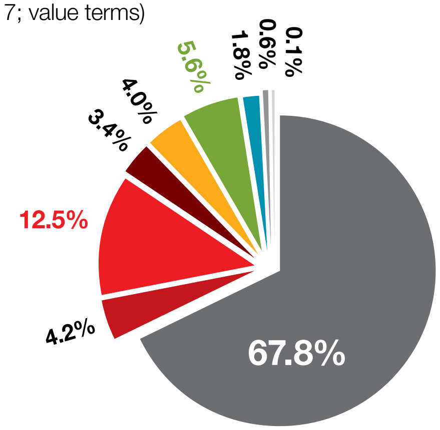
Our technologically perfected, innovative, energy-efficient and superiorly designed domestic appliances offer users in 90 countries across the globe a simple, intuitive user experience and simplify their lives.

Appliances sold under the Asko brand accounted for 5.2 percent of major domestic appliances sales volume in 2017. Due to higher price positioning, they account for 12.5 percent of sales revenue from major domestic appliances.

Structure of sales of in-house major domestic appliance brands relative to total revenue from sales of major domestic appliances within the core activity Domestic Appliances (2016; value terms)



Structure of sales of in-house major domestic appliance brands relative to total revenue from sales of major domestic appliances within the core activity Domestic Appliances (2017; value terms)



CONDITIONS IN THE MARKETS

WESTERN EUROPE

Region definition: Western Europe includes Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Norway, Netherlands, Spain, Switzerland, Ireland, Luxembourg, Malta, and Portugal.

Operations and performance in 2017: The basic economic indicators for Western European markets were improved, which led to an increase of demand for home appliances. Due to increasingly harsh competition and excessive supply in the industry and in retail, average price in the market continued to drop, regardless of the fact that home appliances are increasingly advanced products. A general drop in prices was the most pronounced in Germany, Austria, Norway, and Sweden.

For Western Europe, **shrinking of traditional distribution and rise of online trade remain a characteristic feature.** Users mostly demand energy-efficient appliances and appliances with innovative product features (e.g. NoFrost, pyrolytic cleaning, induction).

EASTERN EUROPE

Region definition: Eastern Europe includes Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldavia, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovakia, and Kazakhstan.

Operations and performance in 2017: Countries of the Eastern European region **vary considerably in terms of the level of economic development.** On the one hand, there are highly developed economies strongly integrated into international trade (Czech Republic, Slovakia, Poland, Hungary, Slovenia); on the other hand, there are countries with feeble economies (Albania, Montenegro, Macedonia). The region of the Commonwealth of Independent States (CIS) includes the following countries: Russia, Belarus, Ukraine, Moldavia, Kazakhstan, Kyrgyzstan, and the countries of the Caucasus region (Armenia, Georgia, Azerbaijan, Tajikistan, Turkmenistan, and Uzbekistan).

The characteristics of countries in this region include political instability, fluctuation of local currencies, import and other duties, and special requirements for appliance certification. Competition in the market is further tightened by local manufacturing by major Western players in the industry.

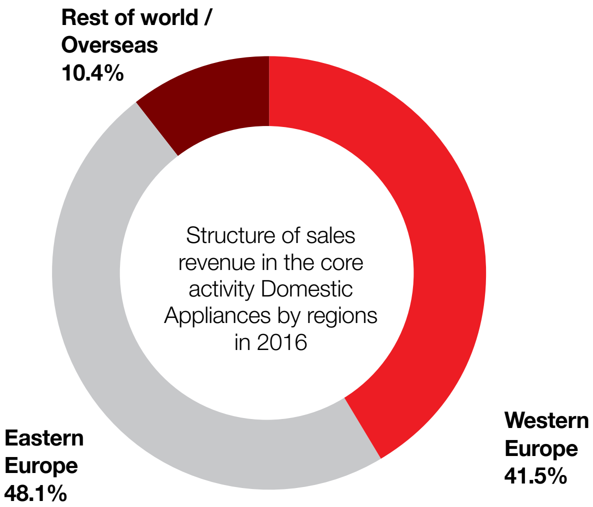
The home appliance sales trend was positive as sales in volume terms were higher than in 2016 in nearly all Eastern European countries (the Czech Republic, Slovenia, Hungary, Slovakia, Bulgaria, Croatia, Albania, Montenegro, and Macedonia).

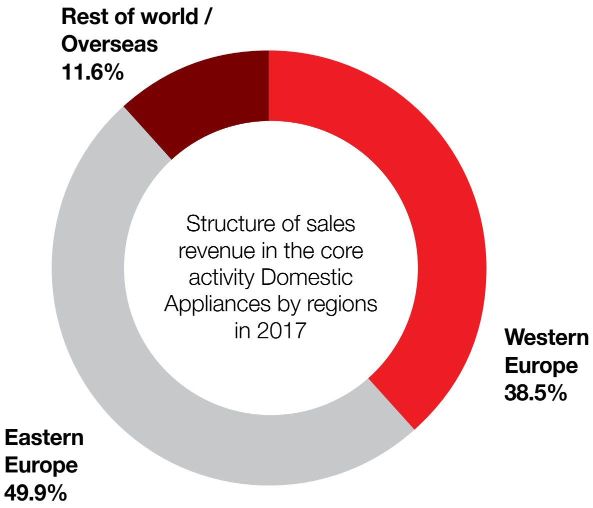
The **trend of rising online sales and shrinking sales in traditional channels** applies to this region as well. The shares of appliances with innovative product features and the share of energy-efficient appliances are not as high as in Western Europe, but they are also on the rise. Moreover, some countries in the region are **politically highly unstable.**

REST OF WORLD

Region definition: The Rest of World sales region includes all countries outside Europe: North America, Australia and the Pacific region, Middle East and Africa, Far East, and South America.

Operations and performance in 2017: This is an extensive and diverse region consisting of highly developed economies like USA and Australia, underdeveloped countries, and developing countries and emerging markets (like China and India) characterized by a rapid pace of urbanization. Just like the regions and segments differ, so do the trends in home appliance demand. According to the most recent macroeconomic forecasts, **stable growth is anticipated for the USA, China, and India in the period 2017–2018,** while Brazil is expected to bounce back to growth after several negative years.





Gorenje brand

Sales results

Our position in the markets of Western Europe was still affected by the process of **sales structure optimization,** improvement of support to sales teams by introduction of a uniform and advanced customer relationship management system, and systematic brand and sales channel management.

Relative to the year before, **sales of domestic appliances under our own brands were 0.3 percent higher in value terms than in the year before.** Due to repositioning, our sales were lower in Germany, Scandinavia, and Great Britain. Our revenue was higher than in the year before in many Eastern European markets and markets beyond Europe. After the harsh economic conditions in the last three years, sales in the CIS region (Commonwealth of Independent States) were stabilized again in 2017 as they grew by 5.1 percent relative to the preceding year.

Consistently with the Gorenje Group strategic plan, we sought to drive up the sales of appliances with higher value added. These include innovative appliances, with sales up 4.1 percent; their share in total sales revenue increased to 15.1 percent (+1 percentage point relative to last year in comparable terms).

In most markets, we pursued the **policy of pricing repositioning, and improved our sales structure.** This was reflected in sales growth in the innovative segment. We successfully launched new products that consolidate our market position. The year 2017 was also the **first year of sale of dishwashers from our own production.**

With higher sales of appliances under the Gorenje brand, we decreased our inventories, which in turn improved the utilization of working capital.

Despite the new generations of cooking and dishwashing programs, we succeeded in decreasing product complexity and wrapping up the year by shrinking the range of active products by 20 percent.

The **upward trend in online sales of domestic appliances** has persisted and this channel now accounts for a fifth of all technical consumer goods sales in Europe. Considering the expectations of further online retail growth, we adapted our sales and marketing strategies to this segment.

In Eastern Europe, **sales of major domestic appliances have grown in 2017 by 2.6 percent in volume terms.** Growth was mostly fuelled by the exceptional sales increase in Croatia where they were up by 8.6 percent. In addition to Croatia, the growth of our sales was the highest in Hungary, the Czech Republic, and Bulgaria. Sales in the Commonwealth of Independent States (CIS) was also increased considerably in the period: in **Russia by 2.2 percent, in Kazakhstan by 11 percent, in Ukraine and Moldavia by 25 and 12 percent, respectively in volume terms,** which consolidated our market positions there. In 2017, Gorenje increased its market shares in Ukraine, Bulgaria, Slovakia, Hungary, and Austria, and lost a part of its market share in Croatia and Germany. We reached a higher profit margin and recovered our market shares where we had lost them the year before.

In terms of market share, our position in the region differs from country to country:

- on the one hand, there are markets where our market share greatly exceeds 30 percent despite the harsh competition (Slovenia, Serbia, Bosnia and Herzegovina, Croatia);
- there are some countries where market shares are between 10 and 20 percent (Czech Republic, Hungary, Slovakia, Macedonia);
- in other countries, market shares are below 10 percent and in these markets we see the potential for growth in the years ahead.

In all markets in the region, we are **offering a uniform regional product range.** This considerably reduces complexity on the one hand, but at the same time gives us a broader range of appliances available in each country.

In 2017, we carried out in the summer months for the first time at Gorenje Group a **uniform regional marketing campaign for the No-Frost refrigerators and dishwashers.** The result was a bump in sales of these appliances across all markets.

Despite the uncertain conditions, **Russia was a key market** for the Gorenje Group. In 2017, we continued to use a variety of sales channels: retail stores, major retailers, kitchen studios, and online sales which accounted for over 20 percent of our sales in the CIS region last year and for 10 percent of all major appliances in Russia.

In 2017, we faced currency risks throughout the year, as well as the merger of two of the largest electric retail chains that, combined, account for nearly 60 percent of the white goods market. This brought about some additional challenges for us, compared to some of our **competitors who manufacture their products locally. Nevertheless, we succeeded in retaining or increasing our market shares and strengthen our competitive position in both Russia and Ukraine.**

Dramatic currency depreciation was also seen in Kazakhstan, and competition, especially from China and South Korea, exerted additional pressure. Despite this fact, we increased our sales in Kazakhstan relative to 2016 and gained market shares. Similar development was also seen in the Caucasus region where we wrapped up the year 2017 with higher sales revenue than in 2016.

Gorenje brand is positioned in the mid-range or upper-mid price segment in all markets of this region.

In the Middle East and North Africa, we succeeded in increasing our market shares despite the harsh political and economic conditions. Sales growth of major domestic appliances in volume terms reached 41 percent. We are focused on our strategic markets (Saudi Arabia, United Arab Emirates, Iran, Iraq, and Egypt) and we worked with our business partners in charge of our distribution in these markets to develop a sales strategy that will allow us to efficiently tackle the local challenges.

Our sales in Australia rose by 8 percent in 2017.

In the Far East, where our sales in 2017 nearly doubled relative to the year before, our activities are focused on sales in the sector of contractual supplies and construction projects where we have the **status of a European premium home appliance provider.** Key markets for us are Hong Kong, Thailand, Singapore, Malaysia, and Vietnam. In 2016, we employed a comprehensive sales approach to also **enter the market of China** where we are working with our distribution partner and a selection of appliances to pave our way to better recognition and sales in the premium segment. To this end, we have our **sales company in Shanghai**. In 2017, we also **opened a sales company in Bangkok,** which will allow us to pursue our sales plans in the years ahead, and to better manage the markets and improve our cooperation with our partners.

In South America, we operate our own representative offices in Brazil and Chile. Due to complicated import procedures, high import duties, and stringent appliance certification requirements, we are only present with our products of the high-end price segment in Brazil. In 2016, we started working with one of the major retail chains, which had a significant effect on the growth of sales revenue, and we founded a **sales company in Chile** from where we will conduct our sales operations for the neighbouring Spanish-speaking countries. The focus of course remains on the market of Chile which is highly competitive, but also the most similar to the developed European markets.

In OEM and industrial deals, we saw a 20-percent drop relative to the year before, especially due to discontinuation of cooperation with Panasonic and poorer cooperation with the Swedish partner Electroscandia.

Targets for 2018

We expect the **demand for our products to increase in Western Europe.** Germany will still head the list in terms of sales, yet taking into account the synergies in Gorenje brand management along with Austria. In the first half of the year, we are introducing the sales of a new generation of washing machines and cookers. We continue to sell our small domestic appliances. We are pursuing the path of **sales and business process restructuring in Germany,** as laid down in 2017. Considering the positive changes and the introduction of new, innovative appliances, we expect our position to improve in 2018.

In Eastern Europe, we shall focus on **revenue growth and strengthening of our market position by introducing new products (new generation of 60-cm-wide cooking hobs and cookers, washing machines)** and by optimizing our business processes.

Our biggest challenges in the near future will be the slowdown in real estate development, adjustment of products to local legislation and regulations, and increasing our brand recognition.

Consistently with our strategic goals, we are looking to boost our sales in all select markets around the world. In 2018, we are planning significant revenue growth compared to 2017, betting in particular on the markets of Australia, China, Hong Kong, Vietnam, Thailand, Iran, United Arab Emirates, Iraq, Chile, and the USA.

New products in 2017

We presented many new developments at the IFA tradeshow in Berlin.

Hot (cooking) appliances:

- Launch of a new generation of cookers with a width of 50 cm and 60 cm. Key highlights included remarkable volume in the 50-cm category, which reached, depending on the configuration, up to 75 litres.
- Innovation: possibility to use the grill function in gas ovens with the door closed, which previously had not been possible in products with a width of 50 and 60 cm.
- Presentation of a new generation of ovens of the Pro Series with new colour control displays, which won the Red Dot Award 2017.
- New gas hobs, also winners of the Red Dot Award 2017.
- Start of sales of the second generation of the design line Ora-Ïto.
- Cooling appliances:
- Start of sales of the entirely revised line of built-in refrigerators
- Ability to cover all standard dimensions of built-in refrigerators
- Successful start of sales of the Gorenje Retro Special Edition refrigerators
- Presentation of new refrigerator colours
- Presentation of new generation refrigerators with a height of 85 and 143 cm from our supplementary program
- Awards: free standing refrigerator Retro ONRK193BK – 1st place in the test by the Slovenian Consumers Association; free standing refrigerator NRK6192 CX – ocean rating »good« in the German consumer journal ETM Testmagazin; refrigerator Gorenje Retro Special Edition – award for the best licensed product in the category of innovative products in the market of Great Britain

Washing machines and dryers:

- Preparation for the new generation of washing machines and dryers; start of registration / certification
- Managing and adding special appliances according to the requirements of the markets and customers
- Expanding the range of washing machines with inverter motors
- Award by the Slovenian Consumers Association for the washing machine W8665K for the best washing result among tested appliances.

Dishwashing appliances:

- We added special models to the new generation of dishwashers (launched in 2016), depending on the needs of the markets and retailers.
- Adding models with cam hinge on the door
- Launch of sales of dishwashers with a width of 45 cm with an inverter motor in the Russian market
- Launch of new dishwashers under the brands Mora and Upo
- Awards: for the dishwasher GV66160, rating »good« at the test by the Slovenian Consumers Association for the dishwasher with the best dishwashing effect among those tested; for the dishwasher GV66260UK, Best Buy award in the consumer magazine ETM Testmagazin.

Marketing communications

At the central market communication department for the Gorenje brand, we developed **all-around communication support for all new product launches and related services** in 2017 (integrated online and offline solutions). Media lease, local adaptations, and printing of catalogues were left to respective markets. Taking into account the position and recognition of the brand in respective markets, we are working with the headquarters to specify concrete goals and performance indicators.

At the end of 2017, we successfully carried out, consistently with the development vision of the brand's market communication department, **a regional ATL communication campaign for six countries of the Adriatic region,** which was entirely managed and monitored form the headquarters for the first time in our corporate history.

We continued to **operationalize our strategy of content marketing to support the identity of the Life Simplified brand.** To attain uniform brand recognition across all markets, we developed a sonic (audio) signature and music that supports the brand promise. We also defined the photo approach of the brand for the needs of communication in both online and offline communication. Consistently with the relevant starting points, we prepared packages of communication solutions to support sales upon launching new products in the markets.

Our recommendations for media distribution and preparation of contents are focused on digital channels and BTL marketing in combination with ATL marketing, especially in markets where Gorenje brand recognition is high.

Key activities

We paid the most attention to market communication support of two product categories in the global market: NoFrost refrigerators and new DW 30 dishwashers. We also prepared communication packages to support other new product launches:

- built-in refrigerator freezers,
- new generation of free standing cookers, and
- gas hobs.

We started to develop communication solutions to support the new generation of washing machines and dryers to be launched in the first half of 2018, and whose launch will be supported globally. For the tenth time in a row, we took part in the largest consumer electronics and white goods tradeshow IFA 2017 in Berlin. We developed comprehensive communication support for this important event: concept, graphic solutions, activations at the tradeshow venue in Berlin, printed material, and communication support online and in social media.

In the summer, we launched Gorenje's virtual shopping assistant Anna for whom we developed contents and communication support.

In the second half of the year, we intensively developed promotional support and communication for the sponsorship of the EHF Champions League, and the Men's European Championship EHF EURO 2018, which took place in early 2018. We approached the project with long-term strategic concept and clear communication goals.

Asko brand

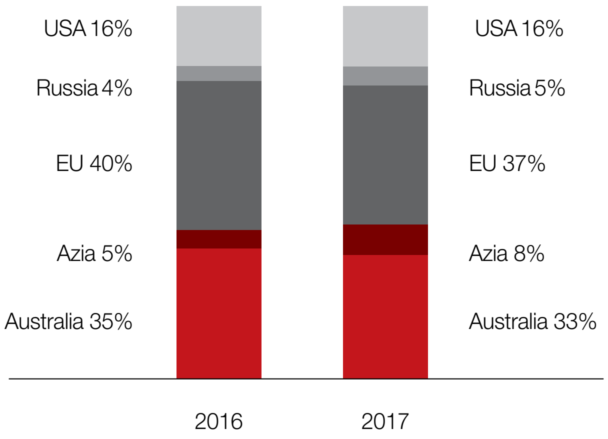
Asko is the Swedish premium brand of major appliances that aims at achieving a leading position in the upper market segment on selected markets worldwide by supplying a full range of premium domestic MDAs and a limited professional range of wet products.

Asko objective is to meet and exceed customers' expectations with its products and services. The product design, sleek and minimalist, brings to life the Scandinavian philosophy and makes every piece stand out from the competition.

Sales performance (by regions)

Asko recorded a successful 2017 in terms of sales. Compared to 2016, there was a +10.8% revenue growth in all geographical segments. The share of Asko premium appliances sales in total domestic appliances revenue accounts for 11.2 percent, which is consistent with the goals defined in the Strategic Plan for the period 2016–2020.

Growth was particularly important in Asia (+74%), followed by Russia (+39.8%), USA (+14.6%) and Australia (+5.8%). In Europe, particularly in the Nordic countries, the growth was +7.8%. This result was affected by an important operation of pricing repositioning that led to a margin improvement. In terms of product category, the wet products account for approximately 75% of the business (Washing Machines, Tumble Dryers, Dishwashers). The cooking range, that was launched in 2014, has now reached the mark of 25% and keeps growing at high rate, making Asko a key player in the Built In market.



Structure of Asko sales revenue by regions in 2017, value terms

New product launches in 2017

- Asko Pro Home Laundry started to roll-out in November 2017. Awarded with the Red Dot Design – Best of the Best during the spring in 2017.
- Dishwashers with Sliding door solution and new user interface. New solutions for lower water and energy consumption as well as new faster programs.
- Roll-out of the HIG1944MD - gas and induction combined in a design awarded cooktop with unique touch user interface controlling both gas and induction.

Marketing communications

- A digital agency has been appointed in order to redefine the online experience and convey the value of the brand and its Scandinavian heritage. The objective is to redesign the websites and leverage a new communication concept.
- A PR agency has been appointed in order to boost the social media reach. The objectives are to reach 10.000 likes of Facebook and 5.000 followers on Instagram by June 2018.
- Asko will keep focusing on opinion leaders such as interior designers and architects with the objective to create a proprietary international database for direct marketing activities. The objective is to reach 5.000 names by June 2018.
- On the products side, the new platform of Asko washing machines and dryers will complete the international roll-out by the month of April 2018.
- Asko will be present at the Eurocucina in Milan from April 17 to 22, with a big stand (250sqm) to showcase 4 kitchens and a kitchen for a Swedish show cooking. Events ‘fuorisalone’ (in the city of Milan) will be organized to cater to actual and prospect clients and opinion leaders.
- In the second half of 2018 Asko will be again present at the IFA fair in Berlin.
- A new unique service has been launched in Australia, which provides a 7-days-a-week technical assistance to all clients.

Sales Targets 2018

Asko forecasts a turnover increase of 18% thanks to:

- Finalization of the launch of the new range of WM, TD and DW
- Launch of the auto dosing machines (end Q1)
- Expansion in the kitchen retail channel, expanding the built-in products. The key moment for this strategy will be Eurocucina (April 2018)
- Opening of new markets (Spain, UK, Germany) and steady growth in established markets (Australia, USA, Nordics, Benelux, France)
- Aggressive expansion in Asia (China, Taiwan, Hong Kong) and Oceania (New Zeland)

Focus 2018

- Asko will continue to grow in the cooking segment in 2018. The first quarter will see a big focus in this area with the preparation of the second exhibition of Asko at the Eurocucina fair in Milan.
- The strongest markets - Scandinavia, Australia, and the USA – will improve the sales rate in dishwashing and continue to take shares from the competition. We will also see the rapid growth in Asia, especially in China, with the cooking appliences. In 2017, 15 showrooms were opened in China and in 2018, 10 to 15 showrooms are planned.
- Thanks to our agreements with many of our distributors, in 2018 we will be able to improve dramatically the presence of Asko in retail. Store displays will be created around the world, along with smaller product displays in both electrical retail and in kitchen dealer’s showrooms.
- At IFA Berlin 2017 we presented the full laundry range for the first time. This new range of design awarded laundry products will increase Asko’s market shares in the premium laundry segment. With auto dosing and the new Pro Wash system Asko now has a very competitive laundry line with great appeal to all the markets in 2018.
- In 2018, Asko will also launch Connect Life appliances. Products include both cooking and dishwashing. For this project the focus is all on the Elements Cooking range, along with the new built-in refrigeration and fully

integrated dishwashers. This strategic project will position Asko in the forefront of innovation.

Atag brand

We sell household appliances under three Dutch brands - Atag, Pelgrim and Etna - in the following segments: kitchen retail, replacement market (electro retail, DIY, e-tail) and construction market (projects). With clear segmentation - Atag high-end, Pelgrim middle and Etna low / entry price segment - each brand addresses different target groups. The premium high-end Atag brand offers the best appliances and services for exciting cooking experiences driven by innovation and superior design, while Pelgrim offers cooking appliances that are practical and efficient and make life easier in the kitchen. Etna offers appliances for price-conscious customer looking for the best value for money price.

User benefits

The promise of the Atag brand from the very beginning is based on passion for cooking. In the Gorenje Group R&D competence centre for cooking appliances in Duiven, the Netherlands, we pay great attention to the fact that the device offers sufficient value to the end user. We do this through consumer panels. Consumer insights and clearly expressed opinions are crucial for the correct orientation in the field of development and innovation. Only in this way we can create cooking hobs that support the user in the cooking process and make the work as easy as possible.

We pay a lot of attention to the selection of appropriate and high-quality materials and thoughtful design, not only when it comes to the exterior of the appliances, but also for their interior (e. g. ovens, refrigerators, dishwashers). Thus, the Atag brand for the pronounced balance between robust and sophisticated, craftsmanship and technology, has been receiving various design awards for many years (Red Dot, GIO ...).

Sales performance (by market segments)

In 2017, Atag's sales through kitchen retail were more successful than in 2016, but the performance stayed behind the growth of the market in this sales channel. Due to very strong competition in the field of replacement purchases, Atag lost some market share compared to 2016 and stayed behind the 2017 budget. Sales in the segment of construction projects stayed at the level of 2016 and reached the 2017 budget.

Marketing Communications & New Product Launches

To promote sales activities, we conducted sales campaigns throughout the year both for retail and for end customers. In the first quarter of 2017, we participated at the Batibouw exhibition in Brussels (approximately 300,000 visitors), where we introduced new appliances and market concepts (including the 8-year warranty for Atag and Pelgrim brands).

During the annual house fair Benelux House Show, which was attended by a record number of traders and other business partners in recent years (approximately 3000), we introduced the innovations: a hob-in-hood, a new series of refrigerators and Connect Life (Connectivity) appliances. All the presented innovations were accepted with enthusiasm.

Although we focus on the Benelux region, we have considered various aspects of European legislation when developing connectivity appliances, which is important for the whole Gorenje Group. In the Netherlands, the governmental Authority for Consumers and Markets (ACM) regulates issues related to consumer and privacy laws. The Legal Department, including the Director of Compliance and Data Protection and Privacy, monitors compliance with sector-specific legislation and regulations and other local requirements.

Targets for 2018

- revenue increase of around 13.5 percent
- introduction of the renewed strategy of brands Atag, Pelgrim and Etna; Atag will be marketed as a consumer brand with an emphasis on broad visibility and positioning in a high-end price range. We will sell Pelgrim through specialized retail, while we will promote Etna through both online and off-line activities.
- restructuring of the sales team with emphasis on kitchen retail, replacement purchases and construction projects
- optimization of after-sales and service processes, including user experience
- installation of the first connectivity appliances in the pilot project (Hof van Holland, Hilversum, Netherlands)
- an ambitious plan to regain market share and a premium position in Belgium

2.1.1.2 Programmes

Consistently with the announced pursuit of strategic policy of lean and efficient organizational structure, Gorenje Group revised its organization as of February 1, 2017. The purpose of the revision was to round off the product categories of cooking, laundry, cooling, and dishwashing appliances and small domestic appliances into separate programs. This allows us to focus more efficiently on the performance of each program as a whole.

DOMESTIC APPLIANCE SALES REVENUE, STRUCTURE BY RESPECTIVE PROGRAMS

Cooking appliances 42.7%

Cooling appliances 24%

Laundry care appliances 16.7%

Dishwashing appliances 12.1%

Small domestic appliances 4.5%

Hot (cooking) appliances

Program presentation

The Cooking Appliances program with development and production units in Slovenia, the Czech Republic, and Netherlands, and to a small extent in Serbia, accounts for 42.7 percent of total sales revenue in the Domestic Appliances business and has about 1600 employees. Annually, we sell 2.4 million cooking appliances in markets across the globe, of which 1.5 million are produced in-house, while nearly 1 million are supplementary program appliances, which mostly include kitchen hoods and free standing microwave ovens.

In Gorenje Group's new business model, the Cooking Appliance program manages centrally and in a coordinated manner all business processes of development and research, and the entire business process related to product supply. The program's vision is to provide the best solutions in cooking technology for our brands and end users. The cooking appliance program sees its mission in the care for people, environment, and business stakeholders. The program's key values include the following:

- Functional connection of the international team
- Striving for constant improvement
- Open communication

The program includes the following product categories:

- Free-standing cookers
- Built-in cookers and ovens
- Built-in cooking hobs
- Kitchen hoods
- Microwave ovens
- Built-in warming drawers

The 1.5 million appliances that are made in-house are produced in Slovenia (Velenje) and in the Czech Republic (Mariánské údolí), while a small part is also made in Zaječar (Serbia) and Duiven (the Netherlands).

Focus 2017

We provide safe, quality, and efficient products with advanced features for the end users. Moreover, program goals include the following:

- Strengthening the competitive edge of our range of cooking appliances through investment into research and development
- Launching new products in key markets
- Improving cost efficiency of the use of assets
- Improving the level of innovation in all business functions of the program

In business terms, 2017 was one of the more challenging years, not only due to organizational changes, but also due to transitions to new platforms and technological updates to manufacturing plants. Nevertheless, we have proven our commitment to the attainment of our goals.

Research and development: Sale under our own brand requires focus on research and development. Compliance and alignment of development procedures, production, and documentation allow access to demanding markets and thus ensures timely launch of a new product in the market. Currently, projects are under way that are related to new technologies and cooking concepts, energy efficiency and alternative heating sources. In new product development based on meeting the expectations of the market or the end user, we also observe from the start of the planning process the production aspect of increased automation level and support to modular manufacturing.

In 2017, we launched two new platforms:
- new generation of free standing cookers, with a width of 50, 60, and 70 cm; and
- new gas built-in hobs in the medium price range, with a width of 60 cm.

Both platforms were received very well in the market.

Production: The main focus of production in 2017 was technological update to manufacturing locations for production of new product platforms aimed at cost optimization, efficient use of all resources, provision of high product quality, and faster adjustment to customer needs.

In the third quarter, we had some problems at our Czech plant, which saw a complete technological overhaul in 2017, when establishing regular production of the new platform of free standing cookers, which were related especially to the required quick increase in production output and attainment of adequate quality. With rapid measures in all fields, we stabilized the situation in the fourth quarter, so that the factory was able to deliver consistently with the approved production plan. In our production process, we follow the best production practice and continuously improve our processes to cut throughput time throughout the supply chain.

Quality management: Product quality and continuous improvement of key quality assurance processes are among the strategic policies of the program. Quality as a process is set up as systematic management of the following processes:
- input deliveries,
- user requirements,
- development and research for provision of quality, safe, and efficient product,
- quality in production process, and
- customer satisfaction monitoring.

We constantly monitor feedback on customer satisfaction with our products through indirect indicators, like customer complaints, warranty claims, or product recalls. Key indicator of quality, monitored according to the TCR (technical call rate) method, is the rate of appliance failures in the market during warranty period. The program is on track with the goals laid down regarding quality in the market.

Targets 2018

In the fiscal year 2018, we will employ a well-coordinated approach to the management of business processes for product development and production and solid cooperation with sales departments of respective brands to try to further improve the competitiveness of the program. We shall focus on the following:
- timely development of innovative products,
- optimization of production processes, in order to cut costs and improve quality, and
- reduce risks related especially to our supplier base.

Refrigeration appliances

Program presentation

Most appliances of this program are made in the factory in Valjevo, Serbia, which is Gorenje Group's largest manufacturing plant outside Slovenia, with 1,300 employees. A part of the cooling appliance production also takes place at the Velenje plant, which belongs to the dishwasher factory in organizational terms. The share of complementary program is 12 percent. The largest markets for this program are Germany and Serbia.

Predominant part of cooling appliances made under the Gorenje brand is followed by OEM brands and the brands Atag, Etna, Pelgrim, and Asko. The program's development and competence centre with 52 employees is located in Velenje.

The program includes the following organizational units: development and competence center, performance management, quality management, product management, and Valjevo factory.

Focus 2017

Revenue amounted to EUR 235 million in 2017, which is less than in the year before. In total, we sold 950,000 appliances, of which 807,000 were appliances of our own production and 143,000 were appliances from the complementary program.

Research and development: The majority of activities was targeted at development and introduction of a new generation of built-in refrigerators with a width of 54 centimetres. The project is progressing in respective stages: in 2017, we introduced appliances with a height of 178 cm; in 2018, we will introduce appliances of other heights.

Production: We saw a drop in production, resulting from lower sales, especially in Germany. Manufacturing output volumes lagged behind the plan; therefore, a large part of program activities included adjusting the costs to lower production volume. In this respect, we cut the number of directly and indirectly employed, and conducted activities to cut the costs of basic and auxiliary material.

Quality management: With regard to quality, we conducted corrective activities to reduce errors on the NoFrost appliances, related to formation of ice in the cooling system, and appliance noise.

Targets 2018

Key activities in 2018 will be targeted at further reduction of costs and new product development.

Cost-cutting activities:
- Optimizing the costs of direct and auxiliary material
- Improvement of productivity by implementing the principles of lean manufacturing

- Reduction of complexity – discontinuation of the NGC-540 platform

New product development:
- Preparation of the project for revision of combined fridge freezers with a width of 60 cm
- Introduction of a new generation of free-standing refrigerators with a width of 54 cm from the complementary program, and gradual phasing out of own production
- Extension of the range of built-in refrigerators with a width of 54 cm (heights 88/102/122/140 cm)
- Implementation of integrated handle on free standing refrigerators with a width of 60 cm
- Preparation of the project for revision of chest freezers
- Preparation of the project for revision of under-counter appliances for an OEM buyer

Washing machines and dryers

Program presentation
We follow the policies laid down in the Gorenje Group's strategic plan, with the focus on sales growth for premium and innovative appliances under the brands Gorenje, Atag, and Asko. Washing machines and dryers are made in two manufacturing plants, mostly in Slovenia and small part (Washing machines) in Serbia (Zaječar). The share of production in Serbia is lower than 10 percent, and it mostly includes appliances for the Russian market. The program employs in average 620 people. In all markets combined, we sell around 700,000 appliances each year.

Our production range includes:
- Washing machines of various dimensions (normal, slim etc.), technical characteristics, and lines
- Tumble dryers

Our offer is expanded with combined washing and drying machines and drying cabinets, which are sourced from third-party manufacturers and then marketed under our own brands.

Focus 2017
In 2017, the program was at the milestone of changing the appliance generations. We launched mass production of the new generation for the Asko brand already in June; new generation of appliances under the Gorenje brand will be available next year. The project is therefore in its closing stage. Test series is already in progress, and mass production will be launched in 2018 as planned.

The new generation of appliances will improve our competitiveness and program profitability. In the product category in the medium segment, we developed two new washing machine platforms that are already in the testing stage. We have set up a new lab for durability testing of washing machines and dryers.

Research and development:
Premium product category:
- We are also launching other types of appliances, as a part of the new generation of washing machines and dryers (WMD 75/85)
- Development of professional appliances
- Development of a drying cabinet

Medium price range product category
- Development of a new generation of washing machines and dryers
- Development of a new generation of the successful line Simplicity 2.1

Production: Main production activities are oriented towards improvement of productivity and optimum use of resources. Consistently with the lean manufacturing system, continuous improvements are in progress in technological processes that, along with process automation, support the optimization of production process and improvement of product quality for the end user.

In 2017, we adapted technologically to the introduction of new generations of platforms for the premium and medium range of the washing machines and dryers. We continued to optimize appliance production and to improve the material flow in order to **make production even more efficient, with minimum inventories of raw materials and semi-products in all production processes.**

With regard to human resource training, we carried out in 2017 a workshop Ambassadors of Efficiency, which is based on the improvement of competencies of direct managers in the production process for efficient leader communication.

In 2017, we continued our activities to decrease production costs and the share of scrap or waste.

Quality management: By defining the internal quality goals, we are pursuing the strategic plan for the period 2016–2020 in which we also highlight improvement in quality and reliability of our appliances. In 2017, our quality management was focused predominantly on the processes of new product implementation, and activities related thereto. We held video conferences with our key customers for all brands to improve our processes of communication with the market, so that we can resolve problems faster and more efficiently, and improve customer satisfaction. Revision of product testing system and improved control over testing have contributed to the improvement of reliability of our appliances.

We followed the increasingly demanding needs of our customers by:
- implementing modern user interfaces for our appliances,

- innovations that simplify the users' lives,
- custom design,
- energy efficiency.

Targets 2018

In the 2018 fiscal year, we shall carry on our activities to improve productivity, appliance quality, and cost efficiency, and to optimize processes. The focus will be on the following:

- completion of the project and implementation of the new washing machines and dryers generation under the Gorenje brand for all markets,
- launch of the remaining appliance models as a part of the new generation of premium washing machines and dryers under the Asko brand, and
- full integration of operational purchasing into the program.

Dishwashers

Program presentation

This is the youngest program within the Gorenje Group, and currently the smallest in terms of volume. However, it has seen high growth of production output and sales, and stable level of supplementary program in comparison to the previous year.

The program includes the following departments: dishwasher development department, in Sweden (Lidköping); dishwasher and cooling appliance production; quality management department; dishwasher product management department; and program performance monitoring department in Slovenia (Velenje). In 2018, we will add the purchasing department for the supplementary program.

The independent development department located in Lidköping, Sweden, plays an important role in the program. There, we employ 42 highly trained experts who develop dishwashers with excellent technological equipment. In their work, they are supported by operational development located in Velenje, Slovenia.

Focus 2017

Research and development (Lidköping): In the dishwasher program, we have launched in the last year an entirely new generation of dishwashers developed at our own development department in Sweden. The appliances are built on the platform with a width of 60 cm – DW30 that represents the medium range of appliances and which is mostly made for the Gorenje brand. All types of appliances are already available in the market, and the market response has been very good. The platform has also won several major innovation and market awards.

Our development activities are now targeted at the launch of a new premium platform with a width of 60 cm – DW40. In 2017, we prepared the first part of the project, and we shall complete it presumably in 2018 when we launch the basic version of the DW40 premium class. A version of the premium appliance will also be intended for professional use. Working on the same platform, our development is also active on the connectible appliance project. In this regard, our plan is to launch in the first half of 2018 an appliance that can connect to other appliances via WiFi protocol.

As we complete the DW40 project, capacities will be released, and we will be able to focus on the development of a new generation of appliances that are expected to hit the markets in 2020/21.

The pre-development department is developing new solutions in which we will be able to add into our appliances new technologies and extras that will make our appliances competitive in the long run.

Our dishwashers have scored very high in a variety of tests:

- Testing by the European consumer organization, 159 European dishwashers: Gorenje in 29th place; in Slovenia, top place for the best dishwashing effect
- TestBild (consumer supplement of the Bild newspaper): SmartFlex generation ranked 5th in Germany among all cleaning appliances, and 2nd in the category of dishwashers
- Chamber of Commerce and Industry of Slovenia – golden award for innovativeness
- Chamber of Commerce and Industry of the Šalek region – golden award for innovation

Production (Velenje): The year 2017 was a watershed in production growth as we increased production by 20 percent relative to the preceding year. We launched all remaining dishwashers of our medium range – DW30 SmartFlex and appliances of our premium class Asko DW40. The appliances are targeted especially at the markets of Australia, USA, and the EU.

Production plant in Velenje has a capacity of 280,000 dishwashers per year. Currently, this capacity is not fully utilized, but we expect it to be fully utilized in two years, and increased thereafter.

The results of sale of the new DW30 platform are excellent, and we expect the same from the new premium appliance platform. Production and sale of DW30 dishwashers have exceeded the budgeted volumes for 2017 by 60 percent.

Overall results of our own production of all dishwashers in 2017 exceeded the budgeted figures by 12 percent. In comparison to 2016, dishwasher production was increased by 31 percent.

Targets 2018

The fundamental goal of the program is profitable operation consistently with the adopted strategic and annual plan for the Gorenje Group. Within this, we shall strive to:

- improve productivity;

- optimize the processes in production consistently with the company policies;
- launch new products consistently with the adopted development document, as follows:
  - DW40.C – new platform for a semi-professional dishwasher
  - DW40.1 – entry level for the new premium platform
  - DW40.2 – connectivity – connectible, smart appliances
  - DW40 Outdoor – dishwasher for outdoor use (outdoor kitchens)
  - introduction of a new mini detergent and rinse aid dispenser
  - introduction of an inverter motor for all dishwashers
- integrate purchasing of supplementary program into the dishwasher program.

Small domestic appliances (SDA)

Program presentation

The SDA program continued its rapid growth of sales in 2017, which rose by as much as 18 percent in comparison to 2016. The fastest growth was seen in the markets of Russia and Ukraine.

By sale of small domestic appliances, we were focused especially on European markets and the CIS region: sales in the EU markets accounted for approximately 40 percent, while sales in markets beyond Europe accounted for 60 percent. The most important markets for sale of small domestic appliances under the Gorenje brand are Serbia, Russia, Ukraine, Romania, Slovenia and Croatia.

Sale of small domestic appliances has a seasonal component. In 2017, it again peaked in the last quarter which accounted for approximately 32 percent of annual sales; sales in the third quarter amount to 25 percent, and sales in the first half of the year accounts for 43 percent.

Focus 2017

Research and development: We invested intensively into new product development. We launched around 50 new products that considerably improve the competitiveness of our product portfolio. We started to intensively invest into development of new product platforms and new product collections, like Gorenje by Karim, Gorenje Retro, and Gorenje Ora-Ïto. We developed and launched a new platform of the G-Force vacuum cleaners adapted to the new EU energy regulations, and which notably improves the competitiveness of our range of vacuum cleaners.

Our new collections and developed platforms are the basis for strengthening our positions in the markets where we are strongly represented. This is the foundation for further expansion of the SDA program to new markets, especially in the Western Europe and in overseas markets.

We have also developed an entirely new segment or products in which Gorenje brand had not been present before. This is the segment of personal care products, intended above all to women. We have developed a distinctive concept of colourful products and packaging aimed at younger consumers. We continued to introduce the Gorenje by Karim collection which was created in cooperation with the globally renowned New-York-based designed Karim Rashid, and the Chef's Collection line intended for more demanding customers.

Considering the success of the Classico line among major domestic appliances, we included small domestic appliances into this line: a new kettle and a toaster (sandwich press). We also introduced the Infinity line that rounds off the namesake line of major domestic appliances.

We continued to develop the cookware segment and introduced two new lines: Black Collection (high-quality aluminium cookware) and Deep Red Collection (a line of cast iron pots and a cast iron griddle).

We further expanded the sales range with new free standing induction tabletop cookers, kitchen scales, contact grills, hand mixers, stick blenders, kitchen robots, citrus reamers, bread makers, and vacuum sealers.

Quality management: We carried out a range of measures for further improvement of quality of small domestic appliances to comply with the industry standards.

Market communication: In market communication, we continued to redesign the product packaging (for all new products), and we developed all-around solutions for points of sale. We were focused on development of quality contents (especially video contents) for the launch of new products, which allow even more efficient launch of products and promotion of their sales.

In 2017, we conducted loyalty programs in cooperation with major trade chains. We will continue to do so in 2018.

Targets 2018

- Introduction of a new product generation/collection: Gorenje Ora-Ïto Collection, Retro Collection, and new models of the G-Force vacuum cleaners
- Further improvement of product assortment and competitiveness
- Increasing our market shares in Eastern Europe, and more intensive entry into new markets
- More efficient supply chain management

2.1.1.3 Strategic procurement/ sourcing

Focus 2017

In raw and processed material purchasing, we were focused on finding extra savings in material costs, further implementation of IT into the ordering and recall system, expansion of upstream/procurement markets, risk management, and working capital management by extension of payment terms and inventory optimization.

We were introducing the principles of category management and reorganized our procurement in Velenje.

Key activities

- We have successfully negotiated considerable decreases of prices with our suppliers. Thus, we have alleviated the effect of a strong upward trend in the prices of base raw materials, which was present throughout the year 2017.
- We continued to develop a network of stable and competitive suppliers, paying particular attention to the analysis of any new upstream or sourcing markets. We continued our activities in SE Asia (Vietnam, Thailand) and SE Europe (Romania, Bulgaria, Hungary). At the same time, we cut the number of suppliers to reduce complexity (the number of suppliers was reduced by 5.6 percent).
- We managed risks by securing timely forwards on coloured metals, implementation of new – substitute suppliers, and expanding the supplier base for steel sheet and plastic materials.
- We continued to optimize the supply chain parameters: reducing material inventories, reducing supply interruptions etc. We also paid a lot of attention to automation of the ordering and recall process.
- We reorganized the purchasing department in Velenje. We moved the operational part of purchasing to respective programs (see section Development of Key Segments/Programs). Thus, we optimized the flow of information between the material end user and employees responsible for smooth operation of our factories.
- Strategic part of purchasing is now focused on category management. We conducted several workshops with »inside customers« (employees from research and development, production, quality management etc.) in order to align the strategies and activities with respect to particular material categories.
- We actively invested in expansion of knowledge and skills of our employees (category management, sourcing methods, negotiations techniques).

Situation in the raw material market in 2017

- The decline in prices in 2015 was followed by raw material price hike in 2016 which continued in 2017. Due to force majeure (when hurricane Harvey caused a 2 months block of supply chain in basic feedstock for production of styrene plastics) and many extraordinary situations, we saw a drastic increase in the prices of styrene plastics, which peaked in February and March of 2017. The price growth trend settled thereafter, but the price of basic raw materials for thermoplastics in the period from January to December 2017 was on average higher than in the comparable period of 2016 by 5.3 percent. Due to the chronic scarcity of a component of isocyanate (MDI) which has lasted since November 2016, the price of polyurethane insulation increased considerably as well (by 30 percent).
- Relative to the year 2016, the prices of sheet metal increased on average by 10 percent. The main cause of this was scaling down of production due to tightening of environment protection standards in China, which is looking to cut its steel production in the period 2016–2020 by 20 percent. Another important factor was consolidation in the industry, and rising prices of iron ore and energy and fuels.
- We sought to alleviate these trends in the raw materials markets with timely forwards for the relevant raw materials (sheet metal and coloured metals), with a different approach to negotiations (signing contracts with a variety of price validity options) and global diversification of our sources. We sought to compensate for the price hikes in basic raw materials with intensive pressure on decrease of prices for those materials and components on which basic raw materials do not have a significant impact.
- Key information on the price increases in EUR terms relative to December 2016:
  - Brent Crude +12.1 percent (+54 EUR/t)
  - Styrene Monomer +5.02 percent (+60 EUR/t)
  - Copper +12.9 percent (+698 EUR/t)
  - Aluminium +27.3 percent (+408 EUR/t)
  - Nickel +12.8 percent (+1,419 EUR/t)
  - Steel sheet (average of the CRU EUR area) +29 percent (+120 EUR/t)
- Most raw materials are traded in US dollars. Dollar appreciated relative to euro by 7.1 percent in 2017 (year-on-year average, USD 1.1 = EUR 1 in 2016, and USD 1.1291 = EUR 1 in 2017).

Following were the key characteristics of raw material markets in 2017:

- **recovery of the global economic growth:** in particular, strong recovery of the automotive industry, cooling off in the Chinese economy and, as a result, of trade with export-oriented economies and resource-rich developing or emerging countries, closing down of factories due to environmental standards or accidents;
- **increase of oil prices:** lower production quotas for OPEC members, joined by Russia; oil price forecast to grow to up to USD 65 per barrel (in December 2017, the price was USD 59 per barrel, or EUR 52.53 per barrel);

- **dollar depreciation (December 2017: USD 1.18 = EUR 1)** resulting in a slight decrease of commodity prices in other currency terms; expected further interest rate hikes in the USA could reverse the dollar depreciation trend;
- **scarcity of basic resource for polyurethane,** reduction of production capacities in China, restoration of anti-dumping tariffs on imports of sheet metal from non-EU countries, and consolidation of the carbon and stainless steel sheet metal markets.

2.1.1.4 Activities for pursuit of strategic goals (operational support functions)

Monitoring the attainment of strategic goals

Focus 2017

At the Group level, we monitored the accomplishment of strategic goals from the 2016–2020 Strategic Plan, and execution of strategic projects, with the balanced scorecard system. Key performance indicators were monitored from the financial aspect, market and customer aspect, internal process aspect, and the aspect of learning and growth.

Key activities

We monitored the accomplishment of goals on a quarterly basis, and we pointed out any deviations. In order to improve operational excellence and to best satisfy the needs of our customers, we devoted our attention to the attainment of required returns, management of working capital in relation to supply chain management, financial leverage management, and increase in value-added.

Targets for 2018

We shall continue to monitor on a quarterly level the accomplishment of key strategic goals, to point out any deviations, and to request from those in charge to take action consistently with our vision and strategy. At the same time, we shall seek to individualize our targets to the greatest extent possible.

Product complexity management

Focus 2017

We are focused on developing a product portfolio for our own brands, which allows a diverse offer of products in the markets where we do business. We introduced improvements in terms of product complexity, which in turn improves our competitive edge and contributes to long-term growth of profitability.

Key activities

Based on in-depth analyses, we optimized our product offer, monitored the profitability of our products, and sought potential for their improvement without threatening their quality or sales potential. We pursued the target that we also carefully monitored and attained during the year. Optimizing our product portfolio remains a priority for the future.

Supply chain management

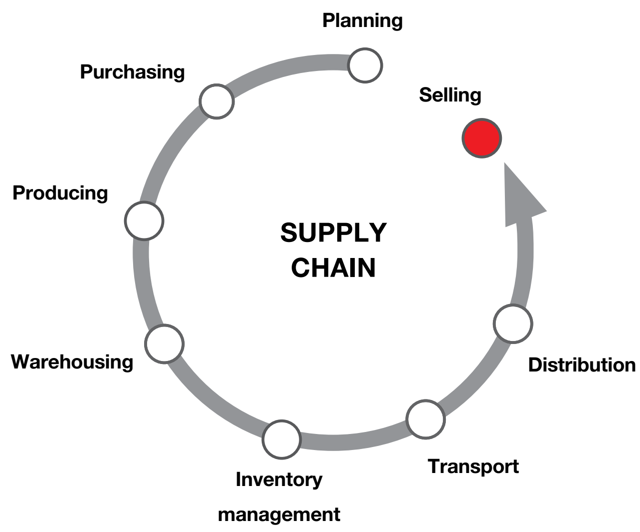
Focus 2017

Gorenje Group supply chain operation improved at all levels in 2017. Our activities were aimed at the customers, and we responded to the needs in sales. By optimizing and stabilizing the processes, we attained the goals related to the improvement of the quality of our services. In order to improve customer satisfaction, we continued our efforts for the best possible utilization of our efforts for optimum utilization of fixed assets (property, plant, and equipment), our working capital, and the costs for optimum operation of our supply chain.

Key activities

In 2017, we were focused on the following:

- integration of additional appliance categories into the supply chain;
- understanding the importance of efficient planning,
- optimum material sourcing,
- measures for a stable plan with the fewest possible critical and non-critical interventions,
- activities for the attainment of the specified supply chain indicators, and
- further improvement of inventory turnover.



Supply chain coordination includes efforts for optimum sales forecasting. This contributes to more even production capacity utilization and, in turn, improvement in production process efficiency.

Taking into account all key elements of the supply chain affords a comprehensive all-around view of the entire supply chain, which in turn allows us to effectively manage it.

In logistics, we optimized (selecting the most favourable transport methods, selecting the best service providers, and establishing new logistics models) our operations in 2017 to keep the prices at the lowest level in recent years. This has resulted in savings and a decrease in logistics costs relative to sales revenue. Most activities were aimed at preparing and conducting tenders for logistics services, and at negotiations and preparation of contracts with secondary logistics service providers in the Gorenje business system. Particular attention was paid to supply chain optimization, the operation of which is reflected in the logistics costs.

Our efforts are targeted at working capital management, and we paid particular attention to cutting the material and finished products inventories. We closely monitor the sales dynamics of merchandise and finished product inventories, and we take relevant measures in case of any lagging behind the goals set forth. We are striving for even dispatch of finished products throughout the month. We wish to improve the satisfaction of our customers by timely supply of appliances.

We resolve any critical problems in supply chain at regular monthly meetings with the departments of purchasing, production, logistics, and sales.

Improved cost efficiency

Focus 2017

We continued to coordinate the cost management activities. By active cooperation with those responsible at respective organizational units, we monitored and coordinated the cost-cutting activities by the end of the year. We monitored the costs by natural categories within respective organizational areas.

With regard to attainment of the goals laid down, we conducted benchmarks against the competition and sought to identify positive practices. By pointing out any deviations, we pursued the goals laid down in the strategic plan.

Key activities

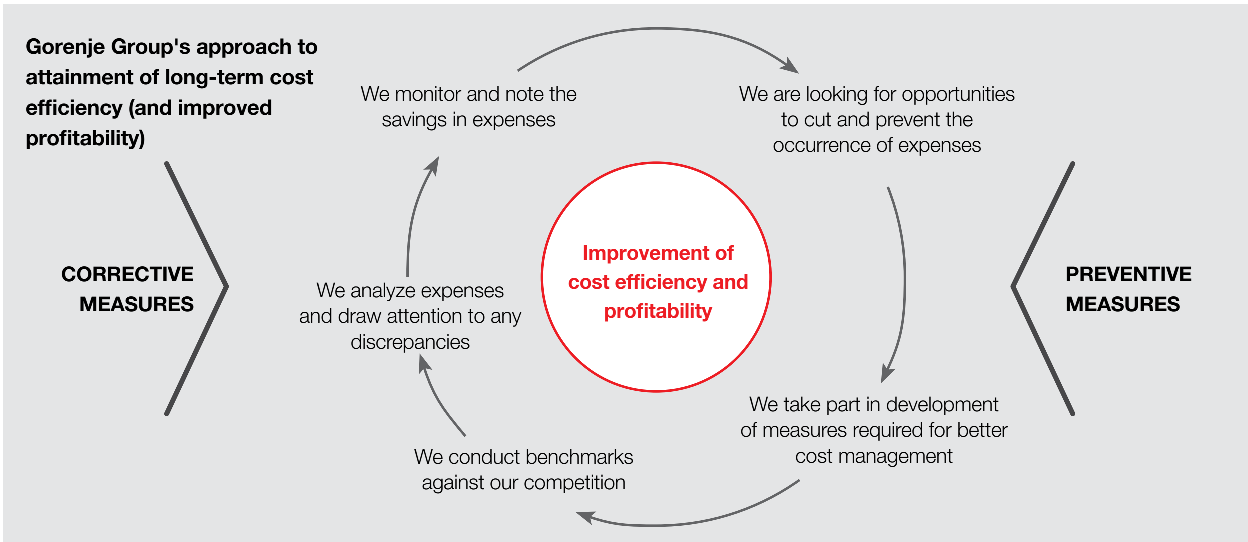
As a result of our active negotiations with the suppliers, strategic futures of raw materials, and hedging against the effects of currency and price volatility, the purchasing prices for **basic material purchases** were comparable or only slightly higher than in the year before or relative to the budget, despite a comparable scope of purchases.

We continued to **introduce modular production and to optimize production processes,** including as a part of supply chain cost management. We sought to ensure rational use of resources and energy with our energy consumption system. We sought to ensure rational use of resources and energy with our energy consumption system.

In maintenance, we take constant care to cut heat consumption, and we conduct activities to cut the consumption of compressed air. We are also constantly negotiating with third-party service providers. We worked with responsible persons at respective organizational unit (areas) to actively look for possibilities to **cut the costs of services.** Particular attention was paid to optimization of service costs related to support functions. We monitored the progress of activities aimed at cutting the costs and accomplishing the goals laid down for the year.

Targets for 2018

In 2018, we shall continue our activities to attain long-term cost efficiency. We shall boost cooperation with respective organizational units in order to find shared solutions, sound practices, and opportunities for further improvement of cost efficiency. We shall focus in particular on the preventive measures for cutting the costs to avoid their increase. Particular attention will be paid to variable costs, and we shall strive, consistently with our strategic policies, to keep their growth rate below the growth rate of our sales revenue.



2.1.1.5 Digital transformation

Responding to the many changes brought about by the information era, Gorenje Group developed its **digital transformation strategy at the level of the entire Group,** which includes all areas of our operations.

Our digital business strategy is to generate value by offering innovative digital business services to connected communities of our stakeholders, and to employ digital business solutions to improve the efficiency of our operations.

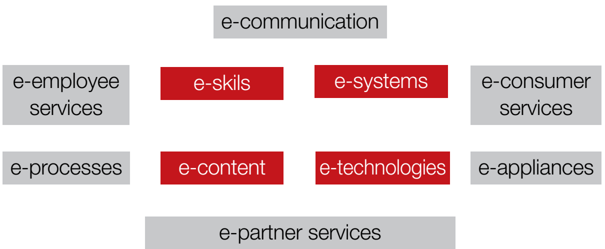
Connected communities of our stakeholders to whom we will offer our digital business solutions include the following:

- consumers,
- commercial and other business partners,
- financial partners, including shareholders,
- employees, and
- broad social environment.

Our digital business model includes the following:

- digital services for various communities,
- connectible appliances for smart homes,
- business processes supported with digital technologies.

The above aspects will be supported by digital skills, digital systems, digital contents, and digital technologies.



Digital transformation conducted at the Gorenje Group in the last two years, is **focused on six areas, and each area involves numerous activities.**

- **E-communication** includes information platforms and management of websites and social media, digital advertising, and web analytics.
- We are introducing new **digital services for the consumers.** In this respect, we have already developed voice-controlled virtual shopping assistants, Anna for the Gorenje brand and Elsa for the Asko brand.
  We shall also offer consumers mobile applications for simplified registration and control of connectible appliances, selection of recipes, tips and instructions for appliance maintenance and troubleshooting, as well as a store finder, price comparison feature, remote assistance, interactive instructions for use etc.
- The Group's digital transformation also includes **e-services for our business partners,** which include improvements to product and marketing and other important contents for our B2B partners, improved support for their digital platforms (product descriptions, possibility of virtual viewing of products in 3D etc.).
- An important part of our digital transformation is certainly the **support to processes at Gorenje with digital technologies** – digitalization and automation of production. Concurrently with modern digital technologies, we also support all other processes in order to be quicker and simpler (digitalization of development processes, purchasing and supply chain, sales and after-sales processes etc.). In development and information technology we are already implementing the Microsoft HoloLens that allows a more **advanced and efficient development of products with the help of augmented reality.** This can cut the new product development time and the costs for specimen production.
- Employees, too, are a digitally connected community. Therefore, it is important to provide modern digital services to them. The latest **e-service for the Gorenje Group employees** is the new career point that we have introduced as a part of the human resource management transformation. This will be further upgraded with new, additional digital services for the employees.
- A field that is of key importance for the Gorenje Group is the **connectible smart appliances and devices.** In late 2017, we launched in the Dutch market Atag's first smart kitchen and thus entered the market segment of connectible smart appliances. Atag Connect Life connectible appliances allow the user to download an app to her smart phone or tablet and use it to remotely control and monitor appliance operation. The app is based on the user's lifestyle and it will adapt to it. It will allow the users to get the very best out of their appliances. Later on, the experience from Atag will be used as a platform for connectible appliances for the entire Group.

One of the sources driving the digital transformation at the Gorenje Group is **knowledge.** Systematic acquisition of required knowledge is already under way at Gorenje. Therefore, **Digital Business Academy programs** have been in progress as a part of the Corporate University of Gorenje for two years. General training programs are intended for key employees with important roles in establishing the culture that is conducive to digital transformation and its successful execution. In addition, we also conduct training on digitalization for managerial and executive personnel. Specialized programs are intended to groups of experts involved in a wide range of products related to digitization; and innovation workshops are conducted with experts from respective fields within and beyond the company, whose use of digital technology can enhance innovation and improve performance.

2.1.2 Creating value for the shareholders

Strategic goal

Fundamental principle of investor relations: equal treatment for all shareholders and potential investors, and timely provision of relevant information about the Gorenje Group.

Gorenje Group strategy by 2020 and its dividend policy ensure generation of added value for all stakeholders, and, in accordance with performance, provides dividend of up to one third of net profit. We are generating value for all stakeholders; we care for our employees, and we are pursuing the corporation's sustainable development.

Communication strategy and investor relations goals: **(1) competent share valuation, (2) improvement in corporate disclosures, (3) adequate coverage of analysts and pundits, (4) improving Management Board recognition, (5) developing relations with the shareholders, (6) improving the coverage by financial media/press, and (7) correct presentation of company/ Group information in professional databases.**

Transparency of operations and equal treatment

We maintain **transparency of our operations** through communication with the shareholders, financial analysts and institutions, the media, and the general public. We provide information about the company position and major changes in its operations in a regular and timely fashion. The central goal of our communication with the financial community is provision of suitably structured, transparent, reliable and currently relevant up-to-date information about the business development of the Group and its financial position.

We treat all existing and prospective shareholders equally, providing them the best possible foundation for their investment decisions.

All regulated and price-sensitive information is disclosed in:

- Slovenian (a total of 39 public announcements) and English language (a total of 39 public announcements) in the Ljubljana Stock Exchange electronic information dissemination system, the SEOnet (www.ljse.si),
- Polish language (a total of 39 public announcements) on the Warsaw Stock Exchange via the ESPI system (www.gpw.pl), for easier communication with the public in Poland, and
- on our corporate website at www.gorenjegroup.com.
- Convocation of the Shareholders Assembly and announcement of the Shareholders Assembly resolutions are, pursuant to Gorenje d.d. Articles of Association and Rules of Procedure for the Shareholders Assembly, also announced in the Slovenian daily paper Delo.

Public announcements (or press releases) are sent to international press agencies, the media, investors, and analysts via electronic mail distribution system which in 2017 included 230 international and 125 domestic recipients. Investors and other representatives of the financial community may subscribe to our electronic news feed (e bulletin) (http://www.gorenjegroup.com/en/media).

We also continue our silent period policy. Thus, we do not organize any meetings with members of the press, investors, or pundits, and we do not disclose any information that could hint at our results in the period of fifteen days prior to public announcement of interim reports.

Investor relations

Relations with domestic investors are maintained on a daily basis. We are available every day to all investors (major and minor, domestic and international), and we regularly respond to all of their queries. We mostly communicate with our **minority shareholders** via telephone and e-mail.

We communicate with both **international and domestic investors** at meetings abroad, organized by investment banks, the Ljubljana Stock Exchange, the Zagreb Stock Exchange, and others. Presentations held at the meetings with investors are available at the following link: http://www.gorenjegroup.com/en/investors/19077. We addressed over 200 **institutional investors** at seven conferences and webcasts in 2017. We also held several conference calls, especially after announcements of interim, or quarterly, results.

We actively encourage meetings with **potential investors.** We communicate with investors via conferences, individual or group meetings and conference calls (especially following the announcement of results), as well as via modern channels such as our website at www.gorenjegroup.com, e-distribution channel, and other electronic channels.

We are working with a number of **Slovenian associations of minority shareholders,** which are involved as proxies in organized collection of proxy authorizations and which take part in resolution of any problems regarding minority shareholders.

Our strategic goal in investor relations is to increase coverage by analysts. Therefore, we encourage them to work with us more actively. We are available to them for comments, replies to their questions, and additional explanations of our public announcements, in order to make sure the information in their analyses is objective.

We are available by e-mail and telephone for any questions from investors, analysts, and other members of the financial community (http://www.gorenjegroup.com/en/investors/contact-for-investors).

Contact person for investor relations is Bojana Rojc, tel.: +386 (0)3 899 1345, e mail: bojana.rojc@gorenje.com.

Gorenje share in 2017

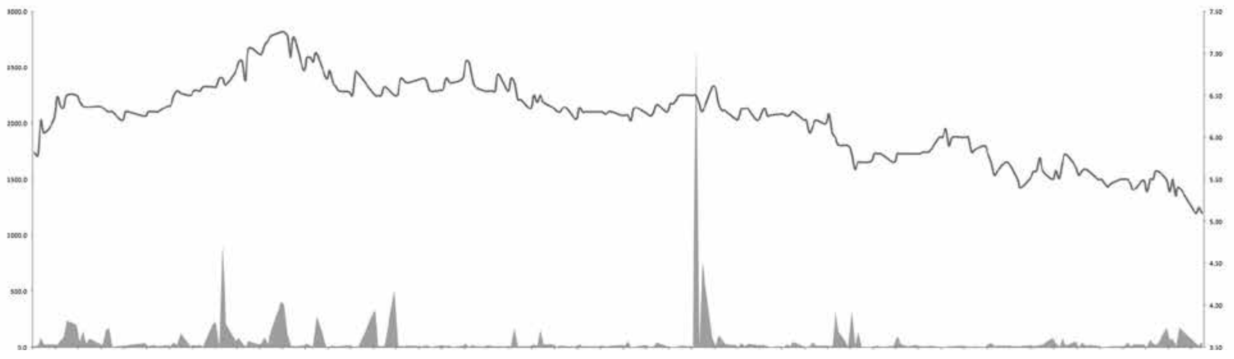
Focus 2017

Gorenje share at the Ljubljana and Warsaw Stock Exchange

The **closing price per Gorenje share** at the Ljubljana Stock Exchange as the exchange of its primary listing (code GRVG) on the last trading day in December 2017 was EUR 5.10, which is 14.9 percent below the price as at the last trading day in 2016 (EUR 6.00). The SBI TOP stock market index rose by 12.4 percent in the same period.

At the Warsaw Stock Exchange, the closing price per share declined by 13 percent relative to the end of 2016 (from PLN 25.51 or EUR 6.01 to PLN 22.20 or EUR 5.32).

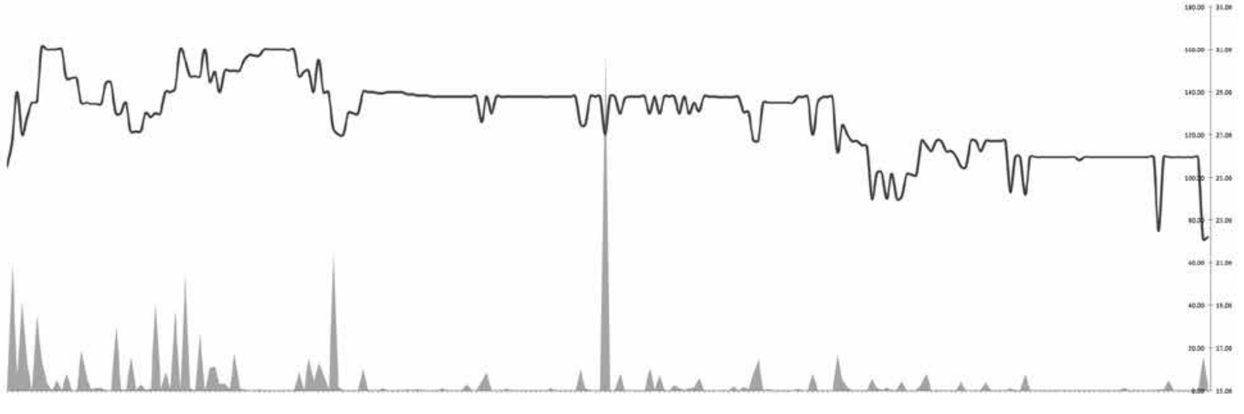
Gorenje share's total trading volume on the Ljubljana Stock Exchange and the Warsaw Stock Exchange amounted to 2,102,098 shares, which is 39.9 percent more than in 2016 (3,495,901 shares). Average daily **trading volume** was 8,542 shares at the Ljubljana Stock Exchange, and 144 shares per day at the Warsaw Stock Exchange.



GRVG price per share and daily trading volume at the Ljubljana Stock Exchange in 2017

Trading volume, kEUR

GRVG closing price per share, EUR



GRV price per share and daily trading volume at the Warsaw Stock Exchange in 2017

Trading volume, kPLN

GRV closing price per share, PLN

Trading with the GRVG share and its return and performance relative to 2013

	2017	2016	2015	2014	2013
Number of shares issued	24,424,613 **+11%**	24,424,613	24,424,613	24,424,613	22,104,427
Number of treasury shares	121,311 **=**	121,311	121,311	121,311	121,311
Number of shareholders	12,247 **-30%**	13,415	16,248	17,000	17,438
Annual value of stock traded (EUR)	13,213,000 **+52%**	23,029,500	12,433,014	27,269,030	8,716,644
Average market capitalization (EUR)	152,064,613 **+126%**	149,582,558	130,914,600	133,101,585	67,252,797
Turnover (value of stock traded/average market capitalization)	0.09 **-33%**	0.15	0.10	0.20	0.13

Indicators on Gorenje share and its performance in comparison to 2013

	31. 12. 2017	31. 12. 2016	31. 12. 2015	31. 12. 2014	31. 12. 2013
Closing price per share (EUR)	5.10 **+21%**	6.00	4.60	5.62	4.20
Maximum price per share in the course of the year (EUR)	7.25 **+57%**	9.15	6.30	7.20	4.62
Minimum price per share in the course of the year (EUR)	5.10 **+34%**	4.10	3.85	3.96	3.80
Basic and diluted earnings per share (in EUR)	0.04	0.33	-0.36	0.04	-1.51
Share book value (in EUR)	15.13	15.40	15.14	15.65	17.32
Dividend (EUR)	n/a	0.10	-	0.06	-
P/E (price to earnings ratio)	127.50	18.19	-	-	-2.78
P/B (price to book ratio)	0.34	0.39	0.30	0.36	0.24
Dividend yield, %	n/a	1.67%	-	1.07%	-

Earnings per share: calculated as the ratio between profit or loss of the parent company and the average number of shares outstanding minus the average number of treasury shares held by the company (24,303,302 shares) amounted to EUR 0.04 (EUR 0.33 for the entire year 2016).

Share book value: Book value of GRVG share as at December 31, 2017, amounted to EUR 15.13 (EUR 15.40 as at December 31, 2016). It is calculated as the ratio between book value of Gorenje d.d. ordinary share capital and the number of shares issued, minus the number of treasury shares, as at the last day of the period at hand (24,303,302 shares).

The ratio between market and book value per GRVG share amounts to 0.34 (0.39 as at December 31, 2016).

Dividend policy: Gorenje Group strategy by 2020 and its dividend policy ensure generation of added value for all stakeholders, and, in accordance with performance, provides dividend of up to one third of net profit. In 2016, dividend amounted to EUR 0.10 gross per share.

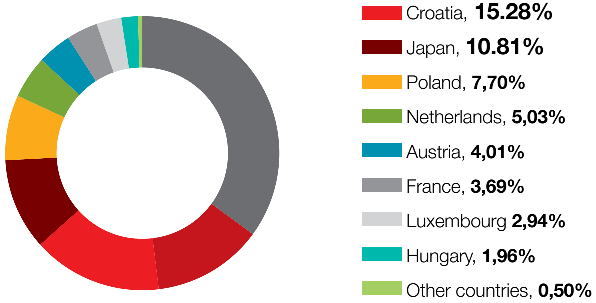
Ownership Structure

As at December 31, 2017, there were 12,247 shareholders entered in the share register, which is 8.7 percent less than at the end of 2016 (when there were 13,415).

The number of treasury shares relative to the last day of 2016 remains the same at 121,311 shares, which is 0.4967 percent of total share capital.

As laid down by the company Articles of Association, one share bears the right to one vote; treasury shares do not bear voting rights.

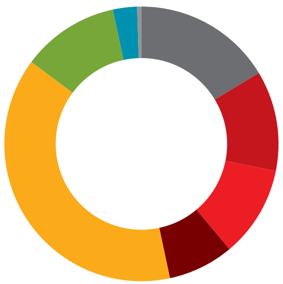
Ownership structure by countries per 31 Dec. 2017



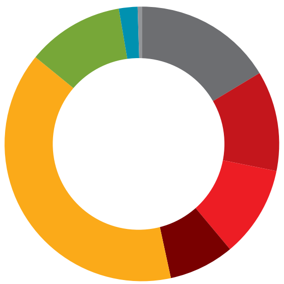
Ten largest Gorenje shareholders

Ten largest shareholders	Number of shares (Dec 31, 2017)	Shareholding in %
KAPITALSKA DRUŽBA D.D.	3,998,653	16.37%
INTERNATIONAL FINANCE CORPORATION	2,881,896	11.80%
PANASONIC CORPORATION	2,623,664	10.74%
KDPW – FIDUCIARY ACCOUNT	1,879,898	7.70%
HOME PRODUCTS EUROPE B.V.	1,221,231	5.00%
RAIFFEISEN BANK AUSTRIA D.D. – FIDUCIARY ACCOUNT	1,134,073	4.64%
ZAGREBAČKA BANKA D.D. - FIDUCIARY ACCOUNT	927,542	3.80%
BNP PARIBAS SECURITIES SERVICES S.C.A.	900,100	3.69%
UNICREDIT BANK AUSTRIA AG – FIDUCIARY ACCOUNT	856,926	3.51%
ADDIKO BANK D.D. - FIDUCIARY ACCOUNT	642,953	2.63%
Ten largest shareholders combined	**17,066,896**	**69.88%**
Treasury shares	121,311	0.50%
Other shareholders	7,236,316	29.62%
Total	**24,424,613**	**100%**

Ownership structure as at December 31, 2016



Ownership structure as at December 31, 2017

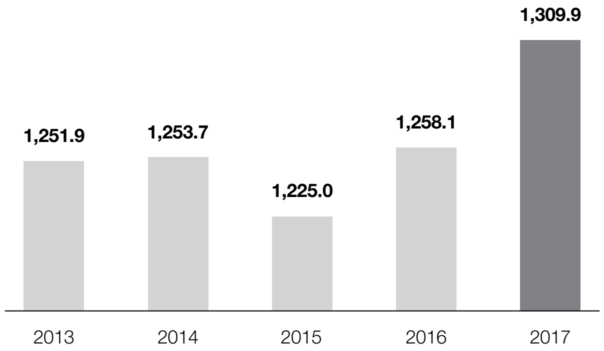


2.1.3 Business performance

2.1.3.1 Gorenje Group performance highlights

In the performance analysis, data for previous years is presented in terms that are comparable to the data for 2017; therefore, it deviates from the data (other operating income and expenses, EBITDA, and EBIT) reported for 2016 in the financial report within this Annual Report. Comparable figures for previous years are adjusted for the effect of revaluation adjustment to receivables, which were reported in previous years as finance income and expenses, while in 2017, they are reported as other operating income and expenses.

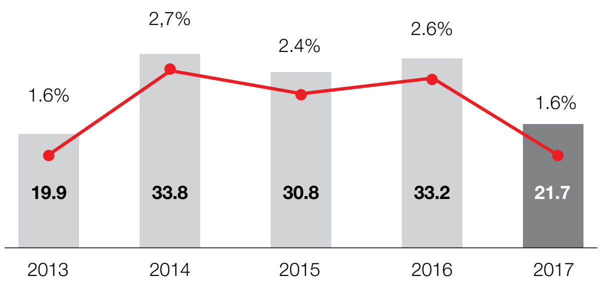
- We generated **sales revenue of EUR 1.31 billion,** which is **4.1 percent more** than in 2016. The actual sales revenue accounts for **99.6 percent** of Gorenje Groups budgeted annual sales revenue.



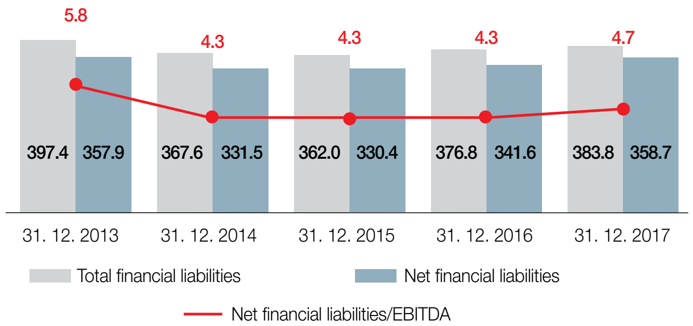
- Sales revenue in **Domestic Appliances** reached **EUR 1.082 billion,** which is **0.4 percent more than in 2016,** and accounts for **95.8 percent** of the annual plan.

- Sales revenue grew in particular in the markets of Eastern Europe and in markets beyond Europe, while in some Western European markets, particularly Germany and the UK, our sales declined, mostly as a result of repositioning in terms of pricing, lower sales of products with inadequate returns, and harsh competition.
- In 2017, we completed a several-year cycle of intensive investments that included new generations of products in all product categories for all key brands marketed in the Domestic Appliance segment. Thus, we launched in 2017 mass production and sales of new generations of freestanding cookers, premium washing machines and dryers, and premium dishwashers. New built-in cooling appliances and connectible appliances are in the final stage of development, undergoing intensive testing and system optimization. We started our deliveries of connectible appliances under the Atag brand to our business partners in the Netherlands (installation in smart homes, or apartments, in the Netherlands).
- We boosted our sales of premium appliances. Their share in total major domestic appliance sales revenue increased to 28.8 percent (1.7 percentage point relative to 2016). Our sales of innovative appliances grew as well. Their share in total major domestic appliance sales revenue increased to 21 percent (increase by 1.6 percentage point relative to 2016).
- Gorenje Group continued to **increase its investments into development and marketing** to support the growth and structural advancement of sales. We invested **EUR 33.3 million** into **development** (EUR 2 more than in 2016), which accounts for **2.5 percent of total Gorenje Group revenue** (increase of 0.06 percentage point relative to 2016).
- We invested **EUR 29 million** into **marketing,** or **2.2 percent of total Gorenje Group revenue** (increase of 0.1 percentage point relative to 2016).

- **EBITDA amounted to EUR 76.4 million,** which is **4.8 percent** less than the comparable EBITDA for 2016. We reached **78.7 percent** of the budgeted annual EBITDA.
- **EBIT stands at EUR 21.7 million,** which is **34.5 percent less** than the comparable EBIT for 2016. We reached 54.8 percent of the budgeted EBIT for 2017. In comparison to 2016, EBIT in comparable terms is lower by EUR 11.5 million, which is mostly on account of depreciation and amortization that increased by EUR 7.6 million.



- Net profit for the year 2017 amounts to **EUR 1.3 million,** which is EUR 7.1 million less than in 2016, and represents 10.3 percent of the annual plan.
- Operations and performance in the first half of 2017 were consistent with the planned dynamics. Performance was negatively affected, especially in the last quarter of the year, by lower sales in the Domestic Appliance segment, which were lower than the dynamic budget; harsh competition in the Western European markets; labour cost pressures; increase of prices in upstream (procurement) markets; and higher production costs related to the start of mass production of new generation products.
- As at December 31, 2017, net financial liabilities amounted to **EUR 358.7 million,** which is 5 percent more than last year. The increase is predominantly a result of the failure to reach the budgeted sales in Domestic Appliances, labour cost pressures, increase of prices in upstream (procurement) markets (in the second half of 2017), and higher production costs.

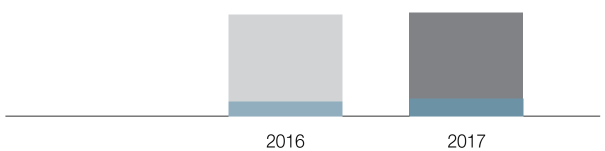


2.1.3.2 Sales and markets

Gorenje Group **sales revenue** amounted to EUR 1.31 billion, which is 4.1 percent more than in 2016.

Gorenje Group revenue, in mio EUR

Group revenue, broken down by activities, in mio EUR

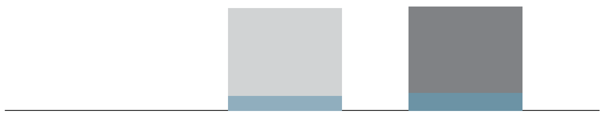


	2016	2017
Domestic Appliances	1.076,9	1.081,7
Other Businesses	181,2	228,2

Revenue in the activity **Domestic Appliances** amounted to EUR 1.082 billion, which is 0.4 percent more than in 2016.

In **Other Businesses,** our revenue amounted to EUR 228.2 million, which is 25.9 percent more than in 2016. Higher revenue is a result of higher revenue in the fields of ecology, hospitality services, medical equipment, heating equipment, and sale of coal.

Group revenue, broken down by activities



	2016	2017
Domestic Appliances	**85.6%**	**82.6%**
Other Businesses	**14.4%**	**17.4%**

Structure of revenue by activities indicates that 82.6 percent of total Group revenue was generated in the core activity Domestic Appliances (-3 percentage points relative to 2016). The change in this share is a result of above-average growth of revenue in Other Businesses, and lower sales in Domestic Appliances in some Western European markets.

In 2017, **Gorenje Group's sales revenue increased by 4.1 percent** relative to the comparable figure for the preceding year. Higher sales were seen in geographical segments Rest of World (Overseas) and Eastern Europe. Sales revenue was lower in Western Europe within the core activity of Domestic Appliances.

Revenue by geographical segments

EUR million	2016	%	2017	%	Change (%)
Western Europe	468.7	37.2	439.6	33.6	-6.2
Eastern Europe	677.6	53.9	744.7	56.8	+9.9
Rest of world	111.8	8.9	125.6	9.6	12.3
Group Total	**1,258.1**	**100.0**	**1,309.9**	**100.0**	**+4.1**
Western Europe	447.3	41.5	416.6	38.5	-6.9
Eastern Europe	518.1	48.1	539.8	49.9	4.2
Rest of world	111.5	10.4	125.3	11.6	+12.4
Total domestic appliances	**1,076.9**	**100.0**	**1,081.7**	**100.0**	**+0.4**

Western Europe includes Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Norway, Netherlands, Spain, Switzerland, Ireland, Luxembourg, Malta, and Portugal. / **Eastern Europe** includes Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldavia, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, and Slovakia;
Rest of World includes all other countries outside Europe.

- The Domestic Appliances business generated **sales revenue** of **EUR 1.082 billion,** which is **0.4 percent more** than in 2017.
- As our sales continued to grow in the Rest of World region, we continued to **decrease our reliance on the European markets and to improve our sales structure** (higher share of premium appliances and premium brands). In the Rest of World segment, we saw **significant growth** in **North America, Australia, Asia, and the Middle East.** In the structure of sales revenue in Domestic Appliances, the **Rest of World segment accounted for more than 11.6-percent share** (1.2 percentage point more than in 2016).
- In 2017, our sales increased in the Domestic Appliances business in the following markets of **Eastern Europe: Slovakia, Ukraine, Hungary, Croatia, Slovenia, Bulgaria, Bosnia and Herzegovina, Macedonia, Albania, and Russia.**
- In **Western Europe,** our sales increased in the **markets of Benelux,** especially in the **Netherlands** with the sales of the premium brand **Atag.** Sales also increased in **Austria, Scandinavia (Asko brand), and France. Sales revenue was lower** in the markets of **Germany and Great Britain,** which is a result of pricing repositioning in these markets, a change in the structure of sales channels, adjustment of sales and pricing policy, restriction of sales of products with inadequate returns, and harsh competition.
- By increasing our sales under the **Asko brand,** we are **increasing sales in the premium segment.** In the structure of sales revenue in our core activity Domestic Appliances, **sales of products under the Asko premium platform accounted for 11.2 percent in 2017 (+1.0 percentage point relative to 2016).** Sales under the Asko brand were up in the markets of Australia, the USA, Scandinavia, and Asia.
- Sales revenue of **small domestic appliances grew by 18 percent.** In the structure of revenue from sales of major and small domestic appliances within the Domestic Appliances business, sales of small domestic appliances

accounted for **4.5 percent (+0.7 percentage point relative to the comparable figure for last year).** Our sales revenue increased in the markets of **Hungary, Czech Republic, Slovakia, Slovenia, Croatia, Romania, Bulgaria,** and **Serbia.** Very high growth of small domestic appliance sales was seen in **Russia and Ukraine.**

- **We increased our sales of innovative appliances.** Their share in total major domestic appliance sales revenue in the activity of Domestic Appliances increased to **21 percent (1.6 percentage point relative to 2016).** We also increased our sales of **premium appliances.** Their share in total major domestic appliance sales revenue increased to **28.8 percent (1.7 percentage point relative to 2017).**
- **We invested EUR 29 million into marketing,** or **2.2 percent of total Gorenje Group revenue** (increase of 0.1 percentage point relative to 2016).

2.1.3.3 Development and investment

Consistently with our strategic goal, we **invested 3.1 percent of total sales revenue from the core activity Domestic Appliances, and 2.5 percent of total Group revenue, into new product development.**

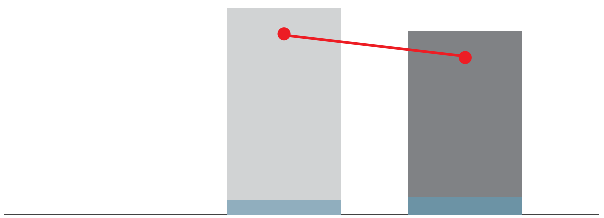
Key development achievements in 2017 included the following: new generation of free standing cookers, new generation of premium washing machines and dryers, new generation of premium dishwashers, new generation of gas hobs, Gorenje Retro Special Edition refrigerators (co-branding with Volkswagen), new versions of dishwashers for our OEM customers, line of kitchen appliances Ora-Ïto 2. New built-in cooling appliances and connectible appliances are in the final stage of development, undergoing intensive testing and system optimization. We started supplying connectible appliances under the Atag brand to our partners for installation in smart homes in the Netherlands.

Investment in 2017 amounted to **EUR 75.7 million,** which is EUR 7.5 million less than in 2016. **Investment into property, plant, and equipment amounted to EUR 50 million,** of which a major part of **EUR 39.7 million** accounted for investment into **technological equipment,** mostly in the process of **new product development.** The largest share of investments was carried out in the **core activity of Domestic Appliances** where investment totalled at **EUR 67.4 million.** Among total investments, **EUR 24.9 million** pertains to **intangible investments.** Majority of these, in turn (EUR 20.4 million), pertains to investments into new product development (capitalized development costs). With regard to investment within the Domestic Appliances business, we completed the investments into a new platform of free standing cookers at the factory in the Czech Republic and two new generations of washing machines and dryers, and thus completed a several-year intensive investment cycle in which the amount of investment exceeded the annual depreciation and amortization expense. Thus, we revised in the past few years the platforms and appliances in most product categories for all brands in the Domestic Appliances business. Within **Other Businesses,** we allocated **EUR 8.3 million** to investments, the majority of which (EUR 2.5 million) was used in the segment of ecology.

The Group introduced uniform capitalization of new product development costs in 2013; before, development costs were only capitalized at the companies headquartered in the Netherlands. In addition to harmonization of accounting policies across the entire Group, the key reason for capitalization of new product development costs is the Group's decision to considerably increase investments into new product development in order to maintain or improve its competitiveness. A part of the change in the development and product management policy was to hire extra development engineers whose number increased from 202 at the end of 2009 to 380 at the end of 2017 (increase by 88%).

After 2012, the field of development was reorganized into competence centres in Slovenia, Sweden, the Netherlands, and the Czech Republic. At the same time, a decision was made to increase the investments into development of premium appliances that afford a considerably higher value added. This was also a result of operations of companies in the Netherlands and Sweden, by which the Group acquired two important premium brands Atag and Asko. The success of the adopted development strategy is evident in the fact that the share of premium appliances in total sales revenue of the Domestic Appliances business area in 2017 was close to 30 percent. The largest share of development cost capitalization pertains to development of new appliance platforms based on modularity principles, which are the foundation for production of appliances under both Gorenje brand, which accounts for the largest share of the Group's sales revenue, and the premium brands Asko and Atag.

Investment by activities, in mio EUR



	2016	2017
Domestic Appliances	75.7	67.4
Other Businesses	7.5	8.3
CAPEX margin, %	0.7%	0.6%
Total	83.2	75.7

2.1.3.4 Gorenje Group operating performance analysis

EUR million	2016*	2017	Indeks	Načrt 2017	Dos. načrta 2017
Sales revenue	**1,258.1**	**1,309.9**	**104.1**	**1,315.3**	**99.6**
Gross profit	**1,285.4**	**1,334.3**	**103.8**	**1,330.4**	**100.3**
Value added	**315.6**	**325.4**	**103.1**	**336.4**	**96.7**
VA margin (%)	24.5	24.4	/	25.3	/
EBITDA	**80.2**	**76.4**	**95.2**	**97.1**	**78.7**
EBITDA Margin (%)	6.2	5.7	/	7.3	/
EBIT	**33.2**	**21.7**	**65.4**	**39.7**	**54.7**
EBIT margin (%)	2.6	1.6	/	3.0	/
Profit before taxes	**13.2**	**4.5**	**33.9**	**19.5**	**23.1**
Net income (profit) for the period	**8.4**	**1.3**	**15.9**	**13.1**	**10.3**
ROS (%)	0.7	0.1	/	1.0	/

* Comparable figures for 2016 are adjusted for the effect of revaluation adjustment to receivables, which were reported in last year as finance income and expenses, while in this year, they are reported as other operating income and expenses. Values of non-adjusted categories for 2016 are as follows: value-added EUR 322.6 million; EBITDA EUR 87.2 million; and EBIT EUR 40.2 million.

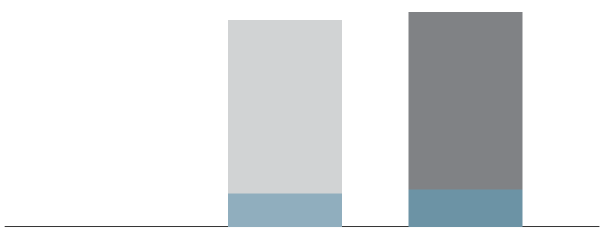
The **value added in the amount of EUR 325.4 million (3.1-percent growth** relative to 2016, **96.7-percent** fulfilment of annual plan) was affected, from the aspect of sales, especially by the following:

- More favourable **geographical structure of sales** in the Domestic Appliances business; the highest sales growth was attained in the Rest of World geographical segment (12.4-percent growth) and in the markets of Eastern Europe (4.2-percent growth) where our contribution margins are higher;
- Favourable **structure of sales by brands,** with higher sales especially of the brands **Asko (10.8-percent growth), Atag, Pelgrim, and Etna (0.6-percent growth);**
- Favourable **structure of sales in terms of products;** higher sales of **premium appliances (6-percent** sales revenue growth), **innovative appliances (5.9-percent** sales revenue growth), **dishwashers (14.3-percent** sales revenue growth) and **small domestic appliances (18-percent** sales revenue growth), with **unchanged sales of cooking appliances** relative to 2016; these appliance categories are important from the aspect of contributions;
- **Higher sales revenue** in Other Businesses: **ecology, coal sales, hospitality services, heating equipment, and medical equipment.**
- Value added in sales was, on the other hand, negatively affected by the drop in sales in Western Europe, which mostly pertains to the markets of Germany and United Kingdom, and is reflected in lower sales of cooling appliances, washing machines and dryers.
- The share of **cost of goods sold** (in the actual amount of EUR 261.6 million) in gross profit remained roughly the same as last year in comparable terms, but exceeds the annual plan by 1.4 percentage point. The reason for a higher relative share of cost of goods sold relative to the budgeted relative share lies in the business area of Other Businesses where our sales was higher than planned, with a different structure.
- **Costs of material** amounted to EUR 489.1 million (**2.8 percent growth** relative to 2016, **98.3 percent of the budgeted** annual cost). The share of costs of material in gross operating profit is **lower by 0.3 percentage point** relative to last year. Efficient negotiations, adjustment of purchasing sources, and timely futures for raw material, as well as **activities related to sourcing of components from** the Best Competitive Countries, we **adjusted our costs of raw and processed materials in the activity of Domestic Appliances to the volume of sales** and production, and largely neutralized the increase in the prices of raw and processed materials in the global markets. Also contributing in this respect were the activities related to **supply chain optimization**. Favourable trends in upstream markets, seen at the start of the year, were soon reversed. Especially in the second half of the year, this had a negative effect on our performance. Within the activity of Domestic Appliances, we exceeded the budgeted relative share of material costs by 0.2 percentage point, on account of higher input prices of raw and processed materials in the second half of 2017.
- **Costs of services**, amounting to **EUR 230.7 million**, were higher by **6.8 percent or EUR 14.7 million** relative to 2016, and reached **99.6 percent of the annual budget.** Costs of services in Other Businesses were **EUR 13 million** higher than in 2016. Higher costs of services in Other Businesses are related to high growth of business activities, especially in ecology and hospitality services, and with execution of projects in medicine, ecology, and communal / utility projects; at the same time, these projects increased the sales revenue in this area.
  - Within the activity Domestic Appliances, costs of services were higher by **EUR 1.7 million** than in 2016. The increase mostly pertains to adjustment of

accounting reporting of the costs of quality related to warranty repairs. Namely, in the past, these costs were at some subsidiaries partly recorded as costs of material and partly as labour costs. Costs of services also include costs of logistics services and quality, which are lower than in 2016, and costs of marketing services that are deliberately increased in order to ensure the Group's long-term competitive edge. Within the Domestic Appliances activity, we also saw an increase in the costs related to maintenance, costs of workers temporarily hired via private employment agencies (related to the launch of production of new generations of products), costs of services rendered within the production process, and rental expenses.

- **Labour costs** amounted to **EUR 249 million,** which is **EUR 13.7 million or 5.8 percent** more than labour costs in 2016. The figure accounts for 104 percent of the budgeted figure for the year. Within the Domestic Appliances activity, labour costs were higher by EUR 10.3 million. Labour costs were affected by the following: alignment of salaries during the year, pursuant to the collective labour agreement (bonus for total years of service, loyalty, and promotion); signed social agreements in respective production plants in Slovenia, Serbia, and the Czech Republic; higher average number of employees in production due to poorer productivity upon introduction of new generations of products (cooking appliances, dishwashers); and higher annual bonuses and severance packages.
  - In the third quarter of 2017, we further stepped up our activities to cut labour costs in administration ("white-collar employees") at the Gorenje Group level. We specified a goal to cut labour costs in Gorenje Group administration by 10 percent relative to June 1, 2017. At the Gorenje Group level, the number of employees in administration (white collars) was cut by 120 in the period from June 1, 2017, until the end of the year. White collar employees are actively encouraged to retire or to take the option of furlough until retirement, and we seek not to replace the retired employees if possible.
  - On average, **Gorenje Group had 11,039 employees** in 2017, which is on average 150 more than in 2016. Average number of employees in the Domestic Appliances activity increased by 99, while the number of employees in Other Businesses increased by 51. The cause for the increase in the number of employees in the business area of Domestic Appliances is above all the structure of manufacturing operations and failure to attain the planned productivity upon introduction of manufacturing of new generation products. In Other Businesses, growth was a result of expansion of operations in hospitality services.

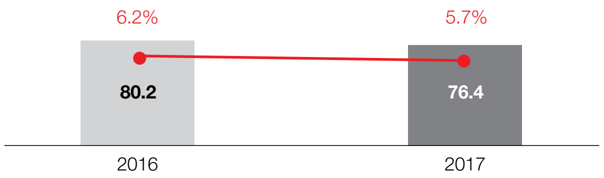
Average number of employees by activities



	2016	2017
Domestic Appliances	8,895	8,994
Other Businesses	1,994	2,045
Total	10,889	11,039

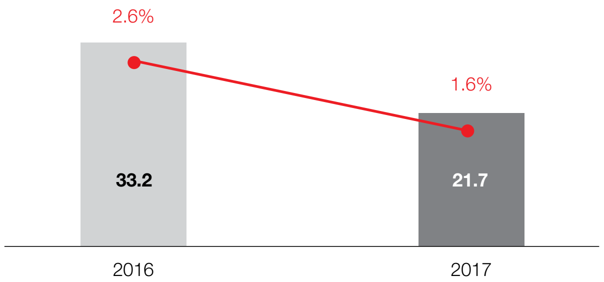
Our **EBITDA** (profit from operating activities before depreciation and amortization) amounted to **EUR 76.4 million** which is EUR 3.9 million or 4.8 percent less than the comparable EBITDA for 2016. We reached 78.7 percent of the budgeted EBITDA for the year.

EBITDA and EBITDA margin, in mio EUR



Operating profit (EBIT): our EBIT amounted to **EUR 21.7 million.** Relative to last year, in comparable terms, the comparable actual EBIT was lower by **EUR 11.5 million** or **34.6 percent,** and it represents **54.7 percent** of the budgeted annual figure. The drop in EBIT was a result of **high growth** of depreciation and amortization expense in the amount of **EUR 7.6 million,** resulting in turn from the dynamics of capitalization of development costs and intensive cycle of investments into new generations of products in preceding periods.

EBIT and EBIT margi, in mio EUR

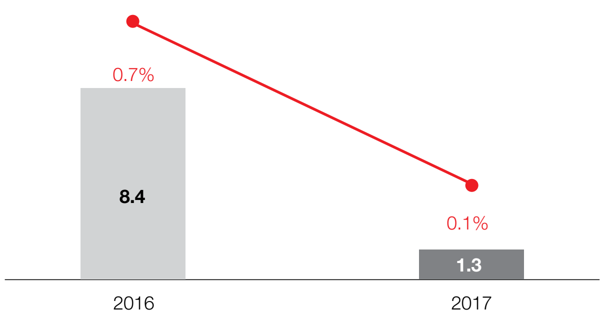


Result from financing is negative in the amount of EUR 17.4 million is EUR 2.7 million better than in 2016. The result from financing activities was favourably affected by **interest expense which was 15.2 percent (EUR 2.3 million)** lower than last year. Considerably better result from financing operations is also a result of the effect of transfer of revaluation adjustments related to trade receivables to operating part of the income statement; this figure amounted to EUR 7 millions in 2016. Negative effect of currency translation differences amounted to EUR 0.3 million in 2017, which is on a par with the figure for 2016.

Corporate income tax, reported at EUR 3.1 million, is EUR 1.7 million lower than in 2016, and it includes both currently levied and deferred corporate income tax. Contributing the most to the decrease in corporate income tax is the favourable decision in the fiscal control (tax audit) procedure regarding transfer pricing at one of the Western European countries. The amount was charged in 2016, and as a result, released in 2017. Also contributing to lower corporate income tax were the deferred tax assets resulting from investments, which allow tax reliefs in subsequent fiscal periods.

Gorenje Group's **net profit for the period** amounted to EUR 1.3 million, which is EUR 7.1 million less than in 2016.

Net income (profit) for the period and ROS, in mio EUR



Worsening of performance in the second half of the year:
Performance was negatively affected, especially in the last quarter of the year, by the following developments: lower-than-planned sales in the domestic appliance segment, especially on account of price repositioning in Germany; pressures related to labour costs; increase of prices in upstream markets; and higher production costs related to the start of mass production of new generation products.

2.1.3.5 Financial performance

Focus 2017

We failed to reach the Group's fundamental financial goal, i.e. decrease in relative debt. The financial debt indicator, calculated as the ratio between net financial liabilities and operating profit before depreciation and amortization (EBITDA) was at 4.7 at the end of 2017, which is 0.4 more than the comparable figure for the preceding year.

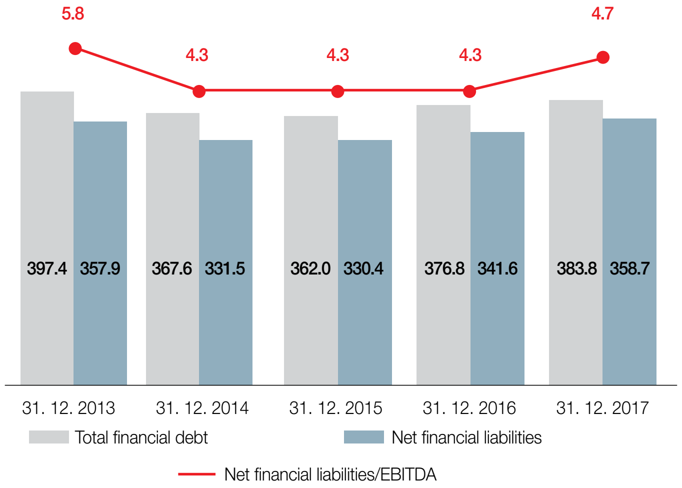
The goal of providing short-term and long-term financial stability through timely refinancing of currently maturing liabilities with the lowest interest expense and risk possible, was accomplished. Pursuant to the financial plan, particular attention was paid again in 2017 to refinancing of the currently maturing portions of long-term financial liabilities, renewal of existing, and increasing of short-term and long-term credit facilities, and to cutting our finance expenses. Our long-term borrowings are regularly repaid and partly refinanced, while short-term borrowings are regularly renewed.

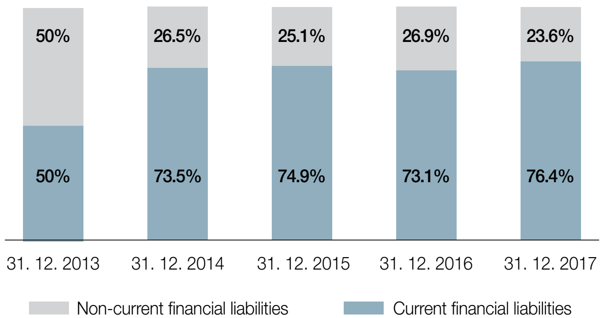
Key activities

In 2017, we repaid a total of EUR 95.3 million of maturing long-term borrowings. Although the financial liabilities at the end of 2017 did not decrease relative to the year before, we maintained a stable maturity profile of financing sources (over 76 percent are long-term sources), and preserved an adequate diversification of financing sources to banking and non-banking sources. The result of these activities is a considerably lower amount of currently maturing portions of long-term financial liabilities in 2018, amounting to EUR 71.8 million.

In 2017, we cut our interest expense by 15.2 percent.

Total and net financial liabilities in the years 2013–2017, in EUR million; net financial liabilities to EBITDA ratio; and changes in the maturity profile of financial liabilities





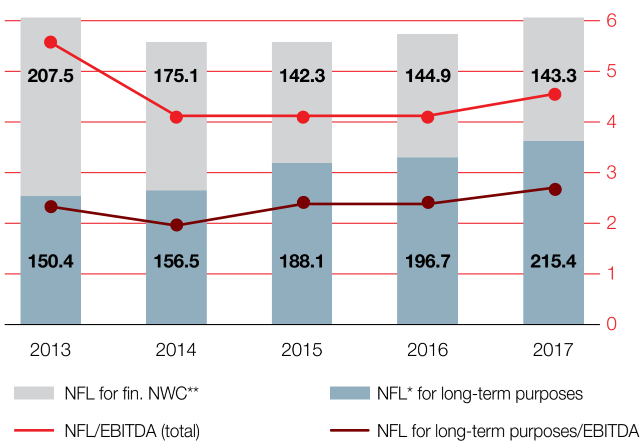
- Total financial liabilities as at December 31, 2017, amounted to EUR 383.8 million, which is EUR 7 more than on the same day a year earlier.
  - In the maturity profile of our financial liabilities, long-term financing sources account for 76.4 percent; the rest are short-term sources.
  - Net financial liabilities (measured as the difference between total financial liabilities, and cash and cash equivalents) at the end of 2017 amounted to EUR 358.7 million, which was EUR 17.1 more than at the end of 2016.
  - As at December 31, 2017, the Group‘s available liquidity reserve amounted to EUR 100.8 million and it included approved yet unused long-term and short-term credit facilities and cash in bank accounts, which can also be used to bridge any payments of the maturing liabilities. Quite importantly, we secured EUR 40 million worth of long-term revolving lines in 2017, which additionally improved Gorenje Group‘s financial stability.

None of the Group's borrowings are secured by any collateral; in most of the agreements with banking partners, financial covenants are specified. The Group agreed on standard financial covenants in most of its loan agreements. In addition to the debt indicator, according to which the ratio of net financial liabilities to EBITDA should be lower than 4, these also include the following covenants: EBITDA to net interest expense ratio has to be higher than 4; difference between total and minority capital should be higher than EUR 220 million; and the ratio between net financial debt and the difference between total capital an equity should be lower than 1.2.

Due to worsened Gorenje Group performance, especially in the second half of 2017, we failed to meet at the end of 2017 our financial covenant regarding financial debt (it stood at 4.7) as agreed in the loan agreement with the Gorenje Group's financial partners. We complied with all other financial covenants. We received the necessary covenant waivers for 2017 from our financial partners. When requesting the covenant waivers, we proposed to our financial partners the following further commitments or covenants that confirm our devotion to pursuit of the goals laid down with regard to decrease of Gorenje Group's debt:

- divestment of non-operating assets and non-core business assets in Other Businesses in the amount of no less than EUR 50 million, with a target of EUR 80 million, with proceeds allocated to debt repayment;
- aligning the annual investments with depreciation and amortization so they do not exceed EUR 65 million;
- the company Management Board shall not propose any dividend payment until the financial covenants are met;
- we shall organized a meeting with financial partners every quarter.

Structure of Gorenje Group's net financial liabilities (v mio EUR)



*Net financial liabilities **Net working capital

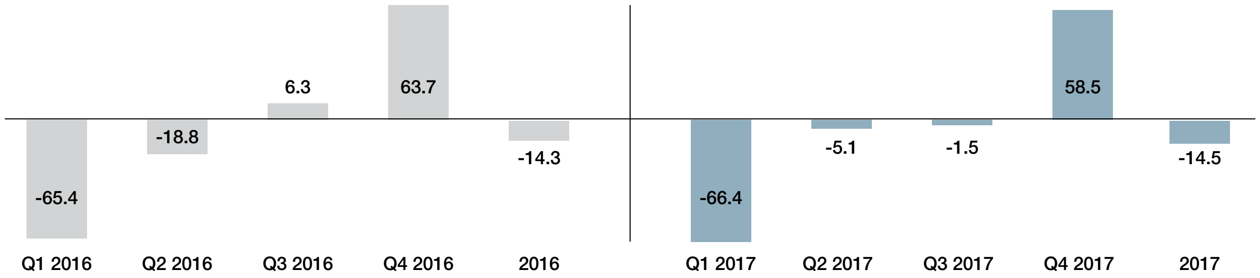
Changes in the Group‘s total and net financial liabilities is for the most part related to the changes in net working capital. Thus, EUR 143.3 million or 40 percent of net financial liabilities pertains as at December 31, 2017, to financing of Gorenje Group‘s net working capital, while EUR 215.4 million (60 percent) of net financial liabilities pertains to financing of long-term assets. High level of net working capital during the year is released or decreased in the last quarter as we sell off our inventories and collect a major part of our receivables. Thus, net working capital represents the assets that increase as the actual sales revenue increases, and which have a very short period of transformation into cash, which significantly reduces the level of net financial liabilities in the last quarter of the year.

The short transformation cycle is evident in the average turnover of respective net working capital items: 69 days for inventories, 56 days for trade receivables, and 68 days for trade payables, which is on a par with the comparable period of the year before. We introduced supplier factoring to extend the days payables outstanding. The number of included suppliers whose payment terms were extended, and the related purchasing volume, increased considerably in the last quarter of 2017, which will positively affect the net working capital, and thereby the net financial liabilities, in 2018.

The ratio between net financial liabilities intended for financing of long-term assets and EBITDA as at December 31, 2017, amounted to 2.8, while the ratio between total net financial liabilities and EBITDA as at December 31, 2017, was at 4.7.

Cash flow

Cash flow from operating and investing activities, in mio EUR



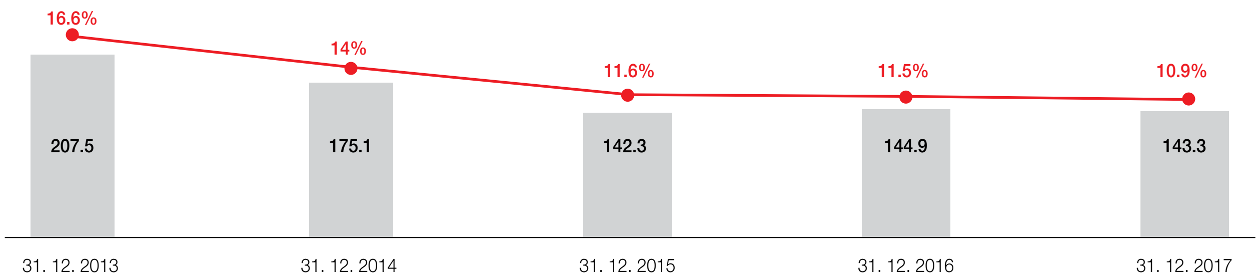
In 2017, the Group reported a negative cash flow from operating and investing activities in the amount of EUR 14.5 million, which is EUR 0.2 million worse than in the preceding year.

Working capital management

Investment into net working capital

v mio EUR	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Difference Dec 31, 2017 / Dec 31, 2018
+ Inventories	236.4	219.8	225.9	225.9	220.6	-5.3
+ Trade receivables	208.6	182.6	161.0	165.8	180.5	14.7
+ Other current assets	51.3	48.9	52.2	58.8	61.0	2.2
– Trade payables	-214.0	-202.6	-221.0	-223.7	-229.4	-5.7
– Other current liabilities	-74.8	-73.6	-75.8	-81.9	-89.4	-7.5
= Net working capital	207.5	175.1	142.3	144.9	143.3	-1.6

Changes in net working capital in EUR million in the years 2013–2018, and its share in sales revenue (%)



As at December 31, 2017, the Group's investments into net working capital[1] were reported at EUR 143.3 million, which is EUR 1.6 less than as at December 31, 2016. Taking into account the higher sales and production capacity utilization, the share of investments into net working capital relative to Group revenue decreased relative to the end of 2016 by 0.6 percentage point, to 10.9 percent.

- As at December 31, 2017, trade payables amounted to EUR 220.6 million, which is EUR 5.3 million less than as at December 31, 2016. On average, days in inventory were at 69, which is the same as in 2016.
- As at December 31, 2017, trade receivables amounted to EUR 180.5 million, which is EUR 14.7 million more than as at December 31, 2016. On average, days sales outstanding were at 56, which is the same as in 2016.
- As at December 31, 2017, trade payables amounted to EUR 229.4 million, which is EUR 5.7 million more than as at December 31, 2016. On average, days payables outstanding were at 68, which is 1 day less than in the year before.

[1] Net working capital = inventories + trade receivables + other current assets – trade payables – other current liabilities

2.1.3.6 Plan for the year 2018

One of Gorenje Group's key policies in 2017 was focusing on the home appliance segment as the Group's core activity. Therefore, we examined the possibilities of divestment of companies and assets from non-core operations. We started with the divestment process for Gorenje Surovina, the largest company among Other Businesses (planned elimination from the Group early in the third quarter). Early in 2018, we shall also launch the divestment process for the water heater production activity Gorenje Tiki (planned elimination from the Group early in the last quarter). Moreover, we have also launched intensive activities of sale and monetization of real property. We are planning to source EUR 65 million of funds from divestment in 2018, which will be allocated for cutting the Gorenje Group's debt. Due to formal procedures in divestment processes, a part of the funds from these activities is budgeted for 2019. We shall also continue our digital transformation as mapped out in the company's digital business strategy.

Sales revenue is budgeted at EUR 1.33 billion, which is 1.4 percent more than in 2017 despite the planned divestment in the non-core segment. **Revenue in the core activity of Domestic Appliances shall amount to EUR 1.189 billion in 2018,** which is 9.9 percent more than in 2017. Budgeted gross profit in this activity, at EUR 1.179 million, exceeds the figure for 2017 by 7.5 percent. Higher budgeted growth of revenue and gross return is a result of further optimization of inventories of finished products and merchandise. Higher revenue will mostly result from higher sales of innovative and premium appliances, and further expansion to markets outside Europe.

Breaking down by brands, **the highest growth is expected with the premium brand Asko** for which sales are budgeted to increase by over 18 percent on account of Asia, Australia and Russia. **Atag brand sales are budgeted to grow by 13 percent** while **sales of Gorenje brand products** will rise by 8 percent. Within the European Union, our sales growth will be the steepest in Germany, Poland, Hungary, Slovenia and Croatia, while beyond EU, we are planning the highest growth in the markets of Russia, Ukraine, Bosnia, Serbia, the Middle and Far East.

New products warrant higher sales prices and higher revenue

In domestic appliances, the **highest sales growth is expected with washing machines and dryers (14.5 percent growth).** The year 2018 will be the first full year of sales of the new generation of laundry care appliances under the Asko brand, which is why we are budgeting a considerable increase in average downstream prices. Under Gorenje brand, we shall launch the sales of a new generation of washing machines and dryers this year, which will account for as much as one half of total production and sales. **By increasing the share of advanced appliances under the Gorenje brand,** we will see our total revenue increase notably in Germany, Croatia, Poland, Russia, Slovenia, and Ukraine. We are also planning a nearly **13-percent increase in sales of cooking appliances, and 7.5-percent growth of sales of dishwashers for the Gorenje and Asko brands.**

Our plans for 2018 also include important **investments into development,** for which we will **earmark around 2.9 percent of total Group revenue.** This will include development of built-in induction, gas, and electric hobs, new platforms for built-in ovens and premium hobs, upgrade of Asko washing machines and dryers, development of a new generation of Asko Professional washing machines and dryers, development of the Simplicity 2.1 designer line, and development of a new platform of free-standing refrigerators. We shall also continue to develop connectible appliances.

In addition to the activities and measures defined in 2017, additional measures aimed at:

- increase of average prices of finished products in the markets due to improved structure,
- selective increase of sales prices of products due to increase in material prices,
- further optimization of production processes,
- cost efficiency at all levels of operations,
- lower labour costs, both due to lower number of employees in support functions and due to improvement in productivity in direct production,
- further divestment of non-operating assets and businesses, and activities in Other Businesses,
- we shall ensure the accomplishment of the planned goals for 2018.

EBITDA for 2018 is budgeted at **EUR 86.3 million,** which is 13.1 percent more than the actual EBITDA for 2017. **Budgeted EBIT of EUR 25.3 million** is 16.6 percent higher than in 2017. Our net profit for 2018 is **budgeted at EUR 8.1 million.**

In 2018, we continue to pursue Gorenje Group's fundamental long-term goal in finance, i.e. decrease of net financial liabilities and relative indebtedness, and maintaining a favourable maturity profile of our financial liabilities. In 2018, we are planning to considerably decrease our net financial liabilities which will amount to EUR 274.4 million at the end of the year, or EUR 84,3 less than at the end of 2017. The budgeted decrease of financial liabilities largely results from the planned divestments of non-core businesses and assets, alignment of investment with depreciation and amortization, working capital optimization, and positive cash flow from operating activities.

In 2018, we shall repay a total of EUR 71.8 million of maturing long-term debt, while our short-term sources will be currently renewed, as usual. In addition, we shall continue to obtain financial sources for replacement financing. Consistently with our policy of partial financial sourcing from the capital market, we issued in late January short-term commercial paper with a total nominal value of EUR 11.5 million and interest rate of 1.9 percent p.a., to accommodate the cash flow dynamics within each year (in the first quarter of each year, cash flow is always negative).

According to our plans, total financial liabilities at the end of 2018 will amount to EUR 294.2 million; net financial liabilities will amount to EUR 274.4 million; and the net financial debt to EBITDA will amount to 3.2. In 2018, we expect our comparable interest expense to be on a par with the figure for 2017, from the aspect of average finance expenses.

We are planning to generate positive free cash flow from operating and investing activities in 2018. The actual figure will be affected notably by the budgeted investments into tangible and intangible assets, for which we shall allocated EUR 62.5 million, consistently with the budgeted depreciation and amortization.

We shall also continue to optimize our net working capital. The most attention will be paid to better management of finished product and merchandise inventories (reduction of complexity, improved forecasting etc.). We shall continue to implement our supply chain financing measures with non-recourse factoring of trade receivables and reverse factoring, which we offer to the Group‘s suppliers in exchange for extension of payment terms.

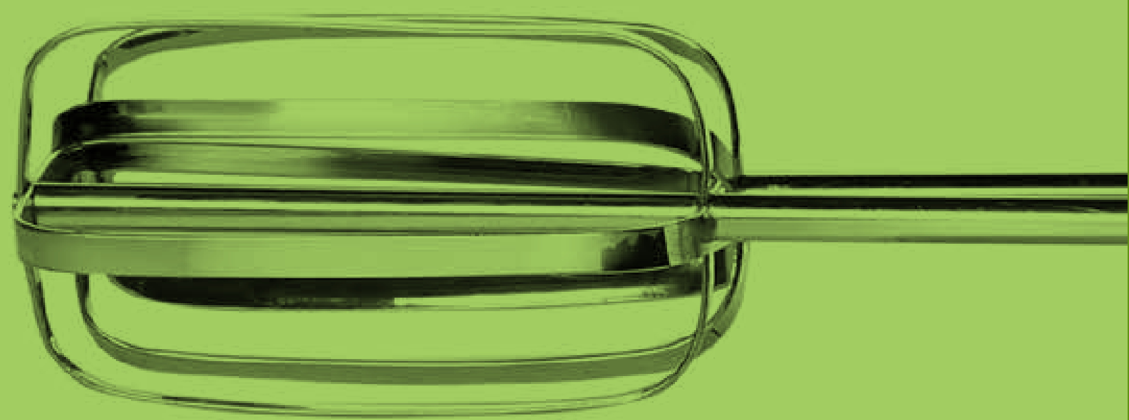
Gorenje Group‘s main operating objectives for the year 2018 include the following:

- sales revenue of EUR 1.328 billion (1.4 percent growth of revenue relative to the actual revenue in 2017)
- EBITDA of EUR 86.3 million (13.1 percent growth relative to the actual EBITDA in 2017)
- EBITDA margin at 6.5 percent (0.8 percentage point more than the actual margin in 2017 when it was at 5.7 percent)
- EBIT of EUR 25.3 million (16.6 percent higher than in 2017)
- Net profit of EUR 8.1 million,
- net financial liabilities/EBITDA: 3.2 (ratio in 2017 was at 4.7).

9

Environmental Sustainability

Environment protection is a constituent part of Gorenje Group's corporate management policy and organizational culture. We identify, monitor, and improve the environment aspects throughout the entire life cycle of our products. Particular attention is paid to efficient resource management (water, power), waste management, and reduction of carbon footprint.



2.2 Environmental Sustainability

Environmental sustainability – results 2017 and plans for 2018, complete with outlook until 2020:

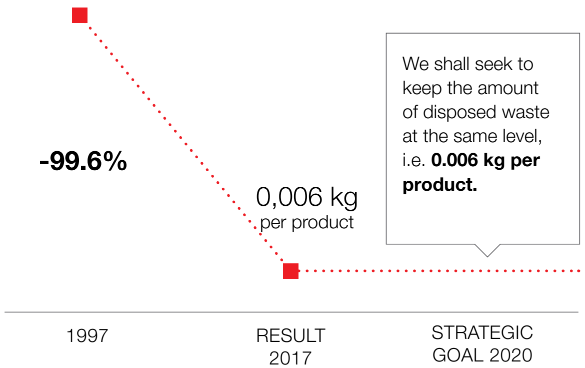
Hazardous waste

In the period from 1997 to 2017, we **reduced the amount of hazardous waste by 92 percent.** In the period of execution of the Strategic Plan until the year 2020, we shall seek to maintain the amount of hazardous waste at the lowest level attained to date, i.e. **0.05 kg per product.**

Disposed waste

In the period from 1997 to 2017, we **decreased the amount of disposed waste by 99.6 percent.** In 2017, the amount of waste to be disposed decreased somewhat relative to the years before at the companies Gorenje d.d. and Gorenje I.P.C. d. o.o., compared to last year.

Our strategic guideline until 2020 is to keep the amount of disposed waste at the same level, i.e. **0.005 kg per product.**



Quick overview – 2017 results

-91% in -99,6%

Reducing the amount of waste*

(in kg/unit, relative to 1997)

- hazardous waste: -92%
- waste to be disposed: -99.6%

-83,6%

Decrease in water consumption*

(in m3/unit, relative to 1997)

-83.6%

+6.6%

Increase in the use of electricity*

(in kWh/unit, relative to 1997):

+6.6%

-44.7%

Decrease in natural gas consumption (excluding combined heat and power/co-generation)*

(in kWh/unit, relative to 1997)

-44.7%

10.93

Carbon footprint*

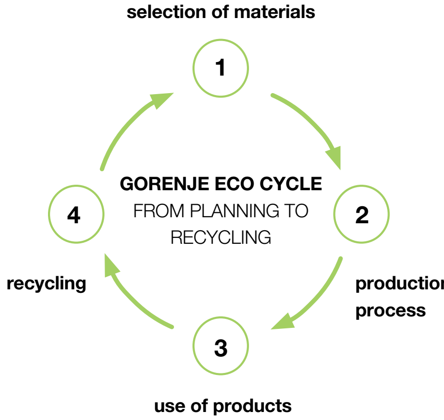
10.93 kg CO_2/product

* All information pertains to the company Gorenje d.d., Velenje plant.

2.2.1 Gorenje's Eco Cycle

Environmental aspects of our operations are identified, monitored, and continuously improved throughout the entire life cycle of our products. This is referred to as the Gorenje eco cycle. The eco cycle can be divided into four main stages as follows:

- input material stage,
- production stage,
- product use stage,
- recycling stage.



Choice of input materials

Starting from the very beginnings, each Gorenje product is developed to comply with all legal and environmental requirements. Therefore, the product planning stage is very important as up to 80 percent of all environmental impact of a product is determined then. The composition of our products differs in terms of the materials used, depending on the type of domestic appliance. However, all are made of superior and environmentally sound and degradable materials, making sure they are easy to disassemble and recycle at the end of their useful life.

Production

Or products are made of environmentally friendly and recyclable materials, and with environmentally friendly technological procedures. Investment into updates to technological processes and equipment has translated into positive environmental trends. Detailed information for 2017 for the two companies from the core activity of domestic appliances, entered in the EMAS register, is provided below.

Use of products

Gorenje domestic appliances are designed to meet the varying needs of users with varying lifestyles. From a broader environmental aspect, these appliances have the following advantages:

- they include components that are harmless to the environment and health, and which are almost completely recyclable;
- their operation requires less power, water, and detergent than the comparable products of our competitors;
- they rank among the most economical domestic appliances in the market as they meet and exceed the criteria for the highest energy classes, as specified by the relevant European standards;
- noise during operation is at the lowest possible level;
- entire technological development and improvements are adapted to the requirements of environmental protection and respect for the general social interests.

Following is the general information that applies to the Gorenje Group. Detailed information for the two companies from the core activity of domestic appliances, entered in the EMAS register, is provided below.

Recycling

As early as in the stage of product planning, we consider the very last stage of its life cycle when it is no longer in use. Therefore, the very first steps in Gorenje product development also include a consideration of the requirements of product handling after the end of its useful life, when it is discarded as waste. Our products are planned and produced to allow the simplest possible disassembly and recycling in the last stage of their life cycle. We seek to incorporate in the products as few versions of the same material as possible, thus reducing the need for waste separation in the recycling process. The products are made of materials and components that are at least 80-percent recyclable.

Recycling of materials allows us to reduce the amount of waste and the need for production of base materials (such as metals), which requires a lot of energy and results in emissions of harmful substances. Recycling procedures can reduce the use of natural resources, as waste plastics and metal can be reused in a variety of production processes.

Described characteristics of Gorenje product eco cycle pertain to all Gorenje Group companies. The environmental aspects and impact identified and presented below only pertain to the two companies from the core activity of domestic appliances, which are entered into the EMAS register.

2.2.2 Environmental management quality assurance policy

The environmental management quality assurance policy is based on Gorenje Group's vision and mission. It is consistent with the sustainability policies of our operations, which are also reflected in our environmental responsibility.

Effort for environmental responsibility is at the core of our sustainable conduct at all levels:

- in pursuit of responsible attitude to the population and the environment in which we operate,

- in caring for occupational health and safety at production units and in the offices, and
- in attaining production efficiency.

For years, Gorenje Group companies have held the environmental management system certificate ISO 14001. Moreover, most companies also hold the occupational health and safety certificate OHSAS 18001.

Two Gorenje Group companies – Gorenje d.d. (since 2004) and Gorenje I.P.C. d.o.o. (since 2007) – have been included for many years in the Eco-Management and Audit Scheme (EMAS) intended to encourage a more suitable environmental management and communication with the public about the effects of their operations on the environment; it is an upgrade to the ISO 14001 system. In 2015, the two companies were joined by Kemis d.o.o.

Focus 2017

In 2017, the companies certified their environmental management systems in accordance with the requirements of the new standard ISO 14001:2015. Two more Gorenje Group companies obtained the certificate (Gorenje Tiki d.o.o., Stara Pazova and Gorenje MDM, d.o.o., Kragujevac)

At the Environmental Meeting (»Okoljsko srečanje«), traditionally organized by the Finance daily paper and the Eko Fund, Gorenje was presented the award for the most environmentally friendly company in Slovenia.

Sistemi ravnanja z okoljem ter sistemi upravljanja varnosti in zdravja pri delu Skupine Gorenje (stanje za leto 2017)

	ISO 14001	EMAS	OHSAS 18001
Gorenje d.d., Velenje plant, Slovenia	Yes	Yes	Yes
Gorenje d.d., Šoštanj plant, Slovenia	Yes	Yes	Yes
Gorenje d.d., Rogatec plant, Slovenia	Yes	Yes	Yes
Gorenje IPC d.o.o., Velenje plant, Slovenia	Yes	Yes	Yes
Gorenje IPC d.o.o., Šoštanj plant, Slovenia	Yes	Yes	Yes
Gorenje Orodjarna d.o.o., Slovenia	Yes	No	Yes
Gorenje GAIO d.o.o., Slovenia	Yes	No	Yes
Gorenje d.o.o., Valjevo, Serbia	Yes	No	Yes
Gorenje Surovina d.o.o., Slovenia	Yes	No	Yes
Kemis d.o.o., Slovenia	Yes	Yes	Yes
Mora Moravia, s.r.o., Czech Republic	Yes	No	No
Asko, Appliances AB, Sweden	Yes	No	No
Gorenje Gostinstvo d.o.o., Slovenia	Yes	No	No
Indop d.o.o., Slovenia	Yes	No	Yes
Gorenje Home d.o.o., Zaječar, Serbia	Yes	No	Yes
Gorenje Tiki d.o.o., Stara Pazova, Serbia	Yes	No	Yes
Gorenje MDM d.o.o., Kragujevac, Serbia	Yes	No	Yes

2.2.3 Environmental aspects of our operations

At most Gorenje Group companies (especially those with the ISO 14001 certificate or which are included in the EMAS), elements of activities, products, and services interacting with the environment are called environmental aspects. The analysis of environmental aspects includes all stages of the production process, products, and activities, both in normal operation and in operation under extraordinary conditions. The following criteria are applied to identify a particular aspect:

- environment policy and legislative requirements;
- opinion of interested parties and stakeholders;
- risk assessment;
- own assessments; and
- assessments pertaining to extraordinary conditions and states of emergency.

Criteria to define environmental aspects at the Gorenje Group

In assessing the environmental impacts which include every change to the environment, favourable or detrimental, resulting in part or entirely from the activities, products, and services being produced or taking place at the Gorenje Group, the following was considered:

- **direct impact,** i.e. direct results of our own activities and operations over which we have direct control; and
- **indirect impact,** i.e. the effects caused directly by other parties, the occurrence, scope, and the nature of pollution of which, however, may be affected by our activities (e.g. use of our products, logistics, power production, etc.).

Framework and operative environmental targets and programs have been defined for major environmental aspects and the identified environmental aspects are being adapted in compliance with the legislation (raw materials, emissions into air, water, and ground, noise, waste etc.) and environmental policy. At the Gorenje Group level, we are also monitoring the use of energy resources that represent a vital part of environment protection for the holders of the Integrated Pollution Prevention and Control Permit (who are liable to comply with the relevant requirements).

The chart presents the comprehensive range of environmental effects. The set of specific environmental effects monitored at respective companies is specific to their activity and their interaction with the environment.

Overview of identified and estimated environmental aspects of the operation of Gorenje Group companies

IDENTIFIED ENVIRONMENTAL ASPECTS AT GORENJE GROUP COMPANIES

INPUT ENVIRONMENTAL ASPECTS

1. RAW MATERIALS

- sheet metal
- components of non-metal and metal origin
- chemicals
- thermal and sound insulation
- rubber and plastic semi-products
- packaging

2. ENERGY RESOURCES

- electricity
- heat
- natural gas
- compressed air
- water

3. OTHER

- stationery
- auxiliary material

OUTPUT ENVIRONMENTAL ASPECTS

4. EMISSIONS

- emissions into air
- emissions into soil
- noise emissions
- emissions into water
  - industrial wastewater
  - cooling wastewater
  - communal wastewater
  - sewage system
- light pollution
- odours

5. WASTE

- hazardous waste
- waste packaging
- municipal/communal solid waste
- other non-hazardous waste

6. PRODUCTS

- product/service
- own parts

MISCELLANEOUS

7. MISCELLANEOUS

Special area properties

- natural heritage, biotic diversity, Natura 2000
- cultural heritage

2.2.4 Efficient resource management

At Gorenje Group, a number of measures, especially changes in the technological processes, organization of operations, and responsible management of hazardous chemicals and packaging, have resulted in notable improvement of environmental aspects of our operations in the period since 1997.

Regardless of the excellent results to date, which are difficult to further improve, we continue to lay down the goals regarding reduction of our environment impact. Thus, we are planning to decrease the consumption of electric energy in the next two years by investments into technological processes, updating the lighting fixtures, and implementing combined heat and power generation – which will, on the other hand, increase the consumption of natural gas. With regard to some other sources of energy, we shall seek to maintain the current level of consumption. Regarding the decrease of the amount of waste, we no longer set any goals; however, we diligently and continuously monitor the amounts.

Reducing the amount of waste and use of fuel and energy at Gorenje d. d., Velenje plant

Aspect	Unit	1997	2017	Ratio 1997/2017	Target 2018
Reducing the quantity of					
- hazardous waste	kg/unit	0.55	0.044	-92%	0.05
- waste to be disposed	kg/unit	1.14	0.005	-99.6%	0.005
Rational use of energy					
- water consumption	m3/unit	0.56	0.092	-83.6%	0.080
- power consumption	kWh/unit	21.41	22.83	6.6%	22.50
- consumption of compressed air	m3/unit	21.37	16.32	-28.35%	16.30
- natural gas consumption (excluding combined heat and power/co-generation)	S m3/unit	20.61	11.40	-44.7%	11.00

Consistently with the environment protection policy, Gorenje Group has defined at all manufacturing plants its long-term and annual goals that also pertain to management of environmental aspects of our operations.

The key environmental aspects presented in more detail by respective companies hereinafter, are the following:

- reducing the amount of waste;
- reducing water consumption, and
- efficient use of fuels and energy (data is provided on the use of electric energy as the main source of energy for product manufacturing).

Group companies have all environmental permits required. They are regularly controlled by the national inspectorates and their operations are compliant with the environmental legislation.

Reducing the amount of waste

Focus 2017

In 2017, the amount of waste to be disposed decreased somewhat relative to the years before at the companies Gorenje d.d. and Gorenje I.P.C. d.o.o.

Disposed waste from Gorenje d.d., Velenje plant (in t)

2013	2014	2015	2016	2017
41.6	11.3	8.91	11.6	10.2

Disposed waste from Gorenje I.P.C. d.o.o. (in t)

2013	2014	2015	2016	2017
1.85	0.36	0.71	3.83	0.79

Key activities

As in previous years, we were dedicated to consistent waste separation in 2017.

Water consumption

Focus 2017

At Gorenje d.d., water consumption was increased from 177,084 m³ in 2016 to 187,606 m³ in 2017. At Gorenje I.P.C. d. o. o., the amount of water used per unit of aspect per 1 EUR of net revenue was reduced from 1.680 l/EUR NR in 2016 to 1.582 l/EUR NR in 2017.

Water consumption at Gorenje d.d., Velenje plant (in m³/unit)

2013	2014	2015	2016	2017	Target 2018
0.079	0.084	0.083	0.087	0.092	0.080

Water consumption at Gorenje I.P.C. d.o.o. (in l/€ NR*)

2013	2014	2015	2016	2017	Target 2018
1.423	1.480	1.551	1.680	1.582	1.566

* measurement unit for the aspect per EUR of net revenue

Water consumption at the Mora Moravia production company in the Czech Republic (in m³/unit)

2013	2014	2015	2016	2017	Target 2018
0.103	0.085	0.066	0.063	0.061	0.066

Water consumption at the production company in Valjevo, Serbia (in m³/unit)

2013	2014	2015	2016	2017	Target 2018
0.046	0.035	0.037	0.036	0.038	0.038

Water consumption at the production company in Zaječar, Serbia (in m³/unit)

2013	2014	2015	2016	2017	Target 2018
0.05419	0.00500	0.00655	0.05830	0.05239	0.05350

Key activities

Water consumption was reduced at some companies by introduction of technological lines with water-efficient rinsing processes, keeping records of water consumption, systematic monitoring of water consumption, and education and awareness campaigns among the employees. Water consumption was monitored with meters installed at the entry to the company and at particular manufacturing lines. At some companies, water consumption increased in 2017 due to technological tests upon new product type launches.

Electricity consumption

Focus 2017

At the company Gorenje d.d., Velenje plant, use of electric energy decreased from 23.24 kWh/unit (in 2016) to 22.83 kWh/unit (in 2017). Use of electric energy was also lower at the company Gorenje I.P.C. d.o.o. and at our companies in Valjevo and Zaječar, Serbia.

Electric energy consumption at Gorenje d.d., Velenje plant (in kWh/unit)

2013	2014	2015	2016	2017	Target 2018
24.03	23.09	23.98	23.24	22.83	22.50

Electric energy consumption at Gorenje I.P.C. d.o.o. (in kWh/€ NR*)

2013	2014	2015	2016	2017	Target 2018
0.138	0.134	0.150	0.138	0.118	0.128

*Measurement unit for the aspect per EUR of net revenue

Electric energy consumption at the production company in the Czech Republic (in kWh/unit)

2013	2014	2015	2016	2017	Target 2018
11.33	11.00	10.83	13.65	15.36	12.52

Poraba električne energije v proizvodni družbi v Valjevu v Srbiji (in kWh/unit)

2013	2014	2015	2016	2017	Target 2018
24.3	21.00	21.45	20.9	23.52	24.25

Poraba električne energije v proizvodni družbi v Zaječarju v Srbiji (in kWh/unit)

Poraba el. energije pri proizvodnji sanitarne opreme

2013	2014	2015	2016	2017	Target 2018
45.70	29.5	33.13	25.0	21.24	23.00

Poraba el. energije pri proizvodnji pralnih strojev

2013	2014	2015	2016	2017	Target 2018
0.48	0.40	0.49	0.50	0.48	0.60

Key activities

Decrease of power consumption in recent years is a result of optimization of power consumption in production processes. At the production company in the Czech Republic, power consumption increased due to introduction of new technologies and new product types.

2.2.5 Carbon footprint

Climate change has been identified as a major threat to human kind. It is at least partially caused by greenhouse gas emissions into the atmosphere. Despite the numerous adopted international agreements, these emissions are not decreasing. Globally, the largest share of CO^2 emissions is generated in production of electric energy, in manufacturing, agriculture, transport, and as a result of deforestation.

Although the CO^2 emissions resulting from activities of Gorenje Group companies are not considerable, we carefully monitor them in keeping with our sustainable attitude to environmental responsibility, and seek to reduce them.

Emissions of CO^2 into the atmosphere are monitored at the parent company Gorenje d.d. at the Velenje plants, and in Valjevo and Stara Pazova.

Focus 2017

Carbon footprint, measured in kg of CO^2 emissions per product, was somewhat lower in 2017 than in the year before, at 10.93 kg/product.

Information on CO_2 emissions for the Velenje plant (kg/product)

2011	2012	2013	2014	2015	2016	2017	Target 2018
12.50	12.33	12.26	11.83	11.88	10.94	10.93	10.90

Key activities

CO^2 emissions from our production activities are largely affected by consumption of electric energy and natural gas. Total use of these fuels or forms of energy has been reducing in recent years. Specific use of these fuels decreased slightly in 2017 (detailed data on power consumption is provided in this chapter).

2.2.6 Pursuit of environment responsibility – our goals

Improvement of production processes and diligent management of natural resources contribute notably towards decreasing the impact of our companies on the environment. In addition, our costs are optimized in the process, which leads to greater value for the shareholders. Therefore, we shall continue to:

- monitor and measure the environmental aspects and introduce relevant measures in case of any discrepancies;
- plan and introduce new technologies and products in compliance with the environment protection principles;
- use materials and components that will comply with the strictest of domestic and international environmental regulations;
- plan new products in compliance with the requirements of environmental design that includes the entire life cycle of the product – from development, manufacturing and use, to processing after the end of useful life;
- reduce the volume of waste generated and rationalize the use of energy resources;
- educate, train, and raise awareness of our employees and partners about the responsibility to the working and broad environment;
- cooperate with interested internal and general public to contribute to the success of common environment protection and occupational safety and health efforts;
- inform the public of its achievements in environment protection.

9

Social Sustainability

Motivated employees are the key to success. Together, we are building a culture of mutual trust, respect, continuous learning, and responsible and efficient work. Motivating creativity, improvement of interpersonal relations, and staying abreast with new development in leadership are constituent parts of the Gorenje Group's corporate culture.

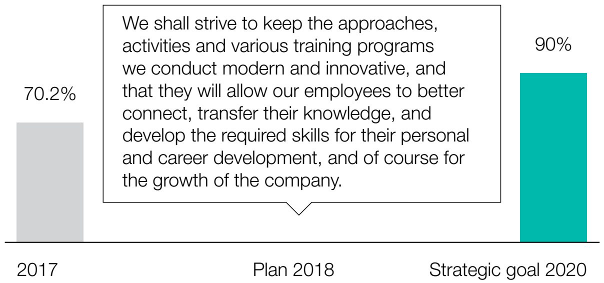
2.3 Social Sustainability

Social sustainability – results 2017 and plans for 2018, complete with outlook until 2020:

Share of employees participating in training and education

In 2017, **70.2 percent** of employees were involved in training and education processes. We carried out a total of **203,704 training and education hours** (19 hours per employee at Gorenje Group level). Moreover, 257,148 hours were dedicated to on-the-job training for acquisition of new skills.

In the period until 2020, we will **deliberately advance employee training and education.** We shall establish a reward system for all executive and key employees based on their performance. In the 2016–2020 Strategic Plan, we defined a **human resource development strategy with emphasis on values, corporate culture, leadership, and knowledge.** We are aware that employees with relevant knowledge and experience are motivated as they recognize the opportunities for their personal and professional development within the Gorenje Group. This is our major competitive advantage.



Number of work accidents

In 2017, the number of work accidents was 5 percent higher than in the year before; however, the number of accidents in the last five years dropped by 35 percent. At the company Gorenje d.d., the number of employees increased, and the number of hours of work in 2017 is also higher than in the preceding year.

Our goals in occupational safety and health at the Gorenje Group, as we pursue the policy of zero-tolerance to work accidents, include the following:

- **cut the number of work accidents and dangerous incidents** by 5 percent in each year of the Strategic Plan execution by the year 2020,
- **cut the expenses related to sick leaves resulting from work accidents,** and
- **improve organization of work** from the aspect of occupational safety and health, and safety of the working environment.

Increase in the number of work accidents by 5% (relative to 2016)

Decrease of the number of work accidents as a part of zero-tolerance for work accidents, through preventive workplace measures and encouragement of a healthy lifestyle

Results in 2017

Plan 2018
Overview until 2020

Retailer satisfaction (measured indirectly through sales representative satisfaction with the Salesforce tool)

Satisfaction of our sales representatives with visits at retailers, and consequently the satisfaction of retailers, is measured with the Salesforce tool, which is a mobile customer relationship management solution that allows us, in the digital age, **to increase our focus on our customers faster and in a simpler manner.**

Use of the Salesforce tool was **expanded in 2017 to our units in the Middle East.** Moreover, we **built additional program extensions** into the current version, thus **improving communication between us and our customers.** We can now respond more promptly to the current conditions in the market. At the same time, we collect and store at a single place all important information about our partners. Planning of visits and their contents or agendas is also simpler, more transparent, faster, and more efficient with the new options.

In 2018, we will roll out the application to our representatives in Asia and South America, thus making it available to all of our sales managers.

Quick overview – 2017 results:

Average number of employees

11,039

Scope of education and training

70.2 percent of all employees involved in the processes
Total of 203,704 training and education hours annually (19 hours per employee at Gorenje Group level)

Complaints regarding interpersonal relationships

No complaints were filed

Number of scholarship holders and development of academic work placement

90 scholarship holders (mostly technical studies)
Developing the academic work placement programs (practical training provided for 247 high school students and 113 college students)

Occupational safety and health

5% more accidents than in the year before; activities throughout the year: lectures, presentations, measurements, improvements and upgrades to the occupational safety system, searching for alternative personal protective equipment

Key topics in training and education

Development of innovativeness and leadership and coaching skills for leaders; improving communication skills, public appearance skills, negotiations, and teamwork

Corporate University of Gorenje

24 participants of the 26th generation of the Management Academy of Gorenje completed their training with a presentation of their business plans
Graduation of the second generation of academy for new product development (GCA – Gorenje Create Academy) with 23 participants, and the third International Business Academy (IBAG) that included 21 talented employees working in an international environment
Annual conference Driving Growth Through Innovation organized as a part of the Executive Business Academy of Gorenje (EBAG)
A variety of programs within the Digital Business Academy of Gorenje (DBAG) for the development of knowledge and skills required for attainment of goals in digitalization, with participation of more than 400 employees from across the globe. 63 participants from 10 countries tackled the challenges of the digital future at the 1st international Gorenje Hackathon.

Product quality

No recalls of our products from the market
A wide range of certificates awarded by national certification bodies gives our products internationally approved technical and production credibility.
Defined goals for further improvement of product reliability

Marketing and market communication

Development of all-around communication support for all new product launches in 2017 (integrated online and offline solutions)
We did not have any cases of non-compliance of our marketing and market communication approaches with the legislation or local codes.

After-sales services

Focusing on further improvement of all quality indicators for after-sales services, and on cost management
Establishing service network for connectible appliances
User satisfaction with our after-sales services, as measured in the key markets, was consistent with the strategic plan.

Relations with communities

Support to activities (cultural, recreational, social etc.) of the Gorenje Culture Society, Gorenje Retiree Society, and other societies and organizations in the region
Support to the 25th Design Biennial BIO 25
More than 7000 active members of the Gorenje Sports Society
Results of key sports sponsorships in handball and Nordic skiing, and other sponsorships depending on the goals laid down for respective markets, especially for improvement of recognition of the brand and sales promotion

2.3.1 Relations with employees

We are active in a mature industry where one can only win with knowledge, innovation, and committed employees. Every employee matters to Gorenje, and the fundamental principle in our care for them is their fair and equal treatment.

Number of employees

Focus 2017

The number of employees at the Gorenje Group was adapted especially to the needs of manufacturing companies. We increased the number of employees during the summer and autumn when demand for home appliances was higher. Due to lower production needs, the number of employees decreased in the last quarter.

Key activities

For greater flexibility, we mostly hired employees on fixed-term employment contracts. In this year, we again faced a scarcity of labour force in the market, especially at the company Mora Moravia. In order to acquire the necessary labour force, we therefore also used the services of private employment agencies.

Number of employees at Gorenje Group at the end of 2017 (relative to 2016)

	Dec 31, 2016		Dec 31, 2017	
	number	share	number	share
Gorenje Group	**10,962**	**100.0%**	**11,014**	**100.0%**
Core activity	9,027	82.3%	8,955	81.3%
Non-core activities	1,935	17.7%	2,059	18.7%
Employees in Slovenia	6,629	60.5%	6,717	61.0%
Employees abroad	4,333	39.5%	4,297	39.0%
By countries:				
Slovenia	6,629	60.5%	6,717	61.0%
Serbia	2,303	21.0%	2,263	20.5%
Czech Republic	631	5.8%	624	5.7%
Sweden	60	0.5%	58	0.5%
Netherlands	405	3.7%	428	3.9%
Croatia	134	1.2%	131	1.2%
Russia	115	1.0%	115	1.0%
Other countries	685	6.2%	678	6.2%
EU countries	8,245	75.2%	8,328	75.6%
Average number of employees	**10,889**		**11,039**	

Education-based hiring and recruitment

Focus 2017

In 2017, we continued the activities at our parent company to recruit scarce human resources, especially for development, IT, and sales in an international environment.

In recent years, we observe a slow, yet constant increase in the share of employees with completed secondary and tertiary education, which also pertains to manufacturing companies. The largest share of employees at Gorenje Group has vocational or technical (high-school) education.

Key activities

At the parent company, we worked actively with high schools and universities, especially in technical sciences and IT, as well as in business and economics. We set up our employment/hiring portals in the LinkedIn and SuccessFactor networks.

We worked with the local branches of the National Employment Agency to hire production workers. We advertised our needs for labour force in the media, and we used the Facebook social network to this end for the first time.

We sourced our strategic human resources via our employment/hiring portals, and we also included the portals Moje delo ('My Work') and Moja Zaposlitev (»My Employment«).

We took part in career fairs, including the largest fair of this type in Slovenia, organized by the Moje Delo portal in Ljubljana.

Employees by age

Focus 2017

In comparison to the year 2016, average age of employees at the Gorenje Group increased by about half a year. At the end of 2017, it was at 42 years and 9 months.

The share of employees in all age groups is increasing. Higher average age is also reflected in a higher share of sick leaves and the share of employees with the status of a person with disabilities. This is a major problem for companies in labour-intensive industries.

Key activities

Considering the high share of elderly employees, the company Gorenje d.d. dedicates a lot of attention to age management with the goal of providing active ageing for our employees, as this results in better business results and competitive advantage.

We are conducting a number of activities to promote health and we carefully manage the continuous improvement process to provide ergonomically sound workplaces. Elderly employees are also invited to take part in a number of educational workshops and training courses.

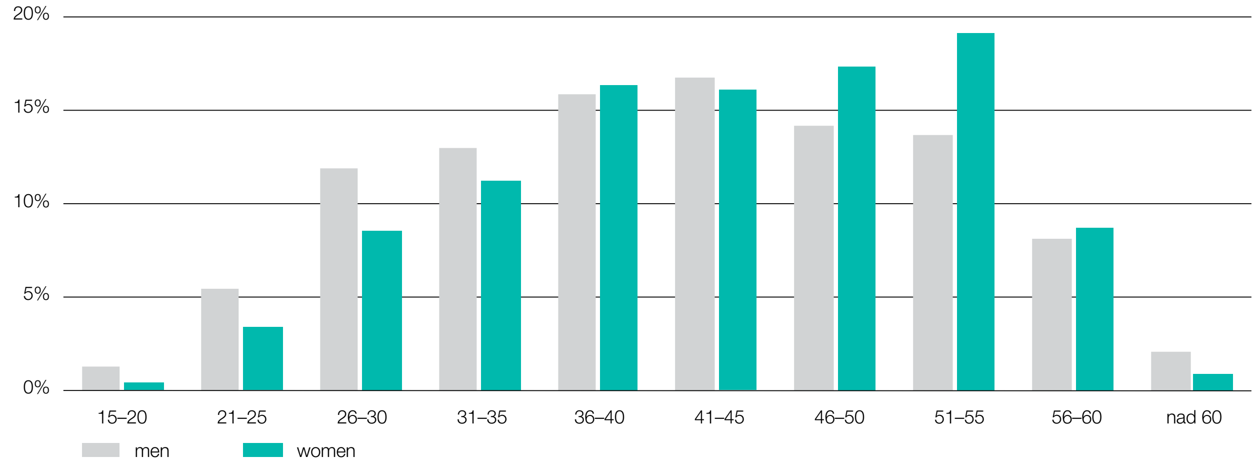
Employees by gender

Focus 2017

In 2017, the share of women and men at manufacturing companies was equal; at sales companies and in non-core businesses, the share of men exceeded the share of women. Men are more likely to opt for technical education; therefore, they are predominantly employed at companies whose activities require more technical skills, such as toolmaking, machine building, development, planning, engineering, logistics and warehousing, which also require greater physical strength. Where the work process involves physically less demanding work and work requiring precision and hand dexterity, such as in mass production, the share of female employees is higher.

Regardless of gender, all employees are granted equal pay for work in jobs with equal complexity or difficulty.

Composition of Gorenje Group employees by age



Protection of employee rights

Focus 2017

Gorenje Group is an international corporation that provides the same rights and fundamental freedoms to all employees regardless of nationality and religion.

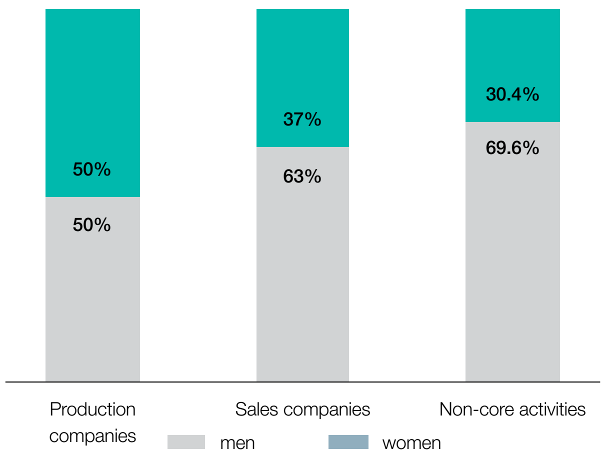
Care for human rights is evident throughout the supply chain. We only work with business partners who comply with lawful, moral, and fair business practice in relation to their stakeholders.

Key activities

We are aware of the importance of communication with the employees and provision of up-to-date information about operations and performance, and other major events. Therefore, a variety of activities were conducted in this field at the parent company Gorenje d.d.

We held regular annual interviews among leaders and employees, and communicated regularly with the employees,

Employee structure by gender, 2017



also via the HR department to which the employees turn with of their personal problems (medical, social etc.). We offered them support in career development and provided guidance consistently with the company needs.

In 2017, did not receive any reports of workplace mobbing. Some individuals requested explanations from the mobbing report contact officer regarding potential reports.

Occupational safety and health

Focus 2017

Gorenje Group does not merely comply with the legal requirements, but also strives to raise the bar in terms of safe and healthy work standards (occupational safety and health). Numerous mechanisms have been put into place through the decades in this area, and many activities have been carried out. There are still many opportunities ahead of us as both the working environment and the broader social conditions are permanently changing. This brings pressure and challenges that we have to manage. This is the responsibility of our expert services and interdisciplinary teams.

We conducted many activities to reaffirm among our employees the belief that health is a basic human value and responsibility of all of us, toward which we should all strive. It is our commitment to do all we can to prevent work accidents both by creating safe working conditions and by responsible conduct of every individual.

Therefore, we encourage every individual to maintain physical and mental health. We also promote awareness among our employees of the importance of a healthy lifestyle, and thus look to transfer the good example of a healthy lifestyle to their family members and others whom they meet in their private life.

Following are the **goals** in the field of occupational safety and health at the Gorenje Group:

- decrease the number of work-related accidents and dangerous incidents;
- cut the expenses related to sick leaves resulting from work accidents,
- improve organization of work from the aspect of occupational safety and health, and improve safety of working environment;
- improve awareness of the responsibilities for occupational health and safety among employees;
- promote a healthy lifestyle and spread the knowledge on safe and healthy work.

Key activities

- Lectures, presentations, measurements, publications, announcements, releases, improvements, and occupational health and safety system upgrades took place throughout the year.
- Operation of the medical absenteeism team whose regular annual activities promote health among employees, e.g. through interviews with employees after their return from a sick leave, and by promoting exercise in the workplace.
- Attractive Health Promotion project in cooperation with third-party health experts (occupational healthcare, sports medicine, physiotherapy, physical education) in order to maintain and upgrade with targeted activities and systematic approach the active health promotion among employees. Within the project that we continue in 2018, employees are actively encouraged to improve their physical and mental health, to maintain healthy interpersonal relationships, and experts on employee health management are encouraged to continue their training and education and acquire new knowledge.

At the Days of Professional and Employment Rehabilitation, or the REHA Days, 2017, Gorenje d.d. received an award for good practice of hiring disabled persons, and the Disabled-Friendly Company certificate. In April 2017, Gorenje d.o.o., Valjevo, received the »April 28 Certificate« by the Serbian Ministry of Labour, Employment, Veteran and Social Affairs, for quality occupational health and safety system in Gorenje's cooling appliance factory.

Human resource development and Corporate University of Gorenje

Focus 2017

Well thought-out and planned investment into knowledge and development of our employees is of key importance for the pursuit of our strategic policies. Cooperation with educational institutions, innovative approaches, and openness to changes in designing and executing the human resource development programs allow further growth, competitiveness, and sustainable development.

In 2017, our programs were aimed especially at development of innovativeness in the field of looking for new business opportunities, search of digital business solutions, and development of new products and services. With regard to leadership skills development, we placed efficiency and creation of environment for promotion of innovation to the fore.

Key activities

Scope of education and training

Approximately 7,500 employees were included in education and training. A total of 203,704 hours were devoted to organized forms of education and training, which is, on average, 19 hours per employee. Moreover, 257,148 hours of on-the-job training was provided for our employees. 540 employees were included in our CUG (Corporate University of Gorenje) programs.

At the Gorenje Group level, we invested EUR 2,079,013 into employee training and education.

CUG – Corporate University of Gorenje: CUG is an important piece of leverage for the pursuit of business strategy, and it is a key tool for human resource development. With its original approach, the University also gained recognition on a European scale. In its UBC (University-Business Cooperation in Europe), the European Commission identified CUG as an example of good practice promoting corporate growth and development through cooperation between reputable European universities and the industry.

The **2nd generation of academy for new product development, called the Gorenje Create Academy,** started their training with a revised program. 23 participants from 3 competence centres (Sweden, Netherlands, and Slovenia) and all business areas participating in the process of creating new products and services, built state-of-the-art knowledge and approaches in the development process through practical workshops. These approaches take into account the users‘ needs in the earliest stage of the development cycle.

We carried out the **3rd International Business Academy of Gorenje (IBAG),** intended for talented employees working internationally.

The **26th generation of the Management Academy of Gorenje (MAG)** graduated early in 2017 by presenting their business plans to management.

Portfolio approach to innovation and continuous leadership development with personal growth have become vital aspects of success in the modern business world of uncertainty and complexity. Therefore, we carried out as a part of our **Executive Business Academy of Gorenje (EBAG)** the annual conference titled „Driving Growth through Innovation“. The conference was attended by 57 managers. We shed some light on how to develop an efficient strategic decision-making process for our innovation portfolio, and how to contribute to the pursuit of the G4 Strategy, Gorenje Group Grows Global.

At the **Digital Business Academy** of Gorenje (DBAG), we develop the knowledge and skills for the pursuit of our digital business strategy. In 2017, we were dedicated to improvement of productivity using the Office 365 tool. It was attended by 360 employees. In order to acquire specialized skills, we conducted programs intended in particular for better knowledge of the consumers and their shopping paths, improvement of employer brand reputation, and talent recruitment.

As a part of gradual **introduction of the building blocks of the fourth industrial revolution** to manufacturing and development of smart and connectible appliances, we organized training for implementation of lean manufacturing, , and programs for quality improvement and optimization of processes, products, and services. We included lean manufacturing experts in the training program for the use of digital tools for advanced manufacturing process simulation.

We also conducted the **first international Gorenje hackathon** at which 63 participants from ten countries tackled the business challenges of the digital future. Also taking part were 12 mentors from the Gorenje and five mentors from Microsoft, all of whom were experts in the fields related to digital services, products, marketing, and product development. The presented projects mostly confirmed the initiatives from our digital strategy and digital trends. Despite harsh competition, many solutions were fresh and innovative.

Online learning: The number of visitors of the online learning portal is increasing each year. Since the number of users from Gorenje‘s international operations is increasing, contents are also created in English, Serbian, and other languages. The most contents pertain to servicing, product information, environment protection, and occupational safety and health. We enhanced our online learning portal with video contents on digitalization, which is available to employees throughout the Gorenje Group.

Transfer of knowledge to the team: Development needs and planned changes in operations are the guiding principles for designing our training programs. For larger groups of employees, we organize workshops within the company, with visiting and in-house lecturers. In addition, our employees also attend educational events at home and abroad. Our programs follow the latest trends and introduce many new features.

Leadership and coaching: We paid a lot of attention to development of leadership and coaching: skills. We organized training programs for development of collaboration skills, public appearance skills, negotiations, and teamwork.

Cooperation in competence centres: The company Gorenje d.d. partnered with Knowledge Competence Centres in the field of electric industry and design management. The purpose of such cooperation is to acquire the latest skills and knowledge, to share good practices among participating companies, and to support respective industries in strategic development at the national level.

Work induction programs: Work induction programs are our way of integrating new employees hired for more complex jobs or positions. During the induction, they are mentored by our experts to acquire the relevant information which allows them to integrate more quickly into the new working environment. An in-depth induction seminar for new employees is also offered on a quarterly basis.

Lifelong learning: Programs in this field allow the employees to quickly adapt to a new environment, including outside the company. The program for acquiring the basic and professional competencies, organized in partnership with Ljudska univerza (People‘s University) Velenje, has included more than 220 employees working in production. Employees acquired new skills and knowledge on computers and English.

Scholarships and part-time studies: The guiding principle for our scholarship policy is recruitment of talent with technical skills, currently in the education process in high schools and colleges. We actively work with our scholarship recipients during their studies. They are included in development projects though their vacation work; they are offered academic work placement, and the possibility to write their graduation or master‘s theses. Our employees are provided opportunities for acquiring higher levels of formal education through part time studies. Majority of part-time students are enrolled in undergraduate programs. This includes various study programs, with majority being mechanical engineering.

In the countries with a large number of employees at the Gorenje Group, we work with high schools and colleges from the local environment to plan the programs for compulsory academic work placement. Practical training is offered to students in higher-education programs and high school students. In terms of the number of completed academic work placement programs, technical programs of Šolski center Velenje (the Velenje School Centre) are at the top.

Cooperation with research and educational institutions (“knowledge centres”): We are looking to develop a brand of an appealing employer for technical talent. Therefore, we worked with technical high schools, colleges at both Slovenian Universities, and the Jožef Stefan Institute. In Serbia, we signed with the Ministry of Education and Technological Development a memorandum on practical training (academic work placement) for high school and college students at our companies.

Targets 2018

Activities at all levels of management and career development at the corporate level will be aimed at establishment of a succession policy.

We shall launch a talent development program for successful integration into work in the global market, and design competence models for all key positions at Gorenje Group. We shall upgrade our training and education programs with systematic direction towards job rotation training programs. Therefore, we shall establish an efficient mentorship system at all Gorenje Group companies. This will improve the transfer of knowledge and cooperation between generations.

In order to improve our position in the fight for talent from schools of business and economics, we will work more closely with business/economics and social science schools.
We will use a revised instrument to measure again after a number of years the culture at all Gorenje Group companies.

We shall strive to keep the programs of Corporate University of Gorenje and functional training modern and open, and that they will allow our employees to connect, to transfer knowledge, and to develop the skills require for their personal growth and the growth of the company.

2.3.2 Quality for our users

Concurrently with the technological progress in the market, the needs and habits of our customers are changing as well. We seek to follow them and indeed co-shape them by adjusting our products with modern consumer interfaces and functionality. We employ techniques such as **Consumer Insights** that allow efficient transfer of values for the customer to our products. We seek to improve the quality of our products and services by:

- technological innovation that simplifies the users‘ lives;
- carefully thought-out and advanced design;
- energy efficiency of our products;
- new materials that improve the functionality of our products while reducing the burden to the environment.

Assuring the quality of our products

Focus 2017

In the Strategic Plan for the period 2016–2020, we specified goals regarding improvements to our products' reliability. We approached the pursuit of these goals by identifying and improving the parts of the processes that contribute the most to incurrence of costs and quality failures. Activities in 2017 were also focused on the following:

- process of component implementation and approval;
- processes related to electronic components which are becoming a key element of our products.

Last year, there were no recalls of our products from the market.

Key activities

We were improving the processes related to the concept development and implementation of electronic components. Particular attention was paid to all processes of changes on the products, as these are one of the most common sources of non-compliance. Preventive activities are a part of standard quality assurance mechanisms in place at production and development processes.

A wide range of certificates awarded by national certification bodies from many countries around the world gives our products internationally approved technical and product credibility.

Responsible marketing and market communication

Focus 2017

At the central market communication department, we have developed all-around support for all new product launches in 2017 (integrated online and offline solutions). Last year, media lease, localization, and catalogue printing were, as before, the responsibility of respective markets. Their tasks also involved specifying the goals and monitoring the results, taking into account the brand position and recognition in the relevant market.

Compliance with the legislation and relevant codes of conduct

In 2017, we did not identify any cases of non-compliance of our marketing and market communication approaches with the legislation or specific codes of conduct. As to date, design of solutions involved checking and reviewing any problematic or disputable communication elements. Solutions submitted from the central Market Communication Department to particular markets were additionally checked locally and adjusted as necessary to local requirements or expectations.

After-sales services (servicing)

Focus 2017

We were focused on improvement of all quality indicators for after-sales services, and on cost management. We established a service network for connectible appliances. User satisfaction with our after-sales services, as measured in the key markets, was consistent with the strategic plan.

Key activities

We continued our activities within ongoing projects in after-sales services, especially the following:

- improvement of user satisfaction with all brands,
- introduction of connectible appliances,
- managing the costs of after-sales activities in the Group.

Plans for the future

Mutual dependence and cooperation between sales and after-sales activities are focused on providing maximum customer satisfaction. Our goals are targeted in particular at the following:

- Focus on customer satisfaction
- New business models in after sales
- Further improvements in quality and cost optimization in after-sales activities
- Introduction of after-sales support for connectible appliances (CAP project) in target markets
- Preparation for upgrade of service activities in China

2.3.3 Cooperation with local communities

Since the very beginnings, integration into the local environment and close relations with various communities within the society were major priorities for Gorenje, and of great importance for the development and functioning of both the Group and the local communities. We are still aware of this message from previous generations. Therefore, we tend to carry over the practice of solid and sustainably oriented relations with the local communities to all local environments in which Gorenje Group companies operate or will operate. Such cooperation is of course the strongest in our key manufacturing locations.

In the local environments in which we operate and cohabit, we have built sound relations that we nurture with care. We seek to co-create environments for quality and pleasant living as most of our employees come from the local environment. We invest into the development of communities with mandatory taxes and contributions, and additionally by supporting, within our possibilities, the various institutions and organizations in the local environments.

Gorenje Group has corporate social responsibility written in its genetic code; a major part of managers, executives, and other employees are active in this respect, not only professionally, but also during their leisure time.

Creative industries, culture, and tradition

Focus 2017

As a globally renowned innovator and trendsetter in design and technology, Gorenje Group is aware how important it is to nurture culture that we believe is an important building block of (in)formal knowledge and a remarkable source of inspiration for innovation and development.

Gorenje Cultural Society was very active in promoting the corporate culture and fostering innovativeness. With the newly appointed board in 2017 it again organized many cultural events, exhibitions, lectures and debates, workshops, cultural trips etc.

Our efforts to maintain the ties to our tradition and culture in our local environment and beyond also include supporting the activities of the Gorenje Retiree Society.

Key activities

In 2017, Gorenje Group supported BIO25, or the 25th Design Biennial that combined design-oriented events in Slovenia in neighbouring countries.

We also supported the international conference Material Culture: How Things Make People, and the guest lecture by the globally renowned anthropologist Daniel Miller. We also hosted him at the Velenje Gallery where he held a lecture titled »Effect of Modern Technologies on People«.

We supported filming of »Hansel and Gretel« under the auspices of the Silvan Furlan Foundation, and many other institutes, activities, and projects in the local environment and at the state level.

Partnership in sports

Focus 2017

Gorenje remains the proud general sponsor of the Slovenian Nordic Ski Team, Handball Club Gorenje Velenje, and the Slovenian Handball Association. In 2017, we also became the general sponsor of the Champions League and the men's European handball championship EHF EURO 2018.

Key activities

We celebrated the 25th anniversary of support to Slovenian Nordic Ski Team, which we have commemorated with a special travelling exhibition honouring our partnership. We traditionally supported the World ski jumping championship in Planica.

Depending on the goals laid down for respective markets (brand recognition improvement, sales promotion etc.), Gorenje Group occasionally also sponsors other sports disciplines, events, and clubs internationally. Notable sponsorships also include Football Club Spartak of Moscow.

As we are aware of the importance of an active and healthy leisure time, Gorenje Group lends its support to the Gorenje Sports and Recreation Society whose membership numbers over 7,000 and includes both our employees and other members, and to local sports and recreational events. Thus, we supported in 2017, among others, the Velenje Swimming Club, a group of children with special needs, who took part in this year's European swimming championship, and a variety of other minor sports activities and projects in the local environment.

Humanitarian activities

Focus 2017

As an important player in the economy, both country-wide and at the local level, Gorenje Group is striving to contribute, within its means, to improvement of conditions for living and growth, professional and personal, in our environment. Consistently with our corporate culture values, we fostered and contributed to mutual relations, cooperation, and solidarity among our employees and in our local environment.

Key activities

Working with Slovenian humanitarian organizations (e.g. Friends of the Youth Association of Slovenia), we responded to several applications and granted several requests for aid, donated many domestic appliances, and thus sought to alleviate the hardship of many individuals and groups in need of such aid.

This included donating a cooking appliance fitted with an accessory that helps provide safe use of the cooking appliance for the blind and visually impaired persons (donation to the Association of Blind and Visually Impaired Youth – Iris Centre); we supported the project Food Surplus (»Viški hrane«) by donating freezers; we provided a material donation to the operation of the SOS Telephone Line Society for women and children – victims of violence; and supported other humanitarian initiatives.

Moreover, we contributed minor material donations to help improve educational, sports and recreational, and cultural activities for the young and elderly population in our local community and beyond.

9

Risk Management

Risk management is a constituent part of business processes. Therefore, Gorenje Group has established a risk management process at the strategic, project, and process level. Thus, we are monitoring and we proactively respond to the risks and opportunities that could affect our operations, business processes, and attainment of goals.

2.4 Risk Management

Risk management is a constituent part of business processes. Therefore, Gorenje Group has established a risk management process at the strategic, project, and process level. Thus, we are monitoring and we proactively respond to the risks and opportunities that could affect our operations, business processes, and attainment of goals.
The chart below presents the relation between respective process (operational) risks and key performance indicators at Gorenje Group as disclosed in this Annual Report.

Process/operational risks and relation to the KPI, broken down by three areas of sustainable creation of value at Gorenje Group

			Economic Sustainability – Business Excellence										Environmental sustainability		Social sustainability		
	TVEGANJA		B1	B2	B3	B4	B5	B6	B7	B8	B9	B 10	E1	E2	S1	S2	S3
Operational risks	Currency risks			•	•	•	•	•	•	•		•					
	Credit risks			•	•	•	•	•	•	•							•
	Liquidity risks								•	•							
	Interest rate risks								•	•							
Production risks	Procurement risks		•	•	•	•	•	•	•	•	•	•					
	IT risks							•	•	•	•				•		•
	Product quality risks	human resource availability						•	•	•	•				•	•	
		materials and supply						•	•	•		•	•	•			•
		technological equipment						•	•	•	•	•	•	•		•	
		work process methods							•	•	•	•	•	•		•	
	Product quality risks			•	•	•	•	•	•	•	•	•					•
	Development risks			•	•	•	•	•	•	•	•				•		
	Human resource risks									•	•				•	•	
	Logistics risks					•	•	•	•	•	•	•	•	•			•
	Legislative and regulatory risks			•	•			•	•	•	•	•	•	•		•	
Market risks			•	•	•	•	•	•	•	•	•	•					•
Reputation and goodwill risks			•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

Legend:

Economic Sustainability – Business Excellence (B)

B1 Focus on the core activity Domestic Appliances (share of total Group revenue)

B2 Revenue from sales beyond Europe and its share in total revenue in the core activity Domestic Appliances

B3 Revenue from Asko brand sales and its share in total revenue in the core activity Domestic Appliances

B4 Share of revenue from sales of innovative and premium products

B5 Gorenje Group sales revenue (* with and without divested Ecology)

B6 Attainment of EBITDA margin

B7 Net financial debt / EBITDA ratio

B8 Attainment of cash flow from operating and investing activities

B9 Investments into product development (% of Gorenje Group total revenue)

B10 Manufacturing plants

Environmental sustainability (E)

E1 Hazardous waste (kg/unit)

E2 Waste for disposal (kg/unit)

Social sustainability (S)

S1 Share of employees participating in training and education

S2 Number of work accidents

S3 Retailer satisfaction

Decision-making and entrepreneurial processes involve risks which are a part of the business processes. Gorenje Group has in place an appropriately documented risk management process by which we define the risk levels that we assume, and the risks that we systematically manage pursuant to the defined methodology.

Thus, we are making sure the **business decisions and the risks related to them are identified in a controlled and balanced manner, and that they are measured and monitored at the strategic, operational (process), and project level.** The risk management process involves all Gorenje Group employees who are, in adopting their business decisions within their powers and responsibilities, exposed to risks and opportunities brought about by their business decisions. Systematic approach to risk management ensures adequate **bases for long-term stability of operations, long-term growth, and generation of value for all stakeholders.**

2.4.1 Risk management process and organization

Risk management process was established to provide continuous monitoring and active response to risks that could negatively affect the operations of the entire Group, particular business processes, and attainment of their goals. The risks are assessed based on the assessment of probability of a certain risk to be realized, and based on the effect that realization of a particular risk would have for the assessed process. Given the level of assessed effects and the probability, the risk level is specified as the basis for assigning priorities in the field of risk management. Operating at the top level of the Gorenje Group's business management is the risk management council that adopts the risk management methodology and policy and examines the Group's key risks. The risk management process is also integrated into all business processes through risk management task forces.

The process of risk assessment and management takes place at the level where specific risks are actually present. This allows expert analysis of a particular risk and development of appropriate and adequate expertly selected controls and measures to attain an acceptable level of risk. Establishment of the operational part of risk management ensures the execution of risk management at the level of a process, as a constituent part of process management.

Gorenje Group has in place an appropriate and adequate organization for effective risk management. Risks are assessed where they are manifest: at the level of a process, project, or strategy. The assessment is made by area risk management task forces, while the risk management department provides relevant expert assistance in the use of tools and methodology. In case of process risk assessments, the risk management task force consists of process owners; in case of project risk assessments, it consists of the project team. In assessment of the risks pertaining to the Strategic Plan, the risk management task force includes the members of the risk management department, and the Management Board member in charge of Strategic Plan development, as well as other top managers who actively participate in the Strategic Plan. One important link in provision of information about the assessed risks to the top management is the risk management committee. The committee holds quarterly meetings as a part of the Gorenje Group Management Committee, and makes sure the Gorenje Group top management is informed about and up to date with the current status regarding the risks the Group is facing.

Following are the goals of the risk management department and risk management task forces:

- reducing the risks of business goal attainment to acceptable levels;
- providing up-to-date review of the most critical risks, complete with prepared and implemented controls and the measures for their mitigation and maintenance of acceptable levels thereof;
- maintaining steady and uninterrupted operations and reducing the element of unforeseen events and related costs, interruptions, and failures;
- development, establishment, and adjustment of the risk management model that is the best match for the Group's business needs and goals;
- monitoring risk management and comparing select risks to the competitors within the industry;
- improvement of capital and asset allocation to decrease their overall exposure in comparison to the preceding period;
- promoting employee awareness that risk management is a constituent part of any process and making sure the employees understand and conduct their work and their tasks consistently with the risk management guideline, which in turn promotes the risk management culture at the Gorenje Group.

Methodology for specifying the risk level: Risk level is calculated as the product of probability (likelihood) and magnitude of impact. Both probability and impact are assessed on a 5-step scale. Based on the analysis of probability, which in turn is the basis for specifying the probability of a particular risk, the assessor decides on the probability or frequency of occurrence of the risk at hand. The part of the assessment scale, pertaining to the level of probability of each risk observed, is based in particular on experience and the opinion of the assessor; nevertheless, it is clearly defined with the scale (or level) of historical data on the occurrence of the risk at hand. A part of the assessment scale, intended for the assessment of the frequency of occurrence of the risk at hand, is a clearly delineated scale of anticipated occurrence of an event in the future. For the assessor, the assessment of the level of probability is therefore clearly determined by two parameters based on which he or she can read the estimated value.

Depending on the analysis of effect and the specified risk level, the assessor then specifies the scope of effect brought about by each risk, and the type of impact that a particular risk can cause. Following were the discussed types of impact:

- financial impact,
- impact on health and safety
- impact on business continuity (discontinuation of operation)
- impact on Gorenje Group reputation, and
- impact on the goals the risk at hand could cause (or threaten).

Each of the impacts has a certain scale based on which the assessor can specify the assessed level of risk. Ultimate risk level is then determined as the level at which the assessed risk reached highest impact.

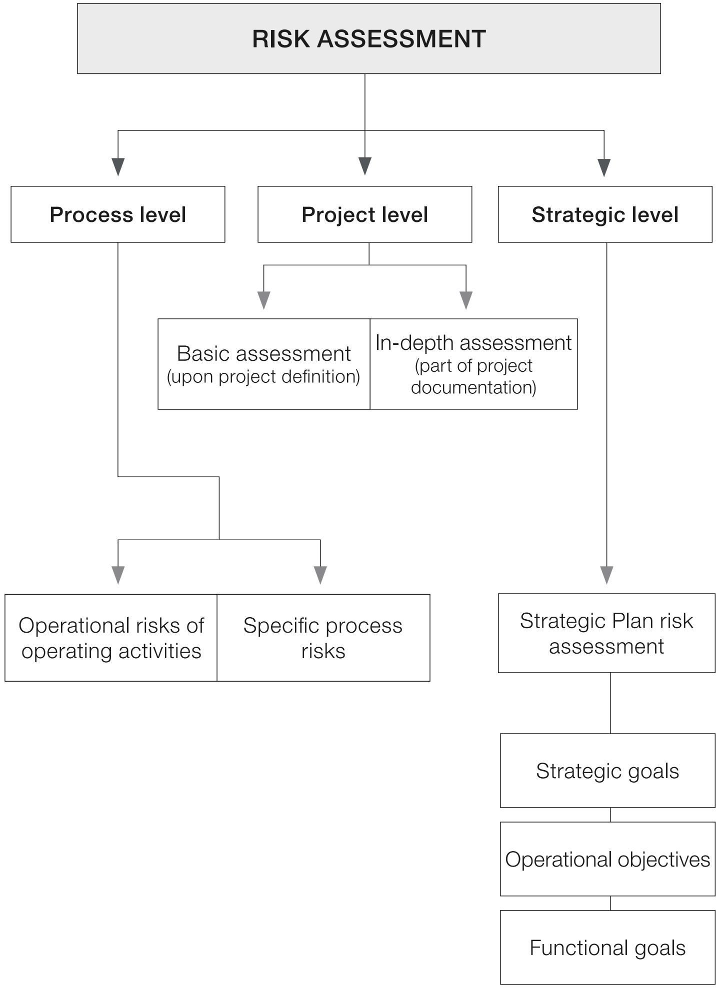
Based on the methodology used, risk mitigation measures are specified for every risk that has a level the same or higher than the default risk threshold set at level 12. The assessor may, based on the analysis of the risk contents, change this level; thus, risk threshold may be higher or lower for certain risks. A change in the risk management threshold or acceptability level is approved by the risk management committee consisting of representatives of Gorenje Group's top management.

Risk management committee holds quarterly meetings. At these meetings, the committee is presented the risks and measures adopted and executed or which are being executed or which are in place in order to hedge or mitigate the risks.

Consistently with the change in the Group organization, the risk management task forces and composition thereof were reorganized as well. Moreover, all risks were reassessed for all processes, as the change in the Gorenje Group organization also brought about changes to the context of virtually all processes in the Group.

2.4.2 Risk management in 2017

Risks at the Gorenje Group are assessed and managed at all levels of leadership and management.

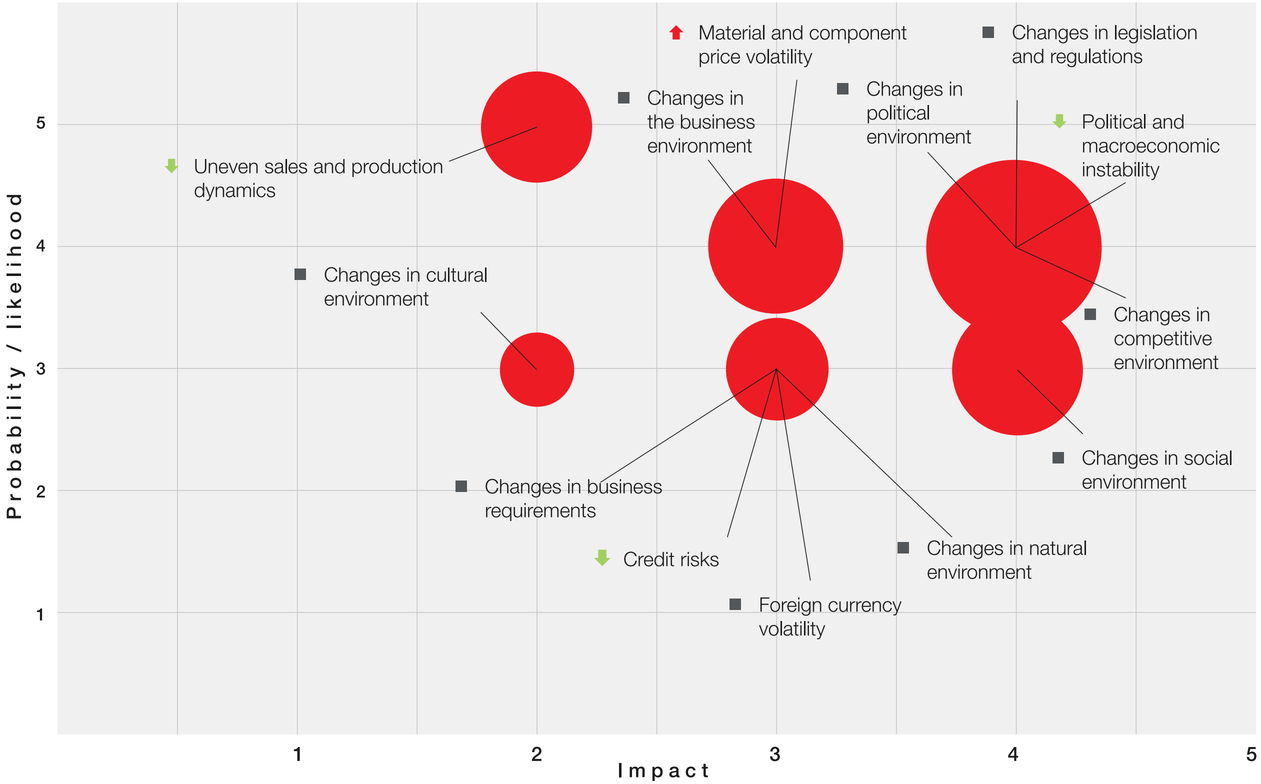


Key changes affecting the accomplishment of goals in 2017

External factors and changing environment in which Gorenje Group is operating affect the progress of planned activities and attainment of operational, functional, and strategic goals. Effects on goal attainment in 2017 were both negative and positive.

Effect of changes on the risks

- Diminishing
- No change
- Increasing



Based on observation of external business environment affecting the Gorenje Group operations, we assess the impact of changes on the risks we are managing. The graph presents the effect of change in case of its occurrence, and the probability of such change occurring. The magnitude is therefore the magnitude, or level, of risk that a certain change in the environment will bring with regard to Gorenje Group operations, and with regard to risks related to operations.

External and internal events

Focus 2017

External events:

- External events with the most material effect on Gorenje Group operations and performance include the increase in the prices of materials (steel sheet and plastic granulates). As the downstream prices of appliances could not be adjusted at the same time, this factor had a significant impact on Gorenje Group's performance.
- Domestic appliance markets are growing; harsh competition is exerting a downward pressure on the prices in the market.
- Economic growth has also lead to scarcity of some types of human resources, which in turn led to mounting pressures on labour costs.
- A major external event of 2017 which has affected and will continue to affect Gorenje Group's operations and performance is the parliamentary elections in Germany. Germany's political and economic stability notably affects the economic activity in the entire European Union; moreover, Germany is an important market for Gorenje Group products.
- The year 2017 was also an election year in the Netherlands (parliamentary election) and France (presidential election); along with Germany, these three countries account for no less than 56 percent of the European Union's economy. The year 2017 was also a year of presidential election in the Republic of Slovenia. The results of the 2017 election did not have and do not have a major impact on Gorenje Group's operations and performance.
- As a result of Great Britain's decision to leave the European Union in 2016, the British pound has depreciated by nearly 10 percent in 2017. Such depreciation also means a 10-percent decrease in sales revenue for the Gorenje Group.
- The referendum on Catalonia's independence does

not have a direct economic effect on Gorenje Group's operations and performance. It is, however, a new event that speaks to the political volatility of the environment in which the Gorenje Group conducts the majority of its operations.

- Notable events or conditions in the territory of Gorenje Group's operations continue to include the issue of migrations, terrorism, and general economic situation of the environment in which Gorenje Group conducts its business.
- In the Russian market, which is highly important to Gorenje Group, GDP growth was recorded in 2017 for the first time since 2014.

Internal events:

- We changed Gorenje Group's organization in 2017, which is an important tool for attainment of the Group's strategic goals. Consistently with the change in organization, risk management task forces were also transformed, and a risk management committee was appointed, which is active at the level of the Gorenje Group Management Committee.
- The business model was changed towards a stronger segment of built-in and premium appliances, with a focus on premium (prestigious) appliance sales in the German market.
- The launch of mass production of new generations of free-standing cookers and premium dishwashers, washing machines and dryers was completed late in the year. Problems related to the start of mass production resulted in delays in appliance delivery to the markets.
- In 2017, Gorenje Group continued its efforts to establish and maintain its strategic partnerships.

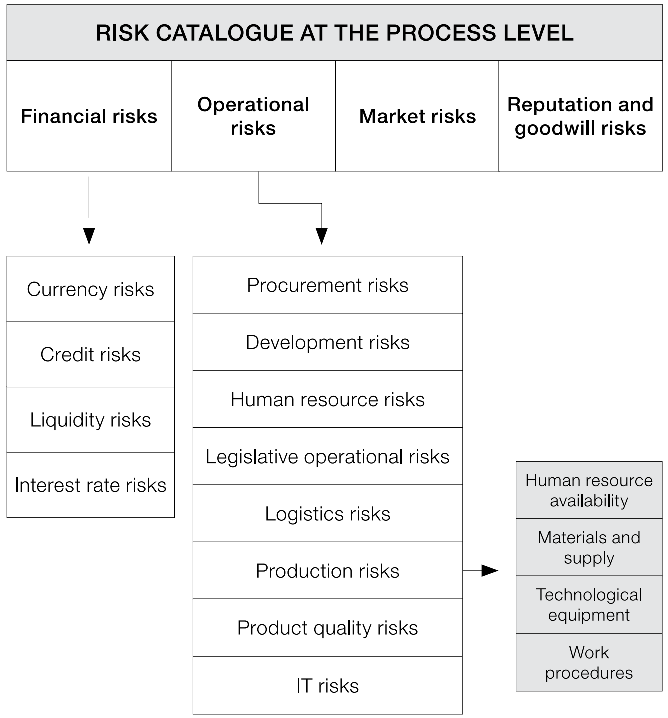
Key activities

- In the second half of 2017, we reappointed the risk management task forces that are in charge of risk management at the process level. Relevant training and education on methodology and the risk management process was provided for new risk management committee and task force members.
- Moreover, we developed self-study materials for training and education on the contents of risk management. The materials are available via our electronic training and education system.
- Certification audit for compliance with the requirements of the ISO9001:2015 standard included an audit of the risk management process; the audit found this process compliant with the standard.

2.4.3 Risk catalogue

The risk catalogue is a comprehensive collection of the risks at hand at the process level at the Gorenje Group. Risk categories (or groups of risks) and their current assessment are presented in a graph that presents the main risk categories, acceptability threshold, anticipated scenario of action, and their current assessed value. In the catalogue, the risks are broken down into the following categories:

- financial risks,
- operational risks,
- market risks, and
- reputation and goodwill risks.

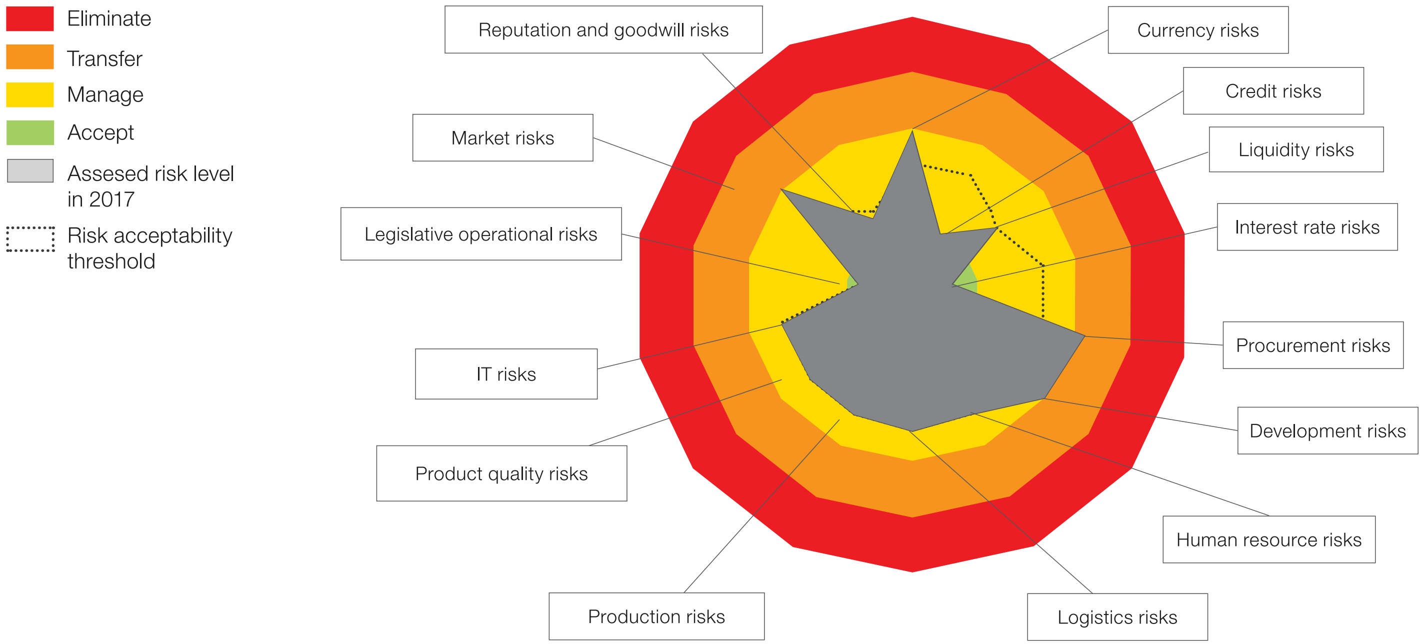


Based on the risk being assessed, **four basic risk management scenarios** are used:

- accept the risk
- accept and manage the risk
- accept and transfer the risk
- eliminate the risk

A particular measure can also involve a combination of the four scenarios.

Uniform risk management methodology can be used at both strategic and project, as well as process level.



Catastrophic impact		BCP*	Manage			Elimination
Major risk				or		
Moderate risk	Impact		Accept		transfer	
Minor risk				and	manage	
Insignificant risk		Accept				Controls**
Management scenario		Probability				
		Rarely	Not very likely	Possible	Probable	Almost certain

BCP* – Business continuity process is a risk management scenario in case of a risk with the lowest assessed level of probability and the highest level of impact.

Controls** – The management scenario in case of risks with the highest assessed probability and the lowest assessed impact.

Strategic risks

Strategic risks are risks at the highest level of the Group. Their realization has a direct effect on the value of the entire Group.

Focus 2017
Risk assessment for the projects supporting the attainment of Gorenje Group's strategic goals is a constituent part of planning and execution of these projects. Due to the changes in the external environment and within the Gorenje Group, we periodically reassess the Strategic Plan risks. This activity is also planned for 2018.

Project risks

Major project management risks involve the risks of project performance, risks related to project work methods (project delays and exceeding other needs for planned resources – human, material, and others), risks of technological procedures, production and development risks, and risks of ensuring the competitiveness of end products as a result of respective projects.

Focus 2017
Risk assessment transfer is conducted at the Group level. In 2016, the focus was on assessment of risk for a variety of project types; project risk assessment was focused on the projects carried out at the company Gorenje d.d. In 2017, project risk assessment was gradually introduced to the level of the entire Gorenje Group.

Process /operational risks

Key process or operational risks include financial risks, operational risks, market risks, compliance risks, and reputation and goodwill risks. Financial and operational risks in particular are further broken down into several types of risks as presented below.

Focus 2017
Assessment of process / operational risks in 2017 was adjusted to the reorganized Gorenje Group operations. Thus, we appointed new risk management task forces at the process level, and provided relevant training and education for task force members. After the training, we also reassessed the risks. Due to the changes in organization, the entire risk management cycle had to be repeated. Hence, we carried out the process of risk identification, risk analysis, and risk assessment. We also reviewed the status of the implemented measures; we specified additional risk management measures. The risk management process was defined in such way that risk management task forces prepare risk assessments at least on a quarterly basis. These assessments are then presented to the risk management committee that consists of members of the Gorenje Group Management Committee. Thus, we make sure the top management is informed of and kept up to date with the current risk assessments and status.

FINANCIAL RISKS

Currency risks

As our operations are broadly internationalized, we are exposed to the risk of changes in exchange rates. Namely, a change in the exchange rate between a particular currency and the Group's functional value (the euro) could result in a decrease of economic benefits for the Group. Our greatest currency risks pertain to our business activities in the markets of Russia, Serbia, Australia, Great Britain, Czech Republic, Poland, Hungary, Croatia, Ukraine, and all US dollar markets.

In these currencies, the Group balance sheet reports and excess of assets over liabilities, which is treated as a long currency position. Key accounting categories constituting a currency position include trade receivables (from end users) and trade payables (to suppliers). The exception is the US dollar for which we have an excess of liabilities over assets as the purchases from the dollar markets exceed our sales in this currency. To a lesser extent, the exposure of financial position is related to our debt in local currencies.

Currency risks are managed consistently with the Currency Risk Management Policy that specifies the following:

- currency risk exposure measurement,
- powers and responsibilities in currency risk management;
- methods and required scope of currency risk management hedging;
- acceptable currency risk hedging instruments;
- acceptable currency risk hedging partners; and
- method for evaluating the performance of currency risk management.

In 2017, we adjusted our currency risk management policy by including in the hedging mechanism the characteristics of respective currencies, from the following aspects:

- possibility of adjustment of the prices of our products to the changes in foreign exchange rates,
- convertibility of respective currencies and availability of effective currency risk hedging instruments.

In addition to natural currency risk hedging with internal techniques (which involves adjusting the purchases and sales in respective currencies, taking out loans in the currencies with asset exposure, and other internal mechanisms), we also actively hedge our currency risks. We regularly hedge against the risk of a change in the foreign exchange rate by using acceptable currency risk hedging instruments for the currency pairs that require such measures consistently with our revised policy. The level of protection is at least 80 percent of the budgeted cash flows. Currency risks are managed in a centralized manner, which results in the best currency risk hedging effects.

Credit risks

Due to global presence, Gorenje Group has many buyers, or customers. Most of these are legal persons; there are very few natural persons among them. As a general principle, we again worked in 2017 only with customers with a satisfactory credit rating which is regularly monitored. Credit risks are managed consistently with our Receivables Management Policy, amended in 2017, which specifies the procedures for credit limit monitoring and approval, responsible persons, and permissible instruments for credit risk insurance (or security). The policy has been established and implemented at the Gorenje Group level.

Volatile macroeconomic environment affects our business partners as it can cause instant changes in their credit rating, liquidity or solvency. Therefore, there is still some probability of payment delinquency or default on the part of our customers, or even their insolvency, despite the receivables management process in place at the Group. Hence, the Group employs a highly diversified sales model that does not involve any major concentration of receivables with a single buyer or a group of affiliated buyers (connected through ownership).

No single customer or a group of affiliated customers related through mutual equity ownership accounts for 10 percent or more of the Group's total sales, and exposure to a particular customer or group of customers does not represent 10 percent of the Group's total receivables.

Most trade receivables are insured by SID – Prva kreditna zavarovalnica. A part of the receivables is also insured by credit insurance companies in respective local markets, and by other acceptable insurance instruments. Credit risk is carefully monitored in all segments of our operations. Short-term surplus of funds and cash in commercial bank accounts is allocated in compliance with our corporate policies that also include the methodology of determining acceptable financial partners or parties. These policies also specify the methodology of determining the acceptable financial partners in signing derivative financial instruments.

Liquidity risks

Liquidity risk is the risk that the Group will fail to meet commitments in stipulated period of time due to the lack of available funds.

Liquidity depends on efficient cash management and investment dynamics. At Gorenje Group, we actively manage the liquidity risk by centralized monitoring and balancing the liquidity of our assets (especially receivables and inventories), liabilities, and cash flows from operating and investing activities. Cash management for the entire Group is centralized and supported by cash flow planning and daily monitoring software. A lot of attention is paid to drawing up and monitoring of the cash flow plan. Successful liquidity planning allows us optimum management of any short-term surpluses or deficits of liquid assets. Any short-term imbalances are offset by drawing on approved revolving credit lines agreed with commercial banks in Slovenia and abroad. In addition to cash (deposits) in bank accounts, this is also a part of Gorenje Group's liquidity reserve.

The Group has in place a long-term plan for servicing its financial liabilities which is regularly updated. In 2017, we maintained a rather high share of long-term borrowings by replacing the current (or maturing) portions of long-term borrowings; at the same time, we cut our financing expenses.

Interest rate risks

Financing of the Group's current operations and its investment activities involves interest rate risk, since a good part of the loans taken out depends on the variable interest rate EURIBOR or other local variable reference interest rates. Interest rate risk exposure thus includes in particular the changes (increase) in the EURIBOR that are unfavourable in terms of the Group's financial liabilities. A large part of financial liabilities involve a variable interest rate that depends on the 3-month or 6-month EURIBOR.

The interest structure of financial assets and liabilities is not balanced as the Group has considerably more financial liabilities than interest-earning financial assets.

In 2017, we increased our financial liabilities with a fixed interest rate as we signed both new long-term financial agreements with a fixed interest rate, as well as interest rate hedging instruments (interest rate swaps). In 2017, we signed EUR 290 million worth of interest rate swap agreements, the effect of which is contractually agreed to be gradual for the period from the end of 2018 to 2022. Signed interest rate swaps allow long-term stability of the Group's interest rates for the entire period until the end of 2022. As at December 31, 2017, the part of financial liabilities with a fixed interest rate accounted for 71.1 percent of total interest-accruing financial liabilities.

OPERATIONAL RISKS

Operational risks include the following: purchasing risks, IT system risks, manufacturing risks, product quality assurance risks, development, HR, and logistics risks, and risks of legislation and regulation.

Procurement risks

In addition to price and currency risks, which are affected especially by external factors, efficient and successful operation of the purchasing function also requires effective supply chain organization. In 2017, we continued to source our raw materials, components, and goods from a large number of third-party suppliers. In doing so, we are always exposed to the risk that expected deliveries will not comply with the agreed standards in terms of both suitable amount and quality, and to timeliness of supply.

This risk was managed by systematically observing the rule of two or more alternative suppliers, except for some strategic suppliers who are involved as early as in the pre-development activities. The risk of continuous, or uninterrupted, availability of raw and processed material and components was managed by continuous implementation of new suppliers and by building up (and maintaining) an adequate safety stock for uninterrupted production process. Gorenje Group has in place a supplier evaluation model which evaluates the suppliers based on a number of aspects and criteria. The process includes quality controls for input materials and products, and frequency of such controls.

Purchase price risks, related to macroeconomic developments and changes in prices of raw materials, currency fluctuations, and competitive position of our suppliers, are managed by:
- forward deals for some materials,
- negotiations with suppliers from various geographical segments,
- supplier diversification,
- implementation of global suppliers, including suppliers from the most competitive countries, and
- currency risk management.

Effective supply chain management and the level of reliability of production planning and product sales have a major impact on the Group's operations. We continue to revise our supply chain management process to further optimize our purchasing costs, ensure an adequate level of inventory in the supply chain and increase the throughput of related business processes. In strategic procurement, we have implemented a special software solution for monitoring the risks related to particular materials or components and therefore Gorenje Group exposure related to particular raw and processed materials.

In 2017, we completed a project aimed at alleviating the dependence on individual suppliers. Thus, we start the year 2018 with an improved base of implemented suppliers, with better quality, which positively affects both the reliability of manufacturing operations and business performance.

IT risks

Risks of IT system operation stem from the risks related to operational aspects of the IT system (system infrastructure), support at the level of services, and development of solutions that comprise the IT system.

IT system is established based on a high reliability principle, and it also includes infrastructure at a secondary computer centre location. Reliability of IT system operation in some special-purpose areas is improved by use of cloud services by service providers who have been proven and tested with regard to security.

Risks of IT system operation were also managed by signing maintenance contracts with business partners, in which we specified the parameters of service quality and availability.

In 2017, we launched the revision of operating processes at the IT and Telecommunication department, where the goal was to provide more effective and more controlled and comparable processes for the department's operation. We also revised the data and information security management system, completing the project by issuing a revised security policy for the field of data and information security. In revision of the security policy, we observed the recommendations and policies of the ISO27001 standard.

Production risks

Group production processes depend on timely and adequate availability of resources which are the precondition for the operation of the production process. Although the production processes are generally modern and well maintained, there can be no full assurance that there will not be faults in technological processes or breakdowns in machinery and equipment used in the production process. Production risks are further broken down as follows:
- risks related to availability of human resources,
- risks related to materials and supply,
- risks related to technological equipment, and
- risks related to work procedure methods.
    - **Risks related to availability of human resources** are a result of both the nature of processes and project work. At the process level, risks related to human resource availability are related on the one hand to the fluctuations in the required or planned production volume; on the other hand, they may be a result of human resource shortage due to force majeure (natural disaster, broken traffic connections etc.). Such risks are managed by reallocation of human resources between production programs in place at the same manufacturing site. At the same time, constant training and education of employees that results in greater flexibility of our workforce plays a very important role.
    - **Risks related to materials and supply** are divided into risks related to supply timing (delivery delays) and risks related to supply volume and quality (deliveries of non-compliant volume or quality). Through optimization of our production processes, we established a system of minimum inventory. Therefore, there is a possibility that untimely or

inadequate supply will result in interruptions in production. Related risks are managed by clearly specified contractual relationships with our suppliers. Untimely supply may occur due to incapacity of the supplier, as well as due to disturbances in logistics between the supplier and Gorenje. Such risks are managed by well-managed process of purchasing and logistics, which involves systems of both alternative supplies and suppliers, and alternative logistics routes.

- **Risks related to technological equipment** include risks stemming directly from the technological processes. These risks include the following:
    - risks pertaining to failures of machinery that is essential for production processes; these risks are managed with regular preventive inspections and maintenance;
    - risks of supply failures for key energy sources or fuels (gas, electric energy, heat); these risks are managed within our contractual relationships with the suppliers; and
    - risks pertaining to provision of compliance with the effective technical and legal norms; this is maintained with regular inspections and compliance tests (internal and external controls), and immediate response to any discrepancies observed.
- **Risks related to the work procedure methods** are a very important segment of risks related to the production process. Work methods and procedures have a strong effect on the quality of the final product. Therefore, quality management is involved in all production stages of a product. Required quality levels are attained with tried and tested work procedures that are regularly monitored, reviewed and revised as necessary. Technological procedures have a major impact on the quality of the final product, and quality products allow us to retain our current customers and inspire and convince new ones. Changes in work procedures affecting the quality of the business process, its cost efficiency and provision of safe and worker-friendly environment are monitored through indicators of production process quality, which are also constituent parts of the quality management system. Risks related to production processes were increased in the first two quarter of our operations when ill-fitting methods and work procedures resulted in delays in the launches of new generations of appliances. In the second half of 2017, the risks were mitigated to an acceptable level as the production of new generation appliances was launched. We also partly managed to make up for the delivery delays resulting from the unsuitable work methods and procedures in the first half of 2017.

Product quality risks

Appliances manufactured at the Gorenje Group are subject to quality standards and regulations. Standards ensure that an adequate level of quality and safety for the user is attained and maintained; changes of such standards and changes in regulations introduce a constant need for changes to the production process or changes in the components or materials managed. Therefore, we continue to improve our production practices and observe the relevant protocols and standards in quality assurance. Consistently with the established model of systematic monitoring of poor product quality costs and the rates and causes of product failure, we manage the risks of inadequate product operation already during the production process. The purpose of such monitoring is to perceive or identify and eliminate the risks of inadequate product operation within all processes that affect the quality of the final product. The risks are mitigated with appropriate development and quality assurance systems as a part of the production, sales, and after-sales processes.

As an additional mechanism for discovering any faults in appliance operation, we have put into place at all process levels a quality management system compliant with the requirements of the ISO 9001 standard, system of certified methods according to ISO 17025, and the Six Sigma system. The use IT tools allowed us in 2017 to cut the time required to identify any extensive failures and thus to limit the costs that would be incurred in case of an epidemic defect. At the same time, we were constantly expanding the set of tests in the purchasing, development, and production process.

In addition to the internal product risk mitigation measures, we have also obtained in 2017 insurance coverage from an international insurance company, which also includes coverage for manufacturer's liability for damage resulting from any faults or operation failures, in the amount which we deem sufficient to provide adequate coverage for any loss events.

In addition to the direct financial effect, product failures and potential loss events pertaining thereto also have a significant negative impact on the reputation of the Gorenje Group, our brands, and the relations with our customers in the wholesale and retail process.

Development risks

Development risks are broken down into risks related to compliance and risks related to new product development. With regard to provision of compliance, the most important risks include those that affect product development or which are related to attainment and provision of security and technical standards stipulated by the field of activity. In 2017, we continued to mitigate the risks with continuous training and education, and cooperation with renowned international institutions and development centres.

As our presence in the global markets, which we also pursued in 2017, expands, so increases the complexity of managing the locally effective legislation and the regulations related thereto, specifying the legislative provisions on product specifications for respective target markets, which have to be complied with and observed already in the development stage of the final product. An important set of risks representing a part of legislative compliance pertains to observing intellectual and patent protection. Major emphasis is placed on attaining and exceeding the security requirements to ensure safe use of our products for our customers. Failure in terms of any aspect of compliance may have a grave impact on our operations and performance, and on the reputation of the Group and its brands.

The new product development process includes checkpoints and tests. By observing this procedure, we are keeping in check any discrepancies between the planned and actually accomplished goals for each product. We also included in the development procedures the required measurements and monitoring of product development in its respective stages. Scenarios have been laid down for cases of discrepancies, which involve – in addition to development activities – the measure of replacement of a non-compliant or unsuitable component.

In order to obtain feedback regarding quality and usefulness of our products, in addition to our measurements, the product testing stage also includes independent consumer organizations and individual final product users. Tests are planned in the annual development plans and they involve relevant sets of products.

Risks with direct effect on the new product development include risks of availability of the development department. Such department availability may be restricted due to lack of key personnel, inclusion of unplanned development projects, expressed or identified additional requirements in the course of the development project, or even a finding that the development concept is inappropriate. Risks pertaining to the product development process are managed by careful project planning during the annual planning which in turn is a part of the medium-term new product development planning.

The risk with the greatest potential effect occurring in the development process and cannot be managed with internal controls is the risk of an unsuccessful product concept. In product development, the Group therefore has no assurance that the product we develop will find commercial success or that the consumers will recognize the useful value of the product features we develop. The effect of this risk is all the bigger if we observe it from the aspect of new product categories and platforms. These risks are managed by monitoring consumer habits, needs, and trends, by conducting market analyses, and by monitoring the trends in the industry.

Human resource risks

Quality human resources are especially important at the Gorenje Group as they represent an important asset that makes our operations possible.

In 2017, we continued the succession planning project which is to assure uninterrupted operations despite any losses of key personnel. Particular attention was paid to employee training and to maintaining and developing their competencies. We built up our pool of new human resources with scholarships. Training and education and human resource development are carefully planned and regularly monitored. This includes the annual interview model that we have in place. At the same time, we encourage our employees to pursue the Group's fundamental values of responsibility, innovation, and entrepreneurship at all levels of operations. In 2017, we stepped up our cooperation with educational institutions, including universities.

Economic growth has resulted in scarcity of certain human resources in the regions where Gorenje Group conducts its manufacturing operations. Such scarcity in turn resulted in an upward pressure on labour costs at Gorenje Group's manufacturing plants. Regardless of the requests for an increase in labour costs, suitable human resources are simply impossible to recruit in certain environment for particular tasks.

In the field of occupational safety and health we used our own methodology to assess the probability of occurrence of a particular accident and the probability of occurrence of health-related problems for each job or workplace. Based on the findings, we adopted relevant measures intended to decrease the probability of damaging effects on our employees, from the aspect of precisely directed investment into workplace improvement and adjustment of work processes, and from the aspect of training and education of employees, preventive examinations, and sports activities.

Logistics risks

Logistics risks are related to ensuring the operation of the logistics process, to changes in logistics operations and services of contractual carriers (or logistics service providers), and to operation of logistics infrastructure. In dealing with the risks of logistics process operation, we address disturbances and operation of logistics systems and logistics centres.

In 2017, logistics risks were managed by regular inspections of internal logistics systems, preventive and maintenance works, and regular upgrades to the systems in charge of logistics process operation. Risks of service delivery by contractors involve risks of our business partners who provide logistics services, or transport, between our logistics centres or to the warehouses of our business partners.

Effectiveness of logistics support was also materially affected by external factors over which Gorenje Group has no direct influence. These include changes in the price of fuel, road tolls and other fees related to the operation of the logistics process. Risks related to inadequate provision of services by contractors were managed with regular implementation of alternative or substitute suppliers and assessment of the current logistics partners. The strategy of multiple logistics partners at the same destination mitigates the risk of failure on the part of any of them.

Risks of logistics infrastructure operation include changes in road, railway, or ship infrastructure and events related thereto, as well as changes in customs procedures, their operation, and their availability.

The field of logistics is focused on logistics activities directly related to logistics of products and materials required for the operation of production capacities and for timely and adequate delivery of end products to business partners. Risks of faulty deliveries and transport damage at the level of internal logistics or logistics provided by partners or contractors are managed with operational risk management controls.

Legislative and regulatory risks

Legislative and regulatory risks include risks related to any breaches of the relevant local legislation, regulations, or operating standards. These risks may affect the ability to successfully carry out the Group's business activities.

Due to our powerful international presence (in 90 countries of the world) and high market shares in some countries, we were exposed in 2017 to the risk of compliance with the competition law and regulations. Therefore, the Group has adopted a policy and operating instructions for conduct in compliance with the provisions of the competition law, which pertain to the entire Group.

The Group's global presence is also a challenge in terms of compliance of operations with local legislation and regulations. In addition to our own legal experts, we hired the services of third-party legal consultants for specific purposes or markets. A special set of legislative risks and risks of regulation includes locally addressed risks managed at the level of each process. This segment involves compliance with the tax legislation and regulations, compliance with environment requirements, compliance with safety requirements from the aspect of product, working environment, and business processes, protection of (personal) information, and other issues whose framework is defined by the regulations and legislation in effect from time to time. Non-compliance with the effective regulations and legislation is a risk which the Group has to manage and hedge according to the risk management methodology. Therefore, the only acceptable measure is prevention of non-compliance and introduction of activities to ensure compliance with all regulations and legislation.

In 2017, we started to implement the amendments to personal data management, as this is the only way to ensure compliance with the new European Union regulation on personal data management (General Data Protection Regulation). The project of ensuring compliance with the new regulation is implemented at the level of the Gorenje Group, for all companies processing personal information within the territory of the European Union.

MARKET RISKS

Market or sales risks are related to competitiveness in sale of products and services in particular markets. Efficiency of the Group's sales strategies depends on numerous factors, most importantly the implementation of appropriate and effective marketing strategies. These include in particular the right choice of brands for our products and services, pricing mechanisms, and competitiveness with regard to product functionality and design.

Competitiveness of sales was also affected in 2017 by the negotiating power of the industrial (OEM) customers and retail chains we work with, customer concentration, the quality of our products, recognition and power of the brands in respective markets, and the scope and quality of our after-sales activities.

We are encountering powerful competition in all markets of our operations. In addition, we are seeing ever higher ownership concentration of our competition. Ownership concentration improves our competition's competitive edge and negotiating power relative to the customers. Some of our competitors have more recognizable brands, broader consumer bases, and ampler financial and other sources they can use to improve their recognition in the markets, for marketing activities, and for launches of new and more competitive products in the markets. The risks related to competitor's activities aimed at increasing their market shares directly affect our operations and performance.

We support the attainment of the planned sales goals and market shares, expansion to the markets beyond Europe, and sales in the premium and innovative segment, with precisely targeted marketing activities and investments into new product development. Thus, investments into marketing and development were increased again in 2017, which in turn mitigated the market risks. In the new Strategic Plan for the period 2016–2020, developed in 2015, we specified as a key strategic goal to double our sales in markets outside Europe, i.e. in markets with higher growth of demand for home appliances. Gradual growth of the share of our sales in these markets, which we have also attained in last year, mitigates our dependence on the highly competitive European environment.

REPUTATION AND GOODWILL RISKS

Our competitiveness and performance also depends on our recognition and reputation, which pertains to our brands and to compliance at all levels of our operations. Decrease in the value of our brands due to product recalls, customer complaints, negative publicity, legal or court proceedings, or other factors may have major negative effects on our operations. Moreover, reputation and goodwill are indirectly and directly affected by most of the risks specified in this section.

Therefore, particular attention was paid also in 2017 to compliance of our operations at every level, suitable and proactive communication with all stakeholders of the Group, and transparent communication with the general public regarding the results of our operations, and significant events that affect our operations and performance. We started specifying additional measures, methods, and procedures for communication in cases of extraordinary or other situations that require notification to or communication with the interested public.

2.4.4 Insurance of property, liability, and employees

One form of risk transfer to a third party (service provider) is the insurance of property, liability, and production halt, which alleviates the negative consequences for Gorenje Group operations in case of occurrence of unexpected events that could materially affect the Gorenje Group operations. Insurances taken out provide a higher level of protection at the financial, legal, and operational level. Insurances are also taken out for other fields in which they are seen as an appropriate measure.

The scope of insurance and insurance coverage is adjusted on an ongoing basis. Thus, we maintain the optimum ratio between financial effects of insurance and risks that we transfer to the insurance company. Insurance policies are signed centrally for the requirements of the Gorenje Group, while any loss events are resolved in cooperation with brokers and their international network.

In addition to insurances pertaining to the security and safety of property and business activities, we have also put into place a system of insurances for our employees. This system allows higher quality of medical services and security in case of accidents and upon retirement.

We revised our insurance programs for 2018, with emphasis on quality and higher insurance coverage for risks that could materially affect Gorenje Group's future operations, performance, and financial statements. Additional activities in insurance were directed at insurance in the field of cybersecurity (computer security) and insurance in cases of fraud to which Gorenje Group may be exposed. Consistently with the risk methodology, insurance is understood as one of the risk management scenarios / measures.

2.4.5 Targets for 2018

In 2018, we are planning further systematic integration of risk management into all levels of Gorenje Group leadership and management. We are looking to expand the risk management procedures and methods to fields where certain forms of assessment of the status or exposure are required. Expansion of methodology and procedures in 2018 is focused on ensuring compliance with the General Data Protection Regulation (GDPR). In this respect, assessment of situation is required as the foundation for decision-making when implementing security controls, mechanisms, and appropriate protection level.

We wish to contribute to the maturity of the risk management process, not only at the level of execution, but also at the level of awareness and employee training at the Gorenje Group. Familiarization with the risk management process and methodologies employed in it was included in internal training contents offered regularly for the broader circle of Gorenje Group employees.

We intend to improve the process and methodologies by working more intensively with similar companies in Slovenia and beyond, exchange of sound practice etc.

3 Accounting Report

pursuant to IFRS as adopted by the EU

3.1 Independent Auditor's Report

3.1.1 Independent Auditor's Report for Gorenje Group

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INDEPENDENT AUDITOR'S REPORT
to the owners of Gorenje d.d.

Opinion

We have audited the consolidated financial statements of the company Gorenje d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How our audit addressed the key audit matter
Goodwill	
Under IFRSs, the Group is required to annually test the goodwill for impairment. This annual impairment test is considered a key audit matter because the balance of EUR 67,036 thousand as at 31 December 2017 is material to the financial statements. Moreover, management's assessment is a complex and highly judgmental process, which based on the assumptions with regard to: - revenue growth, - operating margin, - discount rates applied to the projected future cash flows. Accordingly, goodwill impairment test is considered to be a key audit matter.	Our audit was in particular focused on the assessment and testing of the assumptions, methodologies, the weighted average cost of capital and other data used, for example by comparing them to external and historical data. Our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Group, in particular: • Evaluating the assumptions used to calculate the discount rates and recalculating these rates; • Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the Cash Generating Unit; • Comparison of the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the accuracy of management's projections; We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill. Goodwill disclosures are presented in Note 19.
Accounting for capitalised development costs	
Capitalised development costs totalling EUR 52,694 thousand and intangible assets under construction totalling EUR 29,362 thousand were deemed significant to our audit, given the significance of the balance as at 31 December 2017, the rapid technological change in the industry, as well as the specific criteria that have to be met for their initial recognition and future measurement. This involves management judgment, e.g. with respect to technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future economic benefits and the ability to measure the costs reliably. In addition, determining whether there is any indication of impairment of the value of these assets, requires management judgment in relation to the assumptions which are affected by future market or economic developments.	We have performed audit procedures based on an audit sample over the accuracy and valuation of amounts recognised. Our audit procedures, included, among other things: • Assessing the recognition criteria in accordance with IAS 38; • Key assumptions used or estimates made in capitalising development costs; and • Accuracy of costs included and assessing the useful economic life attributed to the asset. Moreover, we considered whether any indicators of impairment were present by understanding the business rationale for projects and performing reviews for indicators of impairment. The disclosures of accounting for capitalised development costs are included in Note 19.
Provisions for product warranties	
At 31 December 2017, the provisions for product warranties amount to	A provision for warranties is recognised when the underlying product is sold, and when the provision is

EUR 33,322 thousand. The Group issues various types of product warranties, under which the performance of products delivered is generally guaranteed for a certain period or term. Product warranties provisions include also the expected costs of warranty obligations in accordance with the legislation or contract provisions. Due to this uncertainty, which mostly involves lack of performance history for new products and the related risk that the warranty provision will not be sufficient, this area is considered a key audit matter.	based on historical performance data and the weighting of all possible outcomes against their associated probabilities. Our procedures included the following: • Evaluating the appropriateness and validity of the historic and current data used in calculating the provision; • Verifying the calculations used in determining provisions; • Evaluating and testing the basis for the assumptions developed and used to determine the warranty provisions; and • Evaluating management judgements. The disclosures of warranty provisions are included in Note 35.

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Report from the President of the Supervisory Board, which will be made available subsequently. Management is responsible for the other information.
Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, the Supervisory Board and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.
We also provide the Supervisory Board and the Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all

relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with the Supervisory Board and the Audit Committee, we From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

<u>Appointment of the Auditor and the Period of Engagement</u>

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 14 July 2017. Our total uninterrupted engagement has lasted 5 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 26 February 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

<u>Provision of Non-audit Services</u>

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

For signature please refer to the original Slovenian version.

Ljubljana, 26 February 2018

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

3.1.2 Independent Auditor's Report for the company Gorenje, d.d.

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INDEPENDENT AUDITOR'S REPORT
to the owners of Gorenje d.d.

Opinion

We have audited the financial statements of Gorenje d.d. (hereinafter 'the Company'), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How our audit addressed the key audit matter**
Investments in subsidiaries	
Investments in subsidiaries account for 29% of total assets and are measured at cost less the amount of impairment. Management estimates the impairment indictors on annual basis and, where required, carries out annual impairment tests using the discounted cash flow model. This process requires significant management judgement.	We evaluated management's consideration of impairment indicators for the investments. Our audit procedures included, among others, using a auditor's expert to assist us in evaluating the assumptions and methodologies used by the Company, in particular: • Evaluating the assumptions used to calculate the discount rates and recalculating these rates; • Analysis of projected future cash flows used by the Company to carry out impairment tests; • Comparison of the projected cash flows, including the assumptions relating to revenue

	prihodkov in donosnosti poslovanja, s predhodnimi rezultati za preizkus točnosti napovedi poslovodstva. Razkritja v zvezi z naložbami v odvisne družbe so zajeta v pojasnilu 22.
Obračunavanje usredstvenih stroškov razvoja	
Usredstvene stroške razvoja v višini 42.194 tisoč EUR in neopredmetena sredstva v izdelavi v višini 25.625 tisoč EUR, ki se prav tako nanašajo na razvojne projekte, smo v okviru naše revizije obravnavali kot ključno revizijsko zadevo zaradi pomembnosti zneska na dan 31.12.2017, hitrih tehnoloških sprememb v industriji ter določenih kriterijev, ki morajo biti izpolnjeni ob začetnem pripoznanju ter nadaljnjem merjenju. To vključuje poslovodsko presojo, na primer glede tehnične izvedljivosti, namena in zmožnosti končne izdelave neopredmetenega sredstva, možnosti njegove uporabe in prodaje, ustvarjanja prihodnjih gospodarskih koristi ter zanesljivosti merjenja stroškov. Poleg navedenega je potrebna pri ugotavljanju, ali obstajajo znaki oslabitev vrednosti teh sredstev, poslovodska presoja v zvezi s predpostavkami na katere vplivajo prihodnja dogajanja v gospodarstvu in na trgu.	Revizijske postopke smo opravili na podlagi revizijskega vzorca v povezavi s točnostjo in vrednotenjem pripoznanih zneskov. Naši revizijski postopki so med drugim vključevali: • pregled kriterijev pripoznavanja v skladu z MRS 38, • ključne uporabljene predpostavke oz. ocene glede usredstvenja stroškov razvoja in • točnosti upoštevanih stroškov ter oceno ekonomske življenjske dobe sredstva. Prav tako smo upoštevali, ali so bili v okviru razumevanja poslovne logike projektov in preverjanja obstoja znakov oslabitve le-ti prisotni. Razkritja obračunavanja usredstvenih stroškov razvoja so zajeta v pojasnilu 19.
Rezervacije za prodajne garancije	
Rezervacije za prodajne garancije na dan 31.12.2017 znašajo 4.489 tisoč EUR. Družba izdaja za svoje proizvode različne garancije, s katerimi običajno jamči za ustrezno delovanje proizvoda za določeno obdobje. Rezervacije za garancije vključujejo tudi pričakovane stroške iz tega naslova na podlagi zakonskih ali pogodbenih določil. Zaradi negotovosti, ki je večinoma povezana s pomanjkanjem zgodovinskih podatkov o učinkovitosti določenega novega proizvoda ter s tveganjem, da rezervacije za prodajne garancije ne bodo zadostne, to področje smatramo kot ključno revizijsko zadevo.	Rezervacija za garancijo se pripozna v primeru prodaje proizvoda ter je odvisna od zgodovinskih podatkov ter tehtanja vseh možnih izidov z verjetnostjo njihove uresničitve. Naši postopki so vključevali • oceno ustreznosti in veljavnosti zgodovinskih ter tekočih podatkov, uporabljenih za izračun rezervacij, • pregled kalkulacij, uporabljenih pri izračunih rezervacij, • oceno in preizkus podlage predpostavk, ki so bile oblikovane in uporabljene pri določanju rezervacij za garancije, ter • oceno poslovodskih presoj. Razkritja rezervacij za prodajne garancije so predstavljena v pojasnilu 35.

Druge informacije

Druge informacije obsegajo informacije v letnem poročilu, razen računovodskih izkazov in revizorjevega poročila o njih. Druge informacije smo pridobili pred datumom revizorjevega poročila, razen Poročila predsednika nadzornega sveta, ki bo na voljo kasneje. Za druge informacije je odgovorno poslovodstvo.

Naše mnenje o računovodskih izkazih se ne nanaša na druge informacije.

Naša odgovornost v povezavi z opravljeno revizijo računovodskih izkazov je druge informacije prebrati in pri tem presoditi, ali so pomembno neskladne z računovodskimi izkazi, zakonskimi zahtevami ali našim poznavanjem, pridobljenim pri revidiranju, oziroma ali se kako drugače kažejo kot pomembno napačne. Prav tako ocenimo, ali so druge informacije v vseh pomembnih pogledih pripravljene v skladu z veljavno zakonodajo in predpisi, predvsem, ali so z njimi skladne z vidika uradnih zahtev in postopka za pripravo drugih informacij v kontekstu pomembnosti, torej ali bi lahko kakršnakoli neskladnost s temi zahtevami vplivala na presoje, ki temeljijo na teh drugih informacijah.

Na podlagi opravljenih postopkov in v obsegu, v katerem to lahko ocenimo, poročamo o naslednjem:

- Druge informacije, ki opisujejo dejstva, ki so predstavljena tudi v računovodskih izkazih, so v vseh pomembnih pogledih skladne z računovodskimi izkazi.
- Druge informacije so pripravljene v skladu z veljavno zakonodajo oziroma predpisi.

Poleg tega smo dolžni na podlagi našega znanja in razumevanja družbe, ki smo ju pridobili med revizijo, poročati tudi o tem, ali druge informacije vsebujejo kakršnekoli pomembno napačne navedbe dejstev. Na podlagi izvedenih postopkov v povezavi z drugimi informacijami, ki smo jih pridobili, pomembno napačnih navedb dejstev nismo zaznali.

Odgovornosti poslovodstva, nadzornega sveta in revizijske komisije za računovodske izkaze

Poslovodstvo je odgovorno za pripravo in pošteno predstavitev teh računovodskih izkazov v skladu z MSRP in za takšen notranji nadzor, ki je po mnenju poslovodstva potreben za pripravo računovodskih izkazov, ki ne vsebujejo pomembno napačne navedbe zaradi prevare ali napake.

Poslovodstvo je pri pripravi računovodskih izkazov odgovorno za oceno sposobnosti družbe, da nadaljuje kot delujoče podjetje, za razkritje zadev, povezanih z delujočim podjetjem, in uporabo predpostavke delujočega podjetja kot podlage za računovodenje, razen če namerava družbo likvidirati ali zaustaviti poslovanje oziroma nima druge realne možnosti, kot da napravi eno ali drugo.

Nadzorni svet in revizijska komisija sta odgovorna za nadzor nad procesom računovodskega poročanja v družbi.

Revizorjeva odgovornost za revizijo računovodskih izkazov

Naš cilj je pridobiti sprejemljivo zagotovilo o tem, da računovodski izkazi kot celota ne vsebujejo pomembno napačnih navedb zaradi prevare ali napake, in izdati revizorjevo poročilo, ki vključuje naše mnenje. Sprejemljivo zagotovilo je visoka stopnja zagotovila, ki pa ni jamstvo, da bo revizija v skladu z mednarodnimi standardi revidiranja (MSR) vedno odkrila pomembno napačne navedbe, če te obstajajo. Napačne navedbe lahko izhajajo iz prevare ali napake in se smatrajo za pomembne, če je mogoče upravičeno pričakovati, da posamično ali skupaj vplivajo na gospodarske odločitve uporabnikov, sprejete na podlagi teh računovodskih izkazov.

Med izvajanjem revidiranja v skladu z MSR uporabljamo strokovno presojo in ohranjamo poklicno nezaupljivost. Prav tako:

- Prepoznamo in ocenimo tveganja pomembno napačne navedbe v računovodskih izkazih, bodisi zaradi prevare ali napake, oblikujemo in izvajamo revizijske postopke kot odziv na ocenjena tveganja ter pridobivamo zadostne in ustrezne revizijske dokaze, ki zagotavljajo podlago za naše mnenje. Tveganje, da ne bomo odkrili pomembno napačne navedbe, ki izvira iz prevare, je večje od tveganja neodkritja pomembno napačne navedbe zaradi napake, saj prevara lahko vključuje skrivne dogovore, ponarejanje, namerno opustitev, zavajajoče prikazovanje ali izogibanje notranjim kontrolam.
- Opravimo postopke preverjanja in razumevanja notranjih kontrol, ki so pomembne za revizijo, z namenom oblikovanja revizijskih postopkov, ki so okoliščinam primerni, vendar ne z namenom izraziti mnenje o učinkovitosti notranjih kontrol družbe.
- Presodimo ustreznost uporabljenih računovodskih usmeritev in sprejemljivost računovodskih ocen ter z njimi povezanih razkritij poslovodstva.
- Na podlagi pridobljenih revizijskih dokazov o obstoju pomembne negotovosti glede dogodkov ali okoliščin, ki zbujajo dvom v sposobnost organizacije, da nadaljuje kot delujoče podjetje, sprejmemo sklep o ustreznosti poslovodske uporabe predpostavke delujočega podjetja kot podlage računovodenja. Če sprejmemo sklep o obstoju pomembne negotovosti, smo dolžni v revizorjevem poročilu opozoriti na ustrezna razkritja v računovodskih izkazih ali, če so takšna razkritja neustrezna, naše mnenje prilagoditi. Revizorjevi sklepi temeljijo na revizijskih dokazih, pridobljenih do datuma izdaje revizorjevega poročila, vendar poznejši dogodki ali okoliščine lahko povzročijo prenehanje organizacije kot delujočega podjetja.
- Ovrednotimo splošno predstavitev, strukturo in vsebino računovodskih izkazov, vključno z razkritji, in ocenimo, ali računovodski izkazi predstavljajo zadevne posle in dogodke na način, da je dosežena poštena predstavitev.

Nadzorni svet in revizijsko komisijo med drugim obveščamo o načrtovanem obsegu in časovnem okviru revizije ter pomembnih revizijskih ugotovitvah, vključno s pomembnimi pomanjkljivostmi notranjih kontrol, ki smo jih zaznali med našo revizijo.

Nadzornemu svetu in revizijski komisiji prav tako posredujemo izjavo o skladnosti z navezujočimi se etičnimi zahtevami glede neodvisnosti in jih obvestimo o vseh razmerjih in drugih zadevah, za katere bi lahko upravičeno pomislili, da lahko okrnijo našo neodvisnost, in, če je to primerno, o vseh varovalih, ki so s tem povezana.

Med zadevami, o katerih obveščamo nadzorni svet in revizijsko komisijo, izberemo tiste, ki so z vidika revizije računovodskih izkazov za tekoče obdobje najpomembnejše, torej predstavljajo ključne revizijske zadeve. Omenjene zadeve opišemo v revizorjevem poročilu, razen če zakonska ali regulatorna določila prepovedujejo javno razkrivanje takšnih zadev oz. če v primeru redkih izrednih okoliščin ugotovimo, da o takšni zadevi v našem poročilu ne bi smeli poročati, ker bi lahko neugodne posledice upravičeno pričakovano pretehtale koristi takšnega razkritja, ki so v javnem interesu.

Druge poročevalske obveznosti v skladu z Uredbo EU št. 537/2014 Evropskega parlamenta in Sveta

V skladu s členom 10(2) Uredbe (EU) št. 537/2014 Evropskega parlamenta in Sveta v našem poročilu neodvisnega revizorja navajamo naslednje informacije, ki so zahtevane poleg zahtev mednarodnih standardov revidiranja:

Imenovanje revizorja in trajanje posla

Lastniki družbe so nas na skupščini delničarjev dne 14. julija 2017 ponovno imenovali za zakonitega revizorja družbe. Naše opravljanje posla v celoti in neprekinjeno traja 5 let.

Skladnost z dodatnim poročilom revizijski komisiji

Potrjujemo, da je naše revizijsko mnenje o računovodskih izkazih v tem poročilu skladno z dodatnim poročilom revizijski komisiji družbe z dne 26.2.2018 v skladu s členom 11 Uredbe (EU) št. 537/2014 Evropskega parlamenta in Sveta.

Opravljanje nerevizijskih storitev

Izjavljamo, da nismo opravljali nobenih prepovedanih nerevizijskih storitev iz člena 5(1) Uredbe (EU) št. 537/2014 Evropskega parlamenta in Sveta.

Poleg obvezne revizije nismo za revidirano družbo opravljali nobenih drugih storitev, ki ne bi bile razkrite v letnem poročilu.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Pooblaščena revizorka

Ljubljana, 26. februar 2018

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

3.2 Accounting Report of the Gorenje Group and the company Gorenje, d.d.

3.2.1 Financial Statement of the Gorenje Group and the company Gorenje, d.d.

Income Statement of the Gorenje Group and the company Gorenje, d.d.

		Gorenje Group		Gorenje, d.d.	
EURk	**Note**	**2016**	**2017**	**2016**	**2017**
Revenue	**11**	**1,258,124**	**1,309,932**	**710,040**	**801,863**
Change in inventories of finished goods and work in progress		5,200	-15,117	-3,175	-247
Other operating income	12	21,871	39,440	8,766	21,112
Gross profit		**1,285,195**	**1,334,255**	**715,631**	**822,728**
Cost of goods, materials and services	13	-942,154	-981,413	-574,591	-678,220
Employee benefits expense	14	-235,325	-249,012	-102,769	-109,151
Amortisation and depreciation expense	15	-47,055	-54,676	-25,132	-30,479
Other operating expenses	16	-20,470	-27,459	-4,311	-7,434
Operating profit		**40,191**	**21,695**	**8,828**	**-2,556**
Finance income	17	6,157	4,139	13,616	21,371
Finance expenses	17	-33,192	-21,499	-18,782	-18,165
Net finance income/expenses	**17**	**-27,035**	**-17,360**	**-5,166**	**3,206**
Share in profits or losses of associates		84	152	0	0
Profit before tax		**13,240**	**4,487**	**3,662**	**650**
Income tax expense	18	-4,810	-3,146	37	-177
Profit for the period		**8,430**	**1,341**	**3,699**	**473**
Attributable to non-controlling interests		**436**	**372**	**0**	**0**
Attributable to equity holders of the parent		**7,994**	**969**	**0**	**0**
Basic and diluted earnings per share (in EUR)	33	0.33	0.04	0.15	0.02

Statement of Other Comprehensive Income of the Gorenje Group and the company Gorenje, d.d.

		Gorenje Group		Gorenje, d.d.	
EURk	**Note**	**2016**	**2017**	**2016**	**2017**
Profit for the period		**8,430**	**1,341**	**3,699**	**473**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss		**-280**	**64**	**-108**	**70**
Actuarial gains or losses	32	-332	65	-137	77
Income tax on other comprehensive income	32	52	-1	29	-7
Items that may be reclassified subsequently to profit or loss		**995**	**3,803**	**-732**	**472**
Net change in fair value of available-for-sale financial assets	28, 32	-33	86	-33	11
Change in effective portion of gains and losses from hedging instruments in cash flow hedges	32	-1,531	-651	-1,479	-311
Change in effective portion of gains and losses from hedging instruments in cash flow hedges, reclassified to profit or loss	17, 32	594	891	594	883
Income tax on other comprehensive income	32	185	-111	186	-111
Translation reserve		1,780	3,588	0	0
Other comprehensive income for the period		**715**	**3,867**	**-840**	**542**
Total comprehensive income for the period		**9,145**	**5,208**	**2,859**	**1,015**
Attributable to equity holders of the parent		8,709	4,836	0	0
Attributable to non-controlling interests		436	372	0	0

Balance Sheet of the Gorenje Group and the company Gorenje, d.d.

		Gorenje Group			Gorenje, d.d.		
EURk	Note	1 Jan 2016	31 Dec 2016	31 Dec 2017	1 Jan 2016	31 Dec 2016	31 Dec 2017
ASSETS		**1,091,861**	**1,123,914**	**1,143,116**	**953,420**	**981,865**	**1,015,425**
Non-current assets		**604,712**	**629,266**	**647,977**	**513,888**	**590,125**	**730,862**
Intangible assets	19	196,032	208,872	223,575	44,509	59,396	73,710
Property, plant and equipment	20	355,378	366,212	371,835	186,162	198,006	200,576
Investment property	21	17,148	14,957	9,849	15,276	12,948	8,685
Investments in subsidiaries	22	0	0	0	246,863	295,745	294,986
Investments in associates	23	1,570	2,945	4,309	509	2,064	3,186
Other non-current investments	24	2,942	6,563	3,483	1,690	2,029	123,882
Non-current operating receivables	25	5,743	2,481	7,375	0	0	5,625
Deferred tax assets	26	25,899	27,236	27,551	18,879	19,937	20,212
Current assets		**487,149**	**494,648**	**495,139**	**439,532**	**391,740**	**284,563**
Non-current assets held for sale		309	314	305	0	0	0
Inventories	27	225,906	225,954	220,619	91,986	88,564	85,338
Current investments	28	16,370	8,821	8,059	182,911	144,432	24,041
Trade receivables	29	161,020	165,786	180,517	145,322	130,860	158,631
Other current assets	30	49,017	55,258	57,866	11,714	13,141	13,069
Income tax receivable		2,917	3,273	2,736	0	0	0
Cash and cash equivalents	31	31,610	35,242	25,037	7,599	14,743	3,484
EQUITY AND LIABILITIES		**1,091,861**	**1,123,914**	**1,143,116**	**953,420**	**981,865**	**1,015,425**
Equity	**32**	**358,867**	**366,541**	**368,344**	**352,764**	**355,552**	**354,081**
Share capital		101,922	101,922	101,922	101,922	101,922	101,922
Share premium		174,502	174,502	174,502	156,639	156,639	156,639
Revenue reserves		99,301	46,015	33,131	99,301	46,015	33,131
Treasury shares		-3,170	-3,170	-3,170	-3,170	-3,170	-3,170
Profit or loss for the period		-4,202	7,560	922	0	3,265	426

		Gorenje Group			Gorenje, d.d.		
EURk	Note	1 Jan 2016	31 Dec 2016	31 Dec 2017	1 Jan 2016	31 Dec 2016	31 Dec 2017
Profit or loss from previous years		6,145	55,592	73,597	0	53,649	67,359
Translation reserve		-19,091	-17,311	-13,723	0	0	0
Fair value reserve		332	-733	-454	-1,928	-2,768	-2,226
Equity of holders of the parent		**355,739**	**364,377**	**366,727**	**0**	**0**	**0**
Equity of non-controlling interests		**3,128**	**2,164**	**1,617**	**0**	**0**	**0**
Non-current liabilities		**345,080**	**350,469**	**365,278**	**271,101**	**276,592**	**287,370**
Provisions	35	62,269	64,143	59,886	21,418	20,940	17,508
Deferred income	36	5,350	5,037	7,563	0	0	0
Non-current operating liabilities	37	4,178	3,672	2,807	0	0	0
Deferred tax liabilities	26	2,297	2,001	2,002	0	0	0
Non-current financial liabilities	38	270,986	275,616	293,020	249,683	255,652	269,862
Current liabilities		**387,914**	**406,904**	**409,494**	**329,555**	**349,721**	**373,974**
Current financial liabilities	39	91,038	101,226	90,731	144,470	151,489	141,036
Trade payables	40	221,027	223,725	229,402	167,363	177,734	212,614
Other current liabilities	41	73,807	79,563	87,752	17,722	20,498	20,324
Income tax liabilities		2,042	2,390	1,609	0	0	0

Statement of the Cash Flows of the Gorenje Group and the company Gorenje, d.d.

			Gorenje Group		Gorenje, d.d.	
	EURk	Note	2016	2017	2016	2017
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**					
	Profit or loss for the period		**8,430**	**1,341**	**3,699**	**473**
	Adjustments for:					
	- depreciation of property, plant and equipment	15	37,724	43,274	20,556	23,789
	- amortisation of intangible assets	15	9,331	11,402	4,576	6,690
	- net exchange differences		534	345	67	627
	- dividends received		-136	-215	-2,704	-14,846
	- interest income		-913	-935	-5,744	-5,079
	- interest expenses		15,033	12,741	14,309	13,004
	- income/expenses on sale of property, plant and equipment		-254	-531	-94	451
	- income/expenses on revaluation of investment property		0	65	0	-12
	- tax expenses	18	4,810	3,146	-37	177
	Cash flows from operating activities before changes in net operating assets		**74,559**	**70,633**	**34,628**	**25,274**
	Change in trade and other receivables		-10,669	-22,693	12,638	-33,599
	Change in inventories		-54	5,317	3,422	3,226
	Change in provisions		1,719	-1,612	-478	-3,432
	Change in trade and other payables		17,505	17,304	8,095	37,259
	Change in net operating assets and provisions		**8,501**	**-1,684**	**23,677**	**3,454**
	Interest paid		-15,033	-12,741	-14,309	-13,004
	Income tax paid		-5,223	-3,689	-426	-571
	Net cash from operating activities		**62,804**	**52,519**	**43,570**	**15,153**

			Gorenje Group		Gorenje, d.d.	
	EURk	Note	2016	2017	2016	2017
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**					
	Proceeds from sale of property, plant and equipment		2,510	5,582	405	435
	Proceeds from sale of investment property		2,253	250	2,253	149
	Interest received		913	935	5,744	5,079
	Dividends received		136	215	2,704	14,845
	Disposal of subsidiary		454	434	9,760	0
	Acquisition of property, plant and equipment		-59,412	-49,672	-32,469	-26,451
	Acquisition of investment property		0	-371	0	-371
	Acquisition of subsidiary without obtained financial assets		-710	0	-55,258	-41
	Acquisition of associates without obtained financial assets		-1,530	-1,200	-1,530	-1,200
	Loans given		3,498	128	39,512	279
	Other investments		-1,349	2,341	1,227	-1,741
	Acquisition of intangible assets		-23,819	-25,656	-19,522	-21,006
	Net cash used in investing activities		**-77,056**	**-67,014**	**-47,174**	**-30,023**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**					
	Borrowings		120,778	115,673	224,878	167,009
	Repayment of borrowings		-88,110	-113,695	-199,530	-165,899
	Bonds issued		0	19,531	0	19,531
	Bonds paid		-14,600	-14,600	-14,600	-14,600
	Dividend payout		0	-2,430	0	-2,430
	Net cash used in financing activities		**18,068**	**4,479**	**10,748**	**3,611**
	Net change in cash and cash equivalents		3,816	-10,016	7,144	-11,259
	Cash and cash equivalents at the beginning of period		31,426	35,053	7,599	14,743
	Cash and cash equivalents at the end of period		35,242	25,037	14,743	3,484

Consolidated Statement of Changes in Equity of the Gorenje Group

			Revenue reserves					Retained earnings						
EURk	Share capital	Share premium	Legal reserves	Statutory reserves	Treasury share reserve	Other revenue reserves	Treasury shares	Profit or loss from previous periods	Profit or loss for the period	Translation reserve	Fair value reserve	Equity holders of the parent	Non-controlling interests	Total
Opening balance at 1 Jan 2016	**101,922**	**174,502**	**12,896**	**7,556**	**3,170**	**75,679**	**-3,170**	**6,145**	**-4,202**	**-19,091**	**332**	**355,739**	**3,128**	**358,867**
Total comprehensive income for the period														
Profit or loss for the period	0	0	0	0	0	0	0	0	7,994	0	0	7,994	436	8,430
Total other comprehensive income	0	0	0	0	0	0	0	0	0	1,780	-1,065	715	0	715
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**7,994**	**1,780**	**-1,065**	**8,709**	**436**	**9,145**
Transactions with owners (when acting as owners) recognised directly in equity														
Contributions by owners and distribution to owners														
Transfer of previous period's profit or loss to retained earnings	0	0	0	0	0	0	0	-4,202	4,202	0	0	0	0	0
Transfer of fair value reserves of retirement benefits to retained earnings	0	0	0	0	0	0	0	-71	0	0	0	-71	0	-71
Coverage of loss from previous periods	0	0	0	0	0	0	0	71	-71	0	0	0	0	0
Formation of statutory reserves	0	0	0	363	0	0	0	0	-363	0	0	0	0	0
Transfer of other revenue reserves to retained earnings*	0	0	0	0	0	-53,649	0	53,649	0	0	0	0	0	0
Total contributions by owners and distributions to owners	**0**	**0**	**0**	**363**	**0**	**-53,649**	**0**	**49,447**	**3,768**	**0**	**0**	**-71**	**0**	**-71**
Change in equity interests in subsidiaries that do not result in a loss of control														
Change in equity interests	0	0	0	0	0	0	0	0	0	0	0	0	-1,400	-1,400
Total changes in equity interests in subsidiaries	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-1,400**	**-1,400**
Total transactions with owners	**0**	**0**	**0**	**363**	**0**	**-53,649**	**0**	**49,447**	**3,768**	**0**	**0**	**-71**	**-1,400**	**-1,471**
Closing balance at 31 Dec 2016	**101,922**	**174,502**	**12,896**	**7,919**	**3,170**	**22,030**	**-3,170**	**55,592**	**7,560**	**-17,311**	**-733**	**364,377**	**2,164**	**366,541**

* In compliance with provisions of the Companies Act ZGD-1, the Company released other revenue reserves in the amount of EUR 53,649k to retained earnings (profit or loss from previous periods) for the purpose of forming the accumulated profit (Note 34).

			Revenue reserves					Retained earnings						
EURk	Share capital	Share premium	Legal reserves	Statutory reserves	Treasury share reserve	Other revenue reserves	Treasury shares	Profit or loss from previous periods	Profit or loss for the period	Translation reserve	Fair value reserve	Equity holders of the parent	Non-controlling interests	Total
Opening balance at 1 Jan 2017	**101,922**	**174,502**	**12,896**	**7,919**	**3,170**	**22,030**	**-3,170**	**55,592**	**7,560**	**-17,311**	**-733**	**364,377**	**2,164**	**366,541**
Total comprehensive income for the period														
Profit or loss for the period	0	0	0	0	0	0	0	0	969	0	0	969	372	1,341
Total other comprehensive income	0	0	0	0	0	0	0	0	0	3,588	279	3,867	0	3,867
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**969**	**3,588**	**279**	**4,836**	**372**	**5,208**
Transactions with owners (when acting as owners) recognised directly in equity														
Contributions by owners and distribution to owners														
Transfer of fair value reserves of retirement benefits to retained earnings	0	0	0	0	0	0	0	-56	0	0	0	-56	0	-56
Transfer of previous period's profit or loss to retained earnings	0	0	0	0	0	0	0	7,560	-7,560	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	-2,430	0	0	0	-2,430	0	-2,430
Formation of statutory reserves	0	0	0	47	0	0	0	0	-47	0	0	0	0	0
Transfer of other revenue reserves to retained earnings*	0	0	0	0	0	-12,931	0	12,931	0	0	0	0	0	0
Total contributions by owners and distributions to owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**18,005**	**-7,607**	**0**	**0**	**-2,486**	**0**	**-2,486**
Change in equity interests in subsidiaries that do not result in a loss of control														
Change in equity interests	0	0	0	0	0	0	0	0	0	0	0	0	-919	-919
Total changes in equity interests in subsidiaries	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-919**	**-919**
Total transactions with owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**18,005**	**-7,607**	**0**	**0**	**-2,486**	**-919**	**-3,405**
Closing balance at 31 Dec 2017	**101,922**	**174,502**	**12,896**	**7,966**	**3,170**	**9,099**	**-3,170**	**73,597**	**922**	**-13,723**	**-454**	**366,727**	**1,617**	**368,344**

* In compliance with provisions of the Companies Act ZGD-1, the Company released other revenue reserves in the amount of EUR 12,931k to retained earnings (profit or loss from previous periods) for the purpose of forming the accumulated profit (Note 34).

Statement of Changes in Equity of Gorenje, d.d.

			Revenue reserves					Retained earnings			
EURk	**Share capital**	**Share premium**	**Legal reserves**	**Statutory reserves**	**Treasury share reserve**	**Other revenue reserves**	**Treasury shares**	**Profit or loss from previous periods**	**Profit or loss for the period**	**Fair value reserve**	**Total**
Opening balance at 1 Jan 2016	**101,922**	**156,639**	**12,896**	**7,556**	**3,170**	**75,679**	**-3,170**	**0**	**0**	**-1,928**	**352,764**
Total comprehensive income for the period											
Profit or loss for the period	0	0	0	0	0	0	0	0	3,699	0	3,699
Total other comprehensive income	0	0	0	0	0	0	0	0	0	-840	-840
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3,699**	**-840**	**2,859**
Transactions with owners (when acting as owners) recognised directly in equity											
Contributions by owners and distribution to owners											
Transfer of fair value reserves of retirement benefits to retained earnings	0	0	0	0	0	0	0	-71	0	0	-71
Coverage of retained loss	0	0	0	0	0	0	0	71	-71	0	0
Formation of statutory reserves	0	0	0	363	0	0	0	0	-363	0	0
Transfer of other revenue reserves to retained earnings*	0	0	0	0	0	-53,649	0	53,649	0	0	0
Total contributions by owners and distribution to owners	**0**	**0**	**0**	**363**	**0**	**-53,649**	**0**	**53,649**	**-434**	**0**	**-71**
Total transactions with owners	**0**	**0**	**0**	**363**	**0**	**-53,649**	**0**	**53,649**	**-434**	**0**	**-71**
Closing balance at 31 Dec 2016	**101,922**	**156,639**	**12,896**	**7,919**	**3,170**	**22,030**	**-3,170**	**53,649**	**3,265**	**-2,768**	**355,552**

* In compliance with provisions of the Companies Act ZGD-1, the Company released other revenue reserves in the amount of EUR 53,649k to retained earnings (profit or loss from previous periods) for the purpose of forming the accumulated profit (Note 34).

EURk	Share capital	Share premium	Revenue reserves: Legal reserves	Revenue reserves: Statutory reserves	Revenue reserves: Treasury share reserve	Revenue reserves: Other revenue reserves	Treasury shares	Retained earnings: Profit or loss from previous periods	Retained earnings: Profit or loss for the period	Fair value reserve	Total
Opening balance at 1 Jan 2017	**101,922**	**156,639**	**12,896**	**7,919**	**3,170**	**22,030**	**-3,170**	**53,649**	**3,265**	**-2,768**	**355,552**
Total comprehensive income for the period											
Profit or loss for the period	0	0	0	0	0	0	0	0	473	0	473
Total other comprehensive income	0	0	0	0	0	0	0	0	0	542	542
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**473**	**542**	**1,015**
Transactions with owners (when acting as owners) recognised directly in equity											
Contributions by owners and distribution to owners											
Transfer of fair value reserves of retirement benefits to retained earnings	0	0	0	0	0	0	0	-56	0	0	-56
Transfer of previous period's profit or loss to retained earnings or losses	0	0	0	0	0	0	0	3,265	-3,265	0	0
Dividend payout	0	0	0	0	0	0	0	-2,430	0	0	-2,430
Formation of statutory reserves	0	0	0	47	0	0	0	0	-47	0	0
Transfer of other revenue reserves to retained earnings*	0	0	0	0	0	-12,931	0	12,931	0	0	0
Total contributions by owners and distribution to owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**13,710**	**-3,312**	**0**	**-2,486**
Total transactions with owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**13,710**	**-3,312**	**0**	**-2,486**
Closing balance at 31 Dec 2017	**101,922**	**156,639**	**12,896**	**7,966**	**3,170**	**9,099**	**-3,170**	**67,359**	**426**	**-2,226**	**354,081**

* In compliance with provisions of the Companies Act ZGD-1, the Company released other revenue reserves in the amount of EUR 12,931k to retained earnings (profit or loss from previous periods) for the purpose of forming the accumulated profit (Note 34).

3.2.2 Notes to the Financial Statements

1. Reporting entity

Gorenje, d.d. (hereinafter referred to also as "Company") is the controlling company domiciled in Velenje. Company's business address is Partizanska cesta 12, 3320 Velenje.

The consolidated financial statements of the Gorenje Group at and for the year ended 31 December 2017 comprise the controlling company and its subsidiaries (together referred to as the "Group"), the Group's interests in jointly controlled entities and the Group's interests in associates. The Group is primarily engaged in the production and sale of household appliances.

2. Basis of preparation

(A) STATEMENT OF COMPLIANCE

Financial statements of the Company and the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with provisions of the Companies act.

The Management Board of the Company approved the financial statements on 19 February 2018.

(B) BASIS OF MEASUREMENT

Financial statements of the Company and the consolidated financial statements of the Group have been prepared on the historical cost basis, except for the following items which are measured at fair value:

- derivative financial instruments,
- available-for-sale financial assets,
- investment property.

The methods used to measure fair values are discussed further in Note 4.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

Financial statements of the Company and the consolidated financial statements of the Group are presented in EUR, which is the parent company's functional currency. All financial information presented in EUR has been rounded to the nearest thousand, except when otherwise indicated.

(D) USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRSs, as adopted by the EU, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant estimation of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 22 and 23 and the accounting policy 3(a)(iii) and 3(a)(v) – acquisition and sale of companies;
- Note 18 and 32 – deferred taxes;
- Note 20 and 21 and accounting policies 3(d) and 3(f) – valuation of property, plant and equipment and investment property;
- Note 35 and accounting policy 3(l)(iv) – provisions for retirement benefits and jubilee premiums;
- Note 35 and accounting policy 3(l)(iii) – provisions for onerous contracts and litigations;
- Note 35 and accounting policy 3(l)(i) – provisions for warranties;
- Note 44 and accounting policy 3(i)(i) – valuation of investments;
- Note 19 and accounting policy 3(e)(i) – goodwill;
- Accounting policy 3(i)(i) – impairment of financial assets, including receivables.

(E) CHANGES IN ACCOUNTING POLICIES

In accordance with IAS 8, the Group/Company changed in the fiscal year 2017 the accounting policy of valuating land and thus replaced the fair value model with the cost model. Based on the aforesaid it simplified the valuation of property, plant and equipment and thereby achieved a more suitable presentation. With respect to this amendment, the related effects are outlined in the balance sheets as at 1 January 2016 and 31 December 2016 and within the Note 20.

In addition, the Group/Company started in 2017 to disclose allowances for receivables among operating expenses and no longer among finance costs.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group and Group companies to all periods presented in the accompanying financial statements of the Company and the consolidated financial statements of the Group.

(A) BASIS FOR CONSOLIDATION

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the date, which is the date of acquisition or the date on which control is transferred to the Group.
Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In assessing control, the Group takes into consideration potential voting rights that currently are exercisable and control over financial flows.

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the income statement.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the income statement.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Recognised value of the non-controlling interest can initially be measured at fair value or at the proportionate share of assumed assets and liabilities as at the date of the transfer. At each transfer, the Group decides which possibility is to be used.

(ii) Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Company's investments in subsidiaries are valued at cost less possible impairment losses. Costs that can be linked to the acquisition of a subsidiary increase the cost of the investment. Participation in profit is recognised as income once the General Meeting of Shareholders adopts the decision on the distribution.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Remeasurment of the residual amount to fair value has an impact on the income statement. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Investments in associates and joint ventures (equity-accounted jointly controlled entities)

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Company's investments in the equity of associates is valued at cost less possible impairment losses. Costs that can be linked to the acquisition of a subsidiary increase the cost of the investment.

(vi) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(B) FOREIGN CURRENCY
(i) Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of:
- available-for-sale equity investments,
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective, or
- qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at daily exchange rates.

Foreign currency differences arising from translation are recognised directly in other comprehensive income. From the date of transfer to IFRSs, these differences are recognised in translation reserve in equity. When a foreign operation is disposed of (partly or wholly), the relevant amount in the translation reserve related to that foreign operation is reclassified to profit or loss.

(C) FINANCIAL INSTRUMENTS
(i) Non-derivative financial assets
The Group initially recognises loans, receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets of the Group comprise: liabilities and receivables, available-for-sale financial assets, and cash and cash equivalents.

Liabilities and receivables
Liabilities and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, liabilities and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and an investment (deposit) with maturity of three months or less. Bank overdrafts that are repayable on demand form an integral part of the current financial liabilities.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Subsequent to initial recognition these investments are measured at fair value plus any directly attributable transaction costs.

Change in fair value (see note 3(i)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an available-for-sale financial asset is derecognised or permanently impaired, the gain or loss accumulated in equity is reclassified to profit or loss. Available-for-sale financial assets comprise equity securities and debt securities.

(ii) Non-derivative financial liabilities
The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Share capital
Ordinary shares
Ordinary shares are a constituent part of share capital. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in equity as a deduction item and simultaneously treasury share reserve is formed. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

Dividends are recognised as a liability in the period in which a resolution on dividend payment is adopted by the Shareholders' Meeting.

(iv) Derivative financial instruments, including hedge accounting
The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80–125 percent. The Group assesses recognized hedge at the end of each reporting period. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive

income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked by the Group, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified in profit or loss.

Other derivative financial instruments
When a non-trading derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

(D) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (except at land, which is not depreciated) and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Computer software purchased, which significantly contribute to the functionality of assets are to be capitalised as part of this equipment.

Borrowing costs directly attributable to the construction or production of a qualifying item of property, plant and equipment were capitalised subject to the following conditions: if the value of qualifying asset in total sales exceeded 5%, and if the duration of construction exceeded 6 months.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined as a difference among proceeds from disposal and the carrying amount of the property, plant and equipment, and is recognised net within other operating income/other operating expenses in profit or loss.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement of fair value is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the fair value reserve in equity.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. All other costs, such as regular servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets arising on finance lease are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated on the first day of the following month, after they are installed and are ready for use.

The estimated useful lives for the current and comparative years are as follows:

buildings	20 – 50 years
plant and equipment	5 – 20 years
computer equipment	2 – 5 years
transportation vehicles (assets)	3 – 20 years
office equipment	3 – 10 years
tools	3 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

(E) INTANGIBLE ASSETS

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a)(i).

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested once a year whether the need for impairment has occurred.

(ii) Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is recognised as intangible assets if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset or product. The expenditure recognised as intangible asset includes the cost of materials, direct labour, and other costs that are directly attributable to preparing the asset for its intended use. Other development expenditure, which is not recognised as an item of intangible asset is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets
Intangible assets with infinite useful lives (trademarks) are tested once a year whether the need for impairment has occurred. Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation
Amortisation is recognised on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the first day of the following month that they are available for use. The estimated useful lives for the current and comparative years are as follows:

deferred development costs	5 – 10 years
long-term property rights	5 – 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(F) INVESTMENT PROPERTY
Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value (see note 4(iii)) with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Properties hired out by the Company to its subsidiaries and related to the performance of its activity, are disclosed among property, plant and equipment. Investment properties comprise also those properties, whose lessees occupy more than 50 percent of available area.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(G) LEASED ASSETS
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's balance sheet.

(H) INVENTORIES
Inventories of material and merchandise are measured at the lower of historical cost and net realisable value. The cost of inventories of material and merchandise is based on the weighted sliding average price method and the first-in-first-out (FIFO) method, and includes expenditure incurred in acquiring the inventories, dependent costs and other costs incurred in bringing them to their existing location and condition.

Inventories of products and work in progress are valued at production costs (in broader sense), which in addition to direct costs of material, labour, services, depreciation and part of production costs, include also costs of production overheads, acquisition costs, costs of maintenance and quality assurance overheads, and total costs of research and development.

Inventories of work in progress and products are not revalued due to value increase. Their write-off is mandatory if the carrying amount exceeds their market value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Decline in value of inventories of work in progress and products due to write-off, is credited against change in inventories.

In case of writing off the inventories of products and semi-finished products, the Group companies are required to observe the Group's policies.

(I) IMPAIRMENT OF ASSETS
(i) Non-derivative financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on term that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost
The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity investment securities) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In line with the Group's accounting policies, the Group considers evidence of impairment for receivables based on the observance of criteria pertaining to the maturity and collateralisation of receivables. Thereafter, it is corrected by an individual estimate.

Available-for-sale financial assets
Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets
The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment prior to preparing the financial statements. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(J) NON-CURRENT ASSETS CLASSIFIED AS ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are not amortised or depreciated and any equity-accounted investees is no longer equity accounted.

(K) EMPLOYEE BENEFITS

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(L) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranties for products and services

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

(ii) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating expense is not provided for.

(iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(iv) Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements, the collective agreement, and the internal regulations, the Group is liable to pay jubilee premiums and retirement benefits to its employees. For these obligations, provisions are created.

Provisions are created by discounting, at the reporting date, the estimated future payments of retirement benefits and jubilee premiums. The obligation is calculated separately for each employee by estimating the costs of retirement benefits and the costs of all expected jubilee premiums until retirement. The balance of provisions is verified every three years on the basis of the calculation prepared by a certified appraiser.

Actuarial gains and losses arising on provisions for retirement benefits and jubilee premiums are pursuant to IAS 19 recognised in other comprehensive income.

(v) Site restoration
In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

(M) REVENUE

(i) Revenue from the sale of products, goods and materials
Revenue from the sale of products, goods and materials in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of goods, usually transfer occurs when the goods are received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port. Generally for such products the customer has no right of return.

(ii) Revenue from services rendered
Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Commission
When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iv) Rental income
Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(N) GOVERNMENT GRANTS

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(O) FINANCE INCOME AND FINANCE EXPENSES

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and subsidiaries, fair value gains on financial assets at fair value through profit or loss, exchange gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance expenses comprise interest expense on borrowings (a portion of borrowing costs may be capitalised within property, plant and equipment), impairment losses recognised on financial investments and borrowings, and losses on hedging instruments that are recognised in profit or loss, and income expenses arising on provisions for retirement benefits and jubilee premiums. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis as either finance income or finance expenses.

(P) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and includes also any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset by the Group if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities or receive the payment of deferred tax assets on a net basis or their tax assets and liabilities will be realised or received payment for simultaneously.

A deferred tax asset is recognised for unused tax losses, tax reliefs and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(R) BASIC EARNINGS PER SHARE

The Group presents basic earnings per share (EPS) data for its ordinary shares, which is equivalent to diluted earnings per share data, as the Group has not issued any preference shares or convertible bonds or stock options. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

(S) COMPARATIVE INFORMATION

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

(T) DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified among discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(U) SEGMENT REPORTING

Segment results that are reported to the Group's executive officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

The Company has no reportable segments as segment information is presented in the consolidated financial statements of the Gorenje Group.

(V) ACCOUNTING STANDARDS AND INTERPRETATIONS APPLICABLE IN THE CURRENT PERIOD

Following accounting standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU apply in the current reporting period:

- Amendments to IAS 7 'Statement of Cash Flows' – Disclosure Initiative, adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses, adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to various standards 'Improvements to

IFRSs (cycle 2014-2016)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

Adoption of these amendments to the existing standards and interpretations did not result in significant changes to the financial statements of the Group/Company.

(Z) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

Accounting standards and amendments to the existing accounting standards issued by the IASB and adopted by the EU, but not yet effective

The following new standards issued by the IASB and adopted by the EU were already issued as of the date of these financial statements but were not yet effective:

- IFRS 9 'Financial Instruments', adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 'Revenue from Contracts with Customers' and amendments to IFRS 15 'Effective Date of IFRS 15', adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 15 'Revenue from Contracts with Customers' – Clarifications to IFRS 15 'Effective Date of IFRS 15', adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 'Leases', adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 'Insurance Contracts' – Use of IFRS 9 Financial Instruments in conjunction with IFRS 4 'Insurance Contracts', adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018, or during the first application of IFRS 9 Financial Instruments),
- Amendments to various standards 'Improvements to IFRSs (cycle 2014-2016)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

Accounting standards and interpretations issued by the IASB but not yet adopted by the EU

At present the IFRSs, as adopted by the EU, do not significantly differ from regulations adopted by IASB, except for the following new accounting standards, amendments to existing accounting standards and new interpretations, which as of 19 February, 2018 (below stated dates of application refer to the entire IASB) were not yet effective in EU:

- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods beginning on or after 1 January 2016) – The European Commission will not propose IFRS 14 for endorsement and consider any future standard on rate regulated activities for endorsement in the EU under its normal process,
- IFRS 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 'Share based payment' – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 'Financial Instruments' – Element of a forward payment with a negative compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (the applicability of amendments was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 28 'Investments in Associates and Joint Ventures – Long-term Shares in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 40 'Investment Property' – Transfer of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards 'Improvements to IFRSs (2014-2016 cycle)' relating to the annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28), in response to eliminate inconsistency and provide clarification of wording (amendments to IFRS 12 are effective for periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for periods beginning on or after 1 January 2018),
- Amendments to various standards 'Improvements to IFRS (2015-2017 cycle)', relating to the annual improvements to IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23), particularly to eliminate inconsistency and provide clarification of wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019).

The Group/Company started using IFRS 9 and IFRS 15 on 1 January 2018. By introducing IFRS 9 and IFRS 15, the Group/Company does not expect the new standards and amendments to have any material impacts on the financial statements. IFRS 16 will be applied by the Group/Company as of 1 January 2019 and is expected to have a significant impact on its financial statements. The Group is properly preparing for the launch of this standard.

Hedge accounting in connection with financial assets and liabilities that was not adopted by the EU yet, still remains non-regulated.

4. Determination of fair value

A number of the Group's/Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following method determined by the Group/Company. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability of the Group/Company.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

(ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investment property

The fair value of investment property or possible changes to it is subject to annual assessment. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group/Company and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iv) Investments in debt and equity securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

(v) Trade and other receivables

The fair value of non-current trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables are not discounted due to short-term maturity. However, impairment to fair value is considered.

(vi) Forward exchange contracts and interest rate swaps

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group/Company and counterparty when appropriate.

(vii) Other non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. Capital management

The basic purpose of capital management is ensuring the Gorenje Group's capital adequacy, long-term liquidity for financing the Group's business operations and development, and for its high financial stability. In doing so, Gorenje creates the highest possible value for its shareholders and other stakeholders of the company.

We continued in 2017 with pursuing the strategic policy of ensuring a stable structure of the financial liabilities' maturity and reducing the relative financial debt, which is measured as the net financial liabilities/EBITDA ratio. We were unsuccessful with regard of the aforesaid ratio as it increased by 0.8 to 4.7 times. However, we have by 3.3 p.p. improved the maturity structure of financial liabilities, whereby non-current sources account 76.4 percent of total financial liabilities as at 31 December 2017. The latter contributes to the coverage of total non-current investments and a portion of net working capital by means of non-current sources. Lower Gorenje Group's profit had an impact on the worsening of the ROE ratio, calculated as the parent company's profit or loss to the average value of its equity.

EURk	Notes	2016	2017
Non-current financial liabilities	37	275,616	293,020
Current financial liabilities	38	101,226	90,731
Total financial liabilities		376,842	383,751
Total equity	32	366,541	368,344
Financial liabilities / equity		**1.03**	**1.04**
Cash and cash equivalents	31	35,242	25,037
Total net financial liabilities		341,600	358,714
Net financial liabilities / equity		**0.93**	**0.97**
Profit or loss		8,430	1,341
ROE (%)		**2.2 %**	**0.3%**

6. Segment reporting

BUSINESS SEGMENTS

The Group consists in 2017 of two key business segments i.e. Domestic Appliances and Other Business.

(i) Domestic Appliances

Domestic Appliances activity: the manufacture and sale of household appliances of own manufacture, the sale of household appliances of other producers (supplementary programme), the sale of products from the complementary programme outside of the main programmes of large household appliances, and the manufacture of mechanical components.

(ii) Other Business

Other Business activity: the manufacture and sale of heating appliances, the manufacture and sale of sanitary fixtures and ceramic tiles, and the sale of kitchen and bathroom furniture, the overall waste management, tool manufacture, trade, engineering, representation, catering and tourism.

GEOGRAPHICAL SEGMENTS

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The Group comprises the following main geographical segments:

West: Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Norway, the Netherlands, Spain, Switzerland, Ireland, Luxembourg, Malta, Portugal, Cyprus, and Estonia.

East: Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovakia, Latvia and Lithuania.

Other: other countries.

7. Statement of cash flows

The statement of cash flows has been compiled under the indirect method on the basis of the items in the balance sheet at 31 December 2016, the balance sheet at 31 December 2017, the income statement for the year ended 31 December 2017, and the additional information required for the adjustment of inflows and outflows.

8. Composition of the Gorenje Group

Pursuant to International Financial Reporting Standards (IFRSs) as adopted by EU, the consolidated financial statements of the Gorenje Group comprise the financial statements of the parent company Gorenje, d.d., and the financial statements of 69 subsidiaries:

Companies operating in Slovenia		Equity interest (%)	Business segment
1.	Gorenje I.P.C., d.o.o., Slovenia	100.00	DA
2.	Gorenje GTI, d.o.o., Slovenia	100.00	OB
3.	Gorenje Gostinstvo, d.o.o., Slovenia	100.00	OB
4.	Energygor, d.o.o., Slovenia	100.00	OB
5.	Kemis, d.o.o., Slovenia	100.00	OB
6.	Gorenje Orodjarna, d.o.o., Slovenia	100.00	OB
7.	ZEOS, d.o.o., Slovenia	55.42	OB
8.	Gorenje Surovina, d.o.o., Slovenia	100.00	OB
9.	Indop, d.o.o., Slovenia	100.00	OB
10.	Gorenje GAIO, d.o.o., Slovenia	100.00	OB
11.	Gorenje GSI, d.o.o., Slovenia	100.00	DA
12.	Gorenje Keramika, d.o.o., Slovenia	100.00	OB
13.	Gorenje EKOINVEST, d.o.o., Slovenia	100.00	OB
14.	Gorenje HS, d.o.o., Slovenia	65.00	OB
15.	Gorenje Surovina RECE, d.o.o., Slovenia	100.00	OB
16.	TERMOCLEAN S, d.o.o., Slovenia	100.00	OB

Companies operating abroad		Equity interest (%)	Business segment
1.	Gorenje Beteiligungs GmbH, Austria	100.00	DA
2.	Gorenje Austria Handels GmbH, Austria	100.00	DA
3.	Gorenje Vertriebs GmbH, Germany	100.00	DA
4.	Gorenje Körting Italia S.r.l., Italy	100.00	DA
5.	Gorenje France S.A.S., France	100.00	DA
6.	Gorenje Espana, S.L., Spain	100.00	DA
7.	Gorenje UK Ltd., Great Britain	100.00	DA
8.	Gorenje Group Nordic A/S, Denmark	100.00	DA
9.	Gorenje spol. s r.o., Czech Republic	100.00	DA
10.	Gorenje real spol. s r.o., Czech Republic	100.00	DA
11.	Gorenje Slovakia s.r.o., Slovakia	100.00	DA
12.	Gorenje Magyarország Kft., Hungary	100.00	DA
13.	Gorenje Polska Sp. z o.o., Poland	100.00	DA
14.	Gorenje Bulgaria EOOD, Bulgaria	100.00	DA
15.	Gorenje Zagreb, d.o.o., Croatia	100.00	DA
16.	Gorenje Skopje, d.o.o., Macedonia	100.00	DA
17.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	DA
18.	Gorenje, d.o.o., Serbia	100.00	DA
19.	Gorenje Podgorica, d.o.o., Montenegro	99.975	DA
20.	Gorenje Romania S.r.l., Romania	100.00	DA
21.	Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	DA
22.	Mora Moravia, s.r.o., Czech Republic	100.00	DA
23.	Gorenje-kuchyně spol. s r.o., Czech Republic	100.00	DA
24.	KEMIS-Termoclean, d.o.o., Croatia	100.00	OB
25.	Kemis-BH, d.o.o., Bosnia and Herzegovina	100.00	OB
26.	Gorenje Gulf FZE, United Arab Emirates	100.00	DA
27.	Gorenje Tiki, d.o.o., Serbia	100.00	OB
28.	Gorenje Istanbul Ltd., Turkey	100.00	DA
29.	Gorenje TOV, Ukraine	100.00	DA
30.	ST Bana Nekretnine, d.o.o., Serbia	100.00	OB
31.	Kemis Valjevo, d.o.o, Serbia	100.00	OB
32.	Atag Nederland BV, the Netherlands	100.00	DA
33.	Atag België NV, Belgium	100.00	DA
34.	Intell Properties BV, the Netherlands	100.00	DA
35.	Gorenje Nederland BV, the Netherlands	100.00	DA
36.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	DA
37.	OOO Gorenje BT, Russia	100.00	DA
38.	Gorenje GTI, d.o.o., Serbia	100.00	OB
39.	Asko Appliances AB, Sweden	100.00	DA
40.	Gorenje North America, Inc., USA	100.00	DA
41.	Asko Appliances Pty, Australia	100.00	DA
42.	Asko Appliances OOO, Russia	100.00	DA
43.	"Gorenje Albania" SHPK, Albania	100.00	DA
44.	Gorenje Home, d.o.o., Serbia	100.00	DA
45.	Gorenje Ekologija, d.o.o., Serbia	100.00	OB
46.	Gorenje Corporate GmbH, Austria	100.00	DA

Companies operating abroad		Equity interest (%)	Business segment
47.	ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	53.64	OB
48.	Gorenje do Brasil Ltda., Brasil	100.00	DA
49.	Gorenje Asia Ltd., China	100.00	DA
50.	Gorenje MDM, d.o.o., Serbia	100.00	OB
51.	Gorenje Chile SpA, Chile	100.00	DA
52.	Gorenje AEC, LLC, Thailand	100.00	DA
53.	Indop Gorenje GmbH, Germany	100.00	OB

DA – business segment Domestic Appliances
OB – business segment Other Business

Associates:

- Gorenje Projekt, d.o.o., Slovenia,
- Gorenje Projekt RU, d.o.o., Russia,
- Gorenje Projekt, d.o.o., Serbia,
- K. Tivoli, d.o.o., Slovenia,
- EKON ELEKTRON, d.o.o., Macedonia,
- GGE, d.o.o., Slovenia,
- GGE EOL, d.o.o., Slovenia (company is not operating),
- GGE, d.o.o., Croatia,
- GGE Montenegro, d.o.o., Montenegro,
- GGE Bulgaria OOD, Bulgaria,
- GGE Netherlands B.V., the Netherlands,
- GGE ESCO, d.o.o., Serbia,
- GOR Kolesa, d.o.o., Slovenia.

Representative offices of the Company abroad:

- in Kiev (Ukraine),
- in Almaty (Kazakhstan), and
- in Kishinev (Moldova).

9. Non-controlling equity interests

Non-controlling interests as at 31 December:

	2016		2017	
EURk	Non-controlling interest	Share in profit or loss	Non-controlling interest	Share in profit or loss
Gorenje Podgorica, d.o.o., Montenegro	1	0	1	0
ZEOS, d.o.o., Slovenia	807	184	1,004	265
"Euro Lumi & Surovina" SH.P.K., Kosovo	-12	-12	0	0
ERICo, d.o.o., Slovenia	675	22	-8	-8
PUBLICUS, d.o.o., Slovenia	98	98	/	/
Gorenje design studio, d.o.o. – in liquidation, Slovenia	21	21	/	/
EKOGOR, d.o.o., Slovenia	11	11	/	/
ZEOS eko-sistem, d.o.o., Bosnia and Herzegovina	410	93	405	30
Gorenje Surovina Fotoreciklaža, d.o.o., Slovenia	15	15	/	/
Gorenje HS, d.o.o., Slovenia	138	4	215	85
Skupaj	**2,164**	**436**	**1,617**	**372**

The transfer of ownership between companies of the Gorenje Group had no impact on the consolidated Gorenje Group's income statement as the intra-group transactions were eliminated in the consolidation process.

10. Associates

Group's share in profits or losses of associates amounted to EUR 152k in 2017 (2016: EUR 84k).

Assets, liabilities, revenue and expenses of associates in 2016 are outlined below (overview of equity interests is provided in Note 23):

Company/EURk	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax expense	Profit or loss for the period
GOR Kolesa, d.o.o., Slovenia	86	515	0	223	5	-277	0	-272
GGE, d.o.o., Slovenia	3,582	4,888	1,899	4,511	7,186	-6,572	-79	535
K. Tivoli, d.o.o., Slovenia	0	11,615	1,564	1,274	0	-27	0	-27
Gorenje Projekt, d.o.o., Slovenia	4,832	3,057	93	4,609	11,482	-11,073	-97	312
Gorenje Projekt d.o.o., Serbia	24	4	0	4	0	-4	0	-4
EKON ELEKTRON, d.o.o., Macedonia	0	111	0	8	92	-44	-1	47
GGE, d.o.o., Croatia	30	125	0	98	931	-927	-1	3
GGE Montenegro, d.o.o., Montenegro	79	59	0	180	34	-77	0	-43
GGE ESCO, d.o.o., Serbia	24	803	11	806	431	-430	0	1
GGE Bulgaria OOD, Bulgaria	1,332	173	28	12	10	-140	0	-130
GGE Netherlands B.V., the Netherlands	3,700	100	3,783	17	11	-78	0	-67

Assets, liabilities, revenue and expenses of associates in 2017 are outlined below:

Company/EURk	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax expense	Profit or loss for the period
GOR Kolesa, d.o.o., Slovenia	294	810	27	1,569	993	-1,856	0	-863
GGE, d.o.o., Slovenia	12,604	7,272	6,580	10,980	9,336	-9,029	0	307
K. Tivoli, d.o.o., Slovenia	0	25,392	15,501	1,121	11,291	-11,298	0	-7
Gorenje Projekt, d.o.o., Slovenia	4,743	3,944	106	5,443	17,233	-17,143	15	105
Gorenje Projekt, d.o.o., Serbia	25	3	0	6	0	-3	0	-3
Gorenje Projekt RU, d.o.o., Russia	0	133	0	134	147	-147	0	0
EKON ELEKTRON, d.o.o., Macedonia	12	150	0	15	134	-70	-6	58
GGE, d.o.o., Croatia	7	128	0	87	39	-50	0	-11
GGE Montenegro, d.o.o., Montenegro	61	367	96	363	313	-302	0	11
GGE ESCO, d.o.o., Serbia	70	4,804	1,150	2,818	1,818	-1,654	0	164
GGE Bulgaria, OOD, Bulgaria	1,381	404	376	92	689	-828	0	-139
GGE Netherlands B.V., the Netherlands	7,054	38	7,084	8	21	-70	0	-49

3.2.3 Disclosures of the Gorenje Group and the company Gorenje, d.d. to the individual items in the financial statements

Note 11 – Revenue

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Revenue from sale of products and goods – domestic market	130,519	148,408	68,599	82,750
Revenue from sale of products and goods – foreign market	1,066,392	1,089,240	615,001	698,610
Revenue from sale of services – domestic market	42,917	55,307	4,980	7,819
Revenue from sale of services – foreign market	18,296	16,977	21,460	12,684
Total	**1,258,124**	**1,309,932**	**710,040**	**801,863**

Revenue from Company's sales to Group companies amounted to EUR 576,457k (2016: EUR 502,849k). The growth in revenue generated by the Company is attributable to the changed business model since June 2017, when most of the sales by Group's production companies – within the framework of the Domestic Appliances core business segment – to subsidiaries and directly to third parties started to be conducted through the Company.

Note 12 – Other operating income

	Gorenje Group		Gorenje, d.d.	
v TEUR	**2016**	**2017**	**2016**	**2017**
Income from subsidies, grants and compensations	3,102	1,821	367	1,239
Income from licence fees	0	0	4,391	2,528
Rental income	1,461	1,738	2,461	2,817
Income from compensations	2,214	14,107	885	7,885
Income from reversal of provisions	1,844	5,449	212	2,252
Income from use of deferred income relating to government grants	4,490	4,429	0	0
Income from sale of property, plant and equipment	311	1,176	50	51
Income from sale of investment property	43	36	43	0
Income from revaluation of investment property	0	46	0	46
Badwill	1,340	0	0	0
Income relating to the Directive on Waste Electrical and Electronic Equipment	634	749	0	0
Income from write-off of debts	129	652	0	0
Income from reversal of accrued allowances for receivables	0	624	0	105
Income from disposing the sale of coal activity	0	3,669	0	3,669
Other operating income	6,303	4,944	357	520
Total	**21,871**	**39,440**	**8,766**	**21,112**

Gorenje Group

Income arising on compensation amounted in total to EUR 14,107k. Major portions of this income were generated through the recognition of damages relating to the fire in the company Kemis, d.o.o., Slovenia (EUR 5,350k) and based on which expenses were recognised in the equal amount, and the compensation paid to the Company relating to the expired contracts (EUR 5,445k), in respect of which costs of EUR 2,171k were disclosed. The stated expenses are disclosed among costs of services, material, amortisation and depreciation expense and other operating expenses.

Income on reversal of provisions mostly refer to sales guarantees and provisions for retirement benefits, which is in detailed clarified in Note 35.

Major part of income from use of deferred income relating to government grants in the amount of EUR 4,106k refers to Gorenje IPC, d.o.o., Slovenia, a company employing disabled persons, in which government grants were used in line with the Vocational Rehabilitation and Employment of Disabled Persons Act.

Income from the disposal of the sale of coal activity relates to the stated parent company's activity that was sold to the company Vitol SA, Switzerland.

Income arising on subsidies relate in the amount of EUR 1,239k to European funds obtained in connection with co-financing of the controlling company's development-related costs.

In 2017, most of the income on sale of properties in the amount of EUR 947k refers to profit generated by companies Gorenje Group Nordic A/S, Denmark, Gorenje France S.A.S., France, and Gorenje Zagreb, d.o.o., Croatia.

The majority of other operating income represents the reversal of accrued credit notes and expenses (EUR 1,108k), reversal of accrued value adjustments of inventories (EUR 467k), income on compensations recognised by supplier (EUR 1,118k), income on reinvoiced costs of insuring product liability (EUR 766k), and income on repayment of scholarships (EUR 295k).

Gorenje, d.d.

Other operating income in the amount of EUR 4,428k refer to transactions with Group companies (2016: EUR 6,354k). In addition to already explained income on expired contracts, the income arising on compensations (EUR 1,118k) relate to the supplier of component parts, whereas the residual amount to compensations charged under diverse contracts. Income on licence fees refer to intellectual property. Income on reversal of provisions mostly represent sales guarantees, which are followed by guarantees for retirement benefits, which is outlined in Note 35.

Rental income mostly refer to properties that are partly in own use and sub-leased to subsidiaries.

Expected rental income

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Rentals – up to one year (Group companies)	0	0	974	864
Rentals – up to one year (other companies)	531	912	302	285
Rentals – one to five years (Group companies)	0	0	152	120
Rentals – one to five years (other companies)	536	364	242	619
Rentals – more than five years (Group companies)	0	0	0	0
Rentals – more than five years (other companies)	291	273	0	0
Total	**1,358**	**1,549**	**1,670**	**1,888**

The expected rental income include amounts of future received payments under leases, which cannot be terminated. The amount is directly linked to the amount under 'Rental income' in Note 12, which shows the actual amount of rental income received in 2017 or 2016.

Note 13 – Costs of goods, material and services

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Cost of goods sold	250,392	261,602	203,577	296,528
Cost of materials	475,798	489,111	285,170	292,181
Cost of services	215,964	230,700	85,844	89,511
Total	**942,154**	**981,413**	**574,591**	**678,220**

Gorenje Group

Cost of services includes cost of provisions for warranties in the amount of EUR 29,906k (2016: EUR 31,220k) and cost of rentals in the amount of EUR 22,173k (2016: EUR 20,418k).

Gorenje, d.d.

Cost of services that arises on transactions with subsidiaries in the Group are recorded at EUR 27,573k (2016: EUR 31,185k). The item of cost of services comprises the formation of provisions for warranties in the amount of EUR 5,032k (2016: EUR 7,937k).

Cost of services includes cost of rentals in the amount of EUR 3,435k (2016: EUR 3,120k).

The table below shows the minimum rental payments under operating lease as at the year-end.

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Up to one year	8,046	11,153	1,315	1,414
One to five years	15,275	21,732	1,568	2,226
More than five years	496	8,605	391	0
Total	**23,817**	**41,490**	**3,274**	**3,640**

Note 14 – Employee benefits expense

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Wages and salaries	168,383	177,934	70,116	75,785
Social security costs	37,178	39,541	14,468	14,178
Provisions for retirement benefits and jubilee premiums	1,669	1,594	494	504
Other employee benefits expense	28,095	29,943	17,691	18,684
Total	**235,325**	**249,012**	**102,769**	**109,151**

Gorenje Group

Part of employee benefits expense (EUR 4,400k) was used to create provisions from government grants in Gorenje I.P.C., d.o.o., Slovenia, which has the status of a company employing disabled persons. Provisions are formed based on unpaid contributions (except for the employment contribution) of total earnings of employees (all Company's employees as the share of employed disabled persons exceeds 50 percent), and are reversed for 75% of disabled persons' wages, for mentors (staff engaged to observe the work of the disabled) and for handling the jobs for the disabled.

Employee benefits expense is exclusive of labour costs relating to development activities, which were recognised within capitalised costs of development as required under the method of capitalising relevant costs. In 2017, the amount of capitalised employee benefits expense amounted to EUR 12,302k (2016: EUR 11,709k).

The average number of employees in the Group was 11,039 in 2017, which is 1.4% more than in the previous period.

Other employee benefits expense includes mainly annual leave bonuses, meal allowances, commuting allowances, retirement benefits and jubilee premiums, in compliance with the national labour legislation and the companies' internal regulations.

Other employee benefits expense comprise EUR 3,014k of remuneration paid to managements of the Company and Group's subsidiaries for successful business in the year 2016. No remunerations were paid to the management in 2016.

Gorenje, d.d.

Employee benefits expense is exclusive of labour costs relating to development activities, which were recognised within capitalised costs of development as required under the method of capitalising relevant costs. In 2017, the amount of capitalised employee benefits expense amounted to EUR 8,046k (2016: EUR 8,004k).

The item of social security costs comprises costs of voluntary, additional, collective pension insurance in the amount of EUR 2,479k (2016: EUR 2,436k). In 2017, the average number of employees calculated based on working hours was 4,429.14 (2016: 4,252.80 employees).

The average number of employees in the Company was 4,434 in 2017, which is 3.6% more than in the previous period.

Other employee benefits expense include remuneration paid to the Company's broader management in 2017 for successful business in the year 2016 and amounted to EUR 1,658k. No remunerations were paid to the management in 2016.

Number of employees by business segment in the Group

	As at 31 Dec		Average	
Business segment/Number	**2016**	**2017**	**2016**	**2017**
Domestic Appliances	9,027	8,955	8,895	8,994
Other Business	1,935	2,059	1,994	2,045
Total	**10,962**	**11,014**	**10,889**	**11,039**

Number of employees by education

	Gorenje Group		Gorenje, d.d.	
Education level/Number	**2016**	**2017**	**2016**	**2017**
Level VIII	204	229	85	97
Level VII	1,424	1,480	701	755
Level VI	990	1,018	323	352
Level V	2,933	2,746	898	959
Level III and IV	3,232	3,471	1,096	1,118
Level I and II	2,106	2,095	1,176	1,153
Total	**10,889**	**11,039**	**4,279**	**4,434**

Note 15 – Amortisation and depreciation expense

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Amortisation expense of intangible assets	9,331	11,402	4,576	6,690
Depreciation expense of property, plant and equipment	37,724	43,274	20,556	23,789
Total	**47,055**	**54,676**	**25,132**	**30,479**

Gorenje Group

Amortisation of Group's intangible items amounted in 2017 to EUR 8,259k (2016: EUR 6,241k) and refers to amortisation of capitalised development costs.

Gorenje, d.d.

Amortisation of Company's intangible items amounted in 2017 to EUR 5,763k (2016: EUR 3,618k) and refers to amortisation of capitalised development costs.

Note 16 – Other operating expenses

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Disposal and impairment of assets	787	3,714	39	65
Write-off of inventories to net realisable value	2,007	4,012	839	2,846
Other taxes and charges	3,608	3,311	1,711	1,555
Environmental levies	2,288	2,100	682	688
Scholarships and bonuses paid to pupils and students on practical training	363	312	251	236
Formation of other provisions	715	103	25	0
Impairment of trade receivables	0	1,743	0	142
Impairment of non-current and other receivables	0	947	0	788
Compensations and damages	463	721	529	479
Expenses related to the Directive on Waste Electrical and Electronic Equipment	8,568	8,132	37	35
Other operating expenses	1,671	2,364	198	600
Total	**20,470**	**27,459**	**4,311**	**7,434**

Gorenje Group and Gorenje, d.d.

Since 1 January 2017, the Group/Company discloses allowances for receivables among operating expenses and no longer among finance costs. In 2017, the Group disclosed EUR 2,690k of impaired trade receivables among operating expenses (2016: EUR 7,088k among finance costs).

The item of other taxes and charges comprises charges for the use of building plot, water charge, and other mandatory taxes and charges.

Write-off of inventories to the realisable value refers to write-off of inventories of material based on the termination of certain deals with Panasonic Corporation and other devaluation within regular business operations of the Company and other Group companies.

Other operating expenses mostly refer to accrued costs of removing the consequences of the fire in Kemis, d.o.o., Slovenia, to administrative taxes, membership fees and other charges to costs of selling Company's investment properties.

Note 17 – Net finance expenses

Finance income

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Dividend income and other profit shares of Group companies	0	0	2,568	14,738
Dividend income and other profit shares of other companies	136	63	136	108
Interest income on transactions with Group companies	0	0	5,586	4,885
Interest income on transactions with other companies	913	935	158	194
Change in fair value of interest rate swaps	142	0	142	0
Change in fair value of forward exchange contracts	96	1,513	0	336
Net exchange gains	2,935	0	0	0
Gain on disposal of available-for-sale financial assets	3	0	3	0
Gain on sale of subsidiaries to Group companies	0	0	4,361	0
Gain on sale of subsidiaries to other companies	693	320	0	0
Income on realised forward exchange contracts	551	147	441	0
Other finance income	688	1,161	221	1,110
Total	**6,157**	**4,139**	**13,616**	**21,371**

Gorenje Group and Gorenje, d.d.

Gain on sale of subsidiaries to other companies refers to the sale of Erico, d.o.o., Slovenia.

Most of other finance income relating to the Company, comprise income on dividing the liquidation estate of the Gorenje Tiki, d.o.o. – in liquidation, Slovenia, upon the completion of the liquidation procedure (EUR 500k), income on eliminating the impairment of Gorenje Projekt, d.o.o., Slovenia (EUR 322k), and income on dividing the liquidation estate of Gorenje design studio, d.o.o. – in liquidation, Slovenia, upon the completion of the liquidation procedure (EUR 156k). The residual amount includes mostly income on commissions charged in relation to loan-related guarantees provided to Group and other companies.

Finance costs

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Interest expenses on transactions with Group companies	0	0	2,408	2,449
Interest expenses on transactions with other companies	15,033	12,741	11,901	10,555
Expenses on realised interest rate swaps	594	891	594	883
Expenses on realised forward exchange contracts	2,602	1,478	0	39
Change in fair value of forward exchange contracts	1,513	239	209	0
Interest expenses arising under provisions for retirement benefits and jubilee premiums	792	796	501	519
Expenses on net exchange differences	0	288	67	627
Impairment of available-for-sale investments	55	153	7	0
Impairment of investments in Group companies	0	0	717	800
Impairment of investments in associates	209	400	0	400
Impairment of trade receivables	3,235	0	256	0
Impairment of non-current and other receivables	3,853	0	0	0
Impairment of loans	587	447	455	447
Other finance expenses	4,719	4,066	1,667	1,446
Total	**33,192**	**21,499**	**18,782**	**18,165**

Gorenje Group and Gorenje, d.d.

The largest share of Group's finance costs include interest expenses arising on transactions with others (EUR 12,741k), which is 15.2% less than in 2016. The relevant amount comprises also interest expenses arising on the sale of receivables. Fair value of investments and loans granted is ensured based on the impairment of investments and loans granted. The impairment of loans fully refers to the loan extended to the company Arosa Mobilia, d.o.o., Slovenia and was conducted in 2017 based on the fulfilled conditions of the sales contract on selling the entire equity interest in the legal advance party of the company Arosa Mobilia, d.o.o., Slovenia. No negative impacts are expected in this relation in the coming years. Impairment of Company's investments, which are considered within the Group, fully refer to the impairment of the investment in the subsidiary Gorenje GAIO, d.o.o., Slovenia, while the impairment of investments in associates refers in total to the impairment of the investment in GOR Kolesa, d.o.o., Slovenia at the Company.

A major part of other finance costs relates to costs arising during the approval of loans, to a portion of costs in connection with the sale of receivables, and costs of granted letter of credits and guarantees. Costs of approving loans and other bank products are recorded by the Company in the amount of EUR 974k, whereby EUR 472k refers to finance costs arising on discounting the parent company's non-current receivables. EUR 2,278k refers to costs related to the sale of receivables by the company OOO Gorenje BT, Russia, based on which we manage financial risks.

Finance income and expenses recognised directly in other comprehensive income (net)

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Change in effective portion of gains and losses on cash flow hedges	-1,350	-760	-1,298	-420
Change in effective portion of gains and losses on cash flow hedges, reclassified to profit or loss	594	891	594	883
Net change in fair value of available-for-sale financial assets	-29	84	-28	9
Finance income/expenses recognised in other comprehensive income	**-785**	**215**	**-732**	**472**
Finance income/expenses recognised in other comprehensive income attributable to equity holders of the parent	**-785**	**215**	**0**	**0**

Net effect from the statement of comprehensive income is shown in the table above and is exclusive of actuarial gains or losses.

Note 18 – Income tax expense

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Current tax	-5,601	-3,118	0	0
Deferred tax	1,597	543	843	394
Other taxes	-806	-571	-806	-571
Total	**-4,810**	**-3,146**	**37**	**-177**

Gorenje Group and Gorenje, d.d.

Income tax includes the actual payable arising on corporate income tax, other taxes that are not disclosed in other items, as well as established deferred tax assets and liabilities.

The tax accounted for the Group declined by EUR 1,190k, which is attributable to the favourable outcome of a possible price-related tax liability in one of the Eastern European countries, for which a provision (formed in 2016) was reversed this year.

Other taxes include the withholding tax relating to the paid dividends, interest and licence fees.

As at 31 December 2017, the Group did not recognise deferred tax assets in the amount of EUR 22,852k and mostly referring to tax reliefs.

As at 31 December 2017, the Company did not recognise deferred tax assets in the amount of EUR 16,030k, mostly in connection with unused tax reliefs referring to research and development, and investments in equipment and intangible assets.

Effective income tax rates:

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Profit before tax	**13,240**	**4,487**	**3,662**	**650**
Income tax using the domestic tax rate	2,251	853	622	124
Effect of tax rates in foreign jurisdictions	146	268	0	0
Non-deductible expenses	2,245	1,490	545	1,117
Tax exempt income	463	-189	-557	-1,856
Unused tax losses and tax reliefs arising on deferred taxes	-1,214	608	-1,453	221
Other taxes	919	116	806	571
Income tax	**4,810**	**3,146**	**-37**	**177**
Effective tax rate	36.33%	70.11%	-1.01%	27.23%

The largest share of tax non-deductible expenses and tax-exempt income refers to the Company. Non-deductible expenses primarily relate to reducing expenses in the amount equalling half of formed provisions, expenses for ensuring bonuses and other employment-related payouts (biggest stake includes the voluntary additional pension insurance) and expenses for accounted amortisation/depreciation that exceeds the one calculated using the straight-line method of depreciation and statutory rates. The highest share among tax exempt income refers to exempt dividends.

Following deferred tax amounts were recognised in Group's other comprehensive income:

	2016			2017		
EURk	**Pre-tax amount**	**Tax**	**After-tax amount**	**Pre-tax amount**	**Tax**	**After-tax amount**
Actuarial gains/losses	-332	52	-280	65	-1	64
Change in fair value of available-for-sale financial assets	-33	4	-29	86	-2	84
Change in effective portion of gains and losses on cash flow hedges	-1,531	181	-1,350	-651	-109	-760
Change in effective portion of gains and losses on cash flow hedges, reclassified to profit or loss	594	0	594	891	0	891
Foreign currency translation differences for foreign operations	1,780	0	1,780	3,588	0	3,588
Other comprehensive income	**478**	**237**	**715**	**3,979**	**-112**	**3,867**

Following deferred tax amounts were recognised in Company's other comprehensive income:

	2016			2017		
EURk	**Pre-tax amount**	**Tax**	**After-tax amount**	**Pre-tax amount**	**Tax**	**After-tax amount**
Actuarial gains/losses	-137	29	-108	77	-7	70
Change in fair value of available-for-sale financial assets	-33	5	-28	11	-2	9
Change in effective portion of gains and losses on cash flow hedges	-1,479	181	-1,298	-311	-109	-420
Change in effective portion of gains and losses on cash flow hedges, reclassified to profit or loss	594	0	594	883	0	883
Total	**-1,055**	**215**	**-840**	**660**	**-118**	**542**

Note 19 – Intangible assets

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Deferred development costs	35,796	52,694	25,047	42,194
Industrial property rights	11,253	9,603	3,253	2,975
Trademark	61,964	61,964	0	0
Goodwill	67,036	67,036	0	0
Intangible assets under construction	32,823	32,278	31,096	28,541
Total	**208,872**	**223,575**	**59,396**	**73,710**

An intangible asset is a recognisable asset, the company control is and expects that future economic benefits will arise on the item. The company can recognise such an asset when it is probable that the future economic benefits embodied within the asset will flow to the company and its cost can be measured reliably. Precise criteria for recognising deferred costs of development are clarified in Note 3(e)(ii). Costs of development are of long-term nature and their capitalisation is therefore eligible. They arise within the competence centres and development departments. They are amortised within seven years i.e. the duration of the estimated average life cycle of an individual product.

Gorenje Group

The item of intangible assets includes mostly trademarks Atag, Etna and Pelgrim, goodwill, deferred development costs, and computer software.

Goodwill in the amount of EUR 62,130k and fair value of trademarks Atag, Etna and Pelgrim in the amount of EUR 61,964k were established in 2008 at the acquisition of the company Atag Europe BV, the Netherlands. Goodwill in the amount of EUR 2,030k refers to the acquisition of the majority interest in Gorenje Surovina, d.o.o., Slovenia, in 2007. Goodwill in the amount of EUR 2,875k occurred in 2005 at the acquisition of Mora Moravia, s.r.o. in the Czech Republic and Gorenje Studio, d.o.o., in Serbia.

Impairment testing of goodwill and trademarks

Impairment testing of goodwill and trademarks Atag, Etna and Pelgrim arising from the acquisition of Atag Europe BV, the Netherlands, was carried out. The calculations are based on cash flow projections for the Atag Group, which have been prepared on the basis of the adopted business plan for 2018 and the strategic business plan for the period 2019-2020. The main underlying assumptions used to calculate the value in use are the revenue growth rate of 2.0% (2016: 2.0%) and the discount rate of 9.13% (2016: 8.90%).

The recoverable value of the cash-generating unit exceeds its carrying amount, including that of goodwill and trademarks Atag, Etna and Pelgrim. Hence, there was no need for impairment to be carried out.

Impairment testing of goodwill arising from the acquisition of Mora Moravia, s.r.o., Czech Republic, was carried out. The calculations are based on cash flow projections for Mora Moravia, s.r.o., Czech Republic, which have been prepared on the basis of the strategic business plan for the period 2019-2020. The main underlying assumptions used to calculate the value in use are the revenue growth rate of 2.0% (2016: 2.0%) and the discount rate of 8.33% (2016: 9.10%).

The recoverable value of the cash-generating unit exceeds its carrying amount, including that of goodwill. No need for impairment accordingly exists.

Impairment testing of goodwill arising from the acquisition of Gorenje Studio, d.o.o., Serbia, was carried out. The calculations are based on cash flow projections for Gorenje Studio, d.o.o., Serbia, that have been compiled on the basis of the strategic business plan for the period 2018-2020. The main underlying assumptions used to calculate the value in use are the revenue growth rate of 2.0% (2016: 2.0%) and the discount rate of 10.0% (2016: 14.6%).

The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill. Therefore there was no need for impairment of goodwill.

Impairment testing of goodwill arising from the acquisition of Gorenje Surovina, d.o.o., Slovenia, was carried out. The calculations are based on the cash flow projections for Gorenje Surovina, d.o.o., Slovenia, which have been prepared on the basis of the adopted business plan for 2018 and the strategic business plan for the period 2019-2020. The main underlying assumptions used to calculate the value in use are the revenue growth rate of 2.0% (2016: 2.0%) and the discount rate of 7.40% (2016: 8.40%).

The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill. Therefore there was no need for impairment of goodwill.

Increase in intangible assets primarily relates to the capitalisation of development costs for new advanced products (e.g. new built-in gas cookers, new induction cookers, new washing and dryer machines of the Gorenje brand, the new generation of built-in cooler and freezer appliances, the new generation of freestanding cookers and related appliances) that are developed by competence centres of individual programmes of the Company and of the company Asko Appliances AB, Sweden.

Gorenje, d.d.

The relevant increase in long-term deferred development costs mostly refers to new advanced products (e.g. new generation of 540mm built-in cooler and freezer appliances, Asko washing and dryer machines, washing machines of the medium and premium class) that are developed by competence centres of individual programmes. Costs for services arising in connection with development are recognised in the income statement in the amount of EUR 1,624k.

The item of intangible assets under construction primarily refers to capitalised development costs for new advanced products (new built-in gas cookers, new induction cookers, new washing and dryer machines of the Gorenje brand, the new generation of built-in cooler and freezer appliances, the new generation of freestanding cookers and related appliances) developed by competence centres in Velenje and in Asko competence centre in Sweden, and other development departments (EUR 25,625k). The residual amount refers to the upgrade of the IT system and the purchase of licences.

Movements in Group's intangible assets

EURk	Deferred devel-opment costs	Industrial property rights	Trade-mark	Goodwill	Intangible assets under construc-tion	Total
Cost at 1 Jan 2016	**54,410**	**29,681**	**61,964**	**68,653**	**25,488**	**240,196**
Acquisition	1,514	985	0	0	21,320	**23,819**
Disposals, write-offs	-368	-645	0	0	-90	**-1,103**
Changes within Group	0	65	0	-1,617	0	**-1,552**
Other transfers	11,565	7,068	0	0	-13,862	**4,771**
Exchange differences	-111	-38	0	0	-33	**-182**
Cost at 31 Dec 2016	**67,010**	**37,116**	**61,964**	**67,036**	**32,823**	**265,949**
Accumulated amortisation at 1 Jan 2016	**26,714**	**17,450**	**0**	**0**	**0**	**44,164**
Disposals, write-offs	-368	-596	0	0	0	**-964**
Amortisation	6,402	2,929	0	0	0	**9,331**
Changes within Group	0	-187	0	0	0	**-187**
Other transfers	-1,518	6,289	0	0	0	**4,771**
Exchange differences	-16	-22	0	0	0	**-38**
Accumulated amortisation at 31 Dec 2016	**31,214**	**25,863**	**0**	**0**	**0**	**57,077**
Carrying amount at 1 Jan 2016	**27,696**	**12,231**	**61,964**	**68,653**	**25,488**	**196,032**
Carrying amount at 31 Dec 2016	**35,796**	**11,253**	**61,964**	**67,036**	**32,823**	**208,872**

EURk	Deferred devel-opment costs	Industrial property rights	Trade-mark	Goodwill	Intangible assets under construction	Total
Cost at 1 Jan 2017	**67,010**	**37,116**	**61,964**	**67,036**	**32,823**	**265,949**
Acquisition	1,739	737	0	0	23,180	**25,656**
Disposals, write-offs	-550	-195	0	0	0	**-745**
Changes within Group	0	-36	0	0	0	**-36**
Other transfers	23,029	633	0	0	-23,758	**-96**
Exchange differences	440	396	0	0	33	**869**
Cost at 31 Dec 2017	**91,668**	**38,651**	**61,964**	**67,036**	**32,278**	**291,597**
Accumulated amortisation at 1 Jan 2017	**31,214**	**25,863**	**0**	**0**	**0**	**57,077**
Disposals, write-offs	-507	-195	0	0	0	**-702**
Amortisation	8,282	3,120	0	0	0	**11,402**
Changes within Group	0	-36	0	0	0	**-36**
Other transfers	-96	-6	0	0	0	**-102**
Exchange differences	81	302	0	0	0	**383**
Accumulated amortisation at 31 Dec 2017	**38,974**	**29,048**	**0**	**0**	**0**	**68,022**
Carrying amount at 1 Jan 2017	**35,796**	**11,253**	**61,964**	**67,036**	**32,823**	**208,872**
Carrying amount at 31 Dec 2017	**52,694**	**9,603**	**61,964**	**67,036**	**32,278**	**223,575**

Movements in Company's intangible assets

EURk	Deferred development costs	Industrial property rights	Intangible assets under construction	Total
Cost at 1 Jan 2016	**39,231**	**14,692**	**23,014**	**76,937**
Acquisition	0	0	19,517	**19,517**
Disposals, write-offs	0	-11	-53	**-64**
Transfer from investments under construction	10,617	765	-11,382	**0**
Cost at 31 Dec 2016	**49,848**	**15,446**	**31,096**	**96,390**
Accumulated amortisation at 1 Jan 2016	**21,084**	**11,344**	**0**	**32,428**
Disposals, write-offs	0	-10	0	**-10**
Amortisation	3,717	859	0	**4,576**
Accumulated amortisation at 31 Dec 2016	**24,801**	**12,193**	**0**	**36,994**
Carrying amount at 1 Jan 2016	**18,147**	**3,348**	**23,014**	**44,509**
Carrying amount at 31 Dec 2016	**25,047**	**3,253**	**31,096**	**59,396**

EURk	Deferred development costs	Industrial property rights	Intangible assets under construction	Total
Cost at 1 Jan 2017	**49,848**	**15,446**	**31,096**	**96,390**
Acquisition	0	0	21,006	**21,006**
Disposals, write-offs	-353	-163	0	**-516**
Transfer from investments under construction	22,973	588	-23,561	**0**
Cost at 31 Dec 2017	**72,468**	**15,871**	**28,541**	**116,880**
Accumulated amortisation at 1 Jan 2017	**24,801**	**12,193**	**0**	**36,994**
Disposals, write-offs	-351	-163	0	**-514**
Amortisation	5,824	866	0	**6,690**
Accumulated amortisation at 31 Dec 2017	**30,274**	**12,896**	**0**	**43,170**
Carrying amount at 1 Jan 2017	**25,047**	**3,253**	**31,096**	**59,396**
Carrying amount at 31 Dec 2017	**42,194**	**2,975**	**28,541**	**73,710**

Note 20 – Property, plant and equipment (PPE)

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Land	29,154	28,935	14,392	14,392
Buildings	140,038	133,681	54,913	52,053
Production and other equipment	143,959	172,150	94,667	102,583
Property, plant and equipment under construction	53,061	37,069	34,034	31,548
Total	**366,212**	**371,835**	**198,006**	**200,576**

Movements in Group's property, plant and equipment

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2016	**31,438**	**288,189**	**489,406**	**33,357**	**842,390**
Acquisition	159	577	8,711	49,965	**59,412**
Disposals, write-offs	-556	-2,292	-13,097	-87	**-16,032**
Changes within Group	-1,294	-1,450	-6,665	-1,456	**-10,865**
Transfer to investment property	-509	-324	0	0	**-833**
Other transfers	0	4,920	20,661	-28,685	**-3,104**
Exchange differences	-84	-1,031	-972	-33	**-2,120**
Cost at 31 Dec 2016	**29,154**	**288,589**	**498,044**	**53,061**	**868,848**
Accumulated depreciation at 1 Jan 2016	**0**	**143,058**	**343,954**	**0**	**487,012**
Disposals, write-offs	0	-1,040	-12,879	0	**-13,919**
Depreciation	0	7,234	30,490	0	**37,724**
Changes within Group	0	-579	-4,201	0	**-4,780**
Transfer to investment property	0	-10	0	0	**-10**
Other transfers	0	-138	-2,966	0	**-3,104**
Exchange differences	0	26	-313	0	**-287**
Accumulated depreciation at 31 Dec 2016	**0**	**148,551**	**354,085**	**0**	**502,636**
Carrying amount at 1 Jan 2016	**31,438**	**145,131**	**145,452**	**33,357**	**355,378**
Carrying amount at 31 Dec 2016	**29,154**	**140,038**	**143,959**	**53,061**	**366,212**

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2017	**29,154**	**288,589**	**498,044**	**53,061**	**868,848**
Acquisition	2	1,094	14,857	33,719	**49,672**
Disposals, write-offs	-514	-8,233	-16,513	-107	**-25,367**
Changes within Group	-12	-591	-2,954	0	**-3,557**
Transfer to investment property	0	-35	0	0	**-35**
Transfer from investment property	82	340	0	0	**422**
Other transfers	0	2,239	46,921	-49,653	**-493**
Exchange differences	223	3,320	4,524	49	**8,116**
Cost at 31 Dec 2017	**28,935**	**286,723**	**544,879**	**37,069**	**897,606**
Accumulated depreciation at 1 Jan 2017	**0**	**148,551**	**354,085**	**0**	**502,636**
Disposals, write-offs	0	-3,605	-15,625	0	**-19,230**
Depreciation	0	7,571	35,703	0	**43,274**
Changes within Group	0	-275	-2,700	0	**-2,975**
Transfer from investment property	0	99	0	0	**99**
Other transfers	0	0	-481	0	**-481**
Exchange differences	0	701	1,747	0	**2,448**
Accumulated depreciation at 31 Dec 2017	**0**	**153,042**	**372,729**	**0**	**525,771**
Carrying amount at 1 Jan 2017	**29,154**	**140,038**	**143,959**	**53,061**	**366,212**
Carrying amount at 31 Dec 2017	**28,935**	**133,681**	**172,150**	**37,069**	**371,835**

Most of investments in property, plant and equipment in the amount of EUR 42,111k were carried out within the Domestic Appliances segment, where a significant portion thereof was invested in the technological equipment, mostly in connection with developing new products. As for the Domestic Appliances segment, we are completing the larger volume of investments made in the past years in the new platform of self-standing cookers in the facility in the Czech Republic, and the two new generations of washing machines and dryers. Investments made within the Other Business segment amounted in 2017 to EUR 7,561k, whereof EUR 3,755k refers to the ecology segment.

As of 1 January 2017 the Group amended its valuation model for land and replaced the revaluation model with the cost model in order to ensure that all assets within the cash generating units (CGUs) are valued by applying the same model. Pursuant to IAS 8, we have adequately adjusted also the comparable data for 2016. The transition was on the Group level reflected in lower values of land in the amount of EUR 9,497k, higher deferred tax assets in the amount of EUR 1,582k, lower deferred tax liabilities in the amount of EUR 218k, and consequently lower items of capital by EUR 7,697k.

Disposal of property, plant and equipment relates to the sale of non-core assets.

The Group has no financial liabilities secured by mortgage on real property.

No borrowing costs were attributed to the items of property, plant and equipment in 2016.

Transfers include transfers from property, plant and equipment to investment property and from investment property, and transfers between individual items.

Movements in Company's property, plant and equipment

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2016	**14,392**	**167,647**	**422,545**	**22,717**	**627,301**
Acquisition	0	0	0	32,766	**32,766**
Disposals, write-offs	0	0	-10,907	0	**-10,907**
Transfer from investments under construction	0	1,260	20,189	-21,449	**0**
Cost at 31 Dec 2016	**14,392**	**168,907**	**431,827**	**34,034**	**649,160**
Accumulated depreciation at 1 Jan 2016	**0**	**110,508**	**330,631**	**0**	**441,139**
Disposals, write-offs	0	0	-10,541	0	**-10,541**
Depreciation	0	3,486	17,070	0	**20,556**
Accumulated depreciation at 31 Dec 2016	**0**	**113,994**	**337,160**	**0**	**451,154**
Carrying amount at 1 Jan 2016	**14,392**	**57,139**	**91,914**	**22,717**	**186,162**
Carrying amount at 31 Dec 2016	**14,392**	**54,913**	**94,667**	**34,034**	**198,006**

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2017	**14,392**	**168,907**	**431,827**	**34,034**	**649,160**
Acquisition	0	0	0	26,451	**26,451**
Disposals, write-offs	0	-5	-9,227	-24	**-9,256**
Transfer from investments under construction	0	585	28,328	-28,913	**0**
Cost at 31 Dec 2017	**14,392**	**169,487**	**450,928**	**31,548**	**666,355**
Accumulated depreciation at 1 Jan 2017	**0**	**113,994**	**337,160**	**0**	**451,154**
Disposals, write-offs	0	-4	-9,160	0	**-9,164**
Depreciation	0	3,444	20,345	0	**23,789**
Accumulated depreciation at 31 Dec 2017	**0**	**117,434**	**348,345**	**0**	**465,779**
Carrying amount at 1 Jan 2017	**14,392**	**54,913**	**94,667**	**34,034**	**198,006**
Carrying amount at 31 Dec 2017	**14,392**	**52,053**	**102,583**	**31,548**	**200,576**

In 2017, the Group changed the valuation model and replaced the fair value model with the cost model. The transition was on the Company level reflected in lower values of land in the amount of EUR 7,410k, higher deferred tax assets in the amount of EUR 1,408k, and consequently lower fair value reserve by EUR 6,002k.

Increase in the value of buildings refers mainly to the renovation production facilities, whereby a decline thereof is mostly the result of the accounted depreciation.

Buildings were appraised in 2013 by an independent certified appraiser of real property. The valuation effect amounted to EUR -1,230k. According to management's estimate, no indications for impairment occurred since the valuation. Hence, the management assesses that the recoverable value of buildings does not significantly deviate from their carrying amount. The value of equipment increases the value of the technological equipment, which was acquired in 2017 and capitalised.

Investments in 2017 were made in new equipment, reconstruction and upgrade of production equipment (EUR 8,981k) and computer hardware (EUR 516k). We have invested in new tools and the overhaul of old tools (EUR 17,679k). Investments in the overhaul of transport means amounted to EUR 381k.

The decline refers to the sold equipment and eliminated useless equipment, and the accounted depreciation.

Plant and equipment were appraised in 2013 and no indications of impairment were established. According to management's estimate, the assumptions used in the relevant calculation have not changed materially and the fair value of buildings does not significantly deviate from their carrying amount.

The item of property, plant and equipment under construction relates largely to the equipment that shall be activated in 2018 and includes certain development projects in progress, as well as tools. It refers primarily to the new generation of Gorenje and Asko washing and dryer appliances, to the new generation of induction cookers, the built-in gas cookers, the 600 mm freestanding cookers, the new generation of built-in cooler-freezer appliances, and the new generation of dishwashers. The residual amount includes diverse investments in robot cells, machines, manufacturing lines, measuring equipment, test chambers, and others.

Note 21 – Investment property

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Land with buildings	14,957	9,849	12,948	8,685
Total	**14,957**	**9,849**	**12,948**	**8,685**

Gorenje Group

The item of investment property includes land and buildings acquired for resale or increase in investments. Investment property is measured by using the fair value model. Group's investment property was appraised by an independent certified appraiser at the year-end of 2017. In order to assess the value of investment property, the values used the market approach (comparable company valuation). The carrying amount does not materially deviate from the property's fair value, thus terms for possible value adjustment of investment property are not met.

Rental income generated on investment property is recognised in the income statement for 2017 and amounted to EUR 326k (2016: EUR 144k). Costs occurring in connection with investment property amounted to EUR 287k in the reporting period (2016: EUR 275k).

Decline in investment property's value refers to the sale of relevant properties at Gorenje Gostinstvo, d.o.o., Slovenia, and Gorenje Skopje, d.o.o., Macedonia. In this relation, other operating income includes EUR 36k of gain on sales.

Gorenje, d.d.

Group's investment property was appraised by an independent certified appraiser at the year-end of 2017. Based on the assessed value of investment property, we have adjusted the value of certain Company's investment property and the total net effect of the said adjustments amounted to EUR 12k.

In association with investment property, rental income in the amount of EUR 276k (2016: EUR 122k) was recognised in the income statement. Costs relating to investment property, which include current costs, repairs and maintenance amounted in 2017 to EUR 226k (2016: EUR 258k).

Decline in investment property's value refers to the sale of relevant properties in Maribor and Trbovlje and apartments. The total effect of their sale is negative and recorded in the amount of EUR 472k.

Movements in investment property

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Opening balance at 1 January	**17,148**	**14,957**	**15,276**	**12,948**
Increase	0	371	0	371
Decrease	-3,014	-5,126	-2,328	-4,646
Revaluation	0	-65	0	12
Transfer from PPE	823	35	0	0
Transfer to PPE	0	-323	0	0
Closing balance at 31 December	**14,957**	**9,849**	**12,948**	**8,685**

Note 22 – Investments in subsidiaries

Gorenje Group

Investments in subsidiaries are in Group's financial statements eliminated during the consolidation procedures. A detailed overview of the Group's composition is provided in section 8. Composition of the Group. Investments in subsidiaries are not pledged.

Gorenje, d.d.

Companies directly owned by the Company are presented in the table below.

EURk	Equity interest	Equity of company 2017	Profit or loss of company 2017	Investment at 31 Dec 2016	Investment at 31 Dec 2017
Gorenje I.P.C., d.o.o., Slovenia	100.00%	6,741	246	377	377
Energygor, d.o.o., Slovenia	100.00%	209	2	58	58
Gorenje Keramika, d.o.o., Slovenia	100.00%	-31	-367	7,841	7,841
Gorenje GTI, d.o.o., Slovenia	100.00%	6,041	556	3,934	3,934
Gorenje Gostinstvo, d.o.o., Slovenia	100.00%	6,546	671	5,958	5,958
Gorenje Orodjarna, d.o.o., Slovenia	100.00%	4,925	695	3,038	3,038
Indop, d.o.o., Slovenia	100.00%	-869	-641	0	0
Gorenje GAIO, d.o.o., Slovenia	100.00%	-807	-591	800	0
Gorenje EKOINVEST, d.o.o., Slovenia	100.00%	10,229	1,081	10,286	10,286
Gorenje Surovina, d.o.o., Slovenia	100.00%	16,098	2,486	13,209	13,209
ZEOS, d.o.o., Slovenia	55.42%	2,252	595	243	284
Gorenje Zagreb, d.o.o., Croatia	100.00%	9,427	-3,150	30,230	30,230
ST Bana Nekretnine, d.o.o., Serbia	1.61%	2,362	-154	50	50
Gorenje Tiki, d.o.o., Serbia	100.00%	25,013	1,145	23,306	23,306
Gorenje Home, d.o.o., Serbia	100.00%	6,999	3,332	3,001	3,001
Mora Moravia, s.r.o., Czech Republic	100.00%	24,541	620	20,050	20,050
Gorenje Nederland BV, the Netherlands	100.00%	132,404	108	131,106	131,106
Gorenje – kuchyně spol. s r.o., Czech Republic	100.00%	105	61	0	0
Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00%	43,224	1,026	42,008	42,008
Gorenje HS, d.o.o., Slovenia	65.00%	615	242	250	250
Total		**296,024**	**7,963**	**295,745**	**294,986**

Movement of Company's investments in subsidiaries

EURk	2016	2017
Opening balance at 1 Jan	**246,863**	**295,745**
Increase	55,258	41
Decrease	-5,659	0
Impairment	-717	-800
Closing balance at 31 Dec	**295,745**	**294,986**

Increase in Company's investments in Group's subsidiaries fully relates to the share capital increase in ZEOS, d.o.o., Slovenia. The impairment fully refers to the investment in the subsidiary Gorenje GAIO, d.o.o., Slovenia.

The Company assesses on an annual basis, whether there is need for impairment. Based on performed impairment testing of Company's investments, no reasons for their impairment were established, except for the investment in Gorenje GAIO, d.o.o., Slovenija.

Note 23 – Investments in associates

Balance of investments in associates

	Gorenje Group			Gorenje, d.d.		
EURk	Equity interest	Investment at 31 Dec 2016	Investment at 31 Dec 2017	Equity interest	Investment at 31 Dec 2016	Investment at 31 Dec 2017
Gorenje Projekt, d.o.o., Velenje	50.00%	1,678	1,971	50.00%	1,041	1,363
GGE Netherlands B.V., the Netherlands	30.00%	1,019	2,305	30.00%	623	1,823
GOR Kolesa, d.o.o., Velenje	61.54%	232	0	61.54%	400	0
EKON ELEKTRON, d.o.o., Macedonia	30.00%	16	33	0.00%	0	0
Total		**2,945**	**4,309**		**2,064**	**3,186**

Movement of investments in associates

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Opening balance at 1 Jan	**1,570**	**2,945**	**509**	**2,064**
Increase	2,089	1,520	2,003	1,200
Decrease	-714	-78	-448	0
Impairment	0	-400	0	-400
Reversal of impairment	0	322	0	322
Closing balance at 31 Dec	**2,945**	**4,309**	**2,064**	**3,186**

Gorenje Group and Gorenje, d.d.

Higher investments in associates mostly, in the amount of EUR 1,200k, represent the share capital increase in the company GGE Netherlands B.V., the Netherlands, whereby in the amount of EUR 152k to profits or losses of associates that are attributed under the equity method to Group's investments in associates. Impairment of investments fully refer to the company GOR Kolesa, d.o.o., Slovenia, and reversal of impairment to the investment made in Gorenje Projekt, d.o.o., Slovenia. Gorenje Group records no pledged investments in associates.

List of Group companies that are not directly owned by the Company. Other Group companies are owners up to a certain percentage as disclosed in the table below:

EURk	Equity interest	Equity of company in 2017	Profit or loss of the company in 2017
KEMIS, d.o.o., Slovenia	100.00%	7,518	110
Gorenje Beteiligungs GmbH, Austria	100.00%	55,308	87
Gorenje Austria Handels GmbH, Austria	100.00%	3,091	-368
Gorenje Vertriebs GmbH, Germany	100.00%	6,870	-4
Gorenje Körting Italia S.r.l., Italy	100.00%	96	4
Gorenje France S.A.S., France	100.00%	2,276	3,774
Gorenje Espana S.L., Spain	100.00%	-764	-329
Gorenje UK Ltd., Great Britain	100.00%	-447	-851
Gorenje Group Nordic A/S, Denmark	100.00%	1,860	29
Gorenje spol. s r.o., Czech Republic	100.00%	5,561	400
Gorenje real spol. s r.o., Czech Republic	100.00%	5,802	165
Gorenje Slovakia s.r.o., Slovakia	100.00%	1,320	61
Gorenje Magyarország Kft., Hungary	100.00%	3,473	78
Gorenje Polska Sp. z o.o., Poland	100.00%	5,859	11
Gorenje Bulgaria EOOD, Bulgaria	100.00%	2,231	111
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00%	3,889	615
Gorenje, d.o.o., Serbia	100.00%	7,452	557
Gorenje Podgorica, d.o.o., Montenegro	99.98%	2,409	55
Gorenje Romania S.r.l., Romania	100.00%	594	-65
KEMIS-Termoclean, d.o.o., Croatia	100.00%	2,775	514
Kemis – BH, d.o.o., Bosnia and Herzegovina	100.00%	595	33
Gorenje Studio, d.o.o., Serbia	100.00%	0	0
Gorenje Gulf FZE, United Arab Emirates	100.00%	-614	8
Gorenje Istanbul Ltd., Turkey	100.00%	10	-129
Gorenje TOV, Ukraine	100.00%	135	8
Kemis Valjevo, d.o.o, Serbia	100.00%	1,887	180
ATAG Nederland BV, the Netherlands	100.00%	43,420	6,430
ATAG België NV, Belgium	100.00%	1,399	-78
Intell Properties BV, the Netherlands	100.00%	1,521	-50
Gorenje Kazakhstan, TOO, Kazakhstan	100.00%	503	11
OOO Gorenje BT, Russia	100.00%	21,759	-3,264
Gorenje GTI, d.o.o., Serbia	100.00%	266	89
Asko Appliances AB, Sweden	100.00%	5,939	357
Gorenje North America, Inc., USA	100.00%	983	120
Asko Appliances Pty, Australia	100.00%	6,945	399
Asko Appliances OOO, Russia	100.00%	525	0
"Gorenje Albania" SHPK, Albania	100.00%	69	-74
Gorenje Corporate GmbH, Austria	100.00%	39	0
Cleaning System S, d.o.o., Serbia	100.00%	0	0
Zeos eko-sistem d.o.o., Bosnia and Herzegovina	53.64%	875	65
Gorenje Studio, d.o.o., Slovenia	100.00%	0	0
Gorenje Asia Ltd., China	100.00%	1,411	483
Gorenje MDM, d.o.o., Serbia	100.00%	1,202	138
Gorenje do Brasil Ltda., Brasil	100.00%	301	-302
Gorenje Ekologija, d.o.o., Serbia	100.00%	1,306	-19
Novi Elind, d.o.o., Serbia	100.00%	0	0
Gorenje AEC, LLC, Thailand	100.00%	107	-90
Gorenje Chile SpA, Chile	100.00%	-197	-386
Indop Gorenje GmbH, Germany	100.00%	-182	-157
Gorenje GSI, d.o.o., Slovenia	100.00%	5,302	368
Gorenje Skopje, d.o.o., Macedonia	100.00%	1,723	36
TERMOCLEAN S, d.o.o., Slovenia	100.00%	7	0
Gorenje Surovina, RECE, d.o.o., Slovenia	100.00%	7	0
Total		**214,416**	**9,130**

Note 24 – Other non-current investments

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Loans to Group companies	0	0	0	121,810
Loans to other companies	2,370	2,359	1,357	1,400
Deposits	33	156	0	0
Other financial investments	4,160	968	672	672
Total	**6,563**	**3,483**	**2,029**	**123,882**

Movements in loans

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Opening balance at 1 Jan	**2,031**	**2,370**	**1,018**	**1,357**
Increase	350	0	352	121,924
Decrease	-11	-11	-13	-71
Closing balance at 31 Dec	**2,370**	**2,359**	**1,357**	**123,210**

Gorenje Group and Gorenje, d.d.
Loans given to subjects out of the Group include euro-denominated loans bearing a fixed interest rate and show a decline in 2017 by EUR 11k if compared to the previous year. The balance of loans given by the Group amounted as at 31 December 2017 to EUR 2,359k and mostly relates to the loan extended to Arosa Mobilia, d.o.o., Slovenia, during the divestment of the furniture activity and approved by the Company; the loan is insured with fixed properties.

The Company approved most of loans to the subsidiaries Gorenje Nederland BV, the Netherlands and Gorenje Beteiligungs GmbH, Austria, whose repayment is adjusted with the free cash flow generated by aforesaid companies. They were in 2016 disclosed among current loans given (Note 28).

Other non-current investments are not pledged to third parties.

No non-current loans were granted by the Group to Management Board members, Supervisory Board members, and internal owners.

Note 25 – Non-current operating receivables

Gorenje Group
Non-current operating receivables in the amount of EUR 7,375k (2016: EUR 2,481k) primarily refer to the Company and Gorenje Aparati za domaćinstvo, d.o.o., Serbia.

Gorenje, d.d.
Non-current operating receivables recorded at EUR 5,625k relate to receivables arising from the sale of coal to Vitol SA, Switzerland (EUR 2,708k), and from the sale of the investment property in Maribor to the company Pololes pohištvo, d.o.o., Slovenia (EUR 2,917k). In 2016, the Company disclosed no non-current operating receivables.

Note 26 – Deferred tax assets and deferred tax liabilities

Gorenje Group

Deferred taxes are calculated based on temporary differences by using the liability method and the tax rate, applicable in the country in which the respective Group company is domiciled.

	Tax assets		Tax liabilities		Tax assets – tax liabilities	
EURk	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Property, plant and equipment	322	632	2,123	2,145	-1,801	-1,513
Investments	1,576	1,510	11	13	1,565	1,497
Receivables	920	841	6	-8	914	849
Inventories	62	54	-27	-45	89	99
Liabilities from litigations	3	15	0	1	3	14
Provisions in line with local standards and tax laws	873	1,115	214	143	659	972
Provisions for retirement benefits and jubilee premiums	2,568	2,528	-1	-9	2,569	2,537
Provisions for warranties	2,028	1,713	-53	-57	2,081	1,770
Unused tax losses	12,574	13,151	-56	-10	12,630	13,161
Unused tax reliefs	6,459	6,174	160	133	6,299	6,041
Cash flow hedge – forward exchange contracts	0	16	0	0	0	16
Cash flow hedge – interest rate swap	288	164	61	58	227	106
Total	**27,673**	**27,913**	**2,438**	**2,364**	**25,235**	**25,549**

	Tax assets – tax liabilities		Through profit or loss		Through other comprehensive income	
EURk	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Property, plant and equipment	-1,801	-1,513	676	15	0	0
Investments	1,565	1,497	148	-32	4	-2
Receivables	914	849	-202	-47	0	0
Inventories	89	99	9	2	0	0
Liabilities from litigations	3	14	2	11	0	0
Provisions in line with local standards and tax laws	659	972	157	393	0	0
Provisions for retirement benefits and jubilee premiums	2,569	2,537	146	-33	52	-1
Provisions for warranties	2,081	1,770	68	-308	0	0
Unused tax losses	12,630	13,161	856	736	0	0
Unused tax reliefs	6,299	6,041	-263	-194	0	0
Cash flow hedge – forward exchange contracts	0	16	0	0	52	16
Cash flow hedge – interest rate swap	227	106	0	0	129	-125
Total	**25,235**	**25,549**	**1,597**	**543**	**237**	**-112**

Gorenje, d.d.

	Tax assets		Tax liabilities		Tax assets – tax liabilities	
EURk	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Property, plant and equipment	321	586	0	0	321	586
Investments	1,562	1,500	11	13	1,551	1,487
Receivables	493	479	0	0	493	479
Provisions for retirement benefits and jubilee premiums	1,626	1,549	0	0	1,626	1,549
Provisions for warranties	773	461	0	0	773	461
Unused tax losses	9,282	10,087	0	0	9,282	10,087
Unused tax incentives	5,603	5,383	0	0	5,603	5,383
Cash flow hedge – forward exchange contracts	0	16	0	0	0	16
Cash flow hedge – interest rate swaps	288	164	0	0	288	164
Total	**19,948**	**20,225**	**11**	**13**	**19,937**	**20,212**

	Tax assets – tax liabilities		Through profit or loss		Through other comprehensive income	
EURk	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Property, plant and equipment	321	586	162	265	0	0
Investments	1,551	1,487	158	-61	5	-2
Receivables	493	479	-274	-14	0	0
Provisions for retirement benefits and jubilee premiums	1,626	1,549	139	-69	29	-7
Provisions for warranties	773	461	28	-312	0	0
Unused tax losses	9,282	10,087	977	806	0	0
Unused tax incentives	5,603	5,383	-347	-221	0	0
Cash flow hedge – forward exchange contracts	0	16	0	0	52	16
Cash flow hedge – interest rate swaps	288	164	0	0	129	-125
Total	**19,937**	**20,212**	**843**	**394**	**215**	**-118**

Deferred tax assets arising from unused tax losses largely refer to the Company (EUR 10,087k). They have no limitation on use in the future tax periods (years) and represent EUR 53,093k of tax loss in the amount of which the tax basis may be reduced. The Company also discloses the biggest share of deferred tax assets arising from unused tax reliefs (EUR 5,383k), which primarily relates to reliefs on investments in equipment and intangible assets. The Company forms no deferred tax assets in relation to investments in research and development.

Note 27 – Inventories

Gorenje Group

	2016			2017		
EURk	**Domestic Appliances**	**Other Business**	**Total**	**Domestic Appliances**	**Other Business**	**Total**
Materials	56,584	4,737	61,321	63,655	5,853	69,508
Work in progress	7,881	3,818	11,699	9,683	2,948	12,631
Finished products	115,897	4,503	120,400	98,090	6,261	104,351
Merchandise	25,847	4,055	29,902	29,699	3,091	32,790
Advances	2,281	351	2,632	1,094	245	1,339
Total	**208,490**	**17,464**	**225,954**	**202,221**	**18,398**	**220,619**

Write-offs and value adjustments to inventories amounted in 2017 to EUR 4,012k (2016: EUR 2,007k). Value adjustments and write-offs of inventories to their net realisable value are disclosed among operating expenses.

Advances refer to inventories of raw materials, materials and merchandise.

As at 31 December 2017, none of Group's inventories were pledged. The book value of inventories does not exceed their net realisable value. The book value of inventories of finished products as at the balance sheet date, where production costs were adjusted to net realisable value in 2017, amounted to EUR 6,100k.

Gorenje, d.d.

EURk	2016	2017
Materials	40,115	41,130
Work in progress	6,451	7,805
Finished products	17,317	15,715
Merchandise	22,523	19,700
Advances	2,158	988
Total	**88,564**	**85,338**

As at 31 December 2017, the book value of inventories of finished products, for which value adjustments were made from production value to net realisable value in 2017, was recorded at EUR 2,936k (2016: 1,763k).

In 2017, value adjustments of inventories amounted to EUR 3,109k (2016: EUR 2,163k) and resulted from the write-off of obsolete inventories.

Note 28 – Current financial investment

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Available-for-sale investments	2,247	1,743	1,617	1,321
Short-term deposits	203	511	0	0
Given loans	5,728	5,608	138,563	16,431
Given loans transferred from non-current loans	0	0	0	0
Current interest receivables	127	52	548	387
Dividend receivables due from Group companies	0	0	0	5,500
Other current financial receivables	516	145	3,704	402
Total	**8,821**	**8,059**	**144,432**	**24,041**

Gorenje Group and Gorenje, d.d.
Group's available-for-sale investments include stocks and shares in banks and savings banks, and in other companies. Most of these investments are held by the Company (EUR 1,321k), whereof the largest share refers to the investment in Prvi sklad, d.o.o., Slovenia (EUR 521k) and the investment in shares of Delavska hranilnica (EUR 339k). The value of available-for-sale investments is disclosed in fair value.

Loans granted by the Group refer to short-term loans extended to non-Group companies in the amount of EUR 5,608k. Relative to the previous year, they declined in 2017 by EUR 120k or 2.1%. The larger portion of current given loans is denominated in euro and most thereof bear the EURIBOR rate. Most of loans extended by the Group (from EUR 5,608k) and approved by the Company relates to the Gorenje's Handball Club (EUR 2,243k) and the associates companies Gorenje Projekt, d.o.o., Slovenia (EUR 2,081k) and GOR Kolesa, d.o.o., Slovenia (EUR 1,277k). In 2017, the company Gorenje Beteiligungs GmbH, Austria was fully repaid the loan extended to Inter solar Beteiligungs AG with its headquarters in Switzerland in the amount of EUR 2,821k.

The Company heavily reduced current loans extended to related entities (mostly to the holding companies Gorenje Nederland BV, the Netherlands and Gorenje Beteiligungs GmbH, Austria), where the maturity was adjusted with the planned repayment dynamics. They are accordingly recorded among non-current loans.

The Company concludes hedging instrument to hedge against currency fluctuations in its own name and the name of other Group companies, and transfers them to companies that are locally exposed to such risk.

Company's other current financial receivables comprise a receivable due from the fair value of derivatives for currency risks relating to banks (EUR 79k) and to Group companies (EUR 106k), and a receivables due from Group companies relating to already realised derivatives that the Company enters into on their behalf (EUR 217k).

The Group concluded forward exchange contracts for 2017 in order to hedge against exchange rate fluctuations. Fair value of forward exchange contracts is recognised partly in the income statement and partly in the statement of other comprehensive income. The recognition through comprehensive income aims at hedging effects to be recognised in the income statement in the same period in which the hedged item impacted the profit or loss.

In 2017, the Group recorded settlements arising on derivatives used as hedging instruments in the amount of EUR -1,331k and in the same amount increased its finance income or finance expenses. In addition, finance income increased by EUR 1,513k and finance expenses by EUR 239k as a result of Group's adjustment of forward exchange contracts to fair value.

Movement of shares and interests available for sale

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Opening balance at 1 Jan	**3,700**	**2,247**	**2,927**	**1,617**
Exchange differences	-4	8	0	0
Increase	28	24	21	18
Decrease	-1,396	-451	-1,301	-325
Change in fair value	-81	-67	-30	11
Transfers	0	-18	0	0
Closing balance at 31 Dec	**2,247**	**1,743**	**1,617**	**1,321**

Gorenje Group

The change in fair value amounting to EUR -67k is disclosed among finance expenses in the amount of EUR 153k and EUR 86k among the increase in the fair value of available-for-sale financial assets.

Shares in current investments are not pledged.

Gorenje, d.d.

The decline in shares and interest available for sale refer nearly in its full amount to the repayment of subsequent payments made in shares of the company Prvi Sklad, d.o.o., Slovenia.

Change in the fair value at EUR 11k is disclosed in the fair value reserve for available-for-sale financial assets.

Current loans granted by the Company

EURk	2016	2017
Current loans to Group companies	135,671	10,829
Current loans to others	2,892	5,602
Total	**138,563**	**16,431**

Increase in given current loans mostly refers to loans approved to associates Gorenje Projekt, d.o.o., Slovenia and GOR Kolesa, d.o.o., Slovenia.

Current loans given to Group companies operating in Slovenia

EURk	2016	2017
Gorenje Orodjarna, d.o.o., Slovenia	1,183	873
Gorenje Keramika, d.o.o., Slovenia	3,661	4,368
Gorenje GAIO, d.o.o., Slovenia	1,760	1,708
Indop, d.o.o., Slovenia	1,372	1,568
Gorenje HS, d.o.o., Slovenia	35	0
Total	**8,011**	**8,517**

Current loans given to Group companies operating abroad

EURk	2016	2017
Gorenje Beteiligungs GmbH, Austria	42,040	1,634
Gorenje Nederland BV, the Netherlands	83,068	678
Gorenje – kuchyně spol. s r.o., Czech Republic	1,881	0
Gorenje France S.A.S., France	671	0
Total	**127,660**	**2,312**

Current loans extended by the Company were denominated in euro and show in 2017 a significant decline over the previous year, mostly due to the ownership restructuring of investments within the Group and adjusting the maturity of loans with the anticipated repayment dynamics that is harmonised with the projected cash flows generated by the borrowers. In view of current loans, the Company is not exposed to higher financial risks as most of these loans were extended to its subsidiaries.

No current loans were granted by the Company to members of the Management Board, the Supervisory Board, and internal owners.

Note 29 – Trade receivables

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Trade receivables – Group companies	0	0	82,996	107,637
Trade receivables – other companies	165,786	180,517	47,864	50,994
Total	**165,786**	**180,517**	**130,860**	**158,631**

Gorenje Group and Gorenje, d.d.

The higher balance of Group's receivables over the previous year is the result of larger volume of sales and lower volume of sold receivables (factoring) in the last quarter, mostly in Russia. Company's receivables due from other Group companies significantly increased in 2017 due to the changed model of Group's operations according to which most of supplies from production companies of the Domestic Appliances segment are now conducted via the Company.

In 2017, the Group recorded EUR 2,076k of write-offs and impairments of trade receivables (2016: EUR 3,235k).

As at 31 December 2017, allowances for trade receivables amounted to EUR 24,951k (2016: EUR 27,639k). The movement of relevant allowances is outlined in Note 43 (Financial risks and financial instruments).

The Group records 'trade receivables – other companies', which are insured with quality hedging instruments in a share of 73.3% (31 December 2016: 65.6%), whereby the Company in a share of 60.2% (31 December 2016: 54.4%). As for insuring receivables with credit insurance companies, the own share of the insured is agreed and set mostly at 10 percent in a loss event, whereas in certain exceptions a higher own share is agreed with the insurance company (up to 30%). The Group has incorporated a credit risk management policy, which clearly defines terms and acceptable instruments for insuring receivables. The Accounts Receivable Management Policy is in detail presented in Note 43.

Company's current trade receivables due from Group companies

EURk	2016	2017
Trade receivables due from customers in Slovenia	6,935	9,606
Trade receivables due from customers abroad	76,061	98,031
Total	**82,996**	**107,637**

Company's current trade receivables due from customers (Group companies) operating in Slovenia

EURk	2016	2017
Energygor, d.o.o., Slovenia	2	1
ZEOS, d.o.o., Slovenia	5	6
Kemis, d.o.o., Slovenia	2	2
Gorenje Surovina, d.o.o., Slovenia	715	1,113
Gorenje I.P.C., d.o.o., Slovenia	1,386	1,817
Gorenje GTI, d.o.o., Slovenia	824	744
Gorenje Gostinstvo, d.o.o., Slovenia	81	96
Gorenje Orodjarna, d.o.o., Slovenia	135	72
ERICo, d.o.o., Slovenia	1	0
Gorenje design studio, d.o.o. – in liquidation, Slovenia	0	0
Indop, d.o.o., Slovenia	106	118
Gorenje GAIO, d.o.o., Slovenia	61	56
Gorenje GSI, d.o.o., Slovenia	2,963	5,484
Gorenje Keramika, d.o.o., Slovenia	53	52
Gorenje Studio, d.o.o., Slovenia	461	0
EKOGOR d.o.o., Slovenia	0	0
Gorenje HS, d.o.o., Slovenia	140	38
Gorenje EKOINVEST, d.o.o., Slovenia	0	7
Total	**6,935**	**9,606**

Current trade receivables due from customers (Group companies) operating abroad

EURk	2016	2017
Gorenje Zagreb, d.o.o., Croatia	4,654	7,889
Gorenje, d.o.o., Serbia	8,665	14,031
Gorenje aparati za domaćinstvo, d.o.o., Serbia	13,729	8,397
Gorenje Tiki, d.o.o., Serbia	1,022	1,832
Gorenje Home, d.o.o., Serbia	4,307	6,234
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	235	1,150
Gorenje Skopje, d.o.o., Macedonia	1,040	1,050
Gorenje Podgorica, d.o.o., Montenegro	511	765
Gorenje Vertriebs GmbH, Germany	4,669	6,199
Gorenje Austria Handels GmbH, Austria	-223	-675
Gorenje Beteiligungs GmbH, Austria	1,573	32
Asko Appliances AB, Sweden	1,596	443
Gorenje Group Nordic A/S, Denmark	4,871	6,301
ATAG Nederland BV, the Netherlands	77	597
Gorenje Nederland BV, the Netherlands	11	9
Gorenje UK Ltd., Great Britain	873	1,416
Gorenje France S.A.S., France	1,148	-222
Gorenje Körting Italia S.r.l., Italy	2,716	2,567
OOO Gorenje BT, Russia	-130	2,120
Gorenje TOV, Ukraine	74	86
Gorenje Kazakhstan, TOO, Kazakhstan	9	1
Gorenje Slovakia s.r.o., Slovakia	10	266
Gorenje spol. s r.o., Czech Republic	575	4,993
Gorenje real spol s r.o., Czech Republic	79	0
Mora Moravia, s.r.o., Czech Republic	1,425	1,857
Gorenje Magyarország Kft., Hungary	-112	1,756
Gorenje Polska Sp. z o.o., Poland	1,386	6,830
Gorenje Bulgaria EOOD, Bulgaria	432	1,214
Gorenje Romania S.r.l., Romania	4,260	5,595
Gorenje Istanbul Ltd., Turkey	-16	0
"Gorenje Albania" SHPK, Albania	357	434
Gorenje Gulf FZE, United Arab Emirates	3,796	3,764
Gorenje North America, Inc., USA	30	0
Asko Appliances Pty, Australia	8,904	8,790
Gorenje do Brasil Ltda., Brasil	1,592	92
Asko Appliances OOO, Russia	1,582	1,295
Gorenje MDM, d.o.o., Serbia	2	0
Gorenje Studio, d.o.o., Serbia	48	0
Gorenje GTI, d.o.o., Serbia	1	1
Gorenje ATAG Belgie NV, Belgium	-161	-283
Gorenje Asia Ltd., China	5	1
KEMIS Termoclean d.o.o., Croatia	2	1
Gorenje Corporate GmbH, Austria	1	1
Gorenje Chile SpA, Chile	412	1,080
ST Bana Nekretnine, d.o.o., Serbia	1	1
Gorenje AEC, LLC, Thailand	0	129
Revaluation	23	-8
Total	**76,061**	**98,031**

Note 30 – Other current assets

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Other current receivables	43,606	45,987	10,552	9,511
Short-term deferred costs	7,925	7,756	2,415	3,265
Other current assets	2,056	2,285	0	0
Advances for services	1,671	1,838	174	293
Total	**55,258**	**57,866**	**13,141**	**13,069**

Gorenje Group and Gorenje, d.d.

Other current assets include to a large extent current input VAT receivables, which in the Group amounted at the year-end of 2017 to EUR 10,394k (2016: EUR 11,754k) and in the Company to EUR 4,918k (2016: EUR 5,090k).

Further, a large portion of Group's other current assets include receivables due from partners, with whom agreements on non-recourse sale of receivables are signed in the amount of EUR 21,609k (31 December 2016: EUR 24,556k); they refer to the own share in the receivables' share and/or to the volume of sold receivables, where the relevant partner has not yet conducted the payment for the sale of receivables. In addition, this item comprises receivables due from the insurance company for the fire compensation (EUR 3,350k) relating to the company Kemis, d.o.o., Slovenia and receivables for the excess payment of tax in the amount of EUR 4,161k (31 December 2016: EUR 677k) at the company Gorenje Nederland B.V., the Netherlands. As for the Company, it records a major portion of unpaid VAT receivables due from abroad in the amount of EUR 1,686k (31 December 2016: EUR 470k), current receivables for withholding tax in the amount of EUR 487k (31 December 2016: EUR 310k), receivables not yet charged in the amount of EUR 1,468k (31 December 2016: EUR 3,645k), receivables from the sale of receivables in the amount of EUR 185k (31 December 2016: EUR 273k), and receivables arising from subsidies in the amount of EUR 208k.

The item of short-term deferred costs and expenses comprises deferred costs that refer to subsequent periods.

Note 31 – Cash and cash equivalents

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Cash in hand and cash in transit	575	615	1,960	338
Bank balances and cash held in other financial institutions	34,667	24,422	12,783	3,146
Total	**35,242**	**25,037**	**14,743**	**3,484**

Note 32 – Equity

Gorenje Group and Gorenje, d.d.

As at 31 December 2017, Company's share capital amounted to EUR 101,922,103.97 (31 December 2016: EUR 101,922,103.97) and is divided into 24,424,613 ordinary, freely transferable, registered, no par value shares.

Reserves consist of share premium, revenue reserves, fair value reserve and translation reserve.

Group's capital surplus (share premium) in the amount of EUR 174,502k (31 December 2016: EUR 174,502k) presents surplus in excess of par value of shares in the amount of EUR 64,475k (31 December 2016: EUR 64,475k), surplus in excess of book value of disposed own shares (treasury shares) in the amount of EUR 15,313k (31 December 2016: EUR 15,313k), and general equity revaluation adjustment in the amount of EUR 76,851k (31 December 2016: EUR 76,851k), and other effects of transition to IFRSs.

Revenue reserves recorded as at the balance sheet date in the amount of EUR 33,131k (31 December 2016: EUR 46,015k) consist of legal reserves, statutory reserves, treasury share reserve and other revenue reserves.

As at 31 December 2017, legal reserves amounted to EUR 12,896k (31 December 2016: EUR 12,896k). In accordance with provisions of the Companies Act, share premium (capital surplus) and legal reserves can in their excess amount, be used for share capital increase, for coverage of loss for the period and retained loss if revenue reserves are not simultaneously used for dividend payout.

As at the balance sheet date, statutory reserves amounted to EUR 7,966k (31 December 2016: EUR 7,919k). Statutory reserves can according to Company's Articles of Association be used for a share capital increase; for coverage of loss for the period and retained loss should no other sources be available; for share withdrawal in case of a compulsory transfer of shares, and for share withdrawal by Company's acquisition; for share withdrawal under the simplified procedure of share capital decrease; for creation of treasury shares if no other sources are available, and for balancing the dividend policy.

Treasury shares (own shares) in the amount of EUR 3,170k (31 December 2016: EUR 3,170k) are disclosed as a deductible item of equity and at cost. The number of shares remained unchanged in 2017.

As at 31 December 2017, other revenue reserves amounted to EUR 9,099k (31 December 2016: EUR 22,030k) and were created on the basis of resolutions on the allocation of profit for the period adopted by the Company's Management Board and the Supervisory Board, and resolutions of the General Meeting of Shareholders on the allocation of the accumulated profit. For the purpose of forming accumulated profit, the Company transferred other revenue reserves in the amount of EUR 12,931k to retained earnings (profit or loss from previous periods) in line with the Companies Act.

Group's retained earnings in the amount of EUR 74,519k (31 December 2016: EUR 63,152k) comprise profit or loss from previous periods and profit or loss for 2017. Upon the proposal of the Management Board, the parent company used the profit of 2017 to form statutory reserves in the amount of EUR 47k.

Translation reserve (Group) amounted as at 31 December 2017 to EUR -13,723k (31 December 2016: EUR -17,311k). The increase is attributable to exchange differences that arise on the restatement of subsidiaries' assets and liabilities from abroad from national currencies to the Group's reporting currency.

Group's fair value reserve amounting to EUR -454k as at 31 December 2017 (31 December 2016: EUR -733k) includes changes in fair value of available-for-sale investments and changes in value of the cash flow hedge, and the change in the value of retirement benefits pursuant to the actuarial calculation. With respect to the changed valuation model for land (cost model replaced the revaluation model) as of 1 January 2017, we have eliminated valuations linked to land from the fair value reserve. We have accordingly adjusted also the comparable data for 2016 in accordance with IAS 8.

Changes in Group's fair value reserve are shown in the table below:

EURk	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Actuarial gains/ losses	Total
Balance at 1 Jan 2016	**3,036**	**-275**	**-2,429**	**332**
Actuarial gains or losses	0	0	-332	-332
Change in fair value of cash flow hedge	0	-1,531	0	-1,531
Change in fair value of cash flow hedge, transferred to profit or loss	0	594	0	594
Change in fair value of available-for-sale financial assets	-30	0	0	-30
Disposal of available-for-sale financial assets	-3	0	0	-3
Deferred taxes	4	181	52	237
Balance at 31 Dec 2016	**3,007**	**-1,031**	**-2,709**	**-733**

EURk	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Actuarial gains/ losses	Total
Balance at 1 Jan 2017	**3,007**	**-1,031**	**-2,709**	**-733**
Actuarial gains or losses	0	0	65	65
Change in fair value of cash flow hedge	0	-651	0	-651
Change in fair value of cash flow hedge, transferred to profit or loss	0	891	0	891
Change in fair value of available-for-sale financial assets	86	0	0	86
Deferred taxes	-2	-109	-1	-112
Balance at 31 Dec 2017	**3,091**	**-900**	**-2,645**	**-454**

Changes in Company's fair value reserve are shown in the table below:

EURk	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Actuarial gains/ losses	Total
Balance at 1 Jan 2016	**73**	**-521**	**-1,480**	**-1,928**
Actuarial gains or losses	0	0	-137	-137
Change in fair value of cash flow hedge	0	-1,479	0	-1,479
Change in fair value of cash flow hedge, transferred to profit or loss	0	594	0	594
Change in fair value of available-for-sale financial assets	-30	0	0	-30
Disposal of available-for-sale financial assets	-3	0	0	-3
Deferred taxes	5	181	29	215
Balance at 31 Dec 2016	**45**	**-1,225**	**-1,588**	**-2,768**

EURk	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Actuarial gains/ losses	Total
Balance at 1 Jan 2017	**45**	**-1,225**	**-1,588**	**-2,768**
Actuarial gains or losses	0	0	77	77
Change in fair value of cash flow hedge	0	-311	0	-311
Change in fair value of cash flow hedge, transferred to profit or loss	0	883	0	883
Change in fair value of available-for-sale financial assets	11	0	0	11
Deferred taxes	-2	-109	-7	-118
Balance at 31 Dec 2017	**54**	**-762**	**-1,518**	**-2,226**

Note 33 – Earnings per share

Gorenje Group and Gorenje, d.d.

The Company issued no financial instruments that would have an impact on diluted earnings per share, thus the basic and diluted earnings per share are equal.

	Gorenje Group		Gorenje, d.d.	
	2016	2017	2016	2017
Profit for the period (in EURk)	7,994	969	3,699	473
Weighted average number of ordinary shares	24,303,302	24,303,302	24,303,302	24,303,302
Basic / Diluted earnings per share (in EUR)	0.33	0.04	0.15	0.02

In the year 2017 the Company paid its stockholders dividends for the fiscal year 2016 in the amount of EUR 0.10 gross per share, thus totalling to EUR 2,430k. No dividends were paid out in 2016.

Own shares (treasury shares)

Number of own shares	1 Jan 2017	Purchases	Sale	31 Dec 2017
Repurchased own shares	121,311	0	0	121,311

Note 34 – Establishment of accumulated profit pursuant to provisions of the Companies Act

In accordance with the Companies Act and the Articles of Association of the Company, the Company's Management Board decided that a portion of Company's profit for 2017, which totalled to EUR 473,260.16 is earmarked for forming statutory reserves in the amount of EUR 47,326.02. In addition, the residual amount of the profit for 2017 in the amount of EUR 425,934.14, retained earnings in the amount of EUR 54,484,284.73, which are reduced by EUR 56,786.43 based on utilising the actuarial deficit for retirement benefits, and the release of other revenue reserves in the amount of EUR 12,931,561.56 are used for the formation of accumulated profit in line with the Companies Act, which stipulates that long-term deferred development costs must be on the balance sheet date treated as a deductible item. With respect to the aforesaid, the Company's accumulated profit is as at 31 December 2017 recorded at EUR 0.

	in EUR
Profit for the period	473,260.16
- formation of statutory reserves	-47,326.02
+ retained earnings from previous periods	54,484,284.73
- decrease in previous year's profits based on utilising the actuarial deficit for retirement benefits	-56,786.43
+ decrease in other revenue reserves	12,931,561.56
- long-term deferred development costs as at the balance sheet date	-67,784,994.00
= accumulated profit as at 31 December 2017	**0.00**

Note 35 – Provisions

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Provisions for warranties	37,437	33,322	7,586	4,489
Provisions for retirement benefits and jubilee premiums	22,497	22,641	12,766	12,640
Other provisions	4,209	3,923	588	379
Total	**64,143**	**59,886**	**20,940**	**17,508**

Gorenje Group and Gorenje, d.d.

Provisions for warranties are created on the basis of estimated costs of warranties calculated by taking into account the past known data on the quality level of products and the costs of repairs under warranties.

Reversal of provisions for warranties in the amount of EUR 4,389k primarily relates to the Company (EUR 2,252k) and the company Gorenje Vertriebs GmbH, Germany (EUR 1,840k). The improved quality level of products led to the reversal of provisions for warranties.

Movements in Group's provisions

	2016				2017			
EURk	**Provisions for warranties**	**Provisions for retirement benefits and jubilee premiums**	**Other provisions**	**Total**	**Provisions for warranties**	**Provisions for retirement benefits and jubilee premiums**	**Other provisions**	**Total**
Balance at 1 Jan	**35,598**	**21,684**	**4,987**	**62,269**	**37,437**	**22,497**	**4,209**	**64,143**
Use	-28,843	-1,818	-321	**-30,982**	-30,008	-1,658	-232	**-31,898**
Exchange differences	102	-4	-17	**81**	376	26	3	**405**
Reversal	-697	-204	-940	**-1,841**	-4,389	-599	-461	**-5,449**
Formation	31,220	2,863	767	**34,850**	29,906	2,494	404	**32,804**
Transfer	57	167	-267	**-43**	0	0	0	**0**
Disposal of companies	0	-191	0	**-191**	0	-119	0	**-119**
Balance at 31 Dec	**37,437**	**22,497**	**4,209**	**64,143**	**33,322**	**22,641**	**3,923**	**59,886**

Movements in Company's provisions

	2016				2017			
EURk	**Provisions for warranties**	**Provisions for retirement benefits and jubilee premiums**	**Other provisions**	**Total**	**Provisions for warranties**	**Provisions for retirement benefits and jubilee premiums**	**Other provisions**	**Total**
Balance at 1 Jan	**8,757**	**12,405**	**256**	**21,418**	**7,586**	**12,766**	**588**	**20,940**
Use	-8,525	-767	-204	**-9,496**	-6,329	-723	-312	**-7,364**
Reversal	0	0	-211	**-211**	-1,800	-427	-25	**-2,252**
Formation	7,354	1,128	747	**9,229**	5,032	1,024	128	**6,184**
Balance at 31 Dec	**7,586**	**12,766**	**588**	**20,940**	**4,489**	**12,640**	**379**	**17,508**

The change in provisions for retirement benefits and jubilee premiums is mostly attributable to the additional formation of such provisions based on an actuarial calculation that was conducted by Group companies also in 2017. Employee benefits expense and interest expense are recognised by the Group in its profit or loss in the amount of EUR 2,390k, whereby the actuarial surplus within the comprehensive income in the amount of EUR 65k.

The actuarial calculation is based on the required actuarial assumptions (discount rate, amount of retirement benefits and jubilee premiums, staff fluctuation, mortality tables and wage growth). The discount interest rate of 4.0% p.a. and the long-term wage growth of 1.5% p.a. are the two actuarial assumptions with the biggest impact on the valuation result of payables to employees.

Employee benefits expense and interest expense are recognised by the Company in its profit or loss in the amount of EUR 1,024k, whereby the actuarial surplus within the comprehensive income in the amount of EUR 77k.

Other provisions of the Group comprise mostly provisions for costs in connection with the Directive on Waste Electrical and Electronic Equipment recorded by the company ZEOS, d.o.o., Slovenia, whereas Company's other provisions include provisions for the product liability and compensation claims.

Note 36 – Deferred income

Gorenje Group

	2016		2017	
EURk	**Deferred income – government grants**	**Total**	**Deferred income – government grants**	**Total**
Balance at 1 Jan	**5,350**	**5,350**	**5,037**	**5,037**
Use	-4,490	-4,490	-4,429	-4,429
Exchange differences	-73	-73	203	203
Formation	4,250	4,250	6,752	6,752
Balance at 31 Dec	**5,037**	**5,037**	**7,563**	**7,563**

Note 37 – Non-current operating liabilities

Gorenje Group

Non-current operating liabilities in the amount of EUR 2,807k (31 December 2016: EUR 3,672k) largely refer to the long-term maintenance contracts concluded in connection with costs of repairs and product swap in the company Atag Nederland BV, the Netherlands.

Note 38 – Non-current financial liabilities

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Borrowings from banks	323,169	314,301	293,571	284,691
Transfer to current borrowings from banks	-78,700	-56,869	-66,924	-48,753
Borrowings from other companies	2,021	1,773	0	0
Transfer to current borrowings from other companies	-330	-420	0	0
Liabilities from bonds issued	43,593	48,524	43,593	48,524
Transfer to current liabilities from bonds issued	-14,600	-14,600	-14,600	-14,600
Other financial liabilities	463	311	12	0
Total	**275,616**	**293,020**	**255,652**	**269,862**

Gorenje Group and Gorenje, d.d.

Non-current financial sources are used by the Group to finance itself in more than a 92 percent stake through the Company. Non-current financial liabilities are mostly denominated in EUR and recorded at amortised cost i.e. restated under the effective interest rate method and inclusive of costs of granting the borrowing.

Other financial liabilities comprise liabilities under the finance lease.

Maturity of borrowings and liabilities from issued bonds

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Maturity from 1 to 2 years	77,688	108,112	72,305	101,482
Maturity from 2 to 4 years	130,484	131,591	123,770	124,163
Maturity from 4 to 6 years	60,761	51,407	56,405	44,217
Maturity exceeding 6 years	6,220	1,599	3,172	0
Total	**275,153**	**292,709**	**255,652**	**269,862**

Gorenje Group and Gorenje, d.d.
The Group maintains its long-term financial stability based on the fact that more than three quarters of total financial liabilities are of long-term nature. This is reflected also in the balance of non-current financial liabilities, which mature at the end of 2018 solely in the amount of EUR 71,840k.

Non-current borrowings and issued bonds by currencies

Currency/EURk	Gorenje Group	Gorenje, d.d.
EUR	282,155	261,862
Other currencies	10,554	8,000
Total	**292,709**	**269,862**

Gorenje Group and Gorenje, d.d.
Most of non-current financial liabilities are denominated in euro. With respect to the policy of the European Central Bank and other central banks, low inflation rate of the euro zone, as well as the low level of the euro-zone's base interest rate, the Group and the Company actively managed the interest rate risk arising in connection with borrowed funds bearing the Euribor variable interest rate and in a lesser extent also with other local variable reference interest rates.

Collateralisation of non-current financial liabilities

Collateralisation/EURk	Gorenje Group	Gorenje, d.d.
Bills	118,927	116,398
Financial covenants	256,002	237,118
Guarantees	21,088	0

Gorenje Group and Gorenje, d.d.
None of the Group's current or non-current financial liability is collateralised by mortgage or any other form of physical asset. A significant portion of Group companies' borrowings is collateralised by bills and the Pari-Passu and Negative Pledge clauses in compliance with individual contracts. Non-current borrowings, in particular, are frequently supported by financial covenants as defined in individual loan contracts.

The item of guarantees refers to guarantees or collaterals issued to banks for liabilities of individual Group companies by the Company, Gorenje Home, d.o.o., Serbia, Gorenje, d.o.o., Serbia, Gorenje Tiki, d.o.o., Serbia, and Gorenje aparati za domaćinstvo, d.o.o., Serbia.

Financial covenants are mostly checked once a year based on the audited consolidated financial statements for the individual financial year. None of borrowings raised by the Group are insured, most of loan contracts are subject to agreed-upon standard financial ratios that in addition to the debt ratio, where net financial liabilities to EBITDA must be lower than 4, includes also following financial covenants: interest ratio (EBITDA to net interest expenses must exceed 4), difference between total and minority owned equity must exceed EUR 220m, ratio between net financial debt and the difference between total and majority holding must be below 1.2).

In 2017, we have met all agreed financial covenants, except for the net financial debt/EBITDA ratio. Commercial banks have approved a waiver for the fiscal year 2017. Due to the breach of the stated covenant in 2017, the Group and the Company have issued to financial partners – for the purpose of enhancing its additional commitment to the set goal of lowering the Group's relative indebtedness – following additional covenants for 2018:

- divestment of non-core assets and assets in Other business segment in the minimum amount of EUR 50m aimed at generating EUR 80m that shall be used for deleveraging,
- adjusting the annual volume of investments with the amount of amortisation so that they shall not exceed EUR 65m,
- no dividend payout shall be proposed by the Company's Management Board,
- meetings with financial partners shall be organised on a quarterly basis.

In addition to the above-mentioned clauses and financial covenants, the loan contracts include also additional commitments that refer to financial indebtedness, disposal of assets, terms of early repayment, MAC clauses and similar, which the Group met in 2017 or in this respect received appropriate waivers from the bank partners. Certain loan contracts comprise also provisions tied to changing the Company's ownership and changing the Company's managing as the result of Company's management change. As at the balance sheet date, the relevant provisions are considered in EUR 165,879k of drawn borrowings, in the amount of up to EUR 24,838k at contracts for financing suppliers (working factoring), and up to EUR 5,967k in case of received guarantees and letters of credit; in a total amount of EUR 196,683k.

Note 39 – Current financial liabilities

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Borrowings from banks	1,032	15,859	0	10,000
Current part of non-current financial liabilities to banks	78,700	56,869	66,924	48,753
Borrowings from Group companies	0	0	63,322	64,290
Borrowings from other companies	1,159	146	1,011	33
Current part of non-current liabilities to other companies	330	420	0	0
Interest payable	2,308	1,660	2,425	1,898
Liabilities from bonds issued	14,600	14,600	14,600	14,600
Dividends payable	72	71	72	71
Other current financial liabilities	3,025	1,106	3,135	1,391
Total	**101,226**	**90,731**	**151,489**	**141,036**

Gorenje Group and Gorenje, d.d.

The largest share of Group's (EUR 71,889k) and Company's current liabilities (EUR 63,353k) to third parties refers to the current part of non-current financial liabilities (borrowings raised and issued bonds), which mature in 2018.

Current borrowings by currency

Currency/EURk	Gorenje Group	Gorenje, d.d.
EUR	84,261	122,189
Other currencies	3,633	887
Total	**87,894**	**123,076**

Gorenje Group and Gorenje, d.d.

Most of current or short-term borrowings are denominated in euro.

Company's borrowings received from Group companies operating in Slovenia

Company/EURk	2016	2017
Gorenje Gostinstvo, d.o.o., Slovenia	2,907	2,758
Gorenje I.P.C., d.o.o., Slovenia	6,274	3,737
Gorenje GAIO, d.o.o., Slovenia	0	0
Gorenje GSI, d.o.o., Slovenia	5,955	5,821
Gorenje design studio, d.o.o. – in liquidation, Slovenia	0	1,300
Energygor, d.o.o., Slovenia	183	83
ERICo, d.o.o., Slovenia	400	0
Gorenje Surovina, d.o.o., Slovenia	160	0
ZEOS, d.o.o., Slovenia	4,575	4,089
Gorenje Studio, d.o.o., Slovenia	84	0
Gorenje GTI, d.o.o., Slovenia	1,271	5,581
Kemis, d.o.o., Slovenia	1,080	900
Gorenje EKOINVEST, d.o.o., Slovenia	664	2,858
Total	**23,553**	**27,127**

Company's borrowings received from Group companies operating abroad

Company/EURk	2016	2017
ATAG Nederland BV, the Netherlands	16,397	18,273
Mora Moravia, s.r.o., Czech Republic	3,417	0
Asko Appliances AB, Sweden	1,897	1,234
Gorenje North America, Inc., USA	766	887
Gorenje spol. s r.o., Czech Republic	0	1,100
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1,800	1,800
Gorenje Magyarország Kft., Hungary	1,962	0
Gorenje Austria Handels GmbH, Austria	289	1,500
OOO Gorenje BT, Russia	10,000	10,000
Gorenje Slovakia s.r.o., Slovakia	3,241	1,892
Mora Moravia, s.r.o., Czech Republic	0	477
Total	**39,769**	**37,163**

Gorenje Group and Gorenje, d.d.

The liquidity is in the Group and the Company managed in a centralised manner, which enables that the Group is able to meet all its due liabilities at any time. Accordingly, the Group is engaged in internal financing, which is mostly conducted through the Company. Current surpluses of subsidiaries' financial assets are borrowed under market conditions to the Company, which discloses most of its total financial liabilities to external financial institutions.

Collateralisation of current financial liabilities

Collateralisation/EURk	Gorenje Group	Gorenje, d.d.
Bills	49,569	47,041
Financial covenants	53,963	48,753
Guarantees	12,471	0

Gorenje Group and Gorenje, d.d.

None of the Group's and Company's current financial liability is collateralised by mortgage or any other form of physical asset. A significant portion of Group companies' borrowings is collateralised by bills and the Pari-Passu and Negative Pledge clauses in compliance with individual contracts. A detailed description is provided in the section 'Collateralisation of non-current financial liabilities'.

Note 40 – Trade payables

	Gorenje Group		Gorenje, d.d.	
EURk	2016	2017	2016	2017
Trade payables – Group companies	0	0	38,261	72,933
Trade payables – other companies	223,725	229,402	139,473	139,681
Total	**223,725**	**229,402**	**177,734**	**212,614**

Supplier factoring was launched for the purpose of extending the turnover days for trade payables. The number of included key suppliers, whose payment deadlines were extended and thus the related supply volume, has grown materially in the last quarter of 2017, which will have a positive impact in 2018 on the amount of net working capital and thereby on the amount of net financial liabilities.

Gorenje Group

Within the total balance of trade payables in the amount of EUR 229,402k, the Group as at 31 December 2017 (31 December 2016: EUR 223,725k) does not record operating liabilities to members of the Management Board, members of the Supervisory Board and internal owners.

Company's trade payables to Group companies

EURk	2016	2017
Trade payables to suppliers in Slovenia	6,346	9,048
Trade payables to suppliers abroad	31,915	63,885
Total	**38,261**	**72,933**

Company's trade payables to Group companies (operating in Slovenia)

Company/EURk	2016	2017
Kemis, d.o.o., Slovenia	27	39
Gorenje Surovina, d.o.o., Slovenia	87	80
Gorenje I.P.C., d.o.o., Slovenia	4,760	6,869
Gorenje GTI, d.o.o., Slovenia	203	420
Gorenje Gostinstvo, d.o.o., Slovenia	165	308
Gorenje Orodjarna, d.o.o., Slovenia	916	951
ERICo, d.o.o., Slovenia	10	0
Gorenje design studio, d.o.o. – in liquidation, Slovenia	0	0
Gorenje GAIO, d.o.o., Slovenia	152	358
Gorenje GSI, d.o.o., Slovenia	1	5
ZEOS, d.o.o., Slovenia	0	46
Gorenje Keramika, d.o.o., Slovenia	0	4
Gorenje Studio, d.o.o., Slovenia	11	0
Indop, d.o.o., Slovenia	14	30
Gorenje HS, d.o.o., Slovenia	0	-62
Total	**6,346**	**9,048**

Company's trade payables to Group companies (operating abroad)

Company/EURk	2016	2017
Gorenje Zagreb, d.o.o., Croatia	16	0
Gorenje, d.o.o., Serbia	55	49
Gorenje aparati za domaćinstvo, d.o.o., Serbia	14,733	28,378
Gorenje Tiki, d.o.o., Serbia	2,901	2,197
Gorenje Vertriebs GmbH, Germany	349	247
Gorenje Austria Handels GmbH, Austria	0	0
Gorenje Beteiligungs GmbH, Austria	1,604	2,002
Asko Appliances AB, Sweden	2,316	2,459
Gorenje Group Nordic A/S, Denmark	666	396
ATAG Nederland BV, the Netherlands	1,426	1,352
Gorenje Nederland BV, The Netherlands	255	0
Gorenje UK Ltd., Great Britain	5	1
Gorenje France S.A.S., France	3	0
Gorenje Körting Italia S.r.l., Italy	91	252
Gorenje Slovakia s.r.o., Slovakia	7	0
Gorenje spol. s r.o., Czech Republic	713	216
Mora Moravia, s.r.o., Czech Republic	4,971	24,919
Gorenje Magyarország Kft., Hungary	23	13
Gorenje Polska Sp. z o.o., Poland	20	2
Gorenje Romania S.r.l., Romania	1	21
Gorenje Gulf FZE, United Arab Emirates	143	3
Gorenje Istanbul Ltd., Turkey	38	0
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1	7
Gorenje Home, d.o.o., Serbia	840	489
Gorenje real spol s r.o., Czech Republic	0	0
Gorenje TOV, Ukraine	52	24
Gorenje Asia Ltd., China	92	599
Asko Appliances Pty, Australia	234	71
Gorenje North America, Inc., USA	20	17
OOO Gorenje BT, Russia	88	23
Gorenje Kazakhstan, TOO, Kazakhstan	35	64
Gorenje Bulgaria EOOD, Bulgaria	7	21
Gorenje MDM, d.o.o., Serbia	31	0
Gorenje Studio, d.o.o., Serbia	103	0
Asko Appliances OOO, Russia	71	15
Gorenje Skopje, d.o.o., Macedonia	3	7
Gorenje Podgorica, d.o.o., Montenegro	0	13
Revaluation	2	28
Total	**31,915**	**63,885**

Company's trade payables to other suppliers

EURk	2016	2017
Trade payables to other suppliers in Slovenia	44,621	39,591
Trade payables to other suppliers abroad	94,852	100,090
Total	**139,473**	**139,681**

Supplier factoring was launched for the purpose of extending the turnover days for trade payables. The number of included key suppliers, whose payment deadlines were extended and thus the related supply volume, has grown materially in the last quarter of 2017, which will have a positive impact in 2018 on the amount of net working capital and thereby on the amount of net financial liabilities.

Note 41 – Other current liabilities

	Gorenje Group		Gorenje, d.d.	
EURk	2016	2017	2016	2017
Payables to employees	14,922	15,226	7,761	8,348
Payables to state and other institutions	13,866	16,403	1,140	1,795
Accrued costs and expenses	35,143	41,935	7,356	6,671
Other financial liabilities	15,632	14,188	4,241	3,510
Total	**79,563**	**87,752**	**20,498**	**20,324**

Gorenje Group and Gorenje, d.d.
Payables to employees and to the state arising from contributions and taxes refer to wages and salaries, which are accounted for December and paid out in January the following year.

Accrued costs and expenses were formed for accrued discounts to buyers, accrued interest expenses, accrued employee benefits expense and other accrued costs of services.

Group's other current liabilities comprise payables for advances received, short-term deferred income, payables for credit notes granted to buyers, payables for employee deductions, payables arising from assignment of receivables, payables arising from payment of foreign tax, and other short-term liabilities.

Company's other current liabilities include payables for advances received, liabilities arising from unpaid portion of non-cash investment contribution in the company Gorenje Home, d.o.o., Serbia, and short-term deferred income.

Note 42 – Contingent liabilities

Gorenje Group and Gorenje, d.d.

Group's contingent liabilities in the amount of EUR 82,846k (2016: EUR 66,111k) relate in the amount of EUR 72,351k to guarantees obtained at banks and other financial institutions, issued in order to insure Group companies' contract obligations to business partners outside the Group. EUR 67,073k thereof represent guarantees issued by companies Kemis, d.o.o., Slovenia, Gorenje Surovina, d.o.o., Slovenia and Zeos, d.o.o., Slovenia for the purpose of insuring the transport of hazardous waste, waste disposal and similar. Other guarantees issued in the amount of EUR 5,278k include service-related guarantees, while EUR 2,995k of thereof were issued for the fulfilment of conditions for utilisation of government grants for employment in Serbia. The difference between contingent liabilities and the total amount of EUR 10,495k mainly refers to the shipping transport of coal, which will no longer be required in 2018 as the coal activity is to be disposed.

In accordance with the ordinary business practice, the Atag company is not liable to publish its annual results of operation in the country, where its corporate seat is, if the shareholder, in a special statement, assumes liability to pay any outstanding obligations of the company. The respective statement shall remain in effect until rescinded by the shareholder.

In a separate account the Company discloses contingent liabilities arising under guarantees provided to financial institutions in order to obtain borrowings, guarantees and letters of credit of subsidiaries in the amount of EUR 51,777k (2016: EUR 43,042k), associates in the amount of EUR 281k (2016: EUR 169k) and other companies in the amount of EUR 10,214k (2016: EUR 11,384k). As for other companies, the guarantees in the amount of EUR 10,006k relates to the shipping transport of coal. The respective guarantees within the Group represent the usual practice in obtaining loans. In addition, contingent liabilities from performance bonds and payment guarantees in the amount of EUR 3,210k (2016: EUR 2,758k) are recorded in a separate account.

Note 43 – Financial risks and financial instruments

The Group and the Company are exposed to numerous financial risks, including particularly the credit risk, the liquidity risk, the currency risk, the interest rate risk and other risks arising on changed market conditions.

With respect to financial risk management, several internal policies and rules are defined by means of which the financial risks are managed in a centralised manner. The Company pursues a centralised financial policy within the framework of corporate rules and conducts the financial risk management on the Company and Group level. While managing financial risks, following objectives are observed:

- to achieve stability of operations and to reduce exposure to individual risks to an acceptable level,
- to increase the value of Company and Group,
- to improve the credit rating of Company and Group,
- to reduce net finance costs of Company and Group, and
- to minimise the impacts of the materialised critical risks.

The exposure to each individual type of financial risk and the effective hedge measures are judged and applied respectively on the basis of their effects on Company's and Group's cash flows and net finance costs and the adopted annual business plan. The risk management principles and methodologies applied are in detail outlined in the annual report's business report under 'Risk management'. Essential financial risks that are regularly assessed and the adequacy of implemented measures tested are outlined in detail below.

The Group and the Company apply derivatives for hedging against currency and interest rate risks. Upon the launch of hedging, the Group and the Company formally document the relationship of the hedging and the purpose of the risk management in the company, as well as the hedging project's strategy and the methods used in assessing the effectiveness of the hedging relationship. The Group and the Company assess the hedging on an ongoing basis and during its launch, thus when the hedging is expected to be "highly effective" in offsetting the changes in the fair value or cash flows that are attributable to the hedged risk, and when the actual results of each hedging achieve 80 to 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum credit risk exposure at the reporting date:

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Available-for-sale financial assets	2,247	1,743	1,617	1,321
Loans	8,098	7,967	139,920	139,641
Trade and other receivables	213,119	230,626	141,586	168,435
Deposits	236	667	0	0
Other financial receivables	4,803	1,165	6,988	10,147
Cash and cash equivalents	35,242	25,037	14,743	3,484
Total	**263,745**	**267,205**	**304,854**	**323,028**

Gorenje Group and Gorenje, d.d.

Special attention is paid to managing credit risks. They are balanced through regular control of required and approved credit limits, approved by credit insurance companies, the appropriate collection of receivables, and regular communication with credit insurance companies and business partners. We have also launched the system of permanent recourse-free factoring, which is carried out when costs of such activities do not exceed the Group's average costs of financing or when these activities are used to reduce credit and currency risks. The balance of bad debts is reviewed and analysed on an on-going basis, and proper measures are implemented (e.g. collection, collection of insurances, adjustment of supplies to the approved credit limits and credit ratings of customers). We have a strict set of rules about credit risk management, including the defined acceptable instruments of insurance, levels of acceptable exposure to individual customers and markets. The rules of credit risk management are upgraded in a manner to ensure the highest possible stability of Group's business operations.

Trade receivables form the Group's most significant portion of credit risks or risk of default by the counterparty. As at the year-end of 2017, these trade receivables amounted to EUR 180,517k and indicate an increase over the previous period by EUR 14,731k. The higher volume of trade receivables is in line with the higher volume of sales activities and lower sale of receivables in Russia in the last quarter of 2017.

Trade receivables, as well, form the Company's most significant portion of credit risks or risk of default by the counterparty. As at the year-end of 2017, these trade receivables amounted to EUR 50,995k and indicate an increase over the previous period by EUR 3,130k. The respective increase is the result of the changed business model since the beginning of June 2017. Since then most of sales from Group production companies of the Domestic Appliances segment to subsidiaries and directly to other companies are now conducted via the Company.

The credit risk exposure of trade receivables at the reporting date by geographic region:

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
West	39,517	44,642	28,138	26,272
East	105,908	115,418	65,388	96,199
Other	20,361	20,457	37,334	36,160
Total	**165,786**	**180,517**	**130,860**	**158,631**

The credit risk exposure of trade receivables at the reporting date by type of customer:

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Wholesale	130,545	141,799	129,774	156,271
Retail sale	27,579	31,146	529	1,881
Other	7,662	7,572	557	479
Total	**165,786**	**180,517**	**130,860**	**158,631**

Gorenje Group and Gorenje, d.d.

In the wake of geographic diversity, a large number of Group's customers are primarily legal entities from worldwide, and to lesser extent, in the retail segment, also individuals. In general, business is carried out solely with buyers that boast of a proper credit rating, which is monitored on a regular basis. The Accounts Receivable Management Policy, which defines the relevant management processes, persons in charge, and instruments allowed for hedging against credit risks, provides the compulsory framework for rules and policies on accounts receivable management that were adopted and integrated by Group companies.

The substantial part of revenue is generated on transactions with subsidiaries (71.9%). The default risk on the side of the counterparty under these receivables is thereby minimal. With respect to the transactions with other, non-Group companies, we act in compliance with the accounts receivable management policies adopted on the Group level.

Maturity of Group's trade receivables as at the balance sheet date

EURk	Gross value 2016	Allowance 2016	Gross value 2017	Allowance 2017
Not past due	138,986	0	147,391	0
Past due 1 to 50 days	19,513	0	24,553	0
Past due 51 to 100 days	2,933	0	3,258	0
Past due 101 to 180 days	1,823	0	2,642	0
Past due 181 to 270 days	1,197	0	1,262	0
Past due 271 to 360 days	833	0	1,064	0
Past due 361 to 720 days	1,995	0	1,346	0
Past due 721 to 1081 days	2,826	0	844	0
Past due over 1081 days	23,319	0	23,108	0
Accumulated allowances for receivables	0	-27,639	0	-24,951
Total	**193,425**	**-27,639**	**205,468**	**-24,951**

Maturity of Company's trade receivables as at the balance sheet date

2016 EURk	Gross value (Group companies)	Gross value (other companies)	Total gross value	Total allowance
Not past due	76,461	40,943	117,404	0
Past due 1 to 50 days	892	5,279	6,171	0
Past due 51 to 100 days	1,194	551	1,745	0
Past due 101 to 180 days	1,680	214	1,894	0
Past due 181 to 270 days	1,300	327	1,627	0
Past due 271 to 360 days	289	299	588	0
Past due 361 to 720 days	231	200	431	0
Past due 721 to 1081 days	888	413	1,301	0
Past due over 1081 days	1,611	5,615	7,226	0
Accumulated allowances for receivables	0	0	0	-7,527
Total	**84,546**	**53,841**	**138,387**	**-7,527**

2017 EURk	Gross value (Group companies)	Gross value (other companies)	Total gross value	Total allowance
Not past due	99,247	39,621	138,868	0
Past due 1 to 50 days	268	8,892	9,160	0
Past due 51 to 100 days	2,398	827	3,225	0
Past due 101 to 180 days	1,439	883	2,322	0
Past due 181 to 270 days	682	156	838	0
Past due 271 to 360 days	3,228	97	3,325	0
Past due 361 to 720 days	353	660	1,013	0
Past due 721 to 1081 days	0	149	149	0
Past due over 1081 days	1,572	5,576	7,148	0
Accumulated allowances for receivables	0	0	0	-7,417
Total	**109,187**	**56,861**	**166,048**	**-7,417**

Movements in allowances for trade receivables

	Gorenje Group		Gorenje, d.d.	
EURk	2016	2017	2016	2017
Opening balance at 1 Jan	**28,401**	**27,639**	**7,434**	**7,527**
Exchange differences	-185	-690	0	0
Impairment	3,235	2,076	255	142
Decrease in allowances	-314	-623	-122	-152
Changes within the Group	-691	-92	0	0
Final write-off of receivables	-2,807	-3,359	-40	-100
Closing balance at 31 Dec	**27,639**	**24,951**	**7,527**	**7,417**

Gorenje Group and Gorenje, d.d.

Group's partners are impacted by the ever-changing macroeconomic environment that can also result in a swift turn-around of the credit rating and liquidity of the individual Group's business partner. Regardless of implementing the receivables management process within the Group, default on the side of customers or even their inability to settle their payments exists. With respect to the Group's dispersed sales model that is not subject to high concentration of receivables per individual customer or customers related through mutual ownership, we assess that the Group's exposure to credit risk is moderate. None of the customer or group of customers related through mutual ownership exceed 10% or more in the Group's total sales generated, whereby also the exposure to an individual customer or groups of customers does not exceed 10% of Group's receivables.

All customers are included into the credit control process, which covers also collateralization of receivables with acceptable hedging instruments. Following hedging instruments are considered as qualitative according to the accounts receivable management policy:

- collateralization of receivables through credit insurance companies (with included own share),
- collateralization of receivables through bank guarantees and letters of credit,
- sale of receivables without recourse,
- in exceptional circumstances and upon receiving special approval, also pledges or first class mortgages,
- counterpart, equivalent liability to the same business partner.

Group's share of receivables secured with quality derivatives is increasing in the past years and as at the end of 2017 accounted for 73.3% or 7.5 p.p. more than at the year-end of 2016. By the end of 2017, Company's total receivables to independent buyers secured with acceptable hedging instruments accounted for 60.2%. The share of secured receivables was increased relative to the year-end of 2016 by 5.8 p.p. Most of receivables are secured by the SID – Prva kreditna zavarovalnica, a smaller part with credit insurance companies on individual local markets, and other acceptable hedging instruments. It should be noted that a minor portion of customers, approved under a special procedure, is unsecured as these customers have an excellent credit rating that is monitored on an ongoing basis. We apply counter-trade with most of the unsecured receivables, whereby there are also numerous smaller customers that are dispersed and therefore the credit risk with an individual customer is low.

In compliance with the financing policy, the Company primarily finances its subsidiaries. Loans recorded as at 31 December 2017 (EUR 139,431k) largely include loans extended to subsidiaries (EUR 132,639k) and as such do not cause essential risks. Loans given to entities outside the Group are reduced from year to year and in part secured with acceptable hedging instruments. The value of loans, approved to companies outside the Group, amounted as at the end of 2017 to EUR 6,792k and shows a decline by 11.7% relative to 2016.

The Group and the Company carefully monitor the credit risk also in other business segments. Current surplus of assets and bank balances at commercial banks are placed in compliance with credit risk management policies, which includes the methodology for selecting acceptable counterparties on the financial area. These policies determine also the methodology for selecting acceptable clients when entering into derivative financial instruments.

As a result of the launched receivables management procedures, the credit risk is assessed as moderate. The highest credit risk exposure arises in connection with the value of trade receivables and other receivables.

Liquidity risk (Solvency risk)

Liquidity risk includes risks denoting the lack of available funds and consequently risk that the Group and Company will fail to meet commitments in stipulated period of time. Liquidity depends on effective net working capital management, cash management, investment dynamics and the sale of assets. Providing for Group's and Company's liquidity is inseparable due to the organisation and manner of Group's business operations and management. Thus, special attention is earmarked to the centralised balancing and managing of cash flows and liquidity in a manner providing that all Group companies are able to meet all due liabilities at any given time.

Liquidity risk is actively monitored within the Group and the Company by means of a centralised balancing of assets' liquidity (primarily cash, trade receivables and inventories), of liabilities (mostly trade payables and financial liabilities) and cash flows from operating and investment activities. We are qualitatively managing the risk of short-term liquidity by means of approved revolving credit lines per Group companies, approved bank account overdrafts, and bank balances at commercial banks.

The cash management is centralised, supported by a software solution for planning and daily monitoring of cash flows on the Group level. Considerable attention is accorded to the compilation of the cash flow plan and its monitoring. A successful liquidity planning is also provided through an optimum management of possible current surpluses or deficits in available funds.

The net working capital management is primarily focusing on reducing the tied-up financial assets and thereby lowering Group's financial liabilities, consequently reducing the liquidity risk. Policies are adopted on the Group level but are implemented on the level of the Group, the Company, as well as all other Group companies:

- the policy of inventories' constant lowering is implemented in order to optimise them (via reducing the number of appliances codes, improved sales forecasting and production planning, optimising all elements of the supply chain, etc.),
- the risk management policy is strictly observed with trade receivables, in addition to permanent non-recourse factoring,
- suppliers to the Group are in case of operating liabilities and in exchange for extended payment deadlines offered the participation in a favourable price reverse factoring model for receivables recorded due from the Group.

The Company applies a uniform and centralised approach to bank partners in Slovenia and abroad, and on its basis provides for the optimum indebtedness of the entire Group not only in view of scope, costs and maturity, but also in the light of the Group's currency balance.

In order to finance the interim business cycle and disperse the sources of financing, Gorenje already for the fifth time successfully issued short-term commercial papers in 2017 in the total par value of EUR 39,526k. The short-term issues of commercial papers that is to be continued also in 2018 (the sixth issue of short-term commercial papers in the par value of EUR 11,534k was carried out in early February 2018), are earmarked for balancing the seasonal dynamics of generating cash flows from operating and investing activities, which as a rule is negative in the first quarter while gradually improving by the end of the last quarter via the release of the tied-up net working capital, is quite positive.

The short-term imbalance of cash flows is additionally balanced by revolving loans and overdrafts on bank accounts in Slovenia and abroad. We have obtained EUR 40m of long-term revolving lines in 2017 and thereby improved the flexibility of balancing cash flows and simultaneously enhanced the Group's financial stability.

The Group's liquidity reserve amounted as at the year-end to EUR 100,846k (Company's was recorded at EUR 43,402k). The liquidity reserve consists of the undrawn portion of approved short-term and long-term credit lines (EUR 75,809k referring to the Group and EUR 39,917k to the Company) and available bank balances (EUR 25,037k relating to the Group and EUR 3,485k to the Company). The liquidity reserve is earmarked for short-term balancing of cash flows and significantly reduces the Group's and Company's liquidity risk.

Liquidity reserve as at 31 December

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Undrawn and approved current and non-current borrowings	85,154	75,809	39,974	39,917
Cash and cash equivalents	35,242	25,037	14,743	3,485
Total	**120,396**	**100,846**	**54,717**	**43,402**

Financial stability of the Gorenje Group and Gorenje, d.d.

The process of ensuring a stable maturity structure of the Group's financial debt was continued in 2017, in addition to reducing the costs of financing, by means of which all Group's borrowings, which gradually matured in 2017, were replaced by non-current sources. We have within this process:

- maintained a stable structure of the maturity of Group's financial liabilities – at the year-end of 2017, Group's non-current financial liabilities accounted for 76.4% of total financial liabilities (78.6% of Company's total financial liabilities);
- reduced the average costs of financing the Group, measured in terms of interest expenses to others, by 15.2% (11.3% in the Company);
- obtained EUR 40m of non-current revolving lines by the Company and thus enhanced the Group's and Company's stability;
- ensured a sustainable scope of refinancing required on the Company and Group level. EUR 71,840k of non-current financial liabilities will accordingly mature in 2018, which is essentially less than in the previous year. The repayment dynamics is harmonised with seasonal movements of generating free cash flows from operating activities. Thus, solely EUR 8,448k of non-current financial liabilities become past due in the first five months of 2018;
- ensure preconditions that sources for repaying the maturing borrowings in 2018 will be mostly obtain from inflows arising on divestment through 2018. In accordance with the strategic policy of focusing on the core activity, we study the possibility of divesting the activities and companies of the Other Business segment, and continue with the sale of non-core assets. We have in the last quarter of 2017 accordingly started with the procedure of divesting the company Gorenje Surovina, d.o.o., Slovenia and its subsidiaries, which is led in cooperation with a distinguished international financial advisor. The formal procedure of divesting the production and sales of heating appliances (Gorenje Tiki, d.o.o., Serbia) shall be launched in the first quarter of 2018.

The Company and the Group have a long-term servicing plan for financial liabilities which is being regularly updated.

The maturity of Group's financial liabilities is prepared on the basis of contractual cash flows and presented below:

31 December 2016

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	324,201	350,417	89,505	70,679	162,018	28,215
Borrowings from others	3,180	3,262	1,673	382	774	433
Liabilities arising from bonds issued	43,593	46,329	16,005	15,443	14,881	0
Other financial liabilities	2,843	2,843	2,843	0	0	0
Trade and other payables	271,817	271,817	271,817	0	0	0
Total	**645,634**	**674,668**	**381,843**	**86,504**	**177,673**	**28,648**
Derivative financial liabilities						
Interest rate swaps	-1,494	-2,291	-765	-633	-837	-56
Forward exchange contracts used for hedging	-1,015	-1,015	-1,015	0	0	0
Total	**-2,509**	**-3,306**	**-1,780**	**-633**	**-837**	**-56**

31 December 2017

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	330,160	347,022	79,579	98,443	160,777	8,223
Borrowings from others	1,919	1,955	748	324	595	288
Liabilities arising from bonds issued	48,524	51,926	15,920	15,358	20,648	0
Other financial liabilities	2,042	2,042	2,042	0	0	0
Trade and other payables	278,025	278,025	278,025	0	0	0
Total	**660,670**	**680,970**	**376,314**	**114,125**	**182,020**	**8,511**
Derivative financial liabilities						
Interest rate swaps	-801	-9,583	-844	-1,861	-6,863	-15
Forward exchange contracts used for hedging	-160	-160	-160	0	0	0
Total	**-961**	**-9,743**	**-1,004**	**-1,861**	**-6,863**	**-15**

The maturity of Company's financial liabilities is prepared on the basis of contractual cash flows and presented below:

31 December 2016

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	293,571	315,035	74,516	64,345	152,462	23,712
Liabilities arising from bonds issued	43,593	46,329	16,005	15,443	14,881	0
Borrowings from related entities and third parties	64,333	66,263	66,263	0	0	0
Other financial liabilities	2,636	2,636	2,636	0	0	0
Trade payables	177,734	177,734	177,734	0	0	0
Other current liabilities	13,142	13,142	13,142	0	0	0
Total	**595,009**	**621,139**	**350,296**	**79,788**	**167,343**	**23,712**
Derivative financial receivables and liabilities						
Interest rate swaps	-1,517	-2,159	-756	-598	-768	-37
Forward exchange contracts used for hedging	-336	-336	-336	0	0	0
Outflows	-1,770	-1,770	-1,770	0	0	0
Inflows	1,434	1,434	1,434	0	0	0
Total	**-1,853**	**-2,495**	**-1,092**	**-598**	**-768**	**-37**

31 December 2017

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	294,691	309,632	64,930	91,857	149,642	3,203
Liabilities arising from bonds issued	48,524	51,925	15,920	15,358	20,647	0
Borrowings from related entities and third parties	64,323	66,256	66,256	0	0	0
Other financial liabilities	2,231	2,231	2,231	0	0	0
Trade payables	212,614	212,614	212,614	0	0	0
Other current liabilities	13,653	13,653	13,653	0	0	0
Total	**636,036**	**656,311**	**375,604**	**107,215**	**170,289**	**3,203**
Derivative financial receivables and liabilities						
Interest rate swaps	-862	-9,457	-808	-1,832	-6,810	-7
Forward exchange contracts used for hedging	-82	-82	-82	0	0	0
Outflows	-267	-267	-267	0	0	0
Inflows	185	185	185	0	0	0
Total	**-944**	**-9,539**	**-890**	**-1,832**	**-6,810**	**-7**

Gorenje Group and Gorenje, d.d.

Contractual cash flows arising on Group's non-derivative financial and operating liabilities, which fall due in one year or less, amounted as at the year-end of 2017 to EUR 376,314k and indicate a decrease by EUR 5,529k over the equivalent ones as at the end of 2016. Contractual cash flows arising on Company's non-derivative financial and operating liabilities, which fall due in one year or less, amounted as at the year-end of 2017 to EUR 375,604k and indicate an increase by EUR 25.308k over the equivalent ones as at the end of 2016. The Company's largest portion of increased contractual cash flows results from higher volume of bank borrowings due centralising financing and balancing of Group's liquidity and a higher level of trade payables.

Higher cash flows from trade and other payables (EUR +6,208k referring to the Group and EUR +35,391k to the Company), whose maturity is shorter or equals one year, are the result of Group's increased operating activities in the last quarter and thus the related higher volume of purchased material and raw materials for production. Non-derivative financial liabilities (borrowings, bonds), whose maturity is shorter or equals one year, declined by EUR 10,936k on the Group level and by EUR 9,671k in the Company. Contractual cash flows, whose maturity is longer than a year and which remained on the same level as at the year-end of 2016, were recorded at EUR 304,656k by the Group and in the amount of EUR 280,707k by the Company.

As at 31 December 2017, the Group disclosed liabilities arising from the fair value of derivatives for currency risks relating to banks in the amount of EUR 961k and the Company in the amount of EUR 944k. Company's other current financial liabilities comprise the liability to Group companies arising from the already realised derivatives that the Company enters into on their behalf.

In order to hedge cash flows against interest rate fluctuations, the Group and the Company concluded interest rate swap contracts that mature in 2022; each individual contract documents the relation between the derivative and the hedged category. Fair value of these concluded interest rate swap contracts is recognised directly in the fair value reserve of the derivative in the comprehensive income and amounts to EUR -801k. The total value of all instruments for hedging against interest rate fluctuations (EURIBOR) for the period until 2022 amounted as at 31 December 2017 to EUR 444,454k.

Other current financial liabilities comprise the liability to Group companies arising from the already realised derivatives that the Company enters into on their behalf.

Group's and Company's liquidity risk is assessed as moderate in view of Group's normal business operations and achieved projected business results by means of implementing proper measures in the field of credit risk management, implemented measures within restructuring the debt maturity structure and the achieved amount of matured non-current liabilities in 2018, as well as the centralised planning and management of short-term and long-term cash flows, and access to a wide range of financial and bank partners.

Currency risk

Gorenje Group and Gorenje, d.d.

With regard to diversification of its international business operations, the Gorenje Group is exposed to currency risk, which is the risk that the economic benefits of the Group may be decreased due to changes in foreign exchange rates against its functional currency (EUR). The largest currency risk arises from Gorenje's business operations in the markets of Russia, all US dollar markets, Serbia, Croatia, Australia, Poland, Hungary, Romania, Ukraine, Great Britain and the Czech Republic. Group's balance sheet discloses a surplus of assets over liabilities in the stated currencies, which is treated as a long-term currency position. Receivables due from end buyers and payables to suppliers are key accounting categories that form the currency position.

The Currency Risk Management Policy was defined in the Group and the Company, which among others stipulates following:

- the methodology for measuring currency risk exposure,
- competencies and responsibilities within currency risk management,
- manners and required scope of hedging against currency risk,
- instruments acceptable for hedging against currency risk,
- acceptable partners for implementing currency-risk hedges,
- the method of measuring the effectiveness of currency risk management.

We apply a centralised policy of exchange rate hedging within the policy of managing Group's currency risks. We are exposed to changes in local currencies against the euro, which is the Group's main functional currency. This exposure is measured and managed in connection with cash flows planned in the annual period, and the revaluation of balance sheet items expressed in local currencies. The fundamental goal of currency risk management lies in hedging against the business plan's exposure by minimising the adverse impact of exchange rate fluctuations on the Group's net profit or loss and cash flows and thereby also the Company's.

Currency risks are to the greatest extent possible minimised through natural cash flow balancing for each currency that, mostly in case of companies is impossible to be fully implemented. In order to hedge against currency risks we use the balancing of cash flows and balance sheet items as much as possible and are seeking additional possibilities for increasing the scope of natural hedging. We systematically apply short-term forward exchange contracts for most of the currencies that are not part of the euro zone in order to hedge transactions against currency risk. In the medium term, we hedge against currency risk by adjusting sales prices on an on-going basis, by applying cost optimisation and by means of increasing natural hedging on the purchase/sale side.

The Company enters into hedging instruments on its own behalf and on behalf of other Group companies, and transfers these instruments on a contract basis to companies that are locally exposed to such risk. Subsidiaries also enter into hedging instruments on local markets but in limited scope, whereby the parent company provides adequate support and credit limits with acceptable partners. The centralised approach to credit risk management has shown more optimum hedging results.

Due to the Group's sales model, where the currency risk is mostly born by individual companies, the Company is in a limited scope exposed to currency risks, where Company's economic benefits may decline as a result of the changed exchange rate for an individual currency. In 2017, the Company's currency risks accordingly originated mostly from the performance of business activities in the US dollar markets, whereas the volume of supplies is higher than the volume of sales exposure to other currencies is insignificant. When managing the currency risk, particularly in the US dollar markets, greater attention was paid to natural hedging of currency risk and the harmonisation of business operations to ensure the Company long-term decline in currency fluctuation exposure, thus by means of balancing sales and purchases.

Group's exposure to currency risk is as follows:

31 December 2016

EURk	EUR	RUB	USD	HRK	RSD	CZK	Other currencies
Trade receivables	99,879	12,139	6,416	12,407	14,626	3,464	16,855
Financial liabilities	-363,374	0	0	0	-7,495	0	-105
Trade payables	-195,289	-598	-2,849	-1,209	-12,933	-5,411	-5,436
Financial position exposure	**-458,784**	**11,541**	**3,567**	**11,198**	**-5,802**	**-1,947**	**11,314**

31 December 2017

EURk	EUR	RUB	USD	HRK	RSD	CZK	Other currencies
Trade receivables	111,896	14,294	2,855	12,473	18,115	3,096	17,788
Financial liabilities	-374,358	0	0	0	-6,090	0	-155
Trade payables	-200,370	-1,543	-5,551	-1,260	-11,720	-4,658	-4,300
Financial position exposure	**-462,832**	**12,751**	**-2,696**	**11,213**	**305**	**-1,562**	**13,333**

*EUR is the Group's functional currency and represents no currency risk

Company's exposure to currency risk is as follows:

31 December 2016

EURk	EUR	SEK	PLN	RUB	USD	GBP	Other currencies
Trade receivables	122,531	0	1,377	0	5,848	890	214
Financial liabilities	-400,731	0	0	0	-766	0	0
Trade payables	-174,585	-476	-1	-161	-2,416	-5	-90
Financial position exposure	**-452,785**	**-476**	**1,376**	**-161**	**2,666**	**885**	**124**

31 December 2017

EURk	EUR	SEK	CZK	RSD	USD	GBP	Other currencies
Trade receivables	148,414	15	1,674	5,497	3,034	0	-3
Financial liabilities	-410,011	0	0	0	-887	0	0
Trade payables	-199,498	-396	-4,135	-3,623	-4,874	-42	-46
Financial position exposure	**-461,095**	**-381**	**-2,461**	**1,874**	**-2,727**	**-42**	**-49**

Significant exchange rates applied in 2016 and 2017 comprise:

By EUR 1	31 Dec 2016	31 Dec 2017
HRK	7,5597	7,4400
CZK	27,0210	25,5350
SEK	9,5525	9,8438
DKK	7,4344	7,4449
RSD	123,6000	118,6600
PLN	4,4103	4,1770
RUB	64,3000	69,3920
USD	1,0541	1,1993
CHF	1,0739	1,1702
GBP	0,8562	0,8872

Sensitivity analysis

A 5 percent change in the euro's value against the above stated currencies as at 31 December would have resulted in an increase (decrease) in profit or loss of the period by the amounts shown through exchange differences from revaluation of balance sheet items in the below currencies. This analysis assumes that all other variables, in particular interest rates remain unchanged. Cash flows' exposure in individual currencies on the annual level is limited with the use of interim currency risk management methods (adjustment of input and output prices) and the use of derivatives (forward exchange contracts). The interim cash flows' exposure to currency risks is uniform with most currencies, except in case of the Russian rouble, where the exposure materially grows in the last quarter; the aforesaid risk is managed by means of systematically entering into forward exchange contracts and with sales price adjustments in case of significant market changes.

Profit or loss for the period

	Gorenje Group		Gorenje, d.d.	
EURk	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017
RUB	-577	-638	8	0
USD	-178	135	-133	92
HRK	-560	-561	0	0
RSD	290	-15	0	-94
CZK	97	78	0	123
GBP	0	0	-44	0
SEK	0	0	24	19
PLN	0	0	-69	0
Other currencies	-566	-667	-6	3

Gorenje Group and Gorenje, d.d.

A 5 percent decrease in the euro's value against the above stated currencies as at 31 December would have had equal yet opposite effect, provided that all other variables remain unchanged.

Regardless the implemented hedging measures and in the light of significant currency fluctuations on world markets, we assess that the Group's exposure to currency risks is high. Company's exposure to currency risks is, however, assessed as low.

Interest rate risk

Gorenje Group and Gorenje, d.d.

Financing of Company's and Group's current operations and their investment activities is subject to interest rate risk as most of borrowings raised bear the Euribor variable interest rate, in lesser extent also the local reference interest rate. Thus, exposure to interest rate risk represents primarily the unfavourable movement (increase) of the Euribor variable interest rate that applies to Group's financial liabilities. Major portion of financial liabilities is subject to a variable interest rate that is bound by the 3-month or 6-month Euribor.

Given the policy of the European Central Bank and other central banks, and the low inflation rate in the euro zone and the related euro-zone's low level of the base interest rate, the Group actively managed the interest rate risks referring to the leased funds bearing the variable Euribor interest rate, and in a lesser extent also to other local variable reference interest rates.

Exposure to interest rate risk:

	Gorenje Group		Gorenje, d.d.	
EURk	**2016**	**2017**	**2016**	**2017**
Fixed-rate financial instruments				
Financial assets	4,311	7,967	139,913	139,591
Financial liabilities	119,143	116,639	179,402	180,910
Variable-rate financial instruments				
Financial assets	3,787	0	0	0
Financial liabilities	251,831	263,964	226,880	226,880

Gorenje Group and Gorenje, d.d.
The table is exclusive of non-interest bearing financial assets and non-interest bearing financial liabilities.

Interest structure of financial assets and financial liabilities is not customized as Group's and Company's financial liabilities considerably exceed the interest-bearing assets. The share of financial liabilities bearing a fixed interest rate declined in 2017 by EUR 2,504k (increased in the Company by EUR 1,508k).

With the purpose to hedge against interest rate risk, the Group applies derivatives by means of which it ensures long-term stability of the reference interest rate. When deciding on hedging, the Group takes into account the forecasts for interest rate fluctuations and the efficiency of the hedging instruments. Due to the estimate on the suitable macroeconomic situation and in light of the interest rate risk management, the Group and the Company provided for a long-term stability of the interest rates' variable part based on concluding EUR 290m worth of interest rate swaps (IRS) during the third quarter of 2017 for the period from 2019 to 2022.

As at 31 December 2017, non-derivative financial liabilities bearing a fixed interest rate account in the Group 30.6% (in the Company 34.4%) of the total interest-bearing financial liabilities, which is 1.5 p.p. less (in Company 0.3 p.p. more) that at the year-end of 2016. The value of Group's concluded interest rate swaps as at 31 December 2017, whose effects were disclosed already in 2017, was recorded in the amount of EUR 154,454k (and by the Company in the amount of EUR 142,899k). Together with concluded interest rate swaps, whose impact is contractually agreed for the period from 2019 until the end of 2022, the value of Group's interest rate swaps entered into amounted as at the balance sheet date to EUR 444,454k.

As for interest rate swaps, we enter into derivatives in the same manner as in the case of currency financial derivatives i.e. with acceptable partners only. We therefore asses that the risk of default on the side of the contracting party is minimal. The purpose of hedging by means of entering into embedded derivatives, is fixing of the interest rate that results in a stable cash flow. While entering into interest rate swaps, we observe the requirement that characteristics of relevant swaps equal (i.e. maturity, amount, type of interest rate and its alignment) as a financial liability that is hedged by the interest rate swap. Consequently, the valuation of a hedging instrument defined as successful hedge, is recognised directly in equity.

Cash flow sensitivity analysis for financial instruments with a variable rate

A change in the interest rate by 50 basis points (bp) at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates remain unchanged.

The analysis for 2017 has been performed on the same basis as for 2016.

Group

	Profit or loss for the period		Other comprehensive income	
	Increase	**Decrease**	**Increase**	**Decrease**
EURk	**by 50 bp**	**by 50 bp**	**by 50 bp**	**by 50 bp**
31 December 2016				
Variable rate instruments	-749	189	0	0
Interest rate swap contracts	358	-358	1,623	-1,623
Cash flow variability (net)	**-391**	**-169**	**1,623**	**-1,623**
31 December 2017				
Variable rate instruments	-639	176	0	0
Interest rate swap contracts	343	-343	6,259	-6,259
Cash flow variability (net)	**-296**	**-167**	**6,259**	**-6,259**

We have increased the volume of financial liabilities with a fixed interest rate in 2017, as we – in addition to entering into new long-term financial contracts with a fixed interest rate – additionally entered into instruments for hedging against interest rate fluctuations (interest rate swaps). In 2017, we have entered into EUR 332,889k worth of interest rate swaps, whereof EUR 290,000k becomes effective as of 2019 and matures by the end of 2022; their value is adjusted on the level equalling 90 percent of expected average annual financial liabilities in these years. As at 31 December 2017, the share of financial liabilities bearing a fixed interest rate accounted for 30.6 percent of total interest-bearing financial liabilities. Given the interest rate swaps, whose effect is due to the business's nature agreed from 2017 onwards, the share of financial liabilities with a fixed interest rate amounted already 71.2 percent.

Company

	Profit or loss for the period		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
EURk	by 50 bp	by 50 bp	by 50 bp	by 50 bp
31 December 2016				
Variable rate instruments	-652	112	0	0
Interest rate swap contracts	358	-358	1,410	-1,410
Cash flow variability (net)	**-294**	**-246**	**1,410**	**-1,410**
31 December 2017				
Variable rate instruments	-523	89	0	0
Interest rate swap contracts	302	-302	6,076	-6,076
Cash flow variability (net)	**-221**	**-213**	**6,076**	**-6,076**

Group's and Company's exposure to interest rate risk is assessed as low.

Note 44 – Fair value

The fair values and book values of Group's financial assets and financial liabilities

	2016		2017	
EURk	Book value	Fair value	Book value	Fair value
Available-for-sale investments	2,247	2,247	1,743	1,743
Investment property	14,957	14,957	9,849	9,849
Non-current loans and deposits	2,403	2,403	2,515	2,515
Non-current operating receivables	2,481	2,481	7,375	7,375
Current loans and deposits	5,931	5,931	6,119	6,119
Derivatives	-2,509	-2,509	-961	-961
Trade receivables	165,786	165,786	180,517	180,517
Other current assets	47,333	47,333	50,009	50,009
Cash and cash equivalents	35,242	35,242	25,037	25,037
Non-current financial liabilities	-183,758	-183,758	-204,913	-204,913
Non-current financial liabilities (fixed interest rate)	-91,858	-81,917	-88,107	-81,979
Non-current operating liabilities	-3,672	-3,672	-2,807	-2,807
Current financial liabilities	-98,201	-98,201	-89,625	-89,625
Trade payables	-223,725	-223,725	-229,402	-229,402
Other current payables	-44,420	-44,420	-45,816	-45,816
Total	**-371,763**	**-361,822**	**-378,467**	**-372,339**

The assessed fair value of current assets and liabilities nearly equals their book value. The fair value of non-current financial liabilities is calculated on the basis of market interest rates and classified among Level 2 on the scale of fair values.

The fair values and book values of Company's financial assets and financial liabilities.

	2016		2017	
EURk	**Book value**	**Fair value**	**Book value**	**Fair value**
Available-for-sale investments	1,617	1,617	1,321	1,321
Investment property	12,948	12,948	8,685	8,685
Non-current loans and deposits	1,357	1,357	123,210	123,210
Current loans and deposits	138,563	138,563	16,431	16,431
Derivatives	-1,853	-1,853	-944	-944
Trade receivables	130,860	130,860	158,631	158,631
Other current assets	10,726	10,726	9,804	9,804
Cash and cash equivalents	14,743	14,743	3,484	3,484
Non-current financial liabilities	-140,578	-140,578	-181,839	-181,839
Non-current financial liabilities (fixed interest rate)	-115,074	-81,849	-88,023	-81,908
Current financial liabilities	-148,399	-148,399	-139,906	-139,906
Trade payables	-177,734	-177,734	-212,614	-212,614
Other current payables	-13,142	-13,142	-13,653	-13,653
Total	**-285,966**	**-252,741**	**-315,413**	**-309,298**

The fair value of non-current financial liabilities is calculated on the basis of market interest rates and classified among Level 2 on the scale of fair values.

Fair value scale

Gorenje Group and Gorenje, d.d.

The table shows method of valuing financial assets recorded at fair value. The levels are as follows:

- Level 1: stock price (unadjusted) in the active market of identical assets and liabilities,
- Level 2: data differing from stock price data (these are included in Level 1) monitored with the intention of direct or indirect valuation of assets and liabilities,
- Level 3: data on the value of assets and liabilities not based on the active market.

Group

	2016				2017			
EURk	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	510	79	1,658	**2,247**	371	83	1,289	**1,743**
Derivatives – assets	0	516	0	**516**	0	145	0	**145**
Derivatives – liabilities	0	-3,025	0	**-3,025**	0	-1,106	0	**-1,106**
Investment property	0	0	14,957	**14,957**	0	0	9,849	**9,849**

Fair value of investment property was assessed by applying the direct capitalisation method. Investment properties were appraised at the year-end of 2017 by an independent certified appraiser of real property. The book value does not materially deviate from their fair value.

Forward exchange contracts

The total fair value of forward exchange contracts amounted to EUR -160k as at 31 December 2017 and was in terms of accounting recorded within the item of other current financial receivables and other financial liabilities.

Interest rate swaps

The total fair value of interest rate swaps as at 31 December 2017 amounted to EUR -801k and is recorded under other financial liabilities.

The hedging of interest rate swaps, which relate to hedged balance sheet items, are disclosed within equity as fair value reserve.

Company

	2016				2017			
EURk	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	132	0	1,485	**1,617**	144	0	1,177	**1,321**
Derivatives – assets	0	1,237	0	**1,237**	0	185	0	**185**
Derivatives – liabilities	0	-3,090	0	**-3,090**	0	-1,129	0	**-1,129**
Investment property	0	0	12,948	**12,948**	0	0	8,685	**8,685**

Investment properties were appraised at the year-end of 2017 by an independent certified appraiser of real property. The total revaluation effect was disclosed in Company's income statement in the amount of EUR 12k.

Forward exchange contracts

The total fair value of forward exchange contracts amounted as at 31 December 2017 to EUR -82k (2016: EUR -336k) and was in terms of accounting recorded within the item of other current financial liabilities for derivatives.

Interest rate swaps

The total fair value of interest rate swaps amounted as at 31 December 2017 to EUR -862k (2016: EUR -1,517k) and was in terms of accounting recorded within the item of other current financial liabilities for derivatives.

Note 45 – Commitments relating to investments

Gorenje Group

Contractually agreed investments in intangible assets and property, plant and equipment, which are not yet recognised in financial statements as at the balance sheet date amounted to EUR 8,735k (2016: EUR 16,888k).

Gorenje, d.d.

Contractually agreed investments in intangible assets and property, plant and equipment, which are not yet recognised in financial statements as at the balance sheet date amounted to EUR 7,725k (2016: EUR 9,906k).

Note 46 – Related party transactions

Gorenje Group

The transactions with related parties were conducted by Group companies based on sale/purchase contracts. The prices used in these transactions were the market prices of products and services equivalent to those prevailing in the arm's length transactions.

Data on groups of persons

Group companies paid in **2016** following gross earnings to the stated groups of persons:

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	7,019	0	9,059
Incentive bonuses and other earnings	2,216	474	1,318
Total	**9,235**	**474**	**10,377**

No non-current and current loans were extended to members of the Management Board, the Supervisory Board, and to internal owners in 2016 and 2017.

Group companies paid in **2017** following gross earnings to the stated groups of persons:

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	7,644	0	9,327
Incentive bonuses and other earnings	2,965	377	2,216
Total	**10,609**	**377**	**11,543**

Following transactions with associated companies were recorded by Group companies:

	Transaction value		Balance	
EURk	2016	2017	2016	2017
Income	462	422	556	316
Expenses	1,667	2,181	801	250

Gorenje, d.d.

The transactions with related parties were conducted by the Company based on sale/purchase contracts. The prices used in these transactions were the market prices of products and services equivalent to those prevailing in the arm's length transactions. Individual transactions with related parties are disclosed in individual balance sheet items.

Transactions with persons related to the Supervisory Board included in 2017 following:

- entry of 6,559 commercial papers (EUR 6,559k),
- HR advisory services in the amount of (EUR 167k), and
- payment of compulsory contribution for voluntary health insurance on employees' account and participation in contributions of voluntary health insurance premiums (EUR 127k).

Data on groups of persons

Following personal earnings were paid to the groups of persons stated below:

Gross earnings in 2016

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Fixed remuneration	1,443	0	6,853
Variable remuneration	109	0	671
Bonuses	86	0	340
Attendance fees	0	49	0
Function-related attendance	0	240	0
Refund of work-related expenses	0	185	0
Total	**1,638**	**474**	**7,864**

Gross earnings in 2017

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Fixed remuneration	1,395	0	7,212
Variable remuneration	811	0	1,473
Bonuses	86	0	367
Attendance fees	0	42	0
Function-related attendance	0	231	0
Refund of work-related expenses	0	103	0
Total	**2,292**	**376**	**9,052**

The allowance for membership in the Supervisory Board of the company Gorenje Beteiligungs is included among the fixed and variable remuneration of the Management. Bonuses include bonuses relating to the private use of the company car and to insurance premiums.

In accordance with the Companies Act and the Management Code for Publicly Traded Companies, the total payments, reimbursements, and other benefits paid to members of the Management Board, the Supervisory Board, and the members of the Audit Committee are outlined below:

Composition and amount of earnings received by Management Board members

Composition and amount of earnings received by Management Board members in 2016

EUR	Function	Fixed remu-neration gros (1)	Variable remuneration – gross: Based on quantitative criteria	Variable remuneration – gross: Based on quality s criteria	Variable remuneration – gross: Total (2)	Deferred income (3)	Severance pays (4)	Bonuses (5)	Claw-back (6)	Total gross (1+2+3+4+5-6)	Total net
Franc Bobinac	President	324,937	2,900	0	2,900	0	0	28,230	0	**356,067**	**153,409**
Marko Mrzel	member until 29 February 2016	58,622	2,610	0	2,610	0	95,201	4,469	0	**160,902**	**69,326**
Branko Apat	member	271,694	2,610	0	2,610	0	0	19,727	0	**294,031**	**134,946**
Peter Groznik	member	300,011	2,610	0	2,610	0	0	6,867	0	**309,488**	**153,051**
Peter Kukovica	member	270,016	2,610	0	2,610	0	0	5,029	0	**277,655**	**144,599**
Drago Bahun	member	218,210	0	0	0	0	0	21,549	0	**239,759**	**88,268**
Total		**1,443,490**	**13,340**	**0**	**13,340**	**0**	**95,201**	**85,871**	**0**	**1,637,902**	**743,599**

Composition and amount of earnings received by Management Board members in 2017

EUR	Function	Fixed remu-neration gross (1)	Variable remuneration – gross: Based on quantitative criteria	Variable remuneration – gross: Based on quality criteria	Variable remuneration – gross: Total (2)	Deferred income (3)	Severance pays (4)	Bonuses (5)	Claw-back (6)	Total gross (1+2+3+4+5-6)	Total net
Franc Bobinac	President	339,882	42,362	92,543	134,905	0	0	31,146	0	**505,933**	**205,310**
Žiga Debeljak	member since 1 May 2017	196,718	0	0	0	0	0	5,912	0	**202,630**	**82,671**
Branko Apat	member	279,467	34,665	78,097	112,762	0	0	22,977	0	**415,206**	**176,509**
Peter Kukovica	member	278,192	34,333	77,600	111,933	0	0	5,295	0	**395,420**	**188,334**
Drago Bahun	member	252,133	34,379	58,094	92,473	0	0	19,808	0	**364,414**	**151,204**
Peter Groznik	member until 28 February 2017	48,671	39,259	84,989	124,248	0	234,911	1,080	0	**408,910**	**188,850**
Total		**1,395,063**	**184,998**	**391,323**	**576,321**	**0**	**234,911**	**86,218**	**0**	**2,292,513**	**992,878**

Composition and amount of earnings received by members of the Supervisory Board and the Committees

Composition and amount of earnings received by members of the Supervisory Board and the Committees in 2016

EUR	Function	Function-related payments – gross per year (1)	Attendance fees of SB and Committees – gross per year (2)	Total gross (1+2)	Total net	Commuting allowances (gross)	Commuting allowance (net)
Uroš Slavinec	Deputy Chairman of the Supervisory Board	20,250	3,740	**23,990**	**17,448**	1,743	1,268
Miha Košak	Supervisory Board member since 9 July 2016	7,698	770	**8,468**	**6,159**	6,036	4,390
Bachtiar Djalil	Supervisory Board member	22,500	4,961	**27,461**	**19,972**	311	226
Keith Miles	Supervisory Board member until 8 July 2016	11,734	4,070	**15,804**	**12,248**	6,505	5,042
Bernard C. Pasquier	Deputy Chairman of the Supervisory Board	24,000	4,785	**28,785**	**20,935**	23,747	17,271
Corinna Claudia Graf	Supervisory Board member	20,544	3,850	**24,394**	**17,742**	11,578	8,420
Toshibumi Tanimoto	Supervisory Board member	18,750	4,620	**23,370**	**16,997**	74,891	54,468
Marko Voljč	Chairman of the Supervisory Board	26,250	4,180	**30,430**	**22,132**	59,765	43,467
Jure Slemenik	Supervisory Board member	18,750	3,410	**22,160**	**16,117**	0	0
Drago Krenker	Supervisory Board member	18,750	5,896	**24,646**	**17,925**	0	0
Krešimir Martinjak	Deputy Chairman of the Supervisory Board	20,250	3,245	**23,495**	**17,087**	0	0
Peter Kobal	Supervisory Board member	18,750	4,070	**22,820**	**16,597**	0	0
Aleksander Igličar	Audit Committee member	12,000	1,715	**13,715**	**9,976**	535	389
Total		**240,226**	**49,312**	**289,538**	**211,335**	**185,111**	**134,941**

Composition and amount of earnings received by members of the Supervisory Board and the Committees in 2017

EUR	Function	Function-related payments – gross per year (1)	Attendance fees of SB and Committees – gross per year (2)	Total gross (1+2)	Total net	Commuting allowances (gross)	Commuting allowance (net)
Uroš Slavinec	Deputy Chairman of the Supervisory Board	20,250	3,025	**23,275**	**16,928**	2,014	1,465
Miha Košak	Supervisory Board member	18,750	5,885	**24,635**	**17,917**	17,151	12,474
Bachtiar Djalil	Supervisory Board member	20,625	3,905	**24,530**	**17,841**	148	108
Bernard C. Pasquier	Deputy Chairman of the Supervisory Board	22,125	4,565	**26,690**	**19,412**	15,983	11,625
Corinna Claudia Graf	Supervisory Board member	20,625	3,630	**24,255**	**17,641**	13,039	9,483
Toshibumi Tanimoto	Supervisory Board member since 21 April 2017	5,781	1,705	**7,486**	**5,445**	8,336	6,063
Marko Voljč	Chairman of the Supervisory Baord	26,250	3,245	**29,495**	**21,452**	42,008	30,553
Jure Slemenik	Supervisory Board member	18,750	3,245	**21,995**	**15,997**	287	209
Drago Krenker	Supervisory Board member	18,750	4,565	**23,315**	**16,957**	287	209
Krešimir Martinjak	Deputy Chairman of the Supervisory Board	20,250	2,585	**22,835**	**16,608**	0	0
Peter Kobal	Supervisory Board member	18,750	2,970	**21,720**	**15,797**	0	0
Aleksander Igličar	Audit Committee member	12,000	1,320	**13,320**	**9,688**	449	327
Karlo Kardov	Supervisory Board member since 14 July 2017	8,306	1,430	**9,736**	**7,081**	3,570	2,596
Total		**231,212**	**42,075**	**273,287**	**198,764**	**103,272**	**75,112**

No non-current and current loans were extended by the Company to members of the Management Board, the Supervisory Board, and to internal owners.

Note 47 – Events after the balance sheet date

As at 9 January 2018, the 25th General Meeting of Shareholders of the Company was held in Velenje. The dismissal and replacement of Supervisory Board members Marko Voljč and Uroš Slavinec was proposed during the Shareholders Meeting but the proposal was not adopted.

As at 12 January 2018, the Company publicly announced Group's 2018 Business Plan and its Performance Valuation for 2017. By increasing its focus on production and sales of domestic appliances, the Company plans in 2018 the disposal of subsidiaries Gorenje Surovina, d.o.o., Slovenia and Gorenje Tiki, d.o.o., Serbia, which shall result in a material deleveraging of the Group. The Group projects growth in revenue for 2018 and improvement of profitability relative to 2017.

As at 1 February 2018, the Company completed the issue of commercial papers. The respective GRV06 commercial papers bear interest at 1.90% p.a. and the total par value of the issue is recorded at EUR 11,534k. The issue of the commercial papers aims at seasonal financing of business operations in accord with the interim dynamics of the cash flow movement and the dispersal of current sources of financing.

As at 2 February 2018, the Company published the information on the progress of exploring the strategic partnership opportunities. Upon signing a confidentiality agreement, the possible partners, who showed interest in further assessing their partnership potential, have received relevant information material and a procedural letter in late January 2018.
The procedural letter defines rules and a timetable based on which the possible partners are invited to submit their offers for Group partnership by 7 March 2018.
Upon studying the received offers from the strategic aspect, certain possible investors shall be invited to perform a due diligence review.
During the second stage, the possible partners will be provided additional information including access to a Virtual Data Room containing information about the Group, as well as visits of selected Group facilities and meetings with Group's executives.

Aimed at a comprehensive renewal of the corporate collective agreement, valid for the Company and its subsidiaries in Slovenia, the Company's Management Board terminated the latter as of 1 February 2018. The six-month notice period began on that date, hence the current agreement will formally expire on 1 August 2018. Upon that date, the existing corporate collective agreement can be used for a maximum period of one year i.e. by August 2019 should no new agreement be adopted earlier.
The Company shall endeavour to adopt the new corporate collective agreement as soon as possible based on a social dialogue between the management and the trade union. Until then or not longer than by August 2019, all rights and obligations remain unchanged both for employees and the employer.

No other significant events occurred upon compiling the balance sheet as of 31 December 2017.

Note 48 – Transactions with the auditor

In 2017, the contract value for auditing the financial statements of the Company and the consolidated financial statement of the Group was EUR 658k (2016: EUR 645k). In addition to the statutory audit of the Company and its subsidiaries, the official auditor Deloitte revizija, d.o.o. rendered also non-audit services in the amount of EUR 17k relating to the year 2017. All services performed are according to the Regulation no. 537/2014 deemed admissible services and include services provided for Group companies in connection with reviewing the report on relations with affiliated companies pursuant to the Companies Act and services of agreed-upon procedures.

The audit of the Company conducted by the audit company Deloitte revizija, d.o.o., Slovenia and the independent auditor's report was issued on 26 February 2018. In 2017, the contract value for auditing the financial statements of the Company and consolidated financial statements of the Group was recorded at EUR 91k (2016: EUR 92k).

Note 49 – Business segment

	Domestic Appliances		Other Business		Group	
EURk	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Revenue from sale to third parties	1,076,878	1,081,708	181,246	228,224	1,258,124	1,309,932
Inter-segment sale	8,438	9,828	23,441	27,972	31,879	37,800
Interest income	768	792	146	143	914	935
Interest expenses	-14,564	-12,456	-469	-285	-15,033	-12,741
Amortisation and depreciation expense	-39,303	-46,663	-7,752	-8,013	-47,055	-54,676
Operating profit or loss before tax	7,525	-5,357	5,715	9,844	13,240	4,487
Income tax expense	-4,430	-2,146	-380	-1,000	-4,810	-3,146
Profit or loss for the period	3,095	-7,503	5,335	8,844	8,430	1,341
Total assets	986,653	999,362	137,261	143,754	1,123,914	1,143,116
Total liabilities	699,949	712,022	57,424	62,750	757,373	774,772
Investments	75,704	67,410	7,527	8,289	83,231	75,699
Impairment of financial assets	-654	-1,001	-197	-46	-851	-1,047
Impairment of property, plant and equipment	-168	-49	-519	-2,984	-687	-3,033

Note: presented data on profitability of the Other Business segment is exclusive of attributable costs for general supporting functions, which the Company renders for the entire Group; these are fully born by the Domestic Appliances segment. Further, the structure of both business segments has changed during 2017 pursuant to the Group's restructuring process, hence the data presented for 2016 are comparable with the data for 2017; they are not, however, equal to data disclosed in the annual report for 2016.

Note 50 – Geographical segments

	West		East		Other		Group	
EURk	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Revenue from sale to third parties	468,676	439,606	677,641	744,725	111,807	125,601	1,258,124	1,309,932
Total assets	379,782	324,479	568,992	640,245	175,140	178,392	1,123,914	1,143,116
Investments	21,360	16,090	44,455	42,398	17,416	17,211	83,231	75,699

Note: overview of countries by geographical segments is outlined in Note 6 'Segment reporting'.

Appendix 1: Information on the Gorenje Group companies

Company	Share capital (EURk)	No. of employees
Gorenje, d.d., Slovenia	101,922	4,470
Gorenje I.P.C., d.o.o., Slovenia	93	924
Gorenje GTI, d.o.o., Slovenia	3,769	53
Gorenje Gostinstvo, d.o.o., Slovenia	3,790	278
Energygor, d.o.o., Slovenia	9	0
Kemis, d.o.o., Slovenia	2,650	40
Gorenje Orodjarna, d.o.o., Slovenia	927	230
Indop, d.o.o., Slovenia	400	23
ZEOS, d.o.o., Slovenia	482	6
Gorenje Surovina, d.o.o., Slovenia	8,067	323
Gorenje GAIO, d.o.o., Slovenia	464	86
Gorenje GSI, d.o.o., Slovenia	4,657	150
Gorenje Keramika, d.o.o., Slovenia	1,708	122
Gorenje EKOINVEST, d.o.o., Slovenia	1,000	0
Gorenje HS, d.o.o., Slovenia	385	12
Gorenje Surovina RECE, d.o.o., Slovenia	8	0
Termoclean S, d.o.o., Slovenia	8	0
Gorenje Beteiligungs GmbH, Austria	47,100	7
Gorenje Austria Handels GmbH, Austria	3,275	44
Gorenje Vertriebs GmbH, Germany	5,700	72
Gorenje Körting Italia S.r.l., Italy	90	8
Gorenje France S.A.S., France	100	15
Gorenje UK Ltd., Great Britain	3,638	13
Gorenje Group Nordic A/S, Denmark	269	71
Gorenje spol. S r.o., Czech Republic	4,804	54
Gorenje real spol. S r.o., Czech Republic	6,267	12
Gorenje Slovakia s.r.o., Slovakia	892	10
Gorenje Magyarország Kft., Hungary	2,304	18
Gorenje Polska Sp. Z o.o., Poland	8,319	36
Gorenje Bulgaria EOOD, Bulgaria	1,976	22
Gorenje Zagreb, d.o.o., Croatia	28,509	71
Gorenje Skopje, d.o.o., Macedonia	250	23
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1	84
Gorenje, d.o.o., Serbia	3,097	195
Gorenje Podgorica, d.o.o., Montenegro	2,800	7
Gorenje Romania S.r.l., Romania	351	9

Company	Share capital (EURk)	No. of employees
Gorenje aparati za domaćinstvo, d.o.o., Serbia	25,702	1,223
Mora Moravia, s.r.o., Czech Republic	10,719	558
Gorenje – kuchyně spol. S r.o., Czech Republic	1,645	0
ST Bana Nekretnine, d.o.o., Serbia	2,008	0
KEMIS – Termoclean, d.o.o., Croatia	831	60
Kemis – BH, d.o.o., Bosnia and Herzegovina	210	8
Gorenje Gulf FZE, United Arab Emirates	689	13
Gorenje Espana S.L., Spain	3	0
Gorenje Tiki, d.o.o., Serbia	19,224	516
Gorenje Istanbul Ltd., Turkey	4,155	0
Gorenje TOV, Ukraine	86	14
ATAG Nederland BV, the Netherlands	16	428
ATAG België NV, Belgium	372	45
Intell Properties BV, the Netherlands	45	0
Gorenje Nederland BV, the Netherlands	20,796	0
Gorenje Kazakhstan, TOO, Kazakhstan	602	11
OOO Gorenje BT, Russia	32,984	100
Kemis Valjevo, d.o.o., Serbia	1,191	66
Gorenje GTI, d.o.o., Serbia	1	16
Asko Appliances AB, Sweden	5,079	58
Gorenje North America, Inc., USA	1	0
Asko Appliances Pty, Australia	6,516	91
Asko Appliances OOO, Russia	1,543	15
“Gorenje Albania” SHPK, Albania	1	6
Gorenje Home, d.o.o., Serbia	2,710	159
Gorenje Ekologija, d.o.o., Serbia	1,265	0
Gorenje Corporate GmbH, Austria	35	0
ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	420	4
Gorenje Asia Ltd., China	393	29
Gorenje do Brasil Ltda., Brasil	1,664	4
Gorenje MDM, d.o.o., Serbia	1,051	88
Gorenje Chile, SpA, Chile	353	4
Gorenje AEC, LLC, Thailand	256	10
Indop Gorenje GmbH, Germany	25	0

Appendix 2: Managing Directors

In 2017, the Group companies were managed by following managing directors:

Company	Managing Director
Gorenje, d.d., Slovenia	Franc Bobinac, President of the Management Board
	Peter Kukovica, Management Board member
	Peter Groznik, Management Board member (until 28 February 2017)
	Žiga Debeljak, Management Board member (since 1 May 2017)
	Branko Apat, Management Board member
	Drago Bahun, Management Board member
Gorenje, I.P.C., d.o.o., Slovenia	Mirko Rožanc
Gorenje GTI, d.o.o., Slovenia	Cita Špital-Meh
Gorenje Gostinstvo, d.o.o., Slovenia	Stanko Brunšek
Energygor, d.o.o., Slovenia	Marijan Penšek
Kemis, d.o.o., Slovenia	Emil Nanut
Gorenje Orodjarna, d.o.o., Slovenia	Blaž Nardin (until 31 January 2017), Boštjan Dokl Menih (since 1 February 2017)
Indop, d.o.o., Slovenia	Matej Sevčnikar
ZEOS, d.o.o., Slovenia	Emil Šehič
Gorenje Surovina, d.o.o., Slovenia	Jure Fišer
Gorenje GAIO, d.o.o., Slovenia	Andrej Koželj (until 31 December 2017), Janez Krevzel (since 1 January 2018)
Gorenje GSI, d.o.o., Slovenia	Iztok Šepec (until 31 January 2018), Boštjan Doltar (since 1 February 2018)
Gorenje Keramika, d.o.o., Slovenia	Boris Laubič
Gorenje EKOINVEST, d.o.o., Slovenia	Marijan Penšek
Gorenje HS, d.o.o., Slovenia	Božena Herzog
Gorenje Surovina RECE, d.o.o., Slovenia	Boštjan Šimenc
Termoclean S, d.o.o., Slovenia	Jure Fišer
Gorenje Beteiligungs GmbH, Austria	Tomaž Kuntarič, Žiga Debeljak
Gorenje Austria Handels GmbH, Austria	Uroš Marolt
Gorenje Vertriebs GmbH, Germany	Uroš Marolt, Andy Miklav
Gorenje Körting Italia S.r.l., Italy	Matjaž Geratič
Gorenje France S.A.S., France	Matej Kurent
Gorenje UK Ltd., Great Britain	Iztok Krulc

Company	Managing Director
Gorenje Group Nordic A/S, Denmark	Jaka Slavinec, Sandra Lubej
Gorenje spol. s r.o., Czech Republic	Suad Hadžić, Stanko Romih
Gorenje real spol. s r.o., Czech Republic	Suad Hadžić, Stanko Romih
Gorenje Slovakia s.r.o., Slovakia	Stanko Romih
Gorenje Magyarország Kft., Hungary	Norbert Fülle
Gorenje Polska Sp. z o.o., Poland	Jan Štern
Gorenje Bulgaria EOOD, Bulgaria	Bojan Bratkovič
Gorenje Zagreb, d.o.o., Croatia	Damir Dražetić
Gorenje Skopje, d.o.o., Macedonia	Nenad Jovanović
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	Robert Polšak
Gorenje, d.o.o., Serbia	Stanka Pejanović
Gorenje Podgorica, d.o.o., Montenegro	Darko Vukčević
Gorenje Romania S.r.l., Romania	Slobodan Vukša
Gorenje aparati za domaćinstvo, d.o.o., Serbia	Boris Pavčnik (until 20 June 2017), Simon Kumer (since 21 June 2017)
Mora Moravia, s.r.o., Czech Republic	Vitezslav Ružička, Matija Zupanc (until 31 January 2018), Tatjana Ivanovič (since 1 February 2018)
Gorenje – kuchyně spol. s r.o., Czech Republic	Bogdan Urh
ST Bana Nekretnine, d.o.o., Serbia	Bogdan Urh
KEMIS – Termoclean, d.o.o., Croatia	Zoran Matić
Kemis – BH, d.o.o., Bosnia and Herzegovina	Maid Hadžimujić
Gorenje Gulf FZE, United Arab Emirates	Boštjan Vodeb
Gorenje Espana, S.L., Spain	Jernej Hren
Gorenje Tiki, d.o.o., Serbia	Branko Apat
Gorenje Istanbul Ltd., Turkey	Nedim Hadžibegić
Gorenje TOV, Ukraine	Gregor Gržina
ATAG Nederland BV, the Netherlands	Marko Šefer, Jeroen van Benthem, Robert Kapteijn
ATAG België NV, Belgium	Marc Jozef Wynant (until 18 April 2017), Marko Šefer, Tomaž Kuntarič (since 19 April 2017)
Intell Properties BV, the Netherlands	Marko Šefer
Gorenje Nederland BV, the Netherlands	Žiga Debeljak (until 21 May 2017), Marko Šefer, Tomaž Kuntarič (since 22 May 2017)
Gorenje Kazakhstan, TOO, Kazakhstan	Dejan Aćimovič
OOO Gorenje BT, Russia	Marko Špan
Kemis Valjevo d.o.o., Serbia	Zoran Milovanović
Gorenje GTI d.o.o., Serbia	Miloš Leković

Company	Managing Director
Asko Appliances AB, Sweden	Matej Čufer (until 30 June 2017), Jonas Lidberg (since 1 July 2017)
Gorenje North America, Inc, USA	Marko Šefer
Asko Appliances Pty, Australia	Črt Prašnikar
Asko Appliances OOO, Russia	Dime Rangelov
"Gorenje Albania" SHPK, Albania	Gregor Verbič
Gorenje Home, d.o.o., Serbia	Vlado Krebs
Gorenje Ekologija, d.o.o., Serbia	Zoran Milovanović
Gorenje Corporate GmbH, Austria	Žiga Debeljak (until 1 August 2017), Tomaž Kuntarič (since 2 August 2017)
ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	Emil Šehič
Gorenje Asia Ltd., China	Leon Terglav
Gorenje do Brasil Ltda., Brasil	Matjaž Cokan
Gorenje MDM, d.o.o., Serbia	Marko Klinc (until 31 December 2017), Borivoj Grden (since 1 January 2018)
Gorenje Chile, SpA, Chile	Felipe Hormaechea Calderón
Gorenje AEC, LLC, Thailand	Arnaud Brandt
Indop Gorenje GmbH, Germany	Matej Sevčnikar

4

Compliance with the GRI sustainability guidelines and integrated reporting principles

We deliver reliable, comprehensive, integrated, balanced and consistent reporting on the way in which we create sustainable value and on the results of our efforts. Therefore, our annual reporting pursues the internationally adopted sustainability reporting and integrated reporting guidelines.

4.1 Disclosure of non-financial information

With our Annual Report, we also meet our obligations regarding disclosure of non-financial and diversity information, which was implemented in the Slovenian legislation with the amending act ZGD–1J Companies Act) from the Directive 2014/95/EU. The Business Report, which is a constituent part of the Gorenje Group Annual Report, includes information on business, environmental, human resource, and social issues, which is required for understanding of the development, performance, and position of the company and the Gorenje Group.

Due to Gorenje Group's integrated approach to corporate reporting, the non-financial information is closely related to the Gorenje Group business model that is based on creation of value for the key stakeholders based on six capitals: financial capital, human capital, intellectual (organizational) capital, social (relational), natural capital, and manufactured (infrastructural) capital.

In the statement (Business Report), non-financial information is presented consistently with our understanding of the pursuit of sustainable development which we are striving for by balancing our:

- economic sustainability and business excellence,
- environmental sustainability, and
- social sustainability (which includes human resource and broader social aspects of our business).

Where necessary for understanding of the status or development and results of a particular field or segment, we describe the key policies on respective aspects of our non-financial operations. In order to present the monitoring of accomplishment of the goals laid down by non-financial operations policies for respective areas or segments, the statement (Business Report) includes the key non-financial performance indicators that are relevant for the attainment of results for respective fields of pursuit of sustainable development (see chart of relations between capitals and KPI in the introduction to Chapter 2)

In reporting of non-financial information and results of non-financial operations, we use:

- the international GRI G4 sustainability reporting framework (see detailed chart on compliance of the Annual Report contents with the GRI G4 sustainability reporting guidelines at the end of this chapter), and we also comply with
- the principles of the International Integrated Reporting Framework (The International <IR> Framework; IIRC, 2013).

4.2 Development of Gorenje Group corporate reporting

Sustainability reporting – we are pursuing the GRI G4 guidelines:

- For the third consecutive year, Gorenje Group Annual Report is developed in compliance with the sustainability reporting guidelines of the Global Reporting Initiative GRI G4*, which we shall also comply with in the future.
- in the future, information included in our annual reporting will be upgraded:
  - **by defining the essential aspects and boundaries** of relevance for Gorenje Group operations and, consequently, for our reporting on our operations and performance, consistently with Gorenje Group's Strategic Plan for the period 2016–2020;
  - **with key information** on economic, environmental, and social aspects of our operations, in order to attain an even higher level of compliance with the GRI guidelines.

*Following is the content index of the Annual Report according to the GRI G4 sustainability reporting guidelines, complete with a detailed (numbered) index for easier reader orientation.

Implementing integrated reporting – pursuing IIRC principles:

- **we have adopted the principles of the International Integrated Reporting Framework** (The International <IR> Framework; IIRC, 2013), therefore:
- we have included in the Annual Report the **concept of six capitals** as stocks of value employed by the Group to create new value,
- we report the **integration of the Gorenje Group business model into the creation of sustainable value** in business, environmental, and social field;
- we report **on links and relations between capitals and key performance indicators, and risk management measures.**

For all and any questions regarding the Annual Report and its compliances with the sustainable reporting and integrating reporting principles, please write to: bojana.rojc@gorenje.com.

STEPS TAKEN 1999–2017

1999

Gorenje Group Annual Report

2013

Gorenje Group Sustainability Report

2015

Merging the Annual Report and the Sustainability Report into a single publication called Gorenje Group Annual Report for the Year 2015; compliance with the GRI G4 sustainability reporting guidelines.

2016

Start of introduction of integrated reporting, consistently with the IIRC principles:

- capitals and creation of value,
- relations with stakeholders and relation to the results of sustainable value creation (economic, environment, and social outcomes),
- information connectivity (capitals, KPI, risks),
- conciseness or reporting (preparing an online Annual Report summary).

2017

Continuation of sustainable and integrated reporting pursuant to the GRI G4 guidelines and the principles of the International Integrated Reporting Council (IIRC).

STEPS PLANNED 2018–2020

2018/2019

Further **advancement of integrated reporting** consistently with the principles of the Gorenje Group Strategic Plan for the period from 2016 to 2020, and taking into account the Group's all-around transformation from functional to business-product (divisional) organization, in particular in the following areas:

- **identification and definition of key issues** or reporting on material aspects and Gorenje Group operation impacts,
- **connectivity of information** from the business and financial part of the Annual Report,
- **monitored and disclosed key performance indicators (KPI),** taking into account if necessary the pursuit of goals from the Strategic Plan,
- encouraging **response from key stakeholders** regarding creation of sustainable value,
- statement of **commitment to the execution of the initiative** for corporate social responsibility and sustainable development of business entities **UNGC (United Nations Global Compact)** and reporting on the compliance with its universal principles.

2019/2020

Goal: meeting key sustainability reporting guidelines that are of key importance for the Gorenje Group, and the fundamental concepts, guiding principles, and content elements of integrated reporting **> Gorenje Group Integrated Report**.

4.3 GRI G4 sustainability reporting content index

('In accordance' – Core Option)

GENERAL STANDARD DISCLOSURES

Indicator	Disclosure	Section	Page
Strategy and analysis			
G4-1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	1.3	10
Organization profile			
G4-3	Name of organization	1.5.1 1.5.8 Impressum	16 25
G4-4	Primary brands, products, and services	1.5.1 1.5.2 2.1.1	16 17 48
G4-5	Location of organization's headquarters	3.2.2 Impressum	125
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	1.5.8 3.2.2	25 125
G4-7	Nature of ownership and legal form	3.2.2	125
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	1.5.8 2.1.1 (Brands and Programs)	25 48
G4-9	Scale of the organization (number of employees, number of operations, net revenues, debt and equity, quantity of products or services provided)	2.1 2.3.1 3.2.2	44 89 125
G4-10	Employees by type of employment, employment contract, and gender	2.3.1	89
G4-12	Description of the organization's supply chain	2.1.1 2.2.1	48 80
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	1.3 1.5.6 1.5.9 2.1.1 3.2.2	10 19 27 48 125

Indicator	Disclosure	Section	Page
G4-14	Explanation whether and how the precautionary approach or principle is addressed by the organization	2.2.1 (indirectly: Gorenje eco cycle and EMAS register)	80
G4-16	Membership in associations/organizations	1.5.7	22
Identified material aspects and boundaries			
G4-17	List of entities included in the organization's consolidated financial statements	3.2.2 (Chapter 8, Gorenje Group composition)	125
G4-18	Process for defining the report content and the aspect boundaries	1.5.6 (note: Definition of the report content and material aspects is related to the contents of the Strategic Plan for the period 2016–2020 which involved around one hundred Gorenje Group employees from across the world. Indirectly, plan development also included an analysis of materiality, including establishment of a system for measuring the accomplishment of the goals laid down.) We are developing a definition of materiality that will take into account the comprehensive transformation of the Gorenje Group organization in 2018. 2.1.1 (Brands and Programs)	19 48
G4-19	List of all material aspects identified in the process for defining report content		
G4-20	Material aspect boundaries within the organization		
G4-21	Material aspect boundaries outside the organization		
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements		
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries		
Stakeholder engagement			
G4-24	List of stakeholder groups engaged by the organization	1.5.7	22
G4-25	Basis for identification and selection of stakeholders with whom to engage	1.5.6 1.5.7 2.1.2	19 22 64
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by stakeholder group	1.5.7 2.1.2	22 64
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns through its reporting	1.5.6 1.5.7 2.1.2	19 22 64
Report Profile			
G4-28	Reporting period	4	194
G4-29	Date of most recent previous report	Audited Annual Report of the Gorenje Group for 2016 was released on April 24th 2017: Audited consolidated and non-consolidated annual report for 2016.	
G4-30	Reporting cycle	4 (Annual reporting)	194
G4-31	Contact point for questions regarding the report	4 (bojana.rojc@gorenje.com)	194
G4-32	GRI content index	4.3	197
G4-33	External assurance for the report according to GRI guidelines	Not carried out	

Indicator	Disclosure	Section	Page
Management			
G4-34	Governance structure of the organization, including committees of the highest governance body	1.5.9	27
G4-38	Composition of the highest governance body and its committees	1.5.9	27
G4-39	Role of the chair of the highest governance body	1.5.9	27
G4-51	Remuneration policies for the highest governance body and senior executives	1.5.9	27
Ethics and Integrity			
G4-56	Description of organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	1.5.4 1.5.5 1.5.6 1.5.9 2.1.2 4	18 18 19 27 64 194

SPECIFIC STANDARD DISCLOCURES

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
ECONOMIC IMPACT	**DMA**	**2.1** **1.5.6** **2.4.2**	**44** **19** **99**	
Economic performance				
	G4-EC1 Direct economic value generated and distributed on an accruals basis (revenue, operating costs, employee wages and benefits, payments to providers of capital, payments to government (taxes), donations and other community investments)	1.1 2.1.1 2.1.2 (Gorenje share in 2017) 2.1.3 2.3.3	5 48 64 67 94	
	G4-EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change	2.2.5 2.4.2 (Key changes affecting the accomplishment of goals in 2017)	84 99	
	G4-EC3 Retirement plan liabilities and obligations	3.2.2	125	
Procurement practice	G4-EC9 Proportion of spending on local suppliers at significant locations of operation	2.1.1	48	Information on the share of spending is not prepared at this point. This is planned in the future.

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
ENVIRONMENTAL IMPACT	**DMA**	**2.2** **1.5.6** **2.4.2**	**78** **19** **99**	
Energy	G4-EN3 Energy consumption within the organization	2.2.1 2.2.4 (Electricity consumption)	80 83	
	G4-EN6 Reduction of energy consumption	2.2.4 (Electricity consumption)	83	
Water	G4-EN8 Total water withdrawal	2.2.4 (Water consumption)	83	
Emissions	G4-EN15, G4-EN17 Direct and indirect greenhouse gas emissions	2.2.1 2.2.5	80 84	
	G4-EN16 Energy indirect greenhouse gas (GHG) emissions	2.2.5	84	In estimating our impact on the environment, we also take into account the indirect impact related to generation of electricity. We do not yet have detailed data on indirect GHG; this is a plan for the future.
Effluents and Waste	G4-EN23 Total weight of waste by type and disposal method	2.2.1 2.2.4 (Reducing the amount of waste)	80 83	
Products and Services	G4-EN27 Extent of impact mitigation of environmental impacts of products and services	2.2.1 2.2.3 2.2.4 2.2.6	80 81 83 85	
Compliance	G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	2.2.2 2.2.3	80 81	As there was no non-compliance, there were no sanctions or fines against us.
Transport	G4-EN30 Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	2.2.3	81	In estimating our impact on the environment, we also take into account the indirect impact related to logistics. Detailed information on environmental impact of transport will be compiled in the future.
Supplier Environmental Assessment	G4-EN32 Percentage of new suppliers that were screened using environmental criteria	2.1.1 (Strategic procurement/sourcing and activities for the pursuit of strategic goals) 2.2.1	48 80	We report on the development of a network of stable and competitive suppliers who also meet the requirements regarding quality. We do not yet report the share of new suppliers.
SOCIAL IMPACT				
Labour practices and decent work	**DMA**	**2.3** **1.5.6** **2.4.2**	**86** **19** **99**	
Hiring	G4-LA1 Total number and rates of new employee hires and employee turnover	2.3.1 (Number of employees; education-based hiring and recruitment)	89	

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
	G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	2.3.1 (Protection of employee rights, Occupational safety and health)	89	
	G4-LA3 Return to work and retention rates after parental leave, by gender	2.3.1 (Protection of employee rights)	89	
Occupational health and safety	G4-LA6 Rates of work-related injury	2.3.1 (Occupational safety and health)	89	
Training and education	G4-LA9 Average hours of training per year per employee by gender, and by employee category	2.3.1 (Human resource development and Corporate University of Gorenje)	89	We do not report separately by gender and employee category; emphasis is on the scope and contents of training and education.
	G4-LA10 Programs for skills management and lifelong learning	2.3.1 (Human resource development and Corporate University of Gorenje)	89	
	G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	2.3.1 (Protection of employee rights, human resource development and Corporate University of Gorenje)	89	We do not report separately by gender and employee category; emphasis is on the reporting on annual interviews and competence assessment.
Diversity and Equal Opportunity	G4-LA12 Composition of governance bodies and breakdown of employees per employee category (according to gender, age group – below 30 years, 30–50 years, over 50 years – minority group membership, and other relevant indicators of diversity)	1.5.9 (Management Board, Supervisory Board) 2.3.1 (education-based hiring and recruitment; employees by age; employees by gender)	27 89	Diversity policy The company has not adopted diversity policy with regard to representation in the managerial or supervisory bodies. When recruiting candidates for members of managerial and supervisory bodies, the company focuses on expert knowledge, work experience, and competences, and does not discriminate based on gender, age, or education.
Equal Remuneration for Women and Men	G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	2.3.1 (Employees by gender)	89	We report that regardless of gender, all employees are granted equal remuneration for work in jobs with equal complexity or difficulty. We do not report ratio in terms of figures.
Supplier Assessment for Labour Practices	G4-LA14 Percentage of new suppliers that were screened using labour practices criteria	2.1.1 (Strategic procurement/sourcing, activities for the pursuit of strategic goals) 2.3.1 (Protection of employee rights, Occupational safety and health)	48 89	We do not report the share. We report indirectly on supplier review or testing in the section on supply chain management.
Labour Practices Grievance Mechanisms	G4-LA16 Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	2.3.1 (Protection of employee rights)	89	We report on the importance of communication with the employees and the 2017 results: there were no reports of mobbing in the workplace.
Human rights	**DMA**	**2.3.1** **1.5.6** **2.4.2**	**89** **19** **99**	
Investment	G4-HR2 Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	2.3.1 (Occupational safety and health, human resource development and Corporate University of Gorenje)	89	Human right-related content is included in training and education in work procedures, occupational health and safety, and health promotion. We do not report the number and share of hours separately for this aspect of training.

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
Non-discrimination	G4-HR3 Total number of incidents of discrimination and corrective actions taken	2.3.1 (Protection of employee rights)	89	We report on the importance of communication with the employees and the 2017 results: there were no reports of mobbing in the workplace.
Supplier Human Rights Assessment	G4-HR10 Percentage of new suppliers that were screened using human rights criteria	2.1.1 (Strategic procurement/sourcing, activities for the pursuit of strategic goals) 2.3.1 (Protection of employee rights, Occupational safety and health)	48 89	We do not report the share. We report indirectly on supplier review or testing in the section on supply chain management.
Human Rights Grievance Mechanisms	G4-HR12 Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	2.3.1 (Protection of employee rights)	89	We report on the importance of communication with the employees and the 2017 results: there were no reports of mobbing in the workplace.
Society	**DMA**	**2.3** **1.5.6** **2.4.2**	**86** **19** **99**	
Local communities	G4-SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programs	2.3.3 (Creative industries, culture, tradition; Partnership in sports; Humanitarian activities)	94	We do not report the share. The emphasis is on the content of cooperation/involvement in the activities.
Anti-corruption	G4-SO3 Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	1.5.9 (Audit)	27	We report on the internal control system operation for improvement of transparency, traceability, and responsibility. We do not report the number and share of activities.
Anti-Competitive Behaviour/Protection of competition	G4-SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes in the reporting year	2.4.3 (Legislative and regulatory risks)	101	We report on our exposure to the risk of compliance with the competition law, due to our strong international presence (in 90 countries of the world). We do not report the number of legal actions.
Product responsibility	**DMA**	**2.3.2** **1.5.6** **2.4.2**	**93** **19** **99**	
Product and service labelling	G4-PR3 Type of product and service information required	2.3.2 (Assuring the quality of our products)	93	We report on the activities and goals regarding the improvement of reliability of our products, and on the importance of certificates that grant our products internationally approved (or certified) technical and production credibility. We prepare the relevant inputs for mandatory product information.
	G4-PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	2.3.2 (Assuring the quality of our products, Responsible marketing and market communication)	93	We report that we did not have in 2017 any of our products recalled from the market, and no case of non-compliance of our marketing and market communication approaches with the legislation or local codes.
Marketing Communications	G4-PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications	2.3.2 (Responsible marketing and market communication)	93	We report that we did not have in 2017 any case of non-compliance of our marketing and market communication approaches with the legislation or local codes.

4.4 Numbered table of contents

Note: The numbered content index is intended for easier reader orientation with regard to compliance of Annual Report contents with the GRI G4 sustainability reporting guidelines

ISSUER Gorenje gospodinjski aparati, d. d.,
Partizanska cesta 12, 3320 Velenje, Slovenia

CONTENT CONCEPT Consensus

TEXT Gorenje, d. d., and Consensus

GRAPHIC EDITORIAL ma—ma studio

PHOTOS Peter Marinšek

March 2018

ANNUAL
REPORT

GORENJE
GROUP 2017

gorenjegroup