WE ARE ON TRACK TOWARDS OUR STRATEGIC GOALS, WE CREATE VALUE

We stepped up our sales of premium and innovative appliances

gorenje group

ANNUAL REPORT 2016

Contents

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).

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 CAPITALS - STOCKS OF VALUE

More on page 27.

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

More on page 27.

CREATED VALUE
Goal accomplishment is measured with key performance indicators.

More on page 46.

"Annual reports which offer transparent highlights of business operations and clearly identify the business outlooks of the reporter are useful for our work."

Sašo Stanovnik, Head of the Analysis Department, ALTA Group

Video content

Is the annual report important to you?

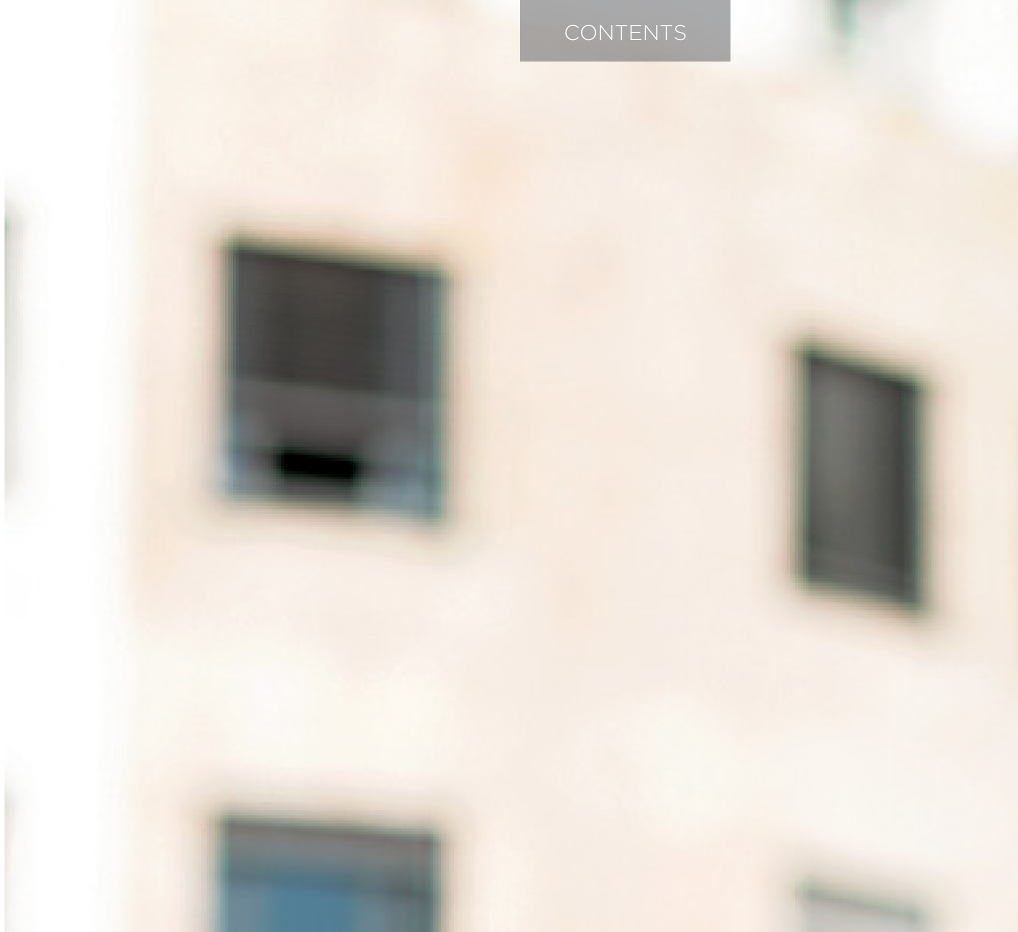
Annual reports are an extremely important source of information for financial analysts. The transparency of the content on the business operations of a company by individual segments is crucial. It is also important that at least some insight into the business outlook of the reporter is defined. In the case of the Gorenje Group, it is therefore about the answer to the question; where does the Group see itself in a year or a few years' time?

Which additional information do you also find useful?

It is very important to provide an appropriate presentation of the advantages of the company over its competitors on the market. It is also desirable to have an insight into the activities and measures taken by the company to maintain these advantages in a competitive environment, or even improve them, as well as to effectively meet the challenges in the environment.

What do stakeholders expect from the annual report?

As a financial analyst, I certainly look differently on the benefits of the annual report than other stakeholders, i.e. from my own perspective. Still, I understand the annual report is perceived as an umbrella document of the company. Therefore, it has to cover and present essential information for all key stakeholders. In addition to the financial public, this also includes the general public and others. It is important that the annual report is based on integrity, bearing in mind the diversity of the stakeholders.



ECONOMIC SUSTAINABILITY – BUSINESS EXCELLENCE

Ensuring transparency in business

We create value for diverse stakeholders of which investors are the most important. In accordance with the fundamental principles of the investor relations, we treat all shareholders and potential investors equally and provide them in a timely way any important information about the Gorenje Group.

The main goal of communication with the financial public is to provide adequately structured, transparent, reliable and current information on the business development of the Gorenje Group and its financial situation.

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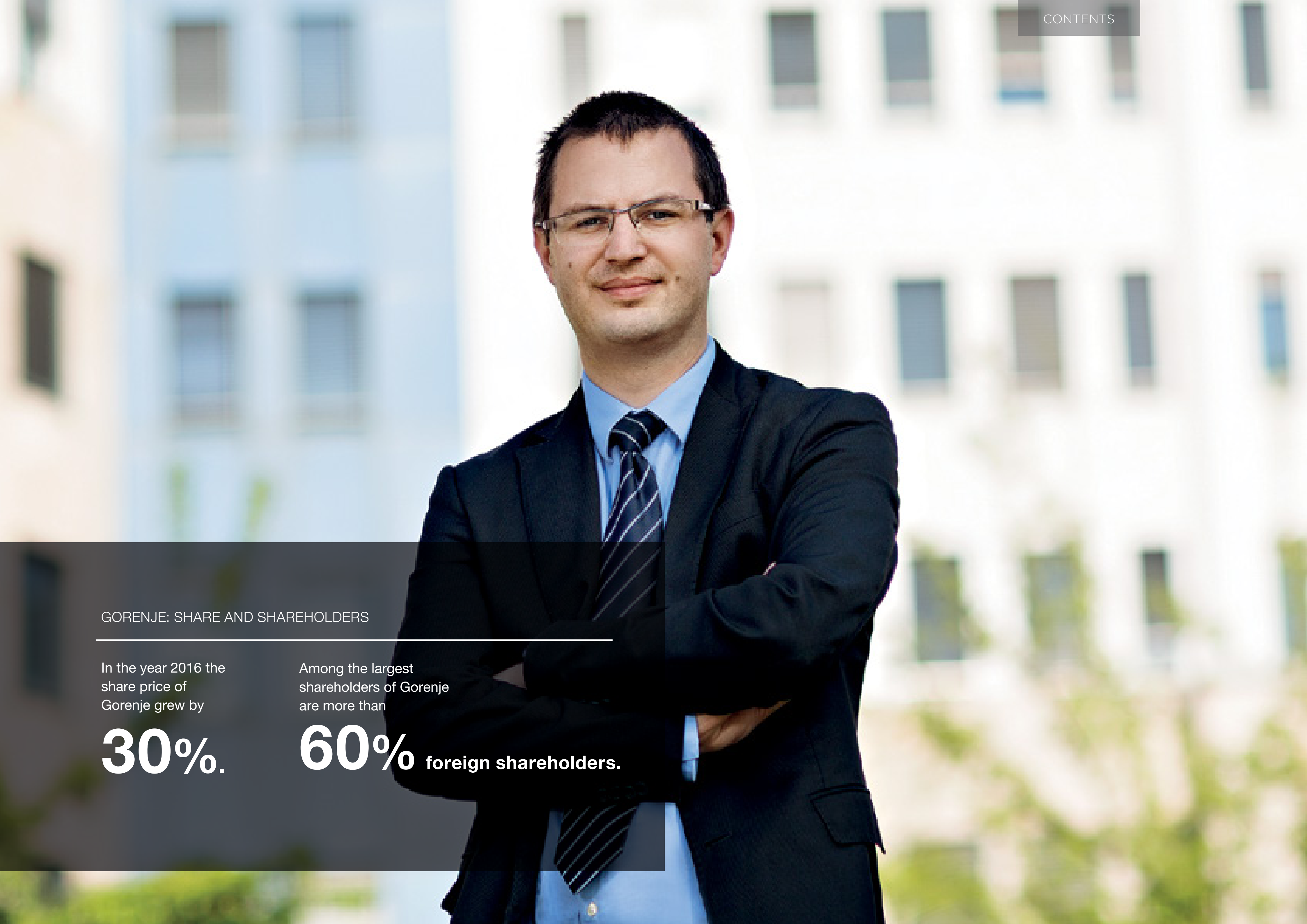


GORENJE: SHARE AND SHAREHOLDERS

In the year 2016 the share price of Gorenje grew by

30%.

Among the largest shareholders of Gorenje are more than

60% foreign shareholders.

”Reliability, design and energy efficiency of appliances is what is important.“

Tatsjana Kranets, a user of Gorenje appliances

Video content

What are your expectations regarding household appliances in your home?

As a mother of three children, it is most important to me that my Gorenje appliances are helpers I can always rely on during household chores – which are quite numerous, believe me. The appliances must also be easy to operate and the functions must be tailored to the needs of our family. While the appliances work, I have time for what matters most to me. With help of Gorenje, everyday chores become easier.

Is there anything else that contributed to your decision to purchase Gorenje appliances?

I love the modern design, since the appliances are all uniform in appearance and match perfectly with the lines of the furniture. I have to admit that the superior service which Gorenje provides also contributed to my decision. But the truth is, I haven't needed it yet.

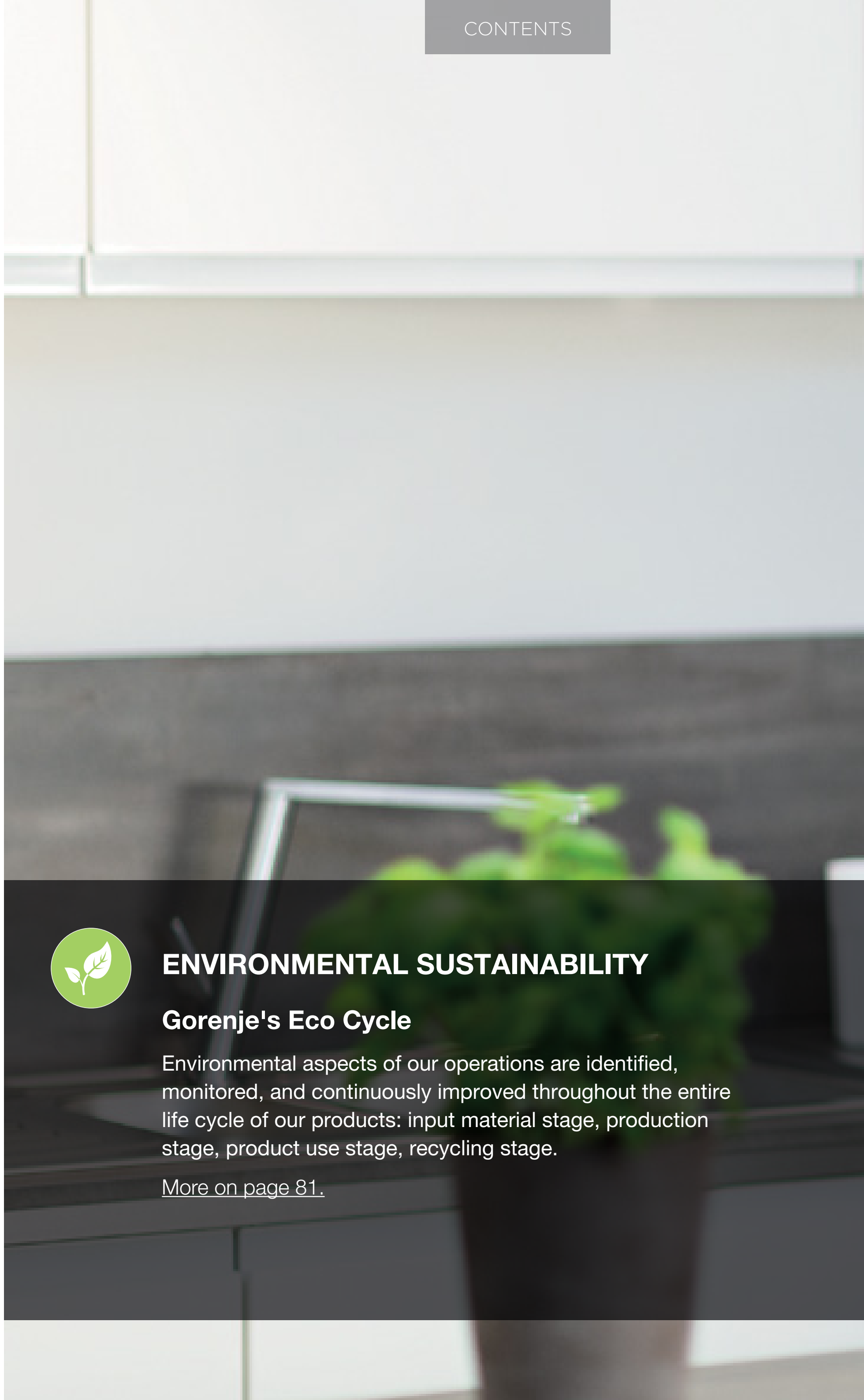
What is also important is that by choosing energy-efficient household appliances the electricity and water bills are lower, and the effects on the environment, caused during operation of the appliances, are smaller.

The Gorenje Group strives to balance its economic sustainability - business excellence, environmental sustainability and social sustainability; this is also what we are reporting about. Do you find this important?

I am proud that our family helps protect the environment with responsible use of household appliances. We are becoming increasingly aware of the importance of maintaining a clean environment which we would like to leave like this to our children.

It is good to know that the Gorenje Group is environmentally responsible and that this environmental responsibility is integrated carefully in the products during all periods of their life cycle: during their development and production, as well as during use and after the end of their use.

Reporting about this strengthens my trust in the reliable operation of Gorenje, today and in the future.



ENVIRONMENTAL SUSTAINABILITY

Gorenje's Eco Cycle

Environmental aspects of our operations are identified, monitored, and continuously improved throughout the entire life cycle of our products: input material stage, production stage, product use stage, recycling stage.

More on page 81.

ELECTRICITY CONSUMPTION

23.24 kWh/unit

In 2016 use of electric energy per product decreased. Decrease of power consumption is a result of optimization of power consumption in production processes.

”Gorenje helps shape the vision of Velenje. We welcome reporting which goes beyond the dull numbers and shows us what our local community can expect from the company in the future.“

Bojan Kontič, Mayor of Velenje

Video content

Velenje and Gorenje: How are they connected?

In Velenje we are continuing with the tradition of economic development and reinforcing our position as an economic centre. Gorenje is our largest economic entity. It is a company which helps significantly to shape our present and has also importantly shaped our past. I am certain it will also be important in the future. We are co-creating new jobs. The vision of Velenje is to become an even more successful economic centre.

Does Gorenje affect the quality of the environment and how?

The decisions of the Gorenje management affect the environmental and social conditions in Velenje, so they are very important for the local community. Gorenje is aware of its social responsibility and contribution to the quality of the environment in which we live. It supports the development of sport and culture. In these areas Gorenje is irreplaceable for Velenje.

Which information about the past operation and future prospects of the Gorenje Group are important to you?

Of course, the financial results are important for every company. But the social environment the company operates in wants to know more about its business plans, planned markets and manufacturing locations.

Thus it is important to report about operations in a way that goes beyond the dull numbers and also presents the placement of the economic entity in its surroundings, as well as its plans and expectations. It seems that we can only expect good from the Gorenje Group, and this is important for the local community. We welcome the approach to reporting we are seeing in this year's annual report of the Gorenje Group.

SOCIAL SUSTAINABILITY

Synergies with local communities

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, particularly in our key production locations.

More on page 89.

GORENJE AND VELENJE GALLERY

Last year, the Velenje Gallery, co-founded within a private-public partnership by Gorenje Group, joined the Velenje Festival. However, we still support its activities in creative industries. These are based on close ties between business, arts, and science, and they especially encourage high-school and elementary school students towards creative thinking.

Gorenje Group

2016 Performance Highlights

SALES REVENUE: **EUR 1.258 BILLION**

This is **2.7%** more than in 2015, and consistent with the Gorenje Group sales plans.

WE HAVE INCREASED THE SALES OF PREMIUM BRANDS ASKO AND ATAG

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

CORE ACTIVITY HOME

We are focused **on our core activity Home** (86.8% of total revenue, or 0.6 p.p. more than in 2015).

REVENUE IN OUR CORE ACTIVITY – HOME: **EUR 1.092 BILLION**

which is **3.4% more** than in 2015.

NET PROFIT: **EUR 8.4 EUR**

Budget: net profit of **EUR 7.6 million.**

EBITDA: **EUR 87.2 MILLION**

EBITDA margin: 6.9%.

EBIT: **EUR 40.2 MILLION**

EBIT margin: 3.2%.

WE DECREASED GORENJE GROUP'S RELATIVE DEBT

We improved the net financial debt to EBITDA ratio, cutting it from 4.1 in 2015 to 3.9 in 2016.

IFA TRADESHOW IN BERLIN

At the IFA tradeshow in Berlin, we premièred our Connect Life connected appliances under our Asko brand, and the new line of innovative Gorenje brand dishwashers. The Gorenje Retro VW refrigerator, designed in collaboration with Volkswagen, drew a lot of attention and enthusiasm.

INVESTMENT INTO DEVELOPMENT: **EUR 32.3m**

Investment into new appliance development was stepped up to EUR 32.3 million, which accounts for **2.6 percent of total Gorenje Group revenue**. We also stepped up our marketing and sales promotion investments to **2.1%** of Gorenje Group revenue.

ENVIRONMENT PROTECTION POLICY

Intensive adjustment to the requirements of the new ISO 14001:2015 standard.

REDUCTION IN THE AMOUNT OF WASTE: **-91%** AND **-99.5%**

Reduction in the amount of waste, **hazardous (-91%)** and **disposed (-99.5%)**, relative to the base year 1997.

DECREASE IN THE USE OF RESOURCES

Decrease in the use of resources, energy and fuels in manufacturing processes, especially water (-84%), compressed air (-22.5%) and natural gas (-39%). Increase in power consumption (+8%) (all data relative to the base year 1997).

CARBON FOOTPRINT: **-7.91%**

Carbon footprint: 10.94 kg CO_2/product (-7.91% decrease relative to 2015).

AVERAGE NUMBER OF EMPLOYEES: **10,889**

Employee training and education: 68% employees involved for over **200 thousand total hours** of training and education (just over 19 hours per employee).

CORPORATE UNIVERSITY GORENJE

25 participants of the **2nd International Business Academy Gorenje** (IBAG) complete their training; annual conference of the Executive Business Academy for 55 managers from the entire Gorenje Group;

presentation of the **1st generation of the new product development academy** (GCA – Gorenje Create Academy) and establishment of **DBAG – Digital Business Academy of Gorenje** to develop knowledge and skills required to reach the goals in the field of digitization.

Key events in 2016

Video content

02

FEBRUARY

We issued 10-month commercial paper with a total face value of EUR 28.9 million. Several financial institutions, enterprises, and individual investors have demonstrated their confidence in Gorenje by subscribing the GRV04 commercial paper.

Gorenje Group presented diplomas to the first generation of graduates of the Gorenje Create Academy – Gorenje's academy for new product development. This is a unique international educational program, a part of the Gorenje Corporate University, designed to encourage innovation at the company and upgrade and extend knowledge and skills for new product development. Within the program, we teamed up with renowned universities from Ljubljana, the Netherlands, and Sweden.

04

APRIL

Gorenje Group presented its premium global brand Asko for the first time in Milan at the EuroCucina tradeshow specializing in built-in appliances for top-of-the-line kitchens.

The company Gorenje Surovina took part in the campaign Čisto veselje (Pure Pleasure). By collecting waste raw materials, they financed vacation for children with emotional and behavioural disorders and covered the expenses for extra teachers at the adapted program.

01

JANUARY

In Iran, we opened a showroom with a total area of 350 square meters at a prestigious and very busy location in the centre of the the country's capital of Teheran. The showroom will present the entire range of upper-mid and premium major domestic appliances.

03

MARCH

In the Trusted Brand survey – one of the largest European consumer surveys on brand confidence – Gorenje won for the tenth consecutive time the flattering title of the most trusted home appliance brand in Slovenia.

MAY

Gorenje launched the production of its first dishwashers under the Gorenje brand, thus considerably extending its offer of major domestic appliances. Innovative SmartFlex dishwashers are a result of several years of development and an EUR 8 million investment that includes a new automated assembly line.

European Investment Bank (EIB) supported with a EUR 50 million loan the program of research, development, and innovation of the company Gorenje, the aim of which is to boost innovation capacity by developing new domestic appliances and upgrading the current range of products.

AUGUST

Due to major increase in orders and resulting temporary increase in workload, we hired over 300 additional workers in manufacturing.

05

08

06

JUNE

Ekoinvest – a subsidiary of Gorenje – and the company HIS gradbeništvo in inženiring which holds a 35-percent stake in the company Publicus, signed an agreement to divest their majority shareholding in the company Publicus, complete with the subsidiary Ekogor.

The company Tesla Recycling informed us about their intent to terminate the Share Sale and Purchase Agreement for the company Gorenje Surovina d.o.o.

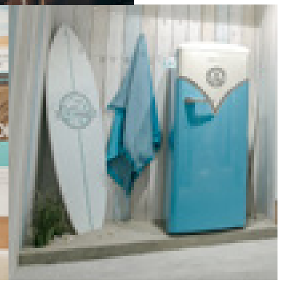
07

JULY

Gorenje d.d. and Panasonic Corporation signed several legal documents that specified a number of terms and conditions under which Panasonic was allowed to conduct due diligence of the Gorenje Group.

We received the coveted Red Dot design award for four Gorenje Group appliances. Gorenje's products have been constantly among the award-winning design elite for a good decade. In 2005, we were the first Slovenian enterprise to earn the Red Dot award for the design of its products. To date, we have won these awards for a total of 35 of our products.

Video content ▸



SEPTEMBER

At the leading consumer electronics and domestic appliance tradeshow IFA in Berlin, we premièred our Connect Life line of connected appliances under the Asko brand, the new line of innovative Gorenje brand dishwashers, a special line of Gorenje Retro Special Edition refrigerators designed in collaboration with Volkswagen, and announced further cooperation and a refreshed line of appliances by the globally renowned designer Ora-Ïto.

09

SEPTEMBER

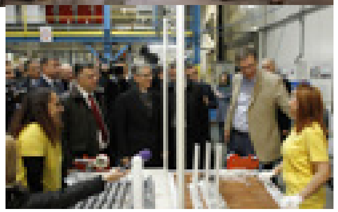
The Gorenje Tiki water heater factory in Stara Pazova celebrated its 10th anniversary of the launch of production in Serbia.

Slovenian Chamber of Commerce and Industry (CCIS) awarded its golden award for best innovation to Panasonic AutoCare washing machine, a result of Gorenje's and Panasonic's joint development.

10

OCTOBER

Industrie Forum Design (iF Design), with a tradition of 50 years, presenting awards for the best achievements in industrial design, presented in the home product category this year the Home Style award to the Asko brand dishwasher and Gorenje brand Retro refrigerator.



DECEMBER

Gorenje repaid the 10-month commercial paper GRV04 with the total nominal value of EUR 28.9 million.

The Gorenje Valjevo cooling appliance factory celebrated its 10th anniversary of successful operation in Serbia.

In the tough annual contest of the Serbian Managers' Association (SAM), we received the Best Employer in Serbia award in the large enterprise category.

Start-up company GOR Kolesa ("GOR Bikes"), jointly held by the companies BTC and Gorenje, presented the new generation of Pony bicycles – bicycles of the masses in the past, announcing the revival of the highly recognized and popular Rog brand.

12

11

NOVEMBER

Gorenje launched a line of appliances in the visual identity of the football club Spartak, Moscow.

In the best annual report contest held every year by the Finance Business Academy, Gorenje Group won in the category of large enterprises, winning the Best Annual Report Award for 2015 according to the opinion of the expert jury. We were also the best in two sub-categories: we had the best annual report in terms of communication, and with regard to risk management and corporate governance.

The company Panasonic Corporation informed us that any further increase of the shareholding in Gorenje was not consistent with their current investment strategy and that they, for the time being, could not further pursue the activities to increase their stake in Gorenje and would not continue the takeover procedure.

"In the first year of pursuit of the 2016–2020 Strategic Plan, we exceeded the budgeted revenue and profit."

Franjo Bobinac, President and CEO

President and CEO's Report

For Gorenje Group, the year 2016 was a year of successful operations that we only improved each quarter. We consistently pursued and accomplished our business goals laid down for the first year of our new strategic plan based on growth and global presence. Thus, larger volumes, better sales structure in terms of markets, brands, and products, and solid cost management, returned Gorenje to profitability after an arduous year 2015. We stepped up our appliance sales under all brands, with the highest increase for the premium Asko brand, as well as other premium and innovative appliances and Gorenje small domestic appliances. We unveiled our first connected appliances and consolidated our position in our strategic markets. With sound financial management, we cut the Group's relative debt and improved its profitability, while supporting its future growth with increased investment into development and marketing. In order to improve operational excellence, we have prepared comprehensive reorganization of the Group, placing even more emphasis to entrepreneurial spirit, while encouraging among the employees integrated thinking and reporting on the value we create for our key stakeholders. With these activities, we are building solid foundations for further attainment of our strategic goals.

The growth of our profitability was fuelled by improved sales structure in terms of markets, brands, and products

After an encouraging last quarter of 2015, solid Gorenje Group performance extended into 2016 and it has been steadily improving since. We wrapped up the year with revenue of EUR 1.258 billion, significant improvement in EBITDA which stood at EUR 87.2 million, and net profit of EUR 8.4 million.

We grew in all Gorenje Group geographical segments, most notably in Russia, Ukraine, and Eastern Europe, and we consolidated our market positions. At the same time, we are – consistently with our strategy – gradually advancing sales in markets beyond Europe where demand for home appliances is rising: Australia, USA, and Asia. Overall, we increased our revenue in the core activity Home by 3.4 percent.

The second profitability growth generator is the increase of the share of premium and innovative appliances which deliver higher value added. We stepped up our sales of premium appliances, and we sold 14.5 percent more innovative appliances, as well as cooking and dishwashing appliances. In addition, sales of small domestic appliances was up 32.4 percent.

Thirdly, and also notably, we drove up the sales of our products under all of our brands, with the premium brand Asko seeing the highest growth at 9 percent. By increasing our sales under the premium brands Asko and Atag, we are successfully improving our sales structure in terms of products. Premium and innovative appliances account for over 27 percent major domestic appliance revenue, although a 30-percent share was only planned for 2020.

Our investments into development are boosting our long-term competitive edge

Growth of profitability and improvement in sales structure, along with attainment of budgeted sales targets, are also supported with targeted marketing activities and investments into new product development, which are rising every year and amounted to 2.6 percent of total Gorenje Group revenue last year.

In a mature industry where we are competing with major global players for the attention of the consumers, we have established ourselves as a manufacturer driven by design and innovation, as substantiated by many prestigious international design awards won by our products also in 2016. In order to explore user habits and needs, and to address the need for trend management, we set up a market and consumer research department. The winner in this race will be the one that best understands the end users, knows them well, and manages the global trends unfolding with ever greater pace in the world, like connectivity and digitization which are certainly at the centre of attention at the moment.

Digitization is an indispensable factor of business process and product development

At Gorenje Group, we are intensively pursuing our digital business strategy that involves all fields of our operations. We are implementing digitization in both business processes and products.

At last year's IFA tradeshow in Berlin, we presented a range of connected appliances of the Asko premium brand, featuring smart controls. We are aware that the rapid pace of change in digitization compels us to continuously adapt the operational solutions to the new possibilities arising in the market. Thus, we are investing heavily in employee training in this direction. One effort in this respect is the digital academy which is becoming an important part of the Corporate University of Gorenje.

A year of cost efficiency and savings

Systematic approach to risk management established at the Gorenje Group ensures that business decisions and risks related thereto are identified, measured, and monitored at a strategic, operational, and project level. Involved in the risk management process are all employees who are exposed to risks and opportunities in adopting their decisions, and to opportunities brought about by the business decisions. A centralized approach to currency risk management, for example, has resulted in optimal hedging effects with respect to currency fluctuations that had had a strong impact on Gorenje Group results only a year earlier. At the same time, the system provides solid foundations for long-term growth and stability of operations, and generation of value for all stakeholders.

Integrated reporting that we started to introduce in 2016 and which can already be seen in this Annual Report thus clearly presents two aspects. Firstly, our understanding of the six capitals employed to generate sustainable value, with a concise presentation of its balance between Gorenje Group's economic sustainability and business excellence, environmental sustainability, and social sustainability. Secondly, how the financial and non-financial results of our operations, measured by a set of key performance indicators, relate to our approach and measures in risk and opportunity management.

In 2016, we continued to revise our supply chain management. We were successful in cutting product complexity, which resulted in further optimization of purchasing and inventory management costs. Costs of material, labour, and services were successfully adjusted to increased sales volume. With stable conditions in the markets and increased orders resulting in higher workload, we hired 500 more workers, mostly for manufacturing operations in Slovenia. Moreover, we made sure the labour and service costs rose slower than our sales revenue.

Careful inventory management and decrease of working capital resulted in lower relative debt. We also cut our finance expenses and improved our financial stability. The net financial debt to EBITDA ratio was cut from 4.1 to 3.9.

Gorenje Group continues along the path of development as mapped out in the strategy

Also notable in the year 2016 were the developments related to the Panasonic Corporation and the possibility of the increase of its ownership stake in Gorenje. After a due diligence and valuation process, Panasonic informed us in November that any increase of shareholding in Gorenje was not consistent with their current investment strategy, and they therefore did not further pursue the takeover procedure. Panasonic's decision does not affect Gorenje Group's independent development and the goals laid down in the Strategic Plan, and successfully attained and exceeded in the first year of its execution.

Dear shareholders,

Rapid development of new technologies, volatile and unpredictable business environment, and profound changes in user habits and expectations require – in addition to the key factors of success in our industry, i.e. command of development and technological processes, knowledge of the end user, organization of the sales and after-sales network etc. – fitting transformation of organizational structure and corporate governance. Therefore, we prepared, consistently with the strategic policy of operational excellence and efficiency, comprehensive transformation from functional to business-product (or divisional) organization, which has been under way in 2017. New organization will allow even more space for entrepreneurial approach and focus on further improvement of operating performance, and it represents a key tool for further success in a challenging international environment.

With innovation, responsibility, and entrepreneurship, which are our key values, we are looking to make Gorenje Group competitive while maintaining a balance. This, in turn, leads to sustainable generation of value for our shareholders, customers, employees, business partners, and local communities in the short, medium, and long run.

I believe the activities we have mapped out and the new organization will allow us to successfully continue our pursuit of the strategic goals of global growth as laid down in the Gorenje Group development strategy for the period until 2020.

Franjo Bobinac
President and CEO

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 2016

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 2016 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 2015 Annual Report, the Supervisory Board has held twelve sessions, of which seven were regular meetings and five 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,
- Keith Charles Miles (Supervisory Board member until July 8, 2016),
- Toshibumi Tanimoto,
- Miha Košak (Supervisory Board member since July 9, 2016).

Employee representatives:

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

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

All Supervisory Board members representing capital signed a written statement that they were entirely independent in their work and free from any conflict of interest, which the company has publicly announced on its website.

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.

Other issues addressed by the Supervisory Board

The Management Board regularly provided to the Supervisory Board the information on the progress of divestment of some of the non-core companies and non-operating assets. In addition, the Supervisory Board was kept up to date with other major issues regarding further development of Gorenje Group operations, as well as changes in the Corporate Governance Code and competition rules and regulations. The Board saw an important presentation on digital trends, digital environment, and execution of digital business strategy at the Gorenje Group. We firmly believe Gorenje is on the right path, introducing new ways to offer products to its customers, particularly the end users, and that it will remain a major player in the home appliance market in the future.

The Supervisory Board was also informed regularly on the cooperation with Panasonic Corporation, as well as the conditions and all activities related to the due diligence of Gorenje Group, which the Panasonic Corporation conducted. The ultimate decision by this company not to further pursue the activities to increase their stake in Gorenje and the takeover procedure does not affect Gorenje Group's goals or its independent development as mapped out by the company in its strategic plan.

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. We have also approved the Internal Audit Charter, and the signing of the agreement with the third-party auditor for the internal audit of IT.

Monitoring the execution of the Strategic Plan for the period 2016–2020

The Supervisory Board also monitored in detail the company operations and implementation of the Gorenje Group 2016–2020 Strategic Plan. In the first year its pursuit, Gorenje Group met the goals set forth as it increased its revenue to EUR 1.258 billion while improving considerably its financial performance indicators. Thus, Gorenje Group is on the right track to continue to attain the goals specified in the strategic plan in the future.

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. With these organizational changes, Gorenje Group transformed its conventional functional organizational structure to business-product (divisional) organizational structure focused on brands and product programs. This will allow even more room for an entrepreneurial approach and focus on further improvement of performance. The new organization will further promote integrated thinking which is the prerequisite for integrated reporting on how Gorenje Group is generating value for its key stakeholders in the short, medium, and long run. We have already taken a step towards integrated reporting in the development of the Gorenje Group 2016 annual report; the logic of the new organization will be fully reflected in the 2017 annual report.

Approving our business plans

In January 2017, we approved the Business Plan of the company Gorenje d.d. and the Gorenje Group for the year 2017, which is the second year of the strategic period. Gorenje Group is planning further revenue growth of 4.5 percent in 2017; Home segment growth is planned at 5 percent; and EBITDA growth is planned at 11 percent. According to the 2017 plan, net profit is anticipated to exceed EUR 13 million. 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. We will continue to generate positive free cash flow, optimize net working capital, and reduce complexity at all levels. 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 committed to accepting measures in the fields with the lowest scores. As early as at the next session, we will launch the activities to improve the work of the Supervisory Board, making it even more effective.

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, corporate finance and the business area of ecology, trade, and industrial services shall be managed by Jožica Turk, executive vice president of corporate finance.

Supervisory Board committees have long been 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.

Supervisory Board committees

Audit Committee

Until the November session, the Audit Committee included three members: Bachtiar Djalil as chairman, and members Drago Krenker and Aleksander Igličar. On November 11, 2016, Miha Košak was appointed Audit Committee member, expanding the Committee to four 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 in quarterly reports, and resolved most ambiguities in these reports by raising relevant questions before they were discussed at a Supervisory Board session. The Management Board and Audit Committee members have established the good practice of raising questions by respective Audit Committee members before the Audit Committee session, with Management Board members and other Gorenje managers preparing written responses by the time of the session.

Since the approval of the most recent annual report, the Audit Committee has held eight sessions, of which one was a correspondence session. In addition to reviewing the periodic or interim reports, the Committee regularly reviewed the compliance with the covenants laid down in the loan agreements signed with respective banks, 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 2016 fiscal year.

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

- powers and authorizations for signing agreements and consulting agreements;
- strategic project management at Gorenje Group,
- working capital management at Gorenje Group,
- procedure for recognizing capitalized development costs, with emphasis on internal controls,
- divestment of real property and subsidiaries,
- repayment of the loan by the company Intersolar,
- selection of a third party auditor for the IT internal audit,
- effects of currency hedging, risk management system, IT security, and business continuity plan,
- raw material purchasing procedure,
- sponsorship and donation agreements, and
- competition protection.

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 (since July 9, 2016), chairman and member Keith

Miles (until July 8, 2016), and members Bernard Pasquier, Toshibumi Tanimoto, Peter Kobal, and Miha Košak (member since November 11, 2016). 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 Committee addressed benchmarks in the following fields:

- production statistics,
- market share statistics,
- quality assurance,
- cost efficiency,
- complexity,
- digitization,
- labour costs,
- trends in the industry,
- pricing strategy and price ranges, and
- benchmark of other fields against the best in the industry.

Remuneration Committee

Remuneration Committee consists of chairman Bernard Pasquier and members Keith Miles (member until July 8, 2016), Uroš Slavinec, Marko Voljč, Drago Krenker, Jurij Slemenik, and Miha Košak (member as of November 11, 2016).

Following the announcement of the resignation by the Supervisory Board member Keith Miles, 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 Miha Košak as a candidate for the substitute Supervisory Board member. The Supervisory Board approved the proposal and proposed to the Shareholders Assembly to appoint Miha Košak as the new Supervisory Board member; at last years, assembly, the Shareholders Assembly approved this proposal.

Following the consensual termination of the term of office of the Management Board member in charge of corporate finance and the business area of ecology, trade, and industrial services (CFO) Peter Groznik, the committee prepared a range of candidates and assessed the candidates for the Management Board until the end of the current term, i.e. until July 19, 2018.

Corporate Governance Committee

Corporate Governance Committee consists of chairman Bernard Pasquier and members Marko Voljč, Peter Kobal, and Krešimir Martinjak. In December 2016, the Corporate Governance Committee discussed the planned changes in the Gorenje Group organization, based on which Gorenje Group was transformed from a conventional functional organization into business-product (divisional) organization focusing on brands and product programs.

Nomination Committee

The Supervisory Board Nomination Committee is currently inactive since the current Supervisory Board commenced its four-year term of office on July 19, 2014. As the term of office of the current Supervisory Board expires on July 20, 2018, the Supervisory Board will most likely appoint the Nomination Committee early in 2018, to short-list the candidates for the Supervisory Board in its next term of office, and evaluate them.

Annual Report review and approval

On April 13, 2017, 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 2016. The Supervisory Board reviewed and discussed the Annual Report at the meeting held on April 21, 2017.

The Annual Report of the company Gorenje d.d. and the Gorenje Group for the year 2016 was audited by the auditing company Deloitte Revizija d.o.o. Audit was also conducted at all Gorenje Group material subsidiaries, as previously agreed upon with the auditing company Deloitte Revizija d.o.o. On March 31, 2017, 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 2016.

The contents of the Auditor's Report have been amended in accordance with the revised International Standards on Auditing that specify auditor reporting, and pursuant to which the entire contents of the Auditor's Report have been amended. The amendments include a more detailed explanation of the responsibility of the auditor, the management, and the supervisory board. For companies whose securities are listed on a regulated market, which includes Gorenje d.d. and the Gorenje Group, the Auditor's Report shall, according to the revised Standards, also include a chapter on key auditing aspects which are, in the auditor's view, the most important from the aspect of financial statement auditing. In this chapter, the auditor is required to specify the reasons behind the selection of the key auditing aspects and present an account thereof within the auditing procedures.

The Auditor's Report for the Gorenje Group and Gorenje d.d. for the year 2016 differs from the 2015 Auditor's Report as a result of the changes specified above. As in 2015, the auditor issued an unqualified opinion to Gorenje d.d. and the Gorenje Group.

Pursuant to the sound practice to date, the Audit Committee examined with due diligence before the Supervisory Board session the 2016 Annual Report, complete with Audit Report and Management Letter, to propose amendments and put forth their positions and opinions, which were observed.

The Supervisory Board confirmed that the 2016 Annual Report prepared by the Management Board and audited by a certified auditor was compiled in a clear and intelligible manner and in compliance with the provisions of the Companies Act and effective International Accounting Standards. It complies with the Global Reporting Initiative (GRI G4), as well as the fundamental concepts, guiding principles, and content elements of integrated reporting pursuant to the International Integrated Reporting Council (IIRC). The Supervisory Board reviewed and confirmed the Auditor's Report to which no objections were made. As a result, the Board finds that the Annual Report presents a true and fair account of the property, liabilities, financial position, and income, as well as a fair account of the development of operations and the business position of the parent company and the Gorenje Group.

Based on these findings, the Supervisory Board approved at the session held on April 21, 2017, the Annual Report for the company Gorenje d.d. and the consolidated Gorenje Group Annual Report for the fiscal year 2016, as presented by the Management Board.

Distributable profit and proposal for its allocation

In the calculation of the distributable profit for the year 2016, the Management Board and Supervisory Board observed the effective provisions of the Companies Act and Gorenje's Articles of Association. Net profit of the company Gorenje d.d. for 2016 amounts to EUR 3,699,298.62, and distributable profit amounts to EUR 2,430,330.20. The proposal on the allocation of distributable profit for the year 2016 will be announced in the convocation of the Shareholders Assembly where the decision on this proposal will be made.

The Supervisory Board proposes to the Shareholders Assembly to grant discharge from liability to the Management Board and Supervisory Board for their work in 2016.

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, April 21, 2017

Marko Voljč
Supervisory Board Chairman

Gorenje Group Profile

Group Corporate Profile

gorenjegroup

Gorenje Group is a leading home product manufacturer.

CORE BUSINESS

products and services for home
(Major and Small Domestic Appliances)

CONSOLIDATED REVENUE

EUR 1,258 billion

EXPORT

95% of sales

EMPLOYEES

11,000

OWN PRODUCTION

Slovenia, Serbia, Czech Republic

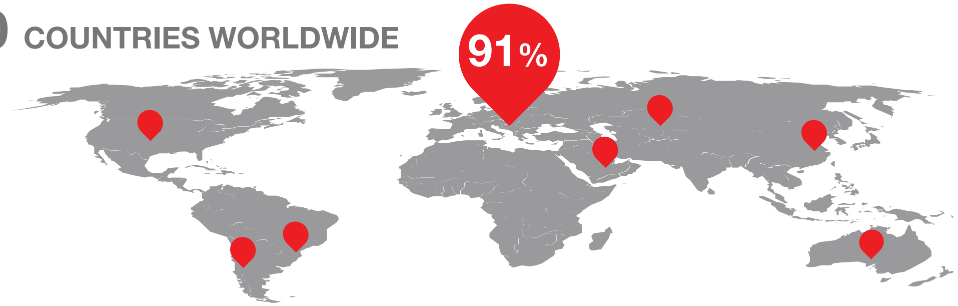
R&D COMPETENCE CENTRES

Slovenia, Czech Republic, Sweden, Netherlands

GLOBAL PRESENCE

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

90 COUNTRIES WORLDWIDE



Video content

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**

1961–1970 **Acquisitions of companies** bringing synergies to the core Business »Everything for Home«

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

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

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

1991–1996 **Strong expansion** abroad

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

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

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

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

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

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

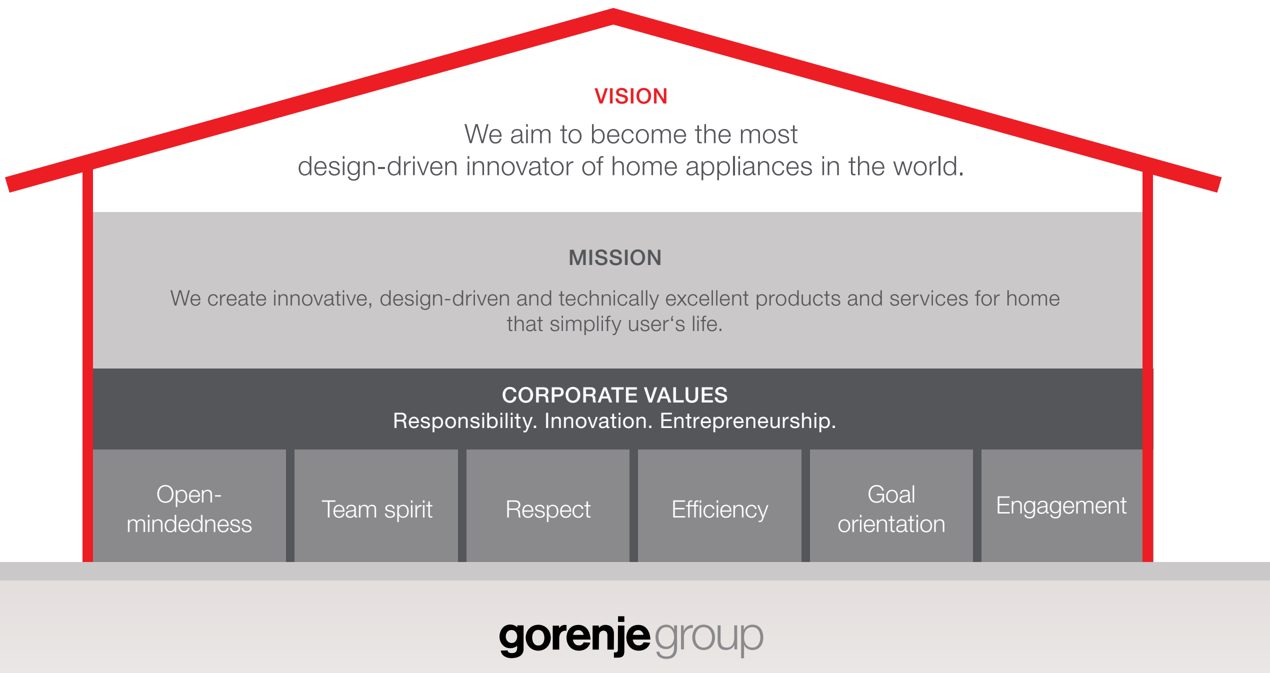
2014 **Positive effects of restructuring**

2015 **New Strategy 2016-2020**

2016 The first year 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.



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.

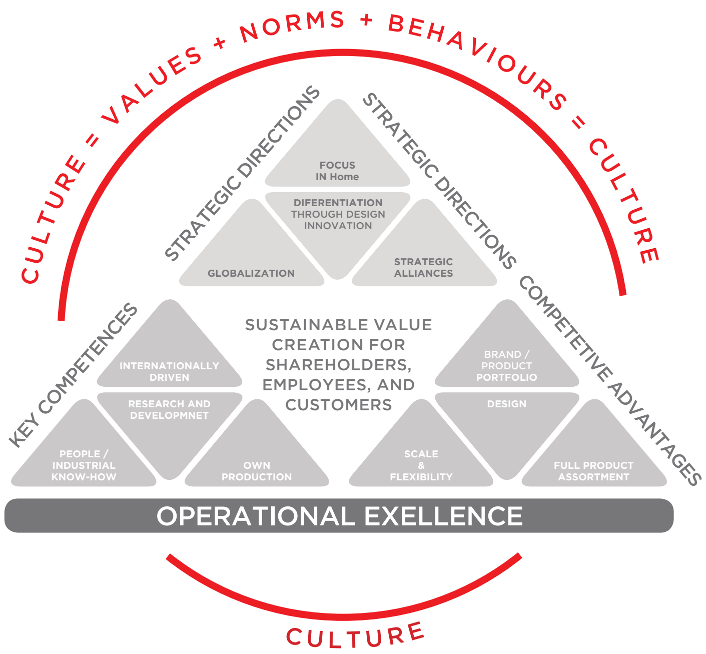
In pursuit of our mission, we pursue our **strategic policies**. We are focused on the core activity of home products where our distinctiveness is based on design-driven innovation: aesthetics, ergonomics, and user-friendly controls.

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. We have been expanding our sales network across the world, and closely following the trends of the global economy for over 50 years.

Based on our **competencies**, our competitive advantages are 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: Strategic Plan for the Period from 2016 to 2020

Responsibility is understood as **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, environment responsibility and social responsibility**.

The year 2016 was the **first year of Strategic Plan 2016–2020 execution**. The new strategy better reflects the current challenges and the changes taking place at the Gorenje Group and in the environment where we operate: Its main slogan is **Gorenje Group Grows Global**.

The core orientation of the 2016–2020 Strategic Plan is the **overall goal of profitable growth** as the Group is looking to generate EUR 1.56 billion of revenue in 2020 at an EBITDA margin of 9 percent.

Our key goals will be attained:

- by focusing on the core activity (Home) which is to generate 92 percent of total Group revenue by 2020;
- by doubling our upmarket sales and sales in the overseas countries;
- by marketing our premium brand Asko which shall double its revenue by 2020, to a total of EUR 206 million in that year;
- by expanding sales to markets beyond Europe where we shall generate revenue of EUR 196 million in 2020;
- by focusing on the premium segment which shall account for 30 percent of total sales in 2020;
- by improving the net debt to EBITDA ratio to no more than 2.5 in 2020;
- by generating free cash flow in the amount of EUR 25 million in 2019.

All activities specified in the Strategic Plan for the period from 2016 to 2020 shall result in stable growth of operating profit. Thus, EBIT will exceed EUR 70 million in 2020, while EBIT margin will reach 4.5 percent.

Integrated thinking paving the way to integrated reporting

In the 2016, the first year of Strategic Plan execution, Gorenje Group **set out on the path of integrated reporting which in turn is based on integrated thinking**. The latter has been a trademark of some areas within the Gorenje Group for a while; as of this year, it will be deliberately consolidated and it will also be reflected more pronouncedly in our approach to corporate reporting. We follow the integrated reporting principles as set forth by the International Integrated Reporting Council (IIRC).

As we implement integrated reporting, **we are making sure our Annual Report**:

- **concisely presents the ways in which value is created and added** for our diverse stakeholders, i.e. the employees, shareholders, buyers, consumers, business partners, local communities, and others;
- **reflects the relations between key financial and non-financial information** about our operations and performance;
- exceeds mere reporting about the results accomplished in the past, and offers the readers the **insight into Gorenje Group's business future**, i.e. strategically oriented generation of sustainable value in the short, medium, and long run.

More on the development of Gorenje Group Corporate Reporting on page 211.

Gorenje Group: Our capitals and creation of value

In creating value, Gorenje Group employs **six mutually intertwined capitals**.

Video content

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.

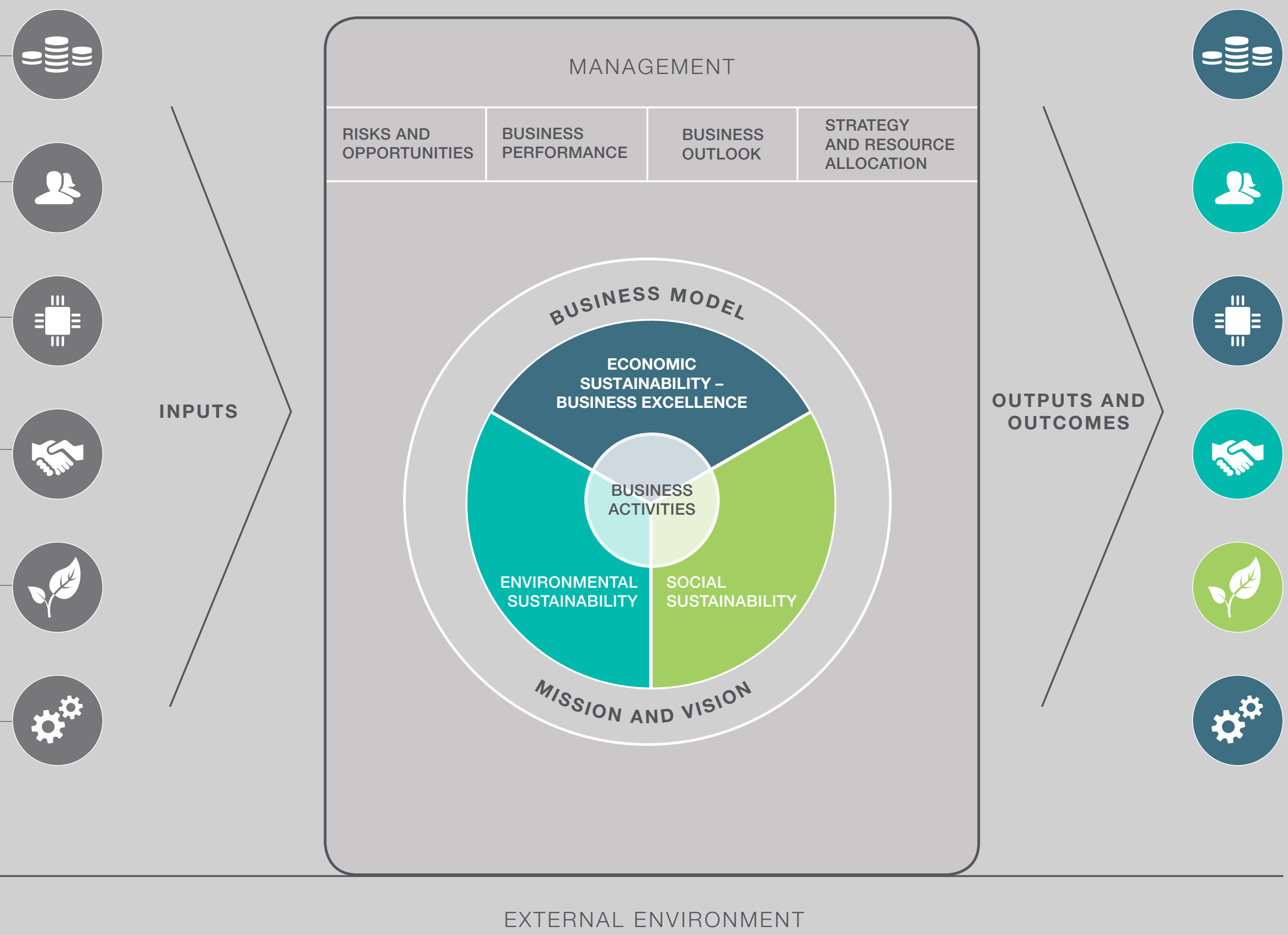
Human capital
knowledge, competencies, and experience of our employees. Their dedication to innovation and improvements in performing the work duties.

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.



Measuring the attainment of our strategic goals

Clear goals were set forth in the Strategic Plan for the period from 2016 to 2020. Success in their pursuit 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**:

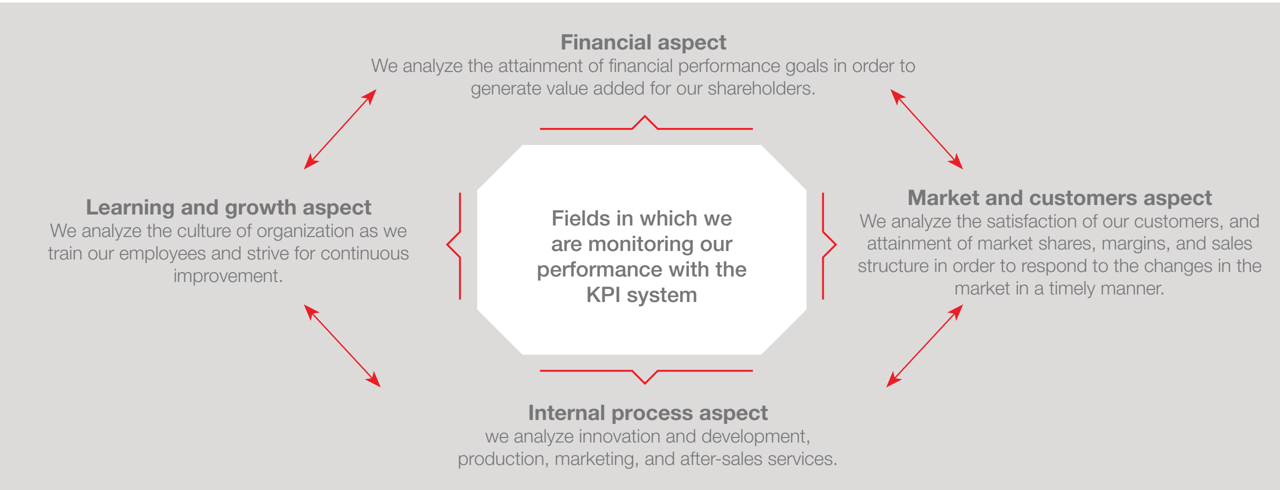
- financial aspect,
- market and customers aspect,
- internal process aspect, and
- learning and growth aspect.

With these indicators, we monitor whether Gorenje Group operations are consistent with the strategic policies, and how and whether the functional, business, and strategic goals laid down in the Strategic Plan 2016–2020 are being accomplished. The range of specific indicators that we report, results for 2016, and goals for 2017 and 2020, are presented in more detail at the beginning of the Business Report in the chart **Our capitals for sustainable creation of value and key performance indicators (KPI).**

More on Creation of Value and KPI on pages 46 and 47.

We are aware that value creation does not depend only on our internal performance, but largely also on the events and developments in our external (business, market, political, regulatory, social etc.) environment and on our relationships with our stakeholders. Therefore, we **deliberately plan and execute measures for managing our key risks**. The link between goal accomplishment measurement and risk management is presented in more detail in the Business Report (see chart **Risk management and key performance indicators (KPI).**

More on the relation between risks and KPI, broken down by three bottom lines of sustainable value creation on pages 98 and 99.



Brands

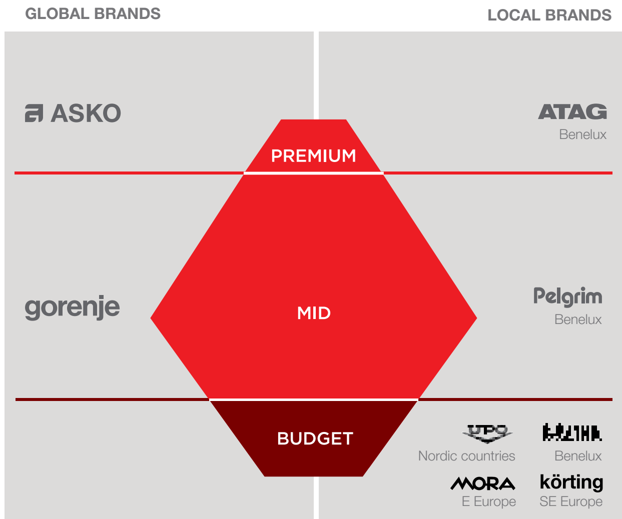
In over 90 countries across the globe, customers trust and rely on Gorenje Group's innovative products that deliver simplicity of use, sophisticated aesthetics, and excellent quality. Products designed in such way are a result of in-depth knowledge of trends, user habits and expectations, and the possibilities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

More on brand development, results for 2016, and future goals for the Asko and Gorenje Brands on pages 58 and 59.



Key stakeholders

	Owners, shareholders, investors	**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, 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 2016)	We are strengthening shareholder trust and confidence with regular communication about the events and developments at the company. Key topics: Strategic Plan 2016–2020, major business events, interim business results, issue of commercial paper, participation at fairs and tradeshows, awards received.	We communicate our mission, vision, values, our corporate strategy, and our product and services to tour employees. We plan employee development (annual interviews). We provide good working conditions. We encourage creativity and innovation, team work, and entrepreneurial spirit among our employees. We are developing a dynamic management team responsive to changes in the environment.	Information on operations, customers are also regularly informed about 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, public announcements in the electronic notification systems of the Ljubljana Stock Exchange and the Warsaw Stock Exchange, website at www.gorenjegroup.com with a dedicated page for investors, Investor Day, meetings at the company head offices, participation in investor conferences at home and abroad, meetings with investors and analysts following the announcements of major business events, proactive communication and provision of response to reporters' inquiries.	IInternal Gorenje Portal, 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 the European Works Council, extended councils, regular worker assemblies, social dialogue, open door to the President and CEO's office (personal discussions).	Constant contact (in person, telephone, electronic mail, video conferences), brand websites, corporate websites, special B2B tool, materials with information about our products and Group operations.
Links to Annual Report contents	Creating value for the shareholders, page 66. Corporate Governance Statement, page 35. Financial report, page 110. Relation to the six capitals: The diagram "Our capitals for sustainable creation of value and key performance indicators (KPI)" is on page 46. Relation between risk management and KPI: page 98.	Relations between employees, page 91. Development of key segments, page 53. Vision, mission, values, page 25. Relation to the six capitals: The diagram "Our capitals for sustainable creation of value and key performance indicators (KPI)" is on page 46. Relation between risk management and KPI: page 98.	Development of key segments, page 53. Business performance, page 70. Gorenje's eco cycle, page 82. Relation to the six capitals: The diagram "Our capitals for sustainable creation of value and key performance indicators (KPI)" is on page 46. Relation between risk management and KPI: page 98.

	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 2016)	Information on 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.	Information on operations, major business events, interim business results, participation at fairs and tradeshows, awards received etc.	Information on "3rd development axis", tax reform, importance of design for economic or business development, digitization of society, internationalization of Slovenian economy, company activities within local entrepreneurship, development strategy for the local community
How do we communicate? (Communication channels and tools)	Call centre, product websites, social media, brand magazines, electronic mail, 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), 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	Quality for our users, page 95. Environmental aspects of our operations, page 83. Efficient resource management, page 85. Relation to the six capitals: The diagram "Our capitals for sustainable creation of value and key performance indicators (KPI)" is on page 46. Relation between risk management and KPI: page 98.	Creating value for the shareholders, page 66. Business performance, page 70. Key events in 2016, page 12. Relation to the six capitals: The diagram "Our capitals for sustainable creation of value and key performance indicators (KPI)" is on page 46. Relation between risk management and KPI: page 98.	Cooperation with local communities, page 96. Environmental aspects of our operations, page 83. Strategic plan for the period from 2016 to 2020, page 26. Relation to the six capitals: The diagram "Our capitals for sustainable creation of value and key performance indicators (KPI)" is on page 46. Relation between risk management and KPI: page 98.

Participation and membership in associations

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, 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
- EFFRA – European Factories of the Future Research Association, 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 2016

Gorenje Group received numerous awards for its activities in a variety of fields in 2016. 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.

Best employer: Award by the Serbian Association of Managers (SAM) for the best employer in the large enterprise category. According to SAM members, Gorenje Group allowed the best conditions for work and development of employees in Serbia in 2016.

Health promotion: In Slovenian campaign for employer awareness of employee health in the workplace, Gorenje received the award for the most comprehensive approach to employee health promotion.

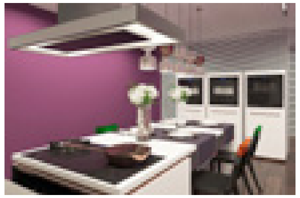
Red Dot Design Awards: Red Dot design awards for four Gorenje Group appliances.

reddot design award

The Best Innovation: Golden award of the Slovenian Chamber of Commerce and Industry for the best innovation for the Panasonic AutoCare washing machine.

The best annual report: Award by the Finance Business Academy for the best annual report among large enterprises, and the best annual report in the categories of communication and risk management.

Product of the year: Award by the Elle Decoration Russia magazine for our Gorenje by Starck designer line that won the "product of the year" title in the home appliance category, and for the Asko Pop-Up Store.



Design award: We won the iF Design Home Style award for the Gorenje Retro series refrigerators and the dishwasher of our premium brand Asko.

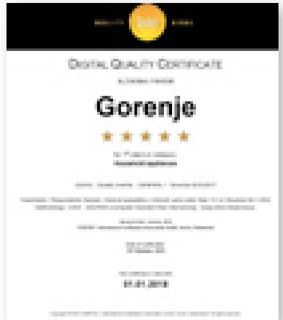
Best supplier: Gorenje Austria received the Zac of the Year 2016 award for the best supplier

The best design solution: POMP award for the best design solution for the Gorenje Lifestyle Magazine.

Slovenian Chamber of Commerce and Industry award: Golden Award by the Chamber of Commerce and Industry of the Savinja and Šalek Region for the Panasonic Autocare washing machine, and silver awards for the Gorenje dryer and panel heater.

Brand: Trusted Brand, the most trusted home appliance brand in Slovenia.

Product quality: First place in the QUDAL survey - Quality Medal for Gorenje brand appliances.



Consumer test: Asko laundry dryer wins the Australian consumer test.

Organizational Structure and Geographical Presence

Organization of the core business Home

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

PARENT COMPANY
Gorenje, d. d.

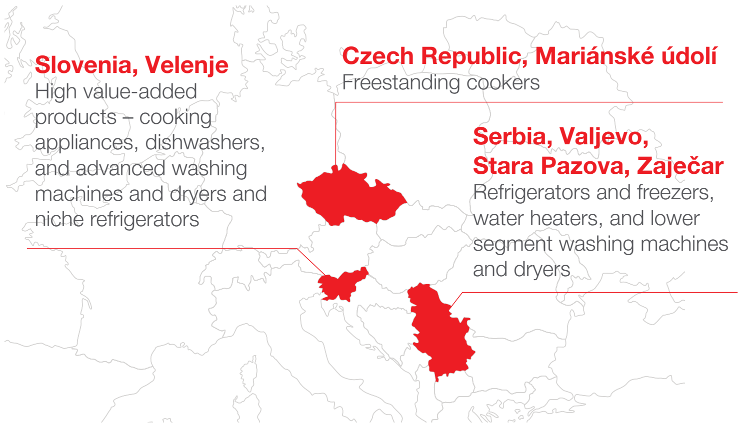
HOLDING COMPANIES
2

SALES BUSINESS UNITS
(incl. representative offices)
40

PRODUCTION COMPANIES
6

Manufacturing operations map

Our products are made in Slovenia, Serbia and Czech Republic.



Key market map

Our key markets include:

Germany
Russia
the Netherlands

Scandinavia
Serbia
Czech Republic
Croatia
Slovenia

Australia
USA

BIH	Bulgaria
Hungary	Great Britain
Austria	France
Poland	Montenegro
Belgium	Ukraine
Rumania	
Slovakia	

Value structure of sales under own brand names.

Gorenje Group Non-core activities

Non-core activities are an important part of Gorenje Group operations, and they are intertwined in a number of ways with the core activity. Our efforts are geared towards development of those non-core activities and services that yield synergistic effects with the core activity, while presenting potential for independent development and possibility of expansion from Slovenia to the broad region of Southeastern Europe, delivering results that exceed the core activity indicators.

In conducting the existing or any new non-core activities, we are striving to find maximum possible synergies with the core activity in a variety of aspects, such as:

- brand importance/meaning,
- international presence,
- expert knowledge,
- purchasing sources, and
- financial stability.

Following are the key policies of Gorenje Group non-core activities:

- minimum dependence on the core activity,
- organization within a separate legal entity,
- independent development and expansion in their own field of operation and similar activities,
- openness to business/ownership combinations,
- divestment of the company when it grows beyond the framework of core activity or when it is incapable of independent development, or for other reasons,
- integration in Gorenje Group's core activity with business models and specialist knowledge where possible.

Following are the key areas of development of Gorenje Group's non-core activities:

- 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).

Review of Gorenje Group's non-core activities related to core activity processes

PRODUCTION AND SALES

Gorenje Projekt, GTI, GAIO, Gorenje Surovina, GGE, Erico, Gorenje Orodjarna:

- Automatic warehouses
- Metal, packaging, and hazardous substance processing
- Renewable energy sources and efficient use of energy projects
- Production of tools and machinery

END BUYERS, HOUSEHOLDS

Gorenje Surovina, ZEOS, Erico, Indop, GGE, Gor kolesa:

- waste material collection, small wastewater systems (treatment plants)
- energy audits, combined heat and power generation
- comprehensive offer of energy
- mobility

RECYCLING

ZEOS, Gorenje Surovina, Kemis:

- transfer of obligations to schemes
- collection
- sorting, disassembly
- reuse of raw materials

REUSE, REPAIR, SEPARATE COLLECTION

Gorenje, d. d., ZEOS, Gorenje Surovina:

- appliance repair, separate waste collection and waste sorting, reuse

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 29, 2016, the Management Board had six members; from March 1, 2016 on, it had five members; since March 1, 2017, the Management Board has four members.

Presentation of the Management Board members

		
Management Board member name	**Franjo Bobinac**	**Peter Kukovica**
Field of responsibility according to the new Gorenje Group organization effective since February 1, 2017	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	Management Board member; co-responsible for the business segment of major and small domestic appliances and in charge of operational support functions, and IT and organizational support
Field of responsibility according to Gorenje Group organization effective until January 1, 2017	resident and CEO	Management Board member in charge of supply chain management/logistics, quality, organization, and IT
Education	Bachelor of Economics, Faculty of Economics, University of Ljubljana MBA, Ecole Supérieure de Commerce, Paris	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
Career path	1983 Emo Celje 1986 Gorenje, assistant director of exports 1990 Gorenje, director of exports 1991 Gorenje, director of marketing 1993–1998 Gorenje sales subsidiary in Paris, managing director 1997 Gorenje, d.d., member of the temporary Management Board 1998 Gorenje, d.d., Management Board member in charge of sales and marketing 2003 Gorenje, d.d., President and CEO	1990 Iskra Zorin/Mike software d.o.o., system analyst 1991–1994 Nissan Adria, director of sector 1994 Suzuki, Wolf and Partners, assistant director 1994–2001 Pan Adria Tires 2001–2007 ACH, assistant to general manager for strategic development and marketing 2007–2009 AMZS, d.d., deputy director and Management Board member 2009–2012 Iskra MIS, d.d., Management Board member, Management Board president 2012 Iskra sistemi, d.d., Management Board president 2013 Gorenje, d.d., advisor to President and CEO 2014 Gorenje, d.d., Management Board member in charge of supply chain management
Number of Gorenje shares held	4.096	/
Membership in Supervisory Boards of other companies outside the Gorenje Group	IEDC - Poslovna šola Bled, d. o. o., Supervisory Board member	Nova KBM, Supervisory Board chairman until April 21, 2016
	More information	More information

		
Management Board member name	**Branko Apat**	**Drago Bahun**
Field of responsibility according to the new Gorenje Group organization effective since February 1, 2017	Management Board member; in charge of the business segment of heating systems, bathrooms, and kitchens, and corporate procurement	Management Board member; co-responsible for HR and general affairs
Field of responsibility according to Gorenje Group organization effective until January 1, 2017	Management Board member in charge of major appliance operations and operations and sales of heating systems	Management Board member, labour director
Education	B.A. Economics, Faculty of Economics, University of Maribor Specialist in Marketing, Cleveland State University, Ohio, USA	BA Sociology – Specialist, Faculty of Sociology, Political Science, and Journalism, University of Ljubljana
Career path	1988 Gorenje, assistant director of exports for non-white goods programs 1990 Gorenje, director of purchasing 1993 Gorenje, director of marketing 1999-2009 Gorenje Tiki, managing director 2003 Gorenje, executive director of Gorenje Group companies dealing with heating equipment, toolmaking, and machine building 2006 Gorenje, executive director of complementary program 2007 Gorenje, Management Board member in charge of complementary programs, purchasing, and logistics 2009 Gorenje, Management Board member in charge of the Home Appliance Division 2012 Gorenje, d.d., Management Board member in charge of major appliance operations and heating systems operations and sales	1979–1984 Rudarsko-elektroenergetski kombinat Velenje (Mining and Electrical Engineering Combine), head of business system organization department 1985 Gorenje, vice president of business administration committee of the composite organization for the field of socio-economic relations 1987 Gorenje, member of the Gorenje Home Appliance business administration committee, in charge of HRM 1990 Gorenje, director of HRM and general affairs 1997 Gorenje d.d., member of the temporary Management Board 1998 Gorenje, d.d., Chief Human Resources Officer, labour director 2003–2011 Gorenje, d.d., Management Board member in charge of HRM and organization, labour director 2012 Gorenje, d.d., Management Board member, labour director
Number of Gorenje shares held	626	9.082
Membership in Supervisory Boards of other companies outside the Gorenje Group	/	KBM Banka AD Kragujevac, Supervisory Board member until July 13, 2016
	More information	More information

Management Board member name	Peter Groznik	Marko Mrzel
Field of responsibility according to the new Gorenje Group organization effective since February 1, 2017	Management Board member in charge of corporate finance and the business area of ecology, trade, and industrial services (until February 28, 2017)	/
Field of responsibility according to Gorenje Group organization effective until January 1, 2017	Chief Financial Officer (Management Board Member in charge of finance and economics)	Chief Sales Officer (until February 29, 2016)
Education	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	BS Electrical Engineering; Technical Faculty of the University of Maribor MA Economics, Faculty of Economics, University of Ljubljana
Career path	2003 Mobitel, financial regulation adviser 2005–2009 KD skladi, head of asset management 2009–2010 KD skladi, Management Board president 2010 founder and owner of the investment consultancy NorthGrant Consulting 2011 founder and partner in the personal finance company BTP Indegra 2011 Gorenje, d.d., independent finance expert 2012 Gorenje, d.d., Chief Financial Officer	1995–1996 Lignite mine, Velenje 1997–2001 Era, d.d., head of wholesale 2001 Gorenje, d.d., director of complementary program 2003 Gorenje Group, managing director of Gorenje's sales subsidiary in Belgrade 2011 Gorenje, d.d., Chief Financial Officer 2012 Gorenje, d.d., Chief Sales and Marketing Officer 2013–2016 Gorenje, d.d., Chief Sales Officer
Number of Gorenje shares held	7.140	450
Membership in Supervisory Boards of other companies outside the Gorenje Group	/	/

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 2016.

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 2016.

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 Guidelines and introduces the concept, principles, and content elements of integrated reporting pursuant to the International Integrated Reporting Framework developed within the global alliance IIRC – the 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 2016, and thus also with their entire Annual Report. We approve the report and confirm such approval with our respective signatures.

Franc Bobinac,
President and CEO

Peter Groznik,
Management Board member

Branko Apat,
Management Board member

Peter Kukovica,
Management Board member

Drago Bahun,
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 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.

Following are the Supervisory Board members representing the **interests of capital**:

- Marko Voljč, chairman,
- Bernard C. Pasquier, deputy chairman,
- Uroš Slavinec, deputy chairman,
- Bachtiar Djalil, member,
- Keith Charles Miles, member until July 8, 2016,
- Toshibumi Tanimoto, member,
- Corinna Claudia Graf, member,
- Miha Košak, member since July 9, 2016.

Following are the Supervisory Board members representing the **interests of the employees**:

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

Presentation of the Supervisory Board Members

Shareholder representatives

First and last name	**Marko Voljč** chairman	**Bernard C. Pasquier** Deputy Chairman
Education	MA Economics, Faculty of Economics, University of Belgrade	MA Public Administration – business and economic development, John F. Kennedy School of Government, Harvard University, USA
Employment	retired	retired
Number of Gorenje shares held	/	/
Membership in supervisory boards of other companies	/	International Finance Corporation (IFC) representative in the Board of Directors at Grupo Mundial, Panama
	More information	More information

First and last name	**Uroš Slavinec** Deputy Chairman	**Bachtiar Djalil** member
Education	BA Economics, Faculty of Economics, University of Ljubljana	LL.B., Faculty of Law, University of Ljubljana
Employment	retired	Kapitalska družba d.d. (Slovenian Pension Fund Management Company)
Number of Gorenje shares held	/	/
Membership in supervisory boards of other companies	/	Loterija Slovenije d.d. (Lottery of Slovenia)
	More information	More information

First and last name	**Keith Charles Miles** member until July 8, 2016	**Toshibumi Tanimoto** Supervisory Board member
Education	FCA, Institute of Chartered Accountants in England and Wales	BA Business Administration – International Trade, Doshisha University, Kyoto, Japan
Employment	retired	retired
Number of Gorenje shares held	/	/
Membership in supervisory boards of other companies	/	/
		More information

First and last name	**Corinna Claudia Graf** Supervisory Board member	**Miha Košak** member since July 9, 2016
Education	BS Business Administration, FHS, Hochschule für Wirtschaft, Technik und Soziale Arbeit, St. Gallen, Switzerland	Master of European Community Economics, University of Exeter, United Kingdom MBA, Bocconi University, Milan, Italy
Employment	Universal Consulting, S.L., Mallorca, Spain	Independent consultant
Number of Gorenje shares held	/	62
Membership in supervisory boards of other companies	/	NLB d.d., Supervisory Board member until February 2016
	More information	More information

Employee representatives

First and last name	**Krešimir Martinjak** deputy chairman	**Peter Kobal** member
Education	LL.B., Faculty of Law, University of Maribor	Electrical Engineering (high school); Technical Business Vocational School, Maribor
Employment	Gorenje, d.d.	Gorenje, d.d.
Number of Gorenje shares held	115	1,355
Membership in supervisory boards of other companies	/	/
	More information	More information

First and last name	**Drago Krenker** member	**Jurij Slemenik** member
Education	Commerce (high school), School of Business and Commerce, Celje	Mechanical Engineering (high school); Velenje High School, School of Metalworking and Computer Science
Employment	Gorenje, d.d.	Gorenje, d.d.
Number of Gorenje shares held	/	2,038
Membership in supervisory boards of other companies	/	/
	More information	More information

Supervisory Board committees

- **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 and Miha Košak (member as of November 11, 2016), 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: The Benchmark Committee consists of chairwoman Corinna Graf (since July 9, 2016), chairman Keith Miles (until July 8, 2016), and members Bernard Pasquier, Toshibumi Tanimoto, Peter Kobal, and Miha Košak (member since November 11, 2016).

  The basic task of the Benchmark Committee is to identify the companies to which Gorenje Group will be compared, or against which it will be benchmarked. 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, and Peter Kobal.

  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.
- **Human Resource/Remuneration Committee**
  The Committee consists of chairman Bernard Pasquier and members Uroš Slavinec, Keith Miles (until July 8, 2016), Marko Voljč, Jurij Slemenik, Drago Krenker, and Miha Košak (since November 11, 2016).

  Powers of the Committee are specified in Corporate Governance Code for Publicly Traded Companies (the LJSE Code).

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. Their reward consists of a fixed and a 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 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 no less than one and 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), have 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 shall be entitled to the payment of session fees for supervision of the companies Gorenje Beteiligungs GmbH and Gorenje Nederland B.V.

Compensation and rewards paid out to Management Board members are fully detailed in the financial report, in the section Notes – Transactions with Related Parties.

The Company has not adopted a stock option remuneration plan.

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). Payments to the Supervisory Board members are presented in the Financial Report in the section Notes – Transactions with Related Parties.

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.

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, 2016, Supervisory Board members held a total of 3,570 Gorenje d.d. shares. Miha Košak has been a Supervisory Board member since July 9, 2016, and he holds 62 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 62 shares compared to the situation as at December 31, 2015.

As at December 31, 2016, Management Board members held a total of 20,944 Gorenje d.d. shares. As of February 29, 2016, Marko Mrzel is no longer a Management Board member; thus, the sum of shares held by the Management Board members decreased by 450 shares relative to the situation as at December 31, 2015.

GRVG share transactions by Management and Supervisory Board Members

	Ownership		Net acquisition in the year	
	2015	2016	2015	2016
Supervisory Board total	**3,508**	**3,570**	**-**	**-**
Marko Voljč[1]	-	-	-	-
Uroš Slavinec[1]	-	-	-	-
Bernard Pasquier[1]	-	-	-	-
Corinna Graf[1]	-	-	-	-
Keith Miles[1,2]	-	-	-	-
Toshibumi Tanimoto[1]	-	-	-	-
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	-	-

1 Supervisory Board in the term from July 19, 2014, to July 19, 2018.
2 Keith Miles was a Supervisory Board member until July 8, 2016.
3 Miha Košak has been a Supervisory Board member since July 9, 2016.

	Ownership		Net acquisition in the year	
	2015	2016	2015	2016
Management Board total	**21,394**	**20,944**	**-**	**-**
Franjo Bobinac	4,096	4,096	-	-
Drago Bahun	9,082	9,082	-	-
Peter Groznik[1]	7,140	7,140	-	-
Branko Apat	626	626	-	-
Marko Mrzel[2]	450	-	-	-
Peter Kukovica	-	-	-	-

1 Marko Mrzel was a Management Board member until February 29, 2016.
2 Peter Groznik was a Management Board member until February 28, 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 most subsidiaries for the 2016 fiscal year were audited by the auditing company Deloitte Revizija, d.o.o., which was appointed as the company auditor at the Gorenje Shareholders Assembly held on July 8, 2017. Third-parry (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., and the transactions of the Group companies with individual audit companies are presented in the Notes to the Financial Statements.

Internal audit

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. The department is pursuing its mission based on a work plan spanning several years. Internal audits are conducted throughout the Go¬renje Group in compliance with the International Standards for the Professional Practice of Internal Auditing. Internal Audit regularly reports on its work to the Management Board, and at least on a quarterly basis to the Supervisory Board's Audit Committee. They provide objective assurances to the Management Board and the Audit Committee, and they consult on the correct set-up and operation of the internal controls system. With their operation, they support the pursuit of strategic and business goals, and contribute to mitigation of risks to an acceptable level. 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 internal business functions at the Gorenje Group, which conduct a preventive and supervisory role. Value added is also generated by providing assurances 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. Value added is also evident in the comparison of risks: based on our findings and implemented recommendations, the risk is mitigated from the original to the residual level.

Improvement in the quality of internal auditing at the Gorenje Group is evident in the attainment of strategic goals and in the implementation of the quality assurance and improvement program (section 6). The program involves regular internal and external audits/reviews as we look to make sure the operations of internal audit meets the expectations of the Management Board and the Audit Committee. Pursuant to the Internal Auditing Standard 1321, 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.

The year 2016 was the first full year of use of the department activity management application that automated many of the department's auxiliary activities. This allowed more time for the actual auditing. In the periods ahead, we shall continue to promote our activities in monitoring of key controls and in continuous auditing.

Statement of Compliance with the Corporate Governance Code

In the period from January 1, 2016, to December 31, 2016, the company Gorenje d.d. was bound by the provisions of the Corporate Governance Code (or the LJSE Code), compiled and adopted on December 8, 2009, in agreement between the Ljubljana Stock Exchange, Slovenian Directors Association, and the Managers' Association of Slovenia. The Code is available on the Ljubljana Stock Exchange website at http://www.ljse.si in Slovenian and English.

The Management Board and the Supervisory Board hereby declare that Gorenje d.d. complies with the Corporate Governance Code (for publicly traded companies, or the LJSE Code) in its work and operations, with particular discrepancies or deviations disclosed and explained hereinafter.

Chapter: Company Management Framework

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 inspired by design, which bring simplicity to the lives of our users."

Chapter: Relations with shareholders

Recommendation 5.8:

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.

Chapter: Supervisory Board

Recommendation 8.4:

The Company devotes special care to protection of business secrets. The documents intended for the members of the Supervisory Board are discussed with absolute confidentiality. Materials and notices of meetings are primarily sent to the members of the Supervisory Board as a hard copy.

Recommendation 9:

The Supervisory Board assesses its work and the work of its committees as a whole; in addition, it assesses the work of individual members. The Supervisory Board and its committees are generally in full attendance in their meetings; all members regularly participate in discussions and their responsibility, enthusiasm, and professional and other experience contribute to the quality of their work. Thus, the Supervisory Board finds that individual evaluation is not necessary.

Recommendation 13 (13.1–13.6):

The issue of Supervisory Board committee founding is regulated by the Supervisory Board Rules of Procedure. The Supervisory Board has an Audit Committee, a Corporate Governance Committee, a Benchmark Committee, and a Human Resource/Remuneration Committee. The Supervisory Board members assumed their terms of office on July 20, 2014, for a period of four years, and the term of the previous Nomination Committee expired on July 19, 2014; a new Nomination Committee has not yet been appointed by the Supervisory Board.

Chapter: Management Board

Recommendation 16.3:

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.

As of January 1, 2017, the Slovenian Corporate Governance Code for Publicly Traded Companies has come into effect. It amends the 2009 Corporate Governance Code and it has become the company's reference Code. The Code was developed and adopted in 2016 by the Ljubljana Stock Exchange (Ljubljanska borza d.d., Ljubljana), and the Slovenian Directors Association. The Code is available on the Ljubljana Stock Exchange website at http://www.ljse.si in Slovenian and English. The Supervisory Board and the Management Board will conduct relevant activities for maximum compliance with the Code's recommendations.

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:

- **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. Approximately sixty percent of the capital is usually represented at Shareholders Assembly sessions.

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 2016

At the 23rd Shareholders Assembly which took place on July 8, 2016, the shareholders were presented the 2015 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 2015, and its approval. The Shareholders Assembly was informed that the loss in the 2015 fiscal year amounted to EUR 4,000,572.95, and that the Management Board offset the loss, with Supervisory Board's approval, against the following components of equity: retained net profits from previous years in the amount of EUR 2,804,549.53; and a part of share premium from general revaluation adjustment to equity in the amount of EUR 1,196,023.42. Thus, distributable profit of the company Gorenje d.d. as at December 31, 2015, amounted to 0 EUR.

The shareholders granted discharge to the company Management Board and Supervisory Board for the 2015 fiscal year. The shareholders appointed the company Deloitte revizija d.o.o. Dunajska cesta 165, Ljubljana, as the company auditor for the 2016 fiscal year.

The company Shareholders Assembly was informed about the resignation of the Supervisory Board member Keith Charles Miles, effective as of July 8, 2016, and appointed Miha Košak as the Supervisory Board member representing the interests of shareholder, with a term of office from July 9, 2016, to July 20, 2018. The company Shareholders Assembly approved specific changes to the company Articles of Association.

No challenging action was announced at the Assembly.

The next, 24th Shareholders Assembly will take place on July 14, 2017.

gorenjegroup ANNUAL REPORT 2016

Business Report

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

We are striving to balance the economic (business excellence), 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 key performance indicators.

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

More on page 27: Our capitals and creation of value.

OUR CAPITALS FOR SUSTAINABLE CREATION OF VALUE AND KEY PERFORMANCE INDICATORS (KPI)

Focus on the core activity Home (share of total Group revenue)

More on page 49.

RESULT IN 2016

86.8%

2017 PLAN

Gorenje Group revenue growth +4.5%.

Revenue growth in core activity Home +5%.

STRATEGIC GOAL 2020

92%

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

More on page 50.

RESULT IN 2016

10.1%

2017 PLAN

We are planning further revenue growth form sales under the Asko brand, consistently with the strategic period dynamics, and the resulting increase of sales in the premium segment.

STRATEGIC GOAL 2020

Revenue EUR 205.6 million; share 14.3%

Gorenje Group revenue

More on page 50.

RESULT IN 2016

EUR 1.26 billion

2017 PLAN

EUR 1.32 billion

STRATEGIC GOAL 2020

EUR 1.56 billion

Revenue beyond Europe and its share in total revenue in the core activity Home

More on page 49.

RESULT IN 2016

Revenue beyond Europe:
EUR 111.6 million; share: **10.2%**

2017 PLAN

In 2017, further revenue growth is planned in markets outside Europe.

STRATEGIC GOAL 2020

Revenue EUR 196 million; share 14%

Share of revenue from sales of innovative and premium products

More on page 50.

RESULT IN 2016

27.3%

2017 PLAN

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

STRATEGIC GOAL 2020

30%

Attainment of EBITDA margin

More on page 51.

RESULT IN 2016

6.9%

2017 PLAN

7.4%

STRATEGIC GOAL 2020

9%

Attainment of cash flow from operating and investing activities

More on page 51.

RESULT IN 2016

EUR -11.5 million

2017 PLAN

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

STRATEGIC GOAL 2020

EUR 25 million

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

More on page 52.

RESULT IN 2016

2.6%

2017 PLAN

2.7%

STRATEGIC GOAL 2020

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

Number of work accidents

More on page 89.

RESULT IN 2016

Decrease in the number of work accidents by

23%

(relative to 2015).

2017 PLAN/STRATEGIC GOAL 2020

Further decrease of the number of work accidents through preventive workplace measures and encouragement of a healthy lifestyle.

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

More on page 89.

RESULT IN 2016

Satisfaction of our sales representatives with the visits at our key accounts (in terms of revenue generated with them) on 21 European markets – representatives who are very satisfied with Gorenje (rating 5 or 4): the share rose by 4 p.p. relative to the year before.

2017 PLAN/STRATEGIC GOAL 2020

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 we intend to implement in the future in the markets beyond Europe, as we come even closer to the customer, consistently with our strategy.

Net financial debt/ EBITDA ratio

More on page 51.

RESULT IN 2016

3.9

2017 PLAN

3.5

STRATEGIC GOAL 2020

<2.5

Manufacturing plants locations

More on page 52.

RESULT IN 2016

Key manufacturing plants and information about production volume: Slovenia (61%), Serbia (27%), and Czech Republic (12%).

2017 PLAN/STRATEGIC GOAL 2020

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

Share of employees participating in training and education

More on page 89.

RESULT IN 2016

68%

2017 PLAN

75%

STRATEGIC GOAL 2020

90%

Hazardous waste (kg/unit)

More on page 81.

RESULT IN 2016

0.05

2017 PLAN

0.05

STRATEGIC GOAL 2020

0.05

Waste for disposal (kg/unit)

More on page 81.

RESULT IN 2016

0.006

2017 PLAN

0.005

STRATEGIC GOAL 2020

0.005

Our strategic policy is to increase our focus on the core activity Home that will exceed 92 percent of total Gorenje Group revenue in 2020.

More on pages 46 and 47: Our capitals for sustainable creation of value and key performance indicators (KPI).

Economic sustainability – Business excellence

Economic sustainability – Business excellence – results 2016 and plans/budgets 2017, complete with strategic goals until 2020

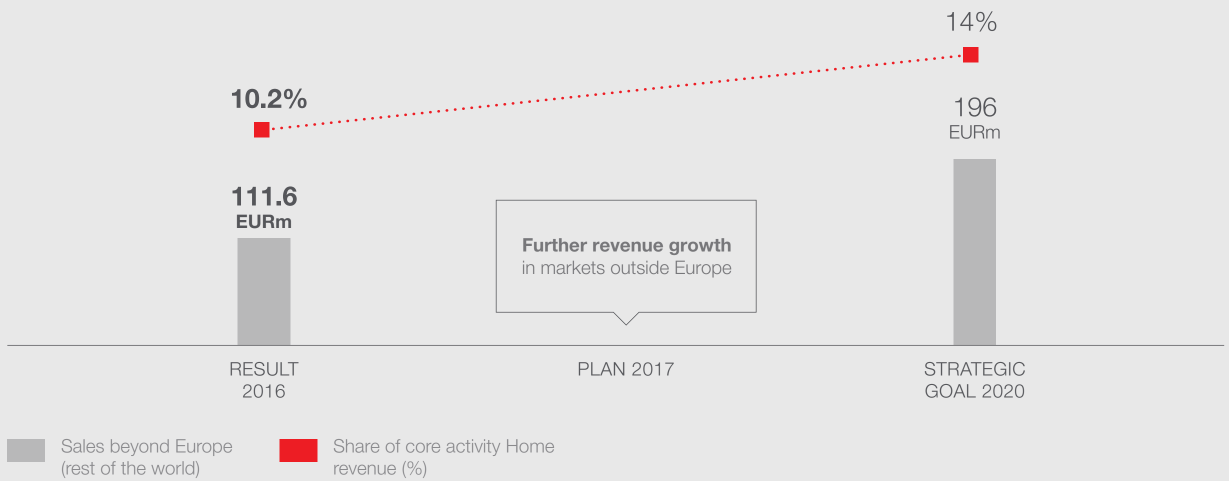
Focus on the core activity Home

Our core activity Home generated 86.8 percent of all Group sales revenue. Consistently with our strategic focus on our core activity, our plans for 2017 include increasing the revenue in the core activity Home by 5 percent, and the revenue at the Group level by 4.5 percent. By 2020, revenue in the core activity will account for over 92 percent of total Gorenje Group revenue.

Revenue beyond Europe and its share in total revenue in the core activity Home

Our sales revenue in markets beyond Europe (Rest of World) in 2016 amounted to EUR 111.6 million, which is one percent more than in 2015. The share of sales outside Europe in total Home segment revenue decreased relative to 2015 by 0.2 percentage point, to 10.2 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 the markets of the Middle and Far East (especially Saudi Arabia). Notable growth was seen in North America, the Caucasus region, and Asia. We also increased our sales volume in Australia.

In 2017, further revenue growth is planned in markets outside Europe, including a recovery in the growth of orders from our industrial (OEM) partners. 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 Home segment sales. This will have a positive effect of reducing our reliance on the mature European markets.

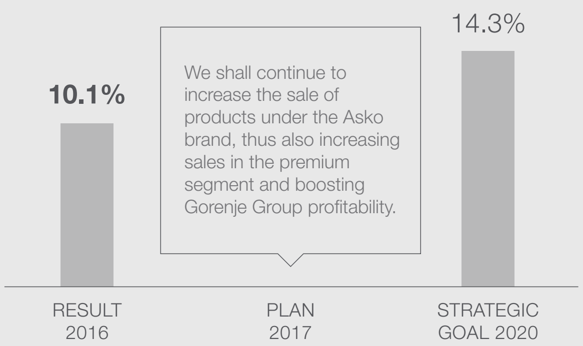


Revenue from Asko brand sales and its share in total revenue in the core activity Home

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 Home, sales of products under the Asko brand accounted for 10.1 percent in 2016 (+0.5 percentage point relative to 2015).

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

By 2020, marketing of the premium Asko brand will reach EUR 206 million of revenue, which means, the revenue from this brand will double.



Share of Asko brand sales in total core activity Home sales (%)

Share of sales of the innovative and premium segment

In 2016, we further increased the share of sales of premium and innovative products. In the structure of sales revenue in the core activity, premium appliances account for a 27.3-percent share.

In 2017, we shall gradually further development and add new product platforms in all key MDA product categories.

By 2020, the share of premium and innovative appliances in the structure of sales will be increased to 30 percent of the total Group revenue.

Share of sales of the premium and innovative segment in total Gorenje Group revenue (%)

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.

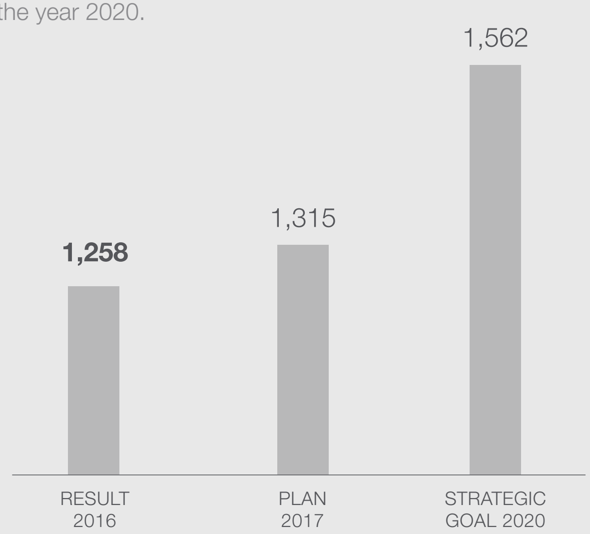
Premium appliances: appliances of the brands Atag, Asko, and Gorenje's designer lines (Gorenje Simplicity, Gorenje Ora-Ïto, Gorenje Pininfarina, Gorenje Classico, Gorenje One, Gorenje Karim Rashid, Gorenje Color Edition, Gorenje+, Gorenje Retro, and Gorenje by Starck).

Gorenje Group sales revenue

In 2016, Gorenje Group's sales revenues amounted to EUR 1.258 billion, which is 2.7 percent more than in the year before. Considering the revenue growth dynamics, we have reached the goal for 2016.

In 2017, further revenue growth of 4.5 percent is planned for a total of EUR 1.315 billion.

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.

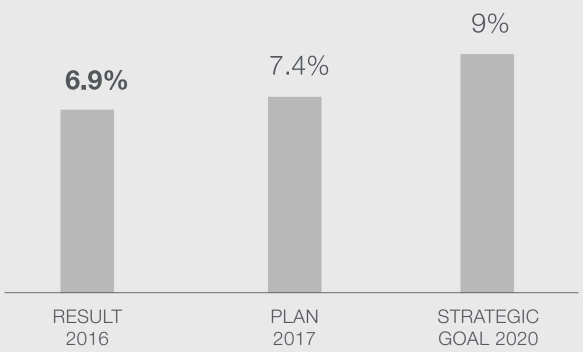


Gorenje Group revenue (in EURbn)

Attainment of EBITDA margin

EBITDA in 2016 amounted to EUR 87.2 million, which is 8.9 percent more than in 2015. EBITDA margin was at 6.9 percent, an increase of 0.4 p.p. over the year before.

We reached 102.8 percent of the planned EBITDA. Taking into account the fact that divestment of some companies from the Ecology area was not yet completed in 2016, attainment of the planned EBITDA is at 98 percent. In 2017, we are planning to increase our EBITDA margin by 0.5 percentage point to 7.4 percent. By 2020, we are planning to reach EBITDA margin of over 9 percent.



EBITDA margin (%)

Net financial debt/EBITDA ratio

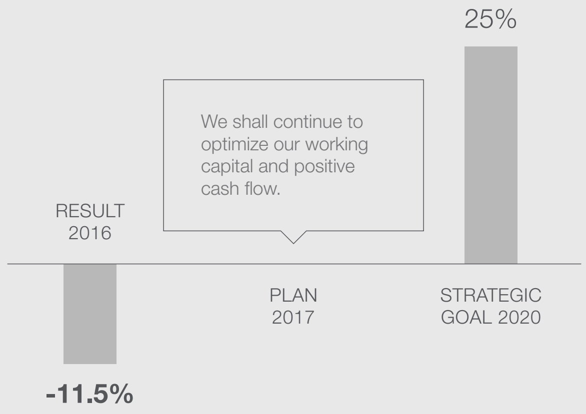
Net financial debt stood at EUR 341.6 million, which is EUR 11.2 million higher than as at the end of 2015. We improved the ratio between net financial debt and EBITDA by 0.2, thus improving our relative debt. This is above all a result of improved profitability and better working capital management seen in the improvement of turnover of all major items (inventory, receivables, trade payables), and higher investment supporting further growth of the Group's sales and profitability.

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

Net financial debt / EBITDA

Attainment of cash flow from operating and investing activities

Our cash flow from operating and investing activities was negative at EUR 11.5 million, which, in absolute terms, is EUR 11 million worse than in the equivalent period of last year. Negative cash flow from operating and investing activities is a result of higher investment, despite the considerably improved cash flow from operating activities and higher sales, manifest in only slight increase of funds tied up in net working capital (EUR 2.6 million).



Cash flow from operating and investing activities (in EURm)

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

In 2016, 2.6 percent share of total Gorenje Group revenue was allocated to investment into development (EUR 32.3 million was invested into development). This is an increase of 0.2 percentage point over the year 2015.

Key development achievements in 2016:

- updated built-in under-counter fridge-freezers, width 600 mm,
- 10-kg load washing machines for our strategic industrial partner,
- Asko Craft line of premium built-in ovens,
- new line of mid-range dishwashers.

In 2017, we are planning to increase the share of total revenue, allocated to investment into development, to 2.7 percent. We intend to launch new products in all product categories, with innovative, simple and user-friendly features and functions.

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

Share of development investments in total Gorenje Group revenue (%)

Manufacturing plants locations

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, 61 percent of all our appliances were made in Slovenia, 27 percent in Serbia, and 12 percent in the Czech Republic in 2016.

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).

Development of Key Segments

Sales by regions

Focus 2016

Gorenje Group operations in the core activity of home products were successful in 2016 from the aspect of sales. Compared to 2016, we saw 3.4-percent revenue growth in all geographical segments and with all brands. In Western Europe, our sales increased in the markets of Benelux, especially in the Netherlands where our market share is increasing. In Germany, we succeeded in increasing our sales. Our revenue was also higher than in the year before in many Eastern European markets and markets beyond Europe. After the harsh economic conditions in 2015, sales in the CIS region (Commonwealth of Independent States) were stabilized growing by 12.3 percent in 2016.

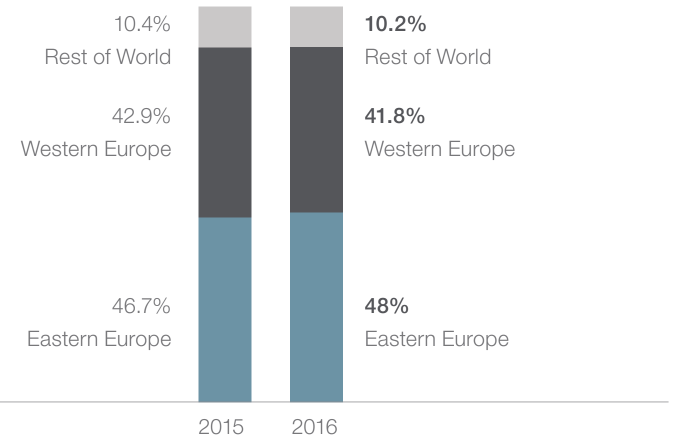
Consistently with the Gorenje Group strategic plan, we sought to drive up the sales of appliances with higher value added. This includes premium appliances (4.3 percent growth in volume terms) which now account for 27.3 percent of total home appliance sales revenue, and innovative appliances for which sales were increased by 14.5 percent and their share in total revenue rose to 10.7 percent (+1.1 percentage point increase over 2015).

Sales of our small* domestic appliances increased by 32.4 percent relative to last year. Growth was recorded in particular in Eastern Europe.

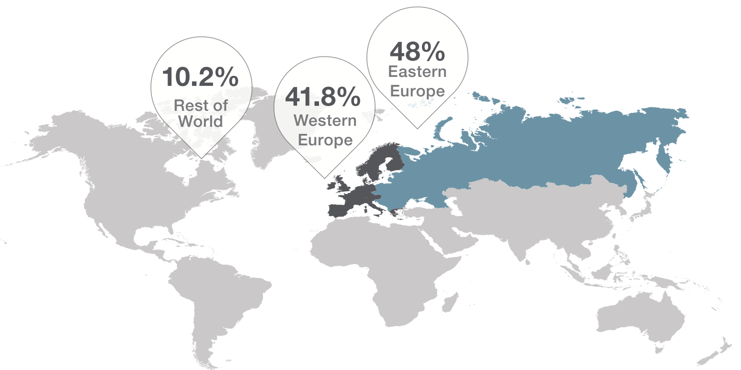
Sales of products under the global premium brand Asko were increased by 9 percent in the key markets. Thus, the share of Asko brand sales in total home product revenue accounts for 10.1 percent, which is consistent with the goals laid down in the Strategic Plan for the period 2016–2020.

In most markets, we pursued the policy of pricing repositioning, and improved our sales structure. Thus, we attained sales growth in the premium and innovative segment. We successfully launched new products that consolidate our market position.

Structure of core activity sales revenue by regions in 2016, value terms



Structure of core activity sales revenue by regions in 2016, value terms



* As of January 1, 2016, freestanding microwave ovens are classified as major appliances. Therefore, the share of small domestic appliance sales.

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 2016

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, Denmark, and Sweden. Lower sales are still recorded in France and Scandinavia (with Gorenje brand).

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 features (e.g. NoFrost, pyrolytic cleaning, induction).

MDA sales in 2016

Sales of major appliances in Western Europe was increased by 0.7 percent in 2016 relative to the year before, with the largest gains in Great Britain, Ireland, Portugal, Denmark, the Netherlands, and Belgium. In Germany, Gorenje Group's most important market, our sales were increased in volume terms. Gorenje Group slightly increased its market share in both volume and value terms, with growth in Germany and Finland contributing the most in this respect.

Focus 2016

The upward trend in online sales of home appliances has persisted and this channel now represents 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.

Sales in kitchen studios still accounts for only a small part of our overall sales structure; however, this channel remains in the centre of our attention in terms of development of our further business activities. Traditionally, the Atag brand in Benelux has the strongest presence in this channel. In 2016, we also upgraded the product range for built-in cooking appliances of the Gorenje brand, adding the Gorenje by Starck and Infinity lines. In autumn, we also launched the new DW 30 dishwasher line.

In the electronic retail channel, our sales increased relative to the year before despite the aggressive competition. In this channel, excellence of our operating processes, such as reliable and rapid product delivery and efficient after-sales services, is also of key importance.

Our position in these markets 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. In Scandinavian countries, we are pursuing our business restructuring path which involves re-focusing our sales activities to our global brands Asko and Gorenje.

Targets for 2017

We expect the demand for our products to increase in the entire region. Germany will still head the list in terms of sales, yet taking into account the synergies in Gorenje brand management along with Austria. We continue with our sales of small domestic appliances, while in the second half of the year, we will further focus on sales promotion of dishwashers and the new generation of cookers. We are pursuing the path of sales and business process restructuring in Germany, as laid down in 2016. Considering the positive changes and the introduction of new, innovative appliances, we expect our position to improve further in 2017.

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, and Slovakia.

Operations and performance in 2016

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).

A special region is the Commonwealth of Independent States (CIS) which 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.

In addition to economic development, the countries differ considerably in terms of general population's purchasing power as well.

The home appliance sales trend was positive as sales in volume terms rose significantly over the year 2015 in nearly all Eastern European countries (the Czech Republic, Hungary, Slovakia, Poland, Slovenia, Romania, Bulgaria, Croatia, Albania, Montenegro, and Macedonia).

Performance the CIS region was strongly challenged by external circumstances in 2016. Political and economic conditions in Ukraine still have not settled. Nevertheless, 2016 was the first year in which we saw our sales grow despite the crisis. Relative to 2015, our growth in Russia was at 7 percent, while sales in Ukraine rose by over 40 percent, which consolidated our market position.

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

MDA sales in 2016

In Eastern Europe, the major appliance market has grown in 2016 by 8 percent in volume terms. Growth was mostly fuelled by the exceptional sales increase in Romania where they were up by a quarter. Apart from Romania, the highest sales growth was recorded in Hungary, Slovenia, and the Baltic countries. Sales trends in the Commonwealth of Independent States were positive in the period; however, it had plummeted by as much as 35 percent in 2015. In 2016, Gorenje Group retained its market share in value terms in Eastern Europe, while it succeeded in increasing it in the CIS region.

Focus 2016

Compared to 2015, our sales in Eastern Europe increased in terms of both value (by 6.4 percent) and volume. 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, Croatia, Bosnia and Herzegovina);
- in some countries, our market shares are between 10 and 20 percent (the Czech Republic, Hungary, Slovakia, Macedonia);
- in other countries, our market shares are below 10 percent and in these markets we see the potential for growth in the years ahead.

Gorenje is the only brand we are marketing in the markets of this region, and we have established a uniform product range here. Thus considerably reduces complexity, but at the same time gives us a broader range of appliances in each country.

In the Czech Republic, Slovakia, and Hungary, we also market the Mora brand, which is considered a domestic brand in the Czech Republic and Slovakia. In Croatia and Slovenia, we also offer appliances of the entry-level brand Körting, in addition to the Gorenje brand.

In the summer of 2016, we carried out a uniform regional marketing campaign for the NoFrost refrigerators. The result was a bump in sales of these appliances across all markets of the Eastern European region.

Despite the uncertain conditions, Russia was a key market for the Gorenje Group. There, we are mostly present with our brands Gorenje and Mora, while a smaller portion of our revenue was generated with the Asko brand. In 2016, 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 2016, we faced currency risks throughout the year, which presented an additional challenge for us, compared to some of our competitors who manufacture their products locally. Nevertheless, we succeeded in retaining or increasing our market shares and 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 2015 and gained market shares. Similar development was also seen in the Caucasus region where we wrapped up the year 2016 with higher sales revenue than in 2015.

Gorenje brand is positioned in the mid-range or upper-mid price segment in all markets of this region. In 2016, we successfully launched a new generation of dishwashers and continued the successful launch of our designer lines.

Targets for 2017

We shall focus on revenue growth and strengthening of our market position by introducing products (new generation of 60-cm-wide cooking hobs and cookers, dishwashers) and by optimizing our business processes.

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 2016

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 in2017 after several negative years.

MDA sales in 2016

Major domestic appliance sales development was quite diverse for the Eastern and Southeastern Asia in 2016. On the on the one hand, we saw steep growth in India and China; on the other hand, sales dropped in Indonesia, Vietnam, and Thailand. Negative trend was also recorded in the Middle East and Latin America. Growth was solid in Australia in 2016.

In markets beyond Europe (Rest of World), our sales rose by 1 percent. Sales were affected by the drop in orders from industrial partners (we are planning to recover to growth in

2017), and lower sales in the markets of the Middle and Far East (especially in Saudi Arabia). Notable growth was seen in North America, the Caucasus region, and Asia. We also increased our sales volume in Australia. The share of this field in the core segment Home sales reached 10.2 percent (0.2 percentage point less than in 2015).

Focus 2016

In the Middle East and North Africa, we succeeded in maintaining our market shares despite the harsh political and economic conditions. 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 tackle the local challenges.

In Australia, we recorded significant sales growth in 2016, mostly under the Asko brand. This contributed to the growth of premium product sales. We expanded our offer with Asko brand cooking and cooling appliances, and with Gorenje brand appliances. .

USA remain one of the most important markets in the region. In this market, we are present with our own Asko brand, and through strong OEM deals.

In the Far East, where our sales in 2016 soared by almost a third 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 2016, 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 companies 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 our cooperation with a major retail chain, which had a notable effect on the growth of sales revenue. We also founded a sales company in Chile from where we will direct our sales to other 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.

Targets for 2017

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

Consistently with our strategic goals, we are looking to boost our sales in all of these markets. In 2017, we are planning significant revenue growth compared to 2016, betting in particular on the markets of Australia, China, Hong Kong, Vietnam, Thailand, Iran, United Arab Emirates, Iraq, Chile, and the USA.

Brand development

Focus 2016

- By increasing our sales under the Asko brand, we are increasing sales in the premium segment. In the structure of sales in our core activity segment Home, sales of products under the Asko brand accounted for 10.1 percent (+0.5 percentage point relative to 2015).
- Sale of innovative* appliances was increased by 14.5 percent. Their share in total sales thus increased to 10.7 percent (+1.1 percentage point relative to 2015). Innovative appliances account for 17.4-percent share of total core activity sales revenue. Premium* appliance sales grew by 4.3 percent and their share in the core activity Home sales now accounts for 16.9 percent. In the structure of sales revenue in the core activity, premium appliances account for a 27.3-percent share.
- In the overall revenue structure, Gorenje brand has the highest share with 68.4 percent, followed by Asko with 11.4 percent.

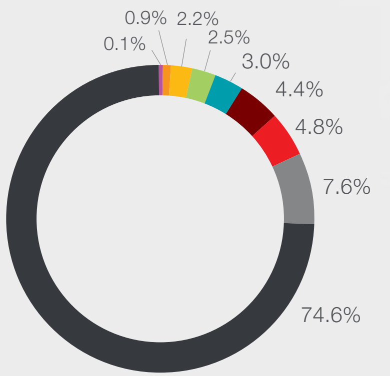
Excellence of design was again **confirmed** in 2016 by the **Red dot** awards, won for the following appliances:

- Gorenje compact built-in oven with TFT touch-control display
- Atag Evolve kitchen hood
- Atag Matrix compact multi-functional oven, and Atag steam oven in graphite black colour.

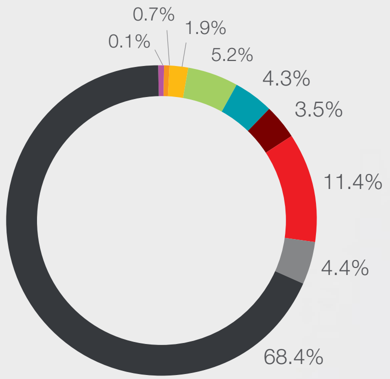
* Innovative appliances: appliances within respective product categories (or groups of products) with so-called "innovative functionalities" are more energy-efficient, afford greater load capacities, lower power consumption, water consumption etc.

** 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).

Shares of own brands (by volume, 2016)



Shares of own brands (by value, 2016)

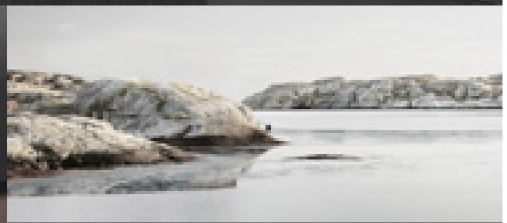


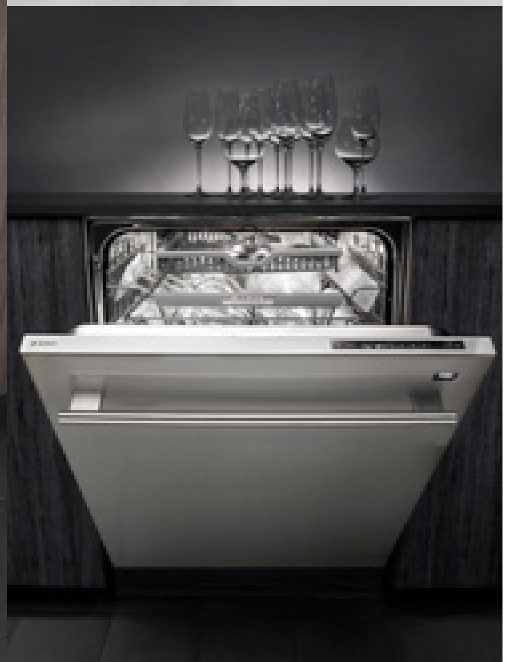
gorenje
MORA
ASKO
ETNA
Pelgrim
ATAG
UPO
körting
sidex

Excellence of design was again confirmed in 2016 by the Red dot awards, won for the following appliances:

Gorenje compact built-in oven with TFT touch-control display and Atag Matrix compact multi-functional oven, and Atag steam oven in graphite black colour.

Atag Evolve kitchen hood





ASKO

Focus 2016

Asko is consolidating and advancing its position in the premium and high-end segment. With notable presence and growing profitability in Scandinavia, Australia, and the USA, Asko brand is also gaining traction and muscle in mature markets like Italy and France, as well as in the emerging Asian markets, the Middle East, Africa, and South America.

Asko's brand recognition is based on specialization in premium wet appliances. Since 2014, we have also been expanding the range of cooking appliances under the Asko brand which is thus being successfully developed as a provider of a comprehensive range of upmarket home appliances.

The latest Asko Craft designer line was premièred at the EuroCucina show in Milan, and the IFA 2016 tradeshow in Berlin. With the award-winning line of kitchen appliances, we improved this brand's position in the market in the high-end kitchen appliance segment.

At the IFA tradeshow in Berlin, we offered a 360-degree virtual reality experience to present our Connect Life connected appliances. Asko Connect Life products include both kitchen appliances and washing machines and dryers. Kitchen appliances feature design that matches the previously launched and also award-winning Elements line, while the washing machine and dryer line includes two future concept models – one washing machine and one dryer.

New product launches in 2016

- Craft: built-in ovens with colour TFT display, made of stainless steel and unique graphite black colour
- vacuum drawer for professional sous-vide cooking, combined steam ovens of the Craft and Elements lines
- Elements: touch control gas hob – unique combination of touch-controlled induction and gas hob
- wine cooler.

Targets for 2017

- Early in 2017, we are introducing a new platform of Asko brand washing machines and dryers for which we held a global launch in Stockholm on March 2 and 3, 2017.
- In June 2017, we are planning the launch of a new dishwasher platform by which we are introducing numerous new appliance features and functions.
- In the second half of 2017, we will focus on our presentation at the IFA 2017 fair in Berlin.
- Asko will continue and expand its cooperation with trendsetters in architecture, cuisine, and fashion.

Video content

Focus 2016

Gorenje brand is consolidating its position in the middle price range with a very broad offer of products in all home product categories. The key focus is to satisfy the needs and expectations of end users expecting reliable and convenient products and services that bring the experience of simplified management of daily chores and life in general. Our guiding principle in this respect is the brand vision, clearly specified in the last year: Life Simplified is consistently pursued through our operations (products, communication, shopping experience, extra services) and at all touch points where the user encounters the brand on his shopping path. Reflecting the said vision is the document Gorenje Brand Playbook which defines the brand identity in its key components, and represents a framework for pursuit of the vision.

New product launches in 2016

- SmartFlex generation of dishwashers,
- HomeMade free-standing cooker generation,
- gas hobs,
- NatureFresh generation of built-in fridge-freezers,
- Ora-Ïto line of major and small domestic appliances, co-branded with this renowned designer,
- Gorenje Retro Special Edition refrigerator, in cooperation with Volkswagen.

Targets for 2017

We shall continue to expand the revised Gorenje brand identity and appearance. Gorenje Brand Playbook will be further developed and upgraded with the product design guidelines, POS (retail) architecture, and we will choose the brand's sound logo.

We shall carry out two European sales promotion campaigns: for the NoFrost refrigerators, and for our dishwashers.

Launch of the new cooking appliance generation and new lines of major and small domestic appliances created in cooperation with the French designer Ora-Ïto will be accompanied with a host of market communication tools, the local versions of which are being developed in respective markets.

As every year, we will focus in the second and third quarter on the activities related to our presentation at the IFA tradeshow in Berlin.

Video content

Product development and design

Focus 2016

Consistently with our vision, we are looking to become the best design-driven home appliance innovator in the world. Therefore, we are paying particular attention to new product development and design, which is also manifest in the increase of our investment into research and development. In 2016, R&D investments amounted to EUR 32.3 million (2.6 percent of total Group revenue). In 2017, we will continue to invest into development and technologies that enable it, as this will boost our long-term competitive edge. Innovation is a Gorenje Group value that has to become present in the work and conduct of every employee.

Targets for 2017

The key goal in the development of any new appliance is excellent user experience. Therefore, we seek to understand the habits and the needs of our customers and to anticipate the trends affecting their shopping decisions. In this pursuit, we are focusing on the areas that improve the competitiveness of our products and services:

- superior product and service design, starting with the earliest development stages, with the final user actively involved in the development of solutions;
- development of innovation that solves relevant challenges for the users and simplify their lives,
- energy efficiency of products and environment responsibility with constant care for their functionality;
- quest for solutions that allow better management of complexity;
- providing product quality by continuous improvement of product optimization methods and procedures.

Key activities

Key new developments of 2016 include the following:

- updated built-in under-counter fridge-freezers, width 600 mm,
- 10-kg load washing machines for our strategic industrial partner,
- Asko Craft line of premium built-in ovens,
- new line of mid-range dishwashers (Gorenje brand).

Design competencies

- Development of various product categories is the responsibility of our design teams at development competence centres in Slovenia, the Netherlands, Sweden, and Czech Republic.
- Experienced design team based in Slovenia, drawing on over 50 years of tradition, is in charge of design for the global Gorenje brand and several local brands. Their creative power is regularly refreshed with young talented designers.
- We collaborate with the Ljubljana Academy of Fine Arts and Design to expand the knowledge and experience by training future designers, offering them academic work placement etc. In recent years, we are also expanding and developing modern design methods by working with third-party design consultants and through international training.
- In 2016, we established a market and consumer research department in charge of research into user habits and needs, and trend management.
- Products are developed with intensive involvement of users already in the early stages of creation, as well as in the later stages of testing of design concepts and solutions.
- Design team in Sweden is focused on Asko brand product design, while Atag works with renowned Dutch design agencies.

Production

Focus 2016

We are proponents of sustainable growth and therefore efficient use of resources.

Gorenje's production targets are specified in the efforts for constant

- decrease of resource use,
- provision of a high level of accuracy when delivering the product to the customer, and
- customer satisfaction.

Efficiency improvement and continuous cost optimization are among our permanent goals. In addition, we launched in 2016 the optimization of our business processes. This contributes to more efficient use of resources in production and adjustment to the needs of our customers. In manufacturing activity, we are making decisions based on the following four key aspects:

- costs,
- time,
- quality, and
- flexibility.

In 2016, we devoted a lot of attention to the links between business processes in production, and its reliability.

Consistently with the Gorenje Group strategic goals, we will continue to focus on cutting our production costs.

Possibilities for further improvements are seen in particular in the following categories, broken down in more detail below:

- effect on the environment in the production process (energy and material savings),
- investment into manufacturing system to increase automation and support modular production,
- integrated solution for planning and alignment of purchasing, sales, logistics, and production within the entire supply chain process,
- development of sustainable products,
- care for occupational safety and health.

Effect on the environment in the production process (energy and material savings)

At Gorenje, lean manufacturing is the fundamental way of improving production system efficiency, as it is focused on cutting the use of time and material. We are introducing new design solutions and improving the existing production-system procedures. This is reflected in the constant decrease in the share of scrap (waste) and improvements for more efficient use of energy.

According to our data, energy costs per unit produced were reduced by 4.5 percent in 2016 relative to the year before, although product volume was 0.5 percent higher.

We are managing the extra use of material in the production process, which is reflected in the downward trend regarding scrap (waste) as a percentage of total production value. In 2016, this share was cut by 0.1 percentage point relative to the year before.

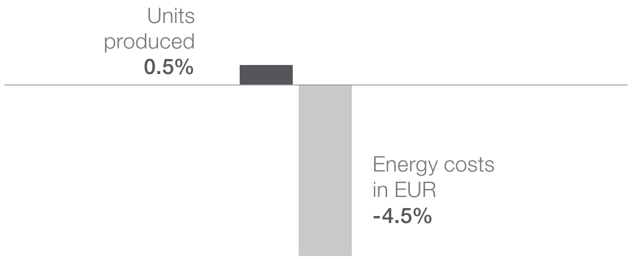
Investment into manufacturing system to increase automation and support modular production

In recent years, Gorenje has restructured its production to redistribute its production capacity. The key focus in 2016 was devising an efficient production system:

- with high productivity, through sound business methods and effective innovative approach; and
- attaining a high capacity utilization to improve competitiveness in terms of flexibility and lower production costs.
- In 2016, our share of production costs in revenue was lower than planned by 0.2 percentage point, while the value of products manufactured was higher by 1.7 percent. This points to an improvement of production cost efficiency by approximately 2 percentage points.
- Lower cost of basic raw materials, resulting also from strategic purchases, had the strongest effect on lowering the costs.

Structure of the major domestic appliance production by plants in 2016

Development of costs in 2016 in comparison to the year before



Cost efficiency improvement relative to the annual, plan, in p.p.

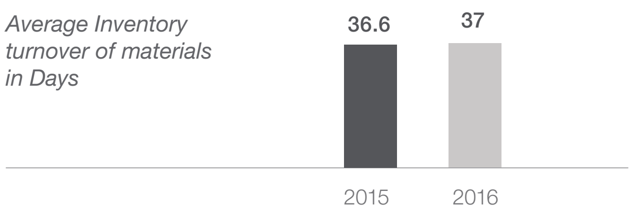
We are maintaining an efficient production system that can handle the market changes in demand and afford the flexibility, with positive results manifest in a lower product price. Investment into new production capacity yielded the first results with:

- improved labour productivity resulting from higher level of automation,
- more efficient use of resources, and
- modular production.

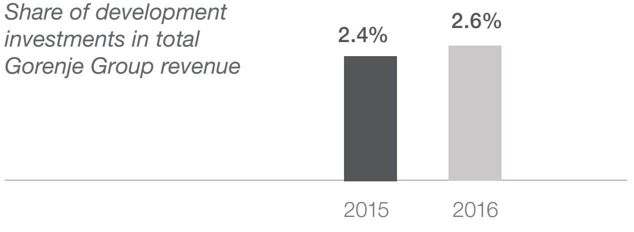
Integrated solution for planning and alignment of purchasing, sales, logistics, and production within the entire supply chain process

In 2016, we devoted extra attention to aligning our long-term, medium-term, and short-term production planning with new planning solutions that accommodate the diversity and scope of our sales program. Initial results of improved planning are evident in timely identification and elimination of production bottlenecks, and timely dispatch of products from production to sales. We started monitoring the fulfilment of planned production of the range of products on a weekly basis, in order to come closer to the customer.

Average Inventory turnover of materials in Days



Share of development investments in total Gorenje Group revenue



As a result of improved planning, fewer funds are tied up in working capital (material inventory). Somewhat higher average days in inventory for material are a result of strategic purchases of raw materials that have a positive impact on material cost management.

Development of sustainable products

At Gorenje Group, design and development of products with higher efficiency are always our top priority. Care for the environment is intertwined with our development strategies. With our activities to cut the amount of waste, emissions into air, water, and soil, and for efficient use of energy, we are doing our very best to curb our effect on the environment.

At the same time, a lot of attention is paid to the quest for modern technological solutions for our products. The goal we are pursuing are appliances that use less power, water, and detergents.

Consistently with our strategic policies, we are increasing the share of our total Group revenue dedicated to development into investment.

Care for occupational safety and health

We are striving to keep the work safe and healthy at all our production plants. In 2016, the positive effects of measures adopted in 2015, declared the year of occupational safety and health at Gorenje, were already evident. Each month, we conducted a variety of activities to raise employee awareness in this respect. We expect the effects of these measures to persist in the future.

Early in 2016, we also started to supervise more closely the implementation of occupational safety and health measures, especially with regard to the following:

- correct and consistent use of personal protective equipment,
- correct use of work equipment and machinery,
- supervision in compliance with the technical instructions for safe work, and
- testing for influence of alcohol and use of psycho-active substances.

Purchasing

Focus 2016

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 markets, risk management, and inventory optimization.

Key activities

- From February to May 2016, we conducted negotiations with approximately 140 suppliers, accounting for roughly 40 percent of our total supply volume. We succeeded in negotiating considerable price decreases.
- We continued to develop a network of stable and competitive suppliers, paying particular attention to the analysis of any new upstream markets. We commenced 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 6.3 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.

Situation in the raw material market in 2016

After a drop in 2015, and after four years of downward price movement, prices of raw materials increased again. Prices were falling until February 2016 when the trend stopped and finally bounced back in April 2016. The trend of price growth continues in 2017. Prices of base metals, iron ore, steel (since the second quarter) and stainless steel sheet metal, oil and other fuels (since the four quarter), as well as other raw materials, are increasing. We are looking to hedge against this trend with timely forwards of raw materials (sheet metal and coloured metals) and by diversifying our sources (plastics). Moreover, we are looking to substitute the price hikes in base raw materials with intensive negotiations and decrease of prices for those materials and components on which base raw materials do not have a significant impact.

Key information on the price increases in EUR terms relative to December 2015 (data as of January 2017):

- Brent Crude 47 percent (+143 EUR/t)
- Copper 27 percent (+1,274 EUR/t)
- Aluminium 19.8 percent (+243 EUR/t)
- Nickel 33.8 percent (+2,657 EUR/t)
- Steel sheet (average of the CRU EUR are) 61 percent (+247 EUR/t)

The prices of key polymers (polystyrenes, PU, PP, and PE) rose by 3 to 14 percent.

Most raw materials are traded in US dollars. Dollar appreciated relative to euro by 2.3 percent in 2015 (year-on-year average, USD 1.1 = EUR 1 in 2016).

Following were the key characteristics of raw material markets in 2016:

- feeble global economic growth recovery; slowdown of the Chinese economy and, as a result, trading of export-oriented economies and natural resource-rich emerging countries;
- increase of oil prices (lower production quotas for OPEC members, joined by Russia); oil price is forecast to grow up to 65 USD /barrel;
- dollar appreciation resulting in increase of commodity prices in other currency terms; expected interest rate hike in the USA; and further dollar appreciation trend, even after the surprising result of the election;
- increased production capacity, considerable supply excess, built-up (accumulated) stock;
- geopolitical turmoil (Syria, Iraq, Ukraine etc.), migrant crisis.

Operational support functions

MONITORING THE ACCOMPLISHMENT OF STRATEGIC GOALS AND ORGANIZATION OF OPERATIONS

Focus 2016

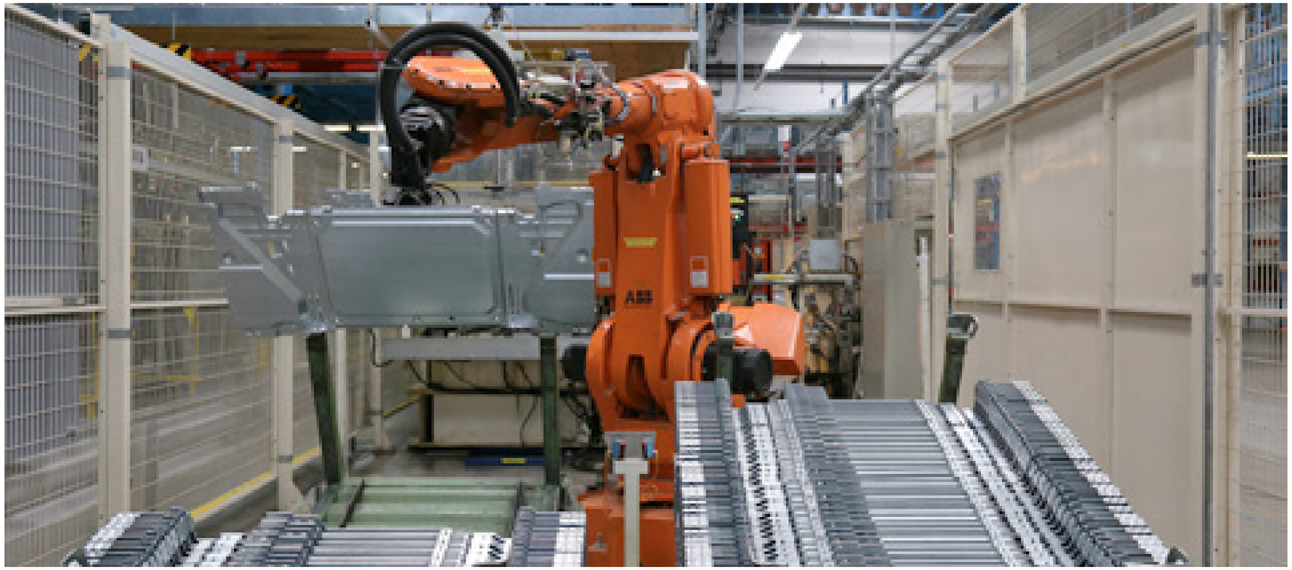
With a centralized and uniform system, we are managing in a coordinated manner the changes in business processes, organization, and IT systems. Business process management system is based on process architecture consisting of managerial processes, value-adding processes, and support processes. Clear definition of roles in the management of the said processes ensures their efficiency, solid performance, and compliance with the quality management system (ISO 9001:2008).

Key activities

In 2016, we were improving material operation, attaining better control of these processes. A lot of attention was paid to digitization and automation of development, sales, and support business processes. In pursuing the strategic policy of a lean and efficient organizational structure, we started to develop in the second half of the year an important organizational revision that will be implemented in 2017, and which places even more emphasis on responsibility and entrepreneurship within the Gorenje Group, sharpening the focus on business performance.

Attainment of the strategic goals from the 2016–2020 Strategic Plan is being monitored by means of the Balanced Scorecard system; in addition, we are separately monitoring the execution of strategic projects. Key performance indicators are monitored from the financial aspect, market and customer aspect, internal process aspect, and the aspect of learning and growth.

More on Gorenje Group Strategic Plan 2016-2020 on page 26.
More on measuring the attainment of our strategic goals on page 28.



COMPLEXITY MANAGEMENT

Product complexity

Focus 2016

ZWe are aware of the importance of product complexity management. By managing the complexity of products, we are looking to bring our offer as close as possible to the needs of our users and customers, and to cut our response or lead time.

Key activities

The concept and development of new products are already approached in an advanced and thoughtful manner within the platform with a controlled and deliberately managed range of new appliances. Such approach has resulted in a reduction of complexity of finished product codes (IDs) by 15 percent, and component complexity by 14 percent. Success of product complexity management also has a positive effect on the operating costs, driving them down and contributing to better communication with all stakeholders.

Strategic Projects

Strategic projects, with focused and targeted management, **contribute decisively to better business excellence and controlled attainment of the goals laid down**.

IT and telecommunications

Focus 2016

Active inclusion in the process of digital transformation which is a key project for maintaining competitiveness in the market. It consists of two parts: introduction of connected appliances and digital services, and development of uniform digital platform for the Gorenje Group.

Key activities

Oriented towards implantation of projects related to digital transformation, appliance connectivity, business process standardization and assurance of business excellence, planning and forecasting system, revision of retail network operations, gradual roll-out of the SalesForce tool, effective management of receivables, liquidity, reporting system, production optimization, and revision of warehouse operation and documents system.

Supply chain management

Focus 2016

Gorenje Group supply chain operation improved at all levels in 2016. We also intensified and consolidated our focus on the customer and improved our responsiveness to sales requirements or demand. The goal of improving the level of services and responsiveness to customers is pursued by process optimization and stability. We continue our efforts for optimum utilization of fixed assets (property, plant, and equipment), working capital, and costs, for the best possible operations and performance of our supply chain, in order to improve customer satisfaction.

Key activities

In 2016, we were focused on the following:

- integration of additional appliance categories into the supply chain;
- understanding the importance of efficient planning,
- 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
- cutting inventories.

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.

By taking into account all key and material elements of the supply chain, we have created a comprehensive overview throughout the supply chain, as only a comprehensive view of supply chain operation allows its effective management.

In Gorenje Group logistics, optimization in 2016 (selection of the most suitable transport methods, managing the effects of the USD/EUR exchange rate, establishment of new logistics models) resulted in savings, which in turn led to the decrease in the share of logistics costs in overall sales revenue. Many activities were targeted at:

- further optimization of logistics organization,
- search for alternative logistics solutions, and
- lower logistics costs in the entire supply chain process.

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 further increase the satisfaction of our customers by timely supply of appliances.

We resolve any critical problems in supply chain at regular monthly meetings with Purchasing, Production, Logistics, and Sales.

Improved cost efficiency

Focus 2016

We continued to monitor the costs and processes of managing the cost optimization activities. Regular notifications or warnings of any discrepancies resulted in better cost management. We looked for positive practices in benchmarks against our competitors, and we successfully pursued the goals laid down in the strategic plan (amount of costs, share of costs in total sales revenue).

Key activities

Despite the larger purchasing volume, active negotiate with suppliers, strategic purchases, and hedging of currency and pricing risks, resulted in lower purchasing (upstream) prices and, in turn, material cost savings. By implementing modular production and optimizing our production processes, we ensured rational use of resources and reduced our scrap (waste) expenses. Using the metering system, we recorded the user of energy and identified potential savings. In maintenance, we used devices that consume less power, and introduced new technologies. Consistently with the strategic policies, we succeeded in cutting the share of material costs in total sales revenue.

We actively sought the possibilities to cut the costs of services. Particular attention was paid to optimization of service costs related to support functions. We closely monitored the costs of personal and intellectual services, and hygiene elements. Costs were monitored by areas (functionally) and by natural categories. Costs of goods, material, and services thus rose at a lower rate than the sales revenue.

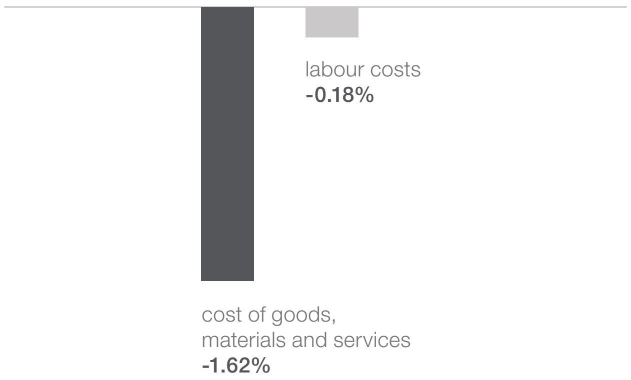
In Gorenje Group labour costs (share in total revenue), we are pursuing the goals laid down in the Strategic Plan. We conduct benchmarks within the Group and against the competition, and we are looking for solutions to improve labour productivity. In the future, we will continue to optimize our business processes and care for the satisfaction of all employees.

Particular attention was paid to continuous adjustment of expenses to the volume of operations. In the middle of the year, we agreed with the directors of respective areas on the activities to improve cost efficiency by the end of the year. By working on projects, we strived to seize the potentials for long-term improvement in Gorenje Group cost efficiency and to close the gap relative to our competition.

Targets for 2017

Our activities will be aimed at closer cooperation with individual departments and development of solutions for further cost management, and especially preventive measures, for reaching long-term cost efficiency.

Shares in sales revenue in 2016 relative to 2015



Gorenje Group approach to attainment of cost efficiency

COMMUNICATION STRATEGY AND INVESTOR RELATIONS GOALS

competent share valuation

improvement in corporate disclosures

adequate coverage by analysts and pundits

improving Management Board recognition

developing relations with the shareholders

improving the coverage by financial media

correct presentation of company/Group information in professional databases

We ensure **transparency of our operations.**

We treat all shareholders **equally**.

Creating Value for the Shareholders

Strategic goal

Consistently with the fundamental principle of investor relations, we ensure equal treatment for all shareholder and potential investors, providing in a timely fashion all 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.

Transparency of operations and equal treatment

Through its communication with shareholders, financial analysts, institutions, the press, and the general public, the company Gorenje d.d. ensures transparency of its operations. This involves regular and timely announcement of information about the company position and major changes in its operations.

The central goal of 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 31 press releases) and English language (a total of 31 press releases) in the Ljubljana Stock Exchange electronic information dissemination system, the SEOnet (www.ljse.si),
- Polish language (a total of 31 press releases) on the Warsaw Stock Exchange via the ESPI system (www.gpw.pl), for easier communication with the communities 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 2016 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. Due to the process of European integration and implementation of single market standards for corporate actions on securities, we closed on 2016 in the Republic of Slovenia the registry accounts with the Central Securities Clearing Corporation (KDD). The Book Entry Securities Act (ZNVP-1) specified a deadline for account holders by which their securities had to be transferred to accounts of the KDD members (financial brokers). For legal persons, the deadline was September 30, 2016; for natural persons, the deadline was January 1, 2017. Due to this discontinuation, we received the most calls from natural persons whom we advised on how they can transfer their securities to accounts of KDD members.

We communicate with both international and domestic investors at meetings abroad to which we are invited by investment banks, the Ljubljana Stock Exchange, the Warsaw Stock Exchange, the Zagreb Stock Exchange, and other organizers. 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 eight conferences in 2016. 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 3 899 1345, e mail: bojana.rojc@gorenje.com.

Gorenje share in 2016

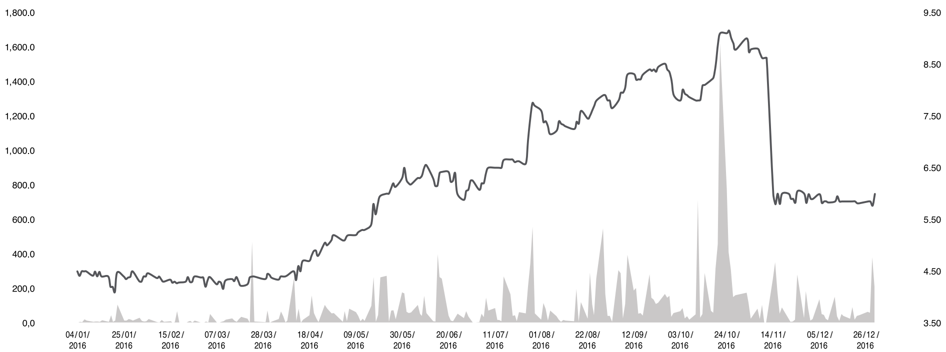
Focus 2016

Gorenje share at the Ljubljana and Warsaw Stock Exchange

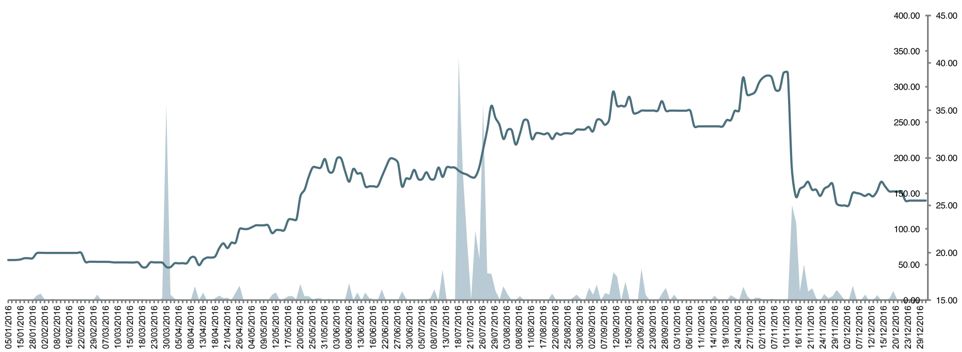
After a slow start, trading on the Ljubljana Stock Exchange* picked up pace in the second half of 2016 as we witnessed a considerable increase in trading volume and the number of transactions. After last year's drop, the SBI TOP stock market index, which also includes the Gorenje share, ended the year with growth of 3.1 percent, and Slovenian stock-market-listed companies gained values.

Gorenje's price per share **rose by 30%** in 2016.

GRVG price per share and daily trading volume at the Ljubljana Stock Exchange in 2016



GRV price per share and daily trading volume at the Warsaw Stock Exchange in 2016



* Source: Ljubljana Stock Exchange d.d.

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 2016 was EUR 6.00, which is 30.3 percent above the price as at the last trading day in 2015 (EUR 4.60). The SBI TOP stock market index rose by 3.1 percent in the same period. At the Warsaw Stock Exchange, the closing price per share rose by 32.5% relative to the end of 2015 (from PLN 19.25 or EUR 4.51 to PLN 25.51 or EUR 5.78).

Gorenje share's total trading volume on the Ljubljana Stock Exchange and the Warsaw Stock Exchange amounted to 3,495,901 shares, which is 41.5 percent more than in 2015 (2,470,289 shares). Average daily trading volume was 13,553 shares at the Ljubljana Stock Exchange, and 415 shares per day at the Warsaw Stock Exchange.

Start of due diligence – September 30, 2016
With regard to the public announcement dated June 25, 2016, informing the public that Panasonic Corporation was conducting due diligence in Gorenje, we confirmed on September 30, 2016, that – as announced – the due diligence period ended on Friday, September 30, 2016.

Information on the completion of procedure – November 10, 2016
The Panasonic Corporation which conducted due diligence of the company Gorenje d.d. between July 2016 and September 2016, to examine the possibility of an offer to increase the ownership share in Gorenje d.d., decided that any increase of ownership stake in Gorenje was not consistent with its investment strategy.

Notification of a change in major shareholdings in the company – September 20, 2016
On September 19, 2016, we received from the company Home Products Europe B.V., Utrechtseweg 181, 6862 Aj Oosterbeek, the Netherlands, a notification that they had acquired on that day 13,800 GRVG shares of the issuer Gorenje d.d. Thus, the share of voting rights held by this company increased from 4.94 percent (1,207,431) to 5 percent (1,221,231) of all voting rights in the company Gorenje d.d.

Notification of a change in major shareholdings in the company – October 13, 2016
On October 12, 2016, we received from Kristijan Floričić a notification that he had acquired on October 11, 2016, 84,000 GRVG shares of the issuer Gorenje d.d. Thus, his share of voting rights increased from 4.906 percent (1,198,314) to

Trading with the GRVG share and its return and performance relative to 2012

	2016	2015	2014	2013	**2012**
Number of shares issued	24,424,613 **+54%**	24,424,613	24,424,613	22,104,427	15,906,876
Number of treasury shares	121,311 **=**	121,311	121,311	121,311	121,311
Number of shareholders	13,415 **-27%**	16,248	17,000	17,438	18,261
Annual value of stock traded (EUR)	23,029,500 **+289%**	12,433,014	27,269,030	8,716,644	5,927,555
Average market capitalization (EUR)	149,582,558 **+103%**	130,914,600	133,101,585	67,252,797	73,540,338
Turnover (value of stock traded/ average market capitalization)	0.15 **+88%**	0.10	0.20	0.13	0.08

Indicators on Gorenje share and its performance in comparison to 2012

	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	**Dec 31, 2012**
Closing price per share (EUR)	6.00 **+58%**	4.60	5.62	4.20	3.79
Maximum price per share in the course of the year (EUR)	9.15 **+50%**	6.30	7.20	4.62	6.10
Minimum price per share in the course of the year (EUR)	4.10 **+8%**	3.85	3.96	3.80	3.78
Basic and diluted earnings per share (in EUR)	0.33	-0.36	0.04	-1.51	0.003
Share book value (in EUR)	15.40	15.14	15.65	17.32	24.51
Dividend (EUR)	na	-	0.06	-	-
P/E (price to earnings ratio)	18.19	-	-	-2.78	6.65
P/B (price to book ratio)	0.39	0.30	0.36	0.24	0.15
Dividend yield, %	na	-	1.07%	-	-

5.25 percent (1,282,314) of all voting rights in the company Gorenje d.d.

Earnings per share: Basic and diluted 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 0.33 (EUR -0.34 for 2015).

Share book value: Book value of GRVG share as at December 31, 2016, amounted to EUR 15.40 (EUR 15.14 as at December 31, 2015). It is calculated as the ratio between book value of Gorenje, d.d., 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 0.39 (0.30 as at December 31, 2015).

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 2014, dividend amounted to EUR 0.06 gross per share. Due to the economic crisis which had a strong impact on our operations and performance since the last quarter of 2008, no dividend was paid out for the years 2008, 2009, 2010, 2012, 2013, and 2015. In 2011, dividend amounted to EUR 0.15 gross per share.

Ownership Structure

As at December 31, 2016, there were 13,415 shareholders entered in the share register, which is 17.4 percent less than at the end of 2015 (when there were 16,248).

The share of institutional investors in our ownership structure increased, which has led to the formation of a solid and stable core of owners who follow and support our development. Also present are the more active investors whose trading improves our liquidity. The number of treasury shares relative to the last day of 2015 remains the same at 121,311 shares, which is 0.4967 percent of total share capital.

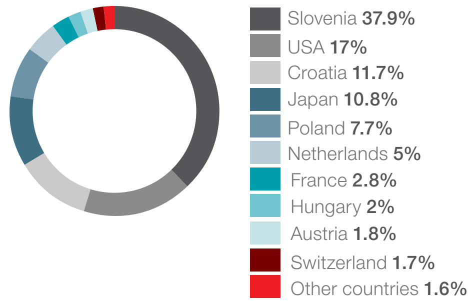
As laid down by the company Articles of Association, one share bears the right to one vote; treasury shares do not bear voting rights.

Ten largest Gorenje shareholders

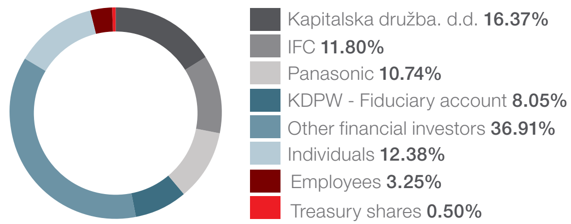
Ten largest shareholders	**Number of shares** (31/12/2016)	Share in %
Kapitalska družba d.d. (Slovenian Pension Fund Management Company)	3,998,653	16.37%
International Finance Corporation	2,881,896	11.80%
Panasonic Corporation	2,623,664	10.74%
KDPW – fiduciary account	1,892,218	7.75%
Home Products Europe B.V.	1,221,231	5.00%
Raiffeisen Bank Austria d.d. - fiduciary account	1,125,573	4.61%
Alpen.SI, multi-asset flexible sub-fund	793,208	3.25%
Zagrebačka banka d.d. - fiduciary account	786,063	3.22%
BNP Paribas Securities Services S.C.A.	690,000	2.83%
Auerbach Grayson & Company LLC	647,165	2.65%
Total major shareholders	**16,659,671**	**68.21%**
Other shareholders	7,764,942	31.79%
Total	**24,424,613**	**100%**

Over 60% of international shareholders.

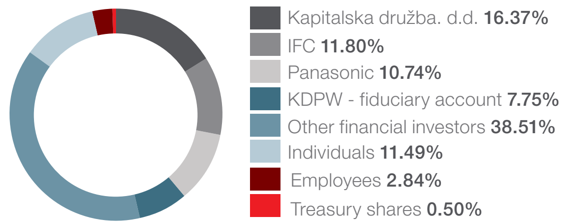
Shareholder composition as at December 31, 2016, by countries



Ownership structure as at December 31, 2015



Ownership structure as at December 31, 2016



Major events following the balance sheet date

On the April 10, 2017, the company Gorenje, d.d., received a statement of resignation by the Supervisory Board member Toshibumi Tanimoto. Toshibumi Tanimoto has been a Supervisory Board member at Gorenje, d.d., since July 20, 2014. His term of office will be terminated after the Supervisory Board session on April 21, 2017.

On February 24, 2017, the company Gorenje d.d. informed the public that the term of office of Management Board at Gorenje d.d. Peter Groznik shall be, on his proposal and with approval by the Supervisory Board, consensually terminated as of February 28, 2017. Until the appointment of a new Management Board member, corporate finance and the business area of ecology, trade, and industrial services shall be managed by Jožica Turk, executive vice president of corporate finance.

On January 31, 2017, the company Gorenje d.d. successfully completed the issue of commercial paper. Commercial paper with the cods GRV05 bear an interest rate of 1.30 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.

On January 13, 2017, the company Gorenje, d.d., publicly announced its business plan for 2017, which is the second year of the new strategic period. At the same time, the company informed the public about the planned changes in the Gorenje Group organization, according to which Gorenje Group was to be transformed from a conventional functional organization into business-product (divisional) organization focusing on brands and product programs.

There were no other major events after the balance sheet reporting date, i.e. December 31, 2016.

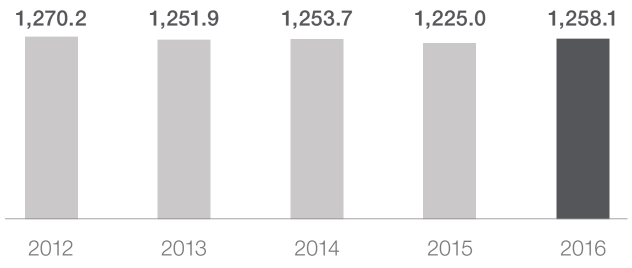
Business Performance

Gorenje Group performance highlights

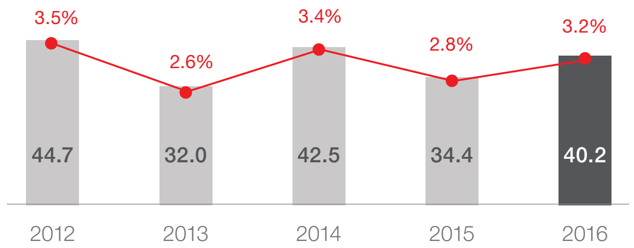
Key financial indicators in 2016

- We generated revenue of EUR 1.258 billion, which is 2.7 percent more than in 2015.
- Actual revenue accounts for 104.8 percent of the budgeted revenue for the year. Taking into account the fact that the process of divestment of some companies from the Ecology segment was not yet completed, actual attainment of budgeted sales revenue is at 100%.
- Revenue in the core activity Home reached EUR 1,091.7 million (3.4 percent more than in 2015).
- Adjusting for the effect of the changes in exchange rates, organic revenue growth in the core Home segment would have amounted to 4.7 percent.
- EBITDA in 2016 amounted to EUR 87.2 million, which is 8.9 percent more than in 2015. EBITDA margin was at 6.9 percent, an increase of 0.4 p.p. over 2015. We reached 102.8 percent of the planned EBITDA. Taking into account the fact that the process of divestment of some companies from the Ecology segment was not yet completed, actual attainment of budgeted EBITDA is at 98 percent.
- EBIT amounted to EUR 40.2 million, which is a 16.7 percent increase over the year before; EBIT margin rose to 3.2 percent, which is 0.4 percentage point more than in 2015. In 2016, we reached 106.8 percent of the budgeted EBIT. Taking into account the fact that the process of divestment of some companies from the Ecology segment was not yet completed, actual attainment of budgeted EBIT is at 100.9 percent.
- Gorenje Group continued to increase its investments into development and marketing to support the growth and structural advancement of sales. We invested EUR 32.3 million into development, or 2.6 percent to total Gorenje Group revenue (increase of 0.18 percentage point relative to 2015).
- We invested EUR 26.4 million into marketing, or 2.1 percent to total Gorenje Group revenue (increase of 0.27 percentage point relative to 2015).
- Negative result from financing in the amount of EUR 27 million is EUR 11.8 million better than in 2015. The result from financing activities was affected by interest expense which was 16.5 lower than last year. At the Group level, our result from currency translation differences was considerably better than in 2015.
- We ended every quarter of 2016 with a profit. In 2016, Gorenje Group posted a net profit of EUR 8.4 million, while in the year before, it recorded a loss of EUR 8 million.
- Net financial debt stood at EUR 341.6 million, which is EUR 11.2 million higher than as at the end of the year before. We improved the ratio between net financial debt and EBITDA by 0.2 (from 4.1 to 3.9), thus improving our relative debt. This is above all a result of improved profitability and better working capital management seen in the improvement of turnover of all major items (inventory, receivables, trade payables), and higher investment supporting further growth of the Group's sales and profitability.

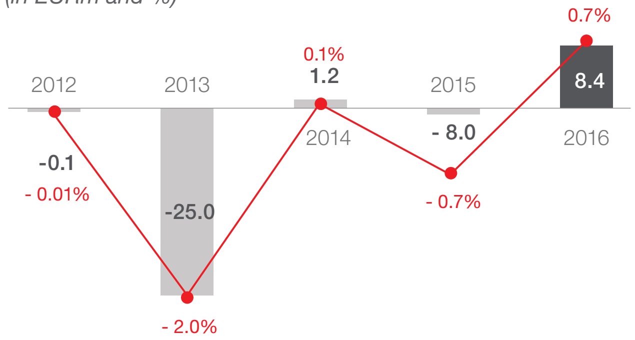
Gorenje Group revenue (in EURm)



Gorenje Group EBIT and EBIT margin (in EURm and %)



Net result for the financial period, and Gorenje Group ROS (in EURm and %)

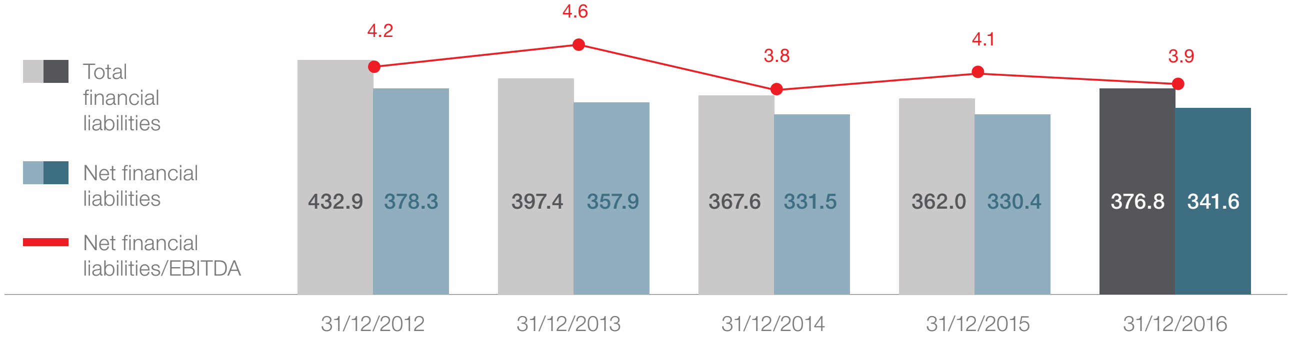


EURm	2015	**2016**	Index	**Budget 2016***	Budget attainment
Revenue	1,225.0	1,258.1	102.7	1,201.0	104.8
EBITDA	80.1	87.2	108.9	84.9	102.8
EBITDA margin (%)	6.5%	6.9%	/	7.1%	/
EBIT	34.4	40.2	116.7	37.6	106.8
EBIT margin (%)	2.8%	3.2%	/	3.1%	/
Profit before taxes	-4.0	13.2	/	11.2	117.8
Net result for the financial period	-8.0	8.4	/	7.6	110.6
ROS (%)	-0.7%	0.7%	/	0.6%	/
Net financial debt**	330.4	341.6	103.4	319.0	107.1
Net financial debt/EBITDA	4.1	3.9	/	3.8	/

* The 2016 Business Plan does not include the companies from the Ecology segment for which a divestment process was in progress at the time of 2016 Business Plan development (Gorenje Surovina d.o.o., Maribor; Kemis-BH d.o.o., Bosnia and Herzegovina; Kemis Valjevo d.o.o., Serbia; Cleaning System S d.o.o., Serbia; Publicus d.o.o., Ljubljana; Ekogor d.o.o., Jesenice).

** Financial debt – cash and cash equivalents

Movement of total and net financial liabilities in the 2012-2016 period (EURm), movement of the relative borrowing rate or the net financial debt/EBIDTA ratio



Gorenje Group operating performance analysis

EURm	2015	**2016**	Index
Revenue	1,225.0	1,258.1	102.7
Contribution margin*	510.6	537.1	105.2
Contribution margin (%)	41.7%	42.7%	/
EBIT	34.4	40.2	116.7
EBIT margin (%)	2.8%	3.2%	/
Net result for the financial period	-8.0	8.4	/
ROS (%)	-0.7%	0.7%	/

* Contribution margin at the level of difference between sales revenue and costs of goods and material.

Gorenje Group revenue amounted to EUR 1,258.1 billion, which is 2.7 percent more than in 2015. Revenue generated in our core activity Home grew by 3.4 percent. Adjusting for the effect of currency fluctuation, organic revenue growth in the Home segment would have amounted to 4.7 percent.

We succeeded in improving our contribution margin, amounting to EUR 537.1, by:

- increasing our sales in the core activity Home (sale of major and small domestic appliances),
- favourable geographical structure of sales in the core segment Home where our largest sales growth was generated:
  - in the markets of Eastern Europe (6.4-percent growth, 9-percent organic growth),
  - in the markets of Western Europe, especially Benelux (4-percent growth), where our contribution margins are higher,
- favourable structure of sales by brands, in particular higher sales of Asko brand (9-percent growth) and the brands Atag, Pelgrim, and Etna (4-percent growth); as well as growth in the sales of Gorenje brand products,
- favourable structure of sales by products:
  - we increased the sales of premium appliances (4.3-percent volume growth; premium appliances account for 27.3 percent of total revenue),
  - innovative appliances (14.5-percent volume growth; innovative appliances account for 17.4 percent of total revenue),
  - cooking appliances (4.6-percent volume growth),
  - dishwashers (19.7-percent volume growth),
  - sale of small domestic appliances with revenue growth of 32.4 percent,
- successful management of upstream (input) prices of raw and processed materials,
- successful management of product complexity,
- processes optimization throughout the supply chain,
- adjustment of costs to operating volume, consistently with our strategic goals, and
- increased profitability in non-core activities.

Currency translation differences had a material effect on sales revenue especially in Eastern Europe. Other categories aside (currency hedging, adjustment of prices in the markets, product structure etc.), the changes in exchange rates had the following effect on the organic revenue growth in our key markets for the core activity Home.

As a part of the **Group's currency risk management** policy, our currency hedging policy is managed centrally. We are exposed to the changes in exchange rates of local currencies relative to the euro which is the Group's functional currency. Exposure is measured and managed with regard to planned or budgeted cash flows in the annual financial period, and revaluation of balance sheet items reported in local currencies. The fundamental goal of currency risk management is to hedge the business plan exposure by minimizing the negative effect of the exchange rate changes on the Group's results and cash flows. In order to hedge the currency risks, we employ natural hedging, i.e. balancing of cash flows and balance sheet items to the greatest possible extent, as well as sign derivative financial instruments (especially currency forwards) for the currencies to which the Group is exposed.

Currency fluctuation and effect on organic growth of revenue in the business segment Home

EURm	Actual revenue 2015	Actual revenue 2016	Actual 2016 revenue at 2015 exchange rates	Currency effect on revenue	**Actual growth (%)**	**Organic growth (%)**
West	452.7	455.8	456.8	-1.0	+0.7%	+0.9%
East	492.8	524.3	537.2	-12.9	+6.4%	+9.0%
Rest of world	110.5	111.6	112.0	-0.4	+1.0%	+1.3%
Total	**1,056.0**	**1,091.7**	**1,106.0**	**-14.3**	**+3.4%**	**+4.7%**

Sales

In 2016, our revenue grew relative to 2015 in all Gorenje Group geographical segments. Total growth amounted to 2.7 percent; revenue growth in the core segment Home was at 3.4 percent.

Development and new products

Consistently with our strategic policy, we stepped up investments into new product development to 2.6 percent of total Group sales revenue (up 0.18 percentage point relative to 2015).

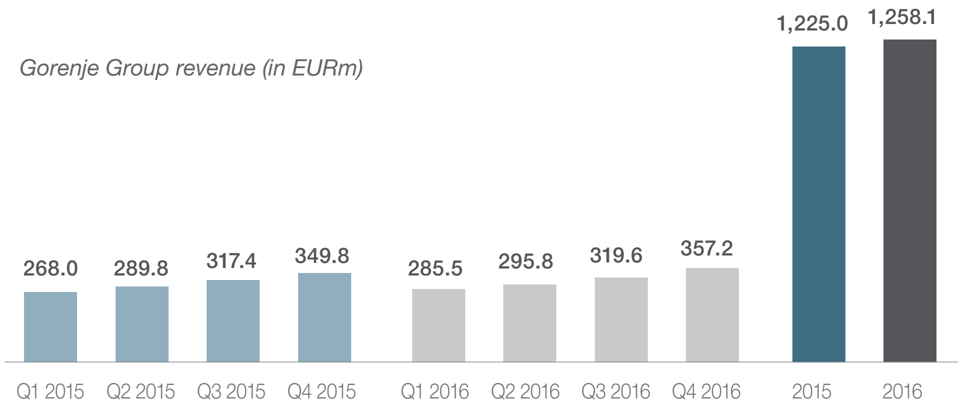
Key development achievements in 2016:

- updated built-in under-counter fridge-freezers, width 600 mm,
- 10-kg load washing machines for our strategic industrial partner,
- Asko Craft line of premium built-in ovens,
- new line of mid-range dishwashers.

Markets of the business segment Home

- Our sales grew in all geographical segments of the core activity Home in 2016 relative to the sales figures from 2015.
- Sales growth was recorded in respective markets of Eastern Europe: the Czech Republic, Slovenia, Hungary, Slovakia, Poland, Romania, Bulgaria, Croatia, Albania, Montenegro, and Macedonia.
- Considerable growth was also seen in the markets of Russia (7 percent) and Ukraine (over 40 percent), which consolidated our market position there.
- In Western Europe, our sales increased in the markets of Benelux, especially in the Netherlands where our market share is increasing. In Germany our revenue increased in comparison to the year 2015. Lower sales are still recorded in France and Scandinavia (with Gorenje brand).
- In markets beyond Europe (Rest of World), our sales rose by 1 percent. The share of this field in the core segment Home sales reached 10.2 percent (0.2 percentage point less than in 2015). Sales were affected by the drop in orders from industrial partners (we are planning to recover to growth in 2017), and lower sales in the markets of the Middle and Far East (especially in Saudi Arabia). Notable growth was seen in North America, the Caucasus region, and Asia. We also increased our sales in Australia.
- By increasing our sales under the Asko brand, we are increasing sales in the premium segment. In the structure of sales in our core segment Home, sales of products under the Asko brand accounted for 10.1 percent (+0.5 percentage point relative to 2015), and it was increased in the markets of Scandinavia, France, USA, Russia, Asia, and Australia.

Gorenje Group revenue (in EURm)



Revenue by geographical segments

EURm	2015	%	**2016**	%	Change (%)
Western Europe	464.3	37.9	469.7	37.3	**+1.2%**
Eastern Europe	650.2	53.1	676.6	53.8	**+4.1%**
Rest of world	110.5	9.0	111.8	8.9	**+1.2%**
Group Total	**1,225.0**	**100.0**	**1,258.1**	**100.0**	**+2.7%**
Western Europe	452.7	42.9	455.8	41.8	**+0.7%**
Eastern Europe	492.8	46.7	524.3	48.0	**+6.4%**
Rest of world	110.5	10.4	111.6	10.2	**+1.0%**
Home total	**1,056.0**	**100.0**	**1,091.7**	**100.0**	**+3.4%**

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 beyond Europe.

- Sales of small domestic appliances* grew by 32.4 percent. In the structure of sales in our core activity segment Home, small domestic appliance sales accounted for 3.3 percent (+0.7 percentage point relative to 2015). Growth was recorded in the following markets: Poland, Russia, Ukraine, Slovenia, Slovakia, Hungary, Croatia, Bosnia and Herzegovina, Macedonia, Bulgaria, Serbia, Romania, and the Netherlands.
- Sale of innovative** appliances was increased by 14.5 percent. Their share in total sales thus increased to 10.7 percent (+1.1 percentage point relative to 2015). Innovative appliances account for 17.4-percent share of total core activity sales revenue. Premium*** appliance sales grew by 4.3 percent and their share in the core activity Home sales now accounts for 16.9 percent. In the structure of sales revenue in the core activity, premium appliances account for a 27.3-percent share.

* As of January 1, 2016, freestanding microwave ovens are classified as major appliances. Therefore, the share of small domestic appliance sales in total sales in lower than reported in the past.

** 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).

Sales by Gorenje Group business segments

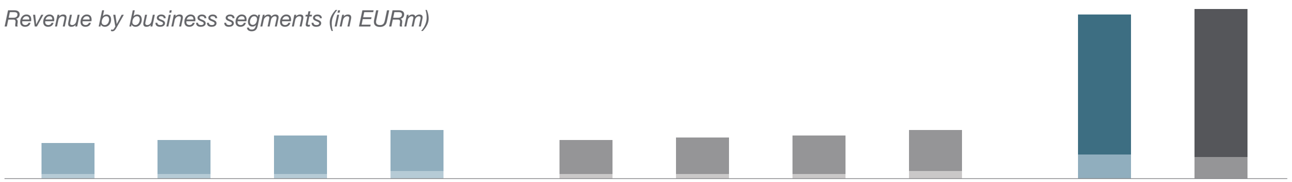
Revenue in the core business segment Home in 2014 amounted to EUR 1,091.7 million, which is 3.4 percent more than in 2015.

Adjusting for the effect of currency translation differences, organic revenue growth in the Home segment would have amounted to 4.7 percent.

Gorenje Group revenue in non-core activities amounted to EUR 166.4 million, which is 1.5 percent or EUR 2.6 million less than in 2015. Lower revenue are a result of divestment and resulting elimination of two companies of the Ecology segment (Publicus d.o.o., Ljubljana, and Ekogor d.o.o., Jesenice) from the Gorenje Group at the end of the first half of 2016. Adjusting for the effect of sales of these two companies, sales revenue in the non-core segment grew by 1 percent.

Sales revenue growth was attained by expansion of operations in hospitality services, as well as in the production of ceramics, sale of medical equipment, and in toolmaking. Although revenue from machine building generated in the market was lower, production capacity utilization in this segment was much higher than last year on account of orders related to new projects within our core activity Home.

Revenue by business segments (in EURm)

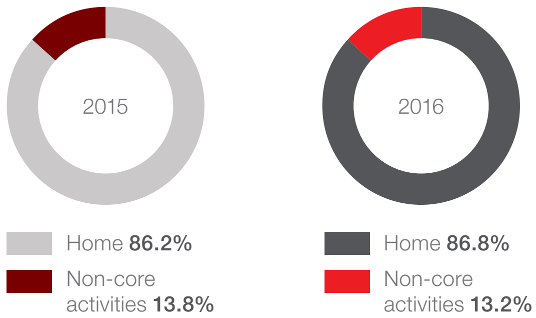


	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2015	2016
Home	**224.0**	**248.8**	**283.3**	**299.9**	**242.8**	**256.7**	**282.7**	**309.5**	**1,056.0**	**1,091.7**
Non-core activities	**44.0**	**41.0**	**34.1**	**49.9**	**42.7**	**39.1**	**36.9**	**47.7**	**169.0**	**166.4**

Due to lower prices of secondary (waste) raw materials in the market, sales revenue in the Ecology segment was somewhat lower than in 2015.

Structure of revenue indicates that 86.8 percent of total Group revenue was generated in the core activity Home (+0.6 percentage point). The change in this share is a result of the fact that the growth rate for core activity sales is steeper than the growth rate in non-core operations.

Group revenue, broken down by activities



Gorenje Group profitability

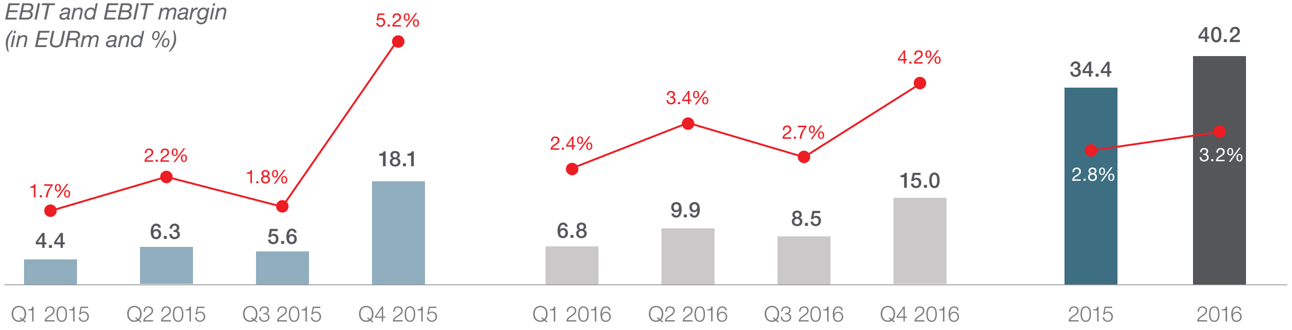
Operating profit (EBIT): our EBIT amounted to EUR 40.2 million. Relative to 2015, EBIT was higher by EUR 5.8 million, or 16.7 percent, mostly on account of higher contribution margin at the level of costs of goods and material, resulting from:

- increased sales volume,
- favourable geographical structure of sales,
- favourable structure of sales in terms of brands and product categories,
- lower upstream (input) prices of raw and processed materials in our core segment Home, and
- increased profitability in non-core activities.

The change in Group profitability at the EBIT level

EURm	Development
EBIT 2015	**34.4**
Contribution margin at the level of costs of goods and material	26.6
Costs of services	-6.5
Labour costs / Employee benefit expenses	-4.0
Depreciation and amortization expense	-1.4
Other operating expenses	1.1
Other operating income	-10.0
EBIT 2016	**40.2**

EBIT and EBIT margin (in EURm and %)



Cost management

- At Gorenje Group, costs are managed with measures for long-term cost efficiency and performance.
- Particular attention is paid to continuous adjustment of costs to the volume of operations. Employees and executive in charge of respective fields plan the activities for short-term improvements in cost efficiency; at the same time, a range of projects are aimed at tapping the potential for long-term improvements in Gorenje Group cost efficiency, in order to be on a par with our competitors.
- Successful work in production and supply, i.e. re-negotiation with suppliers, advanced favourable forwards on some strategic raw materials (sheet metal, plastics etc.) and optimization of the use of material in direct manufacturing, we successfully adjusted our raw and processed material costs to the larger sales and production volume, and generated significant savings. Also contributing in this respect were the activities related to supply chain optimization.
- Service costs were higher by 3.1 percent, or EUR 6.6 million. Increase in service costs is also related to higher investment into marketing (18-percent increase). We increased the share of marketing costs in total sales revenue to 2.1 percent, which is 0.27 percentage point more than last year. Higher investment into marketing provides support to higher and structurally more favourable sales.
- Logistics route/path optimization, development of new logistics models for small domestic appliances and sourcing of components and raw and processed material, and cutting the transport prices have resulted in a decrease of logistics costs by 1.5 percent, while sales revenue increased by 2.7 percent.
- Labour costs were higher by 1.7 percent, or EUR 4 million. In addition to planned promotions and alignment of salaries with the provisions of the collective labour agreement, the increase of labour costs was a result of severance payments which were higher in 2016 than they were in the year before. Labour cost increase was also affected by the expansion of operations in hospitality services, higher number of employees in manufacturing in the core activity Home by 142 due

to higher sales orders and higher production capacity utilization, increase of the number of employees at trade companies of the core activity Home due to the change of retail company model in Eastern Europe (hiring employees who were previously employed via an employment agency), and increase in the number of employees in the markets of Eastern Europe, Benelux, and Australia. It should, however, be noted that the increase of labour costs is lower than the rate of sales revenue growth which reached 2.7 percent.

- On average, Gorenje Group had 10,889 employees, which is on average 272 more than in 2015. As noted above, the predominant part of the increase pertains to employees in manufacturing and at trade companies of the core segment Home in Eastern Europe, Benelux, and Australia. Total number of employees in non-core activities is higher by 17, especially on account of the expansion of operations in hospitality services, as noted above. On the other hand, divestment of the companies Publicus d.o.o. and Ekogor d.o.o. had the opposite effect on the number of employees.

Our EBITDA amounted to EUR 87.2 million which is EUR 7.1 million or 8.9 percent more than in 2015.

Negative result from financing in the amount of EUR 27 million is EUR 11.8 million better than in 2015. The negative result from financing activities was affected by interest expense which was 16.5 lower than last year. At the Group level, our result from currency translation differences was considerably better than in 2015.

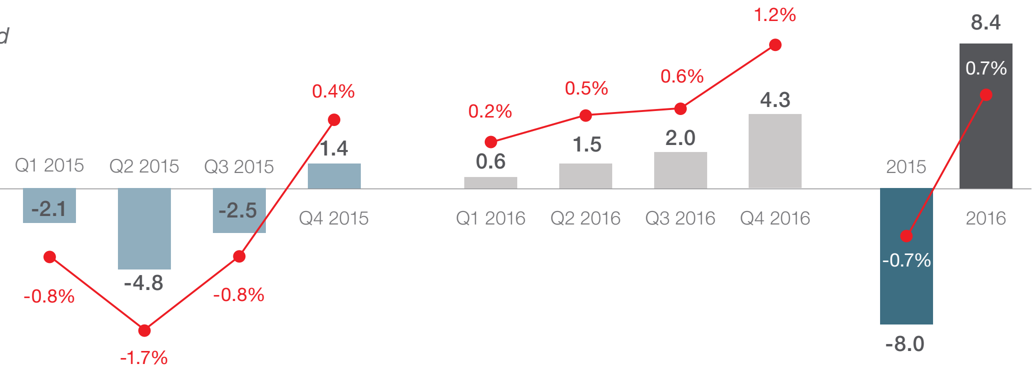
Corporate income tax, reported at EUR 4.8 million, is EUR 0.8 million higher than in the year before, and it includes both currently levied and deferred corporate income tax. The increase is predominantly a result of improved profitability and the related current corporate income tax.

The levied tax is the tax payable on taxable income of each Group company for the fiscal year ; deferred tax is determined based on the temporary differences between the accounting value (or book value) of assets/liabilities as reported in financial statements, and the amounts relevant for tax reporting – i.e. the difference between accounting (book) and tax value. The amounts of temporary differences, which are the predominant determinants of the deferred tax via deferred tax assets and liabilities, pertain to amounts reported with regard to tax relief for investment and research and development, and tax to losses from previous years, which can be carried over to future periods, of which most were cumulated at the parent company.

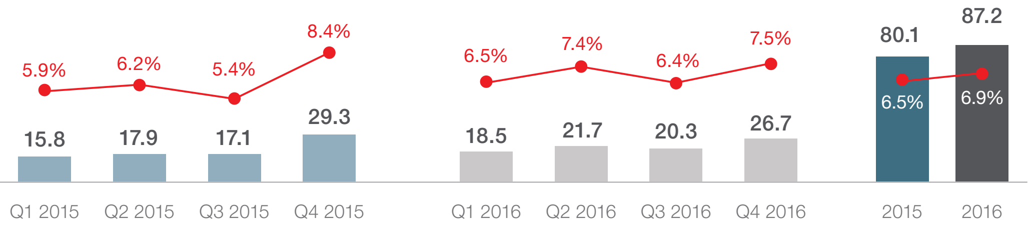
Net profit for the period

Gorenje Group's net profit for the period was at EUR 8.4 million. For the fifth consecutive quarter, of which the entire year 2016, Gorenje Group has been operating with profit.

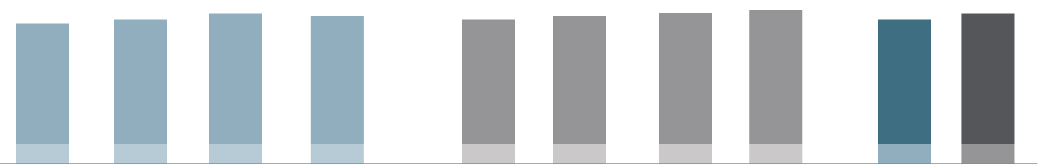
Net profit for the year and ROS (in EURm and %)



EBITDA and EBITDA margin (in EURm and %)



Average number of employees by business segments



	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2015	2016
Home	8,830	9,008	9,496	9,408	9,077	9,289	9,640	9,743	9,182	9,437
Non-core activities	1,423	1,436	1,440	1,441	1,453	1,454	1,443	1,458	1,435	1,452
Total	**10,253**	**10,444**	**10,936**	**10,849**	**10,530**	**10,743**	**11,083**	**11,201**	**10,617**	**10,889**

Financial performance

Focus 2016

The fundamental goal of the Group's financial function is to cut its relative debt and to provide short-term and long-term financial stability with the lowest possible expenses and risks. In 2016, we succeeded in cutting the net financial debt / EBITDA ratio to 3.9.

Current repayment of matured liabilities is ensured with inflows from sales activities in the business segments Home and non-core operations, and the resulting cash flow, as well as with timely provision of refinancing. In this respect, we are constantly looking to optimize our net working capital.

Relative deleveraging

Pursuant to the 2016 financial plan, particular attention was paid to refinancing of the maturing current portions of long-term financial liabilities, renewal of short-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.

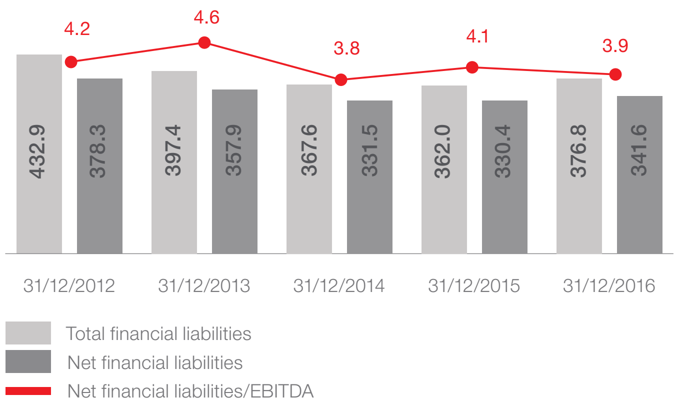
Key activities

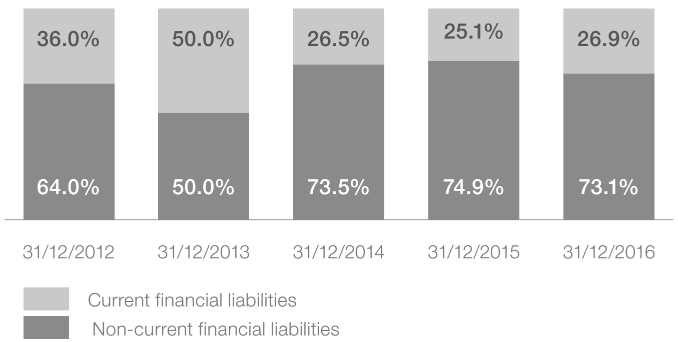
In 2016, we repaid a total of EUR 87.1 million of long-term borrowings. The amount of financial debt (with relative deleveraging, maintaining the maturity profile of financing sources, and appropriate diversification among banking and non-banking sources) is reflected in the stable level of required replacement borrowing for repayment of the current portions of long-term financial liabilities in 2017, which amounts to EUR 93.6 million. This is on a par with the figure from 2016, and less than in the years before that. In 2016, we maintained the maturity profile of financial liabilities and cut our interest expense by 16.5 percent.

- Total financial liabilities as at December 31, 2016, amounted to EUR 376.8 million, which is EUR 14.8 more than a year earlier.
- Long-term (non-current) borrowings account for 73.1 percent of total financial liabilities, which is 1.8 percentage point less than as at the end of the previous year; the remaining part are short-term (current) borrowings.
- Net financial liabilities (measured as the difference between total financial liabilities, and cash and cash equivalents) at the end of 2016 amounted to EUR 341.6 million, which was EUR 11.2 more than at the end of 2015. As at December 31, 2016, the Group's available liquidity reserve amounted to EUR 120.4 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.
- We are working with the existing and new banking and other partners to repay or refinance our maturing financial liabilities and, and to optimize our finance expenses, maintain our maturity profile, and regulate the amount of our liquidity reserve. These activities have, taking into account the available liquidity reserve, already provided a considerable share of funding for servicing our currently maturing portions of long-term debt for the entire year 2017, and for current cash flow requirements. It is relevant in this respect that our short-term credit lines are regularly renewed or extended.

All Group borrowings are non-collateralized. In 2016, we complied with all contractually agreed covenant provisions, except for one loan agreement that included atypical financial covenants and for which the relevant bank approved already before the end of the fiscal year a covenant waiver.

Movement of total and net financial liabilities in the 2012-2016 period (EURm), movement of the relative borrowing rate or the net financial debt/EBIDTA ratio, and the maturity structure of financial liabilities





Improved net working capital management had a material impact on our relative deleveraging.

Cash flows

Our cash flow from operating and investing activities was negative at EUR 11.5 million, which, in absolute terms, is EUR 11 million worse than in 2015. This is a result of considerably improved cash flow from operating activities, higher investment, higher sales, and sales growth, which in turn is evident in an only slight increase of funds tied up in net working capital (EUR 2.6 million).

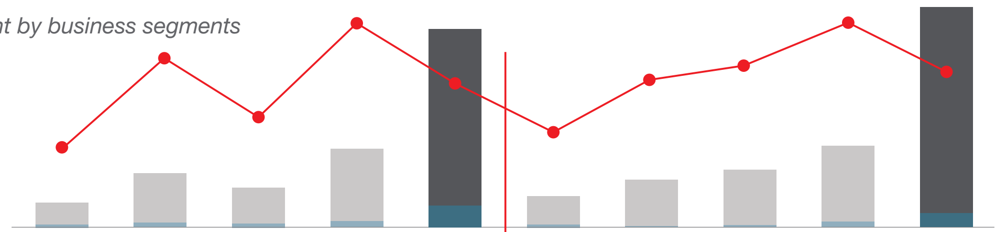
Investment in 2016 amounted to EUR 83.2 million, which is EUR 7.7 million more than in 2015. Out of this amount, EUR 40 million was allocated to new product development; EUR 19.2 million pertains to non-material investments (capitalization of new product development costs); EUR 11.3 million was invested into the acquisition of new technological equipment and update to IT support, and improvement of productivity of our technological equipment; EUR 4.6 was earmarked for investment maintenance of technological equipment, tools, and infrastructure; and EUR 2.5 was dedicated to sales activities. In addition, EUR 5.5 million was invested in non-core activities, majority of which in the segments of ecology, machine building, and hospitality services.

As at December 31, 2016, the Group's investments into net working capital* were reported at EUR 144.9 million, which is EUR 2.6 more than as at December 31, 2015. 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 2015 by 1.1 percentage point, to 11.5 percent.

* Net working capital = inventories + trade receivables + other current assets – trade payables – other current liabilities

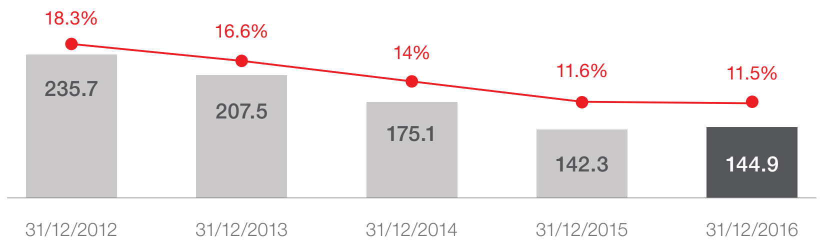
- As at December 31, 2016, inventory amounted to EUR 225.9 million, which is on a par with the figure from December 31, 2015. On average, days in inventory were at 69, which is 2 days less than in 2015.
- As at December 31, 2016, trade receivables amounted to EUR 165.8 million, which is EUR 4.8 million more than as at December 31,

Investment by business segments (EURm)



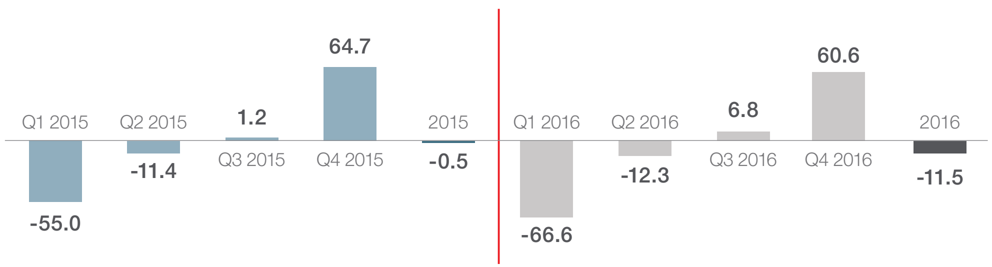
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
Home	7.7	18.5	13.3	27.7	67.2	10.2	17.4	20.7	29.4	77.7
Non-core activities	1.6	2.3	1.9	2.5	8.3	1.5	1.0	1.2	1.8	5.5
CAPEX margin (%)	3.5%	7.2%	4.8%	8.6%	6.2%	4.1%	6.2%	6.9%	8.7%	6.6%
Total	**9.3**	**20.8**	**15.2**	**30.2**	**75.5**	**11.7**	**18.4**	**21.9**	**31.2**	**83.2**

Net working capital relative to sales revenue



Net current assets (EURm)
Share of net current assets in revenue (%)

Cash flow from operating and investing activities (EURm)



2015. Average days sales outstanding were at 47, which is 3 days less than in 2015.
- As at December 31, 2016, trade payables amounted to EUR 223.7 million, which is EUR 2.7 million more than as at December 31, 2015. On average, days payables outstanding were at 85, which is 4 days more than in the year before.

Targets for 2017

We are planning a further decrease of relative debt (planned net financial debt/EBITDA at 3.5) while maintaining a stable maturity profile of financial liabilities and extending the average maturity of our debt.

- In 2017, we shall continue our activities to decrease our financial debt and relative net debt of the Group while maintaining the maturity profile of our financing sources at the level from the end of 2016. In 2017, we shall repay a total of EUR 93.6 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 40 million and interest rate of 1.3 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, replacement financing activities will largely be completed by the end of the first half, which is also important from the aspect of repayment of maturing long-term borrowings (or current portions of long-term debt), of which 57 percent are due in the second half of the year.
- According to our plans, total financial liabilities at the end of 2017 will amount to EUR 371 million; net financial liabilities will amount to EUR 336.3 million; and the net financial debt to EBITDA will amount to 3.5. Considering the interest rates agreed upon in the loan agreements, and the expected replacement borrowing in 2017, we are planning further finance expense optimization.
- In 2017, we are planning to generate positive free cash flow from operating and investing activities. The actual amount of free cash flow will depend on investments which are planned at EUR 80.4 million. In 2017, we will predominantly invest into new product development and technology, which will support the planned growth of our sales in the strategic period at hand. We shall continue to divest our non-core or non-operating assets to optimize our operations.
- 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.).

Business Plan for the year 2017

Focus 2017

Key categories of the 2017 Business Plan follow the strategic goals for the second year of the 2016–2020 strategic period.

In 2017, we are planning an increase in sales. Gorenje Group revenue will amount to EUR 1,315.3 million, which is 4.5 percent more than in 2016. Revenue growth is based on the business segment Home in which we are planning a 5-percent sales growth. This will be fuelled by higher sales under the premium brand Asko and sales growth in Russia, Ukraine, Eastern Europe, Benelux, Germany, Scandinavia, Middle East, Asia, USA, and Australia.

Growth of sales revenue and, as a result, profitability in 2017 will be based on:

- suitable regional/geographic sales structure;
- improved sales structure in terms of brands, as we are planning further sales growth under both premium brands Asko and Atag;
- improved sales structure in terms of product categories, as we are advancing the sales of products with higher added value,

which in turn means higher growth of the share of innovative and premium products, higher average sales (downstream) prices, and higher utilization of our production capacities.

To support the growth and improvement of profitability, we shall ensure adequate investment into marketing and development, and improve cost efficiency regarding raw and processed materials, logistics, and labour.

We are planning net profit of EUR 13.1 million, which is 55 percent more than the net profit generated in 2016.

Moreover, we continue to improve our financial position in this year. Relative debt, presented as the ratio between net financial debt and EBITDA, will be further improved in 2017. With the EBITDA planned at EUR 97.1 million, relative debt will decrease to 3.5 in 2017. This will be attained by higher Group profitability and sound management of working capital and complexity at all levels on the one hand, while lower debt will rely on the effects of divestment of non-operating assets on the other. Moreover, we shall maintain a stable financial structure and seek to cut our average finance expenses.

Targets for 2017

Gorenje Group's main operating objectives for the year 2017 include the following:

- Sales revenue of EUR 1,315.3 million (4.5 percent growth of revenue relative to the actual revenue in 2016),
- EBITDA of EUR 97.1 million (11.3 percent growth relative to the actual EBITDA in 2016),
- EBITDA margin at 7.4 percent (0.5 percentage point more than the actual margin in 2016 when it was at 6.9 percent),
- EBIT of EUR 39.7 million (1.2 percent lower than in 2016),
- Net profit of EUR 13.1 million (55 percent growth relative to the actual profit in 2016),
- Net financial debt/EBITDA: 3.5 (in 2016, the ratio was at 3.9).

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, electricity), waste management, and reduction of carbon footprint.

More on pages 46 and 47: Our capitals for sustainable creation of value and key performance indicators (KPI).

Environmental Sustainability

Environmental sustainability – results 2016 and plans for 2017, complete with strategic goals until 2020

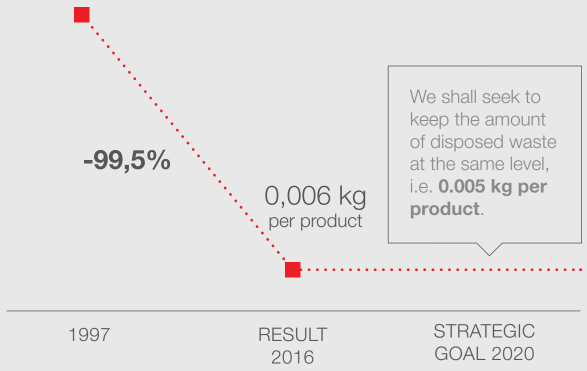
Hazardous waste (kg/unit)

In the period from 1997 to 2016, **we slashed the amount of hazardous waste by 91 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 (kg/unit)

In the period from 1997 to 2016, **we slashed the amount of disposed waste by 99.5 percent**. In 2016, the amount of waste to be disposed **increased somewhat** relative to the years before at the companies Gorenje d.d. and Gorenje I.P.C. d.o.o. This is a **result of a larger number of employees and greater use of stainless steel sheet which is protected with a non-recyclable foil**.

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 – 2016 results

-91% and -99.5%

Reducing the amount of waste
(in kg/unit, relative to 1997):

- hazardous waste: -91%
- waste to be disposed: -99.5%

-84%

Decrease in water consumption
(in m³/unit, relative to 1997):
-84%

+8%

Increase in the use of electricity
(in kWh/unit, relative to 1997):
+8%

-39%

Decrease in natural gas consumption (excluding combined heat and power/co-generation)
(in Sm³/unit, relative to 1997):
-39%

10.94

Carbon footprint:
10.94 kg CO_2/product

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

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 home 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. In the period of 20 years (from 1997 to 2016), this is seen in the following results at the Gorenje d.d. Velenje plant:

- decrease of the amount of hazardous waste by 91% per product;
- lowering the amount of disposed waste by 99.5% per product;
- decrease of water consumption by 84% per product; and
- lowering the use of natural gas by 39% per product.

Detailed information for 2016 for the two companies entered in the EMAS register is provided below.

Use of products

Gorenje home 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 home 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 entered into the EMAS register is presented 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 amounts 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 that are entered into the EMAS register.

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 2016

In 2016, the companies were in a process of intensive adjustment to the requirements of the new ISO 14001:2015 standard.

Gorenje Group's environmental management and occupational health and safety systems (for 2016)

	ISO 14001	EMAS	OHSAS 18001
Gorenje d.d., Velenje plant	Yes	Yes	Yes
Gorenje d.d., Šoštanj plant	Yes	Yes	Yes
Gorenje d.d., Rogatec plant	Yes	Yes	Yes
Gorenje IPC d.o.o., Velenje plant	Yes	Yes	Yes
Gorenje IPC d.o.o., Šoštanj plant	Yes	Yes	Yes
Gorenje Orodjarna d.o.o.	Yes	No	Yes
Gorenje GAIO d.o.o.	Yes	No	Yes
Gorenje d.o.o., Valjevo	Yes	No	Yes
Gorenje Surovina d.o.o.	Yes	No	No
Kemis d.o.o.	yes	Yes	Yes
Mora Moravia, Czech Republic	Yes	No	No
Asko, Vara, Sweden	Yes	No	No
Gorenje Gostinstvo d.o.o.	Yes	No	No
Indop d.o.o.	Yes	No	Yes
Gorenje Home, d.o.o., Zaječar	yes	No	Yes

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			
1. RAW MATERIALS • sheet metal • components of non-metal and metal origin • chemicals • thermal and sound insulation • rubber and plastic semi-products • packaging	INPUT 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	OUTPUT ENVIRONMENTAL ASPECTS
2. ENERGY RESOURCES • electricity • heat • natural gas • compressed air • water	INPUT ENVIRONMENTAL ASPECTS	**5. WASTE** • hazardous waste • waste packaging • municipal/communal solid waste • other non-hazardous waste	OUTPUT ENVIRONMENTAL ASPECTS
3. OTHER • stationery • auxiliary material	INPUT ENVIRONMENTAL ASPECTS	**6. PRODUCTS** • product/service • own parts	OUTPUT ENVIRONMENTAL ASPECTS
	INPUT ENVIRONMENTAL ASPECTS	**7. MISCELLANEOUS** Special area properties • natural heritage, biotic diversity, Natura 2000 • cultural heritage	MISCELLANEOUS

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. In some fields, the results are optimal and can no longer be significantly improved. As seen from the chart, the amount of hazardous waste was reduced by 91 percent and water consumption by 84 percent.

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.

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 and use of fuel and energy at Gorenje d.d., Velenje plant

Aspect		Unit	1997	2016	Ratio 1997 / 2016	Target 2017
Reducing the quantity of	• hazardous waste	kg/unit	0.55	0.05	**-91%**	0.05
	• waste to be disposed	kg/unit	1.14	0.006	**-99.5%**	0.005
	• water consumption	m³/unit	0.56	0.087	**-84%**	0.08
Rational use of energy	• power consumption	kWh/unit	21.41	23.24	**+8.5%**	23
	• consumption of compressed air	m³/unit	21.37	16.56	**-22.5%**	16.5
	• natural gas consumption (excluding combined heat and power/co-generation)	Sm³/unit	1.93	1.18	**-39%**	0.11 kWh/unit

Reducing the amount of waste

Focus 2016

In 2016, the amount of waste to be disposed increased somewhat relative to the years before at the companies Gorenje d.d. and Gorenje I.P.C. d.o.o. This is a result of a larger number of employees and greater use of stainless steel sheet which is protected with a non-recyclable foil.

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

2013	2014	2015	2016
41.6	11.3	8.91	11.6

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

2013	2014	2015	2016
1.85	0.36	0.71	3.83

Key activities

As in previous years, we were dedicated to consistent waste separation in 2016.

Water consumption

Focus 2016

At Gorenje d.d. water consumption was increased from 161,888 m3 in 2015 to 177,084 m3 in 2016. At Gorenje I.P.C. d.o.o. the amount of water used per unit of aspect per 1 EUR of net revenue increased from 1.551 l/EUR NR in 2015 to 1.68 l/EUR NR in 2016.

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

2013	2014	2015	2016	Target 2017
0.079	0.084	0.083	0.087	0.08

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

2013	2014	2015	2016	Target 2017
1.423	1.48	1.551	1.68	1.66

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

2013	2014	2015	2016	Target 2017
0.103	0.085	0.066	0.063	0.068

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

2013	2014	2015	2016	Target 2017
0.046	0.035	0.037	0.036	0.035

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

2013	2014	2015	2016	Target 2017
0.05419	0.005	0.00655	0.0583	0.055

* measurement unit for the aspect per EUR of net revenue

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 2016 due to technological tests upon new product type launches.

Electricity consumption

Focus 2016

At the company Gorenje d.d., Velenje plant, use of electric energy decreased from 23.98 kWh/unit (in 2015) to 23.24 kWh/unit (in 2016). Use of electricity 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 (kWh/unit)

2013	2014	2015	2016	Target 2017
24.03	23.09	23.98	23.24	23

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

2013	2014	2015	2016	Target 2017
0.138	0.134	0.15	0.138	0.0135

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

2013	2014	2015	2016	Target 2017
11.33	11	10.83	13.65	12.61

Electric energy consumption at the production company in Valjevo, Serbia (kWh/unit)

2013	2014	2015	2016	Target 2017
24.3	21	21.45	20.9	21

Electric energy consumption in production of sanitary equipment at the production company in Zaječar, Serbia (kWh/unit)

2013	2014	2015	2016	Target 2017
45.7	29.5	33.13	25	25

Electric energy consumption in production of washing machines at the production company in Zaječar, Serbia (kWh/unit)

2013	2014	2015	2016	Target 2017
0.48	0.4	0.49	0.5	0.5

Key activities

Decrease of electricity consumption in 2016 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.

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 2016

Carbon footprint, measured in kg of CO_2 emissions per product, was somewhat lower in 2016 than in the year before, at 10.94 kg/product.

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

2011	2012	2013	2014	2015	2016	Target 2017
12.5	12.33	12.26	11.83	11.88	10.94	10.9

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 2016 (detailed data on power consumption is provided in this chapter).

Pursuit of Environmental Sustainability – 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.

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

More on pages 46 and 47: Our capitals for sustainable creation of value and key performance indicators (KPI).

Social Sustainability

Social sustainability – results 2016 and plans for 2017, complete with strategic goals until 2020

Share of employees participating in training and education

In 2016, **68 percent** of employees were involved in training and education processes. We carried out a total of **around 200,000 training and education hours** (19.3 hours per employee at Gorenje Group level).

Our goal is to include 75 percent of employees in various forms of training and education by the year 2017, and 90 percent of all employees by the year 2020.

In the period until 2020, we will therefore **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

Decrease of the number of work-related accidents in 2016 is a result of activities in 2015, collectively named The Year of Occupational Safety and Health. At Gorenje d.d., the **number of accidents was 23 percent lower** than in the year before, despite the higher number of employees (530 new hirings in 2016).

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 years of the 2020 Strategic Plan execution,
- **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;

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. The Salesforce software operates in a cloud and therefore does not require a team of expert IT technicians to set up or manage, and allows instant use upon login. It allows us, in the digital age, to **increase our focus on our customers faster and in a simpler manner**.

At Gorenje Group, we started using this tool in 2015. Currently it is **used in key markets and for key accounts with which we generate the most revenue (currently in 21 European countries)**. In the future, the tool will also be used in **markets beyond Europe**.

Measurements of satisfaction with visits are conducted by our travelling sales representatives. It is rated from 1 to 5, with 5 indicating maximum satisfaction and 1 the lowest satisfaction.

According to the most recent data, **satisfaction of our sales representatives with their visits to buyers has improved**. The share of our key accounts (i.e. buyers accounting for a significant share of revenue) with top-rated satisfaction (5 or 4) increased **by 4 percentage point** in 2016 relative to the year before.

Quick overview – 2016 results

10,889

Average number of employees
10,889

200,000 EDUCATION HOURS

Scope of education and training
68 percent of all employees involved in the processes

Total of around 200,000 training and education hours annually (19.3 hours per employee at Gorenje Group level)

COMPLAINTS

Complaints regarding interpersonal relationships
All cases were resolved appropriately.

89 SCHOLARSHIP HOLDERS

Number of scholarship holders and development of academic work placement
89 scholarship holders (96% technical studies), developing the academic work placement programs (practical training provided for 300 high school students and 100 college students).

23% FEWER ACCIDENTS

Occupational safety and health
23% fewer accidents than in the year before despite the higher number of employees (result of activities in 2015: The Year of Occupational Safety and Health). Activities throughout the year: lectures, presentations, measurements, improvements, and upgrades to the occupational safety system.

COST OPTIMIZATION

After-sales services

- Call centre cost optimization
- Improvement of supply and operations with spare parts, including micro-distribution

ON QUALITY, TECHNOLOGIES, DIGITALIZATION

Key topics in training and education

- Development, production quality assurance, purchasing, environmental management, technologies, and work procedures
- Digitization and introduction of the elements of the fourth industrial revolution
- Lean manufacturing

CORPORATE UNIVERSITY OF GORENJE

Leadership skills development

- Training completed by 25 participants of the 2nd International Business Academy of Gorenje (IBAG)
- The first generation of the Gorenje Create Academy (GCA) presents solutions in the new product development process to the management
- Annual conference Change Management and Pursuit of Strategy organized as a part of the Executive Business Academy of Gorenje (EBAG)
- Founding of the Digital Business Academy of Gorenje (DBAG) for the development of knowledge and skills required for attainment of goals in digitization; execution of the *Digital consumer and digital business program*; participation by more than 700 employees from across the globe.

FORMING EXPERT TEAMS

Product quality

- Forming expert teams (active core concentrating the knowledge on selected materials)
- Improvement of processes related to electronic components
- Updating the aesthetic criteria for the MID and Premium platforms
- Improved process of component change approval
- School of quality management for the employees in the Quality Department
- Quality improvement commitments: activities in Development, Production, Servicing, and Purchasing

ZERO CASES OF NON-COMPLIANCE

Marketing and market communication

- Development of all-around communication support for all new developments with regard to our products (NoFrost refrigerators, new dishwashers, built-in refrigerators, new gas hobs, and free standing cookers)
- Development of a brand manual – Gorenje Brand Book
- Zero (0) cases of non-compliance of marketing and market communication approaches with the legislation or specific codes of conduct

SUPPORT TO ACTIVITIES

Relations with communities

- Support to activities (lectures, discussions, exhibitions, concerts etc.). Gorenje Culture Society, Gorenje Retiree Society, Velenje Gallery
- More than 7,000 active members of the Gorenje Sports and Exercise Society
- Results of key sponsorship campaigns: high Gorenje brand exposure owing to excellent result of the Gorenje Velenje team handball club (participation in the regional SEHA league) and Slovenian Nordic ski teams

Relations between 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 2016

Adjustment of the number of employees to the needs of manufacturing companies had the strongest impact on the changes in the number of Gorenje Group employees. The number of employees started to rise in June when, consistently with the seasonal development of demand for domestic appliances, production volume was stepped up. The upward trend in the number of employees extended into the last quarter, except for December when the number of employees declined somewhat due to lower requirements in production as it adapted to the lower market demand typical of January.

Key activities

There were as many as 1,621 new hirings and manufacturing companies. For flexibility, most new employees were hired on fixed-term employment contracts, for the duration of the higher production output. Lack of candidates for work was felt at the parent company and in particular at the company Mora Moravia in the Czech Republic. Therefore, we also enlisted the services of private employment agencies during the peak requirements for new workers.

Number of employees at Gorenje Group in 2016 (relative to 2015)

	Dec 31, 2015		Dec 31, 2016	
	Number	Share	Number	Share
Gorenje Group	**10,602**	**100%**	**10,962**	**100%**
Core activity	9,165	86.4%	9,503	86.7%
Non-core activities	1,437	13.6%	1,459	13.3%
Employees in Slovenia	6,339	59.8%	6,629	60.5%
Employees abroad	4,263	40.2%	4,333	39.5%
By countries:				
Slovenia	6,339	59.8%	6,629	60.5%
Serbia	2,213	20.9%	2,303	21%
Czech Republic	668	6.3%	631	5.8%
Sweden	59	0.6%	60	0.5%
Netherlands	387	3.7%	405	3.7%
Croatia	133	1.3%	134	1.2%
Russia	112	1.1%	115	1%
Other countries (30 countries)	691	6.5%	685	6.2%
EU countries	7,978	75.2%	8,245	75.2%
Former Yugoslav countries	2,486	23.4%	2,561	23.4%
Other countries	138	1.3%	156	1.4%
Average number of employees	**10,617**		**10,889**	

Skills-based hiring and recruitment

Focus 2016

In the field of development, parent company devoted particular attention to hiring employees with technical knowledge. A particular challenge was finding the exports for electronics development and for IT.

Key activities

We have expanded the cooperation with high schools and colleges focusing on engineering or technology. The required human resources were sought via public calls for applications on two employment portals. Recipients of our scholarships were given priority in hiring.

Employees by age

Focus 2016

Average employee age at the Gorenje Group level remains roughly the same for the second consecutive year as a result of hiring a large number of new, younger employees at manufacturing companies. At the end of 2016, the average age was 42 years and 3 months.

Average age at the parent company was higher than the Group average, at 43 years and 5 months, which is 6 months lower than in the year before. Despite the information about lower average age, it should be noted that more than 53 percent of employees at manufacturing companies are in the age group from 41 to 60+ years.

Key activities

Considering the high share of elderly employees, Gorenje d.d. is focusing on age management with the goal of providing active ageing for our employees. 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 2016

At the Gorenje Group level, the share of men among employees was somewhat larger than the share of women.

The shares of men and women were equal at manufacturing companies, while the share of men was considerably higher than the share of women at sales companies and in non-core businesses. The composition of employees by gender is affected in particular by the activity of a company, a segment, or an area. 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. Men are more likely to opt for technical education; therefore, they are predominantly employed in toolmaking, machine building, development, planning, engineering, logistics and warehousing which also requires greater physical strength.

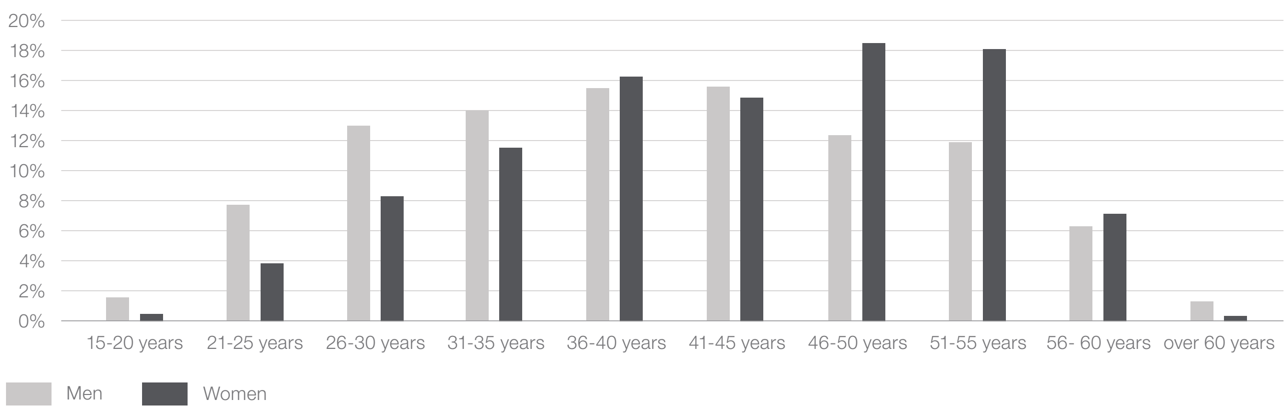
Regardless of gender, all employees are granted equal pay for work in jobs with equal complexity or difficulty.

Protection of employee rights

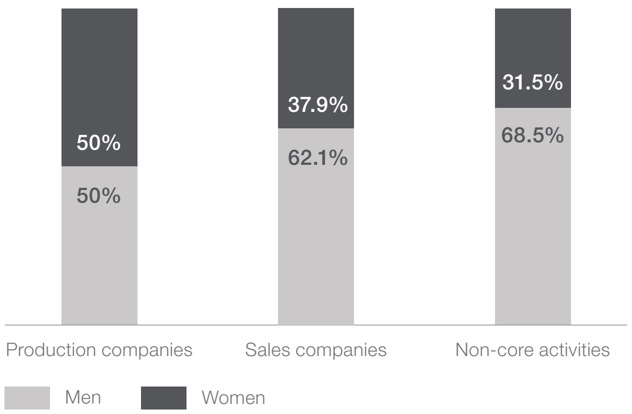
Focus 2016

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

Composition of Gorenje Group manufacturing company employees by age in 2016 (%)



Employee structure by gender, 2016 (%)



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

In 2016, we received three reports of workplace mobbing. All three were resolved by mediation at the first instance, with the appointed counsel in charge of resolving such reports.

Occupational safety and health

Focus 2016

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.

The result of activities in 2015, integrated in the campaign The Year of Occupational Safety and Health, was a decrease in the number of work accidents in 2016. At Gorenje d.d., the number of accidents was 23 percent lower than in the year before, despite the higher number of employees.

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.

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.

Education and training

Focus 2016

In all fields of our work, the contents of training and employee education was upgraded in order to meet the Gorenje Group's strategic policies laid down. Responsiveness, openness to change, and ability to adapt in the field of planning and execution of employee training and education allow further growth, competitiveness, and sustainable development.

Key activities

Scope of education and training: A total of 68% of all employees were involved in training and education (for a combined total of 200,000 hours annually, or 19.3 hours per employee). At the Gorenje Group level, we invested over one million euros into employee training and education.

Key topics in training and education: We introduced novel approaches to all business segments and areas. Last year, particular attention was paid to the fields of development, production, quality assurance, purchasing, environment management, technology and work procedures. The highlights of training and education contents followed this orientation. Approximately 149,000 hours were dedicated to on-the-job training.

Major highlights in Gorenje Group development strategy, which are also reflected in training and education, include digitization and gradual introduction of the building blocks of the fourth industrial revolution. In addition, the challenges of adjusting the volume and flexibility of production, defined in the past, remain relevant as well. Therefore, we are organizing several training and education programs to implement lean manufacturing and other programs for quality improvement and optimization of processes, products, and services. Quality assurance experts were included in the internal training program called School of Quality.

In occupational health and safety, we provided all mandatory training. We held events and workshops in health promotion, providing the employees interesting, varied, and above all useful information and instructions for a healthy lifestyle.

A lot of attention was paid to development of leadership and coaching skills of our leaders in production, development, and purchasing. We organized training program in respective business areas to development communication skills and teamwork.

Annual training and education plan: Annual training and education plan was adapted to Gorenje Group's corporate strategic policies and directions. Many seminars and courses were organized within the company, with guest lecturers, while our employees also took part in other seminars abroad and in Slovenia. More than one third of all training and education was organized within the company through internal transfer of knowledge.

Transfer of knowledge into the team and private life: We strove to make sure the employees integrate their newly acquired knowledge and skills into the structure of the organization. We held training and education in various forms for all groups of employees, attended by 7,103 employees. In acquiring knowledge and skills, we sought the contents and fields that the employees can put to best use in their work and in their private lives.

Foreign language courses and other shorter programs: We provided language courses and courses on IT and computer science. Over 31,000 hours of language and IT courses were held in 2016.

Online learning: At Gorenje, online education has been offered for ten years. It involves carefully developed educational contents. The number of participants on the e-training web portal has been increasing each year as contents are available to all users of the Gorenje IT system. Since the number of users from Gorenje's international operations is increasing, contents are also created in English and Serbian. Online learning is often combined with conventional forms and methods of training and education.

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 in regular intervals.

Scholarships and part-time studies: With regard to scholarships and part-time studies, priority is given to acquiring formal education in technical programs. Our scholarships policy ensures a supply of human resources, especially of technical background, which have been in the highest demand in recent years. Gorenje Group has scholarship contracts signed with 89 students. The share of scholarship holders in enrolled in technical programs is nearly 96 percent.

We actively work with our scholarship recipients during their studies. They are included in development projects taking place at the Gorenje Group; they are offered academic work placement, and the possibility to examine aspects of Gorenje operations in their graduation or master's theses. The share of employees studying part time is 0.9 percent of all Gorenje Group employees and 1.5 percent of parent company employees. The largest share of part-time students are enrolled in a variety of undergraduate study programs, most of them in mechanical engineering.

Cooperation with research and educational institutions ("knowledge centres"): Our parent company collaborates with Slovenian technical colleges, or faculties, of the University of Ljubljana and the University or Maribor, and with the Jožef Stefan International Graduate School. We regularly present the Gorenje Group on college open door days and at career fairs, and our experts work with the students to develop creative solutions for challenges in development, technology and elsewhere.

Working with the high schools, vocational schools and colleges from the local environment, we organized an academic work placement program in 2016. We provided practical training to over 300 high school students and 100 college students of colleges and higher vocational schools.

Lifelong learning: Most training and education programs in 2016 included contents for acquiring lifelong learning skills which allow the employees to quickly adapt to a new environment even after the termination or expiry of employment.

Leadership skills development: Gorenje Corporate University

Focus 2016

Corporate University of Gorenje (CUG) is an important tool for implementing our business strategy, change management, and accumulation of social capital; thus, it has an increasingly important role at the Gorenje Group. It is based on acquiring and pooling knowledge, transferring best practices, connecting different business cultures, and consolidating the common corporate identity. The central purpose of the CUG is development of key employees to be in charge of the pursuit and implementation of the business strategy at all companies of the business system.

Within **CUG**, we are planning and operating five academies and several training, cooperation, and creative problem-solving programs. In 2016, we sought within these programs new market opportunities, devised strategies for sale of premium and innovative products, studied the challenges of digital transformation, and developed the change management skills and skills for enhancing our corporate culture.

Key activities (review by academies and CUG programs)

Early in 2016, 25 participants of the **2nd International Business Academy of Gorenje** completed their training. The Academy is intended for talented employees working in an international environment. The business cases they presented to the management upon the completion of their training addressed innovative marketing approaches and new sales opportunities in mature and rapidly growing or emerging markets.

The first generation of the **Gorenje Create Academy (GCA)** presented modern approaches and specific solutions for improvement of the new product development process. The academy worked with reputable international universities of Delft, Chalmers, and University of Ljubljana. This allowed the transfer of the most recent knowledge and sound practice between the industry and the universities from the north, west, and south-east of Europe. The program included 21 participants from three competence centres and all fields involved in the process of creating a new product.

The ability to pursue strategic policies is one of the most valued managerial skills. Therefore, we held – as a part of the **Executive Business Academy of Gorenje** – an annual conference titled Change Management and Strategy Implementation. The central part of training that included 55 managers from the entire Gorenje Group was intended to leadership (Leadership Program), change management skills, and motivation of highly trained multicultural teams. The program continued in the second half of the year.

In order to develop the knowledge and skills required for the implementation of the Gorenje Group digital business strategy by the year 2020, we developed within our Corporate University the **Digital Business Academy of Gorenje** (DBAG). The programs will be held at three levels.

General training programs are intended for key employees in charge of compliance of the organizational culture with the digital transformation plans. Special programs will provide the required knowledge to groups of experts included in various projects in digitization. The third level includes innovation workshops where we will encourage the use of digital technology for improvement of our operations and performance, and innovation; these are intended for area experts.

In 2016, we also conducted the program *Digital consumer and digital business* in which we presented to over 700 employees across the globe with the world of digital future and the possibilities opened up for the Gorenje Group by digital technology.

In order to develop the culture of innovation, we organized in 2016 a meeting, titled **Create Day**, between generations of different academies and Gorenje's management. The event, attended by 65 employees, included testing the modern methods of lean innovation employed by start-up companies. The lean innovation method allows a large number of participants to develop a concept, test with users, and present in a short time some interesting ideas which can serve as solid base for further development.

Targets for 2017

The programs and contents will focus on innovation and support to Gorenje Group's digital transformation efforts. In 2017, we will carry out a revised program of the **Gorenje Create Academy** (new product development academy) and the **International Business Academy of Gorenje** (IBAG), which has been upgraded with a program for induction and successful integration into our international operations. Particular attention will be paid to development of leadership skills for development of cultural innovation, and search for synergies between different business areas and cultures.

We will strive to make the CUG concepts, structure, and programs modern and innovative, and to expand the possibilities of collaboration with third-party institutions. Our goal is to improve competitiveness and Gorenje Group's business excellence.

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 2016

In the Strategic Plan for the period 2016–2020, we specified the 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. Our activities are focused on:

- 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

In 2016, we appointed expert teams from various organizational units to represent the active core in which know-how on select groups of materials are accumulated. We are improving the processes related to the concept development and implementation of electronic components. Particular attention is 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 2016

At the central market communication department, we have developed all-around support for all new product launches in 2016 (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.

In 2016, we completed the Gorenje Brand Book (brand identity manual) project, revised the corporate graphic identity manual, and developed, consistently with the guidelines, packages of communication solutions to support sales upon launching new products in the markets. Moreover, we developed a project for comprehensive Gorenje brand content marketing strategy.

Key activities

Our attention was focused on the regionally centralized market communication support for NoFrost refrigerators. We also prepared communication packages to support new dishwashers, built-in refrigerators, new gas hobs and freestanding cookers.

In 2016, 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 2016

In 2016, our activities in servicing were focused on support to after-sales activities in the markets. We established a new structure of regional service coordinators, which has resulted in an improvement in cooperation with our sales business companies.

In order to monitor the quality of servicing, we introduced standardized KPIs and launched projects with key activities that will contribute to the improvement in servicing and, in turn, satisfaction of our customers. We shall continue with these activities in the future.

Key activities

We continue our activities within current projects, especially:

- call centre cost optimization,
- supply of spare parts, and
- development of solutions to improve spare parts logistics, including micro-distribution.

Plans for the future

We are continuously facing new challenges, acquiring new knowledge, and developing solutions. Our efforts for the most effective after-sales services are predominantly focused on improving customer satisfaction. As a result of these efforts, quality after-sales services remain one of the most important reasons for purchasing a Gorenje brand appliance.

Mutual dependence and cooperation between sales and after-sales activities are focused on providing maximum customer satisfaction.

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 quality 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 2016

At the Gorenje Group, we are aware that we have to respond to and prepare for the challenges that we, as Slovenia's most international corporation, face as a result of our integration into the global economic and business flows.

Within the Gorenje Culture Society we nurture and develop the wealth of various cultures with:

- lectures and discussions on economic and social and political topics and trends that shape the world and materially affect our operations; and with
- response by various artistic expressions to the current situation.

We also find it important to maintain the ties with the roots in the local environment, i.e. with our former employees. Therefore, we support the Society of Gorenje Retirees whose work contributes to promotion and propagation of Gorenje's corporate culture and tradition in the local environment.

Key activities

Last year, the **Velenje Gallery**, co-founded within a private-public partnership by Gorenje, joined the **Velenje Festival**. However, we still support its activities in creative industries. These are based on close ties between business, arts, and science, and they especially encourage high-school and elementary school students towards creative thinking.

Gorenje Culture Society prepared twelve exhibitions at two of our venues, an art colony for visual artists, five trips to exhibitions, events, and cultural and historical sites in Slovenia and the neighbouring countries, and several lectures and discussions. We conducted a survey among the employees, asking about their attitude to culture, reading, and habits with regard to visiting cultural institutions. The survey results will be used as input in development of program guidelines of the society in the years ahead.

Gorenje mixed choir performed at several traditional concerts, and the singers prepared diligently for this year's big anniversary.

Society of Gorenje Retirees prepared for our former employees their traditional range of recreation and social activities like regular exercise and sports activities, field trips, and visits to older members at their anniversaries. In 2017, we will also step up our activities in the field of culture.

Partnership in sports

Focus 2016

Over the years, Gorenje's general sponsorship to **Slovenian Nordic ski teams** and the **Gorenje Velenje handball club** has grown into an inspiring partnership. The **Gorenje Society of Sports and Recreation** has over 7,000 members, and it includes both our employees and others.

Key activities

Gorenje Velenje handball club competed for the first time in the 2016/17 season in the SEHA league, which brought further Gorenje brand exposure in South-eastern Europe, and increased the appeal of the games for our fans. Moreover, a lot of attention was paid to work with junior handball teams from the local environment, which is a result of a sustainable approach to club development.

Fantastic results of the Slovenian eagle Peter Prevc in the 2015/2016 season also blew Gorenje's partnership with the **Slovenian Nordic ski teams** out of the usual framework. A range of our sales companies decided to activate their sponsorship deals, especially in the markets where ski jumping is a popular sport. After the grand finale in Planica, the season came to a close with the traditional visit of the team to Gorenje, which we used to promote our small domestic appliances intended for making healthy drinks. Fuelled by superlative results from the season before, the first part of the 2016/17 season promised excellent media coverage for Gorenje whose logo is the key graphical element on the head wear and headgear of the Slovenian Nordic ski team. We prepared the anniversary touring exhibition, videos, and a calendar featuring male and female ski jumpers to celebrate the most inspiring moments of their careers.

The Gorenje Society of Sports and Recreation encouraged and promoted regular exercise. Traditionally, over ten sections were active, taking part in three league competitions. Moreover, the Society organized a number of hiking tours, courses, and trips to sportive events.

Depending on the goals laid down for respective markets (brand recognition improvement, sales promotion etc.), Gorenje Group occasionally also sponsors other sports disciplines, clubs, and events.

Humanitarian activities

Focus 2016

At Gorenje Group, we are aware that as an important business entity and an employer, it is our duty to help create conditions for quality living in the local environments in which we operate and cohabit. We promoted awareness of the importance of sound relations with the local communities, and our companies implemented these guidelines in their respective local environments.

Key activities

Our humanitarian activities included contributing appliances to help improve the living conditions of many families in need of assistance. At the same time, we worked with the non-government organizations to alleviate the social distress and to help create opportunities for quality education and leisure time activities for the youth.

Risk acceptance 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.

More on pages 46 and 47: Our capitals for sustainable creation of value and key performance indicators (KPI).

Risk Management

Process/operational risks and relation to the KPI, broken down by three areas of sustainable creation of value at Gorenje Group

RISKS			B1	B2	B3	B4	B5	B6	B7	B8	B9	B10	E1	E2	S1	S2	S3
Financial risks	Currency risks			●	●	●	●	●	●	●		●					
	Credit risks			●	●	●	●	●	●	●							●
	Liquidity risks								●	●							
	Interest rate risks								●	●							
Operational risks	Procurement risks		●	●	●	●	●	●	●	●	●	●					
	IT risks							●	●	●	●				●		●
	Production 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			●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

B ECONOMIC SUSTAINABILITY – BUSINESS EXCELLENCE
(More on page 49)

E ENVIRONMENTAL SUSTAINABILITY
(More on page 81)

S SOCIAL SUSTAINABILITY
(More on page 89)

B1 Focus on the core activity Home (share of total Group revenue)
B2 Revenue from sales beyond Europe and its share in total revenue in the core activity Home
B3 Revenue from Asko brand sales and its share in total revenue in the core activity Home
B4 Share of revenue from sales of innovative and premium products
B5 Gorenje Group sales revenue
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 sales revenue)
B10 Manufacturing plants location
E1 Hazardous waste (kg/unit)
E2 Waste for disposal (kg/unit)
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.**

Risk Management Process and Organization

Risk management process was established to provide continuous monitoring and proactive 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. The risk management process is established at all levels of business management and decision-making through risk management councils.

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 councils, 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 council consists of process owners; in case of project risk assessments, it consists of the project team. In the assessment of risks pertaining to the Strategic Plan, the risk management council 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.

Following are the goals of the risk management department and councils:

- 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 operation 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 do 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 by the assessor; nevertheless, it is clearly defined with the scale 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:

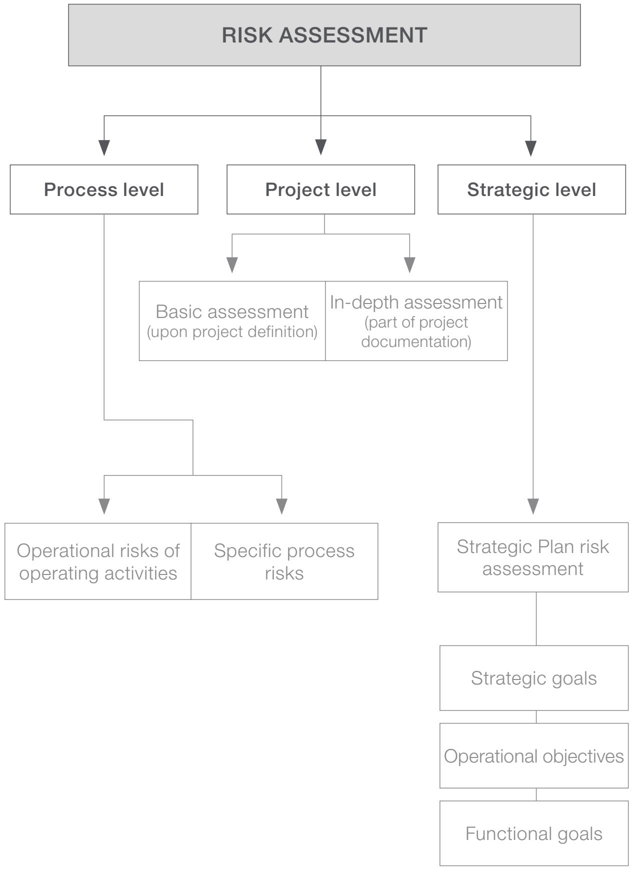
- financial impact,
- impact on health and safety
- impact on business continuity (discontinuation of operation)
- impact on Gorenje Group reputation, and
- impact on the goals the risk at hand could cause (or threaten).

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.

Risk Management in 2016

Risks at the Gorenje Group are assessed and managed at all levels of leadership and management.

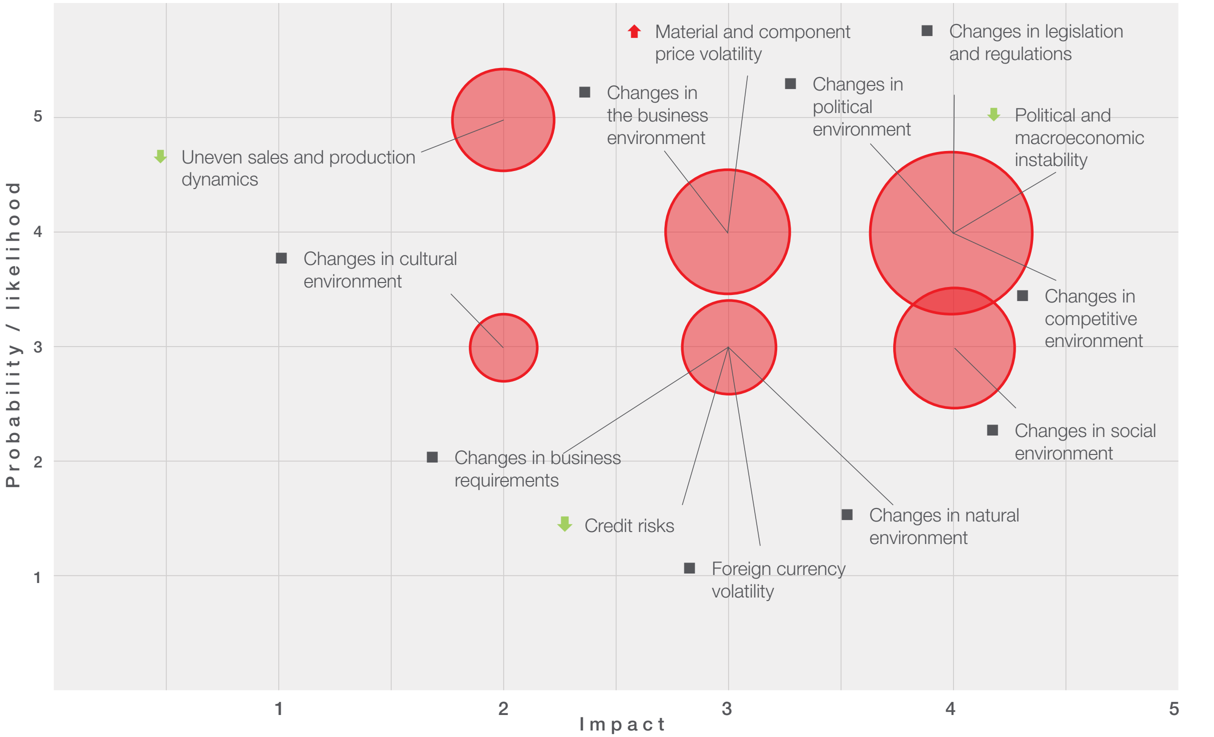


Key changes affecting the accomplishment of goals in 2016

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 2016 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 2016

External events:

- Significant external circumstances among foreign policy risks in 2016 include in particular the Great Britain's decision to exit the European Union, as this tests the strength of the political and economic environment in which Gorenje Group is conducting the largest part of its operations.
- Another major event in 2016 were the US elections the result of which has brought higher uncertainty and variance in the capital and money markets, and somewhat higher level of risk, also due to announced protectionist measures by the newly elected president. Indirectly, both could mean somewhat higher level of risk for the Gorenje Group. Instability of the political environment of the European Union is also exacerbated by terrorism appearing across Europe. While terrorism does not have a direct effect on the Gorenje Group, it does pose an additional negative effect on the stability of the environment in which Gorenje Group operates.
- Political and macroeconomic instability in Russia and Ukraine is gradually fading and the situation is steadying; however, economic activity in Russia and Ukraine still has not, as of 2016, reached the levels the two countries recorded before 2014. Rather low prices of input materials, resulting from the macroeconomic developments, had a favourable impact on Gorenje Group's business results in 2016. The trend of macroeconomic growth perceived recently also affects volatility of input material prices, which we are closely monitoring. We are conducting activities to reduce these price risks.

Internal events:

- Major internal events include preparation for the comprehensive Gorenje Group reorganization introduced in early 2017, which is one of the key tools for the execution of the Strategic Plan for the period until 2020. As a part of preparation for the comprehensive Gorenje Group reorganization, we also prepared a risk assessment for the reorganization process.

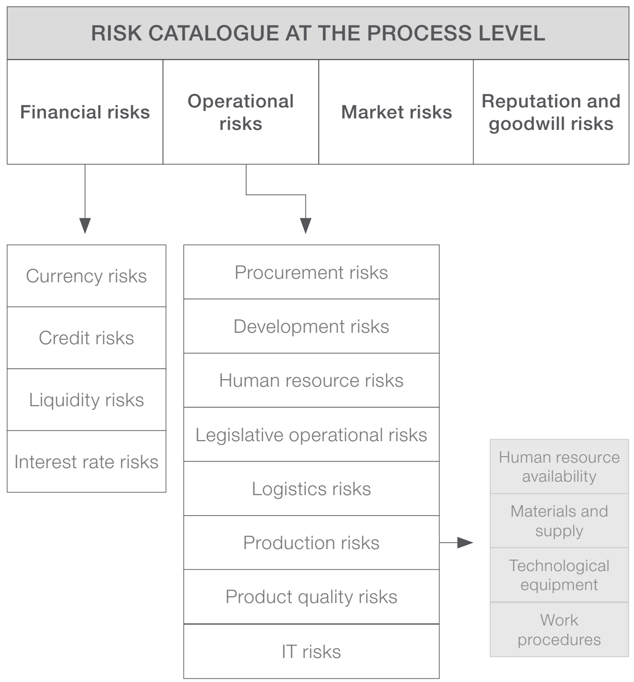
Key activities

- In 2016, we continued the activities in training and education on risk management. In addition to conventional training for the Gorenje Group companies, we also developed a range of contents for individual training and education on risk management which will be launched in 2017.
- We continued to review our risk catalogues, extending them and reassessing risks at both the parent company and at subsidiaries.
- In project risk assessment, we prepared risk assessments for all projects considered (both development and investment).
- Regarding exchange of sound risk management practice we shared and exchanged experience with some other Slovenian companies and risk management consulting companies. We will remain active in exchange of business practices in the future.

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.

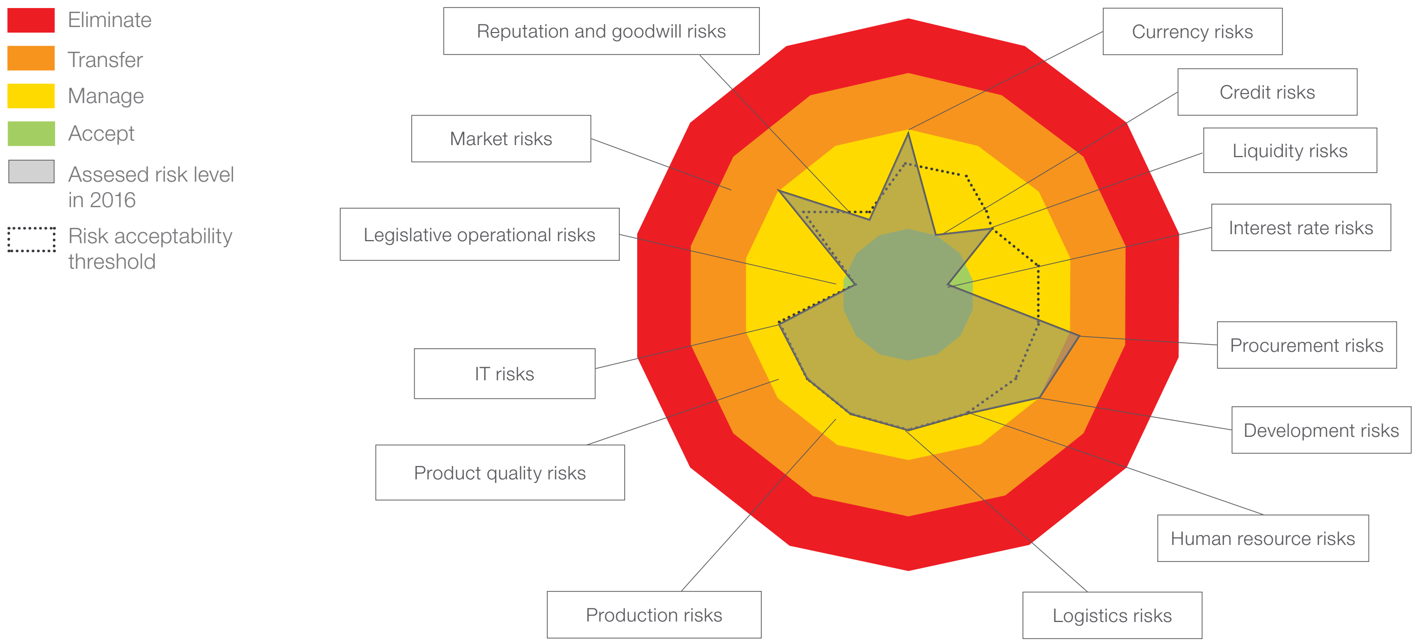


Based on the risk being assessed, **four basic risk management scenarios** are used:

- 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 2016

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 Group, we periodically reassess the Strategic Plan risks. This activity is also planned for 2017.

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 2016

In addition to assessing the risks of development projects, we emphasize risk management for investment projects. While these may include projects that are simpler in terms of contents, they could have a material impact on Gorenje Group operations. Risk management is a constituent part of an investment project.

The risk management concept for projects was divided based on the type of project. For projects introducing the development of new appliances, strategies, or business models, we are using the uniform, or standard, methodology applied in cooperation with the project team. Separately, we assess the risks related to investment projects as these involve simpler projects in terms of contents, for example replacement or upgrade of existing machinery or tools to support the technological processes. In 2016, we also assessed the risks on internal projects (projects related to information technologies, internal changes, process management), which we shall consistently continue.

Process/operational risks

Key process or operational risks include financial risks, operational risks, market 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 2016

Added to process/operational risks was another group of risks which are specific to certain processes and which are assessed with relevant prescribed methodologies. With regard to management of risks pertaining to product quality and manufacturer's liability, we therefore established in 2016 the assessment of risks consistently with the revised requirements of the LVD (Low Voltage Directive). Thus, we amended the methodology for identifying the risks pertaining to appliance features, and methodology related to risk assessments in case of product failures that could potentially affect the safety of users and/or their property.

(1) 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. The currency risk pertains mainly 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 addition to natural currency risk hedging with internal techniques (which involves involve adjusting the purchasing 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. Thus, we regularly take out acceptable currency hedging instruments. The level of such hedging normally includes 60 to 80 percent of the planned cash flow. Currency risk management is centralized. A currency risk management council was also appointed. By employing the centralized approach to currency risk management we can come closer to optimum effects of currency risk hedging.

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 2016 only with customers with a satisfactory credit rating which is regularly monitored. Credit risks are managed consistently with our Receivables Management Policy 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 Group level.

Changing 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 on the part of our customers or even default, despite the receivables management process in place at the Group. Therefore, 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 2016, 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 especially changes (increase) in the Euribor that are unfavourable for 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 2016, 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 2016, we signed EUR 69.9 million worth of interest rate swap deals, of which 19.7 million are effective as of 2017. The share of financial liabilities with fixed interest rate as at December 31, 2016, was 65.5 percent of all financial liabilities on which interest is charged. Taking into account the interest rate swaps, the effect of which is negotiated to take effect as of 2017 and beyond due to the nature of the deal, the share of financial liabilities with fixed interest rate is already at 70.8 percent.

(2) 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 2016, 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 pertaining to 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.

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 at 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.

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 supply volume and 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 product allows 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.

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. It is the purpose of such monitoring that the risks of inadequate product operation are perceived and eliminated 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 2016 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 2016 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.

In 2016, we successfully migrated to risk management in compliance with the new LVD (Low Voltage Directive), amending the risk assessments for the Gorenje Group products and risk assessments in cases when appliances could cause potential damage to the property of appliance buyers, or to health of such buyers.

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 2016, 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 2016, 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 2016, 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 2016, we stepped up our cooperation with educational institutions, including universities.

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 in each 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 2016, 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 2016 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.

(3) 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 2016 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 vis-à-vis 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 competitors' activities aimed at increasing their market shares directly affect our operations and performance.

Precisely targeted marketing activities and investments into new product development supports the attainment of the planned sales goals and market shares, expansion to the markets beyond Europe, and sales in the premium and innovative segment. Thus, investments into marketing and development were stepped up again in 2016, 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.

(4) 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 2016 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.

Insurance of Property, Responsibility, and Employees

One form of risk transfer to a third party (service provider) is the insurance of property, responsibility, 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.

In 2016, our partner insurance company conducted a review (or audit) of Gorenje Group business process operation and management to assess both process operation and integration of risk management into various levels of operations. Review results were positive.

Targets for 2017

For 2017, we are planning to continue and improve the risk management process. Striving for deeper integration at the process level, we are planning in-depth assessments at some subsidiaries at which risk management is not as systematic yet.

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.

gorenje group ANNUAL REPORT 2016

Accounting Report

of the Gorenje Group and Gorenje, d.d.

Accounting Report pursuant to IFRS as adopted by the EU.

Independent Auditor's Report

Independent Auditor's Report for Gorenje Group

The contents of the Auditor's Report have been amended in accordance with the revised International Standards on Auditing that specify auditor reporting, and pursuant to which the entire contents of the Auditor's Report have been amended. The amendments include a more detailed explanation of the responsibility of the auditor, the management, and the supervisory board. For companies whose securities are listed on a regulated market, which includes Gorenje d.d. and the Gorenje Group, the Auditor's Report shall, according to the revised Standards, also include a chapter on key auditing aspects which are, in the auditor's view, the most important from the aspect of financial statement auditing. In this chapter, the auditor is required to specify the reasons behind the selection of the key auditing aspects and present an account thereof within the auditing procedures.

The Auditor's Report for the Gorenje Group and Gorenje d.d. for the year 2016 differs from the 2015 Auditor's Report as a result of the changes specified above. As in 2015, the auditor issued an unqualified opinion to Gorenje d.d. and the Gorenje Group.

Deloitte.

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 2016, 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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). 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 2016 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 20.
Accounting for capitalised development costs	
Capitalised development costs totalling EUR 35,796 thousand are deemed significant to our audit, given the significance of the balance as at 31 December 2016, 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 indications of impairment. The disclosures of accounting for capitalised development costs are included in Note 20.

[High resolution version of the Independent Auditor's Report for Gorenje Group.]

Provisions for product warranties	
At 31 December 2016, the provisions for product warranties amount to EUR 37,437 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.	A provision for warranties is recognised when the underlying product is sold, and when the provision is 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 34.

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 Supervisory Board report, 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 entity'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 entity 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 select those matters that were of most significance in our audit of the consolidated financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 31 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

Independent Auditor's Report for the company Gorenje, d.d.

High resolution version of the Independent Auditor's Report for the company Gorenje, d.d.

Deloitte.

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 its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). 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 30% 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 growth rates and operating margins, against historical performance to test the accuracy of management's projections. Accounting for investments in subsidiaries is disclosed in Note 61.
Accounting for capitalised development costs	
Capitalised development costs totalling EUR 25,047 thousand are deemed significant to our audit, given the significance of the balance as at 31 December 2016, 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 indications of impairment were present by understanding the business rationale for projects and performing reviews for indications of impairment. The disclosures of accounting for capitalised development costs are included in Note 58.

Provisions for product warranties	
At 31 December 2016, the provisions for product warranties amount to EUR 7,586 thousand. The Company 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.	A provision for warranties is recognised when the underlying product is sold, and when the provision is 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 72.

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 Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements is, in all material respects, consistent with the 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 Company 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 entity'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 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 entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 31 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

Financial Statements 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	2015	2016	Note	2015	2016
Revenue	on the note **12**	**1,225,029**	**1,258,124**	on the note **50**	**683,408**	**710,040**
Change in inventories		13,370	5,200		4,522	-3,175
Other operating income	on the note 13	31,866	21,871	on the note 51	16,876	8,766
Gross profit		**1,270,265**	**1,285,195**		**704,806**	**715,631**
Cost of goods, materials and services	on the note 14	-937,245	-942,154	on the note 52	-559,895	-574,591
Employee benefits expense	on the note 15	-231,362	-235,325	on the note 53	-99,791	-102,769
Amortisation and depreciation expense	on the note 16	-45,644	-47,055	on the note 54	-23,960	-25,132
Other operating expenses	on the note 17	-21,570	-20,470	on the note 55	-5,700	-4,311
Operating profit		**34,444**	**40,191**		**15,460**	**8,828**
Finance income	on the note 18	7,396	6,157	on the note 56	14,546	13,616
Finance expenses	on the note 18	-46,188	-33,192	on the note 56	-33,063	-18,782
Net finance expenses	on the note **18**	**-38,792**	**-27,035**	on the note **56**	**-18,517**	**-5,166**
Share in profits or losses of associates		360	84		0	0
Profit or loss before tax		**-3,988**	**13,240**		**-3,057**	**3,662**
Income tax expense	on the note 19	-4,000	-4,810	on the note 57	-944	37
Profit or loss for the period		**-7,988**	**8,430**		**-4,001**	**3,699**
Attributable to non-controlling interests		**215**	**436**		**0**	**0**
Attributable to equity holders of the parent		**-8,203**	**7,994**		**0**	**0**
Basic and diluted earnings per share (in EUR)	on the note 33	-0.34	0.33	on the note 70	-0.16	0.15

Statement of Other Comprehensive Income of the Gorenje Group and the company Gorenje, d.d.

	Gorenje Group			Gorenje, d.d.		
EURk	Note	2015	2016	Note	2015	2016
Profit or loss for the period		**-7,988**	**8,430**		**-4,001**	**3,699**
Other comprehensive income						
Items that will not be reclassified subsequently to profit or loss		**-1,793**	**-1,976**		**-1,516**	**-256**
Change in fair value of land	on the note 32	628	-1,533	on the note 70	-43	0
Actuarial gains or losses		-2,590	-332	on the note 70	-1,617	-137
Income tax on other comprehensive income	on the note 26	169	-111	on the note 70	144	-119
Items that may be reclassified subsequently to profit or loss		**-1,083**	**1,193**		**-64**	**-732**
Net change in fair value of available-for-sale financial assets	on the note 28 on the note 32	13	-33	on the note 66 on the note 70	13	-33
Effective portion of changes in gains and losses from hedging instruments in cash flow hedges	on the note 32	-527	-1,531	on the note 70	-958	-1,479
Effective portion of changes in gains and losses from hedging instruments on cash flow hedges, reclassified to profit or loss	on the note 18 on the note 32	867	594	on the note 56 on the note 70	867	594
Income tax on other comprehensive income	on the note 26	13	185	on the note 70	14	186
Translation reserve		-1,449	1,978		0	0
Other comprehensive income for the period		**-2,876**	**-783**		**-1,580**	**-988**
Total comprehensive income for the period		**-10,864**	**7,647**		**-5,581**	**2,711**
Attributable to equity holders of the parent		-11,079	7,211		0	0
Attributable to non-controlling interests		215	436		0	0

Balance Sheet of the Gorenje Group and the company Gorenje, d.d.

	Gorenje Group			Gorenje, d.d.		
EURk	**Note**	**2015**	**2016**	**Note**	**2015**	**2016**
ASSETS		**1,101,274**	**1,131,829**		**959,570**	**987,867**
Non-current assets		**614,125**	**637,181**		**520,038**	**596,127**
Intangible assets	20	196,032	208,872	58	44,509	59,396
Property, plant and equipment	21	366,210	375,709	59	193,572	205,416
Investment property	22	17,148	14,957	60	15,276	12,948
Investments in subsidiaries		0	0	61	246,863	295,745
Investments in associates	24	1,570	2,945	62	509	2,064
Other non-current investments	23	2,942	6,563	63	1,690	2,029
Non-current operating receivables	25	5,743	2,481		0	0
Deferred tax assets	26	24,480	25,654	64	17,619	18,529
Current assets		**487,149**	**494,648**		**439,532**	**391,740**
Non-current assets held for sale		309	314		0	0
Inventories	27	225,906	225,954	65	91,986	88,564
Current investments	28	16,370	8,821	66	182,911	144,432
Trade receivables	29	161,020	165,786	67	145,322	130,860
Other current assets	30	49,017	55,258	68	11,714	13,141
Income tax receivable		2,917	3,273		0	0
Cash and cash equivalents	31	31,610	35,242	69	7,599	14,743

	Gorenje Group			Gorenje, d.d.		
EURk	**Note**	**2015**	**2016**	**Note**	**2015**	**2016**
EQUITY AND LIABILITIES		**1,101,274**	**1,131,829**		**959,570**	**987,867**
Equity	32	**368,062**	**374,238**	70	**358,914**	**361,554**
Share capital		101,922	101,922		101,922	101,922
Share premium		174,502	174,502		156,639	156,639
Revenue reserves		99,301	46,015		99,301	46,015
Treasury shares		-3,170	-3,170		-3,170	-3,170
Profit or loss for the period		-4,202	7,560		0	3,265
Profit or loss from previous periods		6,145	55,592		0	53,649
Translation reserve		-19,049	-17,071		0	0
Fair value reserve		9,485	6,724		4,222	3,234
Equity of holders of the parent		**364,934**	**372,074**		**0**	**0**
Equity of non-controlling interests		**3,128**	**2,164**		**0**	**0**
Non-current liabilities		**345,298**	**350,687**		**271,101**	**276,592**
Provisions	34	62,269	64,143	72	21,418	20,940
Deferred income	35	5,350	5,037		0	0
Non-current operating liabilities	36	4,178	3,672		0	0
Deferred tax liabilities	26	2,515	2,219		0	0
Non-current financial liabilities	37	270,986	275,616	73	249,683	255,652
Current liabilities		**387,914**	**406,904**		**329,555**	**349,721**
Current financial liabilities	38	91,038	101,226	74	144,470	151,489
Trade payables	39	221,027	223,725	75	167,363	177,734
Other current liabilities	40	73,807	79,563	76	17,722	20,498
Income tax liabilities		2,042	2,390		0	0

Statement of Cash Flows of the Gorenje Group and company Gorenje, d.d.

	Gorenje Group			Gorenje, d.d.		
EURk	Note	2015	2016	Note	2015	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES						
Profit or loss for the period		**-7,988**	**8,430**		**-4,001**	**3,699**
Adjustments for:						
- depreciation of property, plant and equipment	21	36,776	37,724	54, 59	19,488	20,556
- amortisation of intangible assets	20	8,868	9,331	54, 58	4,472	4,576
- investment income	18	-7,396	-6,157	56	-14,546	-13,616
- finance expenses	18	46,188	33,192	56	33,063	18,782
- gain on sale of property, plant and equipment		-2,671	-254		-225	-94
- tax expenses	19	4,000	4,810	57	944	-37
Operating profit before changes in net operating current assets and provisions		**77,777**	**87,076**		**39,195**	**33,866**
Change in trade and other receivables		12,493	-14,535		21,448	12,638
Change in inventories		-6,107	-54		4,152	3,422
Change in provisions		-1,776	1,719		-511	-478
Change in trade and other payables		5,588	11,508		1,369	10,578
Cash generated from operations		**10,198**	**-1,362**		**26,458**	**26,160**
Interest paid		-18,868	-15,627		-18,510	-15,644
Income tax paid		-5,137	-5,223		-1,050	-426
Net cash from operating activities		**63,970**	**64,864**		**46,093**	**43,956**

	Gorenje Group			Gorenje, d.d.		
EURk	Note	2015	2016	Note	2015	2016
B. CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of property, plant and equipment		10,131	2,510		1,964	405
Proceeds from sale of investment property		1,448	2,253		1,448	2,253
Interest received		1,877	913		6,403	5,358
Dividends received		52	136		4,026	2,704
Disposal of subsidiary		0	454		0	9,760
Acquisition of property, plant and equipment		-52,375	-59,412		-34,324	-32,469
Acquisition of investment property		-37	0		-37	0
Acquisition of subsidiary without obtained financial assets		0	-710		-8,500	-55,258
Acquisition of associates without obtained financial assets		0	-1,530		-168	-1,530
Other investments		1,885	1,717		-48,130	40,739
Acquisition of intangible assets		-23,084	-23,819		-15,738	-19,522
Net cash used in investing activities		**-60,103**	**-77,488**		**-93,056**	**-47,560**
C. CASH FLOWS FROM FINANCING ACTIVITIES						
Interest-bearing borrowings		196,402	120,778		264,040	224,878
Repayment of borrowings		-188,663	-89,922		-203,674	-199,530
Bonds issued		-14,600	-14,600		-14,600	-14,600
Dividend payout		-1,458	0		-1,458	0
Net cash used in financing activities		**-8,319**	**16,256**		**44,308**	**10,748**
Net change in cash and cash equivalents		-4,452	3,632		-2,655	7,144
Cash and cash equivalents at beginning of period		36,062	31,610		10,254	7,599
Cash and cash equivalents at the end of period		31,610	35,242		7,599	14,743

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 2015	**101,922**	**175,698**	**12,896**	**7,556**	**3,170**	**75,679**	**-3,170**	**12,829**	**-2,464**	**-17,600**	**10,912**	**377,428**	**2,839**	**380,267**
Total comprehensive income for the period														
Profit or loss for the period									-8,203			-8,203	215	-7,988
Total other comprehensive income										-1,449	-1,427	-2,876	0	-2,876
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-8,203**	**-1,449**	**-1,427**	**-11,079**	**215**	**-10,864**
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								-2,464	2,464			0		0
Dividend payout								-1,458				-1,458		-1,458
Transfer of fair value reserve of land to retained earnings or losses								43				43		43
Coverage of loss for 2015 based on the Management Board's decision		-1,196						-2,805	4,001			0		0
Total contributions by owners and distributions to owners	**0**	**-1,196**	**0**	**0**	**0**	**0**	**0**	**-6,684**	**6,465**	**0**	**0**	**-1,415**	**0**	**-1,415**
Change in equity interests in subsidiaries that do not result in a loss of control														
Change in equity interests												0	74	74
Total changes in equity interests in subsidiaries	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**74**	**74**
Total transactions with owners	**0**	**-1,196**	**0**	**0**	**0**	**0**	**0**	**-6,684**	**6,465**	**0**	**0**	**-1,415**	**74**	**-1,341**
Closing balance at 31 Dec 2015	**101,922**	**174,502**	**12,896**	**7,556**	**3,170**	**75,679**	**-3,170**	**6,145**	**-4,202**	**-19,049**	**9,485**	**364,934**	**3,128**	**368,062**

			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**	**-19,049**	**9,485**	**364,934**	**3,128**	**368,062**
Total comprehensive income for the period														
Profit or loss for the period									7,994			7,994	436	8,430
Total other comprehensive income										1,978	-2,761	-783	0	-783
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**7,994**	**1,978**	**-2,761**	**7,211**	**436**	**7,647**
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								-4,202	4,202			0		0
Transfer of fair value reserve of leaving indemnties to retained earnings or losses								-71				-71		-71
Coverage of loss from previous periods								71	-71			0		0
Formation of statutory reserves				363					-363			0		0
Transfer of other revenue reserves among to retained earnings*						-53,649		53,649				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	-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**	**-17,071**	**6,724**	**372,074**	**2,164**	**374,238**

* For the purpose of forming the accumulated profit (Note 71) the company Gorenje, d.d., released other revenue reserves in the amount of EUR 53,649k to retained earnings (profit or loss from previous periods) pursuant to the amended Article 66 of the Companies Act (ZGD-1, Official Journal of RS no. 55/15).

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 2015	**101,922**	**157,835**	**12,896**	**7,556**	**3,170**	**75,679**	**-3,170**	**1,369**	**2,851**	**5,802**	**365,910**
Total comprehensive income for the period											
Loss for the period									-4,001		-4,001
Total other comprehensive income										-1,580	-1,580
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-4,001**	**-1,580**	**-5,581**
Transactions with owners (when acting as owners) recognised directly in equity											0
Contributions by owners and distributions to owners											0
Transfer of profit or loss from previous period to retained earnings or losses								2,851	-2,851		0
Dividend payout								-1,458			-1,458
Transfer of fair value reserve of land to retained earnings or losses								43			43
Coverage of loss for 2015 based on the Management Board's decision		-1,196						-2,805	4,001		0
Total contributions by owners and distribution to owners	**0**	**-1,196**	**0**	**0**	**0**	**0**	**0**	**-1,369**	**1,150**	**0**	**-1,415**
Total transactions with owners	**0**	**-1,196**	**0**	**0**	**0**	**0**	**0**	**-1,369**	**1,150**	**0**	**-1,415**
Closing balance at 31 Dec 2015	**101,922**	**156,639**	**12,896**	**7,556**	**3,170**	**75,679**	**-3,170**	**0**	**0**	**4,222**	**358,914**

			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**	**4,222**	**358,914**
Total comprehensive income for the period											
Profit for the period									3,699		3,699
Total other comprehensive income										-988	-988
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3,699**	**-988**	**2,711**
Transactions with owners (when acting as owners) recognised directly in equity											0
Contributions by owners and distributions to owners											0
Transfer of fair value reserve of land to retained earnings or losses								-71			-71
Coverage of retained loss								71	-71		0
Formation of statutory reserves				363					-363		0
Transfer of other revenue reserves among to retained earnings*						-53,649		53,649			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**	**3,234**	**361,554**

* For the purpose of forming the accumulated profit (Note 71) the company Gorenje, d.d., released other revenue reserves in the amount of EUR 53,649k to retained earnings (profit or loss from previous periods) pursuant to the amended Article 66 of the Companies Act (ZGD-1, Official Journal of RS no. 55/15).

Notes to the Financial Statements

1. Reporting entity

Gorenje, d.d., (hereinafter referred to also as "Company") is the controlling company domiciled in Velenje. The business address of the Company's registered office is Partizanska cesta 12, 3320 Velenje.

The consolidated financial statements of Gorenje, d.d., at and for the year ended 31 December 2016 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 Gorenje, d.d., approved the financial statements on 27 February 2017.

(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,
- land,
- 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 61 and 62 and the accounting policy 3(a)(iii) and 3(a)(v) – acquisition and sale of companies;
- Note 19 and 26, 57 and 64 – deferred taxes;
- Note 21 and 22, 59 and 60 and accounting policies 3(d) and 3(f) – valuation of property, plant and equipment and investment property;
- Note 34 and 72 and accounting policy 3(l)(iv) – measurement of provisions for retirement benefits and jubilee premiums;
- Note 34 and 72 and accounting policy 3(l)(iii) – provisions for onerous contracts and litigations;
- Note 34 and 72 and accounting policy 3(l)(i) – provisions for warranties;
- Note 43 and 79 and accounting policy 3(i)(i) – valuation of investments;
- Note 20 and accounting policy 3(e)(i) – goodwill;
- Accounting policy 3(i)(i) - impairment of financial assets, including receivables.

(e) CHANGES IN ACCOUNTING POLICIES

The Group/Company has not changed its accounting policies in 2016, except where necessary due to the amendments to IFRSs.

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 acquisition date, which is 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.

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 the 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 average exchange rates applicable at the date of translation.

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 other 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.

Other 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. 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 equity 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 (excluding land), plant and equipment are measured at cost less accumulated depreciation 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.

Fair value model or revaluation model is applied to land. The effect of revaluation is recorded in other comprehensive income. Impairment of land previously increased in value results in a decrease in revaluation surplus in other comprehensive income; otherwise, it is recognised in the income statement.

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 income/other 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 day-to-day 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 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.

(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 capitalised only 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. Value of development expenditure recognised as intangible assets includes the cost of materials, direct labour, other costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Development expenditure recognised as intangible assets 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 date 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% 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 measured at the lower of historical cost and net realisable value. The cost of inventories of material and merchandise is based on the floating 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 finished 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 finished 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 finished products due to write-off, is credited against change in inventories.

In case of writing off the inventories of finished and semi-finished products, the Group companies are required to observe the Group's policies.

(i) IMPAIRMENT

(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 Accounting Manual, 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 HELD FOR SALE OR DISTRIBUTION

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 from sales 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 from sales as the relevant 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 assets, 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 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/Company presents basic earnings per share (EPS) data for its ordinary shares, which is equivalent to diluted earnings per share data, as the Group/Company has not issued any preference shares or convertible bonds. 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 as a 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 IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of interests in other entities' and IAS 28 'Investments in associates and joint ventures' – Investment Entities: consolidation exceptions, adopted by the EU on 22 September 2016 (applicable for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 'Joint Arrangements' - Accounting for Acquisitions of Interests in Joint Operations, adopted by the EU on 24 November 2015 (applicable for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 'Presentation of Financial Statements' – Disclosure Initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 'Property, Plant and Equipment and IAS 38' – Intangible assets - Clarification of Acceptable Methods of Depreciation and Amortisation, adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – Agriculture: Bearer Plants, as adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 'Employee Benefits' – Defined Benefit Plans: Employee Contributions, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 'Separate Financial Statements' – Equity method in the separate financial statements, adopted by 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- A collection of amendments to various IFRSs 'Annual Improvements to IFRSs 2010-2012 Cycle' (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), in response to eliminate inconsistency and provide clarification of wording in IFRSs, which were adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- A collection of amendments to various IFRSs 'Annual Improvements to IFRSs 2012-2014 Cycle' (IFRS 5, IFRS 7, IFRS 19 and IAS 34), in response to eliminate inconsistency and provide clarification of wording in IFRSs, adopted by the EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016).

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 accounting standards and amendments to existing accounting 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, adopted by the EU on 22 September 2016 (effective 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 24 April 2017 (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 16 'Leases' (effective for annual periods beginning on or after 1 January 2019),
- 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 4 'Insurance Contracts' – Applying IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or at first application IFRS 9 Financial Instruments),
- 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 IFRS 15 'Revenue from Contracts with Customers' – clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 'Statement of Cash Flows' – Disclosure Initiative (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 (effective for annual periods beginning on or after 1 January 2017),
- 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),
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018).

The Group/Company does not expect the new standards, amendments to existing standards and interpretations to have a material impact on the financial statements during the early application, except for IFRS 15 and 16, which will have an impact on financial statements of Group/Company.

In addition, hedge accounting in connection with financial assets and liabilities that was not adopted by the EU yet, remains non-regulated.

The Group/Company assesses that hedge accounting in connection with financial assets and liabilities pursuant to provisions of IAS 39: »Financial Instruments: Recognition and Measurement« would not significantly impact the Group's/Company's financial statements if applied as at the balance sheet date.

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.

A revaluation of land is based on the independent valuer's report. The Group/Company examines, on an annual basis, if revaluation of land is required.

(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 2016 with pursuing the strategic policy of ensuring a stable structure of the financial debt's maturity and reducing the relative financial debt, which is measured by the net financial debt/EBITDA ratio that declined by 0.2 to 3.9 times. The debt's maturity structure, whose non-current sources account for 73.1% of total financial liabilities, enables the coverage of non-current investments by means of non-current sources. Based on growing business activities and a well-managed working capital, we maintain the financial debt/equity ratio on the comparable levels. In addition, Gorenje Group's positive business operations are reflected in the improved ROE ratio, calculated as the parent company's profit or loss to the average value of its equity.

EURk	Note	2015	2016
Non-current financial liabilities	37	270,986	275,616
Current financial liabilities	38	91,038	101,226
Total financial liabilities		362,024	376,842
Total equity	32	368,062	374,238
Debt / equity		**0,98**	**1,01**
Cash and cash equivalents	31	31,610	35,242
Total net financial liabilities		330,414	341,600
Net debt / equity		**0,90**	**0,91**
Profit or loss		-7,988	8,430
ROE (%)		**-2.2%**	**2.2%**

6. Segment reporting

BUSINESS SEGMENTS

The Group consists in 2016 of two key business segments i.e. Core activity Home and Non-core activities.

(i) Core activity Home

Core activity Home: 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 three main programmes of large household appliances, the manufacture and sale of heating appliances of own manufacture, the manufacture of mechanical components, the manufacture and sale of sanitary fixtures and ceramic tiles, and the sale of kitchen and bathroom furniture.

(ii) Non-core activities

Non-core activities: 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, Latvia, Lithuania and Estonia.

East: Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovakia.

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 2015, the income statement for the year ended 31 December 2016, 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 controlling or parent company Gorenje, d.d., and the financial statements of 72 subsidiaries:

	Companies operating in Slovenia	Equity interest (%)	Business segment
1.	Gorenje I.P.C., d.o.o., Velenje	100.00	CAH
2.	Gorenje GTI, d.o.o., Velenje	100.00	NCA
3.	Gorenje Gostinstvo, d.o.o., Velenje	100.00	NCA
4.	Energygor, d.o.o., Velenje	100.00	NCA
5.	Kemis, d.o.o., Vrhnika	100.00	NCA
6.	Gorenje Orodjarna, d.o.o., Velenje	100.00	NCA
7.	ZEOS, d.o.o., Ljubljana	51.00	NCA
8.	Gorenje Surovina, d.o.o., Maribor	100.00	NCA
9.	Indop, d.o.o., Šoštanj	100.00	NCA
10.	ERICo, d.o.o., Velenje	51.00	NCA
11.	Gorenje GAIO, d.o.o., Šoštanj	100.00	NCA
12.	Gorenje GSI, d.o.o., Ljubljana	100.00	CAH
13.	Gorenje Keramika, d.o.o., Velenje	100.00	NCA
14.	Gorenje Studio, d.o.o., Ljubljana	100.00	CAH
15.	Gorenje EKOINVEST, d.o.o., Velenje	100.00	NCA
16.	Gorenje HS, d.o.o., Velenje	65.00	NCA

	Companies operating abroad	Equity interest (%)	Business segment
1.	Gorenje Beteiligungs GmbH, Austria	100.00	CAH
2.	Gorenje Austria Handels GmbH, Austria	100.00	CAH
3.	Gorenje Vertriebs GmbH, Germany	100.00	CAH
4.	Gorenje Körting Italia S.r.l., Italy	100.00	CAH
5.	Gorenje France S.A.S., France	100.00	CAH
6.	Gorenje Espana, S.L., Spain	100.00	CAH
7.	Gorenje UK Ltd., Great Britain	100.00	CAH
8.	Gorenje Group Nordic A/S, Denmark	100.00	CAH
9.	Gorenje spol. s r.o., Czech Republic	100.00	CAH
10.	Gorenje real spol. s r.o., Czech Republic	100.00	CAH
11.	Gorenje Slovakia s.r.o., Slovakia	100.00	CAH
12.	Gorenje Magyarország Kft., Hungary	100.00	CAH
13.	Gorenje Polska Sp. z o.o., Poland	100.00	CAH
14.	Gorenje Bulgaria EOOD, Bulgaria	100.00	CAH
15.	Gorenje Zagreb, d.o.o., Croatia	100.00	CAH
16.	Gorenje Skopje, d.o.o., Macedonia	100.00	CAH
17.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	CAH
18.	Gorenje, d.o.o., Serbia	100.00	CAH
19.	Gorenje Podgorica, d.o.o., Montenegro	99.975	CAH
20.	Gorenje Romania S.r.l., Romania	100.00	CAH
21.	Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	CAH
22.	Mora Moravia s r.o., Czech Republic	100.00	CAH
23.	Gorenje-kuchyně spol. s r.o., Czech Republic	100.00	CAH
24.	KEMIS-Termoclean, d.o.o., Croatia	100.00	NCA
25.	Kemis-BH, d.o.o., Bosnia and Herzegovina	100.00	NCA

	Companies operating abroad	Equity interest (%)	Business segment
26.	Gorenje Studio, d.o.o., Serbia	100.00	CAH
27.	Gorenje Gulf FZE, United Arab Emirates	100.00	CAH
28.	Gorenje Tiki, d.o.o., Serbia	100.00	CAH
29.	Gorenje Istanbul Ltd., Turkey	100.00	CAH
30.	Gorenje TOV, Ukraine	100.00	CAH
31.	ST Bana Nekretnine, d.o.o., Serbia	100.00	NCA
32.	Kemis Valjevo, d.o.o, Serbia	100.00	NCA
33.	Atag Nederland BV, the Netherlands	100.00	CAH
34.	Atag België NV, Belgium	100.00	CAH
35.	Intell Properties BV, the Netherlands	100.00	CAH
36.	Gorenje Nederland BV, the Netherlands	100.00	CAH
37.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	CAH
38.	OOO Gorenje BT, Russia	100.00	CAH
39.	Gorenje GTI, d.o.o., Beograd, Serbia	100.00	NCA
40.	Asko Appliances AB, Sweden	100.00	CAH
41.	Gorenje North America, Inc., USA	100.00	CAH
42.	Asko Appliances Pty, Australia	100.00	CAH
43.	Asko Appliances OOO, Russia	100.00	CAH
44.	»Gorenje Albania« SHPK, Albania	100.00	CAH
45.	Gorenje Home d.o.o., Zaječar, Serbia	100.00	CAH
46.	Gorenje Ekologija, d.o.o., Stara Pazova, Serbia	100.00	NCA
47.	Gorenje Corporate GmbH, Austria	100.00	CAH
48.	Cleaning system S, d.o.o., Serbia	100.00	NCA
49.	ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	49.45	NCA
50.	Gorenje do Brasil Ltda., Brasil	100.00	CAH

	Companies operating abroad	Equity interest (%)	Business segment
51.	Gorenje Asia Ltd., China	100.00	CAH
52.	Gorenje MDM d.o.o. Kragujevac, Serbia	100.00	NCA
53.	Gorenje Chile SpA, Chile	100.00	CAH
54.	Gorenje AEC, LLC, Thailand	100.00	CAH
55.	INDOP GORENJE GmbH, Germany	100.00	NCA
56.	Novi Elind, d.o.o., Serbia	100.00	CAH

CAH – Core activity Home
NCA – Non-core activities

Associates:

- Gorenje Projekt, d.o.o., Velenje
- GGE, d.o.o., Ljubljana
- Gorenje Projekt, d.o.o., Serbia
- EKON ELEKTRON, d.o.o., Macedonia
- K.Tivoli, d.o.o., Ljubljana
- GGE EOL, d.o.o., Ljubljana (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
- GOR Kolesa, d.o.o., Velenje
- GGE ESCO, d.o.o., Serbia

Representative offices of Gorenje, d.d., abroad:

- in Kiev (Ukraine),
- in Almaty (Kazakhstan), and
- in Kishinev (Moldova).

9. Acquisition of a company

In September 2016, the company Gorenje AD, d.o.o., Valjevo acquired on the basis of a public tender the company Novi Elind – in bankruptcy, public limited company for manufactoring thermal appliances. The company owns a location directly along Gorenje's premises in Valjevo, which was one of the key reasons why the relevant acquisition was made i.e. it paves the way for a possible expansion of activities in Valjevo and thus rounding up of business operations.

Impact of the acquisition on individual assets and liabilities is presented below.

EURk	Value recognised upon takeover
Property, plant and equipment	1,772
Intangible assets	278
Investments	0
Deferred tax assets	0
Inventories	0
Trade receivables	0
Cash	1
Financial liabilities	0
Operating liabilities	0
Provisions	0
Deferred tax liabilities	0
Net difference – assets and liabilities	**2,051**
Attributable share (100%)	2,051
Badwill	1,340
Purchase cost	711
Cash	1
Net outflows	710

10. Non-controlling equity interests

Non-controlling interests as at 31 December:

	2015		2016	
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., Ljubljana	624	80	807	184
»Euro Lumi & Surovina« SH.P.K., Kosovo	211	-30	-12	-12
ERICo, d.o.o., Velenje	679	5	675	22
PUBLICUS, d.o.o., Ljubljana	922	151	98	98
Gorenje design studio, d.o.o., Velenje	128	-24	21	21
EKOGOR, d.o.o., Jesenice	282	3	11	11
ZEOS eko-sistem, d.o.o., Bosnia and Herzegovina	317	73	410	93
Gorenje Surovina Fotoreciklaža, d.o.o., Maribor	-36	-43	15	15
Gorenje HS, d.o.o., Velenje			138	4
Total	**3,128**	**215**	**2,164**	**436**

The transfer of ownership between companies of the Gorenje Group had no impact on the consolidated financial statements as the intra-group transactions were eliminated in the consolidation process.

11. Associates

Group's share in profits or losses of associates amounted to EUR 84k in 2016 (2015: EUR 360k).

Assets, liabilities, revenue and expenses of associates in 2015 are outlined below (overview of equity interests and shares is provided in Note 24):

Company / *EURk*	**Non-current assets**	**Current assets**	**Non-current liabilities**	**Current liabilities**	**Revenue**	**Expenses**	**Income tax expense**	**Profit or loss for the period**
Econo Projektiranje, d.o.o., Ljubljana	67	414	1	452	586	-743	0	-157
GGE, d.o.o., Ljubljana	2,626	1,907	1,486	1,667	6,574	-6,049	-89	436
ENVITECH, D.O.O., Serbia	0	25	0	66	4	-31	0	-27
Gorenje Projekt, d.o.o., Velenje	501	8,370	61	7,595	21,672	-21,344	-35	293
Gorenje Projekt, d.o.o., Serbia	28	3	0	3	4	-8	0	-4
Gorenje Electronics Trading LLC, United Arab Emirates	30	70	269	4	174	-156	0	18
Tosidos, d.o.o., Ljubljana	396	2,907	29	2,922	14,634	-14,496	1	139

Assets, liabilities, revenue and expenses of associates in 2016 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., Velenje	86	515	0	223	5	-277	0	-272
GGE, d.o.o., Ljubljana	3,582	4,888	1,899	4,511	7,186	-6,572	-79	535
K. Tivoli, d.o.o., Ljubljana	0	11,615	1,564	1,274	0	-27	0	-27
Gorenje Projekt, d.o.o., Velenje	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

Notes of Gorenje Group to the individual items in the Financial statements

Note 12 – Revenue EUR 1,258,124k

EURk	2015	2016
Revenue from the sale of products and goods	1,168,205	1,196,911
Revenue from the sale of services	56,824	61,213
Total	**1,225,029**	**1,258,124**

Note 13 – Other operating income EUR 21,871k

EURk	2015	2016
Income from subsidies, grants and compensations	604	3,102
Rental income	1,993	1,461
Income from use and reversal of provisions	8,792	1,844
Income from use of deferred income relating to government grants	4,074	4,490
Gain on disposal of property, plant and equipment	2,772	354
Badwill	0	1,340
Other operating income	13,631	9,280
Total	**31,866**	**21,871**

Most of income from subsidies in the amount of EUR 2,200k refers in 2016 to the company Gorenje AD, d.o.o., Valjevo and Gorenje Tiki, d.o.o., Stara Pazova.

Major part of income from use of deferred income relating to government grants in the amount of EUR 4,299k refers to Gorenje I.P.C., d.o.o., a company employing disabled persons, in which government grants were used in line with the Vocational Rehabilitation and Employment of Disabled Persons Act.

In 2016, EUR 214k of profits on sale of property, plant and equipment were generated by the Core activity Home, while EUR 140k by the Non-core activities.

Other operating income includes primarily income from compensation for damages (EUR 2,214k), income arising from the implementation of the Directive on Waste Electrical and Electronic Equipment (EUR 634k), income from write-off of debts (EUR 129k), and other operating income (EUR 6,303k).

EXPECTED RENTAL INCOME

EURk	2015	2016
Rental income – up to 1 year	633	531
Total	**633**	**531**

The item of expected rental income represents the amount of future income on premises hired out, which may not be cancelled. The amount is not directly linked to the amount of 'rental income' in the table above, which indicates the actual amount of income generated on rentals in 2016.

Note 14 – Costs of goods, material and services EUR 942,154k

EURk	2015	2016
Cost of goods sold	238,939	250,392
Cost of materials	488,899	475,798
Cost of services	209,407	215,964
Total	**937,245**	**942,154**

Cost of services includes cost of provisions for warranties in the amount of EUR 31,220k (2015: EUR 31,717k) and cost of rentals in the amount of EUR 20,418k (2015: EUR 19,213k).

Note 15 – Employee benefits expense EUR 235,325k

EURk	2015	2016
Wages and salaries	165,559	168,383
Social security costs	36,007	37,178
Other employee benefits expense	29,796	29,764
Total	**231,362**	**235,325**

The item of other employee benefits expense includes cost of provisions formed for retirement benefits and jubilee premiums in the amount of EUR 1,669k (2015: EUR 2,420k).

Part of employee benefits expense (EUR 4,148k) was used to create provisions from government grants in Gorenje I.P.C., d.o.o., which has the status of a company employing disabled persons.

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.

Number of employees by business segment	As at 31 Dec 2015	As at 31 Dec 2016	Average 2015	Average 2016
Core activity Home	9,165	9,503	9,182	9,437
Non-core activities	1,437	1,459	1,435	1,452
Total	**10,602**	**10,962**	**10,617**	**10,889**

Number of employees by education	Average 2015	Average 2016
Level VIII	169	204
Level VII	1,312	1,424
Level VI	945	990
Level V	2,725	2,933
Level III and IV	3,329	3,232
Level I and II	2,137	2,106
Total	**10,617**	**10,889**

Note 16 – Amortisation and depreciation expense EUR 47,055k

EURk	2015	2016
Amortisation expense of intangible assets	8,868	9,331
Depreciation expense of property, plant and equipment	36,776	37,724
Total	**45,644**	**47,055**

Note 17 – Other operating expenses EUR 20,470k

EURk	2015	2016
Write-off of inventories to net realisable value	3,594	2,007
Disposal and impairment of assets	612	787
Other taxes and charges	3,378	3,608
Other operating expenses	13,986	14,068
Total	**21,570**	**20,470**

The item of other taxes and charges comprises charges for the use of building plot, water charge, environmental taxes, membership fees in mandatory associations, and other mandatory taxes and charges.

Other expenses include mostly expenditure relating to environmental protection, whereof a large part under the Directive on Waste Electrical and Electronic Equipment (EUR 8,568k) and compensation in damages (EUR 463k).

Note 18 – Net finance expenses EUR 27,035k

FINANCE INCOME EUR 6,157K

EURk	2015	2016
Dividend income from available-for-sale investments	52	136
Interest income	1,877	913
Change in fair value of interest rate swaps	428	142
Change in fair value forward exchange contracts	392	96
Income from net exchange differences	365	2,935
Gain on disposal of available-for-sale financial assets	18	3
Gain on sale of companies	0	693
Income from forward exchange contracts	1,700	551
Other finance income	2,564	688
Total	**7,396**	**6,157**

FINANCE EXPENSES EUR 33,192k

EURk	2015	2016
Interest expenses	18,002	15,033
Expenses on interest rate swaps	866	594
Expenses on forward exchange contracts	11,598	2,602
Change in fair value of forward exchange contracts	3,830	1,513
Interest expenses arising under provisions for retirement benefits and jubilee premiums	630	792
Impairment loss on available-for-sale investments	40	55
Impairment loss on trade receivables	4,178	3,235
Impairment loss on non-current and other receivables	703	3,853
Impairment loss on loans	448	587
Impairment loss on investments in associates	135	209
Other finance expenses	5,758	4,719
Total	**46,188**	**33,192**

Fair value of trade receivables, investments and loans given is secured through the impairment of receivables, investments and loans given in the amount of EUR 7,939k (2015: EUR 5,504k). The impairment of loans refers nearly in its full amount to Gorenje, d.d., and its loan to the company Arosa Mobilia, d.o.o.

A large portion of other finance income includes mostly costs of loans, letters of credit provided, guarantees, interest expenses arising from the actuarial calculation, and debt factoring.

FINANCE INCOME AND EXPENSES RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME (NET)

EURk	2015	2016
Effective portion of net changes in gains and losses on cash flow hedges	-512	-1,350
Effective portion of changes in gains and losses on cash flow hedges, reclassified to profit or loss	867	594
Net change in fair value of available-for-sale financial assets	11	-29
Finance expenses recognised in other comprehensive income	**366**	**-785**
Finance expenses recognised in other comprehensive income attributable to equity holders of the parent	**366**	**-785**

Note 19 – Income tax expense EUR 4,810k

The disclosure of income tax expense encompasses current tax liabilities, deferred tax assets, and deferred tax liabilities.

EURk	2015	2016
Current tax expense	5,607	6,407
Deferred tax expense	-1,607	-1,597
Total	**4,000**	**4,810**

As at 31 December 2016, the Company did not recognise deferred tax assets in the amount of EUR 22,918k referring largely to unused tax reliefs for research and development, investments and tax losses.

Effective income tax rates:

EURk	2015		2016	
Profit or loss before tax		**-3,988**		**13,240**
Income tax using the domestic tax rate	17,0 %	-678	17,0 %	2,251
Effect of tax rates in foreign jurisdictions	11,8 %	-469	1,1 %	146
Non-deductible expenses	-99,3 %	3,961	17,0 %	2,245
Tax exempt income	-0,1 %	3	3, 5 %	463
Tax reliefs	4,0 %	-158	-33,9 %	-4,488
Tax losses of the current year for which deferred tax assets are not recognised	-20,0 %	798	24,7 %	3,274
Other differences	-13,6 %	543	6,9 %	919
Income tax expense	**-100,3 %**	**4,000**	**36,3 %**	**4,810**

Following deferred tax amounts were recognised in other comprehensive income:

	2015		
EURk	**Pre-tax amount**	**Tax**	**After-tax amount**
Change in fair value of available-for-sale financial assets	13	-2	11
Effective portion of changes in gains and losses on cash flow hedges	-527	15	-512
Effective portion of changes in gains and losses on cash flow hedges, reclassified to profit or loss	867	0	867
Foreign currency translation differences for foreign operations	-1,449	0	-1,449
Other comprehensive income	**-1,096**	**13**	**-1,083**

	2016		
EURk	**Pre-tax amount**	**Tax**	**After-tax amount**
Change in fair value of available-for-sale financial assets	-33	4	-29
Effective portion of changes in gains and losses on cash flow hedges	-1,531	181	-1,350
Effective portion of changes in gains and losses on cash flow hedges, reclassified to profit or loss	594	0	594
Foreign currency translation differences for foreign operations	1,978	0	1,978
Other comprehensive income	**1,008**	**185**	**1,193**

Note 20 – Intangible assets EUR 208,872k

EURk	2015	2016
Deferred development costs	27,696	35,796
Industrial property rights	12,231	11,253
Trademark	61,964	61,964
Goodwill	68,653	67,036
Intangible assets under construction	25,488	32,823
Total	**196,032**	**208,872**

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. Goodwill in the amount of EUR 2,030k was established in 2007 at the acquisition of the majority interest in Gorenje Surovina, d.d. Goodwill in the amount of EUR 2,875k was established 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 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 2017 and 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% (2015: 2.5%) and the discount rate of 8.90% (2015: 7.28%).

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. was carried out. The calculations are based on cash flow projections for Mora Moravia, s r.o., which have been prepared on the basis of the adopted business plan for 2017 and 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% (2015: 2.0%) and the discount rate of 9.10% (2015: 7.30%).

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., was carried out. The calculations are based on cash flow projections for Gorenje Studio, d.o.o. that have been compiled on the basis of the adopted business plan for 2017 and 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% (2015: 2.0%) and the discount rate of 14.60% (2015: 11.60%).

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., was carried out. The calculations are based on the cash flow projections for Gorenje Surovina, d.o.o., which have been prepared on the basis of the adopted business plan for 2017 and 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% (2015: 2.0%) and the discount rate of 8.40% (2015: 7.30%).

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 development of new advances products (new washing and dryer machines of the Gorenje and Asko brand, the new built-in gas cooker, the new generation of built-in cooler and freezer appliances, the new generation of freestanding cookers) that are developed by competence centres of parent company's individual programmes of Gorenje, d.d., and Asko Appliances AB, Sweden.

MOVEMENTS IN INTANGIBLE ASSETS IN 2015

EURk	Deferred develo-pment costs	Industrial property rights	Trademark	Goodwill	Intangible assets under constru-ction	Total
Cost at 1 Jan 2015	**48,953**	**26,754**	**61,964**	**68,653**	**11,763**	**218,087**
Acquisition	2,630	2,125			18,329	**23,084**
Disposals, write-offs	-1,427	-1,071				**-2,498**
Other transfers	4,228	1,201			-4,599	**830**
Exchange differences	26	672			-5	**693**
Cost at 31 Dec 2015	**54,410**	**29,681**	**61,964**	**68,653**	**25,488**	**240,196**
Accumulated amortisation at 1 Jan 2015	**22,029**	**14,458**	**0**	**0**	**0**	**36,487**
Disposals, write-offs	-1,427	-1,046				**-2,473**
Amortisation	6,075	2,793				**8,868**
Other transfers		598				**598**
Exchange differences	37	647				**684**
Accumulated amortisation at 31 Dec 2015	**26,714**	**17,450**	**0**	**0**	**0**	**44,164**
Carrying amount at 1 Jan 2015	**26,924**	**12,296**	**61,964**	**68,653**	**11,763**	**181,600**
Carrying amount at 31 Dec 2015	**27,696**	**12,231**	**61,964**	**68,653**	**25,488**	**196,032**

MOVEMENTS IN INTANGIBLE ASSETS IN 2016

EURk	Deferred develo-pment costs	Industrial property rights	Trademark	Goodwill	Intangible assets under constru-ction	Total
Cost at 1 Jan 2016	**54,410**	**29,681**	**61,964**	**68,653**	**25,488**	**240,196**
Acquisition	1,514	985			21,320	**23,819**
Disposals, write-offs	-368	-645			-90	**-1,103**
Changes within Group		65		-1,617		**-1,552**
Other transfers	11,565	7,068			-13,862	**4,771**
Exchange differences	-111	-38			-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				**-964**
Amortisation	6,402	2,929				**9,331**
Changes within Group		-187				**-187**
Other transfers	-1,518	6,289				**4,771**
Exchange differences	-16	-22				**-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**

Note 21 – Property, plant and equipment (PPE) EUR 375,709k

EURk	2015	2016
Land	42,270	38,651
Buildings	145,131	140,038
Production and other equipment	145,452	143,959
Property, plant and equipment under construction	33,357	53,061
Total	**366,210**	**375,709**

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT IN 2015

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2015	**41,836**	**286,302**	**475,701**	**25,398**	**829,237**
Acquisition	220	773	9,486	41,896	**52,375**
Revaluation	790	-181			**609**
Disposals, write-offs	-1,577	-9,067	-15,023	-86	**-25,753**
Transfer from investment property		603			**603**
Transfer to investment property		-334			**-334**
Other transfers	1,008	10,049	18,979	-33,862	**-3,826**
Exchange differences	-7	44	263	11	**311**
Carrying amount at 31 Dec 2015	**42,270**	**288,189**	**489,406**	**33,357**	**853,222**

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Accumulated depreciation at 1 Jan 2015	**0**	**139,378**	**333,770**	**0**	**473,148**
Revaluation			26		**26**
Disposals, write-offs		-3,991	-14,522		**-18,513**
Depreciation		7,466	29,310		**36,776**
Transfer from investment property		148			**148**
Transfer to investment property		-63			**-63**
Other transfers			-4,943		**-4,943**
Exchange differences		120	313		**433**
Accumulated depreciation at 31 Dec 2015	**0**	**143,058**	**343,954**	**0**	**487,012**
Carrying amount at 1 Jan 2015	**41,836**	**146,924**	**141,931**	**25,398**	**356,089**
Carrying amount at 31 Dec 2015	**42,270**	**145,131**	**145,452**	**33,357**	**366,210**

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT IN 2016

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2016	**42,270**	**288,189**	**489,406**	**33,357**	**853,222**
Acquisition	159	577	8,711	49,965	**59,412**
Revaluation	-1,335				**-1,335**
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			**-833**
Other transfers		4,920	20,661	-28,685	**-3,104**
Exchange differences	-84	-1,031	-972	-33	**-2,120**
Cost at 31 Dec 2016	**38,651**	**288,589**	**498,044**	**53,061**	**878,345**
Accumulated depreciation at 1 Jan 2016	**0**	**143,058**	**343,954**	**0**	**487,012**
Disposals, write-offs		-1,040	-12,879		**-13,919**
Depreciation		7,234	30,490		**37,724**
Changes within Group		-579	-4,201		**-4,780**
Transfer to investment property		-10			**-10**
Other transfers		-138	-2,966		**-3,104**
Exchange differences		26	-313		**-287**
Accumulated depreciation at 31 Dec 2016	**0**	**148,551**	**354,085**	**0**	**502,636**
Carrying amount at 1 Jan 2016	**42,270**	**145,131**	**145,452**	**33,357**	**366,210**
Carrying amount at 31 Dec 2016	**38,651**	**140,038**	**143,959**	**53,061**	**375,709**

Most of investments in the amount of EUR 54,210k were carried out within the Core activity Home, where a significant portion thereof was invested into the development of new products, the purchase of new technological equipment, the upgrade of the information support, and into the improvement of the technological equipment's productivity. In Non-core activities investments in 2016 amounted to EUR 5,202k, whereof EUR 2,783k refers to the ecology segment.

Disposal of property, plant and equipment relates to the sale of non-operating assets.

Group's land was appraised at the year-end of 2013 by an independent certified appraiser of real property. If land was disclosed at cost, the book value of land would amount to EUR 29,553k. According to Management's assessment, the assumptions applied have not changed materially and the fair value of land does not significantly deviate from its carrying amount.

As at 31 December 2016, no financial liabilities were 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 investment property to property, transfers from property, plant and equipment to intangible assets and to investment property, and transfers between individual items.

Note 22 – Investment property EUR 14,957k

EURk	2015	2016
Land with buildings	17,148	14,957
Total	**17,148**	**14,957**

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 2013. Another valuation of significant investment property was carried out in 2016. The carrying amount does not materially deviate from its fair value.

Rental income generated on investment property is recognised in the income statement for 2016 and amounted to EUR 144k. Costs occurring in connection with investment property amounted to EUR 275k in the reporting period.

MOVEMENTS IN INVESTMENT PROPERTY

EURk	2015	2016
Opening balance at 1 January	**18,931**	**17,148**
Increase	37	0
Decrease	-1,636	-3,014
Transfer from PPE	271	823
Transfer to PPE	-455	0
Closing balance at 31 December	**17,148**	**14,957**

Note 23 – Non-current investments EUR 6,563k

EURk	2015	2016
Loans (1 to 5 years)	2,031	2,370
Deposits	32	33
Other investments	879	4,160
Total	**2,942**	**6,563**

MOVEMENTS IN LOANS

EURk	2015	2016
Opening balance at 1 January	**4,168**	**2,031**
Increase	1,000	350
Decrease	-17	-11
Transfers to current investments	-3,120	0
Closing balance at 31 December	**2,031**	**2,370**

Loans given include euro-denominated loans bearing a fixed interets rate and approved by the parent company to non-Group companies.

Note 24 – Investments in associates EUR 2,945k

EURk	Equity interest	2015	2016
Gorenje Projekt, d.o.o., Velenje	50.00%	693	1,678
GGE Netherlands B.V., the Netherlands	30.00%	0	1,019
GGE, d.o.o., Ljubljana	50.00%	675	0
Econo Projektiranje, d.o.o., Ljubljana	26.00%	72	0
Gorenje Electronics Trading LLC, United Arab Emirates	49.00%	120	0
ENVITECH D.O.O., Beograd, Serbia	26.00%	10	0
GOR Kolesa, d.o.o., Velenje	61.5385%	0	232
Ekon Elektron, d.o.o., Skopje, Macedonia	30.00%	0	16
Total		**1,570**	**2,945**

Note 25 – Non-current trade receivables EUR 2,481k

Most of non-current trade receivables refer to the companies Gorenje Zagreb, d.o.o. and Gorenje AD, d.o.o., Valjevo.

Note 26 – Deferred tax assets and liabilities

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	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
PPE	321	300	4,047	3,901	-3,726	-3,601
Investments	1,460	1,576	21	11	1,439	1,565
Receivables	1,115	920	14	6	1,101	914
Inventories	46	62	-34	-27	80	89
Liabilities from litigations	2	3	1	0	1	3
Provisions in line with local standards and tax laws	302	873	91	214	211	659
Provisions for retirement benefits and jubilee premiums	2,351	2,568	0	-1	2,351	2,569
Provisions for warranties	1,940	2,028	-78	-53	2,018	2,081
Unused tax losses	11,796	12,574	-59	-56	11,855	12,630
Unused tax reliefs	6,787	6,459	200	160	6,587	6,299
Cash flow hedge – foreign currency contracts	0	0	52	0	-52	0
Cash flow hedge – interest rate swap	160	288	60	61	100	227
Total	**26,280**	**27,651**	**4,315**	**4,216**	**21,965**	**23,435**

	Tax assets – tax liabilities		Through profit or loss		Through other comprehensive income	
EURk	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
PPE	-3,726	-3,601	1,684	676	8	-163
Investments	1,439	1,565	0	148	-2	4
Receivables	1,101	914	-56	-202	0	0
Inventories	80	89	1	9	0	0
Liabilities from litigations	1	3	1	2	0	0
Provisions in line with local standards and tax laws	211	659	335	157	0	0
Provisions for retirement benefits and jubilee premiums	2,351	2,569	24	146	161	52
Provisions for warranties	2,018	2,081	-52	68	0	0
Unused tax losses	11,855	12,630	336	856	0	0
Unused tax reliefs	6,587	6,299	-763	-263	0	0
Cash flow hedge – foreign currency contracts	-52	0	0	0	15	52
Cash flow hedge – interest rate swap	100	227	97	0	0	129
Total	**21,965**	**23,435**	**1,607**	**1,597**	**182**	**74**

Group companies recognised deferred tax assets and deferred tax liabilities in 2016.

Note 27 – Inventories EUR 225,954k

	2015			2016		
EURk	Core activity Home	Non-core activities	Total	Core activity Home	Non-core activities	Total
Materials	56,695	3,039	59,734	58,502	2,819	61,321
Work in progress	7,318	3,903	11,221	8,288	3,411	11,699
Finished products	113,952	1,726	115,678	118,707	1,693	120,400
Merchandise	33,162	3,864	37,026	25,863	4,039	29,902
Advances	2,166	81	2,247	2,340	292	2,632
Total	**213,293**	**12,613**	**225,906**	**213,700**	**12,254**	**225,954**

Allowances for inventories and inventory write-offs amounted to EUR 2,007k in 2016 (2015: EUR 3,594k). Allowances for inventories and write-offs of inventories to net realisable value were recorded under other operating expenses.

Advances refer to inventories of raw materials, materials and merchandise.

The carrying amount of inventories of finished products, where production costs were adjusted to net realisable value, amounted to EUR 4,159k.

Note 28 – Current investments EUR 8,821k

EURk	2015	2016
Available-for-sale investments	3,700	2,247
Short-term deposits	1,723	203
Loans	6,845	5,728
Transfer from non-current loans	3,120	0
Interest receivables	65	127
Other current receivables from financing activities	917	516
Total	**16,370**	**8,821**

Loans include cash surplus deposited in short-term time deposits with banks and entities. The larger portion of current loans is denominated in euro and bear the EURIBOR interest rate.

The Group concluded forward exchange contracts for 2016 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 2016, the Group recorded settlements arising on derivatives used as hedging instruments in the amount of EUR -2,051k and in the same amount increased its finance income or finance expenses. In addition, finance income increased by EUR 96k and finance expenses by EUR -1,513k as a result of Group's adjustment of forward exchange contracts to fair value.

MOVEMENTS IN AVAILABLE-FOR-SALE SHARES AND INTERESTS

EURk	2015	2016
Opening balance at 1 January	**3,646**	**3,700**
Exchange differences	0	-4
Increase	169	28
Decrease	-88	-1,396
Change in fair value	-27	-81
Closing balance at 31 December	**3,700**	**2,247**

The change in fair value amounting to EUR -81k (2015: EUR -27k) is disclosed among finance expenses in the amount of EUR 55k, among finance income in the amount of EUR 7k and with EUR 33k among the decrease in the fair value of available-for-sale financial assets.

Note 29 – Trade receivables EUR 165,786k

In view of the 31 December 2015 balance (EUR 161,020k), trade receivables show an increase by 3.0%.

In 2016, write-offs and impairment of trade receivables amounted to EUR 3,235k (2015: EUR 4,178k).

Allowances for receivables amounted to EUR 27,639k as at the balance sheet date (2015: EUR 28,401k). Movement in allowances for trade receivables is discussed in Note 42 (Financial risks and financial instruments).

Group's trade receivables are adequately and well insured in the amount of EUR 109,207k.

Note 30 – Other current assets EUR 55,258k

EURk	2015	2016
Other current receivables	41,426	45,277
Short-term deferred costs	6,538	7,925
Other current assets	1,053	2,056
Total	**49,017**	**55,258**

Other current receivables comprise a significant portion of the Group's input VAT receivable, which by the end of 2016 amounted to EUR 11,754k (2015: EUR 12,599k).

Larger part of other current assets includes accrued receivables, whereas short-term deferred costs include costs of services billed but not yet rendered.

Note 31 – Cash and cash equivalents EUR 35,242k

EURk	2015	2016
Cash in hand	1,229	575
Bank balances and cash held in other financial institutions	30,381	34,667
Total	**31,610**	**35,242**

Note 32 – Equity EUR 374,238k

As at 31 December 2016, the share capital of Gorenje, d.d., amounted to EUR 101,922,103.97 (31 December 2015: EUR 101,922,103.97) and was divided into 24,424,613 ordinary, freely transferable, registered, no par value shares.

Group's reserves consist of share premium, revenue reserves, fair value reserve and translation reserve.

Capital surplus (share premium) in the amount of EUR 174,502k (31 December 2015: EUR 174,502k) includes paid-in capital in excess of par value of shares in the amount of EUR 64,475k (31 December 2015: EUR 64,475k), surplus in excess of book value of disposed own shares (treasury shares) in the amount of EUR 15,313k (31 December 2015: EUR 15,313k), and general equity revaluation adjustment in the amount of EUR 76,851k (31 December 2015: EUR 76,851k), and other effects of transition to IFRSs.

Revenue reserves recorded as at the balance sheet date in the amount of EUR 46,015k (31 December 2015: EUR 99,301k) consist of legal reserves, statutory reserves, treasury share reserve and other revenue reserves.

As at 31 December 2016, Group's legal reserves amounted to EUR 12,896k (31 December 2015: 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 7,919k (31 December 2015: EUR 7,556k). 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 2015: EUR 3,170k) are disclosed as a deductible item of equity and at cost.

As at 31 December 2016, Group's other revenue reserves amounted to EUR 22,030k (31 December 2015: EUR 75,679k) and were created on the basis of resolutions on the allocation of profit for the period adopted by the Management Board and the Supervisory Board of Gorenje, d.d., and resolutions of the General Meeting of Shareholders on the allocation of the accumulated profit. For the purpose of forming the accumulated profit the Company released other revenue reserves in the amount of EUR 53,649k to retained earnings (profit or loss from previous periods) pursuant to the amended Article 66 of the Companies Act (ZGD-1, Official Journal of RS no. 55/15).

Retained earnings in the amount of EUR 9,503k (31 December 2015: EUR 1,943k) comprise profit or loss from previous periods and profit or loss for 2016. Upon the proposal of the Management Board, the parent company used the profit of 2016 to settle the loss from previous periods in the amount of EUR 71k and formed statutory reserves in the amount of EUR 363k.

Translation reserve increased by EUR 1,978k over the 2015 balance and amounted as at 31 December 2016 to EUR -17,071k. The increase is attributable to exchange differences that arise on the restatement of subsidiaries' assets and liabilities from national currencies to the Group's reporting currency.

Fair value reserve amounting to EUR 6,724k as at 31 December 2016 (31 December 2015: EUR 9,485k) includes a surplus from revaluation of land which is valued using the revaluation model, a change in fair value of available-for-sale investments, a change in value of the cash flow hedge, and the change in the value of retirement benefits pursuant to the actuarial calculation.

Changes in fair value reserve are shown in the table below:

EURk	**Fair value reserve for land**	**Fair value reserve for available-for-sale financial assets**	**Fair value reserve for derivatives**	**Actuarial gains / losses**	**Total**
Balance at 1 January 2015	**8,517**	**3,025**	**-630**	**0**	**10,912**
Revaluation of land	628				628
Actuarial gains or losses				-2,590	-2,590
Change in fair value of cash flow hedge			-527		-527
Change in fair value of cash flow hedge, transferred to profit or loss			867		867
Change in fair value of available-for-sale financial assets		13			13
Deferred taxes	8	-2	15	161	182
Balance at 31 December 2015	**9,153**	**3,036**	**-275**	**-2,429**	**9,485**
Balance at 1 January 2016	**9,153**	**3,036**	**-275**	**-2,429**	**9,485**
Revaluation of land	-1,533				-1,533
Actuarial gains or losses				-332	-332
Change in fair value of cash flow hedge			-1,531		-1,531
Change in fair value of cash flow hedge, transferred to profit or loss			594		594
Change in fair value of available-for-sale financial assets		-30			-30
Disposal of available-for-sale financial assets		-3			-3
Deferred taxes		4	181	-111	74
Balance at 31 December 2016	**7,620**	**3,007**	**-1,031**	**-2,872**	**6,724**

Note 33 – Earnings per share

In 2016, earnings per share were recorded at EUR 0.33 (2015: EUR -0.34). No preference shares have been issued, hence basic and diluted earnings per share are equal.

Earnings per share were computer on the basis of following data on the Group's profit for the period and the weighted average number of ordinary shares in the period:

EURk	2015	2016
Loss for the period	-8,203	7,994
Weighted average number of ordinary shares	24,303,302	24,303,302
Basic / Diluted earnings per share (in EUR)	-0.34	0.33

All shares issued are of the same class and give their owner the right to participate in managing the company. Each share gives one vote and a right to dividend.

No dividends were paid out in the reporting period. In 2015, dividends were paid to the stakeholders in the amount of EUR 0.06 gross per share.

Note 34 – Provisions EUR 64,143k

EURk	2015	2016
Provisions for warranties	35,598	37,437
Provisions for retirement benefits and jubilee premiums	21,684	22,497
Other provisions	4,987	4,209
Total	**62,269**	**64,143**

Provisions for warranties were 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.

The Group conducted an actuarial calculation in 2016. 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. Employee benefits expense and interest expense are recognised in profit or loss in the amount of EUR 2,404k and actuarial deficit or surplus within the comprehensive income at EUR -332k. Provisions for retirement benefits and jubilee premiums were created based on the actuarial calculation of estimated future payments of retirement benefits and jubilee premiums that was made as at 31 December 2016. 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).

Other provisions comprise mostly provisions for costs in connection with the Directive on Waste Electrical and Electronic Equipment recorded by ZEOS, d.o.o., and funds reserved for claims filed with the court against Gorenje, d.d.

MOVEMENTS IN PROVISIONS IN 2015

EURk	Balance at 1 Jan 2015	Use	Exchange differences	Reversal	Creation	Transfers	Balance at 31 Dec 2015
Provisions for warranties	38,757	-27,909	-60	-7,585	31,717	678	35,598
Provisions for retirement benefits and jubilee premiums	18,501	-1,798	11	-709	5,679	0	21,684
Other provisions	6,867	-2,449	17	-527	1,098	-19	4,987
Total	**64,125**	**-32,156**	**-32**	**-8,821**	**38,494**	**659**	**62,269**

MOVEMENTS IN PROVISIONS IN 2016

EURk	Balance at 1 Jan 2015	Use	Exchange differences	Reversal	Creation	Transfers	Sale of companies	Balance at 31 Dec 2016
Provisions for warranties	35,598	-28,843	102	-697	31,220	57		37,437
Provisions for retirement benefits and jubilee premiums	21,684	-1,818	-4	-204	2,863	167	-191	22,497
Other provisions	4,987	-321	-17	-940	767	-267		4,209
Total	**62,269**	**-30,982**	**81**	**-1,841**	**34,850**	**-43**	**-191**	**64,143**

Note 35 – Deferred income EUR 5,037k

EURk	Balance at 1 Jan 2015	Use	Exchange differences	Creation	Balance at 31 Dec 2015
Deferred income - government grants	5,270	-4,074	-20	4,174	5,350
Total	**5,270**	**-4,074**	**-20**	**4,174**	**5,350**

EURk	Balance at 1 Jan 2016	Use	Exchange differences	Creation	Balance at 31 Dec 2016
Deferred income - government grants	5,350	-4,490	-73	4,250	5,037
Total	**5,350**	**-4,490**	**-73**	**4,250**	**5,037**

Note 36 – Non-current operating liabilities EUR 3,672k

Non-current operating liabilities in the amount of EUR 3,481k largely refer to the long-term maintenance contract concluded in connection with costs of repairs and product swap in the company Atag Nederland BV.

Note 37 – Non-current financial liabilities EUR 275,616k

EURk	2015	2016
Borrowings from banks	279,623	323,169
Transfer to current borrowings from banks	-59,608	-78,700
Borrowings from third parties	13,772	2,021
Transfer to current borrowings from third parties	-7,257	-330
Liabilities from bonds issued	58,118	43,593
Transfer to current liabilities from bonds issued	-14,600	-14,600
Other financial liabilities	938	463
Total	**270,986**	**275,616**

Non-current financial liabilities are denominated in EUR and recorded at amortised cost i.e. restated under the effective interest method and inclusive of costs of granting the borrowing.

Maturity of borrowings and liabilities from bonds issued	*EURk*
Maturity from 1 to 2 years	77,688
Maturity from 2 to 4 years	130,484
Maturity from 4 to 6 years	60,761
Maturity exceeding 6 to - years	6,220
Total	**275,153**

Interest-bearing borrowings and bonds issued

Currency	*EURk*
EUR	266,700
Other currencies	8,453
Total	**275,153**

Most of borrowings is denominated in euro. With respect to the policy of the European Central Bank and other central banks, as well as the low level of the euro-zone's base interest rate, we concluded loan contracts with fixed interest rate or also interest rate swaps in case of variable interest rate. Thus, the share of the loan portfolio with fixed interest rates and denominated in euro accounts for nearly 70%, while the residual share bears the EURIBOR interest rate.

Collateralisation	*EURk*
Bills	134,940
Financial covenants	245,338
Guarantees	15,963

Guarantees refer to guarantees or sureties issued by Gorenje, d.d., Gorenje Surovina, d.o.o., Gorenje Home, d.o.o., Gorenje, d.o.o., Beograd, Gorenje Tiki, d.o.o., Stara Pazova, and Kemis Valjevo, d.o.o., to commercial banks to secure liabilities of Group companies.

Note 38 – Current financial liabilities EUR 101,226k

EURk	2015	2016
Borrowings from banks	1,876	1,032
Transfer from non-current financial liabilities to banks	59,608	78,700
Borrowings from third parties	4,584	1,159
Transfer from non-current financial liabilities to third parties	7,257	330
Interest payable	1,799	2,308
Liabilities from bonds issued	14,600	14,600
Dividends payable	101	72
Derivatives	1,213	3,025
Total	**91,038**	**101,226**

Current borrowings from banks and liabilities from bonds issued

Currency	*EURk*
EUR	87,185
Other currencies	7,147
Total	**94,332**

Current borrowings from other companies

Currency	*EURk*
EUR	1,489
Total	**1,489**

Collateralisation	*EURk*
Bills	42,412
Financial covenants	72,152
Guarantees	9,708

COLLATERALISATION OF NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

None of the Group's current or non-current financial liabilities is collateralised by mortgage or any other type of collateral. 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 by Gorenje, d.d., Gorenje Surovina, d.o.o., Gorenje Home, d.o.o., Gorenje, d.o.o., Beograd, Gorenje Tiki, d.o.o., Stara Pazova, Kemis Valjevo, d.o.o., Gorenje AD Valjevo, d.o.o., in connection with liabilities of individual Group companies.

Certain loan contracts concluded between individual Group companies and bank partners, mostly in case of non-current borrowings, include financial covenants that are in the vast majority checked and verified once a year on the basis of audited consolidated financial statements for each individual fiscal year.

In 2016, the Group met all contractually agreed financial ratios, except for one loan contract that included non-standard financial covenants for which the bank already before the fiscal year's completion issued a related waiver. The stated contract is in the process of amendment in the manner as agreed with other bank partners.

Note 39 – Trade payables EUR 223,725k

As at 31 December 2016, the total trade payables recorded by the Group in the amount of EUR 223,725k (2015: EUR 221,027k) do not include any payables to the members of the Management Board and Supervisory Board and the internal owners.

Note 40 – Other current liabilities EUR 79,563k

EURk	2015	2016
Payables to employees	13,929	14,922
Payables to state	13,885	13,866
Accrued costs and expenses	32,080	35,143
Other current liabilities	13,913	15,632
Total	**73,807**	**79,563**

Payables to employees and contributions and taxes payable to state institutions apply to wages and salaries for December paid in January 2016.

Accrued costs and expenses were created for accrued costs of discounts to customers, accrued interest expense, and other accrued costs of services.

Note 41 – Contingent liabilities

The Group's contingent liabilities from guarantees and collaterals given to financial institutions and companies outside Gorenje Group amounted to EUR 66,111k as at the 31 December 2016 (2015: EUR 52,404k).

In conformity 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.

Note 42 – Financial risks and financial instruments

Gorenje Group is exposed to numerous financial risks, in particular to credit risk, liquidity risk, currency risk, interest rate risk and other risks arising on changed market conditions.

With respect to financial risk management, several new internal policies and rules were adopted and the existing ones modified in order to achieve a more efficient and centralised financial risk management. The objectives of the financial risk management are:

- to achieve stability of operations and to reduce exposure to individual risks to an acceptable level,
- to increase the value of the Group,
- to improve the credit rating of the Group,
- to reduce net finance expenses of the Group, and
- to minimise the impacts of the implemented 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 Group’s cash flows and net finance expenses. 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 clarified in detail below.

CREDIT RISK

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum credit risk exposure at the reporting date:

EURk	2015	2016
Available-for-sale financial assets	3,700	2,247
Loans	11,996	8,098
Trade and other receivables	203,499	213,119
Deposits	1,755	236
Other financial receivables	1,861	4,803
Cash and cash equivalents	31,610	35,242
Total	**254,421**	**263,745**

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 2016, trade receivables amounted to EUR 165,816k and indicate an increase over 2015 by EUR 4,796k. Higher volume of trade receivables complies with the increased sales volume. As in previous years, the activities of permanent non-recourse factoring were pursued also in 2016 in cases, where costs of such activities do not exceed the average cost of financing in the Group.

The maximum credit risk exposure of trade receivables at the reporting date by geographic region:

EURk	2015	2016
Western Europe	39,234	39,517
Eastern Europe	103,798	105,908
Other countries	17,988	20,361
Total	**161,020**	**165,786**

The maximum credit risk exposure of trade receivables at the reporting date by type of customer:

EURk	2015	2016
Wholesale customers	124,196	130,545
Retail customers	29,214	27,579
Other customers	7,610	7,662
Total	**161,020**	**165,786**

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 subsidiaries.

Maturity of trade receivables as at the balance sheet date:

	2015		2016	
EURk	Gross value	Allowance	Gross value	Allowance
Not past due	133,576		138,986	
Past due 1 to 5o days	17,519		19,513	
Past due 51 to 100 days	2,963		2,933	
Past due 101 to 180 days	2,657		1,823	
Past due 181 to 270 days	2,335		1,197	
Past due 271 to 360 days	2,670		833	
Past due 361 to 720 days	4,835		1,995	
Past due 721 to 1081 days	1,236		2,826	
Past due over 1081 days	21,630		23,319	
Allowances for receivables		28,401		27,639
Total	**189,421**	**28,401**	**193,425**	**27,639**

Movements in allowances for trade receivables

EURk	2015	2016
Opening balance at 1 January	**27,401**	**28,401**
Exchange differences	-239	-185
Impairment loss	4,178	3,235
Decrease in allowances	-1,237	-314
Changes within the Group	0	-691
Final write-off of receivables	-1,702	-2,807
Closing balance at 31 December	**28,401**	**27,639**

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 acceptable according to the Accounts Receivable Management Policy:

- collateralization of receivables through credit insurance companies,
- collateralization of receivables through bank guarantees and letters of credit,
- sale of receivables without recourse, and
- in exceptional circumstances and upon receiving special approval, also pledges or first class mortgages.

By the end of 2016, Group's total trade receivables secured with acceptable hedging instruments accounted for 62.9%, which indicates an improvement of 1.3 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.

The Group carefully monitors the credit risk also in other business segments. Current surplus of assets and balances on bank accounts are placed in compliance with corporate 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 risk exposure arises in connection with the value of trade receivables and other receivables.

LIQUIDITY RISK

Liquidity risk includes risks denoting the lack of available funds and consequently risk that the Group will fail to meet commitments in stipulated period of time.

Liquidity depends on effective cash management and investment dynamics. Liquidity risk is actively monitored within the Group by means of a centralised balancing of assets' liquidity (primarily receivables and inventories), of liabilities and cash flows from operating and investment activities. Cash management is centralised and 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 assets.

The Group applies a uniform and centralised approach to bank partners in Slovenia and abroad and accordingly provides for the optimum indebtedness of the entire Group in view of scope, costs and maturity and in the light of the Group's currency balance.

In order to disperse the sources of financing, we already for the fourth time successfully issued commercial papers in 2016 in the total par value of EUR 28,908k. The respective issues of commercial papers that will continue also in 2017 (the fifth issue of short-term commercial papers in the par value of EUR 40,000k was conducted in January 2017), are earmarked for balancing the seasonal dynamics of cash flows from operating and investing activities, which as a rule is negative in the first half-year but gradually improves by the end of the calendar year. The short-term imbalance of cash flows is additionally balanced by revolving loans and overdrafts on bank accounts in Slovenia and abroad.

Company's liquidity reserve that consists of undrawn but approved credit lines, available bank balances and deposits with banks, amounted as at the year-end of 2016 to EUR 120,396k. The liquidity reserve is earmarked for short-term balancing of cash flows and significantly reduces the Group’s exposure to liquidity risk.

Liquidity reserve as at 31 December:

EURk	**2015**	**2016**
Undrawn and approved current and non-current borrowings	84,350	85,154
Cash and cash equivalents	31,610	35,242
Total	**115,960**	**120,396**

The process of ensuring a stable maturity structure of the Group’s financial debt was continued in 2016, in addition to reducing the costs of financing, by means of which all Group's borrowings, which gradually matured in 2016, 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 2016, Group's non-current financial liabilities accounted for 73.1% of total financial liabilities;
- reduced the average cost of financing;
- ensured a sustainable scope of refinancing required on the Company and Group level.

The Company and the Group have a long-term servicing plan for financial liabilities which is being regularly updated.

Group's financial liabilities by maturity is compiled based on contractual cash flows:

31 December 2015 *EURk*	**Carrying amount**	**Contract-ual cash flows**	**1 year or less**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Non-derivative financial liabilities						
Bank borrowings	281,499	311,082	71,470	68,712	133,097	37,803
Borrowings from third parties	18,356	19,169	12,326	4,175	1,828	840
Liabilities arising from bonds issued	58,118	62,993	16,624	16,045	30,324	
Other financial liabilities	2,838	2,838	2,838			
Trade and other payables	266,932	266,932	266,932			
Total	**627,743**	**663,014**	**370,190**	**88,932**	**165,249**	**38,643**
Derivative financial liabilities						
Interest rate swaps	-1,079	-1,411	-557	-349	-482	-23
Forward exchange contracts used for hedging	783	783	783			
Outflow	-134	-134	-134			
Inflow	917	917	917			
Total	**-296**	**-628**	**226**	**-349**	**-482**	**-23**

31 December 2016 *EURk*	**Carrying amount**	**Contract-ual 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 third parties	3,180	3,262	1,673	382	774	433
Liabilities arising from bonds issued	43,593	46,329	16,005	15,443	14,881	
Other financial liabilities	2,843	2,843	2,843			
Trade and other payables	271,817	271,817	271,817			
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			
Total	**-2,509**	**-3,306**	**-1,780**	**-633**	**-837**	**-56**

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 2016 to EUR 381,843k and indicate an increase of EUR 11,653k over the equivalent ones as at the end of 2015. The relevant increase in contractual cash flows, which mature in a year or less, is attributable to higher trade and other payables (EUR +4,885k) due to Group's higher volume of operations in the last quarter of the year and consequently higher purchases of materials and raw materials for the production. Non-derivative financial liabilities (borrowings, bonds), whose maturity is shorter or equals one year, increased by EUR 6,768k. Contractual cash flows, whose maturity is longer than a year and which remained on the same level as at the year-end of 2015, were recorded at EUR 292,825k.

Group's liquidity risk is assessed as moderate in view of measures implemented within restructuring the debt maturity structure, the centralised planning of short-term and long-term cash flows, and access to a wide range of financial and bank partners.

CURRENCY RISK

With regard to diversification of its international business operations, the Gorenje Group is strongly 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 markets of Russia, Serbia, Australia, Great Britain, the Czech Republic, Poland, Hungary, Croatia, Ukraine and all US dollar markets.

Group's balance sheet discloses a surplus of assets over liabilities in most of 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 CZK is among the significant currencies, where a surplus of liabilities over assets is recorded. The exposure of the financial position is in a smaller part also the result of borrowing in local currencies.

31 December 2015

EURk		RUB	USD	HRK	RSD	CZK	Other
Trade receivables	88,755	12,014	4,259	12,224	17,406	5,717	20,645
Financial liabilities	-351,865				-5,861		-247
Trade payables	-187,939	-801	-8,178	-1,277	-12,624	-4,008	-6,200
Financial position exposure	**-451,049**	**11,213**	**-3,919**	**10,947**	**-1,079**	**1,709**	**14,198**

31 December 2016

EURk		RUB	USD	HRK	RSD	CZK	Other
Trade receivables	99,879	12,139	6,416	12,407	14,626	3,464	16,855
Financial liabilities	-363,374				-7,495		-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**

**EUR is the Group's functional currency and as such not subject to currency risk*

Significant exchange rates applied during the year comprise:

	Average rate		Reporting date spot rate	
	2015	**2016**	**2015**	**2016**
HRK	7.614	7.5333	7.638	7.5597
CZK	27.285	27.034	27.023	27.021
DKK	7.45865	7.4452	7.4626	7.4344
RSD	120.55667	122.90333	121.23	123.6
PLN	4.18278	4.3632	4.2639	4.4103
RUB	68.00684	74.1446	80.6736	64.3
USD	1.10963	1.1069	1.0887	1.0541

The Group defined a Currency Risk Management Policy, which among others defines:

- 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 and
- the method of measuring the effectiveness of currency risk management.

The Group is engaged in active hedging against currency risks, whereby also natural balancing of currency risks is carried out by means of internal techniques that include customising the purchase/sale segment in individual currency, and the foreign currency borrowing, where assets and other internal mechanisms are exposed. Hedges against currency fluctuations are entered into on a regular and continuous basis by applying acceptable hedging instruments, whereby the hedge level is set between 60% and 80% of planned cash flows. The methodology clearly determines the required time of currency hedging, which depends upon the volatility of each individual currency. The planned cash flows in individual currency are used as the basis for hedging with short-term forward exchange contracts. The required level of hedge is determined on the basis of the ratio between the individual currency's impact on Group's performance (volume of business operations) and the probability of currency fluctuation (currency volatility).

Currency risk management is carried out on a centralised basis and a committee for managing currency risks was appointed as well. The parent 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.

SENSITIVITY ANALYSIS

A 5-percent increase (decrease) 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 by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain unchanged. The analysis has been performed on the same basis as for 2015.

31 December 2015

EURk	**Profit or loss for the period**
RUB	-561
USD	196
HRK	-547
RSD	54
CZK	-85
Other currencies	-710

31 December 2016

EURk	**Profit or loss for the period**
RUB	-577
USD	-178
HRK	-560
RSD	290
CZK	97
Other currencies	-566

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 of hedging measures implemented, the exposure to currency risks is assessed as high in the light of essential currency fluctuations on the world markets.

INTEREST RATE RISK

Financing of 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 other local variable reference interest rates. 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 are subject to a variable interest rate that is bound by the 3-month or 6-month Euribor.

Group's exposure to interest rate risk:

EURk	**2015**	**2016**
Fixed-rate financial instruments		
Financial assets	4,437	4,311
Financial liabilities	76,811	119,143
Variable-rate financial instruments		
Financial assets	7,559	3,787
Financial liabilities	281,162	251,831

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 customised as the Group records considerably more received financial liabilities than interest-bearing assets. The volume of financial liabilities bearing a fixed interest rate has increased in 2016 by EUR 42,332k. In 2016, new long-term financial contracts bearing a fixed nominal interest rate were concluded in the amount of EUR 68,000k, while also currently due liabilities bearing a fixed nominal interest rate were repaid in the amount of EUR 25,934k. As at 31 December 2016, non-derivative financial liabilities with a fixed interest rate account for 32.0 percent of total interest-bearing financial liabilities, which is 10.5 p.p. more than at the end of 2015.

As at 31 December 2016, the Group recorded also interest rate swaps in the amount of EUR 124,846k, whose effects were already disclosed in 2016. Furthermore, EUR 19,745k of additional interest rate swaps were entered into, whose impact was due to the nature of transactions agreed for the period from 2017 onwards.

As for interest rate swaps, the Group enters 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, the Group observes the requirement that characteristics of relevant interest rate swaps equal (i.e. maturity, amount, type of interest rate and its alignment) a borrowing 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 variable interest rate instruments

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 has been performed on the same basis as for 2015.

31 December 2015	**Profit or loss for the period**		**Other comprehensive income**	
EURk	**increase by 50 bp**	**decrease by 50 bp**	**increase by 50 bp**	**decrease by 50 bp**
Variable rate instruments	-1,332	398		
Interest rate swap contract	124	-124	1,034	-1,034
Cash flow variability (net)	**-1,208**	**274**	**1,034**	**-1,034**

31 December 2016	**Profit or loss for the period**		**Other comprehensive income**	
EURk	**increase by 50 bp**	**decrease by 50 bp**	**increase by 50 bp**	**decrease by 50 bp**
Variable rate instruments	-749	189		
Interest rate swap contract	358	-358	1,623	-1,623
Cash flow variability (net)	**-391**	**-169**	**1,623**	**-1,623**

The volume of financial liabilities bearing a fixed interest rate was increased in 2016 as, in addition to concluding new long-term financial contracts bearing a fixed interest rate, we entered also into instruments for hedging against interest rate fluctuations (interest rate swaps). EUR 69,948k of interest rate swaps were concluded in 2016, whereof EUR 19,745k are in effect since 2017. As at 31 December 2016, the share of financial liabilities bearing a fixed interest rate accounted for 65.5% among total interest-bearing financial liabilities; in view of interest rate swaps, whose impact was due to the nature of transactions agreed for the period from 2017 onwards, the share of financial liabilities bearing a fixed interest rate amounted to 70.8%.

Group's exposure to interest rate risk is assessed as moderate.

Note 43 – Fair value

The fair values and book values of financial assets and financial liabilities

	2015		2016	
EURk	**Book value**	**Fair value**	**Book value**	**Fair value**
Available-for-sale investments	3,700	3,700	2,247	2,247
Land and investment property	59,418	59,418	53,608	53,608
Non-current loans and deposits	2,063	2,063	2,403	2,403
Non-current trade receivables	5,743	5,743	2,481	2,481
Current loans and deposits	11,688	11,688	5,931	5,931
Derivatives	-296	-296	-2,509	-2,509
Trade receivables	161,020	161,020	165,786	165,786
Other current assets	42,479	42,479	47,333	47,333
Cash and cash equivalents	31,610	31,610	35,242	35,242
Non-current financial liabilities	-216,983	-216,983	-183,758	-183,758
Non-current financial liabilities (fixed interest rate)	-54,003	-46,998	-91,858	-81,917
Non-current operating liabilities	-4,178	-4,178	-3,672	-3,672
Current financial liabilities	-89,825	-89,825	-98,201	-98,201
Trade payables	-221,027	-221,027	-223,725	-223,725
Other non-current payables	-41,727	-41,727	-44,420	-44,420
Total	**-310,318**	**-303,313**	**-333,112**	**-323,171**

The estimated 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 fair values.

Fair value scale

The table shows method of valuing assets and liabilities recorded at fair value:

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.

Year 2015

EURk	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	663	88	2,949	3,700
Derivatives – assets		917		917
Derivatives – liabilities		-1,213		-1,213
Land and investment properties			59,418	59,418

Year 2016

EURk	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	510	79	1,658	2,247
Derivatives – assets		516		516
Derivatives – liabilities		-3,025		-3,025
Land and investment properties			53,608	53,608

Land was valued on the basis of comparable sales with adjustments made in view of time and location of the sale, the size of the property and other physical and functional characteristics. Fair value of investment property was assessed by applying the direct capitalisation method. Land and investment properties were appraised by an independent certified appraiser of real property at the end of 2013. Another valuation of significant investment property was carried out in 2016. The book value of investment properties does no materially deviate from their fair value.

Forward exchange contracts

The total fair value of forward exchange contracts amounted to EUR -1,015k as at 31 December 2016 and was recorded under other financial receivables and other financial liabilities.

Interest rate swaps

As at 31 December 2016, the total fair value of interest rate swaps amounted to EUR -1,494k and was recorded under other financial liabilities.

Interest rate swap hedges, which relate to hedged balance sheet items, are disclosed within equity under the fair value reserve.

Note 44 – Covenants relating to investments

Contractually agreed investments in intangible assets and property, plant and equipment not yet recognised in the Group's financial statements at the reporting date amounted to EUR 16,888k (2015: EUR 17,505k).

Note 45 – Related party transactions

The transactions with related parties were conducted by the Group companies on the basis of sale/purchase contracts. The prices used in these related party transactions were the market prices of products and services.

Information on groups of persons

In **2015**, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

EURk	**Management Boards of Group companies**	**Supervisory Board**	**Employees under individual employment agreements**
Salaries	8,239		9,803
Benefits and other earnings	1,990	358	618
Total	**10,229**	**358**	**10,421**

No non-current and current loans were granted by the Group companies to the Management Board and Supervisory Board members and internal owners.

In **2016**, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

EURk	**Management Boards of Group companies**	**Supervisory Board**	**Employees under individual employment agreements**
Salaries	7,019		9,059
Benefits and other earnings	2,216	474	1,318
Total	**9,235**	**474**	**10,377**

Gorenje Group companies recorded following transactions with associates:

	Value of transaction		**Balance**	
	2015	**2016**	**2015**	**2016**
Income	2,750	462	840	556
Expenses	409	1,667	83	801

Note 46 – Events after the balance sheet date

On the April 10, 2017, the company Gorenje, d.d., received a statement of resignation by the Supervisory Board member Toshibumi Tanimoto. Toshibumi Tanimoto has been a Supervisory Board member at Gorenje, d.d., since July 20, 2014. His term of office will be terminated after the Supervisory Board session on April 21, 2017.

As at 24 February 2017, Gorenje, d.d., informed the public that Dr. Peter Groznik is resigning from the company's Management Board on 28 February 2017. He tendered his resignation by mutual agreement and consensus of the Supervisory Board. Until the appointment of a new Board Member, the activities of CFO and business field of Ecology, Trade and Industrial services will be managed by Jožica Turk, Executive Vice President Corporate Finance.

As at 31 January 2017, Gorenje, d.d., successfully completed the issue of commercial papers. The GRV05 commercial papers bear a 1.30 percent interest rate and the issue's total par value is recorded at EUR 40.0m. The issue of commercial papers aims at dispersing sources of short-term financing, the financing of the operations' seasonal nature, and optimising costs of financing.

As at 13 January 2017, Gorenje, d.d., published the Gorenje Group's Business Plan for 2017, which represents the second year of the new strategic period. Further, Gorenje, d.d., informed the public about organizational changes of the Gorenje Group, within which the

Group shall reform from the classical-functional into a business-production organisation that places brands and product programmes at the forefront.

No other significant events occurred upon compiling the balance sheet as of 31 December 2016.

Note 47 – Transactions with the audit company

In 2016, the contractual value of auditing the financial statements of Gorenje Group companies and the consolidated financial statements of the Gorenje Group amounted to EUR 645k (2015: EUR 695k). No other significant services were rendered for Gorenje Group companies by its auditors.

Note 48 – Business segments

	Core activity Home		Non-core activities		Group	
EURk	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Revenue from sale to third parties	1,056,005	1,091,685	169,024	166,439	1,225,029	1,258,124
Inter-segment sale	6,310	6,615	11,181	6,756	17,491	13,371
Interest income	1,691	768	186	145	1,877	913
Interest expenses	-17,372	-14,566	-630	-467	-18,002	-15,033
Amortisation and depreciation expense	-40,443	-42,121	-5,201	-4,934	-45,644	-47,055
Operating profit or loss before tax	-8,683	5,144	4,695	8,096	-3,988	13,240
Income tax expense	-3,705	-4,286	-295	-524	-4,000	-4,810
Profit or loss for the period	-12,388	858	4,400	7,572	-7,988	8,430
Total assets	991,142	1,026,001	110,132	105,828	1,101,274	1,131,829
Total liabilities	676,533	707,792	56,679	49,799	733,212	757,591
Investments	67,160	77,733	8,336	5,498	75,496	83,231
Impairment of financial assets	-623	-654	0	-197	-623	-851
Impairment of property, plant and equipment	-458	-168	-53	-519	-511	-687

Note 49 – Geographical segments

	West		East		Other		Group	
EURk	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Revenue from sale to third parties	464,326	469,697	650,182	676,620	110,521	111,807	1,225,029	1,258,124
Total assets	341,242	379,782	580,176	576,907	179,856	175,140	1,101,274	1,131,829
Invest-ments	15,039	21,360	39,969	44,455	20,488	17,416	75,496	83,231

Appendix 1: Information on the Gorenje Group companies

Company	Share capital (EURk)	Number of employees
Gorenje, d.d., Slovenia	101,922	4,410
Gorenje I.P.C., d.o.o., Slovenia	93	874
Gorenje GTI, d.o.o., Slovenia	3,769	47
Gorenje Gostinstvo, d.o.o., Slovenia	3,790	274
Energygor, d.o.o., Slovenia	9	0
Kemis, d.o.o., Slovenia	2,650	43
Gorenje Orodjarna, d.o.o., Slovenia	927	232
Indop, d.o.o., Slovenia	400	24
ZEOS, d.o.o., Slovenia	477	6
Gorenje Surovina, d.o.o., Slovenia	8,067	312
ERICo, d.o.o., Slovenia	278	46
Gorenje GAIO, d.o.o., Slovenia	464	85
Gorenje GSI, d.o.o., Slovenia	4,657	109
Gorenje Keramika, d.o.o., Slovenia	1,708	117
Gorenje Studio, d.o.o., Slovenia	308	49
Gorenje EKOINVEST, d.o.o., Slovenia	1,000	0
Gorenje HS, d.o.o., Slovenia	385	1
Gorenje Beteiligungs GmbH, Austria	47,100	9
Gorenje Austria Handels GmbH, Austria	3,275	45
Gorenje Vertriebs GmbH, Germany	5,700	75
Gorenje Körting Italia S.r.l., Italy	90	5
Gorenje France S.A.S., France	100	15
Gorenje UK Ltd., Great Britain	3,770	14

Company	Share capital (EURk)	Number of employees
Gorenje Group Nordic A/S, Denmark	269	78
Gorenje spol. S r.o., Czech Republic	4,540	47
Gorenje real spol. S r.o., Czech Republic	5,922	17
Gorenje Slovakia s.r.o., Slovakia	892	10
Gorenje Magyarország Kft., Hungary	2,308	18
Gorenje Polska Sp. Z o.o., Poland	7,879	36
Gorenje Bulgaria EOOD, Bulgaria	1,976	20
Gorenje Zagreb, d.o.o., Croatia	28,057	73
Gorenje Skopje, d.o.o., Macedonia	247	22
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1	84
Gorenje, d.o.o., Serbia	2,973	100
Gorenje Studio, d.o.o., Serbia	817	96
Gorenje Podgorica, d.o.o., Montenegro	2,800	7
Gorenje Romania S.r.l., Romania	360	11
Gorenje aparati za domaćinstvo, d.o.o., Serbia	24,674	1,397
Mora Moravia s r.o., Czech Republic	10,130	567
Gorenje – kuchyně spol. S r.o., Czech Republic	1,554	0
ST Bana Nekretnine, d.o.o., Serbia	1,928	0
KEMIS – Termoclean, d.o.o., Croatia	817	61
Kemis – BH, d.o.o., Bosnia and Herzegovina	210	8
Gorenje Gulf FZE, United Arab Emirates	768	13
Gorenje Espana S.L., Spain	3	0
Gorenje Tiki, d.o.o., Serbia	18,456	389

Company	Share capital (EURk)	Number of employees
Gorenje Istanbul Ltd., Turkey	5,095	0
Gorenje TOV, Ukraine	102	14
ATAG Nederland BV, the Netherlands	16	405
ATAG België NV, Belgium	372	50
Intell Properties BV, the Netherlands	45	0
Gorenje Nederland BV, the Netherlands	20,796	0
Gorenje Kazakhstan, TOO, Kazakhstan	654	11
OOO Gorenje BT, Russia	35,596	101
Kemis Valjevo, d.o.o., Serbia	1,131	49
Gorenje GTI, d.o.o., Beograd, Serbia	1	22
Asko Appliances AB, Sweden	5,234	60
Gorenje North America, Inc., USA	1	3
Asko Appliances Pty, Australia	6,851	89
Asko Appliances OOO, Russia	1,665	14
»Gorenje Albania« SHPK, Albania	1	6
Gorenje Home d.o.o. Zaječar, Serbia	2,650	145
Gorenje Ekologija, d.o.o., Stara Pazova, Serbia	1,215	0
Gorenje Corporate GmbH, Austria	35	0
ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	420	3
Cleaning System S, d.o.o., Serbia	853	18
Gorenje Asia Ltd., China	419	31
Gorenje do Brasil Ltda., Brasil	767	5
Gorenje MDM, d.o.o., Kragujevac, Serbia	1,009	87

Company	Share capital (EURk)	Number of employees
Gorenje Chile, SpA, Chile	1	3
Gorenje AEC,LLC, Thailand	265	0
Indop Gorenje GmbH, Germany	25	0
Novi Elind, d.o.o., Serbia	2,051	0

Appendix 2: Managing Directors

In 2016, the Group companies were managed by following managing directors:

Company	Managing Director
Gorenje, d.d., Slovenia	Franc Bobinac, President of the Management Board Marko Mrzel, Member of the Management Board (until 29 February 2016) Peter Kukovica, Member of the Management Board Branko Apat, Member of the Management Board Peter Groznik, Member of the Management Board (until 28 February 2017) Drago Bahun, Member of the Management Board
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	Dr. 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
ERICo, d.o.o., Slovenia	Marko Mavec
Gorenje GAIO, d.o.o., Slovenia	Andrej Koželj
Gorenje GSI, d.o.o., Slovenia	Miro Košutnik (until 31 December 2016); Iztok Šepec (since 1 January 2017)
Gorenje Keramika, d.o.o., Slovenia	Boris Laubič
Gorenje Studio, d.o.o., Slovenia	Marina Borkovič (until 29 February 2016); Miro Košutnik (since 1 March 2016)

Company	Managing Director
Gorenje EKOINVEST, d.o.o. Slovenia	Marijan Penšek
Gorenje HS, d.o.o., Slovenia	Božena Herzog
Gorenje Beteiligungs GmbH, Austria	Žiga Debeljak; Tomaž Kuntarič
Gorenje Austria Handels GmbH, Austria	Sandra Lubej (until 31 December 2016); Uroš Marolt (since 1 January 2017)
Gorenje Vertriebs GmbH, Germany	Thomas Wittling; Uroš Marolt (since 1 January 2017); Andy Miklav (since 1 January 2017)
Gorenje Körting Italia S.r.l., Italy	Matjaž Geratič
Gorenje France S.A.S., France	Renaud de Barry (until 30 April 2016); Matej Kurent (since 1 May 2016)
Gorenje UK Ltd., Great Britain	Jernej Hren (until 31 December 2016); Iztok Krulc (since 1 January 2017)
Gorenje Group Nordic A/S, Denmark	Jan Štern (until 31 December 2016); Jaka Slavinec (since 1 March 2016); Sandra Lubej (since 1 January 2017)
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	Simon Kumer (until 31 December 2016); Jan Štern (since 1 January 2017)
Gorenje Bulgaria EOOD, Bulgaria	Bojan Bratkovič
Gorenje Zagreb, d.o.o., Croatia	Robert Polšak (until 31 December 2016); Damir Dražetić (since 1 January 2017)
Gorenje Skopje, d.o.o., Macedonia	Nenad Jovanović
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	Uroš Marolt (until 31 December 2016); Robert Polšak (since 1 January 2017)

Company	Managing Director
Gorenje, d.o.o., Serbia	Stanka Pejanović
Gorenje Studio, d.o.o., Serbia	Alenka Mrzel (until 29 February 2016); Stanka Pejanović (since 1 March 2016)
Gorenje Podgorica, d.o.o., Montenegro	Darko Vukčević
Gorenje Romania S.r.l., Romania	Damir Dražetić (until 31 December 2016); Slobodan Vukša (since 1 January 2017)
Gorenje aparati za domaćinstvo, d.o.o., Serbia	Boris Pavčnik
Mora Moravia s r.o., Czech Republic	Vitezslav Ružička; Matija Zupanc
Gorenje – kuchyně spol. s r.o., Czech Republic	Dragutin Špiranec (until 19 October 2016); Bogdan Urh (since 20 October 2016)
ST Bana Nekretnine, d.o.o., Serbia	Štefan Kuhar (until 31 January 2016); Bogdan Urh (since 1 February 2016)
KEMIS – Termoclean, d.o.o., Croatia	Zoran Matić
Kemis – BH, d.o.o., Bosnia and Herzegovina	Maid Hadžimujić
Gorenje Gulf FZE, United Arab Emirates	Matjaž Podlogar (until 31 August 2016); Boštjan Vodeb (since 1 September 2016)
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	Robert Meenink (until 31 August 2016); Marko Šefer; Jeoren van Benthem; Robert Kapteijn
ATAG België NV, Belgium	Marc Jozef Wynant
Intell Properties BV, the Netherlands	Marko Šefer
Gorenje Nederland BV, the Netherlands	Žiga Debeljak; Marko Šefer

Company	Managing Director
Gorenje Kazakhstan, TOO, Kazakhstan	Bratislav Krunić (until 31 December 2016); Dejan Ačimovič (since 1 January 2017)
OOO Gorenje BT, Russia	Marko Špan
Kemis Valjevo d.o.o., Serbia	Zoran Milovanović
Gorenje GTI d.o.o., Beograd, Serbia	Miloš Leković
Asko Appliances AB, Sweden	Jonas Lidberg (until 29 February 2016); Matej Čufer (since 1 March 2016)
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., Zaječar, Serbia	Vlado Krebs
Gorenje Ekologija d.o.o., Stara Pazova, Serbia	Zoran Milovanović
Gorenje Corporate GmbH, Austria	Žiga Debeljak
Cleaning System S, d.o.o., Serbia	Zoran Milovanović
ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	Emil Šehič
Gorenje Asia Ltd., China	Kristian Hansen; Leon Terglav (since 1 September 2016)
Gorenje do Brasil Ltda., Brasil	Tatjana Močenik (until 31 Dec 2016); Matjaž Cokan (since 1 January 2017)
Gorenje MDM, d.o.o., Kragujevac, Serbia	Marko Klinc
Gorenje Chile, SpA, Chile	Felipe Hormaechea Calderón
Gorenje AEC, Llc, Thailand	Arnaud Brandt
Indop Gorenje GmbH, Germany	Matej Sevčnikar
Novi Elind,d.o.o., Serbia	Boris Pavčnik

Appendix 3: Foreign exchange rates

			2015		2016	
Country	Currency	Unit	Closing exchange rate (in EUR)	Average exchange rate (in EUR)	Closing exchange rate (in EUR)	Average exchange rate (in EUR)
Australia	AUD	1	1.490	1.476	1.460	1.488
Czech Republic	CZK	1	27.023	27.285	27.021	27.034
Denmark	DKK	1	7.463	7.459	7.434	7.445
Great Britain	GBP	1	0.734	0.726	0.856	0.819
Croatia	HRK	1	7.638	7.614	7.560	7.533
Hungary	HUF	1	315.980	309.898	309.830	311.440
Norway	NOK	1	9.603	8.942	9.086	9.291
Poland	PLN	1	4.264	4.183	4.410	4.363
Sweden	SEK	1	9.190	9.354	9.553	9.469
USA	USD	1	1.089	1.110	1.054	1.107
Turkey	TRY	1	3.177	3.022	3.707	3.343
Bosnia and Herzegovina	BAM	1	1.956	1.956	1.956	1.956
Bulgaria	BGN	1	1.956	1.956	1.956	1.956
Macedonia	MKD	1	61.555	61.510	61.800	61.616
Switzerland	CHF	1	1.084	1.068	1.074	1.090
Romania	RON	1	4.524	4.445	4.539	4.490
Serbia	RSD	1	121.230	120.557	123.600	122.903
Ukraine	UAH	1	25.390	23.811	27.170	28.176
Japan	JPY	1	131.070	134.288	123.400	120.200
United Arab Emirates	AED	1	3.886	4.095	3.906	4.062
Kazakhstan	KZT	1	325.730	239.471	361.150	378.183
Russia	RUB	1	80.674	68.007	64.300	74.145

			2015		2016	
Country	**Currency**	**Unit**	**Closing exchange rate (in EUR)**	**Average exchange rate (in EUR)**	**Closing exchange rate (in EUR)**	**Average exchange rate (in EUR)**
Albania	ALL	1	138.110	139.752	136.190	137.398
Brasil	BRL	1	4.312	3.692	3.431	3.856
China	CNY	1	7.061	6.973	7.320	7.352
New Zealand	NZD	1	1.592	1.591	1.516	1.589
Chile	CLP	1	752.990	745.250	716.210	747.685
Thailand	THB	1			37.726	39.043

Notes of the company Gorenje, d.d., to the individual items in the Financial statements

Note 50 – Revenue EUR 710,040k

EURk	2015	2016
Revenue from sale of products – domestic market	18,436	19,341
Revenue from sale of products – foreign market	402,319	410,365
Revenue from sale of merchandise – domestic market	38,262	34,466
Revenue from sale of merchandise – foreign market	159,652	178,531
Revenue from sale of services – domestic market	3,187	4,980
Revenue from sale of services – foreign market	20,639	21,460
Revenue from sale of materials and semi-finished products – domestic market	14,611	14,792
Revenue from sale of materials and semi-finished products – foreign market	26,302	26,105
Total	**683,408**	**710,040**

Revenue from sale to subsidiaries in the Gorenje Group amounted to EUR 502,849k (2015: EUR 524,170k) showing a decline of 4.1% over the 2015 balance.

Note 51 – Other operating income EUR 8,766k

EURk	2015	2016
Income from subsidies and donations	259	367
Income from license fees	9,165	4,391
Rental income	2,394	2,461
Income from compensation in damages	975	885
Income from reversal of long-term provisions	3,544	212
Gain on sale of property, plant and equipment	225	50
Gain on sale of investment property	0	43
Other operating income	314	357
Total	**16,876**	**8,766**

Other operating income recorded at EUR 6,354k relates to subsidiaries (2015: EUR 6,332k). Income from license fees includes income arising from intellectual property.

Revenue from reversal of non-current provisions refers to use of other provisions, which is outlined in Note 72. Income from compensations in damages refers to charged damages under contractual relationships.

Rental income relates primarily to real property, which is partly used by the Company and in part leased out to subsidiaries.

EXPECTED RENTAL INCOME

EURk	2015	2016
Rental income – up to one year (Group companies)	969	974
Rental income – up to one year (other companies)	265	302
Rental income – one to five years (Group companies)	160	152
Rental income – one to five years (other companies)	26	242
Total	**1,420**	**1,670**

The item of expected rental income represents the amount of future income on premises hired out, which may be cancelled. The amount is not directly linked to the amount of 'rental income' in the table above, which indicates the actual amount of income generated on rentals in 2016.

Note 52 – Costs of goods, material and services EUR 574,591k

EURk	2015	2016
Cost of goods sold	194,430	203,577
Cost of materials	283,943	285,170
Cost of services	81,522	85,844
Total	**559,895**	**574,591**

Cost of services that arises on transactions with subsidiaries in the Group are recorded at EUR 31,185k (2015: EUR 29,333k). The item of cost of services comprises cost of provisions for warranties in the amount of EUR 7,937k (2015: EUR 10,950k).

Cost of services includes cost of rentals in the amount of EUR 3,120k (2015: EUR 2,715k).

The table below shows the minimum rental payments under operating lease (Company as lessee) as at the year-end.

EURk	2015	2016
Up to one year	1,217	1,315
One to five years	1,581	1,568
More than five years	449	391
Total	**3,247**	**3,274**

Note 53 – Employee benefits expense EUR 102,769k

EURk	2015	2016
Wages and salaries	67,740	70,116
Social security costs	13,912	14,468
Provisions for retirement benefits and jubilee premiums	1,141	494
Other employee benefits expense	16,998	17,691
Total	**99,791**	**102,769**

The item of social security costs comprises costs of voluntary, additional, collective pension insurance in the amount of EUR 2,436k (2015: EUR 2,430k). In 2016, the average number of employees calculated based on working hours was 4,252.80 (2015: 4,146.28 employees).

Employee benefits expense grew by 3.0% relative to 2015 and is the result of new employments made in 2016 (in average 2.8% more in 2016 than in 2015) due to additional requirements in the production.

Note 54 – Amortisation and depreciation expense EUR 25,132k

EURk	2015	2016
Amortisation expense of intangible assets	4,472	4,576
Depreciation expense of property, plant and equipment	19,488	20,556
Total	**23,960**	**25,132**

With respect to 2015, the amortisation and depreciation expense increased by 4.9% in the reporting period mostly due to the activated lines and tools in 2016 for the production in individual programmes. The largest share of these activations refer to the production of dishwashers, washing and dryer machines and ovens.

Note 55 – Other operating expenses EUR 4,311k

EURk	2015	2016
Write-off of plant and equipment	107	39
Write-down of inventories to net realisable value	2,415	839
Other taxes and charges	1,622	1,711
Environmental levies	699	719
Scholarships and bonuses paid to pupils and students on practical training	287	251
Creation of provisions for litigations	15	25
Other operating expenses	555	727
Total	**5,700**	**4,311**

Other taxes and charges largely include charges for the use of the building plot, water charge and other mandatory taxes and charges. Other operating expenses primarily comprise compensations relating to operations.

Note 56 – Net finance expenses EUR 5,166k

FINANCE INCOME EUR 13,616k

EURk	2015	2016
Dividend income and income from other profit shares	4,026	2,704
Interest income on transactions with Group companies	6,446	5,586
Interest income on transactions with other companies	749	158
Change in fair value of interest rate swaps	428	142
Income on realised forward exchange contracts	0	441
Net exchange gains	1,110	0
Gain on disposal of available-for-sale financial assets	18	3
Gain on sale of subsidiaries	0	4,361
Other finance income	1,769	221
Total	**14,546**	**13,616**

Dividend income and income from other profit shares recorded at EUR 2,568k refer to dividends paid by subsidiaries.

Gain on sale of subsidiaries includes the disposal of investments made in companies Gorenje GSI, d.o.o., Velenje and Gorenje Skopje, d.o.o., Macedonia, which were sold within the Gorenje Group.

Other finance income comprise mostly income from commissions, charged for guarantees issued to subsidiaries and third parties.

FINANCE EXPENSES EUR 18,782k

EURk	2015	2016
Interest expenses on transactions with Group companies	2,663	2,408
Interest expenses on transactions with other companies	13,825	11,901
Expenses on realised interest rate swaps	867	594
Change in fair value of forward exchange contracts	1,978	209
Expenses on realised forward exchange contracts	10,461	0
Expenses on net exchange differences	0	67
Interest expenses arising under provisions for retirement benefits and jubilee premiums	405	501
Impairment of investments in subsidiaries	0	717
Impairment of available-for-sale investments	15	7
Impairment of trade receivables	598	256
Impairment of loans	448	455
Other finance expenses	1,803	1,667
Total	**33,063**	**18,782**

Relative to 2015, finance expenses declined in the reporting period due to lower realised derivatives and lower non-realised derivatives used as hedges against currency risk, as well as due to reduced interest expenses.

Impairment of investments in subsidiaries fully refers to investments made in the company Gorenje Keramika, d.o.o., Velenje.

Fair value of trade receivables and loans granted is ensured by impairment of receivables and loans in the amount of EUR 711k (2015: EUR 1,046k). Impairment of loans refers in nearly its full amount (EUR 448k) to the impairment of the loan extended to Arosa Mobilia, d.o.o.

Other finance expenses in the amount of EUR 260k relate to the impairment of investments in the company Gorenje Design Studio, d.o.o. – in liquidation, with the residual amount comprising costs for borrowings and extended letters of credit.

FINANCE INCOME AND EXPENSES RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME (NET)

EURk	2015	2016
Net change in fair value of available-for-sale financial assets	11	-28
Net change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-942	-1,298
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, reclassified to profit or loss	867	594
Finance income / expense recognised in other comprehensive income	**-64**	**-732**

Net effect from the statement of comprehensive income is shown in the table above and is exclusive of the change in the fair value of land and actuarial gains or losses.

Note 57 – Income tax expense EUR 37k

Income tax expense comprises other taxes, which are not disclosed in other items, and amounted to EUR -806k and the effect of the changed value of deferred tax assets in the amount of EUR 843k. The income tax calculation discloses a positive tax base in the amount of EUR 4.8m for which reliefs were used arising on diverse items.

As at 31 December 2016, no deferred tax assets were recognised in connection with unused reliefs referring to research and development, and investments in the total amount of EUR 14,420k.

EURk	2015	2016
Deferred tax	106	843
Other taxes	-1,050	-806
Total	**-944**	**37**

Effective income tax rates calculated based on the commercial balance sheet:

EURk	2015	2015	2016	2016
Profit or loss before tax		**-3,057**		**3,662**
Income tax using the general tax rate	17.00 %	-520	17.00 %	622
Non-deductible expenses	-9.76 %	298	14.88 %	545
Tax exempt income	21.24 %	-649	-15.22 %	-557
Unused tax losses and tax incentives relating to deferred tax	-25.02 %	765	-39.68 %	-1,453
Other taxes	-34.31 %	1,050	22.01 %	806
Income tax expense	**-30.85 %**	**944**	**-1.01 %**	**-37**

The following deferred tax amounts were recognised in other comprehensive income:

	2015		
EURk	Pre-tax amount	Tax	After-tax amount
Change in fair value of land	-43	7	-36
Actuarial gains or losses	-1,617	137	-1,480
Change in fair value of available-for-sale financial assets	13	-2	11
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-958	16	-942
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, reclassified to profit or loss	867	0	867
Total	**-1,738**	**158**	**-1,580**

	2016		
EURk	Pre-tax amount	Tax	After-tax amount
Change in fair value of land	0	-148	-148
Actuarial gains or losses	-137	29	-108
Change in fair value of available-for-sale financial assets	-33	5	-28
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-1,479	181	-1,298
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, reclassified to profit or loss	594	0	594
Total	**-1,055**	**67**	**-988**

Note 58 – Intangible assets EUR 59,396k

EURk	2015	2016
Deferred development costs	18,147	25,047
Industrial property rights	3,348	3,253
Intangible assets under construction	23,014	31,096
Total	**44,509**	**59,396**

The relevant increase in deferred development costs mostly refers to new advanced products (e.g. new built-in ovens, new generation of Gorenje washing machines, new dishwashers) 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 2,640k.

As for the item of industrial property rights, EUR 290k were invested into purchasing new licences, EUR 421k were invested in upgrading the software, and EUR 54k were invested into new software.

The item of intangible assets under construction primarily refers to capitalised development costs for new advanced products (e.g. new washing and dryer machines of the Gorenje and Asko brand, new built-in gas cookers, new generation of built-in refrigerators and freezers, new generation of freestanding cookers) developed by competence centres in Velenje and in ASKO Sweden, and other development departments within the informatics (EUR 29,482k).

MOVEMENTS IN INTANGIBLE ASSETS IN 2015

EURk	Deferred development costs	Industrial property rights	Intangible assets under construction	Total
Cost at 1 Jan 2015	**36,149**	**14,341**	**10,729**	**61,219**
Acquisition			15,738	**15,738**
Disposal, write-down		-20		**-20**
Transfer from investments under construction	3,082	371	-3,453	**0**
Cost at 31 Dec 2015	**39,231**	**14,692**	**23,014**	**76,937**
Accumulated amortisation at 1 Jan 2015	**17,522**	**10,450**	**0**	**27,972**
Disposal, write-down		-16		**-16**
Amortisation	3,562	910		**4,472**
Accumulated amortisation at 31 Dec 2015	**21,084**	**11,344**	**0**	**32,428**
Carrying amount at 1 Jan 2015	**18,627**	**3,891**	**10,729**	**33,247**
Carrying amount at 31 Dec 2015	**18,147**	**3,348**	**23,014**	**44,509**

MOVEMENTS IN INTANGIBLE ASSETS IN 2016

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			19,517	**19,517**
Disposal, write-down		-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**
Disposal, write-down		-10		**-10**
Amortisation	3,717	859		**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**

Note 59 – Property, plant and equipment (PPE) EUR 205,416k

EURk	2015	2016
Land	21,802	21,802
Buildings	57,139	54,913
Production and other equipment	91,914	94,667
Property, plant and equipment under construction	22,717	34,034
Total	**193,572**	**205,416**

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT IN 2015

EURk	Land	Buildings	Production and other equipment	PPE under con-struction	Total
Cost at 1 Jan 2015	**21,294**	**161,239**	**416,903**	**15,263**	**614,699**
Acquisition				34,324	**34,324**
Disposal, write-down	-500	-1,312	-12,500		**-14,312**
Transfer from investments under construction	1,008	7,720	18,142	-26,870	**0**
Cost at 31 Dec 2015	**21,802**	**167,647**	**422,545**	**22,717**	**634,711**
Accumulated depreciation at 1 Jan 2015	**0**	**107,171**	**326,868**	**0**	**434,039**
Disposals, write-down		-33	-12,355		**-12,388**
Depreciation		3,370	16,118		**19,488**
Accumulated depreciation at 31 Dec 2015	**0**	**110,508**	**330,631**	**0**	**441,139**
Carrying amount at 1 Jan 2015	**21,294**	**54,068**	**90,035**	**15,263**	**180,660**
Carrying amount at 31 Dec 2015	**21,802**	**57,139**	**91,914**	**22,717**	**193,572**

MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT IN 2016

EURk	Land	Buildings	Production and other equipment	PPE under con-struction	Total
Cost at 1 Jan 2016	**21,802**	**167,647**	**422,545**	**22,717**	**634,711**
Acquisition				32,766	**32,766**
Disposal, write-down			-10,907		**-10,907**
Transfer from investments under construction		1,260	20,189	-21,449	**0**
Cost at 31 Dec 2016	**21,802**	**168,907**	**431,827**	**34,034**	**656,570**
Accumulated depreciation at 1 Jan 2016	**0**	**110,508**	**330,631**	**0**	**441,139**
Disposals, write-down			-10,541		**-10,541**
Depreciation		3,486	17,070		**20,556**
Accumulated depreciation at 31 Dec 2016	**0**	**113,994**	**337,160**	**0**	**451,154**
Carrying amount at 1 Jan 2016	**21,802**	**57,139**	**91,914**	**22,717**	**193,572**
Carrying amount at 31 Dec 2016	**21,802**	**54,913**	**94,667**	**34,034**	**205,416**

LAND EUR 21,802k

Land was appraised in 2013 by an independent certified appraiser of real property. The valuation effect was recorded at EUR 1,623k. If land was disclosed at cost, the book value would amount to EUR 14,392k. According to management's estimate, the assumptions used in the relevant calculation have not changed material and the fair value of land does not significantly deviate from its carrying amount.

Land is not pledged as collateral for outstanding loan liabilities.

BUILDINGS EUR 54,913k

Increase in the value of buildings refers to the renovation of business and 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 under the stated method amounted to EUR -1,230k. According to management's estimate, the assumptions used in the relevant calculation have not changed significantly and the recoverable value of buildings does not significantly deviate from their carrying amount.

Buildings are not pledged as collateral for outstanding loan liabilities.

PRODUCTION AND OTHER EQUIPMENT EUR 94,667k

The increase in value of equipment is attributable to capitalised technological equipment acquired and commissioned in 2016.

In 2016, investments in new equipment, reconstruction and upgrade of the production equipment were made in the amount of EUR 8,321k, while investments in the mechanical computer hardware amounted to EUR 643k. Investments made in new tools and upgrades of old tools amounted to EUR 10,494k, and in computer hardware to EUR 198k. Investments in modernising transport means were recorded at EUR 457k.

The decrease in value of equipment refers to sale of equipment, the disposal of obsolete equipment, and depreciation expense.

In 2013, the appraisal of plant and equipment was carried out and no conditions leading to impairment were established. According to management's estimate, the assumptions used in the relevant calculation have not changed significantly and the recoverable value of production and other equipment does not significantly deviate from their carrying amount.

PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION EUR 34,034k

The item of property, plant and equipment under construction relates largely to the equipment that shall be activated in the first half-year of 2017 and includes certain development projects in progress, as well as tools. It refers primarily to the 600 mm freestanding cookers (EUR 6,454k), the new generation of built-in cooler-freezer appliances (EUR 6,225k), the new generation of Asko washing and dryer appliances (EUR 5,149k), the new generation of Gorenje washing and dryer appliances (EUR 3,656k), the new dishwashers (EUR 1,782k), the new generation of built-in gas cookers (EUR 1,507k), and to induction cookers (EUR 919k).

Note 60 – Investment property EUR 12,948k

EURk	2015	2016
Land with buildings	15,276	12,948
Total	**15,276**	**12,948**

Investment property includes land and buildings intended for resale or increase of investment property. In association with investment property, rental income in the amount of EUR 122k (2015: EUR 81k) was recognised in the income statement. Costs relating to investment property, which include current costs, repairs and maintenance amounted in 2016 to EUR 258k (2015: EUR 212k).

MOVEMENTS IN INVESTMENT PROPERTY

EURk	2015	2016
Balance at 1 January	**16,729**	**15,276**
Acquisition	37	0
Disposal	-1,490	-2,328
Balance at 31 December	**15,276**	**12,948**

Investment property is measured using the fair value model. Investment property was appraised by an independent certified appraiser in 2013 and showed an increase in value in the amount of EUR 2,364k. Another valuation of significant investment property was carried out in 2016. The carrying amount does not materially deviate from its fair value. Decline in investment property refers to the sale of an apartment in Velenje in the amount of EUR 37k and to the sale of an investment property in Ljubljana in the amount of EUR 2,291k.

Note 61 – Investments in subsidiaries

EUR 295,745k

EURk	Equity interest	Equity of company 2016	Profit or loss of company 2016	Investment at 31 Dec 2015	Investment at 31 Dec 2016
Gorenje I.P.C., d.o.o., Velenje	100.00 %	6,539	155	377	377
Gorenje design studio, d.o.o. – in liquidation, Velenje	0.00 %	0	0	260	0
ENERGYGOR, d.o.o., Velenje	100.00 %	207	20	58	58
Gorenje Keramika, d.o.o., Velenje	100.00 %	1,273	-629	6,858	7,841
Gorenje GTI, d.o.o., Velenje	100.00 %	6,037	279	3,934	3,934
Gorenje GSI, d.o.o., Ljubljana	0.00 %	6,204	286	4,861	0
Gorenje Gostinstvo, d.o.o., Velenje	100.00 %	6,568	709	5,958	5,958
Gorenje Orodjarna, d.o.o., Velenje	100.00 %	4,554	610	3,038	3,038
Indop, d.o.o., Šoštanj	100.00 %	-227	-584	0	0
Gorenje GAIO, d.o.o., Šoštanj	100.00 %	-201	-447	800	800
Gorenje EKOINVEST, d.o.o., Velenje	100.00 %	11,448	914	10,286	10,286
Gorenje Surovina, d.o.o., Maribor	100.00 %	14,696	1,767	13,209	13,209
ZEOS, d.o.o., Ljubljana	51.00 %	1,648	376	243	243
Gorenje Zagreb, d.o.o., Croatia	100.00 %	12,421	-1,785	30,230	30,230
ST Bana Nekretnine, d.o.o., Serbia	1.61 %	2,388	-138	50	50
Gorenje Tiki, d.o.o., Serbia	100.00 %	24,223	1,235	23,306	23,306
Gorenje Home, d.o.o., Serbia	100.00 %	7,778	1,514	3,001	3,001
Gorenje Skopje, d.o.o., Macedonia	0.00 %	1,672	31	538	0
Mora Moravia s r.o., Czech Republic	100.00 %	22,552	2,993	8,750	20,050
Gorenje Nederland BV, the Netherlands	100.00 %	132,296	119	131,106	131,106
Gorenje - kuchyně spol. s r.o., Czech Republic	100.00 %	40	-117	0	0
Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00 %	43,253	4,467	0	42,008
Gorenje HS, d.o.o., Velenje	65.00 %	396	11	0	250
Total		**305,765**	**11,786**	**246,863**	**295,745**

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES

EURk	2015	2016
Balance at 1 Jan	**238,363**	**246,863**
Increase	8,500	55,258
Decrease	0	-5,659
Impairment	0	-717
Balance at 31 Dec	**246,863**	**295,745**

Increase of investments in subsidiaries refers to:

- the acquisition of Gorenje aparati za domaćinstvo, d.o.o., Serbia (EUR 42,008k),
- the acquisition of Mora Moravia s r.o., Czech Republic (EUR 11,300k),
- share capital increase in Gorenje Keramika, d.o.o., Velenje (EUR 1,700k), and
- establishment of the subsidiary Gorenje HS, d.o.o., Velenje (EUR 250k).

Decrease of investments in subsidiaries refers to:

- the disposal of Gorenje GSI, d.o.o., Ljubljana (EUR 4,861k),
- the disposal of Gorenje Skopje, d.o.o., Macedonia (EUR 538k), and
- the liquidation of Gorenje design studio, d.o.o., Velenje (EUR 260k).

The impairment entirely refers to investments made in the subsidiary Gorenje Keramika, d.o.o., Velenje.

Note 62 – Investments in associates EUR 2,064k

EURk	Equity interest	Equity of company 2016	Profit or loss of company 2016	Investment at 31 Dec 2015	Investment at 31 Dec 2016
GGE, d.o.o., Ljubljana	0.00 %	2,060	535	368	0
GGE Netherlands B.V., the Netherlands	30.00 %	3,133	-67	0	623
GOR Kolesa, d.o.o., Velenje	61.54 %	378	-272	0	400
Gorenje Projekt, d.o.o., Velenje	50.00 %	3,186	312	141	1,041
Total		**8,757**	**508**	**509**	**2,064**

MOVEMENTS OF INVESTMENTS IN ASSOCIATES

EURk	2015	2016
Balance at 1 Jan	**341**	**509**
Increase	168	2,003
Decrease	0	-448
Balance at 31 Dec	**509**	**2,064**

Increase of investments in associates includes:

- the share capital increase in Gorenje Projekt, d.o.o., Velenje (EUR 900k),
- the establishment of Gorenje Netherlands B.V., the Netherlands (EUR 150k),
- the share capital increase in GGE, d.o.o., Ljubljana (EUR 80k),
- the transfer of an investment from GGE, d.o.o., Ljubljana to GGE Netherlands B.V., the Netherlands (EUR 473k), and
- the establishment of GOR Kolesa, d.o.o., Velenje (EUR 400k).

The decrease in investments in associates refers in its full amount to transferring an investment from GGE, d.o.o., Ljubljana to the company GGE Netherlands B.V., the Netherlands.

List of Group companies that are not directly owned by Gorenje, d.d.

Group companies are owners up to a certain percentage as disclosed in the table below:

EURk	Equity interest	Equity of company 2016	Profit or loss of company 2016
KEMIS, d.o.o., Vrhnika	100.00%	7,772	651
ERICo, d.o.o., Velenje	51.00%	1,378	45
Gorenje Beteiligungs GmbH, Austria	100.00%	55,221	577
Gorenje Austria Handels GmbH, Austria	100.00%	3,792	-1
Gorenje Vertriebs GmbH, Germany	100.00%	6,874	-1,051
Gorenje Körting Italia S.r.l., Italy	100.00%	92	2
Gorenje France S.A.S., France	100.00%	-1,498	32
Gorenje Espana S.L., Spain	100.00%	-435	-239
Gorenje UK Ltd., Great Britain	100.00%	401	-99
Gorenje Group Nordic A/S, Denmark	100.00%	1,833	63
Gorenje spol. s r.o., Czech Republic	100.00%	6,809	776
Gorenje real spol. s r.o., Czech Republic	100.00%	5,322	-198
Gorenje Slovakia s.r.o., Slovakia	100.00%	1,659	314
Gorenje Magyarország Kft., Hungary	100.00%	3,387	64
Gorenje Polska Sp. z o.o., Poland	100.00%	5,539	66
Gorenje Bulgaria EOOD, Bulgaria	100.00%	2,120	1
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00%	3,592	1,258
Gorenje, d.o.o., Serbia	100.00%	7,011	7
Gorenje Podgorica, d.o.o., Montenegro	99.98%	2,354	72
Gorenje Romania S.r.l., Romania	100.00%	689	3
KEMIS-Termoclean, d.o.o., Croatia	100.00%	2,231	448
Kemis - BH, d.o.o., Bosnia and Herzegovina	100.00%	562	30
Gorenje Studio, d.o.o., Serbia	100.00%	1,842	-524
Gorenje Gulf FZE, United Arab Emirates	100.00%	-590	-1,072

EURk	Equity interest	Equity of company 2016	Profit or loss of company 2016
Gorenje Istanbul Ltd., Turkey	100.00%	153	-151
Gorenje TOV, Ukraine	100.00%	145	1,155
Kemis Valjevo, d.o.o, Serbia	100.00%	1,504	53
ATAG Nederland BV, the Netherlands	100.00%	41,621	6,411
ATAG België NV, Belgium	100.00%	1,397	-274
Intell Properties BV, the Netherlands	100.00%	1,570	-55
Gorenje Kazakhstan, TOO, Kazakhstan	100.00%	502	48
OOO Gorenje BT, Russia	100.00%	27,027	-1,473
Gorenje GTI, d.o.o., Serbia	100.00%	168	53
Asko Appliances AB, Sweden	100.00%	5,759	382
Gorenje North America, Inc., USA	100.00%	1,131	135
Asko Appliances Pty, Australia	100.00%	6,928	461
Asko Appliances OOO, Russia	100.00%	566	138
»Gorenje Albania« SHPK, Albania	100.00%	214	39
Gorenje Corporate GmbH, Austria	100.00%	37	1
Cleaning System S, d.o.o., Serbia	100.00%	920	5
Zeos eko-sistem d.o.o., Bosnia and Herzegovina	49.45%	811	184
Gorenje Studio d.o.o., Ljubljana	100.00%	236	9
Gorenje Asia Ltd., China	100.00%	1,004	183
Gorenje MDM, d.o.o., Serbia	100.00%	1,017	56
Gorenje do Brasil Ltda., Brasil	100.00%	-494	398
Gorenje Ekologija, d.o.o., Serbia	100.00%	1,140	-29
Novi Elind, d.o.o., Serbia	100.00%	2,051	0
Gorenje AEC, LLC, Thailand	100.00%	265	0
Gorenje Chile Spa, Chile	100.00%	-189	-166
Indop Gorenje GmbH, Germany	100.00%	-37	-50
Total		**213,403**	**8,738**

Note 63 – Other non-current investments EUR 2,029k

Other non-current investments include non-current loans extended in the amount of EUR 1,357k (2015: EUR 1,018k) and other non-current financial investments in the amount of EUR 672k (2015: EUR 672k). The increase is largely (EUR 350k) attributable to the loan extended to the company Pololes pohištvo, d.o.o., Podvelka, which is insured with quality insurance instruments.

As for the structure of total non-current investments, the Company is not exposed to higher financial risks since most of these investments refer to subsidiaries.

MOVEMENTS IN OTHER NON-CURRENT FINANCIAL INVESTMENTS

EURk	2015	2016
Opening balance at 1 Jan	**672**	**672**
Increase	0	0
Decrease	0	0
Closing balance at 31 Dec	**672**	**672**

MOVEMENTS IN LOANS

EURk	2015	2016
Opening balance at 1 Jan	**17**	**1,018**
Increase	1,003	352
Decrease	-2	-13
Closing balance at 31 Dec	**1,018**	**1,357**

LOANS BY MATURITY

EURk	2015	2016
Maturity from 1 to 2 years	18	7
Maturity from 2 to 3 years	0	1,000
Maturity from 3 to 4 years	1,000	350
Maturity from 4 to 5 years	0	0
Maturity over 5 years	0	0
Total	**1,018**	**1,357**

BREAKDOWN OF NON-CURRENT LOANS TO SPECIFIC GROUPS OF PERSONS

No non-current loans were granted to Management Board members, Supervisory Board members, and internal owners.

Note 64 – Deferred tax assets and deferred tax liabilities

	Tax assets		Tax liabilities		Tax assets – Tax liabilities	
EURk	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
PPE	160	321	1,260	1,408	-1,100	-1,087
Investments	1,403	1,562	15	11	1,388	1,551
Receivables	767	493	0	0	767	493
Provisions for retirement benefits and jubilee premiums	1,458	1,626	0	0	1,458	1,626
Provisions for warranties	744	773	0	0	744	773
Unused tax losses	8,305	9,282	0	0	8,305	9,282
Unused tax incentives	5,950	5,603	0	0	5,950	5,603
Cash flow hedge – foreign currency contracts	0	0	52	0	-52	0
Cash flow hedge – interest rate swaps	159	288	0	0	159	288
Total	**18,946**	**19,948**	**1,327**	**1,419**	**17,619**	**18,529**

	Tax assets – Tax liabilities		Through profit or loss		Through other comprehensive income	
EURk	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
PPE	-1,100	-1,087	107	162	7	-148
Investments	1,388	1,551	-2	158	-2	5
Receivables	767	493	28	-274	0	0
Provisions for retirement benefits and jubilee premiums	1,458	1,626	62	139	137	29
Provisions for warranties	744	773	-149	28	0	0
Unused tax losses	8,305	9,282	825	977	0	0
Unused tax incentives	5,950	5,603	-765	-347	0	0
Cash flow hedge – foreign currency contracts	-52	0	0	0	-52	52
Cash flow hedge – interest rate swaps	159	288	0	0	68	129
Total	**17,619**	**18,529**	**106**	**843**	**158**	**67**

Note 65 – Inventories EUR 88,564k

EURk	2015	2016
Materials	38,261	40,115
Work in progress	5,851	6,451
Finished products	21,092	17,317
Merchandise	24,784	22,523
Advances	1,998	2,158
Total	**91,986**	**88,564**

Inventories decreased by 3.72% over the previous year's balance mostly due to lower inventories of finished products and merchandise. In 2016, the lower balance of inventories of merchandise was attributable largely the lower value of goods in transit.

As at 31 December 2016, the Company records no inventories as pledge. The book value of inventories does not exceed their net realisable value. The book value of inventories of finished products, for which value adjustments were made from production value to net realisable value is recorded at EUR 1,763k (2015: EUR 5,113k).

In 2016, value adjustments of inventories amounted to EUR 2,163k (2015: EUR 2,265k) and resulted from the write-off of obsolete inventories.

Note 66 – Current financial investments EUR 144,432k

EURk	2015	2016
Available-for-sale investments	2,927	1,617
Loans	178,361	138,563
Interest receivables	605	548
Derivatives	791	1,237
Other current financial receivables	227	2,467
Total	**182,911**	**144,432**

Available-for-sale financial assets include shares and interests in banks worth EUR 399k (2015: EUR 399k) and in other entities worth EUR 1,218k (2015: EUR 2,528k).

The Company 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.

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.

As at 31 December 2016, the Company records a receivable relating to the fair value of derivatives used for currency risks in relation to bank institutions in the amount of EUR 82k and to Group companies in the amount of EUR 1,155k.

Other current financial receivables comprise a receivable to Group companies arising from the already realised derivatives that the Company enters into on their behalf.

MOVEMENTS IN SHARES AND INTERESTS AVAILABLE FOR SALE

EURk	2015	2016
Opening balance at 1 Jan	**2,847**	**2,927**
Increase	169	21
Decrease	-42	-1,301
Change in fair value	-2	-30
Transfers	-45	0
Closing balance at 31 Dec	**2,927**	**1,617**

The decline in shares and interest available for sale refer nearly in its full amount (EUR 1,288k) to the sale of investments in shares of the company ETI, d.d., Izlake.

Change in the fair value at EUR 30k (2015: EUR 2k) is disclosed among finance income in the amount of EUR 3k and in the amount of EUR 33k among the decrease in the fair value reserve for available-for-sale financial assets.

CURRENT LOANS

EURk	**2015**	**2016**
Current loans to Group companies	174,565	135,671
Current loans to other companies	3,796	2,892
Total	**178,361**	**138,563**

CURRENT LOANS GIVEN TO GROUP COMPANIES OPERATING IN SLOVENIA

Company / *EURk*	**2015**	**2016**
Gorenje Orodjarna, d.o.o., Velenje	1,436	1,183
Gorenje Keramika, d.o.o., Velenje	4,639	3,661
Gorenje GAIO, d.o.o., Šoštanj	0	1,760
Indop, d.o.o., Šoštanj	852	1,372
Gorenje HS, d.o.o., Velenje	0	35
Total	**6,927**	**8,011**

CURRENT LOANS GIVEN TO GROUP COMPANIES OPERATING ABROAD

Company / *EURk*	**2015**	**2016**
Gorenje Beteiligungs GmbH, Austria	83,857	42,040
Gorenje Nederland BV, the Netherlands	81,962	83,068
Gorenje – kuchyně spol. s r.o., Czech Republic	1,819	1,881
Gorenje France S.A.S., France	0	671
Total	**167,638**	**127,660**

Current loans given were denominated in euro bearing the fixed interest rate. In view of current loans, the Company is not exposed to higher financial risks as most of these loans were extended to its subsidiaries. The loan extended to Arosa Mobilia, d.o.o. is secured with a lien on property in the amount of EUR 448k.

CURRENT LOANS TO SPECIFIC GROUPS OF PERSONS

No current loans were granted to members of the Management Board, the Supervisory Board, and internal owners.

Note 67 – Trade receivables EUR 130,860k

EURk	**2015**	**2016**
Trade receivables – Group companies	112,909	82,996
Trade receivables – other companies	32,413	47,864
Total	**145,322**	**130,860**

COLLATERALISATION OF RECEIVABLES

The Company records trade receivables due from other companies, which are well secured in the amount of EUR 26,016k (2015: EUR 15,913k).

CURRENT TRADE RECEIVABLES DUE FROM GROUP COMPANIES

EURk	**2015**	**2016**
Trade receivables due from customers in Slovenia	13,101	6,935
Trade receivables due from customers abroad	99,808	76,061
Total	**112,909**	**82,996**

CURRENT TRADE RECEIVABLES DUE FROM CUSTOMERS (GROUP COMPANIES) OPERATING IN SLOVENIA

Company / *EURk*	**2015**	**2016**
ENERGYGOR, d.o.o., Velenje	1	2
ZEOS, d.o.o., Ljubljana	6	5
KEMIS, d.o.o., Vrhnika	3	2
Gorenje Surovina, d.o.o., Maribor	374	715
Gorenje I.P.C., d.o.o., Velenje	1,254	1,386
Gorenje GTI, d.o.o., Velenje	582	824
Gorenje Gostinstvo, d.o.o., Velenje	100	81
Gorenje Orodjarna, d.o.o., Velenje	405	135
ERICo, d.o.o., Velenje	1	1
Gorenje design studio, d.o.o. – in liquidation, Velenje	15	0
Indop, d.o.o., Šoštanj	101	106

Company / *EURk*	**2015**	**2016**
Gorenje GAIO, d.o.o., Šoštanj	63	61
Gorenje GSI, d.o.o., Ljubljana	9,308	2,963
Gorenje Keramika, d.o.o., Velenje	119	53
Gorenje Studio, d.o.o., Ljubljana	768	461
EKOGOR d.o.o., Jesenice	1	0
Gorenje HS, d.o.o., Velenje	0	140
Total	**13,101**	**6,935**

CURRENT TRADE RECEIVABLES DUE FROM CUSTOMERS (GROUP COMPANIES) OPERATING ABROAD

Company / *EURk*	**2015**	**2016**
Gorenje Zagreb, d.o.o., Croatia	3,533	4,654
Gorenje, d.o.o., Serbia	5,458	8,665
Gorenje aparati za domaćinstvo, d.o.o., Serbia	16,019	13,729
Gorenje Tiki, d.o.o., Serbia	681	1,022
Gorenje Home, d.o.o., Serbia	5,111	4,307
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	422	235
Gorenje Skopje, d.o.o., Macedonia	542	1,040
Gorenje Podgorica, d.o.o., Montenegro	308	511
Gorenje Vertriebs GmbH, Germany	9,124	4,669
Gorenje Austria Handels GmbH, Austria	445	-223
Gorenje Beteiligungs GmbH, Austria	1,575	1,573
Asko Appliances AB, Sweden	4,855	1,596
Gorenje Group Nordic A/S, Denmark	9,372	4,871
ATAG Nederland BV, the Netherlands	2,723	77
Gorenje Nederland BV, the Netherlands	5	11
Gorenje UK Ltd., Great Britain	4,868	873
Gorenje France S.A.S., France	2,315	1,148
Gorenje Körting Italia S.r.l., Italy	4,358	2,716

Company / *EURk*	**2015**	**2016**
OOO Gorenje BT, Russia	-21	-130
Gorenje TOV, Ukraine	1,325	74
Gorenje Kazakhstan, TOO, Kazakhstan	28	9
Gorenje Slovakia s.r.o., Slovakia	3	10
Gorenje spol. s r.o., Czech Republic	2,759	575
Gorenje real spol s r.o., Czech Republic	91	79
Mora Moravia s r.o., Czech Republic	954	1,425
Gorenje Magyarország Kft., Hungary	-55	-112
Gorenje Polska Sp. z o.o., Poland	2,136	1,386
Gorenje Bulgaria EOOD, Bulgaria	88	432
Gorenje Romania S.r.l., Romania	3,985	4,260
Gorenje Istanbul Ltd., Turkey	-13	-16
»Gorenje Albania« SHPK, Albania	345	357
Gorenje Gulf FZE, United Arab Emirates	5,618	3,796
Gorenje North America, Inc., USA	-1	30
Asko Appliances Pty, Australia	7,174	8,904
Gorenje do Brasil Ltda., Brasil	1,131	1,592
Asko Appliances OOO, Russia	2,060	1,582
Gorenje MDM, d.o.o., Serbia	6	2
Gorenje Studio, d.o.o., Serbia	73	48
Gorenje GTI, d.o.o., Serbia	1	1
Gorenje ATAG Belgie NV, Belgium	399	-161
Gorenje Asia Ltd., China	6	5
KEMIS Termoclean d.o.o., Croatia	1	2
Gorenje Corporate GmbH, Austria	0	1
Gorenje Chile SpA, Chile	0	412
ST Bana Nekretnine, d.o.o., Serbia	0	1
Revaluation	1	23
Total	**99,808**	**76,061**

Note 68 – Other current assets EUR 13,141k

EURk	2015	2016
Advance for services	284	174
Short-term deferred costs and expenses	1,851	2,415
Other current assets	9,579	10,552
Total	**11,714**	**13,141**

Advances for services mainly include advances to other companies abroad in the amount of EUR 131k, while the residual amount (EUR 43k) includes advances paid to other companies in Slovenia.

The item of short-term deferred costs and expenses comprises deferred costs that refer to subsequent periods and indicate an increase of 30.5% if compared to 2015. They relate in their full amount to deferred costs for other companies.

Other current assets include to a large extent input VAT receivables in the Republic of Slovenia in the amount of EUR 5,090k (2015: EUR 6,529k), unpaid VAT receivables relating to foreign countries in the amount of EUR 470k (2015: EUR 353k), current receivables from tax deductions in the amount of EUR 310k (2015: EUR 522k), and receivables not yet charged in the amount of EUR 3,645k (2015: EUR 1,023k).

Note 69 – Cash and cash equivalents EUR 14,743k

EURk	2015	2016
Cash in hand and cash in transit	44	1,960
Bank balances and cash held in other financial institutions	7,555	12,783
Total	**7,599**	**14,743**

Note 70 – Equity EUR 361,554k

As at 31 December 2016, the share capital of Gorenje, d.d. amounted to EUR 101,922,103.97 (31 December 2015: EUR 101,922,103.97) and is divided into 24,424,613 ordinary, freely transferable, registered, no par value shares.

Capital surplus (share premium) in the amount of EUR 156,639k (2015: EUR 156,639k) includes paid-in capital in excess of par value of shares in the amount of EUR 64,475k (2015: EUR 64,475k), surplus in excess of book value of disposed own shares (treasury shares) in the amount of EUR 15,313k (2015: EUR 15,313k), and general equity revaluation adjustment in the amount of EUR 76,851k (2015: EUR 76,851k) transferred upon the transition to IFRSs.

Revenue reserves recorded as at 31 December 2016 in the amount of EUR 46,015k (31 December 2015: EUR 99,301k) consist of legal reserves, statutory reserves, treasury share reserve and other revenue reserves.

As at 31 December 2016, legal reserves amounted to EUR 12,896k (31 December 2015: 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 7,919k (31 December 2015: EUR 7,556k). 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.

The number of treasury shares (own shares) did not change in the reporting period. As at 31 December 2016, the Company recorded 121,311 treasury shares at a cost of EUR 3,170k.

As at 31 December 2016, Company's other revenue reserves amounted to EUR 22,030k (31 December 2015: EUR 75,679k) and were created on the basis of resolutions on the allocation of profit for the period adopted by the 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 the accumulated profit the Company released other revenue reserves in the amount of EUR 53,649k to retained earnings (profit or loss from previous periods) pursuant to the amended Article 66 of the Companies Act (ZGD-1, Official Journal of RS no. 55/15).

Upon the proposal of the Management Board, the Company covered the loss brought forward from previous years in the amount of EUR 71k and charged it against the profit for 2016 in the amount of EUR 3,699k and formed statutory reserves at EUR 363k.

Fair value reserve amounting to EUR 3,234k as at 31 December 2016 (31 December 2015: EUR 4,222k) includes a surplus from revaluation of land which is valued using the revaluation model, a change in fair value of available-for-sale investments, a change in value of the cash flow hedge on interest rate swaps, and the change in the value of retirement benefits pursuant to the actuarial calculation.

Changes in fair value reserve are shown in the table below:

EURk	Fair value reserve for land	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Actuarial gains or losses	Total
Balance at 1 Jan 2015	**6,186**	**62**	**-446**	**0**	**5,802**
Disposal of land	-43	0	0	0	-43
Actuarial gains or losses	0	0	0	-1,617	-1,617
Change in fair value of cash flow hedge	0	0	-958	0	-958
Change in fair value of cash flow hedge, reclassified to profit or loss	0	0	867	0	867
Change in fair value of available-for-sale financial assets	0	13	0	0	13
Deferred taxes	7	-2	16	137	158
Balance at 31 Dec 2015	**6,150**	**73**	**-521**	**-1,480**	**4,222**

EURk	Fair value reserve for land	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Actuarial gains or losses	Total
Balance at 1 Jan 2016	**6,150**	**73**	**-521**	**-1,480**	**4,222**
Actuarial gains or losses	0	0	0	-137	-137
Change in fair value of cash flow hedge	0	0	-1,479	0	-1,479
Change in fair value of cash flow hedge, reclassified to profit or loss	0	0	594	0	594
Change in fair value of available-for-sale financial assets	0	-30	0	0	-30
Disposal of available-for-sale financial assets	0	-3	0	0	-3
Deferred taxes	-148	5	181	29	67
Balance at 31 Dec 2016	**6,002**	**45**	**-1,225**	**-1,588**	**3,234**

OWN SHARES (TREASURY SHARES)

Number of own shares	1 Jan 2016	Purchases	Sale	31 Dec 2016
Repurchased own shares	121,311	0	0	121,311

In 2016, earnings per share amounted to EUR 0.15 (2015: EUR -0.16).

To determine earnings per share, the following data on the profit or loss and the average number of shares was used:

	2015	2016
Profit or loss for the period (EURk)	-4,001	3,699
Weighted average number of ordinary shares	24,303,302	24,303,302
Earnings per share (in EUR)	**-0.16**	**0.15**

Gorenje, d.d., issued no financial instruments that would have an impact on the diluted earnings per share, hence basic and diluted earnings per share are equal.

In 2016, no dividends were paid to stakeholders. The last time these were paid was in 2015 for the fiscal year 2014, when the dividend amounted to EUR 0.06 gross per share.

Note 71 – Establishment of accumulated profit pursuant to provisions of the Companies Act

In accordance with the Companies Act and the Articles of Association of Gorenje, d.d., the Management Board decided that a portion of profit of 2016, which was generated at EUR 3,699,298.62 is earmarked for covering the loss from previous periods in the amount of EUR 70,559.43 relating to the use of the actuarial loss for retirement benefits, as well as for forming statutory reserves in the amount of EUR 362,873.92. Additional release of other revenue reserves in the amount of EUR 53,648,749.66 is proposed for the formation of accumulated profit, which the Company transferred among retained earnings (profit or loss from previous periods) as, in line with the Companies Act, the long-term deferred development costs must be on the balance sheet date treated as a deductible item. With respect to the aforesaid, the accumulated profit of Gorenje, d.d., is recorded at EUR 2,430,330.20.

EUR	
Profit for the period	3,699,298.62
– coverage of retained loss	-70,559.43
– formation of statutory reserves	-362,873.92
+ decrease in other revenue reserves	53,648,749.66
– long-term deferred development costs as at the balance sheet date	-54,484,284.73
= accumulated profit as at 31 Dec 2016	**2,430,330.20**

Proposal for the appropriation of accumulated profit shall be published in the call of the General Meeting of Shareholders, which will decide on the distribution of accumulated profit for 2016.

Note 72 – Provisions EUR 20,940k

EURk	2015	2016
Provisions for warranties	8,757	7,586
Provisions for retirement benefits and jubilee premiums	12,405	12,766
Other provisions	256	588
Total	**21,418**	**20,940**

MOVEMENTS IN PROVISIONS IN 2015

EURk	Balance at 1 Jan 2015	Use	Reversal	Creation	Balance at 31 Dec 2015
Provisions for warranties	10,504	-9,327	-3,370	10,950	8,757
Provisions for retirement benefits and jubilee premiums	9,814	-572	0	3,163	12,405
Other provisions	1,611	-1,327	-174	146	256
Total	**21,929**	**-11,226**	**-3,544**	**14,259**	**21,418**

MOVEMENTS IN PROVISIONS IN 2016

EURk	Balance at 1 Jan 2016	Use	Reversal	Creation	Balance at 31 Dec 2016
Provisions for warranties	8,757	-8,525	0	7,354	7,586
Provisions for retirement benefits and jubilee premiums	12,405	-767	0	1,128	12,766
Other provisions	256	-204	-211	747	588
Total	**21,418**	**-9,496**	**-211**	**9,229**	**20,940**

Non-current provisions for warranties were created based on estimated costs of warranties calculated by considering the historical data about the quality level of products and the costs of repairs under warranties.

The Company conducted an actuarial calculation also in 2016. The change in provisions for retirement benefits and jubilee premiums is attributable to the additional formation as well as use of such provisions based on an actuarial calculation. Employee benefits expense and interest expense are recognised in profit or loss in the amount of EUR 995k and the actuarial deficit within the comprehensive income at EUR 137k. The actuarial calculation is based on the required actuarial assumptions (i.e. discount rate, amount of retirement benefits and jubilee premiums, staff fluctuation, mortality tables and wage growth).

Other provisions include primarily (EUR 547k) provisions for compensation claims under the product liability, while the residual amount relates to claims filed with the court.

Note 73 – Non-current financial liabilities EUR 255,652k

EURk	2015	2016
Non-current financial liabilities to banks	256,489	294,896
Short-term portion of non-current liabilities to banks	-51,061	-66,924
Adjustment of non-current financial liabilities to banks at amortised cost	-1,533	-1,325
Non-current financial liabilities from bonds issued	58,400	43,800
Short-term of non-current liabilities from bonds issued	-14,600	-14,600
Adjustment of non-current financial liabilities from bonds issued at amortised cost	-282	-207
Non-current financial liabilities to other companies	7,401	0
Short-term portion of non-current liabilities to other companies	-4,922	0
Adjustment of non-current financial liabilities to other companies at amortised cost	-235	0
Non-current finance lease	26	12
Total	**249,683**	**255,652**

Non-current financial liabilities are denominated in EUR and recorded at amortised cost i.e. restated under the effective interest method and inclusive of costs of granting the borrowing.

FINANCIAL LIABILITIES BY MATURITY

EURk	2015	2016
Maturity from 1 to 2 years	69,660	72,305
Maturity from 2 to 3 years	58,867	86,821
Maturity from 3 to 4 years	61,954	36,949
Maturity from 4 to 5 years	24,569	36,310
Maturity over 5 years	34,633	23,267
Total	**249,683**	**255,652**

COLLATERALISATION OF FINANCIAL LIABILITIES

EURk	2015	2016
Bills	164,028	134,940
Pari-Passu Clause, Negative Pledge Clause	207,907	227,972
Financial covenants (ratios)	207,907	227,972
Guarantees	2,479	0

INTEREST-BEARING BORROWINGS

Currency	Amount in EURk
EUR	219,972
Other currencies	8,000
Total	**227,972**

Most of borrowings is denominated in euro. With respect to the policy of the European Central Bank and other banks, as well as the low level of the euro-zone's base interest rate, we concluded loan contracts with fixed interest rate or also interest rate swaps in case of variable interest rate. Thus, the share of the loan portfolio with fixed interest rates and denominated in euro accounts for nearly 70 %, while the residual share bears the EURIBOR interest rate.

Note 74 – Current financial liabilities EUR 151,489k

EURk	2015	2016
Borrowings from related companies	65,671	63,322
Borrowings from third parties	4,320	1,011
Interest payable	1,907	2,425
Dividends payable	99	72
Short-term portion of non-current liabilities to banks	51,061	66,924
Short-term portion of non-current liabilities from bonds issued	14,600	14,600
Short-term portion of non-current liabilities to other companies	4,922	0
Derivatives	1,691	3,090
Other current financial liabilities	199	45
Total	**144,470**	**151,489**

Derivatives refer to liabilities arising from the fair value of interest rate hedging in the amount of EUR 1,517k (2015: EUR 1,080k) and liabilities from unrealized forward exchange contracts in the amount of EUR 1,573k (2015: EUR 611k).

In order to hedge cash flows against interest rate fluctuations, the Company concluded interest rate swap contracts that mature by 15 December 2022; each individual contract documents the relation between the derivative and the hedged category. Fair value of concluded interest rate swap contracts, which refers to cash flow hedging, is recognised directly in the fair value reserve of the derivative in the comprehensive income and amounts to EUR -1,517k.

As at 31 December 2016, the Company records a liability relating to the fair value of derivatives used for currency risks in relation to bank institutions in the amount of EUR 1,491k and to Group companies in the amount of EUR 82k.

Other current financial liabilities comprise the liability to Group companies arising from the already realised derivatives that the Company enters into on their behalf.

BORROWINGS RECEIVED FROM GROUP COMPANIES OPERATING IN SLOVENIA

Company / *EURk*	2015	2016
Gorenje Gostinstvo, d.o.o., Velenje	3,573	2,907
Gorenje I.P.C., d.o.o., Velenje	6,289	6,274
Gorenje GAIO, d.o.o., Šoštanj	1,395	0
Gorenje GSI, d.o.o., Ljubljana	12,060	5,955
Gorenje design studio, d.o.o. – in liquidation, Velenje	116	0
ENERGYGOR, d.o.o., Velenje	181	183
ERICo, d.o.o., Velenje	400	400
Gorenje Surovina, d.o.o., Maribor	0	160
ZEOS, d.o.o., Ljubljana	2,655	4,575
Gorenje Studio, d.o.o., Ljubljana	615	84
Gorenje GTI, d.o.o., Velenje	991	1,271
Kemis, d.o.o., Vrhnika	0	1,080
Gorenje EKOINVEST, d.o.o., Velenje	0	664
Total	**28,275**	**23,553**

BORROWINGS RECEIVED FROM GROUP COMPANIES OPERATING ABROAD

Company / *EURk*	2015	2016
ATAG Nederland BV, the Netherlands	19,245	16,397
Mora Moravia s r.o., Czech Republic	0	3,417
Asko Appliances AB, Sweden	4,802	1,897
Gorenje North America, Inc., USA	617	766
Gorenje spol. s r.o., Czech Republic	3,500	0
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1,500	1,800
Gorenje Magyarország Kft., Hungary	1,962	1,962
Gorenje Austria Handels GmbH, Austria	500	289
OOO Gorenje BT, Russia	5,270	10,000
Gorenje Slovakia s.r.o., Slovakia	0	3,241
Total	**37,396**	**39,769**

COLLATERALISATION OF CURRENT FINANCIAL LIABILITIES

EURk	**2015**	**2016**
Bills	40,461	42,412
Pari-Passu Clause, Negative Pledge Clause	55,982	66,924
Financial covenants (ratios)	55,982	66,924
Guarantees	4,922	0

INTEREST-BEARING BORROWINGS

Currency	**Amount in EURk**
EUR	145,091
Other currencies	766
Total	**145,857**

COLLATERALISATION OF NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

None of current or non-current financial liabilities recorded by Gorenje, d.d. is collateralised by mortgage or any other type of non-cash collateral. A significant portion of Company's 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 and additionally supported by financial covenants as defined in individual loan contracts.

Certain Company's loan contracts concluded with bank partners, mostly in case of non-current borrowings, include financial covenants that are generally checked and verified once a year on the basis of Gorenje Group's audited consolidated financial statements for individual fiscal year.

Note 75 – Trade payables EUR 177,734k

EURk	**2015**	**2016**
Trade payables to suppliers in the Gorenje Group	30,436	38,261
Trade payables to other suppliers	136,927	139,473
Total	**167,363**	**177,734**

TRADE PAYABLES TO SUPPLIERS IN THE GORENJE GROUP

EURk	**2015**	**2016**
Trade payables to suppliers in Slovenia	6,992	6,346
Trade payables to suppliers abroad	23,444	31,915
Total	**30,436**	**38,261**

TRADE PAYABLES TO SUPPLIERS IN THE GORENJE GROUP – SLOVENIA

Company / *EURk*	**2015**	**2016**
Kemis, d.o.o., Vrhnika	26	27
Gorenje Surovina, d.o.o., Maribor	50	87
Gorenje I.P.C., d.o.o., Velenje	4,183	4,760
Gorenje GTI, d.o.o., Velenje	159	203
Gorenje Gostinstvo, d.o.o., Velenje	160	165
Gorenje Orodjarna, d.o.o., Velenje	1,634	916
ERICo, d.o.o., Velenje	24	10
Gorenje design studio, d.o.o. – in liquidation, Velenje	260	0
Gorenje GAIO, d.o.o., Šoštanj	348	152
Gorenje GSI, d.o.o., Ljubljana	122	1
ZEOS, d.o.o., Ljubljana	2	0
Gorenje Keramika, d.o.o., Velenje	17	0
Gorenje Studio, d.o.o., Ljubljana	0	11
Indop, d.o.o., Šoštanj	7	14
Total	**6,992**	**6,346**

TRADE PAYABLES TO SUPPLIERS IN THE GORENJE GROUP – FOREIGN COUNTRIES

Company / *EURk*	**2015**	**2016**
Gorenje Zagreb, d.o.o., Croatia	2	16
Gorenje, d.o.o., Serbia	365	55
Gorenje aparati za domaćinstvo, d.o.o., Serbia	9,688	14,733
Gorenje Tiki, d.o.o., Serbia	2,720	2,901
Gorenje Vertriebs GmbH, Germany	174	349
Gorenje Austria Handels GmbH, Austria	21	0
Gorenje Beteiligungs GmbH, Austria	2,581	1,604
Asko Appliances AB, Sweden	936	2,316
Gorenje Group Nordic A/S, Denmark	711	666
ATAG Nederland BV, the Netherlands	667	1,426
Gorenje Nederland BV, the Netherlands	8	255
Gorenje UK Ltd., Great Britain	0	5
Gorenje France S.A.S., France	60	3
Gorenje Körting Italia S.r.l., Italy	93	91
Gorenje Slovakia s.r.o., Slovakia	6	7
Gorenje spol. s r.o., Czech Republic	461	713
Mora Moravia s r.o., Czech Republic	1,573	4,971
Gorenje Magyarország Kft., Hungary	159	23
Gorenje Polska Sp. z o.o., Poland	83	20
Gorenje Romania S.r.l., Romania	1	1
Gorenje Gulf FZE, United Arab Emirates	55	143
Gorenje Istanbul Ltd., Turkey	38	38
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	0	1
Gorenje Home, d.o.o., Serbia	2,370	840
Gorenje real spol s r.o., Czech Republic	5	0
Gorenje TOV, Ukraine	31	52
Gorenje Asia Ltd., China	177	92
Asko Appliances Pty, Australia	287	234
Gorenje North America, Inc., USA	47	20
OOO Gorenje BT, Russia	16	88
Gorenje Kazakhstan, TOO, Kazakhstan	13	35
Gorenje Bulgaria EOOD, Bulgaria	18	7
Gorenje MDM, d.o.o., Serbia	1	31
Gorenje Studio, d.o.o., Serbia	78	103
Asko Appliances OOO, Russia	0	71
Gorenje Skopje, d.o.o., Macedonia	0	3
Revaluation	-1	2
Total	**23,444**	**31,915**

TRADE PAYABLES TO OTHER SUPPLIERS

EURk	**2015**	**2016**
Trade payables to other suppliers in Slovenia	42,758	44,621
Trade payables to other suppliers abroad	94,169	94,852
Total	**136,927**	**139,473**

Note 76 – Other current liabilities EUR 20,498k

EURk	2015	2016
Payables to employees	7,426	7,761
Payables to state and other institutions	1,055	1,140
Payables for advances received	858	963
Other payables	3,084	3,278
Accrued costs and expenses	5,299	7,356
Total	**17,722**	**20,498**

As at 31 December, current payables to employees include:

EURk	2015	2016
Wages and salaries, continued pay	3,684	4,046
Payroll contributions	1,401	1,518
Payroll taxes	803	848
Other work-related earnings	601	405
Deductions from wages and salaries	854	882
Other payables	83	62
Total	**7,426**	**7,761**

Accrued costs and expenses were created for accrued costs of services in the amount of EUR 1,675k (2015: EUR 1,375k), accrued interest expenses on borrowings taken in the amount of EUR 1,564k (2015: EUR 1,750k), accrued costs for customer bonuses in the amount of EUR 398k (2015: EUR 415k), and accrued costs for work-related costs in the amount of EUR 3,719k (2015: EUR 1,759k).

Note 77 – Contingent liabilities

Contingent liabilities from loan guarantees given to financial institutions for financial burdens of its subsidiaries in the amount of EUR 37,400k (2015: EUR 51,126k) and its associates in the amount of EUR 169k (2015: EUR 3,645k), to third parties in the amount of EUR 11,384k (2015: EUR 11,022k), and to the subsidiary Gorenje Beteiligungs in the amount of EUR 2,821k (2015: EUR 5,599k) are recorded in a separate account. The overall guarantee to third parties in the amount of EUR 11,384k refers to the shipping transport of coal. In addition, contingent liabilities from performance bonds and payment guarantees in the amount of EUR 2,758k (2015: EUR 2,122k) are also recorded in a separate account.

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.

Note 78 – Financial risks and financial instruments

The Company is 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 financial expenses 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 expenses. The risk 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 clarified in detail below.

CREDIT RISK

The carrying amount of financial assets represents the maximum credit risk exposure, The maximum credit risk exposure at the reporting date:

EURk	2015	2016
Available-for-sale financial assets	2,927	1,617
Loans	179,379	139,920
Trade and other receivables	155,185	141,586
Cash and cash equivalents	7,599	14,743
Other receivables from financing activities	2,804	6,988
Total	**347,894**	**304,854**

Trade receivables form the Company's most significant portion of credit risks or risk of default by the counterparty. As at the year-end of 2016, these trade receivables amounted to EUR 130,860k and indicate a decline over the previous period by EUR 14,462k. The decrease in trade receivables is mostly the result of a more active receivables management, which includes an intensified collection and precise rules for defining credit limits for individual buyers. The lower volume of receivables is partly also attributable to activities of permanent non-recourse factoring, which is performed in cases where costs of such activities do not exceed the finance expenses.

The maximum credit risk exposure of trade receivables at the reporting date by geographic region:

EURk	2015	2016
Western Europe	44,025	28,138
Eastern Europe	72,347	65,388
Other countries	28,950	37,334
Total	**145,322**	**130,860**

The maximum credit risk exposure of trade receivables at the reporting date by type of customer:

EURk	2015	2016
Wholesale customers	144,984	130,303
Other customers	338	557
Total	**145,322**	**130,860**

The substantial part of revenue is generated on transactions with Group companies, hence most of trade receivables (63.4%) refers to subsidiaries. The default risk on the side of the counterparty under these receivables is thereby minimal. In view of third parties, the Company conducts business solely with buyers that boast of a proper credit rating, which is monitored on a regular basis in compliance with the adopted Accounts Receivable Management Policy that defines the relevant management processes, persons in charge, and admissible instruments for credit risk hedging. The Accounts Receivable Management Policy is applied on the Company and Group level.

Maturity of trade receivables as at the balance sheet date:

2015 *EURk*	Gross value (Group companies)	Gross value (other companies)	Total gross value	Total allowance
Not past due	98,458	28,525	126,983	0
Past due 1 to 5o days	5,955	2,868	8,823	0
Past due 51 to 100 days	2,440	177	2,617	0
Past due 101 to 180 days	1,933	200	2,133	0
Past due 181 to 270 days	312	81	393	0
Past due 271 to 360 days	1,428	286	1,714	0
Past due 361 to 720 days	2,183	456	2,639	0
Past due 721 to 1080 days	193	158	351	0
Past due over 1081 days	1,556	5,547	7,103	0
Allowances for receivables	0	0	0	-7,434
Total	**114,458**	**38,298**	**152,756**	**-7,434**

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 5o 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 1080 days	888	413	1,301	0
Past due over 1081 days	1,611	5,615	7,226	0
Allowances for receivables	0	0	0	-7,527
Total	**84,546**	**53,841**	**138,387**	**-7,527**

Movements in allowances for trade receivables:

EURk	2015	2016
Balance at 1 Jan	**7,764**	**7,434**
Impairment loss	119	255
Payments	-379	-122
Write-off of receivables	-70	-40
Balance at 31 Dec	**7,434**	**7,527**

Company'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 business partner. Regardless of implementing the receivables management process, default on the side of unrelated entities or even their inability to settle their payments exists. With respect to the Company's and 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 exposure to credit risk is moderate. 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 acceptable according to the accounts receivable management policy:

- collateralization of receivables through credit insurance companies,
- collateralization of receivables through bank guarantees and letters of credit,
- sale of receivables without recourse, and
- in exceptional circumstances and upon receiving special approval, also pledges or first class mortgages.

By the end of 2016, Company's total receivables due from independent buyers and secured with acceptable hedging instruments accounted for 54.4%. The share of collateralised receivables has increased over the 2015 balance by 5.3 p.p. Receivables are secured by the SID - Prva kreditna zavarovalnica d.d., while a smaller part also with other acceptable hedging instruments. Part of Company's receivables is hedged naturally with counter-trade, thus the risk of default in this part is minimal and hedging with acceptable instruments unnecessary.

In compliance with the financing policy, the Company primarily finances its subsidiaries. Loans recorded as at 31 December 2016 (EUR 139,920k) largely include loans extended to subsidiaries (EUR 135,671k) 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 these loans amounted as at the end of 2016 to EUR 4,249k and shows a decline by 11.7% relative to 2015.

The Company carefully monitors the credit risk also in other business segments. Current surplus of assets and balances on bank accounts are placed in compliance with corporate policies, which include 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 risk exposure arises in connection with the value of trade receivables and other receivables.

LIQUIDITY RISK

Liquidity risk includes risks denoting the lack of available funds and consequently risk that the Company and Group will fail to meet commitments in stipulated period of time.

Liquidity depends on effective cash management and investment dynamics. Providing for Company's and Group's liquidity is inseparable due to the Group's sales model. Liquidity risk is actively monitored on the Company and Group level by means of a centralised balancing of assets' liquidity (primarily receivables and inventories), of liabilities and cash flows from operating and investment activities. The Company applies a centralised cash management, 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 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 disperse the sources of financing, Gorenje already for the fourth time successfully issued short-term commercial papers in 2016 in the total par value of EUR 28,908k. The respective issues of commercial papers that will continue also in 2017 (the fifth issue of short-term commercial papers in the par value of EUR 40,000k was performed in January 2017), are earmarked for balancing the seasonal dynamics of cash flows from operating and investing activities, which as a rule is negative in the first half-year but gradually improves by the end of the calendar year. The short-term imbalance of cash flows is additionally balanced by revolving loans and overdrafts on bank accounts in Slovenia and abroad. Company's liquidity reserve that consists of undrawn but approved credit lines, available bank balances and deposits with banks, amounted as at the year-end of 2016 to EUR 54,717k. The liquidity reserves is earmarked for short-term balancing of cash flows and significantly reduces the Company's exposure to liquidity risk.

Liquidity reserve as at 31 December:

EURk	**2015**	**2016**
Undrawn and approved current and non-current borrowings	28,691	39,974
Cash and cash equivalents	7,599	14,743
Total	**36,290**	**54,717**

The Company provides for debt financing and servicing the entire Gorenje Group. The process of ensuring a stable maturity structure of the financial debt on the Company and Group level was continued in 2016, in addition to reducing the costs of financing, by means of which all Company's and Group's borrowings, which gradually matured in 2016, 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 2016, Group's non-current financial liabilities accounted for 73.1% of total financial liabilities; a stable financial structure is maintained also by the Company, where non-current financial liabilities accounted for 62.8% of its total financial liabilities at the end of 2016;
- reduced the average cost of financing;
- ensured a sustainable scope of refinancing required on the Company and Group level.

The Company and the Group have a long-term servicing plan for financial liabilities which is being regularly updated.

Financial liabilities by maturity:

31 December 2015 *EURk*	**Carrying amount**	**Contrac-tual cash flows**	**1 year or less**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Non-derivative financial liabilities						
Bank borrowings	254,956	281,126	59,394	60,090	125,870	35,772
Liabilities arising from bonds issued	58,118	62,897	16,568	16,005	30,324	
Borrowings from related entities and third parties	77,157	80,431	77,903	2,528		
Other financial liabilities	2,232	2,232	2,232			
Trade payables	167,363	167,363	167,363			
Other current liabilities	12,423	12,423	12,423			
Total	**572,249**	**606,472**	**335,883**	**78,623**	**156,194**	**35,772**
Derivative financial receivables and liabilities						
Interest rate swaps	-1,080	-1,412	-557	-349	-483	-23
Forward exchange contracts used for hedging	180	180	180			
Outflow	-611	-611	-611			
Inflow	791	791	791			
Total	**-900**	**-1,232**	**-377**	**-349**	**-483**	**-23**

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	
Borrowings from related entities and third parties	64,333	66,263	66,263			
Other financial liabilities	2,636	2,636	2,636			
Trade payables	177,734	177,734	177,734			
Other current liabilities	13,142	13,142	13,142			
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			
Outflow	-1,770	-1,770	-1,770			
Inflow	1,434	1,434	1,434			
Total	**-1,853**	**-2,495**	**-1,092**	**-598**	**-768**	**-37**

Contractual cash flows arising on Company's non-derivative financial liabilities, which fall due in one year or less, amounted as at the year-end of 2016 to EUR 350,296k and indicate an increase of EUR 14,413k over the 31 December 2015 balance. Most of the relevant increase in contractual cash flows refers to the higher volume of bank borrowings, which is the result of the centralised financing activity and management of the Group's liquidity and a higher level of trade payables.

Company's liquidity risk is assessed as moderate in view of measures implemented within restructuring the debt maturity structure, the centralised planning of short-term and long-term cash flows, and access to a wide range of financial and bank partners.

CURRENCY RISK

For reasons of the sales model applied within the Gorenje Group and under which the currency risks are transferred to subsidiaries, the Company is not to a large extent directly exposed to currency risk, where the economic benefits of an entity may decline due to exchange rate fluctuations.

In 2016, the currency risks accordingly originated mostly from the performance of business activities in the US dollar markets, whereas the 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 long-term decline in currency fluctuation exposure by matching or netting sales and purchases. With respect to the transitional invoicing to the subsidiaries in England and Poland in the local currency, the Company was in 2016 exposed also to the risk of currency fluctuations i.e. the EUR/GBP and EUR/PLN exchange rates.

The Company uses forward contracts and short-term borrowings denominated in US dollars in case of short-term hedging against currency fluctuations, to which it is exposed on the net exposure level.

Company's exposure to currency risk:

31 December 2015 *EURk*	EUR	SEK	DKK	RUB	USD	CHF	Other currencies
Trade receivables	141,419		12		3,886		5
Financial liabilities	-389,613				-618		
Trade payables	-159,809	-316	-19	-16	-7,126	-42	-35
Financial position exposure	**-408,003**	**-316**	**-7**	**-16**	**-3,858**	**-42**	**-30**

31 December 2016

EURk	EUR	SEK	PLN	RUB	USD	GBP	Other currencies
Trade receivables	122,531		1,377		5,848	890	214
Financial liabilities	-400,731				-766		
Trade payables	-174,585	-476	-1	-161	-2,416	-5	-90
Financial position exposure	**-452,785**	**-476**	**1,376**	**-161**	**2,666**	**885**	**124**

Significant exchange rates applied during the year comprise:

	Average rate		Reporting date spot rate	
	2015	**2016**	**2015**	**2016**
SEK	9.3545	9.4689	9.1895	9.5525
DKK	7.4587	7.4452	7.4626	7.4344
RUB	68.0068	74.1446	80.6736	64.3000
USD	1.1096	1.1069	1.0887	1.0541
CHF	1.0676	1.0902	1.0835	1.0739
PLN	4.1828	4.3632	4.2639	4.4103
GBP	0.7260	0.8195	0.7340	0.8562

The Company and the Group defined a Currency Risk Management Policy, which among others defines:

- 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.

The Company is engaged in active hedging against currency risks, whereby also natural balancing of currency risks is carried out by means of internal techniques that include customising the purchase/sale segment in individual currency, and the foreign currency borrowing, where assets and other internal mechanisms are exposed. Hedges against currency fluctuations are entered into on a regular and continuous basis by applying acceptable hedging instruments, whereby the hedge level is set between 60% and 80% of planned cash flows. The methodology clearly determines the required time of currency hedging, which depends upon the volatility of each individual currency. The required level of hedge is determined on the basis of the ratio between the individual currency's impact on Group's performance (volume of business operations) and the probability of currency fluctuation (currency volatility).

Currency risk management is carried out on a centralised basis and a committee for managing currency risks was appointed as well. 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 they are provided by the parent company adequate support and credit lines with acceptable partners. The centralised approach to credit risk management has shown optimum effects of hedging against currency risk.

Sensitivity analysis

A 5 percent increase (decrease) 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 by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain unchanged. The analysis for 2016 has been performed on the same basis as for 2015.

31 December 2015

EURk	Profit or loss for the period
SEK	16
DKK	1
RUB	1
USD	193
CHF	2
Other currencies	2

31 December 2016

EURk	**Profit or loss for the period**
SEK	24
PLN	-69
RUB	8
USD	-133
GBP	-44
Other currencies	-6

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.

Company's exposure to currency risk is assessed as low.

INTEREST RATE RISK

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 reference interest rate. Thus, exposure to interest rate risk represents primarily the unfavourable movement (increase) of the Euribor 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.

Company's exposure to interest rate risk:

EURk	**2015**	**2016**
Fixed-rate financial instruments		
Financial assets	178,361	139,913
Financial liabilities	136,021	179,402
Variable-rate financial instruments		
Financial assets	1,000	0
Financial liabilities	254,210	222,095
Derivative financial assets/liabilities	-900	-1,853

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 Company's financial liabilities considerably exceed the interest-bearing assets. The share of financial liabilities bearing a fixed interest rate grew in 2016 and is recorded at 44.7% as at 31 December 2016. By entering into hedging instruments (interest rate swaps), the Company additionally hedged 31.0% of financial liabilities bearing a variable interest rate.

In the light of appropriate macroeconomic circumstances and the lower exposure to interest rate risks, the Company entered in 2016 into EUR 54,949m of interest rate swaps, whose effects were evident partly in 2016 and partly in 2017. The total value of concluded interest rate swaps as at 31 December 2016, whose effects were vivid already in 2016, is recorded at EUR 124,846k. Furthermore, EUR 7,744k of additional interest rate swaps were entered into, whose impact was due to the nature of transactions agreed for the period from 2017 onwards.

As for interest rate swaps, the Company enters 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, the Company observes the requirement that characteristics of relevant interest rate swaps equal (i.e. maturity, amount, type of interest rate and its alignment) a borrowing 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 2016 has been performed on the same basis as for 2015.

31 December 2015	**Profit or loss for the period**		**Other comprehensive income**	
EURk	**Increase by 50 bp**	**Decrease by 50 bp**	**Increase by 50 bp**	**Decrease by 50 bp**
Variable rate instruments	-1,199	271	0	0
Interest rate swap contracts	124	-124	1,034	-1,034
Cash flow variability (net)	**-1,075**	**147**	**1,034**	**-1,034**

31 December 2016	**Profit or loss for the period**		**Other comprehensive income**	
EURk	**Increase by 50 bp**	**Decrease by 50 bp**	**Increase by 50 bp**	**Decrease by 50 bp**
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**

Company's exposure to interest rate risk is assessed as moderate.

Note 79 – Fair value

The fair values and book values of financial assets and financial liabilities

	2015		**2016**	
EURk	**Book value**	**Fair value**	**Book value**	**Fair value**
Available-for-sale investments	2,927	2,927	1,617	1,617
Land and investment property	37,078	37,078	34,750	34,750
Non-current loans	1,018	1,018	1,357	1,357
Current loans	178,361	178,361	138,563	138,563
Derivatives	-900	-900	-1,853	-1,853
Trade receivables	145,322	145,322	130,860	130,860
Other current assets	9,863	9,863	10,726	10,726
Cash and cash equivalents	7,599	7,599	14,743	14,743
Non-current financial liabilities	-198,254	-198,254	-140,578	-140,578
Non-current financial liabilities (fixed interest rate)	-51,429	-44,604	-115,074	-81,849
Current financial liabilities	-142,779	-142,779	-148,399	-148,399
Trade payables	-167,363	-167,363	-177,734	-177,734
Other current payables	-12,423	-12,423	-13,142	-13,142
Total	**-190,980**	**-184,155**	**-264,164**	**-230,939**

Available-for-sale investments are valued at fair value based on officially published prices on the active market in the amount of EUR 132k and assumptions about significant impact on the fair value that are inconsistent with observable current market transactions using the same instruments and investments, valued at cost and totalling to EUR 1,485k.

The fair value of non-current financial liabilities is calculated on the basis of market interest rates and classified among Level 2 fair values.

Fair value scale

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,

Year 2015

EURk	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	168	-	2,759	2,927
Derivatives – assets	-	791	-	791
Derivatives – liabilities	-	-1,691	-	-1,691
Land and investment property	-	-	37,078	37,078

Year 2016

EURk	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	132	-	1,485	1,617
Derivatives – assets	-	1,237	-	1,237
Derivatives – liabilities	-	-3,090	-	-3,090
Land and investment property	-	-	34,750	34,750

Land was valued based on comparable sales with adjustments made in view of time and location of the sale, the size of the property and other physical and functional characteristics. Fair value of investment property was assessed by applying the direct capitalisation method. Land and investment properties were appraised in 2013 by an independent certified appraiser of real property. Significant items of investment property were again evaluated in 2016. Their fair value has not changed with respect to market data and the management's estimate.

Forward exchange contracts

The total fair value of forward exchange contracts amounted to EUR -336k as at 31 December 2016 (2015: EUR 180k) 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 as at 31 December 2016 amounted to EUR -1,517k (2015: EUR -1,080k) and is recorded under other current financial liabilities for derivatives.

Note 80 – Covenants relating to investments

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 9,906k (2015: EUR 11,669k).

The largest share relates to the investment in the new generation of Gorenje washing and dryer appliances (EUR 2,280k) and the new generation of Asko washing and dryer appliances (EUR 1,517k). They are followed by the investment in the new types of dishwashers (EUR 1,022k), the new generation of built-in induction cookers (EUR 783k), the new generation of integrated cooler-freezer appliances (EUR 684k), the new 600 mm free-standing cookers (EUR 507k), and the built-in gas cookers (EUR 203k). The residual amount refers to certain minor investments (e.g. new robot cell, sprinklers, and tools).

Note 81 – Related party transactions

The transactions with related parties were conducted based on sale/purchase contracts. The prices used in these contracts were the market prices of products and services equivalent to those prevailing in the arm's length transactions. The transactions with related parties were disclosed under the respective balance sheet items.

Transaction with persons related to the Supervisory Board included in 2016 following:

- subscription of 6,800 commercial papers in the nominal value of EUR 6,800k,
- HR advisory services (EUR 137k),
- transferring payments of compulsory and voluntary health insurance to the employee's bank accounts and participation in payment of premiums of voluntary pension insurance (EUR 121k).

INFORMATION ON EARNINGS

Following personal earnings were paid to the groups of persons stated below:

Gross earnings in 2015

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	1,296	0	6,441
Incentive bonuses	305	0	772
Benefits	99	0	321
Other income	410	0	108
Attendance fees	0	47	0
Function-related attendance	0	183	0
Refund of work-related expenses	0	128	0
Total	**2,110**	**358**	**7,642**

Net earnings in 2015

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	528	0	3,246
Incentive bonuses	126	0	337
Other income	325	0	65
Attendance fees	0	34	0
Function-related attendance	0	134	0
Refund of work-related expenses	0	94	0
Total	**979**	**262**	**3,648**

Gross earnings in 2016

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	1,156	0	6,783
Incentive bonuses	0	0	0
Benefits	86	0	340
Other income	396	0	741
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**

Other income paid out to Management Board members comprises the annual vacation bonus, the end-of-year bonus and the allowance for membership in the Supervisory Board of Gorenje Beteiligungs. Bonuses comprise benefits relating to the private use of the company car and to insurance premiums.

Net earnings in 2016

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	468	0	3,448
Incentive bonuses	0	0	0
Other income	276	0	335
Attendance fees	0	36	0
Function-related attendance	0	175	0
Refund of work-related expenses	0	135	0
Total	**744**	**346**	**3,783**

Pursuant to the Companies Act, total payments, reimbursements, and other benefits to the Management Board members, the Supervisory Board members, and the members of the Audit Committee are outlined below.

MANAGEMENT BOARD MEMBERS

Gross earnings in 2015

EUR	Salaries	Incentive bonuses	Benefits	Other income	Total
Franc Bobinac	252,750	61,809	25,253	88,469	428,281
Marko Mrzel	192,358	47,028	18,487	80,614	338,487
Branko Apat	206,710	50,670	20,957	79,646	357,983
Peter Groznik	234,021	46,812	8,471	79,865	369,169
Peter Kukovica	205,005	48,072	3,556	79,834	336,467
Drago Bahun	205,419	50,454	22,728	1,595	280,196
Total	**1,296,263**	**304,845**	**99,452**	**410,023**	**2,110,583**

Net earnings in 2015

EUR	Salaries	Incentive bonuses	Other income	Total
Franc Bobinac	97,159	25,271	70,300	192,730
Marko Mrzel	83,070	19,554	64,107	166,731
Branko Apat	80,745	20,922	63,294	164,961
Peter Groznik	97,566	19,325	63,387	180,278
Peter Kukovica	91,808	19,946	63,379	175,133
Drago Bahun	77,722	20,825	761	99,308
Total	**528,070**	**125,843**	**325,228**	**979,141**

Gross earnings in 2016

EUR	Salaries	Incentive bonuses	Benefits	Other income	Total
Franc Bobinac	253,819	0	28,230	74,018	356,067
Marko Mrzel	47,962	0	4,469	108,471	160,902
Branko Apat	207,563	0	19,727	66,741	294,031
Peter Groznik	234,666	0	6,867	67,955	309,488
Peter Kukovica	205,861	0	5,029	66,765	277,655
Drago Bahun	206,276	0	21,549	11,934	239,759
Total	**1,156,147**	**0**	**85,871**	**395,884**	**1,637,902**

Net earnings in 2016

EUR	Salaries	Incentive bonuses	Other income	Total
Franc Bobinac	94,658	0	58,751	153,409
Marko Mrzel	20,858	0	48,468	69,326
Branko Apat	81,991	0	52,955	134,946
Peter Groznik	99,180	0	53,871	153,051
Peter Kukovica	91,626	0	52,973	144,599
Drago Bahun	79,160	0	9,108	88,268
Total	**467,473**	**0**	**276,126**	**743,599**

MEMBERS OF THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE

Gross earnings in 2015

EUR	Attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	2,802	15,449	0	1,168	19,419
Maja Makovec Brenčič	576	2,808	0	183	3,567
Bachtiar Djalil	4,858	16,251	0	543	21,652
Keith Miles	6,450	16,251	0	9,874	32,575
Bernard C, Pasquier	4,297	17,294	0	12,347	33,938
Corinna Claudia Graf	3,338	14,101	0	8,129	25,568
Toshibumi Tanimoto	4,250	14,101	0	92,456	110,807
Marko Voljč	3,582	19,010	0	2,910	25,502
Jure Slemenik	3,234	14,101	0	0	17,335
Drago Krenker	4,810	14,101	0	0	18,911
Krešimir Martinjak	3,042	15,449	0	0	18,491
Peter Kobal	4,442	14,101	0	0	18,543
Aleksander Igličar	1,384	9,805	0	517	11,706
Total	**47,065**	**182,822**	**0**	**128,127**	**358,014**

Net earnings in 2015

EUR	Attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	2,038	11,236	0	849	14,123
Maja Makovec Brenčič	419	2,042	0	133	2,594
Bachtiar Djalil	3,533	11,819	0	395	15,747
Keith Miles	4,999	12,594	0	7,653	25,246
Bernard C, Pasquier	3,125	12,578	0	8,980	24,683
Corinna Claudia Graf	2,427	10,256	0	5,912	18,595
Toshibumi Tanimoto	3,091	10,256	0	67,243	80,590
Marko Voljč	2,605	13,826	0	2,117	18,548
Jure Slemenik	2,352	10,256	0	0	12,608
Drago Krenker	3,498	10,256	0	0	13,754
Krešimir Martinjak	2,212	11,236	0	0	13,448
Peter Kobal	3,230	10,256	0	0	13,486
Aleksander Igličar	1,007	7,131	0	376	8,514
Total	**34,536**	**133,742**	**0**	**93,658**	**261,936**

Gross earnings in 2016

EUR	Attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	3,740	20,250	0	1,743	25,733
Miha Košak	770	7,698	0	6,036	14,504
Bachtiar Djalil	4,961	22,500	0	311	27,772
Keith Miles	4,070	11,734	0	6,505	22,309
Bernard C, Pasquier	4,785	24,000	0	23,747	52,532
Corinna Claudia Graf	3,850	20,544	0	11,578	35,972
Toshibumi Tanimoto	4,620	18,750	0	74,891	98,261
Marko Voljč	4,180	26,250	0	59,765	90,195
Jure Slemenik	3,410	18,750	0	0	22,160
Drago Krenker	5,896	18,750	0	0	24,646
Krešimir Martinjak	3,245	20,250	0	0	23,495
Peter Kobal	4,070	18,750	0	0	22,820
Aleksander Igličar	1,715	12,000	0	535	14,250
Total	**49,312**	**240,226**	**0**	**185,111**	**474,649**

Net earnings in 2016

EUR	Attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	2,720	14,728	0	1,268	18,716
Miha Košak	561	5,598	0	4,390	10,549
Bachtiar Djalil	3,608	16,364	0	226	20,198
Keith Miles	3,154	9,094	0	5,042	17,290
Bernard C, Pasquier	3,480	17,455	0	17,271	38,206
Corinna Claudia Graf	2,800	14,942	0	8,420	26,162
Toshibumi Tanimoto	3,360	13,637	0	54,468	71,465
Marko Voljč	3,040	19,092	0	43,467	65,599
Jure Slemenik	2,480	13,637	0	0	16,117
Drago Krenker	4,288	13,637	0	0	17,925
Krešimir Martinjak	2,359	14,728	0	0	17,087
Peter Kobal	2,960	13,637	0	0	16,597
Aleksander Igličar	1,248	8,728	0	389	10,365
Total	**36,058**	**175,277**	**0**	**134,941**	**346,276**

No non-current and current loans were extended to members of the Management Board, the Supervisory Board, and to internal owners.

Note 82 – Transactions with the audit company

Pursuant to Article 57 of the Companies Act, the audit of Gorenje, d.d. was conducted by the audit company Deloitte Slovenia and the independent auditor's report was issued on 31 March 2017. In 2016, the cost of the annual report's audit was recorded at EUR 90k (2015: EUR 93k).

Compliance with the GRI Sustainability Guidelines and Integrated Reporting Principles

We are looking to 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 guidelines and integrated reporting principles.

Development of Gorenje Group Corporate Reporting

Sustainability reporting – we are pursuing the GRI G4 guidelines:

- For the **second 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.
- As planned, this year's report includes a **content upgrade** for key disclosures about the following aspects of our sustainable operations:
  - stakeholder relations (why, what, and how we communicate and involve our stakeholders),
  - manufacturing operations, especially in terms of environmental impact, automation and modular production, alignment of processes within the supply chain, development of sustainable products, and occupational safety and health,
  - supply chain management, with extra focus on cooperation between purchasing, production, logistics, and sales, to eliminate critical problems along the supply chain.
- In the future, the information presented in the Annual Report will be upgraded:
  - with **definition of material aspects** and boundaries of relevance for Gorenje Group operations and, in turn, for our reporting, consistently with the Gorenje Group Strategic Plan for the period 2016–2020, and taking into account the comprehensive transformation from functional into business-product (divisional) organization, which is in progress in 2017;
  - 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.

Implementing integrated reporting – pursuing the IIRC principles:

- This year's Annual Report is an important **step taken by the Gorenje Group on the way towards implementing integrated reporting** in which we are pursuing the principles of the IIRC global alliance (International Integrated Reporting Council).
- **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 economic, environmental, and social field;
  - we report on **links and relations between capitals and key performance indicators, and risk management measures**.

* 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.

Development of Gorenje Group corporate reporting

STEPS TAKEN
1999 – 2016

1999
Since 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).

STEPS PLANNED
2017 – 2020

2017/2018
Further **advancement of integrated reporting** consistently with the guidelines 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 as of February 2017, 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**.

For all and any questions regarding the Annual Report and its compliances with the sustainable reporting and integrating reporting guidelines, please write to: bojana.rojc@gorenje.com.

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	17
Organization profile			
G4-3	Name of organization	1.5.1 1.5.7 Impressum	23 33
G4-4	Primary brands, products, and services	1.5.1 1.5.5	23 28
G4-5	Location of organization's headquarters	Notes to the Financial Statements 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	1.5.7 2.1.1 (Sales by regions) Notes to the Financial Statements	33 53 125
G4-7	Nature of ownership and legal form	2.1.2	66
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	1.5.7 2.1.1	33 53
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 Composition of the Gorenje Group	49 91 137
G4-10	Employees by type of employment, employment contract, and gender	2.3.1	91
G4-12	Description of the organization's supply chain	2.1.1 (Operational support functions) 2.2.1	63 82
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	1.3 1.5.4 1.5.8 2.1.1 Composition of the Gorenje Group Notes to the Financial Statements	17 26 35 53 137 125

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)	82
G4-16	Membership in associations/organizations	1.5.6	29
Identified material aspects and boundaries			
G4-17	List of entities included in the organization's consolidated financial statements	Composition of the Gorenje Group	137
G4-18	Process for defining the report content and the aspect boundaries	Notes to the Financial Statements	125
G4-19	List of all material aspects identified in the process for defining report content	1.5.4 (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 2017.)	26
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	2.1.1 (Sales by region and Operational support functions)	53
Stakeholder engagement			
G4-24	List of stakeholder groups engaged by the organization	1.5.6	29
G4-25	Basis for identification and selection of stakeholders with whom to engage	1.5.4 1.5.6 2.1.2	26 29 66
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by stakeholder group	1.5.6 2.1.2	29 66
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	1.5.4 1.5.6 2.1.2	26 29 66

Indicator	Disclosure	Section	Page
Report Profile			
G4-28	Reporting period	4.	211
G4-29	Date of most recent previous report	Audited Annual Report of the Gorenje Group for 2015 was released on April 22, 2016: Audited consolidated and non-consolidated annual report for 2015.	
G4-30	Reporting cycle	4. (Annual Reporting)	211
G4-31	Contact point for questions regarding the report	4. (bojana.rojc@gorenje.com)	212
G4-32	GRI content index	4.2	213
G4-33	External assurance for the report according to GRI guidelines	Not carried out (external assurance for the report according to GRI guidelines is planned for the future).	
Governance			
G4-34	Governance structure of the organization, including committees of the highest governance body.	1.5.8	35
G4-38	Composition of the highest governance body and its committees	1.5.8	35
G4-39	Role of the chair of the highest governance body	1.5.8	35
G4-51	Remuneration policies for the highest governance body and senior executives	1.5.8	35
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	1.5.2 1.5.3 1.5.4 1.5.8 2.1.2 4.	25 25 26 35 66 211

Specific standard disclosures

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
ECONOMIC IMPACT	**DMA**	**2.1** **1.5.4** **2.4.2**	49 26 101	
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 (Sales by regions) 2.1.2 (Gorenje share in 2016) 2.1.3 2.3.3	11 53 67 70 96	
	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 2016)	87 101	
	G4-EC3 Retirement plan liabilities and obligations	Note 34 Note 72	155 192	We have established a system of provisions for retirement benefits.
Procurement practice	G4-EC9 Proportion of spending on local suppliers at significant locations of operation	2.1.1 (Purchasing)	62	Information on the share of spending is not prepared at this point. This is planned in the future.
ENVIRONMENTAL IMPACT	**DMA**	**2.2** **1.5.4** **2.4.2**	81 26 101	
Energy	G4-EN3 Energy consumption within the organization	2.2.1 2.2.4 (Electricity consumption)	82 86	
	G4-EN6 Reduction of energy consumption	2.2.4 (Electricity consumption)	86	
Water	G4-EN8 Total water withdrawal	2.2.4 (Water consumption)	86	
Emissions	G4-EN15, G4-EN17 Direct and indirect greenhouse gas emissions	2.2.1 2.2.5	82 87	

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
	G4-EN16 Energy indirect greenhouse gas (GHG) emissions	2.2.5	87	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)	82 85	
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	82 83 85 87	
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	83 83	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	83	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	2.1.1 (Purchasing and Operational support functions) 2.2.1	62, 63 82	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	Percentage of new suppliers that were screened using environmental criteria			
Labour practices and decent work	**DMA**	**2.3** **1.5.4** **2.4.2**	89 26 101	
Hiring	G4-LA1 Total number and rates of new employee hires and employee turnover	2.3.1 (Number of employees; Skills-based hiring and recruitment)	91, 92	

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
	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)	92, 93	
	Return to work and retention rates after parental leave, by gender	2.3.1 (Protection of employee rights)	92	
Occupational health and safety	G4-LA6 Rates of work-related injury	2.3.1 (Occupational safety and health)	93	
Training and education	G4-LA9 Average hours of training per year per employee by gender, and by employee category	2.3.1 (Training and education, Leadership skills development: Corporate University of Gorenje)	93, 94	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 (Training and education, Leadership skills development: Corporate University of Gorenje)	93, 94	
	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, Training and education)	92, 93	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)	1.5.8 (Management Board, Supervisory Board) 2.3.1 (Skills-based hiring and recruitment; Employees by age; Employees by gender)	35 92	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)	92	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 (Purchasing, Operational support functions) 2.3.1 (Protection of employee rights, Occupational safety and health)	62, 63 92, 93	We do not report the share. We report indirectly on supplier review or testing in the section on supply chain management.

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
Labour Practices Grievance Mechanisms	G4-LA16 Number of grievances about labour practices filed, addressed, and resolved through formal grievance		92	We report on the importance of communication with the employees and the 2016 results: all three workplace mobbing reports were resolved consensually.
Human rights	**DMA**	**2.3.1** **1.5.4** **2.4.2**	91 26 101	
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, Training and education)	93	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.
Non-discrimination	G4-HR3 Total number of incidents of discrimination and corrective actions taken	2.3.1 (Protection of employee rights)	92	We report on the importance of communication with the employees and the 2016 results: all three workplace mobbing reports were resolved consensually.
Supplier Human Rights Assessment	G4-HR10 Percentage of new suppliers that were screened using human rights criteria	2.1.1 (Purchasing, Operational support functions) 2.3.1 (Protection of employee rights, Occupational safety and health)	62, 63 92, 93	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)	92	We report on the importance of communication with the employees and the 2016 results: all three workplace mobbing reports were resolved consensually.
Society	**DMA**	**2.3** **1.5.4** **2.4.2**	89 26 101	
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)	96	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	1.5.8 (Audit)	42	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.

Material aspects	Disclosures on management approach (DMA) and indicators	Section	Page	Comment on content omission
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)	102	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** **1.5.4** **2.4.2**	95 26 101	
Product and service labelling	G4-PR3 Type of product and service information required	2.3.2 (Assuring the quality of our products)	95	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)	95	We report that we did not have in 2016 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)	95	We report that we did not have in 2016 any case of non-compliance of our marketing and market communication approaches with the legislation or local codes.

Numbered Table of Contents

of the entire Gorenje Group Annual Report for the Year 2016*

* 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.

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gorenje group

ANNUAL REPORT 2016