



**Gorenje gospodinjiski aparati, d.d.**

*(incorporated as a joint stock company under the laws of the Slovenia, having its registered office at Partizanska 12, 3503 Velenje, Slovenia registered by the Court Register of the District Court in Celje under inlay no. 1/00461/00*

**Offering of up to 10,440,835 Offer Shares with no par value  
and admission of up to 10,440,835 shares to trading on the main market of the Ljubljana Stock Exchange and  
up to 28,667,897 shares to trading on the main market of the Warsaw Stock Exchange**

This document (the “**Prospectus**”) has been prepared for the purposes of: (i) the public offering (the “**Offering**”) of up to 10,440,835 of new shares with no par value (the “**Offer Shares**”) in Gorenje gospodinjiski aparati d.d. (the “**Company**” or the “**Issuer**” and together with its consolidated subsidiaries, the “**Group**”), a company incorporated as a joint stock company under the laws of the Republic of Slovenia; (ii) the admission of up to 10,440,835 of the Offer Shares to trading on the main market of the Ljubljana Stock Exchange (*Ljubljanska borza d.d., Ljubljana*) (the “**LJSE**”); and (iii) the admission of up to 28,667,897 of shares, including up to 10,440,835 of the Offer Shares, to trading on the main market of the Warsaw Stock Exchange (*Gielda Papierów Wartościowych w Warszawie S.A.*) (the “**WSE**”).

The Offering conducted on the basis of this Prospectus consists of (i) a public offering to the Existing Shareholders on the basis of the priority rights, (ii) a public offering to the Issuer’s employees, including employees of the Group companies invited by the Issuer, (iii) third parties.

The existing shares have been admitted to trading on the regulated market in Slovenia and are listed on the LJSE on the Prime Market. The shares have been given International Securities Identification Number (ISIN) SI0031104076.

The issue price per one Offer Share is EUR 4.31 (the “**Offer Price**”).

This Prospectus constitutes a prospectus in the form of a single document for the purposes of Article 55 of the Slovenian Financial Instruments Market Act and has been prepared in accordance with the provisions of the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements. This Prospectus has been approved by the Slovenian Securities Market Agency (*Agencija za trg vrednostnih papirjev*) (the “**Slovenian ATVP**”) in its capacity as the competent authority in the Republic of Slovenia as the Company’s home member state within the meaning of Prospectus Directive. The Company will be authorised to carry out the Offering in the Republic of Poland once the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*) (the “**Polish FSA**”) is notified of approval of this Prospectus by the Slovenian ATVP and receives from the Slovenian ATVP a copy of the approved Prospectus together with a Polish translation of the section containing summary of the information. Pursuant to this Prospectus an application will be made for all the Offer Shares to be admitted to trading on the LJSE and the Shares, including the Offer Shares, to trading also on the WSE.

The commencement of trading on the LJSE and the WSE is expected to occur on or about 31 December 2013 (the “**Listing Date**”). If the Offering is cancelled prior to the Allotment Date (as defined herein), all subscriptions for the Offer Shares will be rejected, and any subscription payments made will be returned without interest or other compensation. All dealings in the Offer Shares prior to introduction of the Offer Shares to trading on the LJSE and the WSE will be at the sole risk of the investor concerned, irrespective of whether or not the investor concerned has been notified of the number of shares allotted to him.

**AN INVESTMENT IN THE OFFER SHARES INVOLVES A HIGH DEGREE OF RISK. ANY PERSON CONSIDERING ACQUIRING OFFER SHARES SHOULD READ THIS PROSPECTUS IN ITS ENTIRETY, AND IN PARTICULAR “RISK FACTORS” FOR A DISCUSSION OF THE PRINCIPAL RISK FACTORS THAT INVESTORS SHOULD CONSIDER PRIOR TO MAKING AN INVESTMENT DECISION.**

THE PUBLIC OFFERING IS MADE IN SLOVENIA AND IN POLAND. THIS PROSPECTUS MAY NOT BE REGARDED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO PURCHASE THE OFFER SHARES OUTSIDE OF SLOVENIA AND POLAND. THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OF AMERICA. THE OFFER SHARES MAY BE OFFERED AND SOLD OUTSIDE THE UNITED STATES OF AMERICA IN ACCORDANCE WITH REGULATION S, AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OF AMERICA OR TO, OR FOR ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

This Prospectus shall be disclosed in electronic form on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)), DM BZ WBK (<http://www.dmbzwbk.pl>) and NLB ([www.nlb.si](http://www.nlb.si)).

**Sole Global Coordinator, Joint Bookrunner, Offering Agent in Poland**

**Joint Bookrunner, Offering Agent in Slovenia**



**Financial Advisor**



The date of this Prospectus is November 2013.

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## SUMMARY

*This Summary consists of disclosure requirements known as ""Elements"" in accordance with Annex XXII (Disclosure Requirements in Summaries) of the Prospectus Regulation. These elements are numbered in Sections A – E (A.1 – E.7) below. This Summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the Summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the Summary and is described as 'not applicable'.*

### Section A – Introduction and warnings

Element / Title	Disclosure
A.1 Introduction and warnings	This summary should be read as an introduction to the Prospectus. Any decision to invest in the securities contemplated in this Prospectus should be based on consideration by the investor of this Prospectus as a whole. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor may, under the national legislation of the EU Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. The civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	<p><b>The permission of the Issuer or the person responsible for the preparation of this Prospectus to use the Prospectus for the purposes of resale of the securities or their ultimate placement by financial intermediaries.</b></p> <p><b>The validity period of the Offering in which the financial intermediaries may resell or ultimately place the securities, for which the permission to use this Prospectus is granted.</b></p> <p><b>Any other clear and objective conditions for granting the permission which apply to the use of this Prospectus.</b></p> <p><b>A bold-faced notice to the investors that the financial intermediary is obligated to provide information regarding the Offering at the time of making the Offering.</b></p> <p>Not applicable.</p>

### Section B – Issuer

Element / Title	Disclosure
B.1 Legal and commercial name	Gorenje gospodinjski aparati,d.d.
B.2 Domicile / legal form / legislation /	<p>The Company is a joint stock company incorporated under the laws of Slovenia, having its registered office at Partizanska 12, 3503 Velenje, Slovenia.</p> <p>The Company operates in accordance with the Slovenian Companies Act, the Articles of</p>

country of incorporation	Association and other of its internal regulations.
B.3 Key factors regarding current operations, principal activities, categories of products sold and services performed.	<p>The Group designs and manufactures a wide range of home appliances for residential use, in particular refrigerators, washing machines, dishwashers and cooking appliances. The Group operates in three business segments: Business Segment Home, Business Segment Ecology and Business Segment Portfolio Investments, of which Business Segment Home represents the core activity of the Group and the other two segments are comprised of supplementary services rendered by the Group.</p> <p><b>Business Segment Home</b></p> <p>This is the main business segment of the Group, and has more than 60 years of history. It accounted for 73.4% of Group revenue in 2010, 76% in 2011, 84.8% in 2012 and 85.6% in first half of 2013. The Company intends to further develop the importance of this business segment. According to both the Strategic Plan and the Updated Strategic Plan, this segment will remain the core activity of the Group and, by the end of 2018, is expected to account for approximately 90% of the Group's operations.</p> <p>The Group is building its global market position around its major global brand Gorenje. In 2011 a new concept line "gorenje+" was launched to market built products of the Group. The Company intends to further strengthen the position of those two, well recognised brands and develop marketing of premium global brand ASKO, as well as its local brands. Business Segment Home comprises: (i) production of various major and small domestic appliances, including MDA's (refrigerators and freezers, washing machines, dishwashers and cooking appliances) and SDA's (microwave ovens, vacuum and steam cleaners, various small kitchen appliances (mixers, stick blenders, juicers, toasters, kettles, irons, etc.); (ii) production of heating appliances, air filtering systems and air-conditioning appliances; and (iii) sales of kitchen furniture, production and sales of ceramic tiles, sales of spare parts accompanied by the product design services.</p> <p>As at the date of this Prospectus, the Group had a total annual production capacity of 4,665,720 pieces of major household appliances, i.e. 19,770 pieces of major household appliances per day. The Group owns a 93,500 m<sup>2</sup> manufacturing complex located in Velenje, Slovenia, a 43,600 m<sup>2</sup> manufacturing complex in Valjevo, Serbia, a 27,700 m<sup>2</sup> facility in Stara Pazova, Serbia, a 9,300 m<sup>2</sup> manufacturing facility in Zaječar, Serbia and a 45,000 m<sup>2</sup> manufacturing complex in Mora, Czech Republic, as well as other manufacturing and warehouse facilities across Europe. In the third quarter 2013 the Group finished the production relocation process, which started in 2012. After completion of the manufacturing relocation, from September 2013 production is carried out only in Slovenia, Serbia and the Czech Republic.</p> <p>Research and development department of the Company plays an important role in the process of designing new products, marketing of the brands and optimizing production costs.</p> <p>The Group has its own wholesale distribution network in most countries where the Group operates and own retail distribution network in Slovenia, Serbia, Bosnia and Herzegovina, Croatia and the Czech Republic. Where the Group has no distribution network, products of the Group are distributed through the third party distributors.</p> <p>For the years ended 31 December 2010, 2011, 2012, and in the first half of 2013 the Company's operating income was EUR 1,382,185 thousand, EUR 1,386,629 thousand, EUR 1,263,082 thousand, and EUR 590,098 thousand respectively.</p>



	<p><b>Main markets</b></p> <p>The Groups operates globally and sells products in approximately 90 countries. The main markets in 2012 (top 10 according to the sales value under the Group's own brands) were the following: Germany, the Netherlands, Scandinavia, Russia, Serbia, Czech Republic, Ukraine, Croatia, Slovenia, Australia. According to the Updated Strategic Plan the Company is planning to expand its presence in markets outside Europe, being mostly Australia, USA, Asian markets, including India, Turkey and Brazil. The Group is also planning to maintain or even improve its presence in the Group's traditional European markets, especially in Russia, Germany, Scandinavia and Poland.</p> <p><b>Supplementary business segments</b></p> <p>Business Segment Ecology covers the Group's supplementary activity in the scope of the comprehensive waste management in Slovenia and Southeastern Europe. The main company in Business Segment Ecology is Gorenje Surovina, d.o.o., which directly or indirectly holds majority of the ownership in other companies in that business segment.</p> <p>The second pillar of Business Segment Ecology consists of hazardous waste management, where the Company is collecting, recycling and disposing of hazardous waste, except of radioactive wastes, in environmental-friendly way. As a part of this segment the Group also offers services in the field of municipal waste management.</p> <p>Revenues of Business Segment Ecology amounted EUR 101,711 thousand (7.4% of total Group's revenue) in 2010, EUR 113,406 thousand (8.2% of total Group's revenue) in 2011, EUR 97,346 thousand (7.7% of total Group's revenue) in 2012, and EUR 46,413 thousand in first half of 2013 (7.9% of the total revenues of the Group).</p> <p>Business Segment Portfolio Investments covers the Group's supplementary activity products and services in energy and renewable sources of energy. The activity of Business Segment Portfolio Investments is conducted through the Company's ownerships in various Group companies operating in that field. The Group's companies Gorenje Orodjarna, d.o.o. and Gorenje GAIO, d.o.o. have more than 20 years tradition in engineering, development and manufacturing tools and industrial equipment for household and automotive industry across Europe. Within this business segment the Group also offers canteen and catering services, engineering in different business sectors and sell different products and services as authorised dealer for different brands.</p> <p>Business Segment Portfolio Investments supports activities of the core Business Segment Home, however more than 90.6% of the revenue generated by this segment in 2012 was generated with third party customers.</p> <p>Revenues of Business Segment Portfolio Investments amounted EUR 265,729 thousand (19.2% of total Group's revenue) in 2010, EUR 219,854 thousand (15.8% of total Group's revenue) in 2011, EUR 94,457 thousand (7.5% of total Group's revenue) in 2012 and EUR 38,708 thousand in the first half of 2013 (6.5% of the total revenues of the Group). The decrease of revenues in this business segment is mainly a result of sale of the participating interest in the company Istrabenz Gorenje, d.o.o., in July 2011 (and thus the winding-up of the energy business segment). Total revenue of Istrabenz Gorenje, d.o.o. amounted to EUR 167,503 thousand in 2010, and in the period January – June 2011 to EUR 104,819 thousand.</p>
B.4a Significant recent	The most significant trends affecting the Group and the home appliance industry are the following:

trends affecting the industry	<p><b>World:</b> According to the United Nations, global growth of the gross domestic product is still forecast at a rate of 2.4 percent in 2013 and 3.2 percent in 2014, which is considerably below the potential growth rate. Moderate growth at this pace will mean that many economies will not be able to recover the major losses of jobs from the onset of the global economic crisis.</p> <p><b>Western Europe:</b> Due to a weak starting point and further negative pressure, GDP will grow at a negligible rate of around 0.3 percent in 2013, while in 2014 it is expected to grow at a rate of 1.4 percent. Consumption of durables is expected to remain weak, with increasing differences between respective countries in the region. Austerity programs tend to decrease consumption, but they also differ from one country to the next. Organization and operation of the markets is another key factor for employment and wages that differs considerably between the countries in the region. The level of uncertainty in the region as the core of the euro zone has a major effect on the entire EU and other neighbouring countries, and it undermines consumer confidence.</p> <p><b>"New" EU members:</b> total GDP of the new EU member states in 2012 rose by 1.2 percent, despite the many uncertainties and risks.</p> <p><b>Transition countries:</b> As expected in the context of moderate recovery of the global growth rate, GDP in the Southeastern Europe is anticipated to rise by 3.6 percent.</p>
B.5 Group description. Position of the Company within the Group.	<p>As of the date of this Prospectus, the Group consists of the Company and 86 subsidiaries (i.e. entities in which the Company's shareholding is more than 50% of the votes at the respective entity's general meeting) and 5 affiliates (i.e. entities in which the Company's shareholding amounts from 20% up to (and including) 50% of the respective entity's general assembly), directly or indirectly controlled by the Company. In addition, the Company has 7 representative offices in foreign locations.</p>
B.6 Persons, directly or indirectly, having interest in the Company's capital or voting rights notifiable under Slovenian law and the amount of such interest. Voting rights of major shareholders. Direct or indirect control of the Company.	<p>As at 11 October 2013, the following shareholders of the Company holds interest in the Company's share capital which is notifiable under Slovenian law:</p> <ul style="list-style-type: none"> <li>• KAPITALSKA DRUŽBA, D.D. holding 3,534,615 shares which constitute 19.39% of the Company's share capital and give the right to 19.52% of votes at Shareholder Meeting.</li> <li>• PANASONIC CORPORATION. holding 2,320,186 shares which constitute 12.73% of the Company's share capital and give the right to 12.81% of votes at Shareholder Meeting.</li> <li>• IFC holding 1,876,876 shares which constitute 10.30% of the Company's share capital and give the right to 10.37% of votes at Shareholder Meeting.</li> <li>• HOME PRODUCTS EUROPE B.V. holding 1,070,000 shares which constitute 5.87% of the Company's share capital and give the right to 5.91% of votes at Shareholder Meeting.</li> </ul> <p>None of the Company's shareholders have voting rights that differ from any other of the Company's shareholders. As at the date of this Prospectus there are no agreements known to the Company which may result in a change of control of the Company.</p>

<p>B.7 Selected historical key financial information. Narrative description of significant change in the Company's financial condition and operating results subsequent to the period covered by selected historical key financial information.</p>	<p>The following selected historical financial and other data, as of and for the three years ended 31 December 2010, 2011, 2012, the six-month period ended 30 June 2012 and the six-month period ended 30 June 2013, have been prepared in accordance with the provisions of the Slovenian Companies Act, the IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.</p> <p>In 2012 and in the period January-June 2013, the Gorenje Group has been in the process of discontinuing, disposing of and restructuring the activities (including its furniture program and sales organisations) which, in the past, have had a negative impact on the Group's profitability and cash flow. The classification of activities among its discontinued operations is stipulated and defined by IFRS 5 (Non-current assets held for sale and discontinued operations). The income statement and balance sheet for the year ended 31 December 2012 and six-month period ended 30 June 2013, and the income statement for year ended 31 December 2011 and six month period ended 30 June 2012 have been adjusted in accordance to the standard, while the financial statements for the remaining years are included as audited and published.</p> <p>Below presented comparative figures from income statement for the year ended 31 December 2011 and for the six-month period, ended 30 June 2012 are different than originally published as they were adjusted in accordance to the mentioned standard, while the financial statements for the remaining years are included as originally published.</p>
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	<b>Income statement data</b>				
	<b>Year ended 31 December</b>			<b>Six-month period ended 30 June</b>	
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>(audited)</i>			<i>(unaudited)</i>	
<i>(EUR in thousand)</i>					
<b>Income Statement Data</b>					
<b>Net sales</b> .....	<b>1,382,185</b>	<b>1,386,629</b>	<b>1,263,082</b>	<b>606,455</b>	<b>590,098</b>
Change in inventories .....	-13,510	8,897	11,881	17,367	15,489
Other operating income.....	47,554	50,564	40,929	17,092	13,374
<b>Gross profit</b> .....	<b>1,416,229</b>	<b>1,446,090</b>	<b>1,315,892</b>	<b>640,914</b>	<b>618,961</b>
Costs of goods, material and services .....	-1,040,509	-1,076,437	-946,215	-459,730	-447,618
Employee benefits expense.....	-244,442	-253,333	-258,680	-127,403	-124,971
Amortisation and depreciation expense.....	-52,237	-48,347	-45,665	-23,551	-21,254
Other operating expenses.....	-22,603	-24,303	-20,411	-8,854	-9,588
<b>Operating profit</b> .....	<b>56,438</b>	<b>43,670</b>	<b>44,921</b>	<b>21,376</b>	<b>15,530</b>
<b>Net finance expense</b> .....	<b>-33,966</b>	<b>-25,346</b>	<b>-30,416</b>	<b>-12,364</b>	<b>-18,712</b>
<b>Share in profits or losses of associates</b> .....	<b>0</b>	<b>-9</b>	<b>301</b>	<b>50</b>	<b>-42</b>
<b>Profit before tax</b> .....	<b>22,472</b>	<b>18,315</b>	<b>14,806</b>	<b>9,062</b>	<b>-3,224</b>
Income tax expense.....	-2,448	-1,880	-5,633	-1,834	-1,812
<b>Profit or loss without discontinued operation</b> .....		<b>16,435</b>	<b>9,173</b>	<b>7,228</b>	<b>-5,036</b>
Profit or loss from discontinued operation...		-7,329	-8,883	-4,904	-2,785
<b>Profit or loss for the period</b> .....	<b>20,024</b>	<b>9,106</b>	<b>290</b>	<b>2,324</b>	<b>-7,821</b>
<i>*Source: Financial Statements and Interim Financial Statements</i>					

**Statement of Financial Position Information**

Balance Sheet Data	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	<i>(audited)</i>			<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
<b>ASSETS</b> .....	<b>1,317,754</b>	<b>1,251,658</b>	<b>1,197,324</b>	<b>1,188,908</b>	<b>1,189,034</b>
<b>Non-current assets</b> .....	<b>563,435</b>	<b>556,345</b>	<b>550,965</b>	<b>551,287</b>	<b>558,431</b>
Intangible assets .....	160,161	158,620	159,607	158,945	157,247
Property, plant and equipment .....	375,400	358,840	341,171	343,821	351,792
Other non-current assets .....	27,874	38,885	50,187	48,521	49,392
<b>Current assets</b> .....	<b>754,319</b>	<b>695,313</b>	<b>646,359</b>	<b>637,621</b>	<b>630,603</b>
Inventories .....	257,593	245,608	247,365	255,033	267,003
Trade receivables .....	306,284	255,911	218,516	272,392	225,084
Other current assets .....	190,442	193,794	153,257	110,196	131,676
Assets held for sale .....			27,221		6,840
<b>EQUITY AND LIABILITIES</b> .....	<b>1,317,754</b>	<b>1,251,658</b>	<b>1,197,324</b>	<b>1,188,908</b>	<b>1,189,034</b>
<b>Equity</b> .....	<b>392,096</b>	<b>397,819</b>	<b>392,145</b>	<b>391,464</b>	<b>381,830</b>
<b>Non-current liabilities</b> .....	<b>356,027</b>	<b>385,330</b>	<b>349,411</b>	<b>345,004</b>	<b>337,561</b>
Other non-current liabilities .....	95,095	82,871	72,531	76,962	72,203
Non-current financial liabilities .....	260,932	302,459	276,880	268,042	265,358
<b>Current liabilities</b> .....	<b>569,631</b>	<b>468,509</b>	<b>455,768</b>	<b>452,440</b>	<b>469,643</b>
Current financial liabilities .....	223,015	181,649	155,846	186,957	190,982
Trade payables .....	237,020	194,248	212,430	171,189	183,123
Other current liabilities .....	109,596	92,612	79,170	94,294	91,237
Liabilities held for sale .....			8,322		4,301

\* Source: Financial Statements and Interim Financial Statements

Capitalization	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	<i>(audited)</i>			<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
Cash and cash equivalents	82,728	101,620	53,488	30,639	24,701
Short-term debt	223,015	181,649	155,846	186,957	190,982
Long-term debt	260,932	302,459	276,880	268,042	265,358
<b>Total debt</b>	<b>483,947</b>	<b>484,108</b>	<b>432,726</b>	<b>454,999</b>	<b>456,340</b>
<b>Equity</b>					
Share capital	66,378	66,378	66,378	66,378	66,378
Share premium	175,575	175,575	175,575	175,575	175,575
Legal reserves and statutory reserves	21,990	22,719	22,719	22,719	22,719
Retained earnings	107,382	115,618	113,454	117,994	105,509
Fair value reserves	13,294	8,886	8,976	8,748	10,224
Own shares	-3,170	-3,170	-3,170	-3,170	-3,170
Translation reserve	8,842	9,990	5,861	1,301	2,182
<b>Equity of holders of the parent</b>	<b>390,291</b>	<b>395,996</b>	<b>389,793</b>	<b>389,545</b>	<b>379,417</b>
Equity of non-controlling interest	1,805	1,823	2,352	1,919	2,413
<b>Equity</b>	<b>392,096</b>	<b>397,819</b>	<b>392,145</b>	<b>391,464</b>	<b>381,830</b>
<b>Total capitalisation</b>	<b>876,043</b>	<b>881,927</b>	<b>824,871</b>	<b>846,463</b>	<b>838,170</b>

\*Source: Financial Statements and Interim Financial Statements

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	<i>(audited)</i>			<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit for the period	20,024	9,106	290	2,324	-7,821
Adjustments for:					
- depreciation of property, plant and equipment	46,227	43,767	40,433	20,992	18,046
- amortisation of intangible assets	6,010	6,431	6,553	3,236	3,455
- investment income	-12,485	-15,199	-6,871	-6,092	-2,556
- finance expenses	46,451	40,587	37,474	18,529	21,280
- gain or loss on sale of property, plant and equipment	-2,321	-3,644	-1,486	-903	-4,727
- negative goodwill (gain on bargain purchase)	-13,337	0	0	0	0
- gain on sale of investment property	0	0	-365	0	0
- revaluation operating income	0	-3,563	-3,387	0	0
- income tax expense	2,448	2,006	5,644	1,850	1,812
<b>Operating profit before changes in net operating current assets and provisions</b>	<b>93,017</b>	<b>79,491</b>	<b>78,285</b>	<b>39,936</b>	<b>29,489</b>
Change in trade and other receivables	-80,635	10,297	6,752	-19,995	-11,320
Change in inventories	-39,612	11,344	-8,060	-9,425	-18,548
Change in provisions	25,664	-12,021	-7,243	-5,056	-518
Change in trade and other liabilities	60,162	-38,265	12,064	-22,230	-15,677
<b>Cash generated from operations</b>	<b>-34,421</b>	<b>-28,645</b>	<b>3,513</b>	<b>-56,706</b>	<b>-46,063</b>
Interest paid	-23,607	-24,194	-25,593	-12,842	-10,914
Taxes paid	-7,272	-4,595	-6,544	-1,850	-1,743
<b>Net cash from operating activities</b>	<b>27,717</b>	<b>22,057</b>	<b>49,661</b>	<b>-31,462</b>	<b>-29,231</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment	6,775	7,302	11,095	1,819	9,223
Proceeds from sale of investment property	5,621	0	2,161	0	9,250
Interest received	3,046	3,678	2,688	1,023	1,171
Dividends received	305	118	417	0	0

Liquidation of subsidiary, without disposed financial assets	0	10,747	0	0	0
Disposal of subsidiary, without disposed financial assets	0	7,143	0	0	0
Acquisition of subsidiary	1,144	0	0	0	0
Acquisition of property, plant and equipment	-39,358	-41,089	-53,527	-12,238	-30,626
Acquisition of investment property	0	-9,819	0	0	-7,281
Available-for-sale investment	-1,695	-33	-337	0	0
Loans	-2,564	9,325	2,073	0	0
Other investments	14,341	-14,246	-898	505	-4,108
Acquisition of intangible assets	-5,310	-6,379	-7,217	-1,519	-1,512
<b>Net cash used in investing activities</b>	<b>-17,695</b>	<b>-33,253</b>	<b>-43,545</b>	<b>-10,410</b>	<b>-23,883</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Repurchase of non-controlling interest	-6,902	0	0	0	0
Capital increase	24,920	0	0	0	0
Borrowings/ Repayment of borrowings	27,558	30,088	-50,881	-29,109	23,611
Dividends paid	0	0	-2,267	0	0
<b>Net cash used in financing activities</b>	<b>45,576</b>	<b>30,088</b>	<b>-53,148</b>	<b>-29,109</b>	<b>23,611</b>
Net change in cash and cash equivalents	55,598	18,892	-47,032	-70,981	-29,503
Cash and cash equivalents at beginning of period	27,130	82,728	101,620	101,620	54,588
Cash and cash equivalents at end of period	82,728	101,620	54,588	30,639	25,085

*\*Source: Financial Statements and Interim Financial Statements*



	<b>Other Financial Information</b>					
		<b>Year ended 31 December</b>			<b>Six-month period ended 30 June</b>	
	<b>Other financial Information</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
		<i>(audited)</i>			<i>(unaudited)</i>	
		<i>(EUR in thousand)</i>				
Gross profit	1,416,229	1,446,090	1,315,892	640,914	618,961	
EBIT	56,438	43,670	44,921	21,376	15,530	
EBIT margin (%)	4.1%	3.2%	3.6%	3.5%	2.6%	
Amortisation and depreciation expense	52,237	48,347	45,665	23,551	21,254	
EBITDA	108,675	92,017	90,586	44,927	36,784	
EBITDA margin (%)	7.9%	6.6%	7.2%	7.4%	6.2%	
<b>Total debt</b>	<b>483,947</b>	<b>484,108</b>	<b>432,726</b>	<b>454,999</b>	<b>456,340</b>	
	<i>*Source: Financial Statements and Interim Financial Statements</i>					
B.8 Selected key pro forma financial information	Not applicable.					
B.9 Profit forecast	<b>Profit or loss forecast for the period</b>					
		<b>Year ended 31 December</b>			<b>Forecast</b>	
<b>EUR in thousand</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>		
Net Sales	1,382,185	1,386,629	1,263,082	1,273,536		
EBITDA	108,675	92,017	90,586	83,280		
Operating Profit ("EBIT")	56,438	43,670	44,921	39,465		
Profit without discontinued operations	20,024	16,435	9,173	2,410		
Loss from discontinued operations	N/A	-7,329	-8,883	-11,223		
Profit or loss for the period	20,024	9,106	290	-8,813		
	<i>* Source: the Company</i>					
	<p>Key financial projections are summarised in final column of the table above, with a summary of historical financials for the preceding three years. The historical financial information has been extracted from audited financial statements except for EBITDA. EBITDA provides an additional performance measure of the effects of the Group's operations which are difficult to recognise directly from the Group's consolidated financial statements. EBITDA calculations have not been subject to an independent auditor's review, although items used for calculation of EBITDA have been derived from the Group's audited consolidated financial statements, with the exception of the</p>					

	<p>projected figure for 2013.</p> <p>Note that EBITDA measures should not be considered in isolation or as an alternative to net profit for the period, or other data presented as indicators of financial performance. The presented EBITDA measures may not be comparable to other similarly titled measures of performance for other companies.</p> <p>KPMG Slovenija, d.o.o., the independent auditor of the Group's consolidated financial statements for each of the years 2010 to 2012, has issued an assurance report on the profit or loss forecast for 2013.</p>
B.10 Qualifications in the audit report on the historical financial information	Not applicable. The audit reports on the historical financial information did not contain any qualifications.
B.11 Working capital	Not applicable. The Company's working capital is appropriate and sufficient to cover its needs in the period of at least twelve months from the date of this Prospectus.

### Section C – Securities

Element / Title	Disclosure
C.1 Type and class of securities and security identification number	The ticker symbol of the existing Shares is GRVG, ISIN code: SI0031104076. The Shares are registered (imenske), and no-par value shares (kosovne delnice). All Shares are of the same class. The Shares have been issued and are governed by the Slovenian Companies Act and the Slovenian Book Entry Securities Act. The Shares are dematerialised book-entry shares and are evidenced by the KDD. The Shares are entered in the central securities register kept by the KDD.
C.2 Currency of the issue	EUR
C.3 Number of shares issued and fully paid / issued but not fully paid. Par value per share.	As at the date of this Prospectus, the share capital of the Company amounts to EUR 76,060,181.93 and consists of 18,227,062 ordinary no-par value registered Shares with voting rights.
C.4 Rights attached to the securities	<p><b>Right to dividend</b></p> <p>The Shareholders Meeting decides on the use of profits (<i>bilančni dobiček</i>) upon a proposal from the Management Board or the Supervisory Board. The Shareholders Meeting is not bound by this proposal, however, it is bound by the relevant provisions of the Slovenian Companies Act indicating the maximum amount of proceeds that may be distributed to shareholders.</p> <p>The loan agreement concluded on 21 June 2010 between the Company and IFC restricts the Company from declaring or paying dividends in excess of one third of the Group's consolidated net profit of the previous year when the covenant net debt to</p>

	<p>EBITDA exceeds 3,5 ratio.</p> <p><b>Right to share in the assets in the case of the liquidation</b></p> <p>If the Company is liquidated, any assets remaining after the satisfaction of, or establishment of security for the benefit of the creditors, shall be divided among the shareholders on a <i>pro rata</i> basis in proportion to the contributions the shareholders made to the share capital.</p> <p><b>Voiting right on the Shareholders Meeting</b></p> <p>Each shareholder has a right to participate in the Shareholders Meeting. Each Share (including the Offer Shares) confers the right to cast one vote. Shareholders exercise their voting rights based on the proportion of their Shares held. The voting right shall only be attached to Shares that have been fully paid for.</p> <p>Pursuant to the Articles of Association, the Shareholders Meeting is convened by the Management Board at its own initiative, at the request of the Supervisory Board or at the request of minority shareholders whose total interest accounts for at least 5% of the subscribed capital. Requests by the minority shareholders must be accompanied by a written agenda, with a proposed resolution for each item suggested on the agenda.</p>
Restrictions on free transferability of securities	The Articles of Association do not provide for any limits on the transferability of shares. All shares are freely transferable.
C.6 Admission to trading / Name of the regulated market	<p>The Existing Shares of the Company are listed on the main market of the Ljubljana Stock Exchange.</p> <p>The Company intends to admit (i) up to 10,440,835 Offer Shares to trading on the main market of the Ljubljana Stock Exchange (<i>Ljublijanska borza d.d., Ljubljana</i>); and (ii) up to 28,667,897 of Shares, including up to 10,440,835 of the Offer Shares, to trading on the main market of the Warsaw Stock Exchange (<i>Gielda Papierów Wartościowych w Warszawie S.A.</i>).</p>
C.7 Dividend policy	<p>The Management Board and Supervisory Board make a recommendation on the amount of dividend per share to be paid, for approval by the shareholders at the Shareholders Meeting, which is held within eight months following the end of the preceding financial year. A resolution on the distribution of profit is then adopted by the Shareholders Meeting.</p> <p>The dividend policy under the Updated Strategic Plan stipulates that up to one third of the Group's net profit for the period shall be allocated to annual dividend payments. The actual amount of any future dividend payments then depends on the shareholders' resolutions for each financial year.</p> <p>Under the loan agreement dated 21 June 2010 concluded between the Company and IFC, the Company may not declare or pay dividends in excess of one third of the Group's consolidated net profit of the previous year if the covenant net debt to EBITDA exceeds 3.5 ratio. Further, the Company may not declare or pay dividend when the financial covenants, as agreed with the IFC, are not within the agreed limits. The loan with the IFC matures in June 2017.</p>

## Section D – Risks

Element / Title	Disclosure
<p>D.1 Key risks specific to the Company or the industry</p>	<p><b>Risks relating to the Group’s business and the industry in which the Group operates:</b></p> <ul style="list-style-type: none"> <li>• The Group’s results depend on the macroeconomic situation;</li> <li>• The Group is exposed to volatility in pricing of raw materials;</li> <li>• Malfunction and/or incorrect operation of the Group’s products may cause damage to the Group’s customers and/or third parties which, in turn, may lead to product liability for the Group;</li> <li>• The Group’s investments and development projects may not bring about the expected results;</li> <li>• The Group may be exposed to social unrest relating to labour conflicts;</li> <li>• The Group may fail to retain or attract new qualified personnel, which may hinder the Group’s growth in line with its adopted assumptions;</li> <li>• The Group is exposed to risk relating to liquidity of its business partners;</li> <li>• The Group is exposed to currency risks resulting from the geographical diversification of its operations;</li> <li>• The Group’s results may be affected by interest rate fluctuations;</li> <li>• The Group is exposed to operational risks;</li> <li>• The Group entered into a number of related-party transactions which are material to the Group’s business;</li> <li>• The Group’s current and planned operations are located in several markets with which the Group may not be entirely familiar;</li> <li>• The Group is exposed to fluctuations of transport costs;</li> <li>• The Group is subject to stringent environmental, health and safety regulations;</li> <li>• The Group is exposed to tax risk from its interpretation of tax legislation in various jurisdictions;</li> <li>• The Group’s operations may be exposed to the risk of fire and other natural disasters, as well as terrorist attacks and other similar occurrences which may cause interruptions or disruptions to the Group’s operations;</li> <li>• The Group’s insurance policies may not cover all future risks;</li> <li>• The Group is exposed to risk from revaluation of its assets; and</li> <li>• The Group’s success is dependent on its ability to quickly adapt new technologies to its own production processes.</li> <li>• The Group’s revenues depend on the competitiveness of its sales of products and services;</li> <li>• The Group relies on the performance of its external sales and distribution network;</li> <li>• If the Group fails to maintain its competitive position, the Group’s business, financial condition and results of operations would be adversely affected;</li> <li>• Any failure to protect the Group’s brand names and other intellectual property may adversely affect the Group’s business;</li> <li>• Problems or delays in accessing raw materials could have a material adverse affect on the Group’s operations;</li> <li>• The Group’s ability to meet its financial commitments in a timely manner may</li> </ul>

	<p>be limited and the Group may fail to generate or raise the necessary capital for future development strategies, or to refinance its debt on acceptable terms, or at all;</p> <ul style="list-style-type: none"> <li>• The Group may be unable to implement its Updated Strategic Plan;</li> <li>• The Group is exposed to risk from potential reorganisations, including divestments; and</li> <li>• Amendments to proposed Slovenian property tax regulations could adversely affect the Group's business</li> </ul>
<p>D.3 Key risks that are specific to the Shares</p>	<p><b>Risks related to investment in Offer Shares</b></p> <ul style="list-style-type: none"> <li>• The Offering may be cancelled or suspended</li> <li>• The Issuer may be unable to list the Offer Shares on the LJSE</li> <li>• The Issuer may be unable to list the Shares on the WSE</li> <li>• Trading in the Shares on the LJSE may be suspended</li> <li>• Trading in the Shares on the WSE may be suspended</li> </ul> <p><b>Risks related to listing and the market</b></p> <ul style="list-style-type: none"> <li>• The Company may be delisted from trading on the LJSE.</li> <li>• The Company may be excluded from trading on the WSE</li> <li>• The price of the Shares may considerably fluctuate</li> <li>• The marketability of the Shares may decline, and the market price of the Shares may fluctuate disproportionately in response to adverse developments that are unrelated to the Group's operating performance, and the market price may decline below the Offer Price</li> <li>• The market value of the Shares may be adversely affected by future sales or issues of substantial amounts of shares</li> <li>• There can be no assurance regarding the future development of the market for the Shares and its liquidity</li> <li>• Dual listing of the Shares will result in differences in liquidity, settlement and clearing systems, trading currencies, prices and transaction costs between the two exchanges where the Shares will be listed. These and other factors may hinder the transferability of the Shares between the two exchanges</li> <li>• Impact of securities or industry analysts</li> <li>• The Company's ability to pay dividends may be limited and there is no guarantee that the Company will pay dividends in line with the adopted dividend policy or that it will pay any dividend in a given year at all</li> <li>• The Company has broad discretion on the use of its net proceeds from this Offering and may not use them effectively</li> <li>• The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares</li> <li>• Investors in the Offer Shares will be subject to obligations resulting from various national laws</li> <li>• Non-Slovenian shareholders may have difficulties exercising rights which are governed by Slovenian law</li> <li>• Tax treatment of non-Slovenian investors in a Slovenian company may vary</li> <li>• Judgments of courts against the Company, other Group Companies and members of the Management Board may be difficult to enforce</li> </ul>

	<ul style="list-style-type: none"> <li>The Polish reform of Polish open pension funds, which comprise the second pillar of the pension system in Poland, may have an adverse effect on Poland's capital market and result in a decrease in investments in shares of companies listed on the WSE</li> </ul>
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### Section E – Offer

Element / Title	Disclosure
E.1 Total net proceeds. Estimate of total expenses of the Offering (including estimated expenses charged to the investor).	<p>The net proceeds which the Company will receive from the Offering, provided that all of the Offer Shares are sold, are estimated at approximately EUR 44,300 thousand after deduction of the estimated commissions, costs and expenses of the Offering.</p> <p>Preliminary estimates put the costs of the Offering at approximately EUR 700 thousand.</p> <p>The subscribers shall not bear any additional costs of subscription and payment of the Offer Shares, except a potential banking fee for the executed payment transaction.</p>
E.2a Reasons for the Offering / Use of proceeds / Estimated net amount of proceeds	<p>The Offering and the Admission are expected to provide a number of benefits to the Company and the Group, including:</p> <ul style="list-style-type: none"> <li>enabling the Company to raise funds to co-finance the Updated Strategic Plan and thus to facilitate the achievement of its strategic goals;</li> <li>improving the liquidity of the Company's shares;</li> <li>decreasing its leverage;</li> <li>strengthening the Company's profile with credit institutions, which offers an important competitive advantage;</li> <li>facilitating the Group's access to wider capital markets and expanding its funding sources for further growth, expansion and development of its business;</li> <li>increasing international awareness of the Group among its customers and business partners, and</li> <li>strengthening the Group's reputation as one of the leading manufacturers of domestic appliances in Europe, which may have an influence on the extension of its customer base and create better conditions for long-term customer and business relations.</li> </ul>
E.3 Terms and conditions of the Offering	<p><b>The Offer Price and total value of the Offering</b></p> <p>The Offering shall consist of no more than 10,440,835 ordinary registered shares with an issue value totalling no more than EUR 44,999,998.85, and shall be equal to the product of the number of Offer Shares and the issue price of one new share.</p> <p><b>Terms and conditions on which the Offering is carried out</b></p> <p>In accordance with the resolution of the Shareholders Meeting of 23 August 2013, the Offering shall be carried out in two rounds, whereby the second round shall be divided into two steps.</p> <p>In the first round, the Offer Shares shall be offered on the basis of the priority rights of the existing shareholders to all shareholders entered into the share register as at 23</p>

	<p>August 2013 (“<b>First Round of the Offering</b>”). These shareholders (the “<b>Existing Shareholders</b>”) will have the right to subscribe for the amount of shares proportional to their current shareholding in the total share capital of the Company.</p> <p>Offer Shares not subscribed for and fully paid in the First Round of the Offering will be offered in the second round of the Offering (“<b>Second Round of the Offering</b>”) to:</p> <ul style="list-style-type: none"><li>• the Issuer’s employees, including employees of Group companies invited by the Issuer (“<b>Second Round of the Offering – First Step</b>”), and</li><li>• third parties (“<b>Second Round of the Offering – Second Step</b>”).</li></ul> <p>The Issuer’s employees, including employees of Group companies invited by the Issuer (the “<b>Employees</b>”), may subscribe for and pay in the total number of Offer Shares available for the Second Round of the Offering in the Second Round of the Offering – First Step.</p> <p>If the Offer Shares are still available after the completion of the Second Round of the Offering – First Step, the Offer Shares shall be offered in the Second Round of the Offering – Second Step to investors in Poland and Slovenia. In Poland, the Offering will be directed to retail investors (which term includes both natural and legal persons) (the “<b>Retail Investors</b>”), as well as legal persons who are institutional investors (which term includes entities managing securities portfolios for their clients, as well as unincorporated organisations) invited by the Issuer or DM BZ WBK (the “<b>Institutional Investors</b>”, and together with Retail Investors, the “<b>Investors</b>”). In Slovenia, the Offering will be directed to investors invited by the Issuer or NLB (the “<b>Invited Investors</b>”).</p>
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	<p>The First Round of the Offering: subscription period for Existing Shareholders and payment for the Offer Shares at the Offer Price</p> <p>The Second Round of the Offering – First Step: subscription period for Employees and payment for the Offer Shares at the Offer Price</p> <p>The Second Round of the Offering – Second Step: subscription period for Retail Investors and payment for the Offer Shares at the Offer Price in PLN</p> <p>The Second Round of the Offering – Second Step: bookbuilding for Institutional Investors in Poland and Invited Investors in Slovenia</p> <p>The Second Round of the Offering – Second Step: subscriptions in tranche for Institutional Investors in Poland and tranche for Invited Investors in Slovenia and payment for the Offer Shares at the Offer Price in PLN and the Offer Price, respectively</p> <p>Final Allocation of the Offer Shares to the Existing Shareholders, Employees, Retail Investors, Institutional Investors and Invited Investors</p> <p>Publication of the results of the Offering</p> <p>Issue of the Offer Shares by the KDD</p> <p>Delivery of the Shares to the NDS</p> <p>First day of trading in the Offer Shares on the LJSE</p> <p>First day of trading in the Shares on the WSE</p> <p><i>*Source: the Company.</i></p> <p>The timetable for the Offering is indicative, as the execution of certain milestones in the Offering might take longer than anticipated by the Company. In particular, the procedure for increasing the share capital of the Company, the issue of the Offer Shares upon conclusion of the Offering and the listing of Offer Shares on the LJSE and the listing of Shares and the Offer Shares on the WSE are all beyond the control of the Company. Any notices relating to the timetable of the Offering, or amendments to the timetable of the Offering, or extension of the dates of the Offering, will be published as press releases and announced on the websites of the LJSE (<a href="http://www.ljse.si">www.ljse.si</a>), the Company (<a href="http://www.gorenjegroup.com">www.gorenjegroup.com</a>), DM BZ WBK (<a href="http://www.dmbzwbk.pl">www.dmbzwbk.pl</a>) and NLB (<a href="http://www.nlb.si">www.nlb.si</a>), and in a manner compliant with applicable regulations.</p>	<p>From or around 18<sup>th</sup> November 2013 to or around 2<sup>nd</sup> December 2013</p> <p>On or around 4<sup>th</sup> December 2013</p> <p>From or around 5<sup>th</sup> to or around 10<sup>th</sup> December 2013</p> <p>From or around 6<sup>th</sup> to or around 10<sup>th</sup> December 2013</p> <p>From or around 11<sup>th</sup> to or around 16<sup>th</sup> December 2013</p> <p>On or around 16<sup>th</sup> December 2013</p> <p>On or around 16<sup>th</sup> December 2013</p> <p>On or around 27<sup>th</sup> December 2013</p> <p>On or around 30<sup>th</sup> December 2013</p> <p>On or around 31<sup>st</sup> December 2013</p> <p>On or around 31<sup>st</sup> December 2013</p>
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**Pricing**

The Offer Price of the Offer Shares shall be EUR 4.31.

The Offer Price is the same as the price per share paid by Panasonic Corporation in the first increase of the share capital. The price has been calculated as the Issuer's six month volume weighted average price on 4th July 2013, achieved on the organised stock exchange market.

For the purpose of subscriptions by Retail Investors in the Second Round of the Offering – Second Step, the Offer Price will be determined in PLN and will be the equivalent of the Offer Price of EUR 4.31, calculated based on the EUR/PLN exchange rate available to the Issuer on the day preceding commencement of the subscription period for Retail Investors. Institutional Investors may choose to pay the Offer Price in PLN or the Offer Price in EUR.

**Placement agreement**

The Issuer intends, prior to the First Round of the Offering, to enter into a placement agreement (the "**Placement Agreement**") in respect of the Offering, with Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana, in which Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana will commit, on a best-efforts basis, to procure subscribers for the Offer Shares.

Dom Maklerski BZ WBK S.A., whose registered office is at Plac Wolności 15, 60-967 Poznań, Poland, acts as the Sole Global Coordinator, Joint Bookrunner and the Offering Agent in Poland for the purposes of the Offering in Poland and admission to trading on the WSE.

Nova Ljubljanska banka d.d., Ljubljana whose registered office is at Trg republike 2, 1520 Ljubljana, Slovenia, acts as the Joint Bookrunner and the Offering Agent in Slovenia for the purposes of the Offering in Slovenia and admission to trading on the LJSE.

Bank Zachodni WBK S.A., whose registered office is at Rynek 9/11, 50-950 Wrocław, Poland, acts as Financial Advisor in the Offering, providing financial advice to the Issuer in preparing the Offering.

In connection with the Offering, the Issuer has agreed to pay a combined fee calculated as a percentage of the gross proceeds from the placement of the Offer Shares. In addition, the Issuer has agreed to indemnify Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana against certain liabilities and to reimburse certain expenses incurred by Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana in connection with the management of the Offering. Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana shall be entitled, under certain circumstances, to be released and discharged from their respective obligations under the Placement Agreement prior to the date of listing of the Offer Shares on the LJSE and the WSE. Such circumstances include the non-satisfaction of certain conditions precedent and the occurrence of certain force majeure events.

**Underwriting agreement**

The Issuer does not intend to enter into any underwriting agreements in connection with the Offering.

**Overallotment option**

The Issuer has not granted and will not grant any overallotment option.

	<p><b>Stabilisation</b></p> <p>The Offering Agent in Poland and the Offering Agent in Slovenia did not undertake to enter into any transactions to stabilise the price of the Offer Shares.</p>																								
E.4 Interests material to the Offering / Conflicting interests	<p>The Offering Agents have commercial interests that depend on the success of the Offering.</p> <p>In connection with the Offering, the Issuer has agreed to pay a combined fee calculated as a percentage of the gross proceeds from the placement of the Offer Shares.</p>																								
E.5 Name of the person or entity offering to sell the security. Lock-up agreements: parties involved; period of lock-up.	<p>Gorenje gospodinjiski aparati, d.d. incorporated as a joint stock company under the laws of the Slovenia, having its registered office at Partizanska 12, 3503 Velenje, Slovenia registered by the Court Register of the District Court in Celje under inlay no. 1/00461/00, is the entity offering to sell the Offer Shares in the Offering.</p> <p>Subject to certain exceptions, Gorenje gospodinjiski aparati, d.d. has agreed that for a period of 12 months from the date of listing of the Offer Shares on the LJSE and the WSE, the Issuer will not, without the prior written consent of the Offering Agent in Poland, propose or otherwise support an offering of any of the shares, announce any intention to offer new shares and/or to issue any securities convertible into shares or securities that in any other manner represent the right to acquire the Issuer's shares, or sell or conclude any transaction (including any transaction involving derivatives), of which the economic effect would be similar to the effect of selling the shares. This obligation does not apply for Third capital increase, within which, in accordance with the Shareholders meeting resolution, dated 23 August 2013, the Company's share capital may be increased by amount no more than EUR 9,681,964.61 with the issue of 2,320,186 new, freely transferable registered no par value shares, in exchange for non-cash (in-kind) contributions.</p>																								
E.6 Immediate dilution. Amount and percentage of immediate dilution if Existing Shareholder not Subscribing during Offering.	<p>The table below presents information on the dilution of shares after the Offering, based on the assumption that all the Offer Shares are sold in the Offering.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2" style="border-bottom: 1px solid black;">Before the Offering</th> <th colspan="2" style="border-bottom: 1px solid black;">After the Offering</th> </tr> <tr> <th style="border-bottom: 1px solid black;">Number</th> <th style="border-bottom: 1px solid black;">Percentage of shares</th> <th style="border-bottom: 1px solid black;">Number</th> <th style="border-bottom: 1px solid black;">Percentage of shares</th> </tr> </thead> <tbody> <tr> <td>Shares</td> <td style="text-align: right;">18,227,062</td> <td style="text-align: center;">100%</td> <td style="text-align: right;">18,227,062</td> <td style="text-align: center;">63.58%</td> </tr> <tr> <td>Offer Shares</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0%</td> <td style="text-align: right;">10,440,835</td> <td style="text-align: center;">36.42%</td> </tr> <tr> <td><b>Total:</b></td> <td style="text-align: right;"><b>18,227,062</b></td> <td style="text-align: center;"><b>100.0%</b></td> <td style="text-align: right;"><b>28,667,897</b></td> <td style="text-align: center;"><b>100.0%</b></td> </tr> </tbody> </table> <p><i>*Source: the Company</i></p>		Before the Offering		After the Offering		Number	Percentage of shares	Number	Percentage of shares	Shares	18,227,062	100%	18,227,062	63.58%	Offer Shares	0	0%	10,440,835	36.42%	<b>Total:</b>	<b>18,227,062</b>	<b>100.0%</b>	<b>28,667,897</b>	<b>100.0%</b>
	Before the Offering		After the Offering																						
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<b>Total:</b>	<b>18,227,062</b>	<b>100.0%</b>	<b>28,667,897</b>	<b>100.0%</b>																					

E.7 Estimated expenses charged to the investor by the Company	The subscribers shall not bear any additional costs of subscription and payment of the Offer Shares, except a potential banking fee for the executed payment transaction.
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## DEFINITIONS AND ABBREVIATIONS

This section contains most of the defined terms used in this Prospectus. Terms which are defined on the cover page of this Prospectus as well as terms which are unique to the sections in which they are initially defined are not included here.

<b>Definition</b>	<b>Meaning</b>
<b>2010 PD Amending Directive</b>	Directive 2010/73/EU of the European Parliament and of the Council dated 24 November 2010 amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market
<b>Admission</b>	Admission of the Existing Shares and the Offer Shares to trading on the main market of the WSE
<b>Allotment Date</b>	Date when the final allocation of the Offer Shares to the Existing Shareholders, Employees, Retail Investors, Institutional Investors and Invited Investors occur.
<b>Articles, Articles of Association</b>	The Company's articles of association
<b>Book Entry Securities Act</b>	The Book entry securities act dated 23 April 1999 and published in the Official Journal of Slovenia No. 23/1999 (as amended)
<b>BoS, Bank of Slovenia</b>	The Bank of Slovenia ( <i>Banka Slovenije</i> ), the central bank of the Republic of Slovenia
<b>Best Practices for WSE Listed Companies</b>	"Best Practices for WSE Listed Companies" adopted by the supervisory board of the WSE on 21 November 2012 and effective as of 1 January 2013
<b>Business Day</b>	Any day when business in Slovenia and Poland can be conducted, with exception of Saturdays, Sundays and legal holidays in Slovenia and Poland
<b>Business Segment Ecology</b>	The Group's business segment including ecology related services
<b>Business Segment Home</b>	The Group's business segment including products and services for home
<b>Business Segment Portfolio Investments</b>	The Group's business segment covering the Group companies operating in the area of tool making, engineering, hotels etc.
<b>CIS</b>	Commonwealth of Independent States including former republics of the Soviet Union, i.e. Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan,

	Turkmenistan, Ukraine and Uzbekistan.
<b>Company, Gorenje, Issuer</b>	Private Joint Stock Company “Gorenje” with its registered office at 12 Partizanska, 3503 Velenje, Slovenia Gorenje d.d., established and existing under the laws of the Republic of Slovenia, with registration number 1/00461/00
<b>Current Report</b>	Current information filed submitted by the Company in the form and to the extent specified in the applicable laws and regulations
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>EEA</b>	The European Economic Area
<b>EMAS</b>	Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme
<b>Employees</b>	The Issuer’s employees, including employees of Group companies invited by the Issuer
<b>EU</b>	The European Union and its member states as at the date of this Prospectus
<b>EU Member State</b>	Member state of the EU as at the date of this Prospectus
<b>EUR, Euro and €</b>	The currency of the participating member states in the third stage of the Economic and Monetary Union of the treaty establishing the European Community
<b>European Regulation</b>	The law as it comprises European Community and European Union laws
<b>Existing Shareholders</b>	Shareholders of the Company entered into the share register as at 23 August 2013, having the priority right to subscribe for the Offer Shares in proportion to their equity stakes
<b>Existing Shares</b>	18,227,062 no par value shares of the Company
<b>Financial Statements</b>	The Consolidated Financial Statements of the Company for the years ended 31 December 2010, 31 December 2011 and 31 December 2012
<b>First Round of the Offering</b>	The Offering directed to Existing Shareholders
<b>GDP</b>	Gross domestic product
<b>Group, Gorenje Group</b>	The Company and its subsidiaries
<b>IFC</b>	International Finance Corporation with its registered office at 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433, U.S.
<b>IFRS</b>	International Financial Reporting Standards

<b>IMF</b>	The International Monetary Fund
<b>Institutional Investors</b>	Corporate entities (legal persons) and non-corporate entities other than individuals, except for U.S. persons, as defined in Regulation S
<b>Interim Financial Statements</b>	The unaudited consolidated interim financial report of the Company for the six-month period ended 30 June 2013
<b>Investors</b>	Together Retail Investors and Institutional Investors who intend to subscribe for Offer Shares in Poland
<b>Invited Investors</b>	The investors invited by the Issuer or NLB to subscribe for Offer Shares in the Offering in Slovenia
<b>Joint Bookrunners</b>	DM BZ WBK and <b>NLB</b>
<b>KDD</b>	The Slovenian Central Securities Clearing Corporation ( <i>Klirinško depotna družba</i> ) with its registered office in Ljubljana, at 48 Tivolska cesta, entered in the court register
<b>KDD Rules (Pravila poslovanja KDD)</b>	The rules of the KDD, published in the Official Journal of Slovenia No. 69/2012 on 14 September 2012, as amended.
<b>LCC</b>	Low-cost countries, meaning China and Turkey
<b>LJSE</b>	The Ljubljana Stock Exchange ( <i>Ljubljanska borza d.d., Ljubljana</i> )
<b>LJSE Rules</b>	The rules of the Ljubljana Stock Exchange, as adopted in a resolution of the management board of the Ljubljana Stock Exchange on 8 October 2010 (Official Gazette RS, No. 88/10, as amended)
<b>LJSE Rules (Pravila Borze)</b>	The rules of the LJSE, published in the Official Journal of Slovenia No. 88/2010 on 5 November 2010, as amended
<b>Management Board</b>	The management board of the Company
<b>MDA</b>	Major domestic appliances
<b>Mora Moravia</b>	Mora Moravia s.r.o., a company with its registered office at Nadražni 50, Hlubočky, Mariánské Udolí, Czech Republic
<b>Updated Strategic Plan</b>	The updated strategic plan of the Group adopted by a way of a resolution of the Supervisory Board on [29] October 2013 relating to the business Strategy of the Group for 2014-2018
<b>NBP, National Bank of Poland</b>	The National Bank of Poland
<b>NDS</b>	The Polish National Depository for Securities ( <i>Krajowy Depozyt Papierów Wartościowych S.A.</i> )
<b>Offering</b>	The public offering of the Offer Shares in Slovenia and Poland
<b>Offering Agents</b>	The Offering Agent in Poland and the Offering Agent in Slovenia

<b>Offering Agent in Slovenia, NLB</b>	Nova Ljubljanska banka d.d., Ljubljana with the registered office is at Trg republike 2, 1520 Ljubljana, Slovenia
<b>Offer Price</b>	The offer price per share in the Offering
<b>Offer Shares</b>	Up to 10,440,835 newly issued ordinary no par value shares of the Company are offered in the Offering
<b>Second Round of the Offering</b>	The Offering directed to employees and third parties
<b>Second Round of the Offering – First Step</b>	The Offering directed to the Employees
<b>Second Round of the Offering – Second Step</b>	The Offering directed to Investors in Poland and Invited Investors in Slovenia
<b>Panasonic, Panasonic Corporation</b>	Panasonic Corporation, 1006 Oaza Kadoma, Kadomacity 571-8501, Osaka, Japan
<b>PLN, Polish zloty</b>	The lawful currency of the Republic of Poland
<b>Poland</b>	The Republic of Poland
<b>Polish Act on Corporate Income Tax</b>	The Polish Act on corporate income tax dated 15 February 1992 (consolidated text: Journal of Laws 2011, No. 74, item 397, as amended)
<b>Polish Act on Personal Income tax</b>	The Polish Act on personal income tax dated 26 July 1991 (consolidated text: Journal of Laws 2012 No. 361, as amended)
<b>Polish Act on Public Offering</b>	The Polish Act on public offerings, conditions governing the introduction of financial instruments to organised trading, and public companies dated 29 July 2005 (consolidated text: Journal of Laws 2009, No. 185, item 1439, as amended)
<b>Polish Act on Supervision over Capital Market</b>	The Polish Act on supervision over capital market dated 29 July 2005 (Journal of Laws 2005 No. 183, item 1537, as amended)
<b>Polish Act on Supervision over Financial Market</b>	The Polish Act on supervision over financial market dated 21 July 2006 (consolidated text: Journal of Laws 2012 No. 1149, as amended)
<b>Polish Act on Trading in Financial Instruments</b>	The Polish Act on trading in financial instruments dated 29 July 2005 (consolidated text: Journal of Laws 2010, No. 211, item 1384, as amended)
<b>Polish Antimonopoly Act</b>	The Polish Act on the protection of competition and consumers dated 16 February 2007 (Journal of Laws 2007, No. 50, item 331, as amended)
<b>Polish FSA</b>	The Polish Financial Supervisory Authority ( <i>Komisja Nadzoru Finansowego</i> )
<b>Prospectus Directive</b>	Directive 2003/71/EC of the European Parliament and of the Council of the European Union dated 4 November 2003, on the prospectus to be published when securities are offered to the

	public or admitted to trading and amending Directive 2001/34/EC (together with any applicable implementing measures in any EU member state and amendments thereto, including Directive 2010/73/EU of the European Parliament and of the Council dated 24 November 2010 together with any applicable implementing measures in any EU member state)
<b>Prospectus Regulation</b>	Commission Regulation (EC) No. 809/2004 dated 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements
<b>Qualified Investors</b>	Qualified investors within the meaning of article 2(1)(e) of the Prospectus Directive
<b>Registry Court</b>	Registry department of the District Court of Celje with its registered office in Celje, Prešernova ulica 22, that is the court competent for the Company
<b>Regulation S</b>	Regulation S under the U.S. Securities Act
<b>Retail Investors</b>	Individuals (both natural and legal persons) in Poland who intend to subscribe for Offer Shares in the Offering
<b>SDA</b>	Small domestic appliances
<b>Shareholders Meeting</b>	Shareholders meeting of the Company
<b>Shareholders Meeting By-laws</b>	means the rules of procedure on the work of the Shareholders Meeting of the Company adopted on 20 June 2003 by the Shareholders Meeting.
<b>Shares</b>	The Existing Shares and the Offer Shares
<b>SIT</b>	The Slovenian tolar being the currency of Slovenia from 8 October 1991 until the introduction of the Euro on 1 January 2007
<b>Slovenia</b>	The Republic of Slovenia
<b>Slovenian ATVP</b>	The Slovenian Securities Market Agency ( <i>Agencija za trg vrednostnih papirjev</i> )
<b>Slovenian Book Entry Securities Act</b>	Book entry securities act dated 23 April 1999 and published in the Official Journal of Slovenia no. 23/1999 (with subsequent amendments)
<b>Slovenian Companies Act</b>	The Slovenian Companies Act ( <i>Zakon o gospodarskih družbah; ZGD-1</i> ) published in the Official Journal of Slovenia No. 42/2006 on 19 April 2006, as amended
<b>Slovenian Financial Instruments Market Act</b>	The Slovenian Financial Instruments Market Act ( <i>Zakon o trgu finančnih instrumentov; ZTFI</i> ) published in the Official Journal



	of Slovenia No. 67/2007 on 20 July 2007, as amended
<b>Sole Global Coordinator, Offering Agent in Poland, DM BZ WBK, Dom Maklerski BZ WBK S.A.</b>	Dom Maklerski BZ WBK S.A. with the registered office is at Plac Wolności 15, 60-967 Poznań, Poland
<b>Strategic Plan</b>	The strategic plan of the Group adopted by way of a resolution of the Supervisory Board on 19 December 2011 and announced on 20 December 2011 relating to the business strategy of the Group for 2012-2015
<b>Supervisory Board</b>	The supervisory board of the Company
<b>U.S. or United States</b>	The United States of America
<b>U.S. Securities Act</b>	The United States Securities Act of 1933, as amended
<b>USD, U.S. dollar or U.S. \$</b>	The lawful currency of the United States of America
<b>WSE Rules</b>	The “Rules of the Warsaw Stock Exchange” adopted by way of a resolution of the board of the Warsaw Stock Exchange No. 1/1110/2006 dated 4 January 2006, as amended
<b>WSE, Warsaw Stock Exchange</b>	The Warsaw Stock Exchange ( <i>Gięlda Papierów Wartościowych w Warszawie S.A.</i> ).

## SELLING RESTRICTIONS

### **No public offering outside of Slovenia and Poland**

No action has been or will be taken by the Issuer or the Offering Agents in any jurisdiction other than Slovenia and Poland that would permit a public offering of the Offer Shares, or the possession or distribution of this Prospectus or any other offering material relating to the Issuer or the Offer Shares, in any jurisdiction where action for these purposes is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Offer Shares may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. The distribution of this Prospectus and the offering of the Offer Shares in certain jurisdictions may be restricted by law. Therefore, persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those given in the following paragraphs. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

### **United States of America and its territories**

The Offer Shares have not been and will not be registered under the U.S. Securities Act. The Offer Shares may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons, except in certain transactions exempt from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S.

### **European Economic Area**

With regard to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “**Relevant Member State**”), an offer to the public of any Offer Shares (including by means of a resale or other transfer) may not be made in that Relevant Member State, other than the offer in Slovenia and Poland contemplated in this Prospectus, once this Prospectus has been approved by the Slovenian ATVP (being the competent authority in Slovenia), and passported into Poland accompanied by the translation of the summary into the Polish language and published in Slovenia and Poland in accordance with the Prospectus Directive as implemented in Slovenia and Poland, respectively, with the exception that an offer to the public in that Relevant Member State of any Offer Shares may be made at any time under the following exemptions in the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are “qualified investors” as defined in the Prospectus Directive;
- by Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana to fewer than 100, or 150 if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement for the Company, Dom Maklerski BZ WBK S.A. or Nova Ljubljanska banka d.d., Ljubljana to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions above, the expression an “offer to the public” in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares to be offered so as to enable an investor to decide to purchase any Offer Shares. As the same expression may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State. The expression “2010 PD Amending Directive” means Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading, and 2004/109/EC on the harmonisation of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market.

### **United Kingdom**

The Offering Agents (i) may make an offer of Shares to persons who fall within the definition of “Qualified Investor” as that term is defined in section 86(1) of the Financial Services and Markets Act 2000 (the “FSMA”); (ii) has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any Shares to (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), (b) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (c) other persons to whom it may lawfully be distributed; and (iii) has complied and will comply with all applicable provisions of the FSMA with respect to any actions taken by it in relation to the Shares in, from or otherwise involving the United Kingdom.

With regard to member states of the EEA other than the United Kingdom, there may be additional restrictions, rules and regulations in place in such countries or jurisdictions within the EEA and relating to the Offer of the Offer Shares or distribution or publication of this Prospectus or any other offering material or advertisement. Persons into whose possession this Prospectus comes should observe any restrictions, rules or regulations on the distribution of this Prospectus and the offer of Offer Shares applicable in such EEA Member States.

### **Canada**

This Prospectus is not, and under no circumstances is to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in any province or territory of Canada. No securities commission or similar authority in Canada has reviewed or in any way passed this document or the merits of the securities described herein, and any representation to the contrary is an offence.

### **Japan**

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan; and (ii) in compliance with any other applicable requirements of Japanese law.

## **Russia**

The Shares have not been offered or sold or transferred or otherwise disposed of, and will not be offered or sold or transferred or otherwise disposed of (as part of their initial distribution or at any time thereafter) to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law. Russian securities laws permit the offering, public offering, placement and circulation (including public circulation) of the Shares in Russia only upon fulfilment of certain procedures (which, amongst others, may include registration of the offering memorandum with the Russian regulator) provided for under Russian law, some of which are yet to be developed by the Federal Service for Financial Markets of the Russian Federation. Neither the issue of the Shares nor a Russian securities prospectus (*prospect tsennih bumag*) in respect of the Shares has been, or is intended to be, registered with the Federal Service for Financial Markets of the Russian Federation. The information provided in this Prospectus is not an offer, advertisement, or invitation to make offers, sell, exchange or otherwise transfer the Shares in the Russian Federation or to or for the benefit of any Russian person or entity.

## RISK FACTORS

*In addition to the other information contained in this Prospectus, prospective investors in the Offer Shares should consider carefully the specific risks set out below before making a decision to invest in the Offer Shares. These risks and uncertainties may not be the only ones facing the Group. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial may also have a material adverse effect on the Group's business, results of operations and financial condition. If any, or a combination, of these risks occurs, the Group's business, results of operations and financial condition could be materially adversely affected. If this occurs, the trading price of the Offer Shares could decline and investors could lose part or all of their investment.*

### **Risks relating to the Group's business and industry in which the Group operates**

#### ***The Group's results depend on the macroeconomic situation***

The Group's results depend to a large extent upon the macroeconomic situation in individual key markets in which the Group operates, as well as the macroeconomic situation of the EU and the global economy. In particular, the Group's business is affected by such factors as the relevant markets' GDPs and their fluctuations, the inflation rate, exchange and interest rates, transport costs, fuel prices, the unemployment rate, changes in the financial well-being of customers and state fiscal and monetary policies. Unfavourable changes in the general macroeconomic situation in the EU or in the world may, in particular, translate into a decline in the demand for the Group's products and services, which in turn may result in a decrease in the Group's revenues and adversely affect the Group's financial condition. Furthermore, instability of or disruptions in the financial markets, stemming particularly from the present Eurozone crisis, may limit the Group's access to external financing. Such limited access to external financing or an increase in its costs may in turn affect the Group's ability to successfully carry out its investment projects and strategies. The macroeconomic situation may also increase the insolvency risk of the Group's customers, which in turn may cause problems with debt enforcement and may lead to the loss of core customers by the Group. Such unfavourable circumstances may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

#### ***The Group is exposed to volatility in pricing of raw materials***

The Group purchases raw materials which are key to its business by either entering into futures contracts or building long-term supply partnerships on non-exchange markets. Supplies of raw materials are mostly denominated in the U.S. dollar. The industry in which the Group operates is generally exposed to volatility in pricing of raw materials and fluctuations of the U.S. dollar exchange rates. In 2012, factors which had a great effect on the raw materials environment included, in particular, the EU debt crisis and slowdown in the Chinese economy, as well as tensions in the Middle East and Africa. As far as possible, the Group implements appropriate hedging instruments aimed at reducing the exposure to volatility of raw material markets by entering into forward purchase transactions or by developing contractual supply relationships based on a price indexing model (as in the case of sheet steel). Hedging mechanisms cannot be used with petrochemicals or plastics as their prices are determined on a monthly basis based on a number of unpredictable elements, including oil prices, uncertain trends in petrochemical feedstocks, declining margins, production limits and force majeure. In addition, due to extreme fluctuations in 2012, the prices of plastics achieved record highs. Such unfavourable circumstances may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***Malfunction and/or incorrect operation of the Group's products may cause damage to the Group's customers and/or third parties which, in turn, may lead to product liability for the Group***

The Group's products are subject to quality standards and regulations. Although the Group continuously improves its good manufacturing practices and observes product-testing protocols, malfunction and/or incorrect operation of the Group's products may occur. Consequently, there can be no assurances that in certain circumstances the Group would not be obliged to assume product liability for damage incurred by the Group's customers and/or other third parties as a result of malfunction and/or incorrect operation of the Group's products. Under laws of many countries, a consumer who has sustained damage as a result of malfunctioning products may bring a claim for damages against the producer. In addition to product liability claims, any such occurrence may result in fines being imposed, increased scrutiny by regulatory agencies, product recalls (which may not entirely mitigate the risk of product liability claims), and adverse publicity. The Group purchased insurance coverage from an international insurance company, the amount of which in the opinion of the Group is reasonable for product liability claims which may occur in the normal course of the Group's business. However, there can be no assurances that this cover will be adequate for all individual cases. Any of these events or circumstances could have a material adverse effect on the Group's reputation and demand for the Group's products and, therefore, on the Group's business, results of operations, financial condition or development prospects.

***The Group's investments and development projects may not bring about the expected results***

The Group intends to continue its capital expenditures, including investments in the field of development of new product generations and development of new production and product-related technologies. It is not certain whether, due to factors beyond Group control, these plans will be carried out. The evaluation of the Group's future investments will depend on market conditions and other factors beyond its control; it may also turn out that any such future investments or development projects will not yield sufficient returns. Execution of such investments may prove to be time-consuming and costly, and it is uncertain whether they will be completed on schedule or as planned or indeed at all. The Group's inability to efficiently implement investments as a result of occurrence of the circumstances described above or for any other reason could have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group may be exposed to social unrest relating to labour conflicts***

Historically, the Group has not experienced labour conflicts to a great extent. However, such conflicts may occur in the future. Although the Group has reached agreement with the trade unions operating in the Group, the Group continues to engage in social dialogue with the trade unions relating to business operations and their impact on employment conditions and employees' rights. It is important that the trade unions and employees be kept informed of any changes that might affect, in any way, their rights and employment conditions. Any potential labour conflicts may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

In addition, in 2013 the Group completed the process of production relocation (please see section "*Business*" – "*Business Segment Home*" – "*Relocation of production facilities*"). In connection with the production relocation process the Group and the trade unions operating within the Group concluded social agreements in connection with the production relocation (please see section "*Business*" – "*Employees*"). In addition, the process involved termination of employment contracts with the Group's employees in Finland and Sweden. The Group's failure to comply with the provisions of the labour agreements and any potential claims which may be raised by the Group's former employees whose employment contracts were terminated in the course of relocation process may result in worsening of mutual relationships between the Group and its employees and/or trade unions (e.g. any future negotiations/disputes with Group's employees may be more difficult to be reached due to employees awareness of the Company's failures in the employment area). The above

unfavourable circumstances may have a material adverse effect on the Group's business, results of operation, financial condition or development prospects.

Potential labour conflicts may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group may fail to retain or attract new qualified personnel, which may hinder the Group's growth in line with its adopted assumptions***

The Group's success depends, to a significant degree, on its ability to continue to retain, motivate and attract qualified and experienced production staff and management personnel, as well as its senior management team. The Group's ability to remain competitive and to implement its business strategy and expansion plans effectively depends to a large degree on the services of its senior management team and other key personnel and the loss or unavailability of such personnel for an extended period of time could have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group is exposed to risk relating to liquidity of its business partners***

Due to the deteriorated global macroeconomic situation and the EU credit crisis, which in turn may affect liquidity of businesses, the Group is exposed to a risk of potential inability of its business partners to fulfil their contractual obligations towards the Group. Although the Group uses certain mechanisms to protect itself from this risk (in particular, insurance of trade receivables, bank guarantees, on-going monitoring of the financial position of the Group's new and existing trading partners), due to the volatility of the global markets the liquidity position of the Group's trading partners may deteriorate, which in turn may lead to decreased economic benefits for the Group. Such unfavourable circumstances may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group is exposed to currency risks resulting from the geographical diversification of its operations***

Due to the fact that the Group conducts its business operations in a number of markets, it is exposed to a risk relating to changes in exchange rates, which may result in decreased economic benefits for the Group. This risk arises mainly in connection with the Group's activities in Serbia, Russia, Sweden, Norway, Great Britain, the Czech Republic, Poland, Hungary, Croatia, Turkey, and in all U.S. dollar markets. Although the Group manages the risk by using, in particular, forward contracts, natural currency hedging (netting of sales and purchases in same currencies), as well as short-term borrowings in local currencies, due to the recent macroeconomic changes in the global markets these mechanisms may not be sufficient to protect the Group against adverse fluctuations in foreign exchange rates. These unfavourable circumstances may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group's results may be affected by interest rate fluctuations***

The Group intends to obtain various credit facilities to fund its on-going operations. As at 30 June 2013, the Group's credit facilities with floating interest rates represented 62.6% of the total facilities used. Although the Group manages the interest rate risk with hedging instruments and closely monitors the macroeconomic situation with respect to interest rate fluctuations, these mechanisms may not be sufficient to protect the Group against unfavourable movements in interest rates. These unfavourable circumstances may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group is exposed to operational risks***

The Group's production processes depend on certain critical items of machinery and equipment. Although the Group's production assets are generally modern and well maintained, there can be no assurances that there

will not be failures or breakdowns in machinery and equipment used in the Group's production processes. Any failure of such equipment resulting in partial or total disruption or in a decline in the Group's production capacity could have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group entered into a number of related-party transactions which are material to the Group's business***

The Group's companies have a number of arrangements and engage in various transactions as affiliated companies. These arrangements and transactions, taken as a whole, are based on arm's length principles to accommodate the Group's respective interests in a manner that is fair and beneficial to both parties. The Group operates a transfer pricing system ensuring that related agreements and transactions are not effected on terms less favourable than those that could have been obtained from unaffiliated third parties. The Group also ensures that the transfer pricing documentation is prepared by the Group's companies in a timely manner. Because in the normal course of its business the Group enters into a number of intra-group transactions, there can be no assurances that no risk would arise from transfer pricing, which in turn might have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group's current and planned operations are located in several markets with which the Group may not be entirely familiar***

The Group's current operations span more than 90 countries. These countries represent, in some cases, new operating environments for the Group, some of which are located a great distance and across multiple borders from the Group's headquarters in Slovenia. The Group may therefore face more uncertainties with respect to the operational and financial needs of these businesses and may experience difficulties in exercising the same level of control over activities in new markets as in those located in its traditional markets. These factors may impact the results of the Group's current and future operations in these countries and the Group's reputation generally.

***The Group is exposed to fluctuations of transport costs***

The Group's operations necessitate sea and road transport of the Group's products to its trading partners, which in turn leads to the Group's exposure to transport costs. As regards sea transport, supply and demand are the most important factors affecting prices. The market for sea transport services has stabilised following a period of price hikes seen last year. However, high fluctuations of prices can be also expected this year, in particular in the region of Far East and Northern Adriatic due to mergers of important sea carriers with aim to improve their market position and price levels. In the case of road transportation, the most crucial factor in this respect are oil prices and, as seen recently, increase of road tolls all over Europe. Any unfavourable market circumstances leading to increases in transportation costs may have a material adverse effect on the Group's business, results of operation, financial condition or development prospects.

***The Group is subject to stringent environmental, health and safety ("EHS") regulations***

The Group's business activity has an impact on the environment, in both the course of its production processes and in the impact of its final products. All of the Group's facilities hold the necessary environmental permits, depending on the type and scale of their operations, pollution and/or other environmental considerations. The Group performs all periodic EHS measurements, including monitoring of effluence, air emissions and noise levels, checking of waste production and hazardous substance storage, as well as legal regulation of working conditions, etc. In addition, lowering of EHS risk is a component of the Company's EHS management systems, which are in compliance with the ISO 14001 standard, the European regulation EMAS, as well as the OHSAS 18001 standard.



The Group's operations are also subject to numerous environmental, health and safety laws and regulations (whereby respective Group companies are subject to local and/or international regulations, which may differ from country to country), including those that pertain to the storage, handling, treatment, transportation and disposal of hazardous materials, the construction and operation of the Group's plants, as well as the discharge of contaminants to the air, soil and water. The Group's operations are in compliance with currently applicable environmental, health and safety laws and regulations (including fire safety). However, in the years ahead the Group should expect a continued move towards more stringent environmental requirements, as determined by local and/or international regulations with which respective Group companies has to comply with. Consequently, the Group may, in future, be obliged to bear substantial compliance costs or investment expenditures ensuing from new EHS regulations, and this may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group is exposed to tax risk from its interpretation of tax legislation in various jurisdictions***

The Group operates its business mainly through subsidiaries in a substantial number of jurisdictions. The Group's business, including intra-group transactions, is concluded in accordance with the Company's interpretation of applicable laws, regulations, tax treaties and the requirements of the tax authorities of the countries in which it operates. Tax risk arises from the correct interpretation of tax legislation, and thus the correct and timely accounting for and payment of taxes and levies, as well as from possible changes in tax legislation and its implementation in the Group's daily business processes and provision of adequate documents, etc. The basic control measure for tax risk is monitoring of tax and legal practices, establishment of internal control mechanisms, intensive cooperation between the departments and the Group companies at all stages of business activity, as well as preparation of adequate documentation, etc. Furthermore, the reorganisation of sale procedures among the Group's companies has increased the complexity of value added tax risk management, which is managed by a broader standardisation of the tax treatment of transactions. In concluding and performing transactions with related entities, the Group's companies act to ensure the compliance of the transaction terms with the transfer tax regulations. The Group has a transfer pricing system which ensures that related agreements and transactions are not effected on terms less favourable than those that could have been given to unaffiliated third parties. It also ensures that transfer pricing documentation is prepared by the Group's companies in a timely manner.

The Group's exposure to tax risk is high, due to the complexity of the Group's operations, the large volume of its international transactions and the complexity of tax legislation, but in the opinion of the Group, the probability of risk events occurring is low. Despite the above-mentioned measures, it is not possible to rule out potential disputes with the tax authorities, and consequently their challenging of the tax settlements of Group entities. If such decisions and rulings prove unfavourable to the Group, they could have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group's operations may be exposed to the risk of fire and other natural disasters, as well as terrorist attacks and other similar occurrences which may cause interruptions or disruptions to the Group's operations***

There may be a risk of failure of the Group's equipment and systems caused by, among other things, wear and tear, operator error, acts of theft or vandalism, unfavourable weather conditions, natural disasters, terrorist attacks, natural phenomena, force majeure events or similar. These may all lead to serious disruptions in the operation of equipment. Equipment and systems failures may also result in damage to a third party's person or property, and in consequence, the obligation to pay damages. The most recent event of this kind occurred in July 2013 when a fire destroyed two thirds of the waste collection and processing hall at the Gorenje Surovina, d.o.o. plant in Maribor (the value of the damage is currently being assessed and the cause of the fire investigated). The occurrence of such events may incur significant expenditure on repair costs, damages or

penalties for the Group, which may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group's insurance policies may not cover all future risks***

The Group's business carries a number of risks, in particular the risk of outages, disasters and other events beyond the Group's control. In the event of the breakdown of individual machines or systems, the Group may be unable to perform its activities, the majority of which also carry a risk of personal injury (including loss of life or health) or property damage. The Group may have to bear the costs of repairs to its infrastructure and face claims from people injured in accidents and disasters. Despite observing environmental protection regulations, there remains a particular risk of accidents or of incompliance with legal provisions, the consequences of which, including remedial action or intervention by regulatory bodies, cannot be predicted or prepared for.

The Group has purchased insurance cover against the majority of risks, such as the risk of property damage as a result of various occurrences, or the risk of business interruptions as a result of property damage. However, the compensation available under these policies may not cover the entire value of the losses sustained. In addition, there are risk areas in the Group for which no insurance has been purchased, or for which the policies held apply only to certain Group companies, or that only cover a given segment of the potential risk area. These could include, among others, the risk of environmental contamination, or of terrorist attacks. The Group believes that its insurance coverage is sufficient for its operations. However, there can be no assurances that the Group will be able to maintain its insurance coverage in the future on acceptable terms, or that future claims may not exceed or fall beyond its insurance coverage. Events which are not covered by any insurance policy would have to be covered by the funds of individual Group companies, or by funds obtained from external sources. The lack or insufficiency of insurance coverage in individual cases may lead to disruptions in the Group's business activity, and may even cause its temporary or permanent discontinuation. In turn, this may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group is exposed to risk from revaluation of its assets***

Based on the IFRS and the Group's internal accounting policy, the Group is obliged to evaluate its assets according to the fair value method every five years. The next revaluation of the Group's assets will be completed in 2013. Given the global macroeconomic situation and the revaluation rules, the Group cannot exclude the possibility that following revaluation, certain assets will be under- or overvalued. In turn, this may potentially have a negative impact on the Group's business and financial condition.

***The Group's success is dependent on its ability to quickly adapt new technologies to its own production processes***

The Group focuses on adapting new technologies to its own production processes, and the introduction of new technologies may require the Group to invest in new equipment for its production facilities. It may be required to commit substantial finances and resources to such investments, and may not be able to pass on the costs to its customers. However, any failure to adapt quickly to new technologies could result in decreased consumer demand for the Group's products, which may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group's revenues depend on the competitiveness of its sales of products and services***

The majority of the Group's revenues are derived from the sale of products and services, and hence depend on the Group's ability to be competitive in each key market in which it operates. The effectiveness of the Group's sales strategies depends on many factors, of which the most important is implementation of appropriate marketing strategies. These include, in particular, appropriate branding of the Group's products and services,

pricing mechanisms, and competitiveness in the field of product functionality and design. The competitiveness of the Group's sales is also affected by the negotiating power of the industrial customers and trade chains with which the Group works, and by the quality of the Group's after-sale services. In addition, the Group's business is particularly sensitive to the actions of its competitors, which may seek to increase their market share by reducing their prices and/or by offering additional incentives. Consequently, to remain competitive and to maintain its market share, the Group may be required to increase its expenses, marketing efforts and/or adjust its products' prices. Although the Group believes that it is currently competitive, it cannot guarantee that future sales of products and services will remain as competitive. The Group's inability to formulate appropriate sales strategies, as well as the increasing negotiating power of the industrial customers and trade chains working with the Group, may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group relies on the performance of its external sales and distribution network***

The Group derives a portion of its revenue from external distributors and sub-distributors of its consumer products, who in turn sell the Group's consumer products to their end-customers. The Group has its own wholesale distribution network in most of the countries in which it operates, as well as a retail distribution network throughout Slovenia, Serbia, Bosnia and Herzegovina, Croatia and the Czech Republic. Although the Group has established long-term relationships with third-party distributors, there can be no assurances that they will continue to maintain their distribution agreements with the Group. If the Group's distributors do not continue to distribute its products, or if they provide the Group's products with less promotional support than they give to its competitors' products, the Group's sales performance may not improve as the Group expects, or could even decline. In turn, this may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***If the Group fails to maintain its competitive position, the Group's business, financial condition and results of operations would be adversely affected***

The Group faces considerable competition in all the markets in which it operates. In particular, it competes with Electrolux, Bosch-Siemens, Whirlpool, Arcelik, Indesit and other home appliance manufacturers. Many of the Group's competitors have greater brand recognition, larger customer bases and greater financial and other resources than the Group does. There can be no assurances that the Group's competitors will not, in the future, engage in more extensive development efforts, launch more successful promotional campaigns for their products, adopt more aggressive pricing policies (to the detriment of the Group), or make more attractive offers to the Group's existing and potential white goods customers. Although the Group believes that it is currently competitive in its domestic and export markets, there can be no assurances that the Group will continue to be so, or that it will be capable of maintaining or further increasing its current market shares. Failure to compete successfully in the white goods market may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***Any failure to protect the Group's brand names and other intellectual property may adversely affect the Group's business***

The Group's success depends to a certain extent upon the recognition of and goodwill associated with its brand names, trademarks and other intellectual property, in particular the trademarks "Gorenje", "ASKO" and "ATAG", as well as the "gorenje+" concept line. Substantial erosion of the value of the Group's brand names, trademarks and other intellectual property due to product recalls, customer complaints, adverse publicity, legal action or other factors could have a material adverse effect on the Group's business, results of operations, financial condition or development prospects. Moreover, the Group's products may be imitated or copied, or retailers may seek to market products produced by other companies as the Group's products. In addition, steps taken to protect the Group's trademarks and other intellectual property rights may not be sufficient and third parties may infringe or challenge such rights and, if the Group is unable to protect its IP

against infringement, this could have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***Problems or delays in accessing raw materials could have a material adverse effect on the Group's operations***

In 2012, the Group obtained approximately 53% of its raw materials and components from its top 50 suppliers. The Group generally seeks to rely on at least two suppliers as principal sources for specific raw materials and purchased components. When only one or two suppliers are used, alternative sources are generally available, although costs may be incurred in transitioning to a new supplier where the contract with an existing supplier is abruptly terminated. Unexpected transitions from one supplier to another may, under certain circumstances, cause a delay in the supply of raw materials or components to the Group. When practical, the Group establishes multiple sources for the purchase of raw materials and components, to ensure competitive pricing, supply flexibility and protection from supply disruption. Any significant disruption or delay in the supply of raw materials and components to the Group may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***The Group's ability to meet its financial commitments in a timely manner may be limited and the Group may fail to generate or raise the necessary capital for future development strategies, or to refinance its debt on acceptable terms, or at all***

As at 30 June 2013 the portion of the Group's short-term borrowings falling due in the next 12 months represented 41.5% of the Group's total loans, of which 22.5% are the current portion of long-term loans, 6.9% are short-term loans, 7.4% are revolving overdrafts and 4.7% are commercial papers. The short-term loans and revolving facilities are renewed regularly. To secure its short- and mid-term liquidity, the Group regularly negotiates with the banks, at least 6-12 months in advance, for refinancing of its existing financial liabilities. The Group's liquidity reserve as at 30 June 2013 amounted to EUR 99,400 thousand and consisted of unused revolving credit lines, unused long-term credit lines, short-term deposits with banks and banked cash. The Group uses its liquidity reserve to secure adequate short-term control of cash flows and to decrease short-term liquidity risk. In addition, in 2012 and the first half of 2013 the Group implemented the forfeiting model for the sale of first-class receivables, which represents an additional liquidity reserve and lowers the Group's dependency on banking institutions. In year 2013, the Group also issued short-term commercial papers in the gross amount of EUR 24,200 thousand, which proves the trust in the Group's performance and strategy, as well as further decreasing its dependency on banking institutions. The Group has also implemented a long-term project for sale of non-core assets, the planned cash flow from which represents, for the following fiscal years, an additional source of at least EUR 35,000 thousand for refinancing of the Group's existing financial liabilities. These activities are part of the Group's debt management plan, which on a rolling basis has been regularly prepared since 2010. Nevertheless, and especially considering the market situation, the Group may encounter difficulties meeting its financial commitments by the stipulated deadlines, due to a lack of available funds. One of the reasons for potential breach of the Group's financial covenants is that certain of them are strict and difficult to be achieved as they were negotiated in the time before global economic situation worsened (see section "Business" – "Material Agreements" – "Financing Agreements"). In addition, if the Group is in breach of these financial covenants, it may not be able to obtain respective waivers from banks and financing institutions. Consequently, if such waivers are not granted, the Group should according to IFRS reclassify its long-term loans into short-term ones and in worst case, the banks and financing institutions might even cancel the borrowing facilities. The Group's inability to secure appropriate cash management and generate cash flows from its operating activities may lead to a worsening of its liquidity, which in turn may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

In addition, the Group will require additional capital to expand its business. Although its current development plans are substantially funded, future expansion plans may involve significant capital expenditure, and there can be no assurances that it will be able to generate sufficient cash flows, or that it will have access to sufficient debt or equity financing to implement its development plan as currently envisaged. Certain circumstances may affect the Group's ability to raise adequate capital, including economic conditions, limited access of banks to funding, the terms of existing financing arrangements or any changes thereto, expansion at a faster rate or at a higher capital cost than planned, a slower revenue growth rate, and regulatory developments. If the Group cannot obtain adequate funds to satisfy its future capital requirements, it may not be able to expand its operations, which may slow its growth, lead to a loss of market share and otherwise have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

Furthermore, if the Group's future cash flows from operations and other capital resources are insufficient to settle its obligations as they mature, or to fund its liquidity needs, the Group may, among other things, be forced to:

- reduce or delay business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of its debt on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

There can be no assurances that any of these alternatives can be accomplished in a timely manner or on satisfactory terms, if at all. In addition, the terms of the Group's existing and future debt may limit its ability to pursue any of these alternatives.

#### ***The Group may be unable to implement its Updated Strategic Plan***

The Group's Updated Strategic Plan has been designed to increase its production capacity and product sales. A number of factors may affect the implementation of this strategy, including demand for its products and its ability to obtain funding. The continued growth of the Group's business may also raise operational or control risks. In the event that the Group does continue to grow, it will have to react and adapt to its changing business environment and the circumstances accompanying such growth. There can be no assurances that the Group will be able to implement its Updated Strategic Plan within the anticipated timeframe, or at all, and any delay in or failure to implement its Updated Strategic Plan may have a material adverse effect on the Group's business, results of operations, financial condition or development prospects. As the Group continues to expand its operations and seek additional growth opportunities, its internal controls in particular will need to adapt and respond to the growing demands of its business activities, and there can be no assurances that changes and improvements in these systems and processes will always be successful in meeting the Group's new requirements. Any future efforts to adapt the Group's systems to provide for such growth may result in complications with respect to the efficacy of its controls. In turn, this could have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

#### ***The Group is exposed to risk from potential reorganisations, including divestments***

The Group has made a number of acquisitions and established a number of subsidiaries over the years. Due to competition and/or varying market situations, in the future the Group may decide that it is in its best interest to reorganise and/or divest itself of entire business areas or parts thereof. This is particularly relevant to the Group's portfolio investment area. Ineffective completion of potential reorganisations and/or divestments may

have a material adverse effect on the Group's business, results of operations, financial condition or development prospects.

***Amendments to proposed Slovenian property tax regulations could adversely affect the Group's business***

On 17 October 2013, the Government of the Republic of Slovenia has sent to the National Assembly of the Republic of Slovenia its proposal of act on property tax, to be dealt with in urgent procedure. As at the date of this Prospectus, the act has not yet been adopted by the National Assembly of the Republic of Slovenia.

The proposed act on real-estate tax, which is supposed to substitute the current fees, which in fact represent real-estate tax, namely property tax, payment for use of construction land and payment for maintenance of forest roads. All real-estate, which will be evidenced or fulfil the conditions and should have been evidenced in the real-estate register as per 1 January of every year, will be the object of the tax. By such broad definition all types of buildings and all types of land should be included, i.e. also farm and forest land. The tax base will be the generalized market value of real-estate. The taxable person will be the owner, be it natural or legal person. As an exception, in cases of real-estate owned either by the state or by local municipalities the tax obligation will be transferred to the managers of such real-estate and in case of financial lease to the lessee. The proposed act sets different tax rates for different types of real-estate, namely for housing real-estate 0.15%, for business and industrial real-estate 0.8% and for other uses (e.g. public, farm) 0.5%. For construction land and for all other land the tax rate of 0.5% is foreseen. The tax rate for non-occupied apartments will be raised to 0.45%, while the tax rate for non-used land will be raised to 1.5%. Besides that, the proposed act also provides the local municipalities with the possibility to raise or lower the tax rates by 50%.

The Group estimates that the implementation of the real-estate tax, pursuant to the current version of the proposal of act on real-estate tax, will not have a material effect on the business of the Group, as the proposed real-estate will substitute for other current payable fees, which were previously mentioned. At the same time the Group has divested of some underperforming (real-estate) assets in the last couple of years, which will diminish the tax base for calculation of real-estate tax for the Group. However, a possible material change to the proposal of act on real-estate tax and implementation of such material change could adversely affect the Group's business.

**Risks related to investment in Offer Shares**

***The Offering may be cancelled or suspended***

The Company, upon consultation with DM BZ WBK and NLB, may cancel or suspend the Offering at any time prior to the commencement of the subscription period for the Employees and Investors, without disclosing any reason for doing so.

The Company may also, upon consultation with DM BZ WBK and NLB, cancel or suspend the Offering at any time after the commencement of the subscription period for the Employees and Investors, up and until the Allotment Date, if it considers there are reasons to believe that proceeding with the Offering is, or has become impracticable or inconvenient. Such reasons may include, but are not limited to: (i) an unsatisfactory level of demand for the Offer Shares; (ii) suspension or significant limitation of trading in securities on the LJSE or the WSE; (iii) material deterioration of economic or political conditions in Slovenia, Poland or generally across the world; (iv) material loss or deterioration in the performance of Gorenje; (v) material downturn of general performance, management, financial standing, capital or results of operations of Gorenje or the Group or any materially negative development in relation to the matters stated above.

By cancelling the Offering, all subscription forms of investors in the subscription of the Offer Shares on the basis of the Offering under this Prospectus will be rejected. Within 15 days after the announcement of the cancellation of the Offering, Gorenje will reimburse any amounts paid prior to the cancellation of the Offering. Investors will not be entitled to receive any interest or other compensation.

If Gorenje decides to suspend the Offering during the subscription period, both the subscriptions and payments made shall be deemed valid. Investors, however, will be entitled to withdraw from the Offering for two business days following the publication of a supplement to this Prospectus concerning the suspension of the Offering. In the event that Gorenje decides to suspend the Offering, information about the suspension of the Offering will be made available to the public in the form of a supplement to this Prospectus and in the form and scope specified under applicable laws and regulations.

Any decision on the cancellation or suspension of the Offering will be published and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)), DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)) and NLB ([www.nlb.si](http://www.nlb.si)), in a manner compliant with applicable laws and regulations. None of the Company and/or the Offering Agents shall bear any liability for any consequences (including, without limitation, losses, damages or lost opportunity) incurred by any third party (including investors) and/or their affiliates in respect to and/or in connection with such cancellation or suspension.

***The Issuer may be unable to list the Offer Shares on the LJSE***

The admission of the Offer Shares to trading on the LJSE requires that the LJSE approves the listing and trading of the Offer Shares on the LJSE. The LJSE approves listing and trading upon the fulfilment of certain conditions which, *inter alia*, relate to: (i) the issuer's legal status (the issuer's incorporation and legal status comply with the regulations of the country of its registered office); (ii) the publication and the approval of the prospectus, its supplements and other information as stipulated in Slovenian Financial Instruments Market Act; (iii) Offer Shares are freely transferable, and (iv) the issuance of shares and settlement of trades in these Offer Shares (the issued shares are valid and the conditions for a reliable settlement of trades in these shares are met, whereby for issuers with registered offices in the Republic of Slovenia this condition is met if the shares are issued in dematerialised form and entered into the KDD's central registry).

The Issuer that applied for the listing of shares on the LJSE must also: (i) meet its obligations regarding the publication of a supplement to the prospectus prior to the beginning of trading; and (ii) pay the relevant fee, pursuant to the valid fee schedule of the LJSE, within the time stipulated in the resolution on listing. If the Issuer fails to meet these obligations and thus delays trading in the shares for more than three months from their listing on the LJSE as stipulated in the resolution on classification, the LJSE may delist such shares from trading on the LJSE, while the resolution on listing shall become ineffective.

Some of the conditions mentioned above are discretionary in nature and, therefore, the Issuer cannot provide any assurance that the LJSE will conclude that the Issuer meets all of them.

The Issuer intends to take all necessary steps to ensure that the Offer Shares are admitted to trading on the LJSE as soon as possible after completion of the Offering. However, there is no guarantee that all of the aforementioned conditions will be met and that the Offer Shares will be admitted to trading on the LJSE on the date indicated in this Prospectus (see section "*Terms and Conditions of the Offering*" – "*Timetable for the Offering*"), or at all.

***The Issuer may be unable to list the Shares on the WSE***

The admission of the Shares to trading on the WSE requires, *inter alia*, that: (i) the Shares are registered with the clearing and settlement system of the NDS, and (ii) the WSE approves the listing and trading of the Shares on the WSE. To obtain the WSE's approval, the Issuer has to meet certain requirements provided for in the respective regulations of the WSE and other applicable laws. Such requirements include, but are not limited

to: (i) the appropriate free float of the Shares; (ii) the appropriate market value of the Shares or the equity of the Issuer; (iii) a lack of restrictions on the transferability of the Shares; (iv) the approval of this Prospectus by the Slovenian ATVP and its notification to the Polish FSA; and (v) a lack of bankruptcy or liquidation proceedings pending with respect to the Issuer. Furthermore, while examining the Issuer's application for admission of the Shares to trading on the WSE, the WSE will take into consideration: (i) the Issuer's current and projected financial standing; (ii) the Issuer's development perspectives, in particular, assessment of investment objectives taking into account its financial sources; (iii) the experience and qualifications of the members of the Management Board; (iv) the terms on which the securities were issued and the compliance of these terms with the principles of the public nature laid out in the WSE Rules; and (v) the security of public trading on the WSE and of the interests of trading participants. Some of the conditions mentioned above are discretionary in nature and, therefore, the Issuer cannot provide any assurance that the WSE will conclude that the Issuer meets all of them.

The rules of the WSE require the Issuer to file an application for introduction of the Shares to trading on the WSE within a period of six months from the date on which the Shares have been admitted to such trading. If the Issuer fails to comply with this obligation, the decision of the WSE on the admission of the Shares to trading on the WSE could be annulled.

The Issuer intends to take all necessary steps to ensure that the Shares are admitted to trading on the WSE as soon as possible after completion of the Offering. However, there is no guarantee that all of the aforementioned conditions will be met and that the Shares will be admitted to trading on the WSE on the date indicated in this Prospectus (see section "*Terms and Conditions of the Offering*" – "*Timetable for the Offering*"), or at all.

#### ***Trading in the Shares on the LJSE may be suspended***

The LJSE must suspend trading in the Shares if: (i) such suspension has been ordered by the Slovenian ATVP as a supervisory measure under the Slovenian Financial Instruments Market Act; (ii) the Shares cease to meet the requirements for trading on the LJSE provided that such delisting would not be materially adverse to the interests of investors or to the ordinary functioning of the market; (iii) suspension is required because of changes with respect to the Shares effected in the KDD (such as a merger, share split or similar event); or (iv) the Issuer so requests.

The LJSE may also suspend trading in the Shares if it concludes that suspension is necessary to protect the interests of investors. The Issuer will make all endeavours to comply with all applicable regulations in this respect. However, there can be no assurance that trading in the Shares will not be suspended. Any suspension of trading could adversely affect the price of the Shares.

#### ***Trading in the Shares on the WSE may be suspended***

The WSE has the right to suspend trading in the Shares for up to three months: (i) at the request of the Company; (ii) if the Company fails to comply with the respective regulations of the WSE (such as specific disclosure requirements); or (iii) if it concludes that the suspension is necessary to protect the interests and safety of market participants.

Furthermore, the WSE shall suspend trading in the Shares for up to one month upon the request of the Polish FSA, if the Polish FSA concludes that trading in the Shares is being conducted under circumstances which may pose a possible threat to the proper functioning of the WSE, or the safety of trading on that exchange, or may harm investors' interests.



## **Risks related to listing and the market**

### ***The Company may be delisted from trading on the LJSE.***

The LJSE must delist the Shares from trading: (i) if the delisting was imposed as a control measure by the Slovenian ATVP; (ii) if the Shares or the Issuer no longer meet the conditions for trading on the LJSE market (e.g. in the case of a merger, statutory restructuring or winding up of the Issuer's company, etc.); (iii) if it receives a well-grounded application from the Issuer for the delisting of its Shares (when the shareholders meeting of the Issuer passes a resolution on delisting the shares); (iv) if the delisting is requested by the person that applied for the listing of these shares on the LJSE market without the Issuer's consent; or (v) if the Issuer fails to comply with the listing conditions.

The Company believes that as at the date of this Prospectus there are no circumstances which could provide grounds for the delisting of the Shares from the LJSE in the foreseeable future. However, there can be no assurance that any such circumstances will not arise in relation to the Shares in the future. Delisting of the Shares from the LSJE could have an adverse effect on the liquidity of the Shares and, consequently, on investors' ability to sell the Shares at a satisfactory price.

### ***The Company may be excluded from trading on the WSE***

If the Polish FSA, which is the competent authority of a host EU Member State of the Company, finds that the Company is responsible for irregularities or has infringed its obligations, it shall refer its findings to the Slovenian ATVP, which is the competent authority of the Company's home EU Member State. If, despite the measures taken by the Slovenian ATVP, or because such measures prove inadequate, the Company persists in infringing the relevant legal or regulatory provisions, the Polish FSA shall, after informing the Slovenian ATVP, take all appropriate measures in order to protect investors. The Polish FSA shall notify the European Commission and the European Securities and Markets Authority immediately upon the application of such measures.

If the Company fails to fulfil certain requirements or obligations under the applicable provisions of securities laws, including but not limited to the requirements and obligations provided for under the Polish Act on Public Offering and the Polish Act on Trading in Financial Instruments, the Polish FSA could impose a fine on the Company or delist its Shares from trading on the WSE.

The WSE shall delist the Shares from trading upon the request of the Polish FSA, if the Polish FSA concludes that trading in the Shares and the Offer Shares imposes a significant threat to the proper functioning of the WSE or the safety of trading on that exchange, or infringes investors' interests. Moreover, mandatory delisting will also be effected by the WSE where: (i) the transferability of Shares has become restricted; (ii) the Shares are no longer in book entry form; (iii) the Polish FSA has requested such, in accordance with the Polish Act on Trading in Financial Instruments, and (iv) the Shares have been delisted from the regulated market by a competent supervisory authority of such market, provided that the Shares were traded on another, regulated market.

The WSE may also delist the Shares where: (i) the Shares cease to meet all the requirements for admission to trading on the WSE; (ii) the Company persistently violates the regulations of the WSE; (iii) the Company has requested such; (iv) the Company has been declared bankrupt or a petition for bankruptcy has been dismissed by the court because the Company's assets do not suffice to cover the costs of the bankruptcy proceedings; (v) the WSE considers it necessary in order to protect the interests of the market's participants; (vi) following a decision on a merger, split or transformation of the Company; (vii) when no trading has been effected in the Shares within the three preceding months; (viii) the Company has become involved in a business that is illegal under the applicable provisions of laws; and (ix) the Company is in liquidation proceedings.

The Company believes that as at the date of this Prospectus there are no circumstances which could provide grounds for the delisting of the Shares from the WSE in the foreseeable future. However, there can be no assurance that any such circumstances will not arise in relation to the Shares in the future. Delisting of the Shares from the WSE could have an adverse effect on the liquidity of the Shares and, consequently, on investors' ability to sell the Shares at a satisfactory price.

***The price of the Shares may considerably fluctuate***

Investors should be aware that the value of the Shares may be volatile and may go down as well as up and that investors may, therefore, not recover their original investment. The trading prices of the Shares may be subject to significant price and volume fluctuations in response to many factors including, but not limited to: (i) variations in the Group's operating results and those of other companies operating in the sector; (ii) negative research reports or adverse broker comments; (iii) future sales of the Shares owned by the Issuer's significant shareholders, or the perception that such sales will occur; (iv) the general economic, political or regulatory conditions in Slovenia or in the sector generally; and (v) extreme price and volume fluctuations on the LJSE, the WSE or other stock exchanges, including those in other emerging markets.

Fluctuations in the price and volume of the Shares may not be correlated in a predictable way with the Group's performance or operating results. The Offer Price may not be indicative of prices that will subsequently prevail in the market and an investor may not be able to resell its Shares at or above the Offer Price.

Furthermore, the value of investment in the Shares may be affected by prevalent exchange rates between the EUR and PLN, as the Issuer's share capital is denominated in EUR while the Offer Shares will be subscribed and traded on the WSE in PLN.

***The marketability of the Shares may decline, and the market price of the Shares may fluctuate disproportionately in response to adverse developments that are unrelated to the Group's operating performance, and the market price may decline below the Offer Price***

The Company can offer no assurance that the marketability of the Shares will improve or remain consistent. The Offer Price in the Offering may not be indicative of the secondary market price for the Shares after the Offering has been completed. Shares listed on regulated markets, such as the LJSE and the WSE, have from time to time experienced, and may experience in the future, significant price fluctuations in response to developments that are unrelated to the operating performance of particular companies. The market price of the Shares may fluctuate widely after admission of the Offer Shares to trading on the LJSE and the Shares on the WSE and is determined by supply and demand, which depends on a number of factors beyond the Company's control. These factors include, amongst other things, actual or anticipated variations in operating results and earnings by Group companies and/or its competitors, changes in financial estimates by securities analysts, market conditions in the industry, and in general, the status of the securities market, governmental legislation and regulations applicable to the sector in which the Group operates, as well as general economic and market conditions, such as recession. These and other factors may cause the market price and demand for the Shares to fluctuate substantially, and any such development, if adverse, may have an adverse effect on the market price of the Shares, which may then decline disproportionately to the Group companies' operating performance. The market price of the Shares is also subject to fluctuations in response to further issuance of shares by the Company, sales of shares by the Company's significant shareholders, the liquidity of trading in the Shares and capital reduction or purchases of the Shares by the Company, as well as investor perception. As a result of these or other factors, there can be no assurance that the public trading market price of the Shares will not decline below the Offer Price and that shareholders or investors may fail to achieve their planned gains, or may even incur losses.

***The market value of the Shares may be adversely affected by future sales or issues of substantial amounts of shares***

In connection with the Offering, subject to certain exceptions (see section “Use of Proceeds” – “Shareholders Meeting dated 23 August 2013” – “Third increase of share capital”), the Company has committed to not issuing more shares within 12 months from the date of listing of the Offer Shares on the LJSE and the WSE. The Company cannot guarantee that some of existing shareholders may wish to sell their shares on the market. The Company cannot predict what effect such future sales or offerings of shares, if any, may have on the market price of the Shares. However, such transactions may have a material adverse effect, even if temporary, on the market price of the Shares. Therefore, there can be no assurance that the market price of the Shares will not decrease due to subsequent sales of the Shares held by the existing shareholders of the Company.

***There can be no assurance regarding the future development of the market for the Shares and its liquidity***

The Company’s shares are listed on the LJSE. Nevertheless, the past performance of the Shares on the LJSE cannot be treated as indicative of the likely future development of the market and future demand for the Shares and the Offer Shares. The lack of a liquid public market for the Shares on the LJSE may have a negative effect on the ability of shareholders or investors to sell their Shares, or adversely affect the price at which the holders are able to sell their Shares. There can be no assurance as to the liquidity of any trading in the Shares, or that the Shares will be actively traded on the LJSE or the WSE in the future.

***Dual listing of the Shares will result in differences in liquidity, settlement and clearing systems, trading currencies, prices and transaction costs between the two exchanges where the Shares will be listed. These and other factors may hinder the transferability of the Shares between the two exchanges***

The Existing Shares are listed on the LJSE. An application will be made to list the Offer Shares on the LJSE and the Existing Shares and the Offer Shares on the WSE. Consequently, the trading in and liquidity of the Shares and the Offer Shares will be split between these two exchanges. Moreover, the price of the Existing Shares and the Offer Shares may fluctuate, and may at any time be lower on the LJSE than the price at which the Existing Shares and the Offer Shares are traded on the WSE, and vice versa. Differences that occur in settlement and clearing systems, trading currencies, transaction costs and other factors may hinder the transferability of the Existing Shares and the Offer Shares between the two exchanges. This could adversely affect the trading of the Existing Shares and the Offer Shares on these exchanges and increase their price volatility and/or adversely affect the price and liquidity of the Existing Shares and the Offer Shares on these exchanges.

The Existing Shares are quoted and traded in EUR on the LJSE. The Existing Shares and the Offer Shares will be quoted and traded in PLN on the WSE. The market price of the Existing Shares and the Offer Shares on the LJSE and the WSE may also differ due to exchange rate fluctuations. The shares traded on the LJSE are settled and cleared through the KDD. The shares traded on the WSE will be settled and cleared through the NDS. The transfer of the shares between the LJSE and the WSE will be effectuated through a direct settlement link between the KDD and the NDS. Although the Slovenian and Polish settlement systems operated by the KDD and the NDS have established settlement procedures allowing transfers of the shares between KDD and NDS participants, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time, which may limit the liquidity of the Existing Shares and the Offer Shares and have a negative impact on the efficiency of the pricing mechanisms of the secondary market for the Existing Shares and the Offer Shares.

### ***Impact of securities or industry analysts***

Both the market price and trading volume of the Shares may depend on the opinions of the securities analysts monitoring the operations of the Company and publishing their research reports on its future performance. The Company has no control over these analysts, who may downgrade their recommended prices for the Shares at any time, issue opinions which are not in conformity with the Management Board's view, or may drop coverage of the Company altogether.

All the above-mentioned events may have an adverse impact on the trading volume and price of the Shares.

### ***The Company's ability to pay dividends may be limited and there is no guarantee that the Company will pay dividends in line with the adopted dividend policy or that it will pay any dividend in a given year at all***

The Issuer is under no continuous obligation to pay regular dividends to its shareholders. Any payment of dividends in the future will depend upon the decisions of the Shareholders Meeting. A proposal concerning payment of dividends in a particular financial year is made to the Shareholders Meeting by the Management Board. Payment of (future) dividends may be made only if mandatory provisions so allow, as required by law or by the Articles of Association. Furthermore, in the decision on whether to pay dividend, the following factors (among others) shall also be taken into account: (i) future results of operations; (ii) cash flows; (iii) financial position; (iv) reinvestment needs; (v) expansion plans; (vi) contractual restrictions; and (vii) other factors which the Management Board, the Supervisory Board and/or the Shareholders Meeting deem relevant, which do not necessarily have to coincide with the short-term interests of all the Issuer's shareholders (see section "*Dividend Policy*").

Moreover, the terms and accessibility of external financing may limit the Company's ability to pay dividends. In particular, the loan agreement concluded on 21 June 2010 between the Company and IFC restricts the Company from declaring or paying dividends in excess of one third of the Group's consolidated net profit of the previous year when the covenant net debt to EBITDA exceeds 3,5 ratio. Furthermore, the above-mentioned agreement restricts the Company from paying or declaring any dividends when the financial covenants agreed with the IFC are not within agreed frames (see section "*Business*" – "*Material Agreements*" – "*Financing Agreements*" – "*IFC loan agreement*"). As the decision on dividend payment by the Company is taken by its shareholders who may not agree with the Management Board's recommendation in this respect, in practice it may happen that the Shareholders Meeting decides on dividend payment irrespective of the above-mentioned contractual covenants. However, such decision would trigger contractual liability of the Company towards the IFC.

Consequently, there is no certainty that the Company will pay dividends in line with the adopted dividend policies described in the section "*Dividend Policy*" or that it will pay any dividends in a given year at all. Accordingly, investors cannot rely on dividend income from the Shares and any returns on an investment in the Shares will likely depend entirely upon any future appreciation in the price of the Shares.

### ***The Company has broad discretion on the use of its net proceeds from this Offering and may not use them effectively***

The Company intends to use the proceeds of this Offering for the expenditure described in the "*Use of Proceeds*" section. Except as stated in the "*Use of Proceeds*" section, the Company has not entered into any definitive agreements on the utilisation of such net proceeds.

Accordingly, the Management Board will have broad discretion on the application of the net proceeds from the Offering, and could spend the proceeds in ways that do not improve the Company's operating results or enhance the value of the Company's shares, as long as it is in the best interests of the Company and within the Company's corporate purpose. The Company intends to rely on its internal systems and controls to monitor

the use of such proceeds. However, the Company's shareholders may not agree with the manner in which the Management Board chooses to allocate and spend the net proceeds. Failure by the Management Board to apply these funds effectively could result in financial losses that could have a material adverse effect on the Company's business, financial condition and results of operations, and could cause the price of the Shares to decline.

***The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares***

As of 11 October 2013, ten significant shareholders own 65.42% of the Company's Existing Shares. Consequently, the free float of Existing Shares held by the public is limited prior to the Offering.

The WSE requires that the share capital of a company to be listed on the main market of the WSE be adequately diluted, i.e. a part of the capital must be held by minority shareholders holding individually less than 5% of that company's share capital. If the Offer Shares are acquired by a limited number of large investors, there is a risk that the share capital of the Company would not be adequately diluted and as a result the WSE would not approve the Existing Shares and the Offer Shares for listing on the main market of the WSE and, consequently, they would be listed on the parallel market of the WSE.

***Investors in the Offer Shares will be subject to obligations resulting from various national laws***

The Company is organised and exists under the laws of Slovenia. The Existing Shares are listed on the LJSE and it is expected that the Existing Shares and the Offer Shares will be listed on the WSE. EU laws, such as Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the Harmonization of Transparency Requirements in Relation to Information about Issuers whose Securities are Admitted to Trading on a Regulated Market and amending Directive 2001/34/EC, provide different competencies for home Member State and host Member State with respect to the rights and obligations of investors in public companies, especially those which are listed on at least two markets in different countries, depending on the subject of regulations. Moreover, EU directives are not always implemented or interpreted in a consistent manner at the EU and national levels.

As a result, investors in the Existing Shares and the Offer Shares may be subject to requirements stemming from the regulations of different jurisdictions, in this case those of Slovenia and Poland, which are not necessarily coherent. Furthermore, there is a lack of court precedents providing guidance on the interpretation of the appropriate Slovenian and Polish provisions of law. Such situations may cause uncertainty or ambiguity when exercising shareholder rights or when fulfilling shareholder-related obligations in accordance with the laws of the different jurisdictions. For example, it is not clear whether, or which, Polish thresholds for the announcement of takeover bids would be applicable to an investor who intends to purchase a substantial block of the Existing Shares and the Offer Shares. This is due to the fact that the law is unclear on whether provisions stipulated in the Polish Act on Public Offering (in particular, takeover bids thresholds) apply only to companies incorporated in Poland, or whether they apply to all companies listed on the Polish regulated market (irrespective of the country of incorporation of these companies). If an investor fails to fulfil its obligations or violates any laws or regulations when exercising rights from or regarding the Existing Shares and the Offer Shares, it may be fined or sentenced for such non-compliance or may be unable to exercise its rights in respect of the Existing Shares and the Offer Shares, and may also be subject to legal claims.

***Non-Slovenian shareholders may have difficulties exercising rights which are governed by Slovenian law***

The Company is organised and exists under Slovenian law. Accordingly, the rights and obligations of the Company's shareholders are regulated by Slovenian corporate law and the Company's shareholders must follow Slovenian legal requirements in order to exercise their rights, in particular the resolutions of the Shareholders Meeting may be passed with majorities different from the majorities required for the adoption of

equivalent resolutions under Polish law or other law. Additionally, to the extent that pre-emptive rights are granted, shareholders in the Company in some jurisdictions may experience difficulties, or may be unable to exercise their pre-emptive rights. Should the Company's share capital be increased in the future, the Company's shareholders who will not exercise their priority right to subscription of new shares should take into account that their interest in the Company's share capital may be diluted upon the issuance of new shares.

Furthermore, the Company's shareholders holding their Existing Shares or the Offer Shares through the NDS should also take into consideration the arrangements between the NDS and the KDD in this respect. As a result, the exercise of certain shareholder rights may be more difficult or costly than the exercise of rights in other companies listed on the WSE.

***Tax treatment of non-Slovenian investors in a Slovenian company may vary***

The Company is organised and exists under the laws of Slovenia and, as such, the Slovenian tax regime applies to the distribution of profit and other payments from the Company to its shareholders. The taxation of income from such payments, as well as other income, for instance, from the sale of the Existing Shares and the Offer Shares, may vary depending on the tax residence of the shareholder, as well as the existence and provisions of double tax treaties between a shareholder's country of residence and Slovenia. Tax provisions applying to particular shareholders may be unfavourable and/or may change in the future, in a way which has an adverse effect on the tax treatment of a shareholder's holding of the Existing Shares or the Offer Shares.

***Judgments of courts against the Company, other Group Companies and members of the Management Board may be difficult to enforce***

The Company is organised and exists under the laws of Slovenia. Moreover, the members of the Management Board are residents of Slovenia. For these reasons, investors may encounter difficulties in serving summonses and other documents relating to court proceedings on any of the entities within the Group and on the members of the Management Board, if such proceedings are initiated in countries other than Slovenia or in countries where such Group entities are located. For the same reasons, it may be more difficult for investors to enforce a court judgment issued against the Group Companies or members of the Management Board outside of Slovenia or the country of incorporation of a given entity within the Group, than if those entities and the management team were located in the jurisdiction in which the judgment was issued.

***The Polish reform of Polish open pension funds, which comprise the second pillar of the pension system in Poland, may have an adverse effect on Poland's capital market and result in a decrease in investments in shares of companies listed on the WSE***

Polish open pension funds ("Polish OPFS") have been, historically, the largest private investor on the WSE. In October 2013, the Polish government presented the draft bill on the reform of Polish open pension funds, reform to be carried out by the Polish government in order to decrease the Polish debt-to-GDP ratio as well as the deficit of the Polish Social Security Institution (*Zakład Ubezpieczeń Społecznych*). According to the draft bill, the Polish OPFS reform envisages, among others, the transfer of treasury bonds and bonds guaranteed by the Polish State Treasury from Polish OPFS to the Polish Social Security Institution. Pursuant to press releases, such bonds constitute half of the Polish OPFS' assets. Additionally, according to government announcements, upon completion of the Polish OPFS reform, the insured will be able to decide whether they want to transfer their payments to both Polish OPFS and the Polish Social Security Institution or to the Polish Social Security Institution exclusively. The planned reform may have a material adverse effect on the ability of Polish OPFS to invest in the shares of companies listed on the WSE, and in consequence, on the WSE's liquidity. In addition, uncertainties related to the planned reform and negative opinions related thereto have a negative impact on the willingness of other investors to invest in the shares of companies listed on the WSE, including the Offer Shares.

The above factors may have a material adverse effect on the ability to successfully complete the Offering, as well as on the price of the Existing Shares and the Offer Shares upon completion of the Offering.

## USE OF PROCEEDS

### Proceeds from the Offering

The amount of gross proceeds from the Offering depends on the number of Offer Shares actually placed. The Company and the Joint Bookrunners expect that the gross proceeds from the Offering, provided that all the Offer Shares are sold, will be approximately EUR 45,000 thousand. The net proceeds which the Company will receive from the Offering, provided that all of the Offer Shares are sold, are estimated at approximately EUR 44,300 thousand after deduction of the estimated commissions, costs and expenses of the Offering.

Preliminary estimates put the costs of the Offering at approximately EUR 700 thousand.

The Company intends to use the net proceeds from the Offering for:

- repayment of existing financial debt in the amount of approximately EUR 29,500 thousand, and
- research and development and new projects, including: (i) a new generation of dishwashers; (ii) a new generation of ASKO washing and drying appliances; (iii) increased production capacities at Gorenje Valjevo, and (iv) other research and development and investment projects for the development and production of new major domestic appliances – EUR 14,800 thousand.

To the extent that the net proceeds from the Offering are not invested as described above, the net proceeds will be used to take advantage of other opportunities, in line with the Updated Strategic Plan.

### Reasons for the Offering and the Admission

The Offering and the Admission are expected to provide a number of benefits to the Company and the Group, including:

- enabling the Company to raise funds to co-finance the Updated Strategic Plan and thus to facilitate the achievement of its strategic goals;
- improving the liquidity of the Company's shares;
- decreasing its leverage;
- strengthening the Company's profile with credit institutions, which offers an important competitive advantage;
- facilitating the Group's access to wider capital markets and expanding its funding sources for further growth, expansion and development of its business;
- increasing international awareness of the Group among its customers and business partners, and
- strengthening the Group's reputation as one of the leading manufacturers of domestic appliances in Europe, which may have an influence on the extension of its customer base and create better conditions for long-term customer and business relations.

### Shareholders Meeting dated 23 August 2013

On 23 August 2013, the Shareholders Meeting adopted a resolution on the increase of the share capital of the Company.



### **First increase of share capital**

The share capital of the Company was increased by EUR 9,681,964.61 to EUR 76,060,181.93 with the issue of 2,320,186 new, ordinary, freely transferrable, registered no par value shares (“**Panasonic Shares**”), with the exclusion of the pre-emptive rights. The newly issued shares were offered to the Panasonic Corporation. The newly issued shares were classified into the same class as the existing shares of the Company.

The new shares were offered in exchange for cash contributions at EUR 4.31 per share.

As a consequence at the resolution on the first increase of the share capital, on 26 September 2013, the Panasonic Corporation subscribed for the Panasonic Shares and paid the total issue price for all 2,320,186 newly issued shares of EUR 10,000,001.66. The amount of the gross proceeds, minus the costs of this private offering, will be used for development of the Company’s business alliance with the Panasonic Corporation (see section “*General Information on the Group*” – “*Basic information on the Company*” – “*Share Capital*”, and “*Business – Panasonic Alliance*”).

As at the date of this Prospectus, the Panasonic Corporation holds 2,320,186 shares of the Company which constitute 12.73% of the Company’s share capital.

### **Second increase of share capital**

After the completion of the first increase of the Company’s share capital, the Company’s shareholders agreed to increase the EUR 76,060,181.93 share capital of the Company, divided into 18,227,062 ordinary, freely transferable, registered no par value shares, by a further amount of no more than EUR 43,568,833.52, to a total amount of no more than EUR 119,629,015.46 by the issuance of the Offer Shares. The Offer Shares will be classified into the same class as the existing shares of the Company, including the Panasonic Shares.

The second increase in share capital in the amount of not more than EUR 43,568,833.52 shall be achieved through the issue of no more than 10,440,835 new, ordinary, freely transferable registered no par value shares. The shares, priced at EUR 4.31 per share, shall be offered in exchange for cash contributions. This Prospectus was prepared for the Offering of the Offer Shares.

The Offer Shares shall be classified in the same class as the Existing Shares and will be registered in book-entry form, entered into the accounts of shareholders in the central securities register kept by the KDD, in accordance with Slovenian legislation and KDD rules.

On 28 October 2013 the Management Board, on the basis of resolution of the Shareholders Meeting dated 23 August 2013, resolved to list the Shares on WSE. On 29 October 2013 the Supervisory Board consented to the listing of the Shares on WSE.

### **Third increase of share capital**

At the Shareholders Meeting of 23 August 2013, the Management Board was granted the authorisation, subject to the approval of the Supervisory Board, to carry out a capital increase no later than by one year from the changes to the Articles of Association adopted at the Shareholders Meeting of 23 August 2013 (the “**Authorised Capital**”). Within the Authorised Capital, the Company’s share capital may be increased by an amount no more than EUR 9,681,964.61 to a total of no more than EUR 129,310,980.07, with the issue of 2,320,186 new, ordinary, freely transferable registered no par value shares, in exchange for non-cash (in-kind) contributions (redemption of certain portion of long-term loans executed by the Company; debt-to-equity swap). The new shares shall be of the same class as the Existing Shares and shall be issued in exchange for non-cash (in-kind) contributions (debt-to-equity swap) at a price of EUR 4.31 per share (see section “*General Information on the Group*” – “*Basic information on the Company*” – “*Share Capital*”). As at the date of this Prospectus, the share capital of the Company was not increased by the Authorised Capital.

## DIVIDEND POLICY

### Dividend policy

The Company's dividend policy is based on its investment plans, optimum capital structure policy, as well as its shareholders' expectations and interests. The Management Board and Supervisory Board make a recommendation on the amount of dividend per share to be paid, for approval by the shareholders at the Shareholders Meeting, which is held within eight months following the end of the preceding financial year. A resolution on the distribution of profit is then adopted by the Shareholders Meeting. The precise amounts are determined in accordance with relevant regulations effective in Slovenia (see section "*Description of the Shares*" – "*Right to dividend*"), and dividends are paid from the accumulated profit of the controlling company.

The dividend policy under the Updated Strategic Plan stipulates that up to one third of the Group's net profit for the period shall be allocated to annual dividend payments. The actual amount of any future dividend payments then depends on the shareholders' resolutions for each financial year.

Under the loan agreement dated 21 June 2010 concluded between the Company and IFC, the Company may not declare or pay dividends in excess of one third of the Group's consolidated net profit of the previous year if the covenant net debt to EBITDA exceeds 3.5 ratio. Further, the Company may not declare or pay dividend when the financial covenants, as agreed with the IFC, are not within the agreed limits (see section "*Business*" – "*Material Agreements*" – "*Financing Agreements*" – "*IFC loan agreement*"). As the decision on dividend payment by the Company is taken by the Shareholders Meeting, the Shareholders' Meeting may not agree with the Management Board's recommendation in this respect, and may resolve to pay dividend regardless of the contractual covenants. However, this would trigger the contractual liability of the Company towards the IFC (see section "*Risk factors*" – "*Risks relating to investment in Shares*" – "*The Company's ability to pay dividends may be limited and there is no guarantee that the Company will pay dividends in line with the adopted dividend policy or that it will pay any dividend in a given year at all*"). The loan with the IFC matures in June 2017.

### Dividend history

The table below presents the total and per-share dividends distributed in 2005-2012.

Financial year	Total distributed dividend (in EUR)	Per-share distributed dividend (in EUR)
2005.....	5,090,969.79	0.417
2006.....	5,124,000.00	0.42
2007.....	6,313,500.00	0.45
2008.....	0	0
2009.....	0	0
2010.....	0	0
2011.....	2,386,031.40	0.15
2012.....	0	0

\*Source: the Company.

## EXCHANGE RATE INFORMATION

The rates presented in this section are provided solely for the reader's convenience and should not be construed as representations that the relevant currencies actually corresponded on the dates given, or could have been converted at the indicated exchange rate or at any other rate. In addition, the rates shown below may differ from the actual rates used in the preparation of the Financial Statements and Interim Financial Statements and any other financial information appearing in this Prospectus.

The tables below present, for the periods indicated, the high, low, average and period-end official rates set by the Bank of Slovenia for the purchase of EUR and PLN, expressed in EUR per USD and PLN per EUR, respectively.

The EUR/USD exchange rate set by the Bank of Slovenia and reported on 25 October 2013 was EUR 1.3777 per USD 1.00. The PLN/EUR exchange rate set by the Bank of Slovenia and reported on 25 October 2013 was PLN 4.1858 per EUR 1.00.

### EUR per USD 1.00

<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average</b>	<b>Period-end</b>
2010 .....	1.4563	1.1942	1.3257	1.3360
2011 .....	1.4482	1.2289	1.3920	1.2939
2012 .....	1.3454	1.2089	1.2848	1.3194
<b>Month</b>				
January 2013 .....	1.3550	1.3012	1.3288	1.3550
February 2013 .....	1.3644	1.3077	1.3359	1.3129
March 2013 .....	1.3090	1.2760	1.2964	1.2805
April 2013 .....	1.3129	1.2818	1.3026	1.3072
May 2013 .....	1.3191	1.2853	1.2982	1.3006
June 2013 .....	1.3406	1.3008	1.3189	1.3080
July 2013 .....	1.3284	1.2813	1.3080	1.3275

### PLN per EUR 1.00

<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average</b>	<b>Period-end</b>
2010 .....	4.1950	3.8349	3.9947	3.99497
2011 .....	4.5608	3.8425	4.1220	4.11870
2012 .....	4.5054	4.0345	4.1847	4.18433
<b>Month</b>				
January 2013 .....	4.2090	4.0727	4.1424	4.1945
February 2013 .....	4.1906	4.1470	4.1700	4.1515
March 2013 .....	4.1828	4.1310	4.1565	4.1804
April 2013 .....	4.1908	4.1003	4.1359	4.1504
May 2013 .....	4.2792	4.1262	4.1799	4.2792
June 2013 .....	4.3500	4.2296	4.2839	4.3376
July 2013 .....	4.3365	4.2075	4.2745	4.2370

The tables below present, for the periods indicated, the high, low, average and period-end official rates set by the NBP for the purchase of EUR and USD, all expressed in PLN per EUR and PLN per USD, respectively.

The PLN/EUR exchange rate set by the NBP and reported on 25 October 2013 was PLN 4.1910 per EUR 1.00. The PLN/USD exchange rate set by the NBP and reported on 25 October 2013 was PLN 3.0326 per USD 1.00.

#### PLN per EUR 1.00

<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average</b>	<b>Period-end</b>
2010 .....	4.1770	3.8356	3.9946	3.9603
2011 .....	4.5642	3.8403	4.1198	4.4168
2012 .....	4.5135	4.0465	4.1850	4.0882
<b>Month</b>				
January 2013 .....	4.1969	4.0671	4.1369	4.1870
February 2013 .....	4.2028	4.1515	4.1734	4.1570
March 2013 .....	4.1866	4.1269	4.1581	4.1774
April 2013 .....	4.1898	4.1025	4.1409	4.1429
May 2013 .....	4.2902	4.1285	4.1759	4.2902
June 2013 .....	4.3432	4.2180	4.2865	4.3292
July 2013 .....	4.3416	4.2090	4.2756	4.2427
August 2013 .....	4.2812	4.1874	4.2295	4.2654
September 2013 .....	4.2975	4.1790	4.2376	4.2163

#### PLN per USD 1.00

<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average</b>	<b>Period end</b>
2010 .....	3.4916	2.7449	3.0157	2.9641
2011 .....	3.5066	2.6458	2.9634	3.4174
2012 .....	3.5777	3.0690	3.2570	3.0996
<b>Month</b>				
January 2013 .....	3.1700	3.0660	3.1145	3.0874
February 2013 .....	3.1841	3.0563	3.1197	3.1679
March 2013 .....	3.2773	3.1660	3.2058	3.2590
April 2013 .....	3.2750	3.1159	3.1825	3.1721
May 2013 .....	3.2953	3.1392	3.2149	3.2953
June 2013 .....	3.3241	3.1654	3.2512	3.3175
July 2013 .....	3.3724	3.1798	3.2688	3.1929
August 2013 .....	3.2269	3.1336	3.1767	3.2209
September 2013 .....	3.2732	3.0833	3.1750	3.1227

## CAPITALISATION AND INDEBTEDNESS

*The data presented in this section should be considered in conjunction with the information in Operating and Financial Review section, the Financial Statements and Interim Financial Statements, and any other financial information appearing in this Prospectus.*

### Capitalisation and indebtedness

The Group's total Shareholder's equity was EUR 370,239 thousand as at 30 September 2013, or 30.9 % of the Group's total assets. Total Financial liabilities were EUR 475,201 thousand or 39.7% per cent of the Group's assets.

The following table presents information on the Group's consolidated capitalisation and indebtedness as at 30 September 2013.

	<b>As at 30 September 2013</b>
	<i>(unaudited)</i>
	<i>(EUR in thousand)</i>
<b>Cash and cash equivalents .....</b>	<b>27,736</b>
Borrowings from banks.....	58,462
Transfer from non-current financial liabilities to banks .....	135,002
Borrowings from third parties.....	3,072
Transfer from non-current financial liabilities to third parties .....	21,507
Interest payable.....	857
Dividends payable.....	67
Derivatives.....	3,481
Short term financial liabilities for non-subscribed capital.....	10,000
Commercial papers .....	23,546
<b>Total Current Financial Liabilities.....</b>	<b>255,995</b>
Borrowings from banks.....	301,292
Transfer to current borrowings from banks.....	-135,002
Borrowings from third parties.....	73,047
Transfer to current borrowings from third parties .....	-21,507
Other financial liabilities.....	1,376
<b>Total Non-current Financial Liabilities.....</b>	<b>219,206</b>
<b>Total Financial Liabilities.....</b>	<b>475,201</b>
Share capital.....	66,378
Share premium.....	175,575
Legal and statutory reserves .....	22,719

Retained earnings.....	95,101
Own shares.....	-3,170
Translation reserves.....	483
Fair value reserve.....	10,478
<b>Equity of holders of the parent.....</b>	<b>367,564</b>
Equity of non-controlling interest.....	2,675
<b>Total Shareholder's Equity.....</b>	<b>370,239</b>
<b>Total capitalisation.....</b>	<b>845,440</b>

\*Source: the Company.

As at 30 September 2013, total financial liabilities amounted to EUR 475,201 thousand and were partly secured with financial covenants, agreed with the Group's lenders. The table below states the portion of total financial liabilities secured with financial covenants:

<b>EUR in thousand</b>	<b>Secured with financial covenants</b>	<b>Without financial covenants</b>	<b>Total Financial liabilities</b>
Current financial liabilities.....	142,856	113,139	255,995
Non-current financial liabilities.....	206,005	13,201	219,206
<b>Total financial liabilities.....</b>	<b>348,861</b>	<b>126,340</b>	<b>475,201</b>

\*Source: the Company.

Total financial liabilities are not secured with pledges or any other types of collateral, therefore contracts with lenders include negative pledge and *pari passu* clauses.

As at 30 September 2013, the Group's contingent liabilities from guarantees and collaterals given to financial institutions and companies outside the Gorenje Group amounted to EUR 32,533 thousand.

### **Working capital statement**

The Management Board represents that, as at the date of this Prospectus, the existing working capital of both the Company and the Group is appropriate and sufficient to cover their needs in the period of at least twelve months from the date of this Prospectus.

## SELECTED HISTORICAL FINANCIAL INFORMATION

Unless stated otherwise, the selected financial information, presented in EUR below, has been derived from, and should be read in conjunction with, the Financial Statements and Interim Financial Statements, including the accompanying notes thereto, which are included elsewhere in this Prospectus. The following information should also be read in conjunction with "Operating and Financial Review" section elsewhere in this Prospectus.

The following selected historical financial and other data, as of and for the three years ended 31 December 2010, 2011, 2012, the six-month period ended 30 June 2012 and the six-month period ended 30 June 2013, have been prepared in accordance with the provisions of the Slovenian Companies Act, the IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.

In 2012 and in the period January-June 2013, the Gorenje Group has been in the process of discontinuing, disposing of and restructuring the activities (including its furniture program and sales organisations) which, in the past, have had a negative impact on the Group's profitability and cash flow. The classification of activities among its discontinued operations is stipulated and defined by IFRS 5 (Non-current assets held for sale and discontinued operations). The income statement and balance sheet for the year ended 31 December 2012 and six-month period ended 30 June 2013, and the income statement for year ended 31 December 2011 and the six-month period ended 30 June 2012 have been adjusted in accordance to the standard, while the financial statements for the remaining years are included as audited and published.

Below are presented comparative figures from income statement for the year ended 31 December 2011 and for the six-month period ended 30 June 2012 are different than originally published as they were adjusted in accordance to the afore-mentioned standard, while the financial statements for the remaining years are included as originally published.

### Income Statement Data

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		<i>(audited)</i>		<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
<b>Income Statement Data</b>					
<b>Net sales</b> .....	<b>1,382,185</b>	<b>1,386,629</b>	<b>1,263,082</b>	<b>606,455</b>	<b>590,098</b>
Change in inventories .....	-13,510	8,897	11,881	17,367	15,489
Other operating income .....	47,554	50,564	40,929	17,092	13,374
<b>Gross profit</b> .....	<b>1,416,229</b>	<b>1,446,090</b>	<b>1,315,892</b>	<b>640,914</b>	<b>618,961</b>
Costs of goods, material and services .....	-1,040,509	-1,076,437	-946,215	-459,730	-447,618
Employee benefits expense .....	-244,442	-253,333	-258,680	-127,403	-124,971
Amortisation and depreciation expense .....	-52,237	-48,347	-45,665	-23,551	-21,254
Other operating expenses .....	-22,603	-24,303	-20,411	-8,854	-9,588
<b>Operating profit</b> .....	<b>56,438</b>	<b>43,670</b>	<b>44,921</b>	<b>21,376</b>	<b>15,530</b>

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		<i>(audited)</i>		<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
<b>Income Statement Data</b>					
Net finance expense.....	-33,966	-25,346	-30,416	-12,364	-18,712
Share in profits or losses of associates.....	0	-9	301	50	-42
Profit before tax.....	22,472	18,315	14,806	9,062	-3,224
Income tax expense.....	-2,448	-1,880	-5,633	-1,834	-1,812
<b>Profit or loss without discontinued operation.....</b>		<b>16,435</b>	<b>9,173</b>	<b>7,228</b>	<b>-5,036</b>
Profit or loss from discontinued operation.....		-7,329	-8,883	-4,904	-2,785
<b>Profit or loss for the period.....</b>	<b>20,024</b>	<b>9,106</b>	<b>290</b>	<b>2,324</b>	<b>-7,821</b>

\*Source: Financial Statements and Interim Financial Statements

#### Statement of Financial Position Information

Balance Sheet Data	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		<i>(audited)</i>		<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
<b>ASSETS.....</b>	<b>1,317,754</b>	<b>1,251,658</b>	<b>1,197,324</b>	<b>1,188,908</b>	<b>1,189,034</b>
<b>Non-current assets.....</b>	<b>563,435</b>	<b>556,345</b>	<b>550,965</b>	<b>551,287</b>	<b>558,431</b>
Intangible assets.....	160,161	158,620	159,607	158,945	157,247
Property, plant and equipment.....	375,400	358,840	341,171	343,821	351,792
Other non-current assets.....	27,874	38,885	50,187	48,521	49,392
<b>Current assets.....</b>	<b>754,319</b>	<b>695,313</b>	<b>646,359</b>	<b>637,621</b>	<b>630,603</b>
Inventories.....	257,593	245,608	247,365	255,033	267,003
Trade receivables.....	306,284	255,911	218,516	272,392	225,084
Other current assets.....	190,442	193,794	153,257	110,196	131,676
Assets held for sale.....			27,221		6,840
<b>EQUITY AND LIABILITIES.....</b>	<b>1,317,754</b>	<b>1,251,658</b>	<b>1,197,324</b>	<b>1,188,908</b>	<b>1,189,034</b>
<b>Equity.....</b>	<b>392,096</b>	<b>397,819</b>	<b>392,145</b>	<b>391,464</b>	<b>381,830</b>
<b>Non-current liabilities.....</b>	<b>356,027</b>	<b>385,330</b>	<b>349,411</b>	<b>345,004</b>	<b>337,561</b>
Other non-current liabilities.....	95,095	82,871	72,531	76,962	72,203



Balance Sheet Data	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		(audited)		(unaudited)	
	<i>(EUR in thousand)</i>				
Non-current financial liabilities .....	260,932	302,459	276,880	268,042	265,358
<b>Current liabilities</b> .....	<b>569,631</b>	<b>468,509</b>	<b>455,768</b>	<b>452,440</b>	<b>469,643</b>
Current financial liabilities .....	223,015	181,649	155,846	186,957	190,982
Trade payables .....	237,020	194,248	212,430	171,189	183,123
Other current liabilities .....	109,596	92,612	79,170	94,294	91,237
Liabilities held for sale .....			8,322		4,301

\*Source: Financial Statements and Interim Financial Statements

Capitalization	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		(audited)		(unaudited)	
	<i>(EUR in thousand)</i>				
Cash and cash equivalents .....	82,728	101,620	53,488	30,639	24,701
Short-term debt .....	223,015	181,649	155,846	186,957	190,982
Long-term debt .....	260,932	302,459	276,880	268,042	265,358
<b>Total debt</b> .....	<b>483,947</b>	<b>484,108</b>	<b>432,726</b>	<b>454,999</b>	<b>456,340</b>
<b>Equity</b> .....					
Share capital .....	66,378	66,378	66,378	66,378	66,378
Share premium .....	175,575	175,575	175,575	175,575	175,575
Legal reserves and statutory reserves .....	21,990	22,719	22,719	22,719	22,719
Retained earnings .....	107,382	115,618	113,454	117,994	105,509
Fair value reserves .....	13,294	8,886	8,976	8,748	10,224
Own shares .....	-3,170	-3,170	-3,170	-3,170	-3,170
Translation reserve .....	8,842	9,990	5,861	1,301	2,182
<b>Equity of holders of the parent</b> .....	<b>390,291</b>	<b>395,996</b>	<b>389,793</b>	<b>389,545</b>	<b>379,417</b>
Equity of non-controlling interests .....	1,805	1,823	2,352	1,919	2,413
<b>Equity</b> .....	<b>392,096</b>	<b>397,819</b>	<b>392,145</b>	<b>391,464</b>	<b>381,830</b>
<b>Total capitalisation</b> .....	<b>876,043</b>	<b>881,927</b>	<b>824,871</b>	<b>846,463</b>	<b>838,170</b>

\*Source: Financial Statements and Interim Financial Statements

## Cash Flow Information

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		(audited)		(unaudited)	
	<i>(EUR in thousand)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Profit for the period</b> .....	<b>20,024</b>	<b>9,106</b>	<b>290</b>	<b>2,324</b>	<b>-7,821</b>
Adjustments for:					
– depreciation of property, plant and equipment.....	46,227	43,767	40,433	20,992	18,046
– amortisation of intangible assets .....	6,010	6,431	6,553	3,236	3,455
– investment income .....	-12,485	-15,199	-6,871	-6,092	-2,556
– finance expenses .....	46,451	40,587	37,474	18,529	21,280
– gain or loss on sale of property, plant and equipment.....	-2,321	-3,644	-1,486	-903	-4,727
– negative goodwill (gain on bargain purchase).....	-13,337	0	0	0	0
– gain on sale of investment property.....	0	0	-365	0	0
– revaluation operating income .....	0	-3,563	-3,387	0	0
– income tax expense .....	2,448	2,006	5,644	1,850	1,812
<b>Operating profit before changes in net operating current assets and provisions</b> .....	<b>93,017</b>	<b>79,491</b>	<b>78,285</b>	<b>39,936</b>	<b>29,489</b>
Change in trade and other receivables .....	-80,635	10,297	6,752	-19,995	-11,320
Change in inventories .....	-39,612	11,344	-8,060	-9,425	-18,548
Change in provisions .....	25,664	-12,021	-7,243	-5,056	-518
Change in trade and other liabilities.....	60,162	-38,265	12,064	-22,230	-15,677
<b>Cash generated from operations</b> .....	<b>-34,421</b>	<b>-28,645</b>	<b>3,513</b>	<b>-56,706</b>	<b>-46,063</b>
Interest paid .....	-23,607	-24,194	-25,593	-12,842	-10,914
Taxes paid.....	-7,272	-4,595	-6,544	-1,850	-1,743
<b>Net cash from operating activities</b> .....	<b>27,717</b>	<b>22,057</b>	<b>49,661</b>	<b>-31,462</b>	<b>-29,231</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment .....	6,775	7,302	11,095	1,819	9,223
Proceeds from sale of investment property .....	5,621	0	2,161	0	9,250
Interest received.....	3,046	3,678	2,688	1,023	1,171
Dividends received .....	305	118	417	0	0
Liquidation of subsidiary, without disposed financial assets.....	0	10,747	0	0	0

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		<i>(audited)</i>		<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
Disposal of subsidiary, without disposed financial assets.....	0	7,143	0	0	0
Acquisition of subsidiary.....	1,144	0	0	0	0
Acquisition of property, plant and equipment..	-39,358	-41,089	-53,527	-12,238	-30,626
Acquisition of investment property .....	0	-9,819	0	0	-7,281
Available-for-sale investment.....	-1,695	-33	-337	0	0
Loans .....	-2,564	9,325	2,073	0	0
Other investments .....	14,341	-14,246	-898	505	-4,108
Acquisition of intangible assets .....	-5,310	-6,379	-7,217	-1,519	-1,512
<b>Net cash used in investing activities.....</b>	<b>-17,695</b>	<b>-33,253</b>	<b>-43,545</b>	<b>-10,410</b>	<b>-23,883</b>

#### CASH FLOWS FROM FINANCING ACTIVITIES

Repurchase of non-controlling interest .....	-6,902	0	0	0	0
Capital increase.....	24,920	0	0	0	0
Borrowings/ Repayment of borrowings .....	27,558	30,088	-50,881	-29,109	23,611
Dividends paid.....	0	0	-2,267	0	0
<b>Net cash used in financing activities .....</b>	<b>45,576</b>	<b>30,088</b>	<b>-53,148</b>	<b>-29,109</b>	<b>23,611</b>
Net change in cash and cash equivalents .....	55,598	18,892	-47,032	-70,981	-29,503
Cash and cash equivalents at beginning of period.....	27,130	82,728	101,620	101,620	54,588
Cash and cash equivalents at end of period.....	82,728	101,620	54,588	30,639	25,085

\*Source: Financial Statements and Interim Financial Statements

#### Other Financial Information

Other financial Information	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		<i>(audited)</i>		<i>(unaudited)</i>	
	<i>(EUR in thousand)</i>				
Gross profit.....	1,416,229	1,446,090	1,315,892	640,914	618,961
EBIT .....	56,438	43,670	44,921	21,376	15,530
EBIT margin (%).....	4.1%	3.2%	3.6%	3.5%	2.6%
Amortisation and depreciation expense .....	52,237	48,347	45,665	23,551	21,254
EBITDA .....	108,675	92,017	90,586	44,927	36,784

Other financial Information	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		(audited)		(unaudited)	
	<i>(EUR in thousand)</i>				
EBITDA margin (%) .....	7.9%	6.6%	7.2%	7.4%	6.2%
Total debt.....	483,947	484,108	432,726	454,999	456,340

\*Source: Financial Statements and Interim Financial Statements

## PROFIT OR LOSS FORECAST FOR THE PERIOD

The Company compiled the Group's 2013 financial outlook in October 2013.

### Basis of compilation

The forecast was compiled taking into account:

- actual results of operations for the first half of 2013;
- estimated results of operations for the third quarter of 2013; and
- forecast results of operations for the fourth quarter of 2013.

Forecasts for the individual business segments (Business Segment Home, Business Segment Ecology and Business Segment Portfolio Investments) were developed separately and then combined to arrive at the overall forecast for the Group.

The accounting policies applied in the preparation of the forecast financial information are consistent with those applied by the Group in the preparation of its 2012 financial statements, and as set out in this prospectus in Annex No. 1 *Critical Accounting Policies*.

### Key management assumptions

Key assumptions about factors, which the Group's management can influence and which have been utilised in the preparation of the projected financial information are as follows:

#### Business Segment Home

- in the fourth quarter of 2013, an increase in sales compared to the same period in 2012 of 5% by value and 6% by quantity has been planned. Improved sales are expected mainly in the Western European market (Germany), Central European (Ukraine, Czech Republic, Poland), and South-eastern Europe (Slovenia, Croatia, Serbia);
- purchase prices for raw materials and subcomponents are expected to remain at substantially the same level as in the period from 1 January to 30 September 2013;
- the transfer of manufacturing operations was concluded in the first three quarters of 2013, and no further direct costs associated with this are anticipated in the fourth quarter of 2013;
- average margin is estimated to improve by up to 2% in the fourth quarter of 2013, as all production facilities are now running as planned, and because the planned improvements of the aforementioned transfer of manufacturing operations have come online; and
- staff costs are planned to drop by approximately 10% in the fourth quarter of 2013 in comparison to the average staff costs for the first three quarters of 2013, which is also primarily a result of the completion of the transfer of production facilities.

#### Business Segment Ecology

- on an annualised basis, a drop in sales revenues of 2.3% has been forecast – this is mainly a result of the loss of revenues resulting from the fire which damaged Gorenje Surovina d.o.o. facilities in the third quarter of 2013. No insurance settlement on the aforementioned fire has been included in the forecast, as it is not certain that this will be concluded in 2013;

- average margins are expected to remain consistent with the period from 1 January to 30 September 2013; and
- expenses are also forecast to remain at a level consistent with the period from 1 January to 30 September 2013.

#### Business Segment Portfolio Investments

- forecast revenues are 10.6% lower than in 2012, primarily as a result of lower sales of coal, which has been determined based on the schedule of shipments.

Other significant non-recurring items to be recorded during the second half of 2013 and taken into account in the preparation of the forecast are as follows:

- impairment of financial investments in the amount of EUR 7,272 thousand from investments in Probanka, Merkur and Cimos; and
- costs associated with the disposal of discontinued operations, in the amount of EUR 8,478 thousand (included as part of the loss from discontinued operations described below).

Other significant assumptions regarding factors over which management does not have control include:

- foreign currency exchange rates – significant foreign currencies for the Group include the United States and Australian dollar, Russian rouble, Swedish crown, and Serbian dinar. Exchange rate fluctuations in the period from 1 January 2013 to 30 September 2013 have been generally unfavourable for the Group. Management expects the key exchange rates to remain generally stable or to move favourably for the Group, through 31 December 2013. No significant movements have been forecast,
- no significant adverse or positive macro-economic developments have been forecast in the Group's major markets for the fourth quarter of 2013.

#### Profit or loss forecast for the period

EUR in thousand	Year ended 31 December			Forecast
	2010	2011	2012	2013
Net Sales.....	1,382,185	1,386,629	1,263,082	1,273,536
EBITDA .....	108,675	92,017	90,586	83,280
Operating Profit ("EBIT") .....	56,438	43,670	44,921	39,465
Profit without discontinued operations .....	20,024	16,435	9,173	2,410
Loss from discontinued operations .....	N/A	-7,329	-8,883	-11,223
Profit or loss for the period .....	20,024	9,106	290	-8,813

\* Source: the Company

Key financial projections are summarised in final column of the table above, with a summary of historical financials for the preceding three years. The historical financial information has been extracted from audited financial statements except for EBITDA. EBITDA provides an additional performance measure of the effects of the Group's operations that are difficult to recognise directly from the Group's consolidated financial

statements. EBITDA calculations have not been subject to an independent auditor's review, although items used for calculation of EBITDA have been derived from the Group's audited consolidated financial statements, with the exception of the projected figure for 2013.

Note that EBITDA measures should not be considered in isolation or as an alternative to net profit for the period, or other data presented as indicators of financial performance. The presented EBITDA measures may not be comparable to other similarly titled measures of performance for other companies.

### **Management commentary**

The 2013 end-of-year performance estimate for the Group is influenced by four key factors: (i) impairment of certain financial investments; (ii) an expected drop in the overall European home appliance market; (iii) the negative impact of some currencies (especially the Russian rouble, Swedish crown, Serbian dinar, and Australian dollar relative to the euro), and (iv) activities and investments related to the strategic relocation of manufacturing operations.

As a result of these factors, the Group revenue through the end of 2013 is estimated at EUR 1,273,536 thousand, which is 0.8% more than in 2012. Despite the impairments to financial investments referred to above, which do not affect the Group's cash flow, it is our estimate that Group profit without discontinued operations will amount to EUR 2,410 thousand. Loss from discontinued operations, amounting to EUR -11,223 thousand, is mostly related to impairment charges resulting from the divestment of Gorenje Notranja Oprema (Home Interior). Loss from discontinued operations is also the main reason for the estimated loss of the Group of EUR -8,813 thousand. The Group's free cash flow (narrow) by the end of 2013 is estimated at EUR -15,394 thousand, and is also affected by non-recurring items.

It is important to note that, based on our analysis, the Group has succeeded in increasing its market share in the home appliance market, and successfully completed the process of relocation of certain manufacturing operations in order to establish the conditions for more successful performance in the future.

### **Independent practitioner's assurance report on a profit or loss forecast**

KPMG Slovenija, d.o.o., the independent auditor of the Group's consolidated financial statements for each of the years 2010 to 2012, has issued an assurance report on the profit or loss forecast for 2013.

## AUDITORS REPORT



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

Železna cesta 8a  
SI - 1000 Ljubljana  
Slovenija

### Independent Assurance Report on a Profit or loss Forecast

To the Management Board of Gorenje, d.d., Velenje

We report on the profit or loss forecast comprising forecast Operating profit (EBIT) and Net profit or loss of Gorenje, d.d. ("the Company") and its subsidiaries (together "the Gorenje Group") for the year ending 31 December 2013 (the "Profit or loss Forecast"). The Profit or loss Forecast, and the material assumptions upon which it is prepared, are set out in the section "Profit or loss forecast for the period" of the Prospectus ("the Prospectus") issued by the Company for the Offering of up to 10,440,835 Offer Shares with no par value and admission of up to 10,440,835 shares to trading on the main market of the Ljubljana Stock Exchange and up to 28,667,897 shares to trading on the main market of the Warsaw Stock Exchange. The basis of compilation is described under the heading "Basis of Compilation" of the Profit or loss Forecast. Management is responsible for the preparation of the Profit or loss Forecast and for the factors and assumptions made therein, in accordance with the requirements of item 13 of Annex 1 of the Commission Regulation (EC) No 809/204. Our responsibility is to express an opinion as required by item 13.2 of Annex 1 of the Commission Regulation (EC) No 809/204, as to the proper compilation of the Profit or loss Forecast on the basis stated and the consistency of the basis of accounting with the accounting policies of the Gorenje Group as described under the heading "Basis of Compilation" of the Profit or loss Forecast.

We conducted our work in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. Our work included evaluating the basis for compilation of the Profit or loss Forecast and considering whether it has been properly compiled based upon the disclosed assumptions and the accounting policies of the Gorenje Group. We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit or loss Forecast has been properly compiled on the basis stated and the basis of accounting used for the Profit or loss Forecast has been consistent with the accounting policies of the Gorenje Group. Since the Profit or loss Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we express no opinion as to whether the actual results reported will correspond to those shown in the Profit or loss Forecast and differences may be material. Our engagement does not include an audit of the historical financial information used as a basis in a compilation nor does it provide any assurance whether the assumptions provide a reasonable basis for the profit or loss forecast.

In our opinion, the Profit or loss Forecast has been properly compiled on the basis stated under the heading "Basis of Compilation" of the Profit or loss Forecast and the basis of accounting used is consistent with the accounting policies of the Gorenje Group as described in the notes to the financial statements of the Gorenje Group for the year ended 31 December 2012.

This report is required by item 13.2 of Annex 1 of the Commission Regulation (EC) No 809/204 and is given for the purpose of complying with that requirement and for no other purposes.

Boštjan Mertelj  
Certified Auditor

Ljubljana, 24 October 2013

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

Jason Stachurski  
Partner

KPMG Slovenija, d.o.o.  
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## OPERATING AND FINANCIAL REVIEW

*The following discussion of the Group's operating and financial condition is based primarily on the Financial Statements and the Interim Financial Statements. Investors should analyse this Operating and Financial Review in conjunction with the Financial Statements and the Interim Financial Statements, including the accounting policies and the notes thereto, as well as any other financial information contained elsewhere in this Prospectus. A summary of the critical accounting policies that have been applied in the preparation of the Financial Statements and the Interim Financial Statements is set forth in the Critical Accounting Policies in Annex No. 1 to this Prospectus.*

*Part of the Operating and Financial Review includes certain information for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 which was not disclosed in the Financial Statements of the Group for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 and has not been audited. All tables for years ended 31 December 2010, 31 December 2011 and 31 December 2012 presenting such information are labelled as unaudited.*

*Certain information presented in this Operating and Financial Review includes forward-looking statements that involve risks and uncertainties could cause the Group's actual results, financial condition or development prospects to differ materially from the results described or implied by the forward-looking statements contained in this Prospectus. See also sections "Important Information" and "Risk Factors".*

### **Comparability of comparative financial information for 2010**

In the selected financial information shown below, comparative financial information for discontinued operations in the year ended 31 December 2010 has not been provided. This is because the discontinued operations primarily relate to the disposal of entities first classified as discontinued operations in the year ended 31 December 2012. It is not practicable to provide financial information for the disposal of such entities for the year ended 31 December 2010 as the entities in the disposal group arose from a divestment which occurred in the year ended 31 December 2011, and equivalent financial information prior to the year ended 31 December 2011 is not available. The financial information shown for the year ended 31 December 2010 is therefore presented as shown in the audited financial statements for the year ended 31 December 2010.

Please note that in the summarised financial information shown in this Operating and Financial Review, the amounts shown for the year ended 31 December 2011 are as shown in the audited financial statements for the year ended 31 December 2012, i.e., they are restated in accordance with IFRS 5 (*Non-current assets held for sale and discontinued operations*).

### **Overview of Gorenje's business**

The Group designs and manufactures a broad range of home appliances for residential use, in particular refrigerators, washing machines, dishwashers and cooking appliances. The Group operates in three business segments: home, ecology and portfolio investments, where the home segment represents the core activity of the Group and the other two segments comprise supplementary services rendered by the Group.

#### ***Business Segment Home***

This is the main business segment of the Group and has more than 60 years of history.

The revenue from Business Segment Home amounted to EUR 1,014,754 thousand (73.4% of the Group's total revenue) in the year ended 31 December 2010; EUR 1,053,369 thousand (76.0% of total Group's revenue) in the year ended 31 December 2011; EUR 1,071,279 thousand (84.8% of the Group's total revenue)

in the year ended 31 December 2012, and EUR 504,977 thousand in the six-month period ended 30 June 2013 (85.6% of the Group's total revenue). According to the Updated Strategic Plan, this segment will remain the core activity of the Group, and by the end of 2018 is expected to account for more than 90% of Group revenue.

Business Segment Home comprises: (i) production of various household appliances (including major and small appliances); (ii) production of heating appliances, air-filtering systems and air-conditioning appliances, and (iii) sale of kitchen furniture, production and sale of ceramic tiles, sale of spare parts and product design services.

### ***Supplementary business segments***

As a consequence of the implementation of the Strategic Plan, in 2011 the Group introduced its supplementary services segments.

**Business Segment Ecology** covers the Group's supplementary activity in comprehensive waste management in Slovenia and South-Eastern Europe. The main company in Business Segment Ecology is Gorenje Surovina, d.o.o., which directly or indirectly holds a majority ownership in the other companies of this business segment.

Companies in Business Segment Ecology offer a range of ecological services, where the Group offers comprehensive solutions for all sorts of waste services to partners in industry, trade, craft and public sector (first pillar). The Group handles waste as an important secondary raw material, taking useful metal and non-metal materials to be returned into production, while preparing residues to be turned into energy. For that reason, the Group started solid recovered flue (SRF) production in 2010 with the aim of making an efficient energy product from solid non-hazardous waste that are not suitable for metal recovery.

Business Segment Ecology also consists of hazardous waste management, wherein the Group collects, recycles and disposes of all sorts of hazardous waste (except radioactive waste) in an environmentally friendly way (second pillar). An important part of the Group's services in this field is counselling its partners on all aspects of safely handling waste.

Business Segment Ecology also offers services in the field of municipal waste management, wherein the Group provides PSO (public service obligation) collection, transportation and disposal services for municipal waste, based on concession contracts with several Slovene municipalities (third pillar).

As a stand-alone business and as support services for other ecological projects and business within the Group, the Group offers engineering services in waste management, as well as analyses and research services such as comprehensive environmental protection services, environmental impact reports, water, soil and gas emissions monitoring and environmental protection or remediation plans.

Revenue from Business Segment Ecology amounted to EUR 101,711 thousand (7.4% of the Group's total revenue) in the year ended 31 December 2010; EUR 113,406 thousand (8.2% of the Group's total revenue) in the year ended 31 December 2011; EUR 97,346 thousand (7.7% of the Group's total revenue) in the year ended 31 December 2012, and EUR 46,413 thousand in the six-month period ended 30 June 2013 (7.9% of the Group's total revenues).

**Business Segment Portfolio Investments** includes investments in affiliated companies, operating in various business sectors. An important part of the segment's activity is products and services in the field of energy and renewable sources of energy: engineering, development and manufacturing of gas cogeneration of heat and electricity (CHP units), solar power plants, energy management and energy efficiency solutions, as well as sale of coal. Within this segment, the Group offers canteen and catering services for the Group and third-party customers, engineering in different business sectors (medical equipment, construction, professional catering

equipment) and sale of different products and services as an authorised dealer for different brands, including Zetor, Toyota, Philips and others.

Furthermore, the affiliated companies Gorenje Orodjarna, d.o.o. and Gorenje GAIO, d.o.o. have more than 20 years' tradition in engineering, development and manufacturing of tools and industrial equipment for the household and automotive industry across Europe.

Companies in Business Segment Portfolio Investments partly support the business activities of the core Business Segment Home, but most of the revenues from that segment are generated by third party customers.

Revenues from Business Segment Portfolio Investments amounted to EUR 265,729 thousand (19.2% of the Group's total revenue) in the year ended 31 December 2010; EUR 219,854 thousand (15.8% of the Group's total revenue) in the year ended 31 December 2011; EUR 94,457 thousand (7.5% of the Group's total revenue) in the year ended 31 December 2012, and EUR 38,708 thousand in the six-month period ended 30 June 2013 (6.5% of the Group's revenues).

As of 1 January 2014, the Updated Strategic Plan integrates Business Segment Ecology and Business Segment Portfolio Investments into one common segment – Business Segment Portfolio Investments. The Group intends to focus on its core business. In its non-core business, the Group will carefully analyse all possibilities for divesting companies within Business Segment Portfolio Investments. New investments in the non-core business will be made on selective grounds, and only when such investments will create new value or create substantial synergies with the existing business.

### ***Geography of sales***

The Group recognises the following main geographical segments:

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

### **Recent development**

Since the end of the last reporting period of the Company, i.e. 30 June 2013, the following significant changes in the financial or trading position of the Company have occurred until the date of this Prospectus:

#### ***Alliance with Panasonic***

##### *Strategic alliance with Panasonic*

On 5 July 2013, the Group and Panasonic Corporation announced the conclusion of a long-term strategic business alliance, strengthened by a capital alliance. The alliance was designed to leverage the combined strengths and capabilities of the two companies, increase the profitability of both partners and improve their competitiveness in Europe. For more information about the strategic alliance see section “*Business*”- “*Alliance with Panasonic*”.

## **Additional post balance sheet factors**

- On 6 September 2013, the Bank of Slovenia declared controlled liquidation of Probanka d.d., one of the Slovenian banks. As the Group holds 198,445 shares in Probanka d.d. constituting 4.76 % of its share capital, the liquidation of Probanka d.d. will additionally negatively impact the profitability of the Group of approximately EUR 2,300 thousand in second half of 2013. This event will not have an impact on the cash position of the Group.
- On 26 August 2013, the new owner of Gorenje Notranja oprema, d.o.o., previously on 22 August 2013 renamed Vario 2000, declared liquidation of the company Vario 2000. This will result in a one-time negative impact on profitability of the Group in 2013 of approximately EUR 8,500 thousand, due to the write-offs of financial investments that were not included in the 2013 budget. This event will not have an impact on the cash position of the Group.
- On 19 September 2013 Gorenje, NLB and SID banka concluded an agreement according to which NLB and SID banka would provide a long-term syndicated loan of EUR 30,000 thousand to Gorenje, whereas NLB and SID banka will contribute one half of the total loan amount each. The loan is repayable in 5 years from the date when the agreement was signed. Gorenje will allocate these funds for refinancing of investments into the transfer of washing machine, dryer, and dishwasher production from Vara, Sweden to Velenje, Slovenia, and for further improvement of the average maturity of financing sources. The loan is secured with financial covenants and bills of exchange.
- The Company and the Republic of Serbia signed, on 8 July 2013, a preliminary agreement on the intended joint investment into Gorenje manufacturing facilities in Valjevo, Stara Pazova and Zaječar. Pursuant to the preliminary agreement, the Republic of Serbia will support Gorenje's investment into optimisation and improvement of efficiency of manufacturing plants in Valjevo and Stara Pazova, and investment into a new washing machine and dryer plant in Zaječar, where Gorenje is to manufacture appliances developed in cooperation with Panasonic. The final agreement on joint investment into all Gorenje manufacturing plants in Serbia has to be concluded within 120 days from the signing of the preliminary agreement, i.e. until 5 November 2013. If the final agreement is not concluded and obligations stipulated under the preliminary agreement are not fulfilled by 5 November 2013, the contracting parties do not have any further obligations arising out of the preliminary agreement. As of the date of this Prospectus, the final agreement with the Republic of Serbia was not concluded yet.
- On the afternoon of 21 July 2013, a fire broke out in the waste collection and processing area of the plant at Gorenje's subsidiary, Gorenje Surovina, d.o.o. in Maribor, Slovenia. The fire destroyed two thirds of the industrial hall for collection and processing of waste, as well as the solar power system installed on the rooftop of the hall. Gorenje Surovina, d.o.o. holds sufficient insurance policy to cover the damage to the property and the interruption of business.
- On 23 August 2013 DELOITTE REVIZIJA d.o.o., Dunajska cesta 165, 1000 Ljubljana, Slovenia was appointed by the Shareholders Meeting to act as the new auditor of the Company, in accordance with market standards.

## **Production re-location**

In 2012, the Group initiated a production re-location process, with a view to creating a positive effect on the profitability of operations by reducing labour costs. The relocation process was completed in the third quarter of 2013. The planned annual labour cost savings as a result of all relocations will amount to approximately EUR 23,000 thousand, but as the effects of the labour cost savings will be partly decreased by increases of other costs, such as higher logistics costs and depreciation based on new investments, the total expected

annual savings of the production re-location process will amount to approximately EUR 20,000 thousand, with the full effect felt in 2014. The headcount of the Group was reduced by more than 400, mainly in countries with higher labour costs.

The production re-location process has also led to changes in production programmes. The introduction of ASKO washing machines, dryers and dishwashers in Velenje, Slovenia has widened the range of home appliances and increased profitability. Moreover, in Valjevo, Serbia, coloured free-standing refrigeration appliances have been introduced.

As a part of the relocation process, in Autumn 2012 manufacturing facility in Lahti, Finland was relocated to Mariánské Údolí, the Czech Republic. In February 2013, the Company completed relocation of a significant part of refrigerator-freezer production from Velenje, Slovenia to Valjevo, Serbia. In January 2013 the production of washing machines and dryers at the manufacturing plant in Vara, Sweden was closed and shifted to Velenje where regular operations begun in April 2013. The Company transferred dishwasher production from Vara, Sweden to Velenje, Slovenia in August 2013 and as a result the dishwashers will be produced by the Group in Velenje only. Upon completion of the relocation and restructuring activities in accordance with the Strategic Plan the Group's major household appliances are manufactured in only three countries: Slovenia, Serbia and the Czech Republic. The Group also has a production facility for water heating appliances in Serbia.

The table below presents changes in production output volume (taking into account all of the products, produced by Business Segment Home) after the completion of all restructuring activities.

<b>Location</b>	<b>2012</b>	<b>2014</b>
Velenje, Slovenia .....	65%	62%
Valjevo, Serbia.....	13%	23%
Mariánské Údolí, Czech Republic .....	13%	15%
Vara, Sweden.....	8%	-
Lahti, Finland.....	1%	-

*\*Source: the Company.*

The table below presents changes in production output value (taking into account all of the products, produced by Business Segment Home) after the completion of all restructuring activities.

<b>Location</b>	<b>2012</b>	<b>2014</b>
Velenje, Slovenia.....	65%	69%
Valjevo, Serbia .....	10%	20%
Mariánské Údolí, Czech Republic .....	9%	11%
Vara, Sweden.....	15%	-
Lahti, Finland.....	1%	-

*\*Source: the Company.*

### **Group reorganisation**

Gorenje is in the process of discontinuing, disposing of and restructuring its activities (the 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 (*Non-current assets held for sale and discontinued operations*). The 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 the year ended 31 December 2012 and the year ended 31 December 2011, to a separate item: Profit or loss from discontinued operations. In addition, assets and liabilities of companies classified as discontinued operations were reclassified among assets and liabilities included in disposal groups in the Group's consolidated balance sheet for the year ended 31 December 2012.

In the fourth quarter of 2012, the stakes in Gorenje Notranja oprema, d.o.o. and Gorenje Kuhinje, d.o.o. were transferred to discontinued operation as assets held for sale. On 27 February 2013, Gorenje signed an agreement with CoBe Capital for the sale of stakes in Gorenje Notranja oprema, d.o.o. and Gorenje Kuhinje, d.o.o., thus withdrawing from the furniture manufacturing segment. However, the kitchen furniture produced by the companies under the new owner will remain a part of Gorenje's home products range. The disposal of both companies in the furniture segment will improve the Gorenje Group's profitability and increase the balance of free cash flow. On 26 August 2013 CoBe Capital declared liquidation of the company Gorenje Notranja oprema, d.o.o. (renamed to Vario 2000). This will result in a one-time negative impact on profitability of the Group in 2013 of approximately EUR 8,500 thousand due to the write offs, related to financial investment, that weren't included in budget 2013. The event will not have impact on cash position of the Group.

In 2012, sales organisations with long-lasting negative operations were also included in discontinued operations, as it was estimated that no improvement could be achieved due to the specifics of individual markets. In this way, awareness was increased of the fact that operations in this form should be discontinued and restructured. See section "*Business*" – "*Operating an efficient organisation*" – "*Optimising business models in less profitable markets*".

The table below presents the income statement, the balance sheet and the statement of cash flows of the discontinued operations.

	2012	2011
	<i>(audited)</i>	
	<i>(EUR in thousand)</i>	
<b>Revenue</b> .....	<b>25,896</b>	<b>35,600</b>
Change in inventories .....	-638	-514
Other operating income .....	1,180	1,958
<b>Gross profit</b> .....	<b>26,438</b>	<b>37,044</b>
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
<b>Operating profit</b> .....	<b>-8,685</b>	<b>-7,161</b>
Finance income .....	66	135
Finance expenses .....	-253	-177
<b>Net finance expenses</b> .....	<b>-187</b>	<b>-42</b>
Total profit or loss .....	-8,872	-7,203
Income tax expenses .....	-11	-126
<b>Profit or loss for the period</b> .....	<b>-8,883</b>	<b>-7,329</b>

\*Source: the Company.

Balance sheet – discontinued operation

<b>EUR in thousand</b>	<b>2012</b>	
	<i>(audited)</i>	
<b>Assets included in disposal groups</b> .....	<b>27,221</b>	
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	
<b>Liabilities included in disposal groups</b> .....	<b>8,322</b>	
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	

\*Source: the Company.

Statement of Cash Flows – discontinued operation

<b>EUR in thousand</b>	<b>2012</b>	<b>2011</b>
	<i>(audited)</i>	
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 flows of discontinued operation .....	-9,152	-4,728

\*Source: the Company.

## **Principal factors affecting the Group's results of operations**

### ***Reduction of production costs due to the relocation***

The Group incurred certain one-time costs during 2012 and 2013 as a result of production re-location. The planned annual labour cost savings as a result of all relocations will amount to approximately EUR 23,000 thousand, but as the effects of the labour cost savings will be partly decreased by increases of other costs, such as higher logistics costs and depreciation based on new investments, the total expected annual savings of the production re-location process will amount to approximately EUR 20,000 thousand, with the full effect felt in 2014. The headcount of the Group was reduced by more than 400, mainly in countries with higher labour costs.

### ***Panasonic alliance***

On 5 July 2013, the Group and Panasonic Corporation announced the conclusion of a long-term strategic business alliance, strengthened by a capital alliance.

As at the date of this Prospectus, the Group expects that the business alliance with Panasonic Corporation may bring the following benefits to the Group:

- additional annual revenues of up to EUR 80,000 thousand by 2018;
- a gradual improvement in EBITDA of up to EUR 20,000 thousand on a yearly basis, by 2018, based on higher product margins, higher factory utilisation, better inventory management and research and development synergies.

For more information about the strategic alliance see section "*Business*"- "*Alliance with Panasonic*".

### ***Furniture business and its divestment***

On 27 February 2013, Gorenje signed an agreement with CoBe Capital for the sale of stakes in Gorenje Notranja oprema, d.o.o. and Gorenje Kuhinje, d.o.o., thus withdrawing from the furniture manufacturing segment. However, the kitchen furniture produced by the companies under the new owner will remain a part of Gorenje's range 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.

### ***Macroeconomic factors***

Slovenia's main export market, the European Union, is still coping with the sovereign debt crisis, which prevents any significant growth in domestic exports. Declining government investments, large stocks of unsold flat-packs and tightened financial conditions are also not helping kick-start the domestic investment cycle.

Declining consumption and fixed investment, as well as volatile net exports and changes in inventories, are causing erratic swings in economic growth. Unemployment continues to climb in a fractured labour market. Labour markets remain volatile and deeply asymmetric among member states. Industrial output continues to fall below its 2005 level. This reflects the economic downturn, while asymmetry among member states deepens. Construction remains deeply depressed since 2008. In the first half of 2013, exports and imports fluctuated due to volatile commodity prices and the global macroeconomic slowdown. Since most of the trade in the EU flows from EU member states to other member states, the EU as a whole is a large and relatively closed economy. Stabilisation in sovereign debt yields is the result of the European Central Bank's monetary expansion. Despite quantitative easing, inflationary expectations remain very low. Inflationary expectations in Germany linger around 1.5%, when they should be over 2% to give the eurozone a fighting chance.

The eurozone crisis consists of three inter-related crises:



- the sovereign debt crisis,
- the banking crisis, and
- the crisis of competitiveness.

In 2012, the government deficit of both the eurozone (the EA17) and the EU as a whole decreased in absolute terms compared with 2011, while government debt rose in both zones. In the eurozone, the government deficit to GDP ratio decreased from 4.2% in 2011 to 3.7% in 2012, and in the EU28 from 4.4% to 3.9%. In the eurozone the government debt to GDP ratio increased from 87.3% at the end of 2011 to 90.6% at the end of 2012 and in the EU28 from 82.3% to 85.1%.

#### ***Price of raw materials and components***

The Group's operation results are influenced by volatility in the prices of raw materials. The purchase of raw materials of fundamental importance to its business is effectuated by making forward purchases of stock-exchange raw materials or building long-term supply partnerships on non-exchange markets. Supplies of these raw materials are mostly denominated in U.S. dollar. In 2012 the raw materials environment was shaped, in particular, by the EU debt crisis and slowdown in the Chinese economy, as well as tensions in the Middle East and Africa.

#### ***Foreign currency and exchange rates***

Since the Group conducts geographically diversified operations in Serbia, Russia, Sweden, Norway, Great Britain, Czech Republic, Poland, Hungary, Croatia, Turkey, and in all U.S. dollar markets, it is exposed to the effect of currency and exchange rate fluctuations. Due to recent depreciation of the Russian rouble, Swedish crown and Australian dollar in relation to EUR, the products exported by the Group have become more expensive and lost their competitiveness to foreign domestic goods.

#### ***Inflation***

The operating costs of the Group might be impacted by inflation. According to Eurostat, the European Union's annual inflation was 1.5% in August 2013, down from 1.7% in July. A year earlier, the rate was 2.7%. Monthly inflation was 0.1% in August 2013.

#### ***Operational expenses***

Prices for material, goods and services and employee benefits are the main components of the Group's operational expenses. Fluctuations in these costs have a significant effect on Group's profitability.

### **Information about trends**

#### **Strategic focus of operation of the Gorenje Group**

**Basic strategic focus** of the operation of the Gorenje Group is quality and balanced growth of volume of business activities and a significant increase in the level of competitive abilities within the framework of the basic activity of production and sale of household products and other activities, which will enable its efficient development also in the future.

**Vision of the Gorenje Group** is to become the most original, design-minded creator of home appliances in the world.

**and thereby it is its mission** to create original, technologically perfected, superiorly designed, user and environment friendly products for a comfortable home. We are focused on increasing customer satisfaction and creating value for the owners, employees and other partners of the Gorenje Group in a socially responsible manner.

To achieve the goals embodied in our Updated Strategic Plan, we have added two new values: responsibility and effectiveness.

***Boosting sales of upmarket products***

Intensifying sales of products and services with high profit margins within our core activity through a systematic approach to brand management, innovation and design.

***Raising process excellence and cost efficiency***

Attaining process excellence and the resulting cost efficiency in all fields of our operation.

***Moving production to countries with lower labour costs***

Increasing purchasing activities in low cost environments, moving the production of products with lower added value outside of Slovenia, and optimising overhead costs (outside direct manufacturing).

***Expansion to business segments with higher added value***

Intensive expansion to business segments with higher returns within strategic activities.

***Expansion to markets with anticipated high growth rates***

Directing sales to markets with at least twice the growth rate of the average global gross domestic product growth.

***Research and development activities***

Gorenje Group is also planning to pursue its strategic goals by investments into research and development. In doing so, the Group does not depend on patents, licenses, industrial or new production processes, or on commercial or financial agreements. In manufacturing its products, the issuer mainly employs its own know-how, technology, and production processes.

In 2012, 2011, and 2010, Gorenje Group invested a total of EUR 59,600 thousand into research and development.

Research and development expenses (unaudited)

<b>EUR in thousand</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Gorenje, d.d. ....	13,091	14,539	11,349	38,979
Asko AB.....	4,200	4,800	4,200	13,200
ATAG Europe, B.V. ....	1,963	1,981	2,071	6,015
Mora Moravia, S.r.o. ....	390	468	503	1,361
<b>Gorenje Group</b> .....	<b>19,644</b>	<b>21,788</b>	<b>18,123</b>	<b>59,555</b>

***Current trends in the home appliance industry***

**World:** According to the United Nations, global growth of the gross domestic product is still forecast at a rate of 2.4 percent in 2013 and 3.2 percent in 2014, which is considerably below the potential growth rate. Moderate growth at this pace will mean that many economies will not be able to recover the major losses of jobs from the onset of the global economic crisis.

**Western Europe:** Due to a weak starting point and further negative pressure, GDP will grow at a negligible rate of around 0.3 percent in 2013, while in 2014 it is expected to grow at a rate of 1.4 percent. Consumption

of durables is expected to remain weak, with increasing differences between respective countries in the region. Austerity programs tend to decrease consumption, but they also differ from one country to the next. Organization and operation of the markets is another key factor for employment and wages that differs considerably between the countries in the region. The level of uncertainty in the region as the core of the euro zone has a major effect on the entire EU and other neighbouring countries, and it undermines consumer confidence.

**"New" EU members:** total GDP of the new EU member states in 2012 rose by 1.2 percent, despite the many uncertainties and risks.

**Transition countries:** As expected in the context of moderate recovery of the global growth rate, GDP in the Southeastern Europe is anticipated to rise by 3.6 percent.

### Critical Accounting Policies

Critical Accounting Policies are presented in Annex No. 1 to this Prospectus

### Results of operations

#### Six-month period ended 30 June 2013 in comparison to the six-month period ended 30 June 2012

**In the comparison of financial information between the six-month period ended 30 June 2013 and the six-month period ended 30 June 2012, the financial information is presented without discontinued operations.**

#### Revenue

The Group's total revenue decreased by 2.7% to EUR 590,098 thousand in the six-month period ended 30 June 2013 from EUR 606,455 thousand in the six-month period ended 30 June 2012.

The following table presents the Group's revenues by business segments for six-month period ended 30 June 2012 and 2013.

	Six-month period ended 30 June				Change from 2012 to 2013
	2012		2013		
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	
	<i>(unaudited)</i>				
	<i>(EUR in thousand)</i>				
Home .....	500,452	82.5%	504,977	85.6%	0.9%
Ecology.....	52,608	8.7%	46,413	7.9%	-11.8%
Portfolio Investments.....	53,395	8.8%	38,708	6.5%	-27.5%
<b>Total revenues .....</b>	<b>606,455</b>	<b>100.0%</b>	<b>590,098</b>	<b>100.0%</b>	<b>-2.7%</b>

\*Source: the Company.

The following table presents the Group's revenues by geographical location of customers per business segment in the six-month period ended 30 June 2012 and 2013.

	Six-month period ended 30 June			
	2012		2013	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(unaudited)			
	(EUR in thousand)			
<b>Home</b>				
Western Europe .....	239,686	47.9%	232,966	46.1%
Eastern Europe.....	211,485	42.3%	226,426	44.9%
Other.....	49,281	9.8%	45,585	9.0%
<b>Total.....</b>	<b>500,452</b>	<b>100.0%</b>	<b>504,977</b>	<b>100.0%</b>
<b>Ecology</b>				
Western Europe .....	0	0.0%	0	0.0%
Eastern Europe.....	52,608	100.0%	46,413	100.0%
Other.....	0	0.0%	0	0.0%
<b>Total.....</b>	<b>52,608</b>	<b>100.0%</b>	<b>46,413</b>	<b>100.0%</b>
<b>Portfolio Investments</b>				
Western Europe .....	2,889	5.4%	2,324	6.0%
Eastern Europe.....	50,506	94.6%	36,384	94.0%
Other.....	0	0.0%	0	0.0%
<b>Total.....</b>	<b>53,395</b>	<b>100.0%</b>	<b>38,708</b>	<b>100.0%</b>

\*Source: the Company.

#### Business Segment Home

The Group's total revenue from Business Segment Home increased by 0.9% from EUR 500,452 thousand in the six-month period ended 30 June 2012, to EUR 504,977 thousand in the six-month period ended 30 June 2013.

EUR in thousand	Six-month period ended 30 June				Change from 2012 to 2013
	2012	Percentage of total revenue	2013	Percentage of total revenue	
	(unaudited)				
Western Europe .....	239,686	47.9%	232,966	46.1%	-2.8%
Eastern Europe.....	211,485	42.3%	226,426	44.9%	7.1%
Other.....	49,281	9.8%	45,585	9.0%	-7.5%

EUR in thousand	Six-month period ended 30 June				Change from 2012 to 2013
	2012	Percentage of total revenue	2013	Percentage of total revenue	
		(unaudited)			
<b>Total Home.....</b>	<b>500,452</b>	<b>100.0%</b>	<b>504,977</b>	<b>100.0%</b>	<b>0.9%</b>

\*Source: the Company.

The table below presents the number of units sold by the Group for the periods indicated.

	Six-month period ended 30 June	
	2012	2013
	Units	Units
		(unaudited)
<b>Household Appliances</b>		
Refrigerators.....	453,837	439,448
Washing machines.....	393,062	396,242
Dishwashers.....	116,611	124,197
Cooking appliances.....	965,454	991,968
<b>Total.....</b>	<b>1,928,964</b>	<b>1,951,855</b>
Heating appliances.....	244,442	241,771
Small domestic appliances.....	504,905	617,229
<b>Total.....</b>	<b>2,678,311</b>	<b>2,810,855</b>

\*Source: the Company.

#### Business Segment Ecology

Business Segment Ecology generated EUR 46,413 thousand in revenues in the six-month period ended 30 June 2013, as compared to EUR 52,608 thousand in the six-month period ended 30 June 2012 which represented a decrease of 11.8%. This decrease was driven mostly by the expiry of a five-year contract concluded with a major industrial partner in Slovenia, as well as the lower level of prices for secondary raw materials. This was reflected on the revenue and cost sides. The decline in business activities was also due to weather conditions in the first quarter of 2013 that aggravated the collection and sale of secondary raw materials.

#### Business Segment Portfolio Investments

Business Segment Portfolio Investments generated EUR 38,708 thousand in revenues in the six-month period ended 30 June 2013, as compared to EUR 53,395 thousand in the six-month period ended 30 June 2012,

which represented a decrease of 27.5%. The significant part of the revenues generated in this business segment result from the sale of coal that generated EUR 20,611 thousand of revenue in the six-month period ended 30 June 2013 (53% of the total revenues in this business segment in this period), as compared to EUR 31,228 thousand in the six-month period ended 30 June 2012 (58% of the total revenues in this business segment in this period).

This decrease of revenues in Business Segment Portfolio Investments was mostly brought about by the bankruptcy of a business partner in Slovenia. The volume of business activities was also partly impacted by the postponement of the execution of transactions in the field of medical and professional equipment, due to public procurement issues. The decline in business activities is also the result of an altered coal sale timetable. An increase of business activities and consequently higher level of revenue is, however, recorded in the field of tool manufacture and engineering.

#### *Other operating income*

Other operating income decreased by 21.8% to EUR 13,374 thousand in the six-month period ended 30 June 2013, from EUR 17,092 thousand in the six-month period ended 30 June 2012. Other operating income in the six-month period ended 30 June 2012 were higher, due to the reversal of provisions of the ASKO restructuring activities in Sweden, as well as subsidies received for creating new jobs in Serbia.

#### *Gross Profit*

The Group's gross profit was lower by 3.4% and amounted to EUR 618,961 thousand in the six-month period ended 30 June 2013, in comparison with EUR 640,914 thousand in the six-month period ended 30 June 2012.

The following table presents the Group's gross profit by business segments for six-month period ended 30 June 2012 and 2013.

	Six-month period ended 30 June				Change from 2012 to 2013
	2012		2013		
	Amount	Percentage of gross profit	Amount	Percentage of gross profit	
	<i>(unaudited)</i>				
	<i>(EUR in thousand)</i>				
Home .....	533,646	83.3%	532,253	86.0%	-0.3%
Ecology .....	53,273	8.3%	47,094	7.6%	-11.6%
Portfolio Investments.....	53,995	8.4%	39,614	6.4%	-26.6%
<b>Total gross profit.....</b>	<b>640,914</b>	<b>100.0%</b>	<b>618,961</b>	<b>100.0%</b>	<b>-3.4%</b>

\*Source: the Company.

#### *Operational expenses*

The Group's operational expenses were EUR 603,431 thousand in the six-month period ended 30 June 2013, as compared to EUR 619,538 thousand in the six-month period ended 30 June 2012, representing a decrease of EUR 16,107 thousand over the period.

The following table provides additional information on the Group's operational expenses for particular business segments, for the periods shown.

	Six-month period ended 30 June				
	2012		2013		Change from 2012 to 2013
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
<i>(unaudited)</i>					
<i>(EUR in thousand)</i>					
Home .....	518,177	83.7%	521,373	86.4%	0.6%
Ecology .....	51,013	8.2%	45,232	7.5%	-11.3%
Portfolio Investments .....	50,348	8.1%	36,826	6.1%	-26.9%
<b>Total operational expenses .....</b>	<b>619,538</b>	<b>100.0%</b>	<b>603,431</b>	<b>100.0%</b>	<b>-2.6%</b>

*\*Source: the Company.*

The table below presents additional information relating to the Group's operational expenses, for the periods shown.

	Six-month period ended 30 June				
	2012		2013		Change from 2012 to 2013
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
<i>(unaudited)</i>					
<i>(EUR in thousand)</i>					
Costs of goods, materials and services .....	459,730	74.2%	447,618	74.2%	-2.6%
Employee benefit expenses .....	127,403	20.6%	124,971	20.7%	-1.9%
Amortisation and depreciation expense .....	23,551	3.8%	21,254	3.5%	-9.8%
Other operating expenses .....	8,854	1.4%	9,588	1.6%	8.3%
<b>Total operational expenses .....</b>	<b>619,538</b>	<b>100.0%</b>	<b>603,431</b>	<b>100.0%</b>	<b>-2.6%</b>

*\*Source: the Company.*

The table below presents additional information on the costs of sales in Business Segment Home for the periods shown.

Six-month period ended 30 June

	2012		2013		Change from 2012 to 2013
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
<i>(unaudited)</i>					
<i>(EUR in thousand)</i>					
Costs of goods, materials and services.....	377,104	72.8%	384,292	73.7%	1.9%
Employee benefit expenses.....	112,361	21.7%	110,006	21.1%	-2.1%
Amortisation and depreciation expense .....	20,952	4.0%	18,585	3.6%	-11.3%
Other operating expenses.....	7,760	1.5%	8,490	1.6%	9.4%
<b>Total operational expenses.....</b>	<b>518,177</b>	<b>100.0%</b>	<b>521,373</b>	<b>100.0%</b>	<b>0.6%</b>

\*Source: the Company.

### Operating profit

The operating profit of the Group decreased by 27.3% and amounted to EUR 15,530 thousand in the six-month period ended 30 June 2013, in comparison with EUR 21,376 thousand in the six-month period ended 30 June 2012. The primary reasons behind this decrease are:

- lower revenues in Business Segment Ecology, decreased by 11.8% or EUR 6,195 thousand due to the expiry of a five-year contract concluded with a major industrial partner in Slovenia, and lower prices for secondary raw materials, both reflected on the revenue and the cost side and weather conditions in the first quarter of 2013, all of which aggravated the collection and sale of secondary raw materials;
- lower revenues in Business Segment Portfolio Investment, decreased by 27.5% or EUR 14,687 thousand due to the bankruptcy of a business partner in Slovenia, the postponement of the execution of transactions in the field of medical and professional equipment due to the public procurement issues and a changed timetable for the sale of coal;
- the lower level of other operating income by EUR 3,718 thousand (revenue in the six-month period ended 30 June 2012 was higher, due to a reversal of provisions of the ASKO restructuring activities in Sweden, and subsidies received for creating new jobs in Serbia);
- the movement of cost of services, which grew by 1.2% or EUR 1,188 thousand as a result of changed transport routes due to the production re-location process, and the changed geographical structure of sales;
- lower employee benefits expenses in the six-month period ended 30 June 2012. The employee benefits expense could be even lower, but based on the concluded social agreement at the Velenje, Slovenia production location, there were on average 238 more staff employed in the six-month period ended 30 June 2013 than necessary (EUR 2,432 thousand of additional employee benefits expense); additional employment was put on hold on the payroll, in connection with the planned relocation of washing machine and dryer production from Vara, Sweden to Velenje, Slovenia in the second quarter of 2013 and the transfer of dishwasher production from Vara, Sweden to Velenje, Slovenia in September 2013.



### Net finance expenses

The net finance expenses of the Group increased by 51.3% to EUR 18,712 thousand in the six-month period ended 30 June 2013 compared to EUR 12,364 thousand in the six-month period ended 30 June 2012. The negative result from financing activities worsened due to lower finance income from exchange differences, whereby the lower negative result from interest had a positive impact.

### Profit/(Loss) Before Tax

The Group's profit before tax was lower by 135.6% and amounted to EUR -3,224 thousand in the six-month period ended 30 June 2013, in comparison with EUR 9,062 thousand in the six-month period ended 30 June 2012. This change was attributable to, among other things, lower level of other operating income by EUR 3,718 thousand, increased cost of services, which grew by EUR 1,188 thousand and additional employee benefits expense of EUR 2,432 thousand over the period.

### Income Tax Expense

The income tax expense of the Group was lower by 1.2% and amounted to EUR 1,812 thousand in the six-month period ended 30 June 2013, in comparison with EUR 1,834 thousand in the six-month period ended 30 June 2012. This change was attributable to the changed structure of generating profit before tax per companies.

## Year ended 31 December 2012 compared to year ended 31 December 2011

**In the comparison of financial information between the year ended 31 December 2012 and the year ended 31 December 2011, the financial information is presented without discontinued operations.**

### Revenue

The Group's total revenue decreased by 8.9% to EUR 1,263,082 thousand in the year ended 31 December 2012 from EUR 1,386,629 thousand in the year ended 31 December 2011.

The following table presents the Group's revenues by business segments for years ended 31 December 2011 and 2012.

	Year ended 31 December						Change from 2011 to 2012
	2011		2011 (without discontinued operations)		2012		
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue	
			<i>(audited)</i>				
			<i>(EUR in thousand)</i>				
Home .....	1,088,969	76.6%	1,053,369	76.0%	1,071,279	84.8%	1.7%
Ecology.....	113,406	8.0%	113,406	8.2%	97,346	7.7%	-14.2%
Portfolio Investments.....	219,854	15.4%	219,854	15.8%	94,457	7.5%	-57.0%
<b>Total revenues .....</b>	<b>1,422,229</b>	<b>100.0%</b>	<b>1,386,629</b>	<b>100.0%</b>	<b>1,263,082</b>	<b>100.0%</b>	<b>-8.9%</b>

\*Source: the Company.

The following table presents the Group's revenues by geographical location of customers per business segment in the years ended 31 December 2011 and 2012.

	Year ended 31 December					
	2011		2011		2012	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
			(without discontinued operations)			
			(unaudited)			
			(EUR in thousand )			
<b>Home</b>						
Western Europe .....	516,220	47.4%	492,424	46.8%	474,821	44.3%
Eastern Europe.....	477,918	43.9%	466,135	44.2%	496,240	46.3%
Other.....	94,831	8.7%	94,810	9.0%	100,218	9.4%
<b>Total.....</b>	<b>1,088,969</b>	<b>100.0%</b>	<b>1,053,369</b>	<b>100.0%</b>	<b>1,071,279</b>	<b>100.0%</b>
<b>Ecology</b>						
Western Europe .....	0	0.0%	0	0.0%	0	0.0%
Eastern Europe.....	113,406	100.0%	113,406	100.0%	97,346	100.0%
Other.....	0	0.0%	0	0.0%	0	0.0%
<b>Total.....</b>	<b>113,406</b>	<b>100.0%</b>	<b>113,406</b>	<b>100.0%</b>	<b>97,346</b>	<b>100.0%</b>
<b>Portfolio Investments</b>						
Western Europe .....	13,616	6.2%	13,616	6.2%	6,098	6.5%
Eastern Europe.....	206,088	93.7%	206,088	93.7%	88,359	93.5%
Other.....	150	0.1%	150	0.1%	0	0.0%
<b>Total.....</b>	<b>219,854</b>	<b>100.0%</b>	<b>219,854</b>	<b>100.0%</b>	<b>94,457</b>	<b>100.0%</b>

\*Source: the Company.

### Business Segment Home

The Group's total revenue from Business Segment Home increased by 1.7% to EUR 1,071,279 thousand in the year ended 31 December 2012 from EUR 1,053,369 thousand in the year ended 31 December 2011.

EUR in thousand	Year ended 31 December				
	2011	Percentage of total revenue	2012	Percentage of total revenue	Change from 2011 to 2012
			(unaudited)		
Western Europe .....	492,424	46.8%	474,821	44.3%	-3.6%
Eastern Europe.....	466,135	44.2%	496,240	46.3%	6.5%

EUR in thousand	Year ended 31 December				Change from 2011 to 2012
	2011	Percentage of total revenue	2012	Percentage of total revenue	
		<i>(unaudited)</i>			
Other.....	94,810	9.0%	100,218	9.4%	5.7%
<b>Total Home.....</b>	<b>1,053,369</b>	<b>100.0%</b>	<b>1,071,279</b>	<b>100.0%</b>	<b>1.7%</b>

\*Source: the Company.

The table below presents the number of units sold by the Group for the periods indicated.

	Year ended 31 December	
	2011	2012
	<b>Units</b>	<b>Units</b>
	<i>(unaudited)</i>	
<b>Household Appliances</b>		
Refrigerators.....	960,818	992,105
Washing machines.....	832,565	866,394
Dishwashers.....	155,086	254,263
Cooking appliances.....	2,144,191	2,084,803
<b>Total.....</b>	<b>4,092,660</b>	<b>4,197,565</b>
Heating appliances.....	453,809	469,670
Small domestic appliances.....	1,353,618	1,156,451
<b>Total.....</b>	<b>5,900,087</b>	<b>5,823,686</b>

\*Source: the Company.

#### Business Segment Ecology

Business Segment Ecology generated EUR 97,346 thousand in revenues in the year ended 31 December 2012 as compared to EUR 113,406 thousand in the year ended 31 December 2011, which represented a decrease of 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 this business segment was also due to the weather conditions in the first quarter of 2012 that prevented the collection and sale of secondary raw materials.

#### Business Segment Portfolio Investments

Business Segment Portfolio Investments generated EUR 94,457 thousand in revenues in the year ended 31 December 2012 as compared to EUR 219,854 thousand in the year ended 31 December 2011, in comparable terms (elimination of the disposed company Istrabenz Gorenje in July 2011 from the comparable period last

year) EUR 115,035 thousand, revenue decreased by 17.9%. The significant part of revenues generated in this business segment constituted revenues from the sale of coal that generated EUR 46,915 thousand in revenues in the year ended 31 December 2012 (50% of the total revenues in this business segment in this period) as compared to EUR 41,948 thousand in the year ended 31 December 2011 (19% of the total revenues in this business segment in this period).

This decrease was mostly impacted by the production project (assembly) of 8x8 armoured vehicles for the Slovenian Armed Forces within the subsidiary Indop, d.o.o. with its registered office in Šoštanj, Slovenia. The entire project generated EUR 9,200 thousand in revenues in the year ended 31 December 2011, and only EUR 300 thousand in the year ended 31 December 2012. Another reason for the decrease in this business segment is the elimination of transactions with the Alpos company, with its registered office in Šentjur pri Celju, Slovenia, which in the year ended 31 December 2012 represented a loss in revenue of EUR 16,400 thousand compared to the year ended 31 December 2011. Lower revenue in Business Segment Portfolio Investments was partially compensated by higher sale of coal in the year ended 31 December 2012.

#### *Other operating income*

Other operating income was lower by 19.1% and amounted to EUR 40,929 thousand in the year ended 31 December 2012, in comparison with EUR 50,564 thousand in the year ended 31 December 2011. The decreased was related mainly to lower provision reversals and lower income from compensation for damages that was significant in the year ended 31 December 2011.

#### *Gross profit*

The Group's gross profit decreased by 9.0% to EUR 1,315,892 thousand in the year ended 31 December 2012, from EUR 1,446,090 thousand in the year ended 31 December 2011.

The following table presents the Group's gross profit by business segments for years ended 31 December 2011 and 2012.

	Year ended 31 December						Change from 2011 to 2012
	2011		2011 (without discontinued operations)		2012		
	Amount	Percentage of gross profit	Amount	Percentage of gross profit	Amount	Percentage of gross profit	
	<i>(unaudited)</i>						
	<i>(EUR in thousand)</i>						
Home .....	1,146,180	77.3%	1,109,136	76.7%	1,121,360	85.2%	1.1%
Ecology.....	115,082	7.7%	115,082	8.0%	98,423	7.5%	-14.5%
Portfolio Investments.....	221,872	15.0%	221,872	15.3%	96,109	7.3%	-56.7%
<b>Total gross profit.....</b>	<b>1,483,134</b>	<b>100.0%</b>	<b>1,446,090</b>	<b>100.0%</b>	<b>1,315,892</b>	<b>100.0%</b>	<b>-9.0%</b>

\*Source: the Company.

### Operational expenses

The Group's operational expenses were EUR 1,270,971 thousand in the year ended 31 December 2012 as compared to EUR 1,402,420 thousand in the year ended 31 December 2011, representing a decrease of EUR 131,449 thousand over the period.

The following table provides additional information relating to the Group's operational expenses for particular business segments, for the periods shown.

	Year ended 31 December						Change from 2011 to 2012
	2011		2011 (without discontinued operations)		2012		
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
	<i>(unaudited)</i>						
	<i>(EUR in thousand)</i>						
Home .....	1,115,166	77.1%	1,070,961	76.3%	1,085,356	85.4%	1.3%
Ecology.....	110,338	7.6%	110,338	7.9%	94,917	7.5%	-14.0%
Portfolio Investments.....	221,121	15.3%	221,121	15.8%	90,698	7.1%	-59.0%
<b>Total operational expenses .....</b>	<b>1,446,625</b>	<b>100.0%</b>	<b>1,402,420</b>	<b>100.0%</b>	<b>1,270,971</b>	<b>100.0%</b>	<b>-9.4%</b>

\*Source: the Company.

The following tables provide additional information relating to the Group's operational expenses, for the periods shown.

	Year ended 31 December						Change from 2011 to 2012
	2011		2011 (without discontinued operations)		2012		
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
	<i>(audited)</i>						
	<i>(EUR in thousand)</i>						
Costs of goods, materials and services ....	1,105,001	76.4%	1,076,437	76.8%	946,215	74.4%	-12.1%
Employee benefit expenses.....	265,850	18.4%	253,333	18.1%	258,680	20.4%	2.1%
Amortisation and depreciation expense.....	50,198	3.5%	48,347	3.4%	45,665	3.6%	-5.5%

Year ended 31 December

	2011						Change from 2011 to 2012
	2011		(without discontinued operations)		2012		
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
			<i>(audited)</i>				
Other operating expenses.....	25,576	1.7%	24,303	1.7%	20,411	1.6%	-16.0%
<b>Total operational expenses .....</b>	<b>1,446,625</b>	<b>100.0%</b>	<b>1,402,420</b>	<b>100.0%</b>	<b>1,270,971</b>	<b>100.0%</b>	<b>-9.4%</b>

\*Source: the Company.

The table below presents additional information on the operational expenses in Business Segment Home for the periods shown.

Year ended 31 December

	2011						Change from 2011 to 2012
	2011		(without discontinued operations)		2012		
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	Amount	Percentage of total cost of sales	
			<i>(unaudited)</i>				
			<i>(EUR in thousand)</i>				
Costs of goods, materials and services ....	812,347	72.9%	783,783	73.2%	797,932	73.5%	1.8%
Employee benefit expenses.....	234,518	21.0%	222,001	20.7%	228,599	21.1%	3.0%
Amortisation and depreciation expense.....	44,494	4.0%	42,643	4.0%	40,369	3.7%	-5.3%
Other operating expenses.....	23,807	2.1%	22,534	2.1%	18,456	1.7%	-18.1%
<b>Total operational expenses .....</b>	<b>1,115,166</b>	<b>100.0%</b>	<b>1,070,961</b>	<b>100.0%</b>	<b>1,085,356</b>	<b>100.0%</b>	<b>1.3%</b>

\*Source: the Company.

### *Operating profit*

Operating profit of the Group increased by 2.9% from EUR 43,670 thousand in the year ended 31 December 2011, to EUR 44,921 thousand in the year ended 31 December 2012.

The increase was related mainly to:

- improved sales volume in Business Segment Home, which grew by nearly 7% in the fourth quarter of 2012. Growth was recorded by all geographical segments (Eastern and Western Europe, other countries worldwide) irrespective of difficult 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 operating profit was negatively impacted by:

- movements in cost of services, which increased by 2.0% or EUR 4,019 thousand over the previous period, irrespective of lower consolidated revenue by 8.9% or EUR 123,547 thousand. This increase was driven mostly by costs of transport and logistics services that grew by 16% or EUR 6,755 thousand as a result of higher retail fuel prices and the change geographic sales structure in individual countries, as well as on-going cost pressures;
- movements in employee benefits expense, which grew by 2.1% or EUR 5,347 thousand over the previous period. This increase is attributable to the production of emergency stock prior to production re-location process 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 unexpected work stoppage caused by workers in December 2012 and rigid labour legislation.

### *Net finance expenses*

Net finance expenses of the Group increased by 20% from EUR 25,346 thousand in the year ended 31 December 2011, to EUR 30,416 thousand in the year ended 31 December 2012. An improvement was achieved in 2011, which is mostly the result of a onetime 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 the year ended 31 December 2011, is also due to the impairment of certain financial investments and receivables.

### *Profit/(loss) before tax*

The Group's profit before tax was lower by 19.2% and amounted to EUR 14,806 thousand in the year ended 31 December 2012, in comparison with EUR 18,315 thousand in the year ended 31 December 2011. This change was attributable to, among other things, increased costs of transport and logistics services that grew by 16% or EUR 6,755 thousand, and movements in employee benefits expense, which grew by 2.1% or EUR 5,347 thousand over the period.

### *Income tax expense*

The income tax expense of the Group increased by 199.6% from EUR 1,880 thousand in the year ended 31 December 2011, to EUR 5,633 thousand in the year ended 31 December 2012. 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.

## Year ended 31 December 2011 compared to year ended 31 December 2010

### Revenue

The comparability of individual categories of in 2011 was affected by two materially very significant events that have occurred in 2010 and 2011:

- (1) integration of the ASKO Group, the Swedish producer of home appliances, into the Gorenje Group in August 2010, and
- (2) sale of the participating interest in the company Istrabenz Gorenje of Business Segment Portfolio Investments, in July 2011 (and thus the winding-up of the Energy business segment). Total revenue of Istrabenz Gorenje amounted to EUR 167,503 thousand in 2010 and in the period January-June 2011, to EUR 104,819 thousand.

**In the comparison of financial information between the year ended 31 December 2010 and the year ended 31 December 2011, the financial information for the year ended 31 December 2011 is presented as originally presented in the financial statements as at and for the year ended 31 December 2011 i.e. with operations subsequently reclassified to discontinued operations in the financial statements as at and for the year ended 31 December 2012 still included within continuing operations.**

The Group's total revenue increased by 2.9% from EUR 1,382,185 thousand in the year ended 31 December 2010, to EUR 1,422,229 thousand in the year ended 31 December 2011, in comparable terms (values prior to effects of the integration of the ASKO Group and after eliminating the impact of the disposed company Istrabenz Gorenje and its subsidiaries in both observed periods), the revenues increased by 5.4%.

The following table presents the Group's revenues by business segments for years ended 31 December 2010 and 2011.

	Year ended 31 December				
	2010		2011		Change from 2010 to 2011
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	
	<i>(unaudited)</i>				
	<i>(EUR in thousand)</i>				
Home .....	1,014,745	73.4%	1,088,969	76.6%	7.3%
Ecology .....	101,711	7.4%	113,406	8.0%	11.5%
Portfolio Investments.....	265,729	19.2%	219,854	15.4%	-17.3%
<b>Total revenues.....</b>	<b>1,382,185</b>	<b>100.0%</b>	<b>1,422,229</b>	<b>100.0%</b>	<b>2.9%</b>

\*Source: the Company.

The following table presents the Group's revenues by geographical location of customers per business segment in the years ended 31 December 2010 and 2011.



**Year ended 31 December**

	2010		2011	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	<i>(unaudited)</i>			
<b>Home</b>	<i>(EUR in thousand)</i>			
Western Europe .....	462,799	45.6%	516,220	47.4%
Eastern Europe.....	487,998	48.1%	477,918	43.9%
Other.....	63,948	6.3%	94,831	8.7%
<b>Total.....</b>	<b>1,014,745</b>	<b>100.0%</b>	<b>1,088,969</b>	<b>100.0%</b>
<b>Ecology</b>	<i>(EUR in thousand)</i>			
Western Europe .....	0	0.0%	0	0.0%
Eastern Europe.....	101,711	100.0%	113,406	100.0%
Other.....	0	0.0%	0	0.0%
<b>Total.....</b>	<b>101,711</b>	<b>100.0%</b>	<b>113,406</b>	<b>100.0%</b>
<b>Portfolio Investments</b>	<i>(EUR in thousand)</i>			
Western Europe .....	19,439	7.3%	13,616	6.2%
Eastern Europe.....	245,823	92.5%	206,088	93.7%
Other.....	467	0.2%	150	0.1%
<b>Total.....</b>	<b>265,729</b>	<b>100.0%</b>	<b>219,854</b>	<b>100.0%</b>

\*Source: the Company.

**Business Segment Home**

The Group's total revenue from Business Segment Home increased by 7.3% from EUR 1,014,745 thousand in the year ended 31 December 2010, to EUR 1,088,969 thousand in the year ended 31 December 2011, in comparable terms (values prior to the effects of the integration of the Asko Group in both observed periods) the revenue increased by 0.7%.

The table below presents the number of units sold by the Group for the periods indicated.

	Year ended 31 December	
	2010	2011
	Units	Units
	<i>(unaudited)</i>	
<b>Household Appliances</b>		
Refrigerators.....	1,131,081	960,818
Washing machines.....	901,078	832,565
Dishwashers.....	141,716	155,086
Cooking appliances.....	2,443,561	2,144,191

	Year ended 31 December	
	2010	2011
	Units	Units
	<i>(unaudited)</i>	
<b>Total.....</b>	<b>4,617,436</b>	<b>4,092,660</b>
Heating appliances.....	436,238	453,809
Small domestic appliances.....	755,214	1,353,618
<b>Total.....</b>	<b>5,808,888</b>	<b>5,900,087</b>

\*Source: the Company.

#### Business Segment Ecology

Business Segment Ecology generated EUR 113,406 thousand in the year ended 31 December 2011 as compared to EUR 101,711 thousand in revenues in the year ended 31 December 2010, which represented an increase of 11.5%. This increase was driven by a higher volume of operations in the leading company of this business segment Gorenje Surovina, d.o.o., mainly due to the increase in prices of raw materials.

#### Business Segment Portfolio Investments

Business Segment Portfolio Investments generated EUR 219,854 thousand in the year ended 31 December 2011 as compared to EUR 265,729 thousand in revenues in the year ended 31 December 2010, which represented a decrease of 17.3%. In comparable terms (after eliminating the impact of the disposed company Istrabenz Gorenje and its subsidiaries), the revenues were higher by 28%. The important part of revenues generated in this business segment constituted revenues from the sale of coal that generated EUR 41,948 thousand in revenues in the year ended 31 December 2011 (19% of the total revenues in this business segment in this period) as compared to EUR 30,671 thousand in the year ended 31 December 2010 (11% of the total revenues in this business segment in this period).

#### Other operating income

Other operating income increased by 10.5% from EUR 47,554 thousand in the year ended 31 December 2010, to EUR 52,522 thousand in the year ended 31 December 2011. The increase was mainly brought about by subsidies received for providing employment in the Republic of Serbia, and compensation for damages in the production project.

#### Gross profit

The Group's gross profit increased by 4.7% to EUR 1,483,134 thousand in the year ended 31 December 2011 from EUR 1,416,229 thousand in the year ended 31 December 2010..

The following table presents the Group's gross profit by business segments for years ended 31 December 2010 and 2011.

	Year ended 31 December				
	2010		2011		Change from 2010 to 2011
	Amount	Percentage of gross profit	Amount	Percentage of gross profit	
	<i>(unaudited)</i>				
	<i>(EUR in thousand)</i>				
Home .....	1,055,651	74.5%	1,146,180	77.3%	8.6%
Ecology .....	103,544	7.3%	115,082	7.7%	11.1%
Portfolio Investments .....	257,034	18.2%	221,872	15.0%	-13.7%
<b>Total gross profit.....</b>	<b>1,416,229</b>	<b>100.0%</b>	<b>1,483,134</b>	<b>100.0%</b>	<b>4.7%</b>

\*Source: the Company.

### Operational expenses

The Group's operational expenses were EUR 1,446,625 thousand in the year ended 31 December 2011 as compared to EUR 1,359,791 thousand in the year ended 31 December 2010, representing an increase of EUR 86,834 thousand over the period.

The following table provides additional information relating to the Group's operational expenses for particular business segments, for the periods shown.

	Year ended 31 December				
	2010		2011		Change from 2010 to 2011
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
	<i>(audited)</i>				
	<i>(EUR in thousand)</i>				
Home .....	1,005,562	74.0%	1,115,166	77.1%	10.9%
Ecology.....	99,304	7.3%	110,338	7.6%	11.1%
Portfolio Investments.....	254,925	18.7%	221,121	15.3%	-13.3%
<b>Total operational expenses.....</b>	<b>1,359,791</b>	<b>100.0%</b>	<b>1,446,625</b>	<b>100.0%</b>	<b>6.4%</b>

\*Source: the Company.

The following tables provide additional information relating to the Group's operational expenses, for the periods shown.

Year ended 31 December

	2010		2011		Change from 2010 to 2011
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
<i>(unaudited)</i>					
<i>(EUR in thousand)</i>					
Costs of goods, materials and services.....	1,040,509	76.5%	1,105,001	76.4%	6.2%
Employee benefit expenses.....	244,442	18.0%	265,850	18.4%	8.8%
Amortisation and depreciation expense .....	52,237	3.8%	50,198	3.5%	-3.9%
Other operating expenses .....	22,603	1.7%	25,576	1.7%	13.2%
<b>Total operational expenses.....</b>	<b>1,359,791</b>	<b>100.0%</b>	<b>1,446,625</b>	<b>100.0%</b>	<b>6.4%</b>

\*Source: the Company.

The table below presents additional information on the operational expenses in Business Segment Home for the periods shown.

Year ended 31 December

	2010		2011		Change from 2010 to 2011
	Amount	Percentage of total operational expenses	Amount	Percentage of total operational expenses	
<i>(unaudited)</i>					
<i>(EUR in thousand)</i>					
Costs of goods, materials and services.....	727,887	72.4%	812,347	72.9%	11.6%
Employee benefit expenses.....	212,576	21.1%	234,518	21.0%	10.3%
Amortisation and depreciation expense .....	45,807	4.6%	44,494	4.0%	-2.9%
Other operating expenses.....	19,292	1.9%	23,807	2.1%	23.4%
<b>Total operational expenses.....</b>	<b>1,005,562</b>	<b>100.0%</b>	<b>1,115,166</b>	<b>100.0%</b>	<b>10.9%</b>

\*Source: the Company.

*Operating profit*

The operating profit of the Group was lower by 35.3% and amounted to EUR 36,509 thousand in the year ended 31 December 2011, in comparison with EUR 56,438 thousand in the year ended 31 December 2010.

The decrease in profit was mainly a result of impairment of the gross margin due to the geographical change of the sales structure and strong raw material and material price increases, the positive effect of some

independent events of current operations, as well as losses incurred by the furniture production companies and the ASKO Group.

Cost of services increased over the previous year by EUR 11,336 thousand or by 5.7%, and decreased by EUR 1,087 thousand or 0.6% at comparable level, despite higher sales by 5.4%. The net decrease is a result of the optimisation process, and also partly the lower sales of medical equipment; part of the sales costs on medical equipment was disclosed in the financial statements for the year ended 31 December 2010 under costs of other services.

#### *Net finance expenses*

The net finance expenses of the Group decreased by 25.3% and amounted to EUR 25,388 thousand in the year ended 31 December 2011, in comparison with EUR 33,966 thousand in the year ended 31 December 2010. In spite of higher interest expense by EUR 4,445 thousand, this lowering of the negative result is attributable mostly to income from liquidation of the company Gorenje Tiki, Slovenia (EUR 3,747 thousand), to profit on sale of the company Istrabenz Gorenje (EUR 2,886 thousand), and to allowances (EUR 6,885 thousand) formed in a lower amount than in 2010 (last year's negative balance also included allowances for receivables and loans relating to the company Merkur).

#### *Profit/(loss) before tax*

The Group's profit before tax decreased by 50.6% to EUR 11,112 thousand in the year ended 31 December 2011 from EUR 22,472 thousand in the year ended 31 December 2010. This change was attributable to, among other things, impairment of the gross margin due to the geographical change of the sales structure and strong raw material and material price increases and the increase of the cost of services by EUR 11,336 thousand.

#### *Income tax expense*

Income tax expense of the Group was lower by 18.1% and amounted to EUR 2,006 thousand in the year ended 31 December 2011, in comparison with EUR 2,448 thousand in the year ended 31 December 2010. This decrease amounts to approximately EUR 442 thousand, which is not a significant amount applicable to the whole Group. However, this was affected mostly by creating deferred taxes at ASKO and Gorenje.

## **Cash flows**

The table below presents a summary of Group's cash flows for the periods indicated.

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		(audited)		(unaudited)	
	<i>(EUR in thousand)</i>				
Net cash provided by operating activities ....	27,717	22,057	49,661	-31,462	-29,231
Net cash used in investing activities.....	-17,695	-33,253	-43,545	-10,410	-23,883
Net cash provided by financing activities.....	45,576	30,088	-53,148	-29,109	23,611
Net increase in cash and cash equivalents.....	55,598	18,892	-47,032	-70,981	-29,503

\*Source: the Company.

### ***Net cash provided by operating activities***

As a result of the foregoing, the Group's net cash provided by operating activities on 31 December 2010, 31 December 2011 and 31 December 2012 amounted to EUR 27,717 thousand, EUR 22,057 thousand and EUR 49,661 thousand, respectively.

The Group's net cash provided by operating activities on 30 June 2013 amounted to EUR -29,231 thousand.

The Group's net cash flow is cyclical in the course of the financial year. In the mid-financial year the cash flow is usually negative, while at the end of the financial year it is usually positive.

### ***Net cash used in investing activities***

Net cash used in investing activities mainly consists of capital expenditure and proceeds from sale of property, plant and equipment and other assets.

In the year ended 31 December 2010, the Group had capital expenditure of EUR 44,668 thousand and proceeds from sale of property, plant, equipment and financial assets available for sale in the amount of EUR 12,396 thousand.

In the year ended 31 December 2011, the Group had capital expenditure of EUR 47,468 thousand and proceeds from sale of property, plant and equipment in the amount of EUR 7,302 thousand.

In the year ended 31 December 2012, the Group had capital expenditure of EUR 60,744 thousand and proceeds from sale of property, plant, equipment and investment property in the amount of EUR 13,256 thousand.

In the six-month period ended 30 June 2013, the Group had capital expenditure in the amount of EUR 32,138 thousand, and proceeds from sale of property, plant, equipment and investment property in the amount of EUR 18,473 thousand.

### ***Net cash provided by financing activities***

Net cash provided by financing activities mainly consists of changes in net current borrowings and dividends paid.

In the year ended 31 December 2010, the Group had changes in net current borrowings in the amount of EUR 27,558 thousand and the capital increase of EUR 24,920 thousand. The increase in net non-current borrowings was used for financing the new cooker facility; the increase in net current borrowings was used to finance working capital needs.

In the year ended 31 December 2011 the Group's had changes in net current borrowings of EUR 30,088 thousand.

In the year ended 31 December 2012, the Group's had changes in net current borrowings of EUR -50,881 thousand and dividends paid in the amount of EUR -2,267 thousand.

In the six-month period ended 30 June 2013, the Group had changes in net current borrowings in the amount of EUR 23,611 thousand.

### **Liquidity and capital resources**

Historically, the Group capital requirements have been funded primarily through a combination of (i) cash generated from operations, and (ii) borrowings under credit facilities made available by third parties.

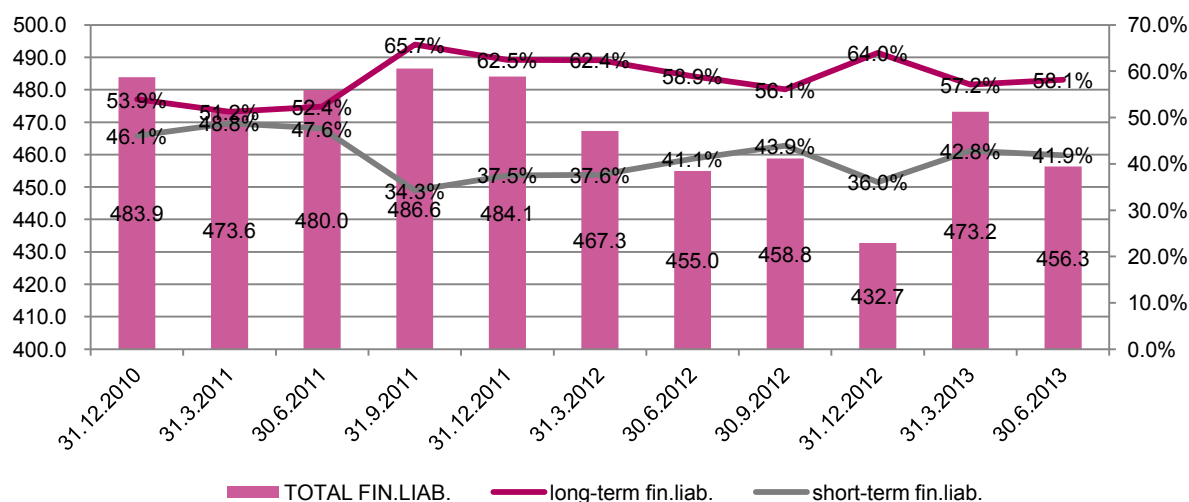
The Group expects that the principal future cash needs of the Group will be for funding of investments in new products, expansion of the Group's production facilities and investments in the new markets, working capital

requirements and debt service. The Group believes that its existing cash balances, cash generated from the Group's operations, as well as cash available from the existing credit facilities will be sufficient to fund these needs for the near future.

For the purposes of the Operating and Financial Review section, total financial liabilities means: borrowings, interest payable, dividends payable, derivatives and other financial liabilities. Borrowings mean borrowings from banks, borrowings from third parties, Schuldschein loans and commercial papers.

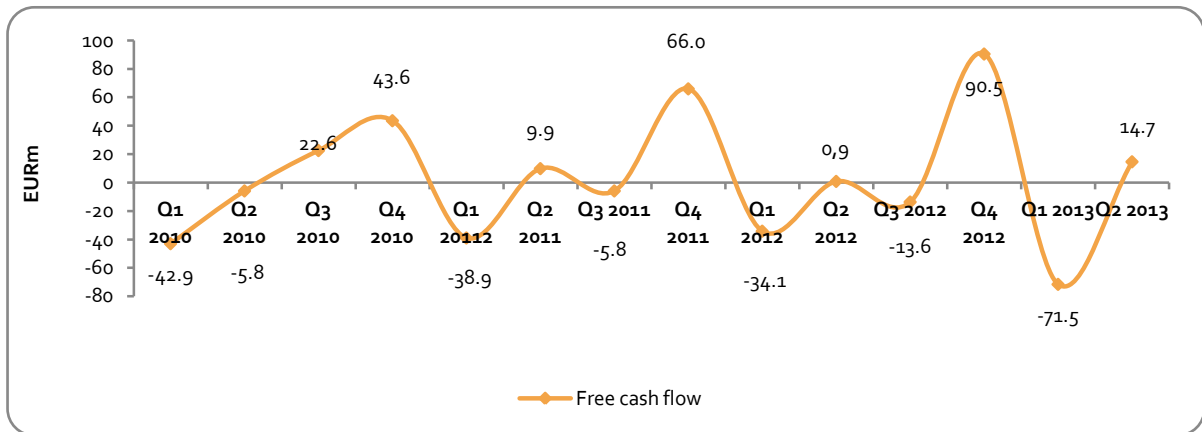
Total financial liabilities decreased from EUR 483,947 thousand on 31 December 2010, slightly increased to EUR 484,108 thousand on 31 December 2011, and decreased on 31 December 2012 by EUR 51,382 thousand to EUR 432,726 thousand. This was the result of net working capital optimisation and divestment of non-core assets of the Group.

**Table:** Total financial liabilities with maturity profile on the Gorenje group level.



\*Source: the Company.

**Total financial liabilities** on 30 June 2013 amounted to EUR 456,340 thousand, were at approximately the same level as in the period ended 30 June 2012 (EUR 454,999 thousand), and increased by EUR 23,614 thousand compared to the end of 2012, when total financial liabilities amounted EUR 432,726 thousand. The increase is significantly lower from the recorded negative free cash flow. The aforesaid figures and the planned and expected free cash flow indicate – as well the reduction of non-optimal inventory level due to the relocation of production facilities – that the Gorenje Group's financial liabilities will accordingly decline by the year end. The Group therefore estimates that the level of indebtedness by year end 2013 will decrease due to seasonally driven movements in free cash flow, which is presented in the graph below:



\*Source: the Company.

**Net financial liabilities** (measured as the difference between total financial liabilities and cash and cash equivalents) amounted to EUR 431,639 thousand on 30 June 2013 and increased by EUR 7,279 thousand, compared to the equivalent period on 30 June 2012, when net financial liabilities amounted EUR 424,360 thousand. Net financial liabilities on 30 June 2013 indicate an increase of EUR 52,401 thousand compared to the 31 December 2012 balance (EUR 379,238 thousand) due to unfavourable movement of free cash flow, which is primarily the result of ordinary seasonally movement, as well as of completing the production re-location process.

At 30 June 2013, long term financial liabilities amounted EUR 265,358 thousand, representing 58.1% in the total financial liabilities structure, which is 0.8 % less than at the end of the previous year's comparable period. Maturity structure of financial liabilities on 30 June 2013 worsened by 5.9 % compared to the balance on 31 December 2012. This decline is attributable to the seasonally driven financing of net working capital in the first half-year, predominantly by means of current financing sources. Investments and other expenses relating to the production re-location process had a significant impact as well.

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		(audited)		(unaudited)	
	(EUR in thousand)				
Long term financial liabilities .....	260,932	302,459	276,880	268,042	265,358
Short term financial liabilities .....	223,015	181,649	155,846	186,957	190,982
<b>Total financial liabilities .....</b>	<b>483,947</b>	<b>484,108</b>	<b>432,726</b>	<b>454,999</b>	<b>456,340</b>
Cash and cash equivalents .....	87,728	101,620	53,488	30,639	24,701
<b>Net financial liabilities .....</b>	<b>396,219</b>	<b>382,488</b>	<b>379,238</b>	<b>424,360</b>	<b>431,639</b>

\*Source: the Company.



## Information on any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, Gorenje operations

As at the date of this Prospectus, there are no restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, Gorenje operations.

## The current and projected financial picture of the Gorenje Group by the end of 2013 and beyond

In preparing the Gorenje group's business plan for 2013, the Group have taken into account that 2013 will be difficult due to challenging market conditions and increased investments as a result of the production re-location process (investments in the year ended 31 December 2013 assumed in the Gorenje Group business plan for 2013 were approximately EUR 20,000 thousand higher than usual). Since all of these impacts the Group's level of debt, the Group took a proactive approach to debt management in the second half of 2012.

Gorenje was prepared for the planned negative trend of free cash flow in 2013 and being able to repay loans that matured as well as other liabilities. Long-term loans are repaid regularly and partly refinanced, while short-term loans are being regularly renewed. Furthermore, in 2013 the Group issued gross total commercial papers of EUR 24,200 thousand – a short-term funding – which diversified the sources of funding. The Group is planning an additional commercial papers issue in the future, primarily for the financing of seasonally driven working capital needs and also refinancing other short term borrowing. The Group have a very clearly defined debt management plan for the entire Group for this and following year. The main highlights are as follows:

**Table: Gorenje Group – Sources for repayments of the current portion of long-term loans (CPLTL) in 2013.**

Source	2013	Cumulative gap
	<i>(EUR in thousand)</i>	
CPLTL repayments required in the year (per 30 June 2013) .....	-111,400	-111,400
Cash per 31 December 2012 for repayments of CPLTL in 2013 .....	10,000	-101,400
Utilized LTL in 2013 (until 30 June 2013) .....	39,300	-62,100
Divestment in 2013 (until 30 June 2013) .....	22,000	-40,100
Utilized LTL in July 2013 .....	2,800	-37,300
In 2012 approved LT loan (unutilized part for second half of 2013) .....	3,400	-33,900
LT facilities (approved and utilized in September 2013) .....	30,000	-3,900
Divestment (expected cash inflow in until the year end 2013) .....	3,100	-800

*\*Source: the Company.*

The current portion of long-term loans (“CPLTL”) to be repaid in 2013 amount to EUR 111,400 thousand. The sources for repayment are already determined. By the first half of 2013, repayment of CPLTL had been covered by positive cash balances from the end of 2012, through the utilisation of new long-term loans in the amount of EUR 39,300 thousand and cash inflows from divestment in the amount of EUR 22,000 thousand. After the repayment of CPLTL in first half of 2013, the Group has on disposal additional liquidity reserve in amount of EUR 4,900 thousand in the form of cash on accounts or un-utilized revolving facilities. Until 31 August 2013 the Group repaid EUR 66,200 thousand of CPLTL. Due to the fact that the five year EUR

30,000 thousand long-term loan was already approved in September 2013, the Group ensured repayment and partly also refinancing of the whole required CPLTL amount of EUR 111,400 thousand for 2013.

The Group's free cash flow (narrow) by the end of 2013 is estimated at EUR -15,394 thousand, which is also affected by non-recurring, mainly non-cash items. Based on that estimation and the free cash flow in the first half of 2013, being EUR - 56,000 thousand, the Group estimate positive free cash flow in the second half of 2013 of approximately EUR 41,300 thousand. The estimated positive cash flow is in line with traditional seasonality, and is based mainly on working capital movements in the second half of the year. As a result, total financial liabilities as well as borrowings at 31 December 2013 should decrease accordingly.

The Group are already conducting debt management activities for 2014. Long-term loans in the amount of EUR 141,300 thousand to be repaid in 2014 are going to be repaid regularly and partly refinanced, while short-term loans are going to be regularly renewed.

In the first quarter of 2014 the Group will have to repay EUR 18,000 thousand of the CPLTL, in the second quarter of 2014 EUR 27,400 thousand, with the biggest portion of EUR 72,900 thousand to be repaid in the third quarter of 2014 (part of which is the so-called *Schuldschein* assignable loan (EUR 50,000 thousand)), and the rest in the fourth quarter. The Group already has at its disposal portion of the funds required for the repayments of CPLTL in 2014 namely an approved non-utilized long-term loan of EUR 11,600 thousand. The Group will acquire the remaining funds for the repayment of CPLTL in year 2014 also from divestments. The Group is planning divestment in the amount of at least EUR 10,000 thousand by 2014, and potential additional divestments of its share in some portfolio companies.

For repayments of CPLTL, proceeds from the Offering of EUR 29,500 thousand will also be partly used (see section *"Use of Proceeds"* – *"Proceeds from the Offering"*) and (new long-term loans that are already in discussion with the banks). In addition, as a result of the third increase of the share capital step (see section *"Use of Proceed"* – *"Shareholders Meeting dated 23 August 2013"* – *"Third increase of the share capital"*), certain CPLTL should be redeemed in the exchange of new, ordinary, freely transferable shares of the Company to be issued in the third increase of the share capital (debt-to-equity swap). Additionally the Group had as at 30 June 2013 on disposal EUR 55,800 thousand of non-utilized revolving facilities from the total approved amount of EUR 89,300 thousand revolving facilities that could be also used for the CPLTL repayments but with the change in the maturity profile of financial debt. In the first quarter of 2014 the Group intends to again issue commercial papers in a similar amount as a 2013 issue, i.e. a gross total of EUR 24,200 thousand. Therefore the Group believes that more free cash flow will also be available for repayments of CPLTL in 2014.

**The table below presents a summary of the Group's outstanding borrowings as of the dates indicated.**

EUR in thousand	Short-term			Long-term			Total
	Date	EUR	Other currencies	EUR	Other currencies	Total	
				(unaudited)			
30 June 2013.....	169,566	17,330	186,896	263,901	70	263,971	450,867
31 December 2012.....	145,803	4,113	149,916	275,501	74	275,575	425,491
30 June 2012.....	166,803	14,597	181,400	266,317		266,317	447,717
31 December 2011.....	153,779	16,010	169,789	300,776		300,776	470,565
31 December 2010.....	172,064	35,631	207,695	253,744	20	253,764	461,459

\*Source: the Company.

### ***Credit and guarantee facilities***

The Gorenje Group has currently opened guarantee agreements with several banks. Gorenje Group divides guarantee agreements (letters) in 2 main categories: payment and performance guarantees.

Payment guarantees include: advance payment guarantees, payment guarantees and customs guarantees. Performance guarantees include: bid bonds, performance guarantees and warranty guarantees. Most of the guarantee utilisation originates from the non-core businesses of Business Segment Ecology and Business Segment Portfolio Investments. Gorenje Group has currently opened guarantee agreements with 13 bank groups from Slovenian and non-Slovenian banks.

Group's loan portfolio consists of 30 bank groups, mainly non-Slovenian established bank groups. Main bank groups and other financial partners that financing Gorenje Group are: Deutsche Bank (agent), Societe Generale, Sberbank, International Finance Corporation and SID banka d.d. With this diversification the Group optimises loan structure, loan margins as well the risk of dependency from single bank group decisions in aspect of potential exposure withdrawals. The Group is permanently expanding the portfolio of bank groups, also from the non-eurozone area.

On 30 June 2013 the Group had EUR 450,867 thousand of utilised borrowings. The borrowings structure was as follows: 58.5% of long term borrowings and 41.5% of short term borrowings. Weighted average nominal interest rate (including reference interest rate) for all borrowings of the Group as per 30 June 2013 was 4.18%. Group's loans are without pledges – only financial covenants and *pari passu* negative pledge clauses are supporting the facilities and are mostly determined in long-term loan agreements. In its borrowings portfolio the Group has 5 bank loans that either are at, or exceed the borrowed amount of EUR 30,000 thousand. See section “*Business*” – “*Material Agreements*”.

Financial covenants under 5 bank loans which are or exceed the borrowed amount of EUR 30,000 thousand are described below.

#### ***Financial covenants under IFC loan agreement***

The IFC loan agreement contains the following financial covenants:

<b>Financial Covenants</b>	<b>Formula</b>	<b>Condition for the year 2013</b>
Liabilities/TNW ratio	Liabilities / Tangible Net Worth	< 3.5
Net Financial Debt/EBITDA	(Financial Debt – Cash and Cash equivalents) / EBITDA	< 3.5
Tangible Net Worth	Tangible Net Worth = Equity – Minority Interest – Intangible Assets – Deferred Tax Assets	> EUR 200,000 thousand
Current ratio	(Current assets – Prepaid Expenses) / Current Liabilities	> 1.1

*\*Source: the Company.*

The above-stated financial covenants are measured quarterly, on the basis of un-audited quarterly and audited annual consolidated financial statements of the Group.

The covenants Net Financial Debt/EBITDA and Liabilities/TNW ratio were breached in 2012, but the Company received waivers for 2012. The same covenants were breached in the first quarter and the second quarter of 2013. The Company has approached IFC, UniCredit Bank, Societe Generale and Bawag with the waiver request, in line with the agreed procedure. As at the date of this Prospectus, the Management Board believes that the waiver for breach of Net Financial Debt/EBITDA and Liabilities/TNW ratio for the first

quarter and the second quarter of 2013 will be obtained from IFC, UniCredit Bank, Societe Generale and Bawag in line with the past practice.

***Financial covenants under NLB and SID loan agreement***

Financial covenants, agreed under NLB and SID loan agreement are as follows:

<b>Ratio</b>	<b>Formula</b>	<b>Condition</b>
Financial Debt Ratio	Net financial liabilities / EBITDA	< 4
Interest Cover Ratio	EBITDA / Net interest expenditures	> 4
	Equity (Ownership interest) – Minority interest	> 220 million EUR
	Net financial liabilities / Equity (Ownership interest) –Minority interest	< 1.2

*\*Source: the Company.*

The above stated financial covenants will be measured annually, on the basis of audited consolidated financial statements of the Group.

As at the date of this Prospectus the Company is not in the breach of financial covenants under this loan agreement.

***Financial covenants under Deutsche Bank agreements***

Financial covenants, agreed under Deutsche Bank agreements are as follows:

<b>Ratio</b>	<b>Formula</b>	<b>Condition</b>
Financial Debt Ratio	Net financial liabilities / EBITDA	< 4
Interest Cover Ratio	EBITDA / Net interest expenditures	> 5
	Equity (Ownership interest) – Minority interest	> 220 million EUR
	Net financial liabilities / Equity (Ownership interest) –Minority interest	< 1.2

*\*Source: the Company.*

The above stated financial covenants are measured annually, on the basis of audited consolidated financial statements of the Group.

The covenants Financial Debt Ratio and Interest Cover Ratio were breached for the year ended 31 December 2011 and the year ended 31 December 2012. The Company received respective waivers from Deutsche Bank AG for both years 2011 and 2012.

As at the date of this Prospectus the Company is not in the breach of financial covenants under this loan agreement.

***Financial covenants under Sberbank loan agreement***

Financial covenants, agreed under Sberbank loan agreement are as follows:

<b>Ratio</b>	<b>Formula</b>	<b>Condition</b>
Financial Debt Ratio	Net financial liabilities / EBITDA	< 4
Interest Cover Ratio	EBITDA / Net interest expenditures	> 5
	Equity (Ownership interest) – Minority interest	> 220 million EUR
	Net financial liabilities / Equity (Ownership interest) –Minority interest	< 1,2

*\*Source: the Company.*

The above stated financial covenants are measured annually, on the basis of audited consolidated financial statements of the Group.

The covenants Financial Debt Ratio and Interest Cover Ratio were breached for the year ended 31 December 2012. The Company received respective waivers from Sberbank for 2012.

As at the date of this Prospectus the Company is not in the breach of financial covenants under this loan agreement.

### **Divestment**

Historically, the Group's capital requirements have been funded primarily through a combination of cash generated from the Group's operations, and borrowings. With the Strategic Plan, the Group also launched the divestment project, wherein it was decided to dispose of some underperforming assets, as well as the share in Istrabenz Gorenje, the energy company. In the period between 2010 and 30 June 2013, the Group divested assets and shares in total sales value of EUR 53,900 thousand. The largest of these were: the share disposal in Istrabenz Gorenje; the sale of business distributions centres in Ljubljana, Zagreb and Prague, and office premises in Moscow and Paris. In the first half 2013 the Group also divested the production location in Vara, Sweden and disposal of the production location in Lahti, Finland is in its final stage. Therefore, in subsequent periods the Group will not have any additional costs related to closed production locations being part of the production re-location processes.

As of 1 January 2014, the Updated Strategic Plan integrates Business Segment Ecology and Business Segment Portfolio Investments into one common segment – Business Segment Portfolio Investments. The Group intends to focus on its core business. In its non-core business, the Group will carefully analyse all possibilities for divesting companies within Business Segment Portfolio Investments.

## Working capital

The table below presents a breakdown of working capital as of the dates indicated.

	Year ended 31 December			Six-month period ended	
	2010	2011	2012	2012	2013
		(audited)		(unaudited)	
	<i>(EUR in thousand)</i>				
Trade receivables.....	306,284	255,911	218,516	272,392	225,084
Inventories.....	257,593	245,608	247,365	255,033	267,003
Other current assets.....	59,712	49,857	94,221	50,966	77,875
<b>Total.....</b>	<b>623,589</b>	<b>551,376</b>	<b>560,102</b>	<b>578,391</b>	<b>569,962</b>
Trade payables.....	237,020	194,248	212,430	171,189	183,123
Other current liabilities.....	109,596	92,612	87,492	94,294	95,538
<b>Total.....</b>	<b>346,616</b>	<b>286,860</b>	<b>299,922</b>	<b>265,483</b>	<b>278,661</b>
Networking capital.....	276,973	264,516	260,180	312,908	291,301

\*Source: the Company.

At 30 June 2013, the balance of net working capital is recorded at EUR 291,301 thousand, which is EUR 21,607 thousand lower compared to the previous year's equivalent period.

Compared to the 30 June 2012, trade receivables decreased by EUR 47,308 thousand at the end of 30 June 2013. The primary reason behind this result lies in the launch of the permanent non-recourse factoring program in two companies in Western Europe, in an average amount of approximately EUR 20,000 thousand, and its costs are lower than the Group's average costs of financing as well as the credit management improvement.

Compared to the 30 June 2012 balance, inventories grew by EUR 11,970 thousand, in particular inventories of products and merchandise. This increase in product inventories is the result of the movement of:

- emergency stocks of products manufactured due to already transferred production processes (washing machine and dryer production from Vara, Sweden to Velenje, Slovenia, and the production of refrigerator-freezer appliances (600 mm) from Velenje, Slovenia to Valjevo, Serbia);
- completion of the emergency stock of products due to relocation of the dishwasher programme from Vara, Sweden to Velenje, Slovenia. The production in Vara, Sweden was halted on 30 June 2013;
- diseconomies of scale in inventories at the production facility in Valjevo, Serbia as a result of establishing the economic working of production processes.

It is essential that inventories of material and raw materials achieve roughly the level of the comparable period of 2012. In addition to the production re-location process, the balance of inventories is attributable also to the slightly lower demand on certain Western European markets, as well as the required seasonally-conditioned increase in inventories for following months, when sales usually grow compared to the first half-

year. Inventories are expected to be optimised as soon as in the third quarter and the fourth quarter of 2013, as the effect of completed production re-location process.

Compared to 30 June 2012, trade payables grew by EUR 11,934 thousand following a payment terms extension policy, as well as longer payments terms at the Velenje plant compared to the Valjevo plant, again due to the production re-location process.

## Capital expenditures

The Group's business is capital intensive and requires significant capital expenditures, primarily with respect to production equipment. The Group's capital expenditures were EUR 44,668 thousand, EUR 47,468 thousand and EUR 60,744 thousand in the year ended 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

In the year ended 31 December 2010, the Group's capital expenditures principally consisted of investments in new products: the new generation of cooking appliances project (603 and SPK-A), new generation of washing and drying machines (6-9 kg), cooling appliances Combi 750 etc., and the moving of the production of heating appliances (boilers) from Slovenia to Serbia.

In the year ended 31 December 2011, the Group's capital expenditures principally consisted in the culmination of on-going projects in new products investments: the new generation of washing and drying machines (6-9 kg), and the Combi 750 cooling appliances. The Group moved the varnishing equipment and the launch of the hobs production line to Mora Moravia in the Czech Republic. Also in 2011, the Group invested in acquisition of a location in Zaječar, Serbia (land and buildings) where it established the Gorenje HOME Zaječar production subsidiary and opened the washing machine assembly line. The Group also moved the production of bathroom furniture to Zaječar, Serbia.

In the year ended 31 December 2012, the Group's capital expenditures were primarily in relocating the production of Asko cooking appliances from Lahti, Finland, to Mora Moravia, Czech Republic, tumble dryers and dishwashers from Vara, Sweden to Velenje, Slovenia, and the starting of the project of new generation built-in ovens, and the construction project of the new plant in Valjevo, Serbia for manufacturing refrigerator-freezer appliances.

In the six-month period ended 30 June 2013, the Group's capital expenditures of EUR 32,138 thousand were EUR 18,381 thousand higher than in the same period of 2012. They were primarily made in the production relocation of the ASKO tumble dryers and dishwashers from Vara, Sweden to Velenje, Slovenia, for preparing the locations for manufacturing cooking appliances, and for the project of relocating washing machine production from Vara, Sweden to Velenje, Slovenia. Moreover, investments were made in the development and manufacture of new products (built-in ovens project), a new refrigerators and freezer production facility in Valjevo, Serbia and the equipment for manufacturing refrigerators and freezer appliances (600 mm).

The table below presents certain information on the Group's capital expenditures for the periods indicated.

	Year ended 31 December			Six-month period ended	
	2010	2011	2012	2012	2013
		(unaudited)		(unaudited)	
	<i>(EUR in thousand)</i>				
Machinery and equipment .....	23,288	25,711	28,644	7,038	18,547
Buildings .....	10,450	8,756	18,804	2,932	9,171

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
		(unaudited)			(unaudited)
	<i>(EUR in thousand)</i>				
Land.....	271	564	219	218	0
Furniture and fittings .....	1,141	2,270	2,234	745	524
Other.....	9,518	10,167	10,843	2,824	3,896
<b>Total.....</b>	<b>44,668</b>	<b>47,468</b>	<b>60,744</b>	<b>13,757</b>	<b>32,138</b>

\*Source: the Company.

The following table presents the Group's capital expenditures by business segments for the periods indicated.

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
	(unaudited)	(audited)	(audited)	(unaudited)	
	<i>(EUR in thousand)</i>				
Home.....	36,706	42,433	54,573	10,901	29,512
Ecology .....	5,935	3,692	4,176	1,929	1,560
Portfolio Investments.....	2,027	1,343	1,995	927	1,066
<b>Total revenues.....</b>	<b>44,668</b>	<b>47,468</b>	<b>60,744</b>	<b>13,757</b>	<b>32,138</b>

\*Source: the Company.

As at the date of this Prospectus, the Issuer has no future investments on which the Management Board already made firm commitments.

## Contingent liabilities

### Year ended 31 December 2010

The Group's contingent liabilities from guarantees and collaterals given to financial institutions and companies outside of Gorenje Group amounted to EUR 22,218 thousand as at 31 December 2010. In line with the common business practices prevailing at the corporate headquarters of the company, the subsidiary company ATAG is not required to publish the annual results of operations based on a special statement of the shareholder, by which the shareholder shall assume liability for any unpaid and outstanding obligations of the company. The respective statement remains in effect until countermanded by the shareholder.

### Year ended 31 December 2011

The Group's contingent liabilities from guarantees and collaterals given to financial institutions and companies outside Gorenje Group amounted to EUR 31,101 thousand as at the reporting date.

In accordance with ordinary business practice, the subsidiary company ATAG is not required to publish its annual results of operation in the country of its corporate headquarters, 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.

**Year ended 31 December 2012**

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

In accordance with ordinary business practice, the subsidiary company ATAG is not required to publish its annual results of operation in the country of its corporate headquarters, 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.

**Six-month period ended 30 June 2013**

The Group's contingent liabilities from guarantees and collaterals given to financial institutions and companies outside the Gorenje Group amounted to EUR 32,053 thousand.

In accordance with ordinary business practice, the subsidiary company ATAG is not required to publish its annual results of operation in the country of its corporate headquarters, 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.

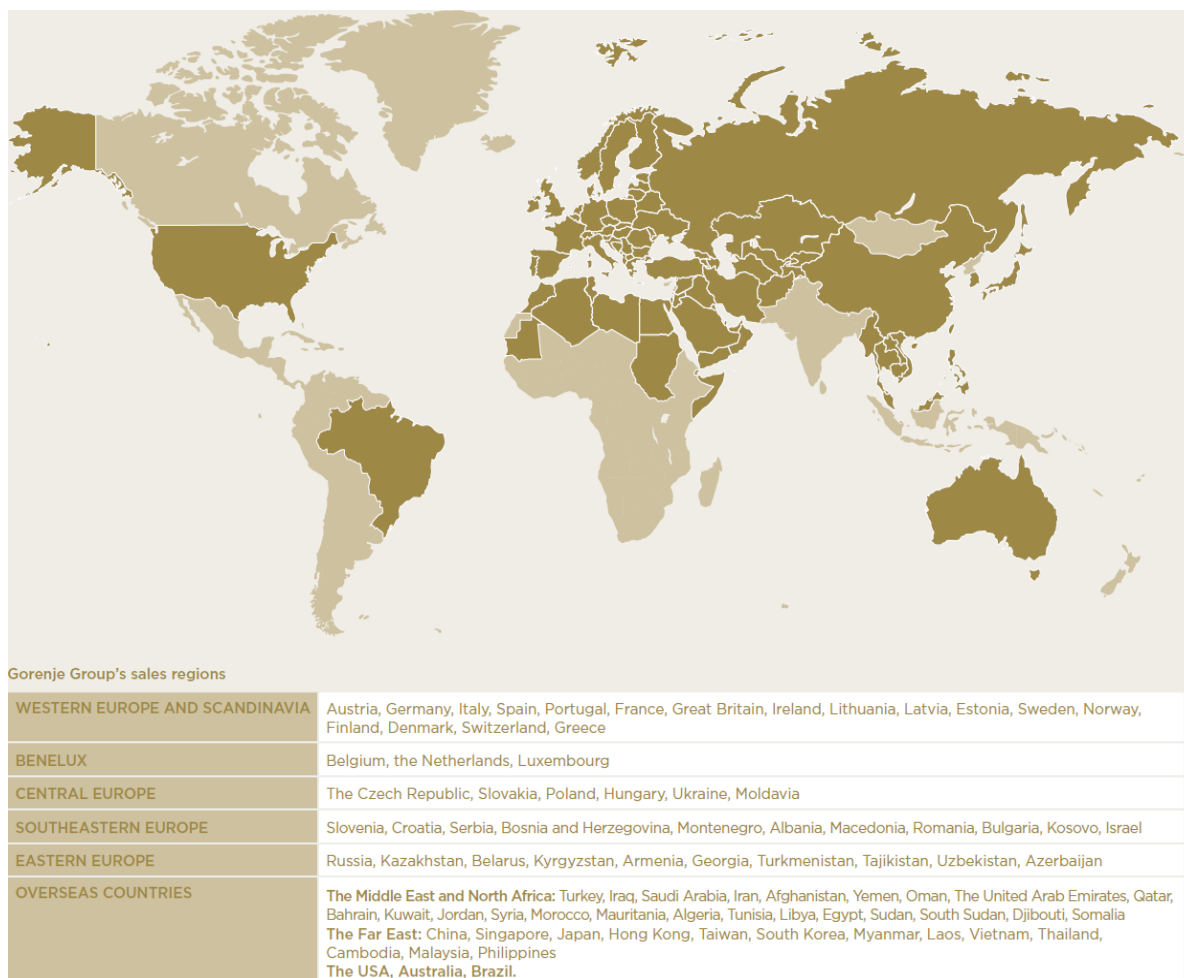
## INDUSTRY OVERVIEW

This section describes the global and European major domestic appliances (the “MDA”) market. Information in this section is sourced from both the Group and from independent data sources.

### Introduction

The majority of the Gorenje Group’s revenue on its core domestic appliances and services activity, or just under 85% of total Group revenue in 2012, is generated by sales to more than 90 markets around the world. Ninety percent of this revenue comes from Europe, although Australia, the United States and the United Arab Emirates are also important markets for the Group.

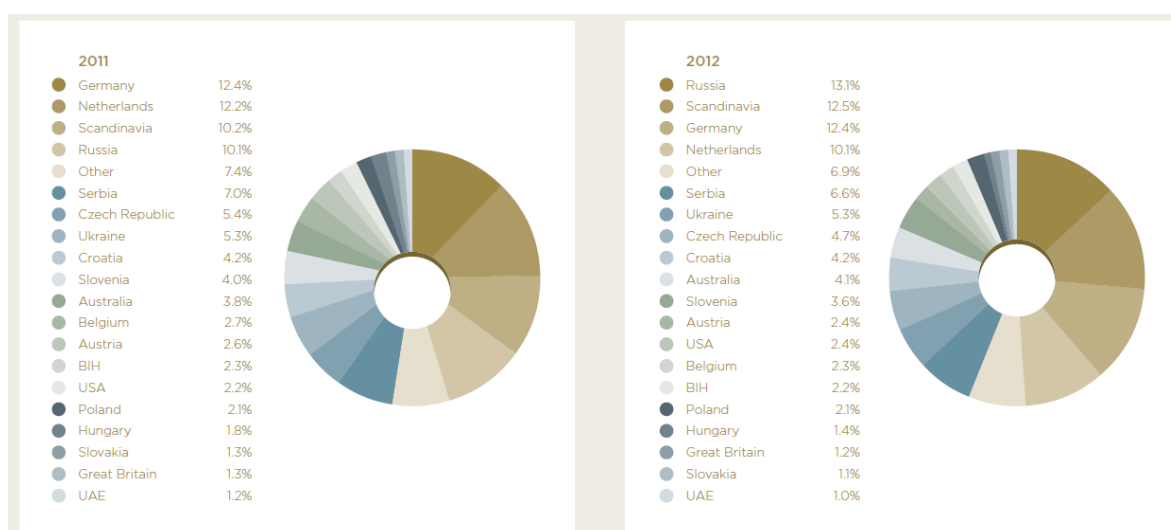
The map below presents the Group’s sales regions.



\*Source: the Company.

The Group’s most important markets are Russia, Germany, the Netherlands and the Nordic countries, followed by smaller Central, Southeast and Eastern European countries. Western Europe, including Benelux, remains the Group’s most important region in terms of generated revenue, accounting for 42% of Group sales in 2012. South-eastern Europe is second, with a 20% share, while Central and Eastern Europe each account for around 15% of Group revenue. Overseas countries contribute the remaining 9%.

The graph below presents revenue by country.



\*Source: the Company.

The Gorenje Group's market share by volume stands at around 2% in Western Europe and around 8% in Eastern Europe, with a total European market share of 3%. The Group enjoys the highest market share in South-eastern Europe, particularly Slovenia, Croatia and Serbia, where it holds more than 30% of the market. Other regions where the Gorenje Group has achieved a significant market share are Central and Eastern Europe, and Benelux and Scandinavia. Its success in the latter two can be particularly attributed to the strength of the Group's ATAG and ASKO brands.

### The global MDA market

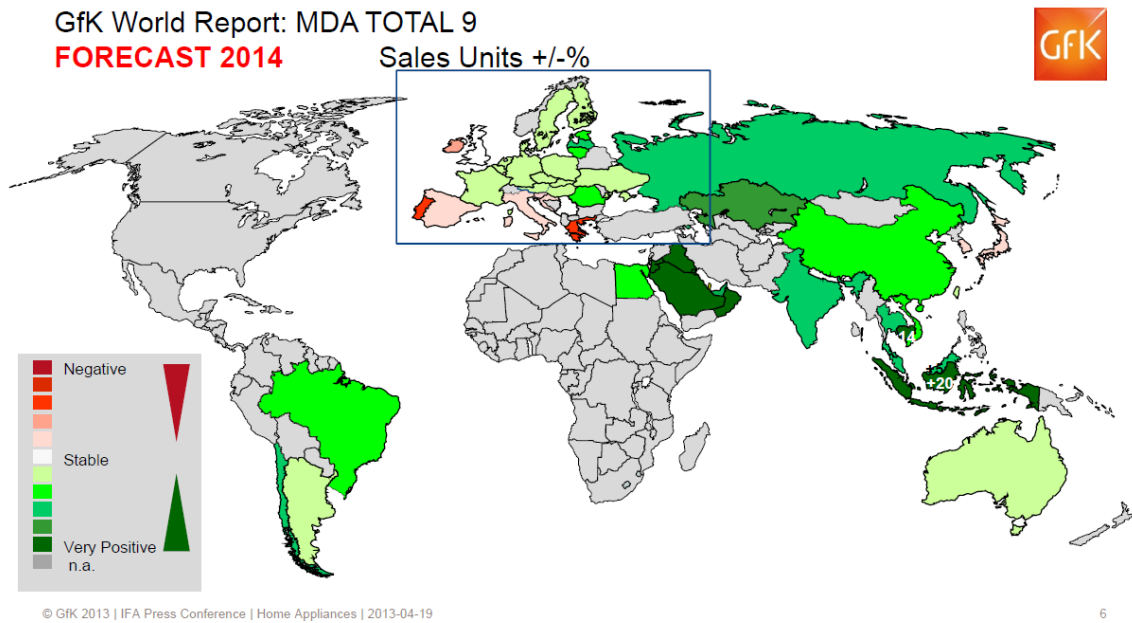
Total sales revenue for the global MDA market in 2012 is estimated at between EUR 150-160 billion, which represents around 460 million dishwashers, washing machines, ovens and refrigerators (amongst other MDAs, or 'white goods') sold.

The global MDA market is highly competitive, with Whirlpool, Electrolux, the Haier Group, BSH and LG Electronics accounting for almost 50% of global sales, as well as producers such as Gorenje, Arcelik, Panasonic, Samsung and Indesit, who generate the majority of their sales regionally. Moreover, in recent years, the Asian manufacturers have been increasing their shares in the European, North American and Australian markets.

Capital intensity and strong market competition have led to a high degree of consolidation, as producers have attempted to reduce costs through economies of scale. As a result, most established domestic appliances manufacturers are multi-nationals with decades of market experience and highly recognisable brands.

Growth of the MDA market largely depends on its maturity and the growth of disposable income, with the majority of global MDA market growth currently coming from the emerging markets.

The map below presents the GfK 2014 forecast for MDA9 volume sales.



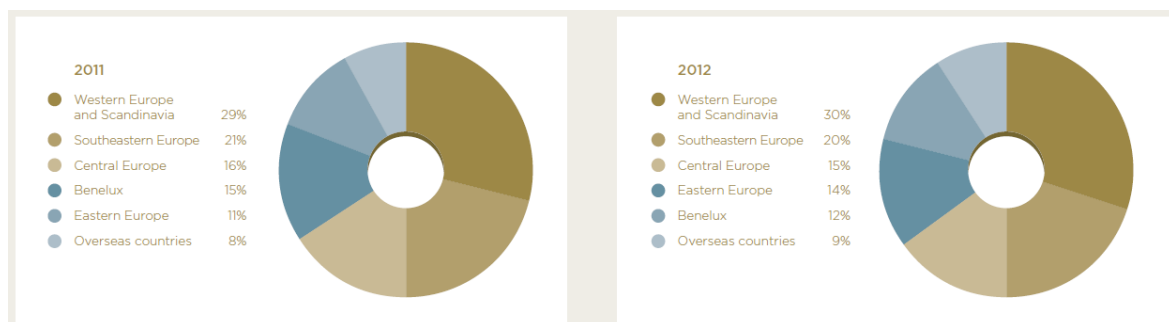
\*Source: 19 April 2013 GfK IFA Press Conference.

In 2013, market research analysts GfK forecast global MDA market growth of 4%. For 2014, the highest growth is forecast for South America, Asia and Russia. Central, Western and Northern Europe are expected to grow moderately, whereas the South European markets are expected to contract further.

### The European MDA market

The Gorenje Group generates more than 90% of its revenue in Europe. Western Europe remains the Group's most important market, followed by South-eastern Europe, Central and Eastern Europe.

The graph below presents Gorenje Group sales revenue by region.



\*Source: the Company.

The European MDA market represents around 30% of the global market in value terms, and in 2012 was worth EUR 47bn. It is dominated by a small number of large producers with market shares above 6%. These are BSH, Electrolux, Indesit and Whirlpool, which control more than 50% of the European market between them.

## **Western Europe, including Benelux and Scandinavia**

Together with North America, Western Europe is the most mature MDA market. Growth in this region is lower relative to the global market (which in 2012 saw value growth of 3.5%), although the Western European MDA market remains one of the largest in the world: its EUR 37bn total sales in 2012 represented 23% of the world market and 80% of the European market for dishwashers, home laundry, large cooking and refrigeration appliances. The United Kingdom is one of the few Western European markets where MDA sales have experienced significant growth in the last couple of years. In contrast, other markets, such as Spain, Italy, Portugal, Ireland, Greece, Benelux and the Scandinavian countries saw significant contraction in 2012, down to 19% in volume terms. Of all the MDA market's segments, the built-in appliances segment is expected to experience the highest growth in Western Europe.

Germany is the largest MDA market in Europe, accounting for 18% of all European MDA sales, with EUR 8.2bn in sales in 2012. Germany's MDA market is one of the few not to have suffered as a result of the financial and economic crisis, and has in fact experienced positive value and volume growth since 2010. For the Gorenje Group, Germany is one of its most important markets. Over the last 6 years, the Group has managed to establish Gorenje as the most popular non-German MDA brand in Germany, which in 2012 generated 12.4%, or more than EUR 100m of the Group's total revenue.

Household MDA penetration rates in Western Europe are above 90% for cookers, refrigerators and washing machines, above 40% for tumble-driers and above 10% for air-conditioners. With such high penetration, market demand is mainly driven by replacement rates.

## **Central Europe**

In 2012, home appliance sales in this region were pressured by a slump in appliance prices, resulting from the aggressive pricing policies of the MDA manufacturers. In terms of volume, the home appliance market saw a minimal increase relative to the year before, while at the same time sales value declined. In the Czech Republic, for example, the number of appliances sold was 4% higher than in 2011, while the value of those sales was nearly 3% lower. A similar development was observed in Slovakia, while in Hungary the appliance market shrank and the Ukraine saw modest growth. In 2013 the Central European MDA market is expected to grow 2%.

In the long term, Central European markets are expected to grow at a faster rate, relative to Western Europe. Although penetration rates for most types of MDA appliances are high in Central Europe, a large replacement market is developing in the region, as increases in disposable income are driving household investments in replacement appliances. Similar developments are also being seen in South-eastern and Eastern Europe.

## **South-eastern Europe**

Due to the long-time presence of the Gorenje Group in the region, the company has a dominant 30%+ position in most markets, apart from Romania, Bulgaria and Albania. Currently, growth in these markets is limited by harsh economic conditions. The most acute slump has been seen in Croatia, where lower purchasing power causes end buyers to increasingly favour less expensive appliances. The Gorenje Group responded to this decline in household purchasing power by introducing the Körting brand, which is already marketed in several other countries in the region. These low-priced appliances are designed to meet the shifting demand from more expensive, to budget appliances.

## **Eastern Europe**

The Eastern European region includes 10 countries, spanning most of the territory of the former Soviet Union. Russia is the largest of these, both geographically and in terms of MDA sales value. Its MDA market grew by 13% in 2012, making it one of the fastest-growing MDA markets in the world. The Gorenje Group generated 13.1% of its 2012 sales revenue in Russia, which makes it the single most important market for the Group.

In 2012, GDP growth in the region was similar to the 2011 figure, at around 4%, while macroeconomic forecasts for 2013 are also promising. Economic growth is expected to continue and forecasts are also favourable for the home appliance market, where sales volumes are expected to see a 10% rise.

Similarly to Western Europe, Central, Eastern and South-eastern Europe have market penetration rates above 90% for cookers, refrigerators and washing machines, whereas tumble dryers have a penetration rate below 10%.

### **Overseas markets**

In the current Group strategy, the most important overseas target for future development remains Australia, where the Gorenje Group's presence is represented by the ASKO brand, mainly in the wet appliance segment (washing machines, dryers and dish-washers). Other significant markets are the United States and United Arab Emirates.

Conditions on overseas markets differ significantly from country to country. North Africa and the Middle East, for example, are currently affected by political turmoil in several countries, and Iran, a notable market for the Gorenje Group, has introduced a ban on the importation of white goods. On the other hand, the Group continues to successfully develop its business in countries such as Saudi Arabia, Kuwait, Oman, Qatar and the United Arab Emirates. The Middle Eastern and North African markets are well covered by the Turkish MDA producers, such as Arcelik and Vestel, who are strategically well positioned in these markets due to low production costs and the convenient geographical location of their manufacturing plants.

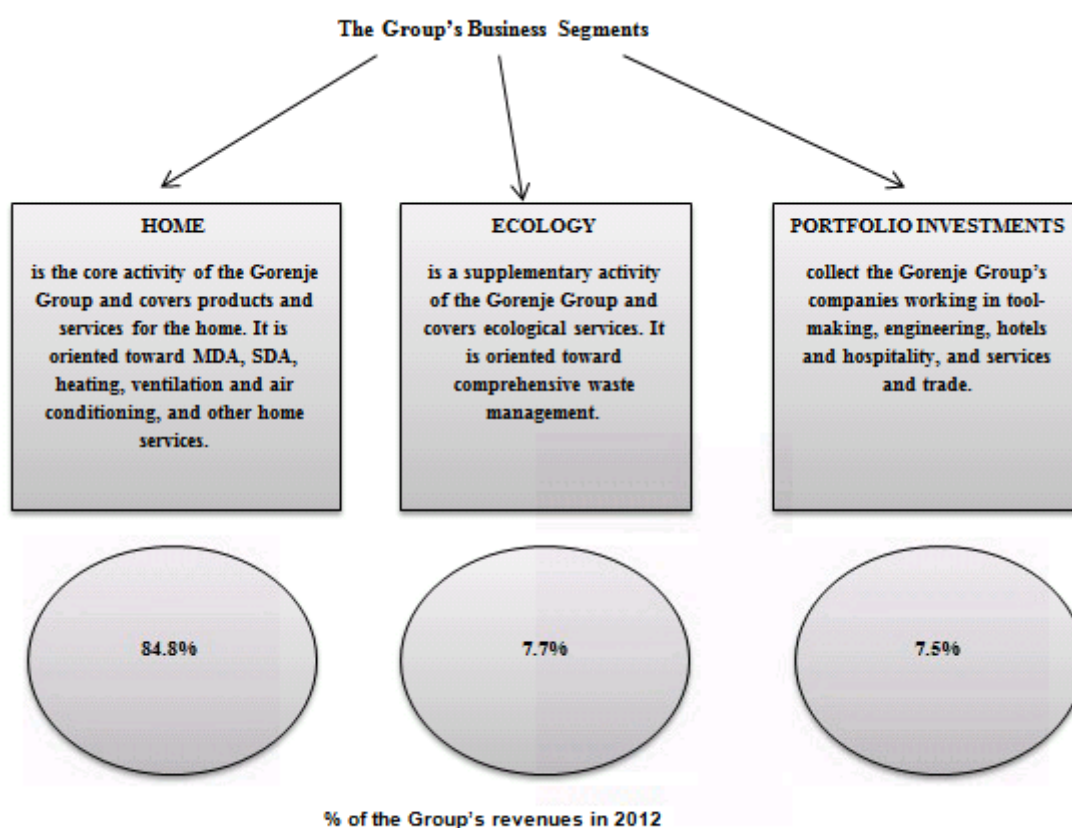
The Far Eastern markets are characterised by increasing demand for Wi-Fi connectivity, cloud computing features and control via smart communication devices. High-capacity washing machines and dryers are also becoming more popular, and energy efficiency is an increasingly important concern too.

## BUSINESS

### Overview

The Group designs and manufactures a wide range of home appliances for residential use, in particular refrigerators, washing machines, dishwashers and cooking appliances. The Group operates in three business segments: Business Segment Home, Business Segment Ecology and Business Segment Portfolio Investments, of which Business Segment Home represents the core activity of the Group and the other two segments are comprised of supplementary services rendered by the Group.

The following chart presents the division of the Group's revenues in 2012 between Business Segment Home, Business Segment Ecology and Business Segment Portfolio Investments.



\* Source: the Company.

\*\*According to the Updated Strategic Plan, as of 1 January 2014 Business Segment Ecology and Business Segment Portfolio Investments will be combined to form business segment portfolio investments.

The Group's business segments were defined this way in 2011, as part of the implementation of the Strategic Plan. In the Strategic Plan, the Group introduced the supplementary business segments, i.e. Business Segment Ecology and Business Segment Portfolio Investments. Prior to implementation of the Strategic Plan, the Group had stratified its business segments as follows: (i) home appliances including cooling, cooking, washing and drying appliances; (ii) home interior including kitchen, furniture, ceramics and bathrooms; and

(iii) ecology, energy and services, including ecology, energy, tools and industry equipment, trade, engineering and agency services, as well as tourism services.

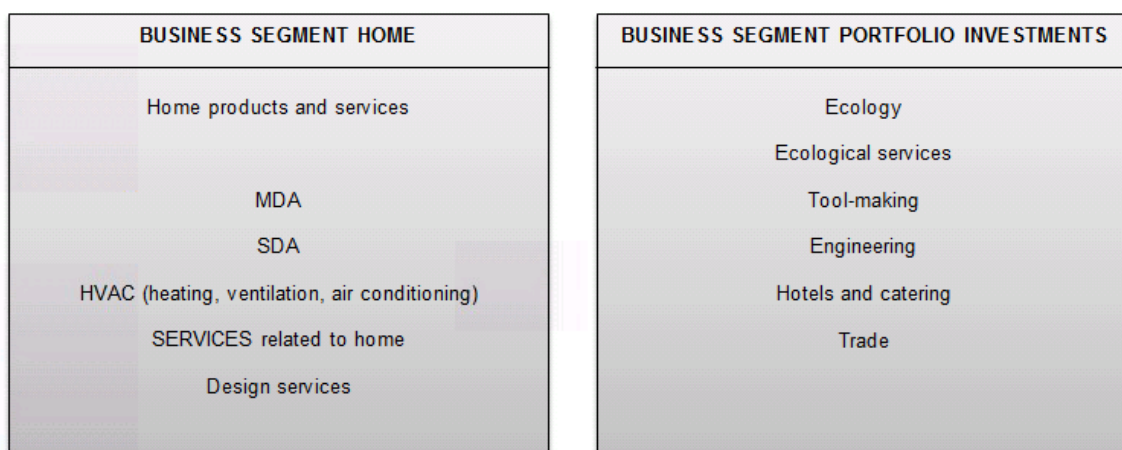
The following tables present the Group's business segments as at the date of this Prospectus.

CORE BUSINESS SEGMENT		SUPPLEMENTARY BUSINESS SEGMENTS	
Business Segment Home		Business Segment Ecology	Business Segment Portfolio Investments
Home products and services			
MDA	Kitchen furniture	Ecological services Total waste management	Tool-making
SDA			Engineering
HVAC (heating, ventilation, air conditioning)			Hotels and catering
SERVICES related to home			Trade
Design services			

\* Source: the Company.

As of 1 January 2014, the Updated Strategic Plan will integrate the current Business Segment Ecology and Business Segment Portfolio Investments into one segment – Business Segment Portfolio Investments. The Group intends to focus on its core business of Business Segment Home. In the area of the non-core business, the Group will carefully analyse all the possibilities for divesting the companies from the business segment portfolio investments or parts thereof. New investments in the non-core business will be made on selective grounds, and only when such investment will create new value or create substantial synergies with the existing business. The following tables present the Group's strategic business segments according to the Updated Strategic Plan (with effect as of January 2014).





\* Source: the Company.

### ***Business Segment Home***

This is the main business segment of the Group, and has more than 60 years of history, It accounted for 73.4% of Group revenue in 2010, 76% in 2011, 84.8% in 2012 and 85.6% in first half of 2013. The Company intends to further develop the importance of this business segment. According to both the Strategic Plan and the Updated Strategic Plan, this segment will remain the core activity of the Group and, by the end of 2018, is expected to account for approximately 90% of the Group's operations.

The Group is building its global market position around its major global brand Gorenje. In 2011 a new concept line "gorenje+" was launched to market built products of the Group. The Company intends to further strengthen the position of those two, well recognised brands and develop marketing of premium global brand ASKO, as well as its local brands. Business Segment Home comprises: (i) production of various major and small domestic appliances, including MDA's (refrigerators and freezers, washing machines, dryers, dishwashers and cooking appliances) and SDA's (microwave ovens, vacuum and steam cleaners, various small kitchen appliances (mixers, stick blenders, juicers, toasters, kettles, irons, etc.); (ii) production of heating appliances, air filtering systems and air-conditioning appliances; and (iii) sales of kitchen furniture, production and sales of ceramic tiles, sales of spare parts accompanied by the product design services.

As at the date of this Prospectus, the Group had a total annual production capacity of 4,665,720 pieces of major household appliances, i.e. 19,770 pieces of major household appliances per day. The Group owns a 93,500 m<sup>2</sup> manufacturing complex located in Velenje, Slovenia, a 43,600 m<sup>2</sup> manufacturing complex in Valjevo, Serbia, a 27,700 m<sup>2</sup> facility in Stara Pazova, Serbia, a 9,300 m<sup>2</sup> manufacturing facility in Zaječar, Serbia and a 45,000 m<sup>2</sup> manufacturing complex in Mora, Czech Republic, as well as other manufacturing and warehouse facilities across Europe. In the third quarter 2013 the Group finished the production relocation process, which started in 2012. After completion of the manufacturing relocation, from September 2013 production is carried out only in Slovenia, Serbia and the Czech Republic.

Research and development department of the Company plays an important role in the process of designing new products, marketing of the brands and optimizing production costs.

The Group has its own wholesale distribution network in most countries where the Group operates and own retail distribution network in Slovenia, Serbia, Bosnia and Herzegovina, Croatia and the Czech Republic. Where the Group has no distribution network, products of the Group are distributed through the third party distributors.

For the years ended 31 December 2010, 2011, 2012, and in the first half of 2013 the Company's operating income was EUR 1,382,185 thousand, EUR 1,386,629 thousand, EUR 1,263,082 thousand, and EUR 590,098 thousand respectively.

### ***Supplementary business segments***

***Business Segment Ecology*** covers the Group's supplementary activity in the scope of the comprehensive waste management in Slovenia and Southeastern Europe. The main company in Business Segment Ecology is Gorenje Surovina, d.o.o., which directly or indirectly holds majority of the ownership in other companies in that business segment.

The second pillar of Business Segment Ecology consists of hazardous waste management, where the Company is collecting, recycling and disposing of hazardous waste, except of radioactive wastes, in environmental-friendly way. As a part of this segment the Group also offers services in the field of municipal waste management.

Revenues of Business Segment Ecology amounted EUR 101,711 thousand (7.4% of total Group's revenue) in 2010, EUR 113,406 thousand (8.2% of total Group's revenue) in 2011, EUR 97,346 thousand (7.7% of total Group's revenue) in 2012, and EUR 46,413 thousand in first half of 2013 (7.9% of the total revenues of the Group).

***Business Segment Portfolio Investments*** covers the Group's supplementary activity products and services in energy and renewable sources of energy. The activity of Business Segment Portfolio Investments is conducted through the Company's ownerships in various Group companies operating in that field. The Group's companies Gorenje Orodjarna, d.o.o. and Gorenje GAIO, d.o.o. have more than 20 years tradition in engineering, development and manufacturing tools and industrial equipment for household and automotive industry across Europe. Within this business segment the Group also offers canteen and catering services, engineering in different business sectors and sell different products and services as authorised dealer for different brands.

Business Segment Portfolio Investments supports activities of the core Business Segment Home, however more than 90.6% of the revenue generated by this segment in 2012 was generated with third party customers.

Revenues of Business Segment Portfolio Investments amounted EUR 265,729 thousand (19.2% of total Group's revenue) in 2010, EUR 219,854 thousand (15.8% of total Group's revenue) in 2011, EUR 94,457 thousand (7.5% of total Group's revenue) in 2012 and EUR 38,708 thousand in the first half of 2013 (6.5% of the total revenues of the Group). The decrease of revenues in this business segment is mainly a result of sale of the participating interest in the company Istrabenz Gorenje, d.o.o., in July 2011 (and thus the winding-up of the energy business segment). Total revenue of Istrabenz Gorenje, d.o.o. amounted to EUR 167,503 thousand in 2010, and in the period January – June 2011 to EUR 104,819 thousand.

## **History**

The major developments in the Group's history are as follows:

### **1950-1960**

Prior to its incorporation as a joint stock company, the Company was established in 1950 as a state owned enterprise, in the village of Gorenje. Initially, the Company was involved

in manufacturing agricultural machinery and building materials. In 1958, Gorenje expanded its operations to include production of solid-fuel cookers. In 1960, the Company relocated its business to the nearby town of Velenje and began construction of a new production facility.

**1961-1970**

During that period, the Company expanded its production to include washing machines and refrigerators. In 1961 the Company began exporting to Germany.

**1971-1980**

This was a period of extensive expansion of the Company's product range to include kitchen units, ceramics, medical equipment, telecommunications devices, TV sets, and other domestic electrical goods. Simultaneously, the first steps were taken to establish a distribution and sales network across Western Europe. To that end, subsidiaries of the Company were established in Germany, Austria, France, Denmark, and Italy.

**1981-1990**

This period was marked by disinvestment of the unprofitable parts of the manufacturing and commercial operations and a refocusing on the core area of household appliances.

**1991-1996**

The Company and its then-subsiidiaries underwent a restructuring process, including transformation from a socialist system (state-owned enterprise) to a privatised company, with preparations for its listing on the LJSE.

With the breakup of Yugoslavia, the Group lost significant shares in its previously domestic market. Therefore, during this period the Company greatly increased its exports. Consequently, subsidiaries of the Company were established in Central and Eastern Europe (the Czech Republic, Hungary, Poland, Bulgaria, and Slovakia), in order to take advantage of the development of new market economies in the region.

**1997-2005**

In 1997 the Company was listed on the LJSE.

During this period, the Company began investing in new products and technology, developing and consolidating its presence in the markets of former Yugoslavia, Eastern, Southeastern and Western Europe, Northern and Central Europe and beyond (Northern America, Australia, the Middle and Far East). This was achieved through intensive investments into increasing production capacity, environmentally friendly modern technologies, new products and entering new markets.

In 2004 the Company acquired Mora Moravia, a cooking appliances manufacturer from the Czech Republic. While investing in and expanding on new markets, the focus was placed on the ecological aspect and on cutting-edge technologies. Since then, the Company's core business activity

## 2006 - 2012

has been in the manufacture of domestic appliances.

In these six years, the Company increased the number of locations of its facilities, and introduced new products.

In 2006, the Company opened a new refrigerator and freezer plant in Valjevo, Serbia. After acquiring the Dutch home appliance provider Atag Europe in 2008, the Group strengthened its position in the Benelux countries and also acquired three new brands: Atag, Etna, and Pelgrim. In 2010 the Company acquired Swedish white goods manufacturer, Asko.

Moreover, acquisitions of ecological companies, including Gorenje Surovina, d.o.o., Kemis-Termoclean, d.o.o., Publicus d.o.o. and other companies within Business Segment Ecology strengthened its position in this segment. Besides acquisitions, the Group has established several new companies the business segment, such as Zeos, d.o.o., Kemis Valjevo, d.o.o., Kemis-SRS, d.o.o., Gorenje Ekologija, d.o.o., Energygore, d.o.o., Ekogor, d.o.o. and other companies within Business Segment Ecology.

The 2006-2012 period was also crucial for the introduction of new products, including: (i) new design lines within the brand Gorenje (Gorenje Pininfarina II, Gorenje Swarovski, Gorenje Ora-Īto, and 'Gorenje by Karim Rashid'); (ii) a new generation of cooking appliances, the innovative 'Gorenje for iPod' fridge-freezer, the Gorenje Retro Collection, and Gorenje Simplicity design lines, and (iii) a new generation of washing machines and dryers, intelligent fridge freezers, Xtreme Power induction hobs, and oven HomeCHEF and Gorenje One product lines.

## Updated Strategic Plan

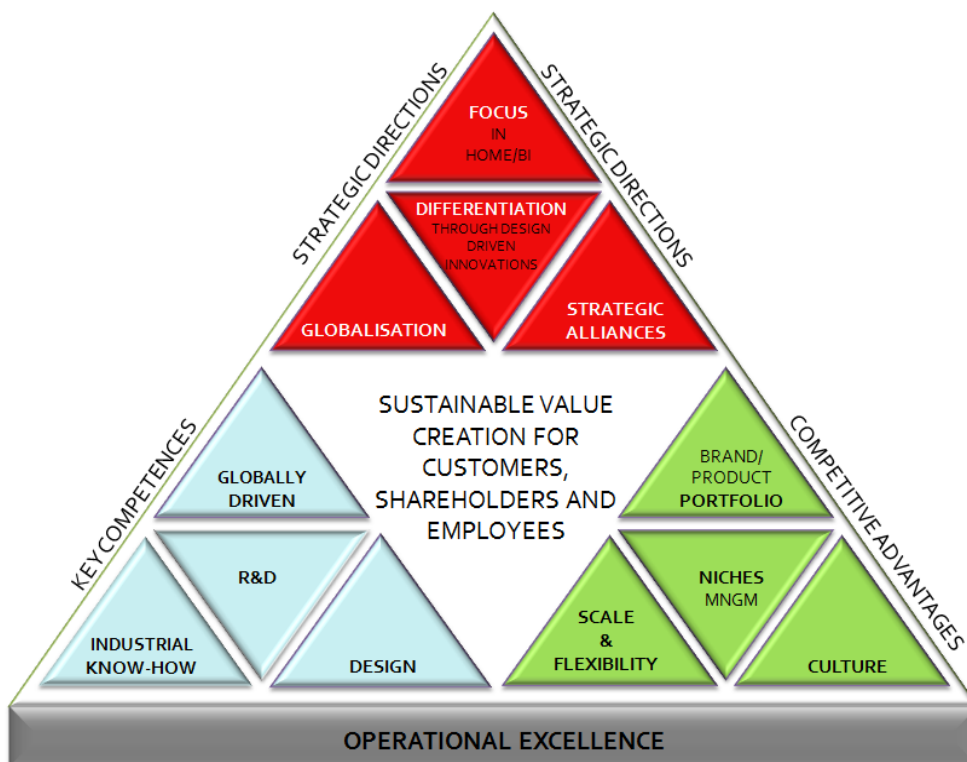
The Updated Strategic Plan was adopted in response to the changes in business environment in which the Group operates and to address important facts that occurred within the Group, such as: (i) completion of production facilities relocation process in September 2013 (see section "*Business*" – "*Relocation of production facilities*"), (ii) divestment of furniture manufacturing; (iii) the Alliance with Panasonic (see section "*Business*" – "*Alliance with Panasonic*") as well as reorganisation and optimisation of its sales structure. The New Strategic Plan provides for several scenarios for the growth of the Group. In the optimistic scenario, the Group expects its revenue to rise with a compound annual growth rate of 6%; in the pessimistic version, the compound annual growth rate is expected at 1%.

As part of the Updated Strategic Plan, the Company intends to:

- increase the importance of the Group's core activity – Business Segment Home – so that revenues from that segment account for more than 90% of all Group revenue by 2018, assuming a reduced

product complexity resulting from the gradual reduction in the types of products manufactured by the Group in this business segment;

- become the world's leading design-driven innovator and manufacturer of home appliances;
- increase the share of the premium brands sales to more than 25% by 2018;
- increase sales outside Europe EUR 40,000 thousand as of first half of 2013 to close to 170,000 thousand in 2018;
- implement a new business model based on the key competences and competitive advantages of the Group, wherein the strategic directions are: (i) a focus on the Group's core business activity; (ii) product differentiation through design-driven innovation; (iii) expanding to selected global markets and megacities, and (iv) developing strategic partnerships;
- enhance corporate governance, organisational structure as well as corporate culture management;
- gradually improve EBIT margin to create long term value for the Company's shareholders and employees;
- achieve positive free cash flow and create short term value for the Company's shareholders and employees; and
- improve debt management by reducing net debt: Net Debt/EBITDA not more than 3.0 from 2015 onwards.



\* Source: the Company.

BUSINESS SEGMENT HOME *		BUSINESS SEGMENT PORTFOLIO INVESTMENT*
<p style="text-align: center;"><b>MDA</b></p> <ul style="list-style-type: none"> <li>• Cooking, Cooling, Washing and Dishwashing appliances.</li> <li>• Europe: focus on profitable markets, new business models in unprofitable markets; Global: sales close to 170 million EUR with a global niche strategy.</li> <li>• Selective, focused, design-driven innovations.</li> <li>• Focus on built-in, design lines and premium segments.</li> <li>• Brands: Cover all segments from budget to premium, different brand strategies.</li> <li>• Consolidate production locations.</li> <li>• Utilising alliance synergies.</li> </ul>	<p style="text-align: center;"><b>SDA</b></p> <ul style="list-style-type: none"> <li>• Faster growth through dedicated resources and specific business model.</li> </ul>	<ul style="list-style-type: none"> <li>• Divestment, keeping profitable companies.</li> <li>• Selective investments in companies with low capital requirements and high profit margins.</li> </ul>
	<p style="text-align: center;"><b>HVAC</b></p> <ul style="list-style-type: none"> <li>• Grow through concentration on advanced heating systems (heat pumps).</li> </ul>	

\* as at 1 January 2014

\* Source: the Company.

Under the Updated Strategic Plan, the Group will implement the following key strategic projects: (i) global expansion; (ii) development of strategic partnerships; (iii) reduction of complexity in all areas, meaning a gradual reduction of the types of products manufactured by the Group in this business segment, and (iv) research and development and innovation in the Group.

The Group intends to implement the Updated Strategic Plan by taking the following actions :

### **Developing markets and brands**

#### ***Strengthening the Group's market position across the globe***

The Company is planning to focus on faster growth in Eastern Europe especially in CIS markets and further consolidate with Western European countries. The Group is also focused on the faster growth in global markets outside Europe by using a globalist niche strategy (approaching global markets outside Europe with selective range of product, mainly concepts, design, lines and products from premium segment), as well as on

strengthening and building its position in new markets by an active presence through third party distributors or own wholesale distribution offices. The Group expects to increase their market shares in most key markets.

### ***Implementing a multi-brand strategy***

The Group has implemented a multi-brand strategy with a focus on mid and premium brands. Premium brands of the Group include ATAG as kitchen specialist in Benelux and ASKO as a premium global brand. Mid-price brands include: (i) the Gorenje main global brand, representing approximately 70% of sales in the period covered by the Financial Statements and Interim Financial Statements, including value added concepts such as the gorenje+ and design lines, and (ii) Pelgrim as a local brand in Benelux. Budget price level includes local brands Upo in the Nordic region, MORA in the Czech Republic and Slovakia, Etna in the Benelux countries and K rting in Southeastern Europe (see section “*Brands*”). Asko becoming the Group’s global premium brand and will receive full support from the Group.

### ***Research and development; innovations***

The Group’s strategy stipulates continued development of new home products featuring innovative functions and sophisticated design, adding new, innovative products to the product range. The strategy will:

- Focus on **built-in products** – as a category of Business Segment Home products that allow for higher margins from a less saturated market segment. The Group has dedicated particular attention to the development of innovations, new platforms (such as new generations of certain product groups) and implementation of new products, such as new built-in 60 cm ovens and 45 cm compact ovens/microwave platforms.
- Focus on **design lines and concepts**, meaning development of existing products that target specific market niches, thus creating higher contribution margins. This strategy also includes introduction of new generations of current design lines (Ora Ito, Simplicity, retro fridges), new lifestyle lines (Classico), design lines (Karim Rashid, Pininfarina and Ora Ito), as well as for new design lines.
- Focus on **premium product lines** (development of new premium products in order to increase sales of premium lines): new built-in 60 cm ovens and 45 cm compact ovens/microwave platform, targeting mid and premium segments and promoting Asko, is the Group’s premium brand.

Faster growth and the importance of SDA (microwave ovens, floor care (vacuum and steam cleaners), and various small kitchen appliances (mixers, stick blenders, juicers, toasters, kettles and irons) in total Group sales by placing a stronger focus on SDA in concept lines, with co-development of the concept lines together with MDA items, the launch of local brands (Mora), and global brands (ASKO), all in the SDA segment.

### ***Improving production efficiency***

In the third quarter 2013 the Group completed the process of relocating its production facilities and consequently, as at the date of this Prospectus, the Group’s major household appliances are manufactured in three countries: Slovenia, Serbia and the Czech Republic (see section “*Business*” – “*Relocation of production facilities*”). Under the Updated Strategic Plan, the Group will continue with the consolidation of production facilities.

### ***Optimising with lean manufacturing***

The Group is undertaking activities aiming at optimising the production process with lean manufacturing in three main areas: (i) stock reduction (18% stock reduction achieved in 2012 compared to 2011); (ii) cleanliness and order in production; and (iii) process optimisation, overall equipment efficiency improvement and total preventive management in implementing principles of preventive maintenance. All these activities are aimed to result in lowering the costs of production.

### ***Continuing reduction in manufacturing costs***

The Company continues its efforts to reduce its operating costs and intends to continue to explore further cost reduction measures in the future. Since 2005 the Company has established material cost optimisation teams, LCC sourcing teams and productivity teams searching for all kind of potential savings. Additionally, the Company's research and development team seeks to implement improvements in product design and manufacturing processes to further decrease manufacturing costs. The Company believes that its focus on cost reduction should help to partially offset negative effects of inflation and rising commodity prices.

### ***Optimising business models***

During the period covered by the Financial Statements and Interim Financial Statements, certain negative changes in the general business environment and changes in individual markets (in particular, France and Turkey) on which the Group operates, and consequently the Group's business activities on certain markets, are not profitable enough. Therefore, the following measures to optimise the business model have been applied: restructuring of existing sales subsidiaries, downsizing existing operations, outsourcing sales activities to local distributors, discontinuing local subsidiaries and/or representative offices. The purpose of these activities is to adapt the Group's business model in local markets to the changes in the external environment with the aim to increase business efficiency and profitability, and to offer high quality sales and after-sales services to our clients in these markets. Within the strategic period the Group will continue with reorganisations of sale network

Business Segment Home remains the core, strategic segment of the Group, whereas the two supplementary business segments will be amalgamated under combined to form business segment portfolio investments as of January 2014.

As the Group intends to focus on its core business activity – Business Segment Home, in the area of the non-core business, the Group will carefully analyse all possibilities of divesting companies from Business Segment Portfolio Investments or parts thereof. New investments, if any, in the non-core business will be done on the selective approach and only when such investment brings substantial synergies with the existing business or creates new value for the existing business.

The Management Board will control strategy implementation quarterly (for this purpose a strategic project office will be set up) and will report to the Supervisory Board on every board meeting. The, strategy will be updated and revised annually.

### **Competitive strengths**

The Company believes that it possesses a number of strengths that provide it with a competitive advantage over other home appliances manufacturers.

### **Design lines as part of differentiation**

Design has been an integral part of the Group's brands for several years. The Company cooperates with world-recognised designers and creates new product collections that differentiate the Group's products from the products of its peers, thus allowing for a higher market position and higher margins for those products. The Gorenje Design Studio creates solutions for the Group's own brands.

### **Research and development know-how**

The Company has experienced research and development competence centres in Slovenia (laundry care, cooling, built-in ovens), the Netherlands (built-in hobs, cooker hoods) and Sweden (dishwashers). Competence centres have high focus in selected research and pre-development activities on new product technologies and innovations that are through product development process implemented in new generations



of appliances. The Company expects that the alliance with Panasonic Corporation will account for even greater development of research and development efforts for selected platforms and products (see section “*Business*” – “*Panasonic Alliance*” – “*Business alliance with Panasonic*”).

### **Strong own sales network**

The Group has built its own strong wholesale distribution network in the most important markets over the years, that distribute all of the Group’s products and brands in Business Segment Home. The Company has own sales companies in all important European markets (except Spain and Portugal), Australia, the USA, Brazil and Asia, the Middle East (see section “*Business*” – “*Sales*”). Furthermore, the Group has developed its own retail distribution network in Slovenia, Serbia, Bosnia and Herzegovina, Croatia and the Czech Republic. Sales companies ensure longer-term stability in the most important markets and create opportunity for further growth by introducing new products and brands on the market.

### **Access to an affordable labour force and flexible working practices**

From the third quarter 2013, once the production relocation process was completed, the Company takes advantage of a large and affordable labour force in Serbia and in the Czech Republic. Consequently, the Company has an advantage in terms of labour costs, as compared to its EU competitors that are producing in more expensive EU countries. The Group introduced flexible work practices aiming to adapt to the seasonal requirements (see section “*Business*” – “*Employees*”).

### **Strategic production locations**

The Group’s production facilities in Serbia make use of the free custom trade agreement between Serbia and Russia. The free trade agreements concluded between Serbia and Russia enable the Group to benefit from the custom preferences relating to the Group’s products sold from Serbia to Russia. Apart from the above, the Group benefits from the low labour costs in Serbia.

### **Logistical advantages**

All of the Group’s production facilities are located in Europe, which is close to the main export markets. This provides the Group with logistical advantages in terms of transporting its finished products to export markets. The Group’s logistic system is based on primary transportation from production facilities to the country or regional warehouses, and on distribution between country/regional warehouses to customers (see section “*Business*” – “*Sales*”). The strength of the Group’s logistic system lays in: (i) its centralisation in Velenje, Slovenia with a highly automated warehouse supported by SAP information system; (ii) accessibility to the warehouses by railway and their location in close proximity to local ports and (iii) coverage of most EU countries with country/regional distribution centres.

### **Proximity to major local and European suppliers of raw materials and components**

The Group’s local suppliers provide just-in-time-deliveries to its production lines and can make multiple deliveries per day, providing Group with the flexibility to quickly modify its production plans to meet the needs of its customers (see section “*Business*” – “*Raw Materials and Purchased Components*”).

### **Availability to all global and LCC suppliers of raw materials and components**

In 2012, the Company purchased 10.8% of its raw materials and components from suppliers that were located in LCC countries. The Group has a strong purchasing team in China and in Turkey with the aim to further increase the portion of LCC suppliers.

### **Modern production facilities**

The Group has approximately 220,000 m<sup>2</sup> of modern manufacturing facilities in Slovenia, Serbia, and the Czech Republic. All production facilities are equipped with a modern machinery and the Serbian facility is a greenfield investment dated 2006.

### **Strong market position in some European white goods markets**

The Company increased its market share in Europe to 3.1% in period from January to June 2013 from 2.5% in 2004. In Eastern Europe the Company's share in the market of white goods was on average 8.1% in the six months from January to June 2013.

During the six months from January to June 2013 the Group had a leading positions in Slovenia, Croatia, Serbia, Bosnia, Montenegro, and Macedonia, with markets shares more than 50% in some of those markets. In the Czech Republic the Group had the market share of 14.3% in the same period. The market share in CIS countries was 4.3% in the same period. The Company has significant market position in Ukraine (around a 10% market share). The Group's position is growing in the Russian market where the Group's brands demands higher prices (price index more than 115, which means that the Group's average price on the Russian market is 15% higher than average price of all other producers on this market) and at the same time, the market share measured by volume of the Group grew to the level of 4%.

As at the end of half year 2013, the Group holds a 2.1% market share in Western Europe, where in Germany it has a 3.9% market share. The Group is relatively strong in Nordic markets with market shares ranging from 5% to 8%.

### **Provide increasingly differentiated products to customers**

The Company designs and manufactures a wide range of products in order to meet the exact specifications of its customers, as well as local consumer preferences which are different in each market on which the Group operates. Even though the Group products are developed for the needs of the global markets, the products addressed to particular markets are customised to meet the electrical, regulatory, and other requirements of that respective country. Flexibility of the Group to adapt product portfolios to local market needs represents one of the strong competitive advantages of the Group.

### **Alliance with Panasonic**

#### **Strategic alliance with Panasonic**

On 5 July 2013 the Company and Panasonic Corporation entered into a strategic alliance (the "**Strategic Alliance**") pursuant to which Panasonic Corporation agreed to: (i) invest EUR 10,000 thousand in the Company in exchange for the Shares in the Company representing 12.73% of the share capital and the same number of votes at the general meeting of the Company, should the shareholders of the Company confirm such increase of the share capital – capital alliance; (ii) not to acquire further shares in the Company in a hostile manner – ("**Standstill Agreement**"); and (iii) enter into a business alliance – ("**Business Alliance**") with intention to: (a) use of Gorenje's, Panasonic and mutually developed products to increase sales, (b) exchange of manufacturing know-how to increase competitiveness, and (c) use of sales network and marketing know-how for the distribution of Panasonic brand appliances to Europe.

The strategic alliance between the Group and Panasonic Corporation constitutes a step towards fulfilling the Group's strategic directions by accelerating Group's growth and improving its competitiveness, creating significant synergies and improving financial strength.

In particular, the Group is expected to benefit from:

- sharing best practices and research and development efforts for selected platforms and products, which might also have a further positive impact on products and processes not currently included in the alliance;
- absorbing fixed costs, leveraging a significant increase in the Group's production capacity utilisation;
- developing new products that would not be economically viable if done by the Group alone; and
- potential growth opportunities.

### **Business alliance with Panasonic**

The business alliance is structured around three major pillars: (i) research and development; (ii) production; and (iii) sales.

First pillar - joint research and development - will enable both the Group and Panasonic Corporation to develop new products (project for new generation of washing machines in preparation, adaptation of existing refrigeration and kitchen appliances) and exchange specific market know-how, technical solutions and development techniques.

Second pillar - production process - consists of increasing production capacity utilisation at Group's factories, joint investment in new production facility for washing machines and sharing of manufacturing principles, culture and material purchasing power.

The third pillar - sales - comprises sharing of distribution potential for kitchen retail sales channels in Europe network, potential for extension of Group's premium product lines with Panasonic Corporation manufactures products and improving efficiency of joint sales-distribution channels.

In addition to these primary pillars, the alliance will also create a flexible foundation that will allow both companies to pursue other areas of cooperation.

The first undertakings under the alliance will include the joint Group and Panasonic Corporation development of next-generation washing machines for the EU market. In addition, the Group will begin production of Panasonic-brand refrigerators for distribution in the EU, Russian, and other CIS markets. Finally, the companies will begin joint distribution of some Panasonic brand built-in kitchen appliances in Europe and the Group will begin production of built-in ovens.

As at the date of this Prospectus, the Group expected that the business alliance might bring the following benefits to the Group:

- additional annual revenues of up to EUR 80,000 thousand by 2018;
- gradual EBITDA improvement of up to EUR 20,000 thousand on a yearly basis by 2018 based on higher margin products, higher factory utilisation, better inventory management and research and development synergies.

### **Capital alliance with Panasonic**

On 23 August 2013 the Shareholders Meeting resolved to increase the share capital of the Company by the amount of EUR 9,681,964.61 with the issuance of 2,320,186 newly issued shares of the Company to be offered to Panasonic Corporation ("**Panasonic Shares**"). Panasonic Corporation subscribed for the Panasonic Shares on 26 September 2013 and paid for those shares on 26 September 2013. The shares were issued on 11 October 2013 (see section "*General Information on the Group*" – "*Basic information on the Company*" - "*Share Capital*").

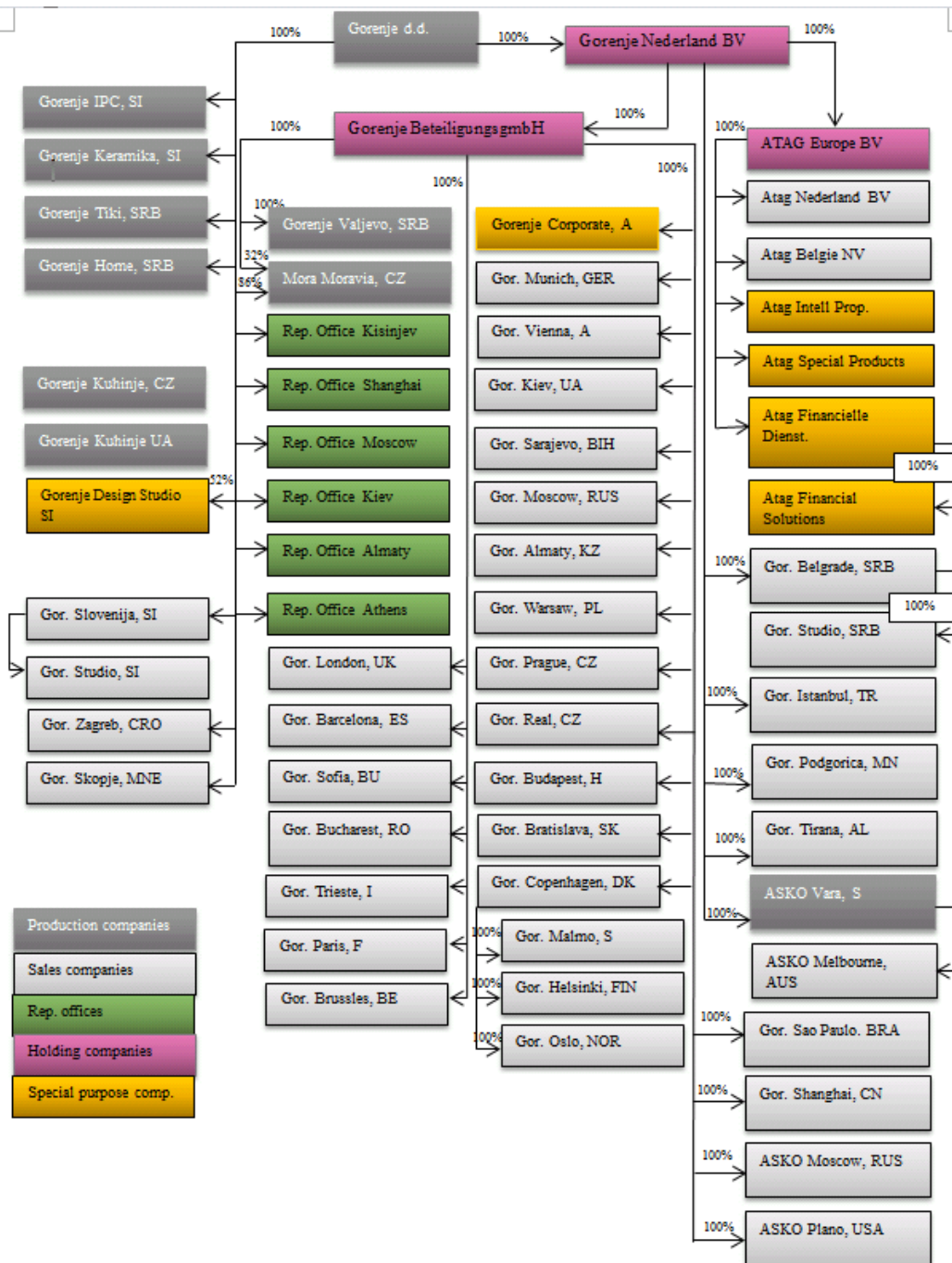
According to the Standstill Agreement Panasonic Corporation committed to not increasing its stake in Gorenje's share capital above 13% over the duration of the agreement (5 years) without the prior written consent of the Management Board and the Supervisory Board.

The capital alliance is expected to bring the following benefits to the Group:

- improved capital structure to support growth and shareholders' returns;
- better access to international capital markets.

## Business Segment Home

The following chart presents the structure of the Group companies operating in Business Segment Home as at 30 September 2013.



\*Source: the Company

\*\* For ease of reference to particular companies, their actual legal names have in some cases been substituted with descriptive names referring to the place or country in which the sales unit is operating.

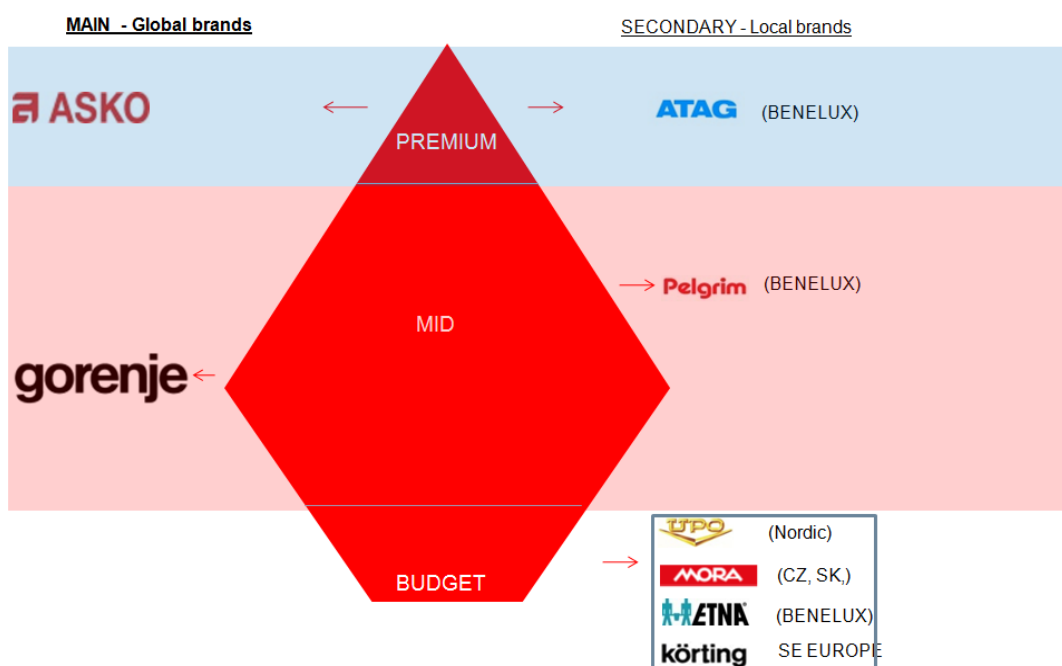
## Brands

The Group manufactures home appliances that are marketed under the following brands: Gorenje (and Gorenje+ concept), ASKO, ATAG, Pelgrim, Upo, Mora, Etna, and Körting.

During the period covered by the Financial Statements and Interim Financial Statements approximately 90% of the revenues from sales came from the sale of products under Gorenje brands while the remaining 10% is the OEM (i.e. original equipment manufacturer) brands. The share of the Gorenje brands in the total sales is growing from 72% as at the end of 2005 to approximately 90% as at the end of the first half of 2013.

The graph below presents pricing allocation of the brands of the Group products.

### GORENJE BRANDS BY PRICE CLASSES



\* Source: the Company.

### Global brands of the Group

#### Gorenje

Gorenje is the core brand of the Group present in most markets where the Group operates and upon which the Group is building its global position. This is the eldest brand of the Group under which the whole range of household appliances including small domestic appliances, heating, ventilation and air-condition appliances and kitchen furniture are marketed and includes Gorenje concepts (design lines, Gorenje+).

Design lines are an important part of the Gorenje brand. The Group has developed several successful design lines with well-known designers such as Gorenje Pininfarina, Gorenje Ora Ito, Gorenje Karim Rashid, and also developed several design lines at its own design studio, the Gorenje Design Studio, such as Gorenje Simplicity, Gorenje One and RETRO collection of fridge-freezers.

Gorenje+ concept was launched in 2011 to boost the Group's presence in the specialised channel of kitchen studios which is an important sales channel for built-in products. Therefore, gorenje+ line includes only built-in hobs, ovens, refrigerators and dishwashers. Under gorenje+ brand an iChef oven was introduced.

#### *ASKO*

ASKO is the Group's global premium brand. The ASKO brand consists of the following appliances: washing machines, dryers, dishwashers and professional wet appliances. The complete range of built-in appliances will be added. Most ASKO appliances are sold in Scandinavia, the USA, Australia, and the Russian Federation. Based on the expected Group's future sales structure as described in the Updated Strategic Plan, the Group is willing to expand the sales of the appliances under ASKO brand in all markets on which it operates, including non-EU markets.

#### **Local brands of the Group**

ATAG is the only local premium brand of the Group. This brand includes a range of premium built-in cooking appliances. It is mostly marketed in the Benelux countries.

Home appliances sold under the Pelgrim brand are positioned in the mid-price range. These appliances include a complete range of household appliances, with a focus to built-in items, and are sold in the Benelux countries.

Remaining local brands are positioned as the budget products on the relevant markets and include Upo, Mora, Etna and Körting brands.

Upo brand is the home brand in Finland with the highest recognition rate in its segment. It is especially known for its free-standing cookers that are entirely tailored to the requirements of the Scandinavian market in terms of both dimensions (e.g. height 90 cm and width 55 or 70 cm) and features.

Mora brand is recognised especially for its cooking appliances. Mora brand is the home brand in the Czech Republic. It is also strongly positioned in Slovakia, Hungary, Ukraine, and Russia. Mora brand is recognised especially for its cooking appliances.

Etna brand is present in the Benelux countries.

Körting is the brand under which the budget product are produced. Körting home appliances are sold in the markets of Slovenia, Austria, Italy, Kosovo, Greece, Russia, Georgia, the United Arab Emirates, Saudi Arabia, and – as of 2012 – Croatia

#### **Products**

The Company designs and manufactures home appliances under different brands. Production of the home products is a core business segment of the Group.

	<b>Six-month period ended 30 June</b>	
	<b>2012</b>	<b>2013</b>
	<i>(units)</i>	
<b>Household appliances</b>		
Refrigerators .....	453,837	439,448
Washing machines .....	393,062	396,242
Dish washers .....	116,611	124,197

	Six-month period ended 30 June	
	2012	2013
	<i>(units)</i>	
Cooking appliances .....	965,454	991,968
<b>Total</b> .....	<b>1,928,964</b>	<b>1,951,855</b>
<b>Heating appliances</b> .....	244,442	241,771
Small domestic appliances .....	504,905	617,229
<b>Total</b> .....	<b>2,678,311</b>	<b>2,810,855</b>

\* Source: the Company.

### **Cookers**

The Group began producing cookers in 1958. Its cookers consist of 50, 55, 60 and 70-centimeter wide free-standing cookers. The Group produces gas, electric/induction, and gas/electric combination cookers. Its free-standing cookers are produced in heights of 85 and 90 centimetres. The Group produces its cookers to meet the different energy classifications of its target markets. Currently it produces 34 standard cooker types that may be customised in different ways based on the needs of its customers. As at the end of 2012 approximately 95% of the cookers were produced under the Group's own brands and the remaining 5% were produced for industrial partners and private labels.

### **Ovens**

The Group began producing ovens in 1970. Its mechanical and electronically controlled (touch) built-in ovens use both conventional and hot air heating technique. They are equipped with (aqua clean) and pyrolytic cleaning systems and are 60 centimetres wide. The Group produces its ovens to meet the different energy classifications of its target markets. Currently it produces 12 standard oven types that may be customised in different ways based on the needs of its customers. As at the end of 2012 approximately 98% of the ovens were produced under the Group's own brands and the remaining 2% were produced for industrial partners and private labels.

### **Hobs**

The Group began producing hobs in 1971. It produces its hobs, consisting of 1 to 6 heating zones, in gas, electric, and ceramic (highlight and induction) versions, 30 to 110 centimetres wide. Currently it produces 76 hob types that may be customised in different ways based on the needs of its customers. As at the end of 2012 approximately 100% of the hobs were produced under the Group's own brands.

### **Hoods**

The Group began producing hoods in 2009. Its hoods consist of vertical and T-shaped types. They are mechanically or electronically (touch) controlled. The range consists of 60, 80 and 90-centimeter wide hoods. As at the end of 2012 approximately 100% of the hoods were produced under the Group's own brands.

### **Refrigerators**

The Group has been producing refrigerators (including freezers) since 1969. It manufactures a complete line of freestanding and built-in refrigerators, freezers, and combination refrigerator and freezers. Its models include single, double door, triple door, table top, no frost freezers, and chest freezers. The refrigerators it manufactures, principally targeted for residential use, range in capacity from 46 to 400 litres. The Group



manufactures energy efficient refrigerators to meet the needs of specific markets. As at the end of 2012 81% of the refrigerators were produced under the Group's own brands and the remaining 19% were produced for industrial partners and private labels.

### ***Washing machines***

The Group has been producing washing machines since 1965. It manufactures electronically controlled front loader washing machines with washing capacity from 5 to 10kg and spin speeds ranging from 600 rpm to 1600 rpm. Its washing machine drum capacities range from 36 litres to 80 litres. Its machines operate on 110, 220-240 volts with a frequency of 50 or 60 hertz. Currently, it produces machines with 5 drum sizes, 5 standard faces, and 10 different spin speeds. The Group also produces professional washing machines. As at the end of 2012 98% of the washing machines were produced under the Group's own brands and the remaining 2% were produced for industrial partners and private labels.

### ***Dryers***

The Group has been producing dryers since 1991. It manufactures front loader electronically controlled, vented, condensing, and heat pump dryers with drying capacity from 6 to 10kg of laundry. Its drum capacities range from 117 litres to 140 litres. It manufactures machines that operate on 110, 220-240 volts with a frequency of 50 or 60 hertz. Currently, it produces 4 standard dryer faces. As at the end of 2012 91% of the dryers were produced under the Group's own brands and the remaining 9% were produced for industrial partners and private labels.

### ***Dishwashers***

The Group has been producing dishwashers since 1967. It manufactures 60cm electronically controlled dishwashers with a capacity of from 13 to 17 place settings. There are 2 different heights, 82cm (XL) and 86cm (XXL). The types of dishwashers are divided into three groups: freestanding, built-in (built under), and fully-integrated models. All of these are produced with 8Steel™- main components from stainless steel. Dishwashers operate on 110, 220-240 volts with a frequency of 50 or 60 hertz. The Group also produces professional dishwashers. As at the end of 2012 90% of the dishwashers were produced under the Group's own brands and the remaining 10% were produced for industrial partners and private labels.

### ***Water heaters***

The Group has been producing water heaters since 1953. It manufactures small volume 5-15 litre non-pressured and pressured heaters and medium volume 30-200 litre pressured water heaters. The heaters are equipped with different heaters between 0.7 and 6kW have different isolations, and may be managed with simple thermostat regulation or full option equipped smart electronics. The pressurised tanks are made with high quality cold-rolled steel that is enamelled with high quality alloy. As at the end of 2012 65% of the water heaters were produced under the Group's own brands and the remaining 35% were produced for industrial partners and private labels.

### ***Sanitary heat pumps***

The Group introduced these products in the middle of the 1980s. These heat pumps can replace conventional water heaters in models between 80 and 120 litres and can be used for domestic hot waters for one or more family homes in models between 200 and 300 litres. As at the end of 2012, approximately 70% of the sanitary heat pumps were produced under the Group's own brands and the remaining 30% were produced for industrial partners and private labels.

### ***Heat pumps***

The Group manufactures the heat pumps water-water, brine-water, and air-water in the range between 6 and 18kW. The regulation on the pumps makes possible to have a full-integrated heating system with alternatives

as gas, solar, etc. As at the end of 2012 approximately 100% of the heat pumps were produced under the Group's own brands.

### **Awards**

Gorenje has won numerous prestigious international awards that confirm quality and excellence of both innovation and design of its products. Following are few awards received by the Group in 2013:

- **CCIS award for best innovations** in Slovenia granted by the Chamber of Commerce and Industry of Slovenia (CCIS) for the best innovations of last year to enterprises, public-private institutes, and innovators. In September 2013 the CCIS announced the golden award for IQcook induction hob produced by the Group under the brand Gorenje and silver CCIS award for the new generation of washing machines and dryers Gorenje SensoCare produced by the Group under the brand Gorenje;
- **red dot award for excellence in design**, innovation, and the high quality of products, awarded by Design Zentrum Nordrhein Westfalen. From 2005 until the date of this Prospectus, the Group won 24 prestigious red dot awards for home appliances branded Gorenje, Asko, and Atag. Seven award-winning products were designed by the Gorenje Design Studio. At a 2013 red dot international contest, the Gorenje Group won five red dot design awards. Among the Gorenje brand products, awards went to outdoor unit of the Gorenje Aerogor heat pump and the SensoCare new generation washing machine. In addition, three awards were won by Atag brand cooking hobs. A 2012 Red Dot Award won IQcook induction hob; and
- **the German Design Award is the premium** international award granted by the German Council for Design. The premium Gorenje oven iChef+ won the 'German Design Award – Special Mention 2013' for outstanding design quality in the home interior category;

## Manufacturing

The following map presents the Group's production facilities as at the date of this Prospectus.



*\*Source: the Company.*

### **General**

As at the date of this Prospectus, the Company owned approximately 220,000 m<sup>2</sup> of facilities with a production capacity of 19,770 pieces of major household appliances per day. The Group is not leasing any production facilities.

### **Manufacturing process**

The Company's production process facilitates the manufacturing of a wide range of models based on standardised platforms. The Group is using standardised platforms in the manufacturing process, which allows the Group to reduce the time necessary to set up a production line to manufacture a particular model and to change a production line to manufacture other similar models. Use of the standardised platforms also makes the production process flexible, which means that different sized refrigerators, washing machines, air conditioners, and cookers can be produced on the same assembly lines.

### **Quality standards**

The Group imposes quality control standards covering all aspects of the manufacturing process. All of the units that it produces are tested for safety, function, and other important performance criteria. The Group is certified to comply with ISO 9001 standards, which set a quality system with specific requirements for all relevant processes in a company and require an independent party to audit and document the compliance with requirements once a year. All of the Group's manufacturing facilities received ISO 9001 with recent confirmation in July 2013.

### Production and warehouse facilities

As at the date of this Prospectus, the area currently occupied by the Group's production and warehouse facilities is as follows:

	<b>Square meters</b>
Cooking .....	72,800
Washing/drying .....	32,000
Cooling .....	77,300
Major domestic appliances .....	182,100
Water heating.....	27,700
Warehouse production locations.....	46,600
Warehouse sales network.....	129,000

\* Source: the Company.

The Group's expected production capacities as of 31 December 2013 and onwards, are as follows:

	<b>Annual production capacity</b>
	<b>31 December 2013 onwards</b>
Cooking .....	2,079,160
Washing/drying .....	1,368,800
Cooling .....	1,217,760
Major domestic appliances .....	4,665,720
Water heating.....	800,000

\* Source: the Company.

The actual number of units of each of the Group's products, produced in the periods indicated, is as follows:

	<b>Year ended 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
		<i>(units)</i>	
Cooking .....	1,431,579	1,403,734	1,407,901
Cooling .....	997,289	851,646	911,179
Washing/drying .....	931,068	885,741	1,014,510
<b>Total.....</b>	<b>3,359,936</b>	<b>3,141,121</b>	<b>3,333,590</b>

\* Source: the Company.

### Relocation of production facilities

In the third quarter 2013 the Group completed the process of restructuring its production facilities, consisting mainly of the production relocations, that was commenced in 2012 and being an important objective for

meeting the goals set in the Strategic Plan. This restructuring process involved the production facilities in Slovenia, Serbia, Finland, Sweden, and the Czech Republic.

Until 2004 the Group produced the household appliances exclusively in Velenje facility in Slovenia. With the acquisition of two manufacturing companies abroad, i.e. Mora Moravia in 2004 and ASKO in 2010, the Group also acquired production plants in the Czech Republic, Sweden and Finland. Production operations has been developing by the Group in Serbia since 2006.

As a part of the relocation process, in Autumn 2012 manufacturing facility in Lahti, Finland was relocated to Mariánské Údolí, the Czech Republic. In February 2013, the Company completed relocation of a significant part of refrigerator-freezer production from Velenje, Slovenia to Valjevo, Serbia. In January 2013 the production of washing machines and dryers at the manufacturing plant in Vara, Sweden was closed and shifted to Velenje where regular operations begun in April 2013. The Company transferred dishwasher production from Vara, Sweden to Velenje, Slovenia in August 2013 and as a result the dishwashers will be produced by the Group in Velenje only. Upon completion of the relocation and restructuring activities in accordance with the Strategic Plan the Group's major household appliances are manufactured in only three countries: Slovenia, Serbia and the Czech Republic. The Group also has a production facility for water heating appliances in Serbia.

Based on the Company's estimates beginning from 2014 the planned annual labour cost savings as a result of all relocations may amount to approximately EUR 23,000 thousand, but as the effects of the labour cost savings will be partly decreased by increase of other costs, such as higher logistic costs and depreciation based on new investments, the total expected annual savings may amount to approximately EUR 20,000 thousand by 2014. See also section the *“Operating and Financial Review” – “Recent Developments” – “Relocation of product facilities”*.

The following map illustrates the geographical directions of the production facilities' relocation:



\* Source: the Company.

### Raw materials and purchased components

The Group purchases raw materials and components for its products from local Slovenian suppliers (25.1%), other European suppliers (64.1%), and from LLC suppliers such as Asia and Turkey (10.8%). Total raw materials and components costs are the main costs category of the Company and represent almost 40% in 2012 of sales revenues of Business Segment Home.

The Group's production system is designed to minimise quantity of raw materials used and stored, as well as to minimise quantity of inventories in the manufacturing process through efficient coordination of delivery of raw materials and components from outside suppliers at the Group's manufacturing facilities. For example, the Group outsources production of certain components used in its manufacturing process to local companies in Slovenia, Serbia, and the Czech Republic and assists these local companies by providing them with moulds and assisting them in negotiating terms and conditions of the supply of raw materials. Local suppliers are then responsible for just-in-time deliveries to the relevant Group's production lines and are capable of making multiple deliveries per day based on their review of their stock reports and production schedules.

The principal components used by the Group in the production process are steel and plastics. The major suppliers of raw materials and components (by volume), are:

<b>Raw Material Component</b>	<b>Supplier</b>
Steel	Voest Alpine, Ilva s.p.a., U.S.Steel Košice
Plastics and chemistry	Huntsman, Dunastyr, Softer
Electrical components	Ego, Diehl controls
Compressors	Jiaxipera, Secop

\* Source: the Company.

The Group reviews its arrangements with suppliers at least every 6 to 12 months. As a part of the Group's strategy in this respect the Group seeks to establish multiple (at least 2-3) sources for the purchase of a given raw material and/or component to encourage competitive pricing and flexibility of supply, as well as protection against supply disruption. If there is only one supplier used, alternative sources are generally available, although costs may be incurred in transitioning to a new business partner where one of existing supply arrangements is abruptly terminated. The Group is planning to continue its efforts to identify and ensure availability of alternative suppliers, particularly for components that come from limited number of sources.

The purchasing department of the Company, together with production and research and development departments of the Company, is involved in material optimisation together with the relevant teams in all plants of the Group. The purchasing department is also responsible for the reduction of commodities and exchange rates exposures by appropriate hedging policy, contract timing, price mechanisms, and auctions. The Company's purchasing department is also responsible for monitoring its levels of inventory and dealing with suppliers. As of June 30, 2013, the Group employed 84 people in its purchasing department. These included the Company, Gorenje Valjevo, Gorenje Stara Pazova, Gorenje Zaječar, and Mora.

The Company works closely with major suppliers to ensure that all major components meet quality and performance standards. Typically, outside suppliers provide warranties on all major purchased components.

### **Research and development**

Development of the new product technologies and innovations, being implemented in new products is an important aspect of the business activity of the Group. The Group's is focused on the development of new built-in platforms with innovative features and selected freestanding platforms with improved product performance, improvement of product reliability, production cost, and compliance with environmental standards. Innovative products are also a base for development of concepts.

The Company has more than 300 full-time research and development personnel in research and development centres around Europe (Slovenia, the Netherlands, Sweden, the Czech Republic and Serbia). The Company is expanding resources developing new product technologies and innovations. The Group's research and development expenses represent a 2% of annual sales revenue, and the Group intends to increase it close to 2.5% in 2018.

The Group continues to develop new designs for its products to augment its existing designs, and it is in various stages of development of new products incorporating new technologies.

### **Sales**

#### ***Wholesale distribution***

The Group distributes all the products it manufactures mainly through its own wholesale distribution network (approximately 75% of the value of sales as at the end of 2012) and partly through third-party distributors (approximately 25% of the value of sales as at the end of 2012).

The Group has its own wholesale distribution in Austria, Germany, Italy, France, Belgium, Great Britain, Denmark, Sweden, Finland, Norway, Czech Republic, Slovakia, Hungary, Poland, Bulgaria, Croatia, Macedonia, Bosnia and Herzegovina, Serbia, Montenegro, Romania, Slovenia, the Netherlands, Russia, Kazakhstan, Ukraine, Albania, Australia, the USA, Brazil and Asia (where a subsidiary in Shanghai is a sales hub for the region) and in the Middle East (where Dubai is a sales hub for that region).

On markets where the Group's own sales network is not established third party distributors are using almost all distribution channels available in the respective markets.

#### ***Retail distribution***

The Group has its own retail distribution network in the following countries: Slovenia, Serbia, Bosnia and Herzegovina, Croatia, the Czech Republic (which accounts for 4% of all sales of the Group in all countries). The Group's products distributed through its own retail networks are sold by the relevant Group company to the end users (customers).

Where the Group's lacks own retail distribution network, the Group is using third party distributors.

#### ***Other distribution channels***

The Group is also using online distribution channels, the importance of which is growing, and as at the end of 2012 14.9% of the Group's products were sold through the online channel.

#### **Main markets**

The Groups operates globally and is selling products in approximately 90 countries. The main markets in 2012 (top 10 according to the sales value under the Group's own brands) were the following: Germany, the Netherlands, Scandinavia, Russia, Serbia, Czech Republic, Ukraine, Croatia, Slovenia, Australia.

The revenue from sales under own-brands in Business Segment Home made by the Group in 2011 and 2012 in the main markets where the Group operates was as follows:

#### **Sales value under the Group's own brands, by countries**

	<b>2011</b>	<b>2012</b>
Germany .....	12.4%	12.4%
Netherlands.....	12.2%	10.1%
Scandinavia .....	10.2%	12.5%
Russia .....	10.1%	13.1%
Other.....	7.4%	6.9%
Serbia.....	7.0%	6.6%
Czech Republic.....	5.4%	4.7%
Ukraine .....	5.3%	5.3%
Croatia .....	4.2%	4.2%
Slovenia.....	4.0%	3.6%
Australia .....	3.8%	4.1%
Belgium .....	2.7%	2.3%
Austria .....	2.6%	2.4%
BIH .....	2.3%	2.2%



#### Sales value under the Group's own brands, by countries

	2011	2012
USA .....	2.2%	2.4%
Poland.....	2.1%	2.1%
Hungary .....	1.8%	1.4%
Slovakia .....	1.3%	1.1%
Great Britain .....	1.3%	1.2%
UAE.....	1.2%	1.0%

\* Source: the Company.

According to the Updated Strategic Plan the Company is planning to expand its presence in markets outside Europe, being mostly Australia, USA, Asian markets, including India, Turkey and Brazil. The Group is also planning to maintain or even improve its presence in the Group's traditional European markets, especially in Russia, Germany, Scandinavia and Poland.

#### After-sales services

##### *Technical support*

The Group offers strong after sales support in all markets where the Group's products are sold. After sales support consists of professional support within the scope of process improvements and legal support to the Group's business partners, technical support, training, and spare parts supply. An international team of the Group's employees dedicated to provision support for the clients is focused on providing relevant support and satisfy the customer throughout the life of the appliances.

The Group uses various after sales organisational models, including its own service network (Slovenia, Austria, the Netherlands, Belgium), which enable the Group to offer after sales service and contractual service network with third party service providers in the remaining countries where the Group's products are sold. Technical support is available online for all customers worldwide.

##### *Spare parts supply*

Spare parts supply is organised through a network of regional warehouses or directly from a distribution centre located in Velenje, Slovenia depending on the optimal distribution solution.

#### Competition

##### *Eastern European market*

In the Eastern European market including: Czech Republic, Estonia, Croatia, Hungary, Latvia, Poland, Romania, Serbia, Slovakia and Slovenia the Group competes in all product groups of household appliances. The Group has strong market share in the sale of the cooking appliances which is, according to the Group's data, equal to 12.7% and 12.3% of all cooking appliances sold in Eastern European market in 2011 and 2012, respectively. The Group's main competitors in the Eastern European market are Bosh, Whirlpool, Electrolux Group, Arcelik Group and the Indesit Group.

##### *Western European market*

In the Western European market the Company competes in all product segments. According to the Group's data, market share of the Group on the Western European market equals to 3.4% and 3.4% of all cooking appliances sold in 2011 and 2012, respectively. The Group's main competitors in the Western European market are the Arcelik Group, Electrolux Group, Indesit Group and Bosch.

### ***Other markets***

In the other markets, i.e. outside the European markets (the USA, Australia, Asia, the Middle and Far East), the Group competes mainly with niche products (in all categories) in the higher end of the market, such as design lines, concepts depending on the country specific needs where a given products are sold.

The Group's principal competitors in Asia are the European producers, Bosch and Electrolux. In Australia the main competition to the ASKO premium brand is SMEG, and to the Gorenje brand, Bosch. In the Middle East the Group's main competitors are Bosch, Samsung, and the Indesit Group.

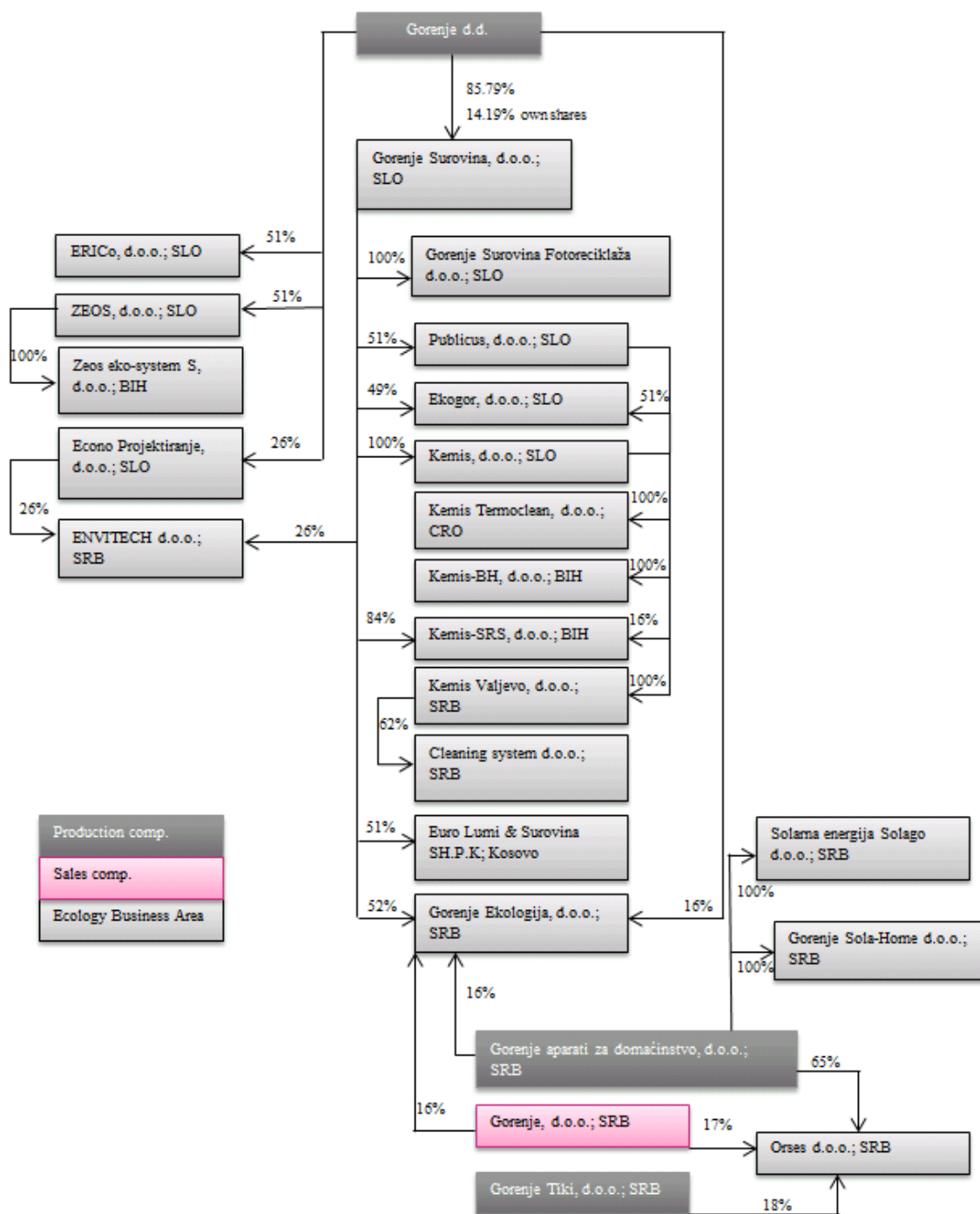
### **Supplementary business segments**

From 2011, as a consequence of the implementation of the Strategic Plan, a new division of the Group business segments have been introduced and the supplementary business segments (Business Segment Ecology and Business Segment Portfolio Investments) were distinguished. According to the Updated Strategic Plan, as of January 2014 Business Segment Ecology and Business Segment Portfolio Investments is to be integrated into one common segment – Business Segment Portfolio Investments. As the strategy of the Group gives more focus on the development of the core activities of the Group within Business Segment Home, the Group may decide that it is in the best interest of the Group to divest entire business segment or parts thereof.

#### **Business Segment Ecology**

This segment covers the Group's supplementary activity in the scope of the comprehensive waste management in Slovenia and Southeastern Europe. Gorenje Surovina, d.o.o. is the main company in that business segment, which directly or indirectly holds majority of the ownership in other companies in Business Segment Ecology.

The following chart presents the structure of the Group's companies operating in Business Segment Ecology as at 30 September 2013.



\*Source: the Company.

### Services

In Business Segment Ecology the Group offers wide range of ecology related services, such as comprehensive solutions for all sorts of waste to the Group's partners in industry, as well as to trade, craft and public sector.

The Group handles wastes as precious secondary raw material taking care of useful metal and non-metal materials to be returned into production, while preparing the residues to be turned into energy (first pillar). For that reason, in 2010 the Group commenced solid recovered flue (SRF) production with the aim to make an efficient energy product from solid non-hazardous wastes that are not suitable for metal recovery.

The second pillar of Business Segment Ecology consist of hazardous waste management, i.e. collecting, recycling and disposing all sorts of hazardous waste, except of radioactive wastes, in environment-friendly way. As a part of this pillar the Group provides for counselling services within the scope of various aspects of safety handling of waste.

Within this segment the Group also offers services in the field of municipal waste management, such as provision of the PSO (public service obligation), collection, transportation and disposal of municipal wastes. This activity is a regulated activity, based on the concession contracts with the some Slovene municipalities (third pillar).

The Group also offer (either as a stand-alone business or supporting services for other ecology related projects and business) engineering on waste management issues, analyses and research services such as comprehensive environmental protection services, environmental impact reports, water, soil and gas emissions monitoring and environmental protection or remediation plans.

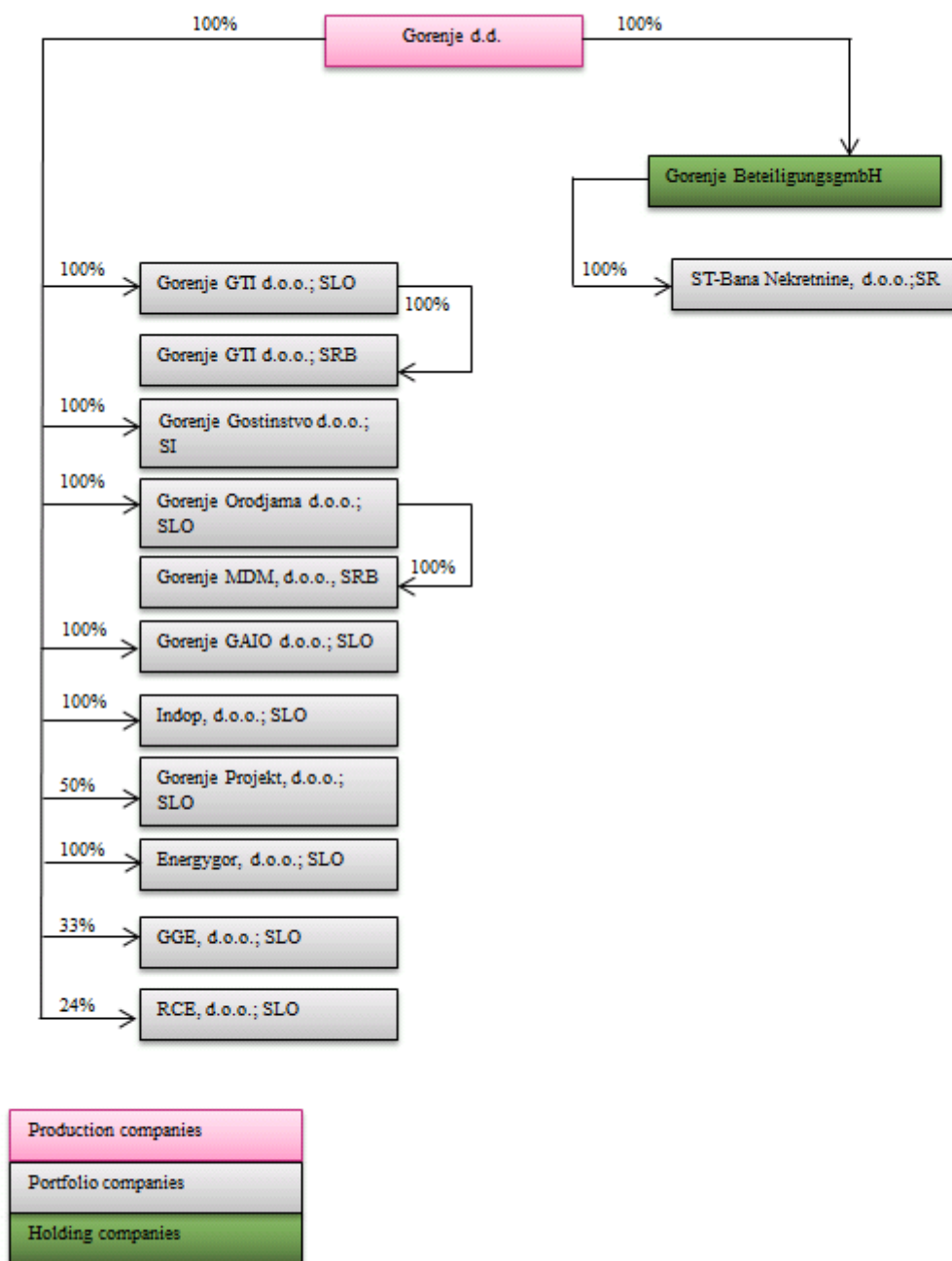
### ***Revenues***

Revenues of Business Segment Ecology amounted EUR 101,711 thousand (7.4% of total Group's revenue) in 2010, EUR 113,406 thousand (8.2% of total Group's revenue), in 2011 and EUR 97,346 thousand (7.7% of total Group's revenue) in 2012, and EUR 46,413 thousand in first half of 2013 (7.9% of the total revenues of the Group).

### **Business Segment Portfolio Investments**

This business segment includes investments in companies operating in various business sectors.

The following chart presents the structure of the Group's companies operating in Business Segment Portfolio Investments as at 30 September 2013.



\*Source: the Company.

### Products and services

The most significant part of this segment is the manufacture of products and provision of services in the field of energy and renewable sources of energy: engineering, development and manufacturing gas cogeneration of heat and electricity (CHP units), solar power plants, energy management and energy efficiency solutions and

sell of coal. In this business segment the Group offers canteen and catering services for the Group and third-party customers, engineering in different business sectors (medical equipment, construction, professional catering equipment) construction, professional catering equipment) and sell different products and services as authorised dealer for different companies like: Zetor, Toyota, Philips and others.

Gorenje Orodjarna, d.o.o. and Gorenje GAIO, d.o.o. with more than 20 years tradition in engineering, development and manufacturing tools and industrial equipment for household and automotive industry across Europe plays an important role in this segment.

As Business Segment Portfolio Investments does not represent the Group's core business, the Group will carefully analyse all possibilities of divesting the companies from Business Segment Portfolio Investments or parts thereof. New investments in the non-core business will be done on the selective approach and only when such investment brings substantial synergies with the existing business or creates new value for the existing business.

### **Revenues**

Business Segment Portfolio Investments partly support business activities of the core Business Segment Home, but most of the revenues of that business segment is generated with third party customers. Business Segment Portfolio Investments supports the activities of Business Segment Home, however more than 90.6% of the revenues generated by this segment in 2012 were generated with third party customers.

Revenues of Business Segment Portfolio Investments amounted EUR 265,729 thousand (19.2% of total Group's revenue) in 2010, EUR 219,854 thousand (15.8% of total Group's revenue) in 2011, EUR 94,457 thousand (7.5% of total Group's revenue) in 2012 and EUR 38,708 thousand in the first half of 2013 that represented 6.5% of the total revenues of the Group. The decrease of the revenues in this business segment is mainly a result of sale of the participating interest in the company Istrabenz Gorenje, d.o.o., in July 2011 (and thus the winding-up of the energy business segment). Total revenue of Istrabenz Gorenje, d.o.o. amounted to EUR 167,503 thousand in 2010 and in the period January -June 2011 to EUR 104,819 thousand.

### **Properties**

The Group uses its properties (land and buildings) based on various property rights, i.e. ownership, rent and lease, whereas the Group's production facilities (e.g. factories and warehouses), which are important for the Group's core business, stand on land owned by the Group. None of real estate properties owned by the Group is encumbered with mortgage; however some of them are encumbered with easements of roads and infrastructure (electricity cables, water tubes, telecommunication, etc).

Among others, the Group owns land and production, warehousing and office premises on all location, where the Group carries out production of large home appliances, in particular: (i) in Velenje (Slovenia) – 503,990 m<sup>2</sup> property; (ii) in Valjevo (Serbia) – 105,358 m<sup>2</sup> property; (iii) in Zaječar (Serbia) – 127,756 m<sup>2</sup> property; (iv) in Stara Pazova (Serbia) – 109,328 m<sup>2</sup> property, and (v) in Hlubocky- Mariánské Údolí (the Czech Republic) – 129,756 m<sup>2</sup> property.

Apart from the above-mentioned property in Velenje, Slovenia, the Company owns real estate properties in several other Slovenian towns. The total area of properties owned by the Company amounts to 769,204 m<sup>2</sup> (with corresponding production, warehousing, stores and office in total net floor area amounting to 371,832 m<sup>2</sup>).





Certain part of the premises used by the Group mainly as office buildings and warehouses are used on rental agreements.

The book value of the real estate properties (land and buildings) owned by the Group as at 30 June 2013 amounted to EUR 193,933 thousand, of which the Company owned the real estate properties with book value amounted to EUR 72,233 thousand.

## Intellectual property

The most important trademarks registered by the Group are as follows:

Name	Trademark holder	Countries of registration
	Gorenje	Slovenia, Albania, Algeria, Argentina, Armenia, Austria, Azerbaijan, Benelux, Belarus, Brazil, Bulgaria, Bosnia And Herzegovina, China, Cyprus, Croatia, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Georgia, Hungary, Iceland, India, Indonesia, Iraq, Islamic Republic Of Iran, Ireland, Israel, Italy, Kazakhstan, Kyrgyzstan, Kosovo, Latvia, Liechtenstein, Lithuania, The Former Yugoslav Republic Of Macedonia, Malta, Republic Of Moldova, San Marino, Monaco, Mongolia, Montenegro, Morocco, Norway, Poland, Portugal, Romania, Russian Federation, San Marino, Saudi Arabia, Serbia, Singapore, Slovakia, South Africa, Spain, Sweden, Switzerland, Tajikistan, Turkmenistan, Uzbekistan, Tunisia, Turkey, United Kingdom, Ukraine, United Arab Emirates, Vietnam.
	ASKO Appliances HOLDING AB	Slovenia, Australia, Benelux, Estonia, Finland, Hong Kong, Israel, Latvia, Lithuania, Norway, New Zealand, Poland, Russian Federation, Singapore, Slovakia, United Kingdom, Sweden, Czech Republic, Ukraine, Hungary, South Korea, Canada, Denmark, European Union, United Arab Emirates, India, China, Croatia, WIPO International Registration, Mexico, Saudi Arabia, Singapore, Taiwan, Germany, USA.
	Intell Properties BV	Slovenia, Austria, Benelux, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, European Union, Finland, France, Germany, Greece, Hungary, Iceland, WIPO International Registration, Ireland, Israel, Italy, Latvia, Lithuania, Malta, Montenegro, Morocco, Norway, Poland, Portugal, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Kingdom.
	MORA MORAVIA, s.r.o.	Slovenia, Armenia, Austria, Azerbaijan, Benelux, Bosnia And Herzegovina, Bulgaria, Belarus, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Croatia, Hungary, Italy, Kyrgyzstan, Kazakhstan, Latvia, Lithuania, Montenegro, Morocco, Republic Of Moldova, Poland, Romania, Russian Federation, Slovenia, Slovakia, Spain, Switzerland, Tajikistan, Turkmenistan,

Name	Trademark holder	Countries of registration
		Ukraine, Uzbekistan, Serbia, Sweden, Vietnam.
	Gorenje gospodinjski aparati, d. d.  Gorenje Körting Electronic GmbH & Co	Slovenia, Algeria, Armenia, Austria, Azerbaijan, Benelux, Cyprus, Croatia, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Georgia, Hungary, Ireland, Italy, Kazakhstan, Kosovo, Latvia, Liechtenstein, Lithuania, Malta, Montenegro, Morocco, Poland, Portugal, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Tajikistan, Turkmenistan, Uzbekistan, United Kingdom, Ukraine.
	Intell Properties BV Impact 83	Slovenia, Benelux, France, Germany, WIPO International Registration,, Italy, Sweden.
	Uponor Oyj Uponor Oyj FI	Slovenia, Benelux, Germany, Estonia, Finland, United Kingdom, Lithuania, Latvia, Russian Federation, Switzerland, Denmark, Norway, Sweden.
	Intell Properties BV	Slovenia, Austria, Benelux, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, European Union, Finland, France, Germany, Greece, Hungary, Iceland, WIPO International Registration, Ireland, Israel, Italy, Latvia, Lithuania, Malta, Montenegro, Morocco, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom.
SIDEX	Gorenje France SAS	Slovenia, France, European Union.

\* Source: the Company.

The Group at all times takes due care in renewal of trademark registrations in timely manner. The Group also has several patent applications. On an annual basis the Group spends approximately EUR 250 thousand for the protection of its patents. As at the date of this Prospectus, the Group had no open disputes regarding the infringement of its trademarks and/or patents.

#### Internet domains

The main domain of the Group registered by the Company is [www.gorenje.com](http://www.gorenje.com). In addition, the Group uses several other domains, mainly registered on the subsidiary level.

#### IT license agreements

The Group uses various types of software licenses. Licenses used by the Group are not transferable or resalable without prior written consent of the suppliers. The Group uses SAP (Systeme Anwendungen und Programme) information system supplied by SAP AG as central ERP and reporting system for support of business processes. The SAP information system was implemented in the Company in January 2003 (by the end of the half year 2013 it had been implemented in more than 35 Group companies). For SAP consulting services the Group concluded several contracts with local suppliers of consulting services (SAP d.o.o, IBM d.o.o, Avtenta d.o.o, Plaut, and others).



The acquisition and maintenance of the Group's hardware equipment is governed by a series of supply and maintenance contracts and contracts on long-term business cooperation with various hardware retailers. Network equipment used by the Group is maintained under a special contract. In the field of telecommunications, the Group concluded several contracts for telecommunications with local telecommunication operators.

## **Environmental regulations and proceedings**

### **General**

The Group's activities are subject to numerous local and/or international environmental laws and regulations, which are administered at the national level by the local ministries of environment and by a variety of regional and local authorities in each country where the Group operates. Such laws regulate, among other things, waste water discharge, air pollution and the generation, handling, storage, transportation, treatment and disposal of waste materials.

The Group is subject to annual inspections by external environmental authorities that investigate its compliance with local environmental laws and regulations. In addition, the Group regularly conducts internal audits and measurement in line with environmental, health and safety ("EHS") regulations (effluent monitoring, monitoring of emissions into the air, noise in the environment, waste production, storing of hazardous substances, legally regulated working conditions, etc). In addition, lowering of EHS risk is a component of the Company's EHS management, which is ISO 14001 compliant, as well as the European regulation EMAS and the OHSAS 18001 standard.

In addition, the Company and Gorenje IPC d.o.o. are registered under the EMAS European Environmental Register, which requires full compliance with environmental regulations in the product life-cycle as a whole. Within the procedures for the assessment of conformity with European regulation EMAS, the Slovenian Ministry of Agriculture and Environment with all its working bodies cooperates with the accredited certification company, SIQ. The most important role in positive evaluation of company's operation has the Environmental Inspectorate, which gives a statement of the given company's compliance with all environmental legislation. After obtaining positive evaluations, the Slovenian Ministry of Agriculture and Environment initiates the proceedings of the entry in the public register EMAS. Furthermore, according to the requirements of the European regulation EMAS, the Company is required to annually publish its environmental performance in a publicly available environmental report or statement.

### **The Group's environmental permits**

The Group either holds all environmental permits and consents required for conduct of its activities, or is in the process of obtaining them (as in the Republic of Serbia; please see below). Depending on the size and type of activities conducted by respective Group companies, various environmental permits are required for the conduct of the Group's business.

The most important environmental permit obtained by the Group is the so-called IPPC (Integrated Pollution Preventions Controls), permit which is held by the Company. As at the date of this Prospectus, the Group is in the process of obtaining this permit for its subsidiaries operating in the Republic of Serbia.

The Company and Gorenje IPC d.o.o. holds the so-called water permits for the use of drinkable water for technical purposes. As at the date of this Prospectus, Gorenje aparati za domačinstvo, d.o.o. and Gorenje Tiki, d.o.o. were in the process of obtaining this permit in accordance with the new legislation of the Republic of Serbia. In addition, the Group holds the environmental permits for discharge of treated process water (the Company, Gorenje aparati za domačinstvo, d.o.o., Gorenje Tiki, d.o.o. and Mora Moravia), for waste management (all units of the company Gorenje Surovina, d.o.o. and in the facilities of the company Kemis,

d.o.o.). Furthermore, the Company, Gorenje aparati za domačinstvo , d.o.o. Gorenje Tiki, d.o.o., Gorenje Home d.o.o., Zaječar and Mora Moravia are entered in the atmospheric emission registry.

## **Insurance**

### **Assets insurance**

The Group has All Risk Property Damage and Business Interruption insurance with Zavarovalnica Generali d.d. and their partners covering the risks of the assets and business interruption of the Company and the Group companies (except for companies of the ATAG Group; for details please see section “*Assets and civil liability insurance of the ATAG group*” below). The insurance has been taken out according to the principle of new replacement value, whereas the equivalent of the new replacement value applies to all assets, being in use, irrespective of their age. The insurance coverage is given also to business interruption, arising from insured perils for the period of 12 months.

### **Civil liability insurance**

The Group has International Civil Liability (Third Party Legal Liability) and Product Liability insurance with Zavarovalnica Generali d.d. and their partners, for general third party liability, product liability, environmental liability, pure financial losses, employers liability for employees outside Slovenia, tenant’s liability, and to a certain extent, also for eventual recall costs of the Company and the Group companies (except for companies of the ATAG Group indicated below). The policy limit is set to EUR 10,000 thousand, with two-time’s annual aggregate and coverage of our operations and liability across the whole world, including the USA and Canada.

### **Assets and civil liability insurance of the ATAG group**

The ATAG companies (i.e. ATAG Europe BV, ATAG Nederland BV, ATAG Belgie NV, ATAG Financiele Diensten BV, ATAG Financiele Solution BV, ATAG Special products BV, Intel Properties BV)) concluded local insurance policies for All Risk Property Damage and Business Interruption and Third Party Liability with Nirimco Insurance & Risk management services, the insurance broker in the Netherland with similar scope of coverage as the rest of the Group.

### **Other**

The Group maintains employers’ liability for employees in Slovenia and in Serbia, transportation insurance for the transportation of our products and deliveries as well as motor/car insurance. The Group has also concluded Directors and Officers (D&O) insurance with international insurance companies with the policy limit totalling EUR 45,000 thousand.

## **Legal and administrative proceedings**

Apart from the proceedings mentioned below and employment proceedings related to the relocation of manufacturing facilities (see section “*Business*” – “*Employees*” – “*Employees dismissals in the relocated production facilities*”), there are no pending and, to the best of the Company’s knowledge, no threatened legal and administrative proceedings against the Group that could have a material impact on the Group’s business activities.

### **Belgian proceedings**

On 16 May 2013 the District Court in Celje, Slovenia issued an order declaring the enforceability in the Republic of Slovenia of the judgment issued by the Commercial Court of Verviers, Belgium, obliging the Company to pay the amount of EUR 343,837.81 with interests to be calculated under Belgian law for the period beginning on 26 April 1978 until the payment date and judicial costs in the amount of EUR 9.557,75.

The judgement issued by the Commercial Court of Verviers, Belgium relates to the dispute regarding payment of the damages resulting from the unilateral termination without notice of distribution contract by Tovarna gospodinjske opreme Gorenje. Tovarna gospodinjske opreme Gorenje (as defendant) was erased from the Slovenian register of companies in 1984. The plaintiff claims that the Company is the legal successor of Tovarna gospodinjske opreme Gorenje and therefore is obliged to fulfil the judgment of the Belgian court.

On 20 June 2013 the Company filed an objection against the above-mentioned enforceability order, which has not been decided on by the Slovenian court yet. The ultimate result of the dispute and any potential obligations of the Company arising therefrom cannot be assessed at this stage.

## Employees

As at 30 September 2013 the Group employed 10,533 workers in the countries where the Group operates among which 4,182 were employed by the Company, and the rest were employed by the other Group companies in the following proportions: (i) production companies in Business Segment Home employed 3,570 employees; (ii) trade companies in Business Segment Home employed 1,469 employees; (iii) other companies in Business Segment Home employed 116 employees; (iv) 652 of the employees were employed in Business Segment Ecology, and (v) 582 employees were employed in Business Segment Portfolio Investments.

The following tables present the number of employees of the Company and of the Group as at the end of 2010, 2011 and 2012, as well as at 30 June 2013 and 30 September 2013.

	Number of employees				
	As at 31 December				As at 30 September 2013
	2010	2011	2012	As at 30 June 2013	
Company.....	4,527	4,499	4,268	4,181	4,182
Group companies.....	6,194	6,221	6,462	6,513	6,367
<b>Total.....</b>	<b>10,721</b>	<b>10,720</b>	<b>10,730</b>	<b>10,694</b>	<b>10,549</b>

\* Source: the Company.

	Number of employees				
	As at 31 December				As at 30 September 2013
	2010	2011	2012	As at 30 June 2013	
Slovenia.....	7,143	7,041	6,716	6,253	6,228
Serbia.....	808	1,061	1,329	2,067	2,136
Czech Republic.....	724	654	716	701	705
Other.....	2,046	1,964	1,969	1,673	1,480
<b>Total.....</b>	<b>10,721</b>	<b>10,720</b>	<b>10,730</b>	<b>10,694</b>	<b>10,549</b>

\* Source: the Company.

**Number of employees**

	As at 31 December			As at 30	As at 30
	2010	2011	2012	June 2013	September 2013
Business Segment Home .....	9,422	9,514	9,507	9,455	9,315
Other Business Segments.....	1,299	1,206	1,223	1,239	1,234
<b>Total.....</b>	<b>10,721</b>	<b>10,720</b>	<b>10,730</b>	<b>10,694</b>	<b>10,549</b>

\* Source: the Company.

As at the end of 2012, approximately 95% of the total number of the Group's employees were employed for indefinite period and less than 5% for a definite period. As at the end of 2012 the average age of the employees was 42 years and 10 months. As at the end of 2012 approximately 97% of the employees were employed for full time and the remaining percentage were employed for a part time. Due to seasonality of the Group's operations for high peak production season the Group uses services of employment agencies. Such agencies provide workers for the engagement in the offices of the Group companies and/or sellers of the Group's products which are engaged in exchange for the commission paid by the Group payment of commission on the basis of agency contracts and/or other civil law contracts.

The fluctuation of the employees was 10.1% in 2010, 6% in 2011 and 13.9% in 2012 as compared to 2009, 2010 and 2011, respectively. Within the two year period (2010-2012) disabled persons represented approximately 5,7% of the total number of employees. Disabled persons were mainly employed in Gorenje IPC d.o.o., having a status of a disabled persons employer. As at 30 September 2013 Gorenje IPC d.o.o. employed 792 workers, of which more than 50% were classified as disabled persons.

The rights and duties of the Company workers are covered by the employment contracts, Collective labour agreement dated 23 July 1991 (*Kolektivna pogodba za družbo Gorenje gospodinjiski aparati*), which was concluded by the Company and trade unions Svobodni sindikat Gorenje GA and Neodvisni sindikat Gorenje GA, Collective labour agreement for electrical business (*Kolektivna pogodba za dejavnost elektroindustrije Slovenije*) dated 9 November 2005, which was concluded between Gospodarska zbornica Slovenije, Združenje delodajalcev Slovenije and trade unions SKEI, SKEM KS 90-SKEIE and by the Slovenian Employment Relationship Act (*Zakon o delovnih razmerjih*). The collective agreements set forth minimum salaries of the employees covered by those agreements, consisting in general of basic salary, part of salary for merits and allowances, as well as a part for business success. In other production companies within Business Segment Home (i.e. Serbian and Czech companies), there are no collective labour agreements concluded with trade unions.

The following trade unions are functioning in the Company: SKEI and Neodvisnost and in the other Group production companies in Business Segment Home: the 'Sindikata metalaca Srbije' trade union (for the Group's Serbian production facilities) and the KOVO trade union in the Czech Republic. At Asko, employees are members of the following trade unions: IF Metall, Unionen, Akademikarna and Ledarna. As at the end of 2012 approximately 57% of all employees of the Company were members of the following representative trade unions: SKEI and Neodvisnost. The Company concluded the following legally binding agreements with the representative trade unions:

- (i) **Social Agreement on maintaining jobs in the process of optimizing the production locations in Gorenje for the period from 2012 to 2015 dated 19 April 2012** concluded by:

the Company and its subsidiaries in Slovenia with the following trade unions: SINDIKAT SKEI Gorenje GA, KONFERENCA SINDIKALNIH PODRUŽNIC SINDIKATA SKEI Poslovni sistemi Gorenje and KNSS NEODVISNOST, KONFEDERACIJA NEODVISNIH SINDIKATOV SLOVENIJE NEODVISNI SINDIKAT GORENJE.

Under this agreement, the Company is obliged to maintain existing working places in Slovenia in the event that the Company relocates the production from Slovenia to other countries in the period 2012–2015. It means that the Company has to provide workplaces and work programs, which would equally substitute products and programs that are in the process of relocation.

The commitments are valid if the circumstances and business conditions in which the Company operates existing at the time of the conclusion of the agreement and being the reason for concluding the agreement do not substantially change in time of implementation of the agreement.

If the contracting party violates obligations under the agreement, the other party may immediately withdraw from the agreement and is free from any commitments agreed.

(ii) **Social Agreement 2013** dated 27 June 2013 concluded by:

the Company and its subsidiaries in Slovenia with the following trade unions: SINDIKAT SKEI Gorenje GA, KONFERENCA SINDIKALNIH PODRUŽNIC SINDIKATA SKEI Poslovni sistemi Gorenje and KNSS NEODVISNOST, KONFEDERACIJA NEODVISNIH SINDIKATOV SLOVENIJE NEODVISNI SINDIKAT GORENJE. The purpose of the agreement was the interest of all contracting parties to find the way to maintain jobs of approximately 300 redundant workers despite of heavy economic situation.

The agreement in particular increases the minimum wage, of the workers according to the prescribed legal minimum wage, so that the minimal wage of the workers amounts to EUR 886.30 (i.e. approximately 13% higher than the prescribed legal minimum wage). The agreement also provides that for each year, upon adoption of the yearly plan, remuneration policy, amount for promotions, amount for holiday payments, New Year bonuses and other bonuses will be defined.

As at the end of 2012, approximately 26% of the employees had a primary education level, and approximately 23% had higher education.

During the period covered by the Financial Statements the following number of the work related accidents occurred: (i) 192 accidents in 2010; (ii) 239 accidents in 2011; and (iii) 206 accidents in 2012 in the Group manufacturing plants in Velenje, Gorenje Valjevo, Gorenje Stara Pazova, Gorenje Mora and Gorenje Surovina, d.o.o.

In the last three years, 5 inspection proceedings were conducted in the Company, however no fines were imposed on the Company.

### ***Pension benefits for employees***

For the benefit of the employees, the Company concluded a contract on collective supplementary pension insurance with the Skupna pokojninska družba pension company. The total amount of the collective supplementary pension insurance paid in 2012 was EUR 1,170 thousand.

### ***Employee dismissals in relocated production facilities***

#### ***Finland***

Asko's plant in Finland, which was operating as a branch office of the Swedish company Asko, was closed in 2012. The production from Lahti in Finland was relocated to the Czech Republic and is currently conducted in Mora Moravia. Due to the closure of the Finish plant and warehouse, all 105 employees (84 production

workers and 21 administrative workers) were dismissed. Their employment was terminated on 31 August 2012. Prior to reaching the decision on closure of the Finish plant and delivery of the notices of termination of the labour contracts to the employees, Asko went through a formal process of negotiations with the trade unions which lasted for approximately two months, as requested by Finish law. Even though Finish law does not require the employer to pay compensation in the event of employment termination due to closing down of a branch office, an agreement concluded by Asko and the trade unions on 12 March 2012 (and amended by Annex 1 dated 12 April 2012) provided that all employees would receive a bonus calculated on the basis of the agreed individual and collective criteria. Despite statutory notice periods, it was agreed that all employees would be given a notice period of six months and that employment would be terminated on 31 August 2012 for all employees, despite the termination of production on 30 June 2012. In addition to the above, it was agreed key personnel necessary for the relocation of the equipment and transfer of know-how (a maximum 10 persons) would receive a bonus in the amount of 10% of each individual's salary paid in February 2012. All employees were also ensured twenty paid days off within a six-month period for the purpose of searching for new employment. It was also undertaken to pay all employees aged 56 or older (26 employees) salary compensations in the amount of 10.8% of each employee's salary, until they had fulfilled the conditions for retirement. As at the date of this Prospectus, all bonuses agreed in the agreement were paid to the former employees of the Finish plant and warehouse of the Group. As at the date of this Prospectus, no claims from the former employees of that plant have been lodged against the Group.

#### *Sweden*

Production processes and part of the research and development activities at Asko's plant in Sweden were closed in 2013 and relocated to the Velenje plant in Slovenia. Due to the closure, all 460 employees of the Swedish plant were dismissed. The employment of 210 employees terminated on 31 January 2013 and of 250 employees on 30 June 2013. Transfer of research and development activities did not result in any terminations of employment at Vara. Prior to delivery of the notices of termination of the employment contracts to the employees, Asko went through a formal process of negotiations with the trade unions which lasted for approximately six months, as requested by Swedish law. Even though Swedish law does not require the employer to pay compensation in the event of employment termination due to a closing down of production, agreements concluded by Asko and the trade unions provided more beneficial treatment of the laid-off workers than the provisions of the Swedish law define. According to the agreement with the white collar unions dated 28 August 2012, *inter alia*, an extended period of notice (two and a half months) and productivity bonus were provided to those employees. According to the second, blue collar union's agreement, dated 26 September 2012, a productivity bonus, a severance pension package for employees born between 1948 and 1951 and a fee for re-training purposes were all agreed.

As at the date of this Prospectus all bonuses agreed in the agreement have been paid to the former employees of the Swedish plant in Vara, except for undue payments in the amount of EUR 2,261 thousand (whereby provisions for this amount in the balance sheet were made by the Group).

As at the date of this Prospectus, there were two disputes regarding the dismissal of employees from the plant in Vara:

- (i) A dispute with the blue collar union IF Metall regarding the amount of productivity bonus for September 2012. The disputed amount is EUR 288 thousand. Asko considers this claim unjustifiable (as September quantities were not reached) and has rejected it. As at the date of this Prospectus Asko has not been informed of IF Metall having initiated any kind of legal proceedings in this respect, and
- (ii) a dispute with Manpower regarding the productivity bonus for Manpower workers taken on by Asko due to stock building. Asko considers this claim as unjustifiable as the agreement with the unions clearly states that such workers are not entitled to the bonus. The disputed amount is EUR 923

thousand. After failed negotiations, in September 2013 Manpower sent a request for arbitration before the Stockholm Handelskammars Skiljedomsinstitut.

## Material agreements

### Strategic Alliance with Panasonic

On 5 July 2013, the Group and Panasonic Corporation announced the conclusion of a long-term strategic business alliance, strengthened by a capital alliance. The alliance was designed to leverage the combined strengths and capabilities of the two companies, increase the profitability of both partners and improve their competitiveness in Europe. For more information about the strategic alliance see section “Business”- “Alliance with Panasonic”.

### Financing agreements

#### IFC loan agreement

On 21 June 2010 the Company and IFC, a member of the World Bank Group, concluded the agreement of long term debt of Gorenje, which was amended and restated on 3 August 2010. According to the Amended and Restated loan agreement IFC and other banks in the Syndicate (UniCredit, Societe Generale and Bawag) have lent to the Company. as borrower and Gorenje Nederland B.V. as co-borrower loan in the amount of EUR 101,074,725.40. Final maturity date of the loan is June 2017. The loan is secured with financial covenants and other covenants (including *pari passu* and negative pledge clauses). If any event of default occurs, IFC may require from the borrower and/or co-borrower to repay the loan.

In addition, under the loan agreement Gorenje may not declare or pay dividends in excess of one third of the Group’s consolidated net profit of the previous year if the covenant net debt to EBITDA exceeds 3.5. Further, Gorenje may not declare or pay dividends when the financial covenants are not within the agreed limits. As the decision on dividend payment by the Company is taken by its shareholders, who may not agree with the Management Board’s recommendation in this respect, in practice the Shareholders Meeting may resolve to pay dividend regardless of the contractual covenants. However, this would trigger the contractual liability of the Company towards the IFC

In June 2010 the IFC paid the equity share in the parent company Gorenje, d.d. in the amount of EUR 24,999,988.32. The equity share was registered in July 2010.

The financial covenants agreed under IFC loan agreements, are as follows:

Financial Covenants	Formula	Condition for Y2013
Liabilities/TNW ratio	Liabilities/Tangible Net Worth	< 3.5
Net Financial Debt/Ebitda	(Financial Debt - Cash and Cash equivalents)/EBITDA	< 3.5
Tangible Net Worth	Tangible Net Worth = Equity - Minority Interest - Intangible Assets - Deferred Tax Assets	> EUR 200 million
Current ratio	(Current assets - Prepaid Expenses)/Current Liabilities	> 1.1

\*Source: the Company.

The above stated financial covenants are measured quarterly, on the basis of un-audited quarterly or annual consolidated financial statements.

As at 30 September 2013 the outstanding amount to be repaid by the Company under the loan agreement is EUR 70,303 thousand.

### ***NLB and SID loan agreement***

On 19 September 2013 Gorenje, NLB and SID banka concluded an agreement according to which NLB and SID banka would provide a long-term syndicated loan of EUR 30,000 thousand to Gorenje, wherein NLB and SID banka will contribute one half of the total loan amount each. The loan is repayable in 5 years from the date when the agreement was signed. Gorenje will allocate these funds for investments into the transfer of washing machine, dryer, and dishwasher production from Sweden to Velenje, Slovenia, and for further improvement of the average maturity of financing sources. The loan is secured with financial covenants and bills of exchange, if any event of default occurs, the lenders may require from the borrower to repay the loan.

The financial covenants, agreed under NLB and SID loan agreements, are as follows:

<b>Ratio</b>	<b>Formula</b>	<b>Condition for Y2013</b>
Financial Debt Ratio	Net financial liabilities/EBITDA	< 4
Interest Cover Ratio	EBITDA/Net interest expenditures	> 4
	Equity (Ownership interest) – Minority interest	> EUR 220 million
	Net financial liabilities/Equity (Ownership interest) –Minority interest	< 1.2

*\*Source: the Company.*

The above stated financial covenants are measured annually, on the basis of audited consolidated financial statements.

As at 30 September 2013 the outstanding amount to be repaid by the Company under the loan agreement is EUR 30,000 thousand.

### ***Deutsche Bank agreements***

Gorenje d.d. entered into two assignable loan agreements (the so-called Schuldschein-Darlehensvertrag) with Deutsche Bank Aktiengesellschaft as the agent on 5 July 2011 in amount of EUR 100,000 thousand. Final maturity date of the first loan is July 2014 and of the second July 2016. The loans are secured with financial and other covenants (including *pari passu* and negative pledge clauses), if any event of default occurs, the lenders may require from the borrower to repay the loan.

The financial covenants, agreed under Deutsche Bank agreements, are as follows:

<b>Ratio</b>	<b>Formula</b>	<b>Condition for Y2013</b>
Financial Debt Ratio	Net financial liabilities/EBITDA	< 4
Interest Cover Ratio	EBITDA/Net interest expenditures	> 5
	Equity (Ownership interest) – Minority interest	> EUR 220 million
	Net financial liabilities/Equity (Ownership interest) –Minority interest	< 1.2

*\*Source: the Company.*

The above stated financial covenants are measured annually, on the basis of audited consolidated financial statements.

As at 30 September 2013 the outstanding amount to be repaid by the Company under the loan agreement is EUR 100,000 thousand.

### ***Sberbank loan agreement***

On 29 November 2012 the Company and Banka Volksbank d.d., Volksbank Slovensko a.s., Volksbank d.d. (Croatia) and Volksbank a.d. Beograd (as at the date of this Prospectus – Sberbank banka d.d., Sberbank



Slovensko a.s, Sberbank d.d. and Sberbank a.d. Belgrade) concluded a EUR 50,000,000 term loan facility agreement. This is a long-term loan with a half-year grace period, has half-year instalments and will be paid off in December 2017. The loan is secured with financial and other covenants (including *pari passu* and negative pledge clauses) and bills of exchange, if any event of default occurs, the lenders may require from the borrower to repay the loan.

The financial covenants, agreed under Sberbank loan agreements, are as follows:

<b>Ratio</b>	<b>Formula</b>	<b>Condition for Y2013</b>
Financial Debt Ratio	Net financial liabilities/EBITDA	< 4
Interest Cover Ratio	EBITDA/Net interest expenditures	> 5
	Equity (Ownership interest) – Minority interest	> EUR 220 million
	Net financial liabilities/Equity (Ownership interest) –Minority interest	< 1.2

\*Source: the Company.

As at 30 September 2013 the outstanding amount to be repaid by the Company under the loan agreement is EUR 45,000 thousand.

#### ***Preliminary agreement with the Republic of Serbia***

The Company and the Republic of Serbia signed, on 8 July 2013, a preliminary agreement on the intended joint investment into Gorenje manufacturing facilities in Valjevo, Stara Pazova and Zaječar. Pursuant to the preliminary agreement, the Republic of Serbia will support Gorenje's investment into optimisation and improvement of efficiency of manufacturing plants in Valjevo and Stara Pazova, and investment into a new washing machine and dryer plant in Zaječar, where Gorenje is to manufacture appliances developed in cooperation with Panasonic. The final agreement on joint investment into all Gorenje manufacturing plants in Serbia has to be concluded within 120 days from the signing of the preliminary agreement, i.e. until 5 November 2013. In same timeframe, Gorenje and the Government of the Republic of Serbia will also establish a new company with its registered office in Belgrade, Serbia, with share capital of EUR 100,000, wherein Gorenje will provide 80% of the share capital and the Government of the Republic of Serbia will provide 20% of the share capital. Under the preliminary agreement the Republic of Serbia is obliged to pay additional share capital of EUR 15,000 thousand to the new joint company in three instalments of EUR 5,000 thousand (with the first instalment to be paid by 31 January 2014, the second by 30 June 2014 and the third by 31 January 2015). Based on this investment, the shareholding of the Republic of Serbia cannot be lower than 20%. If the final agreement is not concluded and obligations stipulated under the preliminary agreement are not fulfilled by 5 November 2013, the contracting parties do not have any further obligations arising out of the preliminary agreement. As of the date of this Prospectus, the final agreement with the Republic of Serbia had not yet been concluded.

## GENERAL INFORMATION ON THE GROUP

### Basic information on the Company

The Company was founded on 3 April 1950 under the name *Kovinsko, industrijsko, eksploatacijsko podjetje 'gorenje'*, which was later changed to *Tovarna gospodinjske opreme Velenje*. On 23 April 1974 it became one of the founding companies of *Združenje podjetij 'gorenje'*. Then, on 23 October 1981, the 'gorenje' companies came together to form the *'composed organisation of joint labour 'gorenje' SOZD, n.sub.o.'* Eight years later, on 15 December 1989, *Gorenje d.o.o.* was founded, and eight years after, on 7 April 1997, it was transformed by virtue of a shareholders meeting resolution into the joint stock company *'Gorenje, delniška družba Velenje'*, entered into the court registry in Celje on 31 December 1997. The name of the Company was changed on 10 May 1999 to *Gorenje gospodinjski aparati,d.d., Velenje*, using *Gorenje,d.d., Velenje* as its abbreviated name.

The modern company was founded for an indefinite period, and is registered under the number 5163676000. The registered office of the Company is Partizanska 12, 3503 Velenje, Slovenia. The Company's telephone number is +386 (0)3 899 10 00.

The Company operates in accordance with the Slovenian Companies Act, the Articles of Association and other of its internal regulations.

### Main business activity

The Company's object of activity is set forth in Article 2 of the Articles of Association.

The Company's main business activity is the production of electrically operated household appliances. The Articles of Association also list the other registered activities of the Company.

### Share capital

The Shares of the Company have been issued under the laws of Slovenia, in particular under the Slovenian Companies Act and the Book Entry Securities Act.

As at the date of this Prospectus, the share capital of the Company amounts to EUR 76,060,181.93 and consists of 18,227,062 ordinary no-par value registered Shares with voting rights.

The ticker symbol of the existing Shares is GRVG, ISIN code: SI0031104076.

As a result of Slovenia's adoption of the Euro from 1 January 2007, in December 2006 the Shareholders Meeting adopted a resolution on the denomination of the Company's share capital, to take effect from 1 January 2007. In consequence, the Company's share capital (which had been divided into 12,200,000 ordinary transferable registered shares of SIT 1,000 nominal value each), was denominated as no par value shares. Effectively, each ordinary transferable registered share of SIT 1,000 nominal value was converted into one ordinary transferable registered share with no par value. The Company's share capital, which amounted to SIT 12,200,000,000, was thus divided into 12,200,000 ordinary transferable registered shares with no par value.

In 2006 the Shareholders Meeting resolved on authorised share capital and authorised an increase of the then-registered share capital by a maximum of 15% (authorised capital). On the basis of this authorisation, the Management Board of the Company was granted the authority, subject to the Supervisory Board's approval, to increase the Company's share capital by issuing up to 1,830,000 ordinary transferable registered no-par value shares to bring the amount of share capital up to SIT 14,030,000,000. After the transition from SIT to

EUR on 1 January 2007, the share capital of the Company was Euro 50,909,697.88. In 2007 the Company's share capital, on the basis of the abovementioned authorisation granted by the Shareholders Meeting, was actually increased by 15% – that is, from Euro 50,909,697.88 to Euro 58,546,152.56. In 2010 the Company's share capital was increased from Euro 58,546,152.56 to Euro 66,378,217.32. On 28 May 2010 the Shareholders Meeting resolved to issue 1,876,876 new shares and offer those shares to the IFC, a member of the World Bank, and to exclude the priority right of then-shareholders of the Company to subscribe for the new shares in the Company. The IFC subscribed for 1,876,876 new shares of the Company and on 5 July 2010, upon registration of the share capital increase by the Registry Court, became a minority shareholder of the Company.

On 23 August 2013 the Shareholders Meeting resolved on the increase of the share capital of the Company with the issuance of 2,320,186 new ordinary freely transferrable registered no par value shares (the "**Panasonic Shares**"), and to exclude the priority right to subscribe for the new shares of the Company, and offer the Panasonic Shares to the Panasonic Corporation. Upon receipt of the offer from the Company, the Panasonic Corporation subscribed for the Panasonic Shares and paid for them on 26 September 2013. On 1 October 2013 the Company filed a motion to the Registry Court for the registration of this increase of shares capital. On 4 October 2013, upon registration by the Registry Court, the share capital of the Company stood at EUR 76,060,181.93, from EUR 66,378,217.32.

On 23 August 2013, the Shareholders Meeting adopted a resolution on a further increase of the share capital of the Company which, according to the resolution, should occur following the successful completion of the capital increase designated to the Panasonic Corporation. On the basis of the abovementioned resolution, the Shareholders Meeting resolved that the Company will issue no more than 10,440,835 new ordinary freely transferable registered no par value shares – the Offer Shares. The Shareholders Meeting resolved that the Offering of the Offer Shares by the Company shall be carried out in two rounds. In the first round of the Offering, the Offer Shares will be offered to the Company's shareholders on the basis of their priority right to subscribe for the new shares, that is, to all shareholders entered into the share register as at the day of adoption of this Shareholders Meeting resolution on the issuance of the Offer Shares. Offer Shares not subscribed and fully paid up in the first round will be offered in the second round to third parties and/or the Company's employees. If all the Offer Shares are sold in the Offering, the Company's share capital will amount to EUR 119,629,015.46 and will be divided into 28,667,897 ordinary no par value shares.

On 23 August 2013 the Shareholders Meeting also resolved on an authorised, third increase of share capital of the Company (the "**Authorised Capital**"). On the basis of this authorisation, granted by the Shareholders Meeting, the Company's Management Board shall be authorised, subject to Supervisory Board consent, to carry out a capital increase within no later than one year upon the registration of the changes to the Articles of Association as adopted by the Shareholders Meeting on the same date (i.e. on 23 August 2013). With the Authorised Capital, the share capital of the Company may be increased to a total of no more than EUR 129,310,980.07, by issuance of no more than 2,320,186 new ordinary freely transferable registered no par value shares in exchange for non-cash (in-kind) contributions (debt-to-equity swap). The new shares, issued as the Authorised Capital, shall be of the same class as the existing Company shares. According to the resolution on the Authorised Capital, the Management Board shall be authorised to issue, subject to consent by the Supervisory Board, new shares in exchange for one or more non-cash (in-kind) contributions (debt-to-equity swap), subject to the following conditions: (i) the non-cash contribution shall be the receivables pertaining to loans granted to the Company; (ii) the value of such non-cash contributions shall be equal to the nominal value of the receivables, and the person from whom the Company shall obtain the non-cash contribution may be any financial institution that is a creditor of the Company as at the day of the convocation of the Shareholders Meeting during which the resolution on the Authorised Increase, and (iii) the according amount of shares to be exchanged for the non-cash contribution shall be calculated by dividing the value of the non-cash contribution with the emission price per share, with the result rounded down to the first integer.

Then, the resulting integer shall be multiplied by the emission price per share. The priority right of the existing shareholders to subscribe for the new shares is excluded. All Shares are ordinary shares. The Company has only one class of shares. The Company may issue preferred shares in accordance with the provisions of the Slovenian Companies Act. The Articles of Association currently do not provide for any provisions regarding the issuance of preferred shares, therefore, preferred shares could be introduced only by way of amendment of the Articles of Association, i.e. by a resolution of the Shareholders Meeting adopted by a majority of three-quarters of the subscribed capital represented in the voting.

The Company has not issued any convertible securities, exchangeable securities nor has it entered into any entitlement options to shares in the share capital of the Company.

The Company has issued so-called commercial papers, which are instruments of the Money Market and which have been listed with the LJSE since 10 May 2013. These were issued under ISIN code No. SI0032500579 and have up-to an 8-month maturity, and as such represent short-term borrowing. The entire nominal value thereof was EUR 24,100 thousand with an interest rate of 4.45 %.

## **The Group**

As of the date of this Prospectus, the Group consists of the Company and 86 subsidiaries (i.e. entities in which the Company's shareholding is more than 50% of the votes at the respective entity's general meeting) and 5 affiliates (i.e. entities in which the Company's shareholding amounts from 20% up to (and including) 50% of the respective entity's general assembly), directly or indirectly controlled by the Company. In addition, the Company has 7 representative offices in foreign locations.

Detailed information on the Group companies, their respective business segments and place in the Group's structure is presented in section "*Business*" – "*Business Segment Home*", "*Business*" – "*Business Segment Ecology*", and section "*Business*" – "*Business Segment Portfolio Investments*".

## **The Company's principal subsidiaries**

General information on the Company's principal subsidiaries is presented below.

### ***Gorenje Nederland***

The Company holds 100% of the share capital in Gorenje Nederland, which entitles the Company to exercise 100% of votes at the general meeting of Gorenje Nederland.

Key information on Gorenje Nederland:

<b>Name and legal form:</b>	<b>Gorenje Nederland B.V., The Netherlands</b>
Registered office and address	Impact 83, 6921RZ, Duiven, The Netherlands
Share capital	EUR 20,796,296.00
Field of activity	holding company
Business segment	Business Segment Home

### ***Gorenje Beteiligungsgesellschaft***

Gorenje Nederland holds 100% of the share capital in Gorenje Beteiligungsgesellschaft, which entitles Gorenje Nederland to exercise 100% of votes at the general meeting of Gorenje Beteiligungsgesellschaft.

Key information on Gorenje Beteiligungsgesellschaft:

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**Name and legal form:** **Gorenje Beteiligungsgesellschaft m.b.H., Austria**

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Registered office and address	Wienerbergstrasse 11, A-1100 Wien, Austria
Share capital	EUR 26,600,000.00
Field of activity	holding company
Business segment	Business Segment Home

***ATAG Europe BV***

Gorenje Nederland holds 100% of the share capital in ATAG Europe BV, which entitles Gorenje Nederland to exercise 100% of votes at the general meeting of ATAG Europe BV.

Key information on ATAG Europe BV:

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**Name and legal form:** **ATAG Europe BV, The Netherlands**

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Registered office and address	Impact 83, 6921RZ Duiven, The Netherlands
Share capital	EUR 18,000.00
Field of activity	holding company
Business segment	Business Segment Home

***Mora Moravia***

The Company holds 67.95% of the share capital in Mora Moravia, and Gorenje Beteiligungsgesellschaft holds 32.05% of the share capital in Mora Moravia, which entitles the Company to exercise 67.95% and Gorenje Beteiligungsgesellschaft to exercise 32.02% of votes at the general meeting of Mora Moravia.

Key information on Mora Moravia:

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**Name and legal form:** **Mora Moravia s.r.o., Czech Republic**

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Registered office and address	Nadražni 50, Hlubočky, Mariánské Údolí, Czech Republic
Share capital	CZK 273,715,000.00
Field of activity	Production
Business segment	Business Segment Home

***AD Valjevo***

Gorenje Beteiligungsgesellschaft holds 100% of the share capital in AD Valjevo, which entitles Gorenje Beteiligungsgesellschaft to exercise 100% of votes at the general meeting of AD Valjevo.

Key information on AD Valjevo:

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**Name and legal form:** **“Gorenje” Aparati za domaćinstvo d.o.o., Serbia**

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Registered office and address	Bulevar palih boraca 91/92, br. 5, Valjevo, Serbia
Share capital	RSD 3,075,913,405.00
Field of activity	Production
Business segment	Business Segment Home

### ***Gorenje Home, d.o.o.***

The Company holds 100% of the share capital in Gorenje Home, d.o.o., which entitles the Company to exercise 100% of votes at the general meeting of Gorenje Home, d.o.o.

Key information on Gorenje Home:

<b>Name and legal form:</b>	<b>Gorenje HOME, d.o.o., Serbia</b>
Registered office and address	Negotinski put bb, Zaječar, Serbia
Share capital	RSD 320,802,400.00
Field of activity	Production
Business segment	Business Segment Home

### ***Gorenje Tiki, d.o.o.***

The Company holds 100% of the share capital in Gorenje Tiki, d.o.o., which entitles the Company to exercise 100% of votes at the general meeting of Gorenje Tiki, d.o.o.

Key information on Gorenje Tiki:

<b>Name and legal form:</b>	<b>Gorenje Tiki, d.o.o., Serbia</b>
Registered office and address	Stara Pazova, Golubinački put bb, Serbia
Share capital	RSD 2,168,149,002.00
Field of activity	Production
Business segment	Business Segment Home

### ***Gorenje I.P.C., d.o.o.***

The Company holds 100% of the share capital in Gorenje I.P.C., d.o.o., which entitles the Company to exercise 100% of votes at the general meeting of Gorenje I.P.C., d.o.o.

Key information on Gorenje I.P.C., d.o.o.:

<b>Name and legal form:</b>	<b>Gorenje I.P.C., d.o.o., Slovenia</b>
Registered office and address	Partizanska 12,3320 Velenje, Slovenia
Share capital	EUR 92,622.00
Field of activity	Production of components
Business segment	Business Segment Home

### ***Gorenje Vertriebs GmbH***

Gorenje Beteiligungsgesellschaft holds 100% of the share capital in Gorenje Vertriebs GmbH, which entitles Gorenje Beteiligungsgesellschaft to exercise 100% of votes at the general meeting of Gorenje Vertriebs GmbH.

Key information on Gorenje Vertriebs GmbH:

<b>Name and legal form:</b>	<b>Gorenje Vertriebs GmbH, Germany</b>
Registered office and address	Garmischer Strasse 4-6, D-80339 Muenchen, Germany
Share capital	EUR 5,700,000.00

**Name and legal form:** **Gorenje Vertriebs GmbH, Germany**

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Field of activity	wholesale distribution
Business segment	Business Segment Home

### ***Gorenje Zagreb, d.o.o.***

The Company holds 100% of the share capital in Gorenje Zagreb, d.o.o., which entitles the Company to exercise 100% of votes at the general meeting of Gorenje Zagreb, d.o.o.

Key information on Gorenje Zagreb, d.o.o.:

**Name and legal form:** **Gorenje Zagreb, d.o.o., Croatia**

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Registered office and address	Slavonska avenija 26/4, 10000 Zagreb, Croatia
Share capital	HRK 113,037,700.00
Field of activity	wholesale distribution
Business segment	Business Segment Home

### ***Gorenje d.o.o. Beograd***

Gorenje Nederland B.V. holds 100% of the share capital in Gorenje d.o.o. Beograd, which entitles Gorenje Nederland B.V. to exercise 100% of votes at the general meeting of Gorenje d.o.o. Beograd.

Key information on Gorenje d.o.o., Beograd

**Name and legal form:** **Gorenje d.o.o. Beograd, Serbia**

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Registered office and address	Kralja Milutina 46, 11000 Beograd, Serbia
Share capital	RSD 386,510,822.00
Field of activity	wholesale distribution
Business segment	Business Segment Home

### ***Gorenje Group Nordic A/S***

Gorenje Beteiligungsgesellschaft holds 100% of shares in Gorenje Group Nordic A/S, which entitles Gorenje Beteiligungsgesellschaft to exercise 100% of votes at the general meeting of Gorenje Group Nordic A/S.

Key information on Gorenje Group Nordic A/S:

**Name and legal form:** **Gorenje Group Nordic A/S, Denmark**

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Registered office and address	Roskildevej 290, 2610 Rodovre, Denmark
Share capital	DKK 17,820,000.00
Field of activity	wholesale distribution
Business segment	Business Segment Home

### ***OOO Gorenje BT***

Gorenje Beteiligungsgesellschaft holds 99% of the share capital OOO Gorenje BT and Gorenje Austria Handel. M.b.h. holds 1% of the share capital in OOO Gorenje BT, which entitles Gorenje Beteiligungsgesellschaft to exercise 99% and Gorenje Austria Handel. M.b.h. to exercise 1% of votes at the general meeting of OOO Gorenje BT.

Key information on OOO Gorenje BT:

<b>Name and legal form:</b>	<b>OOO Gorenje BT, Russia</b>
Registered office and address	Yakimanskaya naberezhnaya, 4, str.1, Moscow, Russia
Share capital	RUB 4,000,000.00
Field of activity	wholesale distribution
Business segment	Business Segment Home

***Gorenje Surovina, d.o.o.***

The Company holds 85.7929% of the share capital in Gorenje Surovina, d.o.o. and Gorenje Surovina, d.o.o. holds 14.1920% of the share capital, which entitles the Company to exercise 99.9849% of votes at the general meeting of Gorenje Surovina, d.o.o. The remaining share capital are held by Občina Šentjur.

Key information on Gorenje Surovina, d.o.o.:

<b>Name and legal form:</b>	<b>Gorenje Surovina, d.o.o., Slovenia</b>
Registered office and address	Ulica Vita Kraigherja 5, 2000 Maribor, Slovenia
Share capital	EUR 9,401,565.00
Field of activity	waste management
Business segment	Business Segment Ecology



## MANAGEMENT BOARD AND SUPERVISORY BOARD

*This section provides an overview of the Management Board and Supervisory Board, as well as a summary of the relevant provisions of the Articles of Association and other Company rules and statutory rules of the Slovenian Companies Act, as they relate to management boards and supervisory boards.*

### Overview

The mandatory provisions of the Slovenian Companies Act provide for a statutory minimum of corporate governance rules for companies incorporated under Slovenian law. Pursuant to the Slovenian Companies Act, a joint stock company incorporated under Slovenian law may choose a two-tier management system by appointing a management board (*uprava*) and a supervisory board (*nadzorni svet*), or a one-tier management system by appointing a governing board (*upravni odbor*). The Company has a two-tier management system, which is also the most common system among the companies listed on the LJSE.

According to the Slovenian Companies Act, in a two-tier management system, the management board is the executive body of a joint stock company and the supervisory board is the non-executive body, responsible for supervision of the conduct of the company's business.

### Management Board

#### Composition

The table below presents basic information on all five members of the Management Board, in place as at the date of the Prospectus.

Name	Age	Position	Date of appointment	Expiration of term of office	Business address
Franc Bobinac	55	President of the Management Board	19 July 2013	19 July 2018	Partizanska cesta 12, Velenje, Slovenia
Marko Mrzel	43	Member of the Management Board	19 July 2013	19 July 2018	Partizanska cesta 12, Velenje, Slovenia
Peter Groznik	40	Member of the Management Board	19 July 2013	19 July 2018	Partizanska cesta 12, Velenje, Slovenia
Branko Apat	55	Member of the Management Board	19 July 2013	19 July 2018	Partizanska cesta 12, Velenje, Slovenia
Drago Bahun	58	Member of the Management Board; Labour Director	19 July 2013	19 July 2018	Partizanska cesta 12, Velenje, Slovenia

Pursuant to the Articles of Association, its Management Board comprises the President and at least two members, one of whom is the Labour Director. The Management Board is appointed by the Supervisory Board, who also determines the number and responsibilities of particular Management Board members, by

way of relevant resolutions. The members of the Management Board are appointed for a period of five years, with the possibility of reappointment. The Supervisory Board may recall a Management Board member prior to the termination of their term of office.

Statutory provisions of the Slovenian Companies Act stipulate the eligibility criteria for members of a management board, stating that persons cannot be appointed as members of a management board if: (i) they are already a member of the supervisory board; (ii) if they have been finally convicted for a criminal offence constituting an economic or business crime, a criminal offence against employment relationships and social security, against legal proceedings, property, environment, space, and natural resources (such persons may not be appointed to a management board for a period of five years following the final judgment and two years following completion of their prison sentence); (iii) if they have had imposed upon them, as a security measure, a temporary restriction (suspension) preventing from performing the duties of a management board member for the duration of the suspension, or (iv) if they have acted as a member of the management board of a company against which bankruptcy proceedings were instituted and he or she was found liable for payment of damages to its creditors (this restriction shall apply for two years after the final judgment in this respect is issued).

### ***Powers***

The Management Board is an executive body of the Company responsible for the management of the Company's affairs and representation of the Company. The President of the Management Board and all the Management Board members represent the Company individually and without limitations. In representing the Company, the members of the Management Board must respect relations between particular Management Board members, as defined by the Management Board rules. The Labour Director represents employee interests in recruitment and social issues and has equal rights as all other Management Board members. However, he or she may not exercise the power of representation of the Company, except in cases when he or she is appointed among those already appointed as Management Board members.

According to the Slovenian Companies Act, the members of the Management Board must act with the diligence of conscientious and fair managers and protect the business secrets of the Company during the performance of their tasks on behalf of the Company. Members of the Management Board are jointly and severally liable to the Company for damage caused by breach of their responsibilities, unless they demonstrate that they did carry out their duties and responsibilities appropriately. The Articles of Association stipulate that the Management Board shall be liable to the Company, even if certain powers in particular areas of the Company's operation have been delegated to other persons (pursuant to the Management Board's rules, the Management Board may transfer special powers and responsibilities for the management or execution of individual affairs or types of transaction to individual employees). Members of the Management Board shall not be liable to the Company, only if the action that caused damage to the Company was based on a lawful resolution passed by the Shareholders' Meeting. The liability of the Management Board's members shall not be excluded, even if the action that caused damage to the Company was approved by the Supervisory Board.

### ***Functioning***

According to the Slovenian Companies Act and Articles of Association, the Management Board adopts its own rules of procedure. The rules of procedure of the Management Board (the "**Management Board Rules**") were adopted on 23 April 2012. According to the Management Board Rules the Management Board must normally be convened once every fourteen days, or more frequently when the Management Board is deciding in matters that require urgent deliberation and decision making. According to the Slovenian Companies Act, the quorum needed to pass resolutions is fulfilled if at least half of the Management Board members are present when a decision is taken. The Management Board adopts decisions by a simple majority of votes cast, with each Management Board member exercising the right to one vote. In case of an equal number of votes,

the President of the Management Board has the decisive vote. In the event of an equal number of votes when the Management Board is deciding in the absence of the President of the Management Board, the resolution of the Management Board being decided shall be deemed not adopted. According to the Slovenian Companies Act, members of the Management Board may not participate in decision-making on matters relating to them.

***The qualifications and professional experience of the Company's Management Board members***

**Franc Bobinac** joined Gorenje as Deputy Export Director in 1986. He was appointed Export Director in the Gorenje Household Appliances company in 1990, and one year later became Marketing Manager of that company. From 1993 to 1998 he was the Managing Director at Gorenje Sidex France SAS. After Gorenje's transformation into a public limited company, in 1998 he became a member of the temporary Management Board in charge of sales and marketing. In 2003 he was, for the first time, appointed President of the Management Board. He began his second term of office as the President of the Management Board in 2008 and his third term of office on 19 July 2013. Franc Bobinac obtained a degree in international economic relations from the Faculty of Economics of the University of Ljubljana in 1982. He completed his MBA studies at the Ecole Supérieure de Commerce in Paris in 1997. He is a member of the General Assembly of the CECED European Committee of Domestic Equipment Manufacturers, a member of the Management Board of the Chamber of Commerce of Slovenia, a member of the Management Board of the IEDC Bled School of Management, a member of the Jožef Stefan Institute, a member of the Economics Council at the University of Ljubljana, a member of the Council at the Faculty of Economics (University of Ljubljana), and is President of the Handball Association of Slovenia. He is also Vice-President of the Managers' Association of Slovenia and a member of the Management Board of the Managers' Association of SE Europe Summit 100.

**Marko Mrzel** was employed by the Company as head of the supplementary programme in 2001. Two years later he was appointed Director of the Company's sales subsidiary, Gorenje d.o.o., Belgrade. Since 2012 he has held the position of member of the Management Board in charge of sales and marketing. Marko Mrzel graduated from the Technical Faculty of the University of Maribor in 1995. Following his university studies he further pursued his career and completed 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.

**Peter Groznik** has been a member of the Management Board since 2012. After graduating from the Faculty of Economics of the 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. He was employed at various of KD skladi's companies, 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 chairman of the Supervisory Board of Pivovarna Union and of 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 is a partner in the BTP Indegra personal finance company.

**Branko Apat** began his employment with the Company as a sales specialist for products and services beyond the Gorenje parent company, later continuing his career as Export Director for the Middle East. In 1988 he became Assistant Export Director for out-of-white goods (i.e. small kitchen appliances), and was also in charge of marketing in South America. In 1990 he was appointed Purchasing Director, and in 1993 Marketing Director. From 1999 to 2007, he was Managing Director of the company producing water heaters, Gorenje Tiki. In 2007 he was appointed to the Management Board in charge of supplementary programmes, purchasing and logistics. In 2009 he was a member of the Management Board, responsible for the entire home appliances division, including sales. Since 1 January 2012 he has been 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 in 1983. In 1988 he completed a specialist study programme in marketing at Cleveland State University, Ohio, USA.

**Drago Bahun** has been an employee of the Company since 1985, when he became vicepresident of management committee of a unified organisation for the field of social-economic relationships (human resources director). From 1987 to 1990 he was a member of the Management Board of Gorenje Gospodinjiski 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 transformation 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. He has been the member of the Management Board in charge of human resources, organisation and labour director since 2003. Drago Bahun completed his studies in Sociology in 1979 at the Faculty of Sociology, Political Sciences and Journalism of the University in Ljubljana.

#### ***Directorships of the members of the Management Board***

The table below shows the capital companies and partnerships in which the Management Board members have: (i) served on the governing or supervisory bodies; (ii) have held interests/shares; and/or (iii) have been partners within the last five years.

<b>Name</b>	<b>Company</b>	<b>Position held</b>	<b>Is this position still held?</b>	
Franc Bobinac	IECD Poslovna šola Bled	Member of the Supervisory Board	Yes	
	The manager's association of Slovenia	Vice-President	Yes	
	Slovene chamber of Commerce	Member of the Board	Yes	
	Jožef Stefan Institute	Member of the Board	Yes	
	ETI d.d. Izlake	Member of the Board	No	
	Gorenje Surovina, d.o.o.	Member of the Supervisory Board	No	
	INGOR d.o.o. & co., k.d	Limited partner (commanditaire)	Yes	
	KRISTAL d.o.o., Zadar	Shareholder	Yes	
	Peter Groznik	PIVOVARNA LAŠKO d.d.	President of the Supervisory	Yes

Name	Company	Position held	Is this position still held?
		Board,	
	PIVOVARNA UNION d.d.	Member of the Supervisory Board	Yes
	NorthGrant Investment Consulting	Principal	Yes
	BTP Indegra Personal Finance	Principal	Yes
Drago Bahun	CREDY BANKA, Kragujevac	Member of the Supervisory Board	Yes
	INGOR d.o.o. & co., k.d	Limited partner (commanditaire)	Yes
	POŠTA SLOVENIJE d.d.	President of the Supervisory Board	No
Marko Mrzel	INGOR d.o.o. & co., k.d	Limited partner (commanditaire)	Yes
Branko Apat	INGOR d.o.o. & co., k.d	Limited partner (commanditaire)	Yes

## Supervisory Board

### *Composition*

The table below presents basic information on all ten members of the Supervisory Board as at the date of the Prospectus.

Name	Age	Position	Date of appointment	Expiration of term of office	Business address
Uroš Slavinec	62	President of the Supervisory Board	19 July 2010	19 July 2014	Helios Domžale d.d., Količevo 2, Domžale, Slovenia
Maja Makovec Brenčič	44	Vice-President of the Supervisory	19 July 2010	19 July 2014	Ekonomska fakulteta, Univerza v Ljubljani,

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of appointment</b>	<b>Expiration of term of office</b>	<b>Business address</b>
		Board			Kardeljeva ploščad 17, Ljubljana, Slovenia
Krešimir Martinjak	50	Vice-President of the Supervisory Board	19 July 2010	19 July 2014	Partizanska cesta 12, Velenje, Slovenia
Keith Charles Miles	71	Member of the Supervisory Board	19 July 2010	19 July 2014	Partizanska cesta 12, Velenje, Slovenia
Peter Kobal	59	Member of the Supervisory Board	19 July 2010	19 July 2014	Partizanska cesta 12, Velenje, Slovenia
Drago Krenker	57	Member of the Supervisory Board	19 July 2010	19 July 2014	Partizanska cesta 12, Velenje, Slovenia
Jurij Slemenik	52	Member of the Supervisory Board	19 July 2010	19 July 2014	Partizanska cesta 12, Velenje, Slovenia
Bernard Charles Pasquier	59	Member of the Supervisory Board	19 July 2010	19 July 2014	18 Boulevard de France MC 98000 Monaco
Marcel van Assen	44	Member of the Supervisory Board	19 July 2010	19 July 2014	Kruisbes 3, 7995 RK, Hengelo, the Netherlands
Bachtiar Djalil	38	Member of the Supervisory Board	5 July 2013	19 July 2014	Kapitalska družba d.d., Dunajska cesta 19, Ljubljana, Slovenia

The Articles of Association state that the Supervisory Board consists of ten members. Six Supervisory Board members representing the interests of the Company's shareholders are elected by the Shareholders' Meeting. Only experts in economy and related fields qualify for appointment to the Supervisory Board. Four Supervisory Board members representing the interests of the workers are elected by the Workers Council, pursuant to the Slovenian Worker Participation in Management Act, and general acts adopted by the Company's Workers Council. The Workers Council must inform the Shareholders' Meeting about the appointment of Supervisory Board members.

The statutory provisions of the Slovenian Companies Act stipulate that any person with legal capacity may be a supervisory board member, except in the following cases: (i) if they are already a member of the

management board; (ii) if they have been finally convicted for a criminal offence constituting an economic or business crime, a criminal offence against employment relationship and social security, legal proceedings, property, environment, space, and natural resources (such persons may not be appointed to a supervisory board for a period of five years following the final judgment and two years following completion of their prison sentence); (iii) if they have had imposed upon them, as a security measure, a temporary restriction (suspension) preventing from performing the duties of a supervisory board member for the duration of the suspension; (iv) if they have acted as a member of a managerial or supervisory body of a company against which bankruptcy proceedings were instituted, and he or she was ultimately found liable for repayment of to its creditors, pursuant to the provisions of the relevant legislation governing the financial operations of the companies and responsibility for payment of damages (this restriction shall apply two years after the final judgment in this respect is issued); (v) if they are a member of the management or supervisory boards at a company subsidiary; (vi) if they hold the power of attorney or commercial proxy for this company; (vii) if they are a management board member at another corporation, at which a member of the company's Management Board is a supervisory board member; and (viii) if are a supervisory or management board member at three other companies.

The members of the Supervisory Board are appointed for a period of four years, with the unlimited possibility of reappointment. Motions for the appointment of Supervisory Board members, representing the interests of shareholders, shall be submitted by the preceding Supervisory Board. A member of the Supervisory Board may be recalled prior the expiry of his or her term of office by a resolution of the Shareholders' Meeting, passed with a three-quarters majority of the votes cast. The Supervisory Board members representing the interests of employees are revoked by the Workers Council in accordance with the Slovenian Worker Participation in Management Act, and relevant Workers Council statutes. Supplementary members of the Supervisory Board shall be appointed for the remaining portion of the relevant term of office, except if the Shareholders' Meeting decides differently with the passing of a relevant resolution.

### ***Powers***

The Supervisory Board is a non-executive body of the Company and is responsible for the supervision of the conduct or the company's business.

The Supervisory Board supervises the performance of business in the Company. Its supervisory function is performed by reviewing reports submitted by the Company's management, especially with regard to the following:

- (i) planned business policy and other strategic issues related to business;
- (ii) the profitability of the Company, especially regarding return on capital;
- (iii) the financial status of the Company;
- (iv) business transactions that may have an important impact on the profitability of the Company, and
- (v) any other issues related to the business of the Company and its subsidiaries.

According to the Slovenian Companies Act, members of the Supervisory Board must act with the diligence of conscientious and fair managers and protect the business secrets of the Company during the performance of their tasks on behalf of the Company. Members of the Supervisory Board are jointly and severally liable to the Company for damage caused by breach of their responsibilities, unless they demonstrate that they did carry out their duties and responsibilities appropriately. Members of the Supervisory Board shall not be liable, only if the action that caused damage to the Company was based on a lawful resolution passed by the Shareholders' Meeting.

### ***Functioning***

On 23 November 2010 the Supervisory Board adopted its own rules of procedure (the “**Supervisory Board Rules**”). According to the Supervisory Board Rules, the Supervisory Board must be convened at least once per quarter by the President of the Supervisory Board, consistently with the annual work plan of the Supervisory Board, whereby each Supervisory Board member has the right to request that the President of the Supervisory Board convenes a Supervisory Board meeting. According to the Articles of Association and Supervisory Board Rules, the Supervisory Board shall constitute a quorum if at least one half of the Supervisory Board’s members are present, of which at least one Supervisory Board member should be the employee representative. The Supervisory Board may adopt valid resolutions in the absence of workers’ representatives only if they had not been elected by the Workers Council, or if the Shareholders’ Meeting was not notified of their election. If quorum is not reached, another meeting must be reconvened as early as possible, with the same agenda. The Supervisory Board adopts decisions with a simple majority of votes cast. Each Supervisory Board member has one vote. Supervisory Board members shall not take part in decisions on any issues related to themselves, however, such members shall be accounted for in establishing quorum. In the case of an equal number of votes, the ruling vote is cast by the President of the Supervisory Board. In the case of the President’s absence, the meeting of the Supervisory Board is chaired by the Deputy President of the Supervisory Board, who in such cases has equal status as that of the President of the Supervisory Board. Absent Supervisory Board members may participate in the deliberations of the Supervisory Board by submitting their vote or decision in writing to the President of the Supervisory Board.

### ***The qualifications and professional experience of the Supervisory Board’s members***

#### *Supervisory Board members representing the interests of the Company’s shareholders*

**Uroš Slavinec**, the President of the Supervisory Board, obtained a university degree from the Faculty of Economics, University of Ljubljana in 1975. Since 1990 he has been the President of the Management Board of the Helios Domžale d.d. He was employed at the aforementioned company from 1975 until 1986, at all times working in the management department and in various fields (as head of the planning and analysis department, member of the collegiate management committee and chairman of the collegiate management committee). In the period between 1986 and 1990 he was member of executive committee of the Parliament of the Republic of Slovenia for industry and construction. He is a member of the Assembly of the Chamber of Commerce and Industry of Slovenia.

**Maja Makovec Brenčič**, PhD., the Vice-President of the Supervisory Board, is an Associate Professor of International Business and Marketing at the Faculty of Economics, University of Ljubljana (FELu). Her main research areas are internationalisation of firms, international marketing, B2B and relationship marketing. She is one of the leading marketing and international business academics in Slovenia, where she also publishes in academic and professional journals, especially in the B2B and international marketing and business areas. She is also the president of the Slovenian Marketing Association and vice-chair of the Slovenian Advertising Arbitration Board. At FELu, she has been the Vice Dean for Development since 2009. Maja Makovec Brenčič obtained her PhD degree in management and organisation in 2000.

**Keith Charles Miles**, is a Fellow of The Institute of Chartered Accountants in England and Wales (1964). He gained his working experience while being employed at various companies and enterprises, mostly dealing with accounting, treasury, finance and retail. He was a director at several British public and non-public joint stock companies between 1983 and 1985. From 1983 to 1985, he was the director of finance at the Greater London Enterprise Board (investment, local/municipal administration); from 1985 to 1988, he was the director of finance at the Cable Authority (a regulatory body); from 1988 to 1990, he was the director of finance at the Institute of Economic Affairs (an academic institution); from 1990 to 1995, he worked at ETAM PLC as director of finance and from 2001 to 2005 as a non-executive director at Lexeron Ltd. He is now



retired. He was also a member of numerous boards, mostly in Great Britain, and is still a member of the NKMB Supervisory Board.

**Marcel van Assen**, PhD., has been since 2005 a full professor of Operational Excellence for Services at TiasNimbas Business School, the business school of the University of Tilburg and the Technical University of Eindhoven, where he teaches various courses, workshops and master classes. He holds an M.Sc. in mechanical engineering from the University of Twente (1996), an M.Sc. in strategy and organisation from the Open University (2006), and a Ph.D. in business administration from the Erasmus University Rotterdam (2005).

**Bernard C. Pasquier**, obtained his undergraduate degree in Business Administration (Finance and Investment Analysis) from the Ecole Supérieure de Commerce et d'Administration des Entreprises de Montpellier (France) in 1976, and his Master's Degree in Public Administration (Business and Economic Development) from Harvard University's John F. Kennedy School of Government (USA) in 1984. From 2004 to 2007, he was Secretary General at COMPAGNIE MONEGASQUE DE BANQUE in Monaco, responsible for overall corporate strategy, the legal department, internal and external communication and participating in the Board of Directors' and Executive Committees' meetings. From 2001 to 2004, he was Director of the Latin America and Caribbean Department at the IFC, Washington, responsible for the overall strategy of the IFC, including new investments (\$1.5 billion per year) and portfolio (\$5 billion). From 1984 to 2001, he also performed several other functions with the IFC: he was an investment officer through the Young Professional Programme (1984-1985), principal economist and country officer for the Africa region (1985-1990), manager of the Africa Department (1990-1995), Senior Adviser in the Office of the President of The World Bank (1998-2001) and Director of the South Asia Department (2001-2004).

**Bachtjar Djalil**, completed his undergraduate studies at the Faculty of Law in Ljubljana in 1998 and continued his postgraduate studies in European law at the University of Groningen, the Netherlands, where he was awarded the title Master of Laws in European Laws in 2000. He has been the president of the management board at Kapitalska družba, d.d. since 2011. In 2004, he was assigned general counsel at the legal affairs office at NLB Skladi, d.o.o. and in July 2007 he was appointed management board member at this company. Since January 2010 he has been employed at Kapitalska družba, d.d., where he was initially a management board member. He is also a supervisory board member at Loterija Slovenije, d.d. and a member of the Permanent Arbitration with the Slovenian Investment Fund Association. Previously, he was also the supervisory board president at Modra zavarovalnica (an insurance company), a member of the board of directors with the Slovenian Investment Fund Association, and a member of the board of directors with the National University Library.

*Supervisory Board members representing the interests of the Company's workers*

**Krešimir Martinjak**, the Vice-President of the Supervisory Board, obtained a university degree in law in 2006 from the University of Maribor. He has been employed with the Company since 1986. He has 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 for the first time in 2002. From 2002 to 2008 he was the Chairman of the SKEI Trade Union of the Company, after which he returned to work in the legal office of the Company.

**Peter Kobal** is an electrical engineering technician and holds the position of Assistant Director of Maintenance at the Company since 1999. He has been employed at the Company since 1971, and has held various maintenance positions, from maintenance technician to assistant director. In 1997 he was elected the Chairman of the Employee Council of Gorenje for the first time, and now holds this position for the fourth consecutive term. He was appointed a member of the Supervisory Board for the first time in 1998.

**Drago Krenker** is a professional sales representative and the Assistant Director of the Company's 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 then spent two years at Iskra Delta, primarily working on medical electronic equipment. In 1989 he began 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 for the first time in 1998, and is also currently serving his fourth term on the Workers Council.

**Jurij Slemenik** was trained as a mechanical engineering technician and is currently Head of Production in the washer-dryer programme. He has worked for Gorenje since 1978, holding various jobs in the washer programme, and has been a member of the Workers Council since 2002, when he was elected to the Supervisory Board for the first time.

*Directorships of members of the Supervisory Board*

The table below shows the capital companies and partnerships in which the Supervisory Board members: (i) have served on the governing or supervisory bodies; (ii) have held interests/shares; and/or (iii) have been partners, within the last five years.

Name	Company	Position held	Is this position still held?
Uroš Slavinec	Helios Domžale d.d.	President of the Management Board	Yes
	Zavarovalnica Triglav d.d., Ljubljana	Vice-President of the Supervisory Board	No
Maja Makovec Brenčič	Žito d.d.	Member of the Supervisory Board, Vice-President	Yes
Bachtiar Djalil	Kapitalska družba d.d.	President of the Management Board	Yes
	Loterija Slovenije d.d.	Member of the Supervisory Board	Yes
	Modra zavarovalnica d.d.	President of the Supervisory Board	No
Keith Charles Miles	NLB skladi d.o.o.	Member of the Management Board	No
	Nova KBM d.d.	Member of the Supervisory Board	Yes

Name	Company	Position held	Is this position still held?
Bernard Pasquier	Davividenda Colombia	Member of the Board of Directors	Yes
	GMT Panama	Member of the Board of Directors	Yes
	Sogebank Haiti	Member of the Board of Directors	Yes
Drago Krenker	INGOR d.o.o. & co., k.d.	Limited partner (commanditaire)	Yes
Peter Kobal	INGOR d.o.o. & co., k.d.	Limited partner (commanditaire)	Yes
Krešimir Martinjak	INGOR d.o.o. & co., k.d.	Limited partner (commanditaire)	Yes

### ***Committees of the Supervisory Board***

According to the Supervisory Board Rules, the Supervisory Board may adopt a decision to appoint one or more committees to be in charge of expert and technical tasks within particular fields of the Supervisory Board's work. These committees prepare expert backgrounds and reports required for the work and decision-making processes of the Supervisory Board, as well as propose the wording for resolutions and supervise their implementation. Committees consist of a chairperson and at least two members. In addition to Supervisory Board members, committee members may also include company employees with appropriate expert training, or independent experts, whereby each committee must include at least one Supervisory Board member.

### ***Audit Committee***

Pursuant to the Slovenian Companies Act, the Audit Committee performs the following tasks: (i) overseeing compliance of the financial information issued by the Company; (ii) supervision of the risk management system, internal audits and the system of internal controls; (iii) estimation of the composition of the annual report, including preparing the proposal for the Supervisory Board in this respect; (iv) cooperation in determining the important segments to be audited; (v) cooperation in selecting an independent auditor and preparing the agreement between the auditor and the company; (vi) monitoring the independence, impartiality and effectiveness of external auditors; (vii) supervising the nature and scope of non-auditing activities; and (viii) other tasks defined by a resolution adopted by the management board.

The Audit Committee members are: Keith Miles (chairman), Drago Krenker (member) and Aleksander Igličar (external member, Senior Lecturer in accounting and auditing at the Faculty of Economics in Ljubljana).

### *Remuneration Committee*

Pursuant to the LJSE Code, the competences of the Remuneration Committee primarily include: (i) assistance to the Supervisory Board and drawing up of proposals for the criteria for Management Board member candidates, whereby the Remuneration Committee shall evaluate the balance between the candidates' skills, knowledge and experience, and shall draw up a description of their proposed role and qualifications required for their appointment; (ii) periodic assessment of the size, composition and work of the Management Board; (iii) support in the evaluation of the Management Board's work and drawing up of substantiated reasons for the recall of individual members of the Management Board; and (iv) support in the drawing up and implementation of the Management Board's remuneration system. The Remuneration Committee must regularly review the Management Board remuneration policy, including share-based remuneration, and its implementation.

The Remuneration Committee members are: Bernard Pasquier (chairman), Marcel van Assen, Maja Makovec Brenčič, Keith Miles, Uroš Slavinec, Krešimir Martinjak and Jurij Slemenik.

### *Other committees*

Apart from the above-mentioned Audit Committee and Remuneration Committee, the following committees operate within the Supervisory Board: (i) the Benchmark Committee; (ii) Corporate Governance Committee; and (iii) Nomination Committee.

## **Other information relating to the members of the Management Board and Supervisory Board**

In accordance with the representations made by the Management Board and Supervisory Board members, and except for the cases described previously in this section, during the last five years no Management Board or Supervisory Board member:

- has held any interest or share in any capital company or has been a partner in a partnership;
- has been a shareholder of a public company holding shares representing more than 1% of the votes at the general meeting of that company;
- has conducted any business activity other than his or her business at the Company, which could be material to the Company;
- has been convicted of a fraud-related crime;
- has been subject to proceedings or sanctions imposed by any state authority or other supervisory body (including a trade organisation);
- has been subject to a court-issued prohibition on performing functions in administrative, governing or supervisory bodies of companies or a prohibition from performing managerial functions or managing the business of any company; or
- has been a member of an administrative, governing or supervisory body or an executive in any company in respect of which receivership was established, or bankruptcy, liquidation or similar proceedings were initiated.

## **Family relationships**

There are no family relationships between the members of the Management Board and Supervisory Board.

### **Administrative, management or supervisory functions at other entities**

Apart from the exceptions described above, during the last five years no Management Board or Supervisory Board member has performed administrative, supervisory or management duties at any other company or has performed any activities outside the Company, which might be material to the Company.

### **Conflicts of interest**

Member of the Supervisory Board Mr Bachtiar Djalil is the President of the Management Board of the company Kapitalska družba d.d., which is the Company's major shareholder.

The wife of the President of the Management Board, Ms Polona Bobinac, performs the function of the Regional Sales Executive Director of the Company, and the wife of a member of the Management Board, Ms Alenka Mrzel, performs the function of Marketing Communications Director in the Company.

Apart from the above, there are no conflicts of interest between any duties of any Management Board and Supervisory Board members and their private interests and/or other duties.

### **Transactions and agreements with major shareholders, clients, service providers or other persons on the basis of which any member of the Management Board or Supervisory Board has been appointed as a member of the Management Board or the Supervisory Board**

There are no agreements or understandings with the Company's principal shareholders, clients, service providers or other entities on the basis of which any member of the Management Board or the Supervisory Board has been appointed as a member of the Management Board or the Supervisory Board.

### **Remuneration and terms of agreements on the provision of services by the members of the Management Board and the members of the Supervisory Board**

#### ***Conditions of establishment of the remuneration of the members of the Management Board***

Pursuant to the Slovenian Companies Act and the Articles of Association, the Supervisory Board must ensure that, in determining the total income of a particular member of the Management Board (salary and reimbursement of costs, bonuses for business performance – shares and options remuneration programme, participation in profit, severance pay and other income etc), their total income is proportionate with the tasks of that member of the Management Board and the financial position of the Company. The Slovenian Companies Act stipulates that the Shareholders' Meeting may determine the income policy for the Management Board and Supervisory Board members in line with the following principles:

- income policy for the members of the Management Board shall foster the long-term sustainability of the Company, and provide for income in accordance with results achieved and the financial position of the Company;
- total income may be composed of a fixed and a variable part; the variable part of the income must depend on measurable criteria defined in advance. The Shareholders' Meeting may determine the maximum amount of the variable part of the income;
- severance pay may be paid only in the case of early termination of a contract unless the member of the Management Board has been recalled for valid reasons (if they are in serious breach of obligations, if they are incapable of business conduct, if the Shareholders' Meeting passes a vote of no confidence in them, except where the vote of no confidence was passed for clearly unsubstantiated reasons) or if the member of the Management Board themselves terminates a contract. The Shareholders' Meeting may

also determine the maximum amount of severance pay. If the Shareholders' Meeting does not define the income policy for the members of the Management Board and Supervisory Board, the Supervisory Board must follow the same principles.

Pursuant to the Articles of Association, remuneration of Management Board members must be proportionate to their respective powers and duties, and in line with the overall financial standing of the Company. In case of a deterioration in the financial status of the Company, when the economic position of the Company is threatened, the Supervisory Board may unilaterally reduce the salaries of the Management Board members. The Management Board members may participate in the distribution of profit subject to a motion by the Supervisory Board and the approval of the Shareholders' Meeting.

Pursuant to the Slovenian Companies Act, the Management Board must inform the shareholders of the members of the Management Board's and Supervisory Board's income, received in the past financial year for performing tasks in the Company when the Shareholders' Meeting is deciding on the use of the profit for appropriation. This information must include the income per member of the Management Board or Supervisory Board and must be broken down into at least fixed and variable income, participation in the profit, options and other bonuses, reimbursement of costs, insurance premiums, commissions and other additional payments. Information must also include income acquired by the members of the Management Board or Supervisory Board for performance of their tasks with subsidiaries. This information must also be disclosed in the annual report, together with the income policy for the members of the Management or Supervisory Boards if defined by the Shareholders' Meeting.

Payments to the members of the Management Board are presented in the financial report of the Company's annual report.

***Remuneration and value of non-pecuniary services received by members of the Management Board in 2012***

Remuneration paid to the members of the Management Board in the financial year 2012 was:

Name	The Company		Other Group companies	
	Remuneration	Other benefits	Remuneration	Other benefits
	<i>in EUR (gross)</i>			
Franc Bobinac.....	234,866	25,831	0	0
Branko Apat.....	192,469	10,146	0	0
Peter Groznik.....	112,940	9,095	0	0
Marko Mrzel.....	178,705	10,146	0	0
Drago Bahun.....	191,251	10,894	0	0

\* Source: the Company.

There are no conditional or deferred payments or non-pecuniary receivables which are due for any Management Board's member for the year 2012.

***Conditions of establishment of the remuneration of the members of the Supervisory Board***

According to the Supervisory Board Rules, members of the Supervisory Board are entitled to receive attendance fees for their regular work at Supervisory Board meetings, and reimbursement of costs incurred with regard to such work. In addition to the attendance fee, Supervisory Board members may be entitled to receive payment for performing their respective functions and duties, subject to a resolution by the Shareholders' Meeting. The payment must be proportionate to the duties of the Supervisory Board members

and to the Company's financial position. The Supervisory Board members cannot participate in the Company's profit.

Payments to the members of the Supervisory Board are presented in the financial report of the Company's annual report.

***Remuneration and value of non-pecuniary services received by members of the Supervisory Board in 2012***

Remuneration paid to members of the Supervisory Board in the financial year 2012 was:

Name	The Company		Other Group companies	
	Remuneration	Other benefits	Remuneration	Other benefits
	<i>in EUR (gross)</i>			
Uroš Slavinec.....	16,484	0	0	0
Maja Makovec Brenčič.....	16,386	0	0	0
Keith Charles Miles.....	28,929	0	0	0
Marcel van Assen.....	22,331	0	0	0
Bernard Pasquier.....	15,068	0	0	0
Drago Krenker.....	14,650	1,200	0	0
Krešimir Martinjak.....	15,619	150	0	0
Peter Kobal.....	13,882	0	0	0
Jurij Slemenik.....	14,180	0	0	0
Peter Kraljič**.....	11,654	0	0	0

\* Source: the Company.

\*\* Peter Kraljič was a member of the Supervisory Board in 2012.

\*\*\* The above table includes information on remuneration for holding positions of the Supervisory Board's members. Apart from that, in 2012 members of the Supervisory Board representing the workers, which are employed by the Company (i.e. Krešimir Martinjak, Peter Kobal, Drago Krenker, and Jurij Slemenik) were also paid remuneration resulting from their individual employment contracts in the total amount of EUR 276,749 (gross).

There are no conditional or deferred payments or non-pecuniary receivables which are due for any Supervisory Board's member for the year 2012.

***Agreements with the members of the Management Board and the Supervisory Board payable by the Group in the event of the termination of employment or similar agreements***

All members of the Management Board are entitled to a severance payment equivalent to six to twenty four-month gross salaries.

Members of the Supervisory Board that are representatives of the Company's shareholders (Mr Uroš Slavinec, Ms Maja Makovec Brenčič, Mr Keith Charles Miles, Mr Marcel van Assen, Mr Bernard Pasquier and Mr Bachtiar Djalil) are not entitled to any severance payment or other termination fee. Members of the Supervisory Board that are representatives of the workers and are also employed by the Company, are entitled to a severance payment on the basis of their individual employment contracts, in accordance with general employment rules.

***Total amount designated for the purposes of pensions, retirement funds or similar benefits for the members of the Management Board and/or Supervisory Board***

Members of the Management Board and Supervisory Board are not entitled to any pensions, retirement funds or similar benefits.

***Agreements regarding the appointment of the members of the Management Board and members of the Supervisory Board***

As at the date of this Prospectus there are no agreements regarding the appointment of the members of the Management Board and member of the Supervisory Board.

**Shares of the Company or stock options owned by the members of the Management Board and/or Supervisory Board**

The following table presents information on number of shares in the Company owned by the members of the Management Board and/or Supervisory Board as at the date of this Prospectus.

<b>Name</b>	<b>Shares in the Company</b>
Franc Bobinac	2,096 shares
Branko Apat	626 shares
Drago Bahun	9,032 shares
Krešimir Martinjak	115 shares
Peter Kobal	1,355 shares
Jurij Slemenik	1,738 shares

*\*Source: the Company*

Apart from the above, as at the date of this Prospectus other members of the Management Board and Supervisory Board do not hold shares in the Company. As at the date of this Prospectus, there are no stock options held by members of the Management Board and Supervisory Board.

**Restrictions on transferring Shares agreed by the members of the Management Board and/or Supervisory Board**

LJSE Guidelines on disclosure for listed companies recommend that companies adopt rules stipulating restrictions on trading in the company's shares for members of the management and supervisory boards, and for other persons with access to inside information. In accordance with the Company's rules, members of the Management Board and Supervisory Board 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 (closed trading windows). In the 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.

Apart from the above, as at the date of this Prospectus there are no restrictions on the disposal of Shares held by the members of the Management and Supervisory Boards.

**Intention of the members of the Management Board and Supervisory Board to take part in the Offering**

Management Board members Franc Bobinac, Marko Mrzel, Peter Groznik and Drago Bahun intend to subscribe for the Company's newly issued shares, however none of them intends to subscribe for more than 5% of the Issuer's shares. Branko Apat does not intend to subscribe in the Offering.



The Supervisory Board member Jurij Slemenik intends to subscribe for the Company's newly issued shares, however for not more than 5% of the Issuer's shares. Other members of the Supervisory Board do not intend to subscribe for the new shares in the Offering.

## **Corporate governance rules complied with by the Company**

### **Corporate governance rules in Slovenia**

On 8 December 2009, the LJSE, the Association of Supervisory Board Members of Slovenia, and the Managers' Association of Slovenia adopted the corporate governance code for public limited companies ("**LJSE Code**"). The purpose of the LJSE Code is to define the governance and management principles of companies listed on the Slovene regulated market. All provisions of the LJSE Code have the nature of recommendations, which are not legally binding. The corporate governance statement of compliance with the LJSE Code has become a requisite element of the business report in companies' annual statements and is based on the "comply or explain" principle. This principle allows companies to deviate from the LJSE Code's recommendations and develop their own business practices. However, every listed company must disclose which provisions of the LJSE Code it does not comply with, and explain why not. According to the Slovenian Companies Act, a public company must disclose their corporate governance practice, either in a separate document or under the business report section in their annual report. The Company publishes its statement of compliance with the LJSE Code with its annual report, on its website. According to the most recent statement on compliance with the LJSE Code, in its 2012 annual report the Company states that it complies with the LJSE Code with individual deviations from recommendations under point 1, 5.8., 8.4. and 9. of the LJSE Code.

The LJSE Code for Listed Companies include non-binding rules for the best practices of listed companies, which are included in the following sections: (i) corporate governance framework; (ii) recommendations for the Company's relations with shareholders; (iii) best practices for supervisory board members; (iv) best practices for management board members; (v) recommendations regarding auditing; and (vi) recommendations regarding the transparency of operations.

### **Corporate governance rules for companies listed on the WSE**

The Best Practices for WSE Listed Companies, are a set of corporate governance rules for public companies whose securities are listed on the WSE. The Best Practices for WSE Listed Companies are aimed at enhancing transparency of listed companies, improving the quality of communication between companies and investors, and strengthening protection of shareholder rights, including those not regulated by legislation, while refraining from imposing a burden on listed companies that may outweigh the benefits resulting from market needs.

The Best Practices for WSE Listed Companies include non-binding rules relating to the good practices of listed companies which are included in the following sections: (i) recommendations related to best practices for listed companies; (ii) best practices for the management boards of listed companies; (iii) best practices for supervisory board members; and (iv) best practices for shareholders. All the rules contained in sections (ii), (iii) and (iv) above are subject to the "*comply or explain*" principle, i.e. the companies need to provide the market with direct information about any non-compliance with such rules. The rules contained in section (i) above are recommendations which are not subject to the "*comply or explain*" principle; instead they provide general trends concerning adequate levels of internal relations within listed companies, as well as their relations with the business environment.

Under Article 29 section 3 of the WSE Rules, should a specific governance rule contained in section (ii), (iii) or (iv) of the Best Practices for WSE Listed Companies not be applied by a public company on a permanent basis or be violated incidentally, such public company must publish a current report specifying under what

circumstances and for what reasons a rule has not been applied, as well as how it intends to address the effects, if any, of not having applied a given rule or what steps it intends to take to mitigate the risk of the corporate governance rules not being applied in the future.

As at the date of this Prospectus, the Company not being a WSE-listed company, does not comply with all the rules set forth in the Best Practices for WSE Listed Companies. Upon admitting the Company's Shares, including the Offer Shares to WSE trading, the Management Board, acting within the competences entrusted to it by the Articles of Association and generally binding provisions of applicable law, intends to make the Company apply to the broadest extent possible with the rules set out in the Best Practices for WSE Listed Companies. The Company is organized and functioning under the Slovenian law and therefore certain rules of the Best Practices for WSE Listed Companies will apply to the Company only to the extent permitted by Slovenian law and subject to the Company's corporate structure. The Management Board also intends to recommend to the Supervisory Board and the Shareholders Meeting the application to the broadest extent possible of the rules resulting from the abovementioned document.

The Company aims to ensure the highest transparency of its operations and proper quality of the investor relations. Upon the admission to trading of the Company's Shares (including the Offer Shares) to trading on the WSE main market the Company intends to adhere to all principles of corporate governance pursuant to the Best Practices for WSE Listed Companies, subject to the following exceptions:

Recommendation 5: in part which refers to the Company adopting rules defining the remuneration policy for the Supervisory Board members.

The Company has not adopted rules for defining the remuneration of the members of the Supervisory Board. According to the Articles of Association and the Shareholders Meeting By – laws the Shareholders Meeting is entitled to set forth the remuneration of the members of the Supervisory Board upon their sole discretion. The Management Board doesn't have influence on the decision on the Shareholders Meeting regarding the remuneration of the Supervisory Board members.

Recommendation 9: in part which refers to the Company ensuring that there is a balanced proportion of women and men holding managerial and supervisory positions.

As at the date of this Prospectus, the Company does not ensure the balanced proportion of men and women in Management and Supervisory Boards. The Management Board is composed of five members, all men. The ten-member Supervisory Board includes one woman: Maja Makovec Brenčič. The Management Board does not have influence on the decision on the authorized bodies of the Company that are taking decision on the composition of the Management and Supervisory Boards.

Best practice II.1, item 9a) stating that a public company should publish, on its website, a record of the Shareholders Meeting in audio or video format:

As at the date of this Prospectus, record of the Shareholders Meeting is available in writing and is published on the Company's website in accordance with the requirements of the Slovenian Companies Act. Neither of the abovementioned acts, nor the LJSE Code or the Shareholders Meeting By-laws require the Company to record the Shareholders Meeting in the other form than in writing and therefore the Company does not publish such a record in audio and/or video format.

Best practice IV.1: allowing the presence of the representatives of media during the Shareholders Meeting.

According to the Shareholders Meeting By-laws (available on the Company's website) during the Shareholders Meeting only shareholders (and their representatives) and members of the Management Board and Supervisory Board are present. This is due to the fact that during the Shareholders meeting discussions on

the matters being professional secret of the Company may take place and the Company is not willing to share it publicly.

Best practice IV. 7 regarding the conditional dividend payment is not applicable to the Company due to the fact that under the Slovenian Companies Act it is not allowed that the Shareholders Meeting resolves on the conditional payment of the dividend.

Best practice IV. 8 regarding the minimum possible nominal value of the shares following the share split is not applicable to the Company due to the fact that the Shares are no par value shares.

The Company will, in accordance with the WSE Rules, inform in its annual report of its compliance with the corporate governance rules and regularly of non-compliance with a specified rule permanently or its incidental infringement. In this respect, the Company shall be under an obligation to publish a report informing which rule is not complied with or which has not been applied, what the circumstances were and the reasons for non-compliance with that rule and how the Company intends to remedy the potential effects of non-compliance with that rule and what measures it intends to undertake to diminish the risk of non-compliance with that rule in the future. The report will be published on the official website of the Company and pursuant to the same procedure which applies to the delivery of current reports in accordance with appropriate requirements, as referred to § 29 of the WSE Rules. This obligation occurs immediately after the Company is justified in its supposition that a given rule will not be applied or will not be complied with, in each case immediately upon the occurrence of an event constituting infringement of a corporate governance rule.

## SHAREHOLDERS

### Shareholding structure before the Offering

The table below presents certain information on the ownership of the Company's shares, as at 11 October 2013.

<i>Shareholder</i>	Shares owned before the Offering		
	Number	Percentage of shares	Percentage of votes**
KAPITALSKA DRUŽBA, D.D. ....	3,534,615	19.39%	19.52%
PANASONIC CORPORATION .....	2,320,186	12.73%	12.81%
IFC.....	1,876,876	10.30%	10.37%
HOME PRODUCTS EUROPE B.V.....	1,070,000	5.87%	5.91%
NFD 1, mešani fleksibilni podsklad.....	810,802	4.45%	4.48%
INGOR, d.o.o., & co. k.d.....	794,473	4.36%	4.39%
EECF AG.....	411,727	2.25%	2.27%
RAIFFEISEN BANK AUSTRIA D.D – FIDUCIARY ACCOUNT	385,260	2.11%	2.13%
CONSEQ INVEST PUBLIC LIMITED COMPANY .....	339,204	1.86%	1.88%
EATON VANCE PARAMETRIC STRUCTURED EMERGING FUND .....	301,465	1.65%	1.66%
OTHER.....	6,261,143	34.35%	34.58%
TREASURY SHARES**	121,311	0.66%	0.00%
<b>Total.....</b>	<b>18,227,062</b>	<b>100.0%</b>	<b>100.0%</b>

\* Source: the Company.

\*\* The Company is not allowed to exercise the voting rights on the treasury shares. Therefore, other shareholders of the Company have a larger percentage of votes than a percentage of shares in the share capital of the Company.

None of the Company's shareholders have voting rights that differ from any other of the Company's shareholders.

### Agreements known to the Company which may result in a change of control of the Company

As at the date of this Prospectus there are no agreements known to the Company which may result in a change of control of the Company.

### Dilution

The table below presents information on the dilution of shares after the Offering, based on the assumption that all the Offer Shares are sold in the Offering.

	Before the Offering		After the Offering	
	Number	Percentage of shares	Number	Percentage of shares
Shares .....	18,227,062	100%	18,227,062	63.58%
Offer Shares.....	0	0%	10,440,835	36.42%
<b>Total: .....</b>	<b>18,227,062</b>	<b>100.0%</b>	<b>28,667,897</b>	<b>100.0%</b>

\* Source: the Company

## RELATED PARTY TRANSACTIONS

The Company has entered into, and intends to enter into, future transactions with related parties within the meaning of IAS 24 – “Related-Party Disclosures” (annex to Commission Regulation (EC) No. 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council), amended by Commission Regulation (EC) No. 1274/2008 of 17 December 2008 amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 1.

In the period 1 January 2010 to the date of this Prospectus, the Company has not entered into any other material transactions with related parties, either separately or jointly.

The Group conducts transactions with the following related parties:

### Sales agreements

The production companies within the home appliance division in the Business Segment Home sell approx. 75% of their products through affiliated distribution companies, based on a yearly general sale agreement, concluded between the production companies and the distributors. The agreement regulates, *inter alia*, annual contractual sales volume, contractual territory, use of trademarks, marketing activities, after-sales service, payment terms and liabilities related to the products.

The transactions with related parties were conducted by the Group companies on the basis of sale agreements. The prices used in these sale agreements were the market prices for products and services.

The following table sets forth the receivables and payables of the Company, based on sale agreements with related parties.

	Year ended 31 December			Six-month period ended 30 June	
	2010	2011	2012	2012	2013
	<i>(EUR in thousand)</i>				
Trade receivables – Group companies .....	131,873	148,567	149,636	156,181	159,149
Trade payables – Group companies .....	25,903	26,132	25,387	28,518	28,359

*\*Source: the Company*

### Internal financing

For the purpose of efficient short term liquidity management, the companies of the Group engage in short term liquidity operations with the Company. Contracts regulating internal financing are based on the tax recognised interest rate, according to the methodology prescribed by the tax authorities.

The table below presents a statement of the current loans at the end of each period presented, paid to the companies of the Gorenje Group operating in Slovenia.

	Year ended			Six-month period ended	
	31 December			30 June	
	2010	2011	2012	2012	2013
	<i>(EUR in thousand)</i>				
Kemis, d. o. o., Vrhnika.....	0	211	790	820	800
PUBLICUS, d. o. o., Ljubljana.....	500	460	380	460	260
Gorenje Surovina, d.o.o., Maribor.....	2,630	11,406	9,580	10,081	7,554
Gorenje Notranja oprema, d.o.o., Velenje.....	9,827	13,623	3,565	3,966	0
Gorenje Orodjarna, d.o.o., Velenje.....	0	1,084	1,458	1,342	1,278
Indop, d. o. o., Šoštanj.....	5,410	0	0	0	0
Gorenje Kuhinje, d. o. o., Velenje.....	0	0	7,095	0	0
Gorenje Keramika d. o. o., Velenje.....	0	0	3,759	0	4,096
Gorenje GAIO, d.o.o. Šoštanj.....	0	0	782	527	1,045
Gorenje GTI, d. o. o., Velenje.....	0	0	1,069	0	2,314
<b>Total Slovenia.....</b>	<b>18,367</b>	<b>26,784</b>	<b>28,478</b>	<b>17,196</b>	<b>17,347</b>

\*Source: the Company

The table below presents a statement of the current loans at the end of each period presented, paid to the companies of the Gorenje Group operating abroad.

	Year ended			Six-month period ended 30	
	31 December			June	
	2010	2011	2012	2012	2013
	<i>(EUR in thousand)</i>				
Kemis-Termoclean, d. o. o., Croatia.....	770	0	1,550	0	1,510
Gorenje Beteiligungs GmbH, Austrija.....	17,075	16,265	0	0	0
Asko Appliances AB, Sweeden.....	9,500	28,400	23,900	28,400	20,000
Gorenje Nederland BV, the Netherlands.....	1,140	0	30,605	16,246	39,358
Gorenje Istanbul Ltd., Turkey.....	0	155	300	250	0
Gorenje Magyarország Kft., Hungary.....	0	0	1,250	0	250
Gorenje Polska Sp. z o.o., Poland.....	0	0	750	0	0
Gorenje Slovakia s.r.o., Slovakia.....	0	0	0	0	1,500
Gorenje Körting Italia, S.r.l., Italija.....	0	0	300	0	0
<b>Total abroad.....</b>	<b>28,485</b>	<b>44,820</b>	<b>58,655</b>	<b>44,896</b>	<b>62,618</b>
<b>Total approved loans to the subsidiaries.....</b>	<b>46,852</b>	<b>71,604</b>	<b>87,133</b>	<b>62,092</b>	<b>79,965</b>

\*Source: the Company

The table below presents the borrowings at the end of each period presented, received from Group companies operating in Slovenia.

	Year ended			Six-month period ended	
	31 December			30 June	
	2010	2011	2012	2012	2013
	<i>(EUR in thousand)</i>				
Gorenje Gostinstvo, d. o. o., Velenje .....	1,379	1,671	2,303	2,304	2,735
Gorenje I.P.C., d. o. o., Velenje .....	3,278	5,686	4,959	4,978	4,738
Gorenje GTI, d. o. o., Velenje.....	6,887	6,274	0	671	0
Gorenje GSI, d. o. o., Ljubljana.....	0	0	630	0	5,180
Gorenje Orodjarna, d.o.o., Velenje .....	51	0	158	0	266
Gorenje design studio, d. o. o., Velenje .....	92	111	99	131	162
ENERGYGOR, d. o. o., Velenje.....	152	164	164	164	164
ERICo, d. o. o., Velenje.....	115	135	185	165	255
Indop, d. o. o., Šoštanj .....	0	2,921	1,101	2,910	735
ZEOS, d. o. o., Ljubljana .....	2,828	3,025	1,302	1,973	1,102
Gorenje Projekt, d. o. o., Velenje.....	22	0	0	0	0
Gorenje GAIO, d.o.o. Šoštanj.....	995	0	0	0	0
<b>Total Slovenia.....</b>	<b>15,799</b>	<b>19,987</b>	<b>10,901</b>	<b>13,296</b>	<b>15,337</b>

\*Source: the Company

The table below presents a statement of the borrowings at the end of each period presented, received from Group companies operating abroad.

	Year ended			Six-month period ended	
	31 December			30 June	
	2010	2011	2012	2012	2013
	<i>(EUR in thousand)</i>				
ATAG Europe BV, the Netherlands .....	10,000	10,000	11,000	10,000	8,500
Gorenje Nederland BV, the Netherlands.....	0	388	0	0	0
Gorenje Commerce, d. o. o., BIH .....	0	0	2,500	2,500	0
Gorenje Spol, Czech Republic.....	0	0	0	0	1,000
Gorenje Real Spol, Czech Republic.....	0	0	0	0	3,100
<b>Total abroad.....</b>	<b>10,000</b>	<b>10,388</b>	<b>13,500</b>	<b>12,500</b>	<b>12,600</b>
<b>Total borrowings from Group companies .....</b>	<b>25,799</b>	<b>30,375</b>	<b>24,401</b>	<b>25,796</b>	<b>27,937</b>

\*Source: the Company



## Guarantees

A substantial part of the financing at the subsidiary level is guaranteed by the Issuer or its affiliates, with continued access to financing on the subsidiary level dependent on the Issuer's guaranties. Guaranties are in place primarily to ensure equal treatment and the *pari passu* status of all the Gorenje Group's creditors, regardless of which company within the Group is the borrower, to avoid structural subordination of its creditors. Contingent liabilities from loan guarantees given to financial institutions for the financial burdens of its subsidiaries amounted, in the year ended 31 December 2010, to EUR 184,208 thousand; in the year ended 31 December 2011 to EUR 189,162 thousand; in the year ended 31 December 2012 EUR to 162,528 thousand, and in the six-month period ended 30 June 2013 to 164,507 EUR thousand.

In the opinion of the Company, all agreements with related parties are conducted on an arm's length basis.

## Information on gross personal earnings

In the year ended 31 December 2010, the Company paid gross personal earnings to the following groups of persons:

	<b>Management Board</b>	<b>Supervisory Board</b>	<b>Employees under individual employment agreements</b>
		<i>(EUR in thousand)</i>	
Salaries .....	952		5,047
Benefits and other earnings .....	100	84	303
<b>Total</b> .....	<b>1,052</b>	<b>84</b>	<b>5,350</b>

*\*Source: the Company*

In the year ended 31 December 2011, the Company paid gross personal earnings to the following groups of persons:

	<b>Management Board</b>	<b>Supervisory Board</b>	<b>Employees under individual employment agreements</b>
		<i>(EUR in thousand)</i>	
Salaries .....	775		5,219
Benefits and other earnings .....	145	142	1,013
<b>Total</b> .....	<b>920</b>	<b>142</b>	<b>6,232</b>

*\*Source: the Company*

No non-current or current loans were granted by the Company to Management Board or Supervisory Board members or employee shareholders.

In the year ended 31 December 2012, the Company companies paid gross personal earnings to the following groups of persons:

	<b>Management Board</b>	<b>Supervisory Board</b>	<b>Employees under individual employment agreements</b>
		<i>(EUR in thousand)</i>	
Salaries .....	1,087		5,181
Benefits and other earnings.....	83	179	1,377
<b>Total</b> .....	<b>1,170</b>	<b>179</b>	<b>6,558</b>

*\*Source: the Company*

No non-current or current loans were granted by the Company to Management Board or Supervisory Board members or employee shareholders.

## DESCRIPTION OF THE SHARES

*Set out below is a description of the Company's share capital and the material provisions of the Articles of Association. The information contained in this section is of a general nature and was prepared on the basis of the Articles of Association, the Slovenian Companies Act and on the basis of the Shareholders Meeting By-laws. Therefore, investors should carefully examine the Articles of Association and the Shareholders Meeting By-laws and consult their legal advisors for detailed information on the rights and obligations attached to the Shares.*

### Form of Shares

The Shares are registered (*imenske*), and no-par value shares (*kosovne delnice*). All Shares are of the same class. The Shares have been issued and are governed by the Slovenian Companies Act and the Slovenian Book Entry Securities Act. The Shares are dematerialised book-entry shares and are evidenced by the KDD. The Shares are entered in the central securities register kept by the KDD.

Under the Slovenian Book Entry Securities Act, dematerialised book-entry securities may be issued to a name (registered securities) or to their bearer (bearer securities). Also, the rights attached to the book-entry securities arise once the relevant entry into the register kept by the KDD is made. The legal holder of a book-entry security is the person for whose benefit the book-entry securities are entered in the KDD's central register. Legal holders of securities may freely dispose of book-entry securities by issuing appropriate transfer orders for some or all of the securities registered on their securities account. Third party rights are also entered into the KDD's central register, on the basis of the securities holder's instruction.

The KDD keeps a register of registered securities on behalf of, and for the account of, issuers of registered securities. At the request of individual securities holders, the KDD will issue a computer printout of data on their book-entry securities (a regular statement). All information recorded in the register of registered securities kept by the KDD on behalf of, and for the account of issuers, is available (with the exception of the unique identification code of natural persons who are securities holders). At the request of any person, the KDD will issue an extract from the register of registered securities holders. However, no one shall have the right to access central register information that might enable them to determine whether a certain person is a holder of book-entry securities. This means that only information on certain issuers is publicly available, i.e. that any person may obtain a list of all the shareholders of a given issuer, but it is not possible to ask the KDD to provide information on the number of securities held by specific persons and/or entities.

The Articles of Association do not provide for any limits on the transferability of shares. All shares are freely transferable. Shares are transferred by transfer of book-entry securities to the account of the new holder in the KDD's central register. When transactions are concluded on a regulated market and the settlement is made through the settlement system used by the KDD, the notification made by the trading organiser shall be considered a matched double-entry order for the transfer of book-entry securities (*nalog za preknjižbo vrednostnih papirjev*) from the account of the seller (deliverer) to the account of the purchaser (recipient).

Under the Slovenian Companies Act and the Articles of Association, in the case of any increase of share capital of the Company, existing shareholders have a priority right to subscribe for new shares in proportion to their existing contribution to the subscribed capital. Pursuant to the applicable law existing shareholders must have at least 14 days to exercise this right. According to the Slovenian Companies Act, the Management Board must publish the issue value of the new shares and the period during which existing shareholders may exercise their priority right to subscribe for the newly issued shares.

The Shareholders Meeting may partly or wholly exclude the priority right to subscribe for the newly issued shares with a resolution adopted by a majority of at least three-quarters of the subscribed capital represented in the voting. A quorum is not required.

## **Rights attached to the Shares**

### **Right to dividend**

The Shareholders Meeting decides on the use of profits (*bilančni dobiček*) upon a proposal from the Management Board or the Supervisory Board. The Shareholders Meeting is not bound by this proposal, however, it is bound by the relevant provisions of the Slovenian Companies Act indicating the maximum amount of proceeds that may be distributed to shareholders. Shareholders of the Company have the right to a share in the profits unless the Shareholders Meeting resolves, in accordance with the law and the Articles of Association, that the profit for appropriation will be used for the following purposes: (i) the formation of reserve capital (other reserves from profit); (ii) the payment of bonuses and compensations, and/or participation in profit for the Management Board; or (iii) the profits will not be distributed to the shareholders (profit brought forward).

According to the Slovenian Companies Act and the Articles of Association, the shareholders' participation in the profits is determined *pro rata* to their share in the subscribed capital in the company.

The Management Board may decide to pay interim dividends if the financial statements for the previous business year show a net profit, whereby a maximum of half the amount remaining from the anticipated net profit, less the reserve capital, may be paid as an interim dividend. Moreover, the amount of interim dividends must not exceed half of the balance sheet profit from the previous year. The payment of interim dividends must be approved by the Supervisory Board. For details regarding the Supervisory Board's decision-making process, see the section entitled "*Management and Supervisory Board*" – "*The Supervisory Board's Functioning*".

The declared and resolved dividend is due to those shareholders who are registered with the KDD on the record date specified in the resolution of the Shareholders Meeting regarding payment of dividends (the "**Dividend Date**"). The Dividend Date and the date for payment of dividends is determined according to the LJSE Rules.

In case of changes in ownership of the Shares between the date of the Shareholders Meeting and the date of the payment of the dividend, the LJSE Rules stipulate that the "ex-dividend date" set by the Company cannot be sooner than two (2) business days after the Shareholders Meeting that decided on the allocation of distributable profits. Additionally, the LJSE publishes information on ex-dividend dates on its website. Shares acquired on or after this date will not entitle the holder thereof to a dividend declared and resolved for the last financial period.

### **Right to share in the assets in the case of the liquidation**

If the Company is liquidated, any assets remaining after the satisfaction of, or establishment of security for the benefit of the creditors, shall be divided among the shareholders on a *pro rata* basis in proportion to the contributions the shareholders made to the share capital.

The Articles of Association provide that the Company is established for an indefinite period of time and may be liquidated for the reasons and pursuant to the procedures as set out in law.

According to the Slovenian Companies Act, the Company may be liquidated: (i) by a resolution of the Shareholders Meeting, adopted by a majority of at least three-quarters of the subscribed capital represented in

voting. There is no quorum requirement; (ii) if the Management Board is inactive for more than 12 months, which in practice means a situation where the Management Board would, for example not submit its annual reports to the respective institutions or Agency of the Republic of Slovenia for Public Legal Records and Related Services; (iii) if the court establishes that the Company is null and void; (iv) by bankruptcy proceedings; (v) on the basis of a court ruling issued upon the lawsuit of the shareholders, whose combined shareholdings account for at least 5% of the subscribed capital of the Company and each member of the Management or Supervisory Board, requiring the court to decide on the dissolution of the Company if it believes that the Company's goals cannot satisfactorily be achieved, or that other good reasons exist for the dissolution of the Company, in particular, defects in the provisions of the Articles of Association concerning the amount of subscribed capital, problems with the definition of Shares or if the Company's activity does not conform to the statutory provisions of the Slovenian Companies Act; (vi) by merger with another company, or (vii) if the Company's subscribed capital is reduced below the minimum amount prescribed by law.

### ***Voting right at the Shareholders Meeting***

As at the date of this Prospectus, all Shares have equal rights. Each Share (including the Offer Shares) confers the right to cast one vote. Shareholders exercise their voting rights based on the proportion of their Shares held. The voting right shall only be attached to Shares which have been fully paid for. Shareholders Meeting is convened by the Management Board in accordance with the law. Management Board is obliged to convene the Shareholders Meeting at the request of Supervisory Board or at the written request of shareholders, whose total interest accounts for twentieth of the subscribed capital. Request by shareholders must include purpose and reason for convening the Shareholders Meeting.

Shareholders Meeting is chaired by the chairman, elected by the shareholders a common majority vote upon a motion by the convener. Shareholders Meeting shall take place at the Company's head office or elsewhere, if so decided by the Management Board.

The Shareholders Meeting is convened by an announcement published in newspaper DELO at least one month prior to the meeting. Convening of the Shareholders Meeting shall include the agenda and proposed resolutions for each item of proposed agenda. Documents for the Shareholders Meeting are available for review at the Company head office.

Following the announcement of the convocation of the Shareholders Meeting, shareholders whose total interest accounts for 5% or more of the subscribed capital in the Company may request in writing that additional items should be placed on the agenda. Such requests must be accompanied by the proposed resolution to be decided upon by the Shareholders Meeting, in a written form. The request must be sent to the Company within seven days from the date of the announcement of the convocation of the Shareholders Meeting.

As a condition for attendance at the Shareholders Meeting and exercise of their voting right, each shareholder must register in writing their presence at the Shareholders Meeting no later than by the end of the fourth day prior to the Shareholders Meeting. Shareholders shall exercise their voting right personally or by legal proxy who in such cases must produce relevant written power of attorney. Each share shall represent one vote. The Shareholders Meeting shall rule with a common majority of cast votes, except in cases where a particular resolution requires other majority of cast votes by law or by the Articles of Association, or in case of ruling by the represented registered capital. Detailed ruling procedure at the Shareholders Meeting may be defined in the relevant Rules of Proceedings.

The Shareholders Meeting shall deliberate upon the following matters:

- The Articles of Association and its amendments and supplements;

- Allocation of balance sheet profits and release of responsibilities for the Management Board members and Supervisory Board members;
- Annual Report in cases defined by legal regulations;
- Measures for the increase and/or reduction of share capital;
- Appointment of auditor;
- Appointment and recall of Company Supervisors;
- Statutory legal changes and cessation of the Company; and
- Other matters, defined by legal regulations or the present Articles of Association.

When deliberating in regard to the allocation of balance sheet profit the Shareholders Meeting is bound by the provisions of the approved Annual Report. The Shareholders Meeting shall deliberate upon the approval of the Annual Report only if the Supervisory Board had failed to approve the Report, or if the Management Board or the Supervisory Board should surrender the approval to the Shareholders Meeting. If the Shareholders Meeting should alter the submitted Annual Report, which in line to the legal requirements must be audited, the auditor must review such altered Annual Report within two weeks from the approval by the Shareholders Meeting.

## CERTAIN REQUIREMENTS UNDER SLOVENIAN AND POLISH LAW

*Set out below is a description of certain requirements of applicable Slovenian and Polish legislation. Holders of Offer Shares will be able to exercise their rights with respect to the Offer Shares only in accordance with the relevant requirements of Slovenian and Polish law. In the Company's judgment, there are significant differences between the provisions of applicable Slovenian and Polish laws, and given their scale and the disparities between the legal systems of Slovenia and Poland, it is inadvisable to discuss those differences in detail in this Prospectus. Therefore, the information provided below is only the information which the Company considers to be material, and descriptions provided in this Prospectus should not be treated as a precise and complete legal/comparative analysis of the provisions of Slovenian and Polish laws. In particular, conclusions based on the descriptions below may not fully reflect a proper interpretation of Slovenian and Polish laws.*

### **Slovenian Law**

The main regulations governing the Slovenian capital markets are as follows:

- the Slovenian Financial Instruments Market Act, published in the Official Journal of Slovenia No. 67/2007, as amended, and the implementing regulations issued on the basis of this act, which amongst other things governs the conditions for the offering of securities to the public and the admission of securities to trading on a regulated market, the obligations concerning the disclosure of information related to the securities and its issuers, the rules of trading on a regulated markets, prohibited acts of market abuse and the rules for settling transactions concluded on a regulated market, as well as the supervisory powers and operation of the Slovenian ATPV;
- the Book Entry Securities Act, published in the Official Journal of Slovenia No. 23/1999, as amended, and the implementing regulations issued on the basis of this act, which regulate the method of issuing and transferring book-entry securities and the rules for keeping a central register of book-entry securities;
- the Takeovers Act ("**Slovenian Takeover Act**") , published in the Official Journal of Slovenia No. 79/2006, as amended, and the implementing regulations issued on the basis of this act, which regulate the terms, conditions and procedures for takeover bids;
- the Slovenian Companies Act, published in the Official Journal of Slovenia No. 42/2006, as amended;
- the Slovenian Code of Obligations, published in the Official Journal of Slovenia No. 83/2001, as amended,
- the Slovenian Banking Act, published in the Official Journal of Slovenia No. 131/2006, as amended,
- the Ljubljana stock exchange rules, which amongst other things govern the conditions for listing of securities on the stock exchange market and the rules on stock exchange trading; and
- the Operations rules of the KDD (the Slovenian Central Securities Deposit, Ljubljana), which regulate the maintenance of the central registry of dematerialised securities pursuant to the afore-mentioned Book Entry Securities Act, the Financial Instruments Market Act, the Takeovers Act and other acts.

The Slovenian capital market is additionally regulated by the secondary provisions to the above-mentioned acts, as well as by EU legislation.

### **Takeover bids pursuant to the Slovenian Takeover Act**

A takeover is defined as a situation in which the offeror alone or together with persons acting in concert with them achieves the takeover threshold. The takeover threshold in the offeree company shall be one third of voting rights in such company. In order to determine whether the persons acting in concert have achieved the takeover threshold, the proportion of each voting rights shall be assessed and their shares shall then be totalled. Following a successful takeover bid, the offeror who has acquired 10% of the voting rights, which represents the additional takeover threshold, shall be required to renew their bid.

A takeover bid shall be a public offer made to all holders of the securities to conclude a contract, which, when accepted, shall result in a contract on the acquisition of such securities between the offeror as the buyer and the accepting party as the seller. The subject of a takeover bid shall be all the offeror company's securities, the holder of which is not the offeror.

The offeror who achieves the takeover threshold shall be required to make a takeover bid in compliance with the Slovenian Takeover Act. Where persons acting in concert reach the takeover threshold, they shall be jointly and severally liable to make a takeover bid in compliance with the Slovenian Takeover Act, unless they agree that the bid shall be made by only one or by some of them. The offeror who reaches the takeover threshold or the additional takeover threshold on the basis of all of the offeree company's voting shares considered in determining the proportion of the voting rights, shall not exercise these rights until he has done the following:

- made a takeover bid in accordance with the provisions of the Slovenian Takeover Act; or
- disposed of the securities and call options for shares or future contracts that are not included in the securities, so that the offeror no longer achieves the takeover threshold.

A takeover bid in compliance with the Slovenian Takeover Act may be also made by an offeror who, prior to the announcement of the intended takeover bid, has not achieved the takeover threshold.

The obligation to renew a bid shall cease when the offeror, following a successful bid, has acquired at least 75% of all the offeror company's capital carrying voting rights, which is referred to as "the final takeover threshold".

The offeror may offer a cash consideration for securities in the takeover bid; the offeror may offer in their takeover bid, in lieu of cash consideration, substitute securities; alternatively, substitute securities may also be offered in lieu of cash consideration for a part of the price to be paid. The offeror may offer in their takeover bid, as an alternative, substitute securities or cash consideration so that holders of securities have the right to choose.

The price or the conversion rate for substitute securities offered in the bid shall be the same for all securities belonging to the same class or type of securities. The price offered in the takeover bid shall not be less than the highest price paid for the same securities by the offeror in the period of 12 months prior to the announcement of such bid.

The offeror may define the successful bid threshold in their bid. The successful bid threshold shall be the lowest percentage of all securities, including the already owned securities, which the offeror shall be required to acquire on the basis of the takeover bid in order that such bid be binding on him.

Prior to making a takeover bid, the offeror shall notify the Slovenian ATVP, the offeree company's management, and the authority responsible for the protection of competition of their intention, and announce it on the same day. The management of the offeree company and the offeror shall immediately notify the employee representatives, or, in their absence, the employees themselves of the takeover intention.



Prior to the announcement of a takeover bid, the offeror shall obtain authorisation from the Slovenian ATVP. The offeror shall announce the takeover bid simultaneously with the offer document (prospectus) no later than 30 (thirty) days and no earlier than 10 (ten) days after the announcement of the takeover intention. The time allowed (final deadline) for acceptance of a takeover bid and any competitive bids shall be 60 (sixty) days from the day of publication of the first takeover bid. The time allowed for acceptance of a takeover bid may not be less than 28 days nor more than 60 days from the date of publication of the bid, and not more than the final deadline.

The management of the offeree company shall publish its opinion of the bid and the reasons for its opinion within 10 days of the day of the announcement of the takeover bid. From the date of receipt of the notice of the intended takeover or, if no such notice is received by the management prior to the publication of the takeover intention, until the date of publication of the decision to announce the takeover bid results, the company's management or supervisory bodies shall be allowed to perform the following activities only subject to a resolution of the general meeting of shareholders:

- increase the company's share capital;
- enter into transactions outside the ordinary operations of the company;
- take up actions or enter into transactions that could seriously jeopardise the company's future operations;
- acquire own (treasury) shares or securities giving them entitlement to such own shares or securities; and
- carry out actions that might impede the bid.

If the prospectus provides for such a possibility, the offeror may withdraw their bid and denounce the contracts concluded by accepting such a bid following the announcement of the takeover bid and before the expiry of the time limit allowed for its acceptance if another offeror makes a competitive bid or if circumstances arise that would make the offeror's obligations so difficult to comply with that the purchase of securities would no longer meet the offeror's expectations and if maintaining the validity of the contracts would be generally deemed unfair.

A takeover bid shall be deemed unsuccessful in the following cases:

- if the offeror withdraws their bid;
- if the Slovenian ATVP invalidates the bidding procedure;
- if a resolutive condition becomes effective;
- if the offeror's bid defines a successful bid threshold and such threshold has not been achieved; or
- if the offeror fails to fulfil their obligation to deposit the difference in cash within the specified time limit.

Otherwise (when none of the situations provided for in the preceding paragraph arise), the takeover bid shall be deemed successful. The offeror shall publish a notice of takeover bid results within three days of the expiry of the time limit for accepting the takeover bid; the Slovenian ATVP shall issue a decision on the takeover bid results, announcing that the takeover bid is either successful or unsuccessful.

The company whose securities are admitted to trading on regulated markets in several EU Member States for the first time shall, on the first day of trading, notify the supervisory authorities by formal as to which one of them is responsible for control or supervision, and shall publish the contents of this notification forthwith in

the manner laid down for the public announcement of significant facts for each of these markets. The Slovenian ATVP shall be responsible, inter alia, for the control of the takeover procedure provided that the offeree company's securities are traded on regulated markets in several EU Member States, and such securities are admitted to trading on the regulated market in the Republic of Slovenia for the first time or the offeree company has designated the Slovenian ATVP as the responsible authority under the notification referred to in the preceding Article. In such case, the takeover bid procedure and the compensation for the offeree company's securities shall be subject to the provisions of the Slovenian Takeover Act. The law of the EU Member State in which the offeree company has its registered office shall apply to the following:

- the provision of information to the offeree company's staff;
- assessment of exceptions from the obligation to make a takeover bid;
- determining the proportion of voting rights; and
- determining the conditions under which the offeree company's management may accept any measure that might prevent the takeover bid.

The exclusion of minority shareholders of the offeree company in which the offeror has acquired at least 90% of all voting shares by way of a successful takeover bid shall be subject to the provisions of the Slovenian Companies Act ("*Zakon o gospodarskih družbah*") concerning the exclusion of the company's minority shareholders (described in more detail in "section "*Exclusion of minority shareholders from the Company*"). If the offeree company's general meeting passes a resolution to transfer the shares held by minority shareholders to the principal shareholder, based on a proposal by the offeror as the principal shareholder within three months of the announcement of the outcome of the takeover bid referred to in the preceding paragraph, the offeror shall, instead of the cash amount provided for by the Slovenian Companies Act ("*Zakon o gospodarskih družbah*"), offer the type of compensation and the amount of compensation specified in the takeover bid.

The withdrawal of minority shareholders of the offeree company in which the offeror has acquired at least 90% of all voting shares by way of a successful takeover bid shall be subject to the provisions of the Slovenian Companies Act ("*Zakon o gospodarskih družbah*") concerning the withdrawal of the company's minority shareholders (described in more detail in section "*The right of the minority shareholders to withdraw from the Company*"). If a minority shareholder makes a request to redeem their own shares within three months of the announcement of the outcome of the takeover bid, they may request compensation in the amount specified in the takeover bid in lieu of the compensation determined by the Slovenian Companies Act ("*Zakon o gospodarskih družbah*").

#### **Exclusion of minority shareholders from the Company**

The general meeting of shareholders may, based on a proposal submitted by the principal shareholder holding shares representing at least 90% of the company's share capital, adopt a resolution to transfer the shares of the remaining minority shareholders to the principal shareholder in exchange for appropriate compensation in cash. Before the convocation of the general meeting of shareholders, the principal shareholder shall present to the company management a statement by a bank, by which such bank has assumed joint and several liability for the fulfilment of principal shareholder's obligation and liability to pay immediately upon the entry of the resolution on the transfer of shares into the register the compensation for the acquired shares to the minority shareholders.

The amount of the compensation payable in cash shall be specified by the principal shareholder. The company management shall make available to the principal shareholder all and any information and proof required for this purpose.

### **The right of the minority shareholders to withdraw from the Company**

Upon request by one or several minority shareholders, the principal shareholder shall offer, within one month after receipt of such request, to the shareholder or shareholders who submitted such request, appropriate compensation in cash for the acquisition of the remaining shares of each minority shareholder. The amount of the compensation payable in cash shall be specified by the principal shareholder.

### **Polish Law**

#### **General**

The Company is incorporated under the laws of Slovenia and is therefore subject to the provisions of Slovenian law. As a consequence, all legal matters regarding the Company as a corporate entity, and in particular its valid existence as a legal entity, its legal capacity and authority to take action, the authority to issue shares and the validity of those shares, its internal organisation and operational rules, are all governed by the laws of Slovenia. Matters relating to the Company's status as a company and its relationship with shareholders are also generally governed by Slovenian securities laws.

As the shares will be listed on the WSE, certain Polish laws and regulations will also be applicable to some of these matters. Investors should be aware that, in connection with certain Polish regulations, in particular those on the trading of securities admitted to trading on the organised market in Poland and in the regulations of international private law, controversies may arise regarding the possible application of Polish legal regulations to the Company and its shareholders in respect of exercising their rights and performing their obligations under Polish law.

#### **The Warsaw Stock Exchange**

The WSE runs its business pursuant to applicable laws, including the Polish Act on Trading in Financial Instruments and internal regulations, as well as the WSE Rules and the WSE Best Practices for Listed Companies.

The exchange market operated by the WSE constitutes a regulated market for the purposes of the relevant regulations of EU laws and the Polish Act on Trading in Financial Instruments. Moreover, the WSE organises and operates an Alternative Trading System, which is a non-regulated market. The exchange market operated by the WSE includes the main floor (i.e. the official stock exchange market), and the parallel market.

According to the WSE's website, ([www.gpw.pl](http://www.gpw.pl)) as at 24 October 2013 it was listing the shares of 444 companies.

#### **Settlement**

Under current regulations, all transactions on the regulated WSE market are made on a delivery versus payment basis, with the transfer of rights to securities occurring upon settlement, on a T+3 basis. In principle, each investor must hold a securities account and a cash account with an investment firm or a custodian in Poland, and each investment firm and custodian must hold relevant accounts with the NDS and a main cash account with a clearing bank.

In accordance with the rules and regulations of the WSE and the NDS, the NDS is required to arrange, based on a list of transactions provided by the WSE (compiled post-session), the settlement of transactions effected by WSE members. In turn, WSE members coordinate settlement with the investors on whose accounts the transactions were executed.

**Stock exchange trading mechanisms**

As at the date of this Prospectus, WSE sessions are held regularly from Monday to Friday, from 8:30 a.m. to 5:05 p.m. Warsaw time, unless the management board of the WSE decides otherwise.

Depending on the market on which the relevant securities are listed, quotations are made in a continuous trading system (the main floor) or in a single-price system with one or two auctions (the parallel market). In addition, for large blocks of securities, so-called block transactions are also possible, outside of the public order book in the continuous trading system or in a single-price system.

Information as to price, trading volume and any specific rights (i.e. priority right to subscribe for the new shares or dividend rights) attached to securities is available on the WSE's official website at [www.gpw.pl](http://www.gpw.pl).

Brokerage commissions in Poland are not fixed by the WSE or other regulatory bodies and are instead set by the brokerage house executing the transaction.

## TAXATION

*The following summary of material tax consequences in Slovenia and Poland of ownership of Offer Shares is of a general nature and is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect as at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set out herein. Any such changes or interpretations may be retroactive and could affect the tax consequences for holders of Offer Shares. This summary does not purport to be a legal opinion or to address all aspects of taxation that may be relevant to a holder of Offer Shares.*

*EACH PROSPECTIVE SHAREHOLDER IS URGED TO CONSULT THEIR OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.*

### **Certain material Slovenian tax considerations**

The following summary is of a general nature and describes the material income tax consequences of the acquisition, ownership and disposal of shares in Slovenia. It does not purport to be a comprehensive description of all tax consequences of the acquisition, ownership and disposal of shares. This summary is not intended to be, nor should it be considered to be, legal or tax advice for any particular holder of Offer Shares. Potential investors should consult their own tax advisors on the Slovenian and other national tax consequences of acquiring, owning and disposing of Shares.

This summary is based on the following legal acts (all published in the Official Gazette of the Republic of Slovenia, No. 117/2006 with subsequent amendments):

- the Slovenian Value Added Tax Act;
- the Slovenian Corporate Income Tax Act;
- the Slovenian Personal Income Tax Act;
- the Slovenian Inheritance and Gift Taxation Act; and
- the Slovenian Tax Procedure Act.

Pursuant to section 4.e of article 44 of the Slovenian Value Added Tax Act, the following financial services are exempted from VAT: “transactions, including brokerage services (excluding management, safekeeping, investment consulting and services in connection with takeovers), in shares, interests in companies or associations, bonds and other securities, excluding documents evidencing title to goods and rights and interests.

### **Taxation of income derived from Shares**

#### ***Corporate shareholders***

In general, income derived from Shares (dividends and capital gains) increases the tax basis of corporate shareholders liable for the payment of corporate income tax, in accordance with the Slovenian Corporate Income Tax Act. Pursuant to article 8 of the Slovenian Corporate Income Tax Act, these sources of income are generated in Slovenia and, therefore, represent taxable income of both resident and non-resident holders of Shares.

### *Taxation of dividends*

Dividends and income similar to dividends (with the exception of certain hidden reserves) are, pursuant to article 24 of the Slovenian Corporate Income Tax Act, exempt from the tax base of a corporate shareholder, if the payer of dividends is:

- liable for corporate income tax in accordance with the Slovenian Corporate Income Tax Act; or
- for taxation purposes, a resident of an EU Member State in accordance with the law of that Member State, and is in accordance with a double taxation treaty concluded with a non-EU Member State not considered to reside outside of the EU, and is additionally liable for one of the taxes for which a common system of taxation is applicable to parent companies and affiliates from different EU Member States, as determined by the Slovenian Minister of Finance, where a company which is exempt from corporate income tax or that has the option of choosing its taxation is not considered to be liable for payment of corporate income tax; or
- liable for the payment of corporate income or profit tax comparable to Slovenian corporate income tax and is not resident of a state (or has a permanent establishment not located in a state) where the general or average nominal tax rate for the taxation of profit is lower than 12.5% and where this state is on the list published by the Slovenian Ministry of Finance and the Slovenian Tax Administration; whereby, this rule shall not apply to a payer who is resident of another EU member state, in accordance with the previous paragraph.

The above rules are applicable to non-resident recipients of dividends if their interest in the capital or in the management of the company paying the dividends is connected with business activities performed through an establishment in Slovenia.

The above-described exemption from the tax base of a corporate holder of the Shares is applicable under the condition that the current or past taxation period's revenues have been included in the corporate holder's tax base, on the basis of such income.

In accordance with article 70 of the Slovenian Corporate Income Tax Act, the payer must, at the time of dividend payment, withhold and pay withholding tax at the rate of 15%, unless the recipient is: the Republic of Slovenia or a self-governing local community in Slovenia; the Bank of Slovenia; a resident who notifies the payer of their tax number, or a non-resident liable for the payment of corporate income tax deriving from their activities in or through a permanent establishment in the Republic of Slovenia who notifies the payer of their tax number, if the dividends are payable to such permanent establishment.

In accordance with article 70 of the Slovenian Corporate Income Tax Act, the tax shall not be calculated, withdrawn and paid if the dividends are payable to:

- a resident of an EU or an EEA Member State who is liable to pay income taxes in a foreign state (except for income paid to the permanent establishment of a non-resident in Slovenia), if such entity cannot claim the withholding tax in the state of its residence (as with, for example, the exemption of dividends from the tax base) and the transaction is not considered to represent tax avoidance; or
- foreign pension funds, investment funds and insurance companies providing pension plans, residents of the EU or EEA Members States (except for income paid to the permanent establishment of a non-resident in Slovenia), if such entity cannot claim the withholding tax in the state of their residence (if, for example, such funds or insurance companies are exempt from tax payment or are subject to a 0% tax rate).

Exemptions determined in the previous two points do not refer to payments made to states with which the exchange of information is not assured (a list of such states is published by the Slovenian Minister of Finance).

Pursuant to article 71 of the Slovenian Corporate Income Tax Act, tax shall not be withheld from payments of dividends and income similar to dividends if the entity authorised to receive a given payment is subject to the common system of taxation applied to parent companies and affiliate companies from different EU Member States, provided that:

- the entity authorised to receive the payment holds at least 10% of the value or number of shares or interests in the share capital, nominal capital, or voting rights of the company paying the dividend; and
- such minimum participation in the value or number of shares or interest in the share capital, nominal capital or voting rights, has been in effect for at least 24 months; and
- the entity authorised to receive the payment is: a) a legal entity formed as an entity for which a common taxation system is used and which is applicable to parent companies and affiliates from different EU Member States, as determined by the Slovenian Minister of Finance; b) for taxation purposes, a resident of an EU Member State in accordance with the law of that Member State and is in accordance with a double taxation treaty concluded with a non-EU member state not considered to reside outside of the EU, and c) is liable for one of the taxes subject to the common system of taxation applicable to parent companies and affiliates from different EU Member States or, with respect to companies exempt from income tax or that may choose their taxation, is determined by the Slovenian Minister of Finance to be an entity subject to corporate income tax.

#### *Taxation of capital gains*

When establishing the tax base of a resident or a non-resident performing business activities through a permanent establishment in Slovenia, 50% of the capital gains achieved by transfer of shares is exempt from the tax base if the person liable for corporate income tax has held at least 8% of the share capital or voting rights for at least six months, and has, during this entire period, employed at least one person on a full-time basis (article 25 of the Slovenian Corporate Income Tax Act).

This rule is not applicable to profits deriving from investments in entities having their registered office or place of the actual management of their activities in a non-EU member state where the general or average nominal income tax rate is lower than 12.5%; such jurisdictions are named in a list published by the Slovenian Ministry of Finance and the Slovenian Tax Administration.

Upon ceasing their activity before the ten years following the date of their incorporation (except if activities are ceased in accordance with chapter VII of the Slovenian Corporate Income Tax Act, on the taxation of the transfer of property, exchange of shares or interests, mergers and demergers), the taxpayer must increase the tax base by the portion of their capital gains not taxed in the last five tax periods. Analogously, the rule that 50% of loss is not recognised in the tax base if such loss is incurred as a result of any share transfer, is applied if the conditions listed above are met.

#### ***Individual shareholders***

##### *Taxation of dividends*

Upon payment of dividends to residents, the payer must, in accordance with articles 132 and 134 of the Slovenian Personal Income Tax Act, collect and pay fixed withholding tax at the rate of 25%. Upon payment of dividends to non-residents, the payer must collect and pay withholding tax at the rate of 25%. Subject to the consent of the Tax Administration of the Republic of Slovenia, the payer may, pursuant to a double taxation treaty, collect lower tax.

### *Taxation of capital gains*

Capital gains are established on the basis of the difference between the acquisition value of the Shares and their market value upon disposal.

The tax rate for capital gains depends on the holding period: 25% for a holding period of up to 5 years, 15% for a holding period of 5 to 10 years, 10% for a holding period of 10 to 15 years, 5% for a holding period of 15 to 20 years, and tax exemption for holding periods longer than 20 years. The tax is treated as a final tax for residents and non-residents alike.

Capital gains are not aggregated with other income, but are reported on separate tax returns that form the basis for determination of tax by the Slovenian Tax Administration. Individuals who are Slovenian residents are required to file a tax return for the previous year on or before 28 February of the current year.

Non-residents do not pay income tax on capital gains, provided that the source of capital gains is in Slovenia (as defined in articles 13 and 14 of the Personal income tax act), and provided that the securities or equity share disposed of by a non-resident is not part of the majority shareholding. The majority shareholding is every holding of shares, on the basis of which the individual has or has had at any time in the past five years prior to the disposal of the shares, directly or indirectly through related persons, at least 10% of voting rights, or at least 10% capital or 10% of a certain class of shares. Non-residents are required to file a tax return within 15 days after disposing of their Shares, unless they file a return for all transactions related to securities or other interests in any capital executed in the previous year. In such cases, non-residents may file their tax returns for the previous year by 28 February of the current year.

### *Gift and inheritance taxes*

Slovenian resident individuals who inherit, or who receive as a gift, immovable property, movable property, or property right and rights *in rem* in Slovenia are subject to inheritance tax or gift tax. Securities and cash are considered movable property. Tax is not levied if the value of the acquired movable properties does not exceed EUR 5,000.

The rate of inheritance tax and gift tax depends on the taxable value of the acquired property and on the beneficiary's relationship to the deceased or donor. Beneficiaries are divided into the following categories:

- Class I: Spouses, children and their spouses, and stepchildren;
- Class II: Parents and siblings, and their descendants;
- Class III: Grandparents; and
- Class IV: All others.

Class I beneficiaries are not subject to inheritance tax or gift tax. The rates for Class II beneficiaries range from 5% to 14%; for Class III beneficiaries from 8% to 17%, and for Class IV beneficiaries from 12% to 39%.

### **Certain material Polish tax considerations**

The following summary outlines certain principal Polish tax law consequences of investing in the Shares. It does not purport to be a comprehensive description of all potentially relevant Polish tax considerations. This summary is not tax advice; it is intended as general information only, and each prospective investor should consult a professional tax advisor on the tax consequences of an investment in the Shares.



## **Personal Income Tax and Corporate Income Tax**

### ***Capital gains of individuals who are Polish tax residents (i.e. subject to unlimited tax liability in Poland)***

Pursuant to Article 3 section 1 of the Personal Income Tax Act (the “PIT Act”), individuals who reside within the territory of the Republic of Poland are required to pay tax on all their worldwide income (revenue) regardless of the location of the source of that revenue (unlimited tax liability). A person is deemed to be ‘residing within the territory of the Republic of Poland’ if: (i) their centre of personal or economic interests (centre of vital interests) lies within the territory of the Republic of Poland; or (ii) they stay within the territory of the Republic of Poland more than 183 days in any tax year. The above rules are applicable subject to the relevant treaties on avoiding double taxation to which the Republic of Poland is a party (Article 4a of the PIT Act).

Pursuant to Article 30b section 1 of the PIT Act, income from the transfer of the ownership of securities (including shares and pre-emptive rights) in exchange for consideration is taxed at a flat rate of 19%. Taxable income from the disposal of securities in exchange for consideration is calculated as the difference between the proceeds earned in a given tax year from the disposal of securities (the value of the securities at the price set forth in the contract for sale), and the tax-deductible costs (in principle, the expenditure on the acquisition of these securities or their subscription), which are deductible at the time the revenue is generated from the sale of securities. The revenue from the sale of securities for consideration is therefore the revenue due, even if it is not actually received. If a taxpayer disposes of, against consideration, securities acquired at different prices and it is impossible to determine the acquisition price of the securities being transferred, the rule that applies when determining the income from such transfers is that each transfer will be made in respect of the securities acquired at the earliest date (this rule applies separately for each securities account). Where the price of securities expressed in a contract is, for no sound reason, significantly different from the market value thereof, then the revenue from the disposal of securities in exchange for consideration will be determined by a tax authority or tax inspection authority in an amount that reflects the market value. Such income is not aggregated with income from other sources and is taxed separately. During the tax year, individuals who earn income from the disposal of securities in exchange for consideration are not required to make any income tax prepayment. Tax (or tax prepayment) on the above-mentioned transaction is not withheld by the tax remitters. However, after the end of a given tax year, which in the case of individuals is the same as the calendar year, tax payers earning income from the disposal of securities in exchange for consideration are required to disclose such income in their annual tax return, calculate the amount of tax due and pay it to the account of the relevant tax office.

In the case of a tax loss incurred on the disposal of securities in a given tax year, the loss may decrease the income generated from its source (i.e. from the disposal of securities) in the next five consecutive tax years; however, the amount of the decrease in any particular year cannot exceed 50% of the loss. Tax loss incurred on the disposal of securities is not combined with tax losses incurred by the tax payer on other titles (sources of revenue).

Annual tax returns are prepared by tax payers by the end of April of the year immediately following the tax year in which gains are made, are based on personal information held on the amount of income earned, and are delivered by the end of the February of the following tax year by sole traders, legal persons and their organisational units as well as organisational units which are not legal persons. The above regulations do not apply if securities are sold as a result of the performance of any business activities, as in such cases revenue from the sale of securities should be qualified as originating from the performance of such activities and should be settled according to general terms.

***Capital gains of individuals who are not Polish tax residents (i.e. subject to limited tax liability in Poland)***

In accordance with Article 3, section 2a of the PIT Act, individuals who do not reside within the territory of the Republic of Poland are required to pay tax exclusively on income (revenue) obtained within the territory of the Republic of Poland (limited tax liability). According to Article 4a of the PIT Act, the abovementioned regulation is applied in consideration of double tax treaties to which the Republic of Poland is a party. Individuals subject to limited tax liability who earn income from the disposal of securities in Poland need to follow the same taxation rules governing the disposal of securities as specified above, except as otherwise stated in the relevant double tax treaties to which the Republic of Poland is a party. In light of Article 30b section 3 of the PIT Act, the application of a tax rate resulting from the appropriate double tax treaty or the non-payment of tax under such a treaty is also possible, provided that the tax payer proves his place of residence for tax purposes with a relevant certificate of tax residence.

***Income (revenue) from dividends and other revenue from a Share in the profits of legal persons earned by individuals who are Polish tax residents (i.e. subject to unlimited tax liability in Poland)***

Pursuant to Article 30a section 1 item 4 of the PIT Act, income (revenue) from dividends and other revenue from a share in the profits of legal persons (e.g. revenue generated on the redemption of shares and revenue generated on the receipt of the legal person's assets due to its liquidation) earned by individuals subject to unlimited tax liability are subject to taxation at a flat rate of 19% of the income (revenue) earned. Income (revenue) from dividends and other revenue from a share in the profits of legal persons is the income (revenue) actually earned on their share. Pursuant to Article 41 section 4 of the PIT Act, a flat rate of income tax on payments made or cash or pecuniary values placed at the tax payer's disposal (such as dividend payments and other income from a share in the profits of legal persons) is withheld by the entities performing such actions. Under Article 41 section 4d of the PIT Act, tax on dividends is withheld by entities keeping securities accounts for tax payers, in their capacity as tax remitters, if the income (revenue) is earned in the territory of Poland and is associated with the securities registered in these accounts, and, further, if relevant payments are made to the tax payers through those entities. However, it is not clear whether the tax due on dividend income earned by individuals from a Slovenian company shall be withheld by a Polish brokerage house for assistance in the payment, under the provision of Art. 41 sec. 4d of the PIT Act. There is a provision which stipulates that amounts of tax due on dividends earned outside Poland and the amounts of tax paid outside Poland on such dividends should be reported by the taxpayer in his annual tax return (Art. 30a sec. 11 of the PIT Act). Most tax advisers regard the latter provision as overruling the first, and are thus of the opinion that a Polish brokerage house should not withhold any tax. However, in case of doubt, taxpayers should consult their tax adviser.

The Double Tax Treaty concluded by the Republic of Poland and the Republic of Slovenia ("Double Tax Treaty") provides that dividends paid by a company with its registered office in Slovenia to a Polish taxpayer may be taxed both in Poland and Slovenia, but that the Slovenian tax cannot exceed 15% of the gross amount of the dividend.

It should be noted that in relation to dividends which may be subject to taxation in Slovenia, pursuant to Art. 24 sec. 1(b) of the Double Tax Treaty, a tax credit applies in Poland.

Pursuant to the provisions of the Double Tax Treaty, if the Polish taxpayer conducts business in Slovenia through a permanent establishment situated in Slovenia (i.e. a fixed place of business through which the business of an enterprise is wholly or partly conducted), or performs independent personal services in Slovenia from a fixed base situated in Slovenia, and if the shares in respect of which the dividends are paid are effectively connected with such permanent establishment or fixed base, then the dividends will be taxed in

Slovenia as business profits or income from independent personal services earned by that permanent establishment or fixed base.

Under Article 41 section 10 of the PIT Act, in the case of dividend payments from securities registered in omnibus accounts, flat-rate income tax is collected and remitted by the entities keeping the omnibus accounts, through which the payments are made. The tax is withheld on the date of a dividend payment's release to the omnibus account holder. Tax remitters must pay tax amounts by the twentieth day of the month following the month in which the tax was withheld, to the account of the relevant tax office. By the end of January of the year following the tax year, the tax remitters referred to in Article 41 of the PIT Act are required to send an annual tax return in a standard form to the tax office territorially competent for their registered office. Income (revenue) from dividends and other revenue from a share in the profits of legal persons where a flat rate tax was withheld is not aggregated with income from any other sources, and is not disclosed in the annual tax return. Nevertheless, pursuant to Article 45, section 3b of the PIT Act, if the remitter does not withhold the tax, the individual is required to settle the tax in its annual tax return filed by the end of April of the year following the given financial year.

Under Article 30a section 2a of the PIT Act, with respect to income (revenue) from dividends transferred to tax payers holding rights attached to securities registered in omnibus accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such tax payers through the omnibus account holder. Annual tax returns on this income are filed by the tax remitter (i.e. by the entities keeping the omnibus accounts) with the tax office relevant for the taxation of foreign persons. Under Article 45 section 3c of the PIT Act, tax payers are required to disclose the amount of dividend in their annual tax return if securities were registered in an omnibus account and the tax payer's identity was not revealed to the tax remitter. As far as such tax payers are concerned, the remitter is not required to prepare or to send any individual information regarding the value of the income.

***Income (revenue) from dividends and other revenue from a Share in the profits of legal persons earned by individuals who are not Polish tax residents (i.e. subject to limited tax liability in Poland)***

In accordance with Article 3, section 2a of the Personal Income Tax Act, natural persons, if they do not reside within the territory of Poland, are liable to pay tax exclusively on income obtained within the territory of Poland (limited tax liability). Therefore, income in the form of dividends and other income from the share in the profits of legal persons without registered offices in the Republic of Poland, that is earned by individuals subject to limited tax liability in Poland, should not be subject to taxation in Poland.

***Capital gains realized by persons subject to Corporate Income Tax having their registered office or Management Board within the territory of the Republic of Poland (i.e. subject to unlimited tax liability in Poland)***

The payers of corporate income tax are legal persons, companies in organisation and organisational units having no legal personality, except for partnerships. In accordance with Article 3 section 1 of the Corporate Income Tax Act (the "CIT Act"), tax payers which have their registered office or management board within the territory of the Republic of Poland are required to pay tax on all of their income, irrespective of the location of the source of their revenue (unlimited tax liability).

Gains on the disposal of securities by a legal person having its registered office or management board within Poland are subject to taxation under the general rules stipulated in the CIT Act. Taxable income is the difference, in a tax year, between the proceeds from the disposal of securities (the price for securities determined in the sale agreement) and the tax-deductible costs (in principle, the expenditure on acquisition of these securities), which are deductible at the time that the revenue on the sale of securities is generated. If the price of the securities expressed in the contract is, for no sound reason, significantly different from the market

value thereof, then the revenue from the disposal of securities in exchange for consideration will be determined by a tax authority or tax inspection authority in an amount that reflects the market value. Income from the disposal of securities in exchange for compensation is aggregated with the income of the tax payer that is earned from other sources, to form the taxable base. Pursuant to Article 19 section 1 of the CIT Act, the income of a corporate income tax payer is taxed at a rate of 19% of the taxable base.

***Capital gains realized by persons subject to Corporate Income Tax not having their registered office or Management Board within the territory of the Republic of Poland (i.e. Subject to Limited Tax Liability in Poland)***

Pursuant to Article 3, section 2 of the CIT Act, tax payers which do not have their registered office or management board within the territory of the Republic of Poland are required to pay tax exclusively on income earned within the territory of the Republic of Poland (limited tax liability). The provisions of the CIT Act also apply to income earned within the territory of the Republic of Poland by partnerships having their registered offices or management board in other countries, if they are treated as legal persons under the tax law provisions of a given country and are liable to tax on the total amount of their income, irrespective of the location of the source of their income (Article 1 section 3 of the CIT Act).

Persons subject to corporate income tax and subject to limited tax liability who earn income in Poland from the disposal of securities in exchange for compensation need to follow the same taxation rules governing the disposal of securities as specified above, except as otherwise stated in the relevant double tax treaties to which the Republic of Poland is a party. Such tax payers may be required to present a tax residency certificate to document the legitimacy of the application of a tax rate based on a relevant double tax treaty or lack of tax in accordance with such treaty.

***Income (revenue) from dividends and other revenue from a Share in the profits of legal persons earned by persons subject to Corporate Income Tax having their registered office or Management Board within the territory of the Republic of Poland (i.e. subject to unlimited tax liability in Poland)***

Income (revenue) from Dividends and Other Revenue from a Share in the Profits of Legal Persons earned by persons subject to Corporate Income Tax and having their registered office or management board within the territory of the Republic of Poland is subject to taxation according to the general rules under the CIT Act. Such income is generally subject to taxation at the basic 19% rate.

Pursuant to Article 20 section 3 of the CIT Act, an income tax exemption applies to dividends and other revenue from a share in the profits of legal persons which have their registered office or management board outside Poland that is earned by persons subject to unlimited tax liability in Poland if all of the following conditions are satisfied jointly: (i) the entity paying the dividends and other revenues from participation in profits generated by legal persons is a company whose worldwide income is subject to income tax in a European Union Member State other than Poland, or in a other Member State of the European Economic Area; (ii) the Polish entity receiving income (revenue) from dividends and other revenues from participation in profits is a company directly holding not less than 10% of shares in the company, as referred to in section (i) above, for an uninterrupted period of at least 2 years; (iii) the company referred to in section (ii) above is not exempt from income tax on its entire income, regardless of the location of the source thereof.

The exemption also applies if the two-year period of uninterrupted holding of the required number of shares ends after the date of obtaining such income (revenue). In the case of failure to satisfy the condition of holding the required number of shares uninterruptedly for two years, the tax payer will be required to pay tax, including default interest, on the income (revenues) at 19% of such income (revenues) by the twentieth day of the month following the month in which it was deprived of the right to such exemption. Interest is calculated as of the day following the date on which the tax payer first exercised the right to the exemption.

The Double Tax Treaty stipulates that dividends paid by a company with its registered office in Slovenia to Polish taxpayers may be taxed both in Poland and Slovenia, although such Slovenian tax cannot exceed 5% of the gross amount of the dividend if the recipient of the dividend is a company (other than a partnership) holding at least 25% of the capital of the Slovenian company distributing the dividend, or 15% of the gross amount of the dividend in all other situations.

It should be noted that in relation to the dividends which may be subject to taxation in Slovenia, pursuant to Art. 24 sec. 1(b) of the Double Tax Treaty, a tax credit applies in Poland.

Pursuant to the provisions of the Double Tax Treaty, if a Polish taxpayer conducts business in Slovenia through a permanent establishment situated in Slovenia (i.e. a fixed place of business through which the business of an enterprise is wholly or partly conducted), and the shares in respect of which the dividends are paid are effectively connected with such permanent establishment, dividends will be taxed in Slovenia as business profits earned by that permanent establishment.

***Income (revenue) from dividends and other revenue from a Share in the profits of legal persons earned by persons subject to Corporate Income Tax not having their registered office or Management Board within the territory of the Republic of Poland (i.e. subject to limited tax liability in Poland)***

In accordance with Article 3, section 2 of the CIT Act, taxpayers which do not have their registered office or management board within the territory of the Republic of Poland are required to pay tax exclusively on income earned within the territory of the Republic of Poland (limited tax liability). Therefore, income in the form of dividends and other income from the share in the profits of legal persons without registered offices in the Republic of Poland and earned by taxpayers subject to limited tax liability in Poland, should not be subject to taxation in Poland.

**Tax on civil law transactions**

Pursuant to Article 1, section 1, item 1, letter a) in conjunction with Article 1, section 4 of the Transfer Tax Act, tax on civil law transactions applies to agreements for the sale or exchange of property and property rights. These transactions are taxable if their subjects are: (i) property located in Poland or property rights exercisable in Poland; (ii) property located abroad or property rights exercisable abroad if the purchaser's place of residence or registered office is in Poland and the civil law transaction was carried out in Poland.

As a rule, the sale of shares in companies with their registered offices in Poland is considered to be the sale of property rights executable in Poland and is subject to the tax on civil law transactions at a flat rate of 1%. Tax liability arises when a civil law transaction (a transfer) is concluded and such liability is the sole responsibility of the buyer, in the case of a sale agreement. The taxable base is the market value of the property or property right. The market value of the subject of a civil law transaction is assessed based on the average prices applied in the trade in property of the same kind and sort, allowing for its location, condition and wear and tear, and in the trade in property rights of the same kind, applicable on the day of the transaction, without deducting debts or charges. Taxpayers are required to, without being summoned by the tax office, file a tax return on tax on civil law transactions and calculate and pay the due amount of the tax within 14 days of the tax liability arising, unless the tax is collected by a tax remitter who is a notary public in the case of civil law transactions concluded in the form of a notarial deed.

Simultaneously, under Article 9 item 9 of the Act on Tax on Civil Law Transactions, the sale of property rights that are financial instruments: (i) to investment firms (including foreign investment firms); or (ii) through the intermediation of investment firms (including foreign investment firms); or (iii) through organised trading; or (iv) outside organised trading by investment firms (including foreign investment firms) if such financial instruments were acquired by such companies as part of organized trading, within the meaning of the Act on Trading in Financial Instruments, is exempt from tax on civil law transactions.

### **Taxation of gifts and inheritance**

Pursuant to Article 1 section 1 of the Act on Tax on Inheritance and Donations, tax on inheritance and donations is paid by natural persons who receive title to property located in Poland or property rights exercised in Poland by right of succession, as legacy, further legacy, testamentary instruction, donation or on the benefactor's instruction. This tax also applies in the case of property rights exercisable outside the territory of Poland where, at the time of donation or inheritance, the acquirer was a Polish resident or had a permanent place of residence in Poland.

The tax is paid by the heir, successor or beneficiary. The taxable base is the value of the property or property rights received after deducting the debts and encumbrances (net value), assessed based on the condition of the property and property rights on the day of their receipt and based on the market prices applicable as of the day the tax liability arose. The tax base is computed according to the tax group to which the recipient was assigned. A relevant tax group is assigned according to the recipient's personal relationship to the person from whom the property or the property rights were received or inherited. Inheritances and donations are taxed at a progressive rate from 3% to 20% of the taxable base depending on the tax group to which the recipient was assigned. There are certain amounts exempt from tax in each group. Tax payers are required, except for cases in which the tax is charged by the tax remitter, to file with the competent head of the tax office a tax return specifying the receipt of the property or property rights in a standard form, within one month from the date the tax liability arose. The tax return should be accompanied by any documents that may influence the determination of the tax. The tax is paid within 14 days from the receipt of the decision issued by the head of the tax office assessing the amount of the tax liability.

Under Article 4a, section 1 of the Act on Tax on Inheritances and Donations, the acquisition of property or property rights (including securities) by a spouse, descendant, ascendant, stepson, siblings, stepfather or stepmother are tax exempt, provided that they notify the competent head of the tax office of acquisition of the property or property rights within six months from the date the tax liability arose, and in the case of receipt by right of succession, within six months from the date the court decision acknowledging the acquisition of the inheritance becomes final and binding. The above exemption applies if, at the time of the acquisition, the acquirer was a Polish citizen or a citizen of an EU Member State or a country belonging to the EEA, or had their place of residence within the territory of Poland or within any such states.

In the case of failure to meet the above conditions, the acquisition of the property or property rights is subject to taxation on the general terms specified for persons assigned to the first tax group. Additionally, acquisition of movable property located within the territory of the Republic of Poland or property rights subject to execution in the territory of the Republic of Poland (including securities) is not subject to tax, provided that on the date of their receipt neither the heir nor the testator nor benefactor were Polish citizens, and did not have a permanent place of residence or a registered office within the territory of the Republic of Poland.

### **Remitter's liability**

Under Article 30 of the Tax Ordinance, a tax remitter failing to fulfil its duty to calculate, withhold or pay tax to a relevant tax authority is liable for the tax that has not been withheld or that has been withheld but not paid, up to the value of all its assets. The tax remitter is not liable if the relevant provisions provide otherwise or if the tax has not been withheld due to the tax payer's fault. In such cases, the relevant tax authority issues a decision concerning the tax payer's liability.

## TERMS AND CONDITIONS OF THE OFFERING

### Terms and conditions on which the Offering is carried out

This Offering will be carried out as stipulated in the resolution of the Shareholders Meeting of 23 August 2013 on the issue of shares, as well as with the terms and conditions detailed in this Prospectus.

The Shareholders Meeting passed the resolution on the basis of which the share capital of the Issuer, amounting to EUR 76,060,181.93 and divided into 18,227,062 ordinary, freely transferable, registered no-par value shares, shall be increased in the second increase of share capital, after successful completion of the first increase of share capital (in which newly issued shares were offered for subscription to the Panasonic Corporation), by a further amount of no more than EUR 43,568,833.52, to no more than EUR 119,629,015.46.

The Offer Shares shall be classified in the same class as the Existing Shares, including the shares subscribed for by the Panasonic Corporation, and will be registered in book-entry form and entered into the accounts of shareholders in the central securities register kept by the KDD, in accordance with Slovenian legislation and the KDD's rules.

In accordance with the resolution of the Shareholders Meeting of 23 August 2013 and the Management Board resolution with confirmation of the Supervisory Board the Offering shall be carried out in two rounds, whereby the second round shall be divided into two steps.

In the first round, the Offer Shares shall be offered on the basis of the priority rights of the existing shareholders to all shareholders entered into the share register as at 23 August 2013 ("**First Round of the Offering**"). These shareholders (the "**Existing Shareholders**") will have the right to subscribe for the amount of shares proportional to their current shareholding in the total share capital of the Company.

Offer Shares not subscribed for and fully paid in the First Round of the Offering will be offered in the second round of the Offering ("**Second Round of the Offering**") to:

- the Issuer's employees, including employees of Group companies invited by the Issuer ("**Second Round of the Offering – First Step**"), and
- third parties ("**Second Round of the Offering – Second Step**").

The Issuer's employees, including employees of Group companies invited by the Issuer (the "**Employees**"), may subscribe for and pay in the total number of Offer Shares available for the Second Round of the Offering in the Second Round of the Offering – First Step. Employees, including the employees of Group companies will be able to subscribe Shares only at branches of NLB Branch Šaleško-Koroška in Velenje, Slovenia within the subscription periods for the Employees (see section "*Terms and conditions of the offering*" – "*Subscription of Offer Shares*").

If the Offer Shares are still available after the completion of the Second Round of the Offering – First Step, the Offer Shares shall be offered in the Second Round of the Offering – Second Step to investors in Poland and Slovenia. In Poland, the Offering will be directed to retail investors (which term includes both natural and legal persons) (the "**Retail Investors**"), as well as legal persons who are institutional investors (which term includes entities managing securities portfolios for their clients, as well as unincorporated organisations) invited by the Issuer or DM BZ WBK (the "**Institutional Investors**"), and together with Retail Investors, the "**Investors**"). In Slovenia, the Offering will be directed to investors invited by the Issuer or NLB (the "**Invited Investors**").

Unless this Prospectus states otherwise, any notices relating to the Offering will be published as press releases and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)), DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)) and NLB ([www.nlb.si](http://www.nlb.si)), and in a manner compliant with applicable regulations.

### **The Offer Price and total value of the Offering**

The Offering shall consist of no more than 10,440,835 ordinary registered shares with an issue value totalling no more than EUR 44,999,998.85, and shall be equal to the product of the number of Offer Shares and the issue price of one new share.

The Offer Price of one Offer Share shall be EUR 4.31.

The Offer Price is the same as the price per share paid by Panasonic Corporation in the first increase of the share capital. The price has been calculated as the Issuer's six month volume weighted average price on 4th July 2013, achieved on organised stock exchange market.

For the purpose of subscriptions by Retail Investors and Institutional Investors in the Second Round of the Offering – Second Step, the Offer Price will be determined in PLN and will be the equivalent of the Offer Price of EUR 4.31 calculated based on the EUR/PLN exchange rate available to the Issuer on the day preceding commencement of the subscription period for the Retail Investors (“**Offer Price in PLN**”). The Offer Price in PLN will be published as a press release and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)) and DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)), and in a manner compliant with applicable regulations.

### **Timetable for the Offering**

#### ***Timetable for the Offering***

The Offering shall be organised in two rounds, depending on the success of the Offering in a given round. Investors shall be informed of the timetable for the Offering by press release, published and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)), DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)) and NLB ([www.nlb.si](http://www.nlb.si)), and in a manner compliant with applicable regulations.

The First Round of the Offering and the Second Round of the Offering – First Step shall be organised in Slovenia, whereas the Second Round of the Offering – Second Step shall be carried out in both Poland and Slovenia.

For the purposes of the Terms and Conditions of the Offering section, “**Business Day**” shall mean any day when business in Slovenia and Poland can be conducted, with the exception of Saturdays, Sundays and legal holidays in Slovenia or Poland.

The Offering will be carried out according to the following indicative timetable:

The First Round of the Offering: subscription period for Existing Shareholders and payment for the Offer Shares at the Offer Price

From or  
around 18<sup>th</sup>  
November  
2013 to or  
around 2<sup>nd</sup>  
December  
2013



The Second Round of the Offering – First Step: subscription period for Employees and payment for the Offer Shares at the Offer Price	On or around 4 <sup>th</sup> December 2013
The Second Round of the Offering – Second Step: subscription period for Retail Investors and payment for the Offer Shares at the Offer Price in PLN	From or around 5 <sup>th</sup> to or around 10 <sup>th</sup> December 2013
The Second Round of the Offering – Second Step: bookbuilding for Institutional Investors in Poland and Invited Investors in Slovenia	From or around 6 <sup>th</sup> to or around 10 <sup>th</sup> December 2013
The Second Round of the Offering – Second Step: subscriptions in tranche for Institutional Investors in Poland and tranche for Invited Investors in Slovenia and payment for the Offer Shares at the Offer Price in PLN and the Offer Price, respectively	From or around 11 <sup>th</sup> to or around 16 <sup>th</sup> December 2013
Final Allocation of the Offer Shares to the Existing Shareholders, Employees, Retail Investors, Institutional Investors and Invited Investors	On or around 16 <sup>th</sup> December 2013
Publication of the results of the Offering	On or around 16 <sup>th</sup> December 2013
Issue of the Offer Shares by the KDD	On or around 27 <sup>th</sup> December 2013
Delivery of the Shares to the NDS	On or around 30 <sup>th</sup> December 2013
First day of trading in the Offer Shares on the LJSE	On or around 31 <sup>st</sup> December 2013
First day of trading in the Shares on the WSE	On or around 31 <sup>st</sup> December 2013

*\*Source: the Company.*

The timetable for the Offering is indicative, as the execution of certain milestones in the Offering might take longer than anticipated by the Company. In particular, the procedure for increasing the share capital of the Company, the issue of the Offer Shares upon conclusion of the Offering and the listing of Offer Shares on the LJSE and the listing of Shares and the Offer Shares on the WSE are all beyond the control of the Company. Any notices relating to the timetable of the Offering, or amendments to the timetable of the Offering, or extension of the dates of the Offering, will be published as press releases and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)), DM BZ WBK ([www.dmbzbwk.pl](http://www.dmbzbwk.pl)) and NLB ([www.nlb.si](http://www.nlb.si)), and in a manner compliant with applicable regulations.

The categories of potential investors who are offered the Offer Shares, the maximum amount of the Offer Shares that can be subscribed and paid, as well as the method of distribution and allocation of the Offer Shares, shall be presented in greater detail in the sections entitled *Distribution and Allotment of Offer Shares – Different Categories of Potential Investors, Minimum and Maximum Subscription Amounts* and *Distribution and Allotment of Offer Shares – Pre-Allotment Disclosure*.

In the course of the Offering, investors that subscribed Offer Shares may not transfer the rights to the new Shares to other persons or investors before the increase in the subscribed capital is entered in the court register. Freely transferrable rights upon increase of share capital will not be issued and will not be listed on LJSE and/or WSE. The Offer Shares will be delivered to the subscribers upon the completion of the procedure described in *Payment of Offer Shares, Registration and Settlement – Registration and Settlement*.

## **Subscription of Offer Shares**

### ***General information***

The Offer Shares shall be subscribed for by completing and signing a subscription form (subscription certificate) at NLB in Slovenia, or DM BZ WBK in Poland.

In every round of the Offering, investors will have the option to restrict their subscription in advance, with a statement on the subscription form in which they can define their maximum share percentage or number of the Offer Shares they may own in the Company, after the completion of the capital increase procedure.

The Offer Shares shall be subscribed for at the Offer Price.

In the First Round of the Offering and the Second Round of the Offering – First Step, the Offer Shares shall be paid in EUR.

In the Second Round of the Offering – Second Step, the Retail Investors shall pay the Offer Price in PLN. Institutional Investors may choose to pay the Offer Price in PLN or the Offer Price in EUR, while the Invited Investors shall pay the Offer Price in EUR.

Payments for the Offer Shares must be equal to the multiple of the number of Offer Shares for which the investor is placing their subscription form, and the Offer Price. The Offer Shares must be paid in on the day, on which they are subscribed, by the end of that day.

Subscription forms not fully paid in or that are improperly completed will be invalid.

Investors subscribing for the Offer Shares must submit instructions to deliver the Offer Shares finally allotted to them to their securities accounts, as specified on their subscription forms. Prospective investors who do not have a securities account will be required to open a securities account prior to subscribing for the Offer Shares.

Persons subscribing for the Offer Shares in Slovenia must present, upon completion of the subscription form, their identification documents, as well as information on their tax number and personal bank account. Information on the required documents is available to investors in Slovenia on the website of the Issuer ([www.gorenjegroup.com](http://www.gorenjegroup.com)) and the NLB ([www.nlb.si](http://www.nlb.si)), as well as at NLB subscription points.

***Subscription procedure for Offer Shares by Existing Shareholders in the First Round of the Offering***

Existing Shareholders may subscribe for Offer Shares at any NLB branch office in Slovenia listed below, during the regular business hours of the branches, except for the last Business Day of subscriptions in the First Round of the Offering, when shares may be subscribed for only until 13.00.

	<b>Subscription point</b>	<b>Registered office</b>	<b>Business hours (only on business days)</b>
	<b>Podružnica Ljubljana-Center</b>	<b>Trg republike 2, 1520 Ljubljana</b>	
1	Poslovalnica za hitre storitve in svetovanje	Trg republike 2, 1520 Ljubljana	8.00-18.00
2	Poslovalnica Mestna hranilnica ljubljanska	Čopova 3, 1520 Ljubljana	8.30-16.00
	<b>Podružnica Vič-Notranjska in Moste</b>	<b>Tržaška 132, 1520 Ljubljana</b>	
3	Poslovalnica Vič	Cesta na Brdo 9, 1520 Ljubljana	8.30-13.00 and 15.00-17.00
4	Poslovalnica Vrhnika	Trg Karla Grabeljška 2 a, 1360 Vrhnika	8.00-12.00 and 14.30-17.00
5	Poslovalnica Polje	Zadobrovska 14, 1520 Ljubljana	8.00-12.00 and 14.30-17.00
6	Poslovalnica Grosuplje	Taborska 3, 1290 Grosuplje	8.00-12.00 and 14.30-17.00
	<b>Podružnica Šiška-Bežigrad in Gorenjska</b>	<b>Celovška 89, 1520 Ljubljana</b>	
7	Poslovalnica Šiška	Celovška 89, 1520 Ljubljana	8.30-13.00 and 15.00-17.00
8	Poslovalnica Šentvid	Prušnikova 95, 1520 Ljubljana	8.30-13.00 and 15.00-17.00
9	Poslovalnica Bežigrad	Linhartova 3, 1520 Ljubljana	8.30-13.00 and 15.00-17.00
10	Poslovalnica Črnuče	Šlandrova 2, 1520 Ljubljana	8.30-16.00
11	Poslovalnica Kranj	Koroška cesta 21, 4000 Kranj	8.00-12.00 and 14.30-17.00
12	Poslovalnica Medvode	Cesta ob Sori 3, 1215 Medvode	8.00-12.00 and 14.30-17.00

	<b>Subscription point</b>	<b>Registered office</b>	<b>Business hours (only on business days)</b>
13	Poslovalnica Škofja Loka	Spodnji trg 1, 4220 Škofja Loka	8.00-12.00 and 14.30-17.00
	<b>Podružnica Domžale, Kamnik in Zasavje</b>	<b>Ljubljanska 62, 1230 Domžale</b>	
14	Poslovalnica Domžale 1	Ljubljanska 62, 1230 Domžale	8.00-18.00
15	Poslovalnica Trbovlje	Trg revolucije 25 c, 1420 Trbovlje	8.00-12.00 and 14.30-17.00
16	Poslovalnica Kamnik	Glavni trg 10, 1241 Kamnik	8.00-12.00 and 14.30-17.00
17	Poslovalnica Duplica	Ljubljanska 45, 1241 Kamnik	9.00-17.00
18	Poslovalnica Litija	Jerebova 14, 1270 Litija	8.00-12.00 and 14.30-17.00
	<b>Podružnica Šaleško-Koroška</b>	<b>Rudarska cesta 3, 3320 Velenje</b>	
19	Poslovalnica Rudarska	Rudarska cesta 3, 3320 Velenje	8.00-12.00 and 14.30-17.00
20	Poslovalnica Šoštanj	Trg svobode 5, 3325 Šoštanj	8.00-12.00 and 14.30-17.00
21	Poslovalnica Gorenje	Partizanska cesta 12, 3320 Velenje	8.00-15.30
22	Poslovalnica Šmartno ob Paki	Šmartno ob Paki 84, 3327 Šmartno ob Paki	8.00-12.00 and 14.30-17.00
23	Poslovalnica Slovenj Gradec	Glavni trg 30, 2380 Slovenj Gradec	8.00-12.00 and 14.30-17.00
24	Poslovalnica Mislinja	Šentlenart 33, 2382 Mislinja	8.00-12.00 and 14.30-17.00
	<b>Podružnica Podravje</b>	<b>Titova cesta 2, 2000 Maribor</b>	
25	Poslovalnica Maribor	Titova cesta 2, 2000 Maribor	8.00-12.00 and 14.30-17.00
26	Poslovalnica Prešernova	Prešernova 6, 2250 Ptuj	8.00-12.00 and 14.30-17.00
	<b>Podružnica Dolenjska in Bela krajina</b>	<b>Seidlova cesta 3, 8000 Novo mesto</b>	
27	Poslovalnica Seidlova	Seidlova cesta 3, 8000 Novo mesto	8.00-18.00
28	Poslovalnica Trebnje	Gubčeva cesta 8, 8210 Trebnje	8.00-12.00 and 14.30-17.00
29	Poslovalnica Črnomelj	Trg svobode 2, 8340 Črnomelj	8.00-12.00 and 14.30-

<b>Subscription point</b>	<b>Registered office</b>	<b>Business hours (only on business days)</b>
		17.00
30 Poslovalnica Kočevje	Trg zбора odposlancev 66, 1330 Kočevje	8.00-12.00 and 14.30- 17.00
<b>Podružnica Savinjsko- Posavska</b>	<b>Kocenova 1, 3000 Celje</b>	
31 Poslovalnica Krško	Trg Matije Gubca 1, 8270 Krško	8.00-12.00 and 14.30- 17.00
32 Poslovalnica Celje	Mariborska cesta 1, 3000 Celje	8.00-12.00 and 14.30- 17.00
<b>Podružnica Pomurje</b>	<b>Trg zmage 7, 9000 Murska Sobota</b>	
33 Poslovalnica Murska Sobota	Trg zmage 7, 9000 Murska Sobota	8.00-17.00
<b>Podružnica Primorska</b>	<b>Pristaniška 45, 6000 Koper</b>	
34 Poslovalnica Koper	Pristaniška 45, 6000 Koper	8.00-13.00 and 15.30- 17.00
35 Poslovalnica Nova Gorica	Bevkov trg 3, 5000 Nova Gorica	8.00-12.00 and 14.30- 17.00
36 Poslovalnica Postojna	Vojkova 9, 6230 Postojna	8.00-12.00 and 14.30- 17.00
37 Poslovalnica Sežana	Stjenkova 1, 6210 Sežana	8.00-12.00 and 14.30- 17.00

***Subscription procedure for Offer Shares by issuer's employees in the Second Round of the Offering – First Step***

The Employees may subscribe for the Offer Shares at the following branches of NLB Branch Šaleško-Koroška in Velenje, Slovenia:

<b>Subscription point</b>	<b>Registered office</b>	<b>Business hours (only on business days)</b>
1. Poslovalnica Gorenje .....	Partizanska cesta 12, 3320 Velenje	8.00-15.30
2. Poslovalnica Rudarska .....	Rudarska cesta 3, 3320 Velenje	8.00-12.00 and 14.30-17.00

***Subscription procedure for Offer Shares by Retail Investors and Institutional Investors in Poland and Invited Investors in Slovenia in the Second Round of the Offering – Second Step***

The Second Round of the Offering – Second Step is addressed to Retail Investors and Institutional Investors in Poland and to Invited Investors in Slovenia. In the Second Round of the Offering – Second Step the Retail Investors will be able to subscribe first, followed by the Institutional Investors in Poland and Invited Investors in Slovenia (see section “*Terms and conditions of the Offering*” – “*Timetable for the Offering*”).

***The Issuer intends to preliminary allocate approximately 20% of the Offer Shares available for the Second Round of the Offering – Second Step to the Retail Investors. Subscription procedure for Offer Shares by Retail Investors in Poland***

Subscription forms from Retail Investors in Poland will be accepted at Customer Service Points and agents of DM BZ WBK in Poland, listed on the website of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)) and DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)), in a manner compliant with applicable regulations. Any changes in the list of Customer Service Points and agents of DM BZ WBK in Poland will be published as press releases and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)) and DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)), and in a manner compliant with applicable regulations.

Retail Investors may also place their subscription forms by telephone or Internet. For information on the detailed rules for placement of subscription forms, in particular the documents required if a subscription form is placed by a statutory representative, proxy or any other person acting on behalf of an investor, Retail Investors in Poland should contact DM BZ WBK.

Subscriptions by telephone or Internet will be accepted by DM BZ WBK from investors who have a brokerage account agreement with DM BZ WBK and the agreement that provides for placement of subscriptions by telephone or Internet. Such subscriptions will be accepted in accordance with such agreement and the internal regulations of DM BZ WBK accepted by the investor when they entered into such agreement, and with the technical requirements of using the Internet application made available by DM BZ WBK for placement of subscriptions.

Retail Investors in Poland who wish to subscribe for Offer Shares are required to follow the instructions provided by DM BZ WBK, which acts as the offering agent in the Offering to the Retail Investors in Poland.

Subscription forms from Retail Investors in Poland should be submitted with the PLN equivalent of the Offer Price of EUR 4.31, calculated based on the EUR/PLN exchange rate available to the Issuer on the day preceding the commencement of the subscription period for Retail Investors. The Offer Price in PLN will be published as a press release and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)) and DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)), and in a manner compliant with applicable regulations.

Payments for the Offer Shares by Retail Investors in Poland must be equal to the multiple of the number of the Offer Shares for which the investor is placing their subscription form, and the Offer Price in PLN. Payment for the subscribed Offer Shares shall be made in PLN when placing the subscription form.

Subscription forms not fully paid in or that are improperly completed will be invalid.

By placing subscription forms in Poland, each prospective Retail Investor will be deemed to have consented to being allotted a lower number of Offer Shares than specified on their subscription form (and also as a result of a shortfall in funds paid in due to changes in the EUR/PLN exchange rate between the date when the Offer Price in PLN is announced and the Allotment Date). Should there be a shortfall of funds due to negative changes in the EUR/PLN exchange rate, i.e. due to depreciation of PLN against EUR between the date when

the Offer Price in PLN is announced and the Allotment Date, DM BZ WBK will adjust a number of the Offer Shares allocated to affected investors to ensure their full payment for the Offer Shares at the Offer Price. The final number of allotted Offer Shares will be the result of dividing the paid in amount by a particular investor and the EUR/PLN exchange rate available to the Issuer on the Allotment Date.

Any overpayments, either as a result of: (i) a lack of allocation of the Offer Shares; (ii) as a result of any proportional reduction, or (iii) as a result of changes in the EUR/PLN exchange rate, will be returned within 15 days from the announcement of the results of the Offering, without any interest or any other compensation, and in accordance with the instructions given in the subscription form.

In the case of an oversubscription by Retail Investors compared with the final number of Offer Shares allotted to them, allocations to subscriptions placed by Retail Investors will be reduced *pro rata*. All fractional allocations will be rounded down. The final number of Offer Shares allotted to Retail Investors in Poland will also be reduced as a result of a shortfall in funds paid in due to the Offer Price in PLN being lower than the PLN equivalent established based on the EUR/PLN exchange rate available to the Issuer on the Allotment Date. In such cases, the number of the Offer Shares will be the result of dividing the amount paid by the Offer Price calculated in accordance with the EUR/PLN exchange rate available to the Issuer on the Allotment Date. All fractional allocations will be rounded down.

Retail Investors subscribing for the Offer Shares must submit instructions to deliver the shares finally allotted to them to their securities accounts, together with their subscription forms. Prospective investors who do not have a securities account will be required to open a securities account prior to placement of their subscription for the Offer Shares.

#### *Subscription procedure for Offer Shares by Institutional Investors in Poland and Invited Investors in Slovenia*

The Institutional Investors and Invited Investors may take part in the book-building process. Institutional Investors and Invited Investors who wish to take part in the bookbuilding process and subscribe for the Offer Shares in the Offering should contact DM BZ WBK, Brokerage Institutional Trading Desk at Grzybowska 5a St, Warsaw Poland, or NLB, Investment Banking, Corporate Finance, Trg republike 2, 1520 Ljubljana, Slovenia, for further details regarding the subscription process.

With regard to Institutional Investors and Invited Investors, the Issuer will preliminarily allocate the Offer Shares to those Institutional Investors and Invited Investors who: (i) will be invited by the Issuer or DM BZ WBK or NLB to participate in the bookbuilding or take part in the book-building after a relevant declaration, and (ii) will be included in the preliminary allotment list. In order to maximise future liquidity on the WSE, the preliminary allocation to Institutional Investors and Invited Investors will be made by the Issuer with preference given to investors placing their declarations at DM BZ WBK and upon recommendation from DM BZ WBK. The allocation to Invited Investors, who placed their declarations at NLB, will be made only when a number of the Offer Shares for which declarations have been placed at DM BZ WBK is lower than the number of the Offer Shares offered in the Second Round of the Offering – Second Step.

The Institutional Investors and Invited Investors included on the preliminary allotment list will be required to pay amounts, corresponding to the product of the Offer Price and the number of the Offer Shares preliminarily allocated to them, not later than on the last day of the subscription period for Institutional Investors and Invited Investors. Institutional Investors may choose to pay the Offer Price in PLN or the Offer Price in EUR while Invited Investors shall pay the Offer Price in EUR. By placing subscription forms and paying in the Offer Price in PLN, each prospective Institutional Investor will have been deemed to have consented to being allotted a lower number of Offer Shares than the number specified on their subscription form, as a result of a shortfall in funds paid in due to the change of EUR/PLN exchange rate during the course of the subscriptions period. Should there be a shortfall of funds due to negative changes in the EUR/PLN

exchange rate, i.e. depreciation of PLN against EUR in the period between the date when the price of the Offer Shares in PLN is determined and published by the Issuer and the Allotment Date, DM BZ WBK will adjust a number of the Offer Shares allocated to affected investors to ensure their full payment for the Offer Shares at the Offer Price.

Institutional Investors and Invited Investors, in particular entities managing securities portfolios on behalf of their clients, should liaise with DM BZ WBK or NLB in order to discuss the actions required to place subscription forms and to pay for allocated Offer Shares.

### **Reduction of subscription and reimbursement of excess payment**

If more Offer Shares are subscribed and paid for than are being offered by Gorenje in the Second Round of the Offering – First Step, subscriptions by the Employees will be reduced, so that Employees will be allocated a smaller number of Offer Shares than subscribed (see section “*Distribution and Allotment of the Offer Shares*” – “*Pre-allotment Disclosure*”). In the case of oversubscription by the Employees in the Second Round of the Offering – First Step compared with the final number of Offer Shares available for the Second Round of the Offering, allocations to subscriptions placed will be reduced *pro rata*. All fractional allocations will be rounded down. In the case of oversubscription by the Employees in the Second Round of the Offering – First Step, no Second Round of the Offering – Second Step will take place.

If more Offer Shares are subscribed for and paid by Retail Investors than are being finally allotted by Gorenje in the Second Round of the Offering – Second Step to Retail Investors, then subscriptions by Retail Investors will be reduced, so that Retail Investors will be allocated a smaller number of Offer Shares than subscribed (see section “*Distribution and Allotment of the Offer Shares*” – “*Pre-allotment Disclosure*”). In the case of oversubscription by Retail Investors in the Second Round of the Offering – Second Step compared with the final number of Offer Shares offered to them in the Second Round of the Offering – Second Step, allocations to subscriptions placed will be reduced *pro rata*. All fractional allocations will be rounded down.

The final number of Offer Shares allotted to Retail Investors and those Institutional Investors who choose to pay the Offer Price in PLN in Poland in the Second Round of the Offering – Second Step may also be reduced as a result of a shortfall in funds paid in due to changes in the EUR/PLN exchange rate between the date of announcement of the Offer Price in PLN and the Allotment Date. The final number of allotted Offer Shares will be the result of dividing the paid in amount by a particular investor and the EUR/PLN exchange rate available to the Issuer on the Allotment Date.

Excess payments will be returned to Employees, as well as those Retail Investors and Institutional Investors who chose to pay the Offer Price in PLN in accordance with the instructions provided by them. Any excess payments (either as a result of lack of allocation of the Offer Shares, or as a result of any proportional reduction, or as a result of the final allotment of a lower number of Offer Shares due to changes in the EUR/PLN exchange rate between the date when the Offer Price in PLN is announced and the Allotment Date) will be returned within 15 days from the announcement of the results of the Offering, without any interest or any other compensation.

### **Minimum and maximum subscription amounts**

The maximum number of Offer Shares for which an individual Existing Shareholder may subscribe in the First Round of the Offering shall be equal to the number of shares that an individual Existing Shareholder may subscribe for in proportion to their stake in the Issuer’s share capital as at 23 August 2013 (the “**Record Date**”). See section “*Distribution and Allotment of Offer Shares*” – “*First Round of Offering*” for the manner



of calculation of the number of Offer Shares to which an Existing Shareholder is entitled on the basis of the above provision.

In the Second Round of the Offering – First Step, each Employee may subscribe for and pay the total number of Offer Shares available for the Second Round of the Offering.

In the Second Round of the Offering – Second Step, in the case of Retail Investors, each Retail Investor may subscribe for up to a maximum 50,000 of the Offer Shares. Multiple subscription forms placed by each Retail Investor will be summed up and may not exceed a maximum of 50,000 Offer Shares per each Retail Investor, taking into account that total Shares, preliminarily allocated to all Retail Investors should not exceed 20 % of Offered Shares in the Second Round of the Offering – Second Step. In the case of Institutional Investors and Invited Investors, subscription for the Offer Shares may be limited. Subject to approval by the Supervisory Board, the Management Board shall invite Institutional Investors and Invited Investors to subscribe for the Offer Shares, determining at the same time the maximum number of Offer Shares an individual investor may subscribe for and pay in.

### **Withdrawal from the subscription**

A subscriber of the Offer Shares who has submitted the subscription form cannot withdraw an accepted bid, unless if:

- (a) a supplement to this Prospectus is published in accordance with the applicable regulations (Article 80, Paragraph 5 of ZTFI) or
- (b) ATVP issued a supervisory measure under ZTFI (Article 94 of ZTFI)

If a new significant factor occurs in the period from the date of this Prospectus to the completion of the Offering or the admission of the Shares to trading on the LJSE or the WSE, the Issuer must supplement the Prospectus with the relevant information on such issues in the form of a supplement to the Prospectus. Investors that subscribed for the Offer Shares prior to the publication of the supplement to the Prospectus shall have the right to withdraw from the Offering. Investors may exercise this right within the deadline specified in the supplement to the Prospectus, which may not be shorter than two business days from the publication of the supplement to the Prospectus.

If ATVP issued a supervisory measure (from Point 1 of the second paragraph or Point 1 of the third paragraph of Article 93 of ZTFI) in respect of the offer of Shares to the public, the investor that purchased or subscribed Offered Shares prior to the announcement of such supervisory measure shall have the right to withdraw from the offer or the sales contract concluded on the basis of subscription or acceptance of the Offer. The investor may exercise this right within five business days from the publication of the ATVP's supervisory measure.

### **Payment of Offer Shares, registration and settlement**

#### ***Payment of Shares***

The Offer Shares must be paid in by the end of the day on which they are subscribed.

The Offer Shares shall be deemed subscribed only if fully paid. The Offer Shares shall be paid in cash, in EUR, to the transaction account stated in the subscription form. In the Second Round of the Offering – Second Step, the Offer Shares shall be paid in PLN by the Retail Investors at a price that will be the equivalent of the Offer Price of EUR 4.31, calculated based on the EUR/PLN exchange rate available to the Issuer on the day preceding commencement of the subscription period for the Retail Investors. The Offer Price in PLN will be published as a press release and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)),

the Company (www.gorenjegroup.com), DM BZ WBK (www.dmbzwbk.pl) and NLB (www.nlb.si), and in a manner compliant with applicable regulations.

Institutional Investors may choose to pay the Offer Price in PLN or the Offer Price in EUR.

The Offer Shares shall be deemed to have been paid if the relevant amount for the payment of the Offer Shares is credited to the transaction account stated in the subscription form in due time.

### ***Registration and settlement***

After the completed Offering, the Issuer shall issue the order to the Registry Court to register the changes in the share capital of the Issuer from the issue of the Offer Shares, the number of shares and the amendments to the Articles of Association.

After the above-mentioned changes have been entered in the Registry Court, the Issuer shall issue to the KDD the order to issue the Offer Shares. The KDD shall enter the Offer Shares in the securities accounts of the Offer Shares' subscribers.

After their issue, the Offer Shares shall be fully transferable, pursuant to the Issuer's Articles of Association, the regulations applicable at the time and the KDD's Rules.

If the share capital increase related to the Offer Shares is not entered in the Registry Court by 15 February 2014 at the latest, the subscription shall be non-binding and the Issuer shall, within 15 days, reimburse the subscribers all funds paid for the shares and still outstanding, without interest, with the relevant amount being credited to the accounts stated by the share subscribers on their subscription forms for this purpose. After completion of the Offering, the Issuer shall file a motion to register, in the shortest time possible, the resolution on the share capital increase in the Registry Court, and a statement on their awareness of no reasons preventing such a resolution from being entered in the Registry Court by 15 February 2014.

### **The success of the Public Offering and publication of the outcome**

The Issuer has not determined a threshold level for the Offering, which means that the Offering will be considered successful regardless of the number of subscribed and paid Offer Shares, provided that at least one Offer Share is subscribed and paid in.

The Issuer shall, no later than within three Business Days after the Offering is closed, publish the results of the Offering as a press release and announced on the website of the LJSE (www.ljse.si), the Company (www.gorenjegroup.com), DM BZ WBK (www.dmbzwbk.pl) and NLB (www.nlb.si), and in a manner compliant with applicable regulations.

### **Priority right for the subscription of Offer Shares**

The Existing Shareholders may exercise their priority right to subscribe for the Offer Shares in proportion to their equity stakes by the deadline presented in *Timetable of the Offering – Timetable of the Offering* and under the terms and conditions stipulated in *Distribution and Allotment of Offer Shares – First Round of Offering*. The Existing Shareholders may not transfer their priority rights to subscribe for the Offer Shares to third persons.

### **Cancellation or suspension of the Offering**

The Company, upon consultation with DM BZ WBK and NLB, may cancel or suspend the Offering at any time prior to the commencement of the subscription period for the Employees and Investors, without disclosing any reason for doing so.

The Company may also, upon consultation with DM BZ WBK and NLB, cancel or suspend the Offering at any time after the commencement of the subscription period for the Employees and Investors up and until the Allotment Date, if it considers there are reasons to believe that proceeding with the Offering is, or has become impracticable or inconvenient. Such reasons may include, but are not limited to: (i) an unsatisfactory level of demand for the Offer Shares; (ii) suspension or significant limitation of trading in securities on the LJSE or the WSE; (iii) material deterioration of economic or political conditions in Slovenia, Poland or generally across the world; (iv) material loss or deterioration in the performance of Gorenje; (v) material downturn of general performance, management, financial standing, capital or results of operations of Gorenje or the Group or any materially negative development in relation to the matters stated above.

By cancelling the Offering, all subscription forms of investors in the subscription of the Offer Shares on the basis of the Offering under this Prospectus will be rejected. Within 15 days after the announcement of the cancellation of the Offering, Gorenje will reimburse any amounts paid prior to the cancellation of the Offering. Investors will not be entitled to receive any interest or other compensation.

If Gorenje decides to suspend the Offering during the subscription period, both the subscriptions and payments made shall be deemed valid. Investors, however, will be entitled to withdraw from the Offering for two business days following the publication of a supplement to this Prospectus concerning the suspension of the Offering. In the event that Gorenje decides to suspend the Offering, information about the suspension of the Offering will be made available to the public in the form of a supplement to this Prospectus and in the form and scope specified under applicable laws and regulations.

Any decision on the cancellation or suspension of the Offering will be published and announced on the websites of the LJSE ([www.ljse.si](http://www.ljse.si)), the Company ([www.gorenjegroup.com](http://www.gorenjegroup.com)), DM BZ WBK ([www.dmbzwbk.pl](http://www.dmbzwbk.pl)) and NLB ([www.nlb.si](http://www.nlb.si)), in a manner compliant with applicable laws and regulations. None of the Company and/or the Offering Agents shall bear any liability for any consequences (including, without limitation, losses, damages or lost opportunity) incurred by any third party (including investors) and/or their affiliates in respect to and/or in connection with such cancellation or suspension.

## **Distribution and allotment of Offer Shares**

### ***Different categories of potential investors***

The Offering of shares shall be organised in two rounds by the deadlines defined in the “*Timetable of the Offering*” – “*Timetable of the Offering*”.

The First Round of the Offering and the Second Round of the Offering – First Step shall be organised in Slovenia, whereas the Second Round of the Offering – Second Step shall be carried out both in Poland and Slovenia. The Second Round of the Offering – Second Step will take place only if the Offer Shares have not been fully subscribed for and paid in the First Round of the Offering and the Second Round of the Offering – First Step.

### ***First Round of the Offering***

In the First Round of the Offering, the Offer Shares shall be offered to the Existing Shareholders who are entered in the share register of the Company as at the Record Date and who have the priority rights to subscribe for the Offer Shares in proportion to their stakes in the Issuer’s share capital. The number of the Offer Shares to which the Existing Shareholders is entitled on the basis of the above provision shall be calculated on the basis of the ratio between the number of the Offer Shares and the number of the shares of the Issuer existing on the Record Date (ratio 0.656372), taking into account the number of such shares held by each individual holder of the priority rights, whereby the number of Offer Shares to which an eligible

shareholder is entitled shall be rounded up. As to the above mentioned provision, each Existing Shareholder is entitled to subscribe at least one Offer Share.

After the First Round of the Offering, individual subscribers from the first round are preliminary allocated as many Offer Shares as they have subscribed for and fully paid in, in the first round, in accordance with the previous paragraph.

#### *Second Round of the Offering – First Step*

The remaining Offer Shares that are not subscribed and fully paid in by the Existing Shareholders in the First Round of the Offering (Offer Shares available for the Second Round of the Offering) shall be offered in the Second Round of the Offering – First Step to Employees, who may subscribe for and pay in the total number of Offer Shares available for the Second Round of the Offering.

After the completed Second Round of the Offering – First Step, provided that all Offer Shares available for the Second Round of Offering are subscribed for and fully paid in, in the Second Round of the Offering – First Step, the Employees shall be preliminary allocated as many Offer Shares as they have subscribed for and fully paid in, in this round.

In the case of an oversubscription by Employees in the Second Round of the Offering – First Step compared with the final number of Offer Shares available for the Second Round of the Offering, preliminary allocations to subscriptions placed will be reduced *pro rata*. All fractional allocations will be rounded down.

The Issuer may decide, upon its sole discretion, not to preliminary allocate to a particular Employee all the Offer Shares subscribed for and paid in full by that Employee in the Second Round of the Offering – First Step.

#### *Second Round of the Offering – Second Step*

The remaining Offer Shares which have not been subscribed for and paid in by the Employees in the Second Round of the Offering – First Step (Offer Shares available for the Second Round of the Offering – Second Step) shall be offered in the Second Round of the Offering – Second Step to investors in Poland and Slovenia. In Poland, the Offering shall be directed to Retail Investors and Institutional Investors, and in Slovenia to Invited Investors.

The Issuer intends to preliminary allocate approximately 20% of the Offer Shares available for the Second Round of the Offering – Second Step to the Retail Investors. In the case of an oversubscription by Retail Investors compared with the final number of Offer Shares preliminary allotted to them, allocations to subscriptions placed by Retail Investors will be reduced *pro rata*. All fractional allocations will be rounded down. The final number of Offer Shares allotted to Retail Investors in Poland will also be reduced in the case of a shortfall in funds paid in, due to the Offer Price in PLN being lower than the PLN equivalent established based on the EUR/PLN exchange rate available to the Issuer on the Allotment Date. In such cases, the number of Offer Shares will be the result of dividing the amount paid by the Offer Price, calculated in accordance with the EUR/PLN exchange rate available to the Issuer on the Allotment Date. All fractional allocations will be rounded down.

The preliminary allocation to Institutional Investors and Invited Investors will be made by the Issuer, with preference given to investors who placed their declaration at DM BZ WBK and upon recommendation from DM BZ WBK. The Management Board, subject to approval by the Supervisory Board, may allocate the Offer Shares in an amount up to its discretion.

***Purchase by the significant shareholders of the Company, members of the Management Board and members of the Supervisory Board***

The Issuer is not aware of any person intending to subscribe for more than 5% of the Offer Shares, in particular any significant shareholders of the Company, members of the Management Board or members of the Supervisory Board. The information on the intention of the members of the Management Board and Supervisory Board to take part in the Offering is presented in section “*Management Board and Supervisory Board*” – “*Intention of the members of the Management Board and Supervisory Board to take part in the Offering*”.

***Pre-allotment disclosure***

In the First Round of the Offering, the Offer Shares shall be preliminary allocated to the Existing Shareholders who exercised their priority rights, subscribed for and paid in the Offer Shares.

The remaining Offer Shares that are not preliminary allocated to Existing Shareholders in the First Round of the Offering shall be allocated to Employees who subscribed for and paid in the Offer Shares in the Second Round of the Offering – First Step.

The remaining Offer Shares which have not been subscribed for and paid in by the Employees in the Second Round of the Offering – First Step shall be preliminary allocated to Retail Investors and Institutional Investors in Poland, and to Invited Investors in Slovenia. The Issuer intends to preliminary allocate approximately 20% of the Offer Shares available for the Second Round of the Offering – Second Step to the Retail Investors. Approximately 80% of the available Offer Shares shall be preliminary allocated to the Institutional Investors and Invited Investors, with preference given to the Institutional Investors which placed their declarations at DM BZ WBK and upon recommendation from DM BZ WBK. The preliminary allocation to Invited Investors will be made only when a number of the Offer Shares for which declarations have been made by the Institutional Investors is lower than a number of the Offer Shares offered in the Second Round of the Offering – Second Step.

The Management Board, subject to approval by the Supervisory Board, may allocate Offer Shares in an amount up to its discretion, to investors having participated in the Second Round of the Offering.

***Procedure for informing subscribers about the allotment***

The Issuer shall inform every Existing Shareholder who is entered in the Issuer's Share Register as at the Record Date, about the issue procedure and the number of Offer Shares that that shareholder is entitled to subscribe for.

The Existing Shareholders, Employees and Retail Investors will receive relevant notifications in accordance with the regulations of their securities accounts. The information on the number of Offer Shares finally allotted to the Institutional Investors and Invited Investors will be provided to investors by DM BZ WBK and NLB.

All dealings in the Offer Shares prior to introduction of the Offer Shares to trading on the LJSE and the WSE will be at the sole risk of the investor concerned, irrespective of whether or not the investor concerned has been notified of the number of shares finally allotted to them.

**Pricing**

The Offer Price of the Offer Shares shall be EUR 4.31.

The Offer Price is the same as the price per share paid by Panasonic Corporation in the first increase of the share capital. The price has been calculated as the Issuer's six month volume weighted average price on 4th July 2013, achieved on the organised stock exchange market.

For the purpose of subscriptions by Retail Investors in the Second Round of the Offering – Second Step, the Offer Price will be determined in PLN and will be the equivalent of the Offer Price of EUR 4.31, calculated based on the EUR/PLN exchange rate available to the Issuer on the day preceding commencement of the subscription period for Retail Investors. Institutional Investors may choose to pay the Offer Price in PLN or the Offer Price in EUR.

The subscribers shall not bear any additional costs of subscription and payment of the Offer Shares, except a potential banking fee for the executed payment transaction.

## **Placing**

### ***Offering Agents***

Technical support and co-ordination for the Issuer in the subscription and the issue of the Offer Shares shall be provided by the following entities:

- Nova Ljubljanska banka d.d., Ljubljana;
- Dom Maklerski BZ WBK S.A.

## **Admission to trading and settlement of transactions**

### ***Expected Trading on the Regulated Market***

After allocating the Offer Shares and in accordance with this Prospectus, Gorenje will make an application to the LJSE for the listing and trading of the Offer Shares on the equities market, sub-segment Prime Market. If the application for listing and trading is approved, the trading in the Offer Shares on the LJSE is expected to commence on or around 31 December 2013.

The LJSE operates the only regulated markets in Slovenia within the meaning of the MiFID. The LJSE is a joint-stock company wholly-owned by the CEESEG AG and is part of the CEE Stock Exchange Group.

Shares listed on the LJSE are segmented in three sub-markets: Entry, Standard and Prime. To be traded on the Standard or Prime sub-market a company must meet certain additional, non-statutory criteria with respect to capitalization, liquidity and provision of information. Shares may be traded in a continuous price-setting system or in a single-price auction system depending on the trading characteristics, in particular liquidity. The continuous trading method is intended for those securities that meet the LJSE liquidity criteria regarding the number of executed trades, turnover and market depth. The less liquid securities, which do not comply with the LJSE liquidity criteria, are traded in the auction trading method. The existing shares of Gorenje under the trading code GRVG are traded with under the continuous trading method.

Settlement of all transactions executed on the LJSE is handled by the KDD.

Gorenje will also make an application to the Warsaw Stock Exchange for the listing and trading of all of the Existing Shares and the Offer Shares in a continuous price-setting system on the primary market of the WSE.

The WSE operates one of the two regulated markets in Poland within the meaning of the MiFID. The other regulated market (BondSpot, a subsidiary of the WSE) concentrates mainly on bond trading and OTC transactions. Shares of the WSE are listed on the WSE and the Polish State is a controlling shareholder. Members of the WSE that participate in trading include banks and Polish and international brokers.

Shares listed on the WSE may be traded in a continuous price-setting system or in a single-price auction system, depending on capitalisation and intensity of trading. In addition, there are two markets for shares: Main and Parallel, the latter being for smaller, less liquid issuers. Listed companies are classified into four main segments according to their capitalisation: MINUS 5, 5 PLUS, 50 PLUS or 250 PLUS. To be traded in a specific market and segment, certain non-statutory criteria must be met by the securities in addition to the statutory listing criteria. Shares of companies which have high price volatility, or which are under bankruptcy proceedings may be classified into the Alert List segment and then moved to listing under the single-price auction system.

Settlement of all transactions executed on the WSE is handled by the NDS, a joint-stock company in which the WSE has a 33.3% stake (with the remaining shares held by the National Bank of Poland and the State Treasury of the Republic of Poland).

According to the WSE's website, ([www.gpw.pl](http://www.gpw.pl)) as at 24 October 2013 it was listing the shares of 444 companies.

If the application for listing and trading is approved, the trading in the Offer Shares on the WSE is expected to commence on the same date as on LJSE which is on or around 31 December 2013.

#### *Trading on the Regulated Market*

The Existing Shares have been admitted to trading on the regulated market in Slovenia and are listed on the LJSE on the Prime Market. The Existing Shares have been given International Securities Identification Number (ISIN) SI0031104076.

Gorenje has issued so-called commercial papers, which are instruments of the Money Market and which have been listed with the LJSE since 10 May 2013. These were issued under ISIN code No. SI0032500579 and have up-to 8-month maturity, and as such represent short-term borrowing. The entire nominal value thereof was EUR 24,2 thousand with an interest rate of 4.45 %.

## PLACING

### Placement agreement

The Issuer intends, prior to the First Round of the Offering, to enter into a placement agreement (the “**Placement Agreement**”) in respect of the Offering, with Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana, in which Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana will commit, on a best-efforts basis, to procure subscribers for the Offer Shares.

Dom Maklerski BZ WBK S.A., whose registered office is at Plac Wolności 15, 60-967 Poznań, Poland, acts as the Sole Global Coordinator, Joint Bookrunner and the Offering Agent in Poland for the purposes of the Offering in Poland and admission to trading on the WSE.

Nova Ljubljanska banka d.d., Ljubljana whose registered office is at Trg republike 2, 1520 Ljubljana, Slovenia, acts as the Joint Bookrunner and the Offering Agent in Slovenia for the purposes of the Offering in Slovenia and admission to trading on the LJSE.

Bank Zachodni WBK S.A., whose registered office is at Rynek 9/11, 50-950 Wrocław, Poland, acts as Financial Advisor in the Offering, providing financial advice to the Issuer in preparing the Offering.

In connection with the Offering, the Issuer has agreed to pay a combined fee calculated as a percentage of the gross proceeds from the placement of the Offer Shares. In addition, the Issuer has agreed to indemnify Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana against certain liabilities and to reimburse certain expenses incurred by Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana in connection with the management of the Offering. Dom Maklerski BZ WBK S.A. and Nova Ljubljanska banka d.d., Ljubljana shall be entitled, under certain circumstances, to be released and discharged from their respective obligations under the Placement Agreement prior to the date of listing of the Offer Shares on the LJSE and the WSE. Such circumstances include the non-satisfaction of certain conditions precedent and the occurrence of certain force majeure events.

### Underwriting agreement

The Issuer does not intend to enter into any underwriting agreements in connection with the Offering.

### Overallotment option

The Issuer has not granted and will not grant any overallotment option.

### Stabilisation

The Offering Agent in Poland and the Offering Agent in Slovenia did not undertake to enter into any transactions to stabilise the price of the Offer Shares.

### Lock-up arrangements

Subject to certain exceptions (see section “*Use of Proceeds*” – “*Shareholders Meeting dated 23 August 2013*” – “*Third increase of share capital*”), the Issuer has agreed that for a period of 12 months from the date of listing of the Offer Shares on the LJSE and the WSE, the Issuer will not, without the prior written consent of the Offering Agent in Poland, propose or otherwise support an offering of any of the shares, announce any intention to offer new shares and/or to issue any securities convertible into shares or securities that in any



other manner represent the right to acquire the Issuer's shares, or sell or conclude any transaction (including any transaction involving derivatives), of which the economic effect would be similar to the effect of selling the shares.

### **Offering expenses**

As of the date of this Prospectus, the Issuer estimates the expenses for preparation of the Offering as approximately EUR 700 thousand. These expenses consist in the costs of preparation of the Prospectus, advisory services, marketing and placement of the Offering, and the costs of analyses prepared for the Offering. The final amount of the expenses will be calculated after the Offering and will be published within two weeks from the date of listing of the Offer Shares on the LJSE and the WSE, in the same manner as the Prospectus. The Issuer has agreed to pay all commissions and expenses in connection with the Offering. However, Investors will bear their own costs of evaluation and participation in the Offering, i.e. standard brokerage fees charged by brokers.

### **Other relationships**

The Offering Agent in Poland, the Offering Agent in Slovenia and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company and any of its affiliates. The Offering Agents and their affiliates may receive the fees and commissions customary for these transactions and service.

## **INDEPENDENT AUDITORS**

### **KPMG**

KPMG Slovenija, podjetje za revidiranje, d.o.o. with registered office in Ljubljana, Zelezna cesta 8a SI-1000 Ljubljana, Slovenia.

The Financial Statements for the financial years ended 31 December 2010, 31 December 2011 and 31 December 2012, prepared in accordance with IFRS and included elsewhere in this Prospectus, were audited by KPMG Slovenija, podjetje za revidiranje, d.o.o. (Zelezna cesta 8a SI-1000 Ljubljana, Slovenia), which is an auditor qualified to audit financial statements under Slovenian law, on auditing company registered with the Slovenian Institute of Auditors, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative. KPMG Slovenija, podjetje za revidiranje, d.o.o has issued an unqualified opinion on the Financial Statements, which is attached to the Financial Statements.

KPMG Slovenija reviewed the Interim Financial Statements, prepared in accordance with IFRS and included elsewhere in this Prospectus, for the six-month period ended 30 June 2013.

### **Appointment of the auditor**

Under the Articles of Association and the Slovenian Companies Act, the Company's auditor is appointed by the Shareholders Meeting.

## IMPORTANT INFORMATION

Nova Ljubljanska banka d.d., Ljubljana and Dom Maklerski BZ WBK S.A. are acting solely for the Company and no one else in the Offering, and are not responsible to anyone other than the Company for the protections afforded to their respective clients, or for the provision of advice in relation to the Offering or any transaction or arrangement referred to in this Prospectus, except for liability stipulated in mandatory provisions of applicable law.

Distribution of this Prospectus and the offering of the Offer Shares in certain jurisdictions may be restricted by law. Accordingly, neither this Prospectus nor any advertisement nor any other offering material may be distributed or published in any jurisdiction, except in compliance with any applicable laws and regulations. No action has been or will be taken as at the date of this Prospectus, by the Company or any other person, to permit a public offering of the Offer Shares or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials or application forms relating to the Offer Shares) in any jurisdiction where action for that purpose may be required.

The information contained in this Prospectus has been provided by the Company and other sources identified herein. This Prospectus is not intended to provide the basis for any credit or other evaluations, and should not be considered a recommendation by either the Company or the Offering Agents that any recipient of this document should subscribe for or purchase the Offer Shares.

The Company accepts responsibility for the information contained in this Prospectus. To the best of the Company's knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Potential investors should read this Prospectus in its entirety and determine for themselves the relevance of the information contained herein, and their subscription for the Offer Shares should be based upon such investigation as they deem necessary. In making a decision to invest in the Offer Shares, prospective investors must rely upon their own examination of the Company and the terms of this document, including the risks involved. The content of this Prospectus is not to be construed as legal, financial, business or tax advice.

Each prospective investor should consult their own legal advisor, financial advisor or tax advisor for legal, financial or tax advice. If in any doubt about the content of this Prospectus, prospective investors should consult their stockbroker, bank manager, legal advisor, accountant or other financial advisor. Remember that the price of securities and income derived from them can go down as well as up.

This Prospectus does not constitute an offer to sell, or a solicitation by or on behalf of the Company or any Offering Agent to any person to subscribe for or purchase any of the Offer Shares in any jurisdiction where it is unlawful for the Company or Offering Agent to make such offers or solicitations. The distribution of this Prospectus and the offering or sale of the Offer Shares in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus are required by the Company and the Offering Agents to inform themselves about and to observe such restrictions. No action has been taken by the Company or the Offering Agents that would permit, other than under the Offering, an offer of the Offer Shares, or possession or distribution of this Prospectus or any other offering material or application form relating to the Offer Shares in any jurisdiction where action for that purpose is required. This Prospectus may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offers or solicitations are not authorised or are unlawful. Further information with regard to restrictions on offers and sale of the Offer Shares is set out in the section on *Selling Restrictions*.

## **Supplements to this Prospectus**

The Slovenian Financial Instruments Market Act stipulates that if a new significant factor occurs in the period from the date of approval of the prospectus by the Slovenian ATVP to the date of closing of the public offer of securities, or the beginning of their trading on a regulated market, or if a major irregularity or incompleteness is found in that period about the information contained in the prospectus that could impact the assessment of securities, then the issuer, offeror or person demanding admission of securities to trading on the regulated market must update the prospectus with the relevant information in the form of a supplement to the prospectus. The supplement to the prospectus must be approved by the Slovenian ATVP under the same procedural rules that governed the approval of the (initial) prospectus, whereby the Slovenian ATVP must serve the applicant with their decision on the request for the approval of the prospectus within seven business days after receiving such request. The issuer, offeror or person demanding admission of securities to trading on a regulated market must publish the supplement of the prospectus in the same manner in which they published the prospectus. If necessary, taking into account the new information included in the supplement to the prospectus, the issuer, offeror or person demanding admission of securities to trading on a regulated market must also publish the appropriate supplement to the summary of the prospectus, and its translation.

Investors that purchased or subscribed for securities prior to the publication of the supplement to the prospectus have the right to withdraw from offers or sales contracts concluded on the basis of subscription or acceptance of the offer. Investors may exercise this right within the deadline specified in the supplement to the prospectus, which may not be shorter than two business days from the publication of the supplement to the prospectus.

### **No incorporation of website information**

Neither the content of the Company's website, nor any other website referenced in this Prospectus, form any part of this Prospectus.

### **Service of process and enforcement of civil liabilities**

Enforcement of civil liabilities recognised by final court judgements (or other recognised enforceable titles) is regulated by the provisions of the Slovenian Enforcement and Securing of Civil Claims Act. Enforcement means the compulsory, judicial enforcement of enforceable titles that are issued for the fulfilment of a claim.

The court recognises the following enforceable titles: (i) final and enforceable court decision (judgment or arbitration ruling, decision and payment order or other court or arbitration order) or court settlement (reached before a court or through arbitration); (ii) enforceable notarial act; and (iii) other enforceable decision or instrument for which a law, ratified and published international treaty or a legal act of the EU directly applicable in the Republic of Slovenia is recognised as an enforceable title.

When the court receives the motion for enforcement with an enclosed enforcement title, it verifies whether the enforcement motion and enforcement title meet the criteria set out in the Slovenian Enforcement and Securing of Civil Claims Act, and either issues a decision (i) authorising enforcement; (ii) rejecting the proposal for enforcement (as unjustified for substantive reasons); or (iii) dismissing the proposal (for procedural reasons).

Objections or appeals may be submitted within eight days of the servicing of the decision of the court. In exceptional cases, the debtor may also file an objection after this deadline and up to the end of the enforcement procedure, if such an objection is based on a fact that relates to the claim itself, that appeared after the enforceability of the decision and that could not be invoked prior to the expiry of the stated deadline. Objections and appeals do not prevent or delay the performance of enforcement actions in the enforcement

procedure, unless the debtor files a motion for the suspension of enforcement. However, a creditor may not be repaid until the enforcement decision becomes final.

Enforcement measures for the recovery of monetary claims are the sale of the debtor's moveable property, the sale of their immovable property, the transfer of a debtor's claim on money, the liquidation of other financial rights or material rights and the book entry securities of the debtor, the sale of a debtor's shareholding and the transfer of balances held with organisations authorised to conduct payment transactions (i.e. banks). The afore-mentioned enforcement measures can apply to all objects of enforcement (to each object or financial or material right belonging to the debtor), except where exempted by law from enforcement or when enforcement on that object is restricted by law (e.g. objects that are not the subject of legal transactions, mineral resources and other natural resources, etc).

The enforcement procedure (and thus the effects of the decision authorising enforcement) normally ends in the settlement of the creditor's claims. However, if enforcement cannot be carried out due to legal and material obstacles (for example, if there are no funds in the debtor's accounts for a longer period of time, or if the enforcement officer cannot find any objects that could be made the subject of enforcement, etc), the enforcement proceedings shall be terminated. In order to avoid termination of the enforcement proceedings, the creditors can always propose that the enforcement procedure be postponed for a set amount of time, and in this way maintain the validity of the decision authorising enforcement, and also in cases when the debtor has no assets at the time of the decision's authorisation.

### **Presentation of financial and other information**

This Prospectus contains select financial statements of the Group, as well as financial information relating to it. In particular, this Prospectus contains the Financial Statements for the financial years ended 31 December 2010, 31 December 2011 and 31 December 2012, audited by KPMG Slovenija, podjetje za revidiranje, d.o.o. (Zelezna cesta 8a SI-1000 Ljubljana, Slovenia), an auditor qualified to audit financial statements under Slovenian law (hereinafter referred to as the “**Auditor**”). The Auditor issued an unqualified opinion on the Financial Statements.

The Interim Financial Statements for the six-month period ended 30 June 2013, included elsewhere in this Prospectus, were reviewed by KPMG Slovenija.

The Financial Statements and the Interim Financial Statements are presented in EUR and have been prepared in accordance with IFRS, as adopted by the EU.

The functional currency of the Company and the Group is the EUR.

Certain arithmetical data contained in this Prospectus, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in columns or rows in the tables contained in this Prospectus may not conform precisely to the total figure given for that column or row.

### **Currency presentation**

Unless otherwise indicated, all references in this Prospectus to “USD”, or “U.S. dollars” are references to the lawful currency of the United States; all references to “EUR” or the “Euro” are to the lawful currency of the member states of the EU that have adopted the single currency in accordance with the EC Treaty, which means the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992), and as amended by the Treaty of Amsterdam (signed in Amsterdam on 2 October 1997) and includes, for this purpose, Council Regulation

(EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro and Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro. All references to “PLN” or “Polish zloty” are to the lawful currency of the Republic of Poland.

### **Market, economic and industry data**

All references to market, economic or industry data, statistics and forward-looking statements in this Prospectus consist of estimates compiled by professionals, organisations, analysts, or publicly available information or the Company’s own knowledge of its sales and markets. These data include reports provided by Eurostat, United Nations and GfK. Each time share information has been obtained from a third party, the source has been provided. Industry publications generally state that their information is obtained from sources that they believe are reliable, but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. The Company has relied on the accuracy of such data and statements without carrying out any independent verification thereof, and therefore cannot guarantee their accuracy or completeness. All information included in this Prospectus which is derived from third parties has been provided together with the source of the origin of such information. Assumptions and statements about the Group’s market position are based on the best knowledge of the Management Board about the Group and its market position.

Information in this Prospectus that has been sourced from third parties has been accurately extracted, and as far as the Company is aware and able to ascertain from the information published by said third parties, no facts have been omitted that would render the extracted information inaccurate or misleading.

### **Forward-looking statements**

This Prospectus includes “forward-looking statements”, which includes all statements other than statements of historical fact, including but not limited to any statements preceded by, followed by, or that include the words “targets”, “believes”, “expects”, “aims”, “intends”, “plans”, “will”, “may”, “anticipates”, “would”, “could” or similar expressions of the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Group’s control that could cause its actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements contained in this Prospectus are based on numerous assumptions regarding the Group’s present and future business strategies and the environment in which it currently operates and will operate in the future. Among the important factors that could cause the Group’s actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those described in the sections entitled “*Operating and Financial Review*” and “*Risk Factors*”, as well as elsewhere in this Prospectus. These forward-looking statements speak only as at the date of this Prospectus. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto, or any change in events, conditions or circumstances upon which any such statements are based, unless required to do so by applicable laws or the listing rules of the LJSE and/ or WSE.

Investors should be aware that several important factors can cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- risks from the operations of the Group,
- the liquidity risk of the Group,

- risks from the industry in which the Group operates, and
- risks from macroeconomic conditions in Slovenia.

This list of important factors is not exhaustive. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. The Company does not make any representation, warranty or prediction that factors anticipated by forward-looking statements will come to pass. The forward-looking statements contained in this Prospectus each represent only one of many possible scenarios, and should not be viewed as being the most likely or standard scenarios.

## **ADDITIONAL INFORMATION**

### **Expert information**

This Prospectus contains no information constituting an expert's statement or report.

### **Documents incorporated by reference**

This Prospectus contains no documents or information incorporated by reference.

### **Documents available for inspection**

The following documents will be available for inspection at the Company's head office during business hours on Business Days for as long as this Prospectus remains valid:

- the Articles of Association; and
- the Financial Statements of the Company for the years ended 31 December 2010, 31 December 2011 and 31 December 2012.

### **Entities involved in the Offering**

The entities listed below are involved in the Offering:

Nova Ljubljanska banka d.d., Ljubljana and Dom Maklerski BZ WBK S.A. are acting solely for the Company in the Offering, and are not responsible to anyone other than the Company for the protections afforded to their respective clients, or for the provision of advice in relation to the Offering or any transaction or arrangement referred to in this Prospectus.

#### **Offering Agent in Slovenia**

Nova Ljubljanska banka d.d., Ljubljana with its registered office in Ljubljana, Slovenia, is acting as the Offering Agent in Slovenia.

#### **Offering Agent in Poland**

Dom Maklerski BZ WBK S.A. with its registered office in Poznań, Poland, is acting as the Offering Agent in Poland.

#### **Financial advisor**

Bank Zachodni WBK S.A., with its registered office at Rynek 9/11, 50-950 Wrocław, Poland, is acting as the Financial Advisor in the Offering, providing financial advice to the Issuer in the preparation of the Offering.

#### **Slovenian legal counsel**

The Law firm Miro Senica and attorneys, Ltd. with its registered office in Ljubljana, Slovenia, is acting as the legal counsel to the Company on matters of Slovenian law.

#### **Polish legal counsel**

Linklaters C. Wiśniewski i Wspólnicy sp.k., with its registered office in Warsaw, Poland, is acting as the legal counsel to the Company on matters of Polish law.



### **Interests of natural and legal persons involved in the Offering**

Of the persons involved in the Offering, only the Offering Agents have commercial interests that depend on the success of the Offering. For a description of these interests, see section “*Placing*” – “*Placement agreement*”.

## PERSONS RESPONSIBLE

The Company and each of the Directors accepts responsibility for the information contained in this Prospectus and declares that to the best of their knowledge, and having taken reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

On behalf of **GORENJE GOSPODINJSKI APARATI, D.D.**

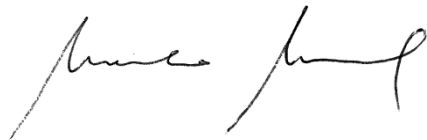
Franco Bobinac, President of the Management Board



Peter Groznik, Member of the Management Board



Marko Mrzel, Member of the Management Board



Branko Apat, Member of the Management Board



Drago Bahun, Member of the Management Board, Labour Director



## ANNEX NO. 1 – CRITICAL ACCOUNTING POLICIES

### 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 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 Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with provisions of the Slovenian Companies Act.

#### (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 on-going 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 did not change 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 Financial Statements, except as explained in note 2(e).

### **(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 are generally 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 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% of the shares 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 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 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 on-going 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%. 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

*\* Source: the Company.*

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 2(e)(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

*\* Source: the Company.*

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 terms 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 4.6%, 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:

#### ***(i) 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.

#### ***(ii) IFRS 10 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 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.

### ***(iii) 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 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.

### ***(iv) 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.

***(v) 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.

***(vi) 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.

***(vii) 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.

***(viii) 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 Financial Statements, which have been incorporated into IFRS 10, *Financial Statements*.

[In 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 Financial Statements should be addressed as part of the IFRS 10 discussion.]

***(ix) 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.

***(x) Amendments to IAS 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.

***(xi) 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.

## **FINANCIAL STATEMENTS**

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENT FOR THE SIX  
MONTHS PERIOD ENDED ON 30 JUNE, 2013**





## Independent Auditor's Report on Review of Condensed Consolidated Interim Financial Information

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

### *Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of the company Gorenje, d.d., and its subsidiaries (the Gorenje Group) as at 30 June 2013, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and other explanatory information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not, in all material respects, give a true and fair view of the financial position of the Gorenje Group as at 30 June 2013, and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 Interim Financial Reporting.

### *Other Matters*

Corresponding figures in the condensed consolidated interim financial information, presented for the six-month period ended 30 June 2012, as well as for the two three-month periods ended on 30 June 2012 and 30 June 2013, were not reviewed.

Boštjan Mertelj  
*Certified Auditor*

Ljubljana, 10 October 2013

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

  
Jason Stachurski  
*Partner*

**KPMG Slovenija, d.o.o.**  
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## **CONDENSED CONSOLIDATED GROUP INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2013**

### **Reporting company**

Gorenje, d.d., is a company headquartered in Slovenia. The address of the registered head office is at Partizanska 12, 3503 Velenje.

Consolidated financial statements of the company Gorenje, d.d., for the six-month period ended on June 30, 2013 include the parent company and its subsidiaries (hereinafter jointly referred to as 'the Group'), shareholdings in jointly controlled companies, and shareholdings in associated companies. The Group's core activity is manufacturing and sale of home appliances.

### **Basis of preparation**

#### **a) Statement of compliance**

Consolidated interim financial statements are compiled pursuant to IAS 34 Interim Financial Reporting, and pursuant to the provisions of the Companies Act. The financial statements do not include all information required by the entire IFRS. In any case, the selected explanatory information is included in the report in order to explain or clarify the business events and transactions material for the understanding of the changes in the financial position and income or results of the Gorenje Group in the period following the most recent annual consolidated financial statements.

The Management Board of Gorenje, d.d., confirmed these financial statements on July 22, 2013.

#### **b) Use of estimates and judgements**

In the course of drawing up these financial statements, the company management made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Material estimates of uncertainty and critical judgements or evaluations made by the management in the process of pursuing the accounting policies, which have the strongest effect on the amounts in the financial statements are similar to those used by the management when drawing up the consolidated financial statements for the Group as at December 31, 2012.

### **Fundamental Accounting Policies and Significant Notes to the Financial Statements**

Accounting policies applied in these interim financial statements are identical to those used in the consolidated financial statements as at December 31, 2012.

Comparable information is in a material scope harmonised with the presentation of information during the current year. Where necessary, comparable information was adjusted in such a way that it matched the presentation of information for the current year.

### **Changes in the Composition of the Gorenje Group**

Changes that occurred in the composition of the Gorenje Group up to and including the last day of June were as follows:

- As of 11 January 2013, the company Gorenje Surovina Fotoreciklaža, d.o.o., was established. Gorenje Surovina, d.o.o., is the sole owner (100%) of this company.
- As of 27 February 2013, Gorenje, d.d., sold the companies Gorenje Kuhinje, d.o.o., and Gorenje Notranja oprema, d.o.o., to the investment company CoBe Capital.
- As of 5 March 2013, the company Gorenje Solarna energija Solago, d.o.o., Valjevo was established. Gorenje aparati za domačinstvo, d.o.o., Valjevo is the sole owner (100%) of this company.
- As of 12 March 2013, the company Gorenje Sola-Home, d.o.o., Valjevo was established. Gorenje aparati za domačinstvo, d.o.o., Valjevo is the sole owner (100%) of this company.
- As of 24 May 2013, the company Gorenje Studio, trgovina na drobno, d.o.o., Ljubljana was established. Gorenje GSI, trgovina na debelo in drobno, d.o.o. is the sole owner of this company.

In addition to the parent company Gorenje, d.d., following companies were included in the consolidated financial statements of the Gorenje Group:

<b>Companies, operating in Slovenia</b>		<b>Equity interest in %</b>	<b>Business Segment</b>
1.	Gorenje I.P.C., d.o.o., Velenje	100.00	BSH
2.	Gorenje GTI, d.o.o., Velenje	100.00	BSPI
3.	Gorenje Gostinstvo, d.o.o., Velenje	100.00	BSPI
4.	Energygor, d.o.o., Velenje	100.00	BSPI
5.	Kemis, d.o.o., Vrhnika	99.984	BSE
6.	Gorenje Orodjarna, d.o.o., Velenje	100.00	BSPI
7.	ZEOS, d.o.o., Ljubljana	51.00	BSE
8.	Gorenje Surovina, d.o.o., Maribor	99.984	BSE
9.	Indop, d.o.o., Šoštanj	100.00	BSPI
10.	ERICo, d.o.o., Velenje	51.00	BSE
11.	Gorenje design studio, d.o.o., Velenje	52.00	BSH
12.	PUBLICUS, d.o.o., Ljubljana	50.992	BSE
13.	EKOGOR, d.o.o., Jesenice	99.984	BSE
14.	Gorenje GAIO, d.o.o., Šoštanj	100.00	BSPI
15.	Gorenje GSI, d.o.o., Ljubljana	100.00	BSH
16.	Gorenje Keramika, d.o.o., Velenje	100.00	BSH
17.	Gorenje Surovina Fotoreciklaža, d.o.o., Maribor	99.984	BSE
18.	Gorenje Studio, d.o.o., Ljubljana	100.00	BSH

<b>Foreign operations</b>		<b>Equity interest in %</b>	<b>Business Segment</b>
19.	Gorenje Beteiligungs GmbH, Austria	100.00	BSH
20.	Gorenje Austria Handels GmbH, Austria	100.00	BSH
21.	Gorenje Vertriebs GmbH, Germany	100.00	BSH
22.	Gorenje Körting Italia S.r.l., Italy	100.00	BSH
23.	Gorenje France S.A.S., France	100.00	BSH
24.	Gorenje Belux S.a.r.l., Belgium	100.00	BSH
25.	Gorenje Espana, S.L., Spain	100.00	BSH
26.	Gorenje UK Ltd., Great Britain	100.00	BSH
27.	Gorenje Group Nordic A/S, Denmark	100.00	BSH
28.	Gorenje AB, Sweden	100.00	BSH
29.	Gorenje OY, Finland	100.00	BSH
30.	Gorenje AS, Norway	100.00	BSH
31.	Gorenje spol. s r.o., Czech Republic	100.00	BSH
32.	Gorenje real spol. s r.o., Czech Republic	100.00	BSH
33.	Gorenje Slovakia s.r.o., Slovakia	100.00	BSH
34.	Gorenje Magyarország Kft., Hungary	100.00	BSH
35.	Gorenje Polska Sp. z o.o., Poland	100.00	BSH
36.	Gorenje Bulgaria EOOD, Bulgaria	100.00	BSH
37.	Gorenje Zagreb, d.o.o., Croatia	100.00	BSH
38.	Gorenje Skopje, d.o.o., Macedonia	100.00	BSH
39.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	BSH
40.	Gorenje, d.o.o., Serbia	100.00	BSH
41.	Gorenje Podgorica, d.o.o., Montenegro	99.972	BSH
42.	Gorenje Romania S.r.l., Romania	100.00	BSH
43.	Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	BSH

44.	Mora Moravia s r.o., Czech Republic	100.00	BSH
45.	Gorenje - kuchyně spol. s r.o., Czech Republic	100.00	BSH
46.	KEMIS-Termoclean, d.o.o., Croatia	99.984	BSE
47.	Kemis - BH, d.o.o., Bosnia and Herzegovina	99.984	BSE
48.	Gorenje Studio, d.o.o., Serbia	100.00	BSH
49.	Gorenje Gulf FZE, United Arab Emirates	100.00	BSH
50.	Gorenje Tiki, d.o.o., Serbia	100.00	BSH
51.	Gorenje Istanbul Ltd., Turkey	100.00	BSH
52.	Gorenje TOV, Ukraine	100.00	BSH
53.	ST Bana Nekretnine, d.o.o., Serbia	100.00	BSPI
54.	Kemis Valjevo, d.o.o., Serbia	99.984	BSE
55.	Kemis – SRS, d.o.o., Bosnia and Herzegovina	99.984	BSE
56.	ATAG Europe BV, The Netherlands	100.00	BSH
57.	ATAG Nederland BV, The Netherlands	100.00	BSH
58.	ATAG België NV, Belgium	100.00	BSH
59.	ATAG Financiele Diensten BV, The Netherlands	100.00	BSH
60.	ATAG Financial Solutions BV, The Netherlands	100.00	BSH
61.	ATAG Special Product BV, The Netherlands	100.00	BSH
62.	Intell Properties BV, The Netherlands	100.00	BSH
63.	Gorenje Nederland BV, The Netherlands	100.00	BSH
64.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	BSH
65.	Gorenje kuhinje, d.o.o., Ukraine	70.00	BSH
66.	»Euro Lumi & Surovina« SH.P.K., Kosovo	50.992	BSE
67.	OOO Gorenje BT, Russia	100.00	BSH
68.	Gorenje GTI, d.o.o., Belgrade, Serbia	100.00	BSPI
69.	Asko Appliances AB, Sweden	100.00	BSH
70.	Asko Hvitvarer AS, Norway	100.00	BSH
71.	AM Hvidevarer A/S, Denmark	100.00	BSH
72.	Asko Appliances Inc, USA	100.00	BSH
73.	Asko Appliances Pty, Australia	100.00	BSH
74.	Asko Appliances OOO, Russia	100.00	BSH
75.	»Gorenje Albania« SHPK, Albania	100.00	BSH
76.	Gorenje Home d.o.o., Zaječar, Serbia	100.00	BSH
77.	ORSES d.o.o., Belgrade, Serbia	100.00	BSE
78.	Gorenje Ekologija, d.o.o., Stara Pazova, Serbia	99.992	BSE
79.	Gorenje Corporate GmbH, Austria	100.00	BSH
80.	Cleaning system S, d.o.o., Serbia	61.99	BSE
81.	ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	99.00	BSE
82.	Solarna energija Solago, d.o.o., Valjevo	100.00	BSE
83.	Gorenje Sola - Home, d.o.o., Valjevo	100.00	BSE
84.	Gorenje do Brasil Ltda., Brazil	100.00	BSH
85.	Gorenje Asia Ltd., China	100.00	BSH

BSH – Business Segment Home

BSE – Business Segment Ecology

BSPI – Business Segment Portfolio Investments

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).

## Condensed Consolidated Financial Statements of the Gorenje Group

### Condensed Consolidated Balance Sheet of the Gorenje Group

EURk	Note	Balance at 30 Jun 2012	%	Balance at 31 Dec 2012	%	Balance at 30 Jun 2013	%
<b>ASSETS</b>	13	<b>1,188,908</b>	<b>100.0%</b>	<b>1,197,324</b>	<b>100.0%</b>	<b>1,189,034</b>	<b>100.0%</b>
<b>Non-current assets</b>		<b>551,287</b>	<b>46.4%</b>	<b>550,965</b>	<b>45.9%</b>	<b>558,431</b>	<b>47.0%</b>
Intangible assets	14	158,945	13.4%	159,607	13.3%	157,247	13.2%
Property, plant and equipment		343,821	28.9%	341,171	28.5%	351,792	29.6%
Investment property		13,242	1.1%	23,276	1.9%	21,170	1.8%
Non-current investments		13,865	1.2%	7,193	0.6%	8,173	0.7%
Investments in associates		1,047	0.1%	1,298	0.1%	1,257	0.1%
Deferred tax assets		20,367	1.7%	18,420	1.5%	18,792	1.6%
<b>Current assets</b>		<b>637,621</b>	<b>53.6%</b>	<b>646,359</b>	<b>54.1%</b>	<b>630,603</b>	<b>53.0%</b>
Non-current assets held for sale		51	0.0%	893	0.1%	1,051	0.0%
Inventories	15	255,033	21.4%	247,365	20.7%	267,003	22.5%
Current investments	16	28,591	2.4%	32,769	2.7%	35,940	3.0%
Trade receivables	17	272,392	22.9%	218,516	18.3%	225,084	18.9%
Other current assets	18	50,915	4.3%	66,107	5.5%	69,984	5.9%
Cash and cash equivalents		30,639	2.6%	53,488	4.5%	24,701	2.1%
Assets held for sale	1	0	/	27,221	2.3%	6,840	0.6%
<b>EQUITY AND LIABILITIES</b>		<b>1,188,908</b>	<b>100.0%</b>	<b>1,197,324</b>	<b>100.0%</b>	<b>1,189,034</b>	<b>100.0%</b>
<b>Equity</b>	19	<b>391,464</b>	<b>32.9%</b>	<b>392,145</b>	<b>32.7%</b>	<b>381,830</b>	<b>32.1%</b>
Share capital		66,378	5.6%	66,378	5.5%	66,378	5.6%
Share premium		175,575	14.8%	175,575	14.7%	175,575	14.8%
Legal and statutory reserves		22,719	1.9%	22,719	1.9%	22,719	1.9%
Retained earnings		117,994	9.9%	113,454	9.5%	105,509	8.9%
Own shares		-3,170	-0.3%	-3,170	-0.3%	-3,170	-0.3%
Translation reserve		1,301	0.1%	5,861	0.5%	2,182	0.2%
Fair value reserve		8,748	0.7%	8,976	0.7%	10,224	0.8%
<b>Equity of holders of the parent</b>		<b>389,545</b>	<b>32.7%</b>	<b>389,793</b>	<b>32.5%</b>	<b>379,417</b>	<b>31.9%</b>
<b>Equity of non-controlling interests</b>		<b>1,919</b>	<b>0.2%</b>	<b>2,352</b>	<b>0.2%</b>	<b>2,413</b>	<b>0.2%</b>
<b>Non-current liabilities</b>		<b>345,004</b>	<b>29.0%</b>	<b>349,411</b>	<b>29.2%</b>	<b>337,561</b>	<b>28.4%</b>
Provisions	20	71,230	6.0%	65,020	5.4%	64,501	5.4%
Deferred income		652	0.1%	3,145	0.3%	3,210	0.3%
Deferred tax liabilities		5,080	0.4%	4,366	0.4%	4,492	0.4%
Non-current financial liabilities	21	268,042	22.5%	276,880	23.1%	265,358	22.3%
<b>Current liabilities</b>		<b>452,440</b>	<b>38.1%</b>	<b>455,768</b>	<b>38.1%</b>	<b>469,643</b>	<b>39.5%</b>
Current financial liabilities	21	186,957	15.8%	155,846	13.0%	190,982	16.1%
Trade payables	22	171,189	14.4%	212,430	17.8%	183,123	15.4%
Other current liabilities	23	94,294	7.9%	79,170	6.6%	91,237	7.7%
Liabilities held for sale	1	0	/	8,322	0.7%	4,301	0.3%

## Condensed Consolidated Income Statement of the Gorenje Group

EURk	Note	Q2 2012	%	Q2 2013	%	Jan-Jun 2012	%	Jan-Jun 2013	%	Plan 2013	%	13/12	Plan realisation
<b>Revenue</b>	2	<b>313,106</b>	<b>95.5%</b>	<b>300,732</b>	<b>95.7%</b>	<b>606,455</b>	<b>94.6%</b>	<b>590,098</b>	<b>95.3%</b>	<b>1,339,590</b>	<b>99.5%</b>	<b>97.3</b>	<b>44.1</b>
Change in inventories		8,198	2.5%	4,231	1.4%	17,367	2.7%	15,489	2.5%	-8,212	-0.6%	89.2	/
Other operating income	3	6,392	2.0%	9,210	2.9%	17,092	2.7%	13,374	2.2%	15,214	1.1%	78.2	87.9
<b>Gross profit</b>		<b>327,696</b>	<b>100.0%</b>	<b>314,173</b>	<b>100.0%</b>	<b>640,914</b>	<b>100.0%</b>	<b>618,961</b>	<b>100.0%</b>	<b>1,346,592</b>	<b>100.0%</b>	<b>96.6</b>	<b>46.0</b>
Cost of goods, materials and services	4,5	-236,632	-72.2%	-224,462	-71.4%	-459,730	-71.7%	-447,618	-72.3%	-972,457	-72.2%	97.4	46.0
Employee benefits expense	6	-65,560	-20.0%	-64,049	-20.4%	-127,403	-19.9%	-124,971	-20.2%	-258,828	-19.2%	98.1	48.3
Amortisation and depreciation expense	7	-11,363	-3.5%	-10,862	-3.5%	-23,551	-3.7%	-21,254	-3.4%	-47,762	-3.5%	90.2	44.5
Other operating expenses		-4,390	-1.3%	-5,006	-1.6%	-8,854	-1.4%	-9,588	-1.6%	-18,621	-1.4%	108.3	51.5
<b>Operating profit</b>	8	<b>9,751</b>	<b>3.0%</b>	<b>9,794</b>	<b>3.1%</b>	<b>21,376</b>	<b>3.3%</b>	<b>15,530</b>	<b>2.5%</b>	<b>48,924</b>	<b>3.7%</b>	<b>72.7</b>	<b>31.7</b>
Finance income	10	3,306	1.0%	1,551	0.5%	6,090	1.0%	2,556	0.4%	3,396	0.2%	42.0	75.3
Finance expenses	10	-9,370	-2.9%	-13,589	-4.3%	-18,454	-2.9%	-21,268	-3.4%	-43,285	-3.2%	115.2	49.1
<b>Net finance expenses</b>	10	<b>-6,064</b>	<b>-1.9%</b>	<b>-12,038</b>	<b>-3.8%</b>	<b>-12,364</b>	<b>-1.9%</b>	<b>-18,712</b>	<b>-3.0%</b>	<b>-39,889</b>	<b>-3.0%</b>	<b>151.3</b>	<b>46.9</b>
Share in profits or losses in associates		86	0.0%	11	0.0%	50	0.0%	-42	0.0%	342	0.0%	/	/
<b>Profit or loss before tax</b>		<b>3,773</b>	<b>1.1%</b>	<b>-2,233</b>	<b>-0.7%</b>	<b>9,062</b>	<b>1.4%</b>	<b>-3,224</b>	<b>-0.5%</b>	<b>9,377</b>	<b>0.7%</b>	<b>/</b>	<b>/</b>
Income tax expense	11	-1,120	-0.3%	-453	-0.1%	-1,834	-0.3%	-1,812	-0.3%	-5,167	-0.4%	98.8	35.1
<b>Profit or loss without discontinued operation</b>		<b>2,653</b>	<b>0.8%</b>	<b>-2,686</b>	<b>-0.8%</b>	<b>7,228</b>	<b>1.1%</b>	<b>-5,036</b>	<b>-0.8%</b>	<b>4,210</b>	<b>0.3%</b>	<b>/</b>	<b>/</b>
<b>Profit or loss from discontinued operation</b>	1	<b>-2,464</b>	<b>-0.7%</b>	<b>-901</b>	<b>-0.3%</b>	<b>-4,904</b>	<b>-0.8%</b>	<b>-2,785</b>	<b>-0.5%</b>	<b>0</b>	<b>0.0%</b>	<b>56.8</b>	<b>/</b>
<b>Profit or loss for the period</b>		<b>189</b>	<b>0.1%</b>	<b>-3,587</b>	<b>-1.1%</b>	<b>2,324</b>	<b>0.3%</b>	<b>-7,821</b>	<b>-1.3%</b>	<b>4,210</b>	<b>0.3%</b>	<b>/</b>	<b>/</b>
<b>Attributable to non-controlling interests</b>		<b>75</b>	<b>0.0%</b>	<b>26</b>	<b>0.0%</b>	<b>100</b>	<b>0.0%</b>	<b>124</b>	<b>0.0%</b>	<b>474</b>	<b>0.0%</b>	<b>124.0</b>	<b>26.2</b>
<b>Attributable to equity holders of the parent</b>		<b>114</b>	<b>0.0%</b>	<b>-3,613</b>	<b>-1.1%</b>	<b>2,224</b>	<b>0.3%</b>	<b>-7,945</b>	<b>-1.3%</b>	<b>3,736</b>	<b>0.3%</b>	<b>/</b>	<b>/</b>
Basic or diluted earnings per share (in EUR)		0.01	/	-0.23	/	0.14	/	-0.50	/	0.24	/	/	/

## Condensed Consolidated Statement of Comprehensive Income of the Gorenje Group

EURk	Jan-Jun 2012	Jan-Jun 2013
<b>Profit or loss for the period</b>	<b>2,324</b>	<b>-7,821</b>
<b>Other comprehensive income</b>		
Net change in fair value of available-for-sale financial assets	-11	2
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-1,218	203
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	1,017	1,299
Income tax on other comprehensive income	74	-256
Translation reserve	-8,689	-3,679
<b>Other comprehensive income for the period</b>	<b>-8,827</b>	<b>-2,431</b>
<b>Total comprehensive income for the period</b>	<b>-6,503</b>	<b>-10,252</b>
Attributable to equity holders of the parent	-6,603	-10,376
Attributable to non-controlling interests	100	124

Significant items in the consolidated statement of comprehensive income are outlined in the accompanying notes to the accounting report of the Gorenje Group.



## Condensed Statement of Cash Flows of the Gorenje Group

EURk	Note	Jan-Jun 2012	Jan-Jun 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit or loss for the period</b>		<b>2,324</b>	<b>-7,821</b>
Adjustments for:			
Depreciation of property, plant and equipment		20,992	18,046
Amortisation of intangible assets		3,236	3,455
Investment income		-6,092	-2,556
Finance expenses		18,529	21,280
Gain on sale of property, plant and equipment		-903	-4,727
Income tax expense		1,850	1,812
<b>Operating profit before changes in net operating current assets and provisions</b>		<b>39,936</b>	<b>29,489</b>
Change in trade and other receivables		-19,995	-11,320
Change in inventories		-9,425	-18,548
Change in provisions		-5,056	-518
Change in trade and other liabilities		-22,230	-15,677
<b>Cash generated from operations</b>		<b>-56,706</b>	<b>-46,063</b>
Interest paid		-12,842	-10,914
Taxes paid		-1,850	-1,743
<b>Net cash from operating activities</b>	24	<b>-31,462</b>	<b>-29,231</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		1,819	9,223
Proceeds from sale of investment property		0	9,250
Interest received		1,023	1,171
Acquisition of property, plant and equipment		-12,238	-30,626
Acquisition of investment property		0	-7,281
Other investments		505	-4,108
Acquisition of intangible assets		-1,519	-1,512
<b>Net cash used in investing activities</b>	25	<b>-10,410</b>	<b>-23,883</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings / Repayment of borrowings		-29,109	23,611
<b>Net cash used in financing activities</b>	26	<b>-29,109</b>	<b>23,611</b>
Net change in cash and cash equivalents		-70,981	-29,503
Cash and cash equivalents at beginning of period		101,620	54,588
Cash and cash equivalents at end of period		30,639	25,085

## Condensed Consolidated Statement of Changes in Equity of the Gorenje Group

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity holders of the parent	Non-controlling interests	Total
<b>Opening balance at 1 Jan 2012</b>	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 or loss for the period				2,224				2,224	100	2,324
Total other comprehensive income						-8,689	-138	-8,827		-8,827
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,224</b>	<b>0</b>	<b>-8,689</b>	<b>-138</b>	<b>-6,603</b>	<b>100</b>	<b>-6,503</b>
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distribution to owners										
Equity increase								0		0
Unpaid dividends				152				152	0	152
<b>Total contributions by owners and distribution to owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>152</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>152</b>	<b>0</b>	<b>152</b>
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Change in ownership interests									-4	-4
<b>Total changes in ownership interests in subsidiaries</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4</b>	<b>-4</b>
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>152</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>152</b>	<b>-4</b>	<b>148</b>
<b>Closing balance at 30 Jun 2012</b>	<b>66,378</b>	<b>175,575</b>	<b>22,719</b>	<b>117,994</b>	<b>-3,170</b>	<b>1,301</b>	<b>8,748</b>	<b>389,545</b>	<b>1,919</b>	<b>391,464</b>

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity holders of the parent	Non-controlling interests	Total
<b>Opening balance at 1 Jan 2013</b>	<b>66,378</b>	<b>175,575</b>	<b>22,719</b>	<b>113,454</b>	<b>-3,170</b>	<b>5,861</b>	<b>8,976</b>	<b>389,793</b>	<b>2,352</b>	<b>392,145</b>
Total comprehensive income for the period										
Profit or loss for the period				-7,945				-7,945	124	-7,821
Total other comprehensive income						-3,679	1,248	-2,431		-2,431
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-7,945</b>	<b>0</b>	<b>-3,679</b>	<b>1,248</b>	<b>-10,376</b>	<b>124</b>	<b>-10,252</b>
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	0
Unpaid dividends								0		0
<b>Total contributions by owners and distribution to owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Change in ownership interests								0	-63	-63
<b>Total changes in ownership interests in subsidiaries</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-63</b>	<b>-63</b>
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-63</b>	<b>-63</b>
<b>Closing balance at 30 Jun 2013</b>	<b>66,378</b>	<b>175,575</b>	<b>22,719</b>	<b>105,509</b>	<b>-3,170</b>	<b>2,182</b>	<b>10,224</b>	<b>379,417</b>	<b>2,413</b>	<b>381,830</b>

## Notes to the Condensed Consolidated Financial Statements of the Gorenje Group

### 1. Discontinued operations

Gorenje Group is discontinuing/divesting/reorganizing the activities that have had a negative impact on the Group's profitability and cash flow in the past despite all activities aimed at improvement of their performance. To this end, we transferred in the last quarter of 2012 the companies of the furniture segment (Gorenje Notranja oprema/Home Interior and Gorenje Kuhinje/Kitchens) to discontinued operations, as available-for-sale assets. In late 2012, we launched negotiations with potential buyers or investors for such divestment. These negotiations were completed in the first quarter of 2013.

Sales organizations with a record of negative results spanning several years, which we believed could not be improved in the future due to specific characteristics of particular markets, were also transferred to discontinued operations. Thus, we promoted the awareness that the current poor performance should be stopped and that restructuring should be carried out.

Following are the income statement, statement of financial position/balance sheet, and the cash flow statement of the discontinued companies.

#### Balance Sheet – companies with discontinued operations

EURk	Balance at 31 Dec 2012	Balance at 30 Jun 2013
<b>Assets held for sale</b>	<b>27,221</b>	<b>6,840</b>
Intangible assets	130	16
Property, plant and equipment	10,840	132
Investment property	689	0
Non-current investments	966	962
Deferred tax assets	135	32
Inventories	6,303	538
Current investments	78	20
Trade receivables	5,638	3,110
Other current assets	1,342	1,646
Cash and cash equivalents	1,100	384
<b>Liabilities held for sale</b>	<b>8,322</b>	<b>4,301</b>
Provisions	1,530	684
Deferred tax liabilities	253	0
Non-current financial liabilities	150	0
Current financial liabilities	13	2
Trade payables	3,895	223
Other current liabilities	2,481	3,392

#### Income Statement – companies with discontinued operations

EURk	Jan-Jun 2012	Jan-Jun 2013
<b>Revenue</b>	<b>12,157</b>	<b>6,755</b>
Change in inventories	-163	337
Other operating income	376	1,330
<b>Gross profit</b>	<b>12,370</b>	<b>8,422</b>

Cost of goods, materials and services	-10,770	-7,026
Employee benefits expense	-5,353	-3,671
Amortisation and depreciation expense	-677	-247
Other operating expenses	-399	-251
<b>Operating profit</b>	<b>-4,829</b>	<b>-2,773</b>
Finance income	2	0
Finance expenses	-61	-12
<b>Net finance expenses</b>	<b>-59</b>	<b>-12</b>
<b>Profit or loss before tax</b>	<b>-4,888</b>	<b>-2,785</b>
Income tax expense	-16	0
<b>Profit or loss for the period</b>	<b>-4,904</b>	<b>-2,785</b>

#### Statement of Cash Flow of the companies with discontinued operations

EURk	Jan-Jun 2013
Net cash from operating activities	-598
Net cash used in investing activities	1,642
Net cash used in financing activities	-3
<b>Net cash flow from discontinued operations</b>	<b>1,041</b>

## Condensed Consolidated Income Statement

2. **Revenue** decreased in the period January – June 2013 by EUR 16,357k or 2.7% if compared to the equivalent period last year.

Most of the comparable lag of EUR 14,687k or 27.5% was incurred by the Business Segment Portfolio Investments, where the highest decrease is attributable to the company Gorenje, d.d. (lower sale of coal) and the company Gorenje GTI, d.o.o., Velenje (winding-up of a business partner in Slovenia and transfer of individual business deals from the field of medical and professional equipment to the second half of 2013). The Business Segment Ecology recorded lower sales in the amount of EUR 6,195k or 11.8%; most of the decline refers to the company Gorenje Surovina, d.o.o. (unfavourable weather conditions in the first quarter of 2013 that aggravated the collection and sale of secondary raw materials and the loss of business deals for a major partner in Slovenia). The Business Segment Home, however, recorded higher revenue if compared to the previous year's comparable period (by EUR 4,525k or 0.9%). The sales structure in terms of geographical segments indicates that the volume of sales increased in Eastern Europe (significant increase in the markets of Russia and Ukraine). Lower demand and a less favourable product structure contributed to lower sales in countries of Western Europe (significant decline in the markets of the Netherlands, Denmark and Italy) and other countries (major decline in the markets of Australia and USA).

3. **Other operating income** in the amount of EUR 13,374k comprise revenue from reversal and use of provisions (EUR 2,721k, of which EUR 1,781k refers to the company Gorenje IPC, d.o.o.), gains on sale of property, plant and equipment (EUR 3,662k), revenue from subsidies (EUR 2,176k), lease and rental income (EUR 1,077k), income from compensation for damages (EUR 536k), income relating to the Directive on Waste Electrical and Electronic Equipment (EUR 119k), and other operating income (EUR 3,083k).
4. The growth dynamics in **cost of materials** was slightly higher from the growth of revenue, which is mostly attributable to the sales structure reforms in the Business Segment Home in view of its products and markets and the implementation of the production relocation, whereas **cost of goods** grew slower than the scope of business activities.
5. Compared to the last year's equivalent period, **cost of services** increased by EUR 1,188k or 1.2%, which is attributable to higher cost of logistics as a result of the changed geographical sales structure and the changed transport routes due to the relocation of the production facilities.
6. Considering comparable data, **employee benefits expense** decreased over the last year's same period by EUR 2,432k or 1.9%, which is attributable primarily to the implementation of measures introduced by the management in the third quarter of 2012 in connection with the cost adjustment of employee benefits expense when production capacities are not fully utilised, as well as the effects of the relocation of production from Finland to the Czech Republic. Their share in gross profit structure grew from 19.9% to 20.2%. Employee benefits expense per employee declined over last year's equivalent period by 4.7%.
7. **Amortisation and depreciation expense** decreased by EUR 2,297k compared to the equivalent period in 2012, which is mainly the result of extended useful lives of certain property, plant and equipment referring to production companies of the segment Home.
8. Most of **other operating expenses** refer to costs that were incurred in connection with the Directive on Waste Electrical and Electronic Equipment (EUR 3,720k), charges independent of the result for the period (EUR 1,661k), and expenses referring to allowances for inventories (EUR 787k).
9. **Value added per employee** declined by 8.8% in last year's comparable term and amounted to EUR 15,341.
10. Compared to last year's equivalent period, the **negative result from financing activities** is higher by EUR 6,348k. This figure was negatively affected by a poor result from exchange differences and other financing activities, and positively affected by a lower negative result relating to interest.

EURk	Jan-Jun 2012	Jan-Jun 2013	13/12
Dividend income	0	0	/
Interest income	1,382	1,171	84.7

Income from revaluation due to value maintenance (foreign exchange gains) *	3,020	63	2.1
Other finance income **	1,688	1,322	78.3
<b>Total finance income</b>	<b>6,090</b>	<b>2,556</b>	<b>42.0</b>
Interest expenses	12,168	9,612	79.0
Expenses from revaluation due to value maintenance (foreign exchange losses) *	389	4,757	/
Other finance expenses **	5,897	6,899	117.0
<b>Total finance expenses</b>	<b>18,454</b>	<b>21,268</b>	<b>115.2</b>
Dividend result	0	0	/
Interest result	-10,786	-8,441	78.3
Revaluation result	2,631	-4,694	/
Result from other financing activities	-4,209	-5,577	132.5
<b>Total financial result</b>	<b>-12,364</b>	<b>-18,712</b>	<b>151.3</b>

\* including income (expenses) on foreign currency hedging

\*\* including income (expenses) on interest rate hedging

11. **Income tax expense** is recorded at EUR 1,812k and is lower by EUR 22k or 1.2% if compared to the equivalent period in 2012. The aforesaid result is mostly due to the changed structure of generating profit before tax per companies.

#### Condensed Consolidated Statement of Comprehensive Income

12. The consolidated statement of comprehensive income includes the positive effect of impairments of available-for-sale financial assets in the amount of EUR 2k, and the positive impact of interest rate hedging in the amount of EUR 203 (effect of interest rate swaps), and in the amount of EUR 1,299k a part of interest rate hedging (interest rate swaps) that has already been included in the income statement for the period January – June, pursuant to provisions of IAS 1 required to be recorded separately in the statement of comprehensive income, and thus creating a positive value. Consequently, the impact of deferred taxes on the comprehensive income is negative in the amount of EUR 256k.

#### Condensed Consolidated balance sheet

13. **Balance sheet total** was recorded at EUR 1,189,034k at the end of June 2013 and indicates a decline over the balance at the end of 2012, which is mostly attributable to the lower level of current assets. Non-current assets, however, increased primarily as a result of higher investments relating to the restructuring of production facilities. As at 30 June 2013, the share of non-current assets within the asset structure was 47.0% and shows an increase of 1.0 p.p. compared to the 31 December 2012 balance.

14. **Intangible assets** as at June 30, 2013 amounted to EUR 157,247 thousand. They include the following goodwill and intangible assets with indefinite useful life (brand):

EURk	31 Dec 2012	30 Jun 2013
Trade mark (Atag, Etna, Pelgrim)	61.964	61.964
ATAG	62.130	62.130
PUBLICUS, d.o.o.	1.617	1.617
Gorenje Surovina, d.o.o.	2.030	2.030
Mora Moravia, s r.o.	2.311	2.311
Gorenje Studio, d.o.o.	564	564

A goodwill impairment test was conducted for the requirements of interim reporting as at June 30, 2013, as well as an impairment test for intangible assets with indefinite useful life. No evidence of impairment was identified. Detailed impairment tests will again be conducted at the end of 2013.

15. Compared to the year-end of 2012, **total inventories** grew by EUR 19,638k or 7.9%. Inventories of work in progress and products increased in the Business Segment Home, and inventories of material due to the year-on-year dynamics in production and sales activities and as a result of higher stock in the new plant in Valjevo, as well as the result of still existing emergency stock of products at the production facilities due to the planned shift of production.

EURk	30 Jun 2012	31 Dec 2012	30 Jun 2013	30 Jun 2013/ 30 Jun 2012	30 Jun 2013/ 31 Dec 2012
Materials	63,187	59,808	62,640	99.1	104.7
Work in progress	16,140	13,586	14,602	90.5	107.5
Products	141,177	134,419	152,045	107.7	113.1
Merchandise	32,458	38,068	34,513	106.3	90.7
Advances	2,071	1,484	3,203	154.7	215.8
<b>Total</b>	<b>255,033</b>	<b>247,365</b>	<b>267,003</b>	<b>104.7</b>	<b>107.9</b>

Compared to the entire year 2012, the turnover of inventories of products is seven days longer and five days longer compared to the equivalent period last year.

	Jan-Jun 2012	Jan-Dec 2012	Jan-Jun 2013
Turnover of products	39	37	44
Turnover of trade receivables	77	67	68
Turnover of trade payables	70	76	80

16. Most of increases in **current investments** relates to the increase in current loans extended at the company Gorenje, d.d.
17. Considering the year-end balance of 2012, **trade receivables** increased by EUR 6,568k, which is quite typical in view of the sales' nature. They have, however, declined by EUR 13,952k if compared to the first quarter of 2013. This result is primarily attributable to the activating of the permanent factoring in one of the companies in Western Europe, whose costs are lower from the Group's average costs of financing.
- Turnover of trade receivables indicates a decline from 77 to 68 days compared to the equivalent period in 2012; the turnover grew by one day compared to 2012.
18. **Other current assets** grew by EUR 3,877k compared to the year-end balance of 2012, which is mostly due to higher deferred costs, advances given and other current receivables, whereas input VAT receivables and accrued revenue of operations decreased.
19. As at 30 June 2013, **equity** amounted to EUR 381,830k, which is EUR 10,315k or 2.6% less than at the year-end of 2012. The decrease is a result of the loss for the period, lower fair value reserve relating to accounted deferred tax liabilities and exchange losses arising on on the translation of financial statements of foreign operations. The equity increased by the amount of the change in the value of the cash flow hedge and the fair value of available-for-sale financial assets.
20. Compared to the year-end balance of 2012, **provisions** declined by EUR 454k, which is mostly the result of forming less provisions for retirement benefits at the company Asko Appliances AB, Sweden.
21. Given the figures at the end of 2012, **financial liabilities** increased by EUR 23,611k or 5.5%. This increase is primarily attributable to the unfavourable movement of free cash flow, which was negatively impacted primarily by the growth of net operating current assets and higher investments due to production



restructuring activities. As at 30 June 2013, financial liabilities represented 38.4% of total liabilities, which is 2.3 p.p. more than at the year-end of 2012.

22. **Trade payables** decreased by EUR 29,307k compared to figures at the end of 2012; this is primarily the result of adjusting the purchase volume to the production requirements, and higher costs of suppliers accounted for but not yet charged and disclosed among other current liabilities. Turnover of trade payables grew from 76 to 80 compared to the entire year 2012 and increased by ten days in terms of last year's comparable period.
23. **Other current liabilities**, including mostly payables to employees and payables to state and other institutions, payables for advances received and accrued costs and expenses, increased by EUR 12,067k or 15.2% compared to the year-end of 2012. This is mostly the result of higher accrued costs and expenses.

#### Condensed Consolidated Statement of Cash Flows

24. **Cash flow from operating activities** was negative. It was positively affected by amortisation and depreciation expense, whereas the loss for the period and the increase in net current operating assets had a negative impact.
25. **Cash flow from investing activities** was negative mostly as a result of acquiring property, plant and equipment and intangible assets. It was positively affected by gains on disposal of real properties.
26. **Cash flow from financing activities** was positive due to rising of loans.
27. **Fair value**

#### Fair value and book value of assets and liabilities

EURk	Book value	Fair value	Book value	Fair value
	30 Jun 2013	30 Jun 2013	31 Dec 2012	31 Dec 2012
Available -for-sale investments	14,145	14,145	15,065	15,065
Non-current loans and deposits	7,295	7,295	6,368	6,368
Current loans and deposits	21,795	21,795	17,704	17,704
Derivatives	-3,861	-3,861	-5,315	-5,315
Trade receivables	225,084	225,084	218,516	218,516
Other current assets	55,470	55,470	51,417	51,417
Cash and cash equivalents	24,701	24,701	53,488	53,488
Non-current financial liabilities (variable interest rate)	-258,621	-258,621	-260,882	-260,882
Non-current financial liabilities (fixed interest rate)	-6,737	-4,823	-15,998	-10,453
Current financial liabilities	-187,121	-187,121	-150,531	-150,531
Trade payables	-183,123	-183,123	-212,430	-212,430
Other current liabilities	-43,714	-43,714	-43,037	-43,037
<b>Total</b>	<b>-334,687</b>	<b>-332,773</b>	<b>-325,635</b>	<b>-320,090</b>

#### 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.

**30 June 2013**

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	893	87	13,165	14,145
Derivatives - assets	-	-	-	-
Derivatives - liabilities	-	-3,861	-	-3,861

**31 December 2012**

	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

**28. Transactions with associates**

	Value of transaction		Balance	
	Jan-Jun 2012	Jan-Jun 2013	30 June 2012	30 June 2013
<b>EURk</b>				
Revenue				
Gorenje Group companies	1,471	172	655	632
Expenses				
Gorenje Group companies	130	398	236	211

**29. Significant Events after the Balance Sheet Data**

The 19th Shareholders' Meeting of Gorenje, d.d., was convened on 5 July 2013. As of 5 July 2013, the Gorenje Group and the Panasonic Corporation announced the conclusion of a long-term strategic partnership that shall have its foundations on their competitive advantages and capacities and thus contribute to improve profitability of both partners, their competitiveness in Europe and bring about benefits to consumers.

As of 8 July 2013, the Gorenje Group and the Government of the Republic of Serbia have entered into a preliminary agreement on a joint investment into Gorenje's production facilities in Valjevo, Stara Pazova, and Zaječar. Accordingly, the Republic of Serbia will in the period up to 31 January 2015 contribute EUR 15m to support Gorenje's investments into plants in Valjevo and Stara Pazova to optimise and improve their efficiency, and investments into the washing machine and dryer plant in Zaječar where Gorenje's appliances, developed in cooperation with Panasonic, will be manufactured. The final agreement on the joint investment into Gorenje's manufacturing plants in Serbia shall be signed within 120 days following the date of the preliminary agreement's signing. Prior to its signature, the respective agreement is to be approved by the Government of the Republic of Serbia and the Supervisory Board of Gorenje.

A fire broke out at the plant of Gorenje's subsidiary Gorenje Surovina in Maribor on Sunday, July 21st, 2013 afternoon in the waste collection and processing area. The fire destroyed two thirds of the industrial hall for collection and processing of waste, as well as the solar power plant installed on the rooftop of this facility. The amount of damage is still being assessed at the company. The cause of the fire will be identified during the ensuing investigation. At the moment, any speculation about potential causes would be premature. On the day of the fire outbreak, work was not in progress at the plant and none of the employees were injured in the fire.

Gorenje, d.d., convened its 20<sup>th</sup> Shareholders' Meeting on 23 August 2013 and appointed the company DELOITTE REVIZIJA d.o.o., Dunajska cesta 165, 1000 Ljubljana, to act as the new auditor. In addition, the Shareholders' Meeting adopted the decision on a capital increase with cash and with non-cash contributions.

No other significant events occurred after the date preparing the balance sheet as of 30 June 2013.

### 30. Business and Geographical Segments of the Gorenje Group

EURk	Home		Ecology		Portfolio Investments		Group	
	Jan-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Jun 2013
Revenue from sale to third parties	500,452	504,977	52,608	46,413	53,395	38,708	606,455	590,098
Inter-segment sale	1,465	1,617	598	351	4,068	5,494	6,131	7,462
Interest income	1,317	1,077	53	67	12	27	1,382	1,171
Interest expenses	11,832	9,449	258	146	78	17	12,168	9,612
Amortisation and depreciation expense	20,952	18,585	1,849	1,908	750	761	23,551	21,254
Operating profit or loss before tax	3,823	-7,495	2,062	1,537	3,177	2,734	9,062	-3,224
Income tax expense	1,437	1,530	382	230	15	52	1,834	1,812
Profit or loss without discontinued operations	2,386	-9,025	1,680	1,307	3,162	2,682	7,228	-5,036
Profit or loss from discontinued operations	-4,904	-2,785					-4,904	-2,785
Profit or loss for the period	-2,518	-11,810	1,680	1,307	3,162	2,682	2,324	-7,821
Assets *	1,094,573	1,085,899	72,303	72,498	30,537	30,637	1,188,908	1,189,034
Liabilities *	762,003	763,130	29,704	31,971	12,864	12,103	797,444	807,204

\* Note: for the year 2012 the data as at 31.12.2012 are shown.

EURk	Western Europe		Eastern Europe		Other		Group	
	Jan-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Jun 2013
Revenue from sales to third parties	242,575	235,290	314,599	309,223	49,281	45,585	606,455	590,098

### 31. Financial Indicators

	Jan-Jun 2012	Jan-Jun 2013	Plan 2013
<b>INDICATORS OF PROFITABILITY</b>			
Net return on sales (ROS)	0.4%	-1.3%	0.3%
Net return on assets (ROA)	0.4%	-1.3%	0.4%
Net return on equity (ROE)	1.2%	-4.0%	1.0%
<b>ASSET INDICATORS</b>			
Asset turnover ratio	1.01	0.99	1.17
Inventory turnover ratio	4.94	4.59	5.68
Current trade receivables turnover ratio	4.68	5.32	5.42
<b>INVESTMENT INDICATORS</b>			
Fixed assets (PPE) to total assets	0.42	0.43	0.47
Current assets to total assets	0.46	0.47	0.50
<b>INDICATORS OF FINANCIAL COMPOSITION</b>			
Long-term coverage of non-current assets	1.34	1.29	1.31
Equity to total liabilities	0.33	0.32	0.38
Long-term to total liabilities	0.62	0.61	0.66
Equity to fixed assets (carrying value)	0.78	0.75	0.82
Quick ratio (liquid assets to current liabilities)	0.13	0.13	0.12
(Liquid assets + current receivables) to current liabilities	0.85	0.76	0.85
Current ratio	1.41	1.34	1.45
Net financial liabilities to equity	1.01	1.04	0.73
<b>OPERATING PERFORMANCE INDICATORS</b>			
Operating income to operating expenses	1.03	1.03	1.04
Revenue per employee (EUR)	59,184	55,965	123,693
Value added per employee (EUR)	16,818	15,341	32,827

**AUDITED CONSOLIDATED FINANCIAL STATEMENT AS OF AND FOR THE YEAR  
ENDED ON 31 DECEMBER 2012**



## 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.

Boštjan Mertelj  
Certified Auditor

Ljubljana, 9 April 2013

**KPMG SLOVENIJA,**

podjetje za revidiranje, d.o.o.

Jason Stachurski  
Partner

**KPMG Slovenija, d.o.o.**

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## ACCOUNTING REPORT PURSUANT TO IFRS AS ADOPTED BY THE EU

### 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
<b>Gross profit</b>		<b>1,315,892</b>	<b>1,446,090</b>
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
<b>Operating profit</b>		<b>44,921</b>	<b>43,670</b>
Finance income	18	6,805	15,064
Finance expenses	18	-37,221	-40,410
<b>Net finance expenses</b>	18	<b>-30,416</b>	<b>-25,346</b>
Share in profits or losses of associates		301	-9
<b>Profit before tax</b>		<b>14,806</b>	<b>18,315</b>
Income tax expense	19	-5,633	-1,880
<b>Profit or loss without discontinued operation</b>		<b>9,173</b>	<b>16,435</b>
<b>Profit or loss from discontinued operation</b>	10	<b>-8,883</b>	<b>-7,329</b>
<b>Profit or loss for the period</b>		<b>290</b>	<b>9,106</b>
<b>Attributable to non-controlling interests</b>		<b>238</b>	<b>141</b>
<b>Attributable to equity holders of the parent</b>		<b>52</b>	<b>8,965</b>
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

## Consolidated Statement of Comprehensive Income of the Gorenje Group

EURk	Note	2012	2011
<b>Profit for the period</b>		<b>290</b>	<b>9,106</b>
<b>Other comprehensive income</b>			
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
<b>Other comprehensive income for the period</b>		<b>-4,039</b>	<b>-3,260</b>
<b>Total comprehensive income for the period</b>		<b>-3,749</b>	<b>5,846</b>
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
<b>ASSETS</b>		<b>1,197,324</b>	<b>1,251,658</b>
<b>Non-current assets</b>		<b>550,965</b>	<b>556,345</b>
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
<b>Current assets</b>		<b>646,359</b>	<b>695,313</b>
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
<b>EQUITY AND LIABILITIES</b>		<b>1,197,324</b>	<b>1,251,658</b>
<b>Equity</b>	31	<b>392,145</b>	<b>397,819</b>
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
<b>Equity of holders of the parent</b>		<b>389,793</b>	<b>395,996</b>
<b>Equity of non-controlling interests</b>		<b>2,352</b>	<b>1,823</b>
<b>Non-current liabilities</b>		<b>349,411</b>	<b>385,330</b>
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
<b>Current liabilities</b>		<b>455,768</b>	<b>468,509</b>
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

## Consolidated Statement of Cash Flows of the Gorenje Group

	EURk	Note	2012	2011
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	<b>Profit for the period</b>		<b>290</b>	<b>9,106</b>
	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
	<b>Operating profit before changes in net operating current assets and provisions</b>		<b>78,285</b>	<b>79,491</b>
	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
	<b>Cash generated from operations</b>		<b>3,513</b>	<b>-28,645</b>
	Interest paid		-25,593	-24,194
	Taxes paid		-6,544	-4,595
	<b>Net cash from operating activities</b>		<b>49,661</b>	<b>22,057</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	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
	<b>Net cash used in investing activities</b>		<b>-43,545</b>	<b>-33,253</b>
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	Borrowings/ Repayment of borrowings		-50,881	30,088
	Dividends paid		-2,267	0
	<b>Net cash used in financing activities</b>		<b>-53,148</b>	<b>30,088</b>
	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

## Consolidated Statement of Changes in Equity of the Gorenje Group

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity of holders of the parent	Non-controlling interests	Total
<b>Opening balance at 1 Jan 2012</b>	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
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>52</b>	<b>0</b>	<b>-4,129</b>	<b>90</b>	<b>-3,987</b>	<b>238</b>	<b>-3,749</b>
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
<b>Total contributions by owners and distribution to owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,216</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,216</b>	<b>0</b>	<b>-2,216</b>
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
<b>Total changes in ownership interests in subsidiaries</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>291</b>	<b>291</b>
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,216</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,216</b>	<b>291</b>	<b>-1,925</b>
<b>Closing balance at 31 Dec 2012</b>	<b>66,378</b>	<b>175,575</b>	<b>22,719</b>	<b>113,454</b>	<b>-3,170</b>	<b>5,861</b>	<b>8,976</b>	<b>389,793</b>	<b>2,352</b>	<b>392,145</b>

EURk	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity of holders of the parent	Non-controlling interests	Total
<b>Opening balance at 1 Jan 2011</b>	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
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,965</b>	<b>0</b>	<b>1,148</b>	<b>-4,408</b>	<b>5,705</b>	<b>141</b>	<b>5,846</b>
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
<b>Total contributions by owners and distribution to owners</b>			<b>729</b>	<b>-729</b>				<b>0</b>	<b>0</b>	<b>0</b>
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Change in ownership interests								0	-123	-123
<b>Total changes in ownership interests in subsidiaries</b>								<b>0</b>	<b>-123</b>	<b>-123</b>
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>729</b>	<b>-729</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-123</b>	<b>-123</b>
<b>Closing balance at 31 Dec 2011</b>	<b>66,378</b>	<b>175,575</b>	<b>22,719</b>	<b>115,618</b>	<b>-3,170</b>	<b>9,990</b>	<b>8,886</b>	<b>395,996</b>	<b>1,823</b>	<b>397,819</b>

## 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(1)(iv) – measurement of liabilities for retirement benefits and jubilee premiums

Note 33 and accounting policy 3(1)(iii)- provisions for onerous contracts

Note 33 and accounting policy 3(1)(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.

➤ ***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:

<b>Financial risks</b>	• 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.

## **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 <sup>1</sup>	100.00	/
17.	Gorenje Kuhinje, d.o.o., Velenje <sup>2</sup>	100.00	/
18.	Gorenje Keramika, d.o.o., Velenje <sup>2</sup>	100.00	/
		Equity interest in %	
Foreign operations		31 Dec 2012	31 Dec 2011
19.	Gorenje Beteiligungs GmbH, Austria	100.00	100.00
20.	Gorenje Austria Handels GmbH, Austria	100.00	100.00
21.	Gorenje Vertriebs GmbH, Germany	100.00	100.00
22.	Gorenje Körting Italia S.r.l., Italy	100.00	100.00
23.	Gorenje France S.A.S., France	100.00	100.00
24.	Gorenje Belux S.a.r.l., Belgium	100.00	100.00
25.	Gorenje Espana, S.L., Spain	100.00	100.00
26.	Gorenje UK Ltd., Great Britain	100.00	100.00
27.	Gorenje Group Nordic A/S, Denmark	100.00	100.00
28.	Gorenje AB, Sweden	100.00	100.00
29.	Gorenje OY, Finland	100.00	100.00
30.	Gorenje AS, Norway	100.00	100.00
31.	Gorenje spol. s r.o., Czech Republic	100.00	100.00
32.	Gorenje real spol. s r.o., Czech Republic	100.00	100.00
33.	Gorenje Slovakia s.r.o., Slovakia	100.00	100.00
34.	Gorenje Budapest Kft., Hungary	100.00	100.00
35.	Gorenje Polska Sp. z o.o., Poland	100.00	100.00
36.	Gorenje Bulgaria EOOD, Bulgaria	100.00	100.00
37.	Gorenje Zagreb, d.o.o., Croatia	100.00	100.00
38.	Gorenje Skopje, d.o.o., Macedonia	100.00	100.00
39.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	100.00

40.	Gorenje, d.o.o., Serbia	100.00	100.00
41.	Gorenje Podgorica, d.o.o., Montenegro	99.972	99.972
42.	Gorenje Romania S.r.l., Romania	100.00	100.00
43.	Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	100.00
44.	Mora Moravia s r.o., Czech Republic	100.00	100.00
45.	Gorenje - kuchyně spol. s r.o., Czech Republic	100.00	99.98
46.	KEMIS-Termoclean, d.o.o., Croatia	99.984	99.984
47.	KEMIS- BH, d.o.o., Bosnia and Herzegovina	99.984	99.984
48.	Gorenje Studio, d.o.o., Serbia	100.00	100.00
49.	Gorenje Gulf FZE, United Arab Emirates	100.00	100.00
50.	Gorenje Tiki, d.o.o., Serbia	100.00	100.00
51.	Gorenje Istanbul Ltd., Turkey	100.00	100.00
52.	Gorenje TOV, Ukraine	100.00	100.00
53.	ST Bana Nekretnine, d.o.o., Serbia	100.00	100.00
54.	Kemis Valjevo d.o.o, Serbia	99.984	99.984
55.	Kemis – SRS, d.o.o., Bosnia and Herzegovina	99.984	99.984
56.	ATAG Europe BV, The Netherlands	100.00	100.00
57.	ATAG Nederland BV, The Netherlands	100.00	100.00
58.	ATAG België NV, Belgium	100.00	100.00
59.	ATAG Financiële Diensten BV, The Netherlands	100.00	100.00
60.	ATAG Financial Solutions BV, The Netherlands	100.00	100.00
61.	ATAG Special Product BV, The Netherlands	100.00	100.00
62.	Intell Properties BV, The Netherlands	100.00	100.00
63.	Gorenje Nederland BV, The Netherlands	100.00	100.00
64.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	100.00
65.	Gorenje kuhinje, d.o.o., Ukraine	70.00	69.986
66.	»Euro Lumi & Surovina« SH.P.K., Kosovo	50.992	50.992
67.	OOO Gorenje BT, Russia	100.00	100.00
68.	Gorenje GTI d.o.o., Belgrade, Serbia	100.00	100.00
69.	Asko Appliances AB, Sweden	100.00	100.00
70.	Asko Hvitvarer AS, Norway	100.00	100.00
71.	AM Hvidevarer A/S, Denmark	100.00	100.00
72.	Asko Appliances Inc, USA	100.00	100.00
73.	Asko Appliances Pty, Australia	100.00	100.00
74.	Asko Appliances OOO, Russia	100.00	100.00
75.	»Gorenje Albania« SHPK , Albania	100.00	100.00
76.	Gorenje Home d.o.o. , Zaječar, Serbia	100.00	100.00
77.	ORSES d.o.o. Belgrade, Serbia	100.00	100.00
78.	Gorenje Ekologija, d.o.o., Stara Pazova, Serbia	99.992	99.992
79.	Gorenje Corporate GmbH, Austria <sup>3</sup>	100.00	/
80.	Cleaning sistem S d.o.o., Serbia <sup>3</sup>	50.992	/
81.	Zeos eko-sistem, d.o.o., Bosnia and Herzegovina <sup>3</sup>	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	/	/	/
<b>Total</b>	<b>/</b>	<b>2,352</b>	<b>238</b>	<b>/</b>	<b>1,823</b>	<b>141</b>

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
<b>Revenue</b>	<b>25,896</b>	<b>35,600</b>
Change in inventories	-638	-514
Other operating income	1,180	1,958
<b>Gross profit</b>	<b>26,438</b>	<b>37,044</b>
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
<b>Operating profit</b>	<b>-8,685</b>	<b>-7,161</b>
Finance income	66	135
Finance expenses	-253	-177
<b>Net finance expenses</b>	<b>-187</b>	<b>-42</b>
Total profit or loss	-8,872	-7,203
Income tax expenses	-11	-126
<b>Profit or loss for the period</b>	<b>-8,883</b>	<b>-7,329</b>

### Balance sheet – discontinued operation

EURk	2012
<b>Assets included in disposal groups</b>	<b>27,221</b>
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
<b>Liabilities included in disposal groups</b>	<b>8,322</b>
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
<b>Net cash flow of discontinued operation</b>	<b>-9,152</b>	<b>-4,728</b>

### 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:

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.	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
<b>Total</b>	<b>1,263,082</b>	<b>1,386,629</b>

<b>Note 13 – Other operating income</b>		<b>EUR 40,929k</b>	
EURk		<b>2012</b>	<b>2011</b>
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
<b>Total</b>		<b>40,929</b>	<b>50,564</b>

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		<b>2012</b>	<b>2011</b>
Rental income – up to 1 year		560	520
<b>Total</b>		<b>560</b>	<b>520</b>

#### **Note 14 – Cost of goods, materials and services**

**EUR 946,215k**

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

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

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 December		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
<b>Total</b>	<b>10,730</b>	<b>10,720</b>	<b>10,895</b>	<b>10,932</b>

**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
<b>Total</b>	<b>45,665</b>	<b>48,347</b>

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
<b>Total</b>	<b>20,411</b>	<b>24,303</b>

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
<b>Total</b>	<b>6,806</b>	<b>15,064</b>

**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
<b>Total</b>	<b>37,222</b>	<b>40,410</b>

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.

#### 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
<b>Finance expenses recognised in other comprehensive income</b>	<b>320</b>	<b>-4,438</b>
<b>Finance expenses recognised in other comprehensive income attributable to equity holders of the parent</b>	<b>320</b>	<b>-4,438</b>
<b>Finance expenses recognised in other comprehensive income attributable to non-controlling interests</b>	<b>0</b>	<b>0</b>

#### 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
<b>Total</b>	<b>5,633</b>	<b>1,880</b>

#### Effective income tax rates:

EURk	2012	2012	2011	2011
<b>Profit before tax</b>		<b>14,806</b>		<b>18,315</b>
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
<b>Income tax expense</b>	<b>38.0 %</b>	<b>5,633</b>	<b>10.3 %</b>	<b>1,880</b>



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

EURk	2012		
	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
<b>Other comprehensive income</b>	<b>-4,563</b>	<b>524</b>	<b>-4,039</b>

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
<b>Other comprehensive income</b>	<b>-4,333</b>	<b>1,073</b>	<b>-3,260</b>

<b>Note 20 – Intangible assets (IA)</b>		<b>EUR 159,607k</b>
EURk	<b>2012</b>	<b>2011</b>
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
<b>Total</b>	<b>159,607</b>	<b>158,620</b>

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	Develop-ment costs	Industrial property rights	Trademark	Goodwill	Intangible assets under construction	Total
<b>Cost at 1 Jan 2012</b>	<b>31,662</b>	<b>32,526</b>	<b>61,964</b>	<b>68,653</b>	<b>1,523</b>	<b>196,328</b>
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
<b>Cost at 31 Dec 2012</b>	<b>33,664</b>	<b>34,825</b>	<b>61,964</b>	<b>68,653</b>	<b>1,178</b>	<b>200,284</b>
<b>Accumulated amortisation at 1 Jan 2012</b>	<b>19,894</b>	<b>17,814</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>37,708</b>
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
<b>Accumulated amortisation at 31 Dec 2012</b>	<b>23,096</b>	<b>17,581</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40,677</b>
<b>Carrying amount at 1 Jan 2012</b>	<b>11,768</b>	<b>14,712</b>	<b>61,964</b>	<b>68,653</b>	<b>1,523</b>	<b>158,620</b>
<b>Carrying amount at 31 Dec 2012</b>	<b>10,568</b>	<b>17,244</b>	<b>61,964</b>	<b>68,653</b>	<b>1,178</b>	<b>159,607</b>

#### Movements in intangible assets in 2011

EURk	Develop-ment costs	Industrial property rights	Trademark	Goodwill	Intangible assets under construction	Total
<b>Cost at 1 Jan 2011</b>	<b>28,430</b>	<b>31,646</b>	<b>61,964</b>	<b>69,358</b>	<b>1,370</b>	<b>192,768</b>
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
<b>Cost at 31 Dec 2011</b>	<b>31,662</b>	<b>32,526</b>	<b>61,964</b>	<b>68,653</b>	<b>1,523</b>	<b>196,328</b>
<b>Accumulated amortisation at 1 Jan 2011</b>	<b>16,334</b>	<b>16,273</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>32,607</b>
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
<b>Accumulated amortisation at 31 Dec 2011</b>	<b>19,894</b>	<b>17,814</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>37,708</b>

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
<b>Total</b>	<b>341,171</b>	<b>358,840</b>

**Movements in property, plant and equipment in 2012**

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
<b>Cost at 1 Jan 2012</b>	<b>49,405</b>	<b>320,521</b>	<b>580,218</b>	<b>10,431</b>	<b>960,575</b>
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
<b>Cost at 31 Dec 2012</b>	<b>40,879</b>	<b>290,402</b>	<b>524,798</b>	<b>37,326</b>	<b>893,405</b>
<b>Accumulated depreciation at 1 Jan 2012</b>	<b>0</b>	<b>154,707</b>	<b>447,028</b>	<b>0</b>	<b>601,735</b>
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
<b>Accumulated depreciation at 31 Dec 2012</b>	<b>0</b>	<b>145,777</b>	<b>406,457</b>	<b>0</b>	<b>552,234</b>
<b>Carrying amount at 1 Jan 2012</b>	<b>49,405</b>	<b>165,814</b>	<b>133,190</b>	<b>10,431</b>	<b>358,840</b>
<b>Carrying amount at 31 Dec 2012</b>	<b>40,879</b>	<b>144,625</b>	<b>118,341</b>	<b>37,326</b>	<b>341,171</b>

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
<b>Cost at 1 Jan 2011</b>	<b>50,391</b>	<b>321,964</b>	<b>574,377</b>	<b>17,323</b>	<b>964,055</b>
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
<b>Cost at 31 Dec 2011</b>	<b>49,405</b>	<b>320,521</b>	<b>580,218</b>	<b>10,431</b>	<b>960,575</b>
<b>Accumulated depreciation at 1 Jan 2011</b>	<b>0</b>	<b>155,475</b>	<b>433,180</b>	<b>0</b>	<b>588,655</b>
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
<b>Accumulated depreciation at 31 Dec 2011</b>	<b>0</b>	<b>154,707</b>	<b>447,028</b>	<b>0</b>	<b>601,735</b>
<b>Carrying amount at 1 Jan 2011</b>	<b>50,391</b>	<b>166,489</b>	<b>141,197</b>	<b>17,323</b>	<b>375,400</b>
<b>Carrying amount at 31 Dec 2011</b>	<b>49,405</b>	<b>165,814</b>	<b>133,190</b>	<b>10,431</b>	<b>358,840</b>

### Note 22 – Investment property

EUR 23,276k

EURk	2012	2011
Land	12,081	8,218
Buildings	11,195	7,001
<b>Total</b>	<b>23,276</b>	<b>15,219</b>

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 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
<b>Opening balance at 1 January</b>	<b>15,219</b>	<b>4,518</b>
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
<b>Closing balance at 31 December</b>	<b>23,276</b>	<b>15,219</b>

### 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
<b>Total</b>	<b>7,193</b>	<b>1,973</b>

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
<b>Closing balance at 31 December</b>	<b>6,354</b>	<b>1,056</b>

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
<b>Total</b>		<b>1,298</b>	<b>996</b>

### 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
<b>Total</b>	<b>18,420</b>	<b>20,697</b>	<b>4,366</b>	<b>5,933</b>	<b>14,054</b>	<b>14,764</b>

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	563	321	140	-4	0	0

standards and tax laws							
Provisions for retirement benefits and jubilee premiums	2,571	2,870	-712	-74	0	0	0
Provisions for warranties	1,562	2,268	-624	-179	0	0	0
Unused tax losses	7,336	7,176	-425	2,168	0	0	0
Unused tax incentives	2,311	2,376	-15	595	0	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	0
Discontinued operation	118	0	43	94	0	0	0
<b>Total</b>	<b>14,054</b>	<b>14,764</b>	<b>-1,410</b>	<b>3,688</b>	<b>524</b>	<b>1,073</b>	

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

#### Note 26 – Inventories

EUR 247,365k

EURk	2012				2011			
	Home	Ecology	Portfolio invest-ments	Total	Home	Ecology	Portfolio invest-ments	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
<b>Total</b>	<b>240,130</b>	<b>1,639</b>	<b>5,596</b>	<b>247,365</b>	<b>233,363</b>	<b>1,765</b>	<b>10,480</b>	<b>245,608</b>

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
<b>Total</b>	<b>32,769</b>	<b>42,317</b>

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.

#### Movements in available-for-sale shares and interests

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

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
<b>Total</b>	<b>63,274</b>	<b>48,746</b>

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
<b>Total</b>	<b>53,488</b>	<b>101,620</b>

**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:

EURk	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Total
<b>Balance at 1 January 2012</b>	<b>9,872</b>	<b>3,392</b>	<b>-4,378</b>	<b>8,886</b>
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
<b>Balance at 31 Dec 2012</b>	<b>9,642</b>	<b>3,879</b>	<b>-4,545</b>	<b>8,976</b>

	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Total
EURk				
<b>Balance at 1 Jan 2011</b>	<b>9,842</b>	<b>3,500</b>	<b>-48</b>	<b>13,294</b>
Revaluation of land				
Disposal 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 a subsidiary				
Acquisition of non-controlling interests				
Deferred taxes	31	27	1,015	1,073
<b>Balance at 31 Dec 2011</b>	<b>9,872</b>	<b>3,392</b>	<b>-4,378</b>	<b>8,886</b>

### 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:

<b>2012</b>	(EURk)
Profit for the period	52
Weighted average number of ordinary shares	15,785,565
Basic / Diluted earnings per share (in EUR)	0.00
<b>2011</b>	(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
<b>Total</b>	<b>65,020</b>	<b>76,321</b>

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.

#### Movements in provisions in 2012

EURk	Balance 1 Jan 2012	Use	Exchange differences	Reversal	Creation	Discontinued operation	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
<b>Total</b>	<b>76,321</b>	<b>-24,116</b>	<b>65</b>	<b>-12,274</b>	<b>26,554</b>	<b>-1,530</b>	<b>65,020</b>

#### 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
<b>Total</b>	<b>88,167</b>	<b>-23,971</b>	<b>241</b>	<b>-13,078</b>	<b>25,036</b>	<b>-74</b>	<b>76,321</b>

#### 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
<b>Total</b>	<b>617</b>	<b>-3,393</b>	<b>5,921</b>	<b>3,145</b>

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

<b>Note 35 – Non-current financial liabilities</b>		<b>EUR 276,880k</b>	
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	
<b>Total</b>	<b>276,880</b>	<b>302,459</b>	

<b>Financial liabilities by maturity</b>		<b>EURk</b>	
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	
<b>Total</b>		<b>275,575</b>	

### Interest-bearing borrowings

Currency	Value in EURk	Interest rate	
		from	to
EUR	275,575	0.82%	12.5%
<b>Total</b>	<b>275,575</b>		

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

<b>Collateralisation</b>	
<b>EURk</b>	
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.

<b>Note 36 – Current financial liabilities</b>		<b>EUR 155,846k</b>	
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	
<b>Total</b>	<b>155,846</b>	<b>181,649</b>	

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%
<b>Total</b>		<b>128,062</b>		

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%
<b>Total</b>		<b>22,039</b>		

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.

<b>Note 38 – Other current liabilities</b>		<b>EUR 77,962k</b>	
EURk		<b>2012</b>	<b>2011</b>
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
<b>Total</b>		<b>77,962</b>	<b>90,806</b>

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		<b>2012</b>	<b>2011</b>
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
<b>Total</b>		<b>363,382</b>	<b>431,709</b>

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

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

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

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

Maturity of trade receivables at the reporting date:

EURk	<b>Gross value</b>	<b>Allowance</b>	<b>Gross value</b>	<b>Allowance</b>
	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
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
<b>Total</b>	<b>243,198</b>	<b>24,682</b>	<b>278,892</b>	<b>22,981</b>

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
<b>Closing balance of 31 December</b>	<b>24,682</b>	<b>22,981</b>

*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
<b>Non-derivative financial liabilities</b>						
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			
<b>Total</b>	<b>682,878</b>	<b>719,337</b>	<b>424,186</b>	<b>138,696</b>	<b>147,430</b>	<b>9,025</b>
<b>Derivative financial liabilities</b>						
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						
<b>Total</b>	<b>-5,315</b>	<b>-5,503</b>	<b>-2,501</b>	<b>-1,939</b>	<b>-1,063</b>	

**31 December 2011**

EURk	Book value	Contractual cash flow	1 year or less	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
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			
<b>Total</b>	<b>724,270</b>	<b>777,536</b>	<b>445,134</b>	<b>97,883</b>	<b>232,476</b>	<b>2,043</b>
<b>Derivative financial liabilities</b>						
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						
<b>Total</b>	<b>-5,527</b>	<b>-4,901</b>	<b>-2,289</b>	<b>-1,196</b>	<b>-1,416</b>	

## 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
<b>Financial position exposure</b>	<b>-485,837</b>	<b>15,304</b>	<b>4,279</b>	<b>5,533</b>	<b>3,630</b>	<b>46</b>	<b>37,455</b>
Forward exchange contracts							6,026
<b>Net exposure</b>	<b>-485,837</b>	<b>15,304</b>	<b>4,279</b>	<b>5,533</b>	<b>3,630</b>	<b>46</b>	<b>43,481</b>

### 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
<b>Financial position exposure</b>	<b>-476,364</b>	<b>27,033</b>	<b>2,387</b>	<b>4,647</b>	<b>8,651</b>	<b>-4,413</b>	<b>29,157</b>
Forward exchange contracts							7,600
<b>Net exposure</b>	<b>-476,364</b>	<b>27,033</b>	<b>2,387</b>	<b>4,647</b>	<b>8,651</b>	<b>-4,413</b>	<b>36,757</b>

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.

31 December 2012	EURk
	<b>Profit or loss for the period</b>
HRK	-765
DKK	-214
PLN	-277
RSD	-182
CZK	-2
Other currencies	-3,856
<b>31 December 2011</b>	<b>EURk</b>
	<b>Profit or loss for the period</b>
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
<b>Fixed rate financial instruments</b>		
Financial assets	6,168	6,472
Financial liabilities	50,250	64,892
<b>Variable rate financial instruments</b>		
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.

EURk	Profit or loss for the period		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
	by 50 bp	by 50 bp	by 50 bp	by 50 bp
<b>31 December 2012</b>				
Variable rate instruments	-3,997	3,997	-	-
Interest rate swap contracts	712	-712	728	-728
<b>Cash flow variability (net)</b>	<b>-3,285</b>	<b>3,285</b>	<b>728</b>	<b>-728</b>
<b>31 December 2011</b>				
Variable rate instruments	-4,707	4,707	-	-
Interest rate swap contracts	526	-526	1,499	-1,499
<b>Cash flow variability (net)</b>	<b>-4,181</b>	<b>4,181</b>	<b>1,499</b>	<b>-1,499</b>

### Note 41 – Fair value

Fair values and book values of assets and liabilities:

EURk	Book value	Fair value	Book value	Fair value
	2012	2012	2011	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
<b>Total</b>	<b>-325,635</b>	<b>-320,090</b>	<b>-299,047</b>	<b>-294,556</b>

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:

- 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 individual employment agreements
Salaries	7,794	-	8,597
Benefits and other earnings	651	175	1,009
<b>Total</b>	<b>8,445</b>	<b>175</b>	<b>9,606</b>

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 individual employment agreements
Salaries	7,911	-	8,509
Benefits and other earnings	895	142	850
<b>Total</b>	<b>8,806</b>	<b>142</b>	<b>9,359</b>

Gorenje Group companies record following transactions with associates:

EURk	Value of transaction		Balance	
	2012	2011	2012	2011
<b>Revenue</b>				
Gorenje Group companies	2,536	272	748	74
<b>Expenses</b>				
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.

**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

**AUDITED CONSOLIDATED FINANCIAL STATEMENT AS OF AND FOR THE YEAR  
ENDED ON 31 DECEMBER 2011**



## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Gorenje, d.d. and its subsidiaries (Gorenje Group), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, 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 consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.


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

### **Opinion**

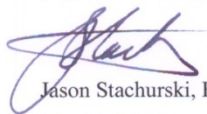
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Gorenje Group as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### **Other matters**

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

  
Danilo Bukovec, B.Sc.Ec.  
Certified Auditor

Ljubljana, 6 April 2012

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.  
  
Jason Stachurski, B.Sc.Ec.  
Certified Auditor  
Partner

**KPMG Slovenija, d.o.o.**  
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## Accounting Report under IFRS as Adopted by the EU

### Consolidated Income Statement of the Gorenje Group

in TEUR	Note	2011	2010
<b>Revenue</b>	12	<b>1,422,229</b>	<b>1,382,185</b>
Change in inventories		8,383	-13,510
Other operating income	13	52,522	47,554
<b>Gross profit</b>		<b>1,483,134</b>	<b>1,416,229</b>
Cost of goods, materials and services	14	-1,105,001	-1,040,509
Employee benefits expense	15	-265,850	-244,442
Amortisation and depreciation expense	16	-50,198	-52,237
Other operating expenses	17	-25,576	-22,603
<b>Results from operating activities</b>		<b>36,509</b>	<b>56,438</b>
Finance income	18	15,199	12,485
Finance expenses	18	-40,587	-46,451
<b>Net finance expense</b>	18	<b>-25,388</b>	<b>-33,966</b>
Finance expenses in associates		<b>-9</b>	<b>0</b>
<b>Profit before tax</b>		<b>11,112</b>	<b>22,472</b>
Income tax expense	19	-2,006	-2,448
<b>Profit for the period</b>		<b>9,106</b>	<b>20,024</b>
Attributable to non-controlling interests		141	101
Attributable to equity holders of the parent		8,965	19,923
Basic and diluted earnings per share (in EUR)	32	0.57	1.34

## Statement of Comprehensive Income of the Gorenje Group

in TEUR	Note	2011	2010
<b>Profit for the period</b>		<b>9,106</b>	<b>20,024</b>
<b>Other comprehensive income</b>			
Change in fair value of land	21	-1	-7,777
Net change in fair value of available-for-sale financial assets		-135	50
Net change in fair value of available-for-sale financial assets transferred to profit or loss	18	0	145
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge		-7,499	317
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	18	2,154	0
Income tax on other comprehensive income	25	1,073	91
Translation reserve		1,148	-8,563
<b>Other comprehensive income for the period</b>		<b>-3,260</b>	<b>-15,737</b>
<b>Total comprehensive income for the period</b>		<b>5,846</b>	<b>4,287</b>
Attributable to equity holders of the parent		5,705	4,186
Attributable to non-controlling interests		141	101



## Consolidated Statement of Financial Position of the Gorenje Group

in TEUR	Note	2011	2010
<b>ASSETS</b>		<b>1,251,658</b>	<b>1,317,754</b>
<b>Non-current assets</b>		<b>556,345</b>	<b>563,435</b>
Intangible assets	20	158,620	160,161
Property, plant and equipment	21	358,840	375,400
Investment property	22	15,219	4,518
Non-current investments	23	1,973	5,313
Investments in associates	24	996	0
Deferred tax assets	25	20,697	18,043
<b>Current assets</b>		<b>695,313</b>	<b>754,319</b>
Non-current assets held for sale		1	1,066
Inventories	26	245,608	257,593
Current investments	27	42,317	48,002
Trade receivables	28	255,911	306,284
Other current assets	29	48,746	55,438
Current tax receivables		1,110	3,208
Cash and cash equivalents	30	101,620	82,728
<b>EQUITY AND LIABILITIES</b>		<b>1,251,658</b>	<b>1,317,754</b>
<b>Equity</b>	31	<b>397,819</b>	<b>392,096</b>
Share capital		66,378	66,378
Share premium		175,575	175,575
Legal reserves and statutory reserves		22,719	21,990
Retained earnings		115,618	107,382
Own shares		-3,170	-3,170
Translation reserve		9,990	8,842
Fair value reserve		8,886	13,294
<b>Equity of holders of the parent</b>		<b>395,996</b>	<b>390,291</b>
<b>Equity of non-controlling interests</b>		<b>1,823</b>	<b>1,805</b>
<b>Non-current liabilities</b>		<b>385,330</b>	<b>356,027</b>
Provisions	33	76,321	88,167
Deferred revenue	34	617	866
Deferred tax liabilities	25	5,933	6,062
Non-current financial liabilities	35	302,459	260,932
<b>Current liabilities</b>		<b>468,509</b>	<b>569,631</b>
Current financial liabilities	36	181,649	223,015
Trade payables	37	194,248	237,020
Other current liabilities	38	90,806	106,698
Current tax liabilities		1,806	2,898

## Consolidated Statement of Cash Flows of the Gorenje Group

	in TEUR	Note	2011	2010
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	<b>Profit for the period</b>		<b>9,106</b>	<b>20,024</b>
	Adjustments for:			
	- depreciation of property, plant and equipment	21	43,767	46,227
	- amortisation of intangible assets	20	6,431	6,010
	- investment income	18	-15,199	-12,485
	- finance expenses	18	40,587	46,451
	- gain on sale of property, plant and equipment	13	-3,644	-2,321
	- negative goodwill	13	0	-13,337
	- revaluation operating income	13	-3,563	0
	- income tax expense	19	2,006	2,448
	<b>Operating profit before changes in net operating current assets and provisions</b>		<b>79,491</b>	<b>93,017</b>
	Change in trade and other receivables		10,297	-80,635
	Change in inventories		11,344	-39,612
	Change in provisions		-12,021	25,664
	Change in trade and other liabilities		-38,265	60,162
	<b>Cash generated from operations</b>		<b>-28,645</b>	<b>-34,421</b>
	Interest paid		-24,194	-23,607
	Taxes paid		-4,595	-7,272
	<b>Net cash from operating activities</b>		<b>22,057</b>	<b>27,717</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	Proceeds from sale of property, plant and equipment		7,302	6,775
	Proceeds from sale of financial assets available for sale		0	5,621
	Interest received		3,678	3,046
	Dividends received		118	305
	Liquidation of subsidiary		10,747	0
	Disposal of subsidiary		7,143	0
	Acquisition of subsidiary		0	1,144
	Acquisition of property, plant and equipment		-41,089	-39,358
	Acquisition of investment property		-9,819	0
	Available-for-sale investments		-33	-1,695
	Loans		9,325	-2,564
	Acquisition of other investments		-14,246	14,341
	Acquisition of intangible assets		-6,379	-5,310
	<b>Net cash used in investing activities</b>		<b>-33,253</b>	<b>-17,695</b>
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	Repurchase of non-controlling interest		0	-6,902
	Capital increase		0	24,920
	Borrowings / Repayment of borrowings		30,088	27,558
	<b>Net cash used in financing activities</b>		<b>30,088</b>	<b>45,576</b>
	Net increase in cash and cash equivalents		18,892	55,598
	Cash and cash equivalents at beginning of period		82,728	27,130
	Cash and cash equivalents at end of period		101,620	82,728

## Statement of Changes in Equity of the Gorenje Group

in TEUR	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity holders of the parent	Non-controlling interests	Total
<b>Opening balance at 1 Jan 2011</b>	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 for the period				8,965				8,965	141	9,106
Total other comprehensive income						1,148	-4,408	-3,260		-3,260
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,965</b>	<b>0</b>	<b>1,148</b>	<b>-4,408</b>	<b>5,705</b>	<b>141</b>	<b>5,846</b>
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distributions to owners										
Equity increase								0		0
Dividends								0		0
Creation of statutory reserves			729	-729				0		0
<b>Total contributions by owners and distributions to owners</b>			<b>729</b>	<b>-729</b>				<b>0</b>	<b>0</b>	<b>0</b>
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Change in ownership interests								0	-123	-123
<b>Total changes in ownership interests in subsidiaries</b>								<b>0</b>	<b>-123</b>	<b>-123</b>
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>729</b>	<b>-729</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-123</b>	<b>-123</b>
<b>Closing balance at 31 Dec 2011</b>	<b>66,378</b>	<b>175,575</b>	<b>22,719</b>	<b>115,618</b>	<b>-3,170</b>	<b>9,990</b>	<b>8,886</b>	<b>395,996</b>	<b>1,823</b>	<b>397,819</b>

in TEUR	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity holders of the parent	Non-controlling interests	Total
<b>Opening balance at 1 Jan 2010</b>	<b>58,546</b>	<b>158,487</b>	<b>21,697</b>	<b>97,788</b>	<b>-3,170</b>	<b>17,405</b>	<b>12,822</b>	<b>363,575</b>	<b>6,069</b>	<b>369,644</b>
Total comprehensive income for the period										
Profit for the period				19,923				19,923	101	20,024
Total other comprehensive income				-7,646		-8,563	472	-15,737		-15,737
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,277</b>	<b>0</b>	<b>-8,563</b>	<b>472</b>	<b>4,186</b>	<b>101</b>	<b>4,287</b>
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distributions to owners										
Equity increase	7,832	17,088						24,920		24,920
Dividends								0		0
Creation of statutory reserves			293	-293				0		0
<b>Total contributions by owners and distributions to owners</b>	<b>7,832</b>	<b>17,088</b>	<b>293</b>	<b>-293</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24,920</b>	<b>0</b>	<b>24,920</b>
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Acquisition of non-controlling interests				-2,390				-2,390	-4,365	-6,755
<b>Total changes in ownership interests in subsidiaries</b>				<b>-2,390</b>				<b>-2,390</b>	<b>-4,365</b>	<b>-6,755</b>
<b>Total transactions with owners</b>	<b>7,832</b>	<b>17,088</b>	<b>293</b>	<b>-2,683</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,530</b>	<b>-4,365</b>	<b>18,165</b>
<b>Closing balance at 31 Dec 2010</b>	<b>66,378</b>	<b>175,575</b>	<b>21,990</b>	<b>107,382</b>	<b>-3,170</b>	<b>8,842</b>	<b>13,294</b>	<b>390,291</b>	<b>1,805</b>	<b>392,096</b>

## **Notes to the consolidated 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 consolidated financial statements of Gorenje, d.d. at and for the year ended 31 December 2011 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 engaged mainly 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 in the European Union and with the provisions of the Companies act. The financial statements were approved by the Management Board on 28 February 2012.

#### **(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**

The consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand, except when otherwise indicated.

#### **(d) Use of estimated 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(1)(iv) - measurement of liabilities for retirement benefits and jubilee premiums

Note 33 – provisions for litigations

Note 33 and accounting policy 3(1)(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.

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group companies, except as explained in note 2(e).

#### (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 jointly controlled entities (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 statement of financial position 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 call deposits. Bank overdrafts that are repayable on demand are a part of 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. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the fair value reserve in equity.

#### (iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. All other costs, such as day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### (iv) Depreciation

Depreciation is recognised 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	3 - 14 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 2(e)(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:

• patents and trademarks	5 - 10 years
• capitalised development costs	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 statement of financial position.

#### **(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**

##### **(ii) 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 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.

##### **(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 5.10%, which is the rate of return on long-term 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.

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 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.

#### **(p) Income tax expense**

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.

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.

#### **(t) 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.

#### **(u) New standards and interpretations not yet adopted**

##### **New standards and interpretations not yet adopted**

The following Amendment becomes effective for the financial year beginning on or after 1 January 2012 and has not been applied in preparing these financial statements. The Amendment is not expected to have any impact on the consolidated financial statements of the Group.



- Amendment to IFRS 7 Disclosures – Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Earlier application is permitted.)

The Amendments require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The Group does not expect the amendments to IFRS 7 to have material impact on the financial statements, because of the nature of its operations and the types of financial assets that it holds.

#### **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 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. 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 2011. 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:

<b>Financial risks</b>	• 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 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.

Due to the macroeconomic situation, the Group's management estimates that the exposure to credit risk has increased.

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 statement of financial position 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, Slovak Republic, Poland, Hungary, Croatia, Turkey and all US dollar markets. Therefore, a 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 currency future 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 East European countries, the exposure to currency risk has increased.

The share of loans with fixed interest rate in the Gorenje Group was 46% at end of 2011. In the light of the expected changes in variable interest rates in the markets, bases and starting points were prepared at the start of 2011 for an increase in the share of loans with fixed interest rates, both in the form of loans with fixed interest rates and in the form of derivative financial instruments, in order to increase hedging against interest rate risk. 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.

Borrowings in the amount of TEUR 168,602 mature in 2011. For this reason, debt refinancing has been negotiated with banks in order to decrease refinancing risk. The liquidity reserve as at 31 December 2011 in the amount of TEUR 206,318, which consists of unused revolving credit lines, long-term credit lines, short-term deposits with banks, and cash in banks, is used to assure adequate short-term control of cash flows and to decrease short-term liquidity risk.

Short-term liquidity risk is estimated as 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 sources.

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 updates 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 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 2011. 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**

### **Business segments**

The Group comprises the following key business segments:

#### **(i) Household Appliances business segment**

Household Appliances: the manufacture and sale of household appliances of own manufacture, the sale of household appliance 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 and manufacture of mechanical components.

#### **(ii) Home interior business segment**

Home interior: the manufacture and sale of kitchen furniture, bathroom furniture, sanitary fixtures and fittings, and ceramic tiles.

#### **(iii) Ecology, energy and services business segment**

Ecology, energy and services: Ecology and energy, trade, tool manufacture, machine construction, 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:

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

**East:** Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Kazakhstan, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovak Republic.

**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 statement of financial position at 31 December 2011, the statement of financial position at 31 December 2010, the income statement for the year ended 31 December 2011, and the additional information required for the adjustment of inflows and outflows.

## 8. Composition of the Gorenje Group

Pursuant to International Financial Reporting Standards (IFRSs) as adopted by EU, the consolidated financial statements of the Gorenje Group comprise the financial statements of the holding company Gorenje, d.d. and the financial statements of 75 subsidiaries:

Companies operating in Slovenia		Equity interest in %	
		31 Dec 2011	31 Dec 2010
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	99.98	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	100.00
7.	Gorenje Orodjarna, d.o.o., Velenje	100.00	100.00
8.	ZEOS, d.o.o., Ljubljana	51.00	51.00
9.	ISTRABENZ GORENJE, d.o.o., Nova Gorica	/	48.686
10.	GEN-I, d.o.o., Krško	/	24.343
11.	Istrabenz investicijski inženiring, d.o.o., Nova Gorica	/	48.686
12.	Gorenje Surovina, d.o.o., Maribor	99.984	99.75
13.	Indop, d.o.o., Šoštanj	100.00	100.00
14.	ERICo, d.o.o., Velenje	51.00	51.00
15.	Istrabenz Gorenje inženiring, d.o.o., Ljubljana	/	48.686
16.	Gorenje Projekt, d.o.o., Velenje	/	50.00
17.	Gorenje design studio, d.o.o., Velenje	52.00	52.00
18.	Istrabenz Gorenje energetska svetovanje, d.o.o., Nova Gorica	/	48.686
19.	PUBLICUS, d.o.o., Ljubljana	50.992	51.00
20.	IG AP, d.o.o., Kisovec	/	48.686
21.	EKOGOR, d.o.o., Jesenice	46.00	26.00
22.	Gorenje GAIO, d.o.o., Šoštanj	100.00	100.00
23.	Vitales RTH, d.o.o., Trbovlje	/	24.343

Foreign operations		Equity interest in %	
		31 Dec 2011	31 Dec 2010
24.	Gorenje Beteiligungsgesellschaft m.b.H., Austria	100.00	100.00
25.	Gorenje Austria Handelsgesellschaft m.b.H., Austria	100.00	100.00
26.	Gorenje Vertriebsgesellschaft m.b.H., Germany	100.00	100.00
27.	Gorenje Körting Italia S.r.l., Italy	100.00	100.00
28.	Gorenje France S.A.S., France	100.00	100.00
29.	Gorenje BELUX S.a.r.l., Belgium	100.00	100.00
30.	Gorenje Espana, S.L., Spain	100.00	100.00
31.	Gorenje UK Ltd., Great Britain	100.00	100.00
32.	Gorenje Group Nordic A/S, Denmark	100.00	100.00
33.	Gorenje AB, Sweden	100.00	100.00
34.	Gorenje OY, Finland	100.00	100.00
35.	Gorenje AS, Norway	100.00	100.00
36.	Gorenje spol. s r.o., Czech Republic	100.00	100.00
37.	Gorenje real spol. s r.o., Czech Republic	100.00	100.00
38.	Gorenje Slovakia s.r.o., Slovak Republic	100.00	100.00
39.	Gorenje Budapest Kft., Hungary	100.00	100.00

40.	Gorenje Polska Sp. z o.o., Poland	100.00	100.00
41.	Gorenje Bulgaria EOOD, Bulgaria	100.00	100.00
42.	Gorenje Zagreb, d.o.o., Croatia	100.00	100.00
43.	Gorenje Skopje, d.o.o., Macedonia	100.00	100.00
44.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	100.00
45.	Gorenje, d.o.o., Serbia	100.00	100.00
46.	Gorenje Podgorica , d.o.o., Montenegro	99.972	99.972
47.	Gorenje Romania S.R.L., Romania	100.00	100.00
48.	Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	100.00
49.	Mora Moravia s r.o., Czech Republic	100.00	100.00
50.	Gorenje - kuchyně spol. s r.o., Czech Republic	99.98	99.98
51.	Kemis -Termoclean, d.o.o., Croatia	99.984	100.00
52.	Kemis - BH, d.o.o., Bosnia and Herzegovina	99.984	100.00
53.	Gorenje Studio, d.o.o., Serbia	100.00	100.00
54.	Gorenje Gulf FZE, United Arab Emirates	100.00	100.00
55.	Gorenje Tiki, d.o.o., Serbia	100.00	100.00
56.	GEN-I Zagreb, d.o.o., Croatia	/	24.343
57.	Intrade energija, d.o.o., Bosnia and Herzegovina	/	24.83
58.	Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	/	48.686
59.	Gorenje Istanbul Ltd., Turkey	100.00	100.00
60.	Sirovina, DOO, Bačka Palanka, Serbia	/	99.75
61.	Gorenje TOV, Ukraine	100.00	100.00
62.	Vitales, d.o.o., Bihać, Bosnia and Herzegovina	/	48.686
63.	Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	/	24.343
64.	GEN-I, d.o.o, Serbia	/	24.343
65.	ST Bana Nekretnine, d.o.o., Serbia	100.00	100.00
66.	GEN-I Budapest, Kft., Hungary	/	24.343
67.	Kemis Valjevo d.o.o., Serbia	99.984	100.00
68.	Kemis – SRS, d.o.o., Bosnia and Herzegovina	99.984	100.00
69.	ATAG Europe BV, The Netherlands	100.00	100.00
70.	ATAG Nederland BV, The Netherlands	100.00	100.00
71.	ATAG België NV, Belgium	100.00	100.00
72.	ATAG Financiële Diensten BV, The Netherlands	100.00	100.00
73.	ATAG Financial Solutions BV, The Netherlands	100.00	100.00
74.	Intell Properties BV, The Netherlands	100.00	100.00
75.	ATAG Special Products BV, The Netherlands	100.00	100.00
76.	Gorenje Nederland BV, The Netherlands	100.00	100.00
77.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	100.00
78.	Gorenje kuhinje, d.o.o., Ukraine	69.986	69.986
79.	Vitales Energie Biomasse S.R.L., Italy	/	32.78
80.	Vitales Čakovec, d.o.o., Croatia	/	48.686
81.	» Euro Lumi & Sirovina » SH.P.K., Kosovo	50.992	39.93
82.	GEN-I d.o.o. Sarajevo , Bosnia and Herzegovina	/	24.343
83.	GEN-I DOOEL Skopje, Macedonia	/	24.343
84.	GEN-I Athens SMLLC, Greece	/	24.343
85.	GEN-I Tirana Sh.p.k., Albania	/	24.343
86.	OOO Gorenje BT, Russia	100.00	100.00
87.	Vitales inženjering d.o.o., Prijedor, Bosnia and Herzegovina	/	24.343
88.	S.C. GEN-I Bucharest, Romania	/	24.343

89.	Gorenje GTI, d.o.o., Serbia	100.00	100.00
90.	Asko Appliances AB, Sweden	100.00	100.00
91.	Asko Hvitvarer AS, Norway	100.00	100.00
92.	Asko Hvidevarer A/S, Denmark	100.00	100.00
93.	Asko Appliances Inc, USA	100.00	100.00
94.	Asko Appliances Pty, Australia	100.00	100.00
95.	Asko Appliances OOO, Russia	100.00	/
96.	»Gorenje – Albania« SH.P.K., Albania	100.00	/
97.	GEN-I Sofia SpLLC, Bulgaria	/	24.343
98.	GEN-I Milano S.r.l., Italy	/	24.343
99.	GEN-I Vienna GmbH, Austria	/	24.343
100.	GORENJE HOME DOO Zaječar, Serbia	100.00	/
101.	ORSES DOO Beograd, Serbia	100.00	/
102.	Gorenje Ekologija, d.o.o., Stara Pazova, Serbia	99.992	/

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
- ENVI-TECH DOO., Belgrade

Representative office 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 2011:

	2011			2010		
	Equity interest in %	Non-controlling interest in TEUR	Share in profit or loss in TEUR	Equity interest in %	Non-controlling interest in TEUR	Share in profit or loss in TEUR
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	0.020	3	-1
Gorenje-kuchyne spol. s r.o., Czech Republic	0.020	0	0	0.020	0	0
ZEOS, d.o.o., Ljubljana	49.00	379	21	49.00	356	14
Gorenje Surovina, d.o.o., Maribor	0.016	3	0	0.25	57	4
»Euro Lumi & Surovina« SH.P.K., Kosovo	49.008	335	62	60.07	335	95
Sirovina, DOO, Bačka Palanka, Serbia	/	/	/	0.25	0	0
ERICO, d.o.o., Velenje	49.00	621	17	49.00	604	52
Gorenje kuhinje, d.o.o., Ukraine	30.014	-11	-33	30.014	24	-86
PUBLICUS, d.o.o., Ljubljana	49.008	339	138	49.00	201	21
Gorenje design studio, d.o.o., Velenje	48.00	162	-30	48.00	191	6
EKOGOR, d.o.o., Jesenice	54.00	-9	-33	74.00	33	-4
Kemis, d.o.o., Vrhnika	0.016	1	0	/	/	/
Kemis-Termoclean, d.o.o., Zagreb	0.016	0	0	/	/	/
Kemis-BH, d.o.o., Lukavac	0.016	0	0	/	/	/
Kemis-SRS, d.o.o., Dobjoj	0.016	0	0	/	/	/
Kemis Valjevo, d.o.o., Valjevo	0.016	0	0	/	/	/
Gorenje Ekologija, d.o.o., Stara Pazova	0.008	0	0	/	/	/
<b>Total</b>	/	<b>1,823</b>	<b>141</b>	/	<b>1,805</b>	<b>101</b>

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

## 10. Disposal of company

On 29 July 2011 the contract on the sale of the 46.5507-percent share that Gorenje, d.d. held in the company Istrabenz Gorenje, d.o.o. entered into force. The impact of the respective disposal of Istrabenz Gorenje, d.o.o. on Group's individual assets and liabilities was as follows:

In TEUR	2011
Property, plant and equipment	11,097
Intangible assets	203
Investment property	0
Investments	3,234
Inventories	618
Trade receivables	32,384
Cash	3,412
Financial liabilities	-21,269
Trade payables	-22,641
Provisions	-74
<b>Net difference assets and liabilities</b>	<b>6,964</b>
Contractual value of consideration paid	10,555
Cash	-3,412
<b>Net inflow</b>	<b>7,143</b>



## 11. Associates

The Group's share in profits or losses of associates was in the reporting period recorded at TEUR – 9 (2010: 0).

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

Company / in TEUR	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax	Profit or loss
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, Belgrade	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 TEUR 1,422,229

In TEUR	2011	2010
Revenue from the sale of products and goods	1,342,877	1,301,536
Revenue from the sale of services	79,352	80,649
<b>Total</b>	<b>1,422,229</b>	<b>1,382,185</b>

### Note 13 – Other operating income TEUR 52,522

in TEUR	2011	2010
Income from subsidies and donations	6,813	4,883
Rental income	1,200	1,206
Income from use and reversal of provisions	17,328	5,557
Income from use of deferred revenue relating to government grants	3,816	3,755
Gain on disposal of property, plant and equipment	3,644	2,321
Goodwill	0	13,337
Other operating income	19,721	16,495
<b>Total</b>	<b>52,522</b>	<b>47,554</b>

Income from use of deferred revenue relating to government grants in the amount of TEUR 3,816 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, income arising from the implementation of the Directive on Waste Electrical and Electronic Equipment, income from write-off of debts, and other operating income.

### Rental income

in TEUR	2011	2010
Rental income – up to 1 year	522	470
<b>Total</b>	<b>522</b>	<b>470</b>

### Note 14 – Cost of goods, materials and services TEUR 1,105,001

in TEUR	2011	2010
Cost of goods sold	344,749	366,075
Cost of materials	551,660	477,178
Cost of services	208,592	197,256
<b>Total</b>	<b>1,105,001</b>	<b>1,040,509</b>

Cost of services includes cost of provisions for warranties in the amount of TEUR 19,776 (2010: TEUR 23,834) and cost of rentals in the amount of TEUR 16,241 (2010: TEUR 15,011).

<b>Note 15 – Employee benefits expense</b>		<b>TEUR 265,850</b>	
in TEUR	<b>2011</b>	<b>2010</b>	
Wages and salaries	202.759	181.343	
Social security costs	37.066	35.374	
Other employee benefits expense	26.025	27.725	
<b>Total</b>	<b>265.850</b>	<b>244.442</b>	

Other employee benefits expense include cost of creation of provisions for retirement benefits and jubilee premiums in the amount of TEUR 2,869 (2010: TEUR 2,939).

A portion of employee benefits expense (TEUR 3,567) 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.

<b>Number of employees by division</b>	<b>As at 31 December</b>		<b>Average</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Home Appliances division	8,850	8,577	8,907	8,905
Home interior division	644	825	749	926
Ecology, energy and services division	1,226	1,319	1,276	1,343
<b>Total</b>	<b>10,720</b>	<b>10,721</b>	<b>10,932</b>	<b>11,174</b>

<b>Note 16 – Amortisation and depreciation expense</b>		<b>TEUR 50,198</b>	
in TEUR	<b>2011</b>	<b>2010</b>	
Amortisation expense of intangible assets	6,431	6,010	
Depreciation expense of property, plant and equipment	43,767	46,227	
<b>Total</b>	<b>50,198</b>	<b>52,237</b>	

A lower amortisation and depreciation expense in 2011 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 and 2011, mostly in the production centres of the Home Appliances Division.

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

<b>Note 17 – Other operating expenses</b>		<b>TEUR 25,576</b>	
in TEUR	<b>2011</b>	<b>2010</b>	
Write-off of inventories to net realisable value	2,631	2,202	
Disposal, impairment of assets	607	3,483	
Other taxes and charges	3,724	3,557	
Other operating expenses	18,614	13,361	
<b>Total</b>	<b>25,576</b>	<b>22,603</b>	

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, costs of restructuring the Asko Group, scholarships expense, and compensation in damages.

**Note 18 – Net finance expense** **TEUR 25,388**

<b>Finance income</b>		<b>TEUR 15,199</b>	
in TEUR	2011	2010	
Dividend income from available-for-sale investments	127	305	
Interest income	3,016	3,333	
Change in fair value of interest rate swaps	0	199	
Income from net exchange differences	0	921	
Gain on disposal of subsidiaries	3,591	0	
Gain on liquidation of subsidiary	3,747	0	
Income from forward exchange transactions	246	175	
Other finance income	4,472	7,552	
<b>Total</b>	<b>15,199</b>	<b>12,485</b>	

<b>Finance expenses</b>		<b>TEUR 40,587</b>	
in TEUR	2011	2010	
Interest expenses	23,425	19,438	
Expenses on interest rate swap transactions	2,155	1,696	
Expenses on net exchange differences	1,222	0	
Expenses on forward exchange transactions	0	2,625	
Change in fair value of forward exchange transactions	373	4,197	
Loss on disposal of available-for-trade investments	0	792	
Impairment loss on available-for-sale investments	1,373	699	
Impairment loss on trade receivables	6,794	8,317	
Impairment loss on loans	91	5,332	
Other finance expenses	5,154	3,355	
<b>Total</b>	<b>40,587</b>	<b>46,451</b>	

By the impairment of receivables and loans in the amount of TEUR 6,885 (2010: TEUR 13,649), the fair value of trade receivables and loans is secured.

Impairment loss on investments in the amount of TEUR 1.373 (2010: TEUR 699) relates to available-for-sale financial assets that were revalued to market value.

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

in TEUR	2011	2010
Net change in effective portion of gains and losses on hedging instruments in a cash flow hedge	-6,484	300
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	2,154	0
Net change in fair value of available-for-sale financial assets	-108	33
Net change in fair value of available-for-sale financial assets transferred to profit or loss	0	112
Foreign currency translation differences for foreign operations	1,148	-8,563
<b>Finance expenses recognised in other comprehensive income</b>	<b>-3,290</b>	<b>-8,118</b>
<b>Finance expenses recognised in other comprehensive income attributable to equity holders of the parent</b>	<b>-3,290</b>	<b>-8,118</b>
<b>Finance expenses recognised in other comprehensive income attributable to non-controlling interests</b>	<b>0</b>	<b>0</b>

**Note 19 – Income tax expense****TEUR 2,006**

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

in TEUR	2011	2010
Current tax expense	5,600	5,049
Deferred tax expense	-3,594	-2,601
<b>Total</b>	<b>2,006</b>	<b>2,448</b>

Effective income tax rates:

in TEUR	2011	2011	2010	2010
Profit before tax		<b>11,112</b>		<b>22,472</b>
Income tax using the domestic tax rate	20.0 %	2,222	20.0 %	4,494
Effect of tax rates in foreign jurisdictions	-9.0 %	-1,000	6.8 %	1,534
Non-deductible expenses	29.1 %	3,233	-16.5 %	-3,703
Tax exempt income	-16.4 %	-1,820	8.3 %	1,862
Tax reliefs	-13.1 %	-1,459	-6.6 %	-1,486
Tax losses	17.3 %	1,926	0.1 %	28
Other differences	-9.9 %	-1,096	-1.3 %	-281
<b>Income tax expense</b>	<b>18.1 %</b>	<b>2,006</b>	<b>10.9 %</b>	<b>2,448</b>

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

in TEUR	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
<b>Other comprehensive income</b>	<b>-4,333</b>	<b>1,073</b>	<b>-3,260</b>

in TEUR	2010		
	Pre-tax amount	Tax	After-tax amount
Change in fair value of available-for-sale financial assets	50	-17	33
Change in fair value of available-for-sale financial assets transferred to profit or loss	145	-33	112
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	317	-17	300
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	0	0	0
Change in fair value of land	-7,777	158	-7,619
Foreign currency translation differences for foreign operations	-8,563	0	-8,563
<b>Other comprehensive income</b>	<b>-15,828</b>	<b>91</b>	<b>-15,737</b>

**Note 20 – Intangible assets****TEUR 158,620**

in TEUR	2011	2010
Development costs	11,768	12,096
Industrial property rights	14,712	15,373
Trademark	61,964	61,964
Goodwill	68,653	69,358
Intangible assets under construction	1,523	1,370
<b>Total</b>	<b>158,620</b>	<b>160,161</b>

Intangible assets include mainly trademarks (Atag, Etna and Pelgrim), deferred development costs, and software.

Goodwill in the amount of TEUR 62,130 and fair value of trademarks Atag, Etna and Pelgrim in the amount of TEUR 61,964 were established in 2008 at the acquisition of the company ATAG Europe BV. In addition, goodwill was established in 2008 in the amount of TEUR 1,617 at the acquisition of the majority interest in PUBLICUS, d.o.o. Goodwill in the amount of TEUR 2,030 was established in 2007 at the acquisition of the majority interest in Gorenje Surovina, d.d.. Goodwill in the amount of TEUR 2,875 was established in 2005 at the acquisition of Mora Moravia, s r. o. in the Czech Republic and Gorenje Studio, d.o.o. in Serbia.

*Impairment testing of goodwill and trademarks*

Impairment testing of goodwill and trademarks Atag, Etna and Pelgrim arising from the acquisition of ATAG Europe BV was carried out. The calculations are based on cash flow projections for ATAG, which have been prepared on the basis of the adopted business plan for 2012 and strategic business plan for the period from 2013 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3.0% (2010: 3.0%) and the discount rate of 13.31% (2010: 12.31%).

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 2012 and strategic business plan for the period from 2013 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3.5% (2010: 3.0%) and the discount rate of 10.5% (2010: 9.5%).

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 2012 and strategic business plan for the period from 2013 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 4.5% (2010: 2.0%) and the discount rate of 10.5% (2010: 9.5%).

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 2012 and strategic business plan for the period from 2013 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 0.0% (2010: 2.0%) and the discount rate of 10.5% (2010: 9.5%).

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 2012 and strategic business plan for the period from 2013 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 5.0% (2010: 3.0%) and the discount rate of 10.5% (2010: 9.5%).

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.

Goodwill in the amount of TEUR 705 referring to the company IG AP, d.o.o. was written down and charged against the profit for the period.

### Movements of intangible assets in 2011

in TEUR	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 transfer						
Exchange differences	-46	-159				-205
Accumulated amortisation at 31 Dec 2011	19,894	17,814				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

### Movements of intangible assets in 2010

in TEUR	Development costs	Industrial property rights	Trademark	Goodwill	Intangible assets under construction	Total
Cost at 1 Jan 2010	27,379	34,113	61,964	69,358	856	193,670
Acquisitions	1,910	1,194			2,206	5,310
Disposal of Group companies		-1,333				-1,333
Acquisition through business combinations		380				380
Disposal, write-offs	-1,775	-3,488				-5,263
Other transfers	851	676			-1,685	-158
Exchange differences	66	106			-7	165
Ownership change in joint ventures	-1	-2				-3
Cost At 31 Dec 2010	28,430	31,646	61,964	69,358	1,370	192,768
Accumulated amortisation at 1 Jan 2010	14,887	17,223	0	0	0	32,110
Disposal of Group companies		-618				-618
Disposal, write-offs	-2,096	-3,074				-5,170
Amortisation	3,320	2,690				6,010
Other transfers	94	-190				-96
Exchange differences	130	243				373
Ownership change in joint ventures	-1	-1				-2
Accumulated amortisation at 31 Dec 2010	16,334	16,273	0	0	0	32,607
Carrying amount at 1 Jan 2010	12,492	16,890	61,964	69,358	856	161,560
Carrying amount at 31 Dec 2010	12,096	15,373	61,964	69,358	1,370	160,161

**Note 21 – Property, plant and equipment (PPE)****TEUR 358,840**

in TEUR	2011	2010
Land	49,405	50,391
Buildings	165,814	166,489
Manufacturing and other equipment	133,190	141,197
Property, plant and equipment under construction	10,431	17,323
<b>Total</b>	<b>358,840</b>	<b>375,400</b>

**Movements of property, plant and equipment in 2011**

in TEUR	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
Acquisition	533	6,528	15,767	18,261	41,089
Disposal of Group companies	-649	-4,357	-7,015	-1,086	-13,107
Disposal, 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
<b>Cost at 31 Dec 2011</b>	<b>49,405</b>	<b>320,521</b>	<b>580,218</b>	<b>10,431</b>	<b>960,575</b>
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
Disposal, 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
<b>Accumulated depreciation at 31 Dec 2011</b>		<b>154,707</b>	<b>447,028</b>		<b>601,735</b>
Carrying amount at 1 Jan 2011	50,391	166,489	141,197	17,323	375,400
<b>Carrying amount at 31 Dec 2011</b>	<b>49,405</b>	<b>165,814</b>	<b>133,190</b>	<b>10,431</b>	<b>358,840</b>

Investments in the amount of TEUR 41,089 relate mainly to the continuation of the policy of focused investment in the development of Home Appliances, the restructuring of production activities (transfer of production of hot-water and heating systems from Ljubljana to Stara Pazova, Serbia), and partly the integration activities related to the Asko Group acquired in July 2010, as well as the opening of the plant in Žaječar, Serbia.

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 valuation in coming years showed that no conditions 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 TEUR 37,145.

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 2011.

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

## Movements of property, plant and equipment in 2010

in TEUR	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2010	60,033	322,957	571,831	6,489	961,310
Acquisition	240	2,787	10,573	25,758	39,358
Acquisition through business combinations	346	5,007	12,145	2,605	20,103
Disposal of Group companies	-10,100	-6,051	-14,441	-87	-30,679
Ownership change in joint ventures	95	370	698	72	1,235
Disposal, write-offs	-1,227	-3,907	-19,910	-506	-25,550
Revaluation					
Transfer from investment property	1,200	123			1,323
Other transfers	150	1,979	14,576	-16,904	-199
Exchange differences	-346	-1,301	-1,095	-104	-2,846
Cost at 31 Dec 2010	50,391	321,964	574,377	17,323	964,055
Accumulated depreciation 1 Jan 2010	0	152,340	426,169	0	578,509
Disposal of Group companies		-3,718	-11,341		-15,059
Disposal, write-offs		-1,975	-18,146		-20,121
Ownership change in joint ventures		21	68		89
Depreciation		9,328	36,899		46,227
Transfer from investment property		16			16
Other transfers		-324			-324
Exchange differences		-213	-469		-682
Accumulated depreciation at 31 Dec 2010	0	155,475	433,180	0	588,655
Carrying amount at 1 Jan 2010	60,033	170,617	145,662	6,489	382,801
Carrying amount at 31 Dec 2010	50,391	166,489	141,197	17,323	375,400

### Note 22 – Investment property

TEUR 15,219

in TEUR	2011	2010
Land	8,218	1,598
Buildings	7,001	2,920
Total	15,219	4,518

Investment property includes land and buildings acquired for resale or increase in investments. Investment property is measured using the fair value model. Acquisition refers to the purchase of land and buildings from Gorenje Tiki, d.o.o. (company in liquidation).

### Movements of investment property

in TEUR	2011	2010
Opening balance at 1 January	4,518	7,802
Increase	9,722	0
Revaluation	0	-1,493
Decrease	-312	-481
Disposal of Group companies	0	-3
Transfer from property, plant and equipment	1,292	0
Transfer to property, plant and equipment	-1	-1,307
Closing balance at 31 December	15,219	4,518



<b>Note 23 – Non-current investments</b>		<b>TEUR 1,973</b>	
in TEUR		2011	2010
Loans (1 to 5 years)		1,056	4,269
Deposits		74	129
Other investments		843	915
Total		1,973	5,313

### Movements in loans

in TEUR		2011	2010
Opening balance at 1 January		4,269	5,290
Increase		11	88
Decrease		-103	-673
Disposal of IG Group		-2,755	0
Transfer to current investments		-366	-436
Closing balance at 31 December		1,056	4,269

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 3.947 percent to 7.0 percent.

<b>Note 24 – Investments in associates</b>		<b>TEUR 996</b>		
in TEUR		Equity share	2011	2010
Gorenje Projekt, d.o.o., Velenje		50.00 %	154	0
GGE, d.o.o., Ljubljana		33.33 %	165	0
RCE, d.o.o., Velenje		24.00 %	611	0
Econo Projektiranje, d.o.o., Ljubljana		26.00 %	36	0
ENVI-TECH DOO, Belgrade		25.935 %	30	0
Total			996	0

### Note 25 – Deferred tax assets and liabilities

Deferred taxes are recognised using the statement of financial position liability method based on temporary differences. The applied tax rate is the current tax rate applicable in the country in which the respective Group company is domiciled.

in TEUR	Deferred tax assets		Deferred tax liabilities		Tax assets – tax liabilities	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	33	934	5,152	4,708	-5,119	-3,774
Investments	1,425	1,812	-46	-19	1,471	1,831
Receivables	2,104	1,523	68	85	2,036	1,438
Inventories	184	258	-104	-106	288	364
Liabilities from litigations						
Provisions in lines with local standards and tax laws	471	1,632	150	1,308	321	324
Provisions for retirement benefits and jubilee premiums	2,870	3,110			2,870	3,110
Provisions for warranties	2,246	2,466	-22	-43	2,268	2,509
Unused tax losses	7,880	5,117	704	196	7,176	4,921
Unused tax incentives	2,457	1,191	81		2,376	1,191
Interest rate swaps – cash flow hedge	1,027			-12	1,027	12
Changes in the Group	0		-50	-55	50	55
Total	20,697	18,043	5,933	6,062	14,764	11,981

In TEUR	Tax assets – tax liabilities		Through profit or loss		Through other comprehensive income	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	-5,119	-3,774	-20	159	31	158
Investments	1,471	1,831	-601	124	27	-50
Receivables	2,036	1,438	523	239		

Inventories	288	364	-30	-23		
Liabilities from litigations						
Provisions in lines with local standards and tax laws	321	324	-4	1,054		
Provisions for retirement benefits and jubilee premiums	2,870	3,110	-74	-209		
Provisions for warranties	2,268	2,509	-179	-81		
Unused tax losses	7,176	4,921	2,168	95		2,033
Unused tax incentives	2,376	1,191	595			
Interest rate swaps – cash flow hedge	1,027	12			1,015	-2,050
Changes in the Group	50	55	1,216	1,243		
Total	14,764	11,981	3,594	2,601	1,073	91

Both deferred tax assets and deferred tax liabilities were recognised by the Group companies in 2011. Creation of deferred tax liabilities (through profit or loss) is based on the amounts of a decrease in the tax base of the Group companies in 2011 with regard to the determined profit or loss before taxes. Creation of deferred tax assets, however, is based on an increase in the tax base of the Group companies in 2011 with regard to the determined profit or loss before tax and the determined tax losses.

#### Note 26 – Inventories TEUR 245,608

In TEUR	2011				2010			
	Home Appliances	Home interior	Ecology, energy and services	Total	Home Appliances	Home interior	Ecology, energy and services	Total
Materials	62,733	2,249	5,422	70,404	69,759	3,013	6,608	79,380
Work in progress	11,966	832	2,682	15,480	12,161	1,188	5,611	18,960
Products	119,674	3,383	1,576	124,633	109,314	3,436	20	112,770
Merchandise	30,154	206	2,380	32,740	42,216	267	2,362	44,845
Advances	2,110	56	185	2,351	1,510	20	108	1,638
Total	226,637	6,726	12,245	245,608	234,960	7,924	14,709	257,593

In 2011, allowances for inventories and inventory write-offs amounted to TEUR 2,631 (2010: TEUR 2,202). Allowances for inventories and inventory write-offs were recorded under other operating expenses.

Advances for inventories 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 TEUR 28,478.

#### Note 27 – Current investments TEUR 42,317

In TEUR	2011	2010
Available-for-sale investments	16,692	11,940
Short-term deposits	2,916	1,055
Loans	21,883	31,525
Transfer from non-current loans	366	436
Interest receivable	344	760
Other current financial receivables	116	2,286
Total	42,317	48,002

Loans include cash surplus deposited in short-term time deposits with banks and entities. The interest rate for bank deposits and loans ranges from 2.00 percent to 9.75 percent.

#### Movements of available-for-sale investments

In TEUR	2011	2010
Opening balance at 1 January	11,940	15,248
Increase	6,033	1,695
New Group companies	0	413
Decrease	-126	-4,311

Change in fair value	-1,155	-1,105
Transfers	0	0
Closing balance at 31 December	16,692	11,940

Impairment loss in the amount of TEUR 1,042 is recorded among finance expense, whereas impairment in the amount of TEUR 114 in the statement of comprehensive income as change in fair value.

The increase mainly relates to the increase of shares of Merkur, d.d., in compulsory composition.

**Note 28 – Trade receivables** **TEUR 255,911**

In 2011, write-off and impairment of trade receivables amounted to TEUR 6,794 (2010: TEUR 8,317).

As at 31 December 2011, allowances for receivables amounted to TEUR 22,981 (2010: TEUR 23,142). The changes in allowances for trade receivables are discussed in Note 40 (Financial instruments).

**Note 29 – Other current assets** **TEUR 48,746**

In TEUR	2011	2010
Other short-term receivables	24,751	35,367
Short-term advances and collaterals given	2,304	6,788
Short-term deferred costs	18,858	11,270
Other current assets	2,833	2,013
Total	48,746	55,438

The item of other short-term receivables includes an important part of the Group's input VAT receivable, which by the end of 2011 amounted to TEUR 15,523 (2010: TEUR 19,425).

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** **TEUR 101,620**

In TEUR	2011	2010
Cash in hand	457	403
Cash balances in banks and other financial institutions	101,163	82,325
Total	101,620	82,728

**Note 31 – Equity** **TEUR 397,819**

As at 31 December 2011, the share capital of Gorenje, d.d. amounted to EUR 66,378,217.32 (31 December 2010: 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 TEUR 175,575 includes paid-in capital in excess of par value of shares in the amount of TEUR 64,352, surplus in excess of book value of disposed own shares in the amount of TEUR 15,313 (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 TEUR 78,048 transferred upon the transition to IFRSs.

Legal and statutory reserves in the amount of TEUR 22,719 include legal reserves in the amount of TEUR 12,895 (31 December 2010: TEUR 12,895), reserves for own shares in the amount of TEUR 3,170 (31 December 2010: TEUR 3,170), and statutory reserves in the amount of TEUR 6,654 (31 December 2010: TEUR 5,925).

Compared to 2010, the translation reserve grew by TEUR 1,148 and as at the reporting date amounted to TEUR 9,990. The increase 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 reporting currency.

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

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

In TEUR	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Total
<b>Balance at 1 Jan 2011</b>	<b>9,842</b>	<b>3,500</b>	<b>-48</b>	<b>13,294</b>
Revaluation of land				
Disposal 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 a subsidiary				
Acquisition of non-controlling interests				
Deferred taxes	31	27	1,015	1,073
<b>Balance at 31 Dec 2011</b>	<b>9,872</b>	<b>3,392</b>	<b>-4,378</b>	<b>8,886</b>

In TEUR	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Total
<b>Balance at 1 Jan 2010</b>	<b>17,461</b>	<b>3,117</b>	<b>-7,756</b>	<b>12,822</b>
Revaluation of land	0	0	0	0
Disposal of land	0	0	0	0
Change in fair value of cash flow hedge	0	0	9,758	9,758
Change in fair value of available-for-sale financial assets	0	288	0	288
Disposal of available-for-sale financial assets	0	145	0	145
Impairment of available-for-sale financial assets	0	0	0	0
Disposal of a subsidiary	-7,777	0	0	-7,777
Acquisition of non-controlling interests		0	0	0
Deferred taxes	158	-50	-2,050	-1,942
<b>Balance at 31 Dec 2010</b>	<b>9,842</b>	<b>3,500</b>	<b>-48</b>	<b>13,294</b>

### Note 32 – Earnings per share

Earnings per share amounted in 2011 to EUR 0.57 (2010: EUR 1.34). No preference shares have been issued by the Group, 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:

2011	(In TEUR)
Profit for the period	8,965
Weighted average number of ordinary shares	15,785,565
Basic / Diluted earnings per share (in EUR)	0.57
2010	(In TEUR)
Profit for the period	19,923
Weighted average number of ordinary shares	14,847,127
Basic / Diluted earnings per share (in EUR)	1.34

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. Dividends were not paid in 2011.

<b>Note 33 – Provisions</b>		<b>TEUR 76,321</b>	
In TEUR	2011	2010	
Provisions for warranties	43,837	50,261	
Provisions for retirement benefits and jubilee premiums	23,990	22,687	
Other provisions	8,494	15,219	
Total	76,321	88,167	

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 2011 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 2011. The actuarial calculation was based on the following assumptions:

- a discount rate of 5.10 % in December 2011 representing the rate of return on 10-year entrepreneurial bonds with high credit rating in the euro area;
- 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).

A significant portion of other long-term provisions includes provisions for corporate restructuring and anticipated losses, which were created in 2010 in line with the anticipated costs of post-acquisition activities for the Asko Group (whereas they were partly already used or reversed in 2011 for the stated purposes), 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.

### Movements of provisions in 2011

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

### Movements of provisions in 2010

In TEUR	Balance 1 Jan 2010	Use	Exchange differences	Reversal	Creation	Disposal of companies	Acquisition of companies	Balance 31 Dec 2010
Provisions for warranties	38,000	-17,923	-733	-5,280	23,834	-516	12,879	50,261
Provisions for retirement benefits and jubilee premiums	19,623	-1,842	-11	-91	2,939	-1,450	3,519	22,687
Other provisions	4,535	-1,112	12	-186	2,247	-77	9,800	15,219
Total	62,158	-20,877	-732	-5,557	29,020	-2,043	26,198	88,167

**Note 34 – Deferred revenue** **TEUR 617**

In TEUR	Balance 1 Jan 2011	Depreciation	Creation	Balance 31 Dec 2011
Deferred revenue - government grants	866	-3,816	3,567	617
<b>Total</b>	866	-3,816	3,567	617

In TEUR	Balance 1 Jan 2010	Depreciation	Creation	Balance 31 Dec 2010
Deferred revenue - government grants	1,211	-3,755	3,410	866
<b>Total</b>	1,211	-3,755	3,410	866

**Note 35 – Non-current financial liabilities** **TEUR 302,459**

In TEUR	2011	2010
Non-current borrowings from banks	303,476	294,405
Transfer to current borrowings from banks	-85,078	-102,542
Non-current borrowings from third parties	103,035	62,044
Transfer to current borrowings from third parties	-20,657	-143
Other financial liabilities	1,683	7,168
<b>Total</b>	<b>302,459</b>	<b>260,932</b>

Borrowings by maturity	in TEUR
Maturity from 1 to 2 years	83,693
Maturity from 2 to 4 years	142,692
Maturity from 4 to 6 years	72,970
Maturity from 6 to 9 years	1,421
<b>Total</b>	<b>300,776</b>

**Non-current borrowings**

Currency	Amount in TEUR	Interest rate	
		from	to
EUR	300,776	2.20%	7.00%
<b>Total</b>	<b>300,776</b>		

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

Collateralisation	In TEUR
Bills	103,006
Financial covenants	296,704
Guarantees	74,452

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

**Note 36 – Current financial liabilities** **TEUR 181,649**

In TEUR	2011	2010
Borrowings from banks	62,866	103,207
Transfer from non-current borrowings from banks	85,078	102,542
Current borrowings from third parties	1,187	1,803
Transfer from non-current borrowings from third parties	20,658	143
Current interest payable	461	805
Current dividends payable	184	184

Derivatives	5,527	14,185
Other financial liabilities	5,688	146
<b>Total</b>	<b>181,649</b>	<b>223,015</b>

As at the reporting date, forward exchange contracts were concluded by Gorenje, d.d. in the value of hedged items totalling TEUR 7,600. The forward exchange contracts were used in the financial year 2011 to hedge against a change in the foreign exchange rates: EUR/PLN, EUR/USD and EUR/HUF. 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 2011, for which interest rate swap contracts were concluded, amounted to TEUR 157,066. 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.

Other financial liabilities mostly include liabilities referring to the purchase of receivables by the parent company in the amount of TEUR 3,434.

Current borrowings from banks			Interest rate	
Currency	Amount in currency (in 000)	Amount in TEUR	from	to
EUR	131,934	131,934	1.77%	12.00%
CZK	215,197	8,345	1.70%	2.34%
HUF	85,702	272	8.03%	8.03%
TRY	8,874	3,632	10.50%	17.00%
RSD	6,609	64	13.75%	13.75%
DKK	27,140	3,651	3.87%	5.20%
UAH	490	46	12.70%	12.70%
<b>Total</b>		<b>147,944</b>		

Current borrowings from third parties			Interest rate	
Currency	Amount in currency (in 000)	Amount in TEUR	from	to
EUR		21,845	2.36%	5.95%
<b>Total</b>		<b>21,845</b>		

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

Collateralisation	in TEUR
Bills	98,208
Financial covenants	92,672
Guarantees	69,383

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

The loan contracts concluded between the Gorenje, d.d. and 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 borrowings from 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 2011 to its bank partners (except International Finance Corporation IFC) for waiver of financial covenants requiring financial statements for 2011. The waiver was 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 2011.

Financial covenants relating to borrowings from International Finance Corporation (IFC) were met in full at the year end 2011.

**Note 37 – Trade payables** **TEUR 194,248**

As at 31 December 2011, the item of trade payables in the amount of TEUR 194,248 does not include any payables to the members of the Management Board and Supervisory Board and the internal owners.

<b>Note 38 – Other current liabilities</b>	<b>TEUR 90,806</b>	
In TEUR	2011	2010
Payables to employees	17,701	18,955
Payables to state	13,604	14,135
Accrued costs and expenses	39,365	40,872
Other current liabilities	20,136	32,736
<b>Total</b>	<b>90,806</b>	<b>106,698</b>

Payables to employees and contributions and taxes payable to state institutions relate to wages and salaries for December paid in January 2012.

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 TEUR 31,101 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:

In TEUR	<b>2011</b>	<b>2010</b>
Available-for-sale financial assets	16,692	11,940
Loans	23,306	36,229
Trade and other receivables	285,799	350,452
Deposits	2,990	1,185
Other receivables from financing activities	1,302	3,961
Cash and cash equivalents	101,620	82,728
<b>Total</b>	<b>431,709</b>	<b>486,495</b>

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

In TEUR	<b>2011</b>	<b>2010</b>
West	93,889	95,553
East	158,947	205,116
Other	3,075	5,615
<b>Total</b>	<b>255,911</b>	<b>306,284</b>

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

In TEUR	<b>2011</b>	<b>2010</b>
Wholesale customers	191,163	220,572
Retail customers	56,170	78,626
Other customers	8,578	7,086
<b>Total</b>	<b>255,911</b>	<b>306,284</b>

Maturity of trade receivables at the reporting date:

In TEUR	<b>Gross amount</b>	<b>Allowance</b>	<b>Gross amount</b>	<b>Allowance</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
Not past due	201,056		237,229	
Past due 1 to 45 days	21,609		33,647	



Past due 46 to 90 days	7,997		8,063	
Past due 91 to 180 days	6,024		8,407	
Past due over 180 days	42,206	22,981	42,080	23,142
<b>Total</b>	<b>278,892</b>	<b>22,981</b>	<b>329,426</b>	<b>23,142</b>

Movements in allowances for trade receivables:

In TEUR		<b>2011</b>	<b>2010</b>
Opening balance at 1 January		23,142	20,406
Exchange differences		-185	-57
Impairment loss		6,794	8,317
Recovered bad debts		-2,786	-1,868
Write-offs of receivables		-3,540	-3,836
Changes in the Group		-444	180
<b>Closing balance at 31 December</b>		<b>22,981</b>	<b>23,142</b>

### Liquidity risk

Financial liabilities by maturity:

#### 31 December 2011

In TEUR	Carrying amount	Contractual cash flow	1 year or less	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Bank borrowings	366,342	404,296	165,466	72,757	165,627	446
Borrowings from other entities	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			
<b>Total</b>	<b>724,270</b>	<b>777,536</b>	<b>445,134</b>	<b>97,883</b>	<b>232,476</b>	<b>2,043</b>
<b>Derivative financial liabilities</b>						
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						
<b>Total</b>	<b>-5,527</b>	<b>-4,901</b>	<b>-2,289</b>	<b>-1,196</b>	<b>-1,416</b>	

#### 31 December 2010

In TEUR	Carrying amount	Contractual cash flow	1 year or less	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Bank borrowings	459,513	496,294	225,736	105,381	158,796	6,382
Borrowings from other entities	1,946	2,102	2,102			
Other financial liabilities	8,303	10,448	2,434	2,434	4,090	1,490
Trade and other payables	302,846	302,846	302,846			
<b>Total</b>	<b>772,608</b>	<b>811,690</b>	<b>533,118</b>	<b>107,815</b>	<b>162,886</b>	<b>7,872</b>
<b>Derivative financial liabilities</b>						
Interest rate swaps	-58	-68	-51	-17		
Forward exchange contracts used for hedging	-20	-20	-20			
Outflow	-20	-20	-20			
Inflow						
Other forwards exchange contracts	-14,107	-14,107	-14,107			
Outflow	-14,107	-14,107	-14,107			
Inflow						
<b>Total</b>	<b>-14,185</b>	<b>-14,195</b>	<b>-14,178</b>	<b>-17</b>		

## Currency risk

Group's exposure to currency risk:

### 31 December 2011

In TEUR	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
<b>Financial position exposure</b>	<b>-476,364</b>	<b>27,033</b>	<b>2,387</b>	<b>4,647</b>	<b>8,651</b>	<b>-4,413</b>	<b>29,157</b>
Forward exchange contracts							7,600
<b>Net exposure</b>	<b>-476,364</b>	<b>27,033</b>	<b>2,387</b>	<b>4,647</b>	<b>8,651</b>	<b>-4,413</b>	<b>36,757</b>

### 31 December 2010

In TEUR	EUR	HRK	DKK	PLN	RSD	CZK	Other
Trade receivables	189,874	31,762	4,490	6,682	13,919	7,446	52,111
Financial liabilities (borrowings)	-423,861	-601	-684	-101	-939	-14,506	-18,821
Trade payables	-201,795	-1,850	-1,491	-1,638	-6,799	-5,354	-18,093
<b>Financial position exposure</b>	<b>-435,782</b>	<b>29,311</b>	<b>2,315</b>	<b>4,943</b>	<b>6,181</b>	<b>-12,414</b>	<b>15,197</b>
Forward exchange contracts							-8,295
<b>Net exposure</b>	<b>-435,782</b>	<b>29,311</b>	<b>2,315</b>	<b>4,943</b>	<b>6,181</b>	<b>-12,414</b>	<b>6,902</b>

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
HRK	7.438	7.289	7.537	7.383
CZK	24.589	25.294	25.787	25.061
DKK	7.451	7.447	7.434	7.454
RSD	101.910	102.762	103.630	107.470
PLN	4.119	3.995	4.458	3.975

### 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 2010.

31 December 2011	in TEUR
	Profit or loss for the period
HRK	-1,352
DKK	-119
PLN	-232
RSD	-433
CZK	221
Other currencies	-779
31 December 2010	in TEUR
	Profit or loss for the period
HRK	-1,466
DKK	-116
PLN	-247
RSD	-309
CZK	621
Other currencies	-345

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:

In TEUR	2011	2010
<b>Fixed rate financial instruments</b>		
Financial assets	6,472	11,271
Financial liabilities	64,892	96,273
<b>Variable rate financial instruments</b>		
Financial assets	16,833	24,959
Financial liabilities	405,673	363,240

### 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 2010.

In TEUR	Profit or loss for the period		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
	by 50 bp	by 50 bp	by 50 bp	by 50 bp
<b>31 December 2011</b>				
Variable rate instruments	-4,707	4,707		
Interest rate swap contracts	526	-526	1,499	-1,499
<b>Cash flow variability (net)</b>	<b>-4,181</b>	<b>4,181</b>	<b>1,499</b>	<b>-1,499</b>
<b>31 December 2010</b>				
Variable rate instruments	-4,122	4,122		
Interest rate swap contracts				
<b>Cash flow variability (net)</b>	<b>-4,122</b>	<b>4,122</b>		

### Note 41 – Fair value

The fair value and carrying amount of assets and liabilities:

In TEUR	Carrying amount	Fair value	Carrying amount	Fair value
	2011	2011	2010	2010
Available-for-sale investments	16,692	16,692	11,940	11,940
Non-current loans and deposits	1,130	1,130	4,398	4,398
Current loans and deposits	25,509	25,509	33,776	33,776
Derivatives	-5,527	-5,527	-14,185	-14,185
Trade receivables	255,911	255,911	306,284	306,284
Other current assets	29,888	29,888	44,168	44,168
Cash and cash equivalents	101,620	101,620	82,728	82,728
Non-current financial liabilities	-270,792	-270,792	-188,463	-188,463
Non-current financial liabilities (fixed interest rate)	-31,667	-27,176	-72,469	-64,003
Current financial liabilities	-176,122	-176,122	-208,830	-208,830
Trade payables	-194,248	-194,248	-237,020	-237,020
Other payables	-51,441	-51,441	-65,826	-65,826
<b>Total</b>	<b>-299,047</b>	<b>-294,556</b>	<b>-303,499</b>	<b>-295,033</b>

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:

- 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 2011

(In TEUR)	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

#### Year 2010

(In TEUR)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	2,551	-	9,389	11,940
Derivatives - assets	-	-	-	-
Derivatives - liabilities	-	-14,185	-	-14,185

#### *Forward exchange contracts*

The total fair value of forward exchange contracts amounted to TEUR -393 as at 31 December 2011 and was recorded under other financial liabilities.

#### *Interest rate swaps*

The total fair value of interest rate swaps as at 31 December 2011 amounted to TEUR -5,134 and was recorded under other financial liabilities.

Interest rate swap hedges, which relate to hedged items in the statement of financial position, 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 consolidated statement of financial position at the reporting date amounted to TEUR 3,568.

#### **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 2011, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

In TEUR	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	7,911		8,509
Benefits and other earnings	895	142	850
Total	8,806	142	9,359

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

In 2010, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

In TEUR	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	6,985		8,488
Benefits and other earnings	1,076	84	805
Total	8,061	84	9,293

#### **Note 44 – Events after the date of the statement of financial position**

- The 17<sup>th</sup> Shareholders' Meeting of Gorenje, d.d. was held on 3 February 2012. The key item of the Agenda was the proposal of the Management Board and the Supervisory Board that an authorisation be granted to the Management Board to acquire and dispose of treasury shares up to a total of 10% of the Company's share capital. Kapitalska družba, d.d., the major shareholder of Gorenje, proposed a counterproposal to this item, which differed from the proposal made by the Management Board and the Supervisory Board in that the pre-emptive right of the existing shareholders should not be omitted in case of disposal of treasury shares. The Management Board and the Supervisory Board agreed with the counterproposal made by Kapitalska družba. The Capital Assets Management Agency of the Republic of Slovenia, which exercised voting rights on behalf of Kapitalska družba, voted against the counterproposal. The proposal was thus rejected with 50.7 percent majority of all present at the Shareholders' Meeting.
- On 14 February 2012, Gorenje signed in Valjevo a Memorandum of Understanding that lays down the starting points for cooperation and the obligations to be assumed by the Republic of Serbia and Gorenje in case of a decision to expand the Valjevo refrigerator freezer manufacturing plant, as currently deliberated by Gorenje. The Memorandum is not a legally binding document and the decision to proceed with the investment project is yet to be confirmed by the corporate bodies of Gorenje and relevant bodies of the Republic of Serbia. Pursuant to the starting points specified in the Memorandum, Serbia would support Gorenje's new investment in Valjevo by grants and subsidies in the total amount of EUR 5 to 7 million; Gorenje would, in turn, create 400 new jobs at the extended Valjevo plant by the end of 2015. The value of the investment in expansion of the Valjevo manufacturing plant is estimated at approximately EUR 20 million.
- By September 2012, the Gorenje Group plans to move its cooker manufacturing facilities from Lahti, Finland, to Mora Moravia, Czech Republic, where its cooking appliances are manufactured. The Finnish production plant, which is scheduled to discontinue its operations by July 2012, was acquired by the Gorenje Group upon its acquisition of the Scandinavian Asko Group. Moving the production from Finland to the Czech Republic is part of the production restructuring process of the Gorenje Group, which aims at implementing the goals set in the 2012-2015 strategic plan. The previous year's volume of production of the plant lied at 53,000 cookers. The plant currently employs 106 staff. The production relocation process is to be completed by September 2012, when the production of cookers will be continued in the Gorenje's plant in Mora Moravia. Based on this measure, Gorenje will optimise its production costs at the Group's level and enhance its competitiveness.
- The Gorenje Group festively opened a new plant for sanitary equipment production and washing machine assembly in Zaječar on 5 March 2012. The plant has successfully operated since autumn 2011. It employs 96 staff. By the end of the current year, 70,000 washing machines and 30,000 wash basins from this plant will be put on the market. The Government of the Republic of Serbia will support Gorenje's investment with a subsidy intended to fund new job places. Gorenje also has a plant in Valjevo manufacturing refrigerators and freezers, a plant in Stara Pazova manufacturing water heaters, a selling company in Belgrade, and a network of own exhibition of sale centres employing more than 1,100 persons.

#### **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 TEUR 940 in 2011. The auditors of all entities of the Gorenje Group did not provide any other services for Group companies.

**Note 46 – Business segments**

In TEUR	Home Appliances		Home Interior		Ecology, energy and services		Group	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue from the sale to third parties	1,055,782	979,767	32,930	34,376	333,517	368,042	1,422,229	1,382,185
Inter-Division sales	5,467	5,846	9,520	11,031	11,632	10,564	26,619	27,441
Interest income	2,704	3,115	2	27	310	390	3,016	3,532
Interest expenses	24,312	19,002	12	113	1,256	2,020	25,580	21,135
Amortisation and depreciation expense	42,594	44,063	1,869	1,717	5,735	6,457	50,198	52,237
Profit before taxes	14,275	23,791	-6,851	-6,357	3,688	5,038	11,112	22,472
Income tax expense							2,006	2,448
Profit for the period	13,182	22,581	-6,934	-6,312	2,858	3,755	9,106	20,024
Total assets	1,099,747	1,107,776	28,776	32,336	123,135	177,642	1,251,658	1,317,754
Total liabilities	783,703	793,293	13,680	12,286	56,456	120,079	853,839	925,658
Investments	40,533	33,840	1,900	2,630	5,035	8,198	47,468	44,668
Impairment loss on investments	1,312	1,428	12	0	49	63	1,373	1,491

**Note 47 – Geographical segments**

<b>In TEUR</b>	<b>West</b>		<b>East</b>		<b>Other</b>		<b>Group</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenue from the sale to third parties	530,932	482,238	796,317	835,531	94,980	64,416	1,422,229	1,382,185
Total assets	400,111	447,472	780,841	775,393	70,706	94,889	1,251,658	1,317,754
Investments	8,372	9,084	36,857	33,530	2,239	2,054	47,468	44,668

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE  
YEAR ENDED ON 31 DECEMBER 2010**





## Independent Auditor's Report To the Shareholders of Gorenje, d.d., Velenje

We have audited the accompanying consolidated financial statements of Gorenje, d.d. and its subsidiaries (Gorenje Group), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, 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 Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### *Opinion*

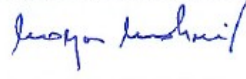
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Gorenje Group as at 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

### *Other matters*

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

  
Danilo Bukovec, B.Sc.Ec.  
*Certified Auditor*

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

  
Marjan Mahnič, B.Sc.Ec.  
*Certified Auditor*  
*Partner*

Ljubljana, 7 April 2011

**KPMG Slovenija, d.o.o.**

## Accounting Report under IFRS as Adopted by the EU

### Consolidated Income Statement of the Gorenje Group

in TEUR	Note	2010	2009
Revenue	14	1,382,185	1,185,937
Changes in inventories		-13,510	-12,119
Other operating income	15	47,554	33,254
Gross profit		1,416,229	1,207,072
Cost of goods, materials and services	16	-1,040,509	-901,146
Employee benefits expense	17	-244,442	-219,323
Amortisation and depreciation expense	18	-52,237	-56,050
Other operating expenses	19	-22,603	-18,404
Results from operating activities		56,438	12,149
Finance income	20	12,485	19,516
Finance expenses	20	-46,451	-40,973
Net finance expense	20	-33,966	-21,457
Profit or loss before income tax		22,472	-9,308
Income tax expense	21	-2,448	-2,924
Profit or loss for the period		20,024	-12,232
Attributable to minority interest		101	-728
Attributable to equity holders of the parent		19,923	-11,504
Basic and diluted earnings per share (in EUR)	33	1.34	-0.83

## Statement of Comprehensive Income of the Gorenje Group

in TEUR	Note	2010	2009
<b>Net profit or loss for the period</b>		<b>20,024</b>	<b>-12,232</b>
<b>Other comprehensive income</b>			
Change in fair value of land	23	-7,777	-4
Net change in fair value of available-for-sale financial assets		50	-878
Net change in fair value of available-for-sale financial assets transferred to profit or loss	20	145	-3,097
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge		317	597
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	20	0	-1,611
Income tax on other comprehensive income	26	91	2,663
Translation reserve		-8,563	-2,903
<b>Other comprehensive income for the period</b>		<b>-15,737</b>	<b>-5,233</b>
<b>Total comprehensive income for the period</b>		<b>4,287</b>	<b>-17,465</b>
Attributable to equity holders of the parent		4,186	-16,737
Attributable to minority interest		101	-728

## Consolidated Statement of Financial Position of the Gorenje Group

in TEUR	Note	2010	2009
<b>ASSETS</b>		<b>1,317,754</b>	<b>1,178,677</b>
Non-current assets		563,435	574,307
Intangible assets	22	160,161	161,560
Property, plant and equipment	23	375,400	382,801
Investment property	24	4,518	7,802
Non-current investment	25	5,313	6,614
Deferred tax assets	26	18,043	15,530
Current assets		754,319	604,370
Assets classified as held for sale		1,066	1,137
Inventories	27	257,593	217,981
Current investments	28	48,002	68,218
Trade receivables	29	306,284	251,740
Other current assets	30	55,438	35,796
Current tax assets		3,208	2,368
Cash and cash equivalents	31	82,728	27,130
<b>EQUITY AND LIABILITIES</b>		<b>1,317,754</b>	<b>1,178,677</b>
Equity	32	392,096	369,644
Share capital		66,378	58,546
Capital surplus (share premium)		175,575	158,487
Legal and statutory reserves		21,990	21,697
Retained earnings		107,382	97,788
Own shares		-3,170	-3,170
Translation reserve		8,842	17,405
Fair value reserve		13,294	12,822
Equity attributable to equity holders of the parent		390,291	363,575
Minority interest		1,805	6,069
Non-current liabilities		356,027	311,313
Provisions	34	88,167	62,158
Deferred income	35	866	1,211
Deferred tax liabilities	26	6,062	5,585
Non-current financial liabilities	36	260,932	242,359
Current liabilities		569,631	497,720
Current financial liabilities	37	223,015	209,883
Trade payables	38	237,020	196,296
Other current liabilities	39	106,698	87,260
Current tax liabilities		2,898	4,281

## Consolidated Statement of Cash Flows of the Gorenje Group

	in TEUR	Note	2010	2009
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	Profit for the period		20,024	-12,232
	Adjustments for:			
	- Depreciation of property, plant and equipment	23	46,227	50,061
	- Amortisation of intangible assets	22	6,010	5,989
	- Investment income	20	-12,485	-19,516
	- Finance expenses	20	46,451	40,973
	- Gain on sale of property, plant and equipment	15	-2,321	-416
	- Negative goodwill	15	-13,337	0
	Income tax expense	21	2,448	2,924
	Operating profit before changes in net operating current assets and provisions		93,017	67,783
	Change in trade and other receivables		-80,635	6,579
	Change in inventories		-39,612	35,023
	Change in provisions		25,664	-933
	Change in trade and other liabilities		60,162	-19,267
	Cash generated from operations		-34,421	21,402
	Interest paid		-23,607	-21,223
	Income taxes paid		-7,272	-2,385
	Net cash from operating activities		27,717	65,577
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	Proceeds from sale of property, plant and equipment		6,775	1,517
	Proceeds from sale of available-for-sale investments		5,621	5,598
	Interest received		3,046	4,153
	Dividends received		305	373
	Disposal of subsidiary, net of cash disposed		0	263
	Acquisition of subsidiary, net of cash acquired		1,144	0
	Acquisition of property, plant and equipment		-39,358	-24,198
	Payments for acquisition of available-for-sale investments		-1,695	3,958
	Loans		-2,564	3,824
	Acquisition of other investments		14,341	-10,412
	Acquisition of intangible assets		-5,310	-4,534
	Net cash used in investing activities		-17,695	-19,458
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	Repurchase of minority interest		-6,902	-7,551
	Capital increase		24,920	0
	Borrowings / Repayment of borrowings		27,558	-35,553
	Dividends and premiums paid		0	0
	Net cash used in financing activities		45,576	-43,104
	Net increase in cash and cash equivalents		55,598	3,015
	Cash and cash equivalents at beginning of period		27,130	24,115
	Cash and cash equivalents at end of period		82,728	27,130

## Statement of Changes in Equity of the Gorenje Group

in TEUR	Share capital	Capital surplus (share premium)	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity attributable to equity holders of the parent	Minority interest	Total
Opening balance at 1 Jan 2010	58,546	158,487	21,697	97,788	-3,170	17,405	12,822	363,575	6,069	369,644
Total comprehensive income for the period										
Net profit or loss for the period				19,923				19,923	101	20,024
Total other comprehensive income				-7,646		-8,563	472	-15,737		-15,737
Total comprehensive income for the period	0	0	0	12,277	0	-8,563	472	4,186	101	4,287
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distributions to owners										
Capital increase	7,832	17,088						24,920		24,920
Payment of dividends								0		0
Creation of statutory reserves			293	-293				0		0
Total contributions by owners and distributions to owners	7,832	17,088	293	-293	0	0	0	24,920	0	24,920
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Disposal of a subsidiary								0		0
Acquisition of non-controlling interests				-2,390				-2,390	-4,365	-6,755
Total changes in ownership interests in subsidiaries				-2,390				-2,390	-4,365	-6,755
Total transactions with owners	7,832	17,088	293	-2,683	0	0	0	22,530	-4,365	18,165
Closing balance at 31 December 2010	66,378	175,575	21,990	107,382	-3,170	8,842	13,294	390,291	1,805	392,096

in TEUR	Share capital	Capital surplus (share premium)	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity attributable to equity holders of the parent	Minority interest	Total
Opening balance at 1 Jan 2009	58,546	158,487	21,697	110,324	-3,170	20,308	15,087	381,279	13,243	394,522
Total comprehensive income for the period										
Net profit or loss for the period				-11,504				-11,504	-728	-12,232
Total other comprehensive income						-2,903	-2,330	-5,233		-5,233
Total comprehensive income for the period	0	0	0	-11,504	0	-2,903	-2,330	-16,737	-728	-17,465
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distributions to owners										
Payment of dividends										
Total contributions by owners and distributions to owners	0	0	0	0	0	0	0	0	0	0
Changes in ownership interests in subsidiaries that do not result in a loss of control.										
Acquisition of non-controlling interests				-1,032			65	-967	-6,446	-7,413
Total changes in ownership interests in subsidiaries	0	0	0	-1,032	0	0	65	-967	-6,446	-7,413
Total transactions with owners	0	0	0	-1,032	0	0	65	-967	-6,446	-7,413
Closing balance at 31 December 2009	58,546	158,487	21,697	97,788	-3,170	17,405	12,822	363,575	6,069	369,644

## Notes to the Consolidated Financial Statements

### 1. Reporting company

Gorenje, d.d. is a 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 2010 comprise the parent company and its subsidiaries (together referred to as the "Group"), and the Group's interests in jointly controlled entities. The Group is engaged mainly 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 in EU, and provisions of the Companies Act.

The financial statements were approved by the Management Board of Gorenje, d.d. on 7 March 2011.

#### (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 financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

#### (d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by 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.

In particular, information about significant areas of estimation 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 notes below:

Note 10, 11, 12 - acquisition of a non-controlling interest, acquisition of a company, and disposal of companies  
Note 33 and accounting policy 3(1)(iv) – measurement of liabilities for retirement benefits and jubilee premiums  
Note 33 – provisions for litigations  
Note 33 and accounting policy 3 (1)(i) – provisions for warranties  
Note 40 and accounting policy 3 (i)(i) – valuation of financial instruments, including receivables

#### (e) Changes in accounting policies

##### (i) Accounting for business combinations



From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

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.

#### **Acquisitions on or after 1 January 2010**

For acquisitions on or after 1 January 2010, 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 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 are generally recognised in profit or loss.

Costs related to the acquisition, 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 recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to 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.

#### *Acquisitions between 1 January 2004 and 1 January 2010*

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

#### *Acquisitions prior to 1 January 2004 (date of transition to IFRSs)*

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework.

#### (ii) Accounting for acquisitions of non-controlling interests

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no significant impact on earnings per share.

Under the new accounting policy, 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 of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e).

#### **(a) Basis of consolidation**

##### **(i) Business combinations**

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(i) for further details.

##### **(ii) 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.

##### **(iii) Acquisitions from entities under common control**

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, except that any share capital of the acquired entities is recognised as a part of share premium. Any cash paid for the acquisition is recognised directly in equity..

##### **(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) Jointly controlled operations**

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

##### **(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 entities 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. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments or a financial liability designated as a hedge.

### **(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 at the dates of the transactions.

Foreign currency differences arising from translation are recognised directly in other comprehensive income. From the date of transfer to IFRS, 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 statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets of the Group comprise: liabilities and receivables, available-for-sale financial assets and cash and cash equivalents.

#### *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 call deposits. Bank overdrafts that are repayable on demand are a part of 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. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, taking into account changes in fair value. Impairment losses (see note 3(i)(i) and foreign exchange differences on available-for-sale equity instruments (see note 3(b)(i)) are recognised in profit or loss and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity and presented in other comprehensive income is reclassified to profit or loss.

### (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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position 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.

The Group records the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. 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.

### (iii) 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 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.

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 non-trading derivatives*

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.

#### (iv) Share capital

##### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

##### *Repurchase, disposal and reissue 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 liabilities in the period in which a resolution was adopted by the Shareholder's Meeting on their distribution.

### **(d) Property, plant and equipment**

#### (i) Recognition and measurement

Items of property (except land), plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

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 5percent, 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. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

#### (ii) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment and measured at cost until construction of development is completed, at which time it is reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

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 is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the fair value reserve in equity.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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.

The estimated useful lives for the current and comparative years are as follows:

• buildings	20 - 50 years
• plant and equipment	5 - 10 years
• computer equipment	2 - 5 years
• transportation vehicles	3 - 10 years
• office equipment	3 - 10 years
• tools	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**(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 2(e)(i).

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment loss.

(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 for impairment once a year. 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:

• patents and trademarks	5 - 10 years
• capitalised development costs	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.

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.

**(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.

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.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

**(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) 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 terms 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 or prolonged decline in its fair value below its cost is objective evidence of impairment.

#### *Loans and receivables and held-to-maturity investment securities*

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities 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. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year prior to the compilation of the financial statements.

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. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. 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 units, and then to reduce the carrying amounts of the other assets in the unit (group of units) 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 or biological assets, 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.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

## (k) Employee benefits

### (i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

## (l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle

the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranties

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.

A provision for warranties is reduced directly by costs for which it has been created. It means that such costs are no longer recorded in the income statement. At the end of the period for which provisions have been created, the unused portion of provisions is transferred to other operating income.

(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 losses are 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 committed to pay to its employees jubilee premiums and retirement benefits. 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 5.40 percent, which is the rate of return on 10-year entrepreneurial bonds in euro area. The calculation has been performed 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 transportation vehicle at the customer. 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) Commissions**

When the Group acts in the capacity of an agent rather than as the parent company 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. 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. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

**(o) Finance income and finance costs**

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 costs 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. Borrowing costs are recognised in profit or loss using the effective interest method, except the borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

**(p) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income 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 the following temporary differences: goodwill when it is not a deductible expense, 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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 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) 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.

#### **(t) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

An operating segment is an identifiable component of the Group engaged in products or services (business segment) or in products and services in a special economic environment (geographical segment). It is subject to risks and yields different from those in other segments. Information by segment is disclosed by business segment and geographical segment of the Group. Segment reporting of the Group is based on business segments. Business segments of the Group are based on the management of the Group and its internal structure of reporting.

The transfer prices between segments satisfy the arm's length principle.

Operating results, assets and liability by segment include items directly attributable to a segment as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (except investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

#### **(u) New standards and interpretations not adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial

statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

#### **Amendment to IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)**

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

Revised IAS 24 is not relevant to the Group's financial statements as the Group is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

#### **Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)**

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Group's financial statements as the Group does not have any defined benefit plans with minimum funding requirements.

#### **IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)**

The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Group did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

#### **Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)**

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments at any time in the past.

#### **4. Determination of fair values**

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 based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of 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.

The items of property, plant and equipment are measured at cost.

A revaluation of land is based on the independent valuer's report 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. 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 equity and debt 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 long-term 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) Derivatives

The fair value of derivatives is based on the present value of estimated future cash flows, taking into account the market value of equivalent derivatives at the reporting date.

The fair value of financial instruments is determined on the basis of data provided by Reuters. The decisive values are those of the opposite forward exchange transactions with equal maturities effective at the reporting date. The fair value of forward exchange transactions at the reporting date is the difference between the value of actually concluded forward exchange transactions and the value of opposite forward exchange transactions at the reporting date, taking into consideration equal maturities of the individual forward exchange transactions.

Decisive are the values of interest transactions with equal maturities effective at the date of the statement of financial position.

The fair value of interest rate swaps at the date of the statement of financial position is the discounted difference between the cash flow for interest under the interest rate swap contracts and the cash flow for interest under equivalent interest rate swap contracts at the date of the statement of financial position.

(vii) 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.

Loans and borrowings are measured, on the basis of recalculation, at effective interest rates that insignificantly differ from the contractual interest rates. Therefore the contractual interest rate is used in calculations.

## 5. Financial risks management

In respect of financial risks management, the internal financial policies comprising the bases for efficient and systematic risk management were observed in 2010. 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:

<b>Financial risks</b>	• 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 2010 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.

The Gorenje Group's management estimates that the credit risk exposure has increased irrespective of stated hedge measures taken.

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 statement of financial position 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, Slovak Republic, Poland, Hungary, Croatia, Turkey and all US dollar markets. Therefore, a 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 currency future 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 East European countries, the exposure to currency risk has increased.

The share of loans with fixed interest rate in the Gorenje Group was 17.6 percent at the year end 2010. In the light of the expected changes in variable interest rates in the markets, bases and starting points were prepared in 2010 for an increase in the share of loans with fixed interest rates, both in the form of loans with fixed interest rates and in the form of derivative financial instruments, in order to increase hedging against interest rate risk. The Group's management estimates that the exposure to interest rate risk has increased.

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.

Borrowings in the amount of TEUR 205,891 mature in 2011. For this reason, debt refinancing is being negotiated with banks in order to decrease refinancing risk. The liquidity reserve as at 31 December 2010 in the amount of TEUR 231,812 TEUR, which consists of unused revolving credit lines, short-term deposits with banks, and cash in banks, is used to assure adequate short-term control of cash flows and to decrease short-term liquidity risk.

Short-term liquidity risk is estimated as 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 sources.

Long-term liquidity risk is estimated as moderate due to efficient business performance, effective cash management, sustainable ability to generate cash flows from operating activities, and an adequate capital structure. The Gorenje Group has compiled a plan of long-term debt servicing based on the strategic plan of the Gorenje Group for the period up to 2013, which accurately defines the volume of debt maturity by individual year as well as the sources for debt refinancing.

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

#### *Equity 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 net profit for the period attributable to majority shareholders divided by average shareholders' equity, excluding minority interests. 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 Group's objective in the 2010-2013 Strategic Plan is to achieve a 11.8 percent rate of return on invested capital.

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 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 equity management in 2010. 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

### *Business segments*

The Group comprises the following key business segments:

#### (i) Home appliances business segment

*Home appliances:* the manufacture and sale of household appliances of own manufacture, the sale of household appliance 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 and manufacture of mechanical components.

#### (ii) Home interior business segment

*Home interior:* the manufacture and sale of kitchen furniture, bathroom furniture, sanitary fixtures and fittings, and ceramic tiles.

#### (iii) Ecology, energy and services business segment

*Ecology, energy and services:* Ecology and energy, tool manufacture, machine construction, 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:

**West:** Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Norway, Turkey, The Netherlands, Spain, Switzerland

**East:** Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Kazakhstan, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovak Republic

**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 statement of financial position as at 31 December 2010, the statement of financial position as at 31 December 2009, the income statement for the year ended 31 December 2010, and the additional information required for the adjustment of inflows and outflows.

## 8. Composition of the Gorenje Group

Pursuant to International Financial Reporting Standards (IFRSs) as adopted by EU, the consolidated financial statements of the Gorenje Group comprise the financial statements of the holding company Gorenje, d.d., the financial statements of 72 subsidiaries, and the financial statements of 25 jointly controlled companies:

Companies operating in Slovenia		Equity interest in %	
		31 Dec 2010	31 Dec 2009
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	99.98	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	100.00	100.00
7.	Gorenje Orodjarna, d.o.o., Velenje	100.00	100.00
8.	ZEOS, d.o.o., Ljubljana	51.00	51.00
9.	ISTRABENZ GORENJE, d.o.o., Nova Gorica	48.686	49.344
10.	GEN-I, d.o.o., Krško	24.343	24.67
11.	Istrabenz investicijski inženiring, d.o.o., Nova Gorica	48.686	49.344
12.	Gorenje Surovina, d.o.o., Maribor	99.75	78.29
13.	Indop, d.o.o., Šoštanj	100.00	100.00
14.	ERICo, d.o.o., Velenje	51.00	51.00
15.	Istrabenz Gorenje inženiring, d.o.o., Ljubljana	48.686	49.344
16.	Gorenje Projekt, d.o.o., Velenje	50.00	100.00
17.	Gorenje design studio, d.o.o., Velenje	52.00	52.00
18.	Istrabenz Gorenje energetska svetovanje, d.o.o., Nova Gorica	48.686	49.344
19.	PUBLICUS, d.o.o., Ljubljana	51.00	51.00
20.	IG AP, d.o.o., Kisovec	48.686	49.344
21.	EKOGOR, d.o.o., Jesenice	26.00	/
22.	Gorenje GAIO, d.o.o., Šoštanj	100.00	/
23.	Vitales RTH, d.o.o., Trbovlje	24.343	/

Companies operating abroad		Equity interest in %	
		31 Dec 2010	31 Dec 2009
24.	Gorenje Beteiligungsgesellschaft m.b.H., Austria	100.00	100.00
25.	Gorenje Austria Handelsgesellschaft m.b.H., Austria	100.00	100.00
26.	Gorenje Vertriebsgesellschaft m.b.H., Germany	100.00	100.00
27.	Gorenje Körting Italia S.r.l., Italy	100.00	100.00
28.	Gorenje France S.A.S., France	100.00	100.00
29.	Gorenje BELUX S.a.r.l., Belgium	100.00	100.00
30.	Gorenje Espana, S.L., Spain	100.00	100.00
31.	Gorenje UK Ltd., Great Britain	100.00	100.00
32.	Gorenje Skandinavien A/S, Denmark	100.00	100.00
33.	Gorenje AB, Sweden	100.00	100.00
34.	Gorenje OY, Finland	100.00	100.00
35.	Gorenje AS, Norway	100.00	100.00
36.	Gorenje spol. s r.o., Czech Republic	100.00	100.00
37.	Gorenje real spol. s r.o., Czech Republic	100.00	100.00
38.	Gorenje Slovakia s.r.o., Slovakia	100.00	100.00
39.	Gorenje Budapest Kft., Hungary	100.00	100.00
40.	Gorenje Polska Sp. z o.o., Poland	100.00	100.00
41.	Gorenje Bulgaria EOOD, Bulgaria	100.00	100.00
42.	Gorenje Zagreb, d.o.o., Croatia	100.00	100.00
43.	Gorenje Skopje, d.o.o., Macedonia	100.00	100.00
44.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	100.00
45.	Gorenje, d.o.o., Serbia	100.00	100.00
46.	Gorenje Podgorica, d.o.o., Montenegro	99.972	99.972
47.	Gorenje Romania S.R.L., Romania	100.00	100.00
48.	Gorenje aparati za domačinstvo, d.o.o., Serbia	100.00	100.00
49.	Mora Moravia s r.o., Czech Republic	100.00	100.00
50.	Gorenje - kuchyně spol. s r.o., Czech Republic	99.98	99.98

51.	Kemis -Termoclean, d.o.o., Croatia	100.00	100.00
52.	Kemis - BH, d.o.o., Bosnia and Herzegovina	100.00	100.00
53.	Gorenje Studio, d.o.o., Serbia	100.00	100.00
54.	Gorenje Gulf FZE, United Arab Emirates	100.00	100.00
55.	Gorenje Tiki, d.o.o., Serbia	100.00	99.982
56.	GEN-I Zagreb, d.o.o., Croatia	24.343	24.67
57.	Intrade energija, d.o.o., Bosnia and Herzegovina	24.83	25.17
58.	Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	48.686	49.344
59.	Gorenje Istanbul Ltd., Turkey	100.00	100.00
60.	Sirovina DOO, Bačka Palanka, Serbia	99.75	78.29
61.	Gorenje TOV, Ukraine	100.00	100.00
62.	Vitales, d.o.o., Bihać, Bosnia and Herzegovina	48.686	24.67
63.	Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	24.343	24.67
64.	GEN-I, d.o.o, Beograd, Serbia	24.343	24.67
65.	ST Bana Nekretnine, d.o.o., Serbia	100.00	100.00
66.	GEN-I Budapest, Kft., Hungary	24.343	24.67
67.	Kemis Valjevo d.o.o., Serbia	100.00	/
68.	Kemis – SRS, d.o.o., Bosnia and Herzegovina	100.00	100.00
69.	ATAG Europe BV, The Netherlands	100.00	100.00
70.	ATAG Nederland BV, The Netherlands	100.00	100.00
71.	ATAG België NV, Belgium	100.00	100.00
72.	ATAG Financiële Diensten BV, The Netherlands	100.00	100.00
73.	ATAG Financial Solutions BV, The Netherlands	100.00	100.00
74.	Intell Properties BV, The Netherlands	100.00	100.00
75.	ATAG Special Product BV, The Netherlands	100.00	100.00
76.	Gorenje Nederland BV, The Netherlands	100.00	100.00
77.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	100.00
78.	Gorenje kuhinje, d.o.o., Ukraine	69.986	69.986
79.	Vitales Energie Biomasse S.r.l., Italy	32.78	25.17
80.	Vitales Čakovec, d.o.o., Croatia	48.686	49.344
81.	» Euro Lumi & Surovina » SH.P.K., Kosovo	39.93	39.93
82.	GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina	24.343	24.67
83.	GEN-I DOOEL Skopje, Macedonia	24.343	24.67
84.	GEN-I Athens SMLLC, Greece	24.343	24.67
85.	GEN-I Tirana Sh.p.k., Albania	24.343	24.67
86.	OOO Gorenje BT, Russia	100.00	100.00
87.	Vitales inženjering d.o.o., Prijedor, Bosnia and Herzegovina	24.343	24.67
88.	S.C. GEN-I Bucharest, Romania	24.343	24.67
89.	Gorenje GTI d.o.o. Beograd, Serbia	100.00	/
90.	Asko Appliances AB, Sweden	100.00	/
91.	Asko Hvitvarer AS, Norway	100.00	/
92.	AM Hvidevarer A/S, Denmark	100.00	/
93.	Asko Appliances Inc, USA	100.00	/
94.	Asko Appliances Pty, Australia	100.00	/
95.	GEN-I Sofia SpLLC, Bulgaria	24.343	/
96.	GEN-I Milano S.r.l., Italy	24.343	/
97.	GEN-I Vienna GmbH, Austria	24.343	/

## 9. Minority interests

Minority interests at 31 December 2010:

	2010			2009		
	Equity interest in %	Minority interest in TEUR	Share in net profit or loss in TEUR	Equity interest in %	Minority interest in TEUR	Share in net profit or loss in TEUR
Gorenje Tiki, d.o.o. - in liquidation, Ljubljana	/	/	/	0.018	3	0
Gorenje Tiki, d.o.o., Serbia	/	/	/	0.018	2	0
Gorenje Podgorica, d.o.o., Montenegro	0.028	1	0	0.028	1	0

Gorenje Notranja oprema, d.o.o., Velenje	0.020	3	-1	0.020	3	-1
Gorenje kuchyne spol. s r.o., Czech Republic	0.020	0	0	0.020	0	0
ZEOS, d.o.o., Ljubljana	49.00	356	14	49.00	343	15
Gorenje Surovina, d.o.o., Maribor	0.25	57	4	21.71	4,562	-629
»Euro Lumi & Surovina« SH.P.K., Kosovo	60.07	335	95	60.07	240	-20
Sirovina, DOO, Bačka Palanka, Serbia	0.25	0	0	21.71	-99	-61
ERICo, d.o.o., Velenje	49.00	604	52	49.00	552	42
Gorenje Kuhinje, d.o.o., Ukraine	30.014	24	-86	30.014	97	-39
PUBLICUS, d.o.o., Ljubljana	49.00	201	21	49.00	180	26
Gorenje design studio, d.o.o., Velenje	48.00	191	6	48.00	185	-61
EKOGOR, d.o.o., Jesenice	74.00	33	-4	/	/	/
<b>Total</b>		<b>1,805</b>	<b>101</b>		<b>6,069</b>	<b>-728</b>

The ownership transfer between the Gorenje Group companies did not have any impact on the consolidated financial statements of the Gorenje Group, because the intra-group transactions were eliminated in the consolidation process.

#### 10. Acquisition of a non-controlling interest

The Group acquired in 2010 an additional 21.46 percent interest in Gorenje Surovina d.o.o. for a consideration of TEUR 6,902. The equity interest thus increased from 78.29 percent to 99.75 percent. Net assets of Gorenje Surovina d.o.o. amounted to TEUR 22,675 as at the date of acquisition. The Group recognised a decrease in the minority interest in the amount of TEUR 4,512 and a decrease in retained earnings in the amount of TEUR 2,390.

in TEUR	2010
Share of equity holders of the parent at the period's beginning	16,452
Effect of increase in share of equity holders of the parent	6,195
Share in comprehensive income	-29
Share of equity holders of the parent at the period's end	22,618

#### 11. Acquisition of a company

At the end of July 2010, Gorenje signed a contract on acquisition of a 100 percent interest in the Swedish Asko Appliances Group. Asko is a Swedish manufacturer and seller of large household appliances in the highest market segments. Asko produces dishwashers, washing and drying machines in Vara, Sweden, as well as cookers, ovens and ironing systems in Lahti, Finland. The acquisition of the Swedish producer of top-quality household appliances is of strategic importance, for the portfolio of the Gorenje Group's brand names was supplemented with a highly positioned brand name Asko, which strengthened the market position of the Gorenje Group in the Scandinavian countries, North America, and Australia.

In the second half-year of 2010, the activities related to the business integration of the acquired Asko Group were started. In the initial phase of these activities, the estimate of costs expected to be incurred in association with the aforementioned procedures was prepared:

in TEUR	2010
Provisions for expected losses	5,300
Provisions for business restructuring	4,500
Provisions for impairment losses on plant and equipment	2,000
<b>Total provisions</b>	<b>11,800</b>

The effect of the acquisition on the Group's assets and liabilities is shown below:

in TEUR	Book value prior to acquisition	Fair value adjustments	Recognised post acquisition value
Property, plant and equipment	22,103	-2,000	20,103
Intangible assets	380		380

Investments	3,406		3,406
Inventories	33,625		33,625
Operating receivables	36,503		36,503
Cash	5,811		5,811
Financial liabilities	-13,193		-13,193
Operating liabilities	-41,769		-41,769
Provisions	-16,398	-9,800	-26,198
Deferred tax liabilities	-664		-664
<b>Net difference (assets – liabilities)</b>	<b>29,804</b>	<b>-11,800</b>	<b>18,004</b>
Appurtenant share (100 %)			18,004
Negative goodwill			13,337
Purchase price			4,667
Cash			5,811
Net outflow			-1,144

## 12. Disposal of company

The company Gorenje Tiki, d.o.o., Ljubljana has been in liquidation proceeding since 4 August 2010. The liquidation proceeding had not been completed by 31 December 2010. Therefore, the following assets and liabilities have been eliminated from the Gorenje Group:

<b>in TEUR</b>	<b>2010</b>
Property, plant and equipment	-15,620
Intangible assets	-713
Investment property	-3
Investments	-1,826
Inventories	-7,652
Operating receivables	-8,994
Cash	-29
Financial liabilities	9,768
Operating liabilities	5,506
Provisions	2,040
<b>Net difference (assets – liabilities)</b>	<b>-17,523</b>

## 13. Joint ventures

The Group holds a proportionate 48.686 percent share in Istrabenz Gorenje energetski sistemi, d.o.o., Nova Gorica and its subsidiaries. The Group and the holding company Istrabenz, d.d. hold an equivalent share in the company.

The proportionate shares of assets, liabilities, revenue and expenses are included in the consolidated financial statements.

Direct and indirect shares of assets, liabilities, revenue and expenses included in the 2010 consolidated financial statements:

in TEUR								
Company	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax	Net profit or loss
Istrabenz Gorenje, d.o.o., Nova Gorica	9,892	6,903	-10,369	-6,426	11,687	-10,520	0	1,167
GEN-I, d.o.o., Krško	952	28,142	-6,043	-23,051	143,136	-140,155	-330	2,651
Intrade energija, d.o.o., Sarajevo, Bosnia and Herzegovina	2,342	65	-2,098	-309	314	-350	0	-36
Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	4,779	377	-1,757	-3,399	1,474	-2,394	0	-920
Istrabenz investicijski inženiring, d.o.o., Nova Gorica	6,051	934	-5,423	-1,562	236	-234	0	2
Istrabenz Gorenje inženiring, d.o.o., Ljubljana	199	222	-100	-321	575	-546	-5	24
GEN – I, d.o.o., Zagreb, Croatia	2	2,102	-134	-1,970	10,429	-10,358	-14	57
GEN – I, d.o.o., Beograd, Serbia	5	4,671	-269	-4,407	24,879	-24,769	-11	99
Vitales, d.o.o., Bihać, Bosnia and Herzegovina	2,524	207	-1,510	-1,221	696	-1,297	0	-601
GEN – I Budapest, Kft., Budapest	0	5,449	-560	-4,889	26,988	-27,006	-1	-19
GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina	0	2,272	-210	-2,062	7,733	-7,666	0	67
GEN-I DOOEL Skopje, Macedonia	0	1,541	-326	-1,215	8,268	-7,950	-1	317
GEN-I Athens SMLLC, Greece	5	3,921	-49	-3,877	21,147	-21,158	0	-11
GEN-I Tirana Sh.p.k, Albania	1	1,280	-103	-1,178	6,531	-6,418	-11	102
S.C. GEN-I Bucharest, Romania	138	1,572	-183	-1,527	6,513	-6,426	-21	66
Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	1	14	55	-70	31	-90	0	-59
Vitales Čakovec d.o.o., Croatia	0	1	-1	0	0	-1	0	-1
Vitales inženjering d.o.o. Prijedor, Bosnia and Herzegovina	0	12	-12	0	0	0	0	0
Vitales Energie Biomasse S.r.l., Italy	1	0	13	-14	0	-7	0	-7
IG AP, d.o.o., Kisovec	253	240	-106	-387	541	-602	11	-50
IGENS d.o.o., Nova Gorica	0	13	0	-13	13	-19	0	-6
GEN-I Sofia SpLLC, Bulgaria	2	200	-17	-185	97	-105	1	-7
GEN-I Milano S.r.l., Italy	0	27	-20	-7	0	-4	0	-4
GEN-I Vienna GmbH, Austria	1	9	-7	-3	0	-5	0	-5
Vitales RTH, d.o.o., Trbovlje	0	11	-11	-0	0	-1	0	-1

Direct and indirect shares of assets, liabilities, revenue and expenses included in the 2009 consolidated financial statements:

in TEUR								
Company	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax	Net profit or loss
Istrabenz Gorenje, d.o.o., Nova Gorica	10,952	5,356	-8,809	-7,499	9,529	-8,510	1	1,020
GEN-I, d.o.o., Krško	667	14,133	-5,750	-9,050	106,897	-104,014	-446	2,437
Intrade energija, d.o.o., Sarajevo, Bosnia and Herzegovina	2,445	50	-2,299	-196	270	-393	0	-123
Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	5,137	410	-2,792	-2,755	1,650	-2,603	0	-953
Istrabenz investicijski inženiring, d.o.o., Nova Gorica	6,496	630	-6,070	-1,056	338	-334	-1	3
Istrabenz Gorenje inženiring, d.o.o., Ljubljana	197	227	-77	-347	645	-784	21	-118
GEN – I, d.o.o., Zagreb, Croatia	0	1,662	-140	-1,522	6,301	-6,226	-15	60
GEN – I, d.o.o., Beograd, Serbia	7	4,891	-1,533	-3,365	21,881	-20,396	-134	1,351
Vitales, d.o.o., Bihać, Bosnia and Herzegovina	1,388	139	-1,031	-496	320	-561	0	-241
GEN – I Budapest, Kft., Hungary	0	4,894	-587	-4,307	31,881	-31,514	-103	264
GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina	0	1,652	-143	-1,509	4,418	-4,399	-2	17
GEN-I DOOEL Skopje, Macedonia	0	641	-300	-341	1,861	-1,550	0	311
GEN-I Athens SMLLC, Greece	0	463	-61	-402	1,305	-1,273	-8	24
GEN-I Tirana Sh.p.k, Albania	1	8	-1	-8	0	-10	0	-10
S.C. GEN-I Bucharest, Romania	0	193	-121	-72	192	-193	0	-1
Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	0	30	-1	-29	0	-2	0	-2
Vitales Čakovec d.o.o., Croatia	0	1	-1	0	0	0	0	0
Vitales inženjering d.o.o. Prijedor, Bosnia and Herzegovina	0	13	-13	0	0	0	0	0
Vitales Energie Biomasse S.r.l, Italy	1	1	5	-7	0	-8	0	-8
IGP, d.o.o., Trbovlje	3	52	-14	-41	208	-202	-1	5
IGENS, d.o.o., Nova Gorica	0	7	-7	0	0	-1	0	-1
IG AP, d.o.o., Kisovec	259	448	-160	-547	371	-646	53	-222

<b>Note 14 – Revenue</b>		<b>1,382,185 TEUR</b>
in TEUR	2010	2009
Revenue from the sale of products and merchandise	1,301,536	1,105,809
Revenue from the sale of services	80,649	80,128
<b>Total</b>	<b>1,382,185</b>	<b>1,185,937</b>

<b>Note 15 – Other operating income</b>		<b>47,554 TEUR</b>
in TEUR	2010	2009
Income from subsidies, grants and compensations	4,883	7,672
Rental income	1,206	1,153
Income from reversal of provisions	5,557	1,905
Income from use of deferred income for government grants	3,755	10,725
Gains on disposal of property, plant and equipment	2,321	416
Income from revaluation of investment property	0	0
Negative goodwill	13,337	0
Other operating income	16,495	11,383
<b>Total</b>	<b>47,554</b>	<b>33,254</b>

Income from the use of deferred income for government grants in the amount of TEUR 3,755 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.

Negative goodwill in the amount of TEUR 13,337, which was recognised directly in the 2010 income statement, was generated by the acquisition of a 100 percent interest in the Swedish Askø Appliances Group.

Other operating income includes mainly income from write-off of debts, income from compensation for damages, income arising from the implementation of the Directive on Waste Electrical and Electronic Equipment and other operating income.

#### Rental income

in TEUR	2010	2009
Rental income – up to 1 year	1,206	1,153
Anticipated rental income – from 2 to 5 years	1,135	1,812
<b>Total</b>	<b>2,341</b>	<b>2,965</b>

<b>Note 16 – Cost of goods, materials and services</b>		<b>1,040,509 TEUR</b>
in TEUR	2010	2009
Cost of merchandise sold	366,075	321,037
Cost of materials	477,178	389,231
Cost of services	197,256	190,878
<b>Total</b>	<b>1,040,509</b>	<b>901,146</b>

Cost of services includes cost of provisions for warranties in the amount of TEUR 23,834 (in 2009: TEUR 23,835).

<b>Note 17 – Employee benefits expense</b>		<b>244,442</b>
<b>TEUR</b>		
in TEUR	2010	2009
Wages and salaries	181,343	157,308
Social security contributions	35,374	33,160
Other employee benefits expense	27,725	28,855
<b>Total</b>	<b>244,442</b>	<b>219,323</b>

Other employee benefits expense includes cost of provisions for retirement benefits and jubilee premiums in the amount of TEUR 2,939 (in 2009: TEUR 1,765).

A portion of employee benefits expense (TEUR 3,410) 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 division	As at 31 December		Average	
	2010	2009	2010	2009
Home appliances division	8,699	8,541	9,042	8,741
Home interior division	825	963	926	991
Ecology, energy and services division	1,197	1,171	1,206	1,175
<b>Total</b>	<b>10,721</b>	<b>10,675</b>	<b>11,174</b>	<b>10,907</b>

**Note 18 – Amortisation and depreciation expense** **52,237 TEUR**

in TEUR	2010	2009
Amortisation of intangible assets	6,010	5,989
Depreciation of property, plant and equipment	46,227	50,061
<b>Total</b>	<b>52,237</b>	<b>56,050</b>

A lower depreciation and amortisation expense in 2010 is due to full write-off of obsolete plant and equipment, sale of plant and equipment, and a lower volume of investments in intangible assets and property, plant and equipment.

**Note 19 – Other operating expenses** **22,603 TEUR**

in TEUR	2010	2009
Write-off of inventories to realisable value	2,202	4,748
Disposal and impairment of assets	3,483	282
Other taxes and charges	3,557	3,272
Other expenses	13,361	10,102
<b>Total</b>	<b>22,603</b>	<b>18,404</b>

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 expenditure on ecology, of which the majority under the Directive on Waste Electrical and Electronic Equipment, scholarships expense, and compensation in damages.

**Note 20 – Net finance expenses** **33,966 TEUR**

**Finance income** **12,485 TEUR**

in TEUR	2010	2009
Dividend income from available-for-sale investments	305	373
Interest income	3,333	3,964
Income from interest rate swap transactions	0	1,252
Change in fair value of interest rate swap	199	0
Income from net exchange differences	921	2,372
Gain on disposal of subsidiaries	0	132
Gain on disposal of available-for-sale investments	0	3,168
Income from forward exchange transactions	175	4,274
Change in fair value of forward exchange transactions	0	0
Other finance income	7,552	3,981
<b>Total</b>	<b>12,485</b>	<b>19,516</b>

**Finance expenses** **46,451 TEUR**

in TEUR	2010	2009
Interest expenses	19,438	20,137
Expense for interest rate swap transactions	1,696	1,096

Change in fair value of interest rate swap transactions	0	526
Expense for net foreign exchange differences	0	0
Expense for forward exchange transactions	2,625	740
Change in fair value of forward exchange transactions	4,197	3,507
Loss on disposal of available-for-trade investments	792	0
Impairment loss on available-for-sale investments	699	2,308
Impairment loss on trade receivables	8,317	8,780
Impairment loss on loans	5,332	2,000
Other finance expenses	3,355	1,879
<b>Total</b>	<b>46,451</b>	<b>40,973</b>

Due to the compulsory composition proceedings applied by Merkur, d.d., the largest Slovenian buyer of household appliances, the Gorenje Group impaired trade receivables and loans in the amount of TEUR 6,800.

Impairment loss on available-for-sale investments in the amount of TEUR 699 (in 2009: TEUR 2,308) relates to available-for-sale investments revalued to market value.

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

in TEUR	2010	2009
Net change in effective portion of gains and losses on hedging instruments in a cash flow hedge	300	2,659
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	0	-1,611
Net change in fair value of available-for-sale financial assets	33	-712
Net change in fair value of available-for-sale financial assets transferred to profit or loss	112	-2,746
Foreign currency translation differences for foreign operations	-8,563	-2,903
<b>Finance expenses recognised in other comprehensive income</b>	<b>-8,118</b>	<b>-5,313</b>
Finance expenses recognised in other comprehensive income attributable to equity holders of the Company	<b>-8,118</b>	<b>-5,313</b>
Finance expenses recognised in other comprehensive income attributable to minority interest	<b>0</b>	<b>0</b>

### Note 21 – Income tax expense 2,448 TEUR

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

in TEUR	2010	2009
Current tax expense	5,049	5,759
Deferred tax expense	-2,601	-2,835
<b>Total</b>	<b>2,448</b>	<b>2,924</b>

### Effective income tax rates:

in TEUR	2010	2010	2009	2009
Profit or loss excluding income tax		<b>22,472</b>		<b>-9,308</b>
Income tax using the domestic tax rate	20.0 %	4,494	21.0 %	-1,955
Effect of tax rates in foreign jurisdictions	6.8 %	1,534	-2.6 %	242
Non-deductible expenses	-16.5 %	-3,703	-36.6 %	3,405
Tax exempt income	8.3 %	1,862	-9.4 %	873
Tax incentives	-6.6 %	-1,486	12.4 %	-1,152
Tax losses	0.1 %	28	-16.7 %	1,553
Other differences	-1.3 %	-281	0.5 %	-42
<b>Income tax expense</b>	<b>10.9 %</b>	<b>2,448</b>	<b>-31.4 %</b>	<b>2,924</b>

Deferred tax amounts recognised in other comprehensive income:

in TEUR	2010		
	Pre-tax amount	Tax	After-tax amount
Change in fair value of available-for-sale financial assets	50	-17	33
Change in fair value of available-for-sale financial assets transferred to profit or loss	145	-33	112
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	317	-17	300
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	0	0	0
Change in fair value of land	-7,777	158	-7,619
Foreign currency translation differences for foreign operations	-8,563	0	-8,563
<b>Other comprehensive income</b>	<b>-15,828</b>	<b>91</b>	<b>-15,737</b>

in TEUR	2009		
	Pre-tax amount	Tax	After-tax amount
Change in fair value of available-for-sale financial assets	-878	166	-712
Change in fair value of available-for-sale financial assets transferred to profit or loss	-3,097	351	-2,746
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	597	2,062	2,659
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	-1,611	0	-1,611
Change in fair value of land	-4	84	80
Foreign currency translation differences for foreign operations	-2,903		-2,903
<b>Other comprehensive income</b>	<b>-7,896</b>	<b>2,663</b>	<b>-5,233</b>

<b>Note 22 – Intangible assets</b>	<b>160,161 TEUR</b>	
in TEUR	2010	2009
Development costs	12,096	12,492
Industrial property rights	15,373	16,890
Trademark	61,964	61,964
Goodwill	69,358	69,358
Intangible assets under construction	1,370	856
<b>Total</b>	<b>160,161</b>	<b>161,560</b>

Intangible assets include mainly trademarks (Atag, Etna and Pelgrim), deferred development costs, and software.

Goodwill in the amount of TEUR 62,130 and fair value of trademarks Atag, Etna and Pelgrim in the amount of TEUR 61,964 were established in 2008 at the acquisition of the company ATAG Europe BV; in addition, goodwill was established in 2008 in the amount of TEUR 1,617 at the acquisition of the majority interest in PUBLICUS, d.o.o. and in the amount of TEUR 705 at the acquisition of a proportionate share in IG AP, d.o.o. Goodwill in the amount of TEUR 2,030 was established in 2007 at the acquisition of the majority interest in Gorenje Surovina, d.o.o. Goodwill in the amount of TEUR 2,875 was established in 2005 at the acquisition of Mora Moravia, s r. o. in the Czech Republic and Gorenje Invest, d.o.o. in Serbia.

#### *Impairment testing of goodwill and trademarks*

Impairment testing of goodwill and trademarks Atag, Etna and Pelgrim arising from the acquisition of ATAG Europe BV was carried out. The calculations are based on cash flow projections for ATAG, which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012

to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 12.31 percent.

The recoverable value of the cash-generating unit was determined to be higher than 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 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 9.5 percent.

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 IG AP, d.o.o. was carried out. The calculations are based on cash flow projections for IG AP, d.o.o., which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 9.5 percent.

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 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 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 2 percent and the discount rate of 9.5 percent.

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 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 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 2 percent and the discount rate of 9.5 percent.

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 Surovina, d.d., which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 9.5 percent.

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.

#### Movement of intangible assets in 2010

in TEUR	Development costs	Industrial property rights	Trade-marks	Goodwill	Intangible assets under construction	Total
<b>Cost 1 January 2010</b>	<b>27,379</b>	<b>34,113</b>	<b>61,964</b>	<b>69,358</b>	<b>856</b>	<b>193,670</b>
Acquisition	1,910	1,194			2,206	<b>5,310</b>
Disposal of Group companies		-1,333				<b>-1,333</b>
Acquisition through business combinations		380				<b>380</b>
Disposals, write-offs	-1,775	-3,488				<b>-5,263</b>

Other transfers	851	676			-1,685	-158
Exchange differences	66	106			-7	165
Ownership change in joint ventures	-1	-2				-3
<b>Cost 31 December 2010</b>	<b>28,430</b>	<b>31,646</b>	<b>61,964</b>	<b>69,358</b>	<b>1,370</b>	<b>192,768</b>
<b>Accumulated amortisation 1 January 2010</b>	<b>14,887</b>	<b>17,223</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>32,110</b>
Disposal of Group companies		-618				-618
Disposals, write-offs	-2,096	-3,074				-5,170
Amortisation expense	3,320	2,690				6,010
Other transfers	94	-190				-96
Exchange differences	130	243				373
Ownership change in joint ventures	-1	-1				-2
<b>Accumulated amortisation 31 December 2010</b>	<b>16,334</b>	<b>16,273</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>32,607</b>
<b>Carrying amount 1 January 2010</b>	<b>12,492</b>	<b>16,890</b>	<b>61,964</b>	<b>69,358</b>	<b>856</b>	<b>161,560</b>
<b>Carrying amount 31 December 2010</b>	<b>12,096</b>	<b>15,373</b>	<b>61,964</b>	<b>69,358</b>	<b>1,370</b>	<b>160,161</b>

#### Movement of intangible assets in 2009

in TEUR	Development costs	Industrial property rights	Trade-marks	Goodwill	Intangible assets under construction	Total
<b>Cost 1 January 2009</b>	<b>25,035</b>	<b>32,750</b>	<b>61,964</b>	<b>69,358</b>	<b>270</b>	<b>189,377</b>
Acquisition	1,945	642			1,947	4,534
Disposal of Group companies		-12				-12
Disposals, write-offs	-1	-275				-276
Other transfers	382	976			-1,361	-3
Exchange differences	18	32				50
<b>Cost 31 December 2009</b>	<b>27,379</b>	<b>34,113</b>	<b>61,964</b>	<b>69,358</b>	<b>856</b>	<b>193,670</b>
<b>Accumulated amortisation 1 January 2009</b>	<b>10,981</b>	<b>15,410</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26,391</b>
Disposal of Group companies		-11				-11
Disposals, write-offs	-1	-241				-242
Amortisation expense	3,929	2,060				5,989
Other transfers	-11	-32				-43
Exchange differences	-11	37				26

Accumulated amortisation 31 December 2009	14,887	17,223	0	0	0	32,110
Carrying amount 1 January 2009	14,054	17,340	61,964	69,358	270	162,986
Carrying amount 31 December 2009	12,492	16,890	61,964	69,358	856	161,560

#### Note 23 – Property, plant and equipment

375,400 TEUR

in TEUR	2010	2009
Land	50,391	60,033
Buildings	166,489	170,617
Manufacturing and other equipment	141,197	145,662
Property, plant and equipment under construction	17,323	6,489
<b>Total</b>	<b>375,400</b>	<b>382,801</b>

#### Movement of property, plant and equipment in 2010

in TEUR	Land	Buildings	Manufacturing plant and equipment	PPE under construction	Total
<b>Cost 1 January 2010</b>	<b>60,033</b>	<b>322,957</b>	<b>571,831</b>	<b>6,489</b>	<b>961,310</b>
Acquisition	240	2,787	10,573	25,758	39,358
Acquisition through business combinations	346	5,007	12,145	2,605	20,103
Disposal of Group companies	-10,100	-6,051	-14,441	-87	-30,679
Ownership change in joint ventures	95	370	698	72	1,235
Disposals, write-offs	-1,227	-3,907	-19,910	-506	-25,550
Revaluation					
Transfer from investment property	1,200	123			1,323
Other transfers	150	1,979	14,576	-16,904	-199
Exchange differences	-346	-1,301	-1,095	-104	-2,846
<b>Cost 31 December 2010</b>	<b>50,391</b>	<b>321,964</b>	<b>574,377</b>	<b>17,323</b>	<b>964,055</b>
<b>Accumulated depreciation 1 January 2010</b>	<b>0</b>	<b>152,340</b>	<b>426,169</b>	<b>0</b>	<b>578,509</b>
Disposal of Group companies		-3,718	-11,341		-15,059
Disposal, write-offs		-1,975	-18,146		-20,121
Ownership change in joint ventures		21	68		89
Depreciation expense		9,328	36,899		46,227
Transfer from investment property		16			16
Other transfers		-324			-324
Exchange differences		-213	-469		-682
<b>Accumulated depreciation 31 December 2010</b>	<b>0</b>	<b>155,475</b>	<b>433,180</b>	<b>0</b>	<b>588,655</b>
<b>Carrying amount 1 January 2010</b>	<b>60,033</b>	<b>170,617</b>	<b>145,662</b>	<b>6,489</b>	<b>382,801</b>
<b>Carrying amount 31 December 2010</b>	<b>50,391</b>	<b>166,489</b>	<b>141,197</b>	<b>17,323</b>	<b>375,400</b>

Investments in the amount of TEUR 39,358 relate mainly to the continuation of the policy of focused investment in the development of Home Appliances, the restructuring of production activities (transfer of production of hot-water and heating systems from Ljubljana to Stara Pazova, Serbia), and partly the integration activities related to the Asko Group acquired in July 2010.

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

The Group's land was last valued as at 31 December 2008 by an independent certified valuer. No conditions for revaluation of land and impairment of other items of property, plant and equipment were identified in 2010.

As at 31 December 2010, no financial liabilities were secured by mortgage on real property.

No borrowing costs were attributed to the items of property, plant and equipment in 2010.

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

#### Movement in property, plant and equipment in 2009

in TEUR	Land	Buildings	Manufacturing plant and equipment	PPE under construction	Total
<b>Cost</b>					
<b>1 January 2009</b>	57,270	308,774	559,611	28,155	953,810
Acquisition	2,316	1,235	6,759	13,872	24,182
Acquisition through business combinations	163		276		439
Disposal of Group companies		-18	-65		-83
Disposals, write-offs	-43	-3,425	-10,388	-108	-13,964
Revaluation	-4				-4
Transfer to investment property		-876			-876
Other transfers	493	18,109	16,382	-34,983	1
Exchange differences	-162	-842	-744	-447	-2,195
<b>Cost</b>	<b>60,033</b>	<b>322,957</b>	<b>571,831</b>	<b>6,489</b>	<b>961,310</b>
<b>Accumulated depreciation</b>					
<b>1 January 2009</b>	0	145,792	395,065	0	540,857
Disposal of Group companies		-9	-44		-53
Disposals, write-offs		-2,879	-9,351		-12,230
Depreciation expense		9,449	40,612		50,061
Transfer to investment property		-36			-36
Other transfers		-8	51		43
Exchange differences		31	-164		-133
<b>Accumulated depreciation</b>	<b>0</b>	<b>152,340</b>	<b>426,169</b>	<b>0</b>	<b>578,509</b>
<b>Carrying amount</b>					
<b>1 January 2009</b>	57,270	162,982	164,546	28,155	412,953
<b>Carrying amount</b>	<b>60,033</b>	<b>170,617</b>	<b>145,662</b>	<b>6,489</b>	<b>382,801</b>

#### Note 24 – Investment property

4,518 TEUR

in TEUR	2010	2009
Land	1,598	4,332
Buildings	2,920	3,470
<b>Total</b>	<b>4,518</b>	<b>7,802</b>

Investment property includes land and buildings acquired for resale or increase in investments. Investment property is measured using fair value model. On the basis of valuation carried out in 2010, the conditions for impairment in the amount of TEUR 1,493 were established.

## Movement of investment property

in TEUR	2010	2009
Opening balance at 1 January	7,802	7,090
Increase	0	16
Revaluation	-1,493	0
Decrease	-481	-144
Disposal of Group companies	-3	0
Transfer from property, plant and equipment	0	840
Transfer to property, plant and equipment	-1,307	0
<b>Closing balance at 31 December</b>	<b>4,518</b>	<b>7,802</b>

## Note 25 – Non-current investments 5,313 TEUR

in TEUR	2010	2009
Loans (1 to 5 years)	4,269	5,290
Deposits	129	401
Other investments	915	923
<b>Total</b>	<b>5,313</b>	<b>6,614</b>

## Movement of loans

in TEUR	2010	2009
Opening balance at 1 January	5,290	6,093
Increase	88	217
Decrease	-673	-1,009
Transfer to current investments	-436	-11
<b>Closing balance at 31 December</b>	<b>4,269</b>	<b>5,290</b>

Loans include loans extended by the holding company and its subsidiaries to non-group companies. The interest rate, which depends on the currency in which the loan is denominated, ranges from 3.727 percent to 7.0 percent.

## Note 26 – Deferred tax assets and tax liabilities

Deferred taxes are recognised using the statement of financial position liability method based on temporary differences. The applied tax rate is the current tax rate applicable in the country in which the respective Group company is domiciled.

in TEUR	Deferred tax assets		Deferred tax liabilities		Tax assets – tax liabilities	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	934	353	4,708	5,282	-3,774	-4,929
Investments	1,812	1,687	-19	72	1,831	1,615
Receivables	1,523	1,027	85	48	1,438	979
Inventories	258	147	-106	246	364	-99
Liabilities from litigations		7				7
Provisions in lines with local standards and tax laws	1,632	1,022	1,308	-40	324	1,062
Provisions for retirement benefits and jubilee premiums	3,110	3,480		-33	3,110	3,513
Provisions for warranties	2,466	2,506	-43	10	2,509	2,496
Unused tax losses	5,117	2,616	196		4,921	2,616
Unused tax incentives	1,191	623			1,191	623
Interest rate swaps – cash flow hedge		2,062	-12		12	2,062
Changes in the Group			-55		55	
<b>Total</b>	<b>18,043</b>	<b>15,530</b>	<b>6,062</b>	<b>5,585</b>	<b>11,981</b>	<b>9,945</b>

in TEUR	Tax assets – Tax liabilities		Through profit or loss		Through other comprehensive income	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	-3,774	-4,929	159	-206	158	84



Investments	1,831	1,615	124	475	-50	517
Receivables	1,438	979	239	-121		
Inventories	364	-99	-23	-98		
Liabilities from litigations		7		-6		
Provisions in lines with local standards and tax laws	324	1,062	1,054	-441		
Provisions for retirement benefits and jubilee premiums	3,110	3,513	-209	-325		
Provisions for warranties	2,509	2,496	-81	270		
Unused tax losses	4,921	2,616	95	2,664	2,033	
Unused tax incentives	1,191	623		623		
Interest rate swaps – cash flow hedge	12	2,062				2,062
Changes in the Group	55		1,243		-2,050	
<b>Total</b>	<b>11,981</b>	<b>9,945</b>	<b>2,601</b>	<b>2,835</b>	<b>91</b>	<b>2,663</b>

Both deferred tax assets and deferred tax liabilities were recognised by the Group companies in 2010. Creation of deferred tax liabilities (through profit or loss) is based on the amounts of a decrease in the tax base of the Group companies in 2010 with regard to the determined profit or loss before taxes. Creation of deferred tax assets, however, is based on an increase in the tax base of the Group companies in 2010 with regard to the determined profit or loss before tax and the determined tax losses.

#### Note 27 – Inventories

257,593 TEUR

in TEUR	2010				2009			
	Home appliances	Home interior	Ecology, energy and services	Total	Home appliances	Home interior	Ecology, energy and services	Total
Materials	69,759	3,013	6,608	79,380	51,683	3,486	8,929	64,098
Work in progress	12,161	1,188	5,611	18,960	11,145	904	18,435	30,484
Products	109,314	3,436	20	112,770	88,102	3,655	1,954	93,711
Merchandise	42,216	267	2,362	44,845	26,709	374	1,307	28,390
Advances	1,510	20	108	1,638	1,151	139	8	1,298
<b>Total</b>	<b>234,960</b>	<b>7,924</b>	<b>14,709</b>	<b>257,593</b>	<b>178,790</b>	<b>8,558</b>	<b>30,633</b>	<b>217,981</b>

In 2010, allowances for inventories and inventory write-offs amounted to TEUR 2,202 (in 2009: TEUR 4,748). Allowances for inventories and inventory write-offs were recorded under other operating expenses.

Advances for inventories 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 TEUR 35,078.

#### Note 28 – Current investments

48,002 TEUR

in TEUR	2010	2009
Available-for-sale investments	11,940	15,248
Short-term deposits	1,055	16,121
Loans	31,525	31,697
Transfer from non-current loans	436	11
Interest receivable	760	473
Other current financial receivables	2,286	4,668
<b>Total</b>	<b>48,002</b>	<b>68,218</b>

Loans include cash surplus deposited in short-term time deposits with banks and entities. The interest rate for bank deposits and loans ranges from 0.25 percent to 12.5 percent.

#### Movement of available-for-sale shares and interests

in TEUR	2010	2009
Opening balance at 1 January	15,248	22,224
Increase	1,695	272

Disposal of Group companies	413	0
Decrease	-4,311	-3,615
Change in fair value	-1,105	-3,186
Transfers	0	-447
<b>Closing balance at 31 December</b>	<b>11,940</b>	<b>15,248</b>

**Note 29 – Trade receivables** **306,284 TEUR**

In 2010, write-off and impairment of trade receivables amounted to TEUR 8,317 (in 2009: TEUR 8,780).

As at 31 December 2010, allowances for trade receivables amounted to TEUR 23,142 (in 2009: TEUR 20,406). The changes in allowances for operating receivables are discussed in note 41 (Financial instruments).

**Note 30 – Other current assets** **55,438 TEUR**

in TEUR	2010	2009
Other short-term receivables	35,367	20,736
Short-term advances and collaterals given	6,788	4,516
Short-term deferred costs	11,270	9,455
Other current assets	2,013	1,089
<b>Total</b>	<b>55,438</b>	<b>35,796</b>

Other short-term receivables include, as a major item, input VAT receivable recorded by the Gorenje Group in the amount of TEUR 19,425 as at the year-end 2010 (in 2009: TEUR 10,398).

A significant portion of other current assets includes accrued receivables recorded by Gorenje, d.d. Short-term deferred costs include costs of services billed but not yet provided.

**Note 31 – Cash and cash equivalents** **82,728 TEUR**

in TEUR	2010	2009
Cash in hand	403	405
Cash balances in banks and other financial institutions	82,325	26,725
<b>Total</b>	<b>82,728</b>	<b>27,130</b>

**Note 32 – Equity** **392,096 TEUR**

In accordance with the resolution of the 14<sup>th</sup> Shareholders' Meeting of Gorenje, d.d. of 28 May 2010 and the District Court Order of 5 July 2010 on a change in share capital, the share capital was increased by 1,876,876 ordinary, freely transferable, registered, no par value shares. At 31 December 2010, the share capital of Gorenje, d.d. amounted to EUR 66,378,217.32 (at 31 December 2009: EUR 58,546,152.56) and was divided into 15,906,876 ordinary, freely transferable, registered, no par value shares.

Capital surplus (share premium) in the amount of TEUR 175,575 includes paid-in capital in excess of par value of shares in the amount of TEUR 64,352, surplus in excess of book value of disposed own shares in the amount of TEUR 15,312 (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 TEUR 78,048 transferred upon the transition to IFRS.

Legal and statutory reserves in the amount of TEUR 21,990 include legal reserves in the amount of TEUR 12,895 (31 December 2009: TEUR 12,895), reserves for own shares in the amount of TEUR 3,170 (31 December 2009: TEUR 3,170), and statutory reserves in the amount of TEUR 5,925 (31 December 2009: TEUR 5,632).

Retained earnings in the amount of TEUR 107,382 (31 December 2009: TEUR 97,788) were decreased by the value of a derivative financial instrument held for trading in the amount of TEUR 7,646, which was designated in 2009 as a hedging derivative financial instrument in a cash flow hedge and recorded in the statement of comprehensive income. In 2010, however, it did not meet the criterion for classification as a hedging derivative financial instrument of that kind. A decrease in the amount of TEUR 2,390 relates to the purchase of a minority interest in Gorenje Surovina, d.o.o.

Translation reserve was decreased by TEUR 8,563 compared to 2009 and amounted to TEUR 8,842 as at 31 December 2010. The decrease is due to exchange differences arising from the translation of individual items in the financial statements of companies operating abroad from the national currencies to the reporting currency.

Own shares in the amount of TEUR 3,170 are stated as a deductible item of equity and recorded at cost. The changes in fair value reserve are shown in the table below:

in TEUR	Fair value reserve for land	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Total
<b>Balance at 1 Jan 2010</b>	<b>17,461</b>	<b>3,117</b>	<b>-7,756</b>	<b>12,822</b>
Revaluation of land	0	0	0	0
Disposal of land	0	0	0	0
Change in fair value of cash flow hedge	0	0	9,758	9,758
Change in fair value of available-for-sale financial assets	0	288	0	288
Disposal of available-for-sale financial assets	0	145	0	145
Impairment of available-for-sale financial assets	0	0	0	0
Disposal of a subsidiary	-7,777	0	0	-7,777
Acquisition of non-controlling interests		0	0	0
Deferred taxes	158	-50	-2,050	-1,942
<b>Balance at 31 Dec 2010</b>	<b>9,842</b>	<b>3,500</b>	<b>-48</b>	<b>13,294</b>

in TEUR	Fair value reserve for land	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Total
<b>Balance at 1 Jan 2009</b>	<b>17,316</b>	<b>6,575</b>	<b>-8,804</b>	<b>15,087</b>
Revaluation of land	-4	0	0	-4
Disposal of land	0	0	0	0
Change in fair value of cash flow hedge	0	0	-1,014	-1,014
Change in fair value of available-for-sale financial assets	0	-878	0	-878
Disposal of available-for-sale financial assets	0	-3,097	0	-3,097
Impairment of available-for-sale financial assets	0	0	0	0
Disposal of a subsidiary	0	0	0	0
Acquisition of non-controlling interests	65	0	0	65
Deferred taxes	84	517	2,062	2,663
<b>Balance at 31 Dec 2009</b>	<b>17,461</b>	<b>3,117</b>	<b>-7,756</b>	<b>12,822</b>

### Note 33 – Earnings per share

Earnings per share amounted to EUR 1.34 in 2010 (in 2009: EUR -0.83). No preference shares have been issued by the Group, hence basic and diluted earnings per share are equal.

The calculation of EPS ratio is based on net profit or loss of the Group and the weighted average number of ordinary shares in the period:

<b>2010</b>	(in TEUR)
Net profit or loss	19,923
Weighted average number of ordinary shares	14,847,127
Basic / Diluted earnings per share (in EUR)	1,34
<b>2009</b>	(in TEUR)
Net profit or loss	-11,504
Weighted average number of ordinary shares	13,908,689
Basic / Diluted earnings per share (in EUR)	-0.83

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.

Dividends were not paid in 2010.

<b>Note 34 – Provisions</b>	<b>88,167 TEUR</b>	
in TEUR	2010	2009
Provisions for warranties	50,261	38,000
Provisions for retirement benefits and jubilee premiums	22,687	19,623
Other provisions	15,219	4,535
Total	88,167	62,158

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.

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 2010. The actuarial calculation was based on the following assumptions:

- a discount rate of 4.90 percent in December 2010 representing the rate of return on 10-year entrepreneurial bonds with high credit rating in the euro area;
- 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).

A significant portion of other provisions includes provisions for corporate restructuring and anticipated losses in the amount of TEUR 9,800 which were created in line with the anticipated costs of post-acquisition activities for the Asko Group, provisions for costs in connection with the Directive on Waste Electrical and Electronic Equipment in the amount of TEUR 1,955 recorded by ZEOS, d.o.o., and provisions for compensation claims arising from legal actions brought against Gorenje, d.d. in the amount of TEUR 1,900.

#### **Movement of provisions in 2010**

in TEUR	Balance 1 Jan 2010	Use	Exchange difference	Reversal	Creation	Disposal of companies	Acquisition of companies	Balance 31 Dec 2010
Provisions for warranties	38,000	-17,923	-733	-5,280	23,834	-516	12,879	50,261
Provisions for retirement benefits and jubilee premiums	19,623	-1,842	-11	-91	2,939	-1,450	3,519	22,687
Other provisions	4,535	-1,112	12	-186	2,247	-77	9,800	15,219
Total	62,158	-20,877	-732	-5,557	29,020	-2,043	26,198	88,167

#### **Movement of provisions in 2009**

in TEUR	Balance 1 Jan 2009	Use	Exchange difference	Reversal	Creation	Disposal of companies	Balance 31 Dec 2009
Provisions for warranties	32,735	-17,057	-153	-1,330	23,835	-30	38,000
Provisions for retirement benefits and jubilee premiums	19,563	-1,359	-7	-299	1,765	-40	19,623
Other provisions	3,068	-718	2	-276	2,509	-50	4,535
Total	55,366	-19,134	-158	-1,905	28,109	-120	62,158

**Note 35 – Deferred income** **866 TEUR**

in TEUR	Balance 1 Jan 2010	Depreciation	Creation	Balance 31 Dec 2010
Deferred income from government grants	1,211	-3,755	3,410	866
<b>Total</b>	1,211	-3,755	3,410	866

in TEUR	Balance 1 Jan 2009	Depreciation	Creation	Balance 31 Dec 2009
Deferred income from government grants	8,936	-10,725	3,000	1,211
<b>Total</b>	8,936	-10,725	3,000	1,211

**Note 36 – Non-current financial liabilities** **260,932 TEUR**

in TEUR	2010	2009
Borrowings	356,449	297,073
Other financial liabilities	7,168	7,698
Transfer to current financial liabilities	-102,685	-62,412
<b>Total</b>	<b>260,932</b>	<b>242,359</b>

Borrowings by maturity	in TEUR	
		97,487
2–4 years		123,455
4–6 years		26,669
6–9 years		6,153
<b>Total</b>		<b>253,764</b>

**Borrowings**

Currency	Amount in TEUR	Interest rate	
		from	to
EUR	253,764	1.66%	12.00%
<b>Total</b>	<b>253,764</b>		

The effective interest rate does not deviate essentially from the contractually agreed interest rate.

Collateralisation	in TEUR
Bills	193,284
Financial covenants	202,312
Guarantees	67,602
Guarantee Scheme of the Republic of Slovenia	35,016

Some borrowings are simultaneously secured by several forms of collateralisation. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje BeteiligungsGmbH to the commercial banks to secure liabilities of the Group companies.

The provision of collateral through the Guarantee Scheme of the Republic of Slovenia includes the nominal value of borrowings secured by a guarantee through the Guarantee Scheme of the Republic of Slovenia. The average amount of a guarantee is 30 percent.

**Note 37 – Current financial liabilities** **223,015 TEUR**

in TEUR	2010	2009
Borrowings from banks	103,207	133,944
Transfer from non-current financial liabilities from banks	102,542	62,412
Borrowings from other entities	1,803	1,977
Transfer from non-current financial liabilities from other entities	143	0
Interest payable from financing activities	805	653
Dividend payable	184	630
Derivatives	14,185	10,267
Other financial liabilities	146	0
<b>Total</b>	<b>223,015</b>	<b>209,883</b>

As at 31 December 2010, forward exchange contracts were concluded by Gorenje, d.d. in the value of hedged items totalling TEUR 5,810. The forward exchange contracts were used in the financial year 2010 to hedge against a change in the foreign exchange rates: EUR/PLN, EUR/USD, and EUR/HUF. 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 2010, for which interest rate swap contracts were concluded, amounted to TEUR 78,214. The interest rate swap contracts are used to hedge against the fluctuation of the variable interest rate EURIBOR. Maturities of the interest rate swap contracts are long-term, i.e. progressively until 28 June 2013.

Current borrowings from banks			Interest rate	
Currency	Amount in currency (in 000)	Amount in TEUR	from	to
EUR	170,116	170,116	1.39%	12.00%
CZK	363,528	14,506	1.71%	4.49%
HUF	516,772	1,859	7.90%	7.90%
TRY	11,138	5,382	9.00%	12.00%
HRK	4,434	601	5.95%	5.95%
RSD	100,866	939	18.00%	18.00%
DKK	5,099	684	3.44%	4.65%
PLN	400	101	4.91%	4.91%
SEK	82,037	9,150	2.76%	3.55%
NOK	14,193	1,820	4.55%	4.55%
USD	789	591	3.76%	5.20%
<b>Total</b>		<b>205,749</b>		

Current borrowings from other entities			Interest rate	
Currency	Amount in currency (in 000)	Amount in TEUR	from	to
EUR				
<b>Total</b>		<b>1,946</b>	1.006%	10.00%

The effective interest rate does not deviate essentially from the contractually agreed interest rate.

Collateralisation	in TEUR
Bills	136,308
Financial covenants	72,157
Guarantees	47,731

Some borrowings are simultaneously secured by several forms of collateralisation. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje BeteiligungsGmbH to the commercial banks to secure liabilities of the Group companies.

The loan contracts concluded by Gorenje d.d. with the banks include financial covenants, which were fully fulfilled in 2010 (on the basis of unaudited consolidated financial statements). The covenants are reviewed on the basis of the audited consolidated financial statements for the respective financial year.

#### Note 38 – Trade payables 237,020 TEUR

As at 31 December 2010, the item of trade payables in the amount of TEUR 237,020 does not include any payables to the members of the Management Board and Supervisory Board and the internal owners.

#### Note 39 – Other current liabilities 106,698 TEUR

in TEUR	2010	2009
Payables to employees	18,955	17,139
Payables to state institutions	14,135	13,055
Accrued costs and expenses	40,872	31,425
Other payables	32,736	25,641
<b>Total</b>	<b>106,698</b>	<b>87,260</b>

Payables to employees and contributions and taxes payable to state institutions relate to wages and salaries for December paid in January of the following year.

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

#### Note 40 – Contingent liabilities

The Group's contingent liabilities from guarantees and collaterals given to financial institutions and companies outside of Gorenje Group amounted to TEUR 22,218 as at 31 December 2010.

In line with the common business practices prevailing at the corporate seat of the company, the Atag company is not liable to publish the annual results of operations on the basis of a special statement of the shareholder, by which the shareholder shall assume liability for any unpaid and outstanding obligations of the company. The respective statement remains in effect until countermanded by the shareholder.

#### Note 41 – Financial instruments

##### Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure.

The maximum credit exposure at the reporting date:

in TEUR	2010	2009
Available-for-sale financial assets	11,940	15,248
Loans	36,229	36,998
Trade and other receivables	350,452	278,081
Deposits	1,185	16,522
Other financial receivables	3,961	6,064
Cash and cash equivalents	82,728	27,130
<b>Total</b>	<b>486,495</b>	<b>380,043</b>

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

in TEUR	2010	2009
Western Europe	95,553	69,011
Eastern Europe	205,116	182,388
Other countries	5,615	341
<b>Total</b>	<b>306,284</b>	<b>251,740</b>

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

in TEUR	2010	2009
Wholesale customers	220,572	210,017
Retail customers	78,626	32,804
Other customers	7,086	8,919
<b>Total</b>	<b>306,284</b>	<b>251,740</b>

Maturity of trade receivables at the reporting date:

in TEUR	Gross amount	Allowance	Gross amount	Allowance
	2010	2010	2009	2009
Not past due	237,229		195,299	
Past due 1 - 45 days	33,647		29,501	
Past due 46 - 90 days	8,063		8,679	
Past due 91 - 180 days	8,407		8,282	
Past due more than 180 days	42,080	23,142	30,385	20,406
<b>Total</b>	<b>329,426</b>	<b>23,142</b>	<b>272,146</b>	<b>20,406</b>

Movement of allowances for trade receivables:

in TEUR	2010	2009
Opening balance at 1 January	20,406	15,444
Exchange differences	-57	-24
Impairment loss	8,317	8,780
Allowance for secured receivables	0	1,532

Recovered bad debts	-1,868	-1,641
Write-off of receivables	-3,836	-3,243
Changes in the Group	180	-442
<b>Closing balance at 31 December</b>	<b>23,142</b>	<b>20,406</b>

### Liquidity risk

The maturity of financial liabilities is show below:

#### 31 December 2010

in TEUR	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	Over 5 years
<b>Non-derivative financial liabilities</b>						
Bank borrowings	459,513	496,294	225,736	105,381	158,796	6,382
Borrowings from other entities	1,946	2,102	2,102			
Other financial liabilities	8,303	10,448	2,434	2,434	4,090	1,490
Trade and other payables	302,846	302,846	302,846			
<b>Total</b>	<b>772,608</b>	<b>811,690</b>	<b>533,118</b>	<b>107,815</b>	<b>162,886</b>	<b>7,872</b>
<b>Derivative financial liabilities</b>						
Interest rate swaps	-58	-68	-51	-17		
Forward exchange contracts used for hedging	-20	-20	-20			
Outflow	-20	-20	-20			
Inflow						
Other forward exchange contracts	-14,107	-14,107	-14,107			
Outflow	-14,107	-14,107	-14,107			
Inflow						
<b>Total</b>	<b>-14,185</b>	<b>-14,195</b>	<b>-14,178</b>	<b>-17</b>		

#### 31 December 2009

in TEUR	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	Over 5 years
<b>Non-derivative financial liabilities</b>						
Bank borrowings	431,017	457,685	206,329	103,415	145,327	2,614
Borrowings from other entities	1,977	2,056	2,056			
Other financial liabilities	8,981	8,981	8,981			
Trade and other payables	252,131	252,131	252,131			
<b>Total</b>	<b>694,106</b>	<b>720,853</b>	<b>469,497</b>	<b>103,415</b>	<b>145,327</b>	<b>2,614</b>
<b>Derivative financial liabilities</b>						
Interest rate swaps	-10,017	-10,017	-6,177	-3,840		
Forward exchange contracts used for hedging						
Outflow	-250	-250	-250			
Inflow						
<b>Total</b>	<b>-10,267</b>	<b>-10,267</b>	<b>-6,427</b>	<b>-3,840</b>		

### Currency risk

The Group's exposure to foreign currency risk:

#### 31 December 2010

in TEUR	EUR	HRK	DKK	PLN	RSD	CZK	Other
Trade receivables	189,874	31,762	4,490	6,682	13,919	7,446	52,111
Financial liabilities (borrowings)	-423,861	-601	-684	-101	-939	-14,506	-18,821
Trade payables	-201,795	-1,850	-1,491	-1,638	-6,799	-5,354	-18,093
<b>Exposure of the financial position</b>	<b>-435,782</b>	<b>29,311</b>	<b>2,315</b>	<b>4,943</b>	<b>6,181</b>	<b>-12,414</b>	<b>15,197</b>
Forward exchange contracts							-8,295
<b>Net exposure</b>	<b>-435,782</b>	<b>29,311</b>	<b>2,315</b>	<b>4,943</b>	<b>6,181</b>	<b>-12,414</b>	<b>6,902</b>



**31 December 2009**

in TEUR	EUR	HRK	DKK	PLN	RSD	CZK	Other
Trade receivables	160,304	29,051	4,205	6,897	13,029	8,411	29,843
Financial liabilities (borrowings)	-410,073	-1,130	-772	-425	-953	-13,870	-3,794
Trade payables	-179,771	-1,091	-731	-1,366	-3,862	-3,905	-5,570
<b>Exposure of the financial position</b>	<b>-429,540</b>	<b>26,830</b>	<b>2,702</b>	<b>5,106</b>	<b>8,214</b>	<b>-9,364</b>	<b>20,479</b>
Forward exchange contracts	0	0	0	0	0	0	4,176
<b>Net exposure</b>	<b>-429,540</b>	<b>26,830</b>	<b>2,702</b>	<b>5,106</b>	<b>8,214</b>	<b>-9,364</b>	<b>24,655</b>

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
HRK	7.289	7.341	7.383	7.300
CZK	25.294	26.455	25.061	26.473
DKK	7.447	7.446	7.454	7.442
RSD	102.762	93.797	107.470	95.025
PLN	3.995	4.330	3.975	4.105

*Sensitivity analysis*

A 5 percent increase in the euro against the stated currencies as at 31 December would have increased (decreased) net 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 2009.

31 December 2010	in TEUR
	<b>Net profit or loss</b>
HRK	-1,466
DKK	-116
PLN	-247
RSD	-309
CZK	621
Other currencies	-345

31 December 2009	in TEUR
	<b>Net profit or loss</b>
HRK	-1,342
DKK	-135
PLN	-255
RSD	-411
CZK	468
Other currencies	-1,288

A 5 percent decrease in the euro against the stated currencies as at 31 December would have had the equal yet opposite effect, provided that all other variables remain unchanged.

*Interest rate risk*

The Group's exposure to interest rate risk:

in TEUR	2010	2009
<b>Fixed rate financial instruments</b>		
Financial assets	11,271	13,448
Financial liabilities	96,273	90,094
<b>Variable rate financial instruments</b>		
Financial liabilities	363,239	340,923

**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 have no impact on net profit or loss.

### Fair value sensitivity analysis for variable rate instruments

A change in the interest rate by 50 basis points at the reporting date would have increased (decreased) net profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain unchanged. The analysis has been performed on the same basis as for 2009.

in TEUR	Net profit or loss		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
	by 50 bp	by 50 bp	by 50 bp	by 50 bp
<b>31 December 2010</b>				
Variable rate instruments	-4,122	4,122		
Interest rate swap contracts				
<b>Cash flow variability (net)</b>	<b>-4,122</b>	<b>4,122</b>		
<b>31 December 2009</b>				
Variable rate instruments	-1,180	1,180	0	0
Interest rate swap contracts	51	-51	304	-304
<b>Cash flow variability (net)</b>	<b>-1,129</b>	<b>1,129</b>	<b>304</b>	<b>-304</b>

### Note 42 – Fair value

The fair value and the carrying amount of assets and liabilities:

in TEUR	Carrying amount		Fair value	
	2010	2010	2009	2009
Available-for-sale investments	11,940	11,940	15,248	15,248
Non-current loans	4,398	4,398	5,691	5,691
Current loans	33,776	33,776	48,302	48,302
Derivatives	-14,185	-14,185	-10,267	-10,267
Trade receivables	306,284	306,284	251,740	251,740
Other current assets	44,168	44,168	26,341	26,341
Cash and cash equivalents	82,728	82,728	27,130	27,130
Non-current financial liabilities	-188,463	-188,463	-162,721	-162,721
Non-current financial liabilities (fixed interest rate)	-72,469	-64,003	-79,638	-67,016
Current financial liabilities	-208,830	-208,830	-199,616	-199,616
Trade payables	-237,020	-237,020	-196,296	-196,296
Other payables	-65,826	-65,826	-55,835	-55,835
<b>Total</b>	<b>-303,499</b>	<b>-295,033</b>	<b>-329,921</b>	<b>-317,299</b>

Available-for-sale investments are valued at fair value using market prices.

#### Fair value scale

The table below shows the method of valuing financial assets recorded at fair value.

Level 1: stock price (unadjusted) in the active market for 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 2010

(in TEUR)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	2,551	-	9,389	11,940
Derivatives – assets	-	-	-	-
Derivatives - liabilities	-	-14,185	-	-14,185

#### Year 2009

(in TEUR)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	3,770	-	11,478	15,248
Derivatives – assets	-	-	-	-
Derivatives - liabilities	-	-10,267	-	-10,267

#### *Forward exchange contracts*

The total fair value of forward exchange contracts amounted to TEUR -14,127 as at 31 December 2010 and was recorded under other financial liabilities.

#### *Interest rate swaps*

The total fair value of interest rate swaps as at 31 December 2010 amounted to TEUR -58 and was recorded under other financial liabilities.

Interest rate swap hedges, which refer to hedged items in the statement of financial position, are recorded in equity as a fair value reserve.

#### **Note 43 – Covenants related to investments**

The value of contractually agreed investments in intangible assets and property, plant and equipment, not yet recognised in the financial statements at the date of the statement of financial position, amounted to TEUR 10,178.

#### **Note 44 – Related party transactions**

The transactions with related parties were conducted by the Group companies on the basis of sale/purchase contracts. The prices used in these related party transactions were the market prices of products and services.

#### *Information on groups of persons*

In **2010**, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

Type of earnings	in TEUR		
	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	6,985		8,488
Benefits and other earnings	1,076	84	805
Total	8,061	84	9,293

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

In **2009**, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

Type of earnings	in TEUR		
	Management Board	Supervisory Board	Employees under individual employment agreements
Salaries	6,184		9,208
Benefits and other earnings	987	59	749
Total	7,171	59	9,957

Joint venture transactions undertaken by the Group companies:

in TEUR	Amount of transactions		Balance	
	2010	2009	2010	2009
<b>Financial revenue</b>				
Holding company	2	6	0	0
<b>Sales</b>				
Joint venture companies	1,414	1,533	975	207

**Note 45 – Events after the reporting date**

- The President of the Management Board of Gorenje and the representatives of the Serbian Government and the Municipality of Zaječar have signed in Zaječar a precontract on the implementation of the Gorenje's investment in the production capacities of the Home Appliances Division. With this investment in the estimated amount of EUR 2.9 million, Gorenje will yield employment for 300 employees.
- Gorenje has opened up in Sarajevo its first own service in Bosnia and Herzegovina as the upgrade of the existing authorised service network. A team of newly employed service engineers of Gorenje will cover the area of Sarajevo and the neighbouring municipalities.
- At its meeting of 3 March 2011, the Supervisory Board of Gorenje appointed Mr Marko Mrzel the new member of the Management Board of Gorenje, who will be in charge of finance and economics. He will exercise his function until the expiry of the mandate of the present Management Board, i.e. until 18 July 2013.

**Note 46 – Transactions with the auditing firm**

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 TEUR 847 in 2010. The auditors of the Group companies did not provide any other services for the Gorenje Group companies.

**Note 47 – Business segments**

in TEUR	Home Appliances		Home Interior		Ecology, energy and services		Group	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue from the sale to third parties	979,767	871,257	34,376	40,721	368,042	273,959	1,382,185	1,185,937
Inter-Division sales	5,846	6,480	11,031	14,454	10,564	11,212	27,441	32,146
Interest income	3,115	4,675	27	67	390	474	3,532	5,216
Interest expenses	19,002	19,662	113	82	2,020	2,015	21,135	21,759
Amortisation and depreciation expense	44,063	47,864	1,717	2,037	6,457	6,149	52,237	56,050
Profit or loss before income tax	23,791	-4,026	-6,357	-4,922	5,038	-360	22,472	-9,308
Income tax							2,448	2,924
Net profit or loss for the period	22,581	-6,840	-6,312	-5,082	3,755	-310	20,024	-12,232
Total assets	1,107,776	975,185	32,336	34,130	177,642	169,362	1,317,754	1,178,677
Total liabilities	793,293	684,751	12,286	11,843	120,079	112,439	925,658	809,033
Investments	33,840	18,911	2,630	1,792	8,198	8,029	44,668	28,732
Impairment loss on investments	1,428	2,206	0	0	63	102	1,491	2,308

**Note 48 – Geographical segments**

in TEUR	West		East		Other		Group	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue from the sale to third parties	482,238	430,771	835,531	723,096	64,416	32,070	1,382,185	1,185,937
Total assets	447,472	376,490	775,393	754,973	94,889	47,214	1,317,754	1,178,677
Investments	9,084	6,167	33,530	21,539	2,054	1,026	44,668	28,732

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