gorenjegroup

Annual Report 2018

Velenje, Slovenia, March 2019

Gorenje, d. o. o.

Contents

1. Gorenje Group

1.1. Introduction

Solid foundations for further development

The year 2018 was a watershed year for Gorenje Group, as well as a year of transition, defined to a large extent by the strategic process of forging a new strategic partnership. This process was carried out swiftly and efficiently, which pleased both the shareholders and the management. Thus, Gorenje Group has become a part of a global, financially very stable Hisense Group, which gives us significant potential for Gorenje's future growth and development, and access to new markets, new technologies, procurement sources, and many other synergies.

In 2018, we invested immense effort into this strategic project, both in the period leading up to the completion of the takeover, and in the remainder of the year when we worked with the new strategic owner to actively approach the integration with the Hisense group. The very search for a strategic partner and the ensuing integration activities, however, resulted in considerable fluctuation in our downstream and upstream markets. Uncertainty regarding the outcome of the strategic process and Gorenje's future role in the great Hisense family was reflected in a reserved stance of our partners, customers, and suppliers, and our competition was quick to take advantage of the situation. As a result, we were forced to offer additional incentives to our partners in order to retain stable market shares, which in turn had a profoundly negative effect on Gorenje Group's performance last year. We saw a similar situation regarding material and component sourcing. Integration activities with the Hisense Group, taking place at all levels of Gorenje Group operations, require adjustment of business strategies and modes of operation, which also changes the assumptions and methodologies of accounting estimates. Revised accounting estimates following Hisense's acquisition of the Gorenje Group were reflected in numerous non-recurring and extraordinary effects on Gorenje Group's performance. Hence, Gorenje Group reported a net loss of EUR 74.4 million in 2018.

Consolidation of Gorenje ownership within the Hisense Group brings many benefits to Gorenje Group's future operations and facilitates further development and growth in the fiercely competitive white goods industry. Hisense Group's scope of operations, advantages in the global upstream and downstream channels, and high technological and development competences in smart and digital white goods are an excellent match for Gorenje's range of products and manufacturing capacity in Europe. Both groups' distribution channels in Europe are mutually complementing: Gorenje has a strong position in Eastern Europe, while Hisense has a solid standing in Western Europe. This is a source of significant potential for further development of both groups' own brands in their existing and new markets, and for increase of Gorenje Group's scope of operations, efficiency, and profitability, while also contributing to the expansion of Hisense Group's operations.

After a successfully completed acquisition by the strategic owner, Gorenje withdrew its shares from the Ljubljana and Warsaw Stock Exchange last year, and Gorenje's transformation into a limited liability company in 2019 completes a successful process of a search for a strategic owner. Gorenje's ownership has been consolidated, and with Hisense as the sole owner we are laying solid foundations for the development of Gorenje, its brands, and thereby the future of over 11,000 employees. Transformation into a limited liability company simplifies corporate governance as it does away with the two-tier system of supervisory board and management board to allow more efficient management and decision-making within the company that will thus be better positioned to respond promptly to the challenges and changes in a harsh business environment, and to reap the synergies with Hisense.

1.2. Key events in 2018

- JANUARY

Gorenje shareholders did not vote in favour of replacement of two Supervisory Board members at the extraordinary general meeting

At the 25th Shareholders Assembly of the company Gorenje d.d., the shareholders did not vote in favour of the proposal to replace the Gorenje Supervisory Board chairman Marko Voljč and Supervisory Board member Uroš Slavinec. Thus, the Supervisory Board continued its term of office, expiring in July 2018, with an unchanged line-up.

- FEBRUARY

Sixth issue of commercial paper GRV06

In order to obtain funds for seasonal financing of its operations, Gorenje d.d. successfully completed its sixth consecutive issue of commercial paper in the amount of EUR 11,534,000. Commercial paper with the start of the interest accrual period on February 1, 2018, and maturity date on December 21, 2018, bore an interest rate of 1.9 percent per annum when acquired in the first offering.

- MARCH

Gorenje invited three potential strategic partners to conduct due diligence

Following detailed analysis and review of business and other aspects for all five non-binding offers for strategic partnerships, Gorenje invited three potential partners to conduct a due diligence review. All three were from Asia and active in the home appliance industry, and all three submitted an offer to acquire a majority shareholding in the company, i.e. no less than 50 percent plus one share of the total share capital.

Agreement reached on revision of 27-year-old collective labour agreement

Gorenje management reached an agreement with the grade union to revise the company collective labour agreement. Both sides committed to complete the new company collective labour agreement in no more than two months.

- APRIL

Gorenje Group wins 5 new Red Dot design awards

Gorenje Group has received five new awards for superior design. The jury awarded the Red Dot award to our new WaveActive washing machine and dryer by the Gorenje brand, built-in freezer and refrigerator by the Atag brand, and Atag's built-in coffee machine.

Prestigious Asko brand presented at the EuroCucina exhibition

For the second time in a row, Gorenje and Asko present their latest innovative achievements in Milan at the biennial exhibition EuroCucina 2018 that specializes in built-in appliances for top-of-the-line kitchens. The spotlight was drawn to Asko's dishwasher with the highest washing capacity in the world, Asko's patented wok burner that can reach cooking temperature over 200 °C, and the new line of built-in refrigerators called Nordic Fresh.

- MAY

Gorenje receives three binding offers from interested strategic partners, and chooses Hisense

On May 8, 2018, Gorenje received three binding offers from interested strategic partners, based in Asia. On May 9, two of the best bidders were invited to improve their offers. The Management Board, working with their financial and legal advisors and the key shareholders who actively participated in the process, examined the received offers and the two improved offers. The Chinese group Hisense was selected as the best bidder. Hisense offered EUR 12 per share subject to condition that they acquire no less than 50% + one share of the company in the takeover process. On May 29, Hisense announced their takeover bid to all shareholder.

- JUNE

Gorenje signs a new collective labour agreement

The Management Board and employee representatives at Gorenje have aligned and reached an accord on a new company collective labour agreement that maintains the high level of labour rights protection for the employees while allowing the company long-term savings and solid foundations for further development. The new collective labour agreement replaces a nearly three-decades-old agreement between the company and its employees, and brings it up to date to be in tune with not only the new legislation, but also new market conditions.

New Gorenje Management Board appointed

Gorenje's Supervisory Board appointed a new Gorenje Management Board. The President and CEO Franjo Bobinac to whom the Supervisory Board entrusted late last year the task of assembling the Management Board, proposed six Management Board members. In addition to Bobinac, it shall include two incumbents – labour director Drago Bahun and Žiga Debeljak – and three new members in Stanka Pejanović, Tomaž Korošec, and Saša Marković.

- JULY

With a successful takeover bid, Hisense is a 95-percent owner of Gorenje

The takeover bid at EUR 12 per share was accepted by 5,165 Gorenje shareholders who had held a total of 15,254,871 GRVG shares. Complete with the shares acquired before the announcement of the takeover bid (32.96% of GRVG shares), the company Hisense Luxembourg Home Appliance Holding thus acquired a total of 95.42 percent of all issued Gorenje shares.

- AUGUST

Gorenje expands its Management Board with six new members

Upon proposal by the President and CEO Mr Franjo Bobinac, the company Supervisory Board expanded the Management Board to 12 members. The following six members joined the existing ones: Dr Lan Lin, Chao Liu, Jianmin Han, Lu Hou, Anguo Yan, and Changchun Sun. Their knowledge and experience would intensify effective use of all synergistic potential opened up by the strategic partnerships between the Hisense and Gorenje Group.

Franjo Bobinac appointed vice president of marketing at Hisense International

The Hisense Group board of directors appointed Gorenje President and CEO Franjo Bobinac the vice president of marketing at the company Hisense international. Mr Bobinac remained Gorenje President and CEO, but he would also be responsible for global marketing at Hisense International, i.e. the company in charge of Hisense Group's international activities.

- SEPTEMBER

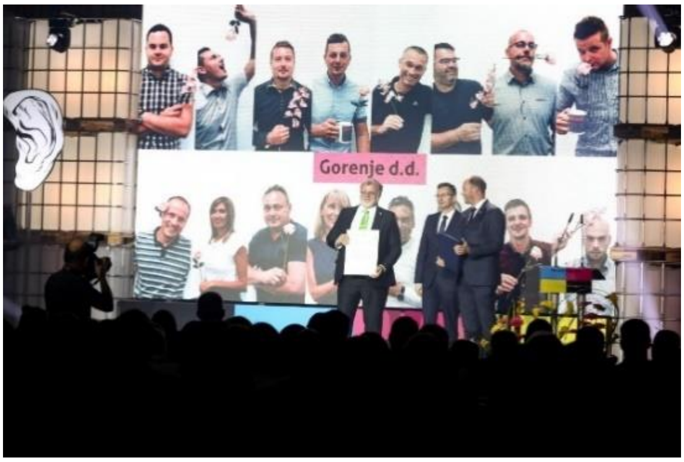
Appliances and digital solutions for smart and simplified life presented at the IFA tradeshow

At the IFA 2018 tradeshow, held in Berlin in September, Gorenje Group proudly presented its latest achievements from the Domestic Appliances segment. Gorenje was featured at the IFA, one of the largest consumer electronics shows in the world, attracting over 250,000 visitors every year, for the eleventh consecutive year. In addition to presented our new products, we offered the first glimpse of our digital services this year, which will be available soon. These include the Gorenje ConnectLife platform and the line of Gorenje connected appliances.

Gorenje Shareholders Assembly votes in favour of minority shareholder squeeze-out

At the 27th Shareholders Assembly of the company Gorenje d.d., the shareholders supported the squeeze-out of minority shareholders, i.e. a transfer of the remaining GRVG shares currently not yet held by the company Hisense Luxembourg Home Appliance Holding to this majority shareholder, while the remaining minority shareholder would receive a compensation of EUR 12 per share. The shareholders also voted in favour of the appointment of seven Supervisory Board members representing capital. Three days later, Yeguo Tang was appointed Supervisory Board chairman.

"Innovation Oscar" for two Gorenje Group innovations



At the 2018 Innovation Day, Gorenje Group was again among the winners at this year's national award ceremony for the most innovative enterprises and individual innovators. We won the golden national award by the Slovenian Chamber of Commerce and Industry for our new generation of premium washing machines and dryers Asko, and the silver award for the new generation of Gorenje cookers.

- NOVEMBER

Gorenje launches the sale of its premium appliances in China

With a presentation in Beijing, Gorenje launched the sales of premium products under its own brand in the Chinese market. With a comprehensive offer of appliances, Gorenje thus introduces to the Chinese markets its top-notch design and the Life Simplified philosophy that simplifies the user experience to make the lives of the users easier.

- DECEMBER

Gorenje divests its subsidiary Gorenje Surovina

Pursuing its strategy of focusing on the core activity of manufacturing and marketing domestic appliances, Gorenje Group continued to divest select subsidiaries active in its non-core businesses. We signed with the company Eko Surovina, owned by the company Rastoder d.o.o., an agreement to sell the 100-percent ownership share in the company Gorenje Surovina and its subsidiaries. In order to complete the transaction, both the buyer and the seller of the shareholding are obliged to meet the suspensive conditions specified in the agreement on the sale and purchase of the shareholding. Until the day of adoption of this annual report, the suspensive conditions have not yet been entirely fulfilled. However, both the seller and the buyer are actively conducting all activities to fulfil the agreement as soon as possible.

1.3. Gorenje Group Presentation

1.3.1. Gorenje Group is a part of the Hisense Group

Brief presentation of the Hisense Group
The company Hisense was founded in 1969. Headquartered in China, it is in 100-percent ownership of the national fund and the local government of the province and the city of Qingdao. Hisense Group operates 11 manufacturing plants and 12 development centres worldwide. With 86,000 employees, it is one of the leading global producers of electronics and home appliances. In 2017, Hisense Group's revenue amounted to EUR 12.7 million, and ended the year with EUR 1 billion of profit before taxes.

Hisense Group brands

Hisense Group business areas

TV and Display Devices, Internet TV Operation, Mobile Communication Devices, Optical Communication Devices

Refrigerators, Freezers, Air-conditioners, Washing Machines, Kitchen Appliances

Smart City, Smart Community, Smart Transportation, Smart Business, Medical Electronic Devices, Smart Home System and Service

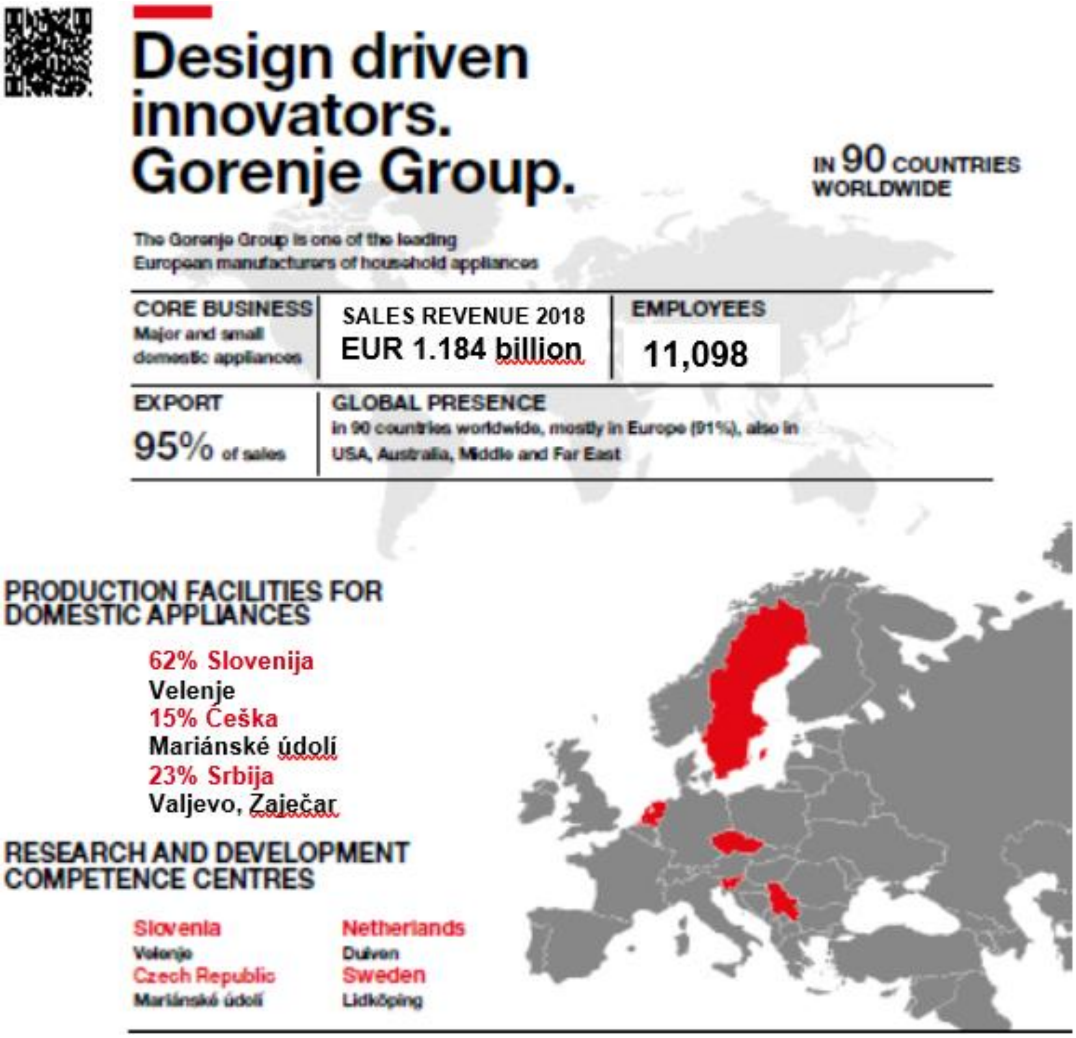
Real Estate, High-end Plaza Chains, Manufacturing, Business, Finance


No. 1 China Independent Innovation Brand Value
Source: PRC AQSIQ
Top 20 China Employer
Source: Beijing University Social Responsibility and Employer Brand Research Center
Top 10 Foreigners' Familiar China Brand
Source: CIPG
Mainland China Innovation Top 10
Source: Clarivate Analytics
BrandZ Top 10 Overseas China Brand
Source: BrandZ Top 10 Overseas China Brand from WPP Kantar Millward Brown and Google
Official UEFA EURO 2016™ Sponsor
Source: UEFA
2018 FIFA World Cup™ Official Sponsor
Source: FIFA


TV
NO.1
TV market share in China for 13 years since 2004.
Source: CMM
NO.3
TV shipment in the world
Source: IHS
Refrigerator
NO.2
in China market with Hisense and Ronshen brands
Source: CMM
Air-conditioner
NO.4
in China market with Hisense and Kelon brands
Source: CMM
Optical Communication
NO.1
optical communication module supplier in China
NO.5
optical communication module supplier in the world
Source: Global Optical Communication Market Analysis and Prediction (2016)
Smart Transportation
NO.1
2011-2015 Urban Intelligent Traffic Enterprise Revenue
Source: www.7its.com 2016 China Urban Intelligent Traffic Market Research Report
Smart Business Devices
NO.1
in China Commercial POS market for 12 consecutive years
Source: China POS Industry Committee China POS Industry Market Research Analysis Report

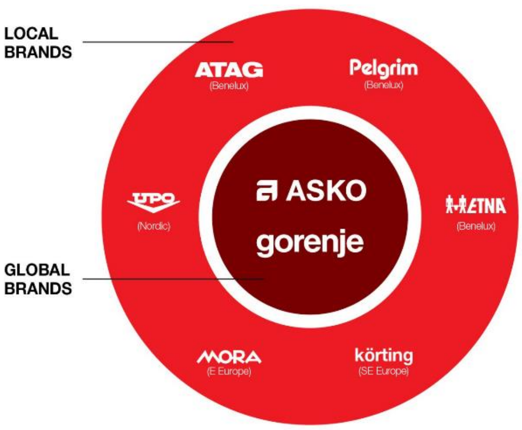
1.3.2. Gorenje Group corporate profile

Gorenje Group is one of the leading domestic appliance manufacturers.



1.3.3. Brands

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

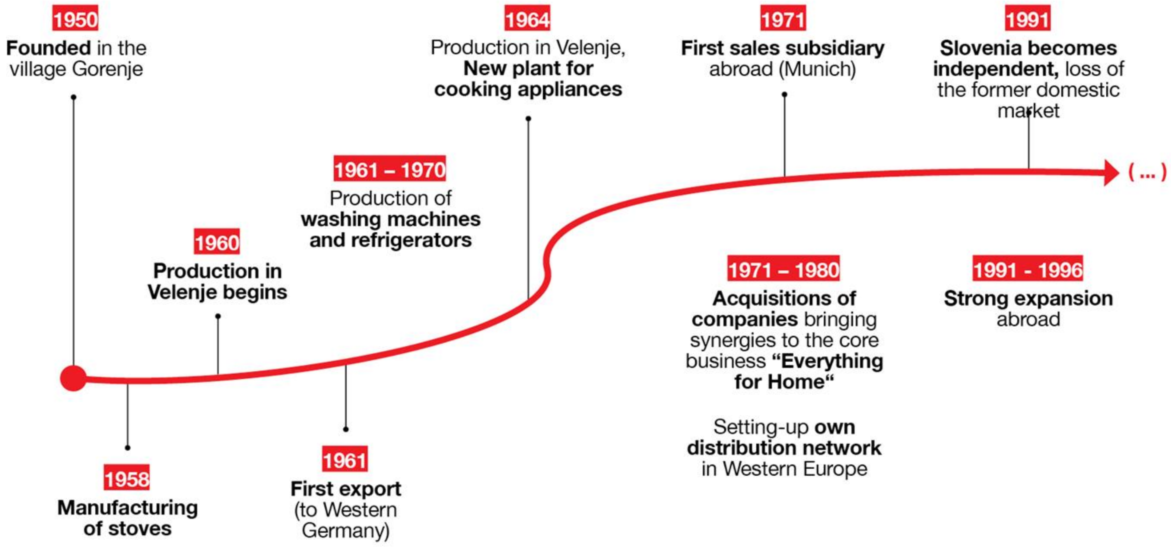


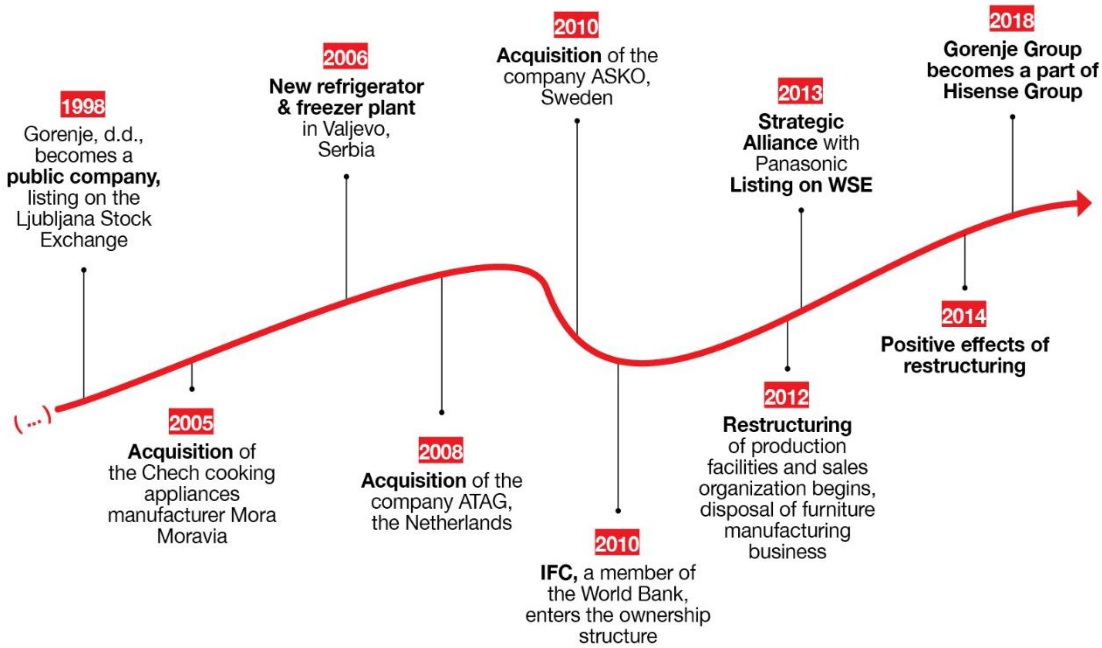
Gorenje Group portfolio consists of:

2 global brands (Gorenje and Asko) and

6 local brands.

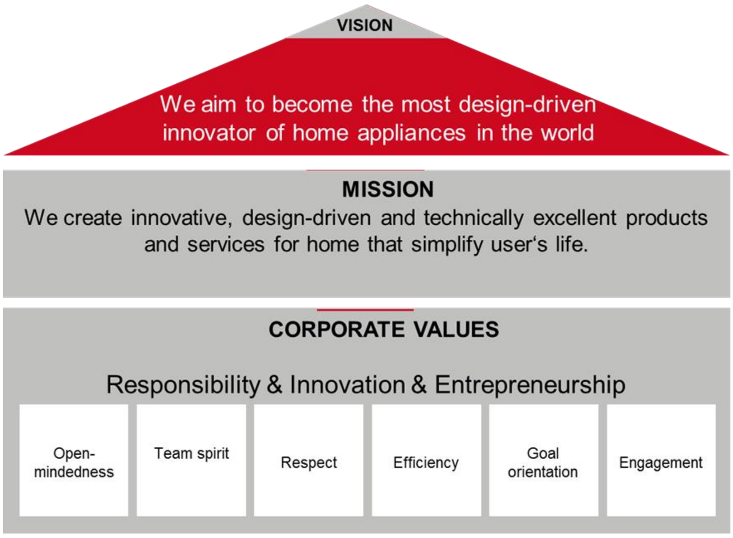
1.3.4. Gorenje Group History





1.3.5. Vision, mission, values

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



1.3.6. Key stakeholders

Key stakeholders	Why do we communicate?	What and how do we communicate? (Communication channels and tools)
Owners, shareholders, investors (including organized shareholder associations)	Generating value for the shareholders is the fundamental mission of each joint stock company and the most important management objective. Successful performance and sustainable growth generate long-term value of our shareholders' investment.	Shareholders Assembly, annual report, public announcements in the information dissemination systems of the Ljubljana Stock Exchange and Warsaw Stock Exchange, website www.gorenjegroup.com including a page for investors, proactive communication and responses to questions.
Employees	Motivated employees are the key to Gorenje's success. Together, we are building a culture of mutual trust, respect, continuous learning, and responsible and efficient work. Recruitment of outstanding employees, promotion and compensation policy is based on merit (performance) with equal opportunity for all.	– Internal online Gorenje Portal (multilingual), Info.G newsletter, GIB magazine (information on professional achievements and in-depth articles authored by Gorenje employees), bulletin boards, E-inbox ("I want to know"), inboxes for comments, suggestions and questions, electronic notification, Works Council and the European Works Council, worker assemblies, social dialogue.
Business partners	Our long-term relations with business partners (buyers, suppliers, contractors, partners in joint ventures) are based on respect, confidence, honesty, integrity and fairness.	Constant contact (in person, by phone, electronic mail and video conference), letter to suppliers, brand and corporate websites, use of B2B tools and applications, materials with information about our products and Group operations and performance.
Consumers, users	Customer and user satisfaction are of key importance for company operations and performance as stagnation in sales will threaten the pursuit of all other objectives we have laid down. Our work is determined by continuous monitoring of needs and desires of our buyers, and a quest for safe and high-quality products and services, fair prices, quality and rapid service, and appropriate after-sales services.	Information about new developments, innovative user functions of our products, energy savings, efficiency, and ergonomics. Tips for safe and efficient use of our products, and support in after-sales services.
Media	The media, or the press, is a key link between Gorenje and the broad public. Therefore, we maintain regular and proactive relations with them in order to provide timely and quality information about operations and performance and about major business events.	Public announcements and press releases, news conferences and events, daily communication by telephone and via electronic media, personal relations with the members of the press, new innovative approaches and tools.
Government institutions, local community	We observe and regularly fulfil our obligations to the government or the state. We comply with relevant regulations, including non-binding and non-mandatory codes and guidelines. We support socially beneficial activities and decisions with lasting positive effect which improve the quality of life in the local and broader environment, and contribute to the progress of society.	Dialogue with the government and social partners – directly and via representative chambers (Slovenian Chamber of Commerce and Industry, Chamber Of Commerce And Industry of the Savinjsko-Šaleška region) and associations, participation in strategic research and innovation partnerships (SRIP), round-table focusing on specific problems, regional development conference, meetings with the mayor and the municipal administration and inspection authorities, relations with educational, cultural, and sports institutions.

Participation and membership in organizations

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

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

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

Awards received in 2018

Gorenje Group received numerous awards for its activities in a variety of fields in 2018. These awards are important in confirming that our approach to planning and managing our relations with the key stakeholders, especially buyers and users, business partners, and employees.

This year, we again received the **CCIS golden award for the best Slovenian innovations**, this time for the Asko washing machines and dryers, and silver award for the new generation of Gorenje cookers.

At the annual conference of Slovenian energy engineers, the Finance daily paper presented to Gorenje Group the prestigious award for **the most energy-efficient company in 2017**.

Gorenje Group won **5 new Red Dot design awards for superior design**, for the new WaveActive washing machine and dryer under the Gorenje brand, built-in freezer and refrigerator by the Atag brand, and Atag built-in coffee machine.

For the 12th year in a row, Gorenje was awarded the **Trusted Brand award for the most trustworthy home appliance brand**.

Gorenje's innovators won **two gold and two silver awards presented by the Chamber of Commerce and Industry of the Savinjsko-Šaleška region for the most innovative companies and innovators.**

At the Slovenian conference on digital communication, titled Diggit, we won the gold award in the sales category, for our online chatbot called Anna.

We were awarded the Websi special digital projects award for our #simplyfans campaign.

1.3.7. Gorenje Group Other Businesses

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

The business area ETIS follows the Group's strategic policy of focusing on the core activity. Therefore, we searched in 2018 for strategic investors for respective companies of this segment (business area).

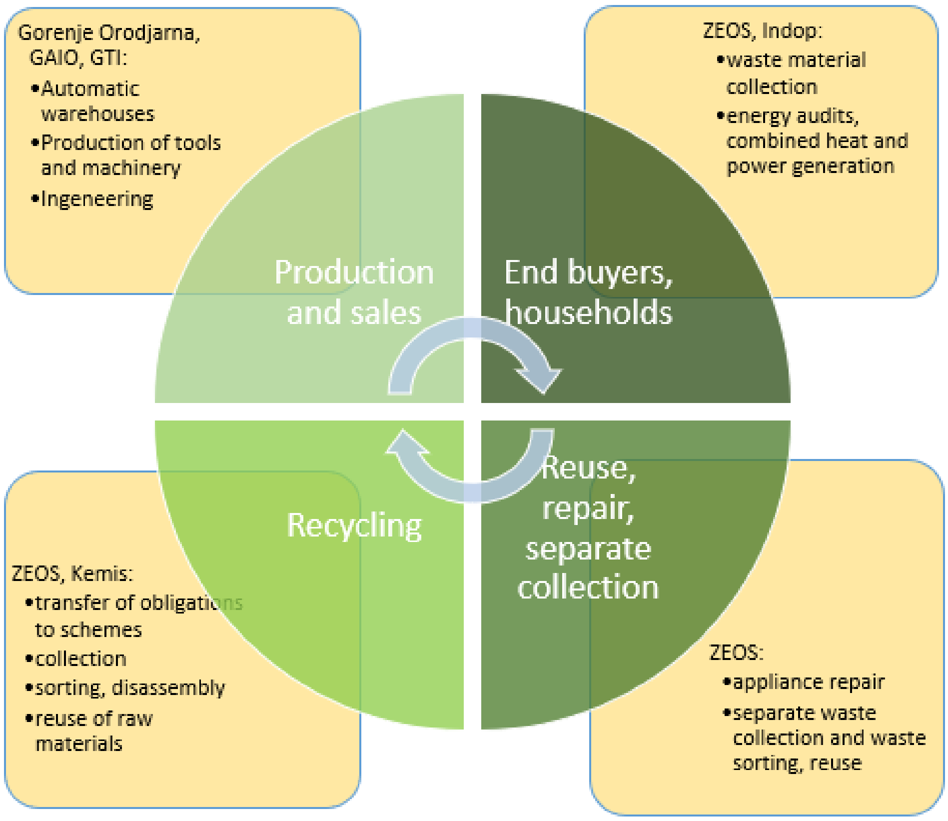
Key policies of the ETIS business area:

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

Key areas of development for the ETIS business area:

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

Review of the ETIS business area within Gorenje Group



HVAC BAK business area

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

Key policies of the business area HVAC BAK:

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

1.3.8. Corporate Governance Statement

Bodies of Gorenje d.o.o. Corporate Governance

With the entry of resolutions adopted at the 29th company Shareholders Assembly into the court register on March 11, 2019, the company Gorenje d.d. (joint stock company) was transformed into a limited liability company titled Gorenje gospodinjski aparati d.o.o. (abbreviated company name Gorenje d.o.o.). Thereby, the terms of office of all Supervisory Board and Management Board members were terminated. Pursuant to the Deed of Foundation of the Limited Liability Company Gorenje d.o.o. (hereinafter referred to as the Deed of Foundation), the two bodies of corporate governance at Gorenje d.o.o. are the shareholder and two or more managing directors whose powers and authority are defined in the Deed of Foundation. The managing directors were appointed for 5-year terms, and their terms of office may be terminated (they may be dismissed) at any time by a resolution adopted by the sole shareholder. The managing directors shall manage the company within the framework of the Committee of Directors.

Following are the company managing directors:

- Lan Lin, chief managing director
- Chao Liu, chief managing director
- Franc Bobinac, managing director and the chairman of the Committee of Directors
- Yeguo Tang, managing director
- Shaoqian Jia, managing director
- Žiga Debeljak, managing director
- Drago Bahun, managing director and employee representative

Statement of company management's responsibility

The company management is responsible for the development and compilation of the Annual Report of Gorenje d.o.o. and the Gorenje Group, as well as the financial statements, in a manner that provides to the interested public a true and accurate account of the financial position and performance of the company and its subsidiaries in 2018.

The management hereby confirms that the financial statements of Gorenje d.o.o. and the Gorenje Group have been prepared pursuant to the relevant accounting policies; that the accounting estimates have been developed according to the principles of prudence and diligence of a good manager; and that the financial statements of the Company and the Group give a true and fair account of their financial position and performance in 2018.

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

The Management are familiar with the contents of integral parts of the Annual Report of Gorenje d.o.o. and the Gorenje Group for 2018, and thus also with their entire Annual Report. We approve the report and confirm such approval with our respective signatures.

Lan Lin, Chief Managing Director

Chao Liu, Chief Managing Director

Bodies of the company Gorenje d.d. before the transformation into a limited liability company

Management Board

Management Board composition and appointment

The Management Board consists of the President and CEO, and at least two Management Board members, of which one is a labour director. The number of Management Board members is specified by the Supervisory Board. The Supervisory Board appoints the Management Board members based on their expertise, work experience, and abilities to manage and coordinate different aspects and fields of operations. On July 20, 2018, the Management Board was appointed for a new five-year term of office. On August 16, 2018, the number of Management Board members was increased. As of the day of entry of the transformation into a limited liability company into the court register, the terms of office for all Management Board members were terminated.

Management Board composition in the fiscal year 2018

First and last name	Function (president / CEO, member)	Field of work within the Management Board	First appointment to position	Completion of term of function/office	Gender	Nationality	Year of birth	Education	Professional profile	Membership in other supervisory bodies of non-associated companies
Franjo Bobinac	President of the Management Board	Until July 19, 2018, responsible for the major and small domestic appliance segment and for corporate support functions, corporate marketing, HR and general affairs, and joint development. Since July 20, 2018, in charge of coordination of the Management Board's work, directly in charge office of the secretary to the Management Board, corporate communication, and corporate security, and temporarily in charge of sales of major and small domestic appliances under all brands, strategic marketing, and design Since August 16, 2018 – President of the Management Board	July 18, 2003	March 11, 2019	Male	Slovenian	1958	Bachelor of Economics, Faculty of Economics, University of Ljubljana MBA, École Supérieure de Commerce, Paris	Economics	IEDC – Poslovna šola Bled d.o.o., Supervisory Board member
Žiga Debeljak	Management Board member	Until July 19, 2018, in charge of corporate finance, digital business, IT and organizational support, and the business area of ecology, trade, and industrial services Since July 20, 2018, Chief Financial and Digital Officer, Management Board member in charge of finance, digitization, supply chain, and non-core operations Since August 16, 2018, in charge of strategic finance, controlling and accounting, digital business coordination, IT, and non-core businesses	May 1, 2017	March 11, 2019	Male	Slovenian	1971	BS computer science, Faculty of Mechanical Engineering, University of Ljubljana MA business administration and organization (MBA), Faculty of Economics, University of Ljubljana	Computer engineering business administration and organization	/

Drago Bahun	Management Board member, labour director	Labour director, in charge of social dialogue	July 18, 2003	March 11, 2019	Male	Slovenian	1955	BA Sociology – Specialist, Faculty of Sociology, Political Science, and Journalism, University of Ljubljana	Sociology	/
Branko Apat	Management Board member	Until July 19, 2018, in charge of the business segment of heating systems, bathrooms, and kitchens, and corporate procurement	September 17, 2007	March 11, 2019	Male	Slovenian	1958	BA Economics, Faculty of Economics, University of Maribor Specialist in Marketing, Cleveland State University, Ohio, USA	Economics marketing	/
Peter Kukovica	Management Board member	Until July 19, 2018, co-responsible for the business segment of major and small domestic appliances and in charge of operational support functions	April 28, 2014	March 11, 2019	Male	Slovenian	1966	BS Mechanical Engineering, Faculty of Mechanical Engineering, University of Ljubljana Specialist in Management, Faculty of Economics, University of Ljubljana MA Business Policy and Organization, Faculty of Economics, University of Ljubljana PhD, Business Administration and Organization, Faculty of Economics, University of Ljubljana	Mechanical engineering, business administration and organization	/
Tomaž Korošec	Management Board member	Since July 20, 2018, in charge of technology, production, development, procurement, and investment Since August 16, 2018, in charge of production, development, investment, and maintenance	July 20, 2018	March 11, 2019	Male	Slovenian	1970	BS Mechanical Engineering, Faculty of Mechanical Engineering, University of Ljubljana Completed post-graduate studies in quality management,	Mechanical engineering, quality management	/

								Sheffield Business School, Sheffield Hallam University, Great Britain		
Stanka Pejanović	Management Board member	Since July 20, 2018, responsible for human resources, organization, servicing, and support services. Since August 16, 2018, in charge of human resources, organization, servicing, support services, and internal audit	July 20, 2018	March 11, 2019	Female	Serbian	1967	BA Economics, Faculty of Commerce and Banking, Belgrade, Serbia MA Economics, Faculty of Economics, University of Novi Sad, Serbia	Economics and business administration	/
Saša Marković	Management Board member	In charge of sales and marketing in Eastern Europe and the CIS countries	September 01, 2018	March 11, 2019	Male	Serbian	1976	BA Business Administration, Faculty of Management, BK University, Belgrade, Serbia Global Executive MBA, J. M. Katz Graduate School of Business, University of Pittsburgh, USA	Economics and business administration	/
Dr Lan Lin	Vice president of the Management Board	Vice president of the Management Board	August 16, 2018	March 11, 2019	Male	American	1958	PhD Mechanical engineering, University of Tennessee, USA	Mechanical engineering	/
Chao Liu	Management Board member	In charge of strategic purchasing, logistics, supply chain, and product planning	August 16, 2018	March 11, 2019	Male	Chinese	1972	MBA, University of Memphis, USA	Management	/
Jianmin Han	Management Board member	Co-responsible for human resource management	August 16, 2018	March 11, 2019	Male	Chinese	1971	MBA, University of Finance and Economics, Dongbei, China	Management	/
Lu Hou	Management Board member	In charge of sales and marketing in Western Europe	August 16, 2018	March 11, 2019	Male	Chinese	1972	MBA, Central Queensland University, Australia	Management	/
Anguo Yan	Management Board member	In charge of production systems and improvements, technical support services, and quality	August 16, 2018	March 11, 2019	Male	Chinese	1969	Master of Science, Beijing University of Aeronautics and Astronautics, Beijing, China	Management	/
Changchun Sun	Management Board member	In charge of operational finance and risk management	August 16, 2018	March 11, 2019	Male	Chinese	1983	BA Management, Qingdao Technological University, China	Management	/

Supervisory Board

Supervisory Board powers and authorizations

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

The powers and obligations of the Supervisory Board members were the same for each member, the only difference being that some members were also members of respective Supervisory Board committees. These committees conducted their activities in accordance with the relevant law and the authorizations granted by the Supervisory Board.

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

Supervisory Board composition

The Supervisory Board consisted of seven capital representatives elected by the shareholders, and four employee representatives elected by the Gorenje d.d. Works Council. The Supervisory Board commenced its four-year term of office on July 20, 2014; on July 21, 2018, its new term of office started. As of the day of entry of the transformation into a limited liability company into the court register, the terms of office for all Supervisory Board members were terminated.

Composition of the Supervisory Board and its committees in the fiscal year 2018 (in the period until July 20, 2018)

First and last name	Marko Voljč	Uroš Slavinec	Bernard C. Pasquier	Corinna Claudia Graf	Bachtiar Djalil	Miha Košak	Karlo Kardov	Krešimir Martinjak	Peter Kobal	Drago Krenker	Jurij Slemenik
Function (chair, deputy chair, member)	Chairman	Deputy chairman	Deputy chairman	Member	Member	Member	Member	Deputy chairman	Member	Member	Member
First appointment to position	July 17, 1998	July 19, 2010	July 19, 2010	July 20, 2014	July 5, 2013	July 9, 2016	July 14, 2017	May 15, 2002	April 7, 1997	June 19, 1998	May 15, 2002
Completion/end of term	July 20, 2018	July 20, 2018	September 17, 2018	September 17, 2018	September 17, 2018	September 17, 2018	July 20, 2018	March 11, 2019	July 20, 2018	March 11, 2019	March 11, 2019
Representative of capital / employees	capital	capital	capital	capital	capital	capital	capital	employees	employees	employees	employees
Attendance at SB sessions and total number of sessions (e.g. 5/7)	8/8	8/8	8/8	6/8	7/8	8/8	8/8	8/8	8/8	8/8	8/8
Gender	Male	Male	Male	Female	Male	Male	Male	Male	Male	Male	Male
Nationality	Slovenian	Slovenian	French	German	Slovenian	British, Slovenian	Croatian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1949	1951	1954	1979	1975	1968	1975	1963	1953	1956	1960
Education	MA Economics	BA Economics	MA Public administration	MA Business administration	LL.B., LL.M.	MA Economics of European Community MBA	MA Finance and banking	LL.B.	Electrical engineering	Sales and purchase manager	High School, Mechanical Engineering
Professional profile	Economics	Economics	Public administration	Business, technology, and social work	Law	Economics	Finance, banking	Law	Electrical engineering	Commerce	Mechanical engineering
Independence pursuant to Article 23 of the Code (YES/NO)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Occurrence of conflict of interests in the fiscal year (YES/NO)	No	No	No	No	No	No	No	No	No	No	No
Membership in supervisory boards of other companies	/	/	IFC Nominee Director on the board of directors of Sogebank, a bank in Haiti, and on the board of directors of ITCB, a bank in Chile.	/	Loterija Slovenije d.d. (Lottery of Slovenia)	Šiauliu Bankas, Lithuania	JP Elektroprivreda HZ HB d.d., Bosnia and Herzegovina Infosistem d.d., Zagreb, Croatia	/	/	/	/
Membership at committees (audit, remuneration etc.)	Remuneration Committee	Remuneration Committee	Remuneration Committee	Benchmark Committee Remuneration Committee	Audit Committee	Audit Committee Benchmark Committee	Audit Committee Benchmark Committee	Corporate Governance Committee	Benchmark Committee	Audit Committee Remuneratio n Committee	Remuneratio n Committee

	Corporate Governance Committee Nomination Committee		Corporate Governance Committee Benchmark Committee Nomination Committee		Corporate Governance Committee	Remuneration Committee Nomination Committee	Remuneratio n Committee				
Chair / member	Member Member Member	Member	Chairman Chairman Member Chairman	Chairwoman Member	Chairman Member	Member Member Member Member	Member Member Member	Member	Member	Member Member	Member
Attendance at committee sessions and total number of sessions (e.g. 5/7)	5/5	1/1	8/8	5/5	5/5	13/13	10/10	0/0	3/3	7/7	2/2

<u>Composition of the Supervisory Board and its committees in the fiscal year 2018 (in the period from July 21, 2018 to September 17, 2018)</u>

First and last name	Bernard C. Pasquier	Corinna Claudia Graf	Bachtiar Djalil	Miha Košak	Krešimir Martinjak	Žan Zeba	Drago Krenker	Jurij Slemenik
Function (chair, deputy chair, member)	Chairman	Member	Deputy chairman	Member	Deputy chairman	Member	Member	Member
First appointment to position	July 19, 2010	July 20, 2014	July 5, 2013	July 9, 2016	May 15, 2002	July 21, 2018	June 19, 1998	May 15, 2002
Completion/end of term	September 17, 2018	September 17, 2018	September 17, 2018	September 17, 2018	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019
Representative of capital / employees	capital	capital	capital	capital	employees	employees	employees	employees
Attendance at SB sessions and total number of sessions (e.g. 5/7)	3/3	2/3	3/3	3/3	3/3	3/3	3/3	3/3
Gender	Male	Female	Male	Male	Male	Male	Male	Male
Nationality	French	German	Slovenian	British, Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1954	1979	1975	1968	1963	1968	1956	1960
Education	MA Public administration	MA Business administration	LL.B., LL.M.	MA Economics of European Community MBA	LL.B.	BA Economics, GEA College, Ljubljana	Sales and purchase manager	High School, Mechanical Engineering
Professional profile	Public administration	Business, technology, and social work	Law	Economics	Law	Economist	Commerce	Mechanical engineering
Independence pursuant to Article 23 of the Code (YES/NO)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Occurrence of conflict of interests in the fiscal year (YES/NO)	No	No	No	No	No	No	No	No

Membership in supervisory boards of other companies	IFC Nominee Director on the board of directors of Sogebank, a bank in Haiti, and on the board of directors of ITCB, a bank in Chile.	/	Loterija Slovenije d.d. (Lottery of Slovenia)	Šiauliu Bankas, Lithuania	/	/	/	/
Membership at committees (audit, remuneration etc.)	/	/	Audit Committee	Audit Committee	/	/	Audit Committee	/
Chair / member	/	/	Member	Chairman	/	/	Member	/
Attendance at committee sessions and total number of sessions (e.g. 5/7)	0/0	0/0	1/1	1/1	0/0	0/0	1/1	0/0

Composition of the Supervisory Board and its committees in the fiscal year 2018 (in the period from September 18, 2018, until the end of 2018)

First and last name	Yeguo Tang	Shaoqian Jia	Huizhong Dai	Caixia Chen	Yuling Gao	Xin Liu	Wenzhong Liu	Krešimir Martinjak	Žan Zeba	Drago Krenker	Jurij Slemenik
Function (chair, deputy chair, member)	Chairman	Deputy chairman	Member	Member	Member	Member	Member	Deputy chairman	Member	Member	Member
First appointment to position	September 18, 2018	September 18, 2018	September 18, 2018	September 18, 2018	September 18, 2018	September 18, 2018	September 18, 2018	May 15, 2002	July 21, 2018	June 19, 1998	May 15, 2002
Completion/end of term	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019	March 11, 2019
Representative of capital / employees	capital	capital	capital	capital	capital	capital	capital	employees	employees	employees	employees
Attendance at SB sessions and total number of sessions (e.g. 5/7)	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2
Gender	Male	Male	Male	Female	Female	Male	Male	Male	Male	Male	Male
Nationality	Chinese	Chinese	Chinese	Chinese	Chinese	Chinese	Chinese	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1963	1972	1966	1971	1981	1975	1968	1963	1968	1956	1960
Education	PhD Management	MA Management	BS Mechanical Engineering	BA Literature	MA Management	MA Manageme nt	BS Engineering	LL.B.	BA Economics, GEA College, Ljubljana	Sales and purchase manager	High School, Mechanical Engineerin g
Professional profile	Management	Management	Mechanical engineering	Literature	Management	Manageme nt	Engineering	Law	Economist	Commerce	Mechanical engineerin g

Independence pursuant to Article 23 of the Code (YES/NO)								Yes	Yes	Yes	Yes
Occurrence of conflict of interests in the fiscal year (YES/NO)								No	No	No	No
Membership in supervisory boards of other companies	/	/	/	/	/	/	/	/	/	/	/
Membership at committees (audit, remuneration etc.)	Audit Committee	/	/	/	Audit Committee	Audit Committee	/	/	/	Audit Committee	/
Chair / member	Chair	/	/	/	Member	Member	/	Member	/	Member	/
Attendance at committee sessions and total number of sessions (e.g. 5/7)	1/1	/	/	/	1/1	1/1	/	/	/	1/1	/

Independent committee members

First and last name	Membership in committees	Attendance at committee sessions and total number of sessions (e.g. 5/7)	Gender	Nationality	Education	Year of birth	Professional profile	Membership in other supervisory bodies of non-associated companies
Aleksander Igličar	Audit Committee, member	7/7	Male	Slovenian	MA Business policy and organization	1962	Economics	Iskra Mehanizmi Holding d.d., Lipnica pri Kropi, Javni zavod RTV SLO, Ljubljana
Irena Prijović	Nomination Committee, member	4/4	Female	Slovenian	Master of Science/Arts	1968	Corporate governance	JP Uradni list RS d.o.o., Supervisory Board chairwoman
Veit Walkner	Nomination Committee, Member	3/4	Male	Austrian	Diploma + Dr (PHD) Business Administration Hochschule St. Gallen, Switzerland	1970	Finance	/
Toshikazu Kudou	Nomination Committee, Member	1/4	Male	Japanese	Master	1963	Management	/
Saša Žiković	Nomination Committee, Member	3/4	Male	Croatian	PhD	1978	Business/economics	/
Philip Alexander Sluiter	Nomination Committee, member until January 11, 2018	1/1	Male	Dutch				

Supervisory Board committees

- **Audit Committee**

The Audit Committee operated according to the authorizations specified by Article 280 of the Companies Act. Until July 20, 2018, the Committee included Bachtiar Djalil as chairman, members Drago Krenker, Miha Košak, and Karlo Kardov, and Aleksander Igličar as an independent member. Mr Igličar is a senior lecturer of accounting and auditing at the Faculty of Economics in Ljubljana. From July 21, 2018, the Audit Committee included chairman Miha Košak members Bachtiar Djalil, Drago Krenker, and Aleksander Igličar as the independent member. From September 18, 2018, the Audit Committee included chairman Yeguo Tang and members Xin Liu, Yuling Gao, Drago Krenker, and Aleksander Igličar as the independent member.

- **Benchmark Committee**

The committee had the following members: chairwoman Corinna Graf and members Bernard Pasquier, Peter Kobal, Miha Košak, and Karlo Kardov. The basic task of the Benchmark Committee was to identify the companies to which Gorenje Group would be compared, or against which it would be benchmarked. The Committee dealt mostly with methodological issues and specified the basic benchmarking criteria. Benchmark Committee operated until July 20, 2018.

- **Corporate Governance Committee**

The committee consisted of chairman Bernard Pasquier and members Marko Voljč, Krešimir Martinjak, Peter Kobal, and Bachtiar Djalil. The task of the Corporate Governance Committee was to find the best possible way of organizing the Gorenje Group given its increasing international recognition and the need for flexibility in all areas of its business operations. The Committee operated until July 20, 2018.

- **Remuneration Committee**

The committee consisted of chairman Bernard Pasquier and members Uroš Slavinec, Marko Voljč, Jurij Slemenik, Drago Krenker, Miha Košak, Corinna Graf and Karlo Kardov. Powers of the Committee were consistent with the provisions of the Corporate Governance Code for Publicly Traded Companies (the LJSE Code). The Committee operated until July 20, 2018.

- **Nomination Committee**

The Supervisory Board's Nomination Committee was appointed in December 2017 and it consisted of chairman Bernard Pasquier, members Marko Voljč, and Miha Košak (all three were Supervisory Board members), and independent members Irena Prijović, Dr Veit Walkner, Toshikazu Kudo, Philip Alexander Sluiter (until January 11, 2018), and Saša Žiković, PhD, (from January 24, 2018). The responsibility of the Nomination Committee was to support the Supervisory Board and to prepare proposals regarding criteria and selection of candidates for membership in the Supervisory Board.

Management Board and Supervisory Board compensation and rewards

The President and members of the Management Board signed new employment contracts for the new term of office lasting from July 19, 2013, to July 19, 2018, and for the term of office from July 20, 2018, to July 20, 2023, according to which the receipts of the President and members of the Management Board consist of a fixed and a variable part. At the 37th session held on June 25, 2013, the Supervisory Board adopted the Management Board Performance Criteria. The criteria pertain to the variable part of the reward, and they include both quantitative and qualitative criteria. Performance criteria also include sustainable development and non-financial criteria of relevance for generating long-term company value. Variable part of the reward may amount to no more than two thirds of the annual compensation of the President and CEO or respective Management Board member. In case of satisfactory results, the President and CEO and Management Board members shall be entitled to reward amounting to base salary multiplied by up to one; in case of successful results, salary bonus multiplier shall be from at least one to no more than three; in case of very successful results, it shall be four to eight. The qualitative part of the criteria pertains to new product development and innovation, business criteria, financial criteria, and criteria regarding the organization and human resource management. Quantitative criteria are defined by specific quantitative goals.

The Company has not adopted a stock option remuneration plan.

Composition and amount of compensation* of Management Board members in the fiscal year 2018, in EUR

First and last name	Function	Fixed compensation – gross (1)	Variable compensation – gross			Deferred compensation (3)	Severance payment (4)	Benefits / perquisites (5)	Return of paid-out bonus – "claw-back" (6)	Total gross (1 + 2 + 3 + 4 + 5 – 6)	Total net
			Based on quantitative criteria	Based on qualitative criteria	Total (2)						
Apat Branko	Member until July 19, 2018	165,511.00	0.00	0.00	0.00	0	0	14,587.35	0	180,098.35	64,170.32
Bahun Drago	Member	227,035.00	0.00	0.00	0.00	0	0	18,487.60	0	245,522.60	91,494.83
Bobinac Franc	President	325,965.00	0.00	0.00	0.00	0	0	31,227.60	0	357,192.60	122,222.36
Debeljak Žiga	Member	273,049.00	0.00	0.00	0.00	0	0	10,127.10	0	283,176.10	114,510.04
Kukovica Peter	Member until July 19, 2018	156,678.42	0.00	0.00	0.00	0	23,590.00	2,213.25	0	182,481.67	79,339.99
Korošec Tomaž	Member since July 20, 2018	110,225.00	0.00	0.00	0.00	0	0.00	8,012.00	0	118,237.00	45,001.50
Pejanović Stanka	Member since July 20, 2018	50,582.52	0.00	0.00	0.00	0	0.00	21,183.39	0	71,765.91	38,068.70
Marković Saša	Member since September 1, 2018	70,080.13	0.00	0.00	0.00	0	0.00	53,380.85	0	123,460.98	40,944.55
Dr Lan Lin	Vice president since August 16, 2018	0	0	0	0	0	0	0	0	0	0
Chao Liu	Member since August 16, 2018	0	0	0	0	0	0	0	0	0	0
Jianmin Han	Member since August 16, 2018	0	0	0	0	0	0	0	0	0	0
Lu Hou	Member since August 16, 2018	0	0	0	0	0	0	0	0	0	0
Anguo Yan	Member since August 16, 2018	0	0	0	0	0	0	0	0	0	0
Changchun Sun	Member since August 16, 2018	0	0	0	0	0	0	0	0	0	0

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

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

Composition and amount of compensation of Supervisory Board and Committee members in the fiscal year 2018, in EUR

First and last name	**Function**	**Compensation for service – gross, annually (1)**	**Session fees for Supervisory Board and committee sessions – gross, annually (2)**	**Total gross (1+2)**	**Total net***	**Travel expenses**
						Net
Marko Voljč	Chairman until July 20, 2018	14,536.30	3,134.92	17,671.22	12,852.28	25,348.55
Bachtiar Djalil	Member until July 20, 2018, and deputy chairman until September 17, 2018	14,581.26	4,080.86	18,662.12	13,572.96	793.52

Corinna Claudia Graf	Member until September 17, 2018	13,782.94	2,694.92	16,477.86	11,984.35	12,938.66
Miha Košak	Member until September 17, 2018	13,599.99	6,115.85	19,715.84	14,339.33	12,237.72
Bernard C. Pasquier	Deputy chairman until July 20, 2018, and chairman until September 17, 2018	15,754.04	4,619.89	20,373.93	14,817.96	16,996.19
Uroš Slavinec	Deputy chairman until July 20, 2018	11,213.72	2,034.92	13,248.64	9,635.74	386.05
Peter Kobal	Member until July 20, 2018	10,383.10	2,914.92	13,298.02	9,671.65	0.00
Drago Krenker	Member	18,679.48	5,191.82	23,871.30	17,361.60	0.00
Krešimir Martinjak	Deputy chairman	18,524.20	3,299.87	21,824.07	15,872.65	0.00
Žan Zeba	Member from July 21, 2018	6,653.24	1,264.96	7,918.20	5,758.91	0.00
Jure Slemenik	Member	17,036.34	3,519.87	20,556.21	14,950.53	0.00
Aleksander Igličar	Audit Committee member	11,903.23	1,671.94	13,575.17	9,873.22	584.29
Karlo Kardov	Member until July 20, 2018	10,383.09	3,970.88	14,353.97	10,439.64	4,955.49
Irena Prijović	Nomination Committee member until	0.00	880.00	880.00	640.00	0.00
Veit Walkner	Nomination Committee Member until	0.00	660.00	660.00	480.00	0.00
Toshikazu Kudou	Nomination Committee Member until	0.00	0.00	0.00	0.00	10,810.20
Philip Alexander Sluiter	Nomination Committee Member until	0.00	0.00	0.00	0.00	0.00
Saša Žiković	Nomination Committee Member until	0.00	660.00	660.00	480.00	358.37
Yeguo Tang	Member from September 18, 2018, and chairman from September 20, 2018	0.00	0.00	0.00	0.00	0.00
Shaoqian Jia	Member from September 18, 2018, and deputy chairman from September 20, 2018	0.00	0.00	0.00	0.00	0.00
Huizhong Dai	Member from September 18, 2018	0.00	0.00	0.00	0.00	0.00
Caixia Chen	Member from September 18, 2018	0.00	0.00	0.00	0.00	0.00
Yuling Gao	Member from September 18, 2018	0.00	0.00	0.00	0.00	0.00
Xin Liu	Member from September 18, 2018	0.00	0.00	0.00	0.00	0.00
Wenzhong Liu	Member from September 18, 2018	0.00	0.00	0.00	0.00	0.00
TOTAL		177,030.93	46,715.62	223,746.55	162,730.80	85,409.04

Diversity policy

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

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

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

Supervisory Board and Management Board members who held shares of the company Gorenje d.d. in 2018, sold their shares by accepting the takeover bid from the company Hisense Luxembourg Holding S.a r.l., or based on the transfer of shares to the main shareholder, the company Hisense Luxembourg Home Appliance Holding S.á r.l. As at December 31, 2018, Supervisory Board and Management Board members did not own any Gorenje d.d. shares.

GRVG share transactions by Management and Supervisory Board Members

	Ownership		Net acquisitions/disposals in the year	
	2017	**2018**	**2017**	**2018**
Supervisory Board total	**37,136**	**0**	**-**	**-37,136**
Marko Voljč[1]	-	-	-	-
Bachtiar Djalil[2]	-	-	-	-
Corinna Graf[2]	-	-	-	-
Miha Košak[2]	62	0	-	-62
Bernard Pasquier[2]	-	-	-	-
Uroš Slavinec[3]	-	-	-	-
Peter Kobal[3]	1,355	0	-	-1,355
Drago Krenker	-	-	-	-
Krešimir Martinjak	115	0	-	-115
Žan Zeba[4]	-	-	-	-
Jurij Slemenik	2,038	0	-	-2,038
Karlo Kardov[5]	33,566	0	-	-33,566
Yeguo Tang[6]	-	-	-	-
Shaoqian Jia[6]	-	-	-	-
Huizhong Dai[6]	-	-	-	-
Caixia Chen[6]	-	-	-	-
Yuling Gao[6]	-	-	-	-
Xin Liu[6]	-	-	-	-
Wenzhong Liu[6]	-	-	-	-

1 Marko Voljč, Supervisory Board chairman and member until July 20, 2018

2 Bachtiar Djalil, Corinna Claudia Graf, Miha Košak, and Bernard C. Pasquier, Supervisory Board members until September 17, 2018

3 Uroš Slavinec and Peter Kobal, Supervisory Board members until July 20, 2018

4 Žan Zeba, Supervisory Board member from July 21, 2018

5 Karlo Kardov, Supervisory Board member until July 20, 2018

6 Yeguo Tang, Shaoqian Jia, Huizhong Dai, Caixia Chen, Yuling Gao, Xin Liu, and Wenzhong Liu, Supervisory Board members from September 18, 2018

	Ownership		Net acquisitions/disposals in the year	
	2017	2018	2017	2018
Management Board total	**22,848**	**0**	**-**	**-22,848**
Franjo Bobinac	4,096	0	-	-4,096
Drago Bahun	9,082	0	-	-9,082
Branko Apat[7]	626	0	-	-626
Peter Kukovica[8]	-	-	-	-
Žiga Debeljak[9]	9,044	0		-9,044
Stanka Pejanović[10]	0	0	-	-
Saša Marković[11]	0	0	-	-
Dr. Lan Lin[12]	-	-	-	-
Chiao Liu[12]	-	-	-	-
Jianmin Han[12]	-	-	-	-
Lu Hou[12]	-	-	-	-
Anguo Yan[12]	-	-	-	-
Changchun Sun[12]	-	-	-	-

7 Branko Apat Management Board member until July 19, 2018

8 Peter Kukovica, Management Board member until July 19, 2018

9 Žiga Debeljak, Management Board member from May 1, 2017

10 Stanka Pejanović, Management Board member from July 20, 2018

11 Saša Marković, Management Board member from September 1, 2018

12 Dr Lan Lin, Chao Liu, Jianmin Han, Lu Hou, Anguo Yan, and Changchun Sun were Management Board from August 16, 2018

Audit

External audit

Pursuant to the Companies Act, audit of financial statements is mandatory for Gorenje Group companies. Audit has been conducted at the Gorenje Group since 1994. The purpose of the audit is to increase the level of confidence among the users of financial information. The auditor employs relevant auditing procedures and methods to review the financial statements of the controlling company and the Group, and provides opinion on whether such statements comply in all material aspects with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the provisions and requirements of the Companies Act. Third-party (external) auditors report their findings to the Management Board, Supervisory Board, and the Audit Committee of the Supervisory Board. Financial statements of the controlling company and consolidated financial statements of the Group for the fiscal year 2018 were audited by the auditing company MAZARS, družba za revizijo (auditing company) d.o.o. (before the change of the company name Baker Tilly Evidas d.o.o.), that was selected as the auditor at the Gorenje Shareholders Assembly on September 17, 2018. Members of the network of MAZARS, družba za revizijo (auditing company) d.o.o. also audited most of the subsidiaries for the 2018 fiscal year. The transactions of the parent company and the Gorenje Group with the company MAZARS, družba za revizijo d.o.o., are presented in the Notes to Financial Statements.

Internal audit

The company has in place an Internal Audit department that organizationally reports directly to the Management Board, and functionally to the Audit Committee or the Supervisory Board. Internal audits are conducted throughout the Gorenje Group in compliance with the International Standards and Core Principles for the Professional Practice of Internal Auditing. The department is pursuing its mission based on a work plan spanning several years. Internal Audit provides objective assurances to the Management Board and the Audit Committee, and conducts consulting tasks. With their operation, they support the pursuit of strategic and business goals, and contribute to mitigation of risks to an acceptable level.

The Internal Audit also contributes added value by constructive cooperation with the Audit Committee, external auditor, and other functions at the Gorenje Group, which conduct a preventive and supervisory role. By consulting on setting up and improvement of the internal controls system, we have improved transparency, traceability, and responsibility in many processes, which in turn has improved our operations and overall performance. In 2018, we launched the activities of continuous monitoring that allow up-to-date identification of risks, introduction of preventive controls, and systemic solutions.

In 2017, an experienced and tested IT system auditor joined the department, thus adequately expanding its scope of competencies. In 2018, one of the employees was awarded the CIA (Certified Internal Auditor) licence. In addition to the increase in the number of employees and improvement of educational profile, we used an IT tool to automate many support activities, which in turn allowed a greater number of audits per employee and a shorter auditing cycle.

Improvement in the quality of internal auditing at the Gorenje Group is evident in the attainment of strategic goals and in the implementation of Internal Audit's the quality assurance and improvement program. The program involves regular internal and external audits as we make sure the operations of internal audit meets the expectations of the Management Board and the Audit Committee. The most recent external audit was conducted by Ernst & Young at the end of 2017, based on which we can confirm compliance with the International Standards for the Professional Practice of Internal Auditing.

In the future, we shall step up the continuous auditing activities that will allow up-to-date and comprehensive risk management and, as a result, focus on the key risks and the most important controls.

Compliance with the Slovenian Corporate Governance Code for Public Limited Companies

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

The contents of the statement pertain to the period from the adoption of the previous statement of compliance with the Slovenian Corporate Governance Code for Public Limited Companies, i.e. from March 8, 2018, to March 11, 2019, when the company was transformed into a limited liability company.

Recommendation 1:

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

Recommendation 4:

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

Recommendation 5:

During the adoption of the annual report, the company was transformed into a limited liability company that does not include a Supervisory Board; therefore, a report on the work of the Supervisory Board has not been prepared, and the Supervisory Board did not take any position regarding the statement of corporate governance.

Recommendation 8.8:

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

Recommendations 11 and 23

The company has not obtained statements of independence of the Supervisory Board members who were appointed at the Shareholders Assembly on September 17, 2018, as at the same Shareholders Assembly, resolutions were also adopted on the transfer of shares of other shareholders to the main (majority) shareholder, and resolutions were adopted on the withdrawal of the GRVG from the regulated market.

Recommendation 12.9:

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

Recommendation 13.1:

The Supervisory Board did not adopt an annual plan for Supervisory Board member training and approximate training costs, since Supervisory Board members took part in training and education programs based on courses and seminars available at the time.

Recommendation 14:

The Supervisory Board whose term of office expired on July 20, 2018, did not carry out a self-assessment procedure, as it was deemed that a self-assessment just before the expiry of a term of office would not be sensible.

Recommendation 15.3:
Following the consolidation of ownership structure, the Supervisory Board chairman was, as of September 20, 2018, at the same time the Audit Committee chairman

Recommendation 15.4:
The Supervisory Board had three deputy chairs; two were representatives of capital, and one was a representative of employees.

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

Recommendation 18.1:
The issue of Supervisory Board committee founding was regulated by the Supervisory Board Rules of Procedure. The Supervisory Board had an Audit Committee for the entire duration of its operation. Moreover, the Supervisory Board also had the Corporate Governance Committee, Benchmark Committee, and Human Resource Committee until July 20, 2018. The Nomination Committee was active from December 2017 until March 2018.

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

Recommendation 25:
At the 27th Shareholders Assembly at which the independent Auditor was appointed, the bodies of management and supervision and the Audit Committee did not cooperate, since the Shareholders Assembly was convened upon request by the sole shareholder.

Recommendation 27.4:
Due to the withdrawal of the shares from the regulated market, the company did not compile and release its financial calendar.

Corporate governance rules for companies listed on the Warsaw Stock Exchange
The company declares that it complied in its work and operations the Best Practices for WSE Listed Companies as available at the Warsaw Stock Exchange website at https://www.gpw.pl/root_en in English and Polish, with respective deviations or discrepancies disclosed and explained hereinafter.
The contents of this statement include the period from the adoption of the previous Statement of Compliance with the Best Practices for WSE Listed Companies, i.e. from March 8, 2018, to January 11, 2019, when the shares were withdrawn from trading on the Warsaw Stock Exchange.

- **Detailed principle I.Z.1.15: announcement of information on the company website about the diversity in the managerial and supervisory bodies, and in key positions:**
  The company has not adopted any document specifying or providing a policy of diversity in the managerial or supervisory bodies and key positions.
- **Detailed principle I.Z.1.16: announcement of information on the company website regarding the planned broadcast of the Shareholders Assembly:**
  The company did not offer a Shareholders Assembly broadcast; therefore, such information was not provided.
- **Detailed principle I.Z.1.20: release of audio or video recording of the Shareholders Assembly on the company website.**
  Neither the Companies Act nor the Corporate Governance Code (the LJSE Code) or the Rules of Procedure of the Shareholders Assembly require the Company to record the Shareholders Meeting in any other form than in writing; therefore, the company did not publish such recordings in audio and/or video format.
- **Recommendation II.Z.5: regarding statements of independence of Supervisory Board members**
- The company has not obtained statements of independence of the Supervisory Board members who were appointed at the Shareholders Assembly on September 17, 2018, as at the same Shareholders Assembly, resolutions were also adopted on the transfer of shares of other shareholders to the main (majority) shareholder, and resolutions were adopted on the withdrawal of the GRVG from the regulated market.
- **Detailed principle IV.Z.3: allowing the presence of the press (media representatives) at the Shareholders Assembly:**
  According to the Shareholders Assembly Rules of Procedure, only shareholders (and their representatives or proxies) and members of the Management Board and Supervisory Board were allowed to be present at the Shareholders Assemblies. This was due to the fact that during the Shareholders Assembly sessions,

discussions on matters that were classified as company's business or professional secret could take place, which the company was not willing to share with the general public.

- **Detailed principle IV.Z.17 regarding the conditional dividend payment** did not apply to the Company due to the fact that under the Slovenian Companies Act, the Shareholders Assembly may not vote on or adopt decisions on conditional dividend payment.
- **Detailed principle IV.Z.18 regarding the minimum possible nominal value of the shares following the share split** did not apply to the company due to the fact that company shares were no par value shares.
- **Recommendation VI.R.1: in part which refers to the Company adopting rules defining the remuneration policy for the Supervisory Board members:**
  The Company has not adopted rules for defining the remuneration of the members of the Supervisory Board. According to the Articles of Association and the Shareholders Assembly Rules or Procedure, the Shareholders Assembly was entitled to set forth the remuneration of the members of the Supervisory Board upon their sole discretion. The Management Board did not have any influence on the decisions of the Shareholders Assembly regarding the remuneration of the Supervisory Board members.
- **Recommendation VI.Z.2 pertaining to the options and other instruments related to company shares** was not in use since the company did not adopt a plan for rewarding the Management Board with options.

Shareholders Assembly

Until the transformation of the joint stock company into a limited liability company, the Shareholders Assembly was the highest body of corporate governance at the company. It consists of shareholders who vote and adopt resolutions on all issues specified by law, the most important being the appropriation of accumulated profit (allocation of distributable profit) and statutory issues. The Management Board convened the Shareholders Assembly at least once per year. The Assembly sessions took place in Velenje that is also the location of company headquarters. All shareholders had equal voting rights as all shares of the company were of the same class and each share bore the right to one vote. Treasury shares (or own shares) were an exception in this respect as they did not bear voting rights pursuant to the relevant law.

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

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

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

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

Shareholders Assemblies in 2018

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

At the 26th Shareholders Assembly which took place on June 12, 2018, the shareholders were presented the 2017 Annual Report, receipts by the Management Board and Supervisory Board members, Auditor's Report, and the Supervisory Board Report on the results of Annual Report audit for the year 2017, and its approval. The Shareholders Assembly was informed about the distributable profit for 2017. The shareholders granted discharge to the company Management Board and Supervisory Board for the 2017 fiscal year. The shareholders appointed the company Deloitte revizija d.o.o. Dunajska cesta 165, Ljubljana, as the company auditor for the 2018, 2019, and 2020 fiscal years. The company Shareholders Assembly appointed he following Supervisory

Board members representing the interests of the shareholders, with a term of office from July 21, 2018, to July 21, 2022. Bachtiar Djalil, Corinna Claudia Graf, Miha Košak, and Bernard Charles Pasquier. No challenging action was announced at the Assembly.
At the 27th Shareholders Assembly that took place on September 17, 2018, the shareholders approved the resolutions regarding the decrease of share capital by withdrawal of treasury shares; transfer of GRVG shares by other shareholders to the main (majority) shareholder; withdrawal of GRVG shares from the regulated markets of the Ljubljana Stock Exchange (LJSE) (prime listing) and the Warsaw Stock Exchange (GPW) (GPW Main Market). The Shareholders Assembly was informed about the resignation of the following Supervisory Board members: Corinna Claudia Graf, Bernard Charles Pasquier, Miha Košak and Bachtiar Djalil, whose terms of office ended on September 17, 2018. The Shareholders Assembly appointed the following new Supervisory Board members representing the interests of the shareholders, for a 4-year term of office starting on September 18, 2018: Yeguo TANG, Shaoqian JIA, Huizhong DAI, Caixia CHEN, Yuling GAO, Xin LIU, Wenzhong LIU. The Shareholders Assembly appointed the auditing company Baker Tilly Evidas d.o.o., Verovškova ulica 55A, 1000 Ljubljana (as of January 3, 2019, the company name was changed to MAZARS, družba za revizijo, d.o.o.) as the company auditor, and revoked the Shareholders Assembly resolution dated June 12, 2018, by which the company Deloitte d.o.o. was appointed company auditor for the financial years 2018, 2019, and 2020. No challenging action was announced at the Assembly.
At the 28th Shareholders Assembly that took place on October 30, 2018, the sole shareholder adopted the resolution to entirely withdraw the shares with the symbol GRVG, the issuer of which is the company Gorenje d.d. (GRVG shares) from trading in the regulated market – the Warsaw Stock Exchange (GPW) (GPW Main Market). With this resolution, re-establishment of paper-form GRVG shares was approved (dematerialized shares were abolished). With the adoption of this resolution, the resolution on withdrawal of GRVG shares from the Warsaw Stock Exchange (GPW) (GPW Main Market), which had been adopted at the Shareholders Assembly held on September 17, 2018, was confirmed. No challenging action was announced at the Assembly.
Shareholders Assembly in 2019
At the 29th Shareholders Assembly that took place on February 7, 2019, the sole shareholder adopted the resolution to transform Gorenje d.d. into a limited liability company as of the day of entry of the transformation into court register, and defined the characteristics of the company. A resolution was adopted for the Deed of Foundation to come into force as of the day the transformation of the company is entered into the court register, and that the currently effective Articles of Association of the company Gorenje be terminated as of the day of entry of the transformation into the court register. A resolution was adopted that the term of office of all Supervisory Board members be terminated as of the day of entry of the transformation into the court register. These Supervisory Board members include: Krenker Drago, Zeba Žan, Slemenik Jurij, Martinjak Krešimir, Tang Yeguo, Jia Shaoqian, Dai Huizhong, Chen Caixia, Gao Yuling, Liu Xin, and Liu Wenzhong. A resolution was adopted that the term of office of all Management Board members be terminated as of the day of entry of the transformation into the court register. These Management Board members include: Lin Lan, Liu Chao, Hou Lu, Yan Anguo, Sun Changchun, Marković Saša, Bahun Drago, Debeljak Žiga, Korošec Tomaž, Pejanović Stanka, Han Jianmin, and Bobinac Franc. A resolution was adopted that as of the day of entry of the transformation into the court register, Lan Lin and Chao Liu be appointed managing directors who shall also be the chief managing directors of the company Gorenje. They shall represent the company Gorenje independently and without limitations or restrictions. A resolution was adopted that as of the day of entry of the transformation into the court register, Franc Bobinac be appointed director and chairman of the company Committee of Directors, that Yeguo Tang, Shaoqian Jia, and Žiga Debeljak be appointed managing directors of the company Gorenje, and that Drago Bahun be appointed managing director representing the workers. The said managing directors shall represent the company Gorenje jointly with the chief director Lan Lin or jointly with the chief director Chao Liu. The said managing directors shall represent the company Gorenje jointly with the chief director Lan Lin or jointly with the chief director Chao Liu. All managing directors were appointed for 5-year terms, and their terms of office may be terminated (they may be dismissed) at any time by a resolution adopted by the sole shareholder. No challenging action was announced at the Assembly.

2. Business Report

2.1 Business Excellence

2.1.1 Creating value for the shareholders

a. Chronological overview of the process of selecting the strategic partnership and the takeover by the company Hisense

February 2, 2018: With regard to the notifications on examining of the opportunities for strategic partnerships and on appointment of financial and legal advisors, released on November 9, 2017, and November 29, 2017, respectively, the Management Board of the company Gorenje d.d. submitted to the public the following information about the conducted activities:

- In December 2017, the company Rothschild & Co contacted on behalf of the Gorenje Group numerous international corporate groups active in the home appliance industry and related industries, to examine their interest in a strategic partnership with the Gorenje Group, which could also lead to participation of the selected strategic partner in Gorenje's ownership.
- Following the execution of a non-disclosure agreement, an information package and a process letter were dispatched in the second half of January 2018 to potential partners who confirmed their interest in further assessment of the potential for partnering with the Gorenje Group.
- The process letter outlined the rules and timing based on which potential partners were invited to submit their indicative offers for the partnership with the Gorenje Group by March 7, 2018.
- Following the assessment of the received indicative offers from a strategic perspective, certain prospective investors were invited to conduct a due diligence review.
- In the second stage, prospective partners were provided with additional information, and they were allowed access to a virtual data room with information on the Gorenje Group, visits to selected Gorenje Group facilities, and meetings with the Group's top management.
- During the continuation of the process, some potential partners directly addressed the major shareholders to discuss the terms of the potential partnership.

March 8, 2018: On March 7, 2018, Gorenje received four non-binding offers by interested strategic partners. All are active in the home appliance industry and all are from Asia. Gorenje reviewed the received non-binding offers on March 13, 2018, and announced the next information regarding the process by March 15, 2018.

- Following the assessment of the received indicative offers from a strategic perspective, certain prospective investors were invited to conduct a due diligence review. In the process of due diligence, potential partners were allowed access to the virtual data room with information about the Gorenje Group starting on March 23, 2018, and they were offered to visit select Group facilities; in April 2018, potential partners were also offered meetings with the company's top management. The deadline for submission of binding offers was May 8, 2018.

May 8, 2018: On May 8, 2018, Gorenje d.d. received three binding offers by interested strategic partners from Asia.

- Along with some of the major shareholders who participated in the process of examining strategic partnership opportunities, and who are committed to confidentiality and to a standstill regarding their trading of Gorenje shares, we reviewed the received binding offers, and released the next update on the process by 15th May 2018.
- Taking into account the provisions of the signed non-disclosure agreements with the interested strategic partners, Gorenje did not comment on any media or public speculations regarding the names of the interested partners.

May 9, 2018: On May 8, 2018, Gorenje received three binding offers from interested strategic partners, based in Asia. On May 9, 2018, two of the best bidders were invited to improve their offers. The Management Board, working with their financial and legal advisors and the key shareholders who actively participated in the process, examined the received offers and the two improved offers.

- The choice of the best bidder was based on strategic elements that formed the foundation for the start of the process of searching for a strategic partnership, on feasibility of the transaction, and on the price offered to the shareholders.

- Taking into account these criteria, the Chinese group Hisense was selected as the best bidder. Hisense offered EUR 12 per share subject to condition that they acquire no less than 50% + one company share in the takeover process.
- The selected bidder committed to announce a takeover intent no later than in 15 days, and to announce its takeover bid to all shareholders within the mandatory deadline.
- The process of the exploration of strategic partnership opportunities was thus completed and Gorenje d.d. would no longer publish any updates on the process unless mandatory by law.

May 11, 2018: On May 11, 2018, the Management Board of Gorenje d.d. received from the agent acting on behalf of the acquiring party, Hisense Luxembourg Home Appliance Holding S.a r.l., Luxembourg (hereinafter referred to as the Offeror), a notification about a takeover intent for the acquisition of the Gorenje d.d. shares.

- In its takeover intent, the Offeror stated that they intend to announce a takeover bid for all shares of the company Gorenje gospodinjski aparati d.d., consistently with the relevant legislation. On May 11, 2018, the takeover intent was also announced in the Delo daily paper.

May 29, 2018: On May 29, 2018, Gorenje Management Board received from the agent acting on behalf of the acquiring party, Hisense Luxembourg Home Appliance Holding, a notification about the announcement of a takeover bid and prospectus for the acquisition of shares of the company Gorenje d.d., at the website: https://www.gorenjegroup.com/si/za-medije/novice/2018/05/8506-Hisense-objavil-prevzemno-ponudbo-in-prospekt-za-odkup-delnic-Gorenja. A summary of takeover bid was also released in the Delo daily paper on May 29, 2018.

May 31, 2018: Pursuant to Article 34 of the Takeovers Act, the Management Board of the company Gorenje announced within the mandatory period of 10 days since the announcement of a takeover bid the opinion of the target company's Management Board about the contents of the takeover bid and prospectus announced by the acquiring party, the company Hisense Luxembourg Home Appliance Holding, on May 29, 2018.

- The Management Board found that the goals specified by the acquiring party in its takeover bid were beneficial for Gorenje Group's future operations and allowed its further development and growth in a fiercely competitive white goods industry.
- The Acquiring Party specified four key areas in which major synergistic effects could be reaped after the takeover:
    i. improvement in the efficiency and utilization of resources through connecting and shared use of production capacity and procurement;
    ii. integration of global distribution channels and resources to establish complementary geographical coverage and brands;
    iii. integration of research and development resources for complementary product development; and
    iv. sharing of global marketing and promotional activities to strengthen Gorenje's brands.

June 28, 2018: Based on the takeover bid for the acquisition of Gorenje shares, announced by the company Hisense Luxembourg Home Appliance Holding on May 29, 2018, and which lasted until and including June 26, 2018, Hisense acquired further 62.46 percent of all issued Gorenje shares. Hisense also announced that the takeover bid had been successful:

- The takeover bid at EUR 12 per share was accepted by 5,165 Gorenje shareholders who had held a total of 15,254,871 GRVG shares. Complete with the shares acquired before the announcement of the takeover bid (32.96 percent of GRVG shares), the company Hisense Luxembourg Home Appliance Holding thus owned a total of 95.42 percent of all issued Gorenje shares.

July 3, 2018: On July 02, 2018, Gorenje received the decision by the Securities Market Agency (ATVP) on the success of the takeover bid for GRVG shares announced by the company Hisense Luxembourg Home Appliance Holding on May 29, 2018, this year, and which lasted until June 26, 2018:

- On May 28, 2018, the Securities Market Agency (ATVP) issued to the company Hisense Luxembourg Home Appliance Holding a permit for a takeover bid for 24,424,613 shares with the symbol GRVG, minus the 8,050,014 shares that the acquiring party had already held, i.e. for a total of 16,374,599 shares of the target company Gorenje.
- Hisense Luxembourg Home Appliance Holding informed the Agency that 5,165 shareholders accepted the takeover bid between May 29, 2018, and June 26, 2018, who held a combined total of 15,254,871 GRVG shares, which represents 62.46 percent of all Gorenje shares.
- Thus, the Securities Market Agency found that the takeover bid had been successful.

August 9, 2018: The European Commission announced that it has on August 6, 2018, issued a decision regarding the proposed concentration between Hisense Group and Gorenje Group based on Article 6(1)(b) of The European Council Merger Regulation. It follows from the said announcement that the European Commission found that the proposed concentration is compliant with the single market, and approved it. The decision by the European Commission is available at the following link.

September 17, 2018: At the 27th Shareholders Assembly of the company Gorenje d.d., the shareholders supported the squeeze-out of minority shareholders, i.e. a transfer of the remaining GRVG shares currently not yet held by the company Hisense Luxembourg Home Appliance Holding to this majority shareholder, while the remaining minority shareholder would receive a compensation of EUR 12 per share.

- The shareholders voted in favour of the reduction of the company share capital by withdrawal of 121,311 GRVG shares that accounted for 0.4967 percent of total share capital. After the decrease of share capital, the company share capital was divided into 24,303,302 ordinary freely transferable registered no-par value GRVG shares. The purpose of the decrease in share capital was to increase Gorenje's return on equity.
- The majority shareholder of the company Gorenje d.d., the company Hisense Luxembourg Home Appliance Holding, holds 95.42 percent of the share capital of the company Gorenje. All GRVG shares not held by the majority shareholder (1,119,728 shares) would be transferred, based on the Shareholders Assembly resolution, from the remaining minority shareholders to the majority shareholder. The majority shareholder, in turn, paid a compensation, in cash, in the amount of EUR 12 per every GRVG share transferred to the majority shareholder, which is the same form and amount of compensation as the price per share offered in the takeover bid.

October 26, 2018: On October 26, 2018, the company Gorenje d.d. received from the District Court of Celje the decision No. Srg 2018/42349 dated October 26, 2018, on the entry of the resolution to transfer the GRVG shares by the remaining shareholders to the main (majority) shareholder, i.e. the company Hisense Luxembourg Home Appliance Holding S.á r.l., and of the resolution to withdraw the GRVG shares from the regulated market, into the court register.

- Based on the effective Shareholders Assembly resolution on the withdrawal of shares from the regulated market, the date of withdrawal from trading at the stock exchange was November 5, 2018. Transfer of GRVG shares from the accounts of minority shareholders to the account of the main (majority) shareholder was carried out on November 7, 2018, based on the agreement with the Central Securities Clearing Corporation.
- Consistently with the Shareholders Assembly resolution, Gorenje shares were withdrawn from the regulated market of the Ljubljana Stock Exchange on November 6, 2018, and from the regulated market of the Warsaw Stock Exchange on January 11, 2019.

b. Transparency of public announcements

We maintained **transparency** through communication with the shareholders, financial analysts and institutions, the media, and the general public. We released regularly and in a timely manner all relevant information on the procedure of selecting the strategic partnership, and the takeover by the company Hisense.
All regulated and price-sensitive information were disclosed in:

- Slovenian (a total of 60 press releases) and English language (a total of 60 press releases) in the Ljubljana Stock Exchange electronic information dissemination system, the SEOnet (www.ljse.si),
- English language (a total of 58 public announcements) on the Warsaw Stock Exchange via the ESPI system (www.gpw.pl), and
- on our corporate website at www.gorenjegroup.com.
- Convocation of the Shareholders Assembly and announcement of the Shareholders Assembly resolutions were, pursuant to Gorenje d.d. Articles of Association and Rules of Procedure for the Shareholders Assembly, also announced in the Slovenian daily paper Delo.

c. Investor relations

We are available by e-mail and telephone for any questions from investors, analysts, and other members of the financial community (www.gorenjegroup.com/si/za-vlagatelje/kontakt-za-vlagatelje).
Contact person for investor relations is Bojana Rojc, tel.: 03 899 1345, e-mail: bojana.rojc@gorenje.com.

2.1.2 Development of key segments

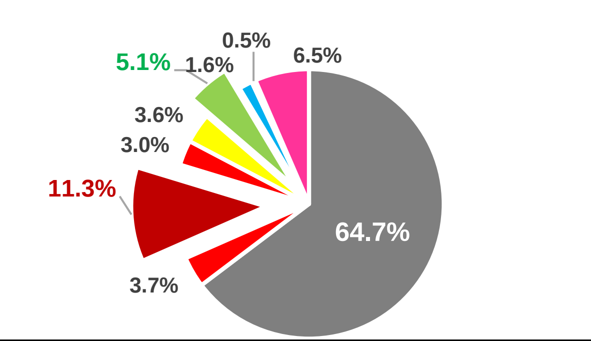
2.1.2.1 Brands

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

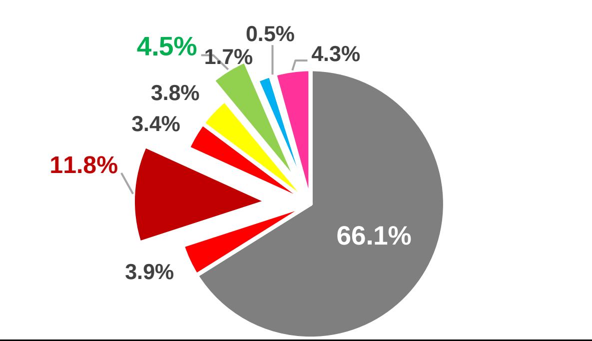
Our technologically perfected, innovative, energy-efficient and superiorly designed domestic appliances offer users in 90 countries across the globe a simple, intuitive user experience and simplify their lives.

In 2018, the share of sales of major domestic appliances under the brand Gorenje increased by 1.4 pp in comparison to the previous year. Sales also rose under the Asko premium brand (0.3 pp), while the share of the Atag sales fell by 0.6 pp.

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



Structure of sales of in-house major domestic appliance brands relative to total revenue from sales of major domestic appliances within the core activity Domestic Appliances (2018; value terms)



Conditions in the markets

WESTERN EUROPE

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

Operations and performance in 2018:

Economic growth slowed down in the Western European markets in 2018, which in turn led to stagnation in demand for home appliances. The slowdown was largely a result of weaker growth of foreign demand, and the resulting lower contribution of net exports to GDP growth. Demand for domestic appliances declined the most in the two largest markets (Germany, Great Britain); it was stable in Italy, while Spain saw home appliance sales increase. Due to increasingly harsh competition in the industry and in retail, average price in the market continued to drop, regardless of the fact that home appliances are increasingly advanced products.

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

EASTERN EUROPE

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

Operations and performance in 2018:

Countries of the Eastern European region **vary considerably in terms of the level of economic development**. On the one hand, there are highly developed economies strongly integrated into international trade (Czech

Republic, Slovakia, Poland, Hungary, Slovenia); on the other hand, there are countries with feeble economies (Albania, Montenegro, Macedonia).

The region of the Commonwealth of Independent States (CIS) includes the following countries: Russia, Belarus, Ukraine, Moldavia, Kazakhstan, Kyrgyzstan, and the countries of the Caucasus region (Armenia, Georgia, Azerbaijan, Tajikistan, Turkmenistan, and Uzbekistan). The characteristics of countries in this region include political instability, fluctuation of local currencies, import and other duties, and special requirements for appliance certification. Competition in the market is further tightened by local manufacturing by major Western players in the industry.

Home appliance sales in Eastern Europe increased by 4%. The trend has been positive in all countries, and especially in Hungary, Croatia, and Slovakia. In the CIS region, sales increased by as much as 12%; a similar trend can be observed in Russia, Ukraine, and Kazakhstan.

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

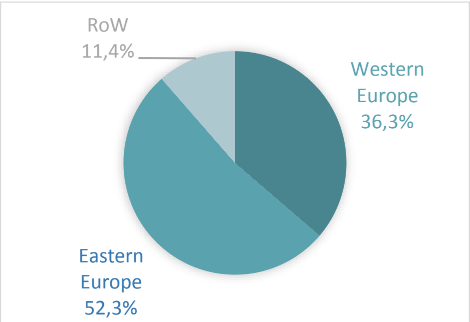
REST OF WORLD

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

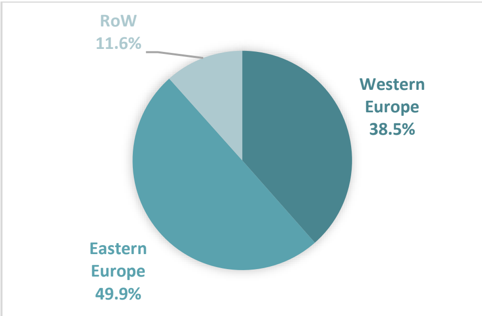
Operations and performance in 2018: This is an extensive and diverse region consisting of highly developed economies like USA and Australia, underdeveloped countries, and developing countries and emerging markets (like China and India) characterized by a rapid pace of urbanization. Just like the regions and segments differ, so do the trends in home appliance demand. Global demand grew by 6% in 2018, with 2% growth rate in the Asia/Pacific region, and 6% growth rate in Latin America. Growth trend will continue in 2019, as it is estimated that sales will rise by further 6%.

Gorenje brand

Structure of sales revenue in the core activity Domestic Appliances by regions in 2018



Structure of sales revenue in the core activity Domestic Appliances by regions in 2017



<u>Sales results</u>

In most Western European markets, we pursued the **policy of pricing repositioning, and improved our sales structure**. This was reflected in sales growth in the innovative segment. We successfully launched new products that consolidate our market position.

Relative to the year before, sales of domestic appliances under our own brands **were 3 percent lower in value terms.** Due to repositioning and a declining market, our sales were lower in Germany and Great Britain. In Austria, Scandinavia, and France, our revenue was up from the year earlier.

Consistently with the Gorenje Group strategic plan, we sought to drive up the sales of appliances with higher value added. These include innovative appliances, with sales up 11 percent; their share in total sales revenue increased to 20.3 percent (+2.6 percentage points relative to last year in comparable terms).

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

In the second half of 2018, we successfully launched in the markets of Western Europe the new generation of washing machines and dryers that saw a very warm welcome from the end customers.

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

In Eastern Europe, sales of **major domestic appliances have grown in 2018 by 3.0 percent in value terms**. Growth was mostly fuelled by the exceptional sales increase in Romania where they were up by 30 percent in value terms. In addition to Romania, the steepest sales growth was recorded in Bulgaria, Hungary, Slovakia, and Poland. Sales in the Commonwealth of Independent States (CIS) was increased in Ukraine with a 19% growth rate in value terms, and in Kazakhstan with 14% growth in value terms. In Russia, we faced currency risks throughout the year, as well as the merger of two of the largest electric retail chains that, combined, account for nearly 60 percent of the white goods market. This brought about some additional challenges for us, compared to some of our competitors who manufacture their products locally.

Despite the uncertain conditions, **Russia was a key market** for the Gorenje Group. In 2018, we again used multiple sales channels: retail stores, wholesalers, kitchen studios or kitchen specialists (stores specializing in retail of kitchen furniture and appliances), and online sales that is on the rise.

In 2018, Gorenje increased its market shares in Croatia, Serbia, Slovenia, and the CIS region.

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

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

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

In 2018, we carried out for the first time at Gorenje Group a **uniform regional marketing campaign for the new generation of washing machines and dryers**.

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

In the **Middle East and North Africa**, we succeeded in maintaining our market shares despite the harsh political and economic conditions. We are focused on our strategic markets (Saudi Arabia, United Arab Emirates, Iraq, and Egypt) and we worked with our business partners in charge of our distribution in these markets to develop a sales strategy that will allow us to efficiently tackle the local challenges. In Saudi Arabia and United Arab Emirates, we are intensively focusing on project (real estate development) deals. Moreover, we are expanding our operations to the markets of the entire Africa, with emphasis on the Republic of South Africa.

For Gorenje brand operations in the **Far East**, the year 2018 was characterized by the start of integration into the Hisense Group, and adjustment of business processes and strategies. The market of China is becoming of paramount importance, as we started to change our sales model there, and to upgrade our business plans for the years ahead. Gorenje also remains devoted to and focused on sales in the sector of contractual supplies and construction projects where we have the status of a European premium home appliance provider, and we are looking to promote our sales in this sector. In 2018, Hong Kong is the most important market for us. Our company in Bangkok, opened in 2017, continues to develop its business activities consistently with the strategic policies laid down, and consistently with the integration processes planned out with Hisense. Particular attention is paid to the sector of contractual supplies and real estate development, where we are winning ever more deals, both in Thailand and in the surrounding markets. In the future, Vietnam will also be a priority market, in addition to Thailand, as high growth rates are expected there in the years ahead.

The year 2018 was relatively successful for Gorenje's companies in Brazil and Chile. Despite the very closed Brazilian market, the year 2018 broke records in terms of both sales and profitability. In this market, we are present with a limited range of products, and we are positioned in the highest price segments. We have also succeeded in justifying the purpose of our own company in Chile, as we increased our sales relative to the year 2017. We succeeded in winning many contractual supply deals in real estate development and other construction projects, which ensures revenue for several years to come. Simultaneously with the development of sales and affirmation of the Gorenje brand in the Chilean market, we launched in 2018 the process of integration of our companies with the Hisense Group.

In OEM and industrial deals, however, we saw a 32-percent slump relative to the year before, especially due to poorer cooperation with our Swedish partner Elektroscandia, and degradation with cross-cooperation with Italian partners like Smeg and Franke. The year also did not end up well for Red Bull sales.

Targets for 2019: We are expecting a drop in **demand for white goods in Western Europe**. We expect the sales of our products to grow as we implement our sales channel strategy. Germany will still head the list in terms of sales, yet taking into account the synergies in Gorenje brand management along with Austria. Considering the positive changes and the introduction of new, innovative appliances, we expect our position to improve in 2019. An additional goal is to improve the efficiency of third-party sales units by reaping the synergies with Hisense.

In Eastern Europe, we shall focus on revenue growth and strengthening of our market position by sales of built-in cooking appliances and re-launch of the new generation of washing machines. The increase in market shares of major domestic appliances is expected in Poland and Romania, while in other markets we will defend the existing positions. Considering the integration processes with the Hisense Group and the Group's plans, the key goal in 2019 is to increase sales in all select markets around the globe. Our most important goal is to improve sales and Gorenje brand recognition in the markets of Thailand, Vietnam, Chile, Brazil, United Arab Emirates, Saudi Arabia, and the Republic of South Africa.

New products in 2018

The key novelty in 2018 was the launch of the new generation of washing machines and dryers. The products were unveiled at the IFA tradeshow where other new developments were premièred as well. At IFA, we also showcased our concept of connectible appliances.

Cooking appliances:

- Presentation of the new generation of induction hobs
- Launch of sales of the new generation of glass ceramic hobs
- Presentation of the compact 3-in-1 oven
- Presentation of prototypes of the Simplicity 2.1 line of appliances in matching design
- New generations of 71-lit ovens
- New design of our Essential line
- Basic range of Hisense appliances

Cooling appliances:

- Presentation of the first synergies with the new owner Hisense through a showcase of side by side refrigerators under the Gorenje brand
- New assortment of products with a width of 55 cm.
- Introduction of concealed handle on products with a height of 185/200 cm
- New colour of the VW Bulli refrigerator
- Launch of retro refrigerators in new colours

Washing machines and dryers:

- Successful launch of the new generation of washing machines
- Added two new dimensions/depth of washing machines
- Successful launch of tumble dryers
- Increase in sales of appliances with inverter technology
- Increase in sales of dryers with a heat pump

Dishwashing appliances:

- Presentation of improved models with better efficiency regarding energy consumption
- Adding models depending on the needs of the markets
- Dishwasher for the Simplicity 2.1 line
- Preparing the Hisense models for the Western European markets

Market communications activities

At the central market communication department, we have developed all-around support for all new product launches, product categories, and related services in 2018 (integrated online and offline solutions). Media leases, localizations, and preparation and printing of a variety of printed materials were the responsibility of respective local markets (77 printed publications for 18 countries were prepared at the headquarters). Taking into account the position and recognition of the Gorenje brand in respective markets, we are working with the headquarters to specify concrete goals and performance indicators.

At the end of 2018, we successfully carried out, consistently with the development vision of the brand's market communication department, two global ATL communication campaigns in all of our markets, with particular focus on Eastern and Southeastern Europe, which were entirely managed and monitored form the headquarters.

We continued to upgrade the existing general manual for Gorenje's visual identity, and to develop a visual identity manual for Gorenje Studio. We also upgraded the Gorenje Highlights presentation and catalogue that the markets use when they are looking to present Gorenje to potential customers or other business partners.

Consistently with the relevant starting points, we prepared packages of communication solutions to support sales upon launching new products in the markets.

Our recommendations for media distribution and preparation of contents are focused on digital channels and BTL marketing in combination with ATL marketing, especially in markets where Gorenje brand power is high (Eastern Europe, Adriatic region).

Key activities

We devoted the most of our attention to support of the new generation of WaveActive washing machines and dryers, which included a 2-month (September–November) campaign that involved ATL and BTL activities; at the same time, we organized and conducted a global event upon launch of the products to the market for 250 of our key business partners / customers from around the world.

In addition, we prepared all-around communication packages for other new product launches as well.

- OmniFlex induction hobs and HighLight hobs
- Combined steam oven and update of the existing offer of conventional ovens (facelift)
- IonGeneration fridge freezers
- Retro collection refrigerators in new colours
- Gorenje Colour collection (appliances in a variety of colours)

We approached more intensively the development of contents **for social networks**: blog, Facebook, and Instagram. The headquarters also manages and deals with the contents of the Gorenje Global Instagram profile. Contents in video and other conventional formats were prepared each month for one month in advance, and they were submitted to our local markets for localization and posting on their local profiles which they are managing. We are also setting ourselves clear goals. We regularly/periodically measure their attainment and we upgrade, change, and test our solutions accordingly.

For the eleventh consecutive year, we took part in the largest white goods and consumer electronics tradeshow IFA 2018 in Berlin. Our appearance conveyed an umbrella story of "Fans of Simplified Life". We developed comprehensive communication support for this important event: concept, graphic solutions, activations at the tradeshow venue, printed material, Life Simplified magazine, and communication support online and in social media. Moreover, we developed the concept, organized, and carried out a special event during the Berlin tradeshow, and invited 250 business partners from around the globe.

Throughout the year, we were consistently building the **#simplyfans** community within our handball sponsorship. We actively supported the Champions League during all games, and added extra activation support at the Final4 event in Cologne. Sponsorship of Men's European Championship that took place in January in Croatia brought a remarkable bounty of media attention and exposure. In the second half of the year, we were focused in particular on the social networks and on the upgrade of the contents on our website and in the social media.

Asko brand

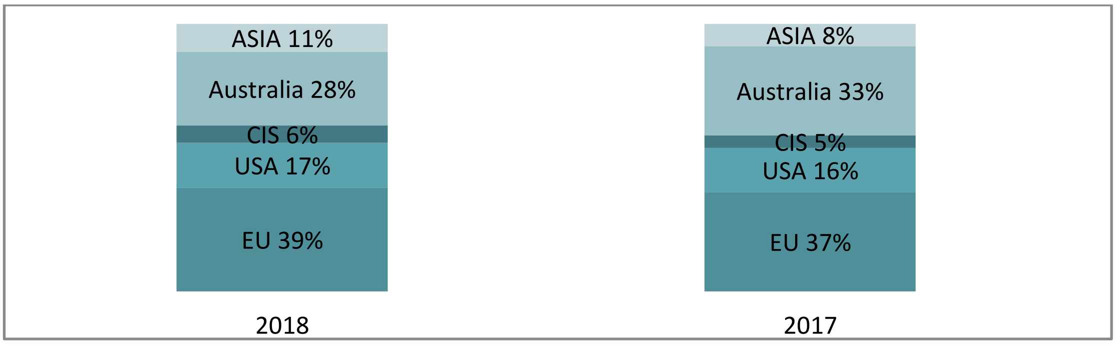
Asko is a Swedish brand of upscale major domestic appliance, which is looking to become the leader in the upmarket segment in select markets across the globe. It offers a comprehensive range of premium, upmarket major domestic appliances and a limited range of laundry care appliances and dishwashers for professional use. The goal of the Asko brand is to meet and exceed customer expectations with their products and services. Elegant and minimalist design of products embodies the Scandinavian philosophy and ensures that each product stands out from the competition.

Sales (by regions)

In 2018, Asko sales increased by 2.6 percent relative to 2017 in all geographical segments.

Growth was particularly steep in Russia (+39 percent), followed by Asia (+28 percent), EU (+6 percent), and the USA (+4 percent). In Australia, the successful performance from 2017 did not continue, mostly due to high pressure by the competition on the prices, as well as due to the effect of the depreciation of the Australian dollar. Competition was felt the most in sales of dishwashers, which dropped by over 20%. In total, sales in Australia decreased by 16% relative to the preceding year.

Structure of Asko brand sales revenue in value terms by regions in 2018, value terms



Activities in 2018

- Launch of a new line of washing machines and dryers ended with the launch of an additional user platform "Classic" and "Logic" in all markets.
- A new drying cabinet was introduced, with design that matches the new series of washing machines and dryers.
- Launch of new dishwashers of the 40.2 series was completed in all markets.
- A new series of built-in refrigerators and freezers was also launched.
- Following the Eurocucina exhibition in Milan, a new series of kitchen appliances "black steel craft series" was introduced.

Targets for 2019

Asko is forecasting a 14-percent increase in sales, owing to:

- New product launches:
  - "Style" washing machines with detergent and softener auto-dosing function;
  - Dishwashers of the 40.1 series;
  - New cooking hobs with the "flash induction" function and a size of 80 cm;
  - New cooking hob with an integrated extractor fan;
- Further intensive development of sales of built-in kitchen elements via the kitchen retail channel; The "Milan Design Week", taking place in April 2019, will be a key moment for this strategy;
- Launch of sales in new markets (Switzerland) and stable growth in existing markets;
- Aggressive growth in China where we will, owing to the changed sales model and the new owner, increase our sales more than four-fold.

Atag brand

ATAG Benelux with its three Dutch brands – Atag, Pelgrim, and Etna – is active in the following market segments: kitchen retail or kitchen studios, replacement market, and real estate development (construction) projects. With its clearly defined position – high, mid, and entry-level – each brand addresses a different target group.

The upmarket brand Atag offers the best products and services for exciting cooking experiences driven by innovation and design, while Pelgrim offers cooking appliances that are practical and efficient and make life in the kitchen easier. Etna offers products for price-sensitive customers looking for the best price-to-quality ratio.

Benefits for the user

From the very start, Atag Benelux has been nurturing a passion for cooking. In its specialized cooking appliances competence centre in Duiven, the Netherlands, a lot of attention is paid to whether a product offers enough value to the end user. They do this with the help of groups of consumers who provide clear opinions and insight that is key for taking the right direction regarding innovation. Only thus is it possible to create cooking appliances that support the end user in the cooking process, and which make the process as easy as possible. At the same time, a lot of effort is invested in the choice of the right materials, and carefully thought-out design, not only of the appliance exterior, but also their interior (e.g. ovens, refrigerators, dishwashers). As a result, Atag is a perennial recipient of many design awards (including Red Dot, GIO) for the right balance between the robust and the sophisticated, between craft and technology.

Sales results (by market segments)

In 2018, the company Atag Benelux introduced a new distribution strategy that has shown positive effects on the sales of the Pelgrim brand (major emphasis on kitchen specialists) and sales of the Etna brand (focus on both online and conventional sales). Atag brand (broad distribution with an exclusive range of products for specialists) suffered throughout the year due to stringent competition in the kitchen studio segment.

Overall, Atag Benelux slightly improved its revenue relative to 2017, but it still fell short of the 2018 sales targets.

New products

During the annual event Benelux House Show, new products were presented to the customers, such as the Atag Black Steel line, a downdraft extractor (integrated into the hob) for all brands, and the Etna Retro line.

Targets for 2019

- For 2019, ATAG Benelux is forecasting an increase in revenue by approximately 7 percent.
- Improvement in recognition of the Atag brand with structured and constant consumer campaigns.
- Development of distribution strategies by respective brands.
- Optimization of logistics and after-sales and servicing organization (including user experience).

2.1.2.2 Programs

Cooking appliances

Program presentation

The Cooking Appliances program with development and production units in Slovenia, the Czech Republic, and Netherlands, accounts for 40 percent of total sales revenue in the Domestic Appliances business and has about 1650 employees. Annually, we sell 2.7 million cooking appliances in markets across the globe, of which 1.5 million are produced in-house, while nearly 1 million are supplementary program appliances, which mostly include kitchen hoods and free-standing microwave ovens.

The program includes the following product categories:

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

Focus 2018

in 2018, the program reached revenue of EUR 410 million, which is less than in 2017. We sold 2.7 million appliances, yet the sales fell short of the budget, especially in the last quarter of 2018. In 2018, we were focused especially on improvement of quality of our premium products, improvement of productivity, and execution of the development projects planned according to our roadmap.

Research and development: Sale under our own brand requires focus on research and development. Currently, projects are under way that are related to new technologies and cooking concepts, energy efficiency and alternative heating sources. New product development is based on meeting the expectations of the end user. Also, we are considering the production aspect from the very start of the product concept and planning, especially the principle of modular product development that also allows a higher rate of automation. In 2018, we launched a new platform of mid-range induction hobs, and we were also focused on the development of a new platform of built-in ovens, premium induction hobs, and premium extractor hoods.

Production: The main emphasis of production in 2018 was on optimization of production of free-standing cookers in the Czech Republic, especially in terms of improvement of quality and productivity. In Velenje, activities were focused especially on cost optimization of production and improvement of flexibility of production to the needs of sales.

Quality management: Product quality and continuous improvement of key quality assurance processes are among the strategic policies of the program. In 2018, the main focus was on improvement of quality of the premium platforms of appliances and kitchen hoods. The quality of these products in the market has improved considerably.

Targets for 2019

In 2019, our activities will be devoted to cost-cutting in all areas, further improvement regarding quality, new product development consistently with our product roadmap, and alignment of our business processes with the Hisense Group.

Refrigeration appliances

Program presentation

Most appliances of this program are made in the factory in Valjevo, Serbia, which is Gorenje Group's largest manufacturing plant outside Slovenia, with 1,360 employees. A part of the cooling appliance production also takes place at the Velenje plant, which belongs to the dishwasher factory in organizational terms. In late 2018, the project of relocating a part of the production from Velenje to Valjevo started. The share of complementary program is 20 percent. Most appliances are sold to direct customers, customers in Germany, and customers in Serbia.

Predominant part of cooling appliances is made under the Gorenje brand, followed by OEM brands and the brands Atag, Etna, Pelgrim, and Asko.

The program's development and competence centre with 52 employees is located in Velenje.

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

Focus 2018

Revenue from sale of finished appliances to the market amounted to EUR 235 million in 2018, which is less than in the year before. In total, 965,750 appliances were sold to the market, of which 769,609 were appliances of our own production and 196,141 were appliances from the complementary program.

Main projects:

- Introduction of integrated handle on free standing fridge freezers with a width of 60 cm
- Development of a new generation of free-standing fridge freezers with a width of 60 cm
- Introduction of free-standing fridge freezers with a width of 54 cm from the complementary program, and discontinuation of our own production
- Activities for cost optimization of appliances
- Preparatory activities for the shift of cooling appliance production from Velenje to Valjevo
- Improvements in terms of quality (noise, door bending on retro refrigerators, leaks in the refrigeration system etc.)

Targets for 2019

Successful execution of the shift of production from Velenje to Valjevo, further successful optimization of costs, and new product development.

Cost-cutting activities:

- Optimizing the costs of direct and auxiliary material
- Improvement of productivity by implementing the principles of lean manufacturing
- Reduction of complexity – discontinuation of 30% of codes
- Optimization of material and work in progress inventory turnover

New product development:

- Introduction of appliances with fire-proof back wall, consistently with the new EU directive
- Further development of a new generation of free-standing fridge freezers with a width of 60cm
- Overhaul of freezer chests
- Preparation of the project for revision of under-counter appliances for an OEM buyer

Washing machines and dryers

Program presentation

Consistently with our strategic policies, we followed in 2018 the growth of sales of premium and innovative appliances under the brands Gorenje, Atag, and Asko. In 2018, production of washing machines and dryers took place at two locations until the end of August: mostly in Slovenia and, to a lesser extent (washing machines) in Zaječar, Serbia. The program employs on average 670 people. In all markets combined, we sell around 715,000 appliances per year.

Our production range includes:

- Washing machines of various dimensions (normal, slim etc.), technical characteristics, and lines
- Tumble dryers
- Our offer is expanded with combined washing and drying machines and drying cabinets, which are sourced from third-party manufacturers and then marketed under our own brands.

Focus 2018

In 2018, the program was at the milestone of changing the appliance generations under the Gorenje brand. We launched mass production already in March.

The new generation improves appliance friendliness, competitiveness, and quality. Major emphasis was also placed on improvement of appliance quality, cost efficiency of the program, and inventory optimization.

Research and development: Premium category: development of the highest level of Asko appliances Style, and development of professional appliances

Mid-segment category: development and introduction of a new generation of Gorenje washing machines and dryers

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

In 2018, we were intensively introducing a new generation of washing machines and dryers in the mid segment. We continued to optimize appliance production and to improve the material flow in order to make production even more efficient, with minimum inventories of raw materials and semi-products in all production processes.

In 2018, we continued our activities to decrease production costs and the share of scrap or waste.

Quality management: In quality management, we were focused in 2018 on successful launch of the new generations of washing machines and dryers under the Gorenje brand. Activities for attainment of this goal included the following:

- Quality in the production process – tighter quality during assembly, worker training and education, informing the workers about the errors identified in production and in the market.
- Active work with critical suppliers: video conferences, audits, shared analyses of material subject to customer complaints or warranty claims.
- Testing – increased number of tests in the run-in laboratory, first series were only released after successful test results.
- Monitoring the quality in the market – in order to quickly identify errors, we worked actively with service networks (Croatia, Bosnia and Herzegovina, Serbia, Slovenia), which proved successful. Improvements were introduced to production for the top 3 errors already at the end of the year.

Targets for 2019

In 2019, we will continue our present activities, with focus on:

- full integration of the Plastics plant into the program,
- development of Asko Professional appliances,
- own development of electronics for washing machines and dryers,
- improvement of appliance quality, cost efficiency of the program, and inventory optimization.

We have to continue our systematic work, and, even more importantly, upgrade all processes. Continuous improvement of quality is a duty of all employees, and it is a priority in the program's guidelines.

Dishwashers

Program presentation

This is the youngest program within the Gorenje Group, and currently the smallest in terms of volume. However, it has seen high growth of production output and sales, and stable level of supplementary program in comparison to the previous year. In 2018, our market shares in the EU 28, according to GfK, reached 2.3%.

The program includes the following departments: dishwasher development department, headquartered in Sweden (Lidköping); dishwasher and cooling appliance production; quality management department; dishwasher product management department; and department of program performance monitoring and supplementary program sourcing in Slovenia (Velenje).

Focus 2018

Research and development (Lidköping): Our development activities are targeted at the launch of a new premium platform with a width of 60 cm. In 2017, we prepared the first part of the project, and we shall complete it presumably in the first quarter of 2019 when we launch the basic version of the premium class. The premium appliance versions also include a model intended for professional use, which was launched in the market in the second quarter. Working on the same platform, our development is also active on the connectible appliance project. This will involve launching by the end of 2019 an appliance that can connect to other appliances via WiFi protocol.

As we complete the DW40 project, capacities will be released, and we will be able to focus on the development of a new generation of appliances that are expected to hit the markets in 2021/22.

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

Our dishwashers scored very well in a variety of tests. The most prominent among them was the first-place ranking of our Asko dishwashers in Australia where the Choice Magazine, in addition to the top spot, also ranked our appliances in the third, seventh, and fourteenth place.

Production (Velenje): Production plant in Velenje has a capacity of 240,000 dishwashers per year. Currently, this capacity is not fully utilized, but we expect it to be fully utilized in two years, and increased thereafter. Capacity expansion is related to investments that are in the preparation stage.

Targets for 2019

The fundamental goal of the program is profitable operation consistently with the adopted strategic and annual plan for the Gorenje Group. This will involve efforts to improve productivity, optimize processes in production in compliance with the company guidelines, and launch of new products consistently with the adopted development document, as follows:

- DW40.C 16A – new platform for a semi-professional dishwasher
- DW40.1 – entry level for the new premium platform
- DW40.2 – connectivity – connectible. smart appliances

Small domestic appliances (SDA)

Program presentation

The SDA program continued its rapid growth of sales in 2018, which rose by as much as 11 percent in comparison to 2017. Compared to 2015, sales nearly doubled. With record sales growth, we reached the number of 2,000,000 appliances sold. Our growth was the fastest in Romania, Poland, and the Czech Republic.

By sale of small domestic appliances, we were focused especially on European markets and the CIS region: sales in the EU markets accounted for approximately 47 percent, while sales in markets beyond Europe accounted for 53 percent. The most important markets for sale of small domestic appliances under the Gorenje brand are Serbia, Russia, Ukraine, Romania, Slovenia and Croatia.

Sales of small domestic appliances include a seasonal component. In 2018, they were again the highest in the last quarter that accounts for more than 31 percent of the annual sales; sales in the third quarter account for 26 percent, and sales in the first half of the year account for 43 percent.

Research and development: We invested intensively into new product development. We launched around 97 new products that considerably improve the competitiveness of our product portfolio. We continued to intensively invest into development of new product platforms and new product collections, like HEAD by Gorenje, Gorenje Retro, and Gorenje Ora-Ïto. Our new collections and developed platforms are the basis for strengthening our positions in the markets where we are strongly represented. This is the foundation for further expansion of the SDA program to new markets, especially in the Western Europe and in overseas markets.

Working with one of the most renowned sports equipment manufacturers HEAD, we designed the HEAD by Gorenje collection that includes the 2-in-1 "Nutri Blender" and a connected kitchen scale. Thus, we developed Gorenje's first connectible small domestic appliance. This also involved the development of an application that allows quick and easy preparation of drinks, with recipes contributed by HEAD athletes, as well as calculating the nutrient value of the ingredients.

The new platform of G·Force vacuum cleaners was regularly supplemented with new appliances, which has had a considerable effect on improvement of competitiveness in the vacuum cleaner segment.

We also developed and supplemented the segment of hair care products Beauty Collection, where Gorenje had not been present previously. We have developed a distinctive concept of colourful products and packaging aimed at younger consumers.

Working with the globally renowned designed Ora-Ïto, we designed a collection of small domestic appliances. The family includes a blender, hand mixer, immersion blender, kitchen scale, water heater, and a toaster. It is intended for more demanding customers who appreciate the value of outstanding design also in the small appliances used every day.

Also targeted at more demanding customers is the Retro Collection (blender, hand blender, water heater, toaster, and tabletop kitchen robot) that blends in with the line of Gorenje Retro refrigerators.

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

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

In 2018, we conducted loyalty programs in cooperation with major retail chains throughout Europe. We will continue to do so in 2019.

Targets for 2019

In 2019, we are planning to increase our sales, and especially to enter new markets beyond Europe. The emphasis of all our activities will be placed on the following:

- increasing our market shares in Eastern Europe, and more intensive entry into new markets,
- more efficient supply chain management,
- further improvement of product assortment and competitiveness,
- introduction of a new Gorenje Life Collection,
- introduction of new G·Force vacuum cleaner models.

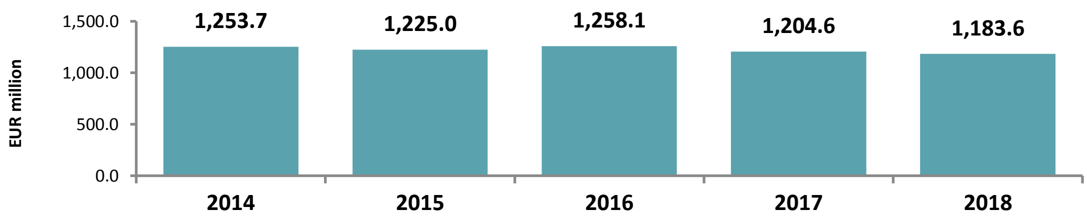
2.1.3 Business performance

2.1.3.1 Gorenje Group performance highlights

Gorenje Group's economic performance in 2018 was affected significantly by **non-recurring (one-off) and extraordinary events**. In the process of integration with the Hisense Group, Gorenje Group changed in 2018, due to adjustment to the Hisense Group's business strategies, operating plans, assumptions, and appraisal methodologies, some accounting estimates, as they differ from the ones Gorenje Group held before the acquisition. If Hisense had not entered Gorenje's ownership, the changes to the accounting estimates would not have occurred. Moreover, the normalized results do not include the results of **discontinued operations** (five companies in the business area of Ecology where the company Gorenje Surovina d.o.o. is the main company), and the **coal trade** business. Therefore, comparable (normalized) categories are commented below, excluding the above effects. The financial part of the report and the financial statements attached herewith, however, present the actual results.

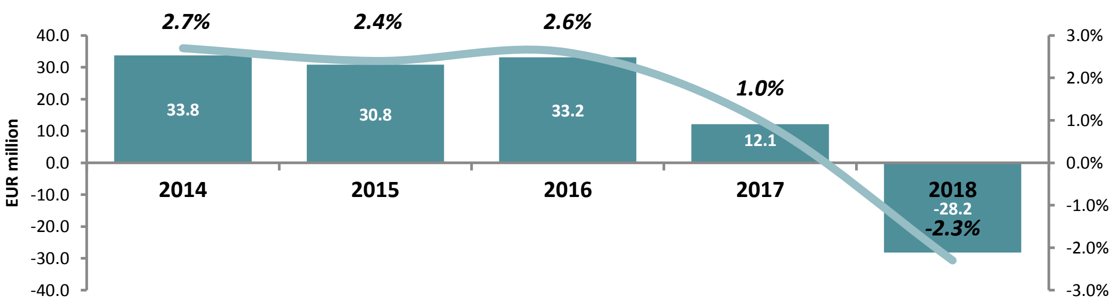
- We generated **sales revenue of EUR 1.184 billion**, which is **1.7 percent** less than in 2017.

Sales revenue



- Sales revenue in **Domestic Appliances** reached **EUR 1.074 billion**, which is **1 percent less than in 2017**.
- Sales revenue increased especially in the markets of Eastern Europe and in the markets where we are marketing the Asko brand. The largest drop in sales was seen in OEM deals, which is largely related to the change in the Group's ownership and the process related thereto. We have also seen a drop in some markets of Western Europe, particularly in the Benelux countries and Germany, which is also a result of price repositioning, restriction of sale of products with inadequate returns, harsh competition, and the process of search for a strategic partner and the change in Gorenje Group's ownership. Due to uncertainty related to the result of the progress of searching for a strategic partner, higher commercial investments were required in all key markets to maintain our positioning and presence in the distribution channels. This, in turn, had a negative effect on both revenue and the entire sales performance.
- In 2018, we completed in the business area of Domestic Appliances a several-year cycle of intensive investments that included new generations of products in all product categories for all key brands. As a result, we had suitable products available in 2018 to be supplied to the market. As a part of the digitalization project, nearly all appliances that we offer are connectible. We started our deliveries of connectible appliances under the Atag brand to our business partners in the Netherlands (installation in smart homes, or apartments, in the Netherlands).
- Sale of premium appliances in the structure of major domestic appliance sales decreased to 27.8 percent, which is 1.2 percentage point less than in 2017. Contributing the most to this development was the drop in the Benelux countries. On the other hand, our sales of innovative appliances increased. Their share in total major domestic appliance sales revenue increased to 22.7 percent (increase by 1.6 percentage point relative to 2017).
- Gorenje Group continued to increase its investments into development to support the growth and structural advancement of sales. We invested EUR 29.9 million into development (EUR 3.3 less than in 2017), which accounts for 2.5 percent of total Gorenje Group revenue (on a par with 2017).
- We invested **EUR 30.2 million** into **marketing**, or **2.6 percent of total Gorenje Group revenue** (increase of 0.2 percentage point relative to 2017).
- Total value of **one-off and extraordinary effects** is reflected in a **negative effect** in the amount of EUR 74.4 million on net profit; EUR 54.7 million on EBITDA; and EUR 66.9 million on EBIT.
- **EBITDA amounted to EUR 29.6 million**, which is 34 million less the comparable EBITDA for 2017.
- **EBIT stands at EUR -28.2 million**, which is 40.3 million worse than the comparable EBIT for 2017.

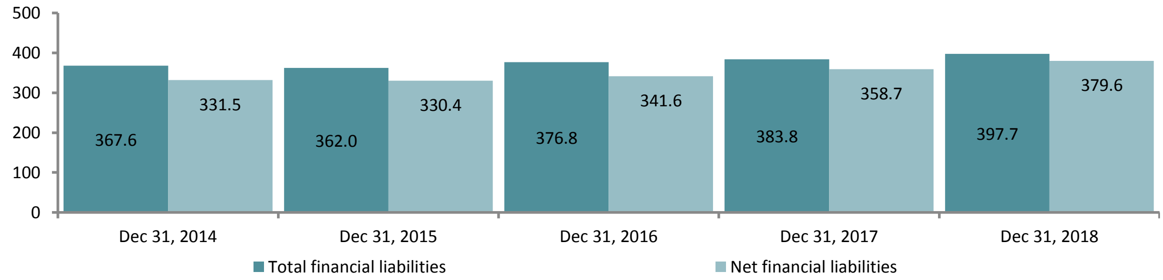
EBIT and EBIT margin



- Net loss for the year 2018 amounts to **EUR 37.3 million**, which is EUR 33 million worse than in 2017. In this amount the net profit of the companies with discontinued operations is included (EUR 2.9 million).

Considering the negative impact of the one-off and extraordinary events (EUR 74.4 million) and the positive effect of coal trade business (EUR 0.5 million), the net loss in 2018 is EUR 111.2 million.

- Operations in the first half of 2018 was largely consistent with the planned operating dynamics; in the second half of the year, however, it worsened considerably. This was a result of a highly unfavourable effect of the process of change of ownership, which resulted in the greatest decrease of sales to OEM customers who became very careful regarding any deals with Gorenje due to uncertainty regarding its future ownership. We also felt the effect of stringent competition in the Western European markets, especially in Benelux, and pressure on labour costs. Due to lower sales, operating performance was very negatively affected by the unchanged amount of fixed costs, which was impossible to adjust to the lower-than-planned sales in such a short period of time.
- As at December 31, 2018, net financial liabilities amounted to **EUR 379.6 million**, which is 5.8 percent more than last year. The increase is predominantly a result of failure to reach the planned sales of domestic appliances.

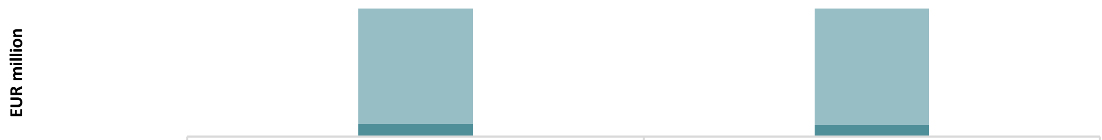


2.1.3.2 Sales and markets

Gorenje Group **sales revenue** amounted to EUR 1.184 billion, which is 1.7 percent less than in 2017.

Gorenje Group revenue

Group revenue, broken down by activities



	2017	2018
Domestic appliances	1,085.1	1,074.2
Other businesses	119.5	109.4

Revenue in the **Domestic Appliances** activity amounted to EUR 1.074 billion, which is 1 percent less than in 2017.

In **Other Businesses**, our revenue amounted to EUR 109.4 million, which is 8.5 percent less than in 2017. Lower sales revenue is mostly a result of lower revenue from sales of medical equipment and trade operations.

Group revenue, broken down by activities

	2017	2018
Domestic appliances	90.1%	90.8%
Other businesses	9.9%	9.2%

Structure of revenue by activities indicates that 90.8 percent of total Group revenue was generated in the core activity Domestic Appliances (0.7 percentage point more relative to 2017).

In 2018, **Gorenje Group's sales revenue decreased by 1.7 percent** relative to the equivalent period of the preceding year, in all geographical segments except in Eastern Europe. The largest drop was recorded in Western Europe (5.9%).

Revenue by geographical segments

EUR million	2017	%	2018	%	Change (%)
Western Europe	439.6	36.5	413.7	35.0	-5.9
Eastern Europe	639.4	53.1	645.8	54.6	+1.0
Rest of world	125.6	10.4	124.1	10.4	-1.2
Group Total	**1,204.6**	**100.0**	**1,183.6**	**100.0**	**-1.7**
Western Europe	416.6	38.4	389.9	36.3	-6.4
Eastern Europe	543.2	50.0	562.1	52.3	+3.5
Rest of world	125.3	11.6	122.2	11.4	-2.5
Total domestic appliances	**1,085.1**	**100.0**	**1,074.2**	**100.0**	**-1.0**

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

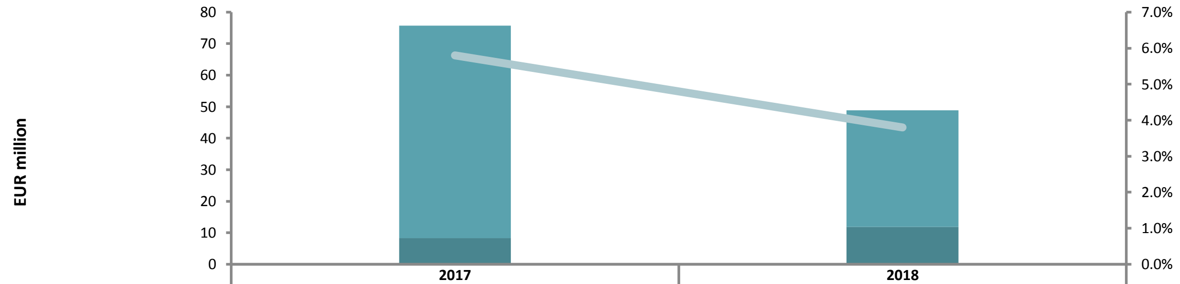
- The Domestic Appliances business generated **sales revenue** of **EUR 1.074 billion**, which is **1 percent less** than in 2017.
- In the structure of sales revenue in Domestic Appliances, **sales in Eastern Europe increased by 3.5 percentage points, while sales in Western Europe decreased by 6.4 percentage points.**
- In 2018, the Domestic appliances business area saw considerable growth of sales in the following Eastern European markets: **Hungary, Ukraine, Bulgaria, and the Czech Republic**. The drop in sales was the largest in **Russia and Serbia**.
- In **Western Europe**, we recorded minor growth in **Austria and France**, while our sales decreased in **Benelux countries and Germany**. This is largely a result of stringent competition, as well as repositioning in terms of pricing in the German market, change in the structure of sales channels, adjustments of sales and pricing policy, and limiting of the sales of underperforming products (i.e. products with inadequate returns).
- A drop in sales revenue was also seen in **OEM deals**. If this drop had not occurred, the Domestic Appliances area would have seen a sales growth of 0.7 percent relative to the equivalent period of the year before.
- Revenue from sales of home appliances under our **own brands** increased by 1.6%, while our revenue from OEM deals plummeted by 31.8 percent.
- With the two-percent growth of sales revenue from products under our **Asko brand**, we are **increasing our sales in the premium segment**. In the structure of sales revenue in our core activity Domestic Appliances, sales of products under the Asko brand accounted for 11.8 percent in 2017 (+0.4 percentage point relative to 2017). Higher sales under the Asko brand was achieved in all markets, except for Australia where sales revenue was heavily affected by the depreciation of the local currency relative to the euro.

- **We increased our sales of innovative[1] appliances**. Their share in total major domestic appliance sales revenue in the activity of Domestic Appliances increased to **22.7 percent (1.6 percentage point).** The share of **premium[2] appliances** decreased by 1.2 percentage points relative to 2017, to 27.8%.
- **We invested EUR 30.2 million into marketing**, or **2.6 percent of total Gorenje Group revenue** (increase of 0.2 percentage point relative to 2017).

2.1.3.3 Development and investment

- Key new developments in 2018 included the new generation of premium washing machines and dryers, new generation of premium dishwashers, new generation of gas cooking hobs, new generation of built-in refrigerators, and new models of dishwashers for industrial customers. Connectible appliances are in the final stage of development, undergoing intensive testing and system optimization.
- Investment in 2018 amounted to EUR 48.9 million, which is EUR 26.8 million less than in 2017. Investment into property, plant, and equipment amounted to EUR 30 million, of which a major part of EUR 19.5 million accounted for investment into technological equipment, mostly in the process of new product development. The largest share of investments was carried out in the core activity of Domestic Appliances where investment totalled at EUR 37 million. Among total investments, EUR 18.8 million pertains to intangible investments. Majority of these, in turn (EUR 13.6 million), pertains to investments into new product development (capitalized development costs).
- In 2018, we completed a cycle of increased investment within our core activity of Domestic Appliances, which lasted several years and during which investment exceeded our annual depreciation and amortization expense. Thus, we revised in the past few years the platforms and appliances in most product categories for all brands in the Domestic Appliances business.
- In Other Businesses, our investments amounted to EUR 11.9 million, the largest part of which was dedicated to restoration at the company Kemis Vrhnika that sustained considerable damage during a fire.

Investment by activities



	2017	2018
Domestic appliances	67.4	37.0
Other businesses	8.3	11.9
CAPEX margin, %	5.8%	3.8%
Total	**75.7**	**48.9**

[1] Innovative appliances: appliances within individual group of products with the so-called »innovative functionalities« are more energy efficient (efficient storage, lower energy and water consumption).

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

2.1.3.4 Gorenje Group operating performance analysis

EUR million	2017*	2018*	Index	Plan 2018	2018 plan accomplishment
Sales revenue	**1,204.6**	**1,183.6**	**98.3**	**1,290.3**	**91.7**
Gross profit	**1,208.2**	**1,214.8**	**100.5**	**1,282.2**	**94.7**
Value added	**296.2**	**276.8**	**93.4**	**324.2**	**85.4**
VA margin (%)	*24.5*	*22.8*	/	*25.3*	/
EBITDA	**63.6**	**29.6**	**46.5**	**83.5**	**35.5**
EBITDA Margin (%)	*5.3*	*2.4*	/	*6.5*	/
EBIT	**12.1**	**-28.2**	/	**23.5**	/
EBIT margin (%)	*1.0*	*-2.3*	/	*1.8*	/
Profit before taxes	**-4.3**	**-42.5**	**977.6**	**10.9**	/
Net result w/o discontinued operations	**-7.0**	**-40.2**	**572.8**	**6.8**	/
Net result from discontinued operations	**2.7**	**2.9**	**108.6**	**1.3**	**220.3**
Profit for the period	**-4.3**	**-37.3**	**862.3**	**8.1**	/
ROS (%)	*-0.4*	*-3.2*	/	*0.6*	/

**Normalized: eliminated extraordinary and one-off events, discontinued operations, and coal trade business*

The **value added in the amount of EUR 276.8 million (6.6-percent drop** relative to 2017) was affected, from the aspect of sales, especially by the following:

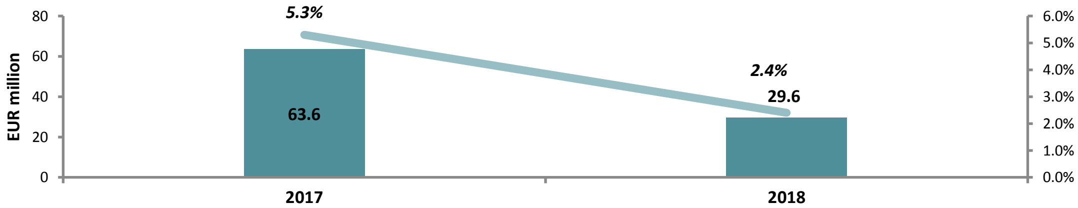
- More favourable **geographical structure of sales** in the Domestic Appliances business; the highest sales growth was attained in the markets of Eastern Europe (3.5-percent growth) where our contribution margins are higher.
- Less favourable **structure of sales by brands**; while sales under the **Asko** brand increased **by 2.0 percent**, sales under the brands **Atag, Pelgrim and Etna decreased by 2.6 percent**;
- **Lower sales revenue** in Other Businesses**: especially in sales of coal and medical equipment.**
- The share of **cost of goods sold** (in the actual amount of EUR 223.5 million) in gross profit was lower than in the equivalent period of last year by 0.7 percentage point.
- **Costs of material** amounted to EUR 476.4 million (**6.7 percent growth** relative to 2017). The share of costs of material in gross operating profit is **higher by 2.3 percentage point** relative to last year. **Contributing the most to this growth was the planned increase in the prices of raw materials like sheet metal, plastics, and polyurethane foam, as well as production structure by products.**
- **Costs of services,** amounting to **EUR 209.9 million,** were lower by **1.5 percent** relative to 2017.
- **Labour costs** amounted to **EUR 247.2 million**, which is **EUR 14.6 million or 6.3 percent** more than labour costs in 2017. Within the Domestic Appliances activity, labour costs were higher by EUR 10.2 million (an increase of 4.9 %). The increase in labour costs was a result of the following: harmonization of salaries during the year, pursuant to the collective labour agreement (bonus overall years of service, loyalty – years of service at the same employer, and promotion); increase of salaries for employees with the lowest incomes, consistently with the changes to the salary systems at companies in Slovenia, effective from June 1, 2017, and from September 1, 2018, agreed upon with social partners, as well as at the Group's other manufacturing plants.
- On average, **Gorenje Group** had **11,098 employees** in 2018, which is on average 59 more than in 2017. Average number of employees in the Domestic Appliances activity increased by 26, while the number of employees in Other Businesses increased by 33.

Average number of employees by activities

	2017	2018
Domestic appliances	8,994	9,020
Other businesses	2,045	2,078
Total:	**11,039**	**11,098**

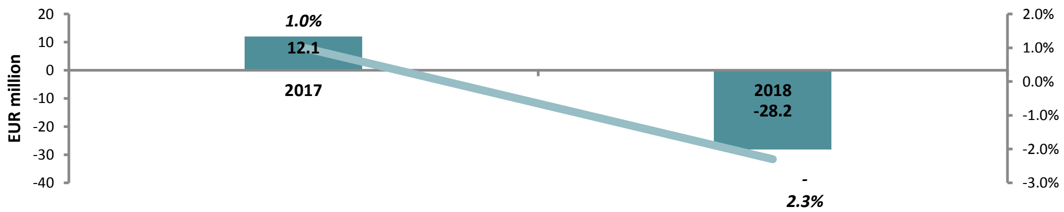
- Our **EBITDA** (profit from operating activities before depreciation and amortization) amounted to **EUR 29.6 million** which is EUR 34.0 million or 53.5 percent less than the comparable EBITDA for 2017.

EBITDA and EBITDA margin



Operating profit (EBIT): our EBIT amounted to **EUR -28.2 million**. Relative to the equivalent period of last year, comparable EBIT was lower by **EUR 40.4 million**. The drop in EBIT was a result of **high growth** of depreciation and amortization expense in the amount of **EUR 6.3 million**, resulting in turn from the intensive cycle of investments into new generations of products during the preceding periods.

EBIT and EBIT margin

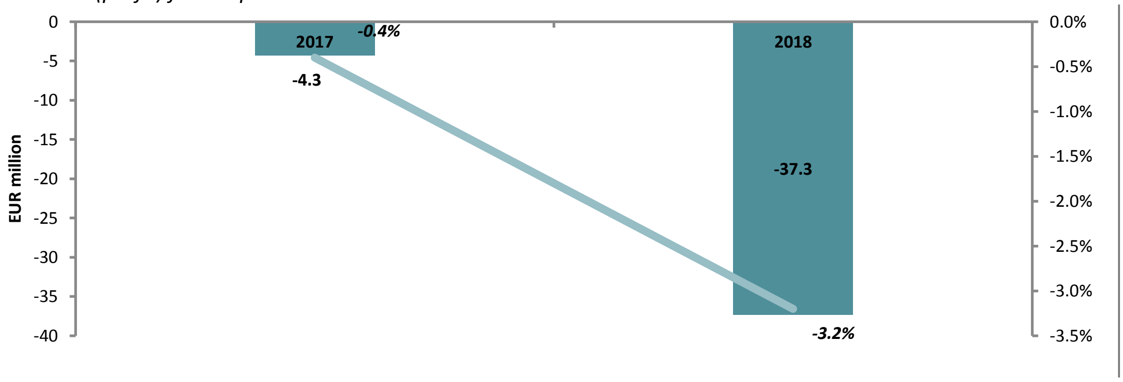


Result from financing is negative in the amount of EUR 14.3 million is EUR 2.3 million better than in 2017. The result from financing activities was favourably affected by **interest expense which was 4.0 percent (EUR 0.5 million)** lower than last year. The effect of currency translation differences in 2018 was EUR 1.6 million, which is EUR 2.0 million better than in 2017.

Corporate income tax, reported at EUR 2.3 million, is EUR 4.9 million lower than in 2017, and it includes both currently levied and deferred corporate income tax. Contributing the most to the decrease in corporate income tax is the favourable decision in the fiscal control (tax audit) procedure regarding transfer pricing at one of the Western European countries. The amount was charged in 2017, and as a result, released in 2018. Deferred tax assets also contributed to lower corporate income tax.

Gorenje Group's **net loss for the period** amounted to EUR 37.3 million, which means that the net result for the year is EUR 33 million worse than in 2017.

Net income (profit) for the period and ROS



Worsening of performance in the second half of the year:

Especially in the second half of 2018, performance was negatively affected by the following developments: lower-than-planned sales in the Domestic Appliances segment, especially due to the uncertainty introduced by the process of search for a strategic partner and a new owner; price repositioning in Germany; pressures related to labour costs; increase of prices in upstream markets; and higher production costs related to the start of mass production of new generation products.

2.1.3.5 Financial performance

Key activities:

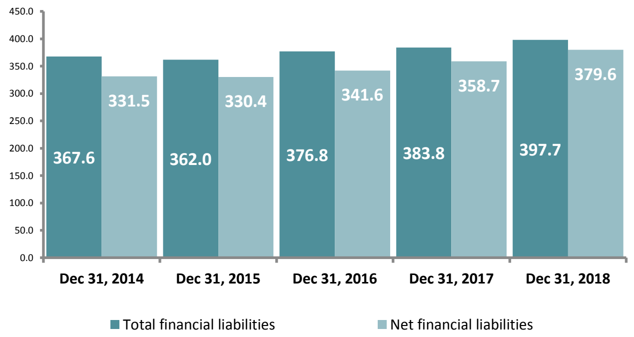
In financial management, the 2018 fiscal year was also heavily affected by the process of examining the potential strategic partnerships, followed by the process of integration with the strategic owner Hisense. Uncertainty regarding the strategic partnership resulted, especially in the first half of the year, in a rather reserved approach of financial partners to Group financing. Therefore, key activities were targeted at proactive communication with the banking partners regarding the progress of the process of the search for a strategic partner, and at provision of adequate liquidity for the Group.

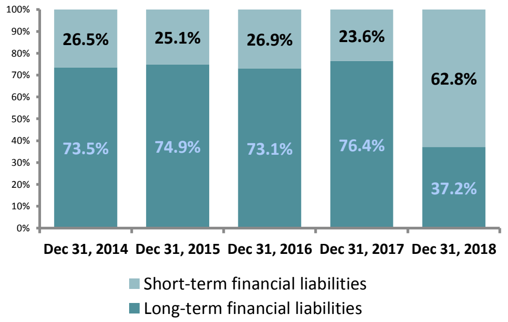
Entry of a strategic and financially very stable owner into the Group, and development of the first projections of the Group's performance within the Hisense Group allowed significant stabilization of financial structure. Thus, we carried out late in 2018, with substantial support by the new owner, major refinancing of the Group, which involved the pursuit of the key goal of providing the optimum structure of lenders or creditors and finance expenses in the period ahead. Thus, average interest rate margin will be lower by approximately a quarter in 2019 than it was in 2018, which will have a considerable effect on the Group's profitability.

In the refinancing process, the controlling company Hisense Luxembourg Home Appliance Holding S.a.r.l. provided the required financial support to the Group with a subordinated loan in the amount of EUR 120 million, and thus secured Gorenje Group's long-term financial stability and solvency. The internal loan is short-term in its nature, but the owner will preserve at least EUR 100 million of internal financing as long as the net financial liabilities to EBITDA ratio exceeds 3. Using the funds from internal financing, we repaid prematurely a part of our financial liabilities to third parties, and at the same time negotiated more competitive terms for Group financing with our key banking partners.

Consistently with the strategic policy of focusing on the core activity, we signed in the second half of 2018 agreements on disposal of our shareholding in the company Gorenje Surovina d.o.o., complete with its subsidiaries; shareholding in the company Gorenje Projekt d.o.o.; and shareholding in the company GGE Netherlands B.V. In our estimate, the suspensive conditions specified in the sale and purchase agreements for these shareholdings will be met in the first quarter of 2019, and the proceeds from divestments will be used to further cut the Group's debt. Activities of divestment and focus on the Group's core activity will be continued in 2019.

Total and net financial liabilities in the years 2013–2018, in EUR million, and changes in the maturity profile of financial liabilities



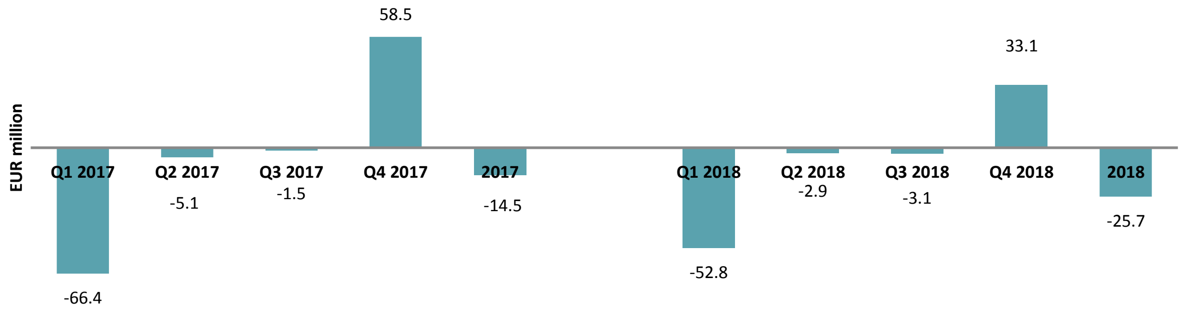


Total financial liabilities as at December 31, 2018, amounted to EUR 397.7 million, which is EUR 13.9 more than on the same day a year earlier.

- In the maturity profile of our financial liabilities, long-term financing sources account for 37.2 percent; the rest are short-term sources. As the Group approved late in 2018 the start of the process for early payment of liabilities pertaining to the issued corporate notes (bonds), all liabilities in this respect are recognized in the Group's financial statements as short-term financial liabilities, regardless of the fact that EUR 19.4 million of liabilities in this respect are contractually due for repayment only in 2022.
- The controlling company Hisense offers the Group significant financial support in the form of internal financing. Thus, reported short-term financial liabilities also include EUR 120 million of internal financing, which is short-term in terms of its contractual definition, but the owner has committed to maintain at least EUR 100 million of internal financing as long as the net financial liabilities to EBITDA ratio for the Group exceeds 3.
- Although the maturity profile of financial liabilities has shifted towards the short-term sources, this does not pose a refinancing risk, considering the support by the controlling company. The Hisense Group shall continue to provide Gorenje Group with adequate support in such way that Gorenje Group will be able to settle its liabilities or payables at any time.
- Net financial liabilities (measured as the difference between total financial liabilities, and cash and cash equivalents) at the end of 2018 amounted to EUR 379.6 million, which was EUR 20.9 more than at the end of 2017.
- As at December 31, 2018, the Group's available liquidity reserve amounted to EUR 91.9 million and it included approved yet unused long-term and short-term credit facilities and cash in bank accounts, which can also be used to bridge any payments of the maturing liabilities.
- None of the Group's borrowings are secured by any collateral; in most of the agreements with banking partners, financial covenants are specified. The Group agreed on standard financial covenants in most of its loan agreements. In addition to the debt indicator, according to which the ratio of net financial liabilities to EBITDA should be lower than 4, these also include the following covenants: EBITDA to net interest expense ratio has to be higher than 4; difference between total and minority capital should be higher than EUR 220 million; and the ratio between net financial debt and the difference between total capital an equity should be lower than 1.2.
- Group refinancing carried out in the last quarter of 2018 involved confirming the above uniform financial covenants with all financial partners. Compliance with the covenants will be reviewed once per year, based on the Group's consolidated financial statements. In the course of the refinancing process, all financial partners approved the provision that compliance with the financial covenants not be reviewed for the 2018 fiscal year.

Cash flow

Cash flow from operating and investing activities



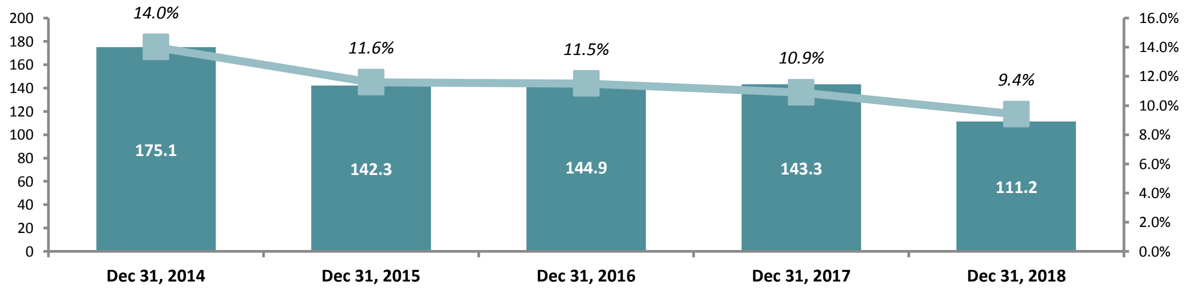
In 2018, the Group reported a negative cash flow from operating and investing activities in the amount of EUR 25.7 million, which is EUR 11.2 million worse than in the preceding year.

Working capital management

Investment into net working capital

EUR million	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Difference Dec 31, 2017 / Dec 31, 2018
+ Inventories	219.8	225.9	225.9	220.6	219.2	-1.4
+ Trade receivables	182.6	161.0	165.8	180.5	136.4	-44.1
+ Other current assets	48.9	52.2	58.8	61.0	64.9	+3.9
– Trade payables	-202.6	-221.0	-223.7	-229.4	-218.2	+11.2
– Other current liabilities	-73.6	-75.8	-81.9	-89.4	-91.1	-1.7
= Net working capital	**175.1**	**142.3**	**144.9**	**143.3**	**111.2**	**-32.1**

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



As at December 31, 2018, the Group's investments into net working capital[3] were reported at EUR 111.2 million, which is EUR 32.1 less than as at December 31, 2017. Decrease of investments into net working capital is largely a result of lower trade receivables. This, in turn, had a significant effect on the improvement of the ratio between NWC investments and total Group revenues. In 2018, NWC investments accounted for 9.4 percent of total Group revenue, which is the lowest share seen in a long-term observed period of time.

- As at December 31, 2018, inventories amounted to EUR 219.2 million, which is EUR 1.4 million less than as at December 31, 2017. On average, days in inventory were at 78 days, which is 4 days more than in 2017.
- As at December 31, 2018, trade receivables amounted to EUR 136.4 million, which is EUR 44.1 million less than as at December 31, 2017. On average, days sales outstanding were at 55 days, which is 2 days less that at the end of 2017.

[3] Net working capital = inventories + trade receivables + other current assets – trade payables – other current liabilities (excluding discontinued operations

- As at December 31, 2018, trade payables amounted to EUR 218.2 million, which is EUR 11.2 million less than as at December 31, 2017. On average, days payables outstanding were at 83 days, which is 13 days more than in the preceding year.

In 2018, we devoted particular attention to efficient net working capital management, especially intensified collection of trade receivables, and we provided the relevant tools and supply chain management procedures that are compliant with the processes and methodology employed at the Hisense Group. As a result, it is our estimate that the funds tied up in Group inventories will be considerably lower in the periods ahead. Moreover, we also use the instruments of non-recourse factoring and supply chain financing in the form of reverse supplier factoring to efficiently manage our working capital. By using supplier factoring, we have, since its introduction in mid-2017, extended the contractual payment terms for our suppliers by 24 days on average.

2.2 Environmental sustainability

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

Quick overview – 2018 results at Gorenje d.o.o.

Area/field of operation	Results in 2018
Reducing the amount of waste* (in kg/unit, relative to 1997)	➢ hazardous waste: -88.2% ➢ waste to be disposed: -99.8%
Decrease in water consumption* (in m3/unit, relative to 1997)	-85.7%
Increase in the use of electric energy* (in kWh/unit, relative to 1997)	+4.8%
Decrease in natural gas consumption (excluding combined heat and power/co-generation)* (in Sm3/unit, relative to 1997)	-46.6%
Carbon footprint*	10.93 kg CO2/product

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

2.2.1 Gorenje's Eco Cycle

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

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

Gorenje eco cycle – from planning to recycling

a. Choice of input materials

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

b. Production

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

c. Use of products

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

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

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

d. Recycling

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

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

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

2.2.2 Environmental management quality assurance policy

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

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

- in pursuit of responsible attitude to the population and the environment in which we operate,
- in caring for occupational health and safety at production units and in the offices, and
- in attaining production efficiency.

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

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

- **Focus 2018**: We continued to decrease the amounts of hazardous waste and disposed waste, and to use our energy resources rationally.

Gorenje Group's environmental management and occupational health and safety systems (for 2018)

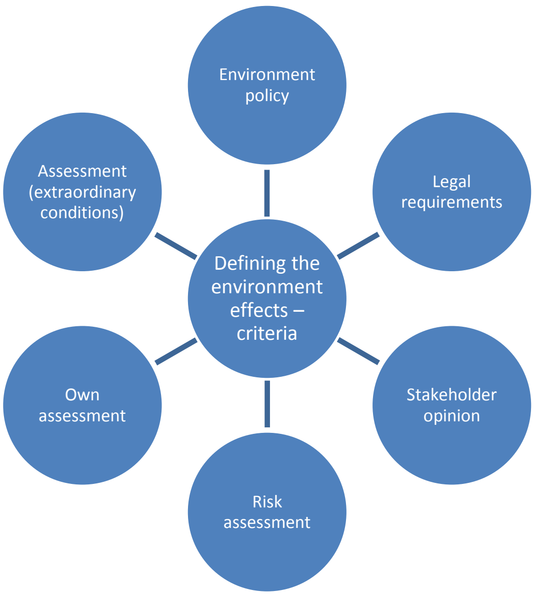
	ISO 14001	EMAS	OHSAS 18001
Gorenje d.d., Velenje plant	Yes	Yes	Yes
Gorenje d.d., Šoštanj plant	Yes	Yes	Yes
Gorenje d.d., Rogatec plant	Yes	Yes	Yes
Gorenje IPC d.o.o., Velenje plant	Yes	Yes	Yes
Gorenje IPC d.o.o., Šoštanj plant	Yes	Yes	Yes
Gorenje Orodjarna d.o.o.	Yes	No	Yes
Gorenje GAIO d.o.o.	Yes	No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

2.2.3 Environmental aspects of our operations

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

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

Criteria to define environmental aspects at the Gorenje Group



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

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

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

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

IDENTIFIED ENVIRONMENTAL ASPECTS AT GORENJE GROUP COMPANIES	
1. RAW MATERIALS - sheet metal - components of non-metal and metal origin - chemicals - thermal and sound insulation - rubber and plastic semi-products - packaging	INPUT ENVIRONMENTAL ASPECTS
2. ENERGY RESOURCES - electricity - heat - natural gas - compressed air - water	
3. OTHER - stationery - auxiliary material	

4. EMISSIONS
- emissions into air
- emissions into soil
- noise emissions
- emissions into water
   - industrial wastewater
   - cooling wastewater
   - communal wastewater
   - sewage system
- light pollution
- odours
	OUTPUT ENVIRONMENTAL ASPECTS

5. WASTE - hazardous waste - waste packaging - municipal/communal solid waste - other non-hazardous waste	
6. PRODUCTS - product/service - own parts	
7. MISCELLANEOUS Special area properties - natural heritage, biotic diversity, Natura 2000 - cultural heritage	MISCELLANEOUS

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

2.2.4 Efficient resource management

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

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

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

Aspect	Unit	1997	2018	Ratio 1997/2018	Target 2019
Reducing the quantity of					
- hazardous waste	kg/unit	0.55	0.065	-88.2%	0.05
- waste to be disposed	kg/unit	1.14	0.002	-99.8%	0.005
Rational use of energy					
- water consumption	m^3/unit	0.56	0.080	-85.7%	0.080
- power consumption	kWh/unit	21.41	22.50	4.8%	22.50
- consumption of compressed air	m^3/unit	21.37	16.30	-23.7%	16.30
- natural gas consumption (excluding combined heat and power/co-generation)	kWh/unit	20.61	11.00	-46.6%	11.00

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

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

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

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

a. Reducing the amount of waste

➢ **Focus 2018**: In 2018, the amount of waste to be disposed decreased further relative to the years before at the companies Gorenje d.d. and Gorenje I.P.C. d.o.o.

Disposed waste from Gorenje d.d., Velenje plant

	2014	2015	2016	2017	2018
Disposed waste (t)	11.3	8.91	11.6	10.2	3.7

Disposed waste from Gorenje I.P.C. d.o.o.

	2014	2015	2016	2017	2018
Disposed waste (t)	0.36	0.71	3.83	0.79	0.25

➢ **Key activities:** As in previous years, we were dedicated to consistent waste separation in 2018.

b. Water consumption

➢ **Focus 2018:** At Gorenje, d.o.o., water consumption was reduced from 187,606m^3 in 2017 to 182,211m^3 in 2017. At Gorenje I.P.C. d.o.o., the amount of water used per unit of aspect per 1 EUR of net revenue was reduced from 1.582l/EUR NR in 2017 to 1.701l/EUR NR in 2018.

Water consumption at Gorenje d.d., Velenje plant

	Unit	2014	2015	2016	2017	2018	Target 2019
Water consumption	m^3/unit	0.084	0.083	0.087	0.092	0.089	0.080

Water consumption at Gorenje I.P.C. d.o.o.

	Unit	2014	2015	2016	2017	2018	Target 2019
Water consumption	l/€ NR*	1.480	1.551	1.680	1.582	1.566	1.697

* Measurement unit for the aspect per EUR of net revenue

Water consumption at the Mora Moravia production company in the Czech Republic

	Unit	2014	2015	2016	2017	2018	Target 2019
Water consumption	m^3/unit	0.085	0.066	0.063	0.061	0.067	0.068

Water consumption at the production company in Valjevo, Serbia

	Unit	2014	2015	2016	2017	2018	Target 2019
Water consumption	m^3/unit	0.035	0.037	0.036	0.038	0.033	0.034

Water consumption at the production company in Zaječar, Serbia

	Unit	2014	2015	2016	2017	2018	Target 2019
Water consumption	m^3/unit	0.00500	0.00655	0.05830	0.05239	0.07821	0.1666

- **Key activities**: Water consumption was reduced at some companies by introduction of technological lines with water-efficient rinsing processes, keeping records of water consumption, systematic monitoring of water consumption, and education and awareness campaigns among the employees. Water consumption was monitored with meters installed at the entry to the company and at particular manufacturing lines. At some companies, water consumption increased in 2018 due to technological tests upon new product type launches.

c. Electricity consumption

- **Focus 2018:** At the company Gorenje d.d., Velenje plant, use of electric energy decreased from 22.83 kWh/unit (in 2017) to 22.60 kWh/unit (in 2018). Electric energy consumption was also lower at the company Gorenje I.P.C. d.o.o. and at our company in the Czech Republic.

Electric energy consumption at Gorenje d.d., Velenje plant

	Unit	2014	2015	2016	2017	2018	Target 2019
Power consumption	kWh/unit	23.09	23.98	23.24	22.83	22.60	22.50

Electric energy consumption at Gorenje I.P.C. d.o.o.

	Unit	2014	2015	2016	2017	2018	Target 2019
Power consumption	kWh/€ NR*• compressed air	0.134	0.150	0.138	0.118	0.117	0.116

* Measurement unit for the aspect per EUR of net revenue

Electric energy consumption at the production company in the Czech Republic

		2014	2015	2016	2017	2018	Target 2019
Power consumption	kWh/unit	11.00	10.83	13.65	15.36	14.59	12.547

Electric energy consumption at the production company in Valjevo, Serbia

	Unit	2014	2015	2016	2017	2018	Target 2019
Power consumption	kWh/unit	21.00	21.45	20.9	23.52	24.68	26.00

Electric energy consumption at the production company in Zaječar, Serbia

	Unit	2014	2015	2016	2017	2018	Target 2019
Electric energy consumption in production of sanitary equipment	kWh/unit	29.5	33.13	25.0	21.24	22.98	27.9
Electric energy consumption in production of washing machines	kWh/unit	0.40	0.49	0.50	0.48	0.66	/

- **Key activities:** Decrease of power consumption in recent years is a result of optimization of power consumption in production processes. At manufacturing companies in Serbia, electric energy consumption is increasing due to the changes to the production assortment.

2.2.5 Carbon footprint

Climate change has been identified as a major threat to human kind. It is at least partially caused by greenhouse gas emissions into the atmosphere. Despite the numerous adopted international agreements, these emissions are not decreasing. Globally, the largest share of CO_2 emissions is generated in production of electric energy, in manufacturing, agriculture, transport, and as a result of deforestation.

Although the CO_2 emissions resulting from activities of Gorenje Group companies are not considerable, we carefully monitor them in keeping with our sustainable attitude to environmental responsibility, and seek to reduce them.

Emissions of CO_2 into the atmosphere are monitored at the parent company Gorenje d.d. at the Velenje plants, and in Valjevo and Stara Pazova.

- **Focus 2018:** Carbon footprint, measured in kg of CO_2 emissions per product, was somewhat lower in 2018 than in the year before, at 10.90 kilograms per product.

Information on CO_2 emissions for the Velenje plant

	2011	2012	2013	2014	2015	2016	2017	2018	Target 2019
CO_2 emissions (kg/product)	12.50	12.33	12.26	11.83	11.88	10.94	10.93	10.90	10.90

- **Key activities:** CO_2 emissions from our production activities are largely affected by consumption of electric energy and natural gas. Total use of these fuels or forms of energy has been reducing in recent years. Specific use of these fuels decreased slightly in 2018 (detailed data on power consumption is provided in this chapter).

2.2.6 Pursuit of environmental responsibility – our goals

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

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

2.3 Social sustainability

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

2.3.1 Relations with employees

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

a. Number of employees

Focus 2018: Changes in the number of employees at the Gorenje Group largely depend on the needs of manufacturing companies where the number of employees is adjusted to the suit the production output. Thus, the number started growing during the summer months, and dwindled at the end of the year.

Key activities: For more flexibility, manufacturing companies mostly hire employees on fixed-term employment contracts, for the period of increased workload. In order to secure the adequate number of employees, we also used the services of private employment (or job brokerage) agencies, especially at the company Mora Moravia and at the parent company Gorenje d.d.

Number of employees at Gorenje Group at the end of 2018 (relative to 2017)

	Dec 31, 2017		Dec 31, 2018	
	number	share	number	share
Gorenje Group	**11,014**	**100.0%**	**11,084**	**100.0%**
Core activity	8,955	81.3%	9,015	81.3%
Non-core activities	2,059	18.7%	2,069	18.7%
Employees in Slovenia	6,717	61.0%	6,667	60.1%
Employees abroad	4,297	39.0%	4,417	39.9%
By countries:				
Slovenia	6,717	61.0%	6,667	60.1%
Serbia	2,263	20.5%	2,371	21.4%
Czech Republic	624	5.7%	645	5.8%
Sweden	58	0.5%	61	0.6%
Netherlands	428	3.9%	423	3.8%
Croatia	131	1.2%	122	1.1%
Russia	115	1.0%	111	1.0%
Other countries	678	6.2%	684	6.2%
EU countries	8,328	75.6%	8,287	74.8%
Former Yugoslav countries	2,520	22.9%	2,619	23.6%
Average number of employees	**11,039**		**11,098**	

b. Education-based hiring and recruitment

Focus 2018: We continued the activities at our parent company to recruit scarce human resources, especially for development and IT. In recent years, we observe a slow, yet constant increase in the share of employees with completed secondary and tertiary education, which also pertains to manufacturing companies. The largest share of employees at Gorenje Group has vocational or technical (high-school) education.

Key activities: At the parent company, we worked actively with high schools and universities, especially in technical sciences and IT, as well as in business and economics. We were present at major job fairs across Slovenia.

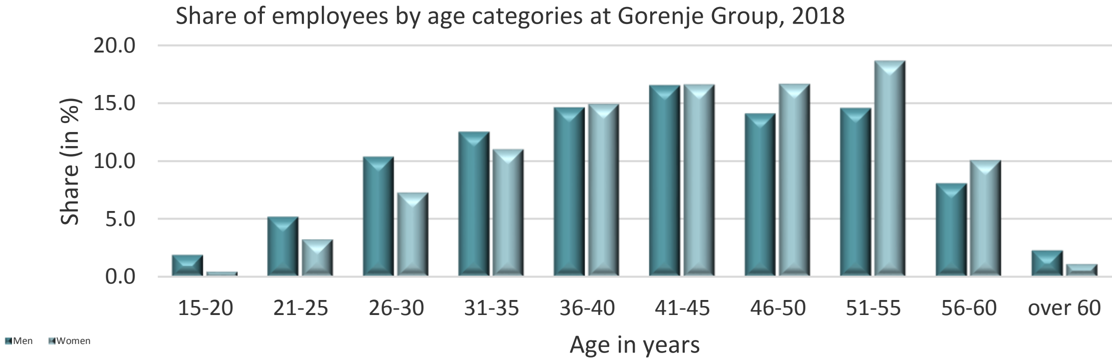
Our priority and first option was to find the shop floor workers ourselves. We worked with the local National Employment Agency and a private employment (or job brokerage) agency.

We recruited our strategic human resources by internal calls for applications that were posted on the Gorenje portal, and by posting calls for applications on LinkedIn, and on portals Moje delo and Moja zaposlitev. We took part in job fairs, including the Job Fair, Days of Robotics, and Career Fair in Velenje, we organized the open-door day for elementary school students etc.

c. Employees by age

Focus 2018: In comparison to the year 2017, average age of employees at the Gorenje Group increased by about half a year. At the end of 2018, it was at 43 years and 3 months.

Increase of the share of elderly employees, especially at manufacturing companies, is a problem, since higher average age is correlated to higher sick leave rates, as well as a higher share of employees with disabilities (employees with recognized status of a person with disability).



Key activities: Considering the high share of older employees, we devoted considerable attention to intergenerational cooperation and thus facilitated the transfer of knowledge and experience from the older to the younger employees.

At production programs, we introduced the workplace ergonomics project that mostly addresses the most exposed jobs to make work easier for the workers, and to prevent occurrence of disabilities.

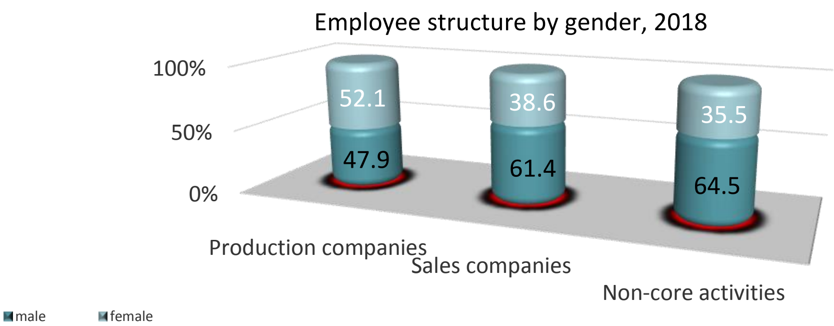
Several workshops were also carried out, focusing on health promotion.

d. Employees by gender

Focus 2018: At manufacturing companies, the share of women is somewhat higher than the share of men, as these mostly include work that requires more prevision and hand dexterity, and which is less physically demanding.

At sales and other companies, the share of men exceeds the share of women, since men are more likely to opt for technical education; therefore, they are employed at companies whose activities require more technical skills, such as toolmaking, machine building, development, planning and engineering, and in areas that require greater physical strength, such as logistics and warehousing.

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



e. Protection of employee rights

Focus 2018: Gorenje Group is an international corporation that provides the same rights and fundamental freedoms to all employees regardless of nationality and religion.

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

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

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

In 2018, we did not receive any formal reports of workplace mobbing. Several individuals contacted the mobbing officer to require explanations regarding increased workload that resulted in extra work beyond regular working hours.

f. Occupational safety and health

Focus 2018: Gorenje Group does not merely comply with the legal requirements, but also strives to raise the bar in terms of safe and healthy work standards (occupational safety and health). Numerous mechanisms have been put into place through the decades in this area, and many activities have been carried out. There are still many opportunities ahead of us as both the working environment and the broader social conditions are permanently changing. This brings pressure and challenges that we have to manage. This is the responsibility of our expert services and interdisciplinary teams.

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

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

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

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

Key activities:

- Lectures, presentations, measurements, publications, announcements, releases, improvements, and occupational health and safety system upgrades took place throughout the year.
- Operation of the medical absenteeism team whose regular annual activities promote health among employees, e.g. through interviews with employees after their return from a sick leave, and by promoting exercise in the workplace.
- Attractive Health Promotion project in cooperation with third-party health experts (occupational healthcare, sports medicine, physiotherapy, physical education) in order to maintain and upgrade with targeted activities and systematic approach the active health promotion among employees. Within the project that we continue in 2019, employees are actively encouraged to improve their physical and mental health, to maintain healthy interpersonal relationships, and experts on employee health management are encouraged to continue their training and education and acquire new knowledge.

g. Human resource development and Corporate University of Gorenje

Share of employees participating in training and education

In 2018, **54.4 percent** of employees were involved in training and education processes. We carried out a total of **around 236,944 training and education hours** (23 hours per employee at Gorenje Group level). Moreover, 139,540 hours were dedicated to on-the-job training for acquisition of new skills.

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

Focus 2018: Well thought-out and planned investment into knowledge and development of our employees is of key importance for the pursuit of our strategic policies. Cooperation with educational institutions, innovative approaches, and openness to changes in designing and executing the human resource development programs allow further growth, competitiveness, and sustainable development.

In 2018, our programs were mostly targeted towards development of expert and managerial skills.

Key activities: At the Gorenje Group level, we invested EUR 1,672,305 into employee training and education.

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

In 2018, 24 participants of the 27th generation were included in the Management Academy (MAG), intended for training of talented and promising employees for development of leadership skills.

At the **Digital Business Academy** of Gorenje (DBAG), we develop the knowledge and skills for the pursuit of our digital business strategy. In 2018, we were devoted to training for productivity advancement, using production process simulation and plant simulation training.

As a part of gradual **introduction of the building blocks of the fourth industrial revolution** to manufacturing and development of smart and connectible appliances, we organized training for implementation of lean manufacturing, and optimization of processes, products, and services. Employees also attended educational webinars focused on Industry 4.0.

Online learning: The number of visitors of the online learning portal is increasing each year. Since the number of users from Gorenje's international operations is increasing, contents are also created in English, Serbian, and other languages. The most contents pertain to servicing, product information, environment protection, and occupational safety and health. We enhanced our online learning portal with video contents on digitalization, which is available to employees throughout the Gorenje Group. Over 2,200 users accessed our e-contents last year.

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

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

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

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

Lifelong learning: Programs in this field allow the employees to quickly adapt to a new environment, including outside the company. The program of acquiring fundamental and professional skills, organized in partnership with Ljudska univerza Velenje, offered computer science, English, communication skills and other courses to employees older than 45 years with no more than high school education.

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

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

Cooperation with research and educational institutions ("knowledge centres"): As we look to develop a brand of an appealing employer for technical talent, we worked with technical high schools, colleges at both Slovenian Universities, and various technical societies.

Targets 2019:

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

We shall launch a talent development program for successful integration into work in the global market, and design competence models for all key positions at Gorenje Group. We shall upgrade our training and education programs with systematic direction towards job rotation training programs.

To improve our position in the race for talent, we shall continue to work closely with colleges offering technical and social science programs.

We shall continue with our Employer Branding project that seeks to build Gorenje's reputation as a desirable employer.

We shall also conduct an organizational culture survey and carry out activities to build it, based on cooperation with the new owner Hisense.

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

2.3.2 Quality for our users

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

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

Assuring the quality of our products

In 2018, the focus was on the activities related to the change in ownership structure. In quality management, we were devoted in the second half to learning about the key elements of the quality systems at Gorenje and at the new owner. In the last quarter, we activated a specially monitored and incentivized quality improvement project emphasizing the decrease of failures on electronics and a considerable improvement of reliability in more exposed product categories.

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

Responsible market communication

In 2018, we did not identify any cases of non-compliance of our marketing and market communication approaches with the legislation or specific codes of conduct. As to date, design of solutions involved checking and reviewing any problematic or disputable communication elements. Solutions submitted from the central Market Communication Department to particular markets were additionally checked locally and adjusted as necessary to local requirements or expectations.

After-sales services (servicing)

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

Mutual dependence and cooperation between sales and after-sales activities are focused on providing maximum customer satisfaction. Our goals pertain to preparation and upgrade of service activity for the Hisense brand.

2.3.3 Cooperation with local communities

At Gorenje, we are aware of the importance of health and satisfaction of employees and residents in the environments in which we operate. Therefore, we support both sports and cultural and spiritual activities that contribute to the development of individuals and the community.

We understand spiritual growth and enrichment through quality cultural program for our employees and their families as a bond between the past and the future, tradition and innovation, inspiration that fuels imagination that in turn is ultimately necessary to solve challenges. To this end, Gorenje supported in 2018 numerous activities and projects for the employees and their family members (e.g. as a part of the Gorenje Culture Society and the Gorenje Retiree Club) in the local environment and beyond (Velenje Festival, festival commemorating the 100th anniversary of the death of Ivan Cankar at the Cankar Hall in Ljubljana).

In sports, we continue our successful cooperation and proudly crowned sponsorship of elite athletes both internationally and nationally (European Handball Federation, Handball Association of Slovenia, Ski Association of Slovenia, Slovenian Basketball Association, Shooting Union of Slovenia), international sports events (Planica 2018), and at the club level (handball club Gorenje Velenje, volleyball society Šempeter). Awareness of the importance of active leisure time is also promoted by the Gorenje Sports and Recreation Society.
With material and financial donations, and cooperation with Slovenian humanitarian organizations, we also regularly support the programs, projects, and societies for the socially weaker groups.

2.4 Risk management

In our pursuit of our business goals, we have to continuously adjust the activities that such pursuit involves. To identify the factors that could affect the attainment of our goals, the Group has a risk and opportunity management process in place, which allows the identification of both risks and opportunities, and their systematic management.

The link between respective operational (process) risks and opportunities, and the link with the key performance indicators for the Group, are presented in the chart that also explains the management of risks and opportunities in relation to the areas of sustainable development and value creation in the Group.

Financial risks		Business Excellence (B)										Environmental sustainability (E)		Social sustainability (S)		
		B1	B2	B3	B4	B5	B6	B7	B8	B9	B10	E1	E2	S1	S2	S3
	Currency risks															
	Credit risks															
	Liquidity risks															
	Interest rate risks															
Operational risks																
	Procurement risks															
	IT risks															
	Production risks															
	> human resource availability															
	> materials and supply															
	> technological equipment															
	> work process methods															
	Product quality risks															
	Development risks															
	Human resource risks															
	Logistics risks															

	Legislative and regulatory risks															
Market risks																
Reputation and goodwill risks																
Contents (activities, results, and plans) related to respective indicators are presented in the Annual Report, especially in the section (active link to iPDF):		Business excellence / Performance	Business excellence / Performance	Business excellence / Performance	Business excellence / Performance	Business excellence / Performance	Business excellence / Performance	Business excellence / Performance	Business excellence / Performance	Business excellence / Development of key areas (Product development and design)	Business excellence / Development of key areas	Environmental sustainability / Efficient resource management	Environmental sustainability / Efficient resource management	Social sustainability /Relations among employees	Social sustainability / employee relations (occupational safety and health)	Business excellence / Supply chain management, and Social Sustainability / Quality for the users

Legend:

Business Excellence (B)	B1	Focus on the core activity Home (share of total Group revenue)
	B2	Revenue from sales beyond Europe and its share in total revenue in the core activity Home
	B3	Revenue from Asko brand sales and its share in total revenue in the core activity Home
	B4	Share of revenue from sales of innovative and premium products
	B5	Gorenje Group sales revenue (* with and without divested Ecology)
	B6	Attainment of EBITDA margin
	B7	Net financial debt / EBITDA ratio
	B8	Attainment of cash flow from operating and investing activities
	B9	Investments into product development (% of Gorenje Group total revenue)
	B10	Manufacturing plants
Environmental sustainability (E)	E1	Hazardous waste (kg/unit)
	E2	Waste for disposal (kg/unit)
Social sustainability (S)	S1	Share of employees participating in training and education
	S2	Number of work accidents
	S3	Retailer satisfaction

The process of risk and opportunity management allows us to make our business decisions balanced, controlled/supervised, measured, and monitored at both strategic and process or project level. The risk and opportunity management process involves all Group employees who are, in adopting their business decisions within their powers and responsibilities, exposed to risks and opportunities brought about by their business decisions.

2.4.1 Risk management process, methodology and organization

The risk management process at the Group was established and appropriately documented so that it operates with the purpose of proactive response to identified and monitored risks. Risks and opportunities are identified and recognized as factors affecting the attainment of the Group's goals. Risks at the Group are assessed and managed at all levels of leadership and management.

Risk assessment consists of a cycle of risk identification, analysis, estimation, and specification and execution of measures to hedge or mitigate the risk when necessary. Risk identification is intended for identification of all types of different factors that an affect the attainment of goals. In the risk analysis step, it is examined, how intensively an observed risk can actually affect the attainment of goals, and how strong is its effect on attainment of goals. The magnitudes of effect and probabilities are clearly specified on a 5-level assessment scale, which ensures objectivity in risk assessment and decreases the level of subjectivity in assessment.

Risk level is calculated as the product of probability (likelihood) and magnitude of impact. The assessment scale, pertaining to the assessment of likelihood, is based on probability or frequency of an observed event in the past, and it is based on an experiential view and opinion of the assessor or the assessment team.

Effective risk and opportunity management at the Group is organized in such way that risk and opportunity assessment and monitoring is conducted where the risks are actually manifested. Risk assessment is thus conducted by area risk and opportunity management councils, while the risk management department provides relevant support and assistance in the use of risk assessment tools and methodology. Process risk and opportunity management councils consist of process owners, while project risk and opportunity management councils consist of project team members. Risk assessments at the strategic level are conducted by members of the risk management department and representatives of the top management who actively take part in the development of the strategic plan.

The goals of the risk management department and risk management councils are focusing on hedging or mitigation of the risks to attainment of business goals to acceptable levels, and monitoring and continuous examination of the most critical risks with prepared and established controls and measures for their preservation at acceptable levels or for their mitigation. Since certain business processes include continuous operation as a very highly ranked business goal, identification of potential unforeseen events that could cause disturbances, outages and the resulting increases in operating and business costs and expenses are also among the goals of risk and opportunity management.

Aspect	Objectives	Role of risk and opportunity management
Financial risks	Ensuring suitable allocation of capital and assets or funds with the lowest overall exposure in comparison to the previous periods.	Identifying financial exposure based on the characteristics and operating modes of our business partners, as well as major macroeconomic indicators and trends.
Operational risks	Reducing the risks of business goal attainment to acceptable levels. Ensuring operation in a scope and at a level required to reach our business goals.	Identifying and addressing risks and events that could result in disturbances, interruptions to operations, or extra operating and business cost and expenses.
Market risks	Ensuring adequate sales volume with suitable pricing that allows profitable growth of sales.	Identifying the characteristics of the products that cause excessive deviations or gaps relative to our competitors.
Reputation and goodwill risks	Ensuring compliance of our operations with the requirements of the legislation, the profession, and our business connections. Ensuring the Group's reputation and, as a result, brand reputation, that comprises the recognition of the Group's products.	Recognition of commitments and requirements for ensuring compliance of operations and states or situations that could result in non-compliance.

2.4.2 Key changes affecting risk management in 2018

Internal and external factors that affected the Gorenje Group operations also affected the activities and attainment of operational, functional, and strategic goals.

External events

- Geographical and economic tension that is altering the relations between economic superpowers and changing the traditional rules of business.
- Increase of cybernetic risks – both in terms of magnitude of effect and in terms of frequency or likelihood.

- Concentration of customers in respective markets – effect on profit margin and negative effect on economic performance in some markets.
- Increase in the price of materials and energy, which is strongly correlated to prices of materials used in the white goods manufacturing process.
- Cutting prices in the white goods market, and increasingly higher demands regarding appliance features, quality, and efficiency.
- High economic growth in the Republic of Slovenia that amounted to 4.8 percent in the third quarter.
- Low unemployment rate in the markets in which the Group is conducting its manufacturing operations affected the access to suitable human resources, and, as a result, labour costs.
- In Slovenia, 2018 was the year of parliamentary election. In the Russian Federation, a highly important market for the Gorenje Group, presidential election was held.
- Continuation and speeding up of the fourth industrial revolution have resulted in growth in digitalization and automation, both in terms of executing the work and tasks and in terms of use of domestic appliances.

Internal events

- Process of examining the strategic partnerships.
- Integration into the Hisense Group, complete with adjustment of methodologies, rules, processes, and the Group's organizational structure.
- Launch of mass production of the new generation of technically more advanced washing machines.
- Signing of the collective labour agreement between the trade union and the company Gorenje.

Key risk management activities in 2018

- Identification, monitoring, and assessment of risks at the process and project level.
- Adding identification, monitoring, and assessment of risks to the field of preparation and execution of investment projects, which we will continue in 2019.
- Internal controls of execution of catalogues at the process level, with emphasis on inclusion of sales companies abroad.
- Intensive reviews of operation and use of risk management methodology through regular internal audits.
- The project of ensuring the Group's compliance with the General Data Protection Regulation (GDPR).

2.4.3 Risk catalogue

The risk catalogue represents the entire and central collection of the risks addressed and managed at the Group's process level. Risks in the catalogue are divided according to the risk aspect into financial risks, market risks, operational risks, and compliance and reputation/goodwill risks.

In addition to the set of risks, the risk catalogue also specifies the risk owner, description of the risk, and the causes for the current condition of the effect (magnitude) and likelihood of appearance of risk – risk level. Current risk level is compared to the previously assessed risk level and the initial risk level, which allows us to monitor, in addition to the risk level, the trend of each risk, which can be declining, steady, or increasing. The risks that have not been specified in the catalogue are treated as new risks.

Depending on the assessed risk level and comparison to the acceptable risk level, we define the measures for risk monitoring and mitigation. A control measure is always defined for all risks – i.e. the measure by which we monitor the risk; if the threshold of acceptable risk is exceeded, we additionally specify measures for risk mitigation. The measures are a part of the family:

- Accept the risk
- Accept and manage the risk
- Manage and shift/transfer the risk
- Eliminate the risk

A particular measure can also involve a combination of these four scenarios.

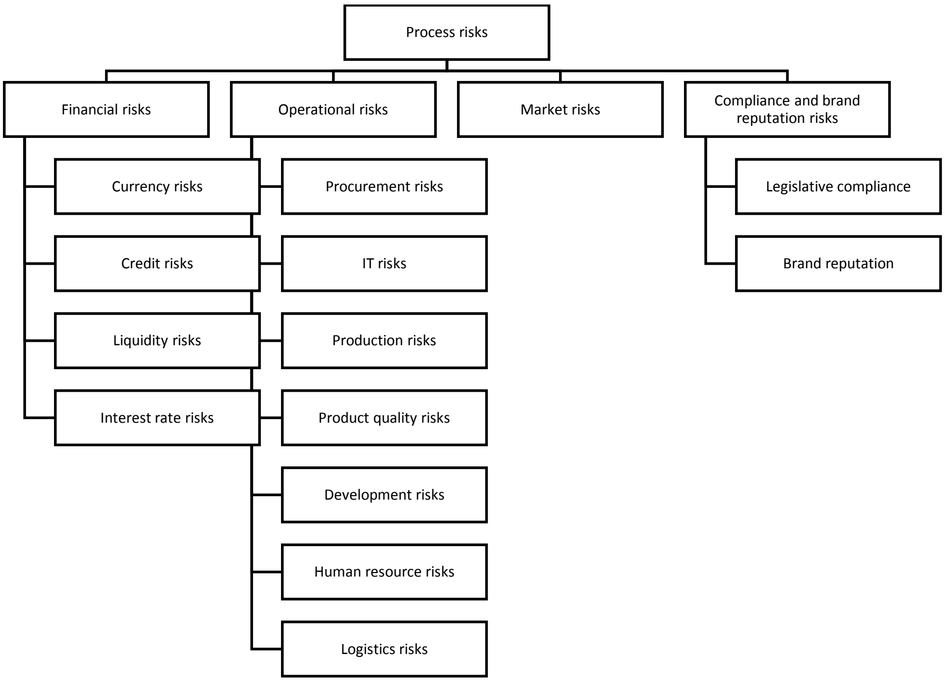
Project risks

Project risks include all aspects of risks with direct effect on the subject or goal of a project, as well as on the execution of respective stages or steps in the project. The most important project risk is focused on the financial aspect – suitability of the project's economic performance. Operational risks pertaining to risk management include risks that are characteristic of project approach to work, and which are reflected as project delays, exceeding the budgeted project assets or resources required to attain the project goals (human resources, material and other assets and resources). Risks of compliance at the project level are recognized as correctness of definition of technological procedures, while operational and market risks include risks related to production and development risks, and risks related to provision of competitiveness of end products resulting from respective completed projects.

In 2018, we added investment projects among project risks, specifying a clear process of approval and monitoring of investment projects and their performance and effectiveness. Owing to more systematic preparations before the execution of investments, these are now conducted in a more prudent and especially less risky way.

Process operational risks

Process risks include risks with direct effect on ensuring the operation of business processes, companies, and the Gorenje Group.



Financial risks

The most important financial risks include currency risks, credit risks, liquidity risks, and interest rate risks.

CURRENCY RISKS

As the Group's operations are broadly internationalized, we are exposed to the risk of changes in exchange rates. Namely, a change in the exchange rate between a particular currency and the Group's functional value (the euro) could result in a decrease of economic benefits for the Group. The highest currency risks pertain to our business activities in the markets of Russia, all dollar markets, Serbia, Croatia, Australia, Poland, Hungary, Ukraine, Great Britain, and the Czech Republic. In most of these currencies, the Group balance sheet reports and excess of assets over liabilities, which is treated as a long currency position. Key accounting categories constituting a currency position include trade receivables (from end users) and trade payables (to suppliers).

The Group and the Company have defined its Currency Risk Management Policy that, inter alia, specifies the following:

- methodology of currency risk exposure measurement;
- powers and responsibilities in currency risk management;
- methods and required scope of currency risk management hedging;

- acceptable currency risk hedging instruments;
- acceptable currency risk hedging partners; and
- method for evaluating the performance of currency risk management.

As a part of the Group's currency risk management policy, our currency hedging policy is managed centrally. We are exposed to the changes in exchange rates of local currencies relative to the euro (EUR) that is the Group's functional currency. Exposure is measured and managed with regard to planned or budgeted cash flows in the annual financial period, and revaluation of balance sheet items reported in local currencies. The fundamental goal of currency risk management is to hedge the business plan exposure by minimizing the negative effect of the exchange rate changes on the Group's results and cash flows, and, in turn, on the results and cash flows of the Company.

Currency risks are regulated and to the greatest possible extent minimized with natural hedging, i.e. aligning the cash flows in respective currencies. However, in most companies, this is not entirely possible. To protect from currency risks, we use, as far as possible, natural hedging of cash flows and balance sheet items, and we look for additional options to extend the scope of natural hedging. In order to hedge our deals or transactions from exposure to currency risks, we also use short-term forward exchange contracts for a considerable part of the currencies outside the euro zone. In the medium run, we are hedging the currency risk by current alignment of downstream prices, cost optimization, and increase of natural hedging on the purchase and sales side.

The Company is signing currency risk hedging instruments both on its behalf and on behalf of other Group companies, shifting them contractually to the companies locally exposed to such risk. To a limited extend, the Group companies sign instruments in local markets as well, while the parent company provides support and credit limits with acceptable hedging partners. By employing the centralized approach to currency risk management, we can come closer to optimum effects of currency risk hedging.

CREDIT RISKS

Presence in the global market involves a broad range of customers, most of whom are legal persons, with only a handful of natural persons. We only do business with customers with adequate rating, and we regularly monitor our customers' ratings. The procedure of customer monitoring and managing is described in the credit (receivables) management policy that specifies the procedures for monitoring and approval of credit limits for respective customers, persons in charge of approving the credit limits, and allowable credit risk hedging instruments. The policy is in place and it operates at the Group level.

Changes in the macroeconomic environment can affect the operations and performance of our business partners, and in turn on their credit rating and solvency. Despite the credit management policy in place, there is a possibility of late payments by customers, or payment defaults. The risk is addressed with a sales model based on customer diversification, which prevents considerable concentration of receivables with a single customer or a group of affiliated buyers (connected through ownership).

No single customer or a group of affiliated customers related through mutual equity ownership accounts for more than 10 percent of the Group's total sales, and exposure to a particular customer or group of customers does not represent 10 percent of the Group's total receivables.

Most trade receivables are insured by SID – Prva kreditna zavarovalnica. A part of the receivables is also insured by credit insurance companies in respective local markets, and by other acceptable insurance instruments. We are carefully monitoring the credit risk in other business segments as well. Short-term surplus of funds and cash in commercial bank accounts is invested or allocated in compliance with our corporate credit risk management policy that also includes the methodology of determining acceptable financial partners or counter-parties. These policies also specify the methodology of determining the acceptable financial partners in signing derivative financial instruments.

In 2018, we carried out a project of reviewing of the master data for our business partners, and expanding the process for operation with our business partners. Thus, we are operating a system for running background checks of our business partners, which is adjusted in terms of depth. The background check process is supported by internal rules and regulations; its execution is supported by systematic work of Gorenje's business information system.

LIQUIDITY RISKS

Liquidity risk is the risk that the Group will fail to meet commitments in stipulated period of time due to the lack of available funds.

Liquidity depends on efficient cash management and investment dynamics. At Gorenje Group, we actively manage the liquidity risk by centralized monitoring and balancing the liquidity of our assets (especially receivables and inventories), liabilities, and cash flows from operating and investing activities. Cash management for the entire Group is centralized and supported by cash flow planning and daily monitoring software. A lot of attention is paid to drawing up and monitoring of the cash flow plan. Successful liquidity planning allows us optimum management of any short-term surpluses or deficits of liquid assets. Any short-term imbalances are offset by drawing on approved revolving credit lines agreed with commercial banks in Slovenia and abroad. In addition to cash (deposits) in bank accounts, this is also a part of Gorenje Group's liquidity reserve. With the entry of the strategic and financially very powerful owner Hisense, the Group's liquidity risk has considerably decreased. Through internal financing, the controlling company extends required financial support to the Group and thus ensures Gorenje Group's appropriate long-term financial stability and solvency. The Group as a long-term plan for repayment of financial liabilities, which we are regularly updating.

INTEREST RATE RISKS

Financing of the Group's current operations and its investment activities involves interest rate risk, since a good part of the loans taken out depends on the variable interest rate Euribor or other local variable reference interest rates. Interest rate risk exposure thus includes in particular the changes (increase) in the Euribor that are unfavourable in terms of the Group's financial liabilities. A large part of financial liabilities involves a variable interest rate that depends on the 3-month or 6-month Euribor.

The interest structure of financial assets and liabilities is not balanced as the Group has considerably more financial liabilities than interest-earning financial assets.

To protect against interest rate risk, we use derivative financial instruments that ensure long-term stability of the reference interest rate. Our decisions regarding hedging are based on forecasts of changes in interest rates, and on the expected efficiency of hedging instruments. Following an estimate that the macroeconomic conditions are suitable for such measure, and taking into account the management of our exposure to interest rate risk, the Group and the Company signed EUR 290 million of interest rate swap agreements (IRS) in the third quarter of 2017, for the period from the start of 2019 until the end of 2022, and thus ensured long-term stability of the variable part of interest rates.

Operational risks

Operational risks involve risks related to purchasing or sourcing processes, risks related to information system operation, provision of data or information protection, risks of production process operation, risks of providing a suitable level of product quality, risks related to operation and suitability of the new product development process, human resource risks, and risks related to the provision of logistics process operation.

PROCUREMENT RISKS

In addition to management of price and currency risks, successful operation of the purchasing function also requires effective supply chain organization. To this end, a department tasked with supply chain management was founded in 2018. The purpose of such decision was to reach a suitable level of inventories in the supply chain, and to increase the flow of related business processes.

In 2018, we sourced raw and processed materials from a large number of third-party suppliers, as there is still a risk that the expected deliveries will not comply with the agreed standards regarding amount, quality, or timeliness. To ensure continuous uninterrupted operation, we continued to observe the policy of two or more alternative suppliers, except for some strategic suppliers who are involved as early as in the pre-development activities.

We continued to systematically monitor and assess the suitability of selected suppliers. In 2018, we secured adequate buffer (safety) inventory that ensured uninterrupted operation of the production process.

Due to increased likelihood of risks related to submission of false data, we upgraded the procedures for examining the suppliers and potential suppliers, using different mechanisms for checking business stability and the risk involved in a business relationship with a potential or existing supplier, depending on the planned or, later on, actual scope of business. The process of checking the suppliers received relevant IT support.

We continued operational monitoring of global risks that affect the prices of materials and components, and we sought to ensure price stability through:

- forward deals for some materials,
- negotiations with suppliers from various geographical segments,
- supplier diversification,

- implementation of global suppliers, including suppliers from the most competitive countries, and
- currency risk management.

IT RISKS

Risks of IT system operation stem from the risks related to operational aspects of the IT system (system infrastructure), support at the level of services, and development of solutions that comprise the IT system.

IT system is established based on a high reliability principle, and it also includes infrastructure at a secondary computer centre location. Reliability of IT system operation in some special-purpose areas is improved by use of cloud services by service providers who have been proven and tested with regard to security.

Risks of IT system operation were also managed by signing maintenance contracts with business partners, in which we specified the parameters of service quality and availability.

In 2018, we completed the project of revision of operating processes at the IT and Telecommunications department, accomplishing the goal of providing more effective and more controlled and comparable operating processes at the IT and Telecommunications department.

RISKS RELATED TO PROTECTION OF INFORMATION

With increasing level of digitalization in execution of work and tasks, and based on the trends in attempted online fraud and cybercrime, we continued to develop in 2018 an information protection management system through which we have improved security mechanisms for checking the identity of the users of the IT system, and improved the security on mobile devices used to access and use the services that comprise the Gorenje information system.

We intensively continued to promote the awareness of the users of Gorenje's information system with regard to security or threats when using modern technologies. We promote their awareness by posting news and currently relevant contents on information and personal data protection, by conducting workshops, and via electronic education system that allows individual and independent training and education for users of our information system.

In 2018, we intensively continued the activities to delineate the works and tasks in order to mitigate the risks of abuse of operation and use of the information system by the end users. We also additionally specified some concepts of business user roles held by the users in the Gorenje information system.

PRODUCTION RISKS

Production risks are divided into the following groups of risks:

- risks related to availability of human resources,
- risks related to materials and supply,
- risks related to technological equipment,
- risks related to work process methods.

The risks related to availability of human resources are a result of the fluctuations in production needs. Risks of availability of human resources are managed by relevant training that results in greater flexibility of the existing labour force.

Risks related to materials and supply may result in delays, non-compliance, or inadequate quality. The minimum inventory system put into place ensures continuous and uninterrupted operation of production even when supply is interrupted or inadequate. Suitable management of procurement risks (alternative suppliers and alternative logistics routes) provide further assurance of uninterrupted supply of materials.

Risks related to technological equipment pertain to failures of machinery, which are managed by preventive maintenance and planning of investments into obsolete or worn-out equipment; risks pertaining to supply of key energy sources (natural gas, electric energy, heat) that we provide through appropriate contractual relations with our suppliers; and risks related ensuring compliance with the technical standards, legal norms, and contractual requirements, which we managed by internal controls that trigger immediate response when any non-compliance or deviations are observed.

Risks related to execution of work process methods are important especially when implementing changes or introducing new generations of products, or when moving the production lines. These risks are addressed by compiling and updating the instructions on how to carry out the relevant work and tasks. In 2018, we also established a training centre, or centre for acquisition of skills for carrying out the work and tasks in production.

Product quality risks

Certain standards and regulations pertaining to quality and end-user safety apply to appliances made in the Gorenje Group. We are constantly monitoring these standards and we revise the processes of checking and ensuring compliance, as well as production processes, accordingly. We are constantly improving our production practices as we observe the relevant quality assurance protocols and standards. Consistently with the established model of systematic monitoring of poor product quality costs and the rates and causes of product failure, we manage the risks of inadequate product operation already during the production process. The purpose of such monitoring is to perceive or identify and eliminate the risks of inadequate product operation within all processes that affect the quality of the final product. The risks are mitigated with appropriate development and quality assurance systems as a part of the production, sales, and after-sales processes.

As an additional mechanism for discovering any faults in appliance operation, we have put into place at all process levels a quality management system compliant with the requirements of the ISO 9001 standard, system of certified methods according to ISO 17025, and the Six Sigma system. The use IT tools allowed us in 2018 to cut the time required to identify any extensive failures and thus to limit the costs that would be incurred in case of an epidemic defect. At the same time, we expanded the range of tests and compliance checks in the purchasing, development, and production process, and we also expanded certain test procedures and methods that we had established for both premium and standard products.

In addition to the internal product risk mitigation measures, we have also obtained in 2018 insurance coverage from an international insurance company, which also includes coverage for manufacturer's liability for damage resulting from any faults or operation failures, in the amount which we deem sufficient to provide adequate coverage for any loss events.

In addition to the direct financial effect, product failures and potential loss events pertaining thereto also have a significant negative impact on the reputation of the Gorenje Group, our brands, and the relations with our customers in the wholesale and retail process.

Development risks

Development risks are broken down into risks related to compliance and risks related to the new product development process. In 2018, we continued to mitigate the risks with continuous training and education, and cooperation with international institutions and development centres.

Due to our presence in the global markets, complexity of managing the regionally or locally effective legislation and regulations on product specifications for respective markets is very high. We look to comply with the requirements as early as in the product development stage – both form the aspect of product compliance and from the aspect of observation of intellectual and patent protection.

Considerable emphasis is also placed on product safety, in order to ensure the expected user experience for our customers. Failure in terms of any aspect of compliance may have a grave impact on our operations and performance, and on the reputation of the Group and its brands.

The new product development process is defined in such way that it includes intermediate check and approval points.

By observing this procedure, we are keeping in check any discrepancies between the planned and actually accomplished goals for each product. We also included in the development procedures the required measurements and monitoring of product development in its respective stages. Scenarios have been laid down for cases of discrepancies, which involve – in addition to development activities – the measure of replacement of a non-compliant or unsuitable component.

In order to obtain feedback regarding quality and usefulness of our products, in addition to our measurements, the product testing stage also includes independent consumer organizations and individual final product users. Tests are planned in the annual development plans and they involve relevant sets of products.

Risks with direct effect on the new product development include risks of availability of the development department. Such department availability may be restricted due to lack of key personnel, inclusion of unplanned development projects, expressed or identified additional requirements in the course of the development project, or even a finding that the development concept is inappropriate. Risks pertaining to the product development process are managed by careful project planning during the annual planning which in turn is a part of the medium-term new product development planning.

The risk with the greatest potential effect occurring in the development process and cannot be managed with internal controls is the risk of an unsuccessful product concept. In product development, the Group therefore has no assurance that the product we develop will find commercial success or that the consumers will recognize the useful value of the product features we develop. The effect of this risk is all the bigger if we observe it from the aspect of new product categories and platforms. These risks are managed by monitoring consumer habits, needs, and trends, by conducting market analyses, and by monitoring the trends in the industry.

HUMAN RESOURCE RISKS

Suitable, and especially high-quality human resources are an important business asset to the Gorenje Group, as they enable the Group's operation and business.

In 2018, we continued the succession planning project that is to assure uninterrupted operation despite any losses of key personnel. Particular attention was paid to employee training and to maintaining and developing their competencies. We built up our pool of new human resources with scholarships. Training and education and human resource development are carefully planned and regularly monitored. This includes the annual interview model that we have in place. At the same time, we encourage our employees to pursue the Group's fundamental values of responsibility, innovation, and entrepreneurship at all levels of operations.

In the field of occupational safety and health we used our own methodology to assess the probability of occurrence of a particular accident and the probability of occurrence of health-related problems for each job or workplace. Based on the findings, we adopted relevant measures intended to decrease the probability of damaging effects on our employees, from the aspect of precisely directed investment into workplace improvement and adjustment of work processes, and from the aspect of training and education of employees, preventive examinations, and sports activities.

LOGISTICS RISKS

Risks of logistics process operation include risks related to operation and assurance of operation of contractors (or contractual service providers), and risks related to the operation of logistics infrastructure (interruptions in the operation of logistics systems or logistics centres).

Risks related to assurance of rendering of services and operation of contractual service providers are addressed with continuous assessment of the suitability and adequacy of our contractors, and the strategy of using several logistics partners.

Operation of the logistics infrastructure and logistics systems is provided through regular reviews of system statuses and with investment maintenance of the systems.

Also affecting the efficiency of logistics support are external factors beyond Gorenje Group's immediate control, such as prices of fuel, road tolls, and other related charges.

The field of logistics is focused on logistics activities directly related to logistics of products and materials required for the operation of production capacities and for timely and adequate delivery of end products to business partners. Risks of faulty deliveries and transport damage at the level of internal logistics or logistics provided by partners or contractors are managed with operational risk management controls.

Market risks

Market or sales risks are related to competitiveness in sale of products and services in particular markets. Efficiency of the Group's sales strategies depends on numerous factors, most importantly the implementation of appropriate and effective marketing strategies. These include in particular the right choice of brands for our products and services, pricing mechanisms, and competitiveness with regard to product functionality and design.

A variety of important factors can affect the attainment of budgeted sales volume, profit margin, and overall Group performance, such as recognition of the Group's brands, and negotiating power and concentration of the customers and retail chains that we work with.

We are facing strong competition in all markets of our operations. Due to the scope of their operations, they have higher negotiating power in relation to the end customers, better and more recognizable or distinctive brands, broader customer bases, and more substantial financial and other resources for assurance of recognition in the markets, conducting of marketing activities, and introduction of new, more competitive products to the markets. The risks related to competitors' activities aimed at increasing their market shares directly affect our operations and performance.

With the strategic policy specified in the 2016–2020 strategic plan, we specified a focus on premium segments of appliances, and focus on the global markets. Such focus reduces the Group's dependence on the highly competitive European markets on which we are striving to maintain our presence at least at the current level.

Compliance and brand reputation risks

Compliance and brand reputation risks include risks related to assurance of compliance with the relevant legislation, regulations, and other commitments like technological standards and contract obligations towards business partners, as well as risks related to reputation and goodwill (and brand reputation) in the global markets.

LEGISLATIVE AND REGULATORY RISKS

Legislative and regulatory risks include risks related to any breaches of the relevant local legislation, regulations, or operating standards. These risks may affect the ability to successfully carry out the Group's business activities.

Due to our powerful international presence (in 90 countries of the world) and high market shares in some countries, we are exposed to the risk of compliance with the competition law and regulations. Therefore, the Group has adopted a policy and operating instructions for conduct in compliance with the provisions of the competition law, which pertain to the entire Group.

The Group's global presence is also a challenge in terms of compliance of operations with local legislation and regulations. In addition to our own legal experts, we hired the services of third-party legal consultants for specific purposes or markets. A special set of legislative risks and risks of regulation includes locally addressed risks managed at the level of each process. This segment involves compliance with the tax legislation and regulations, compliance with environment requirements, compliance with safety requirements from the aspect of product, working environment, and business processes, protection of (personal) information, and other issues whose framework is defined by the regulations and legislation in effect from time to time. Non-compliance with the effective regulations and legislation is a risk which the Group has to manage and hedge according to the risk management methodology. Therefore, the only acceptable measure is prevention of non-compliance and introduction of activities to ensure compliance with all regulations and legislation.

In 2018, a new regulation (EU) 2016/679 came into effect, which regulates personal data management when personal data is processed in the European Union. In order to provide compliance, we assigned as early as in 2017 a project task force that specified and updated the personal data management system and developed a suitable policy defined and approved at the Gorenje Group level. We furthermore prepared suitable contractual relations and established a system for accepting requests by individuals and reporting in case of security incidents.

REPUTATION AND GOODWILL RISKS

Major risks also include risks related to the Group's reputation and goodwill, and its brands.

Our competitiveness and performance also depend on our recognition and reputation, which pertains to our brands and to compliance at all levels of our operations. Decrease in the value of our brands due to product recalls, customer complaints, negative publicity, legal or court proceedings, or other factors may have major negative effects on our operations. Moreover, reputation and goodwill are indirectly and directly affected by most of the risks specified in this section.

In 2018, we also revised and expanded our corporate communication department in order to step up our proactive communication and notify the interested public about our operations and performance, and the related activities taking place at the Gorenje Group. We communicate with our stakeholders in a transparent manner, both with regard to our performance, or results, and with regard to the factors that affected our operations and performance.

2.4.4 Insurance of our assets, liability and employees, and protection from cyber threats

One form of shifting the risk to a third party (service provider) is the insurance of property, liability, and production halt, which alleviates the negative consequences for the Group's operations in case of occurrence of unexpected events that could materially affect the Group's operations. Insurances taken out provide a higher level of protection at the financial, legal, and operational level. Insurances are also taken out for other fields in which they are seen as an appropriate measure.

The scope of insurance and insurance coverage is adjusted on an ongoing basis. Thus, we maintain the optimum ratio between financial effects of insurance and risks that we transfer to the insurance company. Insurance policies are signed centrally for the requirements of the Group, while any loss events are resolved in cooperation with insurance brokers and their international network.

In addition to insurances pertaining to the security and safety of property and business activities, we have also put into place a system of insurances for our employees. This system allows higher quality of medical services and security in case of accidents and upon retirement.

When signing insurance programs, we are focused especially on relevant insurance coverage for the risks that could materially affect the Group's future operations and performance, and financial statements. Additional activities in insurance were directed at insurance in the field of cybersecurity (computer security) and insurance in cases of fraud to which the Group may be exposed. Consistently with the risk methodology, insurance is understood as one of the risk management scenarios / measures.

2.4.5 Targets for 2019

- Alignment and harmonization of methodologies and approaches to risk and insurance management with our strategic partner Hisense Group.
- Preparing a transparently laid out map of risks managed within the Group.
- Repeated thorough review of risk and opportunity management from the aspect of sustainable development, and active inclusion of risks and opportunities pertaining to sustainable development into processes and projects.
- Assessing the risks of effects on individual privacy in order to provide a suitable level of compliance with the legislation on personal data management.
- Conducting additional activities that involve reviews of compliance of operations and business, and mitigating the risks of non-compliance at the process or execution/implementation level.

3. Accounting Report pursuant to IFRS as adopted by the EU

3.1 Independent Auditor's Report

3.1.1 Independent Auditor's Report for Gorenje Group

MAZARS

Independent Auditor's Report on the Consolidated Financial Statements

To the owners of Gorenje, d.o.o.

Opinion

We have audited the consolidated financial statements of Gorenje, d.o.o. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated statements of income and other 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No 537/2014 of the European Parliament and of the Council"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group companies in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) and other ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters and the audit procedures in connection to the key audit matters are described below.

Goodwill

The Group recorded goodwill of €66,471 thousand and a brand value of €61,964 thousand, which, due to the materiality of the items (as they account for 12% of the Group's total assets), are considered a key audit matter. Under IFRSs, the Group is required to test the goodwill and brand for impairment. An impairment test using the discounted cash flow model requires significant management judgments.

Our audit procedures included, among others, an evaluation of the assumptions and methodologies used by the Group, in particular:

- evaluating the assumptions used to calculate the discount rates;

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- analysing the expected future cash flows used by the Group in impairment testing to determine the accuracy of management's projections.

Goodwill and brand disclosures are presented in Note 19.

Accounting for capitalised development costs

Capitalised development costs totalling €35,002 thousand and intangible assets under construction totalling €28,261 thousand, which also relate to development projects, were deemed key audit matters in our audit due to the materiality of the balance as at 31 December 2018, the rapid technological changes in the industry and the specific criteria that must be met for their initial recognition and future measurement. This involves management judgment, e.g. with respect to the technical feasibility of and intention and ability to complete the intangible asset, the ability to use or sell the asset, the generation of future economic benefits and the ability to measure the costs reliably. In addition, determining whether there is any indication of impairment of the value of these assets requires management judgment in relation to the assumptions affected by future market or economic developments.

We have performed audit procedures based on an audit sample over the accuracy and valuation of amounts recognised. Our audit procedures, included, among other things:

- assessing the recognition criteria in accordance with IAS 38;
- the key assumptions used or estimates made in capitalising development costs;
- the accuracy of costs included and assessing the useful economic life attributed to the asset; and
- verifying the impairment tests made by management.

The disclosures of accounting for capitalised development costs are included in Note 19.

Provisions for product warranties

At 31 December 2018, the provisions for product warranties amounted to €38,140 thousand. The Group issues various types of product warranties, under which the performance of products delivered is generally guaranteed for a certain period or term. Product warranties provisions also include the expected costs of warranty obligations in accordance with legal or contractual provisions. Due to uncertainty, which mostly stems from a lack of performance history for new products and the related risk that the warranty provisions will not be sufficient, this area is considered a key audit matter.

A provision for warranties is recognised when the underlying product is sold and is based on historical performance data and the weighting of all possible outcomes against their associated probabilities Our procedures included the following:

- evaluating the appropriateness and validity of the historical and current data used in calculating the provisions;
- verifying the calculations used in determining provisions;
- evaluating and testing the basis for the assumptions developed and used to determine the warranty provisions; and
- evaluating management judgments.

The disclosures of warranty provisions are included in Note 35.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the business report forming an integral part of the consolidated annual report of the Group, but does not cover the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in that regard.

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 the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the companies or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Group. We have sole responsibility for the audit opinion expressed.

Other reporting obligations in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

Appointment and Approval of the Auditor

We were appointed as the statutory auditor of the Group by the Group's shareholders at the shareholders' meeting held on 17 September 2018.

Consistency with the Additional Report to the Audit Committee

We did not issue an additional report to the audit committee, as the Group has no supervisory board and therefore no audit committee.

Provision of Non-Audit Services

We hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council to the audited Group, and that we ensured our independence from the audited Group in conducting the audit.

Apart from statutory audit services and the services disclosed in the annual report and consolidated financial statements, we did not provide any other services to the companies within the Group.

Ljubljana, 15 March 2019

MAZARS d.o.o.

Dejan Šimenc
Certified Auditor

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

MAZARS

Independent Auditor's Report on the Financial Statements

To the owners of Gorenje, d.o.o.

Opinion

We have audited the financial statements of Gorenje, d.o.o. (the "Company"), which comprise the balance sheet as at 31 December 2018, the statements of income and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Gorenje d.o.o. as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No 537/2014 of the European Parliament and of the Council"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters and the audit procedures in connection to the key audit matters are described below.

Investments in subsidiaries

Investments in subsidiaries account for 30% of the total assets and are measured at cost less impairment losses. Due to materiality, this items are considered a key audit matter. Management annually assesses those investments for indicators of impairment and, where necessary, conducts annual impairment tests using the discounted cash flow model. This procedure requires significant management judgment.

We evaluated management's consideration of impairment indicators for the investments. Our audit procedures included, among others, an evaluation of the assumptions and methodologies used by the Company, in particular:

- evaluating the assumptions used to calculate the discount rates;

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- analysing the expected future cash flows used by the Company in impairment testing to determine the accuracy of management's projections.

The disclosures of investments in subsidiaries are included in Note 22.

Accounting for capitalised development costs

Capitalised development costs totalling €28,973 thousand and intangible assets under construction totalling €22,167 thousand, which also relate to development projects, were deemed key audit matters in our audit due to the materiality of the balance as at 31 December 2018, the rapid technological changes in the industry and the specific criteria that must be met for their initial recognition and future measurement. This involves management judgment, e.g. with respect to the technical feasibility of and intention and ability to complete the intangible asset, the ability to use or sell the asset, the generation of future economic benefits and the ability to measure the costs reliably. In addition, determining whether there is any indication of impairment of the value of these assets requires management judgment in relation to the assumptions affected by future market or economic developments.

We have performed audit procedures based on an audit sample over the accuracy and valuation of amounts recognised. Our audit procedures, included, among other things:

- assessing the recognition criteria in accordance with IAS 38;
- the key assumptions used or estimates made in capitalising development costs;
- the accuracy of costs included and assessing the useful economic life attributed to the asset; and
- verifying the impairment tests made by management.

The disclosures of accounting for capitalised development costs are included in Note 19.

Provisions for product warranties

At 31 December 2018, the provisions for product warranties amounted to €6,387 thousand. The Company issues various types of product warranties, under which the performance of products delivered is generally guaranteed for a certain period or term. Product warranties provisions also include the expected costs of warranty obligations in accordance with legal or contractual provisions. Due to uncertainty, which mostly stems from a lack of performance history for new products and the related risk that the warranty provisions will not be sufficient, this area is considered a key audit matter.

A provision for warranties is recognised when the underlying product is sold and is based on historical performance data and the weighting of all possible outcomes against their associated probabilities Our procedures included the following:

- evaluating the appropriateness and validity of the historical and current data used in calculating the provisions;
- verifying the calculations used in determining provisions;
- evaluating and testing the basis for the assumptions developed and used to determine the warranty provisions; and
- evaluating management judgments.

The disclosures of warranty provisions are included in Note 35.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the business report forming an integral part of the annual report of the Company, but does not cover the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in that regard.

Management's Responsibility for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Other reporting obligations in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

Appointment and Approval of the Auditor

We were appointed as the statutory auditor of the Company by the Company's shareholders at the shareholders' meeting held on 17 September 2018.

Consistency with the Additional Report to the Audit Committee

We did not issue an additional report to the audit committee, as the Company has no supervisory board and therefore no audit committee.

Provision of Non-Audit Services

We hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council to the audited Company and group, and that we ensured our independence from the audited Company in conducting the audit.

Apart from statutory audit services and the services disclosed in the annual report and financial statements, we did not provide any other services to the Company or its subsidiaries.

Ljubljana, 15 March 2019

MAZARS d.o.o.

Dejan Šimenc
Certified Auditor

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3.2 Accounting Report of the Gorenje Group and the company Gorenje, d.o.o.

3.2.1 Financial Statements of the Gorenje Group and the company Gorenje, d.o.o.

Income Statement of the Gorenje Group and the company Gorenje, d.o.o.

EURk	Note	Gorenje Group		Gorenje, d.o.o.	
		2017	2018	2017	2018
Revenue	**11**	**1,235,225**	**1,185,761**	**801,863**	**819,247**
Change in inventories of finished goods and work in progress		-15,117	8,854	-247	2,963
Other operating income	12	38,773	28,175	21,112	7,362
Gross profit		**1,258,881**	**1,222,790**	**822,728**	**829,572**
Cost of goods, materials and services	13	-922,509	-924,316	-678,220	-750,137
Employee benefits expense	14	-238,649	-253,152	-109,151	-116,530
Amortisation and depreciation expense	15	-52,685	-69,962	-30,479	-44,703
Other operating expenses	16	-26,786	-69,859	-7,434	-36,826
Operating profit or loss		**18,252**	**-94,499**	**-2,556**	**-118,624**
Finance income	17	4,046	4,007	21,371	12,474
Finance expenses	17	-21,130	-26,436	-18,165	-25,475
Net finance income/expenses	**17**	**-17,084**	**-22,429**	**3,206**	**-13,001**
Share in profits or losses of associates		152	20	0	0
Profit or loss before tax		**1,320**	**-116,908**	**650**	**-131,625**
Income tax expense	18	-2,678	2,810	-177	4,794
Profit or loss without discontinued operation		**-1,358**	**-114,098**	**0**	**0**
Profit of loss of discontinued operation	9	**2,699**	**2,932**	**0**	**0**
Profit or loss for the period		**1,341**	**-111,166**	**473**	**-126,831**
Attributable to non-controlling interests		**372**	**236**	**0**	**0**
Attributable to equity holders of the parent		**969**	**-111,402**	**0**	**0**
Basic and diluted earnings per share (in EUR)	33	0.04	-4.58	0.02	-5.22

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

EURk	Note	Gorenje Group		Gorenje, d.o.o.	
		2017	2018	2017	2018
Profit or loss for the period		**1,341**	**-111,166**	**473**	**-126,831**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss		**148**	**-1,267**	**79**	**-967**
Actuarial gains or losses	32	65	-1,405	77	-1,028
Change in the fair value of investment properties		0	28	0	0
Net fair value of investments in equity instruments	28, 32	86	-46	11	-46
Income tax on other comprehensive income	32	-3	156	-9	107
Items that may be reclassified subsequently to profit or loss		**3,719**	**-6,654**	**463**	**-3,006**
Change in effective portion of gains and losses from hedging instruments in cash flow hedges	32	-651	-4,374	-311	-4,518
Change in effective portion of gains and losses from hedging instruments in cash flow hedges, reclassified to profit or loss	17, 32	891	842	883	807
Income tax on other comprehensive income	32	-109	705	-109	705
Translation reserve		3,588	-3,827	0	0
Other comprehensive income for the period		**3,867**	**-7,921**	**542**	**-3,973**
Total comprehensive income for the period		**5,208**	**-119,087**	**1,015**	**-130,804**
Attributable to equity holders of the parent		4,836	-119,323	0	0
Attributable to non-controlling interests		372	236	0	0

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

EURk	Note	Gorenje Group 31 Dec 2017	Gorenje Group 31 Dec 2018	Gorenje, d.o.o. 31 Dec 2017	Gorenje, d.o.o. 31 Dec 2018
ASSETS		**1,143,116**	**1,060,882**	**1,015,425**	**936,818**
Non-current assets		**647,977**	**573,400**	**730,862**	**661,548**
Intangible assets	19	223,575	200,919	73,710	56,607
Property, plant and equipment	20	371,835	322,528	200,576	179,520
Investment property	21	9,849	9,453	8,685	9,217
Investments in subsidiaries	22	0	0	294,986	280,568
Investments in associates	23	4,309	44	3,186	0
Other non-current investments	24	3,483	2,110	123,882	107,828
Non-current operating receivables	25	7,375	3,760	5,625	1,564
Deferred tax assets	26	27,551	34,586	20,212	26,244
Current assets		**495,139**	**487,482**	**284,563**	**275,270**
Non-current assets held for sale		305	453	0	0
Inventories	27	220,619	219,226	85,338	89,700
Current investments	28	8,059	7,008	24,041	33,352
Trade receivables	29	180,517	136,428	158,631	138,131
Other current assets	30	57,866	57,413	13,069	10,893
Income tax receivable		2,736	6,990	0	0
Cash and cash equivalents	31	25,037	18,053	3,484	3,194
Assets included in disposal groups	9	0	41,911	0	0
EQUITY AND LIABILITIES		**1,143,116**	**1,060,882**	**1,015,425**	**936,818**
Equity	**32**	**368,344**	**244,700**	**354,081**	**223,223**
Share capital		101,922	101,416	101,922	101,416
Share premium		174,502	115,908	156,639	98,045
Revenue reserves		33,131	29,961	33,131	29,961
Treasury shares		-3,170	0	-3,170	0
Profit or loss for the period		922	15,429	426	0
Profit or loss from previous years		73,597	2,243	67,359	0
Translation reserve		-13,723	-14,763	0	0
Fair value reserve		-454	-7,335	-2,226	-6,199
Equity of holders of the parent		**366,727**	**242,859**	**0**	**0**
Equity of non-controlling interests		**1,617**	**1,841**	**0**	**0**
Non-current liabilities		**365,278**	**235,134**	**287,370**	**174,138**
Provisions	35	59,886	73,428	17,508	27,198
Deferred income	36	7,563	9,465	0	0
Non-current operating liabilities	37	2,807	2,444	0	0
Deferred tax liabilities	26	2,002	1,746	0	0
Non-current financial liabilities	38	293,020	148,051	269,862	146,940
Current liabilities		**409,494**	**581,048**	**373,974**	**539,457**
Current financial liabilities	39	90,731	249,607	141,036	303,067
Trade payables	40	229,402	218,199	212,614	213,276
Other current liabilities	41	87,752	84,396	20,324	23,114
Income tax liabilities		1,609	6,754	0	0
Liabilites included in disposal groups	9	0	22,092	0	0

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

	EURk	Note	Gorenje Group		Gorenje, d.o.o.	
			2017	2018	2017	2018
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**					
	Profit or loss for the period		**1,341**	**-111,166**	**473**	**-126,831**
	Adjustments for:					
	- depreciation of property, plant and equipment	15	43,274	48,686	23,789	26,891
	- amortisation of intangible assets	15	11,402	23,511	6,690	17,812
	- net exchange differences		345	-1,567	627	137
	- dividends received		-215	-49	-14,846	-5,620
	- interest income		-935	-547	-5,079	-4,541
	- interest expenses		12,741	12,215	13,004	12,037
	- income/expenses on sale of property, plant and equipment		-531	-3,125	451	-141
	- income/expenses on revaluation of investment property		65	400	-12	278
	- revaluation expenses for equipment and intangible assets		0	22,170	0	18,372
	- tax expenses	18	3,146	-2,289	177	-4,794
	Cash flows from operating activities before changes in net operating assets		**70,633**	**-11,761**	**25,274**	**-66,400**
	Change in trade and other receivables		-22,693	18,602	-33,599	20,705
	Change in inventories		5,317	-1,282	3,226	-4,362
	Change in provisions		-1,612	16,648	-3,432	9,690
	Change in trade and other payables		17,304	-959	37,259	2,411
	Change in net operating assets and provisions		**-1,684**	**33,009**	**3,454**	**28,444**
	Interest paid		-136	-260	-359	-475
	Income tax paid		-3,689	-4,002	-571	0
	Net cash from operating activities		**65,124**	**16,986**	**27,798**	**-38,431**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**					
	Proceeds from sale of property, plant and equipment		5,582	8,358	435	225
	Proceeds from sale of investment property		250	2,596	149	3,069
	Interest received		935	547	5,079	4,541
	Dividends received		215	49	14,845	5,620
	Disposal of subsidiary		434	39	0	39
	Acquisition of property, plant and equipment		-49,672	-30,012	-26,451	-12,363
	Acquisition of investment property		-371	0	-371	0
	Acquisition of subsidiary without obtained financial assets		0	0	-41	0
	Acquisition of associates without obtained financial assets		-1,200	0	-1,200	0
	Loans given		128	6,613	279	18,931
	Other investments		2,341	-32	-1,741	5.377
	Acquisition of intangible assets		-25,656	-18,843	-21,006	-14,845
	Net cash used in investing activities		**-67,014**	**-30,685**	**-30,023**	**10,594**

C.	CASH FLOWS FROM FINANCING ACTIVITIES					
	Borrowings		115,673	304,018	167,009	354,436
	Repayment of borrowings		-113,695	-267,761	-165,899	-300,727
	Bonds issued		19,531	0	19,531	0
	Bonds paid		-14,600	-14,600	-14,600	-14,600
	Interest paid		-12,605	-11,955	-12,645	-11,562
	Dividend payout		-2,430	0	-2,430	0
	Net cash used in financing activities		**-8,126**	**9,702**	**-9,034**	**27,547**
	Net change in cash and cash equivalents		-10,016	-3,997	-11,259	-290
	Cash and cash equivalents at the beginning of period		35,053	25,037	14,743	3,484
	Cash and cash equivalents at the end of period		25,037	21,040	3,484	3,194

Consolidated Statement of Changes in Equity of the Gorenje Group

EURk	Share capital	Share premium	Revenue reserves				Treasury shares	Retained earnings		Translation reserve	Fair value reserve	Equity holders of the parent	Non-contro-lling interests	Total
			Legal reserves	Statutory reserves	Treasury share reserve	Other revenue reserves		Profit or loss from previous periods	Profit or loss for the period					
Opening balance at 1 Jan 2017	**101,922**	**174,502**	**12,896**	**7,919**	**3,170**	**22,030**	**-3,170**	**55,592**	**7,560**	**-17,311**	**-733**	**364,377**	**2,164**	**366,541**
Total comprehensive income for the period														
Profit or loss for the period	0	0	0	0	0	0	0	0	969	0	0	969	372	1,341
Total other comprehensive income	0	0	0	0	0	0	0	0	0	3,588	279	3,867	0	3,867
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**969**	**3,588**	**279**	**4,836**	**372**	**5,208**
Transactions with owners (when acting as owners) recognised directly in equity														
Contributions by owners and distribution to owners														
Transfer of fair value reserves of retirement benefits to retained earnings or losses	0	0	0	0	0	0	0	-56	0	0	0	-56	0	-56
Transfer of previous period's profit or loss to retained earnings or losses	0	0	0	0	0	0	0	7,560	-7,560	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	0	-2,430	0	0	0	-2,430	0	-2,430
Formation of statutory reserves	0	0	0	47	0	0	0	0	-47	0	0	0	0	0
Transfer of other revenue reserves to retained earnings*	0	0	0	0	0	-12,931	0	12,931	0	0	0	0	0	0
Total contributions by owners and distributions to owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**18,005**	**-7,607**	**0**	**0**	**-2,486**	**0**	**-2,486**
Change in equity interests in subsidiaries that do not result in a loss of control														
Change in equity interests	0	0	0	0	0	0	0	0	0	0	0	0	-919	-919
Total changes in equity interests in subsidiaries	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-919**	**-919**
Total transactions with owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**18,005**	**-7,607**	**0**	**0**	**-2,486**	**-919**	**-3,405**
Closing balance at 31 Dec 2017	**101,922**	**174,502**	**12,896**	**7,966**	**3,170**	**9,099**	**-3,170**	**73,597**	**922**	**-13,723**	**-454**	**366,727**	**1,617**	**368,344**

* In compliance with provisions of the Companies Act ZGD-1, the Company released other revenue reserves in the amount of EUR 12,931k to retained earnings (profit or loss from previous periods) for the purpose of forming the accumulated profit (Note 34).

	Share capital	Share premium	Revenue reserves				Treasury shares	Retained earnings		Translation reserve	Fair value reserve	Equity holders of the parent	Non-contro-lling interests	Total
			Legal reserves	Statutory reserves	Treasury share reserve	Other revenue reserves		Profit or loss from previous periods	Profit or loss for the period					
Opening balance at 1 Jan 2018	101,922	174,502	12,896	7,966	3,170	9,099	-3,170	73,597	922	-13,723	-454	366,727	1,617	368,344
Transfer of income from government grants to deferred income and costs for previous years	0	0	0	0	0	0	0	-4,492	0	0	0	-4,492	0	-4,492
Transfer from translation reserve to fair value reserve	0	0	0	0	0	0	0	0	0	2,787	-2,787	0	0	0
Adjusted opening balance at 1 Jan 2018	101,922	174,502	12,896	7,966	3,170	9,099	-3,170	69,105	922	-10,936	-3,241	362,235	1,617	363,852
Total comprehensive income for the period														
Profit or loss for the period	0	0	0	0	0	0	0	0	-111,402	0	0	-111,402	236	-111,166
Total other comprehensive income	0	0	0	0	0	0	0	0	0	-3,827	-4,094	-7,921	0	-7,921
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-111,402**	**-3,827**	**-4,094**	**-119,323**	**236**	**-119,087**
Transactions with owners (when acting as owners) recognised directly in equity														
Contributions by owners and distribution to owners														
Transfer of fair value reserves of retirement benefits to retained earnings or losses	0	0	0	0	0	0	0	-109	0	0	0	-109	0	-109
Transfer of previous period's profit or loss to retained earnings or losses	0	0	0	0	0	0	0	922	-922	0	0	0	0	0
Unpaid dividends	0	0	0	0	0	0	0	56	0	0	0	56	0	56
Public-to-private transaction	-506	506	0	-3,170	-3,170	3,170	3,170	0	0	0	0	0	0	0
Coverage of loss for 2018	0	-59,100	0	0	0	0	0	-67,731	126,831	0	0	0	0	0
Total contributions by owners and distributions to owners	**-506**	**-58,594**	**0**	**-3,170**	**-3,170**	**3,170**	**3,170**	**-66,862**	**125,909**	**0**	**0**	**-53**	**0**	**-53**
Change in equity interests in subsidiaries that do not result in a loss of control														
Change in equity interests	0	0	0	0	0	0	0	0	0	0	0	0	-12	-12
Total changes in equity interests in subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	**-12**	**-12**
Total transactions with owners	**-506**	**-58,594**	**0**	**-3,170**	**-3,170**	**3,170**	**3,170**	**-66,862**	**125,909**	**0**	**0**	**-53**	**-12**	**-65**
Closing balance at 31 Dec 2018	**101,416**	**115,908**	**12,896**	**4,796**	**0**	**12,269**	**0**	**2,243**	**15,429**	**-14,763**	**-7,335**	**242,859**	**1,841**	**244,700**

Statement of Changes of Equity of the company Gorenje, d.o.o.

EURk	Share capital	Share premium	Revenue reserves				Treasury shares	Retained earnings		Fair value reserve	Total
			Legal reserves	Statutory reserves	Treasury share reserve	Other revenue reserves		Profit or loss from previous periods	Profit or loss for the period		
Opening balance at 1 Jan 2017	**101,922**	**156,639**	**12,896**	**7,919**	**3,170**	**22,030**	**-3,170**	**53,649**	**3,265**	**-2,768**	**355,552**
Total comprehensive income for the period											
Profit or loss for the period	0	0	0	0	0	0	0	0	473	0	473
Total other comprehensive income	0	0	0	0	0	0	0	0	0	542	542
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**473**	**542**	**1,015**
Transactions with owners (when acting as owners) recognised directly in equity											
Contributions by owners and distribution to owners											
Transfer of fair value reserves of retirement benefits to retained earnings or losses	0	0	0	0	0	0	0	-56	0	0	-56
Transfer of previous period's profit or loss to retained earnings or losses	0	0	0	0	0	0	0	3,265	-3,265	0	0
Dividend payout	0	0	0	0	0	0	0	-2,430	0	0	-2,430
Formation of statutory reserves	0	0	0	47	0	0	0	0	-47	0	0
Transfer of other revenue reserves to retained earnings*	0	0	0	0	0	-12,931	0	12,931	0	0	0
Total contributions by owners and distribution to owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**13,710**	**-3,312**	**0**	**-2,486**
Total transactions with owners	**0**	**0**	**0**	**47**	**0**	**-12,931**	**0**	**13,710**	**-3,312**	**0**	**-2,486**
Closing balance at 31 Dec 2017	**101,922**	**156,639**	**12,896**	**7,966**	**3,170**	**9,099**	**-3,170**	**67,359**	**426**	**-2,226**	**354,081**

* In compliance with provisions of the Companies Act ZGD-1, the Company released other revenue reserves in the amount of EUR 12,931k to retained earnings (profit or loss from previous periods) for the purpose of forming the accumulated profit (Note 34).

EURk	Share capital	Share premium	Revenue reserves				Treasury shares	Retained earnings		Fair value reserve	Total
			Legal reserves	Statutory reserves	Treasury share reserve	Other revenue reserves		Profit or loss from previous periods	Profit or loss for the period		
Opening balance at 1 Jan 2018	**101,922**	**156,639**	**12,896**	**7,966**	**3,170**	**9,099**	**-3,170**	**67,359**	**426**	**-2,226**	**354,081**
Total comprehensive income for the period											
Profit or loss for the period	0	0	0	0	0	0	0	0	-126,831	0	-126,831
Total other comprehensive income	0	0	0	0	0	0	0	0	0	-3,973	-3,973
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-126,831**	**-3,973**	**-130,804**
Transactions with owners (when acting as owners) recognised directly in equity											
Contributions by owners and distribution to owners											
Transfer of fair value reserves of retirement benefits to retained earnings or losses	0	0	0	0	0	0	0	-109	0	0	-109
Transfer of previous period's profit or loss to retained earnings or losses	0	0	0	0	0	0	0	426	-426	0	0
Unpaid dividends	0	0	0	0	0	0	0	55	0	0	55
Public-to-private transaction	-506	506	0	-3,170	-3,170	3,170	3,170	0	0	0	0
Coverage of loss for 2018	0	-59,100	0	0	0	0	0	-67,731	126,831	0	0
Total contributions by owners and distribution to owners	**-506**	**-58,594**	**0**	**-3,170**	**-3,170**	**3,170**	**3,170**	**-67,359**	**126,045**	**0**	**-54**
Total transactions with owners	**-506**	**-58,594**	**0**	**-3,170**	**-3,170**	**3,170**	**3,170**	**-67,359**	**126,045**	**0**	**-54**
Closing balance at 31 Dec 2018	**101,416**	**98,045**	**12,896**	**4,796**	**0**	**12,269**	**0**	**0**	**0**	**-6,199**	**223,223**

3.2.2 Notes to the Financial Statements

1. Reporting entity

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

The consolidated financial statements of the Gorenje Group at and for the year ended 31 December 2018 comprise the 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

Consolidated financial statements of the Group have been prepared pursuant to the International Financial Reporting Standards (IFRSs) as adopted by the European Union and in compliance with provisions of the Companies act.

The Managing Directors of the Company approved the financial statements on 15 March 2019.

(b) Basis of measurement

Consolidated financial statements of the Group have been prepared on the historical cost basis, except for the following items which are measured at fair value:

- derivative financial instruments,
- investments in equity instruments,
- investment property.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

Consolidated financial statements of the Group 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 15 – other operating expenses,

Note 18 – intangible assets

Note 22 and 23 and the accounting policy 3(a)(iii) and 3(a)(v) - acquisition and sale of companies;

Note 18 and 26 - deferred taxes;

Note 20 and 21 and accounting policies 3(d) and 3(f) - valuation of property, plant and equipment and investment property;

Note 35 and accounting policy 3(l)(iv) - provisions for retirement benefits and jubilee premiums;

Note 35 and accounting policy 3(l)(iii) - provisions for onerous contracts and litigations;

Note 35 and accounting policy 3(l)(i) - provisions for warranties;

Note 44 and accounting policy 3(i)(i) - valuation of investments;

Note 19 and accounting policy 3(e)(i) - goodwill;

Accounting policy 3(i)(i) - impairment of financial assets, including receivables.

Impact of the amended accounting estimates on the Company's and Group's operating result

Within the process of integrating into the Hisense Group, the Gorenje Group changed certain accounting estimates in 2018 as a result of adjusting to Hisense's business strategies, the operating plan, assumptions and valuation methods, as they differ from those applied by the Gorenje Group prior to the takeover. The stated accounting estimates would not change if Hisense would not enter the Gorenje's ownership structure. The most important one-off and extraordinary events in 2018 that arise from the changed circumstances due to Hisense Group's entry into the ownership structure, as well as other specific events are outlined below:

a) Labour costs

- the signing of a new collective agreement (5 June 2018) resulted in changed employer's guarantee obligations, based on which the employee is upon 40 years of service (not necessarily with the same employer as it applied in the previous collective agreement) entitled to a jubilee premium.
- formation of provisions for Gorenje Group's restructuring process,
- costs of bonuses paid to employees and introduced by the new owner with the aims to achieve the set goals and optimise the level of net working capital.

The total negative impact on the Group's profit or loss in 2018 amounted to EUR 7,655k and to EUR 6,523k in relation to the Company.

b) Quality-related costs

- given the current movement of costs and the market situation, the Group expects an increase of service-related costs during the warranty period; costs of provisions were accordingly increased,
- due to malfunction of certain appliances, the current costs of their elimination were increased; partly also with appliances in stock. Further, additional provisions were formed for expected costs of repairs in future periods.

The total negative impact on the Group's operating result in 2018 amounted to EUR 5,330k and to EUR 2,395k in relation to the Company.

c) Costs for impairment of inventories, receivables and equipment

- change to the accounting estimate on forming allowances for inventories of finished products, inventories of material and spare parts for maintenance of equipment, and spare parts used for repairs. The relevant accounting estimate is adjusted to the Hisense Group's valuation method, which gives great emphasis to optimising the net working capital, preventing the appearance of non-moving inventories, and timely sale of inventories,
- change to the accounting estimate on forming allowances for trade receivables, aimed at adjusting the accounting estimate to the strategies and valuation method applied by the Hisense Group, which keeps a strict credit management policy,
- change to the accounting estimate relating to the impairment of equipment, which is or shall no longer be used or is obsolete and worn out, as well as accelerated depreciation of equipment, where a reduced period of future yields than expected was established with respect to the initially set depreciation period. The relevant accounting estimate is adjusted to the Hisense Group's valuation method in terms of disclosing proper present value of assets, which are permanently used and adequate future yields are expected.

The total negative impact on the Group's profit or loss in 2018 amounted to EUR 18,902k and to EUR 11,702k in relation to the Company.

d) Change to the accounting estimate at the capitalisation of development costs

- the Group changed the method of capitalising development costs as a result of the management's estimate that Hisense Group's entry into Gorenje's ownership structure has led to significant changes in this area. The Hisense Group namely invests nearly 5% of total revenue into research and development and is highly innovative. The relevant adjusted accounting estimate is based on plans and anticipated synergies created between Gorenje and Hisense and expects that the development cycles of platforms and projects, which are developed and capitalised, will be materially reduced. Consequently also the cycles of useful lives of appliances will be shortened. In accordance with the latter, Gorenje will supply the market with more innovative, advanced appliances with better characteristics, which will accordingly be more competitive and probably result in higher profitability. The method of capitalising development costs changed so that the capitalisation of indirect costs (i.e. costs not considered as direct costs of development) was eliminated, the useful life of capitalised intangible assets was shortened (i.e. depreciation rate of capitalised development costs was reduced from 7 to 5 years), solely development costs relating to strategic platforms or projects are capitalised (i.e. major projects with a capitalisation value of over EUR 1m that are approved by the management and expected to show a proper added value). In addition, certain impairments and write-offs of intangible assets, which refer to platforms and projects that are to be suspended or the development-related results will no longer be used in the new generation platforms.

The total negative impact on the Group's profit or loss before tax is in 2018 recorded at EUR 29,434k and at EUR 27,841k in relation to the Company. This was conducted via write-offs or accelerated depreciation of certain older platforms, which are not deemed strategic in terms of Hisense Group's strategic goals and valuation methods, as well as platforms of lower value.

e) Write-off of capitalised costs of spare parts for equipment, based on which the useful life of equipment was extended
- changed accounting estimate pursuant to the management's decision for generally increasing the transparency of operations in terms of Hisense Group's valuation method, so that the capitalised costs for low-value assets are disclosed among current operating result although the extended useful life of assets is considered hereunder.

The total negative impact on the Group's and parent company's profit or loss before tax is in 2018 recorded at EUR 3,347k.

f) Expenses for impairment of investments and investment property
- additional impairments of certain loans granted were made due to changed circumstances with borrowers (i.e. procedures of compulsory composition, bankruptcy or significantly changed business policies); a conservative approach was applied while assessing the enforcement of collateral,
- it was decided that Gorenje withdraws from certain activities (i.e. bikes),
- adjusting the accounting estimates to the estimated market values of real properties and certain investments in companies' equity interests.

The total negative impact on the Group's net profit or loss before tax in 2018 amounted to EUR 5,405k and to EUR 6,677 in relation to the Company.

g) Costs for taxes and other tax proceedings
- The Group observes a conservative policy of forming additional provisions for current tax inspections as they are formed even if the risk of additional tax liabilities being imposed during a tax inspection is low. Further, certain provisions were also used in 2018.

The total positive impact on the Group's profit or loss in 2018 is recorded at EUR -158k and at EUR 0 in relation to the Company.

h) Costs for reversal of accrued costs referring to loan approval
- with the entry of a new owner and its financial strength, the Group was given the opportunity to early repay existing borrowings for which approval-related costs were accrued. This actually also occurred, whereas the approval-related costs were again accrued. Also costs are included for the planned early repayment of bonds as a result of the management's estimate that investors would like to get an adequate yield in order to accept the repayment.

The total negative impact on the Group's profit or loss before tax in 2018 is recorded at EUR 2,898k and at EUR 2,471k in relation to the Company.

i) Other extraordinary one-off events
- positive impact of divesting real properties, additional costs for suspending certain investment-related projects (except development) due to the changed strategy and valuation methodology of the new owner, costs referring to take-over activities, and similar.

The total negative impact on the Group's profit or loss before tax in 2018 is recorded at EUR 1,603k and at EUR 3,089k in relation to the Company.

Taking into account the stated important one-off and extraordinary events in 2018, the Group recorded loss for the period in the amount of EUR 74,416k, a negative EBITDA at EUR 54,721k and a negative EBIT at EUR 66,855k. As for the Group, no material errors exist that would have an impact on the Group's profit or loss.

(e) Changes in accounting policies

The Group changed the accounting policies where applicable due to the IFRS amendments. Given the provisions of IFRS 9 – Financial Instruments, the Group recorded EUR 413k of negative impact on its operating profit in 2018. The said impacts were thus materially insignificant.

3. Significant accounting policies

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

(a) Basis for consolidation

(i) Business acquisitions

Business acquisitions are accounted for using the acquisition method as at the date, which is the date of acquisition or the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable and control over financial flows.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the income statement.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the income statement.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Recognised value of the non-controlling interest can initially be measured at fair value or at the proportionate share of assumed assets and liabilities as at the date of the transfer. At each transfer, the Group decides which possibility is to be used.

(ii) Acquisition of non-controlling interests
Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Loss of control
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Remeasurment of the residual amount to fair value has an impact on the income statement. Subsequently it is accounted for as an equity-accounted investee or as an investment in equity instruments depending on the level of influence retained.

(v) Investments in associates and joint ventures (equity-accounted jointly controlled entities)
Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income on jointly controlled entities, 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.

(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:

- investments in equity instruments,
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective, or
- qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at daily exchange rates.

Foreign currency differences arising from translation are recognised directly in other comprehensive income. From the date of transfer to IFRSs, these differences are recognised in translation reserve in equity. When a foreign operation is disposed of (partly or wholly), the relevant amount in the translation reserve related to that foreign operation is reclassified to profit or loss.

(c) Financial instruments

The Group recognises in its balance sheet a financial assets or financial liability, when it becomes a party to the contractual provisions of the financial 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.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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.

A financial asset or financial liability, except trade receivables, is upon initial recognition measured at fair value and, if the relevant item is not measured at fair value through profit or loss, increased or decreased also by transaction costs that directly arise from the acquisition or issue of the financial asset or financial liability. After the initial recognition of trade receivables that have no significant financing component, they are to be measured at the transaction cost.

The Group classifies the financial instruments as subsequently measured at fair value, at fair value through other comprehensive income or at fair value through profit or loss based on the business model for financial asset management and the characteristics of the financial asset's contractual cash flows.

A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial assets is measured at fair value through other comprehensive income if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial assets is measured at fair value through profit or loss, except when measured at amortised cost or at fair value through other comprehensive income.

Hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures, and to hedge against the risk of fluctuations in raw material prices. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80–125 percent. The Group assesses recognized hedge at the end of each reporting period. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked by the Group, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified in profit or loss.

When a non-trading derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (except at land, which is not depreciated) and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Computer software purchased, which significantly contribute to the functionality of assets are to be capitalised as part of this equipment.

Borrowing costs directly attributable to the construction or production of a qualifying item of property, plant and equipment were capitalised subject to the following conditions: if the value of qualifying asset in total sales exceeded 5%, and if the duration of construction exceeded 6 months.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined as a difference among proceeds from disposal and the carrying amount of the property, plant and equipment, and is recognised within other operating income/other operating expenses in profit or loss.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement of fair value is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the fair value reserve in equity.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. All other costs, such as regular servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets arising on finance lease are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated on the first day of the following month, after they are installed and are ready for use.

The estimated useful lives for the current and comparative years are as follows:

buildings	20 - 50 years
plant and equipment	5 - 20 years
computer equipment	2 - 5 years
transportation vehicles (assets)	3 - 20 years
office equipment	3 - 10 years
tools	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a)(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested once a year whether the need for impairment has occurred.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve new knowledge, finding possible solutions, design, plan, evaluation and final selection of possible solutions of new or improved materials, appliances, products, processes, arrangement or service. Development expenditure is recognised as an intangible asset if development costs can be measured reliably, the product or process is technically and commercially feasible (i.e. will be available for use or sale), completion of the intangible asset is intended, future economic benefits are probable, and the Group intends to and has sufficient resources to use or sell the asset or product. The expenditure recognised as an item of intangible asset includes the cost of material and services, direct labour, and other costs that are directly attributable to preparing the asset for its intended use. Other development expenditure, which is not recognised as an item of intangible asset is recognised in profit or loss as incurred. Upon the changed accounting estimates that are adjusted with the strategy and methodologies of the new owner, solely direct costs of development are capitalised in Gorenje Group.

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

(iii) Other intangible assets

Intangible assets with infinite useful lives (trademark) 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.

(v) Amortisation

Amortisation is recognised on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the first day of the following month that they are available for use. The estimated useful lives for the current and comparative years are as follows:

deferred development costs	3 - 10 years
long-term property rights	3 - 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. Possible need for impairment/increase in value are assessed on an annual basis.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Properties hired out by the Group companies to its subsidiaries and related to the performance of their activity, are disclosed among property, plant and equipment. Investment properties comprise also those properties, whose lessees occupy more than 50 percent of available area.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group’s balance sheet.

(h) Inventories

Inventories of material and merchandise are measured at the lower of historical cost and net realisable value. The cost of inventories of material and merchandise is based on the weighted sliding average price method and the first-in-first-out (FIFO) method, and includes expenditure incurred in acquiring the inventories, dependent costs and other costs incurred in bringing them to their existing location and condition.

Inventories of finished products and work in progress are valued at production costs (in broader sense), which in addition to direct costs of material, labour, services, depreciation and part of production costs, include also costs of production overheads, acquisition costs, costs of maintenance and quality assurance overheads, and total costs of research and development.

Inventories of work in progress and finished products are not revalued due to value increase. Their write-off is mandatory if the carrying amount exceeds their market value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Decline in value of inventories of work in progress and products due to write-off, is credited against change in inventories.

In case of writing off the inventories of non-moving material, semi-finished products, finished products and merchandise, the Group companies are required to observe the Group's policies, under which primary and secondary impairment methods are applied. The primary method is based on daily non-moving inventories; accordingly, classes by non-moving days and the percentage rate of allowance is defined for each type of inventory. Additional impairment is allowed as well if any type of inventory is subject to specific circumstances. This is referred to as the secondary method.

(i) Impairment of assets

(i) Financial assets

As at the reporting date, the expected credit losses are assessed for each financial asset not measured at fair value through profit or loss. At each reporting date, the Group must measure the value of impairment in an amount equalling the expected credit losses for the entire duration if the credit loss for the stated financial asset materially increased, whereby all relevant and provable information must be taken into account, including future-oriented information.

Objective evidence on impairment of financial assets (including equity securities) based on historical information include following: default or breach on the part of the borrower; restructuring of the amount owed to the Group if the latter agrees so; indication that the borrower would enter bankruptcy; adverse changes in the payment status of borrowers or issuers of securities in the Group, or economic conditions that correlate with the disappearance of an active market for such a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment.

If available, the Group takes into account future-oriented information while assessing whether the credit risk has increased.

The Group assesses evidence on impairment of financial assets on an individual or collective basis. The Group assesses all individually significant assets for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Assets not individually significant were collectively assessed for impairment by being grouped together with similar credit 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.

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the asset’s original effective interest rate. Impairment losses were 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 assets continued to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In line with the Group's accounting policies, the Group considers evidence of impairment for receivables based on the observance of criteria pertaining to the maturity and collateralisation of receivables. Thereafter, it is corrected by an individual estimate. As of 1 September 2018, the accounting estimate on impairment of receivables, which is adjusted to the new owner's strategy, policy and methodologies and applies a strict policy of managing receivables, has been changed.

Profit or loss on the financial assets measured at fair value through other comprehensive income, is recognised in other comprehensive income. Upon derecognising the financial asset, the cumulative profit or loss, previously recognised in other comprehensive income, is reclassified from equity to profit or loss if a debt instrument is involved. In case of derecognising the equity instrument, the profit or loss, which is recognised in other comprehensive income, is reclassified from equity to retained earnings or losses.

Any changes to the fair value of securities are recognised in other comprehensive income.

(ii) Non-financial assets

The remaining 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, which are not available for use, are tested at least annually for impairment prior to preparing the financial statements. Impairment loss of a cash-generating unit (CGU) is recognised if its carrying amount 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 the value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (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 acquisition is allocated to CGUs or groups of such units that are expected to benefit from the synergies of the acquisition.

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 (or groups of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (groups of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. As regards other assets, impairment losses recognised in prior periods are assessed by the Group 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 would have been recognised in previous years.

(j) Non-current assets classified as assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are not amortised or depreciated and any equity-accounted investees is no longer equity accounted.

(k) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranties for products and services

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating expense is not provided for.

(iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(iv) Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements, the collective agreement, and the internal regulations, the Group is liable to pay jubilee premiums and retirement benefits to its employees. For these obligations, provisions are created.

Provisions are created by discounting, at the reporting date, the estimated future payments of retirement benefits and jubilee premiums. The obligation is calculated separately for each employee by estimating the costs of retirement benefits and the costs of all expected jubilee premiums until retirement. The balance of provisions is verified every three years on the basis of the calculation prepared by a certified appraiser.

Actuarial gains and losses arising on provisions for retirement benefits and jubilee premiums are pursuant to IAS 19 recognised in other comprehensive income.

(v) Site restoration

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

(m) Revenue

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

Group accounts the contract with buyers if following criteria are met: contracting parties have approved the contract and are obliged to meet their obligations; the company can define each buyer's rights relating to goods and services that will be transferred; the company can define the payment terms for goods and services that will transferred; the contract has a commercial substance making it likely that it will receive a compensation to which it will be entitled in exchange for goods and services, which will be transferred to the buyer (considering the buyer's ability and intent to settle the compensation amount by due date). Revenue is recognised in the amount of transaction, when the enforceable obligation is met (transfer of the agreed goods or service to the buyer, inclusive of control). Based on the aforesaid, the recognised revenue can be lower than the price stated in the contract if the compensation is variable, as the buyer is offered by the company a lower price or the possibility of returning the goods.

The Group determines for each enforceable obligation whether it is met gradually or at a certain moment. In case the enforceable obligation is met gradually, then also the revenue are recognised gradually by measuring the progress towards fulfilling the obligation.

(ii) Commission

If in a certain transaction the Group acts as agent and not as principal, the revenue is recognised in the amount of the retirement benefit or the Group's commission to which the latter expects to be entitled.

(iii) Rental income

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

(n) Government grants

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

(o) Finance income and finance expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and subsidiaries, fair value gains on financial assets at fair value through profit or loss, exchange gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance expenses comprise interest expense on borrowings, loss on sale of investments, impairment losses recognised on financial investments and borrowings, and losses on hedging instruments that are recognised in profit or loss, and income expenses arising on provisions for retirement benefits and jubilee premiums. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis as either finance income or finance expenses.

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and includes also any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset by the Group if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities or receive the payment of deferred tax assets on a net basis or their tax assets and liabilities will be realised or received payment for simultaneously.

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

(r) Basic earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares, which is equivalent to diluted earnings per share data, as the Group has not issued any preference shares or convertible bonds or stock options. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

(s) Comparative information

Comparative information has been harmonised with the presentation of information in the current year. Where required, adjustment of comparative information has been carried out in order to comply with the presentation of information in the current year.

(t) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified among discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year. The statement of cash flows is compiled on the basis of consolidated statements, which include the discontinued operations.

The group of discontinued operations or entities includes following companies from the Ecology segment: Gorenje Surovina, d.o.o. (Slovenia), Gorenje Surovina RECE, d.o.o. (Slovenia); Kemis BH, d.o.o. (Bosnia and Herzegovina), Kemis Valjevo, d.o.o. (Serbia), and Gorenje Surovina RECE, d.o.o. (Croatia). Within the strategy of focusing on the core activity i.e. manufacture and sale of home appliance, the Group continues with the divestment of selected companies in the field of non-core activities. A contract on the sale of the 100 percent equity interest in Gorenje Surovina and its subsidiaries was signed in December and is inclusive of suspensive conditions.

(u) Segment reporting

Segment results that are reported to the Group's executive officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(v) Accounting standards and interpretations applicable in the current period

Following new standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU apply in the current reporting period:

- IFRS 15 'Revenue from Contracts with Customers' and amendments to IFRS 15 'Effective Date of IFRS 15', adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 9 'Financial Instruments', adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 'IFRS Improvements to IFRSs (cycle 2014-2016)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 'Share based payment' – Classification and Measurement of Share-based Payment Transactions, which the EU adopted on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 'Insurance Contracts' – Use of IFRS 9 Financial Instruments in conjunction with IFRS 4 'Insurance Contracts', adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018, or during the first application of IFRS 9 Financial Instruments),
- Amendments to IFRS 15 'Revenue from Contracts with Customers' – Clarifications to IFRS 15 'Revenue from Contracts with Customers', adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 'Investment Property' – Transfer of Investment Property, adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration', adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018.

Adoption of these amendments to the existing standards and interpretations did not result in significant changes to the financial statements of the Group, except in cases as stated in individual section.

(z) New accounting standards and interpretations not yet effective

Accounting standards and amendments to the existing accounting standards issued by the IASB and adopted by the EU, but not yet effective

The following new standards issued by the IASB and adopted by the EU were already issued as of the date of these financial statements but were not yet effective:

- IFRS 16 'Leases', adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 'Financial Instruments' – Element of a forward payment with a negative compensation, adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 'Uncertainty over Income Tax Treatments', adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group decided not to apply the stated amendments prior to their effectiveness. The Group envisages that introducing these new standards and amendments to the existing standards in the period of the initial use will not have a significant impact on the Group's financial statements, except with respect to IFRS 16 'Leases', which the Group shall apply as of 1 January 2019. The latter standard is expected to essentially impact the Group's financial statements, which is summarised below.

Gorenje Group decided to apply IFRS 16, where during their initial recognition the liabilities equal the right to use the assets. We shall apply the exceptions allowed under the standard and exclude short-term leases and leases, where the assets subject to the lease are of low value.

The impact on the Gorenje Group's financial statements during the first year of the standard's application (2019) will include following:

- increase of Gorenje Group's assets upon initial recognition in the amount of EUR 57,400k,
- increase of non-current Gorenje Group's financial liabilities upon initial recognition in the amount of EUR 57,400k,
- higher amortisation and depreciation expense in 2019 by EUR 14,750k,
- higher interest expenses in 2019 by EUR 1,450k,
- lower rental costs in 2019 by EUR 15,650k.

The impact on Gorenje Group's profit or loss arising from the first use of IFRS 16 in 2019 is thereby assessed as negative in the amount of EUR 550k, which will be reflected in higher interest expense and amortisation and depreciation costs, and lower rental costs.

During the standard's first year of application (2019), following impacts on the Company's financial statements are anticipated:

- increase in Company's assets upon initial recognition by EUR 3,208k,
- increase in Company's non-current financial liabilities upon initial recognition by EUR 3,208k,
- higher amortisation and depreciation expense in 2019 by EUR 1,056k,
- higher interest expense in 2019 by EUR 74k,
- lower rental costs in 2019 by EUR 1,100k.

Considering the application of IFRS 16 in 2019, the relevant impact on the Company's operating result (profit or loss) is accordingly assessed as negative in the amount of EUR 30k that shall be reflected in higher interest expense, amortisation and depreciation expense and lower rental costs.

Accounting standards and interpretations issued by the IASB but not yet adopted by the EU

The IFRSs, as adopted by the EU, do not significantly differ from regulations adopted by IASB, except for the following new accounting standards and amendments to the existing accounting standards, which apply as of 15 March 2019 (below stated dates of application refer to the entire IASB):

- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods beginning on or after 1 January 2016) - The European Commission will not propose IFRS 14 for endorsement and consider any future standard on rate regulated activities for endorsement in the EU under its normal process,
- IFRS 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 'Business Combinations' – Definition of a business (applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (the applicability of amendments was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 19 'Employee Benefits' – Planning of amendments, curtailments or settlements (effective for annual periods beginning on 1 January 2019),
- Amendments to IAS 28 'Investments in Associates and Joint Ventures – Long-term Shares in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- Amendments to various standards 'Improvements to IFRS (2015-2017 cycle)', relating to the annual improvements to IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23), particularly to eliminate inconsistency and provide clarification of wording (effective for annual periods beginning on or after 1 January 2019),
- Amendments to references to the conceptual framework in IFRS (effective for annual periods beginning on or after 1 January 2020).

Initial application of these new standards and amendments to the existing standards will not have a material impact on the Group's financial statements, except in cases as stated in individual section.

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

The Group assesses that the use of hedge accounting with respect to financial assets and liabilities pursuant to requirements of IAS 39: 'Financial Instruments: Recognition and Measurement', is not to have a significant impact on the Company's financial statement if applied as at the balance sheet date.

4. Fair value determination

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 method determined by the Group. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability of the Group.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

(ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investment property

The fair value of investment property or possible changes to it is subject to annual assessment. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group 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. Segment reporting

Business segments

The Group consists in 2018 of two key business segments i.e. Domestic Appliances and Other Business.

(i) Domestic Appliances

Domestic Appliances activity: the manufacture and sale of household appliances of own manufacture, the sale of household appliances of other producers (supplementary programme), the sale of products from the complementary programme outside of the main programmes of large household appliances, and the manufacture of mechanical components.

(ii) Other Business

Other Business activity: the manufacture and sale of heating appliances, the manufacture and sale of sanitary fixtures and ceramic tiles, and the sale of kitchen and bathroom furniture, the overall waste management, tool manufacture, trade, engineering, representation, catering and tourism.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.
The Group comprises the following main geographical segments:
West: Austria, Germany, Italy, France, Denmark, Sweden, Belgium, Finland, Great Britain, Greece, Norway, the Netherlands, Spain, Switzerland, Ireland, Luxembourg, Malta, Portugal, Cyprus, and Estonia.
East: Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovakia, Latvia and Lithuania.
Other: other countries.

6. Statement of cash flows

The statement of cash flows has been compiled under the indirect method on the basis of the balance sheet items at 31 December 2017, the balance sheet at 31 December 2018, the income statement for the year ended 31 December 2018, inclusive of discontinued operations, and on the basis of additional information required for the adjustment of inflows and outflows.

7. Gorenje Group composition

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.o.o., Slovenia, and the financial statements of 71 subsidiaries:

Companies operating in Slovenia		Equity interest (in %)	Business segment
1.	Gorenje I.P.C., d.o.o., Slovenia	100.00	DA
2.	Gorenje GTI, d.o.o., Slovenia	100.00	OB
3.	Gorenje Gostinstvo, d.o.o., Slovenia	100.00	OB
4.	Energygor, d.o.o., Slovenia	100.00	OB
5.	Kemis, d.o.o., Slovenia	100.00	OB
6.	Gorenje Orodjarna, d.o.o., Slovenia	100.00	OB
7.	ZEOS, d.o.o., Slovenia	55.42	OB
8.	Gorenje Surovina, d.o.o., Slovenia*	100.00	OB
9.	Indop, d.o.o., Slovenia	100.00	OB

10.	Gorenje GAIO, d.o.o., Slovenia	100.00	OB
11.	Gorenje GSI, d.o.o., Slovenia	100.00	DA
12.	Gorenje Keramika, d.o.o., Slovenia	100.00	OB
13.	Gorenje EKOINVEST, d.o.o., Slovenia	100.00	OB
14.	MAHS, d.o.o., Slovenia	65.00	OB
15.	Gorenje Surovina RECE, d.o.o., Slovenia*	100.00	OB
16.	TERMOCLEAN S, d.o.o., Slovenia	100.00	OB
17.	Gorenje HVAC, d .o. o., Slovenia	100.00	OB

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

30.	ST Bana Nekretnine, d.o.o., Serbia	100.00	OB
31.	Kemis Valjevo, d.o.o, Serbia	100.00	OB
32.	Atag Nederland BV, the Netherlands	100.00	DA
33.	Atag België NV, Belgium	100.00	DA
34.	Intell Properties BV, the Netherlands	100.00	DA
35.	Gorenje Nederland BV, the Netherlands	100.00	DA
36.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	DA
37.	OOO Gorenje BT, Russia	100.00	DA
38.	Gorenje GTI, d.o.o., Serbia	100.00	OB
39.	Asko Appliances AB, Sweden	100.00	DA
40.	Gorenje North America, Inc., USA	100.00	DA
41.	Asko Appliances Pty, Australia	100.00	DA
42.	Asko Appliances OOO, Russia	100.00	DA
43.	»Gorenje Albania« SHPK, Albania	100.00	DA
44.	Gorenje Home, d.o.o., Serbia	100.00	DA
45.	Gorenje Ekologija, d.o.o., Serbia	100.00	OB
46.	Gorenje Corporate GmbH, Austria	100.00	DA
47.	ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	53.64	OB
48.	Gorenje do Brasil Ltda., Brasil	100.00	DA
49.	Gorenje Asia Ltd., China	100.00	DA
50.	Gorenje MDM, d.o.o., Serbia	100.00	OB
51.	Gorenje Chile SpA, Chile	100.00	DA
52.	Gorenje AEC, LLC, Thailand	100.00	DA
53.	Indop Gorenje GmbH, Germany	100.00	OB
54.	Gorenje Surovina RECE, d.o.o., Croatia*	100.00	OB

DA – business segment Domestic Appliances
OB – business segment Other Business

*Given the expected sale, the companies are presented as the disposal group.
Associates:

- Gorenje Projekt, d.o.o., Slovenia,
- EKON ELEKTRON, d.o.o., Macedonia,
- GGE Netherlands B.V., the Netherlands.

Representative offices of the Company abroad:

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

8. Non-controlling equity interests

Non-controlling interests as at 31 December 2018:

	31 Dec 2017		31 Dec 2018	
EURk	**Non-controlling interest**	**Share in profit or loss**	**Non-controlling interest**	**Share in profit or loss**
Gorenje Podgorica, d.o.o., Montenegro	1	0	1	0

ZEOS, d.o.o., Slovenia	1,004	265	1,277	284
ERICo, d.o.o., Slovenia	-8	-8	0	0
ZEOS eko-sistem, d.o.o., Bosnia and Herzegovina	405	30	465	59
MAHS, d.o.o., Slovenia	215	85	98	-108
Total	**1,617**	**372**	**1,841**	**235**

9. Discontinued operations

Within the strategy of focusing on the core activity i.e. manufacture and sale of home appliances, the Group continues with the divestment of selected companies in the field of non-core activities. In December, a contract on the sale of the 100 percent equity interest in Gorenje Surovina, d.o.o., Slovenia and its subsidiaries Gorenje Surovina RECE, d.o.o., Slovenia, Kemis-BH, d.o.o., Bosnia and Herzegovina, Kemis Valjevo, d.o.o., Serbia and Gorenje Surovina RECE, d.o.o., Croatia, was signed. Accordingly, these companies were at the year-end of 2018 reclassified among discontinued operations, as assets held for sale.

The income statement and the balance sheet of discontinued operations are presented below.

Income statement – discontinued operations

EURk	**2017**	**2018**
Revenue	74,707	86,675
Change in inventories of finished goods and work in progress	0	0
Other operating income	667	912
Gross profit	75,374	87,587
Cost of goods, materials and services	-58,904	-70,254
Employee benefits expense	-10,363	-10,595
Amortisation and depreciation expense	-1,991	-2,235
Other operating expenses	-673	-741
Operating profit	3,443	3,762
Finance income	93	46
Finance expenses	-369	-355
Net finance income/expenses	-276	-309
Profit before tax	3,167	3,453
Income tax expense	-468	-521
Profit for the period	2,699	2,932

Balance sheet – discontinued operations

EURk	**31 Dec 2018**
Assets included in the disposal group	41,911
Intangible assets	590
Property, plant and equipment	20,783
Investment property	650
Non-current investments	38
Non-current trade receivables	15
Deferred tax assets	180
Inventories	2,675
Current investments	70
Trade receivables	13,012
Other current assets	911
Cash and cash equivalents	2,987
Liabilities included in the disposal group	22,092
Provisions	1,204

Deferred tax liabilities	49
Non-current financial liabilities	6,150
Current financial liabilities	1,600
Trade payables	8,266
Other current liabilities	4,823

10. Associates

Group's share in profits or losses of associates for the January-December 2018 period amounted to EUR 20k.

Assets, liabilities, revenue and expenses of associates in **2017** are outlined below (overview of equity interests is provided in Note 23):

Company/EURk	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax expense	Profit or loss for the period
Gorenje Projekt, d.o.o., Slovenia	4,743	3,944	106	5,443	17,233	-17,143	15	105
EKON ELEKTRON, d.o.o., Macedonia	12	150	0	15	134	-70	-6	58
GGE Netherlands B.V., the Netherlands	7,054	38	7,084	8	21	-70	0	-49

Overview of assets, liabilities, revenue and expenses of associates in **2018** is 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
Gorenje Projekt, d.o.o., Slovenia	4,803	7,104	85	8,636	20,853	-20,775	-17	61
EKON ELEKTRON, d.o.o., Macedonia	10	96	0	33	191	-152	-4	35
GGE Netherlands B.V., the Netherlands	7,273	547	0	40	61	-131	0	-70

3.2.3 Disclosures of the Gorenje Group and the company Gorenje, d.o.o. to the individual items in the financial statements

Note 11 – Revenue

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	2018	2017	2018
Revenue from sale of products and goods – domestic market	106,908	83,578	82,750	56,134
Revenue from sale of products and goods – foreign market	1,072,709	1,050,760	698,610	744,061
Revenue from sale of services – domestic market	40,945	31,813	7,819	4,704
Revenue from sale of services – foreign market	14,663	19,610	12,684	14,348
Total	**1,235,225**	**1,185,761**	**801,863**	**819,247**

Revenue from Company's sales to Group companies was recorded in the amount of EUR 618,034k (2017: EUR 576,457k). The growth in revenue generated by the Company is attributable to the business model applied since June 2017, when most of the sales by Group's production companies - within the framework of the Domestic Appliances core business segment – to subsidiaries and directly to third parties started to be conducted through the Company.

Note 12 – Other operating income

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	2018	2017	2018
Income from subsidies, grants and compensations	1,796	1,898	1,239	1,519
Income from licence fees	0	0	2,528	863
Rental income	1,522	1,435	2,817	2,638
Income from compensations	14,077	3,196	7,885	1,133
Income from reversal of provisions	5,449	2,802	2,252	146
Income from use of deferred income relating to government grants	4,429	6,033	0	0
Income from sale of property, plant and equipment	1,149	3,174	51	99
Income from sale of investment property	36	115	0	67
Income from revaluation of investment property	46	6	46	6
Income relating to the Directive on Waste Electrical and Electronic Equipment	749	1,463	0	0
Income from write-off of debts	301	132	0	0
Income from reversal of accrued allowances for receivables	618	3,547	105	56
Income from disposing the sale of coal activity	3,669	0	3,669	0
Other operating income	4,932	4,374	520	835
Total	**38,773**	**28,175**	**21,112**	**7,362**

Gorenje Group

Income from compensations relate primarily to the companies Kemis, d.o.o., Slovenia and Gorenje, d.o.o., Slovenia.

Income on reversal of provisions mostly refer to sales guarantees and provisions for retirement benefits, which is in detailed clarified in Note 35.

Major part of income from use of deferred income relating to government grants in the amount of EUR 4,359k refers to Gorenje I.P.C, d.o.o., Slovenia, a company employing disabled persons, in which government grants were used in line with the Vocational Rehabilitation and Employment of Disabled Persons Act.

Income from reversal of allowances for receivables in the amount of EUR 1,911k refer to the impairment of receivables in KEMIS - Termoclean, d.o.o., Croatia, which were formed on the Group level.

Income arising on subsidies relate in the amount of EUR 1,519k to European funds obtained in connection with co-financing deductible development-related costs and employing of disabled persons above the quota in the Company.

Large part of income on sale of real properties refers to the sale of one large property in South-East Europe.

The majority of other operating income represents the reversal of accrued credit notes and expenses (EUR 1,461k), reversal of accrued value adjustments of inventories (EUR 661k), income on reinvoiced costs of insuring product liability (EUR 601k), income relating to environmental protection (EUR 609k), and income on repayment of scholarships (EUR 159k).

Gorenje, d.o.o.

Other operating income in the amount of EUR 2,789k refer to transactions with Group companies (2017: EUR 4,428k). Income arising on compensations relate to compensations charged under diverse contracts. Income on licence fees refer to intellectual property. Income on reversal of provisions mostly represent use of provisions for retirement benefits, which is outlined in Note 35.

Rental income mostly refer to properties that are partly in own use and sub-leased to subsidiaries.

Expected rental income

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Rentals - up to one year (Group companies)	0	0	864	901
Rentals - up to one year (other companies)	866	332	285	66
Rentals - one to five years (Group companies)	0	0	120	47
Rentals - one to five years (other companies)	146	682	619	682
Rentals - more than five years (Group companies)	0	0	0	0
Rentals - more than five years (other companies)	0	0	0	0
Total	**1,012**	**1,014**	**1,888**	**1,696**

Gorenje Group and Gorenje, d.o.o.

The expected rental income include amounts of future received payments under leases, which cannot be terminated. The amount is directly linked to the amount under 'Rental income' in Note 11, which shows the actual amount of rental income received in 2018 or 2017.

Note 13 – Costs of goods, material and services

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Cost of goods sold	261,601	226,081	296,528	348,380
Cost of materials	447,908	477,667	292,181	303,929
Cost of services	213,000	220,568	89,511	97,828
Total	**922,509**	**924,316**	**678,220**	**750,137**

Gorenje Group

Cost of services includes cost of provisions for warranties in the amount of EUR 37,276k (2017: EUR 29,906k) and cost of rentals in the amount of EUR 21,641k (2017: EUR 21,259k).

Gorenje, d.o.o.

Cost of services that arises on transactions with subsidiaries in the Group are recorded at EUR 27,958k (2017: EUR 27,573k). The item of cost of services comprises the formation of provisions for warranties in the amount of EUR 8,054k (2017: EUR 5,032k).

Cost of services includes cost of rentals in the amount of EUR 3,201k (2017: EUR 3,435k).

The table below shows the minimum expected future rental payments under operating lease as at the year-end.

EURk	Gorenje Group 2017	Gorenje Group 2018	Gorenje, d.o.o. 2017	Gorenje, d.o.o. 2018
Up to one year	10,814	9,972	1,414	1,104
One to five years	20,582	17,707	2,226	1,737
More than five years	8,606	7,790	0	0
Total	**40,002**	**35,469**	**3,640**	**2,841**

Note 14 – Employee benefits expense

EURk	Gorenje Group 2017	Gorenje Group 2018	Gorenje, d.o.o. 2017	Gorenje, d.o.o. 2018
Wages and salaries	170,323	180,490	75,785	79,361
Social security costs	38,116	40,044	14,178	16,346
Provisions for retirement benefits and jubilee premiums	1,546	5,474	504	3,589
Other employee benefits expense	28,664	27,144	18,684	17,234
Total	**238,649**	**253,152**	**109,151**	**116,530**

Gorenje Group

Part of employee benefits expense (EUR 4,799k) was used to create provisions from government grants in Gorenje I.P.C., d.o.o., Slovenia, which has the status of a company employing disabled persons. Provisions are formed based on unpaid contributions (except for the employment contribution) of total earnings of employees (all Company's employees as the share of employed disabled persons exceeds 50 percent), and are reversed for 75% of disabled persons' wages, for mentors (staff engaged to observe the work of the disabled) and for handling the jobs for the disabled.

Employee benefits expense is exclusive of labour costs relating to development activities, which were recognised within capitalised costs of development as required under the method of capitalising relevant costs. In 2018, the amount of capitalised employee benefits expense amounted to EUR 8,731k (2017: EUR 12,302k).

The average number of employees in the Group was 11,098 in 2018, which is 0.5% more than in the previous period.

Other employee benefits expense includes mainly annual leave bonuses, meal allowances, commuting allowances, retirement benefits and jubilee premiums, in compliance with the national labour legislation and the companies' internal regulations.

Gorenje, d.o.o.

The increase of employee benefits expense is attributable to the annual wage increase due to the total years in service and the years in service in the Company, planned promotions, and adjustment of wages and salaries in compliance with the collective agreement. Costs for forming provisions for jubilee premiums and retirement benefits were higher as well.

Employee benefits expense is exclusive of labour costs relating to development activities, which were recognised within capitalised costs of development as required under the method of capitalising relevant costs. In 2018, the amount of capitalised employee benefits expense amounted to EUR 4,816k (2017: EUR 8,046k). Their decline is the result of the changed accounting estimate in the field of intangible assets.

The item of social security costs comprises costs of voluntary, additional, collective pension insurance in the amount of EUR 2,577k (2017: EUR 2,479k).

The average number of employees calculated based on working hours was 4,390.74 in 2018 (2017: 4,429.14 employees), while the average number of employees in the Company was 4,391, which is 1.0% less than in the previous year.

Number of employees by business segment in the Group

Business segment/number	As at 31 Dec: 31 Dec 2017	As at 31 Dec: 31 Dec 2018	Average: 2017	Average: 2018
Domestic Appliances	8,955	9,015	8,994	9,020
Other Business	2,059	2,069	2,045	2,078
Total	**11,014**	**11,084**	**11,039**	**11,098**

Number of employees by education in the Group

	Gorenje Group		Gorenje, d.o.o.	
Education level/number	**2017**	**2018**	**2017**	**2018**
Level VIII	229	197	97	91
Level VII	1,480	1,507	755	759
Level VI	1,018	1,051	352	351
Level V	2,746	2,743	959	943
Level III and IV	3,471	3,497	1,118	1,122
Level I and II	2,095	2,103	1,153	1,125
Total	**11,039**	**11,098**	**4,434**	**4,391**

Note 15 – Amortisation and depreciation expense

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Amortisation expense of intangible assets	11,335	23,410	6,690	17,812
Depreciation expense of property, plant and equipment	41,350	46,552	23,789	26,891
Total	**52,685**	**69,962**	**30,479**	**44,703**

Gorenje Group
Amortisation of Group's intangible items amounted in 2018 to EUR 19,944k (2017: EUR 8,259k) and refers to amortisation of capitalised development costs. Given the changed accounting estimate arising from the entry of the Hisense Group into the Gorenje Group’s ownership structure and relating to the capitalisation of development-related costs (further details are provided in section 1.2.2.(d)), a one-off event in the amount of EUR 9,651k was recorded in 2018.

Gorenje, d.o.o.
Amortisation of Company's intangible assets was impacted in 2018 by the changed accounting estimate on capitalising development costs (i.e. elimination of capitalised indirect development costs and reducing of useful lives of development-related assets from 7 to 5 years; further details are provided in section 1.2.2.(d)),based on the Hisense Group's entry into the Gorenje Group's ownership structure. The latter resulted in a one-off event in 2018, which amounted to EUR 8,856k. The shortened useful life also resulted in a higher amortisation rate for the next years.

Note 16 – Other operating expenses

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Disposal and impairment of assets	3,637	22,622	65	18,373
Disposal and impairment of investment property			0	309
Write-off of inventories to net realisable value	4,012	21,548	2,846	10,279
Other taxes and charges	3,112	3,197	1,555	1,701
Environmental levies	1,961	2,444	688	709
Scholarships and bonuses paid to pupils and students	312	413	236	282
Formation of other provisions	102	4,044	0	3,725
Impairment of trade receivables	1,570	3,821	142	510
Impairment of non-current and other receivables	947	77	788	28
Compensations and damages	699	1,479	479	600
Expenses related to the Directive on Waste Electrical and Electronic Equipment	8,132	8,543	35	31
Other operating expenses	2,302	1,672	600	279
Total	**26,786**	**69,859**	**7,434**	**36,826**

Gorenje Group and Gorenje, d.o.o.

Disposals and impairment of assets to a large extent include the write-off of intangible assets arising on capitalising of development costs (EUR 18,554k), relating to platforms of projects that are to be suspended. In accordance with the changed accounting estimate as a result of Hisense Group's entry into the Gorenje Group's ownership structure (further details are provided in section 1.2.2.(d)), the new platform are developed much faster, which leads to higher competitiveness and improved profitability and simultaneously in shorter useful life of intangible assets that result from capitalising of development costs. Due to the aforesaid, the need for larger one-off write-offs of these assets occurred in 2018. The remaining part relates to the impairment of equipment in the Company and in the company Mora Moravia, s.r.o., Czech Republic, of real properties in Gorenje Ekologija, d.o.o., Serbia, and of goodwill in Gorenje Studio, d.o.o., Serbia.

The write-off of inventories to the realisable value refers largely to revaluation of finished products to their net realisable value, and to impairments and write-off of inventories of material, merchandise, spare parts for servicing, and spare parts used for equipment maintenance. Most of impairments of inventories are attributable to the changed accounting estimate and the transition to the policy of inventory impairment and write-off, which is applicable for the Hisense Group. Additional impairments of trade receivables were performed for the same reason.

Formation of other provisions mostly relate to provisions for reorganisation in terms of integrating the Gorenje Group into the Hisense Group and consequently the related incurred expenditure.

The item of other taxes and charges comprises charges for the use of building plot, water charge, and other mandatory taxes and charges.

Note 17 – Net finance expenses

Finance income

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Dividend income and other profit shares of Group companies	0	0	14,738	5,591
Dividend income and other profit shares of other companies	29	29	108	29
Interest income on transactions with Group companies	0	0	4,885	4,353
Interest income on transactions with other companies	884	512	194	188
Change in fair value of interest rate swaps	0	0	0	0
Change in fair value of forward exchange contracts	1,513	268	336	122
Gain on sale of subsidiaries to other companies	320	0	0	0
Income on realised forward exchange contracts	147	1,567	0	1,085
Income on realised hedging of raw material prices	0	293	0	293
Other finance income	1,153	1,338	1,110	813
Total	**4,046**	**4,007**	**21,371**	**12,474**

Gorenje Group and Gorenje, d.o.o.

Major part of other finance income is disclosed by the Company and refers to charging off costs for discounting non-current receivables due to the invalidation of the contract on purhcasing the investment property in Limbuš (Maribor), to income from partial loan repayment based on the debtor's bankruptcy estate, and to income from discounting non-current provisions relating to warranties for Group's subsidiaries.

Finance expenses

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Interest expenses on transactions with Group companies	0	0	2,449	2,058
Interest expenses on transactions with other companies	12,491	11,992	10,555	9,979
Costs for realised interest rate swaps	891	842	883	807
Costs for realised forward exchange contracts	1,478	378	39	0
Change in fair value of forward exchange contracts	239	48	0	0
Interest costs for provisions for retirement benefits and jubilee premiums	752	841	519	568
Expenses from net exchange differences	336	131	627	137

Impairment of investments in equity instruments	154	82	0	0
Impairment of investments in Group companies	0	0	800	1,208
Impairment of investments in associates	400	0	400	0
Impairment of loans to other companies	447	3,810	447	3,339
Impairment of loans to Group companies	0	0	0	1,852
Loss on sale of subsidiary	0	1,316	0	1,361
Other finance expenses	3,942	6,996	1,446	4,166
Total	**21,130**	**26,436**	**18,165**	**25,475**

Gorenje Group and Gorenje, d.o.o.

The largest share of Group's finance costs include interest expenses arising on transactions with others (EUR 11,992k), which is 4.0% less than in 2017. The relevant amount comprises also interest expenses arising on the sale of receivables

The value of investments and loans is fairly disclosed based on the impairment of investments and loans granted. The impairment of loans includes the loan to the Gorenje Velenje Handball Club, and loans to the companies Arosa Mobilia, d.o.o. and Pololes pohištvo d.o.o., which were approved in connection with the sale of Gorenje's company for manufacturing kitchen furniture (in 2013), whereas both started bankruptcy proceedings. The loans to the stated companies are insured with the borrower's mortgage (equipment) in favour of the Company as lender.

Loss on the sale of subsidiary entirely refers to the sale of the company engaged in the production of bikes and is based on the decision of focusing on the core activity.

A significant portion of other finance costs that occurred at the Company includes costs for approving loans in previous years, including their early repayment, and accounted costs of possible early repayment of bonds. Given the planned restructuring of the Group's financial liabilities, the previously deferred costs are recorded among costs for the current period. EUR 2,448k represents costs that were incurred during the sale of receivables at OOO Gorenje BT, Russia, and hence also currency and credit risks are managed in addition to liquidity risks. The residual part of other finance costs refers to issued letters of credit and guarantees.

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

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Change in effective portion of gains and losses on cash flow hedges	-760	-3,669	-420	-3,813
Change in effective portion of gains and losses on cash flow hedges, reclassified to profit or loss	891	842	883	807
Finance income/expenses recognised in other comprehensive income	**131**	**-2,827**	**463**	**-3,006**
Finance income/expenses recognised in other comprehensive income attributable to equity holders of the parent	**131**	**-2,827**	**0**	**0**

Net effect from the statement of comprehensive income is shown in the table above and is exclusive of actuarial gains or losses.

Note 18 – Income tax expense

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Current tax	-2,626	-3,049	0	0
Deferred tax	519	6,285	394	5,220
Other taxes	-571	-426	-571	-426
Total	**-2,678**	**2,810**	**-177**	**4,794**

Gorenje Group

Income tax includes the actual payable arising on corporate income tax, other taxes that are not disclosed in other items, as well as established deferred tax assets and liabilities.

The tax accounted for the Group is lower due to the favourable outcome of a possible price-related tax liability arising under a tax inspection for several fiscal years in one of the Eastern European countries, for which a provision was formed in previous year and reversed in 2018.

Other taxes include the withholding tax relating to the paid dividends, interest and licence fees.

The Group recognised in the reporting period EUR 6,285k of deferred tax assets, with the largest share thereof referring to the Company (EUR 5,220k) and partly to the tax loss in 2018. Further, the group has as at 31 December 2018 not recognised deferred tax assets in the amount of EUR 35,861k, primarily referring to tax reliefs on investments in research and development at the Company and most of the tax loss of 2018 at the Company.

As at 31 December 2018, the Company did not recognise deferred tax assets in the amount of EUR 34,374k, mostly in connection with the tax loss of 2018 and in connection with unused tax reliefs referring to research and development.

Effective income tax rates

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Profit or loss before tax	**1,320**	**-116,908**	**650**	**-131,625**
Income tax using the domestic tax rate	251	-22,212	124	-25,009
Effect of tax rates in foreign jurisdictions	281	-256	0	0
Non-deductible expenses	1,432	2,970	1,117	2,937
Tax exempt income	-182	2,154	-1,856	-2,169
Unused tax losses and tax reliefs arising on deferred taxes	780	14,145	221	19,021
Other taxes	116	389	571	426
Income tax	**2,678**	**-2,810**	**177**	**-4,794**
Effective tax rate	202.88%	2.40%	27.23%	3.64%

Gorenje Group and Gorenje, d.o.o.

The largest share of tax non-deductible expenses and tax-exempt income refers to the Company. Non-deductible expenses primarily relate to reducing expenses in the amount equalling half of formed provisions, expenses for ensuring bonuses and other employment-related payouts (biggest stake includes the voluntary additional pension insurance) and expenses for accounted amortisation/depreciation that exceeds the one calculated using the straight-line method of depreciation and statutory rates. Company's non-deductible expenses include also impairment of investments made in the subsidiary and accounted costs for the possibly early repayment of bonds issued. The highest share among tax exempt income refers to exempt dividends. Most of the unused tax loss and tax reliefs arising from deferred taxes in the amount of EUR 19,921k is recorded by the Company.

Following deferred tax amounts were recognised in **Group's** other comprehensive income:

	2017			2018		
EURk	**Pre-tax amount**	**Tax**	**After-tax amount**	**Pre-tax amount**	**Tax**	**After-tax amount**
Actuarial gains/losses	65	-1	64	-1,405	147	-1,258
Change in fair value of investment property	0	0	0	28	0	28
Change in fair value of investments in equity instruments	86	-2	84	-46	9	-37
Change in effective portion of gains and losses on cash flow hedges	-651	-109	-760	-4,374	705	-3,669
Change in effective portion of gains and losses on cash flow hedges, reclassified to profit or loss	891	0	891	842	0	842
Foreign currency translation differences for foreign operations	3,588	0	3,588	-3,827	0	-3,827
Other comprehensive income	**3,979**	**-112**	**3,867**	**-8,782**	**861**	**-7,921**

Following deferred tax amounts were recognised in **Company's** other comprehensive income:

EURk	2017			2018		
	Pre-tax amount	Tax	After-tax amount	Pre-tax amount	Tax	After-tax amount
Actuarial gains/losses	77	-7	70	-1,028	98	-930
Change in fair value of investments in equity instruments	11	-2	9	-46	9	-37
Change in effective portion of gains and losses on cash flow hedges	-311	-109	-420	-4,518	705	-3,813
Change in effective portion of gains and losses on cash flow hedges, reclassified to profit or loss	883	0	883	807	0	807
Total	**660**	**-118**	**542**	**-4,785**	**812**	**-3,973**

Note 19 – Intangible assets (IA)

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	**2018**	**2017**	**2018**
Deferred development costs	52,694	35,002	42,194	28,973
Industrial property rights	9,603	9,221	2,975	5,467
Trademark	61,964	61,964	0	0
Goodwill	67,036	66,471	0	0
Intangible assets under construction	32,278	28,261	28,541	22,167
Total	**223,575**	**200,919**	**73,710**	**56,607**

Gorenje Group and Gorenje, d.o.o.
An intangible asset is a recognisable asset, the company controls it and expects that future economic benefits will arise on the item. The company can recognise such an asset when it is probable that the future economic benefits embodied within the asset will flow to the company and its cost can be measured reliably. Precise criteria for recognising deferred costs of development are clarified in Note 3(e)(ii). Costs of development are of long-term nature and their capitalisation is therefore eligible. They arise within the competence centres and development departments. They are amortised in the period of five years in accordance with policies of the Hisense Group.

Goodwill in the amount of EUR 62,130k and fair value of trademarks Atag, Etna and Pelgrim in the amount of EUR 61,964k were established in 2008 at the acquisition of the company Atag Europe BV, the Netherlands. Goodwill in the amount of EUR 2,030k refers to the acquisition of the majority interest in Gorenje Surovina, d.o.o., Slovenia, in 2007, goodwill in the amount of EUR 2,311k occurred in 2005 at the acquisition of Mora Moravia, s.r.o. in the Czech Republic. Goodwill in the amount of EUR 564k occurred in 2005 upon the acquisition of the company Gorenje Studio, d.o.o., in Serbia, which was in 2018 subject to impairment.

Impairment testing of goodwill and trademarks

As every year, impairment testing of goodwill and Atag, Etna and Pelgrim trademarks was conducted also at the year-end of 2018. The calculations are based on cash flow projections for the Atag Group, which have been prepared on the basis of the business plan for 2019 and business result projections for the next medium term from 2020 to 2023, taking into account the current market situation and the management's forecasts for the coming periods. The business projection considered also the effects of synergies brought upon by the change in the Gorenje Group's ownership structure, primarily the impact of favourable sources of supply. The main underlying assumptions used to calculate the value in use are the revenue growth rate of 2.0% and the discount rate of 8.3%.

Impairment testing of goodwill arising from the acquisition of the company Mora Moravia, s.r.o., Czech Republic, was carried out at the year-end of 2018. The calculations are based on cash flow projections for Mora Moravia, s.r.o., Czech Republic, which have been prepared on the basis of the business plan for 2019 and the strategic business plan from 2020 to 2023. The main underlying assumptions used to calculate the value in use are the revenue growth rate of 2.0% and the discount rate of 8.2%.

Contrary to previous years, no impairment testing of goodwill arising from the acquisition of Gorenje Surovina, d.o.o., Slovenia, was carried out as a sales contract was signed with the buyer, which includes certain suspensive conditions that are expected to be met not later than by the end of the second quarter of 2019. The expected suspensive effect will be positive.

As for all above-stated impairment testing of goodwill, 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 Group's intangible assets (2017)

EURk	Deferred development costs	Industrial property rights	Trademark	Goodwill	Intangible assets under construction	Total
Cost at 1 Jan 2017	**67,010**	**37,116**	**61,964**	**67,036**	**32,823**	**265,949**
Acquisition	1,739	737	0	0	23,180	**25,656**
Disposals, write-offs	-550	-195	0	0	0	**-745**
Changes within Group	0	-36	0	0	0	**-36**
Other transfers	23,029	633	0	0	-23,758	**-96**
Exchange differences	440	396	0	0	33	**869**
Cost at 31 Dec 2017	**91,668**	**38,651**	**61,964**	**67,036**	**32,278**	**291,597**
Accumulated amortisation at 1 Jan 2017	**31,214**	**25,863**	**0**	**0**	**0**	**57,077**
Disposals, write-offs	-507	-195	0	0	0	**-702**
Amortisation	8,282	3,120	0	0	0	**11,402**
Changes within Group	0	-36	0	0	0	**-36**
Other transfers	-96	-6	0	0	0	**-102**
Exchange differences	81	302	0	0	0	**383**
Accumulated amortisation at 31 Dec 2017	**38,974**	**29,048**	**0**	**0**	**0**	**68,022**
Carrying amount at 1 Jan 2017	**35,796**	**11,253**	**61,964**	**67,036**	**32,823**	**208,872**
Carrying amount at 31 Dec 2017	**52,694**	**9,603**	**61,964**	**67,036**	**32,278**	**223,575**

Movements in Group's intangible assets (2018)

EURk	Deferred development costs	Industrial property rights	Trademark	Goodwill	Intangible assets under construction	Total
Cost at 1 Jan 2018	**91,668**	**38,651**	**61,964**	**67,036**	**32,278**	**291,597**
Acquisition	695	592	0	0	17,556	**18,843**
Disposals, write-offs	-48,373	-8,489	0	-565	-221	**-57,648**
Discontinued operation	0	-938	0	0	0	**-938**
Other transfers	18,016	3,262	0	0	-21,335	**-57**
Exchange differences	-24	-379	0	0	-17	**-420**
Cost at 31 Dec 2018	**61,982**	**32,699**	**61,964**	**66,471**	**28,261**	**251,377**
Accumulated amortisation at 1 Jan 2018	**38,974**	**29,048**	**0**	**0**	**0**	**68,022**
Disposals, write-offs	-32,444	-7,981	0	0	0	**-40,425**
Amortisation	20,481	3,030	0	0	0	**23,511**
Discontinued operation	0	-348	0	0	0	**-348**
Changes within Group	0	-2	0	0	0	**-2**
Other transfers	0	100	0	0	0	**100**

Exchange differences	-31	-369	0	0	0	**-400**
Accumulated amortisation at 31 Dec 2018	**26,980**	**23,478**	**0**	**0**	**0**	**50,458**
Carrying amount at 1 Jan 2018	**52,694**	**9,603**	**61,964**	**67,036**	**32,278**	**223,575**
Carrying amount at 31 Dec 2018	**35,002**	**9,221**	**61,964**	**66,471**	**28,261**	**200,919**

Movements in Company's intangible assets (2017)

EURk	Deferred development costs	Industrial property rights	Intangible assets under construction	Total
Cost at 1 Jan 2017	**49,848**	**15,446**	**31,096**	**96,390**
Acquisition	0	0	21,006	21,006
Disposals, write-offs	-353	-163	0	-516
Transfer from investments under construction	22,973	588	-23,561	0
Cost at 31 Dec 2017	**72,468**	**15,871**	**28,541**	**116,880**
Accumulated amortisation at 1 Jan 2017	**24,801**	**12,193**	**0**	**36,994**
Disposals, write-offs	-351	-163	0	-514
Amortisation	5,824	866	0	6,690
Accumulated amortisation at 31 Dec 2017	**30,274**	**12,896**	**0**	**43,170**
Carrying amount at 1 Jan 2017	**25,047**	**3,253**	**31,096**	**59,396**
Carrying amount at 31 Dec 2017	**42,194**	**2,975**	**28,541**	**73,710**

Movements in Company's intangible assets (2018)

EURk	Deferred development costs	Industrial property rights	Intangible assets under construction	Total
Cost at 1 Jan 2018	**72,468**	**15,871**	**28,541**	**116,880**
Acquisition	0	0	14,846	14,846
Disposals, write-offs	-40,533	-2,607	0	-43,140
Transfer from investments under	17,904	3,316	-21,220	0
Cost at 31 Dec 2018	**49,839**	**16,580**	**22,167**	**88,586**
Accumulated amortisation at 1 Jan 2018	**30,274**	**12,896**	**0**	**43,170**
Disposals, write-offs	-26,428	-2,575	0	-29,003
Amortisation	17,020	792	0	17,812
Accumulated amortisation at 31 Dec 2018	**20,866**	**11,113**	**0**	**31,979**
Carrying amount at 1 Jan 2018	**42,194**	**2,975**	**28,541**	**73,710**
Carrying amount at 31 Dec 2018	**28,973**	**5,467**	**22,167**	**56,607**

Gorenje Group and Gorenje, d.o.o.

Large part of increases in intangible assets arises from capitalisation of costs for developing new product platforms, developed by competence centres of individual programmes of the Company and the companies Asko Appliances AB, Sweden and Atag Nederland. The decline in intangible assets predominantly refers to write-offs of capitalised development costs, which relate to platform and projects that are to be suspended and their effects will not be used in newly developed platforms. Pursuant to the Hisense Group's accounting estimate and policy, the new platform are developed much faster, which leads to higher competitiveness and improved profitability and simultaneously shortens the time for launching new platforms. Consequently, larger one-off write-offs of these assets were carried out. Further details are provided in section 1.2.2.(d) Use of estimates and judgements, including the effects.

For the same reason as well as because of adjusting to the Hisense Group's strategic policies regarding development costs, where only direct development costs (previously also indirect costs of development) are under the new policies capitalised within the framework of strategically significant projects (over EUR 1,000k) that lead to greater added value, the Group's intangible assets under construction also declined over 2017 by EUR 4,017k since a part thereof was written off due to the stated reasons. Intangible assets under construction otherwise mostly refer to capitalised costs of developing new products in individual programmes and projects in the field of interoperability of appliances.

Higher long-term deferred development costs predominantly refer to new products (i.e. new built-in gas cookers, new washing and dryer machines, new generation of self-standing cookers), developed by development-competence centres of individual production programmes.

Increase in industrial property rights includes projects that introduce process changes. They have increase materially in 2018 primarily due to the projects in the field of digitalisation.

Note 20 – Property, plant and equipment (PPE)

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Land	28,935	23,302	14,392	14,447
Buildings	133,681	117,211	52,053	50,843
Production and other equipment	172,150	168,080	102,583	106,838
Property, plant and equipment under construction	37,069	13,935	31,548	7,392
Total	**371,835**	**322,528**	**200,576**	**179,520**

Movements in Group's property, plant and equipment (2017)

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2017	**29,154**	**288,589**	**498,044**	**53,061**	**868,848**
Acquisition	2	1,094	14,857	33,719	**49,672**
Disposals, write-offs	-514	-8,233	-16,513	-107	**-25,367**
Changes within Group	-12	-591	-2,954	0	**-3,557**
Transfer to investment property	0	-35	0	0	**-35**
Transfer from investment property	82	340	0	0	**422**
Other transfers	0	2,239	46,921	-49,653	**-493**
Exchange differences	223	3,320	4,524	49	**8,116**
Cost at 31 Dec 2017	**28,935**	**286,723**	**544,879**	**37,069**	**897,606**
Accumulated depreciation at 1 Jan 2017	**0**	**148,551**	**354,085**	**0**	**502,636**
Disposals, write-offs	0	-3,605	-15,625	0	**-19,230**
Depreciation	0	7,571	35,703	0	**43,274**
Changes within Group	0	-275	-2,700	0	**-2,975**
Transfer from investment property	0	99	0	0	**99**
Other transfers	0	0	-481	0	**-481**
Exchange differences	0	701	1,747	0	**2,448**
Accumulated depreciation at 31 Dec 2017	**0**	**153,042**	**372,729**	**0**	**525,771**
Carrying amount at 1 Jan 2017	**29,154**	**140,038**	**143,959**	**53,061**	**366,212**
Carrying amount at 31 Dec 2017	**28,935**	**133,681**	**172,150**	**37,069**	**371,835**

Movements in Group's property, plant and equipment (2018)

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2018	**28,935**	**286,723**	**544,879**	**37,069**	**897,606**
Acquisition	0	1,790	6,544	21,678	**30,012**
Revaluation	-412	-236	0	0	**-648**
Disposals, write-offs	-247	-5,981	-42,404	-65	**-48,697**
Discontinued operation	-5,530	-21,147	-30,450	-470	**-57,597**
Transfer from investment property	0	3	0	0	**3**
Other transfers	560	4,547	37,034	-44,263	**-2,122**
Exchange differences	-4	-297	247	-14	**-68**
Cost at 31 Dec 2018	**23,302**	**265,402**	**515,850**	**13,935**	**818,489**
Accumulated depreciation at 1 Jan 2018	**0**	**153,042**	**372,729**	**0**	**525,771**
Additional value adjustments (linked to the transfer of income from government grants to deferred income)	0	675	0	0	675
Adjusted accumulated depreciation at 1 Jan 2018	**0**	**153,717**	**372,729**	**0**	**526,446**
Disposals, write-offs	0	-2,375	-37,821	0	**-40,196**
Depreciation	0	8,959	39,727	0	**48,686**
Discontinued operation	0	-11,718	-25,096	0	**-36,814**
Changes within Group	0	0	-5	0	**-5**
Other transfers	0	0	-2,300	0	**-2,300**
Exchange differences	0	-392	536	0	**144**
Accumulated depreciation at 31 Dec 2018	**0**	**148,191**	**347,770**	**0**	**495,961**
Carrying amount at 1 Jan 2018	**28,935**	**133,681**	**172,150**	**37,069**	**371,835**
Adjusted carrying amount at 1 Jan 2018	**28,935**	**133,006**	**172,150**	**37,069**	**371,160**
Carrying amount at 31 Dec 2018	**23,302**	**117,211**	**168,080**	**13,935**	**322,528**

Gorenje Group

Investments amounted to EUR 48,855k in 2018. Investments in property, plant and equipment totalled to EUR 30,012k, the largest part whereof refers to investments in technological equipment, mostly used for developing new products. The largest share of investments was made with the Domestic Appliances segment (EUR 36,971k). EUR 18,843k of total investments relates to intangible assets, where most was invested in the development of new products (capitalised development costs). Within the Domestic Appliances segment, the long-lasting large volume of investments that exceeded the annual level of amortisation is herewith completed. In the past few years, we have accordingly renewed platforms and appliances in most of the product groups for all trademarks within the Domestic Appliances activity. Key investments referred in 2018 to the new generation of premium dryer and washing machines, the new generation of premium dishwashers, the new generation of gas cookers, the new generation of built-in refrigerators, and the new versions of dishwashers for industrial customers. Investments within the Other Business activity amounted to EUR 11,884k, most whereof were made in the field of ecology (EUR 6,944k); most thereof relates to the restoration works after the fire in the company Kemis, d.o.o., Slovenia.

Disposal of property, plant and equipment relates to the sale of non-core assets and real properties, for which we decided to monetise them and rent them out as business premises.

The item of property, plant and equipment in course of construction includes also advances for property, plant and equipment.

The Group has no financial liabilities secured by mortgage on real property.

No borrowing costs were attributed to the items of property, plant and equipment in 2018.

The item of transfers includes transfers among individual items and transfers from investment property.

Movements in Company's property, plant and equipment (2017)

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2017	**14,392**	**168,907**	**431,827**	**34,034**	**649,160**
Acquisition	0	0	0	26,451	**26,451**
Disposals, write-offs	0	-5	-9,227	-24	**-9,256**
Transfer from investments under construction	0	585	28,328	-28,913	**0**
Cost at 31 Dec 2017	**14,392**	**169,487**	**450,928**	**31,548**	**666,355**
Accumulated depreciation at 1 Jan 2017	**0**	**113,994**	**337,160**	**0**	**451,154**
Disposals, write-offs	0	-4	-9,160	0	**-9,164**
Depreciation	0	3,444	20,345	0	**23,789**
Accumulated depreciation at 31 Dec 2017	**0**	**117,434**	**348,345**	**0**	**465,779**
Carrying amount at 1 Jan 2017	**14,392**	**54,913**	**94,667**	**34,034**	**198,006**
Carrying amount at 31 Dec 2017	**14,392**	**52,053**	**102,583**	**31,548**	**200,576**

Movements in Company's property, plant and equipment (2018)

EURk	Land	Buildings	Production and other equipment	PPE under construction	Total
Cost at 1 Jan 2018	**14,392**	**169,487**	**450,928**	**31,548**	**666,355**
Acquisition	0	0	0	12,363	12,363
Disposals, write-offs	-2	-665	-33,016	0	-33,683
Transfer from investments under construction	57	2,588	33,874	-36,519	0
Cost at 31 Dec 2018	**14,447**	**171,410**	**451,786**	**7,392**	**645,035**
Accumulated depreciation at 1 Jan 2018	**0**	**117,434**	**348,345**	**0**	**465,779**
Disposals, write-offs	0	-456	-26,699	0	-27,155
Depreciation	0	3,589	23,302	0	26,891
Accumulated depreciation at 31 Dec 2018	**0**	**120,567**	**344,948**	**0**	**465,515**
Carrying amount at 1 Jan 2018	**14,392**	**52,053**	**102,583**	**31,548**	**200,576**
Carrying amount at 31 Dec 2018	**14,447**	**50,843**	**106,838**	**7,392**	**179,520**

Increase in the value of buildings refers mainly to the renovation production facilities, whereby a decline thereof is mostly the result of the accounted depreciation.

Buildings were appraised in 2013 by an independent certified appraiser of real property. The valuation effect amounted to EUR -1,230k. According to management's estimate, no indications for impairment occurred since the valuation. Hence, the management assesses that the recoverable value of buildings does not significantly deviate from their carrying amount.

The value of equipment increased due to the value of technological equipment, which was capitalised, acquired and made operational in 2018. In the reporting period, investments were made in the new equipment, reconstruction and upgrade of the production equipment, in new tools and the overhaul of old tools, in computer hardware and in the overhaul of transport means. The decline refers to the sold equipment, eliminated useless equipment, impaired equipment and the accounted depreciation.

Plant and equipment were appraised in 2013 and no indications of impairment were established. According to management's estimate, the assumptions used in the relevant calculation have not changed materially and the fair value of buildings does not significantly deviate from their carrying amount, except for the Solar programme (solar power station) for whose assets a value adjustment was performed in the amount of EUR 688k.

The item of property, plant and equipment under construction relates largely to the equipment that shall be activated in the first half of 2019 and includes development projects in progress, as well as tools. It refers primarily to the new generation of washing and dryer appliances, to the new generation of induction cookers, and the new generation of dishwashers. The residual amount includes diverse investments in technologies, manufacturing lines, measuring equipment, and others.

Note 21 – Investment property

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Land with buildings	9,849	9,453	8,685	9,217
Total	**9,849**	**9,453**	**8,685**	**9,217**

Movements in investment property

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Opening balance at 1 January	**14,957**	**9,849**	**12,948**	**8,685**
Increase	371	4,000	371	4,000
Decrease	-5,126	-3,365	-4,646	-3,190
Exchange differences	0	-6	0	0
Revaluation	-65	-372	12	-278
Transfer from PPE	35	0	0	0
Transfer to PPE	-323	-3	0	0
Discontinued operation	0	-650	0	0
Closing balance at 31 December	**9,849**	**9,453**	**8,685**	**9,217**

Gorenje Group and Gorenje, d.o.o.

The item of investment property includes land and buildings acquired for resale or increase in investments. Investment property is measured by using the fair value model. Group's investment property was appraised by an independent certified appraiser at the year-end of 2018. In order to assess the value of investment property, the values used the market approach (comparable company valuation). Based on the estimation of the investment property's value, we adjusted the value to Company's investment property, whereas the total net effect of the adjustment amounted to EUR -278k.

Rental income generated on investment property is recognised in the income statement for 2018 and amounted to EUR 506k on the Group level. Costs occurring in connection with investment property amounted to EUR 176k in the reporting year. Rental income in the amount of EUR 518k (2017: EUR 276k) was recognised in the Company's income statement. Costs relating to investment property, which include current costs, repairs and maintenance amounted in 2018 to EUR 172k (2017: EUR 226k).

Increase in investment property by EUR 4,000k refers to the invalidation of the contract on selling the real property in Limbuš (Maribor), which was signed by the Company. The investment property was namely sold to the buyer in 2017 but in 2018 the relevant sales-purchase contract was invalidated by the seller due to the buyer's failure to meet contractual provisions. The respective invalidation was recognised under the same terms and conditions as in 2017 when the investment property was derecognised upon its sale. The decline in investment property by EUR 3,190k represents the sale of the investment property in Ljubljana by the Company to diverse buyers.

Note 22 – Investments in subsidiaries

Gorenje Group

Investments in subsidiaries are in Group's financial statements eliminated during the consolidation procedures. A detailed overview of the Group's composition is provided in section 7. Composition of the Group. Investments in subsidiaries are not pledged.

Gorenje, d.o.o.

Companies directly owned by the Company are presented in the table below.

EURk	Equity interest	Equity of company 2018	Profit or loss of company 2018	Investment at 31 Dec 2017	Investment at 31 Dec 2018
Gorenje I.P.C., d.o.o., Slovenia	100.00%	6,712	104	377	377
Energygor, d.o.o., Slovenia	100.00%	122	-43	58	58
Gorenje Keramika, d.o.o., Slovenia	100.00%	-195	-170	7,841	6,632
Gorenje GTI, d.o.o., Slovenia	100.00%	5,729	195	3,934	3,934
Gorenje Gostinstvo, d.o.o., Slovenia	100.00%	6,446	748	5,958	5,958
Gorenje Orodjarna, d.o.o., Slovenia	100.00%	5,481	971	3,038	3,038
Indop, d.o.o., Slovenia	100.00%	-1,493	-626	0	0
Gorenje GAIO, d.o.o., Slovenia	100.00%	-1,168	-408	0	0
Gorenje EKOINVEST, d.o.o., Slovenia	100.00%	9,673	-556	10,286	10,286
Gorenje Surovina, d.o.o., Slovenia	100.00%	18,194	2,502	13,209	0
ZEOS, d.o.o., Slovenia	55.42%	2,865	637	284	284
Gorenje Zagreb, d.o.o., Croatia	100.00%	9,900	455	30,230	30,230
ST Bana Nekretnine, d.o.o., Serbia	1.61%	2,363	-145	50	50
Gorenje Tiki, d.o.o., Serbia	100.00%	24,232	-624	23,306	23,306
Gorenje Home, d.o.o., Serbia	100.00%	6,989	903	3,001	3,001
Mora Moravia, s.r.o., Czech Republic	100.00%	25,097	910	20,050	20,050
Gorenje Nederland BV, the Netherlands	100.00%	147,436	19,032	131,106	131,106
Gorenje - kuchyně spol. s r.o., Czech Republic	100.00%	104	0	0	0
Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00%	42,207	1,120	42,008	42,008
MAHS, d.o.o., Slovenia	65.00%	279	-309	250	250
Total		**310,973**	**24,696**	**294,986**	**280,568**

Movement of Company's investments in subsidiaries

EURk	2017	2018
Opening balance at 1 January	**295,745**	**294,986**
Increase	41	1,400
Transfer to current investments	0	-13,209
Decrease	0	-1,400
Impairment	-800	-1,209
Closing balance at 31 December	**294,986**	**280,568**

The Company assesses on an annual basis, whether there is need for impairment. Based on performed impairment testing of Company's investments, no reasons for their impairment were established, except for the investment in the subsidiary Gorenje Keramika, d.o.o., Slovenia. Transfer of Company's investments in the amount of EUR 13,209k relates to the transfer of Gorenje Surovina, d.o.o., Slovenia to current investments due to its sale. Increase in Company's investments represent the company GOR Kolesa, d.o.o., Slovenia which was an associate until June 2018, when the Company purchased an interest from BTC, d.d. and thus became the sole owner (100%) of the company (transferred to investments in subsidiaries). The company was sold at the end of August, which is reflected in a decrease in the same amount. The negative impact on the operating result is disclosed among finance costs.

Note 23 – Investments in associates

Balance of investments in associates

EURk	Gorenje Group			Gorenje, d.o.o.		
	Equity interest	Investment at 31 Dec 2017	Investment at 31 Dec 2018	Equity interest	Investment at 31 Dec 2017	Investment at 31 Dec 2018
Gorenje Projekt, d.o.o., Slovenia	50.00%	1,971	0	50.00%	1,363	0
GGE Netherlands B.V., the Netherlands	30.00%	2,305	0	30.00%	1,823	0
EKON ELEKTRON, d.o.o., Macedonia	30.00%	33	44	0	0	0
Total		**4,309**	**44**		**3,186**	**0**

Movement of investments in associates

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	2018	2017	2018
Opening balance at 1 January	**2,945**	**4,309**	**2,064**	**3,186**
Increase	1,520	20	1,200	0
Decrease	-78	0	0	0
Impairment	-400	0	-400	0
Reversal of impairment	322	0	322	0
Transfer to current investment	0	-4,285	0	-3,186
Opening balance at 1 January	**4,309**	**44**	**3,186**	**0**

Gorenje Group and Gorenje, d.o.o.

Higher investments by EUR 20k represent profits or losses of associates that were written up under the equity method to Group's investments in associates. Gorenje Group records no pledged investments in associates.

The company GOR Kolesa, d.o.o., Slovenia was an associate until June 2018, when the Company purchased an interest from BTC, d.d. and thus became the sole owner (100%) of the company. The company was sold at the end of August. The negative impact on the operating result was disclosed among finance costs. Investments in the associates GGE Netherlands B.V., the Netherlands and Gorenje Projekt, d.o.o., Slovenia were reclassified to current investments as they will according to agreements be sold in the first quarter of 2019.

Company Gorenje, d.o.o.

EURk	Equity interest	Equity of company in 2018	Profit or loss of the company in 2018
Kemis, d.o.o., Slovenia	100.00%	7,356	-165
Gorenje Beteiligungs GmbH, Austria	100.00%	51,638	-3,670
Gorenje Austria Handels GmbH, Austria	100.00%	2,881	-211
Gorenje Vertriebs GmbH, Germany	100.00%	7,503	633
Gorenje Körting Italia S.r.l., Italy	100.00%	52	-44
Gorenje France S.A.S., France	100.00%	2,397	120
Gorenje Espana S.L., Spain	100.00%	-764	0
Gorenje UK Ltd., Great Britain	100.00%	-355	66
Gorenje Group Nordic A/S, Denmark	100.00%	1,880	51
Gorenje spol. s r.o., Czech Republic	100.00%	5,802	298
Gorenje real spol. s r.o., Czech Republic	100.00%	5,822	63
Gorenje Slovakia s.r.o., Slovakia	100.00%	1,124	43
Gorenje Magyarország Kft., Hungary	100.00%	3,412	40

Gorenje Polska Sp. z o.o., Poland	100.00%	5,575	-187
Gorenje Bulgaria EOOD, Bulgaria	100.00%	2,556	550
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00%	3,433	304
Gorenje, d.o.o., Serbia	100.00%	9,774	2,246
Gorenje Podgorica, d.o.o., Montenegro	99.975	2,458	49
Gorenje Romania S.r.l., Romania	100.00%	623	25
KEMIS-Termoclean, d.o.o., Croatia	100.00%	2,878	95
Kemis - BH, d.o.o., Bosnia and Herzegovina	100.00%	692	97
Gorenje Gulf FZE, United Arab Emirates	100.00%	-644	41
Gorenje Istanbul Ltd., Turkey	100.00%	-80	-76
Gorenje TOV, Ukraine	100.00%	148	11
Kemis Valjevo, d.o.o, Serbia	100.00%	2,207	333
ATAG Nederland BV, the Netherlands	100.00%	23,054	912
ATAG België NV, Belgium	100.00%	1,255	-136
Intell Properties BV, the Netherlands	100.00%	1,474	-46
Gorenje Kazakhstan, TOO, Kazakhstan	100.00%	492	-8
OOO Gorenje BT, Russia	100.00%	19,270	239
Gorenje GTI, d.o.o., Serbia	100.00%	149	2
Asko Appliances AB, Sweden	100.00%	6,221	492
Gorenje North America, Inc., USA	100.00%	958	45
Asko Appliances Pty, Australia	100.00%	6,918	351
Asko Appliances OOO, Russia	100.00%	415	-45
»Gorenje Albania« SHPK, Albania	100.00%	160	92
Gorenje Corporate GmbH, Austria	100.00%	39	0
Zeos eko-sistem d.o.o., Bosnia and Herzegovina	53.64%	1,003	128
Gorenje Asia Ltd., China	100.00%	1,787	408
Gorenje MDM, d.o.o., Serbia	100.00%	1,143	-60
Gorenje do Brasil Ltda., Brasil	100.00%	346	79
Gorenje Ekologija, d.o.o., Serbia	100.00%	642	-677
Gorenje AEC, LLC, Thailand	100.00%	344	230
Gorenje Chile SpA, Chile	100.00%	-537	-343
Indop Gorenje GmbH, Germany	100.00%	-191	-11
Gorenje GSI, d.o.o., Slovenia	100.00%	5,396	354
Gorenje Skopje, d.o.o., Macedonia	100.00%	1,773	61
TERMOCLEAN S, d.o.o., Slovenia	100.00%	7	0
Gorenje Surovina, RECE, d.o.o., Slovenia	100.00%	8	0
Gorenje HVAC, d.o.o., Velenje	100.00%	7	-1
Gorenje Surovina RECE, d.o.o., Croatia	100.00%	3	0
Total		**190,504**	**2,778**

Note 24 – Other non-current investments

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Loans to Group companies	0	0	121,810	107,057
Loans to other companies	2,359	1,019	1,400	98
Deposits	156	213	0	0
Other financial investments	968	878	672	673

Total	**3,483**	**2,110**	**123,882**	**107,828**

Movements in loans

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	**2018**	**2017**	**2018**
Opening balance at 1 January	**2,370**	**2,359**	**1,357**	**123,210**
Increase	0	0	121,924	1,332
Decrease	-11	-1,011	-71	-14,607
Transfer to current portion	0	-307	0	-2,780
Discontinued operation	0	-22	0	0
Closing balance at 31 December	**2,359**	**1,019**	**123,210**	**107,155**

Loans granted include euro-denominated loans bearing a fixed interest rate. They were extended to companies outside the Group and show as at the reporting date a decline over 2017 in the amount of EUR 1,340k. The balance of loans extended by the Group amounted as at 31 December 2018 to EUR 1,019k and mostly relates to the loan to the company Tina Timočka, Knjaževac, approved by Gorenje France S.A.S., France and insured with a mortgage on a property that is subject of sale within the bankruptcy proceedings over the borrower. An allowance of the aforesaid financial receivable is formed for the loan. The second largest loan (EUR 50k) is insured by means of creating a mortgage (borrower's equipment) in favour of the Company as lender.

Other non-current investments are not pledged to third parties.
No non-current loans were granted by the Group to Management Board members, Supervisory Board members, and internal owners.

Note 25 – Non-current operating receivables

Gorenje Group and Gorenje, d.o.o.
Non-current operating receivables in the amount of EUR 3,760k (31 December 2017: EUR 7,375k) primarily refer to the receivables of the Company arising from sale of coal in 2017 (EUR 1,564k).

Note 26 – Deferred tax assets and deferred tax liabilities

Gorenje Group
Deferred taxes are calculated based on temporary differences by using the liability method and the tax rate, applicable in the country in which the respective Group company is domiciled.

EURk	Tax assets		Tax liabilities		Tax assets – tax liabilities	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**
Property, plant and equipment	632	1,291	2,145	1,996	-1,513	-705
Investments	1,510	1,829	13	5	1,497	1,824
Receivables	841	884	-8	1	849	883
Inventories	54	136	-45	-52	99	188
Liabilities from litigations	15	3	1	-6	14	9
Provisions in line with local standards and tax laws	1,115	1,462	143	154	972	1,308
Provisions for retirement benefits and jubilee premiums	2,528	2,912	-9	0	2,537	2,912
Provisions for warranties	1,713	2,053	-57	-65	1,770	2,118
Provisions for the reorganisation	0	347	0	0	0	347
Unused tax losses	13,151	18,191	-10	0	13,161	18,191
Unused tax reliefs	6,174	4,935	133	0	6,041	4,935
Cash flow hedge – forward exchange contracts	16	3	0	0	16	3

Cash flow hedge – interest rate swaps	164	882	58	55	106	827
Changes within Group	0	0	0	0	0	0
Total	**27,913**	**34,928**	**2,364**	**2,088**	**25,549**	**32,840**

	Tax assets – tax liabilities		Through profit or loss		Through other comprehensive income	
EURk	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
Property, plant and equipment	-1,513	-705	15	383	0	0
Investments	1,497	1,824	-32	332	-2	8
Receivables	849	883	-47	125	0	0
Inventories	99	188	2	57	0	0
Liabilities from litigations	14	9	11	15	0	0
Provisions in line with local standards and tax laws	972	1,308	393	274	0	1
Provisions for retirement benefits and jubilee premiums	2,537	2,912	-33	360	-1	147
Provisions for warranties	1,770	2,118	-308	306	0	0
Provisions for the reorganisation	0	347	0	347	0	0
Unused tax losses	13,161	18,191	736	5,270	0	0
Unused tax reliefs	6,041	4,935	-194	-1,228	0	0
Cash flow hedge – forward exchange contracts	16	3	0	0	16	-13
Cash flow hedge – interest rate swaps	106	827	0	0	-125	718
Changes within Group	0	0	0	44	0	0
Total	**25,549**	**32,840**	**543**	**6,285**	**-112**	**861**

Gorenje, d.o.o.

	Tax assets		Tax liabilities		Tax assets – tax liabilities	
EURk	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
Property, plant and equipment	586	1,026	0	0	586	1,026
Investments	1,500	1,651	13	4	1,487	1,647
Receivables	479	489	0	0	479	489
Provisions for retirement benefits and jubilee premiums	1,549	1,912	0	0	1,549	1,912
Provisions for warranties	461	668	0	0	461	668
Provisions for reorganisation	0	347	0	0	0	347
Unused tax losses	10,087	15,191	0	0	10,087	15,191
Unused tax reliefs	5,383	4,079	0	0	5,383	4,079
Cash flow hedge – forward exchange contracts	16	3	0	0	16	3
Cash flow hedge – interest rate swaps	164	882	0	0	164	882
Total	**20,225**	**26,248**	**13**	**4**	**20,212**	**26,244**

EURk	Tax assets – tax liabilities		Through profit or loss		Through other comprehensive income	
	2017	2018	2017	2018	2017	2018
Property, plant and equipment	586	1,026	265	440	0	0
Investments	1,487	1,647	-61	151	-2	9
Receivables	479	489	-14	10	0	0
Provisions for retirement benefits and jubilee premiums	1,549	1,912	-69	265	-7	98
Provisions for warranties	461	668	-312	207	0	0
Provisions for reorganisation	0	347	0	347	0	0
Unused tax losses	10,087	15,191	806	5,104	0	0
Unused tax reliefs	5,383	4,079	-221	-1,304	0	0
Cash flow hedge – forward exchange contracts	16	3	0	0	16	718
Cash flow hedge – interest rate swaps	164	882	0	0	-125	-13
Total	**20,212**	**26,244**	**394**	**5,220**	**-118**	**812**

Gorenje Group and Gorenje, d.o.o.

The Group discloses EUR 32,840k of deferred tax assets (the Company EUR 26,244k), which indicate an increase in 2018 by EUR 7,291k (by EUR 6,032k in the Company). Deferred tax assets arising from unused tax losses largely refer to the Company (EUR 15,191k) and can be used without limitation in future tax periods (years). The Company also discloses the biggest share of deferred tax assets arising from unused tax reliefs (EUR 4,079k), which primarily relates to reliefs on investments in equipment. The Company forms no deferred tax assets in relation to investments in research and development, although it could from this relation reduce the tax basis.

Note 27 – Inventories

Gorenje Group

EURk	2017			2018		
	Domestic Appliances	Other Business	Total	Domestic Appliances	Other Business	Total
Materials	63,655	5,853	69,508	58,124	3,854	61,978
Work in progress	9,683	2,948	12,631	7,105	2,575	9,680
Finished products	98,090	6,261	104,351	110,594	3,986	114,580
Merchandise	29,699	3,091	32,790	28,505	4,083	32,588
Advances	1,094	245	1,339	273	127	400
Total	**202,221**	**18,398**	**220,619**	**204,601**	**14,625**	**219,226**

Allowances and write-offs of inventories amounted in 2018 to EUR 21,548k (2017: EUR 4,012k) and are disclosed among other operating expenses. Allowances for inventories are essentially higher over the previous year, which is attributable to the changed accounting estimates as a result of Hisense Group's entry into the Gorenje Group's ownership structure (further details are provided in section 1.2.2.(d)).

Advances refer to inventories of raw materials, materials and merchandise.

As at 31 December 2018, none of Group's inventories were pledged. The book value of inventories does not exceed their net realisable value. The carrying amount of inventories of finished products as at the balance sheet date, where production costs were adjusted to net realisable value in 2018, amounted to EUR 76,728k.

Gorenje, d.o.o.

EURk	2017	2018
Materials	41,130	41,643
Work in progress	7,805	5,836

Finished products	15,715	20,648
Merchandise	19,700	21,357
Advances	988	216
Total	**85,338**	**89,700**

As at 31 December 2018, the book value of Company's inventories of finished products, for which value adjustments were made from production value to net realisable value in 2018, was recorded at EUR 6,960k (2017: 2,936k).

In 2018, value adjustments of inventories amounted to EUR 11,025k (2017: EUR 3,109k) and are the result of the changed accounting estimates and adjustments made in line with Hisense Group's accounting policies.

Note 28 – Current investments

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Investments in equity instruments	1,743	1,608	1,321	1,287
Investments in subsidiaries and associates available for sale	0	4,290	0	16,396
Current deposits	511	227	0	0
Granted loans	5,608	306	16,431	10,772
Granted loans transferred from non-current loans	0	0	0	2,780
Current interest receivables	52	8	387	671
Dividend receivables due from Group companies	0	0	5,500	0
Other current financial receivables	145	569	402	1,446
Total	**8,059**	**7,008**	**24,041**	**33,352**

Gorenje Group and Gorenje, d.o.o.

Investments in equity instruments include stocks and shares in banks and savings banks, and in other companies. Most of these investments are held by the Company (EUR 1,287k), whereof the largest share refers to the investment in Prvi sklad, d.o.o., Slovenia and the investment in shares of Delavska hranilnica. The value of investments in equity instruments is disclosed in fair value.

Group's available-for-sale investments in subsidiaries and associates include in 2018 also investments in the associated companies Gorenje Projekt, d.o.o., Slovenia and GGE Netherland BV., the Netherlands. The transfer of these investments in the amount of EUR 4,290k into this category was made upon the decision on their divestment and the related signing of contracts on the sale of equity interests. The Group assesses that the suspensive conditions agreed and defined in the sales contracts shall be met in the first half-year of 2019.

Loans granted by the Group refer to short-term loans extended to non-Group companies in the amount of EUR 306k. Relative to the previous year, they declined in 2018 by EUR 5,302k. They are insured nearly in their full amount by means of a mortgage (borrower's equipment) in favour of the Company as lender.

Group's other financial receivables recorded in the amount of EUR 569k mostly (EUR 380k) refer to the positive fair value of unrealised forward exchange contracts as at 31 December 2018 entered into for cash flow hedging against exchange rate fluctuations. Most thereof represents hedging of the euro against the Australian dollar and the Russian rouble.

The Company concludes hedging instruments to hedge against currency fluctuations in its own name and the name of other Group companies, and transfers them to companies that are locally exposed to such risk. The Group concluded forward exchange contracts for 2019 in order to hedge against exchange rate fluctuations. Fair value of forward exchange contracts is recognised partly in the income statement and partly in the statement of other comprehensive income. The recognition through comprehensive income aims at hedging effects to be recognised in the income statement in the same period in which the hedged item impacted the profit or loss.

In 2018, the Group recorded net settlements arising on derivatives used as hedging instruments in the amount of EUR 1,189k and in the same amount increased its finance income or finance expenses. In addition, net finance income increased by EUR 220k as a result of Group's adjustment of forward exchange contracts to fair value.

Movement of investments in equity instruments

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Opening balance at 1 January	**2,247**	**1,743**	**1,617**	**1,321**
Exchange differences	8	-3	0	0
Increase	24	12	18	12
Decrease	-451	-3	-325	0
Change in fair value	-67	-120	11	-46
Transfers	-18	0	0	0
Discontinued operation	0	-21	0	0
Closing balance at 31 December	**1,743**	**1,608**	**1,321**	**1,287**

Gorenje Group and Gorenje, d.o.o.

The change in fair value amounting to EUR -120k is disclosed among finance income and costs in the amount of EUR -74k and in the amount of EUR -46k among the decrease in the fair value of investments in equity instruments.

Higher investments in equity instruments are entirely attributable to the contribution of capital in the company Prvi Sklad, d.o.o., Slovenia.

Changes in the fair value are disclosed among the fair value reserve.

Current investments are not pledged.

Current loans granted by the Company

EURk	2017	2018
Current loans to Group companies	10,829	13,252
Current loans to others	5,602	300
Total	**16,431**	**13,552**

Current loans given by the Company to Group companies operating in Slovenia

EURk	2017	2018
Gorenje Orodjarna, d.o.o., Slovenia	873	1,267
Gorenje Keramika, d.o.o., Slovenia	4,368	4,730
Gorenje GAIO, d.o.o., Slovenia	1,708	1,987
Indop, d.o.o., Slovenia	1,568	0
MAHS, d.o.o., Slovenia	0	278
Kemis, d.o.o., Slovenia	0	330
Total	**8,517**	**8,592**

Current loans given by the Company to Group companies operating abroad

EURk	2017	2018
Gorenje Beteiligungs GmbH, Austria	1,634	955
Gorenje Nederland BV, the Netherlands	678	1,680
Gorenje – kuchyně spol. s r.o., Czech Republic	0	1,780
Gorenje AEC, LLC, Thailand	0	245
Total	**2,312**	**4,660**

Current loans given by the Company, denominated in euro, amounted to EUR 13,552k and show a decline over 2017 by EUR 2,879k. The Company is not exposed to major financial risks as most of these loans were extended to Group companies.

No current loans were granted by the Company to members of the Management Board, the Supervisory Board, and internal owners.

Note 29 – Trade receivables

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Trade receivables – Group companies	0	0	107,637	96,229
Trade receivables – other companies	180,517	136,428	50,994	41,902
Total	**180,517**	**136,428**	**158,631**	**138,131**

Gorenje Group and Gorenje, d.o.o.

The Group lowered in 2018 trade receivables due from other companies by EUR 44,089k. The Group recorded in the reporting period EUR 3,821k of write-offs and impairments of trade receivables (2017: EUR 1,570k). Allowances for trade receivables increased relative to the previous period, which is the result of changed accounting estimates arising from the Hisense Group's entry in to the Gorenje Group's ownership structure (further details are provided in section 1.2.2.(d)).

As at 31 December 2018, allowances for trade receivables amounted to EUR 19,159k (2017: EUR 24,951k); their movement is presented in Note 43 (Financial risks and financial instruments).

As at the reporting date, the Group's trade receivables due from other companies were insured with quality hedging instruments in a share of 82.2% (31 December 2017: 73.3%). As for insuring receivables with credit insurance companies, the own share of the insured is agreed and set mostly at 10 percent in a loss event, whereas in certain exceptions a higher own share is agreed (up to 30%). The Group has incorporated a credit risk management policy, which clearly defines terms and acceptable instruments for insuring receivables. The Accounts Receivable Management Policy is in detail presented in Note 43.

Company's current trade receivables due from Group companies

EURk	2017	2018
Trade receivables due from customers in Slovenia	9,606	9,817
Trade receivables due from customers abroad	98,031	86,411
Total	**107,637**	**96,228**

Company's current trade receivables due from customers (Group companies) operating in Slovenia

EURk	2017	2018
Energygor, d.o.o., Slovenia	1	1
ZEOS, d.o.o., Slovenia	6	5
Kemis, d.o.o., Slovenia	2	3
Gorenje Surovina, d.o.o., Slovenia	1,113	913
Gorenje I.P.C., d.o.o., Slovenia	1,817	973
Gorenje GTI, d.o.o., Slovenia	744	1,060
Gorenje Gostinstvo, d.o.o., Slovenia	96	141
Gorenje Orodjarna, d.o.o., Slovenia	72	85
Indop, d.o.o., Slovenia	118	434
Gorenje GAIO, d.o.o., Slovenia	56	47
Gorenje GSI, d.o.o., Slovenia	5,484	6,101
Gorenje Keramika, d.o.o., Slovenia	52	31
MAHS, d.o.o., Slovenia	38	21
Gorenje EKOINVEST, d.o.o., Slovenia	7	1
Gorenje HVAC, d.o.o., Slovenia	0	1
Total	**9,606**	**9,817**

Company's current trade receivables due from customers (Group companies) operating abroad

EURk	2017	2018
Gorenje Zagreb, d.o.o., Croatia	7,889	6,237
Gorenje, d.o.o., Serbia	14,031	3,592
Gorenje aparati za domaćinstvo, d.o.o., Serbia	8,397	18,218
Gorenje Tiki, d.o.o., Serbia	1,832	999
Gorenje Home, d.o.o., Serbia	6,234	4,567
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1,150	714
Gorenje Skopje, d.o.o., Macedonia	1,050	38
Gorenje Podgorica, d.o.o., Montenegro	765	638
Gorenje Vertriebs GmbH, Germany	6,199	17,881
Gorenje Austria Handels GmbH, Austria	-675	471
Gorenje Beteiligungs GmbH, Austria	32	1
Asko Appliances AB, Sweden	443	395
Gorenje Group Nordic A/S, Denmark	6,301	6,802
ATAG Nederland BV, the Netherlands	597	596
Gorenje Nederland BV, the Netherlands	9	9
Gorenje UK Ltd., Great Britain	1,416	43
Gorenje France S.A.S., France	-222	-139
Gorenje Körting Italia S.r.l., Italy	2,567	2,272
OOO Gorenje BT, Russia	2,120	-818
Gorenje TOV, Ukraine	86	10
Gorenje Kazakhstan, TOO, Kazakhstan	1	25
Gorenje Slovakia s.r.o., Slovakia	266	385
Gorenje spol. s r.o., Czech Republic	4,993	839
Gorenje real spol s r.o., Czech Republic	0	1
Mora Moravia, s.r.o., Czech Republic	1,857	1,258
Gorenje Magyarország Kft., Hungary	1,756	1,576
Gorenje Polska Sp. z o.o., Poland	6,830	2,537
Gorenje Bulgaria EOOD, Bulgaria	1,214	1,401
Gorenje Romania S.r.l., Romania	5,595	-176
»Gorenje Albania« SHPK, Albania	434	119
Gorenje Gulf FZE, United Arab Emirates	3,764	3,903
Asko Appliances Pty, Australia	8,790	7,393
Gorenje do Brasil Ltda., Brasil	92	343
Asko Appliances OOO, Russia	1,295	718
Gorenje MDM, d.o.o., Serbia	0	1
Gorenje GTI, d.o.o., Serbia	1	2
Gorenje ATAG Belgie NV, Belgium	-283	-180
Gorenje Asia Ltd., China	1	645
KEMIS – Termoclean, d.o.o., Croatia	1	1
Gorenje Corporate GmbH, Austria	1	1
Gorenje Chile SpA, Chile	1,080	2,664
ST Bana Nekretnine, d.o.o., Serbia	1	30
Gorenje AEC, LLC, Thailand	129	655
Revaluation	-8	-256
Total	**98,031**	**86,411**

The Company lowered in 2018 the level of trade receivables due from Group's customers with their registered office held abroad by EUR 11,620k.

Note 30 – Other current assets

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	2018	2017	2018
Other current receivables	45,987	44,334	9,511	8,657
Short-term deferred costs and expenses	7,756	6,859	3,265	1,891
Other current assets	2,285	4,668	0	0
Advances for services	1,838	1,552	293	345
Total	**57,866**	**57,413**	**13,069**	**10,893**

Gorenje Group and Gorenje, d.o.o.
Other current assets include a significant portion of current input VAT receivables, which in the Group amounted at the year-end of 2018 to EUR 11,057k (2017: EUR 10,394k) and in the Company to EUR 5,008k (2017: EUR 4,918k).
Further, a large portion of Group's other current assets include receivables due from partners, with whom agreements on non-recourse sale of receivables are signed in the amount of EUR 27,835k (31 December 2017: EUR 21,609k); they refer to the own share in the receivables' share and/or to the volume of sold receivables, where the relevant partner has not yet conducted the payment for the sale of receivables.
As for the Company, it records a major portion of unpaid VAT receivables due from abroad in the amount of EUR 1,496k (31 December 2017: EUR 1,686k), current receivables for withholding tax in the amount of EUR 657k (31 December 2017: EUR 487k), receivables not yet charged in the amount of EUR 406k (31 December 2017: EUR 1,468k), receivables from the sale of receivables in the amount of EUR 371k (31 December 2017: EUR 185k), and receivables arising from subsidies in the amount of EUR 298k (31 December 2017: EUR 208k).
The item of short-term deferred costs and expenses comprises deferred costs that refer to subsequent periods.

Note 31 – Cash and cash equivalents

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	2018	2017	2018
Cash in hand	615	512	0	0
Bank balances and cash held in other financial institutions	23,287	16,779	3,146	2,970
Cash in transit	1,135	762	338	224
Total	**25,037**	**18,053**	**3,484**	**3,194**

Note 32 – Equity

As at 31 December 2018, Company's share capital amounted to EUR 101,415,882.14 (31 December 2017: EUR 101,922,103.97) and is divided into 24,303,302 ordinary, freely transferable, registered, no par value shares. The share capital of the Company declined on 17 September 2018 by EUR 506k based on the resolution adopted by the General Meeting of Shareholders by means of withdrawing 121,311 shares that were already owned by the Company

Reserves consist of share premium, revenue reserves, fair value reserve and translation reserve.

Group's capital surplus (share premium) in the amount of EUR 115,908k (31 December 2017: EUR 174,502k) presents surplus in excess of par value of shares in the amount of EUR 64,475k (31 December 2017: EUR 64,475k), surplus in excess of book value of disposed own shares (treasury shares) in the amount of EUR 16,201k (31 December 2017: EUR 15,313k), and general equity revaluation adjustment in the amount of EUR 17,369k (31 December 2017: EUR 76,851k), and other effects of transition to IFRSs. Due to the coverage of loss recorded by the Company in 2018, the general equity revaluation adjustment declined by EUR 59,100k.

Revenue reserves recorded as at the balance sheet date in the amount of EUR 29,961k (31 December 2017: EUR 33,131k) consist of legal reserves, statutory reserves and other revenue reserves.

As at 31 December 2018, legal reserves amounted to EUR 12,896k (31 December 2017: EUR 12,896k). In accordance with provisions of the Companies Act, share premium (capital surplus) and legal reserves can in their excess amount, be used for share capital increase, for coverage of loss for the period and retained loss if revenue reserves are not simultaneously used for dividend payout.

As at the balance sheet date, statutory reserves amounted to EUR 4,796k (31 December 2017: EUR 7,966k). Statutory reserves can according to Company's Articles of Association be used for a share capital increase; for coverage of loss for the period and retained loss should no other sources be available; for share withdrawal in case of a compulsory transfer of shares, and for share withdrawal by Company's acquisition; for share withdrawal under the simplified procedure of share capital decrease; for creation of treasury shares if no other sources are available, and for balancing the dividend policy.

As at 31 December 2018, other revenue reserves amounted to EUR 12,269k (31 December 2017: EUR 9,099k). They were created on the basis of resolutions on the allocation of profit for the period adopted by the Company's Management Board and the Supervisory Board, and resolutions of the General Meeting of Shareholders on the allocation of the accumulated profit.

Group's retained earnings in the amount of EUR 17,672k (31 December 2017: EUR 74,519k) comprise profit or loss from previous years and profit or loss for 2018. Profit or loss for previous years decreased by EUR 67,731k due to coverage of loss for 2018 recorded by the Company In 2018, the treatment of income from subsidies changed and resulted in lower retained earnings or losses by EUR 3,779 k. The highest amount thereunder was recorded by the company Gorenje aparati za domaćinstvo, d.o.o., Serbia (EUR 2,420k). The decrease in retained earnings or losses was also impacted by the calculated remuneration for 2017 at Gorenje Surovina, d.o.o., Slovenia (EUR 294k) and by costs incurred in previous periods and linked to the Directive on Waste Electrical and Electronic Equipment at the company Gorenje Zagreb, d.o.o., Croatia (EUR 419k).

Translation reserve (Group) amounted as at 31 December 2018 to EUR -14,763k (31 December 2017: EUR -13,723k). The decrease is attributable to exchange differences that arise on the restatement of subsidiaries' assets and liabilities from abroad from national currencies to the Group's reporting currency. The translation reserve increased by EUR 2,787k due to the transfer to the fair value reserve.

Group's fair value reserve amounting to EUR -7,335k as at 31 December 2018 (31 December 2017: EUR -454k) includes changes in fair value of equity instruments and changes in value of the cash flow hedge, and the change in the value of retirement benefits pursuant to the actuarial calculation.

Changes in **Group's** fair value reserve are shown in the table below:

EURk	Fair value reserve for investments in equity instruments	Fair value reserve for derivatives	Actuarial gains/losses	Total
Balance at 1 Jan 2017	**3,007**	**-1,031**	**-2,709**	**-733**
Actuarial gains or losses	0	0	65	65
Change in fair value of cash flow hedge	0	-651	0	-651
Change in fair value of cash flow hedge, transferred to profit or loss	0	891	0	891
Change in fair value of investments in equity instruments	86	0	0	86
Deferred taxes	-2	-109	-1	-112
Balance at 31 Dec 2017	**3,091**	**-900**	**-2,645**	**-454**

EURk	Fair value reserve for investments in equity instruments	Fair value reserve for derivatives	Fair value reserve for investment property	Actuarial gains/losses	Total
Balance at 1 Jan 2018	**3,091**	**-900**	**0**	**-2,645**	**-454**
Transfer from translation reserve to fair value reserve	-2,969	186	0	-4	-2,787
Adjusted balance at 1 Jan 2018	**122**	**-714**	**0**	**-2,649**	**-3,241**
Actuarial gains or losses	0	0	0	-1,405	-1,405
Revaluation of investment property	0	0	28	0	28
Change in fair value of cash flow hedge	0	-4,374	0	0	-4,374
Change in fair value of cash flow hedge, transferred to profit or loss	0	842	0	0	842
Change in fair value of investments in equity instruments	-46	0	0	0	-46

Deferred taxes	9	705		147	861
Balance at 31 Dec 2018	**85**	**-3,541**	**28**	**-3,907**	**-7,335**

Changes in **Company's** fair value reserve are shown in the table below:

EURk	Fair value reserve for investments in equity instruments	Fair value reserve for derivatives	Actuarial gains/losses	Total
Balance at 1 Jan 2017	**45**	**-1,225**	**-1,588**	**-2,768**
Actuarial gains or losses	0	0	77	77
Change in fair value of cash flow hedge	0	-311	0	-311
Change in fair value of cash flow hedge, transferred to profit or loss	0	883	0	883
Change in fair value of investments in equity instruments	11	0	0	11
Deferred taxes	-2	-109	-7	-118
Balance at 31 Dec 2017	**54**	**-762**	**-1,518**	**-2,226**

EURk	Fair value reserve for investments in equity instruments	Fair value reserve for derivatives	Actuarial gains/losses	Total
Balance at 1 Jan 2018	**54**	**-762**	**-1,518**	**-2,226**
Actuarial gains or losses	0	0	-1,028	-1,028
Change in fair value of cash flow hedge	0	-4,518	0	-4,518
Change in fair value of cash flow hedge, transferred to profit or loss	0	807	0	807
Change in fair value of investments in equity instruments	-46	0	0	-46
Deferred taxes	9	705	98	812
Balance at 31 Dec 2018	**17**	**-3,768**	**-2,448**	**-6,199**

Note 33 – Earnings per share

The Company issued no financial instruments that would have an impact on diluted earnings per share, thus the basic and diluted earnings per share are equal.

	Gorenje Group		Gorenje, d.o.o.	
	2017	**2018**	**2017**	**2018**
Profit for the period (in EURk)	969	-111,402	473	-126,831
Weighted average number of ordinary shares	24,303,302	24,303,302	24,303,302	24,303,302
Basic / Diluted earnings per share (in EUR)	0.04	-4.58	0.02	-5.22
Total comprehensive income attributable to equity holders of the parent (EURk)	4,836	-119,323	1,015	-130,804
Weighted average number of ordinary shares	24,303,302	24,303,302	24,303,302	24,303,302
Earnings per share (in EUR)	0.20	-4.91	0.04	-5.38

Own shares (treasury shares)

Number of own shares	1 Jan 2018	Withdrawal of own shares	31 Dec 2018
Repurchased own shares	121,311	-121,311	0

Note 34 - Establishment of accumulated profit pursuant to provisions of the Companies Act

In accordance with the Companies Act and the Articles of Association of the Company, the Director General proposed that the loss for the fiscal year 2018 in the amount of EUR 126,831,002.08 is to be settled in 2018 based on following equity components:

	in EUR
Profit or loss for the period	-126,831,002.08
Coverage of loss charged against:	
+ retained earnings from previous periods	67,731,883.81
+ portion of capital surplus from general equity revaluation adjustment	59,099,118.27
- long-term deferred development costs as at the balance sheet data	-49,643,270.76
= accumulated loss as at 31 December 2018	**-49,643,270.76**

The college of Managing Directors reviewed the proposed coverage of loss for 2018 pursuant to provisions of the Companies Act and the Articles of Association and endorsed the proposal. The shareholder has confirmed the proposed settlement of loss in 2018.

Note 35 – Provisions

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Provisions for warranties	33,322	38,140	4,489	6,387
Provisions for retirement benefits and jubilee premiums	22,641	27,388	12,640	16,937
Other provisions	3,923	7,900	379	3,874
Total	**59,886**	**73,428**	**17,508**	**27,198**

Gorenje Group and Gorenje, d.o.o.

Provisions for warranties are created on the basis of estimated future costs of repairs in the warranty period, by taking into account the past known data on the quality level of products and the costs of repairs under warranty periods.

Provisions for warranties grew over the 2017 year-end balance by EUR 4,818k. They were formed pursuant to the sales dynamics and estimated costs of warranties. They were simultaneously reversed in the amount of EUR 2,635k, whereas most of thereof refers to sales on the German market (EUR 1,080k).

The change in provisions for retirement benefits and jubilee premiums is mostly attributable to the additional formation of such provisions based on an actuarial calculation that was conducted by Group companies in December 2018. Additional formation results from the fact that a new collective agreement for Slovenian companies was concluded in 2018 (5 June 2018) that impacts their amount.

Employee benefits expense and interest expense relating to the actuarial calculation are recognised by the Group in its profit or loss in the amount of EUR 6,315k, whereby the actuarial surplus within the comprehensive income in the amount of EUR 1,571k. As for the Company, employee benefits expense, interest expense and actuarial surplus for jubilee premiums are recognised in its profit or loss in the amount of EUR 4,021k, while the actuarial deficit within the comprehensive income in the amount of EUR 1,137k.

The actuarial calculation is based on the required actuarial assumptions (discount rate, amount of retirement benefits and jubilee premiums, staff fluctuation, mortality tables and wage growth). The discount interest rate of 4.0% p.a. and the long-term wage growth of 1.5% p.a. are the two actuarial assumptions with the biggest impact on the valuation result of payables to employees. If the stated discount rate is reduced by 0.5 percentage points, the balance of provisions would increase by EUR 1.1m.

Other provisions of the Group comprise mostly provisions by the company ZEOS, d.o.o., Slovenia for costs in connection with the Directive on Waste Electrical and Electronic Equipment recorded, provisions by the company Kemis, d.o.o., Slovenia relating to the fire, by the company Asko AB, Sweden in connection with legal actions, and by the Company for the product liability and the Group reorganisation.

Movements in Group's provisions

EURk	2017				2018			
	Provisions for warranties	Provisions for retirement benefits and jubilee premiums	Other provi-sions	Total	Provisions for warranties	Provisions for retirement benefits and jubilee premiums	Other provi-sions	Total
Balance at 1 Jan	**37,437**	**22,497**	**4,209**	**64,143**	**33,322**	**22,641**	**3,923**	**59,886**
Use	-30,008	-1,658	-232	**-31,898**	-29,812	-1,795	-347	**-31,954**
Exchange differences	376	26	3	**405**	-11	-31	-5	**-47**
Reversal	-4,389	-599	-461	**-5,449**	-2,635	-320	-562	**-3,517**
Formation	29,906	2,494	404	**32,804**	37,276	8,097	4,943	**50,316**
Disposal of companies	0	-119	0	**-119**	0	0	0	**0**
Transfers	0	0	0	**0**	0	0	-52	**-52**
Discontinued operation	0	0	0	**0**	0	-1,204	0	**-1,204**
Balance at 31 Dec	**33,322**	**22,641**	**3,923**	**59,886**	**38,140**	**27,388**	**7,900**	**73,428**

Movements in Company's provisions

EURk	2017				2018			
	Provisions for warranties	Provisions for retirement benefits and jubilee premiums	Other provi-sions	Total	Provisions for warranties	Provisions for retirement benefits and jubilee premiums	Other provi-sions	Total
Balance at 1 Jan	**7,586**	**12,766**	**588**	**20,940**	**4,489**	**12,640**	**379**	**17,508**
Use	-6,329	-723	-312	**-7,364**	-6,105	-864	-268	**-7,237**
Reversal	-1,800	-427	-25	**-2,252**	0	-133	-13	**-146**
Formation	5,032	1,024	128	**6,184**	8,003	5,294	3,776	**17,073**
Balance at 31 Dec	**4,489**	**12,640**	**379**	**17,508**	**6,387**	**16,937**	**3,874**	**27,198**

Note 36 – Deferred income

EURk	2017		2018	
	Deferred income – government grants	Total	Deferred income – government grants	Total
Balance at 1 January	**5,037**	**5,037**	**7,563**	**7,563**
Transfer of income from government grants to deferred income	0	**0**	3,075	**3,075**
Adjusted balance at 1 January	**5,037**	**5,037**	**10,638**	**10,638**
Use	-4,429	**-4,429**	-6,086	**-6,086**
Exchange differences	203	**203**	20	**20**
Formation	6,752	**6,752**	4,893	**4,893**
Balance at 31 December	**7,563**	**7,563**	**9,465**	**9,465**

Gorenje Group

Major part of deferred income arising from government grants refers to subsidies received from the government for obtaining fixed assets at the companies Gorenje Home, d.o.o., Serbia, Gorenje Aparati za domačinstvo, d.o.o., Serbia, Gorenje Tiki, d.o.o., Serbia and Mora Moravia, s r.o., Czech Republic in the amount of EUR 7,342k, whereby in 2018 the treatment of these subsidies changed and thus resulted in higher balance of deferred income by EUR 3,075k. The largest part relates to the company Gorenje Aparati za domačinstvo, d.o.o., Serbia in the amount of EUR 1,786k. A portion of EUR 2,123k refers to the company Gorenje I.P.C., d.o.o., Slovenia, a company employing disabled persons. Deferred income is formed on the basis of unpaid contributions (except the employment contribution) of total earnings of employees.

Note 37 – Non-current operating liabilities

Gorenje Group

Non-current operating liabilities in the amount of EUR 2,444k (31 December 2017: EUR 2,807k) largely refer to the long-term maintenance contracts concluded in connection with costs of repairs and product swap in the company ATAG Nederland BV, the Netherlands.

Note 38 – Non-current financial liabilities

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Borrowings from banks	314,301	197,557	284,691	197,557
Transfer to current borrowings from banks	-56,869	-50,627	-48,753	-50,626
Borrowings from other companies	1,773	1,427	0	0
Transfer to current borrowings from other companies	-420	-315	0	0
Liabilities from bonds issued	48,524	34,056	48,524	34,056
Transfer to current liabilities from bonds issued	-14,600	-34,056	-14,600	-34,056
Other financial liabilities	311	9	0	9
Total	**293,020**	**148,051**	**269,862**	**146,940**

Gorenje Group and Gorenje, d.o.o.

The Group recorded EUR 144,969k less non-current financial liabilities than at the end of 2017. The Group is financed through the Company by more than 95 percent. Non-current financial liabilities are denominated in euro. Lower volume of non-current financial liabilities is the result of the Group's overall refinancing, which was carried out in the last quarter of 2018 with the support of the new owner. Part of the financial liabilities, approved by third parties, was within this process replaced by the controlling company's funding.

Other financial liabilities comprise liabilities under the finance lease.

Maturity of non-current borrowings

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Maturity from 1 to 2 years	108,112	44,012	101,482	43,523
Maturity from 2 to 4 years	131,591	68,537	124,163	68,210
Maturity from 4 to 6 years	51,407	28,570	44,217	28,284
Maturity exceeding 6 years	1,599	6,923	0	6,923
Total	**292,709**	**148,042**	**269,862**	**146,940**

Company's management adopted the decision to start with the withdrawal or early repayment of bonds issued by Gorenje, d.o.o. In accordance with the aforesaid, liabilities from the bonds issued are in the Company's and Group's financial statements recorded among current financial liabilities with a maturity of up to 1 year, regardless the fact that a portion of these liabilities (EUR 19,456k) is due for payment in 2022 according to terms and conditions of the GV02 bond. The proceedings of withdrawal or early repayment are as at the date of this report in the initial phase.

Non-current borrowings

Currency/EURk	Gorenje Group	Gorenje, d.o.o.
EUR	148,042	146,940
Other currencies	0	0
Total	**148,042**	**146,940**

All non-current financial liabilities are denominated in euro. With respect to the policy of the European Central Bank, low inflation rate of the euro zone, as well as the low level of the euro-zone's base interest rate, the Group and the Company actively managed the interest rate risk arising in connection with borrowed funds bearing the Euribor variable interest rate.

Collateralisation of non-current borrowings

Collateralisation/EURk	Gorenje Group	Gorenje, d.o.o.
Bills	128,547	127,437
Financial covenants	147,185	146,930
Guarantees	869	0

None of the Group's current or non-current financial liability is collateralised by mortgage or any other form of physical asset. A significant portion of Group companies' borrowings is collateralised by bills and the Pari-Passu and Negative Pledge clauses in compliance with individual contracts. Non-current borrowings, in particular, are frequently supported by financial covenants as defined in individual loan contracts.

The item of guarantees refers to guarantees or collaterals issued by the Company to banks for liabilities of individual Group companies.

Financial covenants are mostly checked once a year based on the audited consolidated financial statements for the individual financial year. None of borrowings raised by the Group are insured, most of loan contracts are subject to agreed-upon standard financial ratios that in addition to the debt ratio, where net financial liabilities to EBITDA must be lower than 4, includes also following financial covenants: interest ratio (EBITDA to net interest expenses must exceed 4), difference between total and minority owned equity must exceed EUR 220m, ratio between net financial debt and the difference between total and majority owned equity must be below 1.2.

Within the refinancing of the Group, which was performed in the last quarter of 2018, we confirmed will all commercial banks, at which we recorded an outstanding financial liability as at 31 December 2018, the uniform financial covenants that shall be verified annually on the basis of the Group's consolidated financial statements. All banks have within the refinancing process adopted the provision that financial covenants are not reviewed for 2018.

The Group received in 2018 all required consents from the business banks and other financial institutions regarding the changed ownership structure of the Company and the changing of the Company's legal status i.e. from a joint stock company to a limited liability company.

Note 39 – Current financial liabilities

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Borrowings from banks	15,859	39,272	10,000	28,131
Current part of non-current financial liabilities to banks	56,869	50,627	48,753	50,627
Borrowings from Group companies	0	0	64,290	64,296
Borrowings from other companies	146	120,139	33	120,041
Current part of non-current financial liabilities to other companies	420	315	0	0
Interest payable	1,660	525	1,898	785
Liabilities from bonds issued	14,600	34,056	14,600	34,056
Dividends payable	71	15	71	15
Other current financial liabilities	1,106	4,658	1,391	5,116
Total	**90,731**	**249,607**	**141,036**	**303,067**

The largest share of Group's current financial liabilities (EUR 120,139k) to others refers to liabilities under borrowings from other companies that fall due for payment within one year, whereby EUR 120,000k represents the borrowing from the controlling company Hisense Luxembourg Home Appliance Holding S.a.r.l., EUR 89,899k represents current financial liabilities arising from bank borrowings. The remaining part of current financial liabilities include liabilities from bonds issued.

Borrowings received from the controlling company Hisense Luxembourg Home Appliance Holding S.a.r.l. are subordinated to Company's liabilities to third parties and will be kept up to the minimum amount of EUR 100,000k until Group's net financial liabilities will in view of the EBIDTA exceed the three-fold, regardless that the financing contracts are concluded for one year. By approving the internal funding, the controlling company discloses the required financial support to the Company and the Group and thereby provides for an appropriate long-term financial stability and solvency of the Gorenje Group.

Other current financial liabilities predominantly include liabilities arising from the contracts on interest rate swaps.

Current borrowings by currency

Currency/EURk	Gorenje Group	Gorenje, d.o.o.
EUR	239,078	262,244
Other currencies	5,331	851
Total	**244,409**	**263,095**

Most of current or short-term borrowings are denominated in euro.

Company's borrowings received from Group companies operating in Slovenia

Company/EURk	2017	2018
Gorenje Gostinstvo, d.o.o., Slovenia	2,758	3,520
Gorenje I.P.C., d.o.o., Slovenia	3,737	4,780
Gorenje GSI, d.o.o., Slovenia	5,821	7,101
Gorenje design studio, d.o.o. – in liquidation, Slovenia	1,300	0
Energygor, d.o.o., Slovenia	83	101
Gorenje Surovina, d.o.o., Slovenia	0	1,500
ZEOS, d.o.o., Slovenia	4,089	5,231
Gorenje GTI, d.o.o., Slovenia	5,581	1,944
Kemis, d.o.o., Slovenia	900	0
Gorenje EKOINVEST, d.o.o., Slovenia	2,858	3,187
Total	**27,127**	**27,364**

Company's borrowings received from Group companies operating abroad

Company/EURk	2017	2018
ATAG Nederland BV, the Netherlands	18,273	3,000
ASKO Appliances AB, Sweden	1,234	1,234
Gorenje North America, Inc., USA	887	720
Gorenje spol. s r.o., Czech Republic	1,100	800
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1,800	1,600
Gorenje Magyarország Kft., Hungary	0	1,482
Gorenje Austria Handels GmbH, Austria	1,500	2,000
OOO Gorenje BT, Russia	10,000	13,800
Gorenje Slovakia s.r.o., Slovakia	1,892	2,196
Mora Moravia, s.r.o., Czech Republic	477	0
Gorenje France S.A.S., France	0	1,100
Gorenje Vertriebs GmbH, Germany	0	9,000
Total	**37,163**	**36,932**

The liquidity is in the Group and the Company managed in a centralised manner, which enables that the Group is able to meet all its due liabilities at any time. Accordingly, the Group is engaged in internal financing, which under market conditions is mostly conducted through the Company. Current surpluses of subsidiaries' financial assets are borrowed under market conditions to the Company, which discloses most of its total financial liabilities to external financial institutions and to the controlling company.

Collateralisation of current financial liabilities

Collateralisation/EURk	Gorenje Group	Gorenje, d.o.o.
Bills	81,501	70,055
Financial covenants	50,627	50,627
Guarantees	11,193	0

None of the Group's and Company's current financial liability is collateralised by mortgage or any other form of physical asset. A significant portion of Group companies' borrowings is collateralised by bills and the Pari-Passu and Negative Pledge clauses in compliance with individual contracts. A detailed description is provided in the section 'Collateralisation of non-current financial liabilities'.

Note 40 – Trade payables

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Trade payables - Group companies	0	0	72,933	74,533
Trade payables - other companies	229,402	218,199	139,681	138,743
Total	**229,402**	**218,199**	**212,614**	**213,276**

Gorenje Group and Gorenje, d.o.o.

Supplier factoring was launched for the purpose of extending the payment deadlines and thus the related turnover days for trade payables. The number of included key suppliers, whose payment deadlines were extended and thus the related supply volume, constantly grows having thereby a positive impact on the amount of net working capital and thereby on the amount of net financial liabilities.

Within the total balance of trade payables in the amount of EUR 218,199k, the Group as at 31 December 2018 (31 December 2017: EUR 229,402k) does not record operating liabilities to members of the Management Board, members of the Supervisory Board and internal owners.

Company's trade payables to Group companies

EURk	2017	2018
Trade payables to suppliers in Slovenia	9,048	8,471
Trade payables to suppliers abroad	63,885	66,062
Total	**72,933**	**74,533**

Company's trade payables to Group companies (operating in Slovenia)

Company/EURk	2017	2018
Kemis, d.o.o., Slovenia	39	29
Gorenje Surovina, d.o.o., Slovenia	80	134
Gorenje I.P.C., d.o.o., Slovenia	6,869	7,003
Gorenje GTI, d.o.o., Slovenia	420	260
Gorenje Gostinstvo, d.o.o., Slovenia	308	265
Gorenje Orodjarna, d.o.o., Slovenia	951	587
Gorenje GAIO, d.o.o., Slovenia	358	139
Gorenje GSI, d.o.o., Slovenia	5	2
ZEOS, d.o.o., Slovenia	46	72
Gorenje Keramika, d.o.o., Slovenia	4	13
Indop, d.o.o., Slovenia	30	29
MAHS, d.o.o., Slovenia	-62	-62
Total	**9,048**	**8,471**

Company's trade payables to Group companies (operating abroad)

Company/EURk	2017	2018
Gorenje Zagreb, d.o.o., Croatia	0	29
Gorenje, d.o.o., Serbia	49	44
Gorenje aparati za domaćinstvo, d.o.o., Serbia	28,378	31,391
Gorenje Tiki, d.o.o., Serbia	2,197	1,205
Gorenje Vertriebs GmbH, Germany	247	587
Gorenje Beteiligungs GmbH, Austria	2,002	2,039
Asko Appliances AB, Sweden	2,459	2,649
Gorenje Group Nordic A/S, Denmark	396	118
ATAG Nederland BV, the Netherlands	1,352	1,571
Gorenje UK Ltd., Great Britain	1	15
Gorenje Körting Italia S.r.l., Italy	252	200
Gorenje spol. s r.o., Czech Republic	216	323
Mora Moravia, s.r.o., Czech Republic	24,919	23,445
Gorenje Magyarország Kft., Hungary	13	0
Gorenje Polska Sp. z o.o., Poland	2	37
Gorenje Romania S.r.l., Romania	21	4
Gorenje Gulf FZE, United Arab Emirates	3	3
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	7	1
Gorenje Home, d.o.o., Serbia	489	286
Gorenje TOV, Ukraine	24	89
Gorenje Asia Ltd., China	599	1,184
Asko Appliances Pty, Australia	71	190
Gorenje North America, Inc., USA	17	195
OOO Gorenje BT, Russia	23	42
Gorenje Kazakhstan, TOO, Kazakhstan	64	61
Gorenje Bulgaria EOOD, Bulgaria	21	15
Gorenje MDM, d.o.o., Serbia	0	44
Asko Appliances OOO, Russia	15	0
Gorenje Skopje, d.o.o., Macedonia	7	3
Gorenje Podgorica, d.o.o., Montenegro	13	0
Gorenje AEC, LLC, Thailand	0	292
Revaluation	28	0
Total	**63,885**	**66,062**

Company's trade payables to other suppliers

EURk	2017	2018
Trade payables to other suppliers in Slovenia	39,591	30,860
Trade payables to other suppliers abroad	100,090	107,883
Total	**139,681**	**138,743**

Note 41 – Other current liabilities

	Gorenje Group		Gorenje, d.o.o.	
EURk	2017	2018	2017	2018
Payables to employees	15,226	15,292	8,348	8,515
Payables to state and other institutions	16,403	11,774	1,795	1,463
Accrued costs and expenses	41,935	42,828	6,671	9,114
Other financial liabilities	14,188	14,502	3,510	4,022

Total	**87,752**	**84,396**	**20,324**	**23,114**

Gorenje Group and Gorenje, d.o.o.

Payables to employees and to the state arising from contributions and taxes refer to wages and salaries, which are accounted for December and paid out in January.

Accrued costs and expenses were formed for accrued discounts to buyers, accrued interest expenses, accrued employee benefits expense and other accrued costs of services.

Group's other current liabilities comprise payables for advances received, short-term deferred income, payables for credit notes granted to buyers, payables for employee deductions, payables arising from assignment of receivables, payables arising from payment of foreign tax, and other short-term liabilities.

Company's other current liabilities include payables for advances received, liabilities arising from unpaid portion of non-cash investment contribution in the subsidiary Gorenje Home, d.o.o., Serbia, and short-term deferred income.

Note 42 – Contingent liabilities

Gorenje Group and Gorenje, d.o.o.

Group's contingent liabilities in the amount of EUR 64,061k (31 December 2017: EUR 82,846k) relate in the amount of EUR 63,814k to guarantees obtained at banks and other financial institutions, issued in order to insure Group companies' contract obligations to business partners outside the Group. EUR 58,797k thereof refers to guarantees issued by companies Kemis, d.o.o., Slovenia, Gorenje Surovina, d.o.o., Slovenia and Zeos, d.o.o., Slovenia for the purpose of insuring the transport of hazardous waste, waste disposal and similar. Other guarantees issued in the total amount of EUR 5,017k include service-related guarantees, while EUR 2,994k of thereof were issued for the fulfilment of conditions for utilisation of government grants for employment in Serbia.

In accordance with the ordinary business practice, the Atag company is not liable to publish its annual results of operation in the country, where its corporate seat is, if the shareholder, in a special statement, assumes liability to pay any outstanding obligations of the company. The respective statement shall remain in effect until rescinded by the shareholder.

In a separate account the Company discloses contingent liabilities arising under guarantees provided to financial institutions in order to obtain borrowings, guarantees and letters of credit of subsidiaries in the amount of EUR 32,898k (31 December 2017: EUR 51,777k) and associates in the amount of EUR 247k (31 December 2017: EUR 281k). The respective guarantees within the Group represent the usual practice in obtaining loans. In addition, a separate account includes liabilities arising on service guarantees in the amount of EUR 925k (31 December 2017: EUR 3,210k).

Note 43 – Financial risks and financial instruments

The Group and the Company are exposed to numerous financial risks, including particularly the credit risk, the liquidity risk, the currency risk, the interest rate risk and other risks arising on changed market conditions.

With respect to financial risk management, several internal policies and rules are defined by means of which the financial risks are managed in a centralised manner. The Company pursues a centralised financial policy within the framework of corporate rules and conducts the financial risk management on the Company and Group level. While managing financial risks, following objectives are observed:

- to achieve stability of operations and to reduce exposure to individual risks to an acceptable level,
- to increase the value of Company and Group,
- to improve the credit rating of Company and Group,
- to reduce net finance costs of Company and Group, and
- to minimise the impacts of the materialised critical risks.

The exposure to each individual type of financial risk and the effective hedge measures are judged and applied respectively on the basis of their effects on Company's and Group's cash flows and net finance costs and the adopted annual business plan. Essential financial risks that are regularly assessed and the adequacy of implemented measures tested are accordingly outlined in detail below.

The Group and the Company apply derivatives for hedging against currency and interest rate risks. Upon the launch of hedging, the Group and the Company formally document the relationship of the hedging and the purpose of the risk management in the company, as well as the hedging project's strategy and the methods used in assessing the effectiveness of the hedging relationship. The Group and the Company assess the hedging on an ongoing basis and during its launch and hedging period, thus expecting the hedging to be "highly effective" in offsetting the changes in the fair value or cash flows that are attributable to the hedged risk. The effectiveness of hedging is pursuant to IFRS 9 the result of the economic interaction between the item and the hedging instrument. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

Credit risk

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

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Investments in equity instruments	1,743	1,608	1,321	1,287
Loans granted	7,967	1,325	139,641	120,707
Trade and other receivables	230,626	186,982	168,435	147,133
Deposits	667	440	0	0
Other financial receivables	1,165	1,633	10,147	2,601
Cash and cash equivalents	25,037	18,053	3,484	3,194
Total	**267,205**	**210,041**	**323,028**	**274,922**

Special attention is paid to managing credit risks. They are balanced through regular control of required and approved credit limits approved by credit insurance companies, the appropriate collection of receivables, and regular communication with credit insurance companies and business partners. We have also launched the system of permanent recourse-free factoring, which is carried out when costs of such activities do not exceed the Group's average costs of financing or when these activities are used to reduce credit and currency risks. The balance of bad debts is reviewed and analysed on an on-going basis, and proper measures are implemented (e.g. collection, collection of insurances, adjustment of supplies to the approved credit limits and credit ratings of customers). We have a strict set of rules about credit risk management, including the defined acceptable instruments of insurance, levels of acceptable exposure to individual customers and markets. The rules of credit risk management are upgraded in a manner to ensure the highest possible stability of Group's business operations.

Trade receivables form the Group's most significant portion of credit risks or risk of default by the counterparty. As at the year-end of 2018, these trade receivables amounted to EUR 136,428k and indicate a decline over the previous period by EUR 44,089k.

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

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
West	44,642	34,116	26,272	32,468
East	115,418	82,718	96,199	71,287
Other	20,457	19,594	36,160	34,376
Total	**180,517**	**136,428**	**158,631**	**138,131**

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

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Wholesale	141,799	116,328	156,271	137,204
Retail sale	31,146	15,392	1,881	640
Other	7,572	4,708	479	287
Total	**180,517**	**136,428**	**158,631**	**138,131**

In the wake of geographic diversity, a large number of Group’s customers are primarily legal entities from worldwide, and to lesser extent, in the retail segment, also individuals. In general, business is carried out solely with buyers that boast of a proper credit rating, which is monitored on a regular basis. The Accounts Receivable Management Policy, which defines the relevant management processes, persons in charge, and instruments allowed for hedging against credit risks, provides the compulsory framework for rules and policies on accounts receivable management that were adopted and integrated by Group companies.

Maturity of Group's and the Company's trade receivables as at the balance sheet date

EURk	Net value	
	Gorenje Group	Gorenje, d.o.o.
	2018	2018
Not past due	118,618	112,470
Past due 1 to 10 days	6,348	1,572
Past due 11 to 30 days	3,079	1,374
Past due 31 to 180 days	3,345	14,841
Past due 181 to 365 days	621	2,975
Past due over 365 days	4,417	4,899
Total past due receivables	17,810	25,664
Total	**136,428**	**138,131**

EURk	Gorenje Group	Gorenje, d.o.o.
	2018	2018
Allowances for receivables – age*		
Up to one year	3,108	425
From 1 to 2 years	789	42
From 2 to 3 years	530	268
From 3 to 5 years	3,039	335
Over 5 years	11,693	5,474
Total	**19,159**	**6,544**

* Age of receivables is accounted from the day of the invoice's issue

Movements in allowances for trade receivables

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	2018	2017	2018
Opening balance at 1 January	**27,639**	**24,951**	**7,527**	**7,417**
Exchange differences	-690	-415	0	0
Impairment	2,076	4,046	142	505
Decrease in allowances	-623	-3,636	-152	-56
Changes within the Group	-92	0	0	0
Final write-off of receivables	-3,359	-5,620	-100	-1,322
Transfers	0	374	0	0
Discontinued operation	0	-541	0	0
Closing balance at 31 December	**24,951**	**19,159**	**7,417**	**6,544**

Group's partners are impacted by the ever-changing macroeconomic environment that can also result in a swift turn-around of the credit rating and liquidity of the individual Group's business partner. Regardless of implementing the receivables management process within the Group, default on the side of customers or even their inability to settle their payments exists. With respect to the Group's dispersed sales model that is not subject to high concentration of receivables per individual customer or customers related through mutual ownership, we assess that the Group's exposure to credit risk is moderate. None of the customer or group of customers related through mutual ownership exceed 10% or more in the Group's total sales generated, whereby also the exposure to an individual customer or groups of customers does not exceed 10% of Group's receivables.

All customers are included into the credit control process, which covers also collateralization of receivables with acceptable hedging instruments. Following hedging instruments are considered as qualitative according to the accounts receivable management policy:

- collateralization of receivables through credit insurance companies,
- collateralization of receivables through bank guarantees and letters of credit,

- sale of receivables without recourse,
- in exceptional circumstances and upon receiving special approval, also pledges or first class mortgages,
- counterpart, equivalent liability to the same business partner.

As at 31 December 2018, Group's trade receivables due from other companies were insured with quality hedging instruments at an 82.2 percent share (2017: 73.3%). When insuring receivables with credit insurance companies, mostly a 10 percent share of the insured is agreed in case of damage or loss, whereas in some exceptional and rare cases also a higher own share (up to 30%) is agreed with the insurance company. The Group applies a credit risk management policy that clearly defines terms and acceptable instruments for insuring receivables.

The Group and the Company carefully monitor the credit risk also in other business segments. Current surplus of assets and bank balances at commercial banks are placed in compliance with credit risk management policies, which includes the methodology for selecting acceptable counterparties on the financial area. These policies determine also the methodology for selecting acceptable clients when entering into derivative financial instruments.

As a result of the launched receivables management procedures, the credit risk is assessed as moderate. The highest credit risk exposure arises in connection with the value of trade receivables and other receivables.

Liquidity risk (Solvency risk)

Liquidity risk includes risks denoting the lack of available funds and consequently risk that the Group and Company will fail to meet commitments in stipulated period of time. Liquidity depends on effective net working capital management, cash management, investment dynamics and the sale of assets. Providing for Group's and Company's liquidity is inseparable due to the organisation and manner of Group's business operations and management. Thus, special attention is earmarked to the centralised balancing and managing of cash flows and liquidity in a manner providing that all Group companies are able to meet all due liabilities at any given time.

Liquidity risk is actively monitored within the Group and the Company by means of a centralised balancing of assets' liquidity (primarily cash, trade receivables and inventories), of liabilities (mostly trade payables and financial liabilities) and cash flows from operating and investment activities. We are qualitatively managing the risk of short-term liquidity by means of approved revolving credit lines per Group companies, approved bank account overdrafts, and bank balances at commercial banks.

The cash management is centralised, supported by a software solution for planning and daily monitoring of cash flows on the Group level. Considerable attention is accorded to the compilation of the cash flow plan and its monitoring. A successful liquidity planning is also provided through an optimum management of possible current surpluses or deficits in available funds.

The net working capital management is primarily focusing on reducing the tied-up financial assets and thereby lowering Group's financial liabilities, consequently reducing the liquidity risk. Policies are adopted on the Group level but are implemented on the level of the Group, the Company, as well as all other Group companies:

- the policy of inventories' constant lowering is implemented in order to optimise them (via reducing the number of appliances codes, improved sales forecasting and production planning, optimising all elements of the supply chain, etc.),
- the risk management policy is strictly observed with trade receivables, in addition to permanent non-recourse factoring,
- suppliers to the Group are in case of operating liabilities and in exchange for extended payment deadlines offered the participation in a favourable price reverse factoring model for receivables recorded due from the Group.

The Company applies a uniform and centralised approach to bank partners in Slovenia and abroad, and on its basis provides for the optimum indebtedness of the entire Group not only in view of scope, costs and maturity, but also in the light of the Group's currency balance.

The short-term imbalance of cash flows is additionally balanced by revolving loans and overdrafts on bank accounts in Slovenia and abroad.

The Group's liquidity risk has been significantly lowered with the entry of Hisense, a strategically and in financial terms exceptionally strong owner. The controlling company Hisense Luxembourg Home Appliance Holding S.a.r.l. provided the Company in the last quarter internal funding in the amount of EUR 120,000k, which is earmarked for refinancing liabilities to banks and other creditors. Borrowings received from the controlling company Hisense Luxembourg Home Appliance Holding S.a.r.l. are subordinated to Company's liabilities to third parties and will be kept up to the minimum amount of EUR 100,000k until Group's net financial liabilities will in view of the EBIDTA exceed the three-fold. By approving the internal funding, the controlling company discloses the required financial support to the Company and the Group and thereby provides for an appropriate long-term financial stability and solvency of the Gorenje Group.

The Group's liquidity reserve amounted as at the year-end of 2018 to EUR 91,936k and consisted of undrawn part of approved short-term and long-term credit lines (EUR 73,883k) and available bank balances (EUR 18,053k). The liquidity reserve is earmarked for short-term balancing of cash flows and significantly reduces the Group's liquidity risk.

Liquidity reserve

EURk	Gorenje Group		Gorenje, d.o.o.	
	2017	2018	2017	2018
Undrawn and approved current and non-current borrowings	75,809	73,883	39,917	45,806
Cash and cash equivalents	25,037	18,053	3,485	3,194
Total	**100,846**	**91,936**	**43,402**	**49,000**

Gorenje Group's financial stability

With the support and in partnership with the strategic owner Hisense Group, we refinanced the Gorenje Group's credit portfolio at the end of 2018. We have within this process:

- defined and agreed with key commercial banks the uniform financing terms and harmonised the financial covenants, which support primarily non-current loans so that the first checking of compliance with covenants is based on the audited consolidated financial statements of the Group at the end of the fiscal year 2019,
- optimised the range of lenders and thereby secured partial refinancing of the existing debt by means of sources that are provided to the Group by the Hisense Group; within the latter, the controlling company Hisense Luxembourg Home Appliance Holding S.a.r.l. provided EUR 120,000k of internal funding under terms and conditions that comply with market principles,
- materially reduced the average costs of financing for the fiscal year 2019, the average interest margin will in 2019 be lower by one quarter over 2018, which shall significantly contribute to lower costs of financing and consequently improved profitability of the Group,
- adopted at the year-end of 2018 also a decision on studying the possibility of early repayment of payables arising under the issued bonds; the process is in its initial stage and should, according to our estimates, be completed in the first half of 2019,
- although the maturity structure of financial liabilities favours short-term sources, no risk of refinancing is implied in view of the essential support of the controlling company; the Gorenje Group will also in future be ensured adequate support from Hisense Group in such a way that it will be able to settle its liabilities at any time.

In accordance with the strategy of focusing on the core activity, contracts were signed in 2018 on the sale of interests in the company Gorenje Surovina, d.o.o., Slovenia including its subsidiaries, in the company Gorenje Projekt d.o.o., Slovenia and in GGE Netherlands B.V., the Netherlands. We assess that the suspensive conditions agreed in the relevant contracts will be met not later than by the end of the first half-year of 2019, while assets from the divesting activities are earmarked for further reducing the Group's debt. The respective divestment process and focusing on the Group's core activity shall be pursued in 2019 as well.

Also in 2019, special attention will be paid to optimising the Group's working capital by means of internal measures for managing receivables and inventories, as well as by applying receivables factoring and funding of the supply chain with the aim to reduce Group's indebtedness.

The Company and the Group have a long-term servicing plan for financial liabilities which is being regularly updated.

The maturity of **Group's** liabilities is defined on the basis of contractual cash flows and presented below:

31 December 2017

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	330,160	347,022	79,579	98,443	160,777	8,223
Borrowings from others	1,919	1,955	748	324	595	288
Liabilities arising from bonds issued	48,524	51,926	15,920	15,358	20,648	0
Other financial liabilities	2,042	2,042	2,042	0	0	0
Trade and other payables	278,025	278,025	278,025	0	0	0
Total	**660,670**	**680,970**	**376,314**	**114,125**	**182,020**	**8,511**
Derivative financial liabilities						
Interest rate swaps	-801	-9,583	-844	-1,861	-6,863	-15

Forward exchange contracts used for hedging	-160	-160	-160	0	0	0
Total	**-961**	**-9,743**	**-1,004**	**-1,861**	**-6,863**	**-15**

31 December 2018

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	236,829	245,750	93,448	45,872	97,320	9,110
Borrowings from others	121,566	123,846	122,864	504	478	0
Liabilities arising from issued bonds and commercial papers	34,056	36,005	15,358	477	20,170	0
Other financial liabilities	549	549	549	0	0	0
Trade and other payables	262,211	262,211	262,211	0	0	0
Total	**655,211**	**668,361**	**494,430**	**46,853**	**117,968**	**9,110**
Derivative financial liabilities						
Interest rate swaps	4,644	8,346	1,774	2,028	4,543	1
Total	**4,644**	**8,346**	**1,774**	**2,028**	**4,543**	**1**

The maturity of **Company's** financial liabilities is prepared on the basis of contractual cash flows and presented below:

31 December 2017

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	294,691	309,632	64,930	91,857	149,642	3,203
Liabilities arising from bonds issued	48,524	51,925	15,920	15,358	20,647	0
Borrowings from Group companies and third parties	64,323	66,256	66,256	0	0	0
Other financial liabilities	2,231	2,231	2,231	0	0	0
Trade payables	212,614	212,614	212,614	0	0	0
Other current liabilities	13,653	13,653	13,653	0	0	0
Total	**636,036**	**656,311**	**375,604**	**107,215**	**170,289**	**3,203**
Derivative financial receivables and liabilities						
Interest rate swaps	-862	-9,457	-808	-1,832	-6,810	-7
Forward exchange contracts used for hedging	-82	-82	-82	0	0	0
Outflows	-267	-267	-267	0	0	0
Inflows	185	185	185	0	0	0
Total	**-944**	**-9,539**	**-890**	**-1,832**	**-6,810**	**-7**

31 December 2018

EURk	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Bank borrowings	225,689	234,479	82,177	45,872	97,320	9,110

Liabilities arising from bonds issued	34,056	36,005	15,358	476	20,171	0
Borrowings from Group companies and third parties	184,337	188,751	188,751	0	0	0
Other financial liabilities	5,925	5,925	5,925	0	0	0
Trade payables	213,276	213,276	213,276	0	0	0
Other current liabilities	14,000	14,000	14,000	0	0	0
Total	**677,283**	**692,436**	**519,487**	**46,348**	**117,491**	**9,110**
Derivative financial receivables and liabilities						
Interest rate swaps	-4,642	-8,261	-1,746	-2,006	-4,509	0
Forward exchange contracts used for hedging	110	110	110	0	0	0
Outflows	-270	-270	-270	0	0	0
Inflows	380	380	380	0	0	0
Total	**-4,532**	**-8,151**	**-1,636**	**-2,006**	**-4,509**	**0**

The envisaged contractual cash flows arising on Group's non-derivative financial and operating liabilities, which fall due in one year or less, amounted as at the year-end of 2018 to EUR 494,430k and show an increase over the year-end balance of 2017 by EUR 118,116k. The considerable increase is mainly the result of short-term financing by the controlling company Hisense in the amount of EUR 120,000k. Total contractual obligations and liabilities, which mature in less than a year amounted as at 31 December 2018 to EUR 496,204k and indicate an increase of EUR 118,886k over the year-end balance of 2017.

Contractual cash flows arising from Group's non-derivative financial liabilities and whose maturity exceeds one year, amounted as at the balance sheet date to EUR 173,931k and decreased by EUR 130,725k relative to the year-end balance of 2017. As at 31 December 2018, the Group recorded no trade and other payables whose maturity would exceed one year. Liabilities arising under issued bonds are disclosed in the table above regardless their underlying contractual maturity; should the Group in 2019 complete the procedure of early repayment of issued bonds, then all liabilities arising from the latter will be settled in 2019.

As at 31 December 2018, the Group discloses liabilities referring to the fair value of derivative financial instruments for interest rate swaps (4.644 TEUR).

In order to hedge cash flows against interest rate fluctuations, the Group concluded interest rate swap contracts that mature in 2022; each individual contract documents the relation between the derivative and the hedged category. Fair value of these concluded interest rate swap contracts is recognised directly in the fair value reserve of the derivative in the comprehensive income and amounts to EUR -4,644k. The total nominal value of all instruments for hedging against interest rate fluctuations (EURIBOR) for the period until 2022 amounted as at 31 December 2018 to EUR 404,258k.

Group's and Company's liquidity risk is assessed as low in view of Group's normal business operations and achieved projected business results by means of implementing proper measures in the field of managing the Group's net working capital, the support of the controlling company Hisense, as well as the centralised planning and management of short-term and long-term cash flows, and access to a wide range of financial and bank partners.

Currency risk

With regard to diversification of its international business operations, the Gorenje Group is exposed to currency risk, which is the risk that the economic benefits of the Group may be decreased due to changes in foreign exchange rates against its functional currency (EUR). The largest currency risk arises from Gorenje's business operations in the markets of Russia, all US dollar markets, Serbia, Croatia, Australia, Poland, Hungary, Ukraine, Great Britain and the Czech Republic. Group's balance sheet discloses a surplus of assets over liabilities in the stated currencies, which is treated as a long-term currency position. Receivables due from end buyers and payables to suppliers are key accounting categories that form the currency position.

The Currency Risk Management Policy was defined in the Group and the Company, which among others stipulates following:

- the methodology for measuring currency risk exposure,
- competencies and responsibilities within currency risk management,
- manners and required scope of hedging against currency risk,
- instruments acceptable for hedging against currency risk,
- acceptable partners for implementing currency-risk hedges,
- the method of measuring the effectiveness of currency risk management.

We apply a centralised policy of exchange rate hedging within the policy of managing Group's currency risks. We are exposed to changes in local currencies against the euro, which is the Group's main functional currency. This exposure is measured and managed in connection with cash flows planned in the annual period, and the revaluation of balance sheet items expressed in local currencies. The fundamental goal of currency risk management lies in hedging against the business plan's exposure by minimising the adverse impact of exchange rate fluctuations on the Group's net profit or loss and cash flows and thereby also the Company's.

Currency risks are to the greatest extent possible minimised through natural cash flow balancing for each currency that, mostly in case of companies is impossible to be fully implemented. In order to hedge against currency risks we use the balancing of cash flows and balance sheet items as much as possible and are seeking additional possibilities for increasing the scope of natural hedging. We systematically apply short-term forward exchange contracts for most of the currencies that are not part of the euro zone in order to hedge transactions against currency risk. In the medium term, we hedge against currency risk by adjusting sales prices on an on-going basis, by applying cost optimisation and by means of increasing natural hedging on the purchase/sale side.

The Company enters into hedging instruments on its own behalf and on behalf of other Group companies, and transfers these instruments on a contract basis to companies that are locally exposed to such risk. Subsidiaries also enter into hedging instruments on local markets but in limited scope, whereby the parent company provides adequate support and credit limits with acceptable partners. The centralised approach to credit risk management has shown more optimum hedging results.

Group's exposure to currency risk is as follows:

31 December 2017

EURk	EUR	RUB	USD	HRK	RSD	CZK	Other currencies
Trade receivables	111,896	14,294	2,855	12,473	18,115	3,096	17,789
Financial liabilities	-374,358	0	0	0	-6,090	0	-155
Trade payables	-200,370	-1,543	-5,551	-1,260	-11,720	-4,658	-4,300
Financial position exposure	**-462,832**	**12,751**	**-2,696**	**11,213**	**305**	**-1,562**	**13,334**

**EUR is the Group's functional currency and represents no currency risk*

31 December 2018

EURk	EUR	RUB	USD	HRK	RSD	CZK	Other currencies
Trade receivables	87,821	4,333	6,042	13,996	14,420	1,800	8,016
Financial liabilities	-387,120	0	-131	0	-338	-4,600	-262
Trade payables	-192,039	-988	-5,076	-1,203	-10,626	-3,282	-4,986
Financial position exposure	**-491,338**	**3,345**	**835**	**12,793**	**3,456**	**-6,082**	**2,768**

Company's exposure to currency risk is as follows:

31 December 2017

EURk	EUR	SEK	CZK	RSD	USD	GBP	Other currencies
Trade receivables	148,414	15	1,674	5,497	3,034	0	-3
Financial liabilities	-410,011	0	0	0	-887	0	0
Trade payables	-199,498	-396	-4,135	-3,623	-4,874	-42	-46
Financial position exposure	**-461,095**	**-381**	**-2,461**	**1,874**	**-2,727**	**-42**	**-49**

31 December 2018

EURk	EUR	AUD	CZK	RSD	USD	HRK	Other currencies
Trade receivables	113,496	7,338	628	2,045	5,783	6,244	546
Financial liabilities	-449,239	0	0	0	-977	0	0
Trade payables	-200,380	-192	-4,359	-4,282	-2,703	-29	-1,330
Financial position exposure	**-536,123**	**7,146**	**-3,731**	**-2,237**	**2,103**	**6,215**	**-784**

Significant exchange rates applied in 2017 and 2018 comprise:

By EUR 1	31 Dec 2017	31 Dec 2018
HRK	7.4400	7.4125
CZK	25.5350	25.7240
SEK	9.8438	10.2548
DKK	7.4449	7.4673
RSD	118.6600	118.4300
PLN	4.1770	4.3014
RUB	69.3920	79.7153
USD	1.1993	1.1450
CHF	1.1702	1.1269
GBP	0.88723	0.8945
AUD	1.5346	1.6220

Sensitivity analysis

A 5 percent increase in the euro's value against the above stated currencies as at 31 December 2018 would increase/decrease the Group's economic benefits by the amounts shown below based on changes in the value of receivables and liabilities denominated in foreign currencies. This analysis assumes that all other variables, in particular interest rates remain unchanged. Cash flows' exposure in individual currencies on the annual level is limited with the use of interim currency risk management methods (adjustment of input and output prices) and the use of derivatives (forward exchange contracts). The interim cash flows' exposure to currency risks is uniform with most currencies, except in case of the Russian rouble, where the exposure materially grows in the last quarter; the aforesaid risk is managed by means of systematically entering into forward exchange contracts and with sales price adjustments in case of significant market changes.

Profit or loss for the period

Gorenje Group

EURk	31 Dec 2017	31 Dec 2018
RUB	-638	-167
USD	135	-42
HRK	-561	-640
RSD	-15	-173
CZK	78	304
Other currencies	-667	-138

Company

EURk	31 Dec 2017	31 Dec 2018
USD	92	-197
HRK	0	-311
RSD	-94	112
CZK	123	187
SEK	19	30
AUD	0	-357
Other currencies	3	9

A 5 percent decrease in the euro's value against the above stated currencies as at 31 December would have had equal yet opposite effect, provided that all other variables remain unchanged.

Regardless the implemented hedging measures and in the light of significant currency fluctuations on world markets, we assess that the Group's exposure to currency risks is high. Company's exposure to currency risks is, however, assessed as low.

Interest rate risk

Financing of Company's and Group's current operations and their investment activities is subject to interest rate risk as most of borrowings raised bear the Euribor variable interest rate, in lesser extent also the local reference interest rate. Thus, exposure to interest rate risk represents primarily the unfavourable movement (increase) of the Euribor variable interest rate that applies to Group's financial liabilities. Major portion of financial liabilities is subject to a variable interest rate that is bound by the 6-month or 3-month Euribor.

Given the policy of the European Central Bank and other central banks, and the low inflation rate in the euro zone and the related euro-zone's low level of the base interest rate, the Group actively managed the interest rate risks referring to the leased funds bearing the variable Euribor interest rate, and in a lesser extent also to other local variable reference interest rates.

Exposure to interest rate risk:

	Gorenje Group		Gorenje, d.o.o.	
EURk	**2017**	**2018**	**2017**	**2018**
Fixed-rate financial instruments				
Financial assets	7,967	1,325	139,591	120,659
Financial liabilities	116,639	74,812	180,910	139,099
Variable-rate financial instruments				
Financial assets	0	0	0	0
Financial liabilities	263,964	317,639	226,880	304,983

The table is exclusive of non-interest bearing financial assets and non-interest bearing financial liabilities.

Interest structure of financial assets and financial liabilities is not customized as Group's and Company's interest-bearing financial liabilities considerably exceed the interest-bearing assets. As at 31 December 2018, the volume of Group's financial liabilities bearing a fixed interest rate declined by EUR 41.827 over the 2017 balance.

With the purpose to hedge against interest rate risk, the Group applies derivatives by means of which it ensures long-term stability of the reference interest rate. When deciding on hedging, the Group takes into account the forecasts for interest rate fluctuations and the efficiency of the hedging instruments. Due to the estimate on the suitable macroeconomic situation and in light of the interest rate risk management, the Group and the Company provided for a long-term stability of the interest rates' variable part based on concluding EUR 290m worth of interest rate swaps (IRS) during the third quarter of 2017 for the period from 2019 to 2022.

As at 31 December 2018, non-derivative financial liabilities bearing a fixed interest rate account in the Group 19.0% of the total interest-bearing financial liabilities, which is 11.6 p.p. less than at the year-end of 2017. The value of Group's concluded interest rate swaps as at 31 December 2018, whose effects were disclosed already in 2018, was recorded in the amount of EUR 284,258k. Together with concluded interest rate swaps, whose impact is contractually agreed for the period from 2019 until the end of 2022, the value of Group's interest rate swaps entered into amounted as at the balance sheet date to EUR 404,258k.

As for interest rate swaps, we enter into derivatives in the same manner as in the case of currency financial derivatives i.e. with acceptable partners only. We therefore asses that the risk of default on the side of the contracting party is minimal. The purpose of hedging by means of entering into embedded derivatives, is fixing of the interest rate that results in a stable cash flow. While entering into interest rate swaps, we observe the requirement that characteristics of relevant swaps equal (i.e. maturity, amount, type of interest rate and its alignment) as a financial liability that is hedged by the interest rate swap. Consequently, the valuation of a hedging instrument defined as successful hedge, is recognised directly in equity.

Cash flow sensitivity analysis for financial instruments with a variable rate

A change in the interest rate by 50 basis points (bp) at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates remain unchanged.

The analysis for 31 December 2018 was compiled in the same manner as the one as at 31 December 2017.

Group

	Profit or loss for the period		Other comprehensive income	
EURk	**Increase by 50 bp**	**Decrease by 50 bp**	**Increase by 50 bp**	**Decrease by 50 bp**
31 December 2017				

Variable rate instruments	-639	176	0	0
Interest rate swap contracts	343	-343	6,259	-6,259
Cash flow variability (net)	**-296**	**-167**	**6,259**	**-6,259**
31 December 2018				
Variable rate instruments	-740	86	0	0
Interest rate swap contracts	682	-682	5,217	-5,217
Cash flow variability (net)	**-58**	**-596**	**5,217**	**-5,217**

Company

	Profit or loss for the period		Other comprehensive income	
EURk	**Increase by 50 bp**	**Decrease by 50 bp**	**Increase by 50 bp**	**Decrease by 50 bp**
31 December 2017				
Variable rate instruments	-523	89	0	0
Interest rate swap contracts	302	-302	6,076	-6,076
Cash flow variability (net)	**-221**	**-213**	**6,076**	**-6,076**
31 December 2018				
Variable rate instruments	-701	57	0	0
Interest rate swap contracts	648	-648	5,087	-5,087
Cash flow variability (net)	**-53**	**-591**	**5,087**	**-5,087**

As at 31 December 2018, the share of financial liabilities bearing the fixed interest rate was recorded at 19%. Together with active interest rate swap contracts, the share of financial liabilities bearing a fixed interest rate was 91.5% as at the balance sheet date, which is 20.3% more than at the year-end of 2017 (71.2%). A higher share is mostly attributable to the activation of certain interest rate swap contracts in the total amount of EUR 170,000k, signed in 2017.

Group's and Company's exposure to interest rate risk is assessed as low.

Note 44 – Fair value

The fair values and book values of **Group's** financial assets and financial liabilities

	2017		2018	
EURk	**Book value**	**Fair value**	**Book value**	**Fair value**
Investments in equity instruments	1,743	1,743	1,608	1,608
Investment property	9,849	9,849	9,453	9,453
Non-current loans and deposits	2,515	2,515	1,232	1,232
Non-current operating receivables	7,375	7,375	3,760	3,760
Current loans and deposits	6,119	6,119	533	533
Derivatives	-961	-961	-4,278	-4,278
Trade receivables	180,517	180,517	136,428	136,428
Other current assets	50,009	50,009	50,554	50,554
Cash and cash equivalents	25,037	25,037	18,053	18,053
Non-current financial liabilities	-204,913	-204,913	-128,558	-128,558
Non-current financial liabilities (fixed	-88,107	-81,979	-19,493	-19,508
Non-current operating liabilities	-2,807	-2,807	-2,444	-2,444
Current financial liabilities	-89,625	-89,625	-244,949	-244,949
Trade payables	-229,402	-229,402	-218,199	-218,199
Other current liabilities	-45,816	-45,816	-41,568	-41,568

Total	**-378,467**	**-372,339**	**-437,868**	**-437,883**

The assessed fair value of current assets and liabilities nearly equals their book value. The fair value of non-current financial liabilities is calculated on the basis of market interest rates and classified among Level 2 on the scale of fair values.

The fair values and book values of **Company's** financial assets and financial liabilities

EURk	2017		2018	
	Book value	**Fair value**	**Book value**	**Fair value**
Investments in equity instruments	1,321	1,321	1,287	1,287
Investments in subsidiaries and associates	0	0	16,585	16,585
Investment property	8,685	8,685	9,217	9,217
Non-current loans and deposits	123,210	123,210	107,155	107,155
Current loans and deposits	16,431	16,431	13,552	13,552
Derivatives	-944	-944	-4,532	-4,532
Trade receivables	158,631	158,631	138,131	138,131
Other current assets	9,804	9,804	9,002	9,002
Cash and cash equivalents	3,484	3,484	3,194	3,194
Non-current financial liabilities	-181,839	-181,839	-127,447	-127,447
Non-current financial liabilities (fixed interest rate)	-88,023	-81,908	-19,493	-19,508
Current financial liabilities	-139,906	-139,906	-298,155	-298,155
Trade payables	-212,614	-212,614	-213,276	-213,276
Other current liabilities	-13,653	-13,653	-14,000	-14,000
Total	**-315,413**	**-309,298**	**-378,780**	**-378,795**

The fair value of non-current financial liabilities is calculated on the basis of market interest rates and classified among Level 2 on the scale of fair values.

Fair value scale

Gorenje Group and Gorenje, d.o.o.

The table shows method of valuing financial assets and liabilities recorded at fair value. The levels are as follows:

Level 1: stock price (unadjusted) in the active market of identical assets and liabilities,

Level 2: data differing from stock price data (these are included in Level 1) monitored with the intention of direct or indirect valuation of assets and liabilities,

Level 3: data on the value of assets and liabilities not based on the active market.

EURk	2017				2018			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments in equity instruments	371	83	1,289	**1,743**	297	0	1,311	**1,608**
Derivatives – assets	0	145	0	**145**	0	380	0	**380**
Derivatives – liabilities	0	-1,106	0	**-1,106**	0	-4,658	0	**-4,658**
Investment property	0	0	9,849	**9,849**	0	0	9,453	**9,453**

Investment properties were appraised at the year-end of 2018 by an independent certified appraiser of real property. The revaluation effect is disclosed in the income statement in the amount of EUR -400k and in the amount of EUR 28k in the comprehensive income.

Forward exchange contracts

The total fair value of forward exchange contracts amounted to EUR 366k as at 31 December 2018 and was in terms of accounting recorded within the item of other current financial receivables and other current financial liabilities.

Interest rate swaps

The total fair value of interest rate swaps as at 31 December 2018 amounted to EUR -4,644k and is recorded under other current financial liabilities.

The hedging of interest rate swaps, which relate to hedged balance sheet items, are disclosed within equity as fair value reserve.

Company

	2017				2018			
EURk	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments in equity instruments	144	0	1,177	**1,321**	145	0	1,142	**1,287**
Derivatives – assets	0	185	0	**185**	0	380	0	**380**
Derivatives – liabilities	0	-1,129	0	**-1,129**	0	-4,912	0	**-4,912**
Investment property	0	0	8,685	**8,685**	0	0	9,217	**9,217**

Investment properties were appraised by an independent certified appraiser of real property at the end of 2018. The total revaluation effect is disclosed in the income statement in the amount of EUR -278k.

Forward exchange contracts

The total fair value of forward exchange contracts amounted as at 31 December 2018 to EUR -14k (2017: EUR -82k) and was in terms of accounting recorded within the item of other current financial liabilities.

Interest rate swaps

The total fair value of interest rate swaps amounted as at 31 December 2018 to EUR -4,642k (2017: EUR -862k) and was in terms of accounting recorded within the item of other current financial liabilities.

Note 45 – Commitments relating to investments

Gorenje Group and Gorenje, d.o.o.

Contractually agreed investments in intangible assets and property, plant and equipment, which are not yet recognised in financial statements as at the balance sheet date amounted in relation to the Group to EUR 7,265k (2017: EUR 8,735k). As for the Company, the respective amount was recorded at EUR 3,099k (2017: EUR 7,725k).

Note 46 – Related party transactions

Gorenje Group

The transactions with related parties were conducted by Group companies based on sale/purchase and other contracts, whereby comparable market prices were applied in the related party transactions.

Data on groups of persons

Group companies paid in **2017** following gross earnings to the stated groups of persons:

EURk	**Management Board**	**Supervisory Board**	**Employees under individual employment agreements**
Gross wages and salaries	7,644	0	9,327
Incentive bonuses and other earnings	2,965	377	2,216
Total	**10,609**	**377**	**11,543**

Group companies paid in **2018** following gross earnings to the stated groups of persons:

EURk	**Management Board**	**Supervisory Board**	**Employees under individual employment agreements**
Gross wages and salaries	6,714	0	8,807

Incentive bonuses and other earnings	1,984	324	876
Total	**8,698**	**324**	**9.683**

No non-current and current loans were extended to members of the Management Board, the Supervisory Board, and to internal owners in 2018 and 2017.

Following transactions with associated companies were recorded by Group companies:

	Transaction value		Balance	
EURk	**2017**	**2018**	**2017**	**2018**
Income	481	102	3,678	8
Expenses	2,181	4,244	250	1,171

Gorenje, d.o.o.

The transactions with related parties were conducted by the Company based on sale/purchase contracts. The prices used in these transactions were the market prices of products and services. Individual transactions with related parties are disclosed in individual balance sheet items.

Transactions with persons related to the Supervisory Board included in 2018 following:

- entry of 4,603 commercial papers in the par value of EUR 4,603k,
- HR advisory services in the amount of EUR 251k, and
- participation in contributions of voluntary health insurance premiums in the amount of EUR 99k.

Data on personal earnigs

Following personal earnings were paid to the groups of persons stated below:

Gross earnings in 2017

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Fixed remuneration	1,395	0	7,212
Variable remuneration	811	0	1,473
Bonuses	86	0	367
Attendance fees	0	42	0
Function-related attendance	0	231	0
Refund of work-related expenses	0	103	0
Total	**2,292**	**376**	**9,052**

Gross earnings in 2018

EURk	Management Board	Supervisory Board	Employees under individual employment agreements
Fixed remuneration	1,379	0	6,969
Variable remuneration	24	0	157
Bonuses	159	0	382
Attendance fees	0	45	0
Function-related attendance	0	177	0
Refund of work-related expenses	0	102	0
Total	**1,562**	**324**	**7,508**

Bonuses include bonuses relating to the private use of the company car and to insurance premiums.

In accordance with the Companies Act and the Management Code for Publicly Traded Companies, the total payments, reimbursements, and other benefits paid to members of the Management Board, the Supervisory Board, and the members of the Audit Committee are outlined below:

Composition and amount of earnings received by Management Board members

Composition and amount of earnings received by Management Board members in 2017 (in EUR)

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

Composition and amount of earnings received by Management Board members in 2018 (in EUR)

Name and surname	Function	Fixed remu-neration gross (1)	Variable remuneration - gross			Deferred income (3)	Severance pays (4)	Bonuses (5)	Claw-back (6)	Total gross (1+2+3+4+5-6)	Total net
			Based on quantitative criteria	Based on quality criteria	Total (2)						
Franc Bobinac	Chairman	325,965	0	0	0	0	0	31,228	0	**357,193**	**122,222**
Žiga Debeljak	Member since 1 May 2017	273,049	0	0	0	0	0	10,127	0	**283,176**	**114,510**
Branko Apat	Member until 19 July 2018	165,511	0	0	0	0	0	14,587	0	**180,098**	**64,170**
Peter Kukovica	Member until 19 July 2018	156,678	0	0	0	0	23,590	2,213	0	**182,481**	**79,340**
Drago Bahun	Member	227,035	0	0	0	0	0	18,488	0	**245,523**	**91,495**

Tomaž Korošec	Member since 20 July 2018	110,225	0	0	0	0	0	8,012	0	**118,237**	**45,002**
Stanka Pejanović	Member since 20 July 2018	50,583	0	0	0	0	0	21,183	0	**71,766**	**38,069**
Saša Marković	Member since 1 Sep 2018	70,080	0	0	0	0	0	53,381	0	**123,461**	**40,945**
Dr. Lan Lin	Member since 16 August 2018	0	0	0	0	0	0	0	0	**0**	**0**
Chao Liu	Member since 16 August 2018	0	0	0	0	0	0	0	0	**0**	**0**
Jianmin Han	Member since 16 August 2018	0	0	0	0	0	0	0	0	**0**	**0**
Lu Hou	Member since 16 August 2018	0	0	0	0	0	0	0	0	**0**	**0**
Anguo Yan	Member since 16 August 2018	0	0	0	0	0	0	0	0	**0**	**0**
Changchun Sun	Member since 16 August 2018	0	0	0	0	0	0	0	0	**0**	**0**
Total		**1,379,126**	**0**	**0**	**0**	**0**	**23,590**	**159,219**	**0**	**1,561,935**	**595,753**

Composition and amount of earnings received by members of the Supervisory Board and the Committees

Composition and amount of earnings received by members of the Supervisory Board and the Committees in 2017 (in EUR)

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

Composition and amount of earnings received by members of the Supervisory Board and the Committees in 2018 (in EUR)

Name and surname	Function	Function-related payments - gross per year (1)	Attendance fees of SB and Committees - gross per year (2)	Total gross (1+2)	Total net	Commuting allowances (gross)	Commuting allowance (net)
Uroš Slavinec	Deputy Chairman of the Supervisory Board until 20 July 2018	11,214	2,035	**13,249**	**9,635**	531	386
Miha Košak	Supervisory Board member until 17 September 2018	13,600	6,116	**19,716**	**14,339**	16,826	12,238
Bachtiar Djalil	Supervisory Board member until 20 July 2018 and Deputy Chairman until 17 September 2018	14,581	4,081	**18,662**	**13,573**	1,091	794

Bernard C. Pasquier	Deputy Chairman of the Supervisory Board until 20 July 2018 and Chairman until 17 September 2018	15,754	4,620	**20,374**	**14,818**	23,369	16,996
Corinna Claudia Graf	Supervisory Board member until 17 September 2018	13,783	2,695	**16,478**	**11,984**	17,790	12,939
Marko Voljč	Chairman of the Supervisory Board until 20 July 2018	14,536	3,135	**17,671**	**12,852**	34,853	25,349
Jure Slemenik	Supervisory Board member	17,036	3,520	**20,556**	**14,951**	0	0
Drago Krenker	Supervisory Board member	18,680	5,192	**23,872**	**17,362**	0	0
Krešimir Martinjak	Deputy Chairman of the Supervisory Board	18,524	3,300	**21,824**	**15,873**	0	0
Peter Kobal	Supervisory Board member until 20 July 2018	10,383	2,915	**13,298**	**9,672**	0	0
Žan Zeba	Supervisory Board member since 21 July 2018	6,653	1,265	**7,918**	**5,759**	0	0
Aleksander Igličar	Audit Committee member	11,903	1,672	**13,575**	**9,873**	803	584
Karlo Kardov	Supervisory Board member until 20 July 2018	10,383	3,971	**14,354**	**10,440**	6,814	4,955
Yeguo Tang	Supervisory Board member since 18 September 2018 and Chairman since 20 September 2018	0	0	**0**	**0**	0	0
Shaoqian Jia	Supervisory Board member since 18 September 2018 and Deputy Chairman since 20 September 2018	0	0	**0**	**0**	0	0
Huizhong Dai	Supervisory Board member since 18 September 2018	0	0	**0**	**0**	0	0
Caixia Chen	Supervisory Board member since 18 September 2018	0	0	**0**	**0**	0	0
Yuling Gao	Supervisory Board member since 18 September 2018	0	0	**0**	**0**	0	0
Xin Liu	Supervisory Board member since 18 September 2018	0	0	**0**	**0**	0	0
Wenzhong Liu	Supervisory Board member since 18 September 2018	0	0	**0**	**0**	0	0
Total		**177,030**	**44,517**	**221,547**	**161,131**	**102,077**	**74,241**

No non-current and current loans were extended by the Company to members of the Management Board, the Supervisory Board, and to internal owners.

Note 47 – Events after the balance sheet date

As at 7 February 2019, the 29th General Meeting of Shareholders of the Company was held in Velenje, where the proposal was submitted on changing of the Company's legal status i.e. from a joint stock company to a limited liability company.

As at 11 March 2019, the Company received a decision of the District Court in Celje, no. Srg 2019/6944, regarding the entry of the status change into the companies' register. Thus, the resolutions passed at the 29th General Meeting of Shareholders on 7 February 2019 with respect to the change of the Company's legal form into a limited liability company, were registered based on the aforesaid decision. The term of office of all Supervisory Board members i.e. Drago Krenker, Žan Zeba, Jurij Slemenik, Krešimir Martinjak, Yeguo Tang, Shaoqian Jia, Huizhong Dai, Caixia Chen, Yuling Gao, Xin Liu and Wenzhong Liu, expired as of the date of registering the status change into the companies' register. The term of office of all Management Board members i.e. Lan Lin, Chao Liu, Lu Hou, Anguo Yan, Changchun Sun, Saša Marković, Drago Bahun, Žiga Debeljak, Tomaž Korošec, Stanka Pejanović, Jianmin Han and Franc Bobinac, expired as of the date of registering the status change into the companies' register. As at the date of registering the status change into the companies' register, Lan Lin and Chao Liu were appointed as Managing Directors, who are also Directors General of the Company; Franc Bobinac was appointed as Managing Director and President of the College of Company's Managing Directors; Yeguo Tang, Shaoqian Jia and Žiga Debeljak were appointed as Company's Managing Directors; and Drago Bahun was appointed as General Manager, who is the workers' representative.

As at 20 December 2018, the Company signed a contract with the company Eko Surovina d.o.o., owned by the company Rastoder, on selling the 100 percent equity interest in the company Gorenje Surovina, d.o.o., Slovenia and its subsidiaries. In order for the transaction to be completed, both the buyer and the seller are obliged to meet the suspensive conditions that are defined in the relevant sales contract. Until the date of this annual report's approval, the said suspensive conditions are not yet entirely met but both the seller and the buyer actively pursue all activities required for the earliest possible execution of the contract.

No other significant events occurred upon compiling the balance sheet as of 31 December 2018.

Note 48 – Transactions with the auditor

The contract value for auditing the financial statements of companies and the consolidated financial statement of the Group was in 2018 recorded at EUR 748k (2017: EUR 656k). The contract value of auditing the Company's financial statements amounted to EUR 105k (2017: EUR 91k). The audit company also carried out other assurance services for the Company in the total amount of EUR 18k (2017: EUR 17k). The audit of the Company and the Group was carried out by the audit firm Mazars, d.o.o., Slovenia.

Note 48 – Business segments

EURk	Domestic Appliances		Other Business		Group	
	2017	2018	2017	2018	2017	2018
Revenue from sale to third parties	1,081,708	1,074,220	153,517	111,541	1,235,225	1,185,761
Inter-segment sale	6,462	8,278	27,975	27,344	34,437	35,622
Interest income	792	455	92	57	884	512
Interest expenses	-12,456	-11,941	-35	-51	-12,491	-11,992
Amortisation and depreciation expense	-46,663	-62,058	-6,022	-7,904	-52,685	-69,962
Operating profit or loss before tax	-5,357	-115,900	6,677	-1,008	1,320	-116,908
Income tax expense	-2,146	2,218	-532	592	-2,678	2,810
Profit or loss exclusive of discontinued operation	-7,503	-113,682	6,145	-416	-1,358	-114,098
Profit or loss of discontinued operation	0	0	2,699	2,932	2,699	2,932
Profit or loss for the period	-7,503	-113,682	8,844	2,516	1,341	-111,166
Total assets	999,362	909,361	143,754	151,521	1,143,116	1,060,882
Total liabilities	712,022	757,016	62,750	59,166	774,772	816,182
Investments	67,410	36,971	8,289	11,885	75,699	48,856
Impairment of financial assets	-1,001	-3,892	-46	-100	-1,047	-3,992
Impairment of property, plant and equipment	-49	-21,629	-2,907	-823	-2,956	-22,452

Note: presented data on profitability of the Other Business segment is exclusive of attributable costs for general supporting functions, which the Company renders for the entire Group; these are fully born by the Domestic Appliances segment.

Note 49 – Geographical segments

EURk	West		East		Other		Group	
	2017	2018	2017	2018	2017	2018	2017	2018
Revenue from sale to third parties	439,606	413,740	670,018	647,983	125,601	124,038	1,235,225	1,185,761
Total assets	324,479	298,630	640,245	580,865	178,392	181,387	1,143,116	1,060,882
Investments	16,090	7,826	42,398	29,984	17,211	11,046	75,699	48,856

Note: overview of countries by geographical segments is outlined in Note 5 'Segment reporting'.

Appendix 1: Information on the Gorenje Group companies

Company	Share capital (EURk)	No. of employees
Gorenje, d.o.o., Slovenia	101,416	4,434
Gorenje I.P.C., d.o.o., Slovenia	93	915
Gorenje GTI, d.o.o., Slovenia	3,769	57
Gorenje Gostinstvo, d.o.o., Slovenia	3,790	272
Energygor, d.o.o., Slovenia	9	0
Kemis, d.o.o., Slovenia	2,650	40
Gorenje Orodjarna, d.o.o., Slovenia	927	240
Indop, d.o.o., Slovenia	400	20
ZEOS, d.o.o., Slovenia	482	73
Gorenje Surovina, d.o.o., Slovenia	8,067	337
Gorenje GAIO, d.o.o., Slovenia	464	64
Gorenje GSI, d.o.o., Slovenia	4,657	146
Gorenje Keramika, d.o.o., Slovenia	1,708	123
Gorenje EKOINVEST, d.o.o., Slovenia	1,000	0
MAHS, d.o.o., Slovenia	385	13
Gorenje Surovina RECE, d.o.o., Slovenia	8	0
Termoclean S, d.o.o., Slovenia	8	0
Gorenje HVAC, d.o.o., Slovenia	8	0
Gorenje Beteiligungs GmbH, Austria	47,100	9
Gorenje Austria Handels GmbH, Austria	3,275	48
Gorenje Vertriebs GmbH, Germany	5,700	76
Gorenje Körting Italia S.r.l., Italy	90	7
Gorenje France S.A.S., France	100	14
Gorenje UK Ltd., Great Britain	3,609	10
Gorenje Group Nordic A/S, Denmark	268	72
Gorenje spol. S r.o., Czech Republic	4,769	58
Gorenje real spol. S r.o., Czech Republic	6,221	12
Gorenje Slovakia s.r.o., Slovakia	892	10
Gorenje Magyarország Kft., Hungary	2,228	20
Gorenje Polska Sp. Z o.o., Poland	8,078	31
Gorenje Bulgaria EOOD, Bulgaria	1,976	21
Gorenje Zagreb, d.o.o., Croatia	12,605	59
Gorenje Skopje, d.o.o., Macedonia	248	23
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1	82
Gorenje, d.o.o., Serbia	3,103	198
Gorenje Podgorica, d.o.o., Montenegro	2,800	7
Gorenje Romania S.r.l., Romania	350	7
Gorenje aparati za domaćinstvo, d.o.o., Serbia	25,752	1,331
Mora Moravia, s.r.o., Czech Republic	10,640	575
Gorenje – kuchyně spol. S r.o., Czech Republic	1,633	0
ST Bana Nekretnine, d.o.o., Serbia	2,012	0
KEMIS – Termoclean, d.o.o., Croatia	834	63
Kemis – BH, d.o.o., Bosnia and Herzegovina	210	11
Gorenje Gulf FZE, United Arab Emirates	719	14
Gorenje Espana S.L., Spain	3	0

Gorenje Tiki, d.o.o., Serbia	19,262	534
Gorenje Istanbul Ltd., Turkey	3,118	0
Gorenje TOV, Ukraine	87	14
ATAG Nederland BV, the Netherlands	16	423
ATAG België NV, Belgium	248	44
Intell Properties BV, the Netherlands	45	0
Gorenje Nederland BV, the Netherlands	20,796	0
Gorenje Kazakhstan, TOO, Kazakhstan	557	10
OOO Gorenje BT, Russia	28,713	96
Kemis Valjevo, d.o.o., Serbia	1,194	73
Gorenje GTI, d.o.o., Serbia	1	13
Asko Appliances AB, Sweden	4,876	61
Gorenje North America, Inc., USA	1	0
Asko Appliances Pty, Australia	1,674	82
Asko Appliances OOO, Russia	1,343	15
»Gorenje Albania« SHPK, Albania	1	6
Gorenje Home, d.o.o., Serbia	2,712	129
Gorenje Ekologija, d.o.o., Serbia	1,268	0
Gorenje Corporate GmbH, Austria	35	0
ZEOS eko-sistem d.o.o., Bosnia and Herzegovina	420	3
Gorenje Asia Ltd., China	389	27
Gorenje do Brasil Ltda., Brasil	1,488	6
Gorenje MDM, d.o.o., Serbia	1,053	93
Gorenje Chile, SpA, Chile	353	5
Gorenje AEC, LLC, Thailand	270	25
Indop Gorenje GmbH, Germany	25	0
Gorenje Surovina RECE, d.o.o., Croatia	3	0