RIDING THE WIND OF CHANGE

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GORENJE GROUP 2012 ANNUAL REPORT

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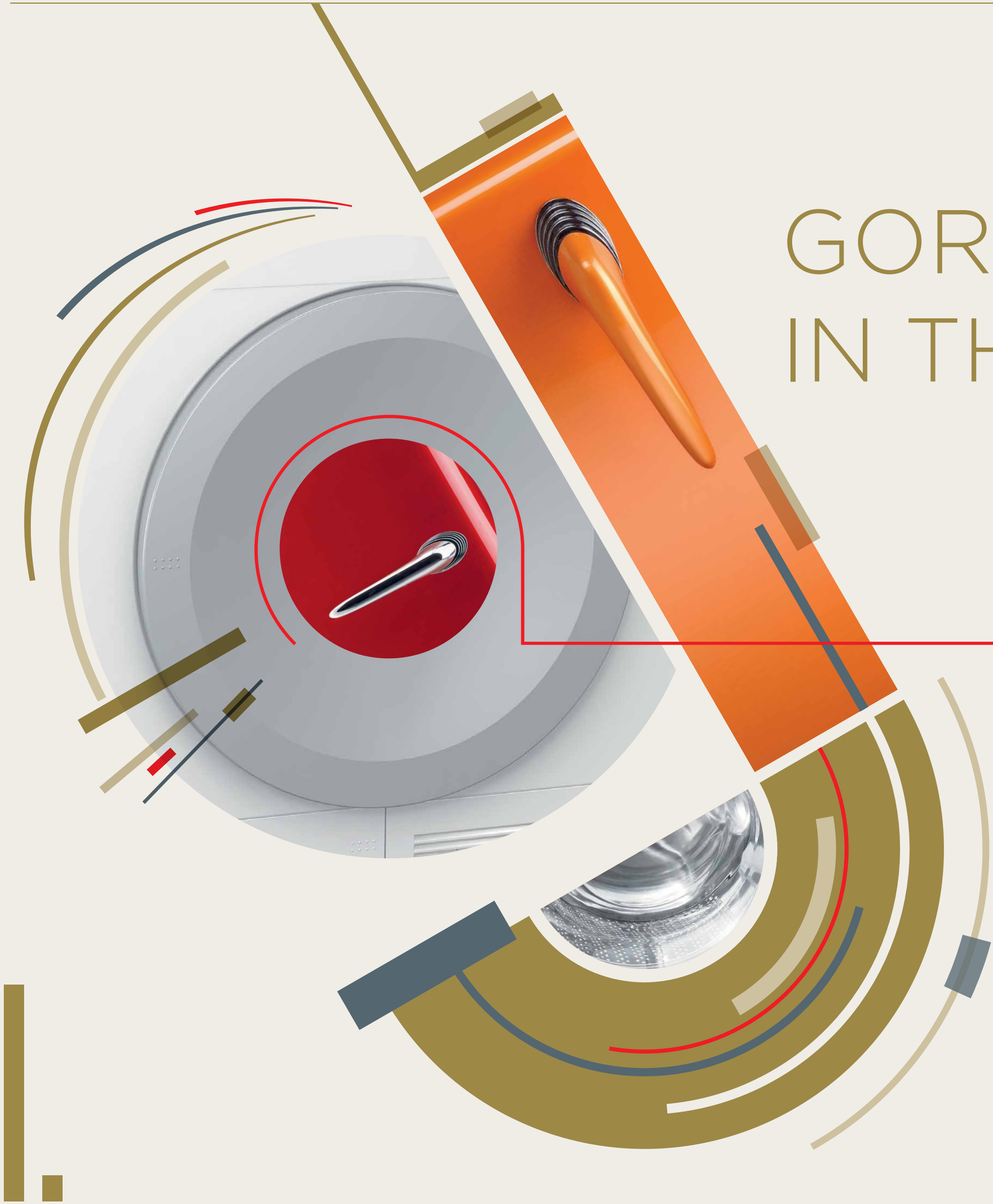
GORENJE GROUP IN THE YEAR 2012



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PERFORMANCE HIGHLIGHTS

- Year of strategic restructuring
- Launch of production facility optimisation
- Acceleration of activities to provide financial stability of operations
- Launch of new home products in markets
- Revenue decline of 1.5% with a fourth quarter revenue increase of 2.2%; Revenue growth from core activity of home products of 1.7%, with 6.9% growth in the last quarter
- Largest growth in the markets of Russia, Germany, Poland, Ukraine, Australia, the USA, Scandinavia, Bulgaria and Croatia
- Growth of 5.5% in non-European markets in line with strategic policy for stronger global presence
- EBIT margin of 3.6% was higher in the last quarter by 8.9% or by 2.7 percentage point
- Increased free cash flow of EUR 43.7m or EUR 12.5m over the previous period, and EUR 15.1m more than planned.

Performance highlights of the Gorenje Group

					Comparable[4]		
EURm	2012	2011	Index	Plan 2012	2012	2011	Index
Consolidated revenue	1,263.1	1,386.6	91.1	1,391.4	1,263.1	1,281.8	98.5
EBITDA	90.6	92.0	98.4	101.3	90.6	91.5	99.0
EBITDA margin (%)	7.2%	6.6%	/	7.3%	7.2%	7.1%	/
EBIT	44.9	43.7	102.9	50.0	44.9	43.6	103.0
EBIT margin (%)	3.6%	3.2%	/	3.6%	3.6%	3.4%	/
Profit before tax	14.8	18.3	80.8	15.9	14.8	17.1	86.5
Net profit or loss	0.3	9.1	3.2	13.4	0.3	8.1	3.6
ROS (%)	0.02%	0.7%	/	1.0%	0.02%	0.6%	/
ROA (%)	0.02%	0.7%	/	1.1%	0.02%	0.6%	/
ROE (%)	0.1%	2.3%	/	3.3%	0.1%	2.1%	/
ROIC (%)	3.4%	4.4%	/	5.2%	3.4%	4.4%	/
Free cash flow / narrow[1]	43.7	35.8	122.0	28.6	43.7	31.2	140.3
Financial debt	432.7	484.1	89.4	403.8	432.7	484.1	89.4
Net financial debt[2]	379.2	382.5	99.2	380.3	379.2	382.5	99.2
Net financial debt / EBITDA[3]	4.2	4.4	/	3.8	4.2	/	/

[1]Net profit or loss + amortisation and depreciation expense - Capex + divestment -+ change in inventories –+ change in trade receivables –+ change in trade payables
Items of free cash flow within the balance sheet are calculated based on the difference in balances without excluded discontinued operations.

[2]Financial debt - cash

[3]Net financial debt / EBITDA for the last 12 months

[4]Events affecting business performance explained on page 61.

2012 IN PICTURES AND WORDS

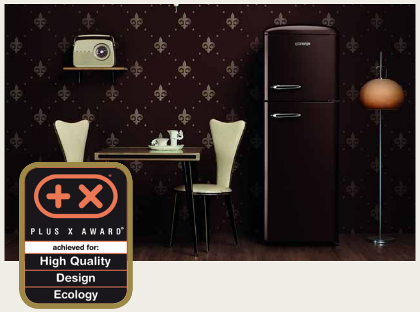
JANUARY

Two washing machines of the Asko brand scored best in Australia

At testing conducted by the Australian consumer organization Choice, two of our Asko brand washing machines ranked first and second in the category of washing machines 6- and 7 kg load capacity. In the independent testing and comparison, 45 washing machines were tested based on the following criteria: removal of dirt (40%), rinsing effect (20%), water use efficiency (15%), spinning efficiency (10%) and gentle treatment of laundry (15%).

FEBRUARY

Plus X Award for the Gorenje Retro collection refrigerator in the colour dark chocolate



In Germany, our refrigerator-freezer appliance Gorenje Retro RF 603010 OCH won the Plus X Award for high quality, superior design and environmentally friendly operation. The refrigerator, in a dark chocolate colour, was judged by an international expert panel consisting of 130 industry and media representatives from 32 countries.

MARCH

Our products were again among the best-designed products

The Gorenje SensoCARE washing machine with smart SensorIQ technology and the sensor controlled induction hob Gorenje IQcook were among the best-designed products of 2012 in the world. Products were decided by a 30-member jury of the most recognised international design competition for the Red dot design award. Our own development and design teams created both appliances. Gorenje was also awarded the Red dot design award for two cooker hoods from the Atag brand, with which Gorenje operates mainly in the Benelux countries. Gorenje Group is a perennial winner of the Red dot award.

Gorenje opens its factory in Zaječar

Together with a group of colleagues, we have solemnly opened the Gorenje's sanitary equipment production and washing machine assembly plant in Zaječar. The facility employs nearly 100 people and successfully operates since fall 2011.

APRIL

Peter Groznik was appointed member of the Management Board

On the proposal of the President of the Management Board and CEO of Gorenje, Franjo Bobinac, authorised to propose the members of the Management Board, and of the Supervisory Board's Remuneration Committee, the Supervisory Board appointed Peter Groznik as new member of the Management Board in charge of finance and managerial economics. Marko Mrzel, who had been appointed member of the Management Board in charge of finance and managerial economics on 3 March 2011, continues as member of the Management Board in charge of sales of major and small appliances as of 1 January 2012.

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MAY

Gorenje marked 20 years of Academy of Management

At the beginning of the Nineties, the Group began a more intense pursuit of new business opportunities abroad. Being well aware that international competitiveness can only be achieved with people who have sufficient management skills and expertise, and who are able to quickly detect and respond to changes, we established an in-house training programme for prospective employees – the Gorenje Academy of Management. To date nearly 500 employees have graduated from the Academy and, on 30 May 2012, a ceremony was to celebrate its 20th anniversary in the presence of its numerous graduates, the Company's management and the then president of the Republic of Slovenia, Dr. Danilo Türk.

JUNE

Restructuring of production facilities underway

Production of cookers in the Lahti factory in Finland ceased at the end of June and, in the following weeks, production was moved to the cooking appliances plant Mora Moravia in the Czech Republic. This was the first step in restructuring manufacturing operations. In the summer months we started construction works on the new refrigerator-freezer plant in Valjevo. Regular production in the new facility was launched in February 2013. In the past year, we have also announced the transfer of washing machine, dryer and dishwasher production from the plant in Sweden to Velenje. The production of washing machines and dryers in Sweden ceased on 31 January 2013 and has continued in Velenje, while the dishwasher production in Sweden will be halted by 30 June 2013 and resume in Velenje this autumn.

JULY

SID Banka long-term loan for development projects

Franjo Bobinac, President of the Management Board of Gorenje, and Sibil Svilan, President of the Management Board of SID Banka, signed an agreement by which SID Banka granted Gorenje a 10-year loan of EUR 28 m to finance four development projects. We will use the funds to develop new kitchen appliances excelling in energy efficiency and user-friendliness, high energy-efficient washing machines and tumble dryers and designer lines. Part of the funds will also be allocated to the development of solutions to improve the efficiency of manufacturing operations.

AUGUST

Gorenje's fifth appearance at the IFA Fair in Berlin

At the world's largest international consumer electronics and home appliance tradeshow IFA, Gorenje used the slogan "Innovation for healthy Lifestyle" to present the revolutionary and Red dot awarded IQcook induction hob with supreme steam-cooking technology, the first tumble dryer with IonTech technology and anti-allergic action, a new generation of washing machines and dryers with innovative SensorIQ technology, and a new generation of intelligent refrigerators that provide high-quality long-term food storage. Due to its size and international character, the IFA Fair provides an excellent opportunity to present novelties, strike new deals and win new customers from all over the world. Thus, we canvassed 8% more orders than in the previous year for the German market, which is one of the Group's most important markets.

SEPTEMBER

Award for exemplary corporate governance of a multinational corporation

At the international investor conference Investor Expo in Ljubljana, we received the award for exemplary corporate governance of a multinational corporation. The conference was organised by the Pan-Slovenian Shareholders Association in cooperation with the World Federation of Investors, European shareholders associations, and the European Federation of Financial Services Users.

Two gold innovation awards

At the jubilee 10th Innovation Day, the Chamber of Commerce and Industry of Slovenia presented awards for the best innovations of last year to companies, public-private institutes and innovators. Our development team received two gold awards: an award for the HomeCHEF oven with innovative colour touch screen, and an award for the laundry dryer with a heat pump, ranked in the A energy class.

OCTOBER

Franjo Bobinac appointed President of the Management Board for another term

The Supervisory Board of Gorenje appointed Franjo Bobinac as the President of the Management Board for the 2013 – 2018 term and authorised him to propose the other members of the Management Board. Franjo Bobinac has been the Gorenje President and CEO since 2003. Before that, he was member of the Gorenje Management Board in charge of sales and marketing in the term from 1998 to 2003. He joined Gorenje in 1986. The other members of the Management Board were appointed at the Supervisory Board session of 11 January 2013. In the new term, the Management Board consists of all hitherto members of the Management Board with the exception of Uroš Marolt who will, however, after the expiry of his term remain with the Gorenje Group.

DECEMBER

EUR 50 million long-term syndicated loan from Sberbank Europe

We received a syndicated loan from the following banks of the Sberbank Europe Group: Banka Volksbank from Slovenia, Volksbank Serbia, Volksbank Croatia and Volksbank Slovakia. The loan, in the amount of EUR 50m, is a sign of confidence of the Sberbank Europe Group in Gorenje's strategy and its successful implementation of strategic activities such as the restructuring of manufacturing operations. The maturity of the loan is five years.

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear shareholders,

It was a year of extensive changes for the Gorenje Group and its more than 10,700 employees in 2012. We kicked off our strategic plan that we continue to pursue this year by optimizing our manufacturing operations, deleveraging, building our global presence, developing new innovative and superiorly designed products, and upgrading our corporate governance.

Optimizing our manufacturing sites

Restructuring manufacturing operations is key to improving profitability and long-term competitiveness. Relocations currently in progress are the most extensive efforts of this sort in Gorenje's corporate history. Shifts in production of cooking appliances from Finland to the Czech Republic, refrigeration appliances from Velenje to Serbia, and laundry care appliances from Sweden to Velenje have been completed. In the second half of this year, we will transfer our dishwasher plant from Sweden to Velenje where mass production is scheduled to start this fall. When all relocations are completed, home appliance manufacturing will be concentrated in three countries instead of five.

We are very pleased to see the restructuring operations under way as planned and predicted. Annual savings generated by moving the production to more cost-effective environments are estimated at a minimum of EUR 15 million. These savings will be fully evident in the Group's performance next year after restructuring operations are fully completed.

Deleveraging and improving the average maturity of debt

In order to improve the Group's financial stability by the end of the strategic period, last year we introduced intensive activities to deleverage and improve the structure of debt maturity. Both efforts were successful as we reduced our overall debt by EUR 51.4 million and secured the most favourable average debt maturity since the onset of the global economic and financial crisis. At the end of the year, long-term borrowings accounted for 64% of total debt.

Successful divestment and management of working capital resulted in free cash flow of EUR 43.7 million, exceeding both last year's figure and the plan by just under 40% and 53%, respectively.

Boosting our global presence

Expenses related to manufacturing operations relocation processes and aggravation of conditions in European markets where over 92% of our revenue is generated had a negative impact on performance in 2012. Our total revenue was 1.5% below the 2011 mark; however, revenue from our core activity of home products and services was up 1.7%. Hence, core activity represented nearly 85% of last year's overall Group revenue. Our goal is to take this share to 90% by the end of our strategic activities in 2015.

Europe remains our domestic market, but we plan to expand globally and increase our revenue in markets beyond Europe from the current level of EUR 100 million to EUR 150 million in 2015. The main reason behind this plan is that non-European markets, along with some European markets, allow higher margins and returns on sales. Last year our outside Europe core activity revenue rose by 5.7%. Sales were also up in Russia, Germany, Scandinavia, Bulgaria, Croatia, and Poland.

Our global presence relies above all on the Gorenje and Asko brands. The share of Asko brand products in total sales is set to increase considerably in the coming years. There is considerable growth potential to be reaped in markets beyond Europe, especially in Australia. We plan to double our revenue in Australia over the course of the next two years, thus by 2016 adding it to the group of markets that contribute over EUR 100 million of sales per year (Russia, Germany, and the Netherlands).

Investing in new product development

Home appliances with innovative functions, sophisticated design and high energy efficiency propel our growth and returns on sales. Well aware of this fact, Gorenje is committed to the continuous development of new household appliances and heating systems. Our portfolio of home products also includes kitchen furniture, which is an important sales channel for our appliances in Southeastern Europe.

Novelties introduced last year include the new generation of washing machines and dryers, and the unique IQcook induction hob with steam cooking technology. Other new products launched to support our brand reputation among our consumers and increase our market share are presented in the business report.

Awards such as the international 'red dot' design award are certainly an indicator of success in product development and design. A perennial winner of this accolade, we also received it in 2012 for two Atag built-in hobs, a Gorenje washing machine of the new generation, and a Gorenje heat pump.

Changes for growth

Implementation of our strategic plan involves challenging tasks and extensive changes in our organization and business processes. Changes in our business environment that are beyond our control make attainment of the goals laid down even harder. With this in mind, we are pleased with our performance in 2012. The results stem from high level of engagement of all employees in numerous departments and countries.

I am honoured to enjoy the trust of the Supervisory Board's as manifest in their decision to extend my appointment to the following five-year term. I am joined by other members of the Management Board and all employees in further pursuit of strategic restructuring of the Gorenje Group and in securing the foundations for long-term international growth that will benefit all of our stakeholders.

President and CEO
Franjo Bobinac

SUPERVISORY BOARD REPORT

Dear shareholders,

In 2012, the Supervisory Board supervised the business operation of Gorenje, d. d. and the Gorenje Group within the scope of powers and authorisations stipulated by legal regulations, the Articles of Association of the Company, its Rules of Procedure and the Code of Conduct, and performed other tasks within its competences.

The Supervisory Board is composed of: Uroš Slavinec as Chairman, Maja Makovec Brenčič as Deputy Chairwoman, Marcel van Assen, Keith Miles, Bernard Pasquier (representatives of shareholders), Krešimir Martinjak as Deputy Chairman, Peter Kobal, Drago Krenker and Jurij Slemenik (representatives of employees). Peter Kraljič was member of the Supervisory Board until 24 August 2012, when he resigned from the office of the member of the Supervisory Board on his own wish.

Immediately after their election, all members of the Supervisory Board signed a written statement of independence and loyalty declaring that they had no conflict of interest and were entirely independent in their work.

Activities of the supervisory board

In 2012, the Supervisory Board had twelve meetings, of which three were correspondence meetings.

In December 2011, we approved the business plan for 2012 and carefully monitored the development of activities for the achievement of the set goals during the year. Business environment was extremely challenging in 2012. Even at the end of the third quarter the Gorenje Group still recorded a high negative result of EUR 6.4m. Thanks to very good business results in the last quarter the Company achieved a net profit by the end of the year, which is result of highly commendable effort of all employees. The complicated obtaining of long-term loans, deteriorating recession, ongoing downward trend in prices and decline in customer confidence in the global market were only some of the factors that made business rather difficult for Gorenje in 2012.

In the past year, the Supervisory Board supported by its Remuneration Committee started the nomination procedures for the new term of the Management Board. In October, the Supervisory Board nominated Franjo Bobinac the President of the Management Board with the term of office until mid July 2018, thereby authorising him to propose the other members of the Management Board to the Supervisory Board.

It is important that clear goals have been set for all business areas, which the Management Board is obliged to meet. After the proposal of the President of the Management Board regarding its composition had been confirmed by the Remuneration Committee, the Supervisory Board appointed all the other members of the Management Board for the new term of office at its meeting of 11 January 2013. The composition of the Management Board in the next term will be the same as so far with the exception of Uroš Marolt who will, however, after the expiry of his term remain with the Gorenje Group.

In the past year, the Supervisory Board devoted special attention to the furniture segment of the Gorenje Group. Having carefully monitored the proposals of the Management Board and striving to find the best solutions for the Company's future operations, the Supervisory Board approved the divestment of the companies Gorenje Kuhinje, d. o. o., and Gorenje Notranja oprema, d. o. o. to the investment firm CoBe Capital in February this year. We believe to have found a very good solution for this long-lasting negative performance of both mentioned companies. The Supervisory Board is well aware of the importance of maintaining the jobs and we have certainly contributed to this goal by confirming the sale. On the other hand, we all share the opinion that the Gorenje brand is well recognised and renowned for its kitchen furniture, especially in the Western Balkans, and that own kitchen furniture is an important channel for the sale of home appliances. This was one of the reasons why we approved a solution that will allow Gorenje to keep kitchen furniture in its offer of home products.

Deleveraging remains one of the most important goals of the Company. Profitability of business operations, working capital management, capital expenditures and the divestment process were thoughtfully discussed at every meeting of the Supervisory Board in the past year. The Supervisory Board estimates that the efforts of the Management Board in this field brought results as EUR 43.7 m of free cash flow was generated, which enabled Gorenje to reduce its debts with banks in a similar amount. We have carefully monitored the production optimisation procedures as well. We are well aware of the employees' enormous work in the past year, as the relocation procedures will be completed this year. Given the increasingly difficult terms of operations and the fact that most of the competitors in the industry already relocated their manufacturing facilities to low-cost countries, the decision to take such steps was undoubtedly right. By the end of the current year, the relocation will bring some savings to the Company, but its full effect will first be visible in the financial year of 2014. The Supervisory Board is very pleased that the Management Board signed an agreement with representative trade unions on maintaining the level of employment in Velenje during the production relocation process. The workforce is an important asset of Gorenje and requires transparent, consistent and timely communication on measures such as production relocation, as it was correctly done in this concrete case.

In compliance with the current practice, the Management Board regularly informed the Supervisory Board of significant business events, comparative competition analyses, market conditions, price movements of raw materials and risk management. Given the harsh operating conditions, the Supervisory Board has assessed that the Management Board and all employees of the Company have done their work very well by generating high free cash flow and net profit for the year and thus deleveraging the Company.

The Supervisory Board also regularly monitored the implementation of resolutions adopted at its meetings, and have established that the Management Board implemented all of them.

Upon approval of the new organisational structure of Gorenje, Marko Mrzel was appointed as the member of the Management Board in charge of sales and marketing as of 1 January 2012; therefore, the Supervisory Board had to appoint a new member of the Management Board in charge of finance and economics. Following the procedures carried out by the Supervisory Board Remuneration Committee, and upon approval by the President of the Management Board, the Supervisory Board appointed Dr. Peter Groznik member of the Management Board in charge of finance and economics at its April meeting.

The Supervisory Board also took notice of the measure of salary cuts in the Gorenje Group, which is in force since 1 October 2012. As proposed by members of the Management Board, however, their earnings were reduced by 15% starting with 1 September 2012.

In the last four years the Management Board renounced their incentive bonuses to which they were entitled according to the criteria applicable for the remuneration of the members of the Management Board. They also waived the right to incentive bonuses for the year 2012.

Committees of the Supervisory Board

In the past year, the Supervisory Board also evaluated the performance of its committees. All of these carried out their work in line with their competences and/or the resolutions of the Supervisory Board. We assessed that the committees performed their tasks professionally and precisely, and that they provide strong support to the Supervisory Board in its work. We also established that no circumstances exist in connection with any members of the Supervisory Board or its committees that could lead to the occurrence of a conflict of interest or dependence, and that the composition of the Supervisory Board is appropriate.

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The **Audit Committee** which consists of Keith Miles as Chairman, Drago Krenker, and Mag. Aleksander Igličar, performed its work in line with the competences stipulated by applicable legislation. With respect to periodical reports, the Audit Committee verified whether the principles of conservativeness and consistency of reporting have been observed. By raising questions prior to the discussion of a particular issue at a meeting of the Supervisory Board, the Committee resolved the majority of obscurities in respective reports.

The Audit Committee had six meetings in 2012. In addition to examining periodical reports, the committee also discussed many other issues related to Gorenje's operations. In order to make operations as transparent as possible, the Audit Committee is presented at each session a report by the chief audit executive (head of internal audit) on the activities conducted by internal audit. The Supervisory Board believes this is a very good practice. In line with the Code of Conduct, the Audit Committee represents the body to which any employee may l turn in case of reasonable doubt that the operation of the Company is not in compliance with legislation and rules of ethics. The Supervisory Board is convinced that the Audit Committee is very important for the work of the Supervisory Board, since it deals with many issues aiming at the improvement of corporate governance in Gorenje and securing the ultimate transparency of operation.

The **Benchmark Committee** is comprised of Maja Makovec Brenčič as Chairwoman, Marcel van Assen, Bernard Pasquier, and Peter Kobal. The consistent reporting of the Committee and obvious progress in its work deserve commendation. In addition, excellent cooperation with Gorenje employees needs to be emphasised. The Committee reported on profitability of individual product groups, sales strategies of competitors, complexity reduction, winning new markets and some other important issues. We estimate that the Committee's work significantly contributes to better business decisions.

The **Corporate Governance Committee** had no meetings in the past year. The Committee played its key role in 2011, when it selected the consulting company Roland Berger to help reform the organisational structure of the Gorenje Group. The Management Board reported on the implementation of the project during Supervisory Board meetings. In the past year important work was done by the **Remuneration Committee** comprised of Bernard Pasquier, Marcel van Assen, Maja Makovec Brenčič, Keith Miles, Uroš Slavinec, Krešimir Martinjak and Jurij Slemenik. In April last year, after having searched for and conducted interviews with potential candidates, the Committee together with the President of the Management Board proposed Peter Groznik as the member of the Management Board in charge of finance and economics. Groznik was then appointed member of the Management Board at the April meeting. At the end of summer, the Committee commenced the appointment procedures for the President and members of the Management Board in the new term of office. Having carried out the required procedures and after thoughtful consideration we were proposed by the Committee to select Franjo Bobinac as President of the Management Board for the new term from 19 July 2013 to 19 July 2018, which we have also approved at our meeting at the end of October last year.

Since Peter Kraljič on his own wish ceased to be member of the Supervisory Board as of the end of last August, and considering the fact that the term of office of the current Supervisory Board expires in July next year, the Supervisory Board, in compliance with the recommendations of the Corporate Governance Code and the Management Code of Kapitalska družba, d. d. founded a six-member **Nomination Committee** of the Supervisory Board. In compliance with the applicable legislation and the two above mentioned documents, Bernard Pasquier was appointed President of the Nomination Committee. The Chairman of the Supervisory Board, Uroš Slavinec, sits in the Committee as a representative of the Supervisory Board. Other members of the Nomination Committee are representatives of the major shareholders and a representative of minority shareholders. Their names are: Tadeja Čelar, Philip Sluiter, Roman Ambrož and Mitja Svoljšak.

Annual Report

On 9 April 2013, the Management Board of the Company submitted the Supervisory Board the audited Annual Report of Gorenje, d.d. and the Gorenje Group for the year 2012. The Supervisory Board discussed the Annual Report at its meeting held on 18 April 2013.

The Annual Report of Gorenje, d.d. and the Gorenje Group for the year 2012 was audited by the audit company KPMG Slovenija, d.o.o. The audit was also performed in all subsidiaries of the Gorenje Group. On 9 April 2013 the audit company issued an unqualified opinion on the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group for the year 2012.

Pursuant to the previous good practice, the Audit Committee discussed in detail the 2012 Annual Report together with the Auditor's Report and the Letter to the Management prior to the meeting of the Supervisory Board and presented its views and opinions and proposals for amendments, which the Supervisory Board took into consideration.

We have established that in view of extremely harsh circumstances the Company's operation in 2012 can be assessed as good, particularly in view of Gorenje's deleveraging. Less satisfactory was the profitability of sales, although we are aware of the extremely competitive situation on the markets and of the concern for keeping the market shares.

In this year we are witnessing major changes in Gorenje production facilities. Considering that the procedures have not yet been completed, we hope that they will proceed as planned. An end to the harsh conditions on financial markets is nowhere in sights, there is no sign yet of any economic growth trend, unemployment is persistent and growing in a number of countries. It is hardly possible to expect any substantial increase in sales on European markets in 2013, and these markets still account for by large the biggest sales share of Gorenje. The Management Board will need to successfully continue deleveraging which will allow for more stable operations, whereas special focus will have to be devoted to improving profitability and higher margins and, consequently to create value for all stakeholders. We will closely monitor the achievements by way of criteria accepted by the Management Board on the appointment for the new term and, of course, approved in the business plan for the year 2013.

The Supervisory Board is hereby establishing that the Annual Report for 2012, as prepared by the Management Board and reviewed by the audit company, has been compiled clearly, transparently and in line with provisions of the Companies Act and applicable International Financial Reporting Standards. The Supervisory Board has also examined and approved the Independent Auditor's Report and has no comments in connection therewith. On the basis thereof, the Supervisory Board has assessed that the Annual Report presents a true and fair view of the assets, liabilities, the financial position and the operating results, and presents fairly the development of operations and the financial position of the parent company and the Gorenje Group.

With regard to all the above findings, the Supervisory Board adopted at the meeting of 18 April 2013 the Annual Report of Gorenje, d. d. the Consolidated Annual Report of the Gorenje Group for the year 2012, as submitted by the Management Board.

Determination and proposed appropriation of accumulated profit

Pursuant to the Companies Act and the Articles of Association of Gorenje, d.d., the Management Board decided upon obtaining consent from the Supervisory Board to settle the loss of the financial year 2012 in the amount of EUR 14,093,056.75 in 2012, and charge it against following equity components:

- retained earnings from 2011 in the amount of EUR 3,138,468.47
- retained earnings from 2011 relating to unpaid dividends for own shares in the amount of EUR 18,196.65
- and part of other revenue reserves from 2003 in the amount of EUR 10,936,391.63.

The Management Board and the Supervisory Board have proposed to the General Meeting of Shareholders that the accumulated profit for the 2012 financial year in the amount of EUR 152,123.64 remains unappropriated.

In preparing the proposed resolution on the appropriation of profit for the year 2012, the Management Board and the Supervisory Board gave due consideration to the applicable provisions of the Companies Act and the Articles of Association of Gorenje, d.d.

The Supervisory Board further proposes to the General Meeting of Shareholders that the members of the Management Board be discharged of their duties in 2012.

This report was prepared by the Supervisory Board in accordance with the provisions of Article 282 of the Companies Act (ZGD-1), and is addressed to the General Meeting of Shareholders.

Velenje, 18 April 2013

Uroš Slavinec
Chairman of the Supervisory Board

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RESTRUCTURING OUR MANUFACTURING OPERATIONS

In the past year, we started to restructure production facilities in Slovenia, Serbia, Finland, Sweden and the Czech Republic. Production relocations are part of the key activities carried out to meet the goals set in the strategic plan 2012-2015.

Up until 2004 Gorenje household appliances were manufactured exclusively in Velenje, Slovenia. With the acquisition of two manufacturing companies abroad i.e. Mora Moravia in the Czech Republic in 2004 and Asko in Scandinavia in 2010, we also acquired production plants in the Czech Republic, Sweden and Finland. Moreover, we have been developing production operations in Serbia since 2006.

With the purpose of optimising the production of home appliances, production-related restructuring activities were started last year. It is the most extensive process of restructuring manufacturing operations in over 60 years of Gorenje's corporate history and is to be completed by autumn 2013.

Last year the cooking manufacturing facility in Finland was closed down and moved to the Czech Republic. The resulting positive effects on the Group's operations were already evident in the last quarter of 2012 and exceeded the planned figures.

At the end of 2012 and early this year, we completed the relocation of a large part of refrigerator-freezer production from Velenje to Valjevo in Serbia where mass production resumed already in February.

This year we will tackle the second and most demanding part of our relocation efforts. At the end of January, we closed down the production of washing machines and dryers at the manufacturing plant in Sweden and began the shift to Velenje where regular operations began in April. This summer dishwasher production will be transferred from Sweden to Velenje and, from this autumn onwards, dishwashers will only be produced in Velenje. Upon completing the relocation and restructuring activities, Gorenje major household appliances will be manufactured in only three countries, namely Slovenia, Serbia and the Czech Republic.

We estimate that successful restructuring of production facilities will result in savings of no less than EUR 15m on an annual level and, thus, improve profitability and long-term competitiveness. These restructuring activities will begin to show their full effect in 2014 and beyond when all related activities are completed.

Informing the employees about the details of production relocations

Major production shifts and related changes affect a great number of employees in different counties. Proactive communication with the employees and provision of information about the restructuring processes has thus been of key significance for internal communication in 2012 and in the current year also in view of the best possible and smooth implementation of the production restructuring and its successful launch at new locations.

We have prepared in-depth information for all the employees who will be mostly affected by the relocations (replacement or even loss of job) or who are intensively involved in the relocation procedures and participate in the shifts and/or in the implementation and newly launch of the shifted production, with best effort to provide them assistance and respond to their needs. A broad range of communication means and channels is used; considering the importance and gravity of information to be transferred, personal communication is used in the first place (works assembly with the the Management Board, subsidiary and/or programme managers, group meetings, individual talks, Workers' Council meetings, meetings with trade union leaders and representatives). Personal communication is supported by information and explanations in electronic and printed media (intranet, e-news, magazines and newsletter, bulletin boards, letters to employees).

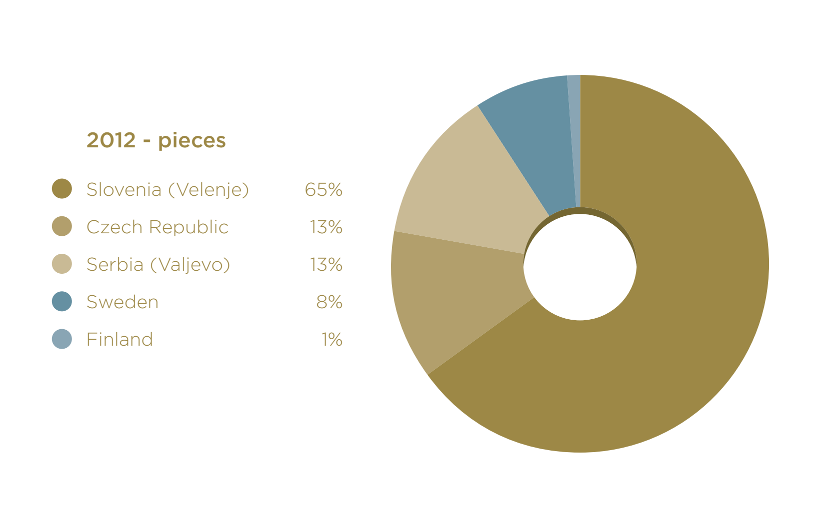
Optimization with lean manufacturing

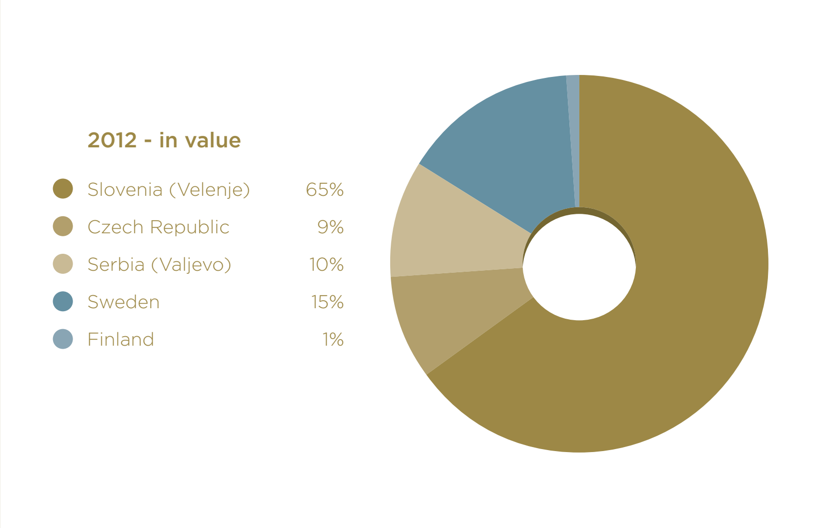
The so-called lean production management system has been introduced in all of our facilities, by means of which mostly inventories of input raw materials and semi-finished products in warehouses and production processes are lowered, thus providing a better inventory management. The lean production management system has also other advantages. Once the processes are simplified and become more transparent, the lead times are shorter and employee productivity is simultaneously higher and lowers factory rejects.

The lean production management system has been gradually introduced. By means of this system, we have succeeded in lowering inventories of raw material and semi-finished products by EUR 9m compared to 2011. The goal for 2013 is to reduce inventories of raw material and semi-finished products by further 13%.

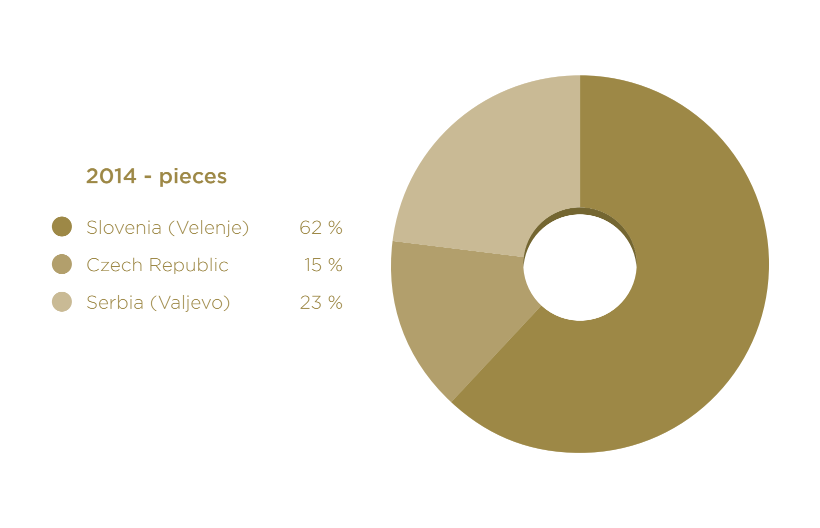
Changes in the structure of production of major domestic appliances due to restructuring:

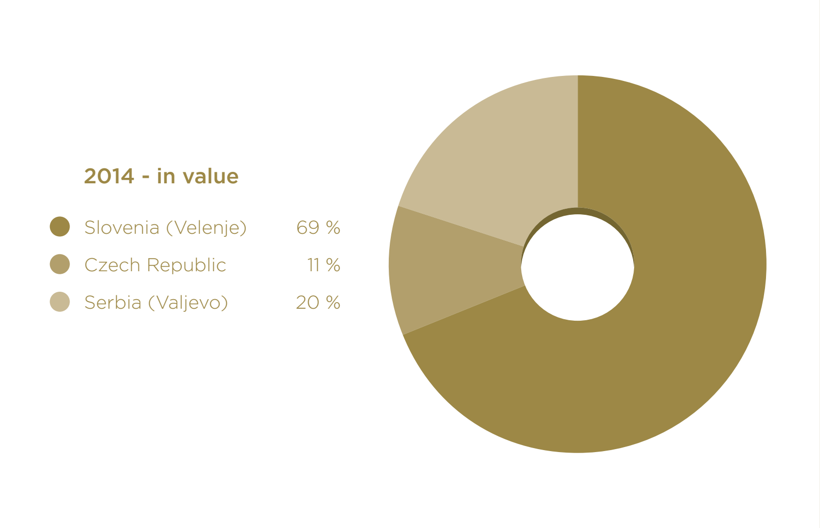
Structure of production of major domestic appliances in 2012





Structure of production of major domestic appliances in 2014, after restructuring





*Simulation of production structure by locations based on data from the Business Plan for 2013.

DEVELOPING HOME PRODUCTS

Gorenje Group is committed to the continuous development of new home products featuring innovative functions and sophisticated design. Many development achievements were introduced last year as well.

Our goals in home appliance development

Our key goals in home appliance development stem from trends that affect the habits of our customers. We are focused on the fields we are certain will provide a competitive edge for our products, such as the following:

- development of technological innovation that is unique to the customer and brings added value;
- energy efficiency which requires constant care for product and technology development as both consumers and legislators increasingly lower the bar of power consumption figures. This will remain a key area of our focus in the future;
- new materials that will improve product functionality and are ecologically sound;
- simplicity of use;
- platform-oriented development which is essential to the management of an increasing number of differently priced appliances within a single product category;
- carefully though out and advanced design of our products. Utmost care is devoted to product design as early as in the starting stages of development.

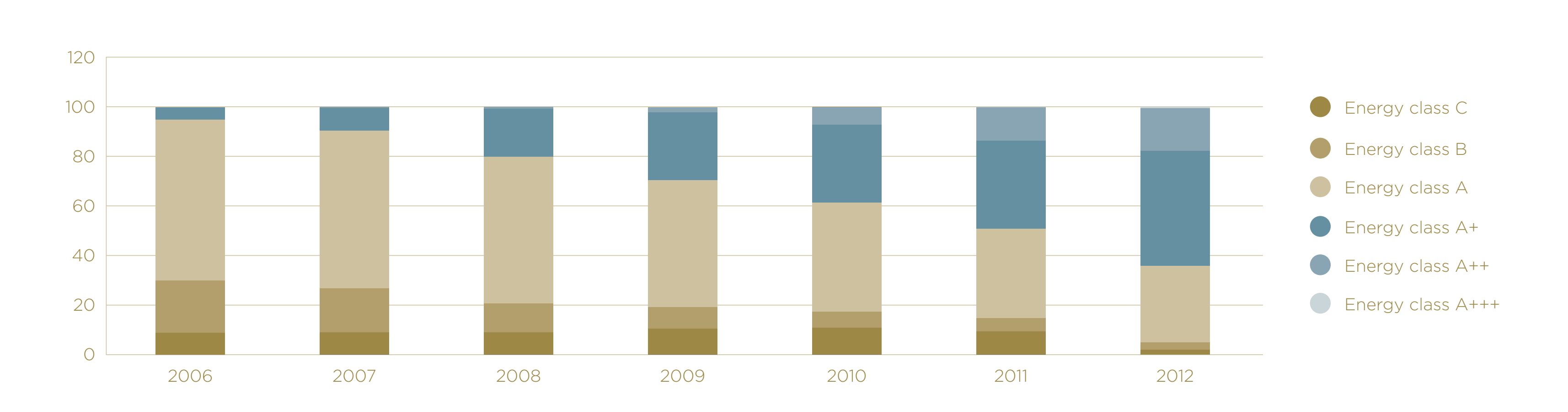
In the refrigerator-freezer segment, our focus last year was on the development of a new platform of 60 cm wide free standing appliances, which were unveiled at last year's IFA consumer electronics and home appliance tradeshow in Berlin and launched in the markets this year. This new generation boasts high energy efficiency, numerous innovative and user-friendly solutions in the refrigerator interior, and modern design.

The majority of development activities in the cooking appliance segment involved the development of a new generation of built-in appliances that will be launched in 2013. The most notable among the products developed and introduced in 2012 was the innovative IQcook cooking hob. Advantages of this technology, which include automatic steam cooking, low power consumption, and the possibility to use existing cookware (the user is not required to replace cookware), make it unique in the market.

In the wet appliance segment (washing machines, dryers and dishwashers), we introduced a new generation of washing machines and dryers in the mid price range. Our guidelines in the development of these appliances were energy efficiency, large capacity, and improved laundry care. We also began developing a new generation of professional appliances that are scheduled for launch in 2013.

Much attention was given to the development of energy-efficient appliances in the heating system segment as well. In 2012 we developed a new generation of high-temperature room heating heat pumps and medium-capacity DHW heat pumps. In addition, we offered the so-called smart water heaters.

Rising share of Gorenje's fridge freezers in the top energy classes

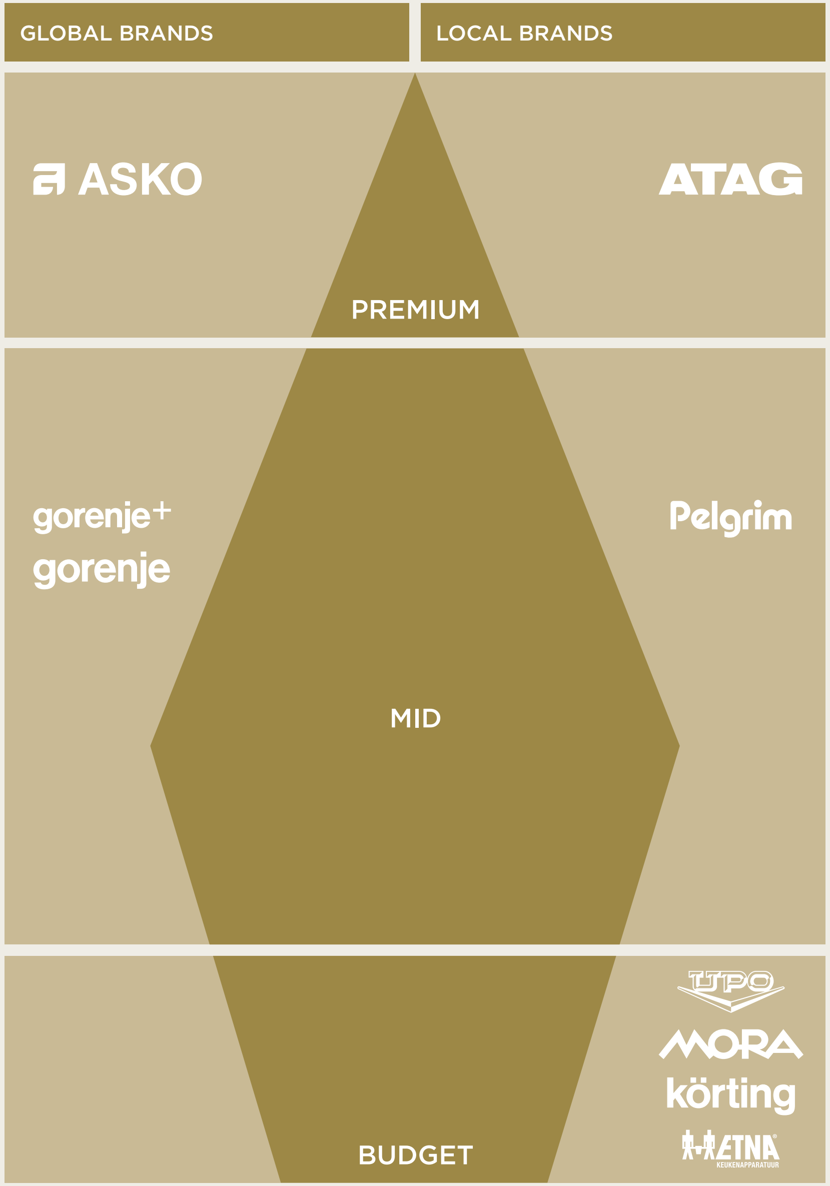


Competence centres

In addition to development projects, development field was also dealing with organizational changes. The project of establishing competence centres, laid down in 2011, was implemented as planned in 2012. The project is its final stage and is scheduled for completion in 2013. The goal of establishing competence centre is to pool all knowledge regarding a particular category at a single site. Previously, some product categories were developed at up to four locations. Reorganization has improved the focus of development work. Furthermore, it allows us to allocate more time to research and pre-development activities and to more easily manage individual product platforms.

MAJOR APPLIANCES

Major home appliances are marketed under the following brands: Gorenje, Asko, Gorenje+, Atag, Pelgrim, Upo, Mora, Etna, and Körting.



GORENJE

Gorenje is our core brand present in most markets and upon which we are building our global position. The global brand Gorenje+ is primarily engaged in distribution within kitchen studios. In years to come, the premium brand Asko shall become a significant brand of the Gorenje Group that paves the way for Group's global presence.

Breaking down Gorenje brand sales in 2012, cooking appliances take the largest share with 46%, followed by cold and wet appliances with 27% each. The highest increase was seen in sales of wet appliances, i.e. washing machines, dryers, and dishwashers, which was a result of the introduction of the new generation of washing machines, dryers, and (free standing) dishwashers in the markets.

New generation of washing machines and dryers

A new generation of washing machines and dryers featuring intelligent sensor technology SensorIQ which automatically adjusts the washing and drying processes according to the selected program and type and weights of laundry, strengthened our leading position in the segment of washing machines and dryers in most markets of South-Eastern Europe and contributed to an increase in sales in the majority of the rest of Europe.

Although doing the laundry may hardly be anyone's favourite chore, it has to be done rather frequently. The average family with two children washes five to six loads of laundry per week. Our appliances make this task simpler with innovative and unique programs. Users first experience an ergonomically designed handle with a very smooth and soft opening, a large door and opening for loading the laundry, and a wide angle of door opening that makes the loading procedure easier. TotalWeight function allows users to load the washer according to their current needs, while the appliance automatically identifies the amount of laundry and adjusts the washing program accordingly. The ergonomically designed front panel offers comfortable and simple program selection tailored to the user's requirements. Moreover, our new washing machines offer users the option of an automatic wash, while SensoCARE technology will select the optimal settings for the program according the type of fabric (cotton, synthetic fabric, mixed, delicate, woollens), offering four washing modes: NormalCARE, EcoCARE, TimeCARE, and AllergyCARE. For particularly delicate white laundry, these new generation washing machines offer a unique UltraWHITE program that efficiently washes and maintains whiteness at low temperatures. Ensuring that the laundry is thoroughly washed is the machine's OptiDrum, an innovatively designed drum interior made of stainless steel, that moves the laundry more efficiently during the washing process. Wave-shaped 3D ribs gently move the laundry towards the rear of the drum and then lift it towards the top of the drum. The tilted design of the interior door glass also contributes to this process.

New generation washing machines also include high-capacity appliances that can handle loads up to 9 kilograms. These products are our response to the current trend of increasing capacity requirements. Larger loads are also important in appliances with depth of 45 cm, also called slim appliances. Smaller apartments and narrow bathroom doors make these machines especially popular in Russia and Ukraine, two markets that are highly important to Gorenje Group operations. In both of these markets, slim washing machines represent as much as 70 percent of total market sales. Despite smaller overall dimensions, over 50 percent of all slim washing machines allow loads of up to 6 kilograms. The development of new generation washing machines has allowed Gorenje to add to the sales assortment such appliance as well. This addition has surely contributed to the 85% growth of washing machine sales volumes in Russia.

Sophisticated and innovative design of new generation washing machines, which matches the design of the dryers, was recognized last year and this year by the prestigious international 'red dot' design award.

New generation dryers feature one of the largest drums in the market (120 litres), which allows loads of up to 9 kilograms and ensures optimum care and efficiency when drying large items. These dryers boast the unique IonTech technology with anti-allergic operation. Ion technology that relies on a highly efficient filter and a built-in ionizer straightens fibres, prevents creasing, and eliminates static charge built up during the drying process. Condenser dryers fitted with a heat pump boast exceptionally low power consumption and intelligent SensorIQ technology that delivers perfect care even for the gentlest of fabrics. Key novel dryer features also include the unique air blowing system TwinAir. Hot dry air is introduced into the drum, which rotates in both directions through two air channels to evenly dry laundry. SteamTech steam drying additionally loosens the fabrics and eliminates any creases so that laundry is ready for the closet without ironing.

Our latest washing machines and dryers rank at the very top of energy-efficient appliances. Washing machines reach energy classes of up to A+++ (-20%), while dryers fitted with a heat pump are rated A++. The Slovenian Chamber of Commerce and Industry recognized the dryer featuring a heat pump as one of the most innovative products and selected it for the gold medal for innovation last year.

This fall we will start introducing a new dryer in the A+++ energy class. Thus, we will offer the most energy-efficient dryers in the market. The majority of dryers are sold in Western Europe where consumers have a high level of environmental awareness and, as a result, energy efficiency is a key purchasing factor. Gorenje's dryer sales, are too the highest in Germany and Scandinavia. In Eastern Europe, demand for dryers is still low. However, we view low sales in this segment as a great potential for future growth.

To offer even higher costs savings for our users, last year we teamed up with the international power supply company E.on in the Czech Republic and offered our customers a washing machine and dryer that can detect when lower power rates are in effect and automatically launch the operating cycle at such time. This way, the two appliances can considerably cut electricity costs throughout their useful lives.

New generation of free standing dishwashers

Highlights of new generation dishwashers include an elegant appearance and perfected technological solutions that optimize the dishwashing process. In addition to high energy efficiency (energy class A++), optimum water consumption (only 11 litres per washing cycle) and quiet

operation (up to 47 dB), these appliances offer our customers many convenient dishwashing programs and a spacious SpaceDelux interior chamber made of stainless steel. Sensor technology upon which the settings in automatic programs rely can automatically detect how soiled the dishes are and adjust the washing procedure accordingly. These products were successfully launched in the markets of Southeastern Europe especially, while sales are also strong in Germany and Austria. This year we expect further sales growth as we introduce a new generation of 45cm wide dishwashers.

Revolutionary IQcook induction hob

The revolutionary IQcook cooking hob, with superior steam cooking techology, was launched in mid 2012 and completely changes the way we cook. IQcook is the first cooking hob in the world to allow automatic steam cooking modes that retain the vitamins and minerals in food and afford completely safe, energy- and time-efficient optimized and controlled cooking using the intelligent IQ sensors. User-adjusted cooking and frying presets that include IQsteam, IQboil, IQpro, IQfry and IQgrill simplify the cooking process for many dishes, and the patented SmartSense safety function automatically switches off the cooking hob to prevent the food from boiling over or burning. Last year, we received the eminent red dot design award for the IQcook hob.

IQcook technology is also used in the premium XtremePower induction hobs with a width of 60 and 77 centimetres. IQcook cooking hobs are already offered in most European countries. The most success to date has been seen in the markets where induction hobs already represent the highest share in cooking hob sales, i.e. in Slovenia, Scandinavia, and Germany.

New induction hobs

In addition to the expansion of our array of premium induction cookers, we also developed a more competitively priced induction hob platform last year called SuperPower. These hobs are an optimal choice for users looking for an entry-level induction hob. The introduction of SuperPower hobs consolidated our competitive position in those countries where induction hobs represent the highest share of cooking hob sales (Western and Northern Europe). In addition, this product allowed us to boost our sales in some markets of the Southeastern and Eastern Europe, which are gradually catching up with induction hob popularity trends in Western Europe.

This year we are launching the SupremePower induction hob that will fill the gap in demand for induction hobs of the mid price range. We will meet increasing demand for flexible induction hobs by introducing our XpandZone induction hob that allows full cooking flexibility in small or large cookware anywhere on the cooking hob surface.

Energy-efficient refrigerators

Gorenje is among the leading manufacturers of refrigerator freezers with high energy efficiency ratings. The most appliances rated in high energy classes are sold in Germany, Europe's largest home appliance market. Therefore, we decided to launch our combined bottom freezer refrigerators of the highest A+++ class in this country. Gorenje is already the leader in this market in the segment appliances of the A++ energy class and we believe our sales of appliances in the highest energy classes will be successful. Interestingly, online sales of refrigeration appliances are on a rise in Germany, representing nearly 30 percent of total refrigerator sales in this market. Despite strong competition, Gorenje Group is the market leader in Germany based on the number of refrigerators sold online.

A new generation of smart refrigerator freezers with the highest energy class ratings will be launched this year. These appliances boast the innovative AdaptCool technology, which is unique in the market. This technology monitors user behaviour and adjusts the intensity of appliance operation accordingly. Thus, it provides the perfect environment for storing food without major temperature swings caused by opening the door. The food will stay fresh longer than in conventional refrigerators. Also making the environment optimal for food storage is the IonAir anti-bacterial technology, as well as a number of other innovative solutions.

Last year we introduced a new line of electronic freezer chests that allow us to penetrate some markets of Central and Northern Europe where our presence has not been strong in the freezer chest segment. We are the market leader in the freezer chest segment in Southeastern Europe; here, freezer chests with mechanical control are mostly sold.

Designer kitchen hoods

Last year we launched a new line of designer kitchen hoods with innovative features in the mid and premium price ranges. This new line has already been launched in the markets of Scandinavia, and this year we plan to double our sales in these markets compared to the previous year. In most other countries we plan to expand hood sales activities in 2013 as well.

Gorenje Retro Collection clad in new colours

Two new colours were added to the line of retro-style refrigerators, popular for decades, which were entirely refurbished a few years ago and updated with modern cooling technologies: fiery red and snowy white. These refrigerators are rated in the A++ energy class. In addition to excellent thermal insulation, all models feature improved door sealing, state-of-the-art cooling system components, and electronic regulation, which cut the use of power to a minimum. Refrigerators from the retro collection are particularly popular in the markets of Western Europe.

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Gorenje ONE line

Last year we introduced the new line of mid-priced home appliances Gorenje ONE. The line consists of a combined fridge freezer featuring NoFrost DualAdvance technology, several cooking hobs (induction, hi-light, and gas), a kitchen hood, a cooker, an oven featuring DirecTOUCH control system, a dishwasher, and a new generation washing machine and dryer. This allows us to boost our presence in online sales since the line is available on the Internet and at Gorenje showrooms. Last year we launched sales of this line in Russia, Ukraine, and Slovenia; this year, it will be rolled out in other markets.

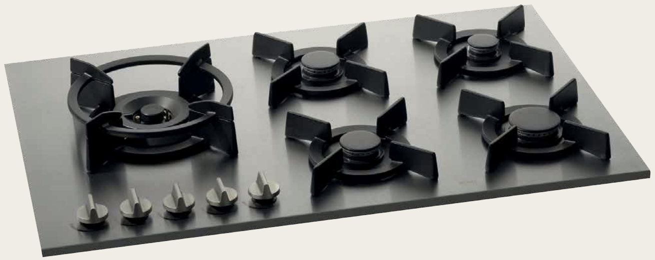
ASKO

Asko is Gorenje Group's premium brand that is distributed globally. It includes a selection of kitchen appliances, washing machines, dryers, and professional wet appliances. Most of the Asko appliances are sold in Scandinavia, the USA, Australia, and Russia. Base on the Group's future sales structure, the share of this brand is expected to increase significantly in all markets, including non-European markets.

As of last year, Asko appliances offered also include dryers with a heat pump, which are rated in the energy class A-50%, with SensiDry technology that stops the operation once the laundry is dry, and self-cleaning filters. Other products introduced last year include washing machines in the high A+++ energy class, and dishwashers that excel with quiet operation (41 dB(A)) and Turbo Drying System that leads to excellent drying effects even for smaller loads, cutting the time required by as much as 40%. We also developed a stainless steel washing machine, featuring anti-corrosion protection, intended for outdoor use. In Australia, one of the key markets for the Asko brand and our operations, this dishwasher made it to the final round of the international design contest "Australian International Design Awards".

ATAG

The Atag brand includes a range of premium built-in cooking appliances. It is mostly marketed in the Benelux countries.



In 2012, we introduced gas hobs with the innovative Vulcano Fusion wok burner designed to direct the flame from the central part of the burner to the bottom of the pan, which allows more efficient usage of gas. When preparing food in larger cookware with a flat bottom, the inner ring of flame can be switched off in order to use the outer ring only. The stainless steel cooking hob of the Atag Magna line and the modular cooking hob Atag Puzzelo, both featuring the Vulcano Fusion work burner, were awarded this year's red dot design award. The red dot award was also awarded to our induction hob with black matte brushed glass that allows for merging and expanding two vertical cooking zones into a single zone that is particularly handy for cooking in large oval or rectangular dishes. The hob also offers the IrisSlide control feature and is availible in several models.

GORENJE+

Our new Gorenje+ brand was launched in 2011 to boost our presence in the specialized channel of kitchen studios. This is a promising sales channel offering premium appliances and allowing for highly profitable sales. The Gorenje+ brand is already present in Slovenia, Bosnia and Herzegovina, Austria, Germany, France, Russia, Israel, Ukraine, Croatia, the Czech Republic, Denmark, Sweden, Norway, and Finland. This year we plan to roll out the brand to some Central European countries.

The Gorenje+ line includes only built-in hobs, ovens, refrigerators, and dishwashers. Last year a new generation of high-quality dishwashers was introduced, which feature unique technological novelties. Some models allow washing up to 17 place settings in a single cycle. Another product launched last year in this brand's assortment was the IQcook hob which is the only hob in the market that allows steam cooking and full cooking control. Also a part of the Gorenje+ assortment is the iChef oven with a unique electronic programming module that includes a large colour screen and slide control system. This appliance also won the international red dot award. In this control system, complex innovation translates into simple use and appealing design. Oven control via a touch-and-slide screen, relying on the most powerful computer control system used in an oven to date, leads to remarkable cooking results while offering interactive experience that the users are familiar with from the world of consumer electronics. The oven was awarded the special mention at last year's German Design Award 2013 contest. The German Design Council presents this award.

PELGRIM

Pelgrim home appliances are positioned in the upper-mid price range. They are sold in the Benelux countries.

Last year the assortment was extended with free standing appliances. In addition to cooking hobs, the brand array now includes cookers, microwave ovens, dishwashers, retro-style refrigerator-freezers, undercounter refrigerators, washing machines, and dryers. In the built-in segment, new diagonal hoods were added, as well as a built-in oven and a microwave oven with matching design intended for stacking one above the other.

UPO

Upo is the home brand in Finland with the highest recognition rate in its segment. It is, albeit to a lesser extent, also present in Sweden, Norway, and Denmark.

It is especially known for free standing cookers that are entirely tailored to the requirements of the Finnish and broader Scandinavian market in terms of both dimensions (e.g. height 90 cm and width 55 or 70 cm) and features. In addition to cookers, this brand includes the entire assortment of major domestic appliances. Last year we launched a total overhaul of the brand.

MORA

Mora brand is the home brand in the Czech Republic where it holds the highest market share. It is also strongly positioned in Slovakia, Hungary, Poland, Ukraine, and Russia.

In 2012 we revised the design of free standing cookers, built-in ovens, and built-in glass ceramic hobs, and developed a new assortment of built-in cooking hobs and microwave ovens. Among consumers, Mora brand is recognized especially for its cooking appliances. In the Czech Republic, our market share in this segment is a strong 26%; in free standing cookers, the share is even higher at 42%. In other markets, Mora brand's strongest asset are its cooking appliances. The novelties introduced last year provide a solid base for future development of this brand in the said markets.

ETNA

The Etna brand, present in the Benelux countries, includes several novelties as of last year, including an entire range of cooking hobs with a width of 60 to 90 centimetres, a flexible induction hob that allows large cooking zones, and other built-in appliances. Another important novelty launched last year is the XXL dishwasher that allows washing dishes and tableware of varying sizes. The assortment of kitchen hood was extended with high-performance models and a model with LED lighting. Etna is an entry-level brand.

KÖRTING

Körting home appliances are sold in the markets of Slovenia, Austria, Italy, Kosovo, Greece, Cyprus, Ukraine, Russia, Georgia, the United Arab Emirates, Saudi Arabia, and – as of last year – Croatia and Montenegro.

In 2012 we introduced a revised line of free standing cookers and built-in ovens featuring new design, and a new line of built-in glass ceramic hobs manufactured in-house. All refrigeration appliances of the A energy class were replaced with more energy-efficient appliances rated A+ and A++. Moreover, new appliances of the A+ energy class were added to the range of free standing 54 and 60 centimetres wide refrigerator freezers. For Southeastern European markets, we introduced a combined free standing 90 centimetres wide cooker intended for larger households. In Greece, we added several well-priced models to our offer to adapt to the economic and financial crisis and corresponding drop in purchasing power.

SMALL APPLIANCES

Our customers are offered a wide range of small home appliances including microwave ovens, vacuum cleaners, immersion blenders, hand mixers, choppers, contact grills, water heaters, slicers, meat grinders, kitchen and bathroom scales, bread makers etc.

In 2012, our offer of vacuum cleaners was thoroughly revamped. It now includes heavy-duty compact or smaller vacuum cleaners that offer above all a good value; vacuum cleaners with innovative accessories (animal hair brush, UV light disinfection brush etc.); as well as technologically advanced and heavy duty models of the Alpha line. This year we are keenly preparing for the introduction of the energy label for vacuum cleaners. We also launched a line of kitchen and bathroom scales designed by the internationally renowned designer Karim Rashid, which stands out for their colourful design. Another novelty is our high-power kitchen robot featuring accessories for whisking, mixing, kneading, and preparation of beverages. We were proud to receive the highest rating by the Slovenian Consumers Association for our BM 900 AL bread maker in a test of 10 such appliances by different manufacturers, which earned this model the "recommended buy" label.

KITCHEN FURNITURE

We are the only home appliance manufacturer in the industry to offer kitchen furniture in addition to home appliances. Thus, we allow our customers to match the design of both when furnishing their kitchens.

After revamping the entire kitchen assortment and extending it with new models in 2011, some kitchens were merely updated last year to complete the basic assortment. The update was the most radical for our Alea kitchen, which saw good sales results last year. Fantazija and Nola are our best-selling kitchens. Consumers mostly opt for models in white, magnolia, or light oak. Late in 2012 we completed the preparations for the launch of the new Optima Premium line positioned in the lower mid price range. This is a rapidly growing price segment in which we had not been present. Best sales results for this kitchen are planned in the markets of Slovenia, Serbia, and Bosnia and Herzegovina.

Despite the relatively low share in total core activity sales, our kitchen program is of key importance for reaping the synergy effects between kitchen and home appliance sales, and for the chain of our own showrooms operating in Slovenia, Serbia, Bosnia and Herzegovina, Croatia, and the Czech Republic.

HEATING SYSTEMS

In addition to major and small home appliances and kitchen furniture, we also offer a wide range of equipment for heating, ventilation, and air conditioning (HVAC). Most heating system sales are made with water heaters and domestic hot water (DHW) heat pumps.

In 2012 we introduced the Smart series water heaters excelling with advanced smart technology that allows the heater to optimize its operation according to user behaviour or habits. In addition to the basic Simplicity Smart line, we now offer the advanced version of the heater in the OGB Smart series with electronic regulation, which offers many additional functions such as a timer, rapid heating, and holiday function. Compared to conventional water heaters, these products afford considerable energy savings.

The highest savings in domestic hot water production, however, can be made with DHW heat pumps. Therefore, we updated our heat pumps with directed air flow by incorporating a stronger motor, for models with large (200 and 300 litre) and medium (80, 100, and 120 litre) capacity. Expanding our offer in such a way allows us to strengthen our position in the heating equipment segment particularly in the Slovenian market, as well as in markets of Western and Southeastern Europe. In Eastern Europe, we see potential for growth particularly in new SuperSlim water heaters, flat heaters, and existing water heaters with updated design.

Our current offer of room heating heat pumps was expanded in 2012 with high-temperature heat pump based on the brine/water and water/water systems. This year we are preparing to introduce a compact room heating heat pump based on the air/water system.

General development trends in the home appliance industry

Increasingly higher energy classes

Energy efficiency is particularly relevant in Western European markets where appliances rated in energy classes A+, A++, and A+++ already represent a 66-percent share in the washing machine segment, 49% in dishwashers, and over 70% in refrigerators. Germany stands out in particular in this respect as only 4 percent of refrigerators sold in 2012 were rated in the A energy class. In terms of energy efficiency, Gorenje Group results are ahead of the market averages and trends. While washing machines in the A+++ energy class represent 18% of total washing machine sales in Western Europe, this segment already takes up 22% in the structure of Gorenje sales. Last year we also did well in the largest segment of refrigerators as Gorenje brand became the third largest brand in the free standing bottom freezer refrigerator segment and in the A++ energy class (for appliances without the NoFrost technology).

Efficient use of energy is a key trend for clothes dryers as well. The energy classes A or higher represent a nearly 30-percent share of sales in Western Europe by volume. The share of energy class A in Eastern European sales is even higher. However, it should be noted that the overall volume of dryer sales in this part of Europe is still low.

Efficient use of water

For dishwashers, demand for models that use 10 litres or less per cycle is increasing. Sales of such dishwashers nearly doubled in 2012, accounting for nearly one-third of all dishwashers sales.

Increasing capacity of washing machines and dryers

In the segment of standard washing machines, appliances allowing a load of 8 kilograms or more already represent around 30% of total sales in the European markets. We have seen a marked rise in recent years of the share of slim appliances (width 45 centimetres or less) as they account for over one third of all dishwashers sold in Europe in 2012. These washing machines are highly popular especially in Russia, Ukraine, and Kazakhstan where they represent three quarters of all dishwashers sold.

Simplicity of use and appliance connectivity

New home appliances feature increasingly advanced user interfaces (LCD and TFT LCD displays), and allow connection to the Internet or control via a smart mobile phone. In addition, the market has seen an increasing number of smart appliances that detect user habits and adjust the operating regime accordingly, or make use of lower power rates to cut the overall electricity costs. Smart appliances also include washing machines with automatic detergent dispensers. Another important trend is healthy lifestyle. In major domestic appliances, this is evident in the increasing popularity of self-cleaning functions, anti-allergy programs, and steam washing for washing machines; steam cooking for ovens; anti-bacterial filters and special-purpose compartments in refrigerators etc.

No Frost, pyrolysis, and induction

No Frost technology is featured in one half of all free standing bottom freezer refrigerators both in Western Europe and in Russia, Ukraine, and Kazakhstan. In Eastern Europe, refrigerators with NoFrost technology represent a 22-percent share of sales; however, this figure has been on a continuous rise.

In the segment of ovens, pyrolysis is notably popular in Western Europe where it is featured in 31% of ovens sold. In the cooking hob segment, the main trend is induction technology which has already reached a 41-percent share in terms of value in Western Europe.

OUR MARKETS

The majority of revenue from our core activity of home products and services, which represented just under 85% of total Group revenue in 2012, is generated by sales of home appliances in 90 markets across the globe.

Western Europe and Scandinavia

Germany is the largest white goods market in both the Western European region and entire Europe, accounting for 18% of all home appliance sales in the latter. It is also one of the key markets for the Gorenje Group. In the last six years, our carefully planned marketing activities resulted in considerable improvement of recognition of the Gorenje brand, to a point where it is the most popular non-German brand among consumers in this market. Moreover, our annual sales in that market surpassed the EUR 100 million milestone. Gorenje brand appliances account for as much as 90% of total sales in Germany. In addition, our presence in this country also includes our brands Atag and Gorenje⁺. Germany is also one of the European markets where the home appliance industry has not suffered from the consequences of the global economic and financial crisis. In the last four years, Gorenje's sales rose by 24%. Last year, growth in the 2011 figure amounted to 1%. Our markets shares were increased especially in the segments of washing machines, refrigeration appliances, ovens, and cooking hobs. The highest rise in market share was seen in the segment of energy-efficient A++ free standing combined refrigerator freezers. Thus, we became the second largest manufacturer in this segment, which is an important achievement considering the high level of environmental awareness on the part of the German consumers. In the sub-segment of colour appliances, we are the market leaders with a 50 percent share. This year we continue our marketing activities to further increase sales of these appliances using the slogan "Colour your home".

Our products are offered through all distribution channels. The introduction of the Gorenje⁺ brand in 2011 boosted our presence in kitchen studios; previously, our appliances were only featured under the Atag brand. Online sales account for 11.5% of our total sales in Germany where this channel takes 20% of the entire home appliance market.

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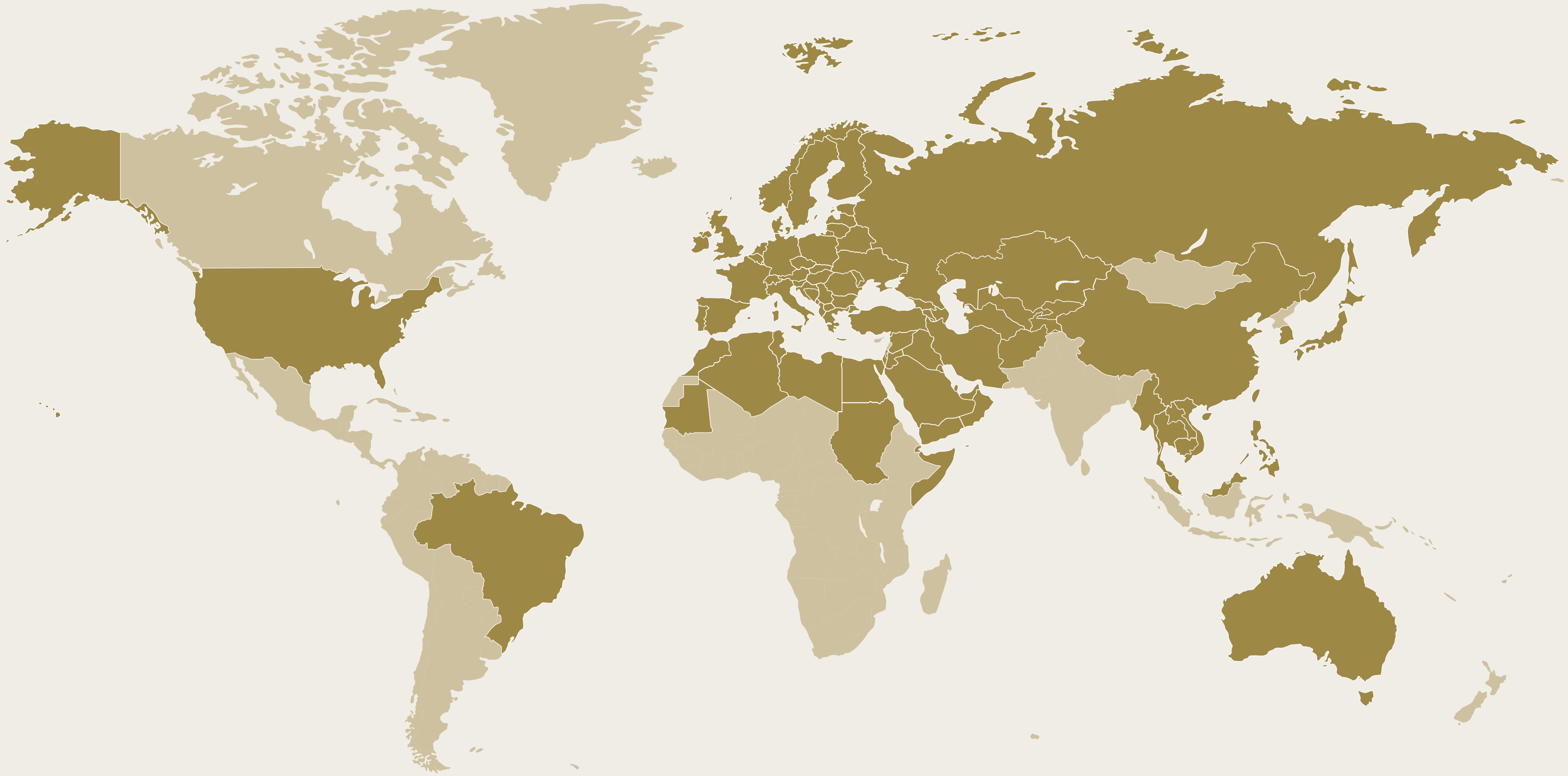

Gorenje Group's sales regions

WESTERN EUROPE AND SCANDINAVIA	Austria, Germany, Italy, Spain, Portugal, France, Great Britain, Ireland, Lithuania, Latvia, Estonia, Sweden, Norway, Finland, Denmark, Switzerland, Greece
BENELUX	Belgium, the Netherlands, Luxembourg
CENTRAL EUROPE	The Czech Republic, Slovakia, Poland, Hungary, Ukraine, Moldavia
SOUTHEASTERN EUROPE	Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Albania, Macedonia, Romania, Bulgaria, Kosovo, Israel
EASTERN EUROPE	Russia, Kazakhstan, Belarus, Kyrgyzstan, Armenia, Georgia, Turkmenistan, Tajikistan, Uzbekistan, Azerbaijan
OVERSEAS COUNTRIES	**The Middle East and North Africa:** Turkey, Iraq, Saudi Arabia, Iran, Afghanistan, Yemen, Oman, The United Arab Emirates, Qatar, Bahrain, Kuwait, Jordan, Syria, Morocco, Mauritania, Algeria, Tunisia, Libya, Egypt, Sudan, South Sudan, Djibouti, Somalia **The Far East:** China, Singapore, Japan, Hong Kong, Taiwan, South Korea, Myanmar, Laos, Vietnam, Thailand, Cambodia, Malaysia, Philippines **The USA, Australia, Brazil.**

Benelux

The Netherlands is the largest market in this region and one of the key markets for the entire Gorenje Group. Brands marketed in this region include Atag, Pelgrim, and Etna.

Economic conditions in the European Union and austerity measures introduced in the region cause insecurity among consumers. In 2012, consumers responded by increasing their savings, thus leaving a higher share of disposable income in Dutch banks where savings deposits reached a historical high of EUR 323 billion in 2012. On the other hand, the real estate market has come to a grinding halt. Anticipating a drop in real estate prices, end buyers postponed any property acquisitions, which in turn resulted in lower sales of kitchen furniture and home appliances. Appliance prices were under the pressure of low demand and aggressive pricing policies of our competitors.

This particularly affected aggregate sales in the kitchen studio channel, which is a significant part of our operations in the Netherlands. Our kitchen studio sales also dropped relative to 2011; however, our decrease in sales was lower than the overall decline for the channel.

In 2013, we continue to pursue our strategy of entering the distribution channels in which our sales had previously not been developed, including retirement homes and holiday resorts. We wish to offer our Etna brand in all distribution channels. Broader distribution is also planned for the Pelgrim brand for which we have expanded the product array to include washing machines, dryers, free standing refrigerators, and dishwashers. The Atag brand will maintain its selectiveness and focus on the existing distribution channels. Investment in the development of a new identity and communication of the Atag brand will improve the recognition of this brand among consumers. The development of innovative products remains a priority of our activities in the Dutch market.

Central Europe

In 2012, home appliance sales in this region were pressured by a slump in appliance prices, resulting from aggressive pricing policies of our competitors. In terms of volume, the home appliance market actually saw a minimum increase relative to the year before; at the same time, sales in terms of value declined. In the Czech Republic, for example, the number of appliances sold was higher than in 2011 by 4%, while the value of sales was nearly 3% lower. A similar development was observed in Slovakia. The Hungarian appliance market shrunk, while Ukraine saw modest growth.

Considering the circumstances in the region, our results were solid. Especially in the Czech Republic, we succeeded in expanding our market share to over 10% (by value) despite the fact that our sales were lower than in 2011. In Hungary and Ukraine, our market shares dropped. However, we increased our sales in the latter in the second half of 2012, making up for the lost revenue of the first half of the year. This trend has been extended to 2013 and this growth will allow us to regain the market share lost in 2012. Nevertheless, our market share in Ukraine, one of our key markets, remains high and comparable to our market shares in the region.

Our brands marketed in this region include Mora at the entry level, Gorenje in the mid segment, and Gorenje+ in the upper mid to premium segment. In addition, the Asko brand has been introduced in Ukraine. Our highest market share in the region was seen in the Czech Republic, especially in the cooking appliance segment where we held a leading market share of nearly 35-percent with our Gorenje and Mora brands. We also held our market shares in built-in appliances, cooking hobs, and washing machines. In the latter segment, the new generation of washing machines launched in the Czech Republic last year was warmly welcomed by consumers. In Ukraine, which accounts for one quarter of our total sales in the region, we remain the market leader in the segment of cooking appliances.

Positive sales development was also seen regarding the Gorenje+ brand. The Asko brand has only been introduced in Ukraine thus far, with plans of a more intensive development in the coming years.

The key trend in distribution channel development in this region is growth of online sales, while sales through traditional independent distributors is in decline. In the Czech Republic in particular, growth of online sales exceeds that of traditional sales channels. Gorenje's market share in the online channel rose by 5% in this market. Rapid growth in this channel was also seen in 2012 in Slovakia (55-percent growth relative to 2011) and in Ukraine (35 percent). Our market shares in the online sales channel are comparable to those in traditional sales channels in this region.

Considering the anticipated growth of the entire home appliance market up to 2%, forecasts of home appliance sales for 2013 are moderately optimistic. Our goal is to increase our market shares, particularly in Ukraine where we are introducing some key product novelties in 2013: a new generation of combined refrigerator freezers, the Gorenje Simplicity line, and a new line of appliances with traditional design Il Classico. We shall also launch a new assortment of gas hobs.

Southeastern Europe

The home appliance market saw a decline in most countries of this region as a result of harsh economic conditions. The most acute slump was seen in Croatia where sales were down 9% compared to the previous year. Economic hardship is eating away the purchasing power of end buyers who increasingly prefer less expensive appliances. Therefore, we extended our offer in the region with products in lower price segments. In Croatia, we responded to the trend by introducing the Körting brand which is also marketed in some other countries in the region, including Slovenia.

Our market shares in the major part of the region range from 35% to 70%. Despite the challenging economic environment, we held on to our position as market leader in home appliances in 2012. Albania, Romania, and Bulgaria are the only countries in the region where we are not the market leader. However, these are also the markets where we have been present for a shorter period of time than elsewhere. Our performance was solid in Croatia where we saw growth especially in the refrigerator and cooking appliance segments. In Slovenia, we did well in washing machines, owing also to the introduction of the new generation of laundry care appliances. Our market shares in this segment of our home market were increased and we consolidated our leading position. Market shares in the washing machine segment were also increased in Bulgaria and Romania. Serbia is the Group's most important market in the region in terms of sales. In 2012, sales there increased particularly in the segments of cooking appliances and refrigerator freezers. Also recording an increased growth of 25% were small domestic appliances.

Our own showrooms, numbering 14 and located in major Serbian cities, are an important distribution channel. Our network of own retail outlets is also being expanded to other countries of the region. Last year, new showrooms were also opened in Croatia and Bosnia and Herzegovina and we plan to expand our showrooms this year. Gorenje showrooms are also an important promotional tool, as they allow us to present the entire assortment of products in different price segments under our own brands.

Online sales are still relatively low, accounting for less than 10% of the market broken down by distribution channels. In comparison, this channel takes up 30% or more of overall home appliance sales in Western and Central Europe. We are developing our own online sales in major markets of the region.

Our central brand in Southeastern Europe is the Gorenje brand, which is also one of the most popular and most recognized consumer brands in the region. The assortment of products under this brand is complemented with small domestic appliances. Last year we saw rapid growth of sales and market share in this segment. In addition to the Gorenje brand, we are also marketing built-in kitchen appliances under the Gorenje+ brand in Slovenia, Croatia, and Bosnia and Herzegovina. In this year, this brand is also being introduced in the Serbian market. Brand portfolio in the region will be further extended with the premium brand Asko. Last year we launched the sale of Asko washing machines, dryers, and dishwashers in Croatia.

We are also focused on niche product segments. In 2012, our activities in this respect were focused on the sale of induction hobs, kitchen hoods, large-capacity washing machines, and appliances rated in higher energy classes. At the same time, we worked on sales of up-market designer lines and saw good results in all markets.

The economic outlook for the region in 2013 is bleak. The home appliance market is expected to remain stagnant or decline. We shall continue to invest in our brands as we carry out further activities to maintain our position as market leader.

Eastern Europe

The region of Eastern Europe includes 10 countries spanning most of the territory of the former Soviet Union. Russia is the largest among them, both geographically and in terms of sales.

In 2012, GDP growth was similar to the 2011 figure at around 4%. Home appliance sales in Russia increased by 13% by volume and 16% in terms of value. Gorenje sales in Russia also soared over 2011 by approximately one third.

The fact that we saw the highest growth of all our markets in Russia is particularly pleasing since this is one of our most important markets. We did especially well in the cooking appliance segment where the Gorenje brand ranks second among foreign manufacturers. We are traditionally strong in the built-in appliance segment, especially ovens where we are the market leaders. At the same time, we saw solid sales of cookers and washing machines fitted with a water tank. The latter, warmly accepted by the customers, are specific to the Russian market.

Our sales mostly take place through wholesalers. In Russia and in other markets of the region, we observe that kitchen studios and retail chains, concentrated in major cities, are increasingly stronger players. Online sales are also on the rise, particularly in the Moscow area. To attract the Internet shoppers, we introduced our Gorenje One line that was developed especially for online distribution.

Gorenje is our central brand in the Russian market. It is positioned in the upper medium price range, while our designer lines are positioned further upmarket. High investments into the brand have provided foundations for continuing sales growth in the future.

At the entry level, we are present with the brands Mora and Körting. Particular attention has been paid to the development of our premium brand Asko, which also saw high growth in 2012. As we expand our distribution and add new market segments, growth of this brand is planned to continue in 2013.

Macroeconomic forecasts for 2013 are promising for the region. Economic growth is expected to continue and forecasts are also favourable for the home appliance market where sales volume is expected to rise by 10%. Accordingly, we are also planning to increase our sales under all brands and in all price segments with both major and small domestic appliances.

Overseas countries

Countries in these sales regions differ vastly from each other and the same applies to Gorenje Group's position in these regions. In the Middle East and North Africa we are present with the Gorenje and Körting brands; in the Far East, we are marketing Gorenje and Asko; in the USA and Australia, Asko is our only brand; in Brazil, where development of our operations is still in an early stage, we have introduced the Gorenje Brand.

Sales in Northern Africa and the Middle East in 2012 were affected by socio-political conditions. Due to the Arab Spring, our operations were hindered in Egypt, Algeria, Libya, and Tunisia; its effects were also manifest in Jordan, Bahrain, and Lebanon. In 2012, Iran, a notable market for Gorenje in this region, announced a ban on white goods imports that affected our operations there in 2012.

In the Far East, home appliances offering Wi-Fi connectivity with cloud computing services and control via smart communication devices are increasingly popular, as are high-capacity washing machines and dryers. Moreover, energy efficiency is becoming an important selling point. Demand for luxury products declined last year compared to 2011.

Our sales activities resulted in an increase of 10% over sales in the previous year. In the Middle East, we entered the market of Saudi Arabia and launched our free standing home appliances in Kuwait, Oman, and Qatar. In the United Arab Emirates and Lebanon, we introduced a new generation of washing machines and dryers. We took part in four real estate development projects in the United Arab Emirates, and in one project in Qatar, managed by the Air Qatar airline. We also entered new markets in the Far East, as the Gorenje brand was introduced in Cambodia and South Korea, and Asko was launched in Singapore. In Hong Kong, Singapore, Cambodia, and Taiwan, our appliances were featured as standard equipment in several luxury real estate developments.

India was also added to the portfolio of Gorenje's markets. Last year we opened our first showroom in this country.

Australia is the most promising market in the region. Our presence there is concentrated on the Asko brand, especially in the segment of wet appliances. In the future, we are planning to boost the sales of cooking appliances as well. Our plan is to double our sales in the next three years.

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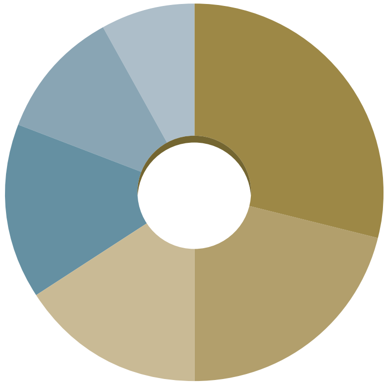
Sales value, broken down by regions

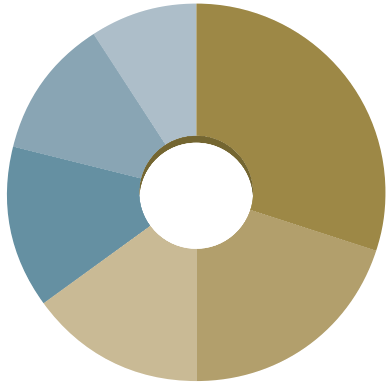
2011

Western Europe and Scandinavia	29%
Southeastern Europe	21%
Central Europe	16%
Benelux	15%
Eastern Europe	11%
Overseas countries	8%



2012

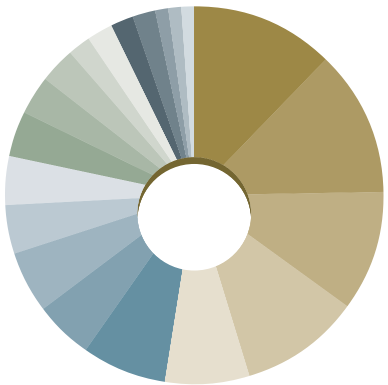
Western Europe and Scandinavia	30%
Southeastern Europe	20%
Central Europe	15%
Eastern Europe	14%
Benelux	12%
Overseas countries	9%



Sales value under our own brands, by countries

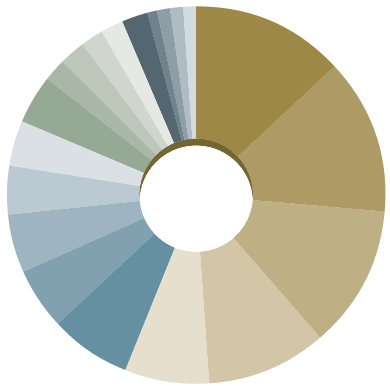
2011

Germany	12.4%
Netherlands	12.2%
Scandinavia	10.2%
Russia	10.1%
Other	7.4%
Serbia	7.0%
Czech Republic	5.4%
Ukraine	5.3%
Croatia	4.2%
Slovenia	4.0%
Australia	3.8%
Belgium	2.7%
Austria	2.6%
BIH	2.3%
USA	2.2%
Poland	2.1%
Hungary	1.8%
Slovakia	1.3%
Great Britain	1.3%
UAE	1.2%



2012

Russia	13.1%
Scandinavia	12.5%
Germany	12.4%
Netherlands	10.1%
Other	6.9%
Serbia	6.6%
Ukraine	5.3%
Czech Republic	4.7%
Croatia	4.2%
Australia	4.1%
Slovenia	3.6%
Austria	2.4%
USA	2.4%
Belgium	2.3%
BIH	2.2%
Poland	2.1%
Hungary	1.4%
Great Britain	1.2%
Slovakia	1.1%
UAE	1.0%



DELEVERAGING AND RESTRUCTURING OF OUR FINANCIAL DEBT

Deleveraging and restructuring our financial debt was the Gorenje Group's fundamental guideline in the field of financial management in 2012. We were successful in both fields.

As at 31 December 2012, total financial liabilities amounted to EUR 432.7m and decreased by EUR 51.4m if compared to the 2011 balance. The improvement is the result of optimising the management of net current assets, the divestment and the improved balancing of cash flows and liquidity on the level of the Group as a whole and of other measures that had a positive impact on the Group's operation. At the year-end of 2012, net financial liabilities, measured as the difference between financial liabilities and cash and cash equivalents, amounted to EUR 379.2 m and indicate a decline of EUR 3.3m over the previous year.

In the structure of financial liabilities, non-current financial liabilities represent 64% of total financial liabilities and reached the most favourable level after the onset of the worldwide economic crisis. Prior to 2011, the share of non-current loans amounted to about 50%.

We kept the maturity structure of sources of financing and improved it significantly by means of two major loans. In the middle of 2012, the SID Banka granted the parent company a long-term loan of EUR 28.2m for financing development projects. It is important that approximately EUR 18m of the granted loan may be drawn already in 2013, and the rest in 2014. We are very pleased that at the end of the year the Sberbank Europe joined our portfolio of bank partners by providing a long-term syndicated loan of EUR 50m.

It should be emphasised that at the end of 2012, the Group recorded EUR 102m of undrawn long-term and short-term loan potential and EUR 53.5m of cash balances on bank accounts available to ensure smooth repayment of financial liabilities. Although the latter can be deemed to potentially repay the due loans in 2013, we still aim to maintain and improve the maturity structure and hence provide for a long-term financial stability. Thus we are continuing our negotiations with bank partners about refinancing the financial liabilities due in the coming year, and further pursue the obtaining of diverse sources of finance.

By raising new loans on the annual level, we do not increase the total financial debt, but primarily rather improve the maturity structure of financial liabilities, provide for necessary financial resources for the next year and balance disproportionate changes in the free cash flow during the financial year.

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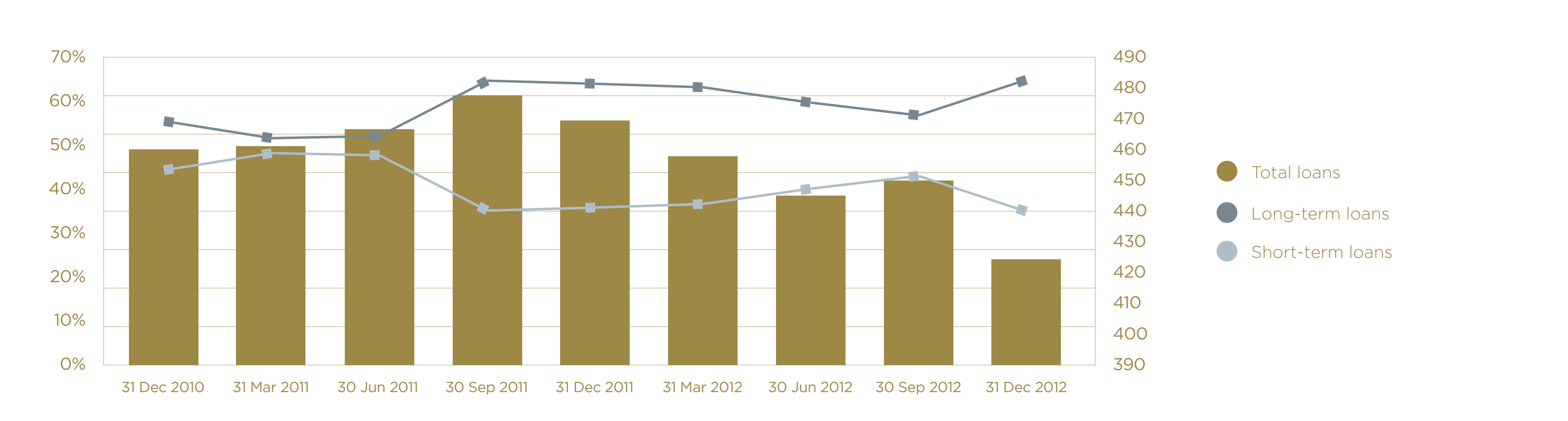
Maturity structure of loans in the period from 2011 to 2012 and changes in loans



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2012: FIRST YEAR OF STRATEGIC PLAN IMPLEMENTATION

We launched extensive activities in 2012 aimed at implementing the key goals specified in the strategic plan for the period 2012-2015. Activities which were conducted in order to attain the key strategic goals included the restructuring of the production facilities, deleveraging, developing new home products distinguishable for their innovative solutions and design, increasing sales on new markets beyond Europe, strengthening corporate governance, and development of the Corporate University of Gorenje.

The new organisational structure of the Gorenje Group

The organisational structure of the Gorenje Group, which is in force since 1 January 2012 was reformed with the purpose to implement the strategic goals set.

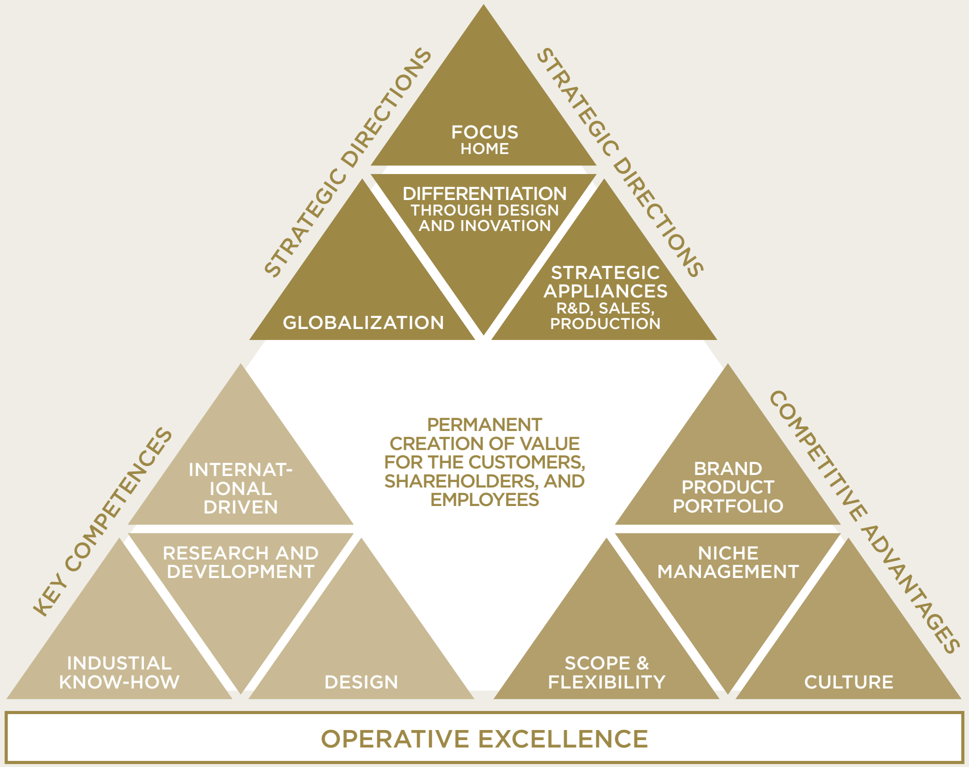
Business Segment Home represents the core activity of the Group. This segment comprises major and small household appliances, heating appliances, air filtering systems and air-conditioning appliances, kitchen furniture, product design and home-related services.

The core activity shall already by 2015 account for approximately 90% of Gorenje Group's operations.

Business Segment Ecology covers the Group's supplementary activity i.e. services for the comprehensive waste management in the territory of Slovenia and South-Eastern Europe.

Business Segment Portfolio Investments includes tool manufacture, engineering and agent services relating to IT equipment as well as industrial and medical equipment, products and services in the field of energy and renewable sources of energy, catering and hotel services.

Business model of the Gorenje Group



Goals of the strategic plan

MARKETS/ MARKETING GOALS

- 25% share of brands/concepts of the premium class in the sales structure of 2015
- EUR 150m of revenue from sales in non-European markets
- 90% of revenue in 2015 generated by the core activity of home products and services

FINANCIAL/BUSINESS GOALS

- Revenue exceeding EUR 1.5m in 2015 (CAGR 3.8%)
- Minimum free cash flow of EUR 40m in 2015
- EBIT of more than 5% in 2015
- Net financial debt/EBITDA ratio of maximum 3.0 from 2014 onwards

ORGANISATIONAL/HUMAN RESOURCES/GOVERNANCE GOALS

- New business model, organisational structure, human resources management and corporate governance

Vision, mission and values

VISION

To become world best design driven innovator of home prosucts.

MISSION

To create innovative, design-driven and technically perfect products and services that bring simplicity to our users.

Simplicity	Honesty	Ambition	Responsibility	Creativity

FUNDAMENTAL VALUES

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PLANS FOR 2013

Increase in sales with improved geographic and product structure

- The largest increase in sales is planned on markets in Russia, Ukraine, the Czech Republic, Slovakia, Poland, Germany, Slovenia and China, higher sales than in 2012 are planned in Australia and in the Middle East as well.
- The largest growth among product groups has been planned for cooking appliances.

Growth in value will exceed the growth in quantities as a result of

- selective price increase in individual markets,
- improved geographic and product structure.

Development and launch of new products

- We plan to launch a new generation of refrigerator-freezer appliances with a width of 60cm and anti-bacterial technology, appliances with innovative functions for a healthy lifestyle, new Simplicity line, a line of appliances in retro style called Il Classico, induction hobs with new functions etc.

Improved management of working capital

- Reducing levels of receivables and inventories (of raw materials, finished goods and merchandise) will have a positive impact on free cash flow.

Optimisation of costs of materials and raw material

- through optimisation of processes,
- by maintaining the volume of purchase from lower-cost countries (LCC).

Optimisation of costs of purchasing, logistics, labour costs and all other costs

Further divestment of non-core and underperforming business units

Improvement of capital structure

- Obtaining additional capital.
- Proceeding with financial restructuring.

Completion of activities relating to production restructuring

- Transfer of the production of washing machines, tumble dryers, and dishwashers from Sweden to Slovenia (Velenje)

Further development of corporate governance in major sales business units

Goals in 2013

EURm	Plan 2013	2012
Consolidated revenue	1,339.6	1,263.1
EBITDA	96.7	90.6
EBITDA Margin (%)	7.2%	7.2%
EBIT	48.9	44.9
EBIT Margin (%)	3.7%	3.6%
Profit before tax	9.4	14.8
Net income	4.2	0.3
ROS (%)	0.3%	0.02%
ROA (%)	0.4%	0.02%
ROE (%)	1.0%	0.1%
ROIC (%)	2.7%	3.4%
FCF/narrow	10.9	43.7

CORPORATE GOVERNANCE STATEMENT

GORENJE MANAGEMENT BOARD

Members of the Management Board

The Management Board of Gorenje will be commence a new five-year term on 19 July 2013. All present members of the management board remain in the board, except for Uroš Marolt who will remain with the Gorenje Group after the expiry of his term.

Franjo Bobinac, President and CEO

Franjo Bobinac obtained a degree in international economic relations from the Faculty of Economics - University of Ljubljana (1982). He completed his MBA studies at the Ecole Superieure de Commerce in Paris in 1997.

He began his career in Emo Celje, where he worked for three years. In 1986 he joined Gorenje Commerce as Assistant Export Director. He was appointed Export Director in the company Gorenje Household Appliances in 1990 and one year later took on the position of Marketing Manager in the same company. From 1993 to 1998 he was Managing Director at Gorenje's branch office in Paris. After Gorenje's transformation into a public limited company in 1998, he became member of the temporary Management Board of Gorenje, d. d. in charge of sales and marketing. In 2003 he was for the first time appointed President of the Management Board of Gorenje. He began his second term of office as President of the Management Board in 2008 and will commence his third term of office on 19 July 2013.

He has international experience in various business functions, and holds in-depth theoretical and practical knowledge.

He is a member of the General Assembly of the CECED European Committee of Domestic Equipment Manufacturers, member of the Management Board of the Chamber of Commerce of Slovenia, member of the Management Board of the IEDC Bled School of Management and member of the Management Board of the University of Ljubljana and the Research Institute Jožef Stefan, member of the Council at the Faculty of Economics (University of Ljubljana), and President of the Handball Association of Slovenia. He is also Vice-President of the Managers' Association of Slovenia, and previously served a five-year term as President of the Association. He is also a member of the Management Board of the Managers' Association of SE Europe Summit 100.

He occasionally lectures at the IEDC Bled School of Management and at the Faculty of Economics, University of Ljubljana, and is a guest lecturer at the Jožef Stefan International Postgraduate School. He was awarded the decoration of knight of national order of merit of the Republic of France and also received the award of the Chamber of Commerce of Slovenia for exceptional economic achievements in the year 2007 and the medal of Janez Vajkard Valvasor for economists granted by the Jožef Stefan International Postgraduate School.

- He holds 2,096 GRVG shares.

Marko Mrzel, Member of the Management Board in charge of Sales and Marketing

Marko Mrzel graduated from the Technical Faculty of the University of Maribor (1995). Following his university study, he further pursued his career and completed the MBA postgraduate studies in Radovljica under the patronage of the Faculty of Economics in Ljubljana, and obtained a Master's degree in economics in 1999. After completing his traineeship at the Velenje Coal Mine, he was employed in the Finance Department of the Era trade company, and advanced to the position of Manager of Wholesale activities. In 2001 he was employed by the Gorenje Group as head of the complementary programme at the parent company. Two years later he was appointed Director of Gorenje's sales subsidiary in Belgrade. In March 2011 he took on the position of Member of the Management Board in charge of Finance and Economics. Since 1 January 2012, he has held the position of Member of the Management Board in charge of Sales and Marketing.

- He holds no GRVG shares.

Peter Groznik, PhD, Member of the Management Board in charge of Finance and Economics

After graduating from the Faculty of Economics – University of Ljubljana in 1996, Peter Groznik further pursued his academic career and completed his master's studies in economics at the Kelley School of Business, Indiana University, USA, and later received his PhD in finance in 2003 from the same institution.

After completing his PhD, he began his professional career as a consultant on financial regulation for the company Mobitel, followed by employment at various companies of KD skladi, where he was in charge of fund management from 2005 to 2009. In March 2009, he was appointed CEO of KD skladi; his term ended in September 2010.

He is currently the Supervisory Board Chairman at Pivovarna Union and a Supervisory Board member at Pivovarna Laško; for two years, he was also a Supervisory Board member at Telekom Slovenije. He is the founder of the investment consultancy firm NorthGrant Consulting and a partner in the personal finance company BTP Indegra. His cooperation with Gorenje dates back to September 2011 when he was hired as an independent consultant for financial issues. He became a member of the Management Board on 19 April 2012.

Since 1996, he has taught several courses at the Faculty of Economics in Ljubljana. He was also a lecturer and visiting professor at the Kelley School of Business, USA and the International Graduate Business School in Zagreb. Since 2005, Peter has held several positions in expert and strategic bodies of the Government of the Republic of Slovenia, including that of Chairman of the Strategic Council of Economic Development from 2007 to 2009; he is still a member of the financial markets council at the Ministry of Finance.

He has received several academic awards, participated in many seminars and conferences at home and abroad, and has published several articles in Slovenian and international expert journals.

- He holds no GRVG shares.

Branko Apat, Member of the Management Board in charge of Major Appliance Operations and Heating Equipment Operations and Sales

Branko Apat obtained a degree in foreign trade from the Faculty of Economics in Maribor (1984). In 1988 he completed a specialist study programme in marketing at the Cleveland State University, Ohio, USA. After his traineeship in Gorenje, he was employed as a sales specialist for products and services beyond the Gorenje parent company. He continued his career as Export Director for the Middle East. In 1988 he became Assistant Export Director for out-of-white goods, and was also in charge of marketing in South America. In 1990 he was appointed Purchasing Director, and three years later Marketing Director (1993). From 1999 until the end of 2009, he was Managing Director of the company producing water heaters - Gorenje Tiki. In 2003 he was appointed Executive Director by the Management Board, responsible for coordinating the activities of companies in the Gorenje Group in the areas of heating systems, tool making and the manufacture of industrial equipment; from 2006 onward he was also responsible for Gorenje's supplementary programme. In 2007 he was appointed to the Company's Management Board in charge of complementary programmes, purchasing and logistics. In 2009, he was as Member of the Management Board responsible for the whole Home Appliances Division, including sales. Since 1 January 2012 he is in charge of the the Major Appliance Operations and Heating Equipment Operations and Sales.

- He holds 626 GRVG shares.

Uroš Marolt, Member of the Management Board, in charge of Corporate Services and Kitchen Programme

Uroš Marolt obtained a degree in marketing from the Faculty of Economics in Ljubljana (1997). He is completing a Master's programme at the Faculty of Economics and Business Administration in Maribor. In 1996 he started his career at MGA Nazarje as Senior Controller in the Controlling Department of MGA Nazarje (today BSH Nazarje). He began working for Gorenje in 1998 as a sales representative for the Russian market. In 2001 he took charge of the commercial activities in Gorenje's sales company in Poland and was appointed Managing Director of the company in 2002. Three years later he became Director of Gorenje's sales company in Austria. In 2007 he was appointed Member of the Management Board of Gorenje in charge of marketing and sales. From 2009 until the end of 2011 he was Member of the Management Board in charge of the Home Interior Division. Since 1 January 2012 As a member of the Management Board he is in charge of corporate services and the kitchen programme since 1 January 2012.

- He holds no GRVG shares.

Drago Bahun, Member of the Management Board– Labour Director

Drago Bahun completed his studies of sociology (majoring in human resources training) at the Faculty of Sociology, Political Sciences and Journalism - University in Ljubljana (1979), followed by postgraduate studies in staffing at the Faculty of Social Sciences- University in Ljubljana. He began his career at the Mining and Energy Engineering State Combine in Velenje in 1979, where he headed the Department of Business System Organisation until the end 1984. He has been employed at Gorenje since 1985 when he was employed as Vice-chairman of the management committee of the composite organisation for the field of socio-economic relations. From 1987 to 1990 he was a member of the Management Board of Gorenje Gospodinjski aparati responsible for staffing, and from 1990 to 1997 held the post of Director of Human Resources and General Affairs. He was then a member of the temporary Management Board after the restructuring of the Company into a public limited company in 1997. The following year he was appointed Member of the Management Board in charge of human resources and Labour Director. From 2003 to the end of 2011 he was member of the Management Board in charge of human resources, organisation and labour director. He is member of the Management Board – Labour Director since 1 January 2012.

He has been active in various institutions and professional organisations (Chamber of Commerce of Slovenia, Ministry of Labour, Employers' Association). He is a member of the supervisory board of Credy bank and the Skiing Association of Slovenia, and President of the organisational committee of Planica.

- He holds 9,032 GRVG shares.

GORENJE MANAGEMENT BOARD

Peter Groznik
Management Board Member

Branko Apat
Management Board Member

Marko Mrzel
Management Board Member

Franjo Bobinac
President and CEO

Drago Bahun
Management Board Member

Uroš Marolt
Management Board Member

Statement of Management Responsibility

The Management Board is responsible for the preparation of the Annual Report of Gorenje, d.d. and the Gorenje Group, as well as the financial statements, in a manner providing the public with a true and fair presentation of the financial position and the results of operations of Gorenje, d.d. and its subsidiaries in 2012.

The Management Board confirms that the financial statements of Gorenje, d.d. and the Gorenje Group have been prepared in conformity with applicable accounting policies, that the accounting estimates have been prepared under the principles of prudence and due diligence, and that the financial statements of the Company and the Group give a true and fair view of their financial position and the results of their operations in 2012.

The Management Board is also responsible for adequate and orderly accounting and the adoption of appropriate measures for safeguarding property and other assets, and confirms that the financial statements of Gorenje, d.d. and the Gorenje Group, together with the accompanying notes, have been 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 gives a true and fair view of the assets and liabilities, financial position, and the profit or loss of the controlling company and other companies included in the consolidation of the Gorenje Group. The Management Board also confirms that the Management Report presents a fair view of the information on relevant transactions with related persons, and is compiled in accordance with applicable legislation and International Financial Reporting Standards.

The Chairman and members of the Management Board are familiar with the contents of integral parts of the Annual Report of Gorenje, d.d. and the Gorenje Group for 2012, and thus also with the entire Annual Report. We agree with the Annual Report, and hereby confirm this with our signatures.

Franc Bobinac, President of the Management Board

Peter Groznik, Member of the Management Board

Marko Mrzel, Member of the Management Board

Branko Apat, Member of the Management Board

Uroš Marolt, Member of the Management Board

Drago Bahun, Member of the Management Board

SUPERVISORY BOARD

In addition to its rights and obligations prescribed by applicable 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 in 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 values of Gorenje. The international composition of the Supervisory Board in particular carries considerable weight, as its members can directly apply their rich international experience in practice.

Due to the fact that the term of office of the President and the members of the Management Board expires on 18 July 2013, the Supervisory Board carefully considered its decision and appointed Franjo Bobinac the President of the Management Board for the next term of office. Simultaneously, the appointment of other members of the Management of Board was confirmed on his proposal.

In 2012 as well as this year, the Supervisory Board devoted much attention to solutions for improving the operations of the furniture segment of the Gorenje Group. The sale of the companies Gorenje Kuhinje, d.o.o., Gorenje Notranja oprema, d.o.o. to the investment company Cobe Capital is a good solution for the employees, the Gorenje Group and all its stakeholders.

The Supervisory Board closely monitors the relocation of the production. It is the most extensive process of restructuring of manufacturing operations in the history of Gorenje, thus much of its time is devoted to related issues and matters.

The Supervisory Board aims at constantly improving the corporate governance and welcomes the implementation of Code of Conduct that was adopted at the end of 2011. This marks a milestone when considering the increase in the transparency of operation, since each employee who has reasons to suspect legality or non-ethical operation can directly contact the audit committee or the secretary of the Management Board. The Supervisory Board requested explanations from the Management Board in connection with some publications in the media that could have an impact on he price share, business decisions of investors and the interested public. The Management Board always replied in the shortest possible time and provided sufficient and relevant explanations. In order to protect Gorenje's reputation and joint business interests, the Company duly responded through the media in line with the fundamental principles of corporate governance, applicable legislation, and good practices applied worldwide.

All members of the Supervisory Board meet the independence criterion as defined in the Corporate Governance Code for Public Limited Companies. The competences and obligations of the members of the Supervisory Board are the same, the only difference being that certain members are also members of some of its committees. These committees conduct their activities in accordance with applicable law and the authorisation granted by the Supervisory Board.

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

Members of the Supervisory Board

At its 14th and 15th meetings, the General Meeting of Shareholders granted a four-year term of office, effective as of 19 July 2010, to the following members of the Supervisory Board:

Representatives of capital:
- Uroš Slavinec, Chairman,
- Maja Makovec Brenčič, Deputy-Chairman,
- Marcel van Assen, Member,
- Keith Miles, FCA, Member,
- Bernard Pasquier, Member.

Until 24 August 2012 Peter Kraljič was a member of the Supervisory Board, but he resigned from the Supervisory Board on his own accord.

Representatives of employees:
- Krešimir Martinjak, Deputy-Chairman,
- Peter Kobal, Member,
- Drago Krenker, Member,
- Jurij Slemenik, Member.

Uroš Slavinec, Chairman of the Supervisory Board

Uroš Slavinec holds a university degree in economics. Since 1 June 1990 he is President of the Management Board of Helios Domžale d.d. He has been employed in the said company from the beginning of his working career, i.e. from 1975 to 1986, at all times in the management team and in other areas (Head of Planning and Analysis, member of the Collegiate Management Committee, and Chairman of the Collegiate Management Committee). From 1986 to 1990 he was member of the Executive Council of the Assembly of the Republic of Slovenia for industry and civil engineering. He is a member of the Assembly of the Slovenian Chamber of Commerce and Industry. He received the Award of the Slovenian Chamber of Commerce and Industry in 1997 for exemplary business and entrepreneurial achievements. He was named Manager of the Year in 2006.

- He holds no GRVG shares.
- Member of the Remuneration Committee and Nomination Board of the Supervisory Board.

Maja Makovec Brenčič, PhD, Deputy-Chairman of the Supervisory Board

Maja Makovec Brenčič is Full Professor of International Business, and Deputy Dean of Development at the Faculty of Economics, University of Ljubljana. At this and other universities abroad, she lectures on international business, international marketing, strategic marketing, interorganisational marketing, marketing in sports, and marketing in health care. She is President of the Slovenian Marketing Association and Vice-President of the Advertising Tribunal at the Slovenian Advertising Chamber. She is a member of several Slovenian and international professional and scientific associations in the area of international business and marketing (AIB, EIBA, AMA), and till 2011 she was a representative of the Executive Committee of the largest European academic association for marketing (EMAC). Her works are published in scientific and professional journals specialising in international business and marketing, both in Slovenia and abroad. She specializes in the areas of internationalisation, marketing development and marketing strategies. She heads the postgraduate international business programme at the Faculty of Economics, and as Deputy Dean is responsible for the development of new products, the strategy of Faculty of Economics, and internationalisation. She is also President of the NAKVIS Council.

- She holds no GRVG shares.
- Chairwoman of the Benchmark Committee, member of the Remuneration Committee of the Supervisory Board.

Marcel van Assen, PhD, Member of the Supervisory Board

Marcel van Assen is a Managing Consultant at Berenschot, a leading Dutch consultancy firm, where he is responsible for all consultancy activities with respect to Operational Excellence practices. He is Full Professor of Operational Excellence at TiasNimbas Business School, the business school of the University of Tilburg, and the Eindhoven University of Technology, where he teaches various courses, workshops and Masters classes. He is co-author of numerous articles and books, including Operational Excellence new style; Practices of Supply Chain Management; Key Management Models, and Reconfiguration of Chains and Networks.

He completed his Master studies in mechanical engineering at Twente University, Master studies in strategy and organisation at the Open University, and received his PhD in management at Erasmus University in Rotterdam.

- He holds no GRVG shares.
- Member of the Benchmark Committee, member of the Remuneration Committee of the Supervisory Board.

Peter Kraljič, PhD, Member of the Supervisory Board until 24 August 2012

Peter Kraljič obtained a BSc degree in metallurgy from the University of Ljubljana, his PhD from the Technical University in Hannover, and his MBA from INSEAD, Fontainebleau. From 1970 until his retirement in 2002 he was employed at McKinsey & Co., Inc., acting as Director after 1982. Prior to this, he was employed at La Continentale Nucleaire, Luxembourg, from 1967 to 1970, at v TH Hannover from 1965 to 1967, and in 1964 he was active in the welding industry in Slovenia. His activities are mainly related to industrial activities, such as the chemical, pharmaceutical, automobile and steel industries, as well as industry service sectors in Germany, Austria, France and in Eastern Europe. He has published numerous scientific and business papers. He has been a speaker at a number of meetings, institutions and forums, where he lectured on topics such industry and company restructuring in Eastern Europe. He is member of the supervisory board of Severstal and was member of the supervisory boards of the SID bank and the pharmaceutical company LEK. In the past he was also President of IEDC Bled School of Management, as well as a member of the McKinsey Global Institute Advisory Council. In 2002 he was member of the Federal Committee for the Restructuring of the German Employment Agency.

- He holds no GRVG shares.
- Member of the Benchmark Committee, the Corporate Governance Committee, and Vice-Chairman of the Remuneration Committee of the Supervisory Board.

Keith Miles, FCA, Member of the Supervisory Board

Keith Miles is a Fellow of the Institute of Chartered Accountants in England and Wales. He is in retirement. He gained his working experience in various companies and enterprises, primarily in the areas of accounting, treasury, finance, and retail. He was employed as a partner at G.H.Fletcher & Co (Chartered Accountants) from 1958 to 1970, in the Group Accounting Division of the P & O Group (transport activities) from 1970 to 1972, as an Assistant Company Secretary (group accounts) in the Grindlays Bank Group (banking) from 1972 to mid 1973, as Director of the Datnow Group (investments and retail) from mid 1973 to mid 1983, as Director of Finance and Administration at the Greater London Enterprise Board (investments/local administration) from mid 1983 to mid 1985, as Director of Finance and Administration at the Cable Authority (regulatory body) from mid 1985 to 1988, as Director of Finance and Administration at the Institute of Economic Affairs (academic institution) from 1988 to mid 1990, and as Company Secretary and Director of Finance of the Etam Group at ETAM PLC (a retail company) from mid 1990 to October 1998. He was also a Non-Executive Director of a number of companies, in England. He is a Trustee of the British-Slovene Society and gives lectures on the topics of retail, finance, economics and business, and contributes articles to various Slovenian newspapers.

- He holds no GRVG shares.
- Chairman of the Audit Committee, member of the Remuneration Committee of the Supervisory Board.

Bernard Pasquier, Member of the Supervisory Board

Bernard C. Pasquier obtained a university degree in business administration, majoring in finance and investment analysis from the Ecole Supérieure de Commerce et d'Administration des Entreprises de Montpellier (France) in 1976. He received a Master's degree in public administration, majoring in business and economic development, from the John F. Kennedy School of Government, Harvard University (USA) in 1984. He has worked as a consultant since 2008. His portfolio of assignments includes advising the parliament of the Principality of Monaco on economic and financial issues, and the World Bank in connection with various projects linked to private sector development. He also represents the International Finance Corporation (IFC) in the Management Board of Grupo Mundial, Panama. He was Secretary General of COMPAGNIE MONESGASQUE DE BANQUE in Monaco from 2004 to 2007, and Director of the Latin America and Caribbean Isles Department at IFC in Washington from 2001 to 2004. He also held many other positions at IFC in the period from 1984 to 2001: Investment Officer via the Young Professional Programme (1984-1985), Principal Economist and Country Officer for the Africa region (1985 to 1990), Manager of the Africa Department (1990 to 1995), Senior Advisor in the Office of the President of the World Bank (1998 to 2001), and Director of the South Asia Department (2001 to 2004). He was a founder and Managing Director of the Dream Food International company in San Francisco from 1980 to 1983, an Investment Analyst at the Chase Manhattan Bank in Rio de Janeiro from 1977 to 1980, and an Economic Consultant at the Finance Ministry in Rio de Janeiro in 1976 and 1977. In the period from 1998 to 2004 he was a member of the Management Board of SMBP, a private bank based in Monaco, whose shareholders were the banks Dexia and La Caixa de Barcelona. In February 2013 he was elected Member of the National Council of the Principality of Monaco. He is also Secretary General of the Monaco Méditerranée Foundation, Secretary General of the Club of Monaco, and Secretary General of l'Association des Monégasques de l'Etranger.

- He holds no GRVG shares.
- Member of the Benchmark Committee, Corporate Governance Committee, and the Chairman of the Remuneration Committee and the Nomination Board of the Supervisory Board.

Krešimir Martinjak, Deputy-Chairman of the Supervisory Board

Holds a university degree in law, and is employed in Gorenje since 1986. He performed various tasks in the areas of labour, obligation and status or corporate law in the Legal Department of the Company for sixteen years. He was elected to the Supervisory Board of Gorenje for the first time in 2002. In the period from 2002 to 2008 he was Chairman of the SKEI Trade Union of Gorenje, after which he returned to work in the legal office of Gorenje

- He holds 115 GRVG shares.
- Member of the Remuneration Committee of the Supervisory Board.

Peter Kobal, Member of the Supervisory Board

An electrical engineering technician by profession, he holds the position of Assistant Director of Maintenance at Gorenje. He is employed at Gorenje since 1971, and has held various maintenance positions, from maintenance technician to assistant director. In 1997 he was elected Chairman of the Employee Council of Gorenje for the first time, and now holds this position for the fourth consecutive term. He was appointed member of the Supervisor Board of Gorenje for the first time in 1998. He is successful both in his profession and in the area of employees' co-management.

- He holds 1,355 GRVG shares.
- Member of the Benchmark Committee of the Supervisory Board.

Drago Krenker, Member of the Supervisory Board

A sales representative by profession, he holds the position of Assistant Director of the Refrigerator-Freezer Programme. He began his career in the field of electronics in 1974. He worked for 14 years in the Procesna Oprema company within the Gorenje system, and two years in Iskra Delta, working primarily on medical electronic equipment. In 1989 he began to work in the refrigerator-freezer programme as Plant Manager, Production Planning Manager, Production Manager, and Head of the General Affairs Department. He was elected member of the Supervisory Board of Gorenje for the first time in 1998. He is presently serving his fourth term in the Employee Council, having served one term as its Vice-Chairman. He is Chairman of the Occupational Health and Safety Committee for the second consecutive term.

- He holds no GRVG shares.
- Member of the Audit Committee of the Supervisory Board.

Jurij Slemenik, Member of the Supervisory Board

A mechanical engineering technician by profession, he is currently Head of Production in the washer-dryer programme. He has worked for Gorenje since 1978, holding various jobs in the washer programme. He has been a member of the Employee Council since 2002, when he was elected to the Supervisory Board of Gorenje for the first time.

- He holds 1,738 GRVG shares.
- Member of the Remuneration Committee of the Supervisory Board.

Supervisory Board Committees

Audit Committee

The Audit Committee performs its tasks within the scope of authorisations granted under Article 280 of the Companies Act. The Audit Committee has the following composition: Keith Miles as Chairman, Drago Krenker as member, and Aleksander Igličar as external member, employed as Senior Lecturer in accounting and auditing at the Faculty of Economics in Ljubljana.

Benchmark Committee

The committee has the following members: Maja Makovec Brenčič as Chairwoman, and Marcel van Assen, Bernard C. Pasquier, and Peter Kobal as members.

The fundamental task of the Benchmark Committee is to determine the companies with which the Gorenje Group will compare its operation. The committee is primarily engaged in methodological issues and setting the basic criteria for comparison. On the basis of a final selection and defined methods and indicators, the committee will define the timeframe of the Company's activities aimed at improving the strategic plan. Some of its members are representatives of the Company's management: Franjo Bobinac, President of the Management Board, Marko Mrzel, Member of the Management Board, Aleksander Uranc, Director of Brand Management, and Klemen Prešeren, Regional Executive Director.

Corporate Governance Committee

The task of the Corporate Governance Committee is to find the best possible way of organising the Gorenje Group given its increasing international recognition and need to adapt in all areas of its business operation.

Due to the fact that the company started operating in accordance with the new structure as at 1 January 2012, the committee did not meet last year, but the Supervisory Board monitored regular reports of the Management Board on the implementation of organisation in separate fields.

The members of the committee are:, Bernard C. Pasquier, Peter Kraljič (until 24 August 2012) and, representing the Company, Franjo Bobinac, President of the Management Board.

Remuneration Committee

The committee has the following members: Bernard Pasquier, Chairman, Marcel van Assen, Maja Makovec Brenčič, Keith Miles, Uroš Slavinec, Krešimir Martinjak and Jurij Slemenik.

The Committee has the competences specified under item B.2 of Appendix B of the applicable Code of Corporate Governance for Public Limited Companies.

Nomination Committee

The committee has the following members Bernard Pasquier, Chairman, Uroš Slavinec, Tadeja Čelar, Philip Sluiter, Roman Ambrož and Mitja Svoljšak.

The nomination committee will carry out all the necessary procedures for the selection of candidates for the appointment of a substitute member of the Supervisory Board as well as members of the Supervisory Board for the following term of office.

More detailed explanations on the functioning of the committees of the Supervisory Board in the year are provided in the Report on the Review of the Annual Report for the year 2012.

Payments to Management and Supervisory Board Members

On the basis of employment contracts concluded in 2008, the earnings of members of the Management Board are comprised of a fixed and a variable part. For the period from 1 November 2009 to 31 October 2010, all members of the Management Board signed annexes to their employment contracts, in which their salaries were reduced on average by 25 percent. The salary of the President of the Management Board was reduced by 35 percent with respect to the provisions of his employment contract. On 1 January 2011 all members of the Management Board signed new annexes to their employment contracts, in which their salaries were set at the amounts specified in the first annex. Given the considerable reduction, the existing salaries are laid down by the annex in fixed form. Since 1 September 2012 to the end of the year the salaries of the President and the members of the Management Board were again reduced by 15% when compared to the concluded contract. The payments of the members of the Management Board are presented in the financial report, in Notes - Transactions with related parties.

The Company has not adopted a stock option remuneration plan.

For their work, the members of the Supervisory board are entitled to regular monthly payments, meeting attendance fees, training and the reimbursement of expenses for meeting attendance. The costs mentioned debit the current operation of the company. Payments of the members of the Supervisory Board are presented in the financial report, in Notes – Transactions related parties.

Trading in Shares of Management and Supervisory Board Members

Compared to the 31 December 2011 balance, the number of shares owned by members of the Supervisory Board did not change. The number of shares owned by the Management Board did not change either (11,754). In accordance with applicable laws and the Company's rules, all recipients of internal information, i.e. members of the Management Board, Supervisory Board and the Audit Committee, are required to observe special rules for trading in Gorenje shares, which are commonly referred to as „trading windows". Such persons are not allowed to trade in the Company's shares thirty days prior to the announcement of periodical results or other information that could influence the share price. In case of any other information that may influence the price per share the prohibition of trading in shares is valid all the time until such information has been made public. Regulations governing internal information and informing of persons with respect to the openness of trading windows are kept by the Secretary of the Management Board.

At the end of 2012, the company Ingor, d.o.o.,& co., k.d. was the owner of 794,473 shares accounting for a 4.9945-percent ownership share in Gorenje. The limited partners who invested their own funds in the capital of the Company are members of the narrow and broader management of Gorenje, certain members of the Supervisory board and the SKEI trade union, while the company itself is managed by a general partner – the company Ingor, d.o.o. This company is not privileged in comparison with other stakeholders. All internal owners who have, or could have, access to internal information are required to consistently observe the so-called trading windows, and are only allowed to trade in Gorenje shares when their information base is balanced with other investors. At Gorenje, we fully observe the principle of equal treatment of all stakeholders.

Trading in shares of Management and Supervisory Board Members

	Ownership		Net purchases during period	
	2012	2011	2012	2011
Total Supervisory Board	**3,208**	**3,208**	**-**	**-**
Uroš Slavinec	-	-	-	-
Maja Makovec Brenčič	-	-	-	-
Keith Charles Miles	-	-	-	-
Peter Kraljič	-	-	-	-
Marcel van Assen	-	-	-	-
Bernard C. Pasquier	-	-	-	-
Krešimir Martinjak	115	115	-	-
Drago Krenker	-	-	-	-
Jurij Slemenik	1,738	1,738	-	-
Peter Kobal	1,355	1,355	-	-
Total Management Board	**11,754**	**11,754**	**-**	**-**
Franjo Bobinac	2,096	2,096	-	-
Drago Bahun	9,032	9,032	-	-
Peter Groznik	-	-	-	-
Marko Mrzel	-	-	-	-
Branko Apat	626	626	-	-
Uroš Marolt	-	-	-	-

Note: Mandate of the SB for the period from 19 July 2010 to 19 July 2014

Audit

External audit

The auditing of financial statements of the controlling company and the majority of its subsidiaries is conducted by the KPMG audit company. The Company observes the recommendations of the Corporate Governance Code for Public Limited Companies regarding the appointing of auditors. The proposal for the selection of an auditor for the financial year 2012 was prepared by the Audit Committee, and the Supervisory Board proposed its appointment to the General Meeting of Shareholders.

The external auditor reports on its findings to the Management Board, the Supervisory Board, and the Audit Committee.

The transactions of the parent company and the Gorenje Group with the company KPMG Slovenija, podjetje za revidiranje, 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

In 2012, the Internal Audit Department took an important step forward. Auditing was conducted in compliance with the plan and the updated risk assessment. The primary fields of auditing (accounting controls etc.) still comprise the scope of audit, whereas we devoted more attention to the main objectives of the strategic vision of the Internal Audit Department:

- harmonisation of internal audit activities with the strategic and business objectives of Gorenje,
- continuous auditing and monitoring of key controls,
- proactive identification of risks and immediate response to the detected significant risks.

The Internal Audit Department reached the added value by the recommendations proposed in the audit reports, consulting and informal proposals to the audited units. The control system has been established in most cases and has operated satisfactorily. We have provided improvements in case of established deficiencies and they have been carried out in compliance with the deadlines agreed.

In accordance with the Internal Auditing Standards, we implement the programme of internal audit quality every year . A self-assessment is made in scope of it and the evaluations obtained are analysed by the Management Board and the management of audited units. We define adequate measures for the improvement of the operation of the Internal Audit Department on the basis of the analysis.

In 2012 the cooperation with audit committee of the Supervisory Board was strengthened. We cooperate in the preparation of the document and the rules on the internal audit operation, formulation of the strategy and the plans of the work of the Internal Audit, selection of the company performing the external audit, etc. Independent value of the department was determined in an independent appraisal in March 2013.

The team has been expanded by a professional associate having long term experience in the field of audit, finance and accounting. Higher efficiency of auditing has been made possible also due to the purchase of the audit program that has been used by numerous audit companies.

The plan for 2013 foresees further expansion of the department and the purchase of the audit tool that will enable direct access to the activities of the Internal Audit Department to the Management Board and the Audit Committee of the Supervisory Board.

With the expansion planned we will reach the target number of employees in the Department, which is five. On the basis of the reinforcement of the staff and the increased use of software the department will develop also in the future. Comprehensive auditing and high added value are our strategic objectives.

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

The Management Board and the Supervisory Board of the Company hereby declare that Gorenje, d.d. observes, in its work and operations, the Corporate Governance Code for Public Limited Companies as adopted on 8 December 2009 by the Ljubljana Stock Exchange, the Association of Supervisory Board Members of Slovenia, and the Managers' Association of Slovenia, and is accessible on the website of the Ljubljana Stock Exchange (http://www.ljse.si) in the Slovenian and English languages, with individual deviations that are disclosed and explained below:

The contents of the statement refer to the period from the adoption of the previous Statement of Compliance with the Corporate Governance Code for Public Limited Companies, i.e. from 20 April 2012 to 18 April 2013, when its contents were jointly formulated and adopted by the Management Board and the Supervisory Board of Gorenje, d.d.

Chapter: Company Management Framework

Recommendation under 1:

The key goals of the Company are not specifically defined in the Articles of Association, but are included and clearly defined in the mission of the Company: "To create innovative, design-driven products and services that bring simplicity to users."

Chapter: Relationship between the Company and Shareholders

Recommendation under 5.8:

According to current practice, the General Meeting of Shareholders decides on the granting of discharge to the members of the Management and Supervisory Boards simultaneously. This has proven to be appropriate and in compliance with the method of work employed so far, the high standards of cooperation of both bodies in their joint preparation of answers to issues of relevance for the Company and its development, the meaningfully equal treatment of the duties and responsibilities of their members as prescribed by law, and the attained level of trust.

Chapter: Supervisory Board

Recommendation under 8.4:

The Company devotes special care to the 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 under 9:

The Supervisory Board assesses its work and the work of its committees as a whole, and assesses the work of individual members. The Supervisory Board and its committees generally meet in full composition; all members regularly participate in discussions and with their responsibility, enthusiasm, professional and other experience contribute to the quality of their work. Thus, the Supervisory Board has assessed that individual evaluation is not necessary.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the highest managing body of the Company at which shareholders decide on all issues prescribed by law, the most important being the appropriation of accumulated profit and statutory issues. The Management Board usually convenes the General Meeting once a year. All shareholders have equal rights during voting, as all of the Company's shares comprise a single share class, and each share entitles its holder to one vote. Own shares, which under applicable law do not have voting rights, are an exception. Between fifty and sixty percent of the capital is normally represented at general meetings.

Shareholders may participate in general meetings, directly or indirectly, by selecting one of the proposed proxies who collect the authorisations of shareholders in accordance with the law. The option of indirect participation in general meetings, which the Company has provided for several years now, is an incentive in particular for small shareholders to exercise their voting rights. On the last day of 2012, the Company had as many as 18,261 shareholders, of which small shareholders owned 48% of the capital. Owing to their relatively small investments in shares, direct participation in general meetings is usually not economical for small shareholders (especially for those residing abroad). In addition to voting rights, indirect participation in general meetings also provides for improved notification of general meetings and the contents of resolutions to be adopted.

All information on general meetings of shareholders is provided in a manner ensuring equal informing of shareholders and the interested public via announcements in electronic form on the website of the Ljubljana Stock Exchange (http://seonet.ljse.si/) in accordance with its rules and instructions, and on the Company's website (http://www.gorenje.com), in both the Slovenian and English languages. The Company also publishes information on general meetings in the Delo daily newspaper (http://www.delo.si/).

General meetings are closed to the public, and only the shareholders present know the entire content and course of the meetings. However, the Company's resolutions are publicly announced and explained in press releases.

The official language of general meetings is Slovenian, but simultaneous interpreting into English or from English into Slovenian is provided.

In 2012 the Company held two general meetings of shareholders. In the general meeting of 3 February 2012, where 51.57% of all shares of the company with voting rights were present, the shareholders did not adopt the proposal of the Management and the Supervisory Boards for conferring powers to the Management Board to acquire and dispose of own shares. The shareholders confirmed the resolution that the members of the Supervisory Board are paid the training that is urgently needed for the performance of their work and is in the interest of the company.

The ordinary 18th General Meeting of Shareholders took place on 5 July 2012. The shareholders present represented 63.83% of all voting rights in the capital. At this meeting, the Annual Report 2011 and the Report of the Supervisory Board on the review of the said report were presented to the shareholders. The General Meeting of Shareholders discharged the Management and the Supervisory Boards of their duties for the previous financial year.

The shareholders supported the proposal of the Management and the Supervisory Boards for the appropriation of the accumulated profit for the year 2011 in the amount of EUR 5,524,499.87. A portion of the accumulated profit amounting to EUR 2,386,031.40 was used for the payment of dividends (EUR 0.15 gross per share), and the remaining amount of the accumulated profit for the financial year 2011 amounting to EUR 3,138,468.47 shall remain unappropriated.

On the proposal of the Supervisory Board, the shareholders appointed the company KPMG Slovenija, podjetje za revidiranje, d.o.o., Ljubljana Železna cesta 8a, as the auditor.

No challenging actions were announced at the general meetings held in 2012.

The next General Meeting of Shareholders will be held on 5 July 2013.

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INVESTOR RELATIONS

The key goal of regular and proactive communications with the financial public is to provide adequately structured, transparent, reliable, and up-to-date information on the business development of the Group and its financial standing. In doing so we treat all existing and potential shareholders on an equal basis, providing them with the best possible foundation for making investment decisions.

Controlled and price-sensitive information is posted in the Slovene and English languages on the web pages of the Ljubljana Stock Exchange via the SEOnet system and on our website www.gorenjegroup.com. Certain other information prescribed by the Articles of Association (e.g. convening of meetings) is also published in the Delo newspaper. In 2012, the Company published a total of 62 public announcements that included interim and annual reports as well as several announcements about the restructuring of production facilities and restructuring of the financial debt.

Public announcements in English were sent to international press agencies, media, investors and analysts via an e-mail distribution system that currently includes more than 140 international and 165 domestic recipients. Investors and other representatives of the financial public can subscribe to our E-news that include also news on new products, attendance at fairs, social responsibility.

Business results are regularly presented in webcast presentations organised by the Ljubljana Stock Exchange several times a year. We participated also in the most important meetings with investors. Last year meetings were organised in Ljubljana, Warsaw, Prague, Vienna and Stegersbach. We communicated with institutional investors at eight conferences where we addressed 177 investors. We organised also 10 conference calls (mostly after the announcements of interim results).

Investors, analysts and other representatives of the financial public can pose their questions via e-post and telephone. All enquiries can be sent to Bojana Rojc who is responsible for investor relations. Her contact is published on the corporate web site www.gorenjegroup.com.

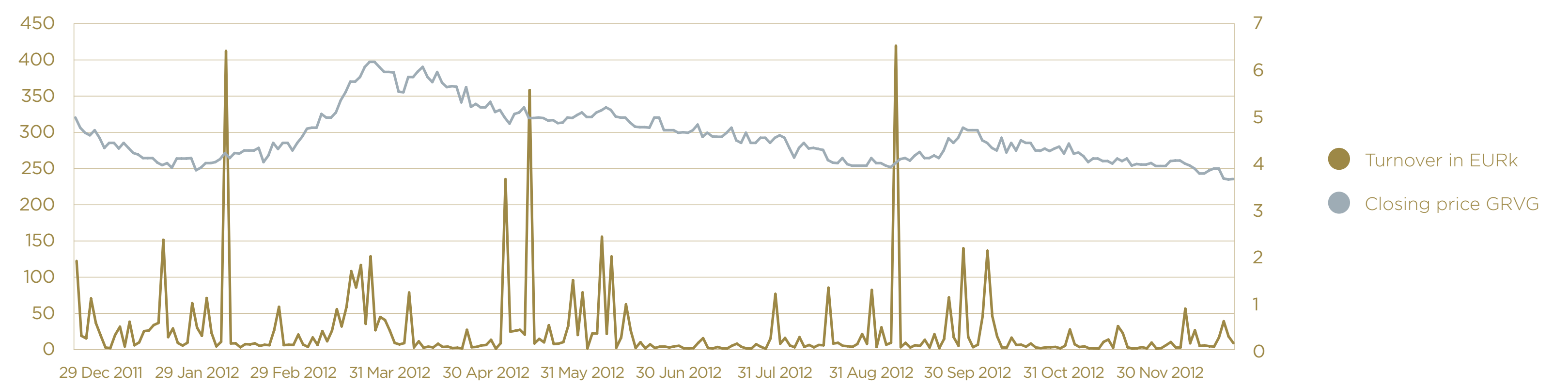
The source of information for shareholders is also the magazine Delničar that is published once a year before the ordinary General meeting of Shareholders. Last year the shareholders received it for the fifth time. The magazine is published in the Slovene language.

In 2012 we introduced the so-called silent period. In the period of fifteen days before the public notice of the quarterly reports, no meetings with the representatives of the media, investors are organised and no information which may indicate the business results is disclosed.

Gorenje Share

Trading on the Ljubljana Stock Exchange in 2012 was marked by rising exchange rates listed at the Ljubljana Stock Exchange. Due to this fact the market capitalisation slightly increased and the liquidity of the market decreased. In 2012 the range of investment opportunities went up at the Stock Exchange. In addition to the increases in capital and new bonds, commercial papers were also listed among Stock Exchange products.

Movement of the closing price for GRVG and daily turnover for the period January – December 2012



On the last trading day in December 2012, the closing exchange rate of the GRVG share amounted to EUR 3.79 and was by 24.2% lower when compared to the last trading day in the year 2011 (EUR 5.00); the SBI-TOP index increased by 7.8%.

Net profit per share calculated as a ratio between net profit and loss of the Group (annual level) and the number of shares issued, reduced by the average balance of own shares (15,785,565 shares), amounts to EUR 0.57 (EUR 0.46 in 2011).

As at 31 December 2012 the book value of the GRVG share amounted to EUR 24.84 (EUR 25.20 as at 31 December 2011). It is calculated as a ratio between the book value of the ordinary equity capital of the Group and the number of shares issued exclusive of own shares as at 30 September 2012 (15,785,565 shares).

The ratio of market value to book value per GRVG share amounts to 0.15 (2011: 0.20).

GRVG share ratios

	31 Dec 2012	31 Dec 2011
Closing rate	3.79	5.00
The highest value in the year	6.10	13.30
The lowest value in the year	3.78	3.90
Earnings per share (EPS)	0.57	0.46
Book value of share (BV)	24.84	21.24
Dividend	NA	0.15
P/E (price/profit per share)	6.65	10.87
P/B (price/ book value of share)	0.15	0.24
Dividend yield	NA	3.00%

Trading data on the GRVG share

	2012	2011
No. of shares issued	15,906,876	15,906,876
No. of own shares	121,311	121,311
No. of shareholders	18,261	19,265
Annual turnover (EUR)	5,927,555	13,972,282
Average market capitalisation (EUR)	73,540,338	141,393,532
Value turnover (turnover/average market capitalisation)	0.08	0.10

Dividend policy

At the General Meeting of Shareholders that was held on 5 July 2012 the shareholders supported the proposal of the Management and Supervisory Boards for the dividend payout in the amount of EUR 0.15 gross per share for the financial year 2011. The shareholders of Gorenje thus received dividends for the first time after the year 2008. Due to the beginning of the economic crisis that had a strong impact on the operation of Gorenje dividends for the years 2008, 2009 and 2010 were not paid out.

In the period of implementing the strategic plan 2012- 2015, the dividend policy of the Gorenje Group and its parent company remains in compliance with the policy that was in force before the year 2009. Every year up to one third of the net profit of the Gorenje Group will be allocated to dividends.

Ownership structure

As at 31 December 2012 the share register of Gorenje showed 18,261 shareholders which represents a decrease of 5.2% over the end of the year 2011 when Gorenje had 19,265 shareholders.

In 2012 the proportion of shares in the ownership of foreign shareholders increased to approximately 32%. Usually these shares are not entered in the share register since foreign banks and other trustees are registered for one or several shareholders (fiduciary account). Foreign owners trade more actively in shares than domestic owners and, therefore, their presence is of essential importance to the liquidity of the shares.

We would like to increase the share of institutional investors in the ownership structure. We have established a solid and stable core of owners who monitor our development, but we miss the presence of more active investors whose trading would improve liquidity and approximate the market price of the shares to its real value. The number of own shares remained unchanged in comparison with the previous year. We own 121,311 own shares that account for a 0.7626-percent share.

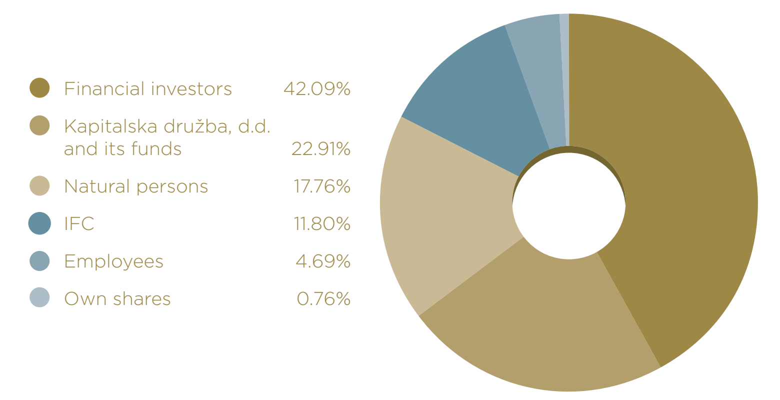
The Articles of Association stipulate that one share entitles its holder to one vote, but own shares do not have any voting rights. The Articles of Association do not contain any provisions invalidating the proportionality of rights arising from share ownership, such as the rights of minority shareholders or restrictions of voting rights.

At present no resolutions on the conditional increase in capital have been adopted by the General Meeting of Shareholders.

Ten major shareholders of Gorenje

Ten major shareholders	No. of shares (31 Dec 2012)	Share in %	No. of shares (31 Dec 2011)	Share in %
KAPITALSKA DRUŽBA, D. D.	3,534,615	22.2207%	3,534,615	22.2207%
IFC	1,876,876	11.7991%	1,876,876	11.7991%
HOME PRODUCTS EUROPE B.V.	1,070,000	6.7267%	1,070,000	6.7267%
NFD 1, share sub-fund	996,388	6.2639%	820,045	5.1553%
INGOR, d. o. o., & co. k. d.	794,473	4.9945%	794,473	4.9945%
RAIFFEISEN BANK AUSTRIA, D. D., – FIDUCIARY ACCOUNT	550,587	3.4613%	375,889	2.3631%
EECF AG	411,727	2.5884%	411,727	2.5884%
PROBANKA, d. d.	297,061	1.8675%	297,061	1.8675%
TRIGLAV VZAJEMNI SKLADI – DELNIŠKI TRIGLAV	257,628	1.6196%	297,090	1.8677%
ERSTE GROUP BANK AG – FIDUCIARY ACCOUNT	216,197	1.3591%	222,204	1.3969%
Total major shareholders	**10,005,552**	**62.9008%**	**9,699,980**	**60.9798%**
Other shareholders	5,901,324	37.0992%	6,206,896	39.0202%
Total	**15,906,876**	**100%**	**15,906,876**	**100%**

Ownership structure as at 31 December 2012



SOCIAL RESPONSIBILITY

Responsibility towards employees

In 2012, the number of employees did not change considerably on the Gorenje Group level if compared to the previous year. The majority of total employees, or over 62%, are still employed in companies in Slovenia, while the remaining portion works in companies abroad, mostly in Serbia and the Czech Republic. The average number of employees in the Gorenje Group was 10,877 in 2012.

Number of employees in the Gorenje Group in 2012

	Number	Share
Gorenje Group	**10,744**	**100.0%**
Home	9,556	88.9%
Ecology	636	5.9%
Portfolio Investments	552	5.1%
Employees in Slovenia	6,730	62.6%
Employees abroad	4,014	37.4%
Average number of employees in 2012	**10,877**	**101.2%**
Slovenia	6,730	62.6%
Serbia	1,329	12.4%
The Czech Republic	718	6.7%
Sweden (Asko)	581	5.4%
The Netherlands (Atag)	383	3.6%
Croatia	158	1.5%
Russia	108	1.0%
Other countries (25 countries)	737	6.9%
EU countries	8,861	82.5%
Countries of ex-Yugoslavia	1,619	15.1%
Other countries	264	2.5%

Gorenje Group was marked in 2012 by the optimisation of production facilities. Consequently, the events accompanying these changes in individual production companies were multifaceted. We winded up the production of cooking appliances in the Asko factory in Lahti, Finland already in July and transferred it to Mora Moravia in the Czech Republic. The number of employees increased there due to higher volumes of operations, whereas employment was intensified also in the production facilities in Serbia, where a part of production from Slovenia was transferred. Due to the planned production relocations, more colleagues were employed also in Valjevo in special departments, among others also in the field of operational development. As a result, the number of employees in production facilities in Slovenia decreased and we continued with soft measures to reduce the number of employees. Upon the relocation of the refrigerator-freezer production to Valjevo and by considering the remaining volume of production, there were still approximately 350 redundant employees in the parent company and in the company IPC at the end of 2012. These employees are employed for an indefinite period of time and were assigned to other production programmes within the Company. With respect to the planned scope of production in 2013, we will work with more employees than required for a certain period of time due to an agreement signed between the Management Board and the trade unions about keeping the workforce during the production-related restructuring process. The number of employees in business units abroad did not change substantially, as the number of employees slightly increased in Russia, Ukraine, the Czech Republic, Bosnia and Herzegovina and China.

Due to the transfer of technology to Velenje, the parent company employed in 2012 mostly technical staff, which will be in charge of complex tasks relating to further development of appliances, production and the respective work processes. From year to year the deficit of this staff in the market has been increasingly evident and, therefore, scholarships and mentorship of final theses still provide the continuous inflow of new staff. We provide internship to pupils and students and thus enable them to get acquainted with the work and the working environment; we are engaged in monitoring their attitude towards work and study and eventually employ many of them. In addition to technical staff we have employed also some professional associates in other fields where they get integrated and acquainted with the increasingly demanding international environment. In the second half of 2012, we have employed also a high number of production workers for a definite period of time due to the slightly higher scope of production and manufacturing the stock of refrigerators and freezers to compensate for the production-shortage that occurred during the production relocation from Velenje to Serbia.

The average age of employees in the companies in Slovenia is still increasing and amounts already to 43 years, which poses a problem in work intensive lines of business such as ours. The problem is related to longer absences from work due to illness, increased share in employees with the status of a disabled person and workers with health restrictions at work. The new retirement legislation increased the retirement age and therefore we will have to devote more attention to the ergonomic design of work places in cooperation with other departments. In this way elder employees will be able to efficiently perform their work until their retirement. The ergonomics team and the team for the control of absence from work play a very important role in this respect as they strive to achieve better working conditions and consequently work-related results. The companies Mora Moravia in the Czech Republic and Asko in Sweden are also confronted with the problem of high average age of employees, whereas in the Serbian production facilities the average age is significantly lower. The aforesaid is attributable to the acquisition of the companies Asko and Mora Moravia as we took over also their employees. In the factories in Zaječar and Valjevo, we mostly employed younger colleagues, numerous among them for a definite period of time. In this way we can adjust the number of employees, while in the companies in Slovenia the majority is employed for an indefinite period of time and the flexibility in relation with the changed scope of production is virtually impossible. As far as we are acquainted with the new labour-related legislation which is currently being compiled, no significant changes in this field are expected.

From the view of generating a positive operating result, the year 2013 will still be rather difficult and therefore we shall pursue a selective employment approach and further optimise the number of staff. Based on planned activities, we shall try to win and employ staff with specific knowledge and skills (i.e. scholarships, co-operation with faculties, employment fairs, final theses, integration of students in projects). Because of this, special attention is required on all levels of creating a working environment that will by new and existing employees be considered a constant challenge and a career opportunity.

Employees training

The training strategy of the Gorenje Group stems from the business strategy. Considering the business policy and the objectives that individual Group companies are to meet, we plan and implement diverse educational and training programmes for the employees. Hence, most of our attention focused on implementing internal training programmes by means of which the practical transfer of know-how is implemented and operational efficiency increased. In view of the production relocation strategy, we will continue with related activities also in 2013. For many years now, the Gorenje Academy of Management is an important educational platform. In 2012 the content of the Academy was upgraded so that it meets the constantly changing needs of our promising employees to a great extent. During a long-term training programme, the participating employees prepare business plans and by the end of the training present these plans to the top management of the Gorenje Group. The Gorenje Academy of Management represents a cornerstone from which numerous successful employees have developed and today hold leading and managerial positions in Gorenje Group companies. As an answer to the Group's growth within the internationally oriented system, we have developed and established a training model in 2012 for supporting the work of employees in the demanding international environment and named it the Corporate University Gorenje. Its programmes support the training of young promising employees who will occupy demanding positions within the Gorenje Group. The management of the Gorenje Group supports the acquisition of the latest top practical business knowledge in scope of the training programme of the Executive Business Academy Gorenje. For key employees abroad, the Corporate University Gorenje and its training programme i.e. International Business Academy Gorenje, represents an opportunity to broaden their knowledge in the field of business strategy, international marketing and the group policies. In 2013, the training of the 24th generation of the Gorenje Academy of Management shall finish its studies and the first training programme of the International Business Academy Gorenje will be implemented. In 2013 special attention will be directed to the running of training courses for the development of managerial skills on all hierarchical levels.

In 2012, 2,313 colleagues underwent the training in the parent company and at least once they received the training in one of the formal forms of functional education. This represents a share of 54.2% among all the employees and it shows a decline over the previous year when it was recorded at 73.4%. The highest number of hours was devoted to professional training (84.7%), managerial programmes and to the work-related programmes. In 2012 we trained employees for work with new technologies associated with the transfer of production, both in Slovenia and at the production facility in Serbia. These were mostly internal forms of training, which were also most cost effective. An employee in Gorenje recorded in average 33.8 hours of training in 2012 and 27.5 hours in 2011. The total amount of EUR 123,890 was allocated to education and training in 2011, whereas EUR 144,312 in 2012. Due to the crisis we overhauled the training costs quite much , but did not reduce the participation, on the contrary, we even raised it. In these times innovative activities and development are increasingly important and therefore the number of training hours grew in the previous year. The costs remained at the last year's level.

Part-time study in the parent company provides the inflow of knowledge on those educational levels that lack of internal regular training. Due to the staff deficits in the labour market we grant scholarships for obtaining secondary-school education, higher and high technical education in compliance with the Group's policy. In 2012, 132 colleagues finished the training and obtained professional education. More than a half of them were included in undergraduate studies, followed by the share of those who finished postgraduate studies and education at the secondary level. In order to provide constant inflow of staff having mostly technical education, we granted 51 scholarships in 2012. At present the Company has 132 scholarship recipients.

The challenge in the field of planning and implementation of education and training of employees is mostly the fact that a classical approach to giving lectures is not always efficient enough in the constantly changing business world. Training is subject to constant adaptation, hence communications regarding their planning has to be quite intensive. Individuals have to adjust to business very quickly and the process of acquiring knowledge and know-how has to be quick and simple. It has to meet the present requirements to the greatest extent possible and it has to ensure long-term development and the existence of the Company. In future we will focus on a more personalised approach of transferring knowledge: the system of mentorship will be strengthened and coaching will be introduced.

When performing work and achieving results, individuals demonstrate certain organisational knowledge and skills that can be described as competences. In 2013 one of the key tasks of the human resource experts will be the establishment of the competence model and identification of competences that mainly support the efficiency and successfulness of the employees (e.g. team work, creativity, responsibility, adjustment to changes and others). A catalogue of measures for competence development and implementation of measures (training, mentorship, coaching and others) will have to be prepared simultaneously for the enhancement of employee competences. In order to be able to achieve this objective a lot of attention will have to be paid to the management in this year i.e. to the leaders to actively participate in the management focused on the goals and the care for the development of their colleagues.

Occupational safety

We have been promoting health-oriented thinking among the employees for many years now. In 2012 activities encouraging awareness and relating to the meaning of prevention and early detection of colorectal cancer were implemented. Three hundred and sixty-four employees took part in the internal programme for the improvement in health, which accounts for 8.7% of total employees in the parent company. Our sports club also encourages healthy and quality life style; it organises various recreational activities, courses and excursions for the employees and their family members.

The number of accidents at work declined in 2012 over the previous year. One hundred twenty accidents at work were reported, while in 2011 147 accidents were recorded. The objective set was 125 accidents. With respect to the frequency- and severity-related goals set and calculated based on one million hours actually worked and the number of hours lost per million hours actually worked, the severity ratio was exceeded by less than 5%, while the frequency ratio by 6.3%.

Employee communication

The restrictive market situation, relevant internal changes within the Group and the activities by which we respond to the changed terms of operation require the Company or the management to intensify communication with the employees. The key matters of internal communication in the year 2012 were the strategic plan for 2012- 2015 and the related restructuring of the Group on one hand and optimisation and production relocations on the other one. We aim for our staff to comprehend the strategic policy of the Company, their role in the assurance of strategic objectives and how they will be affected by Company's strategic decisions and business activities.

In 2012 and also in this year, special emphasis in communication with employees is laid on the major production relocations and the related changes that have an impact on a great number of employees in different counties. Proactive communication and as clear as only possible informing of the workforce regarding the restructuring processes has thus been of key significance also in view of the best possible and smooth implementation of the production restructuring and its successful launch at new locations.

We have prepared in-depth information for all the employees who will be mostly affected by the relocations (replacement or even loss of job) or who are intensively involved in the relocation procedures and participate in the shifts and/or in the implementation and newly launch of the shifted production, with best effort to provide them assistance and respond to their needs. A broad range of communication means and channels is used; considering the importance and gravity of information to be transferred, personal communication is used in the first place (employee meetings, meetings of the Management Board with subsidiary and/or programme managers, group meetings, individual talks, Workers' Council meetings, meetings with trade union leaders and representatives). Personal communication is supported by information and explanations in electronic and printed media (intranet, e-news, magazines and newsletter, bulletin boards, letters to employees.

Responsibility towards natural environment

By implementing activities in the field of environmental management, we are reducing the negative impact on the environment during all our processes. The environmental aspect has been considered in the development of home appliances as well as in the production processes and stages of managing products after the expiry of their service lives. Furthermore, we implement comprehensive waste management services in co-operation with daughter companies from the business segment Ecology. We are also providing services and products in the field of renewable energy sources and efficient energy use (e.g. solar power plants, co-generation, energy contracting services for greater energy efficiency of buildings or energy systems, etc.).

The fundamental objectives of environmental management that we pursue include:

- rationalisation of raw material and energy use,
- reducing the waste quantities produced,
- improvement of sorting effects and waste processing,
- reducing all types of emissions, with a special emphasis on waste waters,
- constant education and training of all the employees in order to increase work quality of work and their environmental awareness,
- continuous improvement in communications with customers, owners, employees, local community and the wide public,
- increasing competitiveness and expanding fields and forms of activities.

Environmental impacts are reduced by observing the requirements of ISO 14001 standard and the European regulation EMAS. Detailed results of the environmental operation are published every year in the verified Environmental EMAS Statement on the corporate website www.gorenjegroup.com.

Environmental management systems in Gorenje Group companies

	ISO 14001	EMAS
Gorenje, d.d., Location Velenje	yes	yes
Gorenje, d.d., Location Šoštanj	yes	yes
Gorenje, d.d., Location Rogatec	yes	yes
Gorenje, IPC, d.o.o., Location Velenje	yes	yes
Gorenje, IPC, d.o.o., Location Šoštanj	yes	yes
Gorenje Orodjarna, d.o.o.	yes	no
Gorenje GAIO, d.o.o	yes	no
Gorenje, Valjevo, d.o.o.	yes	no
KEMIS, d.o.o.	yes	no

The consumption of water has been reduced in the daughter company Gorenje I.P.C. and the parent company, where the biggest share of production activities is carried out, by means of organisational measures and constant upgrading of technological processes. Burdening by waste waters has been optimised. We strictly separate all types of waste (over 90% of waste produced during production processes is collected) and upon processing the collectors submit it to further use. Lighting replacement (external and internal lighting) has been carried out in the field of energy use control on the location in Velenje.

In the factory of cooking appliances in the Czech Republic we continued in 2012 with the launch of the environmental management system in compliance with ISO 14001 standard. The greatest effects have been observed in the field of water consumption and burdening of waste waters was also reduced. Separate collection of waste has been consistently carried out and almost 80% of all waste from the company has been processed.

As regards the production facilities in Serbia we are implementing activities for meeting environmental objectives, mostly in the field of rational use of raw materials and energy products (e.g. optimisation of technological processes, regular monitoring of all vital parameters, search for more efficient chemicals to be used in technological procedures), reducing quantities of waste produced and for consistent separation of waste. In 2012, environmental influences were regularly monitored in compliance with legal requirements and legally defined limits were not exceeded.

Responsibility towards social environment

Our responsibility towards the local community and the wider public goes hand in hand with the Gorenje Group's growth. We support among others following institutions and their activities:

Gallery Velenje

The public institution Galerija Velenje operates as an independent institution since 2009. Gorenje and the Municipality Velenje are its co-founders. The gallery implemented a versatile programme of exhibitions, workshops and discussions in 2012. Among others it prepared an exhibition on the tradition of design in Gorenje »Gorenje with vision« that was part of the programme Maribor – European Capital of Culture. The exhibitions were visited by 5,500 people.

Gorenje Culture Society

The society for culture Gorenje was established in 2000. It organises lectures, presentations of books, various workshops, excursions, exhibitions, visits to artistic events and thus contributes to the stimulating and creative environment for the employees of Gorenje, their families and the wider community.

Gorenje Pensioners' Society

The Society organises recreational activities, excursions, summer holidays, social events before the holidays, special attention is devoted to the oldest members, persons celebrating jubilees and the sick. Members of the society regularly participate and compete in sports games of the Gorenje Group named »Gorenjada«. The Pensioners' society Gorenje is a member of the Šaleška regional association of pensioners' societies Velenje and the Association of pensioners' societies of Slovenia.

Gorenje Mixed Choir

The choir has 47 members and the employees of Gorenje are also among them. They appear with their programme on the stages in Slovenia and abroad. They celebrated the 35th anniversary in 2012 and market this special occasion by organising a special event in the home town Velenje. The choir participated in the 12th international competition of choirs in the Italian town Riva del Garda and was granted a gold award certificate in the category of mixed choirs a capella.

Free town bus in Velenje

We have supported the free town bus »Lokalc« for years. The Municipality Velenje has introduced it in order to unburden the space of town from the aspect of traffic, to reduce air pollution and to enable simple and free access to town areas to all the inhabitants. 34,000 to 35,000 people use the free bus on average on a monthly basis. In June 2012 the free bus already recorded million passengers. By supporting the operation of a free bus, Gorenje has directly supported the local environment and indirectly also its employees who live in the town Velenje and its surroundings. The statistics of transports in early morning hours shows that the users of the bus Lokalc are the employees of Gorenje, followed by the second largest group of morning users – secondary school pupils of the School Centre Velenje.

Charity activities

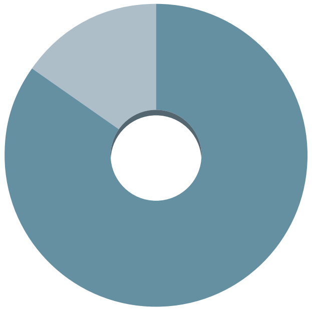
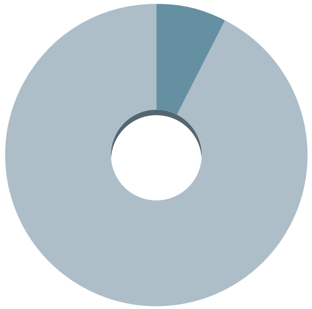
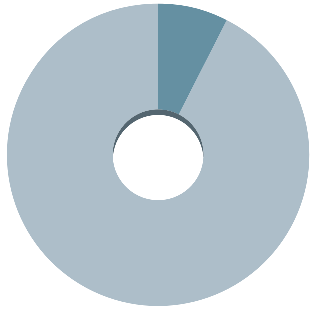
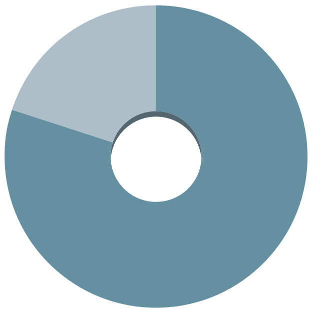
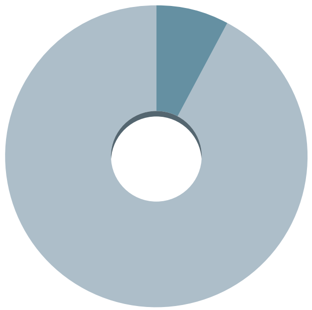
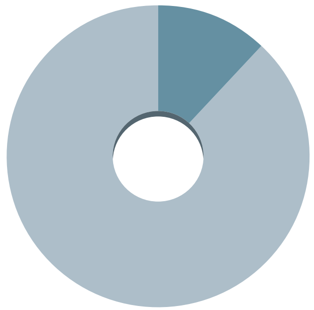
We participated in numerous charity activities in 2012. Among others we took part in the charity auction for raising funds for combating breast cancer by a pink refrigerator from the Retro collection in Norway, household appliances were donated to the maternity hospital in Ljubljana, some hospitals in Hungary, non-profit organisations in the Czech Republic that take care of the financially weakest social groups and people affected by floods in Slovenia. We financed holidays in Slovenia for a group of children from the children's home SOS-Kinderdorf Dießen from Germany and participated in the charity auction of the music festival Roskilde in Denmark.

Sponshorship

For many years now, we have been the proud sponsor of the Handball club Gorenje Velenje, the Nordic team of Slovenia and the Handball Association of Slovenia.

II. BUSINESS REPORT

BUSINESS SEGMENTS IN BRIEF

	HOME	ECOLOGY	PORTFOLIO INVESTMENTS
Brief presentation	Products and services for home: major and small household appliances, heating appliances, air filtering systems and air-conditioning appliances, kitchen furniture, designing, and home-related services	Comprehensive waste-management services in South-Eastern Europe	Manufacture of industrial equipment (tools), products and services in the field of energy, renewable sources of energy and energy efficient use, engineering, sales and agent services relating to industrial, medical and IT equipment, catering and hotel services
Number of employees	**9,213**	**618**	**605**
Revenue	**EUR 1,071.3m**	**EUR 97.3m**	**EUR 94.5m**
Share of revenue	 84.8%	 7.7%	 7.5%
EBIT share	 80.2%	 7.8%	 12.0%
EBIT margin	**3.4%**	**3.6%**	**5.7%**

Events Impacting Business Performance

The comparability of the Gorenje Group's profitability, financial position and cash flow is largely affected by **the sale of its participating interest** in the company Istrabenz Gorenje in July 2011 and, thus, its removal from the Energy Business Segment within the framework of the former Ecology, Energy and Services Division.

The business report discloses and outlines solely comparable figures, whereby the accounting report provides all recorded and financially disclosed values of individual categories in the financial statements.

Comparability of information from the view of **operational profitability** of the Gorenje Group and its Business Segments (Income Statement) is based on the elimination of the effects of Istrabenz Gorenje operations and its subsidiaries in 2011.

Gorenje is in the process of discontinuing/disposing/restructuring its activities (furniture programme, sales organisations), which has had a negative impact on the Group's profitability and free cash flow in the past. The classification of activities among discontinued operations is stipulated and defined by IFRS 5. Comparability of information was maintained by reclassifying the effects of the operation of companies, which are classified as discontinued operations within the Consolidated Income Statement for 2012 and 2011, to a separate item i.e. Profit or loss from discontinued operation. In addition, assets and liabilities of companies classified as discontinued operations were reclassified among assets/liabilities included in disposal groups in the Group's Consolidated Balance Sheet for 2012.

OPERATING PERFORMANCE OF THE GORENJE GROUP

Operating performance of the Gorenje Group

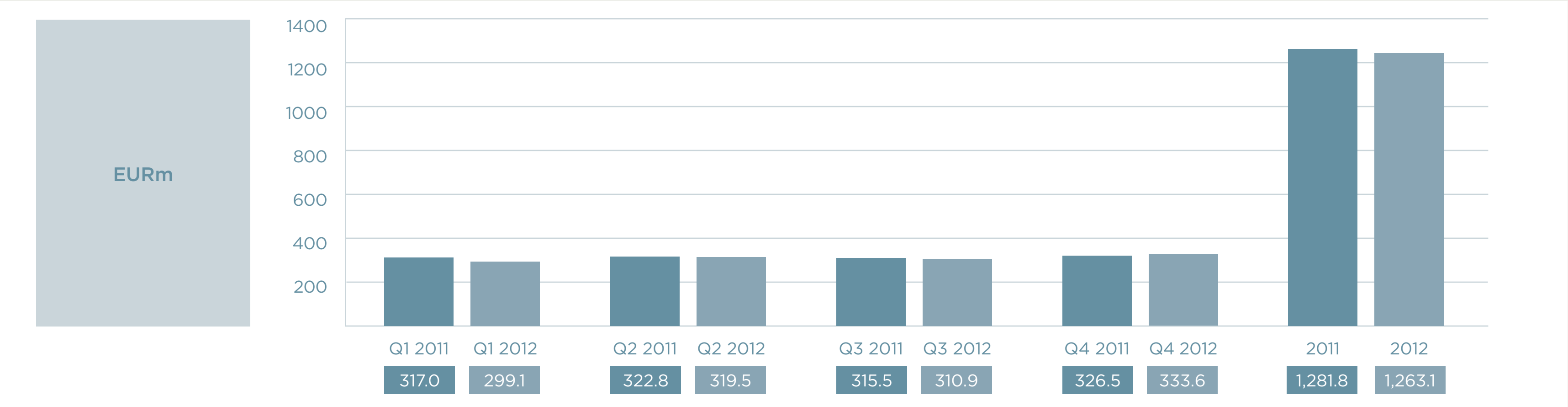
EURm	Q4 2012	Q4 2011	Index	2012	2011	Index	Plan 2012	Plan track
Consolidated revenue	333.6	326.5	102.2	1,263.1	1,281.8	98.5	1,391.4	90.8
CM[1]	139.4	122.2	114.1	536.7	519.4	103.4	585.6	91.7
CM (%)	41.8%	37.4%	/	42.5%	40.5%	/	42.1%	/
EBIT	29.7	20.2	146.8	44.9	43.6	103.0	50.0	89.9
EBIT margin (%)	8.9%	6.2%	/	3.6%	3.4%	/	3.6%	/
Net profit or loss	6.7	1.3	508.0	0.3	8.1	3.6	13.4	2.2
ROS (%)	2.0%	0.4%	/	0.02%	0.6%	/	1.0%	/

[1]Contribution margin on the level of difference between revenue and cost of goods and material

In 2012, the Group generated EUR 1,263.1m of consolidated revenue. Compared to the previous year, the Group recorded EUR 18.7m or 1.5% less consolidated revenue.

In Q4 2012, the Group recorded EUR 333.6m of consolidated revenue, which is 2.2% more if compared to the equivalent period in 2011. Higher volume of business activities was generated in most sales markets, in particular Russia, Australia, the USA, Slovenia, Poland, Slovakia, Croatia, China and Germany. In the last quarter of 2012, the number of markets with lower volume of business activities is significantly lower than in the previous year's comparable period, namely Serbia, the Czech Republic, and the Netherlands. It is important that the decline in volume of business activities in these markets is lower than the actual decline recorded by individual markets. Measures adopted within the sales areas already show the first results in Q4 2012.

Consolidated revenue of the Gorenje Group

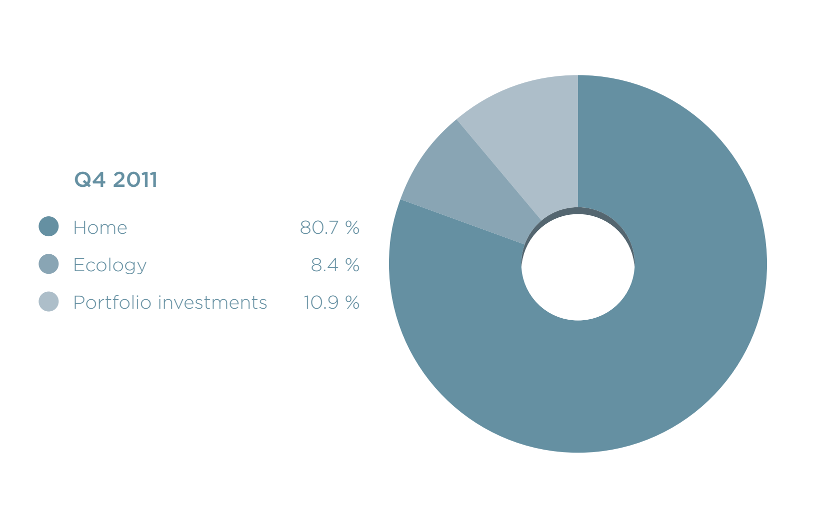


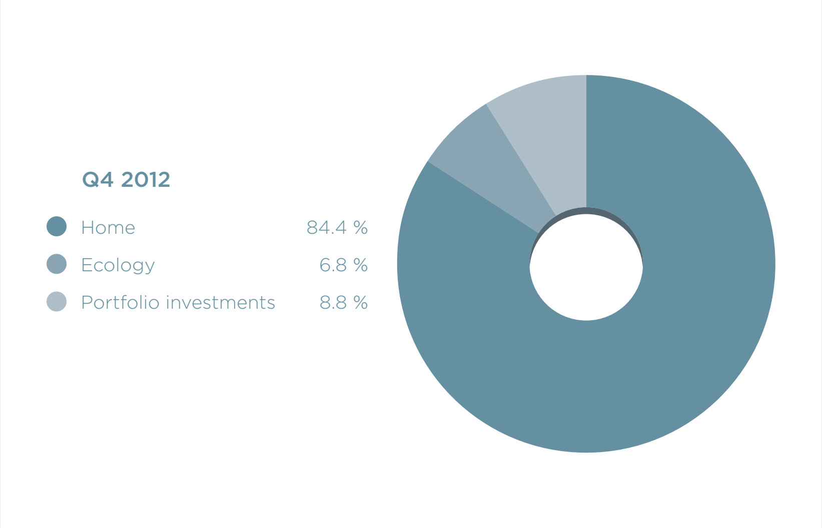
Revenue of the Gorenje Group and the business segment Home by geographical segments

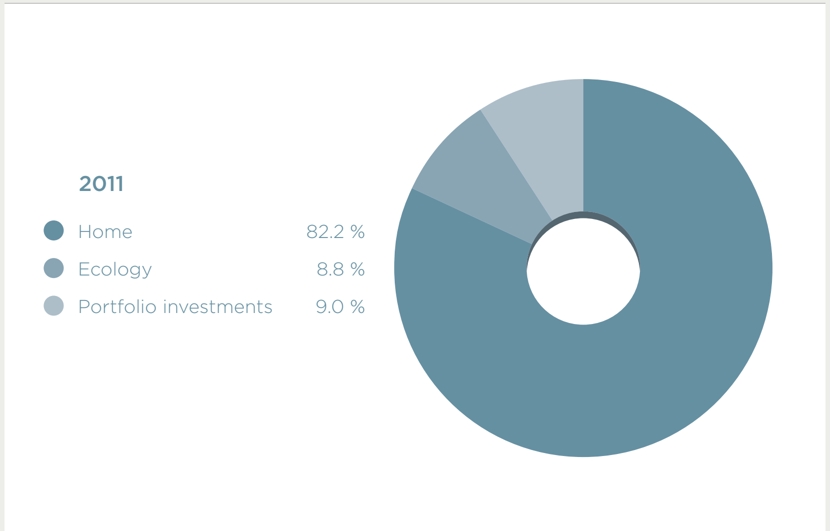
EURm	Q4 2012	%	Q4 2011	%	Change (%)	2012	%	2011	%	Change (%)
Western Europe	111.7	33.5%	111.4	34.1%	0.3%	480.9	38.1%	497.2	38.8%	-3.3%
Eastern Europe	196.0	58.7%	190.5	58.4%	2.9%	682.0	54.0%	689.7	53.8%	-1.1%
Other	25.9	7.8%	24.6	7.5%	5.5%	100.2	7.9%	94.9	7.4%	5.5%
Total Group	**333.6**	**100.0%**	**326.5**	**100.0%**	**2.2%**	**1,263.1**	**100.0%**	**1,281.8**	**100.0%**	**-1.5%**
Western Europe	110.2	39.2%	110.6	42.0%	-0.3%	474.8	44.3%	492.5	46.8%	-3.6%
Eastern Europe	145.3	51.6%	128.2	48.7%	13.4%	496.3	46.3%	466.1	44.2%	6.5%
Other	26.0	9.2%	24.6	9.3%	5.5%	100.2	9.4%	94.8	9.0%	5.7%
Total Home	**281.5**	**100.0%**	**263.4**	**100.0%**	**6.9%**	**1,071.3**	**100.0%**	**1,053.4**	**100.0%**	**1.7%**

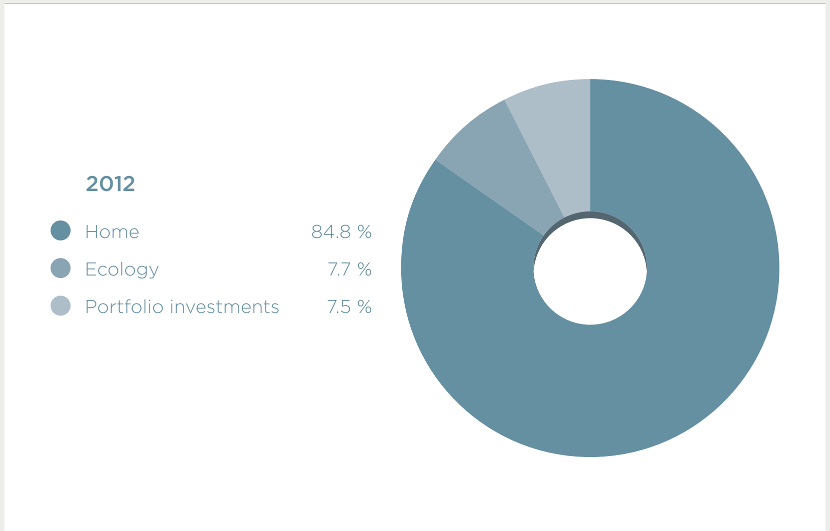
- **Western Europe** includes Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Norway, Turkey, the Netherlands, Spain, Switzerland;
- **Eastern Europe** includes Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Kazakhstan, Latvia, Lithuania, Estonia, Slovenia, the Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovakia;
- **Other** refers to all other non-European countries.

Revenue of the Group by business segments









The **geographic sales structure** indicates that:

- at an annual level, sales volume decreased in Western Europe compared to 2011, mostly due to lower sales generated in the Netherlands, France and Italy, whereas in other markets, such as Germany and Scandinavia, sales increased; the downward trend in sales changed in the last quarter as Western Europe achieved practically the same sales volume as in the last quarter of 2011,
- sales volume decreased in Eastern Europe, mostly as a result of lost sales due to the discontinuation of the armoured vehicle project. In general and without considering the effects of the armoured vehicles business, the Groups' volume of operations increased in these markets. Higher sales volume was recorded in the markets of Russia, Ukraine, Poland, Slovakia and Croatia, whereas lower sales were generated in the markets of Slovenia, the Czech Republic, Serbia and Romania. It is significant that sales growth in Eastern Europe increased in the last quarter of 2012 by almost 3% over the previous year's comparable period. Russia, Ukraine, Slovenia, Slovakia and Poland were the main growth generators in the business segment Home in the last quarter of 2012,
- sales volume outside Europe (i.e. other countries worldwide) increased not only in comparison with annual volume (growth of 5.5%), but also in comparison with the last quarter of 2012 (growth of 5.5%). Sales activities were intensified particularly within the business segment Home with growth in the markets of Australia, the USA and China.

The **revenue structure by business segments** indicates that:

- the core activity (Home) strengthened in the Group's revenue structure due to lowering the share of sales within the segment Portfolio Investments (with the elimination of the Energy business segment in 2011). Thus, the segment Home represents nearly 85% of total Group sales at both an annual level and the last quarter of 2012.

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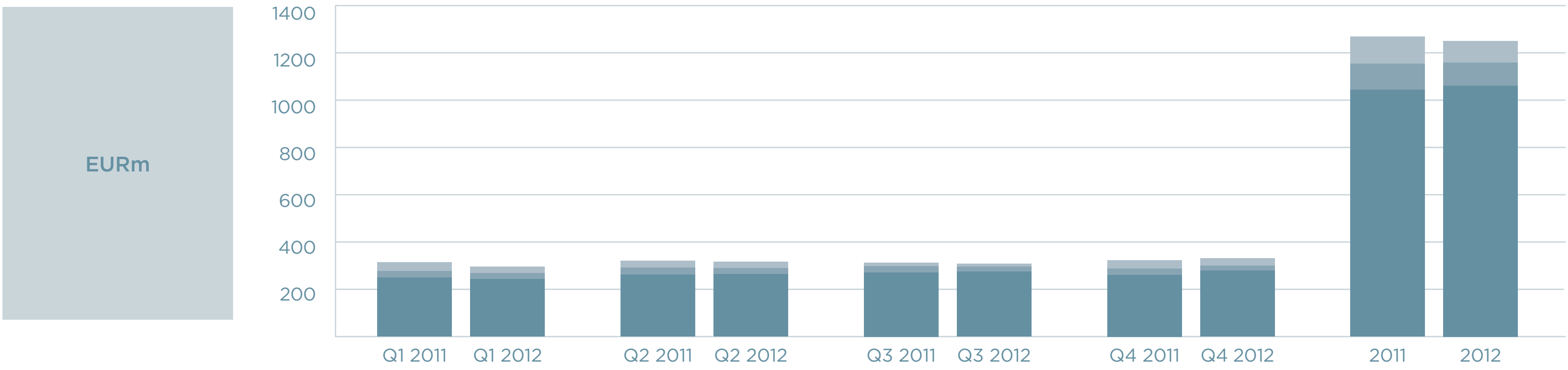
Revenue by business segments



EURm	Q1 2011	Q1 2012	Q2 2011	Q2 2012	Q3 2011	Q3 2012	Q4 2011	Q4 2012	2011	2012
Home	251.7	245.7	264.6	266.9	273.7	277.2	263.4	281.5	1,053.4	1,071.3
Ecology	28.7	25.8	30.3	26.8	26.9	22.2	27.5	22.5	113.4	97.3
Portfolio investments	36.6	27.6	27.9	25.8	14.9	11.5	35.6	29.6	115.0	94.5

Development of effects on Group profitability at the level of EBIT

EURm	Development
EBIT 2011	**43.6**
Contribution margin at the level of cost of goods and material	17.4
Cost of services	-5.7
Employee benefits expense	-6.7
Amortisation and depreciation expense	2.2
Other operating expenses	3.6
Other operating income	-9.5
EBIT 2012	**44.9**

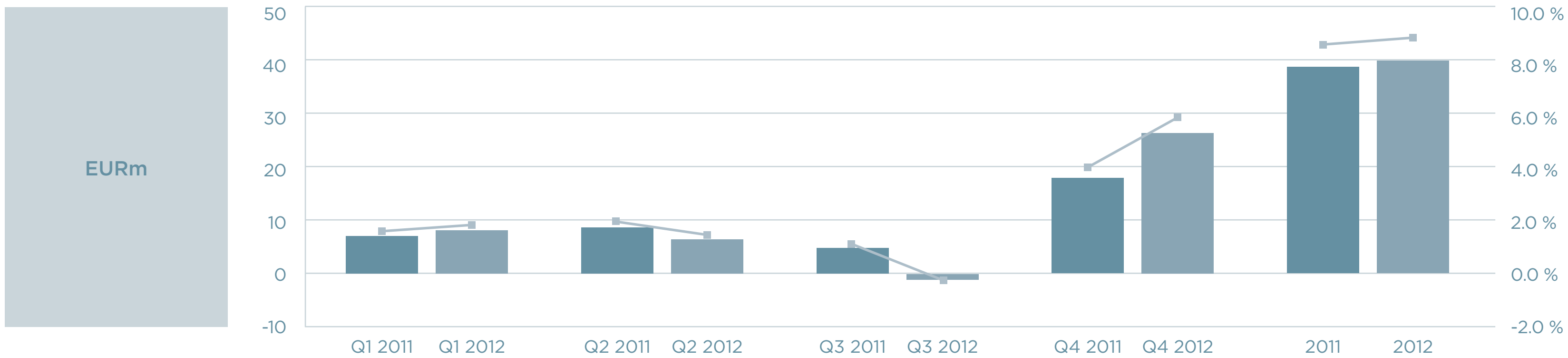
Earnings before interest and taxes (EBIT): in 2012 the Group recorded positive EBIT in the amount of EUR 44.9m. Compared to the previous year, EBIT increased by EUR 1.3m or 3.0%. This increase is attributable to an improved fourth quarter, with EBIT up by EUR 9.5m compared to 2011. The primary reasons behind the increase are:

- improved sales volume in the business segment Home, which grew by nearly 7% in the last quarter of 2012. Growth was recorded by all geographical segments (Eastern and Western Europe, other countries worldwide) irrespective of harsh circumstances, particularly in European markets,
- improved contribution margin at the level of cost of goods and material as the result of more favourable purchases of materials and raw materials and merchandise (products manufactured beyond own production facilities), and an improved sales structure (geographical and product structure).

The movement of EBIT was negatively impacted by:

- movements in cost of services, which increased by 2.8% or EUR 5.7m over the previous period, irrespective of lower consolidated revenue by 1.5%. This increase was driven mostly by costs of transport and logistics services that grew by 16.0% or EUR 6.8m as a result of higher retail fuel prices and the changed geographic sales structure in individual countries, as well as ongoing cost pressures,
- movements in employee benefits expense, which grew by 2.7% or EUR 6.7m compared to 2011. This increase is attributable to the production of emergency stock prior to the relocation of production from north to south (Sweden - Slovenia, Finland - Czech Republic, Slovenia - Serbia). Employee benefits expense was also negatively impacted by:
  - the inability to adjust short-term costs when production capacities are not fully utilised,
  - the impact of an unexpected work stoppage in December and
  - rigid labour legislation.

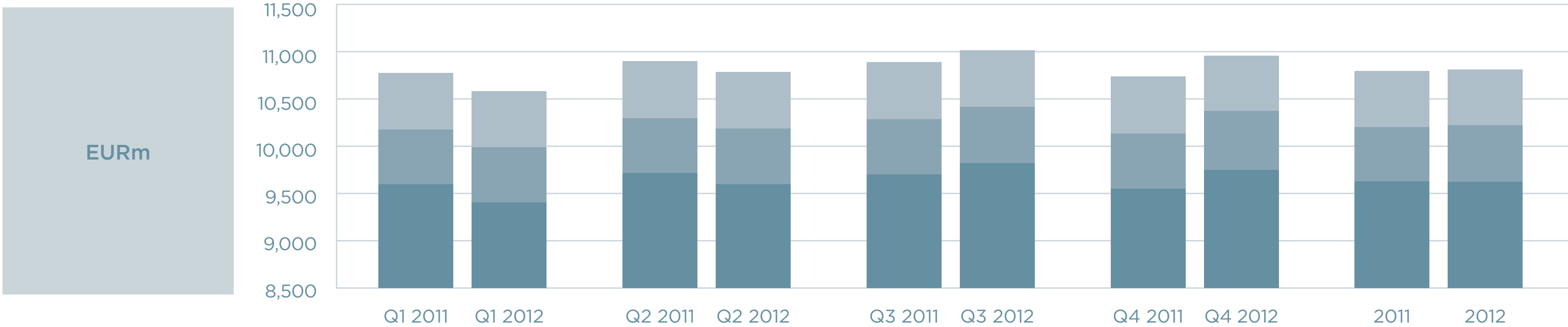
EBIT and EBIT margin



	Q1 2011	Q1 2012	Q2 2011	Q2 2012	Q3 2011	Q3 2012	Q4 2011	Q4 2012	2011	2012
EBIT	8.0	9.2	9.8	7.3	5.5	-1.3	20.2	29.7	43.6	44.9
EBIT margin	2.5 %	3.1 %	3.0 %	2.3 %	1.8 %	-0.4 %	6.2 %	8.9 %	3.4 %	3.6 %

In 2012, the **average number of employees** was 10,895. Compared to the previous year, the average number of employees increased by 17 persons. Most of the increase is attributable to higher production activities in the business segment Home in Q4 2012 as a result of manufacturing emergency stock prior to moving the production. Two out of three planned relocations of production will be conducted in the first quarter of 2013. The number of employees in the business segment Ecology increased as a result of expanding activities to new markets (Serbia). The business segment Portfolio Investments had 4 fewer employees than in 2011.

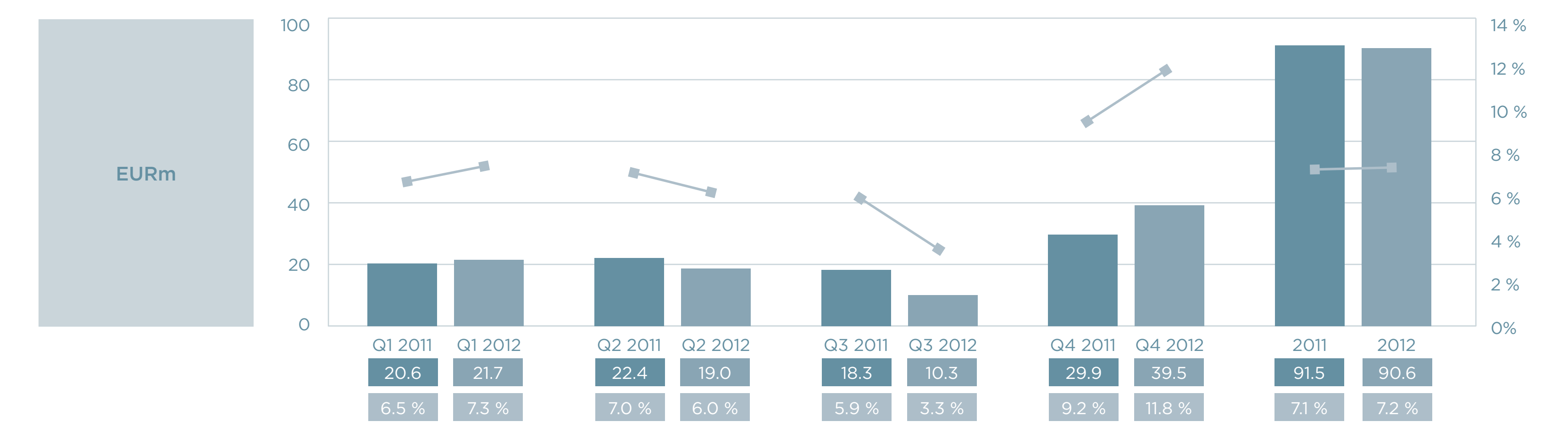
Average number of employees by business segment



	Q1 2011	Q1 2012	Q2 2011	Q2 2012	Q3 2011	Q3 2012	Q4 2011	Q4 2012	2011	2012
Total	10,820	10,627	10,949	10,833	10,936	11,061	10,783	11,009	10,878	10,895
Home	9,628	9,431	9,747	9,626	9,730	9,853	9,577	9,781	9,677	9,672
Ecology	583	591	589	597	596	605	597	631	592	618
Portfolio investments	609	605	603	610	610	603	609	597	609	605

In 2012, the Group generated **earnings before interest, taxes, depreciation and amortisation (EBITDA)** in the amount of EUR 90.6m, which is EUR 0.9m or 1.0% less than in the previous year. In Q4 2012, the Group's EBITDA was EUR 39.5m, which exceeds the comparable period in 2011 by EUR 9.5m. The reasons for this development are explained in the introductory section below.

EBITDA and EBITDA margin

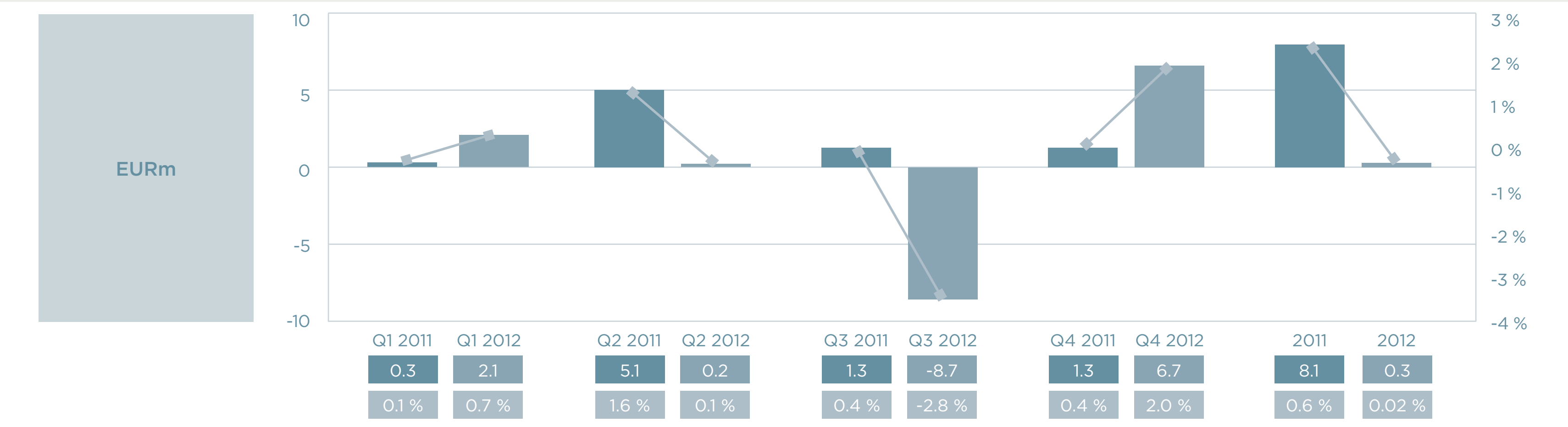


The negative **result from financing activities** in the amount of EUR 30.4m represents an increase of EUR 3.9m compared to 2011. An improvement was achieved in 2011, which is mostly the result of a one-time liquidation effect of the company Gorenje Tiki, Ljubljana and the sale of a participating interest in the company Istrabenz Gorenje, d.o.o. The negative result from financing activities, as compared to 2011, is also due to the impairment of certain investments and receivables.

Income tax expense of EUR 5.6m indicates growth of EUR 3.9m compared to 2011. The aforesaid increase is mostly due to the changed structure of generating profit before tax per companies and the recalculation of deferred tax assets to the expected tax rate.

At 31 December 2012, the Group recorded **net profit** in the amount of EUR 0.3m. This result is EUR 7.8m lower than the net result of the previous year. It is important to note that, due to reasons explained above, the net profit generated in the last quarter of 2012 significantly exceeds the result of the previous year's comparable period.

Net profit or loss and ROS



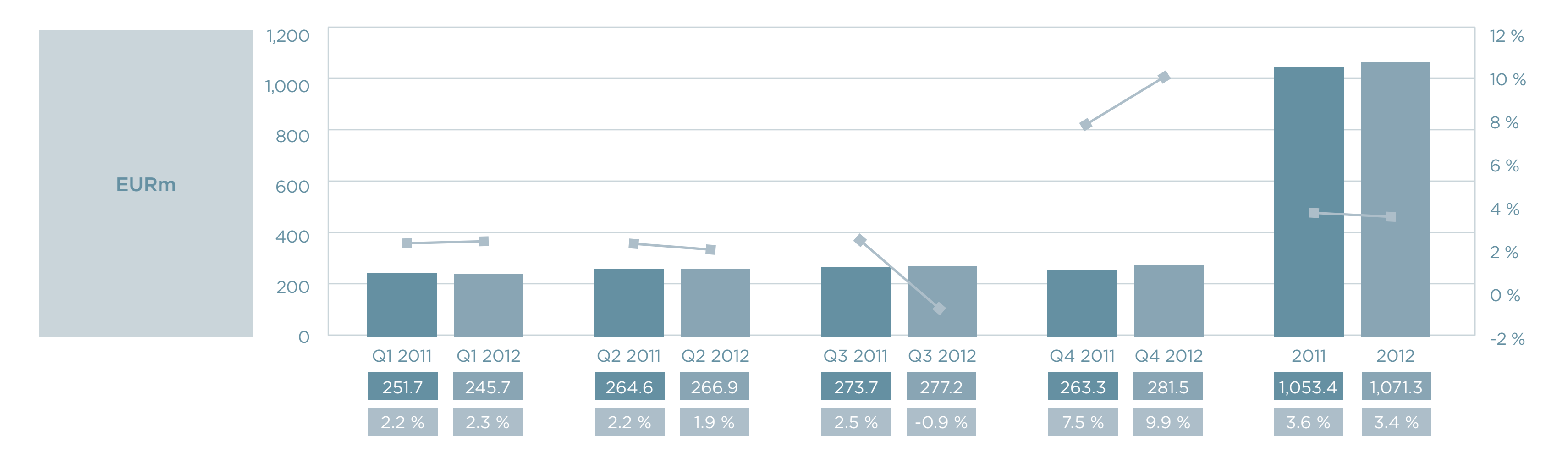
OPERATING PERFORMANCE OF THE BUSINESS SEGMENT HOME

Operating performance of the business segment Home

EURm	Q4 2012	Q4 2011	Index	2012	2011	Index	Plan 2012	Plan track
Revenue	281.5	263.3	106.9	1,071.3	1,053.4	101.7	1,202.8	89.1
CM[1]	119.2	108.8	109.6	461.9	455.5	101.4	510.1	90.6
CM (%)	42.4%	41.3%	/	43.1%	43.2%	/	42.4%	/
EBIT	27.9	19.6	141.9	36.0	38.2	94.3	44.4	81.2
EBIT margin (%)	9.9%	7.5%	/	3.4%	3.6%	/	3.7%	/

[1]Contribution margin on the level of difference between revenue and cost of goods and material

Revenue and the EBIT margin of the business segment Home



In 2012, the business segment **Home** recorded consolidated revenue in the amount of EUR 1,071.3m, which is 1.7% more than in the previous year. Irrespective of harsh conditions in European markets and sales stagnation, the Group increased the volume of operations, particularly in the last quarter of 2012, and generated EUR 281.5m revenue, which is nearly 7% more than in the last quarter of 2011. The biggest growth of operations in Q4 2012 was recorded in the regions of Eastern Europe (+13.4%) and other countries worldwide (+5.5%). Western Europe recorded an almost equal sales volume in Q4 2012 as in Q4 2011.

The largest growth of operations in 2012 was recorded in markets of Eastern Europe (+6.5%) and in markets of other countries (+5.7%), whereas in markets of Western Europe the operations declined (-3.6%). The growth of operations generated in markets of Eastern Europe and other countries is significant due to its contribution margin at the level of covering fixed costs of the Business Segment Home. Of total sales generated, 55% refers to the aforesaid geographic areas, whereas in the structure of generated contribution margin at the level of covering fixed costs, these markets account for a share of 85%. The growth in the markets of other countries is important also because of the implementation of the Gorenje's strategic policy in view of the global presence. The objective set in the currently applicable strategic plan and aimed at generating more than 10% of sales in the markets of other countries by 2015, was nearly implemented already in 2012.

On the annual level of 2012, the highest growth within the Business Segment Home was recorded by markets in Russia, Germany, Poland, Ukraine, the USA, Australia, Scandinavia, Bulgaria and Croatia. Lower scope of business activities as compared to 2011 was generated in the markets of the Netherlands and France, and also partly in Serbia and the Czech Republic.

On the annual level of 2012, a positive EBIT was recorded in the amount of EUR36.0m. Compared to 2011, the EBIT declined by EUR 2.2m or 5.7% and is the result of:

- less successful operations in the first three quarters of 2012, which were however significantly improved based on a successful geographical (Eastern Europe, other countries) and product (cooking appliances, small household appliances) sales structure in the last quarter of 2012,
- inability of short-term cost adjustment of total employee benefits expense during lower utilisation of production capacities in the first eight months of 2012 and unannounced strikes or stoppage of work in Velenje in December 2012,
- additional costs of relocating the production and establishing new production processes (additional employee benefits expense, additional costs of manufacturing emergency stock, etc.),
- higher costs of certain services, mostly costs of transport and logistics services (i.e. by 16% or EUR 6m) as a result of higher retail fuel prices and the changed geographic sales structure in individual countries.

It is important that irrespective of the cost pressure described, the EBIT in the business segment Home remained basically on the same level as in 2011 as a result of:

- improved geographical and product sales structure (particularly in the last quarter of 2012),
- more favourable lease of materials and raw materials, and purchases of merchandise (products manufactured beyond own production facilities),
- successful divesting of non-core and underperforming assets,
- additional measures adopted in the cost-cutting area.

Development of effects on profitability of the business segment Home at the level of EBIT

EURm	Development
EBIT 2011	**38.2**
Contribution margin at the level of cost of goods and material	6.4
Cost of services	-3.8
Employee benefits expense	-6.6
Amortisation and depreciation expense	2.3
Other operating expenses	4.1
Other operating income	-4.6
EBIT 2012	**36.0**

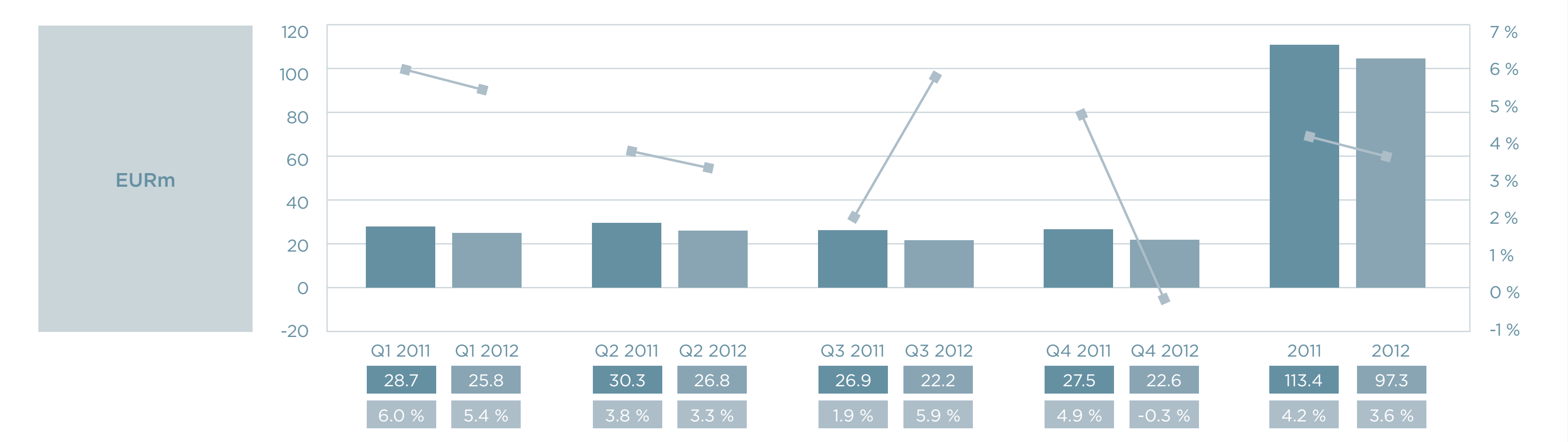
OPERATING PERFORMANCE OF THE BUSINESS SEGMENT ECOLOGY

Operating Performance of the business segment Ecology

EURm	Q4 2012	Q4 2011	Index	2012	2011	Index	Plan 2012	Plan track
Revenue	22.6	27.5	82.0	97.3	113.4	85.8	101.2	96.2
CM[1]	11.2	10.8	103.7	44.5	42.8	103.9	43.4	102.4
CM (%)	49.4%	39.1%	/	45.7%	37.7%	/	42.9%	/
EBIT	-0.1	1.3	/	3.5	4.7	73.9	3.1	114.9
EBIT margin (%)	-0.3%	4.9%	/	3.6%	4.2%	/	3.0%	/

[1]Contribution margin on the level of difference between revenue and cost of goods and material

Revenue and the EBIT margin of the business segment Ecology



In 2012, the business segment **Ecology** generated EUR 97.3m of consolidated revenue. Compared to 2011, the result shows a decline of EUR 16.1m or 14.2%. This decrease was driven mostly by drops in exchange prices for secondary raw materials and lower volume of operations due to the expiry of a five-year contract with a major industrial partner in Slovenia. The decline in business activities was also due to weather conditions in Q1 2012 that prevented the collection and sale of secondary raw materials.

In 2012, a positive EBIT in the amount of EUR 3.5m was generated and exceeded the planned figures by EUR 0.4m, which is primarily attributable to:

- optimisation of business processes and upgrading of the information system,
- obtaining new business deals in the field of secondary raw materials,
- stable exchange prices for secondary raw materials throughout the year, and
- higher volume of operations in the field of hazardous waste.

Lower EBIT compared to 2011 is the result of:

- higher costs of certain services due to the new alternative fuel activity that was launched in the second half of 2011 and the increase in transport and logistics services due to increased operations within the alternative fuel activity and higher retail fuel prices mostly in Slovenia,
- higher employee benefits expense mostly due to the launch of new activities and operations in countries of former Yugoslavia, which shall in coming years result in added value, and
- expanding activities to the markets in South-East Europe.

Development of effects on profitability of the business segment Ecology at the level of EBIT

EURm	Development
EBIT 2011	**4.7**
Contribution margin at the level of cost of goods and material	1.7
Cost of services	-2.5
Employee benefits expense	-0.3
Amortisation and depreciation expense	0.1
Other operating expenses	0.4
Other operating income	-0.6
EBIT 2012	**3.5**

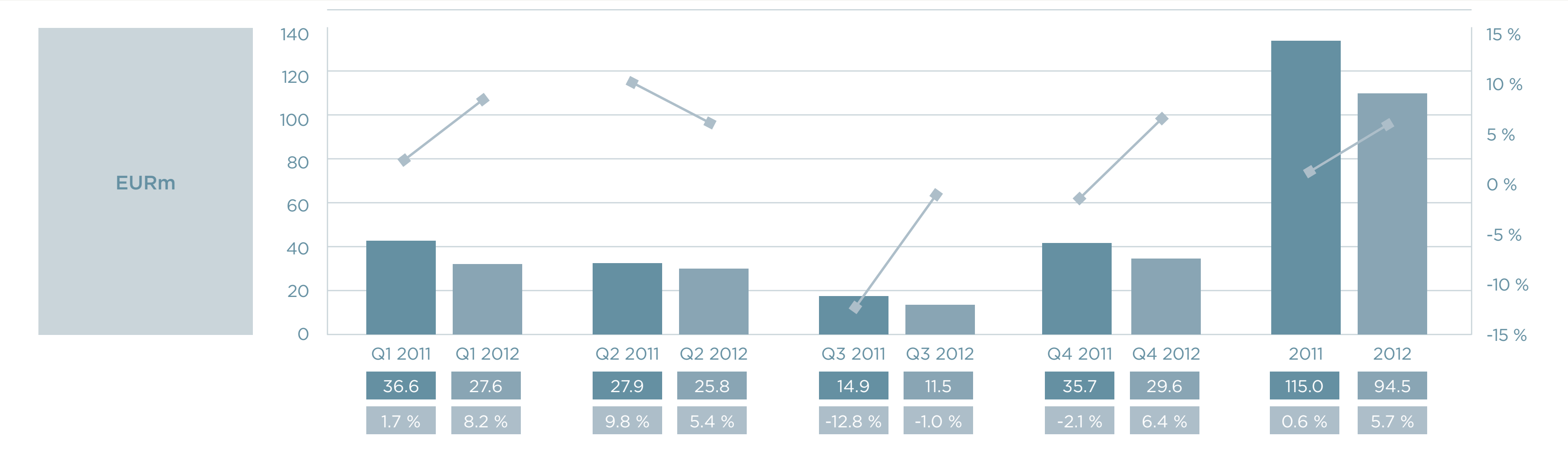
OPERATING PERFORMANCE OF THE BUSINESS SEGMENT PORTFOLIO INVESTMENTS

Operating Performance of the business segment Portfolio Investments

EURm	Q4 2012	Q4 2011	Index	2012	2011	Index	Plan 2012	Plan track
Revenue	29.6	35.7	82.9	94.5	115.0	82.1	87.4	108.0
CM[1]	9.0	2.6	350.6	30.4	21.0	144.3	32.1	94.7
CM (%)	30.4%	7.2%	/	32.2%	18.3%	/	36.7%	/
EBIT	1.9	-0.8	/	5.4	0.7	799.3	2.5	212.4
EBIT margin (%)	6.4%	-2.1%	/	5.7%	0.6%	/	2.9%	/

[1]Contribution margin on the level of difference between revenue and cost of goods and material

Revenue and the EBIT margin of the business segment Portfolio Investments



For the period ended 31 December 2012, the business segment **Portfolio Investments** generated EUR 94.5m of consolidated revenue, which is 17.9% or EUR 20.6m less than in 2011. The decline in revenue was mostly impacted by the production project (assembly) of 8x8 armoured vehicles for the Slovenian Armed Forces within the subsidiary Indop, d.o.o., Slovenia. The entire project generated EUR 9.2m of revenue in 2011, whereas only EUR 0.3m of other revenue from mentiont project. Another reason for the decrease is the elimination of transactions with the company Alpos, which in 2012 represents a loss in revenue of EUR 16.4m compared to the previous year. Lower revenue in the business segment Portofolio Investments is partly compensated through the higher sale of coal.

On the annual level of 2012, a positive EBIT was generated in the amount of EUR 5.4m and is higher over the previous period by EUR 4.7m, which is the result of:

- higher volume of operations generated by the parent company through the sale of coal, computer equipment and solar power plants,
- improved profitability in the field of tool manufacture, engineering and catering,
- lower cost of services, mostly of production services within tool manufacture, engineering and other activities as the result of a more efficient management of business processes and the optimisation of own production resources, and
- lower employee benefits expense.

Development of effects on profitability of the Business Segment Portfolio Investments at the level of EBIT

EURm	Development
EBIT 2011	**0.7**
Contribution margin at the level of cost of goods and material	9.3
Cost of services	0.6
Employee benefits expense	0.1
Amortisation and depreciation expense	-0.1
Other operating expenses	-0.8
Other operating income	-4.4
EBIT 2012	**5.4**

FINANCIAL PERFORMANCE OF THE GORENJE GROUP

Free Cash Flow Management

Free cash flow

	EURm	Q4 2012	Q4 2011	Index	2012	2011	Index	Plan 2012	Plan track
	Net profit or loss	6.7	1.3	508.0	0.3	8.1	3.6	13.4	2.2
+	Amortisation and depreciation expense	11.1	11.6	96.1	47.0	49.7	94.5	51.3	91.5
=	**Net cash flow**	**17.8**	**12.9**	**138.2**	**47.3**	**57.8**	**81.8**	**64.7**	**73.0**
-	Capex	-27.8	-17.0	163.6	-60.7	-47.5	128.0	-47.6	127.7
+	Divestment	8.3	2.0	403.7	11.4	4.4	259.5	19.7	58.0
-	Investments in net current assets	92.2	68.1	135.5	45.7	16.5	278.3	-8.2	/
	- change in inventories	-5.9	14.0	/	-8.1	11.4	/	8.6	/
	- change in trade receivables	58.1	25.1	231.7	31.7	28.2	112.7	-11.8	/
	- change in trade payables	40.0	29.0	138.1	22.1	-23.1	/	-5.0	/
=	**Free cash flow / narrow[1]**	**90.5**	**66.0**	**137.1**	**43.7**	**31.2**	**140.3**	**28.6**	**152.8**

[1]Items of free cash flow within the balance sheet are calculated based on the difference in balances without excluded discontinued operations.

At the 2012 annual level of, Gorenje generated EUR 43.7m of positive **free cash flow**, which is EUR 12.5m more than in the previous financial year. This increase in free cash flow is due mostly to a decline in trade receivables (in the amount of EUR 31.7m), whereas higher investments related to the accelerated relocation of production had a negative impact on the balance of free cash flow.

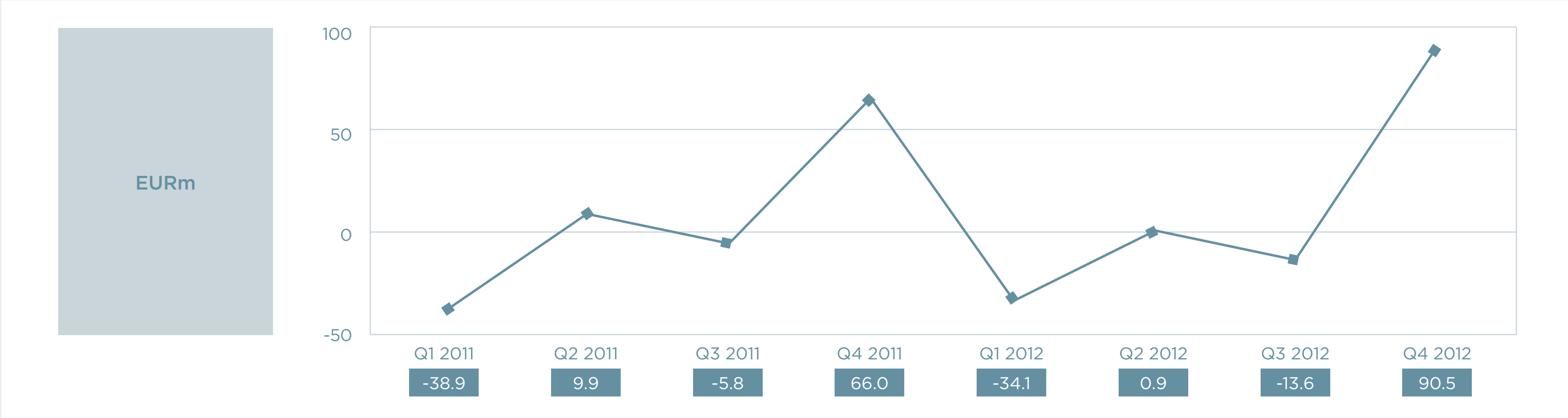
In 2012, non-core and underperforming assets in the carrying amount of EUR 11.4m were divested and generated a gross profit of EUR 1.7m. Among those properties sold, the most significant is the business-distribution centre in Zagreb. In 2012, Gorenje also sold numerous smaller disposable properties in Croatia, Russia, the Czech Republic, Bosnia and Herzegovina, and Slovenia. The business-distribution centre in Ljubljana was sold as well by the end of the year.

At 31 December 2012, the balance of **net current assets** is recorded at EUR 261.5m, which is EUR 45.7m lower than the 31 December 2011 balance. **Trade receivables** decreased by EUR 31.7m over the previous year. The positive movement is the result of stricter credit risk management and a more disciplined collection of receivables. It should be noted that quality trade receivables due from European customers were sold on a permanent basis in the last quarter of the year. Considering the cost of borrowing at the Gorenje Group, the total cost of selling receivables is lower or equal, thus the diversification of sources of finance is hereby further pursued.

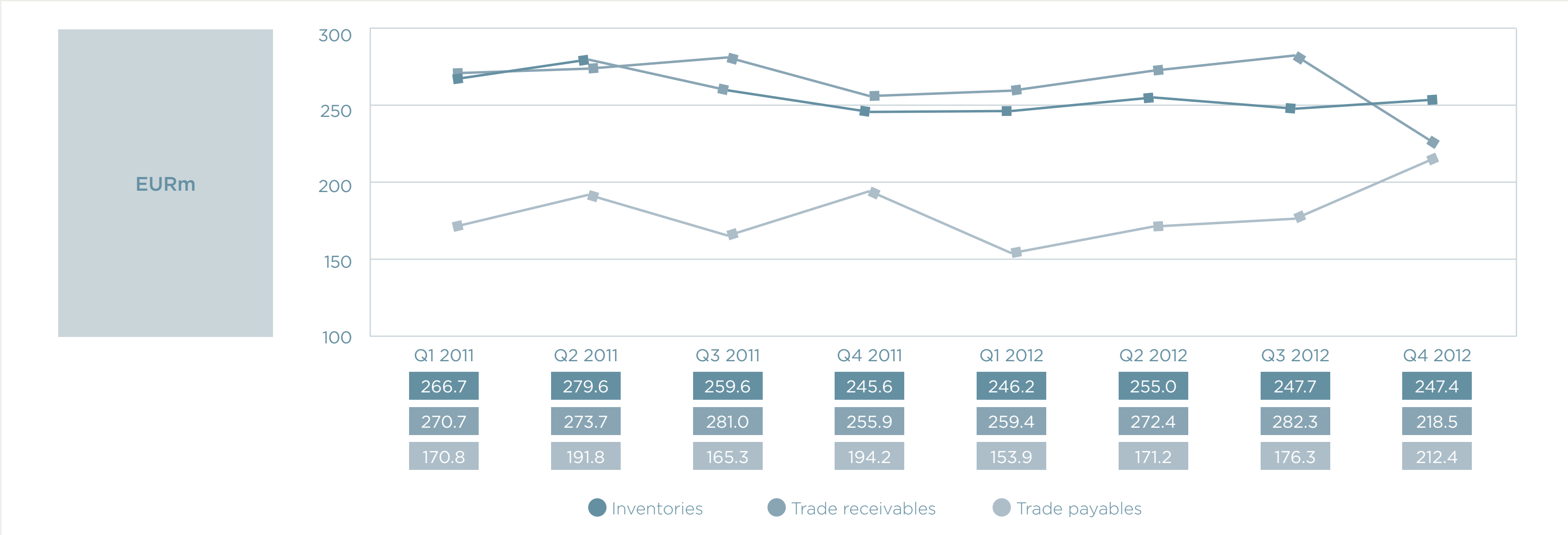
Inventories increased by EUR 8.1m if compared to the balance of inventories as at the year-end of 2011. The increase is the result of manufacturing emergency stock of finished products at production facilities in Velenje and Vari in Sweden by EUR 10.2m as compared to the 31 December 2011 balance. This increase in inventories is attributable to the planned movement of the production on the route Vara-Velenje and Velenje-Valjevo, which resulted in the production of emergency stock and higher volume of inventories of merchandise due to increased operations in the purchase and complementary programme (i.e. products that complement the offer of home products produced in-house). Compared to the previous period, inventories of raw materials, materials and work in progress were lowered by EUR 9.3m as a result of the lean production management system introduced. The inventory turnover period was consequently lowered.

Trade payables increased by EUR 22.1m compared to the year-end balance of 2011. The increase is attributable to emergency stock of finished products manufactured in the last months of 2012, and to the extension of payment deadlines to suppliers.

Free cash flow



Investments in net current assets



Other Financial Management Activities

Bilance sheet of the Gorenje Group

EURm	2012	2011	Plan 2012
Non-current assets	**469.9**	**470.5**	**438.9**
Inventories	247.4	245.6	240.1
Trade receivables	218.5	255.9	281.1
Trade payables	-212.4	-194.2	-180.4
Other operating assets / liabilities	6.7	-42.8	-39.0
Net working capital	**260.2**	**264.5**	**301.8**
NET ASSETS	**730.1**	**735.0**	**740.7**

EURm	2012	2011	Plan 2012
Equity	**392.1**	**397.8**	**409.3**
Non-current financial liabilities	276.9	302.5	252.6
Current financial liabilities	155.8	181.6	151.2
Cash and cash equivalents	-53.5	-101.6	-23.5
Net debt equity	**379.2**	**382.5**	**380.3**
Investments	-41.2	-45.3	-48.9
NET EQUITY INVESTED	**730.1**	**735.0**	**740.7**

With regard to **financial risks**, the severe macroeconomic situation led the Group to give particular attention to efficient **credit risk management**, namely by stricter controls of credit limits approved by credit insurance companies and more disciplined collection of receivables. Accordingly, the balance of bad debts is reviewed and analysed on an ongoing basis and adequate measures are adopted (e.g. collection, mortgage collections, suspension of supplies to problematic customers, etc.).

Currency risks to which the Group is exposed are hedged and minimized predominantly by natural cash flow balancing/hedging for each currency. The Group also applies, on a selective basis, forward exchange contracts for individual European countries.

Risk of short-term liquidity of the Group is managed by revolving credit lines approved for Group companies and cash deposits in bank accounts. Undrawn current and non-current credit lines at the end of the last quarter of 2012 amounted to EUR 102.2m, and bank balances amounted to an additional EUR 53.5m.

Total financial liabilities at 31 December 2012 amounted to EUR 432.7m, which is EUR 51.4m less than at the end of 2011. The improvement over the previous year is the result of optimising the management of net current assets, divesting, and improving the balance of cash flows and liquidity at the Group level.

Net financial liabilities (measured as the difference between financial liabilities and cash and cash equivalents) amounted to EUR 379.2m at 31 December 2012 and indicate a decline of EUR 3.3m over the previous year.

Maturity structure of financial liabilities significantly improved in 2012 as the result of two major loans. In mid-2012, the SID bank extended Gorenje a EUR 28m long-term loan with the purpose to finance development projects. It is important that approximately EUR 18m of the approved loan can be utilised in 2013, whereas a minor part in 2014. Furthermore, Gorenje was extended a EUR 50m long-term loan from Sberbank Europe at the end of 2012, which is a sign of confidence. Non-current financial liabilities represent 64.0% of total financial liabilities, reaching their most favourable level since the onset of the worldwide economic crisis. Prior to 2011, the share of non-current loans accounted for 50%.

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Investments by business segments

On the 2012 annual level, investments amounted to EUR 60.7m and were implemented primarily within the business segment Home. Investments increased by EUR 13.2m over the previous year, which is the result of production-related restructuring activities. Of total investments worth EUR 60.7m, only EUR 6.2m were earmarked for investments beyond the core business segment. Major investments made in 2012 include the new refrigeration appliance plant in Valjevo (regular production started in February 2013), the movement of cooker manufacturing facilities from Finland to the Czech Republic, and the start of relocating the production of washing machines, tumble dryers and dishwashers from Vara in Sweden to Velenje and most of the refrigerator-freezer production from Velenje to Valjevo. Also, investments were made in the development and manufacture of new products, the purchase of diverse technological equipment, and the purchase of the HW equipment and SW products for the informatics and IT department. In the last quarter of 2012, most of the contracts concluded refer to the largest two projects relating to developing and manufacturing appliances i.e. the project of developing cooking appliances and the project of cooling and freezing appliances.

The business segment Ecology implemented investments in the amount of EUR 4.2m at the 2012 annual level. These investments include predominantly technological equipment within the companies of Gorenje Surovina, Ekogor and Publicus.

In 2012, the business segment Portfolio Investments implemented investments in the amount of EUR 2.0m. Most of these investments were made in the companies Gorenje Orodjarna, Gorenje GTI Beograd, Gorenje GTI Velenje and Gorenje Gostinstvo, for the purpose of conducting core activities.

Investments by business segments

EURm	Q4 2012	Q4 2011	Index	2012	2011	Index	Plan 2012	Plan track
Home	25.1	15.0	167.6	54.5	42.5	128.5	41.1	132.7
Ecology	2.1	1.8	117.2	4.2	3.7	113.1	4.0	104.4
Portfolio Investments	0.5	0.2	335.2	2.0	1.3	151.7	2.5	81.9
Total	**27.7**	**17.0**	**163.7**	**60.7**	**47.5**	**128.0**	**47.6**	**127.7**

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RISKS

Risk Management in the Gorenje Group

- In 2012, the Group continued with risk management per individual business segment i.e. Home, Ecology and Portfolio Investments.
- The formation of the risk management council was adjusted to Group's new organisational structure. Each segment consists of three boards: board of business risks, board of financial risks and board of operating risks. Thus, the risk management council of the Group consists of nine boards.
- At the level of individual boards activities were conducted to indentify and assess the risks to which Gorenje Group is exposed.
- The risks detected were valued by the size of impact on the budgeted result and the estimate of frequency or probability of the impact.
- Risk assessment enabled the preparation of measures assuring that the budgeted result in 2013 is exposed at maximum to the acceptable risk level.
- The assessed risks represented the basis for the plan of audit reviews and the audit of the internal control system.
- Within the internal audit reviews in 2012, major risks were detected at recording of transactions in the field of accessing significant data in the information system. Uniform accounting recording is provided based on the uniform software applied by the Group companies. It was established that excessive data exposure was not misused. The accessibility in the IT system has been adequately established.
- A special risk management department will be established in 2013 that shall co-ordinate the work of boards, provide for a continued process of detecting and assessing risks and observe the implementation of measures adopted to reduce them.
- Reviewing the risks of individual companies became a regular agenda item at meetings of the supervisory boards of Gorenje Group companies.

Risk Management in the Business Segment Home

Strategic map of risks

	PROBABILITY				SIZE OF DAMAGE			
TYPE OF RISKS	VERY LOW	LOW	MODERATE	HIGH	ENORMOUS	GREAT	MODERATE	MINOR
1. BUSINESS RISKS								
1.1. EXTERNAL RISKS				High risk	High risk			
1.2. SALES RISKS			Moderate risk			Moderate risk		
1.3. PURCHASE RISKS			High risk		High risk			
1.4. PRODUCT RISKS		Moderate risk			Moderate risk			
1.5. DEVELOPMENT RISKS			High risk		High risk			
1.6. HR RISKS			Moderate risk			Moderate risk		
1.7. PROPERTY LOSS RISKS	Low risk					Low risk		
2. FINANCIAL RISKS								
2.1. CREDIT RISKS			High risk		High risk			
2.2. CURRENCY RISKS			High risk		High risk			
2.3. INTEREST RATE RISKS			Moderate risk			Moderate risk		
2.4. LIQUIDITY RISKS		Moderate risk			Moderate risk			
3. OPERATING RISKS								
3.1. PRODUCTION RISKS		Moderate risk				Moderate risk		
3.2. IT RISKS		Moderate risk			Moderate risk			
3.3. ORGANISATIONAL RISKS		Low risk					Low risk	
3.4.LOGISTICS RISKS			Moderate risk			Moderate risk		
3.5. TAX RISKS		Moderate risk				Moderate risk		
3.6. FIRE RISKS		Moderate risk			Moderate risk			
3.7. ENVIRONMENTAL RISKS		Moderate risk			Moderate risk			

High risk Moderate risk Low risk

A) BUSINESS RISK MANAGEMENT

Business risks are classified as risks associated with the ability or provision of generating current and non-current operating income, control of business processes and maintenance of asset value.

The following **important types** of business risks were defined: external risks, sales risks, purchase risks, product risks, development risks, human resources risks, property loss risks.

External risks are mainly associated with the changes in macroeconomic conditions of operation in individual key markets. Due to the current global financial crisis, and consequently increasing unemployment, increases in the prices of basic raw materials and intermediate goods, and the versatility and complexity of business activities the exposure to the risks mentioned is still substantially increasing. **The management of the Gorenje Group has assessed that that the exposure to such risks is moderate in individual markets.**

Sales risks are associated with the competition in the sale of products and services in individual markets and include risks of appropriate marketing strategy (brand name, price and functional competition of products, design etc.), risk of increasing negotiating power of major industrial customers and trade chains, and risk of quality of after-sales services. **The management of the Gorenje Group has assessed that the exposure to such risks is moderate.**

Unpredictability in the raw materials markets and the movement of the US dollar exchange rates still represent the main impact on **purchasing risks**. Risks that mostly impacted the vulnerability of the economic environment and the raw materials in 2012 include following: the European debt crisis, the slowdown of the Chinese economy, the danger of the 'fiscal cliff in the United States, and tensions in the Middle East and Africa. High exchange price fluctuations for raw materials have also impacted the prices in the non-exchange markets, where investors do not interfere with trading by means of derivative financial instruments. By means of market analyses and trends, the purchasing department decides in co-operation with the suppliers on the best starting points for forward purchases of stock-exchange metals for adequate periods. In the field of sheet steel that is not traded on the Stock Exchange, we take advantage of the possibility of agreements reached with strategic partners in the long-term (up to one year, by price indexing models). In conditions of increased risks such activities reduced the exposure of Gorenje to raw materials markets. Solely in the field of petrochemicals and plastic materials, no hedging mechanisms could be applied as prices are defined on a monthly basis due to numerous unpredictable elements (high oil price, uncertain trend in petrochemical input raw materials, declining margins, harsh limitation of production, force majeure events, and consolidations). In view of extreme fluctuations, the prices for plastic materials achieved a record-breaking growth in 2012. Considering the unstable markets, uncertain economic recovery and volatile raw material prices, **the management of the Gorenje Group has assessed that the exposure to purchase risks has increased.**

Product risks have been focused on the control of risks that may lead to incorrect operation of appliances in the market and finally to a mass failure or product liability of the producer. The risks are reduced by managing standardised procedures in the development, production and other processes, which have an impact on Gorenje's products. Certain systems apply certified an accredited methods (SIST EN ISO 9001/2000, ISO 17025), whereas others are implemented based on good practice (6 sigma, LEAN). The components are tested by means of advanced HALT / HASS chambers and in this way contribute to early detection of unstable or disputed components. By the use of specific IT tools that base on the SAP, the time to detect any possible complete break-downs has been shortened and, thus, costs arising from serial failures have been limited. With the merger of ASKO Sweden, Gorenje has taken over also the risk of errors made in previous years, which is also reflected in an increased risk exposure. **The management of the Gorenje Group has assessed that the exposure to product risks is moderate with respect to the measures for risks protection.**

Risks associated with the achievement of the planned economics of investments, the timely and successful activation of investments in the field of production relocation, the development of new product generations, and the successful launch of new production and product-related technologies are of key importance among **investment and development risks**. Thereby appropriate planning and control of investment effects is relevant. Risks are reduced by means of an exact preparation of business plans, which are implemented based on a systematic and active project approach, where the achievement of objectives is regularly monitored and corrective activities defined in case of deviations or possible quick changes in the market. In spite of all activities reducing the exposure to risk, **the management of the Gorenje Group has assessed that the exposure to investment and development risks is high due to numerous new projects and unforeseeable changes in the business environment influencing the reliability of planning.**

The financial year 2012 was marked by the relocation of production, which shall be continued also in 2013. The reduction in **human resources risks** requires adequate and timely informing of the employees, responding to their questions and explanation of any lack of clarity, especially relating to the production shift, as well as in the field of salaries and healthy workplace. For the sake of preserving social peace, an agreement on keeping the jobs was signed between Gorenje's management and both trade unions, whereas negotiations on amending the Collective Agreement for

Business will start in 2013. In order to be able to provide appropriate human resources on key positions we will continue the policy of granting scholarships, off-the-job-training and motivation for the assumption of new challenges and the possibility of variable remuneration. Conditions for employing top employees are created based on clearly set goals, good relations and provision of a creative working environment. **The management of the Gorenje Group has assessed that the exposure to human resources risks is moderate due to the activities mentioned.**

Property loss risks include property and transport risks. The Group companies systematically transfer key property loss risks to insurance companies or business partners and thus reduce the exposure to such risks. **The management of the Gorenje Group has assessed that the exposure to such property loss risks is low.**

B) FINANCIAL RISK MANAGEMENT

In 2012, internal financial policies were followed in the field of financial risk management. The policies include starting points for their efficient and systematic management. Objectives of the process of financial risk management are:

- achievement of stability in operation and reduction in exposure to individual risks to an acceptable level,
- increase in value of the companies and improvement of their credit standing,
- increase in finance income or decrease in finance expenses, and
- elimination or reduction in the effect of unforeseeable loss events.

Following key financial risks were defined: credit risks, currency risks, interest rate risks, and liquidity risks.

The exposure to each of the above risks and the hedge measures to be applied are judged and implemented on the basis of their effects on the cash flows. To hedge against financial risks in the course of ordinary business activities, relevant hedging activities have been conducted in the area of operating, investing and financing activities.

In the light of the strained macroeconomic situation, more attention was paid in 2012 to credit risk, which includes all risks where the failure of a party (a buyer) to discharge contractual obligations results in a decrease in economic benefits of the Group. The credit risk was managed by application of the following sets of measures:

- insurance of a major portion of operating receivables against credit risk with Slovenska izvozna družba – Prva kreditna zavarovalnica d.d., and other insurance companies;
- additional collateralisation of more risky trade receivables by bank guarantees and other security instruments;
- regular monitoring of operation and financial standing of new and existing business partners, and limitation of exposure to certain business partners;
- implementation of mutual and chain compensation with buyers;
- systematic and active control of credit limits and collection of receivables (launch of credit management).

The management of the Gorenje Group has assessed that the exposure to credit risk has significantly increased due to the deteriorated global macroeconomic situation, the bank crisis and consequently fierce liquidity situation. The credit risk is, however, properly limited by the use of stated hedging instruments. Taking into account measures that were implemented, the credit risk exposure is deemed higher.

With regard to the geographic diversification of its operations, the Gorenje Group is strongly exposed to currency risk, which is the risk that the economic benefits of an entity may be decreased due to changes in foreign exchange rates. When assessing currency risk, the balance sheet exposure was taken into consideration. The currency risk results mainly from the performance of business activities in the markets of Serbia, Great Britain, the Czech Republic, Poland, Hungary, Croatia, Turkey and all US dollar markets. Therefore, great attention was paid to natural hedging of currency risks and harmonisation of business operations to ensure long-term decrease in currency fluctuation exposure by matching or netting sales and purchases. Additional short-term hedging is carried out by forward exchange contracts and short-term borrowings in local currencies. Irrespective of measures taken to hedge against currency risk, the management of the **Gorenje Group has assessed that**, due to significant macroeconomic changes and oscillations particularly in the Eastern European countries, **the exposure to currency risk increased.**

With regard to the harsh global macroeconomic situation and consequently lower variable interest rates on financial markets, no new loans with fixed interest rates were raised in 2012 and no new derivative financial instruments created with the purpose to hedge against the risk of higher variable interest rates. The share of loans for which fixed interest rates were agreed or hedging instruments created, declined to 39.3% in 2012. Although no new instruments were created for hedging against the increase of interest rates, the macroeconomic movements and the global movement in interest rates were closely monitored to provide for timely hedging.

The management of the Gorenje Group has assessed that in view of the aforesaid the exposure to interest rate risk is moderate.

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.

Credit lines in the amount of EUR 150.1m mature in 2013. The refinancing of the existing financial liabilities has been negotiated with the banks in order to reduce the risk of refinancing. The liquidity reserve as at 31 December 2012 in the amount of EUR 152.3m consisting of unused revolving credit lines, unused long-term credit lines, short-term deposits with banks, and cash in banks, is used to secure adequate short-term control of cash flows and to decrease short-term liquidity risk. In 2012, the Group implemented the forfeiting model for the sale of first-class receivables, which represents an additional liquidity reserve and simultaneously lowers the dependency from bank institutions.

Short-term liquidity risk of the Group is assessed to be moderate due to efficient cash management, adequate available credit lines for short-term control of cash flows, a high degree of financial flexibility, and a good access to financial markets and funds.

Long-term liquidity risk is estimated as moderate due to effective performance of the Group, effective cash management, sustainable ability to generate cash flows from operating activities, improved maturity structure of financial liabilities, and an adequate capital structure. Gorenje Group applies a long-term debt service plan that grounds on the Group's strategic plan and results in lowering the Group's total indebtedness as well as improves the debt maturity structure.

The management of the Gorenje Group has assessed that the exposure to liquidity risk is moderate.

C) OPERATING RISK MANAGEMENT

Operating risks include a reduction in economic performance of the Group arising from the ability of unsuitable planning, performance and control of business processes and activities: production risks, information system risks, organisational risks, logistic risks, tax risks, and fire risks.

Production risk management refers to:

- operation of key equipment: key machines, tools, production lines and basic processing units,
- operation of infrastructure including smooth supply with energy products, providing infrastructural basis for adequate management of hazardous waste and operation of the central wastewater treatment plant,
- availability of production capacities, and
- inappropriate direct management of hazardous substances, and
- moving of production technologies to new locations.

Operating risk is higher in line production and it is managed by the qualifications and competences of employees and regular maintenance of production lines.

The management of the Gorenje Group has assessed that the exposure to production risks is moderate.

The most important risks among the **information system risks** are related to the assurance of availability and response of the information system services depending on hardware and software. The exposure to these risks has been reduced by:

- operation of the centre for continuous operation or safe secondary locations (i.e. Disaster Recovery Centre – DRC),
- changes in the architecture of server systems (server virtualisation),
- BCM (business continuity management) process control and the related measures,
- preliminary prepared measures for individual types of disturbances in the operation of the local computer
- regular maintenance of hardware and software, communications and network connections,
- control of changes in the development of information systems,
- determination and control of internal work processes in compliance with regional standards and recommendations (determination of processes for the implementation of changes and corrections)
- assurance of the presence of a support team outside working time (stand-by at home, and being on duty during national holidays and outside regular working time,
- assurance and implementation of adequate human resource policy providing suitable staff and sufficient number so that the implementation of solution development is possible, assurance of operation and support at an appropriate level,
- adequate training of employees and other measures.

The management of the Gorenje Group has assessed that the exposure to information system risks is moderate.

Organisational risks are associated with the non-observance of rules and regulations. Managers or department heads play the key role in the control of these risks since they are required to encourage the implementation of adequate procedures and provide for compliance of authorisation and responsibilities of individual employees. Simultaneously the need for creativity and innovative spirit of separate working units must be taken into account while introducing rules and regulations. The Gorenje Group namely disapproves of processes that are too automated since the innovative spirit of the employees can thus be limited. In some cases violation of rules and regulations can cause serious damage, although these cases have already been assessed within individual risks. Such a risk may also include mismatched operation of functional organisational units due to which some urgently needed activities have already been eliminated. Such risks have been controlled by a complete process approach. **The management of the Gorenje Group has assessed that exposure to organisational risks is low.**

Logistic risks are associated with the increase in transport costs of products. Risks are assessed with respect to assumptions of movements in oil prices and prices of sea transport. Supply and demand are the most important factors influencing prices of sea transport, but oil prices influence the road transport. The market of sea transport has calmed down after the turbulent increase in prices last year, but high fluctuations in prices can be also expected this year, mostly on destinations Far East – Northern Adriatic. Contracts concluded with transport companies include the option of modifying the price of transport if oil prices change which actually represents the biggest risk element. A characteristic of the entire European territory is the lack of trucks in the markets that additionally contributed to the instability of the market and thus to increased risks in the last year. Lack of trucks is the result of high indebtedness of transport operators trying to restructure debts by disinvestments. Certain risks in the field of logistics present also changes in production locations that have a strong impact on logistic flows. **The management of the Gorenje Group has assessed that the exposure to the logistic risk is moderate.**

Tax risks are associated with a correct interpretation of tax legislation and thus the related correct and timely accounting and payment of levies, possible changes in tax legislation and its implementation in daily business processes, provision of adequate documents, and others. The basic control measure for the tax risk control is a consistent following of the provisions regulations of tax legislation. The said measure is implemented by monitoring of tax and legal practice, establishment of internal control mechanisms and intensive co-operation among the departments and companies, co-operation in all stages of business activities, preparation of adequate documents for the support of adopted solutions, and similar. The reorganisation of the sale procedure among the Group companies (intragroup operations) increased the complexity of the risk management in the area of value added tax, which is managed, with a broader standardisation of the tax treatment of transactions. As for operating with subsidiaries, risks are controlled by the implementation of a co-ordinated policy of transfer prices and the preparation of suitable documents. **The management of the Gorenje Group has assessed that the exposure to tax risks is high due to complexity of operation, large volume of international transactions, complexity of tax legislation, but probability of occurrence of risky events is low.**

Fire risks have been limited by regular assessment of fire danger on the basis of which all facilities have been equipped with active fire protection systems. The supervision over the performance of fire protection measures has been intensified, and the employees have been additionally trained in the area of fire protection. Lowering of fire risks is our permanent concern. In 2012, the extended premises of the PPA programme – Asko and the Valjevo factory were equipped with fire-detection systems. For the purpose of increasing the safety of staff and lowering fire risks, workplace evacuation exercises are conducted on a regular basis. In 2012 a tactical fire-fighting exercise was carried out at two locations, whereas a workplace evacuation exercise at four locations.

The management of the Gorenje Group has assessed that the exposure to fire risks is moderate.

Environmental risks in the Gorenje Group have been regularly reduced by systematic monitoring of influences of company's operation on the environment. Environmental risks can be roughly classified into two groups. Risks that occur due to the company's production activity and risks that occur due to final products – home appliances on the environment. Lowering of environmental risks is a component of company's environmental management in compliance with standard ISO 14001 and the European regulation EMAS. In 2012 the risks in the field of emissions into the air were reduced by the installation of devices for fluoride cleaning and the upgraded devices for wastewater treatment (installation of oil catchers). We also took care of regular maintenance and inspection of devices that might have influenced the environment. All periodic measurements of influences of company's operation on the environments have been regularly performed (effluent monitoring, monitoring of emissions into the air, noise in the environment, waste production, storing of hazardous substances, etc.) and by the implementation of the programmes of environmental management we achieve short-term and long-term environmental objectives. Environmental risks of products have been reduced by consideration of the influences on the environment already at the stage of product planning since the majority of environmental influences that an individual product causes have already been determined at the stage of product planning. By the deliberate development we take care that products are energy-efficient, can be easily repaired and that their service cycle is as long as possible and that they are constructed in a way that enables simple dismantling to individual materials after the completed use. The reduction in environmental influences and thus the reduction in environmental is shown also in increased sales of appliances with higher energy efficiency. The share of most efficient appliances has constantly increased. **The management of the Gorenje Group has assessed that the exposure to fire risks is moderate.**

RISK MANAGEMENT IN THE BUSINESS SEGMENT ECOLOGY

Risk management in Ecology has been presented in detail in annual reports of individual Group companies that belong to the business segment Ecology.

RISK MANAGEMENT IN THE BUSINESS SEGMENT PORTFOLIO INVESTMENTS

Risk management in the field of portfolio investments has been presented in detail in annual reports of individual companies of the Gorenje Group that belong to the business segment Portfolio Investments.

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EVENTS AFTER YEAR-END

Appointment of the Management Board for the term 2013-2018

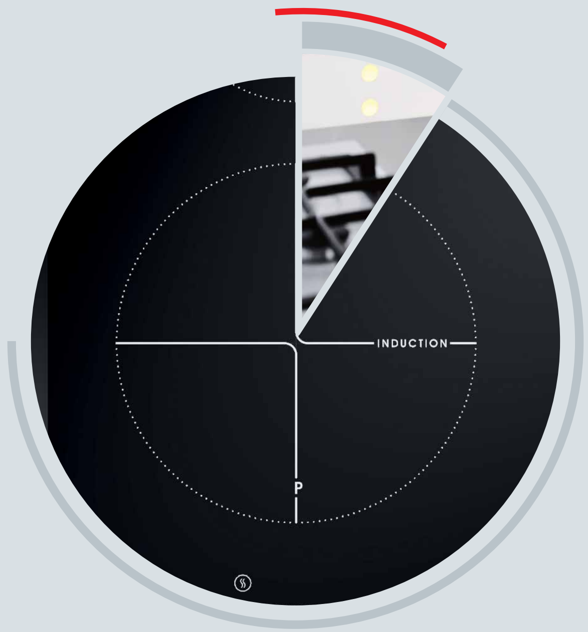
The Supervisory Board of Gorenje, d.d. held a session on 11 January 2013 and endorsed the proposal by Mr. Franjo Bobinac as the company President and CEO, and by the Supervisory Board's Remuneration Committee on the appointment of the remaining Management Board members for the term 2013-2018. The Management Board in this term will consist of current Management Board members except Mr. Uroš Marolt who will staying with the Gorenje Group. The Management Board will commence its new term on 19 July 2013.

Divestment of furniture manufacturing

As of 27 February 2013, Gorenje signed an agreement with CoBe Capital, a global private investment firm engaged in managing non-core and underperforming business units, for the sale of the companies Gorenje Kuhinje and Gorenje Notranja oprema, thus withdrawing from the furniture manufacturing segment. Manufacturing operations in Maribor, Velenje and Nazarje will be maintained under the new owner, which means that jobs will be kept in the future. Furthermore, the kitchen furniture produced by the companies under the new owner will remain a part of Gorenje's offer of home products. The disposal of both companies in the furniture segment will improve the Gorenje Group's profitability and increase the balance of free cash flow.

No other significant events occurred subsequent to the preparation of the balance sheet as of 31 December 2012.

ACCOUNTING REPORT



III.

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ACCOUNTING REPORT OF THE GORENJE GROUP

CONSOLIDATED FINANCIAL STATEMENTS OF THE GORENJE GROUP

Consolidated Income Statement of the Gorenje Group

EURk	Note	2012	2011
Revenue	12	**1,263,082**	**1,386,629**
Change in inventories		11,881	8,897
Other operating income	13	40,929	50,564
Gross profit		**1,315,892**	**1,446,090**
Cost of goods, materials and services	14	-946,215	-1,076,437
Employee benefits expense	15	-258,680	-253,333
Amortisation and depreciation expense	16	-45,665	-48,347
Other operating expenses	17	-20,411	-24,303
Operating profit		**44,921**	**43,670**
Finance income	18	6,805	15,064
Finance expenses	18	-37,221	-40,410
Net finance expenses	18	**-30,416**	**-25,346**
Share in profits or losses of associates		301	-9
Profit before tax		**14,806**	**18,315**
Income tax expense	19	-5,633	-1,880
Profit or loss without discontinued operation		**9,173**	**16,435**
Profit or loss from discontinued operation	10	**-8,883**	**-7,329**
Profit or loss for the period		**290**	**9,106**
Attributable to non-controlling interests		**238**	**141**
Attributable to equity holders of the parent		**52**	**8,965**
Basic or diluted earnings per share without discontinued operation (in EUR)		0.57	1.03
Basic or diluted earnings per share (in EUR)	32	0.00	0.57

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Consolidated Statement of Comprehensive Income of the Gorenje Group

EURk	Note	2012	2011
Profit for the period		**290**	**9,106**
Other comprehensive income			
Change in fair value of the land	21	-995	-1
Net change in fair value of available-for-sale financial assets		-27	-135
Net change in fair value of available-for-sale financial assets, transferred to profit or loss	18	626	0
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge		-2,220	-7,499
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	18	2,182	2,154
Income tax on other comprehensive income	25	524	1,073
Translation reserve		-4,129	1,148
Other comprehensive income for the period		**-4,039**	**-3,260**
Total comprehensive income for the period		**-3,749**	**5,846**
Attributable to equity holders of the parent		-3,987	5,705
Attributable to non-controlling interests		238	141

Consolidated Balance Sheet of the Gorenje Group

EURk	Note	2012	2011
ASSETS		**1,197,324**	**1,251,658**
Non-current assets		**550,965**	**556,345**
Intangible assets	20	159,607	158,620
Property, plant and equipment	21	341,171	358,840
Investment property	22	23,276	15,219
Non-current investments	23	7,193	1,973
Investments in associates	24	1,298	996
Deferred tax assets	25	18,420	20,697
Current assets		**646,359**	**695,313**
Non-current assets held for sale		893	1
Inventories	26	247,365	245,608
Current investments	27	32,769	42,317
Trade receivables	28	218,516	255,911
Other current assets	29	63,274	48,746
Income tax receivable		2,833	1,110
Cash and cash equivalents	30	53,488	101,620
Assets held for sale	10	27,221	0
EQUITY AND LIABILITIES		**1,197,324**	**1,251,658**
Equity	31	**392,145**	**397,819**
Share capital		66,378	66,378
Share premium		175,575	175,575
Legal and statutory reserves		22,719	22,719
Retained earnings		113,454	115,618
Own shares		-3,170	-3.170
Translation reserve		5,861	9,990
Fair value reserve		8,976	8,886
Equity of holders of the parent		**389,793**	**395,996**
Equity of non-controlling interests		**2,352**	**1,823**

Non-current liabilities		**349,411**	**385,330**
Provisions	33	65,020	76,321
Deferred income	34	3,145	617
Deferred tax liabilities	25	4,366	5,933
Non-current financial liabilities	35	276,880	302,459
Current liabilities		**455,768**	**468,509**
Current financial liabilities	36	155,846	181,649
Trade payables	37	212,430	194,248
Other current liabilities	38	77,962	90,806
Income tax liability		1,208	1,806
Liabilities held for sale	10	8,322	0

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Consolidated Statement of Cash Flows of the Gorenje Group

	EURk	Note	2012	2011
A.	CASH FLOWS FROM OPERATING ACTIVITIES			
	Profit for the period		**290**	**9,106**
	Adjustments for:			
	- depreciation of property, plant and equipment	21	40,433	43,767
	- amortisation of intangible assets	20	6,553	6,431
	- investment income	18	-6,871	-15,199
	- finance expenses	18	37,474	40,587
	- gain or loss on sale of property, plant and equipment	13	-1,486	-3,644
	- revenue from sale of investment property	13	-365	0
	- revaluation operating income	13	-3,387	-3,563
	- income tax expense	19	5,644	2,006
	Operating profit before changes in net operating current assets and provisions		**78,285**	**79,491**
	Change in trade and other receivables		6,752	10,297
	Change in inventories		-8,060	11,344
	Change in provisions		-7,243	-12,021
	Change in trade and other liabilities		12,064	-38,265
	Cash generated from operations		**3,513**	**-28,645**
	Interest paid		-25,593	-24,194
	Taxes paid		-6,544	-4,595
	Net cash from operating activities		**49,661**	**22,057**
B.	CASH FLOWS FROM INVESTING ACTIVITIES			
	Proceeds from sale of property, plant and equipment		11,095	7,302
	Proceeds from sale of investment property		2,161	0
	Interest received		2,688	3,678
	Dividends received		417	118
	Liquidation of subsidiary, without disposed financial assets		0	10,747
	Disposal of subsidiary, without disposed financial assets		0	7,143

	Acquisition of property, plant and equipment		-53,527	-41,089
	Acquisition of investment property		0	-9,819
	Available-for-sale investments		-337	-33
	Loans		2,073	9,325
	Other investments		-898	-14,246
	Acquisition of intangible assets		-7,217	-6,379
	Net cash used in investing activities		**-43,545**	**-33,253**
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
	Borrowings / Repayment of borrowings		-50,881	30,088
	Dividends paid		-2,267	0
	Net cash used in financing activities		**-53,148**	**30,088**
	Net change in cash and cash equivalents		-47,032	18,892
	Cash and cash equivalents at beginning of period		101,620	82,728
	Cash and cash equivalents at end of period		54,588	101,620

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Consolidated Statement of Changes in Equity of the Gorenje Group

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Trans-lation reserve	Fair value reserve	Equity of holders of the parent	Non-con-trolling interests	Total
Opening balance at 1 Jan 2012	**66,378**	**175,575**	**22,719**	**115,618**	**-3,170**	**9,990**	**8,886**	**395,996**	**1,823**	**397,819**
Total comprehensive income for the period										
Profit for the period				52				52	238	290
Total other comprehensive income						-4,129	90	-4,039		-4,039
Total comprehensive income for the period	**0**	**0**	**0**	**52**	**0**	**-4,129**	**90**	**-3,987**	**238**	**-3,749**
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distribution to owners										
Equity increase								0		0
Dividends				-2,367				-2,367		-2,367
Unpaid dividends				151				151		151
Total contributions by owners and distribution to owners	**0**	**0**	**0**	**-2,216**	**0**	**0**	**0**	**-2,216**	**0**	**-2,216**
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Inclusion of subsidiaries to the Group	0	0	0	0	0	0	0	0	291	291
Total changes in ownership interests in subsidiaries	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**291**	**291**
Total transactions with owners	**0**	**0**	**0**	**-2,216**	**0**	**0**	**0**	**-2,216**	**291**	**-1,925**
Closing balance at 31 Dec 2012	**66,378**	**175,575**	**22,719**	**113,454**	**-3,170**	**5,861**	**8,976**	**389,793**	**2,352**	**392,145**

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Trans-lation reserve	Fair value reserve	Equity of holders of the parent	Non-con-trolling interests	Total
Opening balance at 1 Jan 2011	**66,378**	**175,575**	**21,990**	**107,382**	**-3,170**	**8,842**	**13,294**	**390,291**	**1,805**	**392,096**
Total comprehensive income for the period										
Profit or loss for the period				8,965				8,965	141	9,106
Total other comprehensive income						1,148	-4,408	-3,260		-3,260
Total comprehensive income for the period	**0**	**0**	**0**	**8,965**	**0**	**1,148**	**-4,408**	**5,705**	**141**	**5,846**
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distribution to owners										
Equity increase								0		0
Dividends								0		0
Formation of statutory reserves			729	-729				0		0
Total contributions by owners and distribution to owners			**729**	**-729**				**0**	**0**	**0**
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Change in ownership interests								0	-123	-123
Total changes in ownership interests in subsidiaries								**0**	**-123**	**-123**
Total transactions with owners	**0**	**0**	**729**	**-729**	**0**	**0**	**0**	**0**	**-123**	**-123**
Closing balance at 31 Dec 2011	**66,378**	**175,575**	**22,719**	**115,618**	**-3,170**	**9,990**	**8,886**	**395,996**	**1,823**	**397,819**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Gorenje, d.d., (the "Company") is the controlling company domiciled in Slovenia. The address of the Company's registered office is Partizanska 12, 3503 Velenje.

The consolidated financial statements of Gorenje, d.d., at and for the year ended 31 December 2012 comprise the parent 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

The consolidated financial statements 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 financial statements were approved by the Management Board on 25 February 2013.

(b) Basis of measurement

The consolidated financial statements 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

These consolidated financial statements are presented in EUR, which is the 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 33 and accounting policy 3(l)(iv) – measurement of liabilities for retirement benefits and jubilee premiums
- Note 33 and accounting policy 3(l)(iii)- provisions for onerous contracts
- Note 33 and accounting policy 3(l)(i) – provisions for warranties
- Note 40 and accounting policy 3 (i)(i) – valuation of financial instruments including receivables

(e) Changes in accounting policies

The Group has not changed its accounting policies in 2012.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by Group companies to all periods presented in these consolidated financial statements.

(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 profit or loss.

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 profit or loss.

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.

(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.

(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. 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 investees)

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.

(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 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 and 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: loans and receivables, available-for-sale financial assets, and cash and cash equivalents.

Loans and receivables

Loans 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, loans 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 they are measured at fair value plus any directly attributable transaction costs.

Impairment losses (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 investment is derecognised, 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 the reserve for own shares. 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, 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, 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.

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 by comparing the proceeds from disposal with 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.

(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 in profit or loss 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 from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and 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. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Intangible assets with infinite useful lives (trademarks) are tested once a year whether the need for impairment has occurred. Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is recognised in profit or loss 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:

- capitalised 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.

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 are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average price method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(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. The unwinding of the discount is recognised as finance expenses.

(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 selected annual discount rate is 4.60%, which is the rate of return on 10-year entrepreneurial bonds in euro area. The calculation has been made by a certified actuary using the projected unit method.

(v) Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

(m) Revenue

(i) Revenue from the sale of products, goods and materials

Revenue from the sale of products, goods and materials in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of goods, usually transfer occurs when the goods are received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port. Generally for such products the customer has no right of return.

(ii) Revenue from services rendered

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Commission

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iv) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(n) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(o) Finance income and finance expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, 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 Group'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), foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. 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 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 and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Basic earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares, which is equivalent to diluted earnings per share data, as the Group has not issued any preference shares or convertible bonds. 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.

Comparable information has been adjusted in the income statement for discontinued operation.

(t) Assets held for sale or held for distribution, and discontinued operations

(i) 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 income statement 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 CEO 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.

(v) New standards and interpretations not yet adopted

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements:

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Earlier application is permitted.

The Amendments contain new disclosure requirements for financial assets and liabilities that are:

- offset in the balance sheet; or
- subject to master netting arrangements or similar agreements.

The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.

This Standard is to be applied retrospectively when there is a change in control conclusion.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

(1) it is exposed or has rights to variable returns from its involvements with the investee;

(2) it has the ability to affect those returns through its power over that investee; and

(3) there is a link between power and returns.

The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 11 Joint arrangements

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.

IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. In the remainder of IAS 31, jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements.

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted.

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Group does not expect the new Standard will have a material impact on the financial statements.

IFRS 13 Fair Value Measurement

Effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that used significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

The Group does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.

The amendments:

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.
- change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the entity were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: EUR -4,129k recognised in the translation reserve, EUR -38k recognised in the hedge reserve, EUR 599k recognised in the fair value reserve, and the related tax effects of EUR 0, EUR -129k and EUR -112k, respectively, recognised in other comprehensive income. The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.

IAS 19 (2011) Employee Benefits

Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply. Earlier application is permitted.

The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

The amendments are not relevant to the Group's financial statements, since the entity does not have any defined benefit plans.

IAS 27 (2011) Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.

[In consolidated financial statements there is no need to separately disclose the change in IAS 27 since the remaining portion of IAS 27 relates only to separate financial statements and the portion of IAS 27 that relates to the consolidated financial statements should be addressed as part of the IFRS 10 discussion.]

IAS 28 (2011) Investments in Associates and Joint Ventures

Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.

There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Group does not expect the amendments to Standard to have material impact on the financial statements.

Amendments to MRS 32 – Offsetting Financial Assets and Financial Liabilities

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made.

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

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IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Effective for annual periods beginning on or after 1 January 2013. It applies prospectively to production stripping costs incurred on or after the beginning of the earliest period presented. Earlier application is permitted.

The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets.

To the extent that benefits from production stripping are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 Inventories.

Production stripping costs that improve access to ore to be mined in the future are recognised as a non-current asset if, and only if, all of the following criteria are met:

- it is probable that future economic benefits will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset.

The stripping activity asset shall initially be recognised at cost while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part.

The Interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a 'relevant' production measure.

The Group does not expect the Interpretation to have any impact on the financial statements since it does not have any stripping activities.

4. Determination of fair value

A number of the Group'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 methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(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 by applying the comparable sales method and is carried out every five to eight years. The Group 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

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every five years. In the intermediate period assessments are carried out to determine whether any revaluations are required to be made. 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 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 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. Financial risk management

In respect of financial risk management, the internal financial policies comprising the bases for efficient and systematic risk management were observed in 2012. The objectives of risk management are:

- to achieve stability of operations and to reduce risk exposure to an acceptable level,
- to increase the value of companies and the impact on their financial standing,
- to increase financial income and/or to decrease financial expenses, and
- to nullify and/or decrease the effects of exceptionally damaging events.

In the Gorenje Group, the following key financial risks have been defined:

FINANCIAL RISKS	CREDIT RISK
	CURRENCY RISK
	INTEREST RATE RISK
	LIQUIDITY RISK

The exposure to each of the above risks and the hedge measures to be applied are judged and implemented on the basis of their effects on the cash flows. To hedge against financial risks in the course of ordinary business activities, relevant hedging activities have been conducted in the area of operating, investing and financing activities.

In the light of the strained macroeconomic situation, more attention was paid in 2012 to the credit risk which includes all risks where the failure of a party (a buyer) to discharge contractual obligations results in a decrease in economic benefits of the Group. The credit risk was managed by application of the following sets of measures:

- insurance of a major portion of operating receivables against credit risk with Slovenska izvozna družba – Prva kreditna zavarovalnica d.d., and other insurance company;
- additional collateralisation of more risky trade receivables by bank guarantees and other security instruments;
- regular monitoring of operation and financial standing of new and existing business partners, and limitation of exposure to certain business partners;
- implementation of mutual and chain compensation with buyers;
- systematic and active control of credit limits and collection of receivables (launch of credit management).

Due to the deteriorated global macroeconomic situation, the bank crisis and consequently fierce liquidity situation, the **Group's management estimates that the exposure to credit risk** has significantly increased. The credit risk is, however, properly limited by the use of stated hedging instruments. Taking into account measures that were implemented, the credit risk exposure is deemed **higher**.

With regard to the geographic diversification of its operations, the Gorenje Group is strongly exposed to currency risk, which is the risk that the economic benefits of an entity may be decreased due to changes in foreign exchange rates. When assessing currency risk, the balance sheet exposure was taken into consideration. The currency risk results mainly from the performance of business activities in the markets of Serbia, Great Britain, Czech Republic, Poland, Hungary, Croatia, Turkey and all US dollar markets. Therefore, great attention was paid to natural hedging of currency risks and harmonisation of business operations to ensure long-term decrease in currency fluctuation exposure by matching or netting sales and purchases. Additional short-term hedging is carried out by forward exchange contracts and short-term borrowings in local currencies. Irrespective of measures taken to hedge against currency risk, the **Gorenje Group's management estimates that**, due to significant macroeconomic changes and oscillations particularly in the Eastern European countries, **the exposure to currency risk increased**.

With regard to the harsh global macroeconomic situation and consequently lower variable interest rates on financial markets, no new loans with fixed interest rates were raised in 2012 and no new derivative financial instruments created with the purpose to hedge against the risk of higher variable interest rates. The share of loans for which fixed interest rates were agreed or hedging instruments created, declined to 39.3% in 2012. Although no new instruments were created for hedging against the increase of interest rates, the macroeconomic movements and the global movement in interest rates were closely monitored to provide for timely hedging.

The Group's management estimates that the exposure to interest rate risk is moderate.

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.

Credit lines in the amount of EUR 150,102k mature in 2013. The refinancing of the existing financial liabilities has been negotiated with the banks in order to reduce the risk of refinancing. The liquidity reserve as at 31 December 2012 in the amount of EUR 152,269k consisting of unused revolving credit lines, unused long-term credit lines, short-term deposits with banks, and cash in banks, is used to secure adequate short-term control of cash flows and to decrease short-term liquidity risk. In 2012, the Group implemented the forfeiting model for the sale of first-class receivables, which represents an additional liquidity reserve and simultaneously lowers the dependency from bank institutions.

Group's short-term liquidity risk is estimated to be **moderate** due to efficient cash management, adequate available credit lines for short-term control of cash flows, a high degree of financial flexibility, and a good access to financial markets and funds.

Long-term liquidity risk is estimated as **moderate** due to effective performance of the Group, effective cash management, sustainable ability to generate cash flows from operating activities, improved maturity structure of financial liabilities, and an adequate capital structure. Gorenje Group applies a long-term debt service plan that grounds on the Gorenje Group's strategic plan and results in lowering the Group's total indebtedness as well as improves the debt maturity structure.

The Gorenje Group's management estimates that the exposure to liquidity risk is moderate.

Capital management

The Management Board decided to maintain a strong capital base in order to secure confidence of all stakeholders and to sustain future development of the Gorenje Group. As one of the strategic ratios, the Group defined the return on equity as profit for the period attributable to owners of the parent company divided by the average value of equity attributable to owners. The Group seeks to maintain a balance between the higher returns, which are rendered possible by a higher level of borrowings, and the advantages and security assured by a strong capital structure.

The dividend policy is based on the investment plans, optimum capital structure policy, and shareholders' expectations and interests. The amount of dividend per share is proposed by the Management Board and the Supervisory Board of the controlling company. Dividends are paid from the accumulated profit of the controlling company determined in accordance with the relevant current regulations in Slovenia. The resolution on the appropriation of accumulated profit is adopted by the Shareholders' Meeting.

The Gorenje Group has no employee share-owning scheme and no share option programme. There were no changes in the approach to capital management in 2012. Neither the controlling company nor its subsidiaries were subject to capital requirements determined by the regulatory authorities.

There are no provisions in the Articles of Incorporation that would invalidate the proportionality of rights arising from shares, such as the rights of minority shareholders or the limitation of voting rights, and there are no resolutions adopted on conditionally increased capital.

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6. Segment reporting

Business segments

The Group comprises following key business segments:

(i) Business Segment Home

Business Segment 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 kitchen furniture, bathroom furniture, sanitary fixtures and fittings, and ceramic tiles.

(ii) Business Segment Ecology

Business Segment Ecology: overall waste management.

(iii) Business Segment Portfolio Investments

Business Segment Portfolio Investments: tool manufacture, trade, engineering, representation, catering, tourism, and real estate management.

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:

Western Europe: Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Norway, Turkey, The Netherlands, Spain, Switzerland.

Eastern Europe: Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Kazakhstan, Latvia, Lithuania, Estonia, 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 2012, the balance sheet at 31 December 2011, the income statement for the year ended 31 December 2012, and the additional information required for the adjustment of inflows and outflows.

8. Composition of Gorenje Group

Pursuant to International Financial Reporting Standards (IFRSs) as adopted by EU, the consolidated financial statements of the Gorenje Group comprise the financial statements of the parent company Gorenje, d.d. and the financial statements of 81 subsidiaries:

		Equity interest in %	
	Companies operating in Slovenia	31 Dec 2012	31 Dec 2011
1.	Gorenje I.P.C., d.o.o., Velenje	100.00	100.00
2.	Gorenje GTI, d.o.o., Velenje	100.00	100.00
3.	Gorenje Notranja oprema, d.o.o., Velenje	100.00	99.98
4.	Gorenje Gostinstvo, d.o.o., Velenje	100.00	100.00
5.	ENERGYGOR, d.o.o., Velenje	100.00	100.00
6.	Kemis, d.o.o., Vrhnika	99.984	99.984
7.	Gorenje Orodjarna, d.o.o., Velenje	100.00	100.00
8.	ZEOS, d.o.o., Ljubljana	51.00	51.00
9.	Gorenje Surovina, d.o.o., Maribor	99.984	99.984
10.	Indop, d.o.o., Šoštanj	100.00	100.00
11.	ERICo, d.o.o., Velenje	51.00	51.00
12.	Gorenje design studio, d.o.o., Velenje	52.00	52.00
13.	PUBLICUS, d.o.o., Ljubljana	50.992	50.992
14.	EKOGOR, d.o.o., Jesenice	99.984	46.00
15.	Gorenje GAIO, d.o.o., Šoštanj	100.00	100.00
16.	Gorenje GSI, d.o.o., Ljubljana [1]	100.00	/
17.	Gorenje Kuhinje, d.o.o., Velenje [2]	100.00	/
18.	Gorenje Keramika, d.o.o., Velenje [2]	100.00	/

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Foreign operations		Equity interest in % 31 Dec 2012	31 Dec 2011
1.	Gorenje Beteiligungs GmbH, Austria	100.00	100.00
2.	Gorenje Austria Handels GmbH, Austria	100.00	100.00
3.	Gorenje Vertriebs GmbH, Germany	100.00	100.00
4.	Gorenje Körting Italia S.r.l., Italy	100.00	100.00
5.	Gorenje France S.A.S., France	100.00	100.00
6.	Gorenje Belux S.a.r.l., Belgium	100.00	100.00
7.	Gorenje Espana, S.L., Spain	100.00	100.00
8.	Gorenje UK Ltd., Great Britain	100.00	100.00
9.	Gorenje Group Nordic A/S, Denmark	100.00	100.00
10.	Gorenje AB, Sweden	100.00	100.00
11.	Gorenje OY, Finland	100.00	100.00
12.	Gorenje AS, Norway	100.00	100.00
13.	Gorenje spol. s r.o., Czech Republic	100.00	100.00
14.	Gorenje real spol. s r.o., Czech Republic	100.00	100.00
15.	Gorenje Slovakia s.r.o., Slovakia	100.00	100.00
16.	Gorenje Budapest Kft., Hungary	100.00	100.00
17.	Gorenje Polska Sp. z o.o., Poland	100.00	100.00
18.	Gorenje Bulgaria EOOD, Bulgaria	100.00	100.00
19.	Gorenje Zagreb, d.o.o., Croatia	100.00	100.00
20.	Gorenje Skopje, d.o.o., Macedonia	100.00	100.00
21.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	100.00
22.	Gorenje, d.o.o., Serbia	100.00	100.00
23.	Gorenje Podgorica, d.o.o., Montenegro	99.972	99.972
24.	Gorenje Romania S.r.l., Romania	100.00	100.00
25.	Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	100.00
26.	Mora Moravia s r.o., Czech Republic	100.00	100.00
27.	Gorenje - kuchyně spol. s r.o., Czech Republic	100.00	99.98
28.	KEMIS-Termoclean, d.o.o., Croatia	99.984	99.984
29.	Kemis- BH, d.o.o., Bosnia and Herzegovina	99.984	99.984
30.	Gorenje Studio, d.o.o., Serbia	100.00	100.00
31.	Gorenje Gulf FZE, United Arab Emirates	100.00	100.00
32.	Gorenje Tiki, d.o.o., Serbia	100.00	100.00
33.	Gorenje Istanbul Ltd., Turkey	100.00	100.00
34.	Gorenje TOV, Ukraine	100.00	100.00
35.	ST Bana Nekretnine, d.o.o., Serbia	100.00	100.00
36.	Kemis Valjevo d.o.o, Serbia	99.984	99.984
37.	Kemis – SRS, d.o.o., Bosnia and Herzegovina	99.984	99.984
38.	ATAG Europe BV, The Netherlands	100.00	100.00
39.	ATAG Nederland BV, The Netherlands	100.00	100.00
40.	ATAG België NV, Belgium	100.00	100.00
41.	ATAG Financiele Diensten BV, The Netherlands	100.00	100.00
42.	ATAG Financial Solutions BV, The Netherlands	100.00	100.00
43.	ATAG Special Product BV, The Netherlands	100.00	100.00
44.	Intell Properties BV, The Netherlands	100.00	100.00
45.	Gorenje Nederland BV, The Netherlands	100.00	100.00
46.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	100.00
47.	Gorenje kuhinje, d.o.o., Ukraine	70.00	69.986
48.	»Euro Lumi & Surovina« SH.P.K., Kosovo	50.992	50.992
49.	OOO Gorenje BT, Russia	100.00	100.00
50.	Gorenje GTI d.o.o., Belgrade, Serbia	100.00	100.00
51.	Asko Appliances AB, Sweden	100.00	100.00
52.	Asko Hvitevarer AS, Norway	100.00	100.00
53.	AM Hvidevarer A/S, Denmark	100.00	100.00
54.	Asko Appliances Inc, USA	100.00	100.00
55.	Asko Appliances Pty, Australia	100.00	100.00
56.	Asko Appliances OOO, Russia	100.00	100.00
57.	»Gorenje Albania« SHPK , Albania	100.00	100.00
58.	Gorenje Home d.o.o. Zaječar, Serbia	100.00	100.00
59.	ORSES d.o.o. Belgrade, Serbia	100.00	100.00
60.	Gorenje Ekologija, d.o.o., Stara Pazova, Serbia	99.992	99.992
61.	Gorenje Corporate GmbH, Austria [3]	100.00	/
62.	Cleaning sistem S d.o.o., Serbia [3]	50.992	/
63.	Zeos eko-sistem, d.o.o., Bosnia and Herzegovina [3]	99.00	/

Notes:

[1] As of 30 May 2012, the District Court in Celje issued a decision on entering the spin-off of the company Gorenje GTI, d.o.o. and the registration of the newly founded company Gorenje GSI, trgovina na debelo in drobno, d.o.o. The sole owner of this company is Gorenje d.d.

[2] As of 29 May 2012, the District Court in Celje issued a decision on entering the spin-off of the company Gorenje Notranja oprema, d.o.o. and registering the newly founded companies Gorenje Kuhinje, d.o.o. and Gorenje Keramika, d.o.o. The sole owner of both companies is Gorenje, d.d.

[3] Companies founded in 2012.

Associates:
- Gorenje Projekt, d.o.o., Velenje
- GGE družba za izvajanje energetskih storitev, d.o.o. (GGE d.o.o.), Ljubljana
- RCE – Razvojni center energija d.o.o. (RCE d.o.o.), Velenje
- Econo Projektiranje d.o.o., Ljubljana
- ENVITECH D.O.O., Belgrade

Representative offices of Gorenje, d.d., abroad:
- in Moscow (Russian Federation),
- in Krasnoyarsk (Russian Federation),
- in Kiev (Ukraine),
- in Athens (Greece),
- in Shanghai (China),
- in Almaty (Kazakhstan), and
- in Kishinev (Moldova).

9. Non-controlling interests

Non-controlling interests as at 31 December 2012:

	2012			2011		
	Equity interest (in %)	Non-controlling interest (in EURk)	Share in profit or loss (in EURk)	Equity interest (in %)	Non-controlling interest (in EURk)	Share in profit or loss (in EURk)
Gorenje Podgorica, d.o.o., Montenegro	0.028	1	0	0.028	1	0
Gorenje Notranja oprema, d.o.o., Velenje	/	/	/	0.020	2	-1
Gorenje - kuchyne spol. s r.o., Czech Republic	/	/	/	0.020	0	0
ZEOS, d.o.o., Ljubljana	49.00	391	11	49.00	379	21
Gorenje Surovina, d.o.o., Maribor	0.016	4	0	0.016	3	0
»Euro Lumi & Surovina« SH.P.K., Kosovo	49.008	334	-2	49.008	335	62
ERICo, d.o.o., Velenje	49.00	642	21	49.00	621	17
Gorenje kuhinje, d.o.o., Ukraine	30.00	-39	-28	30.014	-11	-33
PUBLICUS, d.o.o., Ljubljana	49.008	565	227	49.008	339	138
Gorenje design studio, d.o.o., Velenje	48.00	162	1	48.00	162	-30
EKOGOR, d.o.o., Jesenice	0.016	0	0	54.00	-9	-33
Kemis, d.o.o., Vrhnika	0.016	1	0	0.016	1	0
KEMIS-Termoclean, d.o.o., Zagreb	0.016	0	0	0.016	0	0
Kemis-BH, d.o.o., Lukavac	0.016	0	0	0.016	0	0
Kemis-SRS, d.o.o., Doboj	0.016	0	0	0.016	0	0
Kemis Valjevo, d.o.o., Valjevo	0.016	0	0	0.016	0	0
Gorenje Ekologija, d.o.o., Stara Pazova	0.008	0	0	0.008	0	0
Cleaning sistem S, d.o.o.	49.008	287	8	/	/	/
ZEOS eko-sistem, d.o.o.	1.00	4	0	/	/	/
Total	**/**	**2,352**	**238**	**/**	**1,823**	**141**

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.

10. Discontinued operation

The Gorenje Group is in the process of discontinuing/disposing/restructuring its activities, which had a negative impact on the Group's profitability and the cash flow in the past, irrespective of all measures taken to improve the operations. In the last quarter of 2012, the furniture programme (Gorenje Notranja oprema, d.o.o. and Gorenje Kuhinje, d.o.o.) was therefore transferred to discontinued operation as assets held for sale and negotiations with possible buyers have been concluded in the first quarter of 2013.

In 2012, also sales organisations with long-lasting negative operations were included in the discontinued operation as it was estimated that no improvement can be achieved due to specifics of individual markets. In this way the awareness increased that poor operations in this current form should be discontinued and restructured.

The income statement, the balance sheet and the statement of cash flows of discontinued operation are outlined below.

Income statement – discontinued operation

EURk	2012	2011
Revenue	**25,896**	**35,600**
Change in inventories	-638	-514
Other operating income	1,180	1,958
Gross profit	**26,438**	**37,044**
Cost of goods, materials and services	-22,865	-28,564
Employee benefits expense	-10,196	-12,517
Amortisation and depreciation expense	-1,321	-1,851
Other operating expenses	-741	-1,273
Operating profit	**-8,685**	**-7,161**
Finance income	66	135
Finance expenses	-253	-177
Net finance expenses	**-187**	**-42**
Total profit or loss	-8,872	-7,203
Income tax expenses	-11	-126
Profit or loss for the period	**-8,883**	**-7,329**

Balance sheet – discontinued operation

EURk	2012
Assets included in disposal groups	**27,221**
Intangible assets	130
Property, plant and equipment	10,840
Investment property	689
Non-current investments	966
Deferred tax assets	135
Inventories	6,303
Current investments	78
Trade receivables	5,638
Other current assets	1,342
Cash and cash equivalents	1,100
Liabilities included in disposal groups	**8,322**
Provisions	1,530
Deferred tax liabilities	253
Non-current financial liabilities	150
Current financial liabilities	13
Trade payables	3,895
Other current liabilities	2,481

Statement of Cash Flows - discontinued operation

EURk	2012	2011
Net cash flow from operating activities	-8,155	-3,546
Net cash used in investing activities	-99	-1,035
Net cash used in financing activities	-898	-148
Net cash flow of discontinued operation	**-9,152**	**-4,728**

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11. Associates

In 2012, the Group's share in profits or losses of associates amounted to EUR -301k (2011: EUR – 9k).

Assets, liabilities, revenue and expenses of associates in 2012 are outlined below (overview of 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.	54	640	1	522	876	-862	-5	9
GGE, d.o.o.	1,699	1,859	1,213	1,736	2,117	-2,113	0	4
RCE, d.o.o.	4,158	5,338	1,718	4,723	4,087	-3,615	0	472
ENVI-TECH DOO, Beograd	9	111	0	61	174	-172	-1	1
Gorenje projekt, d.o.o.	40	5,639	70	4,908	17,956	-17,548	-38	370

Assets, liabilities, revenue and expenses of associates in 2011 are outlined below:

Družba / v TEUR	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.	60	474	6	365	780	-776	-1	3
GGE, d.o.o.	1,282	20	0	1,256	1	-106	0	-105
RCE, d.o.o.	725	6,275	354	4,075	504	-446	-12	46
ENVI-TECH DOO, Beograd	11	97	0	45	188	-187	0	1
Gorenje projekt, d.o.o.	1	5,011	0	4,680	2,014	-1,987	0	27

Note 12 – Revenue EUR 1,263,082k

EURk	2012	2011
Revenue from the sale of products and goods	1,202,688	1,307,966
Revenue from the sale of services	60,394	78,663
Total	**1,263,082**	**1,386,629**

Note 13 – Other operating income EUR 40,929k

EURk	2012	2011
Income from subsidies, donations and compensations	9,686	6,805
Rental income	1,513	1,143
Income from use and reversal of provisions	12,042	17,148
Income from use of deferred income relating to government grants	3,393	3,816
Gain on disposal of property, plant and equipment	1,654	2,667
Gain on disposal of investment property	365	0
Income from revaluation of investment property	2,984	0
Other operating income	9,292	18,985
Total	**40,929**	**50,564**

Major part of income from subsidies relates to the companies Gorenje AD Valjevo, d.o.o. and Gorenje Home, Zaječar, d.o.o. in connection with subsidies granted by the Serbian government for creating additional jobs and for building the required infrastructure i.e. unamortised part of the infrastructure investment and subsidised development projects of the parent company.

Income from use of deferred income relating to government grants in the amount of EUR 3,393k relates to Gorenje IPC, 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.

Other operating income includes mainly income from compensation for damages (EUR 1,416k), income arising from the implementation of the Directive on Waste Electrical and Electronic Equipment (EUR 512k), income from write-off of debts (EUR 46k), and other operating income (EUR 7,318k).

Rental income

EURk	2012	2011
Rental income – up to 1 year	560	520
Total	**560**	**520**

Note 14 – Cost of goods, materials and services EUR 946,215k

EURk	2012	2011
Cost of goods sold	230,046	332,732
Cost of materials	508,167	539,722
Cost of services	208,002	203,983
Total	**946,215**	**1,076,437**

Cost of services includes cost of provisions for warranties in the amount of EUR 22,682k (2011: EUR 19,776k) and cost of rentals in the amount of EUR 17,507k (2011: EUR 16,111k).

Note 15 – Employee benefits expense EUR 258,680k

EURk	2012	2011
Wages and salaries	197,109	194,453
Social security costs	34,749	34,872
Other employee benefits expense	26,822	24,008
Total	**258,680**	**253,333**

Other employee benefits expense includes cost of creation of provisions for retirement benefits and jubilee premiums in the amount of EUR 1,751k (2011: EUR 2,869k).

A part of employee benefits expense (EUR 3,618k) 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.		Average	
	2012	2011	2012	2011
Business Segment Home	9,507	9,514	9,672	9,677
Business Segment Ecology	630	597	618	592
Business Segment Portfolio Investments	593	609	605	663
Total	**10,730**	**10,720**	**10,895**	**10,932**

Note 16 – Amortisation and depreciation expense EUR 45,665k

EURk	2012	2011
Amortisation expense of intangible assets	6,479	6,302
Depreciation expense of property, plant and equipment	39,186	42,045
Total	**45,665**	**48,347**

A lower amortisation and depreciation expense in 2012 is due to a lower scope of investments made in the past three years, as well the extension of the service life of some of the major items of plant and equipment in 2010, 2011 and 2012 mostly in the production centres of the Business Segment Home. Effects of extending useful lives amounted to EUR 1.6m in 2012.

The service life of these items was extended based on estimations made during the regular valuation assessments.

Note 17 – Other operating expenses EUR 20,411k

EURk	2012	2011
Write-off of inventories to net realisable value	3,678	2,768
Disposal and impairment of assets	394	184
Other taxes and charges	3,099	3,334
Other operating expenses	13,240	18,017
Total	**20,411**	**24,303**

Other taxes and charges include 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 on ecology, of which the majority under the Directive on Waste Electrical and Electronic Equipment (EUR 6,758k) and compensation in damages (EUR 153k).

Note 18 – Net finance expenses EUR 30,416k

Finance income: EUR 6,806k

EURk	2012	2011
Dividend income from available-for-sale investments	116	127
Interest income	2,700	2,881
Change in fair value of interest rate swaps	357	0
Income from net exchange differences	1,149	0
Gain on disposal of subsidiaries	0	3,591
Gain on liquidation of subsidiary	0	3,747
Income from forward exchange transactions	39	246
Other finance income	2,445	4,472
Total	**6,806**	**15,064**

Finance expenses: EUR 37,222k

EURk	2012	2011
Interest expenses	22,163	23,365
Expenses on interest rate swap transactions	2,182	2,155
Expenses on net exchange differences	0	1,222
Change in fair value of forward exchange transactions	0	373
Impairment loss on available-for-sale investments	2,472	1,361
Impairment loss on trade receivables	7,610	6,689
Impairment loss on loans	0	91
Other finance expenses	2,795	5,154
Total	**37,222**	**40,410**

By the impairment of receivables and loans in the amount of EUR 7,610k (2011: EUR 6,780k), the fair value of trade receivables and loans is secured.

Impairment loss on investments in the amount of EUR 2,472k (2011: EUR 1,361k) relates to available-for-sale financial assets that were revalued to market value. Part of the impairment amount was transferred to fair value reserve (EUR 626k).

In compliance with the Companies Act, classification, formation and reversal of allowances, and collected written-off receivables are within the income statement defined as operating income or operating expenses. The Group estimates that the classification of the aforesaid as finance income or finance expenses is more appropriate since operating receivables are defined as non-derivative financial assets.

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Finance income and expenses recognised directly in other comprehensive income (net)

EURk	2012	2011
Net change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-2,349	-6,484
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	2,182	2,154
Net change in fair value of available-for-sale financial assets	-139	-108
Net change in fair value of available-for-sale financial assets transferred to profit or loss	626	0
Finance expenses recognised in other comprehensive income	**320**	**-4,438**
Finance expenses recognised in other comprehensive income attributable to equity holders of the parent	**320**	**-4,438**
Finance expenses recognised in other comprehensive income attributable to non-controlling interests	**0**	**0**

Note 19 – Income tax expense EUR 5,633k

Income tax expense is recorded by taking into account current tax liabilities, deferred tax assets, and deferred tax liabilities.

EURk	2012	2011
Current tax expense	4,223	5,568
Deferred tax expense	1,410	-3,688
Total	**5,633**	**1,880**

Effective income tax rates:

EURk	2012	2012	2011	2011
Profit before tax		**14,806**		**18,315**
Income tax using the domestic tax rate	18.0 %	2,665	20.0 %	3,663
Effect of tax rates in foreign jurisdictions	-5.3 %	-788	-9.1 %	-1,675
Non-deductible expenses	4.2 %	624	14.1 %	2,585
Tax exempt income	-2.4 %	-349	-9.9 %	-1,820
Tax reliefs	-5.3 %	-780	-8.0 %	-1,459
Tax losses of the current year for which deferred tax assets are not recognised	30.2 %	4,465	9.2 %	1,682
Other differences	-1.4 %	-204	-6.0 %	-1,096
Income tax expense	**38.0 %**	**5,633**	**10.3 %**	**1,880**

The following deferred tax amounts were recognised in other comprehensive income:

	2012		
EURk	Pre-tax amount	Tax	After-tax amount
Change in fair value of available-for-sale financial assets	-27	-112	-139
Change in fair value of available-for-sale financial assets transferred to profit or loss	626	0	626
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-2,220	-129	-2,349
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	2,182	0	2,182
Change in fair value of land	-995	765	-230
Foreign currency translation differences for foreign operations	-4,129	0	-4,129
Other comprehensive income	**-4,563**	**524**	**-4,039**

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EURk	2011		
	Pre-tax amount	Tax	After-tax amount
Change in fair value of available-for-sale financial assets	-135	27	-108
Change in fair value of available-for-sale financial assets transferred to profit or loss	0	0	0
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-7,499	1,015	-6,484
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	2,154	0	2,154
Change in fair value of land	-1	31	30
Foreign currency translation differences for foreign operations	1,148	0	1,148
Other comprehensive income	**-4,333**	**1,073**	**-3,260**

Note 20 – Intangible assets (IA) EUR 159,607k

EURk	2012	2011
Development costs	10,568	11,768
Industrial property rights	17,244	14,712
Trademark	61,964	61,964
Goodwill	68,653	68,653
Intangible assets under construction	1,178	1,523
Total	**159,607**	**158,620**

Intangible assets include mainly trademarks (Atag, Etna and Pelgrim), goodwill, deferred development costs, and 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. In addition, goodwill was established in 2008 in the amount of EUR 1,617k at the acquisition of the majority interest in PUBLICUS, d.o.o. 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 trademark

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 2013 and strategic business plan for the period from 2014 to 2016. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3.0% (2011: 3.0%) and the discount rate of 10.72% (2011: 13.31%).

The recoverable value of the cash-generating unit exceeds its carrying amount, including that of goodwill and trademarks Atag, Etna and Pelgrim. Therefore there was no need for impairment.

Impairment testing of goodwill arising from the acquisition of PUBLICUS, d.o.o. was carried out. The calculations are based on cash flow projections for PUBLICUS, d.o.o., which have been prepared on the basis of the adopted business plan for 2013 and strategic business plan for the period from 2014 to 2016. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 1.0% (2011: 3.5%) and the discount rate of 11.4% (2011: 10.5%).

The recoverable value of the cash-generating unit was determined to be not significantly lower from 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 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 2013 and strategic business plan for the period from 2014 to 2016. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 1.0% (2011: 4.5%) and the discount rate of 11.4% (2011: 10.5%).

The recoverable value of the cash-generating unit exceeds 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 Studio, d.o.o. was carried out. The calculations are based on cash flow projections for Gorenje Studio, d.o.o., which have been prepared on the basis of the adopted business plan for 2013 and strategic business plan for the period from 2014 to 2016. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 1.0% (2011: 0.0%) and the discount rate of 11.4% (2011: 10.5%).

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 cash flow projections for Gorenje Surovina, d.o.o., which have been prepared on the basis of the adopted business plan for 2013 and strategic business plan for the period from 2014 to 2016. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 1.0% (2011: 5.0%) and the discount rate of 11.4% (2011: 10.5%).

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.

Movements in intangible assets in 2012

EURk	Development costs	Industrial property rights	Trademark	Goodwill	Intangible assets under construction	Total
Cost at 1 Jan 2012	**31,662**	**32,526**	**61,964**	**68,653**	**1,523**	**196,328**
Acquisitions	1,740	3,612			1,865	**7,217**
Discontinued operation		-1,441				**-1,441**
Disposals, write-offs	-694	-1,826				**-2,520**
Other transfers	920	1,172			-2,214	**-122**
Exchange differences	36	782			4	**822**
Cost at 31 Dec 2012	**33,664**	**34,825**	**61,964**	**68,653**	**1,178**	**200,284**
Accumulated amortisation at 1 Jan 2012	**19,894**	**17,814**	**0**	**0**	**0**	**37,708**
Discontinued operation		-1,311				**-1,311**
Disposals, write-offs	-666	-1,806				**-2,472**
Amortisation	3,834	2,719				**6,553**
Other transfers		-41				**-41**
Exchange differences	34	206				**240**
Accumulated amortisation at 31 Dec 2012	**23,096**	**17,581**	**0**	**0**	**0**	**40,677**
Carrying amount at 1 Jan 2012	**11,768**	**14,712**	**61,964**	**68,653**	**1,523**	**158,620**
Carrying amount at 31 Dec 2012	**10,568**	**17,244**	**61,964**	**68,653**	**1,178**	**159,607**

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Movements in intangible assets in 2011

EURk	Development costs	Industrial property rights	Trademark	Goodwill	Intangible assets under construction	Total
Cost at 1 Jan 2011	**28,430**	**31,646**	**61,964**	**69,358**	**1,370**	**192,768**
Acquisitions	2,115	1,446			2,818	**6,379**
Disposal of Group companies	-58	-399		-705	-16	**-1,178**
Disposals, write-offs	-331	-1,068				**-1,399**
Other transfers	1,545	1,039			-2,644	**-60**
Exchange differences	-39	-138			-5	**-182**
Cost at 31 Dec 2011	**31,662**	**32,526**	**61,964**	**68,653**	**1,523**	**196,328**
Accumulated amortisation at 1 Jan 2011	**16,334**	**16,273**	**0**	**0**	**0**	**32,607**
Disposal of Group companies	-58	-212				**-270**
Disposals, write-offs	-257	-598				**-855**
Amortisation	3,921	2,510				**6,431**
Other transfers						
Exchange differences	-46	-159				**-205**
Accumulated amortisation at 31 Dec 2011	**19,894**	**17,814**	**0**	**0**	**0**	**37,708**
Carrying amount at 1 Jan 2011	**12,096**	**15,373**	**61,964**	**69,358**	**1,370**	**160,161**
Carrying amount at 31 Dec 2011	**11,768**	**14,712**	**61,964**	**68,653**	**1,523**	**158,620**

Note 21 – Property, plant and equipment (PPE) EUR 341,171k

EURk	2012	2011
Land	40,879	49,405
Buildings	144,625	165,814
Production and other equipment	118,341	133,190
Property, plant and equipment under construction	37,326	10,431
Total	**341,171**	**358,840**

Movements in property, plant and equipment in 2012

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2012	**49,405**	**320,521**	**580,218**	**10,431**	**960,575**
Acquisitions	24	2,354	13,459	37,690	53,527
Discontinued operation	-3,070	-10,182	-24,851		-38,103
Disposals, write-offs	-1,731	-11,890	-13,559	-111	-27,291
Transfer to investment property	-3,550	-11,680	-137		-15,367
Other transfers		2,047	-31,534	-10,762	-40,249
Exchange differences	-199	-768	1,202	78	313
Cost at 31 Dec 2012	**40,879**	**290,402**	**524,798**	**37,326**	**893,405**
Accumulated depreciation at 1 Jan 2012	**0**	**154,707**	**447,028**	**0**	**601,735**
Discontinued operation		-5,671	-21,592		-27,263
Disposals, write-offs		-4,507	-12,917		-17,424
Depreciation		8,570	31,863		40,433
Transfer to investment property		-7,707	-115		-7,822
Other transfers		39	-39,543		-39,504
Exchange differences		346	1,733		2,079
Accumulated depreciation at 31 Dec 2012	**0**	**145,777**	**406,457**	**0**	**552,234**
Carrying amount at 1 Jan 2012	**49,405**	**165,814**	**133,190**	**10,431**	**358,840**
Carrying amount at 31 Dec 2012	**40,879**	**144,625**	**118,341**	**37,326**	**341,171**

Most of investments in the amount of EUR 53,527k were made within the Business Segment Home. Investments increased over the previous period as a result of production-related restructuring activities. Major and most important investments made in 2012 include the new refrigeration appliance plant in Valjevo, the movement of the cooker manufacturing facilities from Finland to the Czech Republic, start of the movement of the production of washing machines, tumble dryers and dishwashers from Vara in Sweden to Velenje and most of the refrigerator-freezer production from Velenje to Valjevo.

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

The Group's land was valued as at 31 December 2008 by an independent certified valuer. Additional valuations in the following years showed that no requirements for revaluation of land and impairment of other items of property, plant and equipment exist. If land would be disclosed at cost, its carrying amount would be EUR 29,614k.

As at the reporting date, no financial liabilities were secured by mortgage on real property.

No borrowing costs were attributed to the items of property, plant and equipment in 2012.

Transfers include transfers from real property to investment property, transfers from intangible assets to property, plant and equipment, and transfers between individual items.

Movements in property, plant and equipment in 2011

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2011	**50,391**	**321,964**	**574,377**	**17,323**	**964,055**
Acquisitions	533	6,528	15,767	18,261	41,089
Disposal of Group companies	-649	-4,357	-7,015	-1,086	-13,107
Disposals, write-offs	-194	-4,419	-14,107	-92	-18,812
Elimination of impairment			2,000		2,000
Transfer to investment property	-858	-7,506			-8,364
Other transfers	304	9,330	8,837	-24,289	-5,818
Exchange differences	-122	-1,019	359	314	-468
Cost at 31 Dec 2011	**49,405**	**320,521**	**580,218**	**10,431**	**960,575**
Accumulated depreciation at 1 Jan 2011	**0**	**155,475**	**433,180**	**0**	**588,655**
Revaluation			333		333
Disposal of Group companies		-502	-1,507		-2,009
Disposals, write-offs		-1,545	-13,117		-14,662
Depreciation		8,642	35,125		43,767
Transfer to investment property		-7,072			-7,072
Other transfers		53	-6,741		-6,688
Exchange differences		-344	-245		-589
Accumulated depreciation at 31 Dec 2011	**0**	**154,707**	**447,028**	**0**	**601,735**
Carrying amount at 1 Jan 2011	**50,391**	**166,489**	**141,197**	**17,323**	**375,400**
Carrying amount at 31 Dec 2011	**49,405**	**165,814**	**133,190**	**10,431**	**358,840**

Note 22 – Investment property EUR 23,276k

EURk	2012	2011
Land	12,081	8,218
Buildings	11,195	7,001
Total	**23,276**	**15,219**

Investment property includes land and buildings acquired for resale or increase in investments. Investment property is measured using the fair value model.

Decrease refers to to the sale of investment property, which was obtained from Gorenje Tiki, d.o.o. – in liquidation, and to sale of apartments by the parent company.

Movements in investment property

EURk	2012	2011
Opening balance at 1 January	**15,219**	**4,518**
Increase	0	9,722
Revaluation	3,387	0
Decrease	-2,186	-312
Discontinued operation	-689	0
Transfer from property, plant and equipment	7,545	1,292
Transfer to property, plant and equipment	0	-1
Closing balance at 31 December	**23,276**	**15,219**

Note 23 – Non-current investments EUR 7,193k

EURk	2012	2011
Loans (1 to 5 years)	6,354	1,056
Deposits	14	74
Other investments	825	843
Total	**7,193**	**1,973**

Increase in loans relates to the changed maturity structure of existing loans of Gorenje Beteiligungs GmbH.

Movements in loans

EURk	2012	2011
Opening balance at 1 January	**1,056**	**4,269**
Exchange differences	3	-9
Increase	6,287	11
Decrease	-32	-94
Disposal of IG Group	0	-2,755
Discontinued operation	-960	0
Transfer to current investments	0	-366
Closing balance at 31 December	**6,354**	**1,056**

The item of loans includes loans extended by the parent company and its subsidiaries to non-group companies. The interest rate, which depends on the currency in which the loan is denominated, ranged from 3.787 percent to 13.0 percent.

Note 24 – Investments in associates EUR 1,298k

EURk	Equity share	2012	2011
Gorenje Projekt, d.o.o., Velenje	50.00%	339	154
GGE, d.o.o., Ljubljana	33.33%	167	165
RCE, d.o.o., Velenje	24.00%	724	611
Econo Projektiranje, d.o.o., Ljubljana	26.00%	38	36
ENVI-TECH DOO, Belgrade	25.995%	30	30
Total		**1,298**	**996**

Note 25 – Deferred tax assets and liabilities

Deferred taxes are recognised using the liability method and the tax rate, applicable in the country in which the respective Group company is domiciled.

EURk	Tax assets		Tax liabilities		Tax assets – tax liabilities	
	2012	2011	2012	2011	2012	2011
PPE	235	33	4,773	5,152	-4,538	-5,119
Investments	1,925	1,425	76	-46	1,849	1,471
Receivables	1,208	2,104	36	68	1,172	2,036
Inventories	69	184	-71	-104	140	288
Liabilities from litigations	0	0	0	0	0	0
Provisions in lines with local standards and tax laws	631	471	68	150	563	321
Provisions for retirement benefits and jubilee premiums	2,571	2,870	0	0	2,571	2,870
Provisions for warranties	1,439	2,246	-123	-22	1,562	2,268
Unused tax losses	7,160	7,880	-176	704	7,336	7,176
Unused tax incentives	2,405	2,457	94	81	2,311	2,376
Cash flow hedge - interest rate swaps	912	1,027	0	0	912	1,027
Changes within Group	0	0	-58	-50	58	50
Discontinued operation	-135	0	-253	0	118	0
Total	**18,420**	**20,697**	**4,366**	**5,933**	**14,054**	**14,764**

EURk	Tax assets – tax liabilities		Through profit or loss		Through comprehensive income	
	2012	2011	2012	2011	2012	2011
PPE	-4,538	-5,119	247	-20	765	31
Investments	1,849	1,471	490	-601	-112	27
Receivables	1,172	2,036	-493	523	0	0
Inventories	140	288	-61	-30	0	0
Liabilities from litigations	0	0	0	0	0	0
Provisions in lines with local standards and tax laws	563	321	140	-4	0	0
Provisions for retirement benefits and jubilee premiums	2,571	2,870	-712	-74	0	0
Provisions for warranties	1,562	2,268	-624	-179	0	0
Unused tax losses	7,336	7,176	-425	2,168	0	0
Unused tax incentives	2,311	2,376	-15	595	0	0
Cash flow hedge - interest rate swaps	912	1,027	0	0	-129	1,015
Changes within Group	58	50	0	1,216	0	0
Discontinued operation	118	0	43	94	0	0
Total	**14,054**	**14,764**	**-1,410**	**3,688**	**524**	**1,073**

In 2012, Group companies recognised deferred tax assets and deferred tax liabilities.

Note 26 – Inventories EUR 247,365k

	2012				2011			
EURk	Home	Ecology	Portfolio investments	Total	Home	Ecology	Portfolio investments	Total
Materials	57,683	1,577	548	59,808	64,982	1,571	3,851	70,404
Work in progress	11,073	0	2,513	13,586	12,798	0	2,682	15,480
Products	134,295	1	123	134,419	123,057	0	1,576	124,633
Merchandise	35,674	3	2,391	38,068	30,360	17	2,363	32,740
Advances	1,405	58	21	1,484	2,166	177	8	2,351
Total	**240,130**	**1,639**	**5,596**	**247,365**	**233,363**	**1,765**	**10,480**	**245,608**

In 2012, allowances for inventories and inventory write-offs amounted to EUR 3,678k (2011: EUR 2,768k). Allowances for inventories and write-off of inventories to net realisable value were recorded under other operating expenses.

Advances include advances for inventories of raw materials and materials.

The carrying amount of inventories of products, of which production costs were adjusted to net realisable value, amounted to EUR 27,008k.

Note 27 – Current investments EUR 32,769k

EURk	2012	2011
Available-for-sale investments	15,065	16,692
Short-term deposits	3,427	2,916
Loans	13,918	21,883
Transfer from non-current loans	0	366
Interest receivable	359	344
Other current receivables from financing activities	0	116
Total	**32,769**	**42,317**

Loans include cash surplus deposited in short-term time deposits with banks and entities. The interest rate for bank deposits and loans ranges from 2.9 percent to 9.7 percent.

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Movements in available-for-sale shares and interests

EURk	2012	2011
Opening balance at 1 January	**16,692**	**11,940**
Exchange differences	29	-18
Increase	337	6,033
Decrease	-10	-108
Change in fair value	-1,824	-1,155
Discontinued operation	-159	0
Closing balance at 31 December	**15,065**	**16,692**

Impairment loss in the amount of EUR 2,472k is recorded among finance expenses, a part of whereof was transferred from fair value reserve (EUR 626k). Impairment in the amount of EUR 27k is disclosed as net change in fair value within the statement of comprehensive income.

Note 28 – Trade receivables EUR 218,516k

In 2012, write-off and impairment of trade receivables amounted to EUR 7,610k (2011: EUR 6,689k).

As at 31 December 2012, allowances for receivables amounted to EUR 24,682k (2011: EUR 22,981k). The changes in allowances for trade receivables are discussed in Note 40 (Financial instruments).

Note 29 – Other current assets EUR 63,274k

EURk	2012	2011
Other short-term receivables	45,516	24,751
Short-term advances and collaterals given	1,800	2,304
Short-term deferred costs	11,857	18,858
Other current assets	4,101	2,833
Total	**63,274**	**48,746**

The item of other current receivables includes an important part of the Group's input VAT receivable, which by the end of 2012 amounted to EUR 15,096k (2011: EUR 15,523k). The increase was attributable also to the retained part of the payment referring to repurchased receivables in Gorenje Vertriebs GmbH (EUR 8,854k).

Major part of other current assets includes accrued receivables, whereas short-term deferred costs include costs of services billed but not yet provided.

Note 30 – Cash and cash equivalents EUR 53,488k

EURk	2012	2011
Cash in hand	436	457
Cash balances in banks and other financial institutions	53,052	101,163
Total	**53,488**	**101,620**

Note 31 – Equity EUR 392,145k

As at 31 December 2012, the share capital of Gorenje, d.d. amounted to EUR 66,378,217.32 (31 December 2011: EUR 66,378,217.32) and was divided into 15,906,876 ordinary, freely transferable, registered, no par value shares.

Capital surplus (share premium) in the amount of EUR 175,575k includes paid-in capital in excess of par value of shares in the amount of EURk 64,352k, surplus in excess of book value of disposed own shares in the amount of EUR 15,313k (1,070,000 own shares were disposed in 2008 in order to acquire the ATAG company), and general equity revaluation adjustment in the amount of EUR 78,048k transferred upon the transition to IFRSs.

Legal and statutory reserves in the amount of EUR 22,719k include legal reserves in the amount of EUR 12,895k (31 December 2011: EUR 12,895k), reserves for own shares in the amount of EUR 3,170k (31 December 2011: EUR 3,170k), and statutory reserves in the amount of EUR 6,654k (31 December 2011: EUR 6,654k).

Compared to 2011, the translation reserve declined by EUR 4,129k and as at the reporting date amounted to EUR 5,861k. The decrease is due to exchange differences arising from the translation of individual items in the financial statements of foreign operations from the national currencies to the Group's reporting currency.

Own shares in the amount of EUR 3,170k are stated as a deductible item of equity and recorded at cost.

Changes in the fair value reserve are shown in the table below:

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EURk	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Total
Balance at 1 January 2012	**9,872**	**3,392**	**-4,378**	**8,886**
Revaluation of land				
Transfer of land	-995			-995
Change in fair value of cash flow hedge			-2,220	-2,220
Change in fair value of cash flow hedge, transferred to profit or loss			2,182	2,182
Change in fair value of available-for-sale financial assets		-27		-27
Disposal of available-for-sale financial assets		626		626
Impairment of available-for-sale financial assets				
Disposal of subsidiary				
Acquisition of non-controlling interest				
Deferred taxes	765	-112	-129	524
Balance at 31 Dec 2012	**9,642**	**3,879**	**-4,545**	**8,976**

EURk	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Total
Balance at 1 January 2011	**9,842**	**3,500**	**-48**	**13,294**
Revaluation of land				
Transfer of land	-1			-1
Change in fair value of cash flow hedge			-7,499	-7,499
Change in fair value of cash flow hedge, transferred to profit or loss			2,154	2,154
Change in fair value of available-for-sale financial assets		-135		-135
Disposal of available-for-sale financial assets				
Impairment of available-for-sale financial assets				
Disposal of subsidiary				
Acquisition of non-controlling interest				
Deferred taxes	31	27	1,015	1,073
Balance at 31 Dec 2011	**9,872**	**3,392**	**-4,378**	**8,886**

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Note 32 – Earnings per share

Earnings per share amounted in 2012 to EUR 0.00 (2011: EUR 0.57). No preference shares have been issued, hence basic and diluted earnings per share are equal.

To determine earnings per share, the following data on the Group's profit for the period and the weighted average number of ordinary shares was used:

2012	(EURk)
Profit for the period	52
Weighted average number of ordinary shares	15,785,565
Basic / Diluted earnings per share (in EUR)	0.00

2011	(EURk)
Profit for the period	8,965
Weighted average number of ordinary shares	15,785,565
Basic / Diluted earnings per share (in EUR)	0.57

All issued shares are of the same class and give their owner the right to participate in the management of the company. Each share gives one vote and a right to dividend.

In 2012, shareholders were paid dividends in the amount of EUR 0.15 gross per share.

Note 33 – Provisions EUR 65,020k

EURk	2012	2011
Provisions for warranties	38,645	43,837
Provisions for retirement benefits and jubilee premiums	21,749	23,990
Other provisions	4,626	8,494
Total	**65,020**	**76,321**

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. Reversal of provisions for warranties has been carried out in 2012 as a result of a better quality level and due to a lower scope of operations in the past three years.

Provisions for retirement benefits and jubilee premiums were created on the basis of the actuarial calculation of estimated future payments of retirement benefits and jubilee premiums, which was made as at 31 December 2012. The actuarial calculation was based on the following assumptions:

- a discount rate of 4.60% in December 2012 representing the rate of return on 10-year entrepreneurial bonds with high credit rating in the euro zone;
- current retirement benefits and jubilee premiums as defined in the internal acts of individual companies or in the national regulations;
- an employee turnover depending in particular on the employee's age;
- a mortality rate stated in the latest available mortality tables of the local population;
- an increase in wages and salaries due to adjustment for inflation and career promotion.

Actuarial deficits or surpluses occurring in connection with retirement benefits and jubilee premiums are recognised in the income statement as expense (income).

Other provisions include primarily provisions for costs in connection with the Directive on Waste Electrical and Electronic Equipment recorded by ZEOS, d.o.o., and provisions for compensation claims arising from legal actions brought against Gorenje, d.d. Major part of reversed provisions (EUR 3,897k) refers to provisions created in 2010 for costs relating to the restructuring activities for the Asko Group.

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Movements in provisions in 2012

EURk	Balance 1 Jan 2012	Use	Exchange differences	Reversal	Creation	Discontinued operations	Balance at 31 Dec 2012
Provisions for warranties	43,837	-20,458	-81	-6,830	22,682	-505	38,645
Provisions for retirement benefits and jubilee premiums	23,990	-1,964	119	-1,287	1,751	-860	21,749
Other provisions	8,494	-1,694	27	-4,157	2,121	-165	4,626
Total	**76,321**	**-24,116**	**65**	**-12,274**	**26,554**	**-1,530**	**65,020**

Movements in provisions in 2011

EURk	Balance 1 Jan 2011	Use	Exchange differences	Reversal	Creation	Disposal of companies	Balance at 31 Dec 2011
Provisions for warranties	50,261	-16,395	176	-9,981	19,776	0	43,837
Provisions for retirement benefits and jubilee premiums	22,687	-1,192	42	-342	2,869	-74	23,990
Other provisions	15,219	-6,384	23	-2,755	2,391	0	8,494
Total	**88,167**	**-23,971**	**241**	**-13,078**	**25,036**	**-74**	**76,321**

Note 34 – Deferred income EUR 3,145k

EURk	Balance 1 Jan 2012	Depreciation	Creation	Balance 31 Dec 2012
Deferred income - government grants	617	-3,393	5,921	3,145
Total	**617**	**-3,393**	**5,921**	**3,145**

EURk	Balance 1 Jan 2011	Depreciation	Creation	Balance 31 Dec 2011
Deferred income - government grants	866	-3,816	3,567	617
Total	**866**	**-3,816**	**3,567**	**617**

Note 35 – Non-current financial liabilities EUR 276,880k

EURk	2012	2011
Borrowings from banks	299,017	303,476
Transfer to current borrowings from banks	-85,145	-85,078
Borrowings from third parties	82,370	103,035
Transfer to current borrowings from third parties	-20,667	-20,657
Other financial liabilities	1,305	1,683
Total	**276,880**	**302,459**

Financial liabilities by maturity	EURk
Maturity from 1 to 2 years	129,320
Maturity from 2 to 4 years	119,118
Maturity from 4 to 6 years	21,441
Maturity from 6 to 9 years	5,696
Total	**275,575**

Interest-bearing borrowings

		Interest rate	
Currency	Value in EURk	from	to
EUR	275,575	0.82%	12.5%
Total	**275,575**		

The effective interest rate does not deviate essentially from the contractual interest rate.

Collateralisation	EURk
Bills	97,622
Financial covenants	270,057
Guarantees	100,357

Certain non-current borrowings are simultaneously secured by several forms of collateralisation. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje Beteiligungs GmbH to the commercial banks to secure liabilities of the Group companies.

Note 36 – Current financial liabilities EUR 155,846k

EURk	2012	2011
Borrowings from banks	42,917	62,866
Transfer from non-current financial liabilities to banks	85,145	85,078
Borrowings from third parties	1,372	1,187
Transfer from non-current financial liabilities to third parties	20,667	20,658
Interest payable	281	461
Dividends payable	149	184
Derivatives	5,315	5,527
Other financial liabilities	0	5,688
Total	**155,846**	**181,649**

As at 31 December 2012, forward exchange contracts were concluded by Gorenje, d.d. in the value of hedged items totalling EUR 6,026k. The forward exchange contracts were used in the financial year 2012 to hedge against a change in the foreign exchange rate of EUR/USD. At the year end, hedging of the EUR/USD exchange rate was recorded. Maturities of the forward exchange contracts are short-term (up to one year).

The total value of hedged items recorded by Gorenje, d.d. as at 31 December 2012, for which interest rate swap contracts were concluded, amounted to EUR 119,724k. The interest rate swap contracts are used to hedge against the fluctuation of the variable EURIBOR interest rate. Maturities of the interest rate swap contracts are long-term, i.e. progressively until 15 June 2016.

The total value of current financial liabilities relating to valuation of derivatives at fair value amounted to EUR 5,315k as at the year-end 2012. The fair value of interest rate swaps amounted to EUR 5,279k, whereas the remaining amount of EUR 36k includes the current financial liability from forward exchange transactions revalued at fair value.

Current borrowings from banks			Interest rate	
Currency	Value in currency (in 000)	Value in EURk	from	to
EUR	123,949	123,949	0.82%	8.94%
CZK	87,853	3,493	1.40%	1.53%
CHF	6	5	12.50%	12.50%
RSD	64,451	568	15.25%	15.25%
UAH	500	47	19.70%	19.70%
Total		**128,062**		

Current borrowings from third parties			Interest rate	
Currency	Value in currency (in 000)	Value in EURk	from	to
EUR	22,039	22,039	1.19%	4.57%
Total		**22,039**		

The effective interest rate does not significantly deviate from the contractual interest rate.

Collateralisation	EURk
Bills	83,279
Financial covenants	93,087
Guarantees	88,075

Collateralisation of non-current and current financial liabilities

A significant portion of Group's borrowings is collateralised by bills and the Pari-Passu and Negative Pledge clauses, as stipulated in individual contracts, and partly also by financial covenants. Certain borrowings are simultaneously secured by several types of collaterals.

The item of guarantees includes the guarantee issued to banks by Gorenje, d.d., Gorenje Beteiligungs GmbH, Gorenje Nederland B.V. in Gorenje Surovina d.o.o. in connection with liabilities of the Group companies.

The loan contracts concluded with banks include financial covenants that are expected to be fully met in the financial year. The covenants are reviewed on the basis of the audited consolidated financial statements for the respective financial year. A portion of financial covenants relating to the borrowing from the International Finance Corporation (IFC) are reviewed on a three-month basis.

Because of the expected breach of financial covenants, Group companies applied at the year end 2012 to its bank partners for waiver of financial covenants requiring consolidated financial statements for 2012. Waivers were approved by all bank partners for all credit lines and guarantee transactions secured by financial covenants. The waiver of financial covenants applies to the financial year 2012.

In 2012, the parent company also applied to the International Financial Corporation IFC for waiver of financial covenants requiring quarterly interim reports for 2012, and the waiver for the borrowing was approved by the IFC.

Note 37 – Trade payables EUR 212,430k

As at 31 December 2012, the item of trade payables recorded by the Group in the amount of EUR 212,430k does not include any payables to the members of the Management Board and Supervisory Board and the internal owners.

Note 38 – Other current liabilities EUR 77,962k

EURk	2012	2011
Payables to employees	15,058	17,701
Payables to state	10,795	13,604
Accrued costs and expenses	34,925	39,365
Other current liabilities	17,184	20,136
Total	**77,962**	**90,806**

Payables to employees and contributions and taxes payable to state institutions relate to wages and salaries for December paid in January 2013.

Accrued costs and expenses were created for accrued costs of discounts, accrued interest expense, and other accrued costs of services.

Note 39 – Contingent liabilities

The Group's contingent liabilities from guarantees and collaterals given to financial institutions and companies outside Gorenje Group amounted to EUR 23,574k as at the reporting date.

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 40 – Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum credit risk exposure at the reporting date:

EURk	2012	2011
Available-for-sale financial assets	15,065	16,692
Loans	20,272	23,306
Trade and other receivables	269,932	285,799
Deposits	3,441	2,990
Other receivables from financing activities	1,184	1,302
Cash and cash equivalents	53,488	101,620
Total	**363,382**	**431,709**

The maximum credit risk exposure of trade receivables at the reporting date by geographic region:

EURk	2012	2011
Western Europe	58,321	93,889
Eastern Europe	154,827	158,947
Other countries	5,368	3,075
Total	**218,516**	**255,911**

The maximum credit risk exposure of trade receivables at the reporting date by type of customer:

EURk	2012	2011
Wholesale customers	189,435	191,163
Retail customers	22,380	56,170
Other customers	6,701	8,578
Total	**218,516**	**255,911**

Maturity of trade receivables at the reporting date:

EURk	Gross value 2012	Allowance 2012	Gross value 2011	Allowance 2011
Not past due	176,015		201,056	
Past due 1 to 45 days	26,124		21,609	
Past due 46 to 90 days	6,444		7,997	
Past due 91 to 180 days	3,349		6,024	
Past due over 180 days	31,266	24,682	42,206	22,981
Total	**243,198**	**24,682**	**278,892**	**22,981**

Movements in allowances for trade receivables:

EURk	2012	2011
Opening balance at 1 January	22,981	23,142
Exchange differences	-86	-185
Impairment loss	7,610	6,794
Decrease in allowances – payment of receivables	-859	-2,786
Final write-off of receivables	-4,277	-3,540
Discontinued operation	-687	-444
Closing balance of 31 December	**24,682**	**22,981**

Liquidity risk

Financial liabilities by maturity:

31 December 2012

EURk	Book value	Contractual cash flow	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	341,934	370,950	142,543	113,949	106,825	7,633
Borrowings from third parties	83,742	91,003	25,182	24,493	40,286	1,042
Other financial liabilities	1,735	1,917	994	254	319	350
Trade and other payables	255,467	255,467	255,467			
Total	**682,878**	**719,337**	**424,186**	**138,696**	**147,430**	**9,025**
Derivative financial liabilities						
Interest rate swaps	-5,279	-5,467	-2,465	-1,939	-1,063	
Forward exchange contracts used for hedging	-36	-36	-36			
Outflow	-36	-36	-36			
Inflow						
Other forwards exchange contracts						
Outflow						
Inflow						
Total	**-5,315**	**-5,503**	**-2,501**	**-1,939**	**-1,063**	

31 December 2011

EURk	Book value	Contractual cash flow	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	366,342	404,296	165,466	72,757	165,627	446
Borrowings from third parties	104,223	119,172	27,150	24,710	66,230	1,082
Other financial liabilities	8,016	8,379	6,829	416	619	515
Trade and other payables	245,689	245,689	245,689			
Total	**724,270**	**777,536**	**445,134**	**97,883**	**232,476**	**2,043**
Derivative financial liabilities						
Interest rate swaps	-5,134	-4,508	-1,896	-1,196	-1,416	
Forward exchange contracts used for hedging	-393	-393	-393			
Outflow	-393	-393	-393			
Inflow						
Other forwards exchange contracts						
Outflow						
Inflow						
Total	**-5,527**	**-4,901**	**-2,289**	**-1,196**	**-1,416**	

Currency risk

Group's exposure to currency risk:

31 December 2012

EURk	EUR	HRK	DKK	PLN	RSD	CZK	Other
Trade receivables	111,767	17,481	6,232	6,917	13,094	8,624	54,401
Financial liabilities (borrowings)	-421,489				-568	-3,493	-126
Trade payables	-176,115	-2,177	-1,953	-1,384	-8,896	-5,085	-16,820
Financial position exposure	**-485,837**	**15,304**	**4,279**	**5,533**	**3,630**	**46**	**37,455**
Forward exchange contracts							6,026
Net exposure	**-485,837**	**15,304**	**4,279**	**5,533**	**3,630**	**46**	**43,481**

31 December 2011

EURk	EUR	HRK	DKK	PLN	RSD	CZK	Other
Trade receivables	142,638	28,698	8,074	6,212	13,724	8,529	48,036
Financial liabilities (borrowings)	-454,555		-3,651		-64	-8,345	-3,950
Trade payables	-164,447	-1,665	-2,036	-1,565	-5,009	-4,597	-14,929
Financial position exposure	**-476,364**	**27,033**	**2,387**	**4,647**	**8,651**	**-4,413**	**29,157**
Forward exchange contracts							7,600
Net exposure	**-476,364**	**27,033**	**2,387**	**4,647**	**8,651**	**-4,413**	**36,757**

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
HRK	7.521	7.438	7.558	7.537
CZK	25.146	24.589	25.151	25.787
DKK	7.444	7.451	7.461	7.434
RSD	112.996	101.910	113.390	103.630
PLN	4.184	4.119	4.074	4.458

Sensitivity analysis

A 5 percent increase 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 for the period 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 2011.

	EURk
31 December 2012	Profit or loss for the period
HRK	-765
DKK	-214
PLN	-277
RSD	-182
CZK	-2
Other currencies	-3,856

	EURk
31 December 2011	Profit or loss for the period
HRK	-1,352
DKK	-119
PLN	-232
RSD	-433
CZK	221
Other currencies	-779

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.

Interest-rate risk

Group's exposure to interest rate risk:

EURk	2012	2011
Fixed rate financial instruments		
Financial assets	6,168	6,472
Financial liabilities	50,250	64,892
Variable rate financial instruments		
Financial assets	15,064	16,833
Financial liabilities	375,427	405,673

Fair value sensitivity analysis for fixed rate instruments

No fixed rate financial instruments at fair value through profit or loss and no derivatives designated as fair value hedge are recorded by the Group. Therefore a change in the interest rate at the reporting date would not have any impact on profit or loss for the period.

Fair value sensitivity analysis for variable rate instruments

A change in the interest rate by 50 basis points (bp) at the reporting date would have increased (decreased) profit or loss for the period 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 2011.

	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
31 December 2012				
Variable rate instruments	-3,997	3,997	-	-
Interest rate swap contracts	712	-712	728	-728
Cash flow variability (net)	**-3,285**	**3,285**	**728**	**-728**
31 December 2011				
Variable rate instruments	-4,707	4,707	-	-
Interest rate swap contracts	526	-526	1,499	-1,499
Cash flow variability (net)	**-4,181**	**4,181**	**1,499**	**-1,499**

Note 41 – Fair value

Fair values and book values of assets and liabilities:

EURk	Book value 2012	Fair value 2012	Book value 2011	Fair value 2011
Available-for-sale investments	15,065	15,065	16,692	16,692
Non-current loans and deposits	6,368	6,368	1,130	1,130
Current loans and deposits	17,704	17,704	25,509	25,509
Derivatives	-5,315	-5,315	-5,527	-5,527
Trade receivables	218,516	218,516	255,911	255,911
Other current assets	51,417	51,417	29,888	29,888
Cash and cash equivalents	53,488	53,488	101,620	101,620
Non-current financial liabilities	-260,882	-260,882	-270,792	-270,792
Non-current financial liabilities (fixed interest rate)	-15,998	-10,453	-31,667	-27,176
Current financial liabilities	-150,531	-150,531	-176,122	-176,122
Trade payables	-212,430	-212,430	-194,248	-194,248
Other payables	-43,037	-43,037	-51,441	-51,441
Total	**-325,635**	**-320,090**	**-299,047**	**-294,556**

Available-for-sale investments are valued at fair value on the basis of market prices.

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Fair value scale

The table shows method of valuing financial assets 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 2012

(EURk)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	994	92	13,979	15,065
Derivatives - assets	-	-	-	-
Derivatives - liabilities	-	-5,315	-	-5,315

Year 2011

(EURk)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	810	-	15,882	16,692
Derivatives - assets	-	-	-	-
Derivatives - liabilities	-	-5,527	-	-5,527

Forward exchange contracts

The total fair value of forward exchange contracts amounted to EUR -36k as at 31 December 2012 and was recorded under other financial liabilities.

Interest rate swaps

The total fair value of interest rate swaps as at 31 December 2012 amounted to EUR -5,279k and was recorded under other financial liabilities.

Interest rate swap hedges, which relate to hedged balance sheet items, are recorded in equity in the fair value reserve.

Note 42 – Commitments relating to investments

Contractually agreed investments in intangible assets and property, plant and equipment not yet recognised in the financial statements at the reporting date amounted to EUR 7,996k (2011: EUR 3,568k).

Note 43 – 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 earnings

In **2012**, 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 ind. employment agreements
Salaries	7,794	-	8,597
Benefits and other earnings	651	175	1,009
Total	**8,445**	**175**	**9,606**

No non-current and current loans were granted by the Group companies to the Management Board and Supervisory Board members and internal owners.

In **2011**, 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 ind. employment agreements
Salaries	7,911	-	8,509
Benefits and other earnings	895	142	850
Total	**8,806**	**142**	**9,359**

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Gorenje Group companies record following transactions with associates:

EURk	Value of transaction		Balance	
	2012	2011	2012	2011
Revenue				
Gorenje Group companies	2,536	272	748	74
Expenses				
Gorenje Group companies	731	251	449	111

Note 44 – Events after the balance sheet date

- The Supervisory Board of Gorenje, d.d. held a session on 11 January 2013 and endorsed the proposal by Mr. Franjo Bobinac as the company President and CEO, and by the Supervisory Board's Remuneration Committee on the appointment of the remaining Management Board members for the term 2013–2018. The Management Board in this term will consist of current Management Board members except Mr. Uroš Marolt who will remain with the Gorenje Group. The Management Board will commence its new term on 19 July 2013.
- As of 27 February 2013, Gorenje signed an agreement with CoBe Capital, a global private investment firm engaged in managing non-core and underperforming business units, for the sale of the companies Gorenje Kuhinje and Gorenje Notranja oprema, thus withdrawing from the furniture manufacturing segment. Manufacturing operations in Maribor, Velenje and Nazarje will be maintained under the new owner, which means that jobs will be kept in the future. Furthermore, the kitchen furniture produced by the companies under the new owner will remain a part of Gorenje's offer of home products. The disposal of both companies in the furniture segment will improve the Gorenje Group's profitability and increase the balance of free cash flow.

Note 45 – Transactions with the audit company

The costs of the audit of the financial statements of the Gorenje Group companies and the consolidated financial statements of the Gorenje Group amounted to EUR 801k (2011: EUR 907k). The auditors of all entities of the Gorenje Group did not provide any other services for Group companies.

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Note 46 – Business segments

EURk	Home		Ecology		Portfolio Investments		Group	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue from sale to third parties	1,071,279	1,053,369	97,346	113,406	94,457	219,854	1,263,082	1,386,629
Inter-segment sale	3,492	4,250	1,097	1,135	8,079	9,297	12,668	14,682
Interest income	2,494	2,572	187	55	19	254	2,700	2,881
Interest expenses	21,584	22,111	459	787	120	467	22,163	23,365
Amortisation and depreciation expense	40,369	42,643	3,768	3,840	1,528	1,864	45,665	48,347
Profit before tax	6,704	14,564	3,088	3,026	5,014	725	14,806	18,315
Income tax expense	4,719	1,050	630	510	284	320	5,633	1,880
Profit or loss for the period	-6,898	6,185	2,458	2,516	4,730	405	290	9,106
Total assets	1,094,573	1,148,383	72,303	69,174	30,448	34,101	1,197,324	1,251,658
Total liabilities	762,003	806,670	29,704	32,089	13,472	15,079	805,179	853,838
Investments	54,573	42,433	4,176	3,692	1,995	1,343	60,744	47,468
Impairment of financial assets	2,461	1,312	11	49	0	0	2,472	1,361
Impairment of property, plant and equipment	140	46	65	10	11	0	216	56

Note 47 – Geographical segments

EURk	Western Europe		Eastern Europe		Other		Group	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue from sale to third parties	480,919	506,040	681,945	785,630	100,218	94,959	1,263,082	1,386,629
Total assets	397,860	400,111	709,921	780,841	89,543	70,706	1,197,324	1,251,658
Investments	9,628	8,372	47,904	36,857	3,212	2,239	60,744	47,468

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Gorenje, d.d., Velenje and its subsidiaries (the Gorenje Group), which comprise the consolidated balance sheet as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Gorenje Group as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj
Certified Auditor

Jason Stachurski
Partner

Ljubljana, 9 April 2013

KPMG Slovenija, d.o.o.
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Appendix 1: Information on the Gorenje Group companies

Companies	Share capital (EURk)	Number of employees
Gorenje, d.d., Slovenia	66,378	4,268
Gorenje I.P.C., d.o.o., Slovenia	93	792
Gorenje GTI, d.o.o., Slovenia	3,769	56
Gorenje Notranja oprema, d.o.o., Slovenia	160	171
Gorenje Gostinstvo, d.o.o., Slovenia	3,790	170
Energygor, d.o.o., Slovenia	9	0
Kemis, d.o.o., Slovenia	2,650	31
Gorenje Orodjarna, d.o.o., Slovenia	927	212
Indop, d.o.o., Slovenia	1,000	6
ZEOS, d.o.o., Slovenia	477	4
Gorenje Surovina, d.o.o., Slovenia	9,402	323
ERICo, d.o.o., Slovenia	278	53
Gorenje design studio, d.o.o., Slovenia	500	21
PUBLICUS, d.o.o., Slovenia	897	98
EKOGOR, d.o.o., Slovenia	50	0
Gorenje GAIO, d.o.o., Slovenia	1,000	87
Gorenje GSI, d.o.o., Slovenia	4,657	77
Gorenje Kuhinje, d.o.o., Slovenia	3,606	227
Gorenje Keramika, d.o.o., Slovenia	69	105
Gorenje Beteiligungs GmbH, Austria	26,600	5
Gorenje Austria Handels GmbH, Austria	3,275	56
Gorenje Vertriebs GmbH, Germany	5,700	67
Gorenje Körting Italia S.r.l., Italy	90	7
Gorenje France S.A.S., France	3,225	29
Gorenje Belux S.a.r.l., Belgium	19	5
Gorenje UK Ltd., Great Britain	368	14
Gorenje Group Nordic A/S, Denmark	2,388	72
Gorenje AB, Sweden	233	6
Gorenje spol. s r.o., Czech Republic	4,877	42
Gorenje real spol. s r.o., Czech Republic	10,338	28
Gorenje Slovakia s.r.o., Slovak Republic	1,892	32
Gorenje Budapest Kft., Hungary	2,446	24
Gorenje Polska Sp. z o.o., Poland	8,529	39
Gorenje Bulgaria EOOD, Bulgaria	3,175	18
Gorenje Zagreb, d.o.o., Croatia	14,957	101
Gorenje Skopje, d.o.o., Macedonia	249	17
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1	77
Gorenje, d.o.o., Serbia	3,409	63
Gorenje Studio, d.o.o., Serbia	891	0
Gorenje Podgorica, d.o.o., Montenegro	2,800	16
Gorenje OY, Finland	115	23
Gorenje AS, Norway	299	9
Gorenje Romania S.r.l., Romania	368	12
Gorenje aparati za domaćinstvo, d.o.o., Serbia	27,204	668
Mora Moravia s r.o., Czech Republic	10,883	644
Gorenje – kuchyně spol. s r.o., Czech Republic	1,670	2
ST Bana Nekretnine, d.o.o., Serbia	2,101	0
KEMIS – Termoclean, d.o.o., Croatia	752	57
Kemis – BH, d.o.o., Bosnia and Herzegovina	210	10
Gorenje Gulf FZE, United Arab Emirates	210	7
Gorenje Espana S.L., Spain	3	0
Gorenje Tiki, d.o.o., Serbia	19,120	421
Gorenje Istanbul Ltd., Turkey	8,020	8
Gorenje TOV, Ukraine	65	17

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Gorenje kuhinje, d.o.o., Ukraine	924	2
Kemis – SRS, d.o.o., Bosnia and Herzegovina	72	2
ATAG Nederland BV, The Netherlands	16	382
ATAG België NV, Belgium	248	47
ATAG Financiele Diensten BV, The Netherlands	200	0
ATAG Financial Solutions BV, The Netherlands	18	0
Intell Properties BV, The Netherlands	45	0
ATAG Europe BV, The Netherlands	18	0
ATAG Special Products BV, The Netherlands	18	0
Gorenje Nederland BV, The Netherlands	20,796	1
Gorenje Kazakhstan, TOO, Kazakhstan	1,208	3
OOO Gorenje BT, Russia	719	94
»Euro Lumi & Surovina« SH.P.K., Kosovo	431	10
Kemis Valjevo, d.o.o., Serbia	1,233	25
Gorenje GTI, d.o.o., Beograd, Serbia	1	21
Asko Appliances AB, Sweden	25,052	575
Asko Hvitevarer AS, Norway	2,041	0
AM Hvidevarer A/S, Denmark	536	0
Asko Appliances Inc, USA	1	36
Asko Appliances Pty, Australia	7,867	70
Asko Appliances OOO, Russia	10	14
»Gorenje Albania« SHPK, Albania	1	4
Gorenje Home d.o.o. Zaječar, Serbia	2,821	116
Gorenje Ekologija, d.o.o., Stara Pazova, Serbia	9	0
ORSES d.o.o., Beograd, Serbia	498	1
Gorenje Corporate GmbH, Austria	35	1
ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	399	0
Cleaning sistem S, d.o.o., Serbia	709	14

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Appendix 2: Managing Directors

In 2012, 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; Uroš Marolt, Member of the Management Board; Branko Apat, Member of the Management Board; Peter Groznik, Member of the Management Board (since 20 April 2012); 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 Notranja oprema, d.o.o., Slovenia	Uroš Marolt
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
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 design studio, d.o.o., Slovenia	Jasna Petan
PUBLICUS, d.o.o., Slovenia	Slavko Hrženjak
EKOGOR d.o.o., Slovenia	Dušan Marc
Gorenje GAIO, d.o.o., Slovenia	Andrej Koželj
Gorenje GSI, d.o.o., Slovenia	Marina Borkovič
Gorenje Kuhinje d.o.o., Slovenia	Uroš Marolt
Gorenje Keramika, d.o.o., Slovenia	Uroš Marolt
Gorenje Beteiligungs GmbH, Austria	Marko Šefer; Franc Bobinac (until 4 September 2012); Žiga Debeljak (since 5 September 2012)
Gorenje Austria Handels GmbH, Austria	Sandra Lubej
Gorenje Vertriebs GmbH, Germany	Klemen Prešeren (until 31 December 2012); Thomas Wittling (since 1 January 2013)
Gorenje Körting Italia S.r.l., Italy	Matjaž Geratič
Gorenje France S.A.S., France	Matej Čufer (until 11 March 2012); Xavier Vuillaume (from 12 March 2012 to 11 February 2013); Matjaž Geratič (since 11 February 2013)
Gorenje Belux S.a.r.l., Belgium	Matej Čufer

Gorenje UK Ltd., Great Britain	Jernej Hren
Gorenje Group Nordic A/S, Denmark	Kristian Hansen
Gorenje AB, Sweden	Kristian Hansen
Gorenje spol. s r.o., Czech Republic	Suad Hadžić
Gorenje real spol. s r.o., Czech Republic	Suad Hadžić
Gorenje Slovakia s.r.o., Slovak Republic	Bogdan Urh (until 13 February 2013); Suad Hadžić (since 14 February 2013)
Gorenje Budapest Kft., Hungary	Bogdan Urh (until 13 February 2013); Suad Hadžić (since 14 February 2013)
Gorenje Polska Sp. z o.o., Poland	Franc Rogan
Gorenje Bulgaria EOOD, Bulgaria	Gregor Gržina (until 31 July 2012); Bojan Bratkovič (since 1 August 2012)
Gorenje Zagreb, d.o.o., Croatia	Jan Štern
Gorenje Skopje, d.o.o., Macedonia	Nenad Jovanović
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	Robert Polšak
Gorenje, d.o.o., Serbia	Marko Mrzel (until 30 November 2012); Goran Lukić (since 1 December 2012)
Gorenje Studio, d.o.o., Serbia	Marko Mrzel (until 31 October 2012); Alenka Mrzel (since 1 November 2012)
Gorenje Podgorica, d.o.o., Montenegro	Darko Vukčević
Gorenje OY, Finland	Kristian Hansen
Gorenje AS, Norway	Kristian Hansen
Gorenje Romania S.r.l., Romania	Anton Prislan (until 7 August 2012); Damir Dražetić (since 8 August 2012)
Gorenje aparati za domaćinstvo, d.o.o., Serbia	Mirko Meža
Mora Moravia s r.o., Czech Republic	Vitezslav Ružička; Simon Kumer (until 30 June 2012); Matija Zupanc (since 1 July 2012)
Gorenje – kuchyně spol. s r.o., Czech Republic	Viktor Faktor
ST Bana Nekretnine, d.o.o., Serbia	Rudolf Krebl (until 31 August 2012); Štefan Kuhar (since 1 September 2012)
KEMIS – Termoclean, d.o.o., Croatia	Zoran Matić
Kemis – BH, d.o.o., Bosnia and Herzegovina	Maid Hadžimujić
Gorenje Gulf FZE, United Arab Emirates	Nermin Salman
Gorenje Espana, S.L., Spain	Jernej Hren
Gorenje Tiki, d.o.o., Serbia	Branko Apat
Gorenje Istanbul Ltd., Turkey	Boštjan Vodeb (until 31 August 2012); Nermin Salman (since 1 September 2012)
Gorenje TOV, Ukraine	Matjaž Podlogar

Gorenje kuhinje, d.o.o., Ukraine	Sergei Yozikov
Kemis – SRS, d.o.o., Bosnia and Herzegovina	Slobodan Sjenčić
ATAG Nederland BV, The Netherlands	ATAG Europe BV
ATAG België NV, Belgium	Robert Meenink
ATAG Financiele Diensten BV, The Netherlands	ATAG Europe BV
ATAG Financial Solutions BV, The Netherlands	ATAG Europe BV
Intell Properties BV, The Netherlands	ATAG Europe BV
ATAG Europe BV, The Netherlands	Berend Johannes Hofenk (until 28 January 2013); Robert Meenink (since 11 January 2013) and Darko Janjič (since 11 January 2013)
ATAG Special Products BV, The Netherlands	ATAG Europe BV
Gorenje Nederland BV, The Netherlands	Marko Šefer
Gorenje Kazakhstan, TOO, Kazakhstan	Igor Gobec (until 30 June 2012); Branislav Krunić (since 1 July 2012)
OOO Gorenje BT, Russia	Marko Špan
»Euro Lumi & Surovina« SH.P.K., Kosovo	Amir Pira
Kemis Valjevo d.o.o., Serbia	Zoran Milovanović
Gorenje GTI d.o.o., Beograd, Serbia	Miloš Leković
Asko Appliances AB, Sweden	Berend Johannes Hofenk (until 30 June 2012); Simon Kumer (since 1 July 2012)
Asko Hvitevarer AS, Norway	Henning Meier
AM Hvidevarer A/S, Denmark	Michael Bilde Jensen (until 24 July 2012); Kristian Hansen (since 25 July 2012)
Asko Appliances Inc, USA	Maya Chowdhury
Asko Appliances Pty, Australia	Richard Sim (until 30 August 2012); Črt Prašnikar (since 1 September 2012)
Asko Appliances OOO, Russia	Dime Rangelov
»Gorenje Albania« SHPK, Albania	Gregor Verbič
Gorenje Home d.o.o., Zaječar, Serbia	Vlado Krebs
ORSES d.o.o., Beograd, Serbia	Mirko Meža
Gorenje Ekologija d.o.o., Stara Pazova, Serbia	Jure Fišer
Gorenje Corporate GmbH, Austria	Marko Šefer
Cleaning sistem S, d.o.o., Serbia	Zoran Milovanović; Mikica Vasić
ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	Emil Šehič

Appendix 3: Foreign exchange rates

Country	Currency	Unit	2012		2011	
			Closing exchange rate (in EUR)	Average exchange rate (in EUR)	Closing exchange rate (in EUR)	Average exchange rate (in EUR)
Australia	AUD	1	1.271	1.241	1.272	1.348
Czech Republic	CZK	1	25.151	25.146	25.787	24.589
Denmark	DKK	1	7.461	7.444	7.434	7.451
Great Britain	GBP	1	0.816	0.811	0.835	0.868
Croatia	HRK	1	7.558	7.521	7.537	7.438
Hungary	HUF	1	292.300	289.324	314.580	279.310
Norway	NOK	1	7.348	7.475	7.754	7.793
Poland	PLN	1	4.074	4.184	4.458	4.119
Sweden	SEK	1	8.582	8.707	8.912	9.028
USA	USD	1	1.319	1.286	1.294	1.392
Turkey	TRY	1	2.355	2.315	2.443	2.335
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	61.487	61.626	62.060	61.772
Switzerland	CHF	1	1.207	1.205	1.216	1.234
Romania	RON	1	4.445	4.458	4.323	4.239
Serbia	RSD	1	113.390	112.996	103.630	101.910
Ukraine	UAH	1	10.636	10.437	10.755	11.211
Latvia	LVL	1	0.698	0.697	0.700	0.706
United Arab Emirates	AED	1	4.770	4.741	4.928	5.160
Kazakhstan	KZT	1	195.540	192.380	198.200	205.969
Russia	RUB	1	40.330	39.924	41.765	40.880
Albania	ALL	1	139.830	139.275	140.840	140.733

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ACCOUNTING REPORT OF THE COMPANY GORENJE, D.D.

FINANCIAL STATEMENTS OF GORENJE, D.D.

Income Statement of Gorenje, d.d.

EURk	Note	2012	2011
Revenue	**8**	**675,896**	**655,274**
Change in inventories		2,583	2,026
Other operating income	9	14,140	16,517
Gross profit		**692,619**	**673,817**
Cost of goods, materials and services	10	-547,499	-540,293
Employee benefits expense	11	-105,068	-100,158
Amortisation and depreciation expense	12	-20,235	-21,835
Other operating expenses	13	-5,810	-4,293
Operating profit		**14,007**	**7,238**
Finance income	14	15,846	22,928
Finance expenses	14	-42,451	-23,531
Net finance expenses	14	-26,605	-603
Profit or loss before tax		**-12,598**	**6,635**
Income tax expense	15	-1,495	653
Profit or loss for the period		**-14,093**	**7,288**
Basic and diluted earnings per share (in EUR)	28	-0.89	0.46

Statement of Comprehensive Income of Gorenje, d.d.

EURk	Note	2012	2011
Profit or loss for the period		**-14,093**	**7,288**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	24	-6	-114
Net change in fair value of available-for-sale financial assets, transferred to profit or loss	14	626	0
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge		-2,327	-7,230
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	14	2,182	2,155
Income tax on other comprehensive income	22	-26	1,038
Other comprehensive income for the period		**449**	**-4,151**
Total comprehensive income for the period		**-13,644**	**3,137**

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Balance Sheet of Gorenje, d.d.

EURk	Note	2012	2011
ASSETS		**847,894**	**881,299**
Non-current assets		**422,272**	**438,428**
Intangible assets	16	14,270	15,455
Property, plant and equipment	17	146,748	152,758
Investment property	18	16,147	15,217
Investments in subsidiaries	19	232,447	240,672
Investments in associates	20	976	976
Other non-current investments	21	661	703
Deferred tax assets	22	11,023	12,647
Current assets		**425,622**	**442,871**
Inventories	23	84,217	81,118
Current investments	24	110,083	94,789
Trade receivables	25	194,043	187,903
Other current assets	26	18,307	20,971
Cash and cash equivalents	27	18,972	58,090
EQUITY AND LIABILITIES		**847,894**	**881,299**
Equity	**28**	**319,466**	**335,326**
Share capital		66,378	66,378
Share premium		157,712	157,712
Legal and statutory reserves		22,719	22,719
Retained earnings		73,212	89,521
Fair value reserve		2,615	2,166
Own shares		-3,170	-3,170

Non-current liabilities		**250,247**	**253,694**
Provisions	30	21,632	26,227
Deferred tax liabilities	22	1,288	1,391
Non-current financial liabilities	31	227,327	226,076
Current liabilities		**278,181**	**292,279**
Current financial liabilities	32	108,349	133,254
Trade payables	33	152,164	142,027
Other current liabilities	34	17,668	16,998

Statement of Cash Flows of Gorenje, d.d.

	EURk	Note	2012	2011
A.	CASH FLOWS FROM OPERATING ACTIVITIES			
	Profit or loss for the period		**-14,093**	**7,288**
	Adjustments for:			
	- depreciation of property, plant and equipment	12,17	17,450	19,268
	- amortisation of intangible assets	12,16	2,785	2,567
	- investment income	14	-15,846	-22,928
	- finance expenses	14	42,451	23,531
	- gain on sale of property, plant and equipment		-907	-96
	- revenue from sale of investment property		-365	0
	- revaluation operating income		0	-2,468
	- income tax expense	15	1,495	-653
	Operating profit before changes in net operating current assets and provisions		**32,970**	**26,509**
	Change in trade and other receivables		-3,663	-12,635
	Change in inventories	23	-3,099	12,542
	Change in provisions	30	-4,594	-1,170
	Change in trade and other liabilities		9,116	-21,057
	Cash generated from operations		**-2,240**	**-22,320**
	Interest paid		-20,729	-19,276
	Net cash from operating activities		**10,001**	**-15,087**
B.	CASH FLOWS FROM INVESTING ACTIVITIES			
	Proceeds from sale of property, plant and equipment		2,790	919
	Interest received		5,864	6,561
	Dividends received		5,188	9,985
	Disposal of investment property		2,161	0
	Liquidation of subsidiary		0	10,747
	Disposal of subsidiary		0	15,108
	Acquisition of subsidiary		-6,013	-13,600

	Acquisition of property, plant and equipment		-16,713	-14,548
	Acquisition of investment property		-2,726	-13,522
	Loans		-12,682	-17,298
	Other investments		-3,505	-9,374
	Acquisition of intangible assets		-1,605	-2,595
	Net cash used in investing activities		**-27,241**	**-27,617**
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
	Repayment of borrowings		-19,611	51,116
	Dividends paid		-2,267	0
	NET CASH USED IN FINANCING ACTIVITIES		**-21,878**	**51,116**
	Net change in cash and cash equivalents		-39,118	8,412
	Cash and cash equivalents at beginning of period		58,090	49,678
	Cash and cash equivalents at end of period		18,972	58,090

Statement of Changes in Equity of Gorenje, d.d.

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Fair value reserve	Total
Opening balance at 1 Jan 2012	**66,378**	**157,712**	**22,719**	**89,521**	**-3,170**	**2,166**	**335,326**
Total comprehensive income for the period							
Profit or loss for the period				-14,093			-14,093
Total other comprehensive income						449	449
Total comprehensive income for the period	**0**	**0**	**0**	**-14,093**	**0**	**449**	**-13,644**
Transactions with owners (when acting as owners) recognised directly in equity							
Contributions by owners and distributions to owners							
Dividends paid				-2,367			-2,367
Unpaid dividends				151			151
Creation of statutory reserves							
Total contributions by owners and distributions to owners	**0**	**0**	**0**	**-2,216**	**0**	**0**	**-2,216**
Total transactions with owners	**0**	**0**	**0**	**-2,216**	**0**	**0**	**-2,216**
Closing balance at 31 Dec 2012	**66,378**	**157,712**	**22,719**	**73,212**	**-3,170**	**2,615**	**319,466**

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Fair value reserve	Total
Opening balance at 1 Jan 2011	**66,378**	**157,712**	**21,990**	**82,962**	**-3,170**	**6,317**	**332,189**
Total comprehensive income for the period							
Profit for the period				7,288			7,288
Total other comprehensive income						-4,151	-4,151
Total comprehensive income for the period	**0**	**0**	**0**	**7,288**	**0**	**-4,151**	**3,137**
Transactions with owners (when acting as owners) recognised directly in equity							
Contributions by owners and distributions to owners							
Dividends paid							
Unpaid dividends							
Creation of statutory reserves			729	-729			0
Total contributions by owners and distributions to owners	**0**	**0**	**729**	**-729**	**0**	**0**	**0**
Total transactions with owners	**0**	**0**	**729**	**-729**	**0**	**0**	**0**
Closing balance at 31 Dec 2011	**66,378**	**157,712**	**22,719**	**89,521**	**-3,170**	**2,166**	**335,326**

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Gorenje, d.d. (the "Company") is the Gorenje Group's controlling company domiciled in Slovenia. The address of the Company's registered office is Partizanska 12, 3503 Velenje.

The financial statements of the Company have been prepared as at and for the year ended 31 December 2012. The Company is primarily involved in the production and sale of household appliances.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union and with the provisions of the Companies act. The financial statements were approved by the Management Board on 25 February 2013.

b) Basis of measurement

The financial statements 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

These financial statements are presented in EUR, which is the 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 19 and 20 and accounting policy 3(c) and 3(d) - acquisition and disposal of companies;
- Note 30 and accounting policy (m) (ii) - measurement of liabilities for retirement benefits and jubilee premiums;
- Note 30 – provisions for onerous contracts 3(m) (v);
- Note 30 and accounting policy 3(m)(i) - provisions for warranties;
- Note 24 - valuation of investments;
- Accounting policy 3(j)(i) - impairment of financial assets, including receivables.

e) Changes in accounting policies

The Company has not changed its accounting policies.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to EUR (the functional currency of the Company) 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 and loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, 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 EUR 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 profit or loss, except for differences arising on the retranslation of:

- available-for-sale equity instruments;

- 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.

b) Financial instruments

(i) Non-derivative financial assets

The Company initially recognises loans and 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 Company becomes a party to the contractual provisions of the instrument.

The Company 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 Company 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 Company 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.

The Company classifies non-derivative financial instruments into the following categories: liabilities and receivables, available-for-sale financial assets, cash and cash equivalents.

Loans and receivables

Loans 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, loans 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 Company's 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, they are measured at fair value plus any directly attributable transaction costs.

Impairment losses (see note 3(j)(i)) and foreign currency differences on available-for-sale equity instruments (see note 3(a)) are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, 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 Company 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 Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company 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, bank overdrafts, and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. 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 the reserve for own shares. 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 Company 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 Company 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 Company makes an assessment, both at the inception of the hedging 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 hedge

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, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately 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.

c) Subsidiaries

Investments in subsidiaries are valued at cost. Incremental costs directly attributable to the acquisition of a subsidiary are recognised as an increase in the cost of equity investment. Share of profit is recognized as income when a resolution on payment is adopted by the Shareholders' Meeting.

d) Associates

Investments in associates are valued at cost. Incremental costs directly attributable to the acquisition of an associate company are recognised as an increase in the cost of equity investment.

e) 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 borrowings costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying item of property, plant and equipment were capitalised subject to the following conditions: if the value of individual asset under construction in total sales exceeded 5%, and if the duration of assets under 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.

Any gain or loss on disposal of an item of property, plant and equipment is calculated as the difference between the net proceeds from disposal and the carrying amount of the item of property, plant and equipment, and is recognised 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 expenditure

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 Company, and if its cost can be measured reliably. All others 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 in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment; this method most accurately reflects the expected pattern of the use of the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

- buildings: 34–50 years
- plant and equipment: 5–20 years
- computer equipment: 2–5 years
- transportation means: 5–20 years
- office equipment: 5–10 years
- tools: 5–10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

f) Intangible assets

(i) 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 Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) 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.

(iv) Amortisation

Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss 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 periods are as follows:

- patents and trademarks: 10 years
- capitalised development costs: 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

g) Investment property

Investment property is property held either to earn rental income or to increase the value of non-current investment 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 recognised at fair value with any change therein recognised in the income statement.

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.

Property rented to a subsidiary and associate with the conduct of the Company's business activities, is accounted for as an item of property, plant and equipment. Investment property also includes property, of which more than 50% of the available surface area is leased out.

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 of depreciation.

h) Leased assets

Leases in terms of which the Company 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 Company's balance sheet.

i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories of materials and merchandise is based on the weighted average price method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

j) Impairment of assets

(i) Non derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on term that the Company 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 Company, 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 Company 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 Company 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 (e.g. repayment of debt by the debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In line with the accounting policies, the Company 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 Company's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting 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 that are not yet available for use are tested annually prior to the preparation of financial statements. An impairment loss is recognised if the carrying amount of a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit 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. 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 groups of assets (the "cash-generating unit, 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 the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU 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.

k) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company'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 Company's accounting policies. Impairment losses on initial classification as held for sale 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, intangible assets and property, plant and equipment are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

l) Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

m) Provisions

A provision is recognised if, as a result of a past event, the Company 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. The unwinding of the discount is recognised as finance expenses.

(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) Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements, the collective agreement, and the internal regulations, the Company is liable to pay jubilee premiums and retirement benefits to its employees. For these obligations, long-term provisions are created. Other retirement obligations do not exist.

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 selected annual discount rate is 4.60%, which is the rate of return on long-term entrepreneurial bonds in EUR area. The calculation has been made by a certified actuary using the projected unit method.

(iii) Restructuring

A provision for restructuring is recognised when the Company 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.

(iv) Site restoration

In accordance with the Company'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.

(v) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company 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 Company recognises any impairment loss on the assets associated with that contract.

n) Revenue

(i) Revenue from 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, resale rebates, and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of goods, usually transfer occurs when the product is 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.

When the services under a single arrangement are rendered in different reporting periods, the consideration is allocated on a relative fair value basis between the services.

(iii) Commission

When the Company 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 Company.

(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.

o) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and the Company 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 Company 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.

p) 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, changes in the fair value of financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree, 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 Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise borrowing costs (part of borrowing costs can be capitalised within property, plant and equipment), exchange losses, impairment losses on financial assets and operating receivables, and losses on hedging instruments that are recognised in income statement. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset in construction or production are recognised in income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance expenses.

r) 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 Company 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 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 and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits 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.

s) Basic earnings per share

The Company presents basic earnings per share that equals the diluted earnings per share since the Company has not issued preference shares or floating-rate bonds. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

t) Comparable 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.

u) New standards and interpretations not yet adopted

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

(Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Earlier application is permitted.)

The Amendments contain new disclosure requirements for financial assets and liabilities that are:

- offset in the balance sheet; or
- subject to master netting arrangements or similar agreements.

The Company does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements

(Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)

This Standard is to be applied retrospectively when there is a change in control conclusion.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

(1) it is exposed or has rights to variable returns from its involvements with the investee;

(2) it has the ability to affect those returns through its power over that investee; and

(3) there is a link between power and returns.

The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The Company does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Company's control over its investees.

IFRS 11 Joint arrangements

(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)

IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. In the remainder of IAS 31, jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements.

The Company does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted.)

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Company does not expect the new Standard will have a material impact on the financial statements.

IFRS 13 Fair Value Measurement

(Effective prospectively for annual periods beginning on or **after 1 January 2013**. Earlier application is permitted.)

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that used significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

The Company does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

(Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.)

The amendments:

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.

- change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the Company was to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: EUR -5,279k recognised in the hedge reserve and EUR 830k recognised in the fair value reserve, and the related tax effects of EUR 897k and EUR -20k, respectively, recognised in other comprehensive income. The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.

IAS 19 (2011) Employee Benefits

(Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply. Earlier application is permitted.)

The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

The amendments are not relevant to the Company's financial statements, since the entity does not have any defined benefit plans.

IAS 27 (2011) Separate Financial Statements

(Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.)

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.

The Company does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity‘s accounting policy.

IAS 28 (2011) Investments in Associates and Joint Ventures

(Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.)

There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Company does not expect the amendments to Standard to have material impact on the financial statements.

Amendments to MRS 32 – Offsetting Financial Assets and Financial Liabilities

(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made.)

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Company does not expect the Amendments to have any impact on the financial statements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

(Effective for annual periods beginning on or after 1 January 2013. It applies prospectively to production stripping costs incurred on or after the beginning of the earliest period presented. Earlier application is permitted.)

The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets.

To the extent that benefits from production stripping are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 Inventories.

Production stripping costs that improve access to ore to be mined in the future are recognised as a non-current asset if, and only if, all of the following criteria are met:

- it is probable that future economic benefits will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset.

The stripping activity asset shall initially be recognised at cost while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part.

The Interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a ‘relevant’ production measure.

The Company does not expect the Interpretation to have any impact on the financial statements since it does not have any stripping activities.

4. Determination of fair value

A number of the 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 methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(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. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

A revaluation of land is based on the independent valuer’s report and is carried out every five to eight years. The 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

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Company’s investment property portfolio every five years. Assessments are carried out in the intermediate period to determine whether any revaluations are required to be made. 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 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. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(v) Trade and other receivables

The fair value of trade and other receivables is estimated as 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 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. Financial risk management

In respect of financial risk management, the internal financial policies comprising the bases for efficient and systematic risk management were observed in 2012. The objectives of financial risk management are:

- to achieve stability of operations and to reduce risk exposure to an acceptable level,
- to increase the value of companies and the impact on their financial standing,
- to increase financial income and/or to decrease financial expenses, and
- to nullify and/or decrease the effects of exceptionally damaging events.

In the Company, the following key financial risks have been defined:

FINANCIAL RISKS	CREDIT RISK
	CURRENCY RISK
	INTEREST RATE RISK
	LIQUIDITY RISK

The exposure to each of the above risks and the hedge measures to be applied are judged and implemented on the basis of their effects on the cash flows. To hedge against financial risks in the course of ordinary business activities, relevant hedging activities have been conducted in the area of operating, investing and financing activities.

In the light of the strained macroeconomic situation, more attention was paid in 2011 to the credit risk which includes all risks where the failure of a party (a buyer) to discharge contractual obligations results in a decrease in economic benefits of the Company. The credit risk was managed by application of the following sets of measures:

- insurance of a major portion of operating receivables against credit risk with Slovenska izvozna družba – Prva kreditna zavarovalnica d.d.;
- additional collateralisation of more risky trade receivables by bank guarantees and other security instruments;
- regular monitoring of operation and financial standing of new and existing business partners, and limitation of exposure to certain business partners;
- implementation of mutual and chain compensation with buyers;
- systematic and active control of credit limits and collection of receivables.

Due to the deteriorated global macroeconomic situation, the bank crisis and consequently fierce liquidity situation, **the Company's management estimates that the exposure to credit risk** has significantly increased. The exposure, however, is **moderate** based on applied hedge measures.

Considering the sales model applied within the Gorenje Group and under which the holding company transfers the currency risk to its subsidiaries, the Company is not significantly exposed to currency risk, which is the risk that the economic benefits of an entity may be decreased due to changes in foreign exchange rates. In 2012, the currency risk accordingly originated mostly from the performance of business activities in the US dollar markets, while the exposure to other currencies was lower than in the previous years. When managing currency risk, particularly in the US dollar markets, a greater attention was paid to natural hedging of currency risk and harmonisation of business operations to ensure long-term decrease in currency fluctuation exposure by matching or netting sales and purchases.

Additional short-term hedging is carried out by currency future contracts and short-term borrowings in currencies, to which the Company is exposed.

The Company's management estimates that the exposure to credit risk is moderate.

With regard to the harsh global macroeconomic situation and consequently lower variable interest rates on financial markets, no new loans with fixed interest rates were raised in 2012 with the purpose to hedge against the risk of higher variable interest rates. The share of loans for which fixed interest rates were agreed or hedging instruments created, declined to 39.3% in 2012. Although no new instruments were created for hedging against the increase of interest rates, the macroeconomic movements and the global movement in interest rates were closely monitored to provide for timely hedging.

The Company's management estimates that the exposure to interest rate risk is moderate.

Liquidity risk is the risk that the Company will fail to meet commitments in stipulated period of time due to the lack of available funds.

Credit lines in the amount of EUR 102,536k mature in 2013. The refinancing of the existing financial liabilities has been negotiated with the banks in order to reduce the risk of refinancing. The liquidity reserve as at 31 December 2013 in the amount of EUR 71,046k consisting of unused revolving credit lines, short-term deposits with banks, and cash in banks, is used to secure adequate short-term control of cash flows and to decrease short-term liquidity risk.

Short-term liquidity risk is estimated to be **moderate** due to efficient cash management, adequate available credit lines for short-term control of cash flows, a high degree of financial flexibility, and a good access to financial markets and funds.

Long-term liquidity risk is estimated as **moderate** due to effective performance of the Company, effective cash management, sustainable ability to generate cash flows from operating activities, and an adequate capital structure. Gorenje, d.d. and the Gorenje Group update at least annually the long-term debt service plan, with a special emphasis on the activities required to implement the refinancing within a period of one year.

The Company's management estimates that the exposure to liquidity risk is moderate.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain confidence of all stakeholders and to sustain future development of Gorenje. As one of the strategic ratios, the Company defined the return on equity as profit attributable to majority shareholders divided by the average value of equity attributable to majority shareholders. The Company seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The dividend policy is based on the investment plans, optimum capital structure policy, and shareholders' expectations and interests. The amount of dividend per share is proposed by the Management Board and the Supervisory Board of the controlling company. Dividends are paid from the accumulated profit of the controlling company determined in accordance with the relevant current regulations in Slovenia. The resolution on the appropriation of accumulated profit is adopted by the Shareholders' Meeting.

The Company has no employee share-owning scheme and no share option programme. There were no changes in the approach to capital management in 2012. Neither the controlling company nor its subsidiaries were subject to capital requirements determined by the regulatory authorities.

There are no provisions in the Articles of Incorporation that would invalidate the proportionality of rights arising from shares, such as the rights of minority shareholders or the limitation of voting rights, and there are no resolutions adopted on conditionally increased capital.

6. Segment reporting

The Company has no reportable segment. Segment information is presented in the consolidated financial statements of the Gorenje Group.

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 2012, the balance sheet at 31 December 2011, the income statement for the year ended 31 December 2012, and the additional information required for the adjustment of inflows and outflows.

Note 8 – Revenue EUR 675,896k

EURk	2012	2011
Revenue from the sale of products – domestic market	19,990	20,745
Revenue from the sale of products – foreign market	389,009	401,924
Revenue from the sale of merchandise – domestic market	56,597	44,907
Revenue from the sale of merchandise – foreign market	127,748	122,972
Revenue from the sale of services – domestic market	11,218	14,579
Revenue from the sale of services – foreign market	18,497	7,791
Revenue from the sale of materials and semi-finished products – domestic market	14,251	13,537
Revenue from the sale of materials and semi-finished products – foreign market	38,586	28,819
Total	**675,896**	**655,274**

Revenue from the sale to subsidiaries in the Gorenje Group amounts to EUR 471,865k (2011: EUR 431,384k), showing a 9.4 percent increase over 2011.

Note 9 – Other operating income EUR 14,140k

EURk	2012	2011
Income from subsidies and donations	1,479	2,268
Income from license fees	2,888	2,174
Rental income	2,110	1,830
Income from compensation in damages	1,731	1,222
Income from reversal of long-term provisions	3,865	5,187
Gain on disposal of investment property	375	0
Gain on disposal of property, plant and equipment	907	96
Other income	785	3,740
Total	**14,140**	**16,517**

Other operating income in the amount of EUR 5,709k refer to subsidiaries (2011: EUR 5,035k). Income from license fees includes fees for the use of the Gorenje trademark rights and fees for the use of the software licences. Income from compensation in damages includes compensation in damages charged to suppliers.

Rental income

EURk	2012	2011
Rentals - up to 1 year (companies in the Gorenje Group)	1,913	1,696
Rentals - up to 1 year (other companies)	197	134
Total	**2,110**	**1,830**

Rental income relates mainly to real property which is partly used by the Company and partly leased out to subsidiaries.

Note 10 – Cost of goods, materials and services EUR 547,499k

EURk	2012	2011
Cost of goods sold	183,619	168,476
Cost of materials	287,978	290,442
Cost of services	75,902	81,375
Total	**547,499**	**540,293**

Cost of services that occurred upon transactions with subsidiaries in the Group are recorded at EUR 21,230k (2011: EUR 22,518k).Cost of services includes cost of provisions for warranties in the amount of EUR 7,635k (2011: EUR 11,689k).

Cost of services includes cost of rentals in the amount of EUR 2,375k (2011: EUR 2,241k).

Note 11 – Employee benefits expense EUR 105,068k

EURk	2012	2011
Wages and salaries	73,697	70,765
Social security costs	14,453	15,054
Provisions for retirement benefits and jubilee premiums	594	790
Other employee benefits expense	16,324	13,549
Total	**105,068**	**100,158**

Social security costs include costs of voluntary, additional, collective pension insurance in the amount of EUR 2,214k (2011: EUR 3,080k). In 2012, the average number of employees calculated based on working hours was 4,417.14 (2011: 4,423.01).

Other employee benefits expense includes costs of annual leave bonus, meals allowance, commuting allowance, and other work-related payments to employees. These expenses have increased over the previous year, primarily as a result of paying retirement benefits.

Note 12 – Amortisation and depreciation expense EUR 20,235k

EURk	2012	2011
Amortisation expense of intangible assets	2,785	2,567
Depreciation expense of property, plant and equipment	17,450	19,268
Total	**20,235**	**21,835**

A lower amortisation and depreciation expense in 2012 is due to a full write-off of plant and equipment, the sale of equipment, and a decrease in investments in intangible assets, property and equipment. On the basis of the estimation of service life of some of the major items of plant and equipment, the service life was extended in 2012 and the resulting effects amounted to approximately EUR 1.6m.

Note 13 – Other operating expenses EUR 5,810k

EURk	2012	2011
Impairment of items of property, plant and equipment	40	28
Write-down of inventories to net realisable value	2,242	1,210
Other taxes and charges	1,411	1,292
Environmental levies	834	825
Scholarships	151	180
Creation of provisions for litigations	477	315
Other expenses	655	443
Total	**5,810**	**4,293**

Other taxes and charges include charges for the use of building plot, water charge, environmental taxes, and other mandatory taxes and charges. Other expenses mainly include compensations relating to operations.

Note 14 – Net finance expenses EUR 26,605k

Finance income: EUR 15,846k

EURk	2012	2011
Dividend income and income from other profit shares	6,827	9,985
Interest income on transactions with Group companies	4,909	4,142
Interest income on transactions with other companies	924	750
Change in fair value of interest rate swaps	358	0
Income from forward exchange transactions	39	246
Income from net exchange differences	0	305
Gain on disposal of subsidiaries	0	3,306
Gain on liquidation of subsidiaries	0	3,747
Other finance income	2,789	447
Total	**15,846**	**22,928**

Other finance income includes income from commissions on loan guarantees issued to subsidiaries and third parties and elimination of allowances for receivables from previous periods, which were paid or reversed.

Finance expenses: EUR 42,451k

EURk	2012	2011
Interest expenses on transactions with Group companies	1,568	1,525
Interest expenses on transactions with other companies	13,912	13,442
Expenses on interest rate swap transactions	2,182	2,155
Change in fair value of interest rate swaps	0	373
Exchange losses	551	0
Impairment loss on investments	16,660	1,242
Impairment loss on trade receivables	1,292	3,259
Impairment loss on loans	2,421	91
Other finance expenses	3,865	1,444
Total	**42,451**	**23,531**

The fair value of trade receivables and loans is provided by impairment of trade receivables and loans in the amount of EUR 3,713k (2011: EUR 3,350k). Impairment loss on loans refers to the subsidiary Gorenje Notranja oprema, d.o.o.

Impairment of investments relates in the amount of EUR 16,660k (2011: EUR 1,242k) to the subsidiary Gorenje Notranja oprema, d.o.o., in the amount of EUR 160k to the subsidiary Gorenje Kuhinje, d.o.o., in the amount of EUR 13,078k to the subsidiary Gorenje GAIO, d.o.o., in the amount of EUR 1,000k and to the available-for-sale financial assets that were revalued to the market value in the amount of EUR 2,422k.

In compliance with the Companies Act, classification, formation and reversal of allowances, and collected written-off receivables are within the income statement defined as operating income or operating expenses. The Company estimates that the classification of the aforesaid as finance income or finance expenses is more appropriate since operating receivables are defined as non-derivative financial assets.

Finance income and expenses recognised directly in other comprehensive income (net)

EURk	2012	2011
Net change in fair value of available-for-sale financial assets	-127	-91
Net change in fair value of available-for-sale financial assets transferred to profit or loss	626	0
Net change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-2,456	-6,215
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	2,182	2,155
Finance income / expense recognised in other comprehensive income	**225**	**-4,151**

Net effect from the statement of comprehensive income is shown in the above table; it does not, however, include a change in fair value of land.

Note 15 – Income tax expense EUR 1,495k

Income tax expenses in the amount of EUR 1,495k refers to the effect of the changed value of deferred tax assets and liabilities, as the income tax calculation discloses a positive tax base for which the Company used tax incentives.

In 2012, no deferred tax assets were formed by the Company in connection with tax reliefs for research and development in the amount of EUR 1,588k (2011: EUR 1,027k).

EURk	2012	2011
Current tax expense	0	0
Deferred tax assets through the income statement	-1,495	653
Deferred tax liabilities through the income statement	0	0
Total	**-1,495**	**653**

Effective income tax rates calculated on the basis of the commercial balance sheet:

EURk	2012	2012	2011	2011
Profit or loss before tax		**-12,598**		**6,635**
Income tax using the domestic tax rate	18.00%	-2,268	20.00%	1,327
Non-deductible expenses	-40.36%	5,084	33.44%	2,219
Tax exempt income	14.22%	-1,792	-57.54%	-3,818
Tax incentives	-3.74%	471	-5.75%	-381
Income tax expense	**-11.88%**	**1,495**	**-9.85%**	**-653**

The following deferred tax amounts were recognised in other comprehensive income:

	2012		
EURk	Pre-tax amount	Tax	After-tax amount
Change in fair value of available-for-sale financial assets	-6	-121	-127
Change in fair value of available-for-sale financial assets transferred to profit or loss	626	0	626
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-2,327	-129	-2,456
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	2,182	0	2,182
Change in fair value of land	0	224	224
Total	**475**	**-26**	**449**

	2011		
EURk	Pre-tax amount	Tax	After-tax amount
Change in fair value of available-for-sale financial assets	-114	23	-91
Change in fair value of available-for-sale financial assets transferred to profit or loss	0	0	0
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-7,230	1,015	-6,215
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	2,155	0	2,155
Change in fair value of land	0	0	0
Total	**-5,189**	**1,038**	**-4,151**

Note 16 – Intangible assets (IA) EUR 14,270k

EURk	2012	2011
Development costs	7,947	8,978
Industrial property rights	5,395	5,149
Intangible assets under construction	928	1,328
Total	**14,270**	**15,455**

Movements in intangible assets in 2012

EURk	Development costs	Industrial property rights	Intangible assets under construction	Total
Cost at 1 Jan 2012	**20,866**	**14,789**	**1,328**	**36,983**
Acquisition			1,605	1,605
Disposal, write-down	-689	-1,290		-1,979
Transfer	920	1,085	-2,005	0
Cost at 31 Dec 2012	**21,097**	**14,584**	**928**	**36,609**
Accumulated amortisation at 1 Jan 2012	**11,888**	**9,640**	**0**	**21,528**
Disposal, write-down	-685	-1,289		-1,974
Amortisation	1,947	838		2,785
Accumulated amortisation at 31 Dec 2012	**13,150**	**9,189**	**0**	**22,339**
Carrying amount at 1 Jan 2012	**8,978**	**5,149**	**1,328**	**15,455**
Carrying amount at 31 Dec 2012	**7,947**	**5,395**	**928**	**14,270**

An increase in long-term development costs is largely due to the packaging in the amount of EUR 916k. Long-term industrial property rights include investments in the software in the amount of EUR 268k and the upgrade of the information systems in the amount of EUR 198k. Intangible assets under construction mainly relate to the development of high energy efficiency products.

Movements in intangible assets in 2011

EURk	Development costs	Industrial property rights	Intangible assets under construction	Total
Cost at 1 Jan 2011	**19,308**	**14,008**	**1,118**	**34,434**
Acquisition			2,595	2,595
Disposal, write-down	-46			-46
Transfer	1,604	781	-2,385	0
Cost at 31 Dec 2011	**20,866**	**14,789**	**1,328**	**36,983**
Accumulated amortisation at 1 Jan 2011	**10,086**	**8,921**	**0**	**19,007**
Disposal, write-down	-46			-46
Amortisation	1,848	719		2,567
Accumulated amortisation at 31 Dec 2011	**11,888**	**9,640**	**0**	**21,528**
Carrying amount at 1 Jan 2011	**9,222**	**5,087**	**1,118**	**15,427**
Carrying amount at 31 Dec 2011	**8,978**	**5,149**	**1,328**	**15,455**

Note 17 – Property, plant and equipment (PPE)

EUR 146,748k

EURk	2012	2011
Land	20,365	20,365
Buildings	52,335	55,330
Production and other equipment	61,628	73,000
Property, plant and equipment under construction	12,420	4,063
Total	**146,748**	**152,758**

Movements in property, plant and equipment in 2012

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 January 2012	**20,365**	**153,219**	**418,683**	**4,063**	**596,330**
Acquisition				16,713	16,713
Disposal, write-down		-587	-37,840		-38,427
Transfer		525	7,831	-8,356	0
Cost at 31 December 2012	**20,365**	**153,157**	**388,674**	**12,420**	**574,616**
Accumulated depreciation at 1 Jan 2012	**0**	**97,889**	**345,683**	**0**	**443,572**
Disposal, write-down		-254	-32,900		-33,154
Reposting to investment property					0
Depreciation expense		3,187	14,263		17,450
Accumulated depreciation at 31 Dec 2012	**0**	**100,822**	**327,046**	**0**	**427,868**
Carrying amount at 1 Jan 2012	**20,365**	**55,330**	**73,000**	**4,063**	**152,758**
Carrying amount at 31 Dec 2012	**20,365**	**52,335**	**61,628**	**12,420**	**146,748**

Movements in property, plant and equipment in 2011

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 January 2011	**20,365**	**152,255**	**415,888**	**1,812**	**590,320**
Acquisition				14,548	14,548
Disposal, write-down			-8,538		-8,538
Transfer		964	11,333	-12,297	0
Cost at 31 December 2011	**20,365**	**153,219**	**418,683**	**4,063**	**596,330**
Accumulated depreciation at 1 Jan 2011	**0**	**94,412**	**338,044**	**0**	**432,456**
Disposal, write-down			-8,152		-8,152
Reposting to investment property					0
Depreciation expense		3,477	15,791		19,268
Accumulated depreciation at 31 Dec 2011	**0**	**97,889**	**345,683**	**0**	**443,572**
Carrying amount at 1 Jan 2011	**20,365**	**57,843**	**77,844**	**1,812**	**157,864**
Carrying amount at 31 Dec 2011	**20,365**	**55,330**	**73,000**	**4,063**	**152,758**

Land: EUR 20,365k

In 2008, land was appraised on the basis of the fair value determined by an independent certified appraiser of real property. The effect of revaluation to fair value amounted to EUR 7,455k. The conditions leading to impairment were not established. In the following periods, assessments were carried out which showed that there was no need for a repeated revaluation. If land was measured at fair value, the book value would amount to EUR 12,910k.

Buildings: EUR 52,335k

An increase in the value of buildings in the amount of EUR 525k is mainly due to the renovation of office and production.

A decrease in the value of buildings is due to the sale of premises of the representative office in Moscow and depreciation expense.

No real property has been pledged as security for liabilities from borrowings.

Production and other equipment: EUR 61,628k

The increase in the value of equipment is due to capitalised technological equipment acquired and commissioned in 2012.

In 2012, the reconstruction and upgrade of the production equipment were carried out in the amount of EUR 3,613k, and of the test equipment in the amount of EUR 251k. Investments made in new tools amounted to EUR 2,375k, in computer equipment to EUR 520k. The modernisation of transport means was carried out in the amount of EUR 325k.

The decrease in the value of equipment is due to the sale of equipment, the disposal of obsolete equipment, and depreciation expense. The sale of equipment relates to shifting of the production of the new refrigerator-freezer line to the new plant in Valjevo.

In 2009, the appraisal of plant and equipment was carried out to determine their recoverable value. No conditions leading to impairment were established.

Property, plant and equipment under construction: EUR 12,420k

Property, plant and equipment under construction relate mainly to the launch of the production as a result of moving the manufacture of washing machines, tumble dryers and dishwashers from Sweden to Slovenia.

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Note 18 – Investment property

EUR 16,147k

EURk	2012	2011
Land	10,383	10,209
Buildings	5,764	5,008
Total	**16,147**	**15,217**

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 374k (2011: EUR 66k) was recognised in the income statement.

Movements in investment property

EURk	2012	2011
Balance at 1 January	**15,217**	**1,695**
Acquisition	2,726	13,522
Disposal	- 1,796	0
Balance at 31 December	**16,147**	**15,217**

Investment property is measured using the fair value model. In 2012, investment property was acquired for resale and marketing of rental property. Acquisitions include the acquisition of the land and the building of Gorenje Notranja oprema, d.o.o. Disposals refer to the sale of investment property, acquired from Gorenje Tiki, d.o.o. – in liquidation, and the sale of apartments.

Note 19 – Investments in subsidiaries EUR 232,447k

EURk	Equity share	Equity of company 2012	Profit or loss of company 2012	Investment at 31 Dec 2012	Investment at 31 Dec 2011
Gorenje I.P.C., d.o.o., Velenje	100.00%	5,791	163	377	377
Gorenje design studio, d.o.o., Velenje	52.00%	338	2	260	260
ERICo, d.o.o., Velenje	51.00%	1,310	42	256	256
ENERGYGOR, d.o.o.,Velenje	100.00%	172	5	58	58
Gorenje Notranja oprema, d.o.o., Velenje	100.00%	-1,120	-1,753	0	18,215
Gorenje Keramika, d.o.o., Velenje	100.00%	705	-310	4,990	0
Gorenje Kuhinje, d.o.o., Velenje	100.00%	1,762	-2,428	0	0
Gorenje GTI, d.o.o., Velenje	100.00%	5,394	-925	3,934	8,795
Gorenje GSI, d.o.o., Ljubljana	100.00%	4,996	-1,563	4,861	0
Gorenje Gostinstvo, d.o.o., Velenje	100.00%	6,708	631	5,958	5,958
Gorenje Orodjarna, d.o.o., Velenje	100.00%	3,367	265	3,038	3,038
Indop, d.o.o., Šoštanj	100.00%	259	272	1,000	1,000
Gorenje GAIO, d.o.o., Šoštanj	100.00%	-282	-529	0	1,000
Gorenje Surovina, d.o.o., Maribor	85.79%	21,849	1,538	23,490	23,490
ZEOS, d.o.o., Ljubljana	51.00%	798	25	242	242
Gorenje Zagreb, d.o.o., Croatia	100.00%	15,292	22	17,230	17,230
ST Bana Nekretnine, d.o.o., Serbia	1.61%	2,777	-173	50	50
Gorenje Tiki, d.o.o., Serbia	100.00%	24,856	317	23,306	17,306
Gorenje Ekologija, d.o.o., Serbia	16.00%	9	0	2	2
Gorenje Home, d.o.o., Serbia	100.00%	4,986	676	3,001	3,001
Gorenje Skopje, d.o.o., Macedonia	100.00%	1,407	19	538	538
Mora Moravia s r.o., Czech Republic	67.95%	19,908	2,615	8,750	8,750
Gorenje Nederland BV, the Netherlands	100.00%	134,042	3,723	131,106	131,106
Total		**255,324**	**2,634**	**232,447**	**240,672**

Movements in investments in subsidiaries in 2012

EURk	Investments in subsidiaries
Balance at 1 January 2012	**240,672**
Increase	6,013
Impairment	-14,238
Balance at 31 December 2012	**232,447**

The increase in investments in subsidiaries in the Gorenje Group includes:

- a capital increase in the subsidiary Gorenje Tiki, d.o.o., Serbia in the amount of EUR 6,000k,
- an acquisition of share in the subsidiary Gorenje Notranja oprema, d.o.o. from third parties in the amount of EUR 13k.

Impairment of the investment in the company Gorenje Notranja oprema, d.o.o. was carried out in the amount of EUR 160k, investment in the subsidiary Gorenje Kuhinje, d.o.o. in the amount of EUR 13,078k, and impairment of the investment in the company Gorenje GAIO, d.o.o. amounted to EUR 1,000k.

Note 20 – Investments in associates

EUR 976k

EURk	Equity share	Equity of company 2012	Profit or loss of company 2012	Investment at 31 Dec 2012	Investment at 31 Dec 2011
GGE, d.o.o., Ljubljana	33.33%	609	4	200	200
ECONO projektiranje, d.o.o., Ljubljana	26.00%	171	9	35	35
RCE, d.o.o., Velenje	24.00%	3,055	472	600	600
Gorenje Projekt, d.o.o., Velenje	50.00%	701	370	141	141
Total		**4,536**	**855**	**976**	**976**

Movements in investments in associates in 2012

EURk	Investments in associates
Balance at 1 January 2012	**976**
Increase	0
Transfer	0
Impairment	0
Balance at 31 December 2012	**976**

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List of Group companies which are not directly owned by Gorenje, d.d.

EURk	Equity share	Equity of company 2012	Profit or loss of company 2012
KEMIS, d.o.o., Vrhnika	99.98%	5,707	545
PUBLICUS, d.o.o., Ljubljana	50.99%	1,154	463
EKOGOR, d.o.o., Jesenice	99.98%	-16	0
Gorenje Beteiligungs GmbH, Austria	100.00%	45,700	97
Gorenje Austria Handels GmbH, Austria	100.00%	4,882	18
Gorenje Vertriebs GmbH, Germany	100.00%	8,397	253
Gorenje Körting Italia S.r.l., Italy	100.00%	-278	-389
Gorenje France S.A.S., France	100.00%	1,030	-3,291
Gorenje Belux S.a.r.l., Belgium	100.00%	-202	-132
Gorenje Espana S.L., Spain	100.00%	-119	-49
Gorenje UK Ltd., Great Britain	100.00%	68	-491
Gorenje Group Nordic A/S, Denmark	100.00%	4,465	-3,406
Gorenje AB, Sweden	100.00%	247	11
Gorenje OY, Finland	100.00%	226	37
Gorenje AS, Norway	100.00%	133	107
Gorenje spol. s r.o., Czech Republic	100.00%	8,645	87
Gorenje real spol. s r.o., Czech Republic	100.00%	11,200	-103
Gorenje Slovakia s.r.o., Slovakia	100.00%	2,792	-649
Gorenje Budapest Kft., Hungary	100.00%	1,578	-306
Gorenje Polska Sp. z o.o., Poland	100.00%	6,923	354
Gorenje Bulgaria EOOD, Bulgaria	100.00%	4,350	2
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00%	5,680	242
Gorenje, d.o.o., Serbia	100.00%	10,654	824
Gorenje Podgorica , d.o.o., Montenegro	99.97%	3,007	3
Gorenje Romania S.r.l., Romania	100.00%	670	51
Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00%	43,898	5,624
Gorenje - kuchyně spol. s r.o., Czech Republic	100.00%	-41	-86
KEMIS-Termoclean, d.o.o., Croatia	99.98%	2,293	72

Kemis - BH, d.o.o., Bosnia and Herzegovina	99.98%	450	50
Gorenje Studio, d.o.o., Serbia	100.00%	2,344	7
Gorenje Gulf FZE, United Arab Emirates	100.00%	434	36
Gorenje Istanbul Ltd., Turkey	100.00%	4,476	-411
Gorenje TOV, Ukraine	100.00%	511	417
Kemis Valjevo, d.o.o, Serbia	99.98%	1,415	16
Kemis – SRS, d.o.o., Bosnia and Herzegovina	99.98%	125	26
ATAG Europe BV, The Netherlands	100.00%	29,762	7,271
ATAG Nederland BV, The Netherlands	100.00%	25,050	7,573
ATAG België NV, Belgium	100.00%	1,220	-280
ATAG Financiele Diensten BV, The Netherlands	100.00%	-437	0
ATAG Financial Solutions BV, The Netherlands	100.00%	53	0
ATAG Special Product BV, The Netherlands	100.00%	-1,517	0
Intell Properties BV, The Netherlands	100.00%	1,711	-22
Gorenje Kazakhstan, TOO, Kazakhstan	100.00%	861	-12
Gorenje kuhinje, d.o.o., Ukraine	70.00%	-130	-95
»Euro Lumi & Surovina« SH.P.K., Kosovo	50.99%	681	-3
OOO Gorenje BT, Russia	100.00%	5,001	4,205
Gorenje GTI, d.o.o., Beograd, Serbia	100.00%	213	24
Asko Appliances AB, Sweden	100.00%	16,016	-9,607
Asko Hvitevarer AS, Norway	100.00%	1,881	-34
AM Hvidevarer A/S, Denmark	100.00%	473	-24
Asko Appliances Inc, USA	100.00%	956	416
Asko Appliances Pty, Australia	100.00%	7,799	770
Asko Appliances OOO, Russia	100.00%	-207	13
»Gorenje Albania« SHPK, Albania	100.00%	40	27
ORSES d.o.o. Beograd, Serbia	100.00%	498	0
Gorenje Corporate GmbH, Austria	100.00%	36	1
Cleaning sistem S, d.o.o., Serbia	50.99%	584	17
Zeos eko-sistem d.o.o., Bosnia and Herzegovina	99.00%	399	0
Total		**273,741**	**10,269**

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Note 21 – Other non-current investments EUR 661k

Other non-current investments include non-current loans in the amount of EUR 42k (31 December 2011: EUR 84k) and other non-current investments in the amount of EUR 619k (31 December 2011: EUR 619k).

Regarding total non-current investments, the Company is not exposed to higher financial risks as most of these investments are made in subsidiaries.

Movements in other non-current investments

EURk	2012	2011
Opening balance at 1 January	**619**	**676**
Increase	0	0
Decrease	0	-22
Transfer to associates	0	-35
Closing balance at 31 December	**619**	**619**

Movements in loans

EURk	2012	2011
Opening balance at 1 January	**84**	**489**
Increase	0	0
Decrease	-42	-388
Transfer to current investments	0	-17
Closing balance at 31 December	**42**	**84**

Loans by maturity

EURk	2012	2011
Maturity from 1 to 2 years	42	84
Maturity from 2 to 3 years	0	0
Maturity from 3 to 4 years	0	0
Maturity from 4 to 5 years	0	0
Maturity over 5 years	0	0
Total	**42**	**84**

At the year-end 2012, no non-current loans were recorded, except housing loans under the Housing Act of 1991.

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Breakdown of non-current loans to specific groups of persons

No non-current loans were granted to the Management Board members, the Supervisory Board members, and internal owners.

Note 22 – Deferred tax assets and liabilities

	Tax assets		Tax liabilities		Tax assets – Tax liabilities	
EURk	2012	2011	2012	2011	2012	2011
PPE	50	75	1,268	1,491	-1,218	-1,416
Investments	1,403	1,167	20	-100	1,383	1,267
Tax differences on taxed profit shares	265	0	0	0	265	0
Receivables	832	1,210	0	0	832	1,210
Provisions for retirement benefits and jubilee premiums	1,431	2,020	0	0	1,431	2,020
Provisions for warranties	800	1,317	0	0	800	1,317
Unused tax losses	3,612	4,249	0	0	3,612	4,249
Unused tax incentives	1,732	1,582	0	0	1,732	1,582
Cash flow hedge – interest rate swaps	898	1,027	0	0	898	1,027
Total	**11,023**	**12,647**	**1,288**	**1,391**	**9,735**	**11,256**

	Tax assets – Tax liabilities		Through profit or loss		Through other comprehensive income	
EURk	2012	2011	2012	2011	2012	2011
PPE	-1,218	-1,416	-24	-16	224	0
Investments	1,383	1,267	236	-611	-121	23
Tax differences on taxed profit shares	265	0	265	0	0	0
Receivables	832	1,210	-378	528	0	0
Provisions for retirement benefits and jubilee premiums	1,431	2,020	-589	-78	0	0
Provisions for warranties	800	1,317	-518	-43	0	0
Unused tax losses	3,612	4,249	-637	481	0	0
Unused tax incentives	1,732	1,582	150	392	0	0
Cash flow hedge – interest rate swaps	898	1,027	0	0	-129	1,015
Total	**9,735**	**11,256**	**-1,495**	**653**	**-26**	**1,038**

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Note 23 – Inventories EUR 84,217k

EURk	2012	2011
Materials	39,433	43,371
Work in progress	7,622	8,530
Products	22,190	18,699
Merchandise	14,498	9,165
Advances	474	1,353
Total	**84,217**	**81,118**

The book value of inventories of products, for which corrections were made from production cost to net realisable value, amounts to EUR 4,459k (2011: EUR 1,544k).

Note 24 – Current investments EUR 110,083k

EURk	2012	2011
Available-for-sale financial assets	12,310	14,031
Loans	94,708	79,851
Interest receivable	1,426	791
Other current receivables from financing activities	1,639	116
Total	**110,083**	**94,789**

Available-for-sale financial assets refer to shares and interests in banks worth EUR 4,083k (2011: EUR 5,875k) and in other entities worth EUR 8,227k (2011: EUR 8,156k). Other current investments include receivables from unpaid dividends to the subsidiary Mora Moravia s r.o.

Movements in available-for-sale shares and interests

EURk	2012	2011
Opening balance at 1 January	**14,031**	**9,035**
Increase	80	6,030
Sale	-4	0
Impairment	0	0
Change in fair value	-1,797	-1,034
Balance at 31 December	**12,310**	**14,031**

Change in fair value amounting to EUR 1,797k is disclosed among finance expenses. Impairment in the amount of EUR 625k recorded among finance expenses, was recognised already in the previous year within the fair value reserve for available-for-sale financial assets.

Current loans

EURk	2012	2011
Current loans to companies in the Gorenje Group	87,133	71,604
Current portion of non-current loans to other companies	0	367
Current loans to other companies	7,575	7,880
Current deposits with banks	0	0
Total	**94,708**	**79,851**

In 2012, current deposits with banks with maturity up to 30 days were recorded under cash and cash equivalents in the amount of EUR 918k.

Current loans to companies in the Gorenje Group operating in Slovenia

		EURk
Company	2012	2011
KEMIS, d.o.o., Vrhnika	790	211
PUBLICUS, d.o.o., Ljubljana	380	460
Gorenje Surovina, d.o.o., Maribor	9,580	11,406
Gorenje Notranja oprema, d.o.o., Velenje	3,565	13,623
Gorenje Orodjarna, d.o.o., Velenje	1,458	1,084
Gorenje Kuhinje, d.o.o., Velenje	7,095	0
Gorenje Keramika, d.o.o., Velenje	3,759	0
Gorenje GAIO, d.o.o., Šoštanj	782	0
Gorenje GTI, d.o.o., Velenje	1,069	0
Total	**28,478**	**26,784**

Loans to Gorenje Notranja oprema, d.o.o. were impaired in the amount of EUR 2,421k.

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Current loans to companies in the Gorenje Group operating abroad

Company	2012	2011
		EURk
KEMIS-Termoclean, d.o.o., Croatia	1,550	0
Gorenje Beteiligungs GmbH, Austria	0	16,265
Asko Appliances AB, Sweden	23,900	28,400
Gorenje Nederland BV, the Netherlands	30,605	0
Gorenje Istanbul Ltd., Turkey	300	155
Gorenje Körting Italia, S.r.l., Italy	300	0
Gorenje Budapest Kft., Hungary	1,250	0
Gorenje Polska Sp. z o.o., Poland	750	0
Total	**58,655**	**44,820**

Short-term loans bear interest at a nominal interest rate ranging from 4.538% to 6.633%. Regarding current loans, the Company is not exposed to higher financial risks as most of these loans were extended to its subsidiaries.

Current loans to specific groups of persons

No current loans were granted to the Management Board members, the Supervisory Board members, and internal owners.

Note 25 – Trade receivables EUR 194,043k

EURk	2012	2011
Trade receivables – companies in the Gorenje Group	149,636	148,567
Trade receivables – other companies	44,407	39,336
Total	**194,043**	**187,903**

Current trade receivables due from companies in the Gorenje Group

EURk	2012	2011
Trade receivables – domestic operations	13,760	11,280
Trade receivables – foreign operations	135,876	137,287
Total	**149,636**	**148,567**

Current trade receivables due from companies in the Gorenje Group operating in Slovenia

Company	2012	2011
		EURk
ENERGYGOR, d.o.o., Ljubljana	1	1
ZEOS, d.o.o., Ljubljana	11	11
PUBLICUS, d.o.o., Ljubljana	9	11
KEMIS, d.o.o., Vrhnika	12	14
Gorenje Surovina, d.o.o., Maribor	624	263
Gorenje Notranja oprema, d.o.o., Velenje	465	11
Gorenje I.P.C., d.o.o.,Velenje	1,697	2,139
Gorenje GTI, d.o.o., Velenje	81	6,506
Gorenje Gostinstvo, d.o.o., Velenje	63	14
Gorenje Orodjarna, d.o.o., Velenje	227	323
ERICo, d.o.o., Velenje	6	7
Gorenje design studio, d.o.o., Velenje	13	23
Indop, d.o.o., Šoštanj	116	1,781
Gorenje GAIO, d.o.o., Šoštanj	83	176
Gorenje GSI, d.o.o., Ljubljana	10,198	0
Gorenje Kuhinje, d.o.o., Velenje	104	0
Gorenje Keramika, d.o.o., Velenje	50	0
Total	**13,760**	**11,280**

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Current trade receivables due from companies in the Gorenje Group operating abroad

Company	2012	2011
		EURk
Gorenje Zagreb, d.o.o., Croatia	16,055	24,703
KEMIS-Termoclean, d.o.o., Croatia	1	3
Gorenje, d.o.o., Serbia	7,047	6,005
Gorenje aparati za domaćinstvo, d.o.o., Serbia	13,479	3,004
Gorenje Tiki, d.o.o., Serbia	3,782	4,615
Gorenje Home, d.o.o., Serbia	6,775	1,401
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	681	355
Gorenje Skopje, d.o.o., Macedonia	2,245	1,519
Gorenje Podgorica, d.o.o., Montenegro	4,237	3,763
Gorenje Vertriebs GmbH, Germany	13,787	25,804
Gorenje Austria Handels GmbH, Austria	3,386	2,877
Gorenje Beteiligungs GmbH, Austria	3,893	5
Asko Appliances AB, Sweden	45	4
Asko Appliances Holding AB, Finland	0	47
Asko Kodinkone, Finland	0	73
Gorenje Group Nordic A/S, Denmark	16,991	19,000
ATAG Nederland BV, the Netherlands	182	283
Gorenje Nederland BV, the Netherlands	339	436
Gorenje UK Ltd., Great Britain	1,502	1,151
Gorenje Belux S.a.r.l., Belgium	1,822	1,298
Gorenje France S.A.S., France	3,487	2,400
Gorenje Körting Italia S.r.l., Italy	4,554	4,467
Gorenje Espana S.L., Spain	-20	-20
OOO Gorenje BT, Russia	7,944	13,806
Gorenje TOV, Ukraine	4,166	39
Gorenje Kazakhstan, TOO, Kazakhstan	45	55
Gorenje Slovakia s.r.o., Slovakia	945	424
Gorenje spol. s r.o., Czech Republic	4,523	1,920
Gorenje - real spol s r.o., Czech Republic	1	1
Mora Moravia, s r.o., Czech Republic	1,483	1,508
Gorenje Budapest Kft., Hungary	1,844	2,884
Gorenje Polska Sp. z o.o., Poland	5,688	6,200
Gorenje Bulgaria EOOD, Bulgaria	1,193	161
Gorenje Romania S.r.l., Romania	2,050	1,351
Gorenje Istanbul Ltd., Turkey	1	4,560
»Gorenje Albania« SHPK, Albania	287	175
Gorenje Gulf FZE, United Arab Emirates	1,432	964
Asko Appliances Inc, USA	4	0
Revaluation	0	46
Total	**135,876**	**137,287**

Note 26 – Other current assets EUR 18,307k

EURk	2012	2011
Advances for services	249	237
Other current assets	12,978	10,052
Short-term deferred costs and expenses	5,080	10,682
Total	**18,307**	**20,971**

Advances for services mainly include collaterals received in the amount of EUR 222k (2011: EUR 222k).

Other current assets include input VAT receivable in the Republic of Slovenia in the amount of EUR 7,205k (31 December 2011: EUR 6,550k), VAT receivable in foreign countries in the amount of EUR 675k (31 December 2011: EUR 750k), current receivables from tax deductions in the amount of EUR 280k, and receivables not yet charged in the amount of EUR 3,654k from completed projects relating predominantly to the Solar programme (31 December 2011: EUR 1,938k).

Short-term deferred costs include deferred costs relating to subsequent periods. Compared to 2011, short-term deferred costs and expenses declined by 52.4% primarily as a result of accrued costs of coal transport in 2011, which was supplied and sold in January 2012.

Note 27 – Cash and cash equivalents EUR 18,972k

EURk	2012	2011
Cash in hand and readily liquid securities	33	28
Cash in banks	18,939	58,062
Total	**18,972**	**58,090**

Cash in banks also includes deposits with maturity up to 30 days, which amounted to EUR 918k in 2012 (31 December 2011: EUR 57,375k).

Note 28 – Equity EUR 319,466k

As at 31 December 2012, the share capital of Gorenje, d.d., amounted to EUR 66,378,217.32 (31 December 2011: EUR 66,378,217.32) and was divided into 15,906,876 ordinary, freely transferable, registered, no par value shares.

Capital surplus (share premium) in the amount of EUR 157,712k includes paid-in capital in excess of par value of shares in the amount of EUR 64,352k, surplus in excess of book value of disposed own shares in the amount of EUR 15,313k and general equity revaluation adjustment in the amount of EUR 78,047k transferred upon the transition to IFRSs.

Legal and statutory reserves in the amount of EUR 22,719k include legal reserves in the amount of EUR 12,895k (31 December 2011: EUR 12,895k), reserves for own shares in the amount of EUR 3,170k (31 December 2011: EUR 3,170k), and statutory reserves in the amount of EUR 6,654k (31 December 2011: EUR 6,654k).

Pursuant to the Companies Act, retained earnings in the amount of EUR 73,212k (31 December 2011: EUR 89,521k) consist of other revenue reserves in the amount of EUR 73,060k (31 December 2011: EUR 83,997k) that were created on the basis of resolutions on the appropriation of profit for the period adopted by the Management Board and the Supervisory Board and resolutions of the Shareholders' Meeting on the appropriation of accumulated profit and determined accumulated profit in the amount of EUR 152k (2011: EUR 5,524k). The loss for the financial year 2012 was settled already in the current year and charged against retained earnings from 2011 in the amount of EUR 3,157k and against other revenue reserves in the amount of EUR 10,936k.

Fair value reserve amounting to EUR 2,615k as at 31 December 2012 (31 December 2011: EUR 2,166k) 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 cash flow hedge, and a change in the fair value reserve of the investment in subsidiary.

Own shares in the amount of EUR -3,170k (31 December 2011: EUR -3,170k) are stated as a deductible item of equity and recorded at cost.

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Changes in fair value reserve are shown in the table below:

EURk	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Reserve for fair value of investments in subsidiaries	Total
Balance at 1 Jan 2012	**5,962**	**-401**	**-4,108**	**713**	**2,166**
Revaluation of land	0	0	0	0	0
Disposal of land	0	0	0	0	0
Change in fair value of cash flow hedge	0	0	-2,327	0	-2,327
Change in fair value of cash flow hedge, transferred to profit or loss	0	0	2,182	0	2,182
Change in fair value of available-for-sale financial assets	0	-6	0	0	-6
Disposal of available-for-sale financial assets	0	0	0	0	0
Impairment of available-for-sale financial assets	0	626	0	0	626
Disposal of subsidiary	0	0	0	0	0
Deferred taxes	224	-121	-129	0	-26
Balance at 31 Dec 2012	**6,186**	**98**	**-4,382**	**713**	**2,615**

EURk	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Reserve for fair value of investments in subsidiaries	Total
Balance at 1 Jan 2011	**5,962**	**-310**	**-48**	**713**	**6,317**
Revaluation of land	0	0	0	0	0
Disposal of land	0	0	0	0	0
Change in fair value of cash flow hedge	0	0	-7,230	0	-7,230
Change in fair value of cash flow hedge, transferred to profit or loss	0	0	2,155	0	2,155
Change in fair value of available-for-sale financial assets	0	-114	0	0	-114
Disposal of available-for-sale financial assets	0	0	0	0	0
Impairment of available-for-sale financial assets	0	0	0	0	0
Disposal of subsidiary	0	0	0	0	0
Deferred taxes	0	23	1,015	0	1,038
Balance at 31 Dec 2011	**5,962**	**-401**	**-4,108**	**713**	**2,166**

Own shares

Number of own shares	1 Jan 2012	Purchase	Sale	31 Dec 2012
Repurchased own shares	121,311	0	0	121,311

Earnings per share amounted to EUR -0.89 (2011: EUR 0.46).

To determine earnings per share, the following data on the profit or loss and the average number of shares was used:

	2012	2011
Profit or loss for the period (EURk)	-14,093	7,288
Weighted average number of ordinary shares	15,785,565	15,785,565
Earnings per share (in EUR)	**-0.89**	**0.46**

No preference shares have been issued, therefore basic and diluted earnings per share are equal.

In 2012, dividends were paid out in the amount of EUR 0.15 gross per share (no dividends were paid in 2011; the last dividend payout was carried out in 2008 i.e. EUR 0.45 gross per share).

Note 29 – Determination of accumulated profit and proposal for its appropriation in line with the Companies Act

Pursuant to the Companies Act and the Articles of Association of Gorenje, d.d., the Management Board decided upon obtaining consent from the Supervisory Board to settle the loss of the financial year 2012 in the amount of EUR 14,093,056.75 in 2012, and charge it against following equity components:

	EUR
Profit or loss for the period	-14,093,056.75
Loss is charged against:	
+ retained earnings from 2011	3,138,468.47
+ retained earnings from 2011 relating to unpaid dividends for own shares	18,196.65
+ part of other revenue reserves from 2003	10,936,391.63
= accumulated loss	**0.00**
+ retained earnings from unpaid dividends relating to the period 2001-2006	152,123.64
= accumulated profit at 31 Dec 2012	**152,123.64**

The Management Board and the Supervisory Board have proposed to the General Shareholders' Meeting that the accumulated profit for the 2012 financial year in the amount of EUR 152,123.64 remains unappropriated.

Note 30 – Provisions EUR 21,632k

EURk	2012	2011
Provisions for warranties	9,408	13,170
Provisions for retirement benefits and jubilee premiums	10,772	11,899
Other provisions	1,452	1,158
Total	**21,632**	**26,227**

Movements in provisions in 2012

EURk	Balance 1 Jan 2012	Use	Reversal	Creation	Balance 31 Dec 2012
Provisions for warranties	13,170	-8,551	-2,846	7,635	9,408
Provisions for retirement benefits and jubilee premiums	11,899	-885	-836	594	10,772
Other provisions	1,158	0	-183	477	1,452
Total	**26,227**	**-9,436**	**-3,865**	**8,706**	**21,632**

Movements in provisions in 2011

EURk	Balance 1 Jan 2011	Use	Reversal	Creation	Balance 31 Dec 2011
Provisions for warranties	13,603	-8,013	-4,109	11,689	13,170
Provisions for retirement benefits and jubilee premiums	11,894	-704	-81	790	11,899
Other provisions	1,900	-60	-997	315	1,158
Total	**27,397**	**-8,777**	**-5,187**	**12,794**	**26,227**

Non-current provisions for warranties were created on the basis of estimated costs of warranties calculated by considering the historical data on the quality level of products and the costs of repairs under warranties.

The changed level of provisions for warranties were primarily influenced by the improved quality of washing machines and thus lower actual costs per unit, and by changes in contractual obligations to certain subsidiaries. The actuarial calculation of estimated future payments of retirement benefits and jubilee premiums was made as at 31 December 2012. In 2012, provisions were created for retirement benefits and jubilee premiums in the amount of EUR 594k (2011: EUR 790k). They were charged against current profit or loss, as well as reversed in the amount of EUR 836k, which results from a lower discount rate applied in the calculation of provisions (in 2012: 4.6%, in 2011: 5.10%), a lower anticipated increase in wages, and a lower number of employees considered during the relevant calculation. Other provisions include provisions for claims filed with the court.

Note 31 – Non-current financial liabilities EUR 227,327k

EURk	2012	2011
Non-current financial liabilities to banks	218,008	216,541
Non-current financial liabilities to other companies	69,933	87,741
Current portion of non-current financial liabilities	-60,627	-78,250
Non-current finance lease	13	44
Total	**227,327**	**226,076**

Non-current financial liabilities are denominated in EUR. At the year end 2012, borrowings bore interest at the variable interest rate ranging from 1.12% to 4.939%.

Non-current financial liabilities to other companies include liabilities from borrowings from International Finance Corporation (IFC).

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Financial liabilities by maturity

EURk	2012	2011
Maturity from 1 to 2 years	93,765	51,161
Maturity from 2 to 3 years	34,916	82,457
Maturity from 3 to 4 years	74,159	23,924
Maturity from 4 to 5 years	17,892	62,701
Maturity over 5 years	6,595	5,833
Total	**227,327**	**226,076**

Collateralisation of financial liabilities

EURk	2012	2011
Bills	42,389	56,099
Pari-Passu Clause, Negative Pledge Clause	194,513	221,832
Financial covenants (ratios)	191,713	221,832
Guarantee Scheme of the Republic of Slovenia	0	0

The major portion of borrowings is collateralised by financial covenants, and the Pari-Passu and Negative Pledge clauses, as stipulated in individual contracts. Some borrowings are simultaneously secured by several types of collaterals.

Note 32 – Current financial liabilities EUR 108,349k

EURk	2012	2011
Borrowings from banks	16,500	14,000
Borrowings from related companies	24,401	30,375
Borrowings from third parties	1,008	805
Interest payable	351	688
Dividends payable	147	175
Current portion of non-current financial liabilities	60,627	78,250
Other current financial liabilities	5,315	8,961
Total	**108,349**	**133,254**

Other current financial liabilities include liabilities from hedges by derivatives in the amount of EUR 5,315k (2011: EUR 5,527k).

Borrowings received from Group companies operating in Slovenia

		EURk
Company	2012	2011
Gorenje Gostinstvo, d.o.o., Velenje	2,303	1,671
Gorenje I.P.C., d.o.o., Velenje	4,959	5,686
Gorenje GTI, d.o.o., Velenje	0	6,274
Gorenje GSI, d.o.o., Ljubljana	630	0
Gorenje Orodjarna, d.o.o., Velenje	158	0
Gorenje design studio, d.o.o., Velenje	99	111
ENERGYGOR, d.o.o., Velenje	164	164
ERICo, d.o.o., Velenje	185	135
Indop, d.o.o, Šoštanj	1,101	2,921
ZEOS, d.o.o., Ljubljana	1,302	3,025
Total	**10,901**	**19,987**

Borrowings received from Group companies operating abroad

		EURk
Company	2012	2011
ATAG Europe BV, The Netherlands	11,000	10,000
Gorenje Nederland BV, The Netherlands	0	388
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	2,500	0
Total	**13,500**	**10,388**

Collateralisation of current financial liabilities

EURk	2012	2011
Bills	59,318	74,442
Pari-Passu Clause, Negative Pledge Clause	66,627	90,150
Financial covenants (ratios)	59,227	75,050
Guarantees	17,808	0

Collateralisation of non-current and current financial liabilities

A significant portion of borrowings is collateralised by bills and the Pari-Passu and Negative Pledge clauses, as stipulated in individual contracts, and partly also by financial covenants. Certain borrowings are simultaneously secured by several types of collaterals.

The item of guarantees includes the guarantee issued to banks by Gorenje Nederland B.V. in connection with liabilities of the Company.

The loan contracts concluded with banks include financial covenants that are expected to be fully met in the financial year. The covenants are reviewed on the basis of the audited consolidated financial statements for the respective financial year. A portion of financial covenants relating to the borrowing from the International Finance Corporation (IFC) are reviewed on a three-month basis.

Because of the expected breach of financial covenants, the Company applied at the year end 2012 to its bank partners for waiver of financial covenants requiring consolidated financial statements for 2012. Waivers were approved by all bank partners for all credit lines and guarantee transactions secured by financial covenants. The waiver of financial covenants applies to the financial year 2012.

In 2012, the Company also applied to the International Financial Corporation IFC for waiver of financial covenants requiring quarterly interim reports for 2012, and the waiver for the borrowing was approved by the IFC.

Interest-bearing borrowings

Currency	Value in currency	Value in EURk	Interest rate	
			from	to
EUR	102,536	102,536	1.12%	5.107%
Total		**102,536**		

Note 33 – Trade payables EUR 152,164k

EURk	2012	2011
Trade payables to suppliers in the Gorenje Group	25,387	26,132
Trade payables to other suppliers	126,777	115,895
Total	**152,164**	**142,027**

Trade payables to suppliers in the Gorenje Group

EURk	2012	2011
Trade payables to suppliers in the Gorenje Group – domestic operations	6,402	5,887
Trade payables to suppliers in the Gorenje Group – foreign operations	18,985	20,245
Total	**25,387**	**26,132**

Trade payables to suppliers in the Gorenje Group – domestic operations

		EURk
Company	2012	2011
Kemis, d.o.o., Radomlje	43	42
Gorenje Surovina, d.o.o., Maribor	97	77
Gorenje Notranja oprema, d.o.o, Velenje	60	719
Gorenje I.P.C., d.o.o., Velenje	4,040	3,500
Gorenje GTI, d.o.o., Velenje	149	220
Gorenje Gostinstvo, d.o.o., Velenje	155	163
Gorenje Orodjarna, d.o.o., Velenje	917	635
ERICo, d.o.o., Velenje	50	2
Gorenje design studio, d.o.o., Velenje	240	224
Gorenje GAIO, d.o.o., Šoštanj	508	304
Indop, d.o.o, Šoštanj	86	1
Gorenje GSI, d.o.o., Ljubljana	55	0
Gorenje Kuhinje, d.o.o., Velenje	2	0
Total	**6,402**	**5,887**

Trade payables to suppliers in the Gorenje Group – foreign operations

		EURk
Company	2012	2011
Gorenje Zagreb, d.o.o., Croatia	12	2
Gorenje, d.o.o., Serbia	12	21
Gorenje aparati za domaćinstvo, d.o.o., Serbia	9,096	7,823
Gorenje Tiki, d.o.o., Serbia	6,169	4,096
Gorenje Vertriebs GmbH, Germany	118	38
Gorenje Austria Handels GmbH, Austria	216	36
Gorenje Beteiligungs GmbH, Austria	149	206
Asko Appliances AB, Sweden	271	36
Gorenje Group Nordic A/S, Denmark	48	-11
ATAG Nederland BV, the Netherlands	269	40
Gorenje Nederland BV, the Netherlands	95	120
Gorenje UK Ltd., Great Britain	13	0
Gorenje Belux S.a.r.l., Belgium	19	8
Gorenje France S.A.S., France	17	13
Gorenje Körting Italia S.r.l., Italy	53	22
Gorenje Espana S.L., Spain	-20	-20
Gorenje Slovakia s.r.o., Slovak Republic	0	40
Gorenje spol. s r.o., Czech Republic	5	1
Mora Moravia s.r.o., Czech Republic	1,843	7,300
Gorenje Budapest Kft., Hungary	94	103
Gorenje Polska Sp. z o.o., Poland	100	0
Gorenje Romania S.r.l., Romania	3	1
Gorenje Bulgaria EOOD, Bulgaria	0	24
OOO Gorenje BT, Russia	0	5
Gorenje Gulf FZE, United Arab Emirates	202	291
Gorenje Istanbul Ltd., Turkey	15	51
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	17	0
Gorenje Corporate GmbH, Austria	31	0
Asko Appliances Inc., USA	2	0
Gorenje Home, d.o.o., Serbia	135	0
Revaluation	1	-1
Total	**18,985**	**20,245**

Trade payables to other suppliers

EURk	2012	2011
Trade payables to other suppliers – domestic market	46,360	45,773
Trade payables to other suppliers – foreign market	80,417	70,122
Total	**126,777**	**115,895**

Note 34 – Other current liabilities EUR 17,668k

EURk	2012	2011
Payables to employees	7,973	8,127
Payables to state and other institutions	1,086	1,048
Payables for advances received	151	251
Other payables	1,519	1,373
Accrued costs and expenses	6,939	6,199
Total	**17,668**	**16,998**

As at 31 December, payables to employees include:

EURk	2012	2011
Wages and salaries, continued pay	4,590	4,755
Payroll contributions	1,425	1,367
Payroll taxes	742	732
Other work-related earnings	150	159
Deductions from wages and salaries	949	1,029
Other payables	117	85
Total	**7,973**	**8,127**

Accrued costs and expenses were created for accrued costs of services in the amount of EUR 1,970k (2011: EUR 3,024k), accrued interest expenses on borrowings in the amount of EUR 2,810k (2011: EUR 3,147k), accrued costs of employee benefits expense in the amount of EUR 57k, and accrued costs of liabilities referring to equipment under constructions in the amount of EUR 2,102k in connection with the production shift from Sweden to Slovenia.

Note 35 – Contingent liabilities

Contingent liabilities from loan guarantees given to financial institutions for financial burdens of its subsidiaries in the amount of EUR 162.528k (2011: EUR 189,162k), to third parties in the amount of EUR 960k (2011: EUR 4,454k), and to the subsidiary Gorenje Beteiligungs in the amount of EUR 11,000k (2011: EUR 13,000k) are recorded in a separate account. In addition, contingent liabilities from performance bonds and payment guarantees in the amount of EUR 3,908k (2011: EUR 7,772k) 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 36 – Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum credit risk exposure at the reporting date:

EURk	2012	2011
Available-for-sale financial assets	12,310	14,031
Loans	94,750	79,935
Trade and other receivables	207,270	198,191
Cash and cash equivalents	18,972	58,090
Other receivables from financing activities	4,660	2,501
Total	**337,962**	**352,748**

The maximum credit risk exposure of trade receivables at the reporting date by geographic region:

EURk	2012	2011
Western Europe	58,179	69,305
Eastern Europe	118,242	106,240
Other countries	17,622	12,358
Total	**194,043**	**187,903**

The maximum credit risk exposure of trade receivables at the reporting date by type of customer:

EURk	2012	2011
Wholesale customers	193,656	187,607
Other customers	387	296
Total	**194,043**	**187,903**

EURk	Gross value 2012	Allowance 2012	Gross value 2011	Allowance 2011
Not past due	157,843	0	145,424	0
Past due 1 to 45 days	22,361	0	10,269	0
Past due 46 to 90 days	8,209	0	10,279	0
Past due 91 to 180 days	4,399	0	9,316	0
Past due over 180 days	8,480	-7,249	21,109	-8,494
Total	**201,292**	**-7,249**	**196,397**	**-8,494**

Movements in allowances for trade receivables due to:

EURk	2012	2011
Balance at 1 January	**8,494**	**6,019**
Impairment loss	1,292	3,259
Payments	-463	-414
Write-down of receivables	-2,074	-453
Acceptance of allowance	0	83
Balance at 31 December	**7,249**	**8,494**

Liquidity risk

Financial liabilities by maturity:

31 December 2012

EURk	Book value	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	304,441	332,756	88,793	101,547	135,313	7,103
Borrowings from related entities and third parties	25,409	26,450	26,450			
Other financial liabilities	511	511	511			
Trade payables	152,164	152,164	152,164			
Other current liabilities	10,729	10,729	10,729			
Total	**493,254**	**522,610**	**278,647**	**101,547**	**135,313**	**7,103**
Derivative financial receivables and liabilities						
Interest rate swaps	-5,279	-5,467	-2,465	-1,939	-1,063	
Forward exchange contracts used for hedging	-36	-36	-36			
Outflow	-36	-36	-36			
Inflow						
Other forward exchange contracts						
Outflow						
Inflow						
Total	**-5,315**	**-5,503**	**-2,501**	**-1,939**	**-1,063**	**0**

31 December 2011

EURk	Book value	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	318,282	356,272	105,824	61,565	182,878	6,005
Borrowings from related entities and third parties	31,180	32,349	32,349			
Other financial liabilities	4,341	4,341	4,341			
Trade payables	142,027	142,027	142,027			
Other current liabilities	10,799	10,799	10,799			
Total	**506,629**	**545,788**	**295,340**	**61,565**	**182,878**	**6,005**
Derivative financial receivables and liabilities						
Interest rate swaps	-5,134	-4,508	-1,896	-1,196	-1,416	
Forward exchange contracts used for hedging	-393	-393	-393			
Outflow	-393	-393	-393			
Inflow						
Other forward exchange contracts						
Outflow						
Inflow						
Total	**-5,527**	**-4,901**	**-2,289**	**-1,196**	**-1,416**	**0**

Currency risk

Exposure to currency risk:

31 December 2012

EURk	EUR	HRK	DKK	PLN	USD	HUF	Other currencies
Trade receivables	190,699				3,331		13
Financial liabilities	-330,361						
Trade payables	-146,927			-100	-4,583	-81	-473
Financial position exposure	**-286,589**	**0**	**0**	**-100**	**-1,252**	**-81**	**-460**
Forward exchange contracts					6,026		
Net exposure	**-286,589**	**0**	**0**	**-100**	**4,774**	**-81**	**-460**

31 December 2011

EURk	EUR	HRK	DKK	PLN	USD	HUF	Other currencies
Trade receivables	181,274				6,505		124
Financial liabilities	-353,803						
Trade payables	-136,687				-4,859	-87	-394
Financial position exposure	**-309,216**	**0**	**0**	**0**	**1,646**	**-87**	**-270**
Forward exchange contracts					7,600		
Net exposure	**-309,216**	**0**	**0**	**0**	**9,246**	**-87**	**-270**

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
HRK	7.521	7.438	7.556	7.537
DKK	7.444	7.451	7.461	7.434
PLN	4.184	4.119	4.074	4.458
USD	1.286	1.392	1.319	1.294
HUF	289.324	279.310	292.3	314.580

Sensitivity analysis

A 5 percent increase 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 2011.

31 December 2012

EURk	Profit or loss for the period
HRK	0
DKK	0
PLN	5
USD	-239
HUF	4
Other currencies	23

31 December 2011

EURk	Profit or loss for the period
HRK	0
DKK	0
PLN	0
USD	-462
HUF	-4
Other currencies	-13

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.

Interest rate risk

Exposure to interest rate risk:

EURk	2012	2011
Fixed rate financial instruments		
Financial assets	33,555	35,027
Financial liabilities	-10,000	0
Variable rate financial instruments		
Financial assets	61,195	44,824
Financial liabilities	-319,850	-349,462
Derivative financial liabilities	-5,315	-5,527

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Fair value sensitivity analysis for fixed rate instruments

No fixed rate financial instruments at fair value through profit or loss and derivatives designated as fair value hedge are recorded. Therefore a change in the interest rate at the reporting date would not have any impact on profit or loss.

Fair value sensitivity analysis for variable 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 2011.

	Profit or loss for the period		Other comprehensive income	
EURk	Increase by 50 bt	Decrease by 50 bt	Increase by 50 bt	Decrease by 50 bt
31 December 2012				
Variable rate instruments	-3,298	3,298	0	0
Interest rate swap contracts	712	-712	728	-728
Cash flow variability (net)	**-2,586**	**2,586**	**728**	**-728**
31 December 2011				
Variable rate instruments	-3,670	3,670	0	0
Interest rate swap contracts	526	-526	1,499	-1,499
Cash flow variability (net)	**-3,144**	**3,144**	**1,499**	**-1,499**

Note 37 – Fair value

The fair values and book values of financial assets and financial liabilities

EURk	Book value 2012	Fair value 2012	Book value 2011	Fair value 2011
Available-for-sale investments	12,310	12,310	14,031	14,031
Non-current loans	42	42	84	84
Current loans	94,708	94,708	79,851	79,851
Derivatives	-5,315	-5,315	-5,527	-5,527
Trade receivables	194,043	194,043	187,903	187,903
Other current assets	13,227	13,227	10,288	10,288
Cash and cash equivalents	18,972	18,972	58,090	58,090
Non-current financial liabilities	-227,327	-227,327	-226,076	-226,076
Current financial liabilities	-103,034	-103,034	-127,727	-127,727
Trade payables	-152,164	-152,164	-142,027	-142,027
Other payables	-10,729	-10,729	-10,799	-10,799
Total	**-165,267**	**-165,267**	**-161,909**	**-161,909**

Available-for-sale investments are valued at fair value on the basis of market prices.

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.

Financial year 2012

EURk	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	266	-	12,044	12,310
Derivatives – assets	-	-	-	-
Derivatives – liabilities	-	-5,315	-	-5,315

Financial year 2011

EURk	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	468	-	13,563	14,031
Derivatives – assets	-	-	-	-
Derivatives – liabilities	-	-5,527	-	-5,527

Forward exchange contracts

The total fair value of forward exchange contracts amounted to EUR -36k as at 31 December 2012 (2011: EUR -393k) and was recorded under other financial liabilities.

Interest rate swaps

The total fair value of interest rate swaps as at 31 December 2012 amounted to EUR -5,279k (2011: EUR -5,134k) and was recorded under other financial liabilities.

Interest rate swap hedges, which relate to hedged items in the balance sheet, are recorded in equity in the fair value reserve.

Note 38 – Commitments relating to investments

Contractually agreed investments in intangible assets and property, plant and equipment not yet recognised as at the balance sheet date amounted at the reporting date to EUR 20,343k (2011: EUR 2,011k). The biggest portion refers to the movement of the production from the subsidiary ASKO Sweden to the controlling company and is recorded at approximately EUR 11,500k.

Note 39 – Related party transactions

The transactions with related parties were conducted on the basis of 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.

Information on earnings

In 2012, the following personal earnings were paid to the groups of persons stated below:

Gross earnings in 2012

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
- salaries	1,087	0	5,181
- incentive bonuses	0	0	625
- other income	83	0	752
- attendance fees	0	35	0
- function-related allowance	0	106	0
- refund of work-related expenses	0	38	0
Total	**1,170**	**179**	**6,558**

Net earnings in 2012

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
- salaries	492	0	2,642
- incentive bonuses	0	0	300
- other income	81	0	553
- attendance fees	0	27	0
- function-related allowance	0	83	0
- refund of work-related expenses	0	30	0
Total	**573**	**140**	**3,495**

Gross earnings in 2011

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
- salaries	775	0	5,219
- incentive bonuses	0	0	476
- other income	145	0	537
- attendance fees	0	46	0
- function-related allowance	0	53	0
- refund of work-related expenses	0	43	0
Total	**920**	**142**	**6,232**

Net earnings in 2011

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
- salaries	347	0	2,606
- incentive bonuses	0	0	226
- other income	103	0	416
- attendance fees	0	36	0
- function-related allowance	0	41	0
- refund of work-related expenses	0	34	0
Total	**450**	**111**	**3,248**

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 shown below:

Management Board members

Gross earnings in 2012

EUR	Salaries	Incentive bonuses	Other income	Total
Franc Bobinac	234,866	0	25,831	260,697
Marko Mrzel	178,705	0	10,146	188,851
Branko Apat	192,469	0	10,146	202,615
Peter Groznik	112,940	0	9,095	122,035
Uroš Marolt	176,916	0	16,646	193,562
Drago Bahun	191,251	0	10,894	202,145
Total	**1,087,147**	**0**	**82,758**	**1,169,905**

Net earnings in 2012

EUR	Salaries	Incentive bonuses	Other income	Total
Franc Bobinac	100,040	0	25,491	125,531
Marko Mrzel	87,482	0	9,813	97,295
Branko Apat	89,392	0	9,810	99,202
Peter Groznik	49,932	0	8,815	58,747
Uroš Marolt	78,786	0	16,311	95,097
Drago Bahun	86,353	0	10,558	96,911
Total	**491,985**	**0**	**80,798**	**572,783**

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Gross earnings in 2011

EUR	Salaries	Incentive bonuses	Other income	Total
Franc Bobinac	154,800	0	17,235	172,035
Franc Košec	49,600	0	78,985	128,585
Branko Apat	148,800	0	10,341	159,141
Uroš Marolt	148,800	0	18,369	167,169
Marko Mrzel	124,000	0	8,464	132,464
Drago Bahun	148,800	0	11,732	160,532
Total	**774,800**	**0**	**145,126**	**919,926**

Net earnings in 2011

EUR	Salaries	Incentive bonuses	Other income	Total
Franc Bobinac	68,564	0	16,903	85,467
Franc Košec	22,058	0	38,991	61,049
Branko Apat	69,532	0	10,010	79,542
Uroš Marolt	65,193	0	18,037	83,230
Marko Mrzel	55,226	0	8,135	63,361
Drago Bahun	66,791	0	11,400	78,191
Total	**347,364**	**0**	**103,476**	**450,840**

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Supervisory Board members and the members of the Audit Committee

Gross earnings in 2012

EUR	Meeting attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	3,297	12,000	0	1,187	16,484
Maja Makovec Brenčič	3,658	10,800	0	1,928	16,386
Marcel Van Assen	1,920	9,600	0	10,811	22,331
Peter Kraljič	2,073	6,194	0	3,387	11,654
Keith Miles	5,050	10,200	0	13,679	28,929
Bernard C. Pasquier	4,186	10,150	0	732	15,068
Jure Slemenik	3,370	9,600	0	1,210	14,180
Drago Krenker	3,840	9,600	0	1,210	14,650
Krešimir Martinjak	3,609	10,800	0	1,210	15,619
Peter Kobal	3,072	9,600	0	1,210	13,882
Aleksander Igličar	1,152	7,680	0	991	9,823
Total	**35,227**	**106,224**	**0**	**37,555**	**179,006**

Net earnings in 2012

EUR	Meeting attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	2,556	9,300	0	1,043	12,899
Maja Makovec Brenčič	2,835	8,370	0	1,618	12,823
Marcel Van Assen	1,488	7,440	0	8,502	17,430
Peter Kraljič	1,607	4,800	0	2,748	9,155
Keith Miles	3,913	7,905	0	10,725	22,543
Bernard C. Pasquier	3,244	7,866	0	691	11,801
Jure Slemenik	2,611	7,440	0	1,062	11,113
Drago Krenker	2,976	7,440	0	1,062	11,478
Krešimir Martinjak	2,797	8,370	0	1,062	12,229
Peter Kobal	2,381	7,440	0	1,062	10,883
Aleksander Igličar	893	5,952	0	768	7,613
Total	**27,301**	**82,323**	**0**	**30,343**	**139,967**

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Gross earnings in 2011

EUR	Meeting attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	3,646	6,000	0	1,077	10,723
Maja Makovec Brenčič	4,302	5,400	0	1,303	11,005
Marcel Van Assen	4,446	4,800	0	14,839	24,085
Peter Kraljič	3,464	4,800	0	3,472	11,736
Keith Miles	5,642	5,100	0	13,781	24,523
Bernard C. Pasquier	5,211	4,800	0	1,958	11,969
Jure Slemenik	3,776	4,800	0	1,364	9,940
Drago Krenker	5,498	4,800	0	1,474	11,772
Krešimir Martinjak	3,776	5,400	0	1,364	10,540
Peter Kobal	4,446	4,800	0	1,364	10,610
Aleksander Igličar	1,722	2,560	0	537	4,819
Total	**45,929**	**53,260**	**0**	**42,533**	**141,722**

Net earnings in 2011

EUR	Meeting attendance fees	Function-related allowance	Incentive bonuses	Refund of work-related expenses	Total
Uroš Slavinec	2,826	4,650	0	983	8,459
Maja Makovec Brenčič	3,334	4,185	0	1,159	8,678
Marcel Van Assen	3,446	3,720	0	11,648	18,814
Peter Kraljič	2,685	3,720	0	2,839	9,244
Keith Miles	4,372	3,953	0	10,829	19,154
Bernard C. Pasquier	4,039	3,720	0	1,666	9,425
Jure Slemenik	2,926	3,720	0	1,206	7,852
Drago Krenker	4,261	3,720	0	1,291	9,272
Krešimir Martinjak	2,926	4,185	0	1,206	8,317
Peter Kobal	3,446	3,720	0	1,206	8,372
Aleksander Igličar	1,334	1,984	0	416	3,734
Total	**35,595**	**41,277**	**0**	**34,449**	**111,321**

No non-current and current loans were extended to the Management Board members, the Supervisory Board members, and internal owners.

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Note 40 – Events after the balance sheet date

- The Supervisory Board of Gorenje, d.d. held a session on 11 January 2013 and endorsed the proposal by Mr. Franjo Bobinac as the company President and CEO, and by the Supervisory Board's Remuneration Committee on the appointment of the remaining Management Board members for the term 2013–2018. The Management Board in this term will consist of current Management Board members except Mr. Uroš Marolt who will remain with the Gorenje Group. The Management Board will commence its new term on 19 July 2013.
- As of 27 February 2013, Gorenje signed an agreement with CoBe Capital, a global private investment firm engaged in managing non-core and underperforming business units, for the sale of the companies Gorenje Kuhinje and Gorenje Notranja oprema, thus withdrawing from the furniture manufacturing segment. Manufacturing operations in Maribor, Velenje and Nazarje will be maintained under the new owner, which means that jobs will be kept in the future. Furthermore, the kitchen furniture produced by the companies under the new owner will remain a part of Gorenje's offer of home products. The disposal of both companies in the furniture segment will improve the Gorenje Group's profitability and increase the balance of free cash flow.
- No other significant events occurred after the date preparing the balance sheet as of 31 December 2012.

Note 41 – 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 KPMG Slovenija and the independent auditor's report was issued on 9 April 2013. In 2012, the cost of audit of the annual report was recorded in the amount of EUR 50k (2011: EUR 59k).

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To The Shareholders of Gorenje, d.d., Velenje

Report on the Financial Statements

We have audited the accompanying financial statements of the company Gorenje, d.d., Velenje, which comprise the balance sheet as at 31 December 2012, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company Gorenje, d.d., Velenje as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj
Certified Auditor

Jason Stachurski
Partner

Ljubljana, 9 April 2013

KPMG Slovenija, d.o.o.
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www.gorenje.com