2010

Gorenje d.d.

Management Board

ANNUAL REPORT 2010

Velenje, April 2011

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1 Performance Highlights

Table 1: Financial highlights of the Gorenje Group

TEUR	2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Consolidated sales revenue	1,382,185	416,366	355,746	319,122	290,951	1,185,937	320,125	297,871	281,328	286,613
EBITDA	108,675	25,314	38,049	24,229	21,083	68,199	24,747	22,724	13,593	7,135
EBITDA margin (in %)	*7.9%*	*6.1%*	*10.7%*	*7.6%*	*7.2%*	*5.8%*	*7.7%*	*7.6%*	*4.8%*	*2.5%*
EBIT	56,438	12,041	24,698	11,932	7,767	12,149	11,578	8,079	-479	-7,029
EBIT margin (in %)	*4.1%*	*2.9%*	*6.9%*	*3.7%*	*2.7%*	*1.0%*	*3.6%*	*2.7%*	*-0.2%*	*-2.5%*
PBT	22,472	2,592	12,035	5,583	2,262	-9,308	1,198	4,221	-1,324	-13,403
PAT	20,024	3,210	11,906	4,391	517	-12,232	2,336	3,427	-3,253	-14,742
ROS (return on sales)	*1.4%*	*0.8%*	*3.3%*	*1.4%*	*0.2%*	*-1.0%*	*0.7%*	*1.2%*	*-1.2%*	*-5.1%*
ROA (return on assets)	*1.6%*	*1.0%*	*3.8%*	*1.5%*	*0.2%*	*-1.0%*	*0.8%*	*1.2%*	*-1.1%*	*-4.8%*
ROE (return on equity)	5.3%	3.3%	12.6%	4.8%	0.6%	-3.2%	2.5%	3.7%	-3.5%	-15.3%
Closing number of employees	10,721	10,721	11,323	10,805	10,560	10,675	10,675	10,847	10,917	10,950
Average number of employees	11,174	11,058	10,758	10,699	10,587	10,907	10,825	10,846	10,901	11,056
Added value per employee	31.60	8.53	9.49	7.51	7.20	26.36	7.92	7.06	6.04	5.36
Free cash flow (narrow)*	13,362	40,007	22,329	-6,285	-42,689	33,022	36,616	21,209	19,085	-43,888
Financial liabilities	483,947	483,947	479,494	487,778	471,039	452,242	452,242	484,108	504,761	515,825
Net financial liabilities**	402,219	402,219	445,225	462,759	453,014	425,112	425,112	460,262	490,729	506,226
Earnings per share (in EUR)	1.34	0.20	3.14	1.13	0.12	-0.83	0.17	0.85	-0.82	-1.06

* PAT-amortisation and depreciation expense-Capex-+change in inventories-+allowances for trade receivables-+ change of trade payables
** long-term financial liabilities + short-term financial liabilities - cash and cash equivalents

Chart 1: Quarterly movement of sales revenue in TEUR

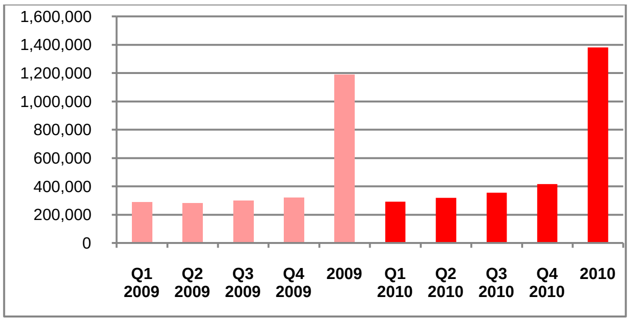


Chart 2: Quarterly movements of EBIT and EBITDA in TEUR

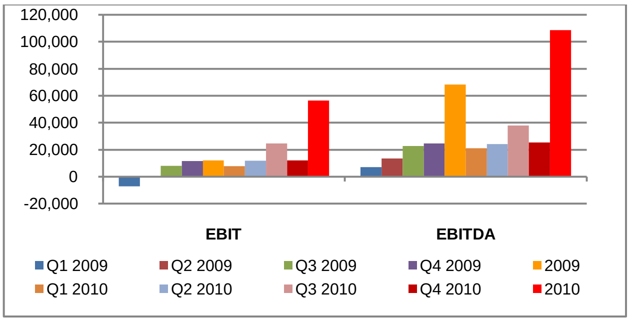
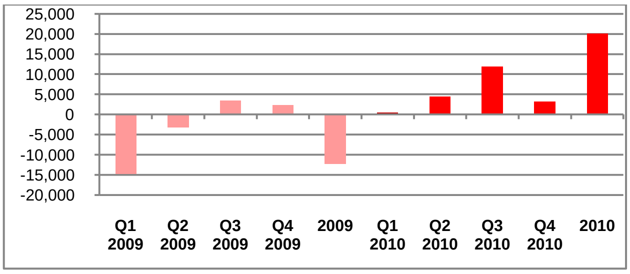


Chart 3: Quarterly movement of PAT in TEUR



2 Letter from the President of the Management Board

Dear shareholders,

In last year's jubilee sixtieth year of its operation, Gorenje improved its operations and attained good business results despite the continuing difficult situation in markets. We grew at a faster rate than the European household appliance market, which is still recovering, increased our market shares and, following the losses recorded in 2009, once again recorded a profit in the amount of EUR 20 million.

The business environment in our key markets was still under the impact of high unemployment rates, as well as currency and payment risks. In this year we also lost two major customers that ended up in bankruptcy – the German business system Quelle, our largest customer in recent years, and the Croatian company Pevec, our largest partner in the western Balkans. Merkur, the largest Slovenian technical products dealer, has substantially reduced its scope of operations following the initiation of a compulsory composition procedure. However, despite grim external operating circumstances, we managed, through the good work of our entire team within the country and abroad, to increase the sales revenue of the Gorenje Group by 16.5 percent to EUR 1.38 billion in comparison with the previous year, which is a record achievement. Excluding the effect of the Scandinavian producer of top-quality household appliances, Asko, our sales revenue increased by 11 percent.

The quantity of white goods sold in the European market in the past year fell short of the amount attained in 2006 by more than ten percent, and according to the estimates of the European Committee of Domestic Equipment Manufacturers (CECED), it will take approximately seven years for our industry to attain the level reached five years ago. Our company's growth in the past year was nevertheless higher than the average market growth. The European household appliance market, which is our most important market, attained a two percent growth, while Gorenje managed to increase the sale of household appliances, excluding the acquisition of Asko, by 4.8 percent. Considering the impact of the Asko Company, we attained 12.5 percent higher sales than in 2009. Our most successful operations in Western Europe were in the Netherlands and Germany, whereas in Eastern Europe the markets of Russia and the Ukraine were in the forefront. Serbia continues to be our leading market in the western Balkans. Gorenje has also increased sales in the countries of the Middle and Far East, where we are intentionally broadening our presence in past years, as well as in the United States, where our products are sold under the Asko brand name.

Alongside the Home Appliances Division, good business results were also recorded by the Ecology, Energy and Services Division. We cannot be satisfied, however, with the operations of the Home Interior Division, which, due to the unfavourable economic situation and difficulties encountered by our major customers, repeatedly registered a decline in sales in the past year. Although the cost efficiency of this division has substantially increased, this is still insufficient for attaining the profitability threshold, which is why we have begun preparations for its long-term restructuring.

We have significantly improved the profitability of the Group's business activities, not only by increasing our scope of operations, but also by raising productivity, optimising costs, and improving the sales structure according to products and markets. With an operating profit (EBIT) of EUR 56.4 million, we surpassed last year's EBIT by 4.6 times, or comparably by 3.4 times. The margin on the EBIT level grew from one percent to 4.1 percent (or comparably to 3.1 percent). We improved our net profitability by EUR 32.3 million. The Company generated a net cash flow of EUR 72.3 million, while the free cash flow, in the amount of EUR 13.4 million, fell short of the amount attained in 2009 due to the growth of business activities, higher scope of investments, and movements in working capital. It was allocated to reduce the Group's indebtedness.

On the 60th anniversary of our operations, we have set a great many milestones that have strengthened our position in 70 world markets and guaranteed the Group's stable growth. We acquired the Swedish producer of top-quality household appliances, Asko. This step has allowed us to expand the range of products from our own factories, particularly dishwashers, and to strengthen our presence in North American and Australian markets as well as in Scandinavia.

Almost 90 percent of all our products were sold under our own brand names, which is the highest percentage ever attained. This year we are adding Gorenje+ to our portfolio of brand names, which belongs to the higher middle price class developed especially for kitchen studios, where we have not been present so far. With the intention of increasing the percentage of sales under our own brand names in the future, we are continuing to develop innovative, energy-efficient and superiorly designed home appliances, such as the iChef oven with advanced touch control module, for which we received the resounding Red Dot design award. By developing new products with higher added value, which customers are prepared to pay more, we managed to raise the average price of our products by four percent in the past year.

The entry of a new owner, the International Finance Corporation (IFC), a member of the World Bank, within the scope of our summer capital increase procedure has increased the financial stability of the Group. Our intention was to provide all our existing shareholders and other interested investors with the option of participating in our capital increase, and for this purpose conducted another phase of capital increase in the fall. Owing to the illiquidity of the Slovenian capital market and the weakened economic and financial situation, this phase did not attain the profitability threshold. Nevertheless, we have assessed that the summer capital increase procedure is in itself an exceptional achievement for Gorenje, which in such demanding economic conditions has managed to win the trust of such a distinguished investor as IFC. Our current ownership structure reflects our international orientation, and we shall continue to create added value for both our large and small shareholders in the future.

Gorenje has entered the year 2011 with financially more stable and improved business operations, but this will also be a year of hard work for all. We are continuing to optimise business processes, organisational structures and costs, to disinvest unneeded property, and to develop production locations, a portfolio of brand names and new products for the home in line with the business plan and our strategy up to the year 2013. The main threats facing all manufacturers of household appliances this year are the growing prices of raw materials and materials, which began to rise in the last quarter of the previous year. We shall attempt to partially neutralise their growth by raising the prices of products, which, given the exceptional competition in a branch where the offer strongly surpasses the demand, will not be easy.

This year our efforts will also be focused on the development of corporate governance and the organisational structure of the Gorenje Group, which in past years has not only developed into the largest Slovenian industrial business system, but also into a leading international corporation in the home products branch. Assisting us in this area will be a supervisory board of experts from both Slovenian and international environments, who commenced their term in office last year.

In guiding the Company towards its set goals, the Management Board was joined on the 3rd of March by a new member, Marko Mrzel, who shall be responsible for the areas of finance and economics. Mr. Mrzel has succeeded former member of the Management Board, Mirjana Dimc Perko, whose term in office was consensually terminated on the 1st of January 2011.

This year, Gorenje is embarking on its 61st year. The credit for this goes to the entire team of former and current employees who knew how and managed to transform a craftsman's workshop into an international corporation. Our thanks also goes to you, dear shareholders, who have been following and supporting us in the realisation of our goals since the company's transformation into a stock company. Together we have built solid foundations on which we shall continue to develop and grow in the future.

Franjo Bobinac, MBA

President of the Management Board

3 The Gorenje Group

The Gorenje Group is ranked among the leading European manufacturers of home appliances boasting a history of more than sixty years. Our technologically perfected, superiorly designed and energy-efficient household appliances sold under the brand names of Gorenje, Atag, Asko, Pelgrim, Mora, Etna, Körting, Sidex, Upo and the new brand name Gorenje+ are improving the quality of living for users of our products in seventy countries around the globe. The bulk of our products are sold in European markets (98 percent of the products of our largest division – Home Appliances), primarily Germany, Austria and Russia.

Alongside household appliances, we have complemented our product range with our own programme of kitchen and bathroom furnishings, and are thus offering a broad selection of products for the home. In past years the Company has also been strengthening its activities in the segments of environmental protection, energy management, and services, where we are employing our know-how and forty years of experience in environmental protection, as well as identified business opportunities in various areas having a higher potential growth than our core activity.

For almost half a century, we have been expanding our international sales network on all continents. With exports accounting for more than ninety percent of our sales revenue, we are the most internationally oriented Slovenian company.

In 2010, Gorenje's 11,174 employees generated EUR 1.4 billion in sales revenue and EUR 20 million in net profit.

4 Divisional Organisation of the Group

Home Appliances Division

The division is engaged in the manufacture and sale of highly innovative and superiorly designed refrigerators and freezers, cooking appliances, as well as washers and dryers.

The products of the Home Appliances Division are available in seventy countries, its most important markets being Eastern and Western Europe. With its 9,042 employees, the division contributes a 78-percent share to the Group's total sales revenue. We face strong international competition in our key markets, which provides us with the incentive to continuously improve our products and production processes. Investments in design and innovativeness are therefore key factors to our success.

Household appliances account for 78 percent of the Group's total sales revenue.

In 2010 we attracted attention with an innovation employing touch screen control – the Cooking Wizard, and the GreenConnected application for an intelligent home. In the area of design, we aroused the greatest interest with a prototype of the SmarSofa with integrated refrigerator, and the Gorenje Simplicity Moonlight line created in honour of Gorenje's 60th anniversary, which we celebrated in 2010.

In 2009 the division faced the most difficult market conditions in the history of Gorenje's operation. A rapid decline in orders, uncertain conditions in purchasing markets, and a strong credit crunch brought demanding challenges before the division, to which we responded with anti-crisis measures aimed at preserving and strengthening cash flow. The situation improved considerably in 2010, although markets stabilised at a relatively low level of demand, so that the majority of anti-crisis measures have remained in force.

The restraint of customers in purchasing durable goods can be attributed to high unemployment rates and stricter requirements of banks for granting consumer loans. On the cost side, a high degree of uncertainty can be felt regarding the speed of recovery of the global economy, which is reflected in our expenses through unpredictable fluctuations in the prices of raw materials and currency exchange rates.

In 2010 we gradually increased the share of products with higher added value, also as the result of our acquisition of the Swedish Asko Group. The improved results in 2010 can primarily be attributed to the favourable results attained in Eastern and Western European markets and also the Germany and the Netherlands.

The division is also engaged in the sale of a supplementary programme of consumer electronics and small household appliances, the manufacture and sale of heating-thermic appliances, and the manufacture of mechanical components.

Home Interior Division

The division is engaged in the manufacture and sale of kitchen and bathroom furnishings, sanitary equipment and ceramic tiles. Home furnishings account for a minor share of its production.

The products of this division are sold primarily in the markets of Southeastern Europe. Its highest sales revenue is generated in the domestic, Croatian, Bosnian and Serbian markets, where we intend to strengthen our presence in the future. We are also recognisable and well-represented in the Austrian and Czech markets. In our battle against crisis market conditions in the past two years, we substantially optimised production processes and renewed our product range. These novelties were successfully presented in 2010 at the two-day Gorenje Home Interior Trade Show.

Interior furnishings account for 4 percent of the Group's total sales revenue.

Our plans in the year 2011 include further restructuring and optimisation of the division's production processes, and a three-percent growth in sales revenue. In the design of furniture, sanitary equipment and ceramics, great emphasis is given to the quality of materials and the excellence of services. The main focus in kitchen furnishings is, alongside the above-mentioned, on harmonising their design with the contours of household appliances. The division employs 926 persons. Our managerial employees actively and directly participate, while other employees indirectly participate in our integral quality management system according to the requirements of the ISO 9001:2000 standard. The division generates approximately four percent of the total sales revenue of the Gorenje Group.

Ecology, Energy and Services Division

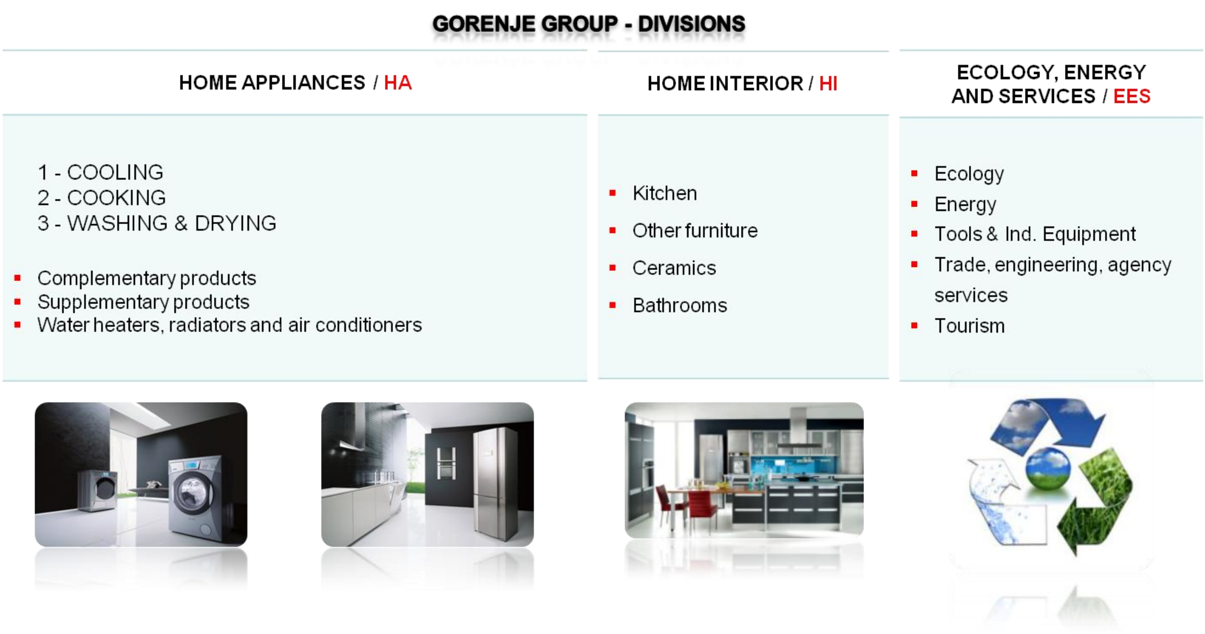
The division offers integral solutions in the areas of ecology and energy, and provides services in the areas of trade, engineering, agency services, restaurant and catering services, tourism, real estate management, as well as toolmaking and the manufacture of industrial equipment, including the production of military vehicles.

Our key service in the area of environmental protection is integral waste management for the needs of industrial companies, where we are successfully applying our skills and forty years of experience. In the area of energy management, we are engaged in the marketing and sale of electric power, wood biomass, and coal. In the area of services, trade and catering account for the most important share of revenue generated in the domestic market.

The division generates 18 percent of the Group's total sales revenue.

Key markets of the division are in Southeastern Europe, where we intend to strengthen our presence in the future. Despite the difficult economic conditions in 2010, we managed to increase our sales revenue by 34.3 percent, whereas in the current year its growth is estimated at 5.5 percent. Within the division we are constantly searching for business opportunities with a higher potential for growth than our core activity. In the area of solar power, we began to offer comprehensive turnkey solar power plants in 2010. The Ecology, Energy Management and Services Division employs on average 1,206 persons, and accounts for an 18 percent share in the total sales revenue of the Gorenje Group.

Picture 1: Group organization by divisions



5 Vision, Mission and Gorenje's Strategy in a Changing Environment

Vision

To become the most original, design-minded creator of home appliances devoted to sustainable development and able to flexibly adapt to customers' needs.

Mission

We create original, technologically perfect, superiorly designed, user and environment friendly products for a comfortable home. We are focused on increasing customer satisfaction and creating value for all our stakeholders in a socially responsible manner. Strongly aware of key global trends and challenges, we are developing rapidly growing fields with above-average.

Strategy in a Changing Environment

Under the impact of constant changes being brought into the business, social and political environments by the processes of globalisation, consolidation within the branch, lifestyle trends, and in particular the global economic crisis, Gorenje must continuously improve its performance. For this reason we always respond to emerging challenges quickly, flexibly and efficiently.

As part of a global industry whose development is hard to predict at present, the Gorenje Group has also found itself in a delicate situation. Based on an analysis of the current situation, circumstances, trends and potential directions of the branch's development, the company laid out, at the end of 2009 an ambitious Strategic Plan of the Gorenje Group for the 2010-2013 period (link: http://seonet.ljse.si/default.aspx?doc=SEARCH&doc_id=39522). Relying on the efficient management of business processes, the plan sets solid foundations on which to build our future.

Refreshment of the Strategic Plan and extension of its time horizon to the year 2015.

The year 2010 we saw numerous changes that are significantly altering the circumstances of the Gorenje Group's operation. For this reason we shall prepare, by the month of June 2011, a refreshment of the Strategic Plan and the extension of its time horizon to the year 2015. The entry of the International Finance Corporation (IFC) into Gorenje's ownership structure, activities related to the restructuring of production locations of the Home Appliances Division, reorganisation of operations of the Home Appliances Division, integration of the Asko Group into the Gorenje Group, debt restructuring activities, final solutions for the Home Interior Division, and the commencement of activities related to the disinvestment of non-operating assets are activities of a strategic nature having a significant impact on the operations of the Gorenje Group, and changes that will form an integral part of the revised Strategic Plan.

5.1 Basic Strategic Policies

Boosting sales of upmarket products.

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

Raising process excellence and cost efficiency.

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

Moving purchase and production to countries with lower labour costs.

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

Expansion to business segments with higher added value.

Intensive expansion to business segments with higher returns within strategic activities, specially on the area of Ecology.

Expansion to markets with anticipated high growth rates.

Directing sales to markets with at least twice the growth rate of the average global gross domestic product growth (BRIC countries, etc.).

5.2 Key Operational Goals of the Gorenje Group up to 2013

Table 2: Strategic Goals of the Gorenje Group up to 2013

	2009	2010	2013 (Strategic plan)
Operating margin	1.0%	4.1%	5-6%
Added value per employee	26,361	31,602	40,000
Financial ratios			
- ROE	-3.2%	5.3%	11.8%
- ROA	-1.0%	1.6%	4.6%
Economic profit (EVA)	-4.8%	-1.2%	3.4%

Source: Data by Gorenje Group

The Gorenje Group will attain the following results by the year 2013:

- at least a 5 - 6 percent operating margin,
- an added value per employee of at least EUR 40 thousand,
- basic financial ratios above the competitor average,
- a positive economic profit (premium above the weighted average cost of capital – WACC).

Gorenje Group Dividend Policy

The dividend policy of the Gorenje Group and the parent company in the strategic period will remain consistent with the policy in effect before 2009. This means that up to one third of the Gorenje Group's net profit for the period will be appropriated for dividend payment.

5.3 Starting Points for Planning

The Strategic Plan of the Gorenje Group is a consolidated aggregate of strategic plans of divisions and companies operating therein. It is therefore comprised of the strategic plans of subsidiaries and their consolidated aggregates – divisions.

The strategic plan does not include the positive or negative effects of the following processes and activities:

- disinvestment of nonstrategic material and financial assets that have failed to deliver the required synergy effects or returns,
- mergers and acquisitions that are of key importance for the long-term development of the Gorenje Group,
- transfers of parts of business activities from the parent company to low-cost locations, and
- equity increase at the parent company as a necessary element of financing the stable medium- and long-term business growth of the Gorenje Group as a whole.

The projection of the strategic plan has been prepared under the assumption of self-financing and a lower level of investment compared to depreciation, where the free cash flow will mostly be used for the redemption of debts. Investments generally directed towards the development of new products will, in the planned amounts, ensure the organic growth of revenues foreseen in the plan.

The strategic plan does not include the effects of the capital increase carried out in 2010, or the effects of any future capital increases. The resources acquired through capital increase will be utilised for acquisitions, as well as for restructuring existing activities and the accelerated development of new activities of the Home Appliances Division and the Ecology, Energy and Services Division, where higher returns are expected.

5.4 Gorenje Group Division Strategies

Home Appliances Division

The Gorenje Group will achieve its strategic goals in the Home Appliances Division through the growth of business activities above the average level of competitors. Special emphasis will be placed on the growth of profitability and free cash flow, which will be attained through greater focus on innovation and a higher overall brand positioning. We shall strive for a high level of business excellence by creating attractive value for customers.

The performance of the division's business activities will be linked to:

- **products** (covering all price segments; establishing powerful product management; optimising product platforms and codes; further development of the complementary and supplementary programmes; high product quality must follow design excellence);

- **distribution** (intensifying cooperation with international retail chains and penetration into kitchen studios, utilising the internet as a sales channel, and developing new markets);
- **pricing policy** (increasing the average price index, improving the market share), and
- **promotion** (adapting sales stories to individual markets; repositioning brands; design as a key competitive advantage; innovations and technical competency; comprehensive service for retailers; quality after-sales services).

Home Interior Division

The key strategic goal of the Home Interior Division is to become a leading provider of kitchen furnishings and one of the top three providers of products from the other three business areas of the division (bathroom furnishings, sanitary equipment and ceramic tiles) in Southeastern Europe.

Ecology, Energy and Services Division

The area of environmental protection is the core activity of the Ecology, Energy and Services Division, in which the Gorenje Group has a direct strategic business interest. The Gorenje Group will attain controlling (at least 50 percent) shares in companies engaged in this activity. The Group's key strategic goal in the area of environmental protection is to become the largest provider of integral waste management services in South-eastern Europe.

The companies engaged in energy business are considered financial portfolio investments for which the Gorenje Group has defined adequate returns that are controlled through active management by the cooperation of our representatives in the supervisory bodies of these companies.

The companies engaged in services are considered capital investments whose return on invested capital (ROIC) must exceed the average cost of capital (WACC) in the medium term.

6 Sales, Brand Names, Products and Innovations

6.1 Sales

68 percent of Gorenje's sales in terms of value are attained in the markets of Eastern and Southeastern Europe.

In 2010 sales of household appliances of the Gorenje Group attained EUR 738 million (excluding the Gorenje Tiki supplementary programme and Atag). The greater part of this amount (69 percent of value volume) was generated in the markets of Eastern and South-Eastern Europe, followed by the markets of Western Europe with 27 percent, and the markets of the Middle and Far East.

Table 3: Sale of home appliances in some of the Group's markets

	Industry		Gorenje Group		Market share of Gorenje Group	
(in terms of pieces)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Austria	1,277,559	1,249,759	109,794	104,350	8.59%	8.35%
Belgium	1,635,528	1,546,194	17,628	18,211	1.08%	1.18%
France	9,317,612	9,277,847	82,183	113,210	0.88%	1.22%
Germany	11,770,286	11,555,412	562,884	501,250	4.78%	4.34%
Italy	7,244,656	6,924,402	13,231	15,192	0.18%	0.22%
Scandinavia	3,933,628	3,658,804	183,556	181,417	4.67%	4.96%
Great Britain	6,524,130	6,830,005	47,635	56,981	0.73%	0.83%
Bulgaria	318,621	343,782	42,424	47,082	13.31%	13.70%
Croatia	365,972	356,693	161,908	155,252	44.24%	43.53%
The Czech Republic	1,085,514	1,227,011	259,903	282,080	23.94%	22.99%
Hungary	662,975	719,353	95,005	99,115	14.33%	13.78%
Poland	2,938,786	2,954,177	118,527	141,160	4.03%	4.78%
Romania	631,223	640,080	40,092	35,437	6.35%	5.54%
Russia	5,199,386	4,213,408	340,278	271,477	6.54%	6.44%
Slovakia	394,362	407,664	80,384	93,211	20.38%	22.86%
Slovenia	244,939	254,680	111,443	121,780	45.50%	47.82%
Ukraine	1,167,368	881,678	245,988	146,639	21.07%	16.63%
Serbia	601,264	648,720	306,818	308,386	51.03%	47.54%

In 2010, the sale of large household appliances market rose by two percent, but our growth was higher, i.e. 5.4 percent. Gorenje's market share in key markets was 4.5 percent, and 11.6 percent in markets where we generate the greater part of our revenue (Europe).

On average, we managed to raise the average price of products sold by almost four percent as a result of the favourable sales composition of products and markets. Among the most successful products was the Simplicity line, which exceeded the sales plans by more than 80 percent.

Geographic Aspect of Sales

Good sales results were achieved in the German market, where we increased the sale of large appliances by twelve percent and surpassed the sales growth of the market. This consequently resulted in the growth of Gorenje's market share from 4.3 percent to 4.8 percent. Favourable results were also attained in Austria, the Netherlands (Atag), Denmark and in Norway.

Our most successful results in Eastern markets were attained in the Ukraine, where we increased our market share by 4.4 percentage points to 21 percent by the end of 2010. Slight increases were also recorded in the markets of Croatia, Macedonia, Serbia, and the Czech Republic. In other markets, our market share remained the same or slightly decreased (particularly in Slovakia).

The Company's sales in the Middle East rose 75 percent, primarily in Turkey, United Arab Emirates, Iran and Iraq. We also began to sell our products in Azerbaidzhan. We successfully presented our design lines in the Far East, particularly in China, Taiwan and Hong Kong. The Company also acquired a number of attractive business deals for the interior decoration of luxury apartments in Hong Kong and Shanghai.

Significant Events in 2010

Of special significance for the Gorenje Group in 2010 was the IFA fair in Berlin, where we exhibited our products for the third time and very successfully presented our novelties, attracting customers from all over the globe.

We also presented our company at the Brazilian Casa Cor fair, the leading architects' fair in Brazil, and announced our entry into the Brazilian market.

Gorenje's growing presence in European markets and its accelerated development outside Europe (Brazil, India, China, etc.) are strengthening its negotiating power with international retail chains. We are thus continuing our successful strategic partnership with the largest European retailers, which are METRO - Media/Saturn Holding, Euronics, Expert, etc.

6.2 Brand Names

In 2010 we increased the share of sales under our own brand names.

Gorenje's sales under its own brand names are growing from year to year, and attained 90 percent in 2010. This is important from the aspect of long-term stability of operations, as strong brand names bring long-term stable development, which we will systematically strengthen also in the future.

Today, the Gorenje Group has eleven brand names in the area of household appliances. In addition to the main brand name – Gorenje, which accounts for more than 60 percent of our sales, also Körting, Sidex and Mora. Through the acquisition of the Dutch company Atag, we acquired Atag, Pelgrim and Etna, and with the acquisition of the Swedish Asko Group, we acquired Asko and Upo. In 2010, preparations were made for the introduction of a new brand name in the higher middle price class – Gorenje+.

Atag

In 2010 we continued to introduce new and innovative products under the premium brand name Atag, and further strengthened its position in the Benelux market. Sales under this brand name are generally conducted through kitchen specialists, who advise consumers in their purchases. For this reason, special attention was devoted to these products in 2010. New concepts were added to the brand name to give it added value, such as an eight-year guarantee (G8), or Atag Quile events, which generate higher turnouts at the kitchen showrooms of our partners.

The brand name was extended to new markets through the distribution channels of kitchen specialists and the Gorenje sales network in Great Britain, Denmark, Germany and France. Introducing Atag to new markets continues to be one of our major goals in upcoming years, in which we shall make use of the synergies and local familiarity with the markets of the Gorenje Group sales network.

Asko

The Asko brand name was acquired in 2010 through the acquisition of a group of companies of the same name. It is targeted on the premium segment of customers, primarily on linen washing and dishwashing programmes. We intend to systematically develop the brand name at the product level and extend it to new markets via the existing sales network of the Gorenje Group, with emphasis on markets where the Atag brand name is not yet represented.

Gorenje

The Gorenje brand name continues to be our most important pan-European brand for the middle price class. It is present in all European and numerous overseas markets. In 2010 we strengthened its position and further increased its market share in the majority of European markets. We are intensively investing in the brand's extension to the markets of Asia and Brazil, and will continue to do so in the future.

At the IFA fair we presented a number of new, innovative products that will ensure the competitiveness of the brand name in the future. We successfully launched a new line developed with the reputed designer, Karim Rashid, and attained excellent sales results with Gorenje Simplicity products.

Regional brand names

The remaining brands (Körting, Sidex, Mora, Pelgrim, Etna and Upo) are regional brand names that are present and recognisable only in domestic markets. These will continue to be developed as such in future, but their extension to other markets is not foreseen.

6.3 Development Trends in the Branch

Wet and Dry Programme

The main driving force in the development of new products in the home appliances branch is the achievement of increasingly higher energy efficiency. Some of our washing machines on the market have a 30-percent higher energy efficiency than class A washers, while dryers have an even higher (50 percent) energy efficiency, primarily due to the innovative use of a heat pump. There is also a noticeable growth in washer and dryer capacity. At present there is a large selection of machines with a capacity of eight kilograms, while some manufacturers also offer a capacity of nine kilograms. The next major developments in washing machines are expected in the area of automatic dosing of washing agents and water.

The main driving force in the development of new products in the home appliances branch is the achievement of increasingly higher energy efficiency.

Cooling Programme

Most of the innovations in this programme are also focused on improving the energy efficiency of appliances. According to the data of the market research company GfK (link: http://www.gfk.com/), more than one-fifth of refrigerators sold in the German market are in class A++, whereas larger producers are already developing and selling products that meet standard A+++.

A growing trend is the use of LED lighting and electronic controls on cooling devices. In the latter, the focus is on LCD and touch screens, while some producers have already presented TFT screens in the market (which employ a similar technology as LCD, but ensure improved picture quality). Several novelties have been introduced in the interiors of cooling appliances, in particular a variety of special compartments, such as a compartment with a different temperature, a compartment designed to preserve the freshness of fruits and vegetables, as well as a vacuum compartment.

Cooking Programme

In recent years Western European markets in particular have witnessed a strong penetration of induction hobs, whose sales in 2009 attained almost one million units, along with an annual growth rate exceeding 20 percent. The latest development trend in this area is induction on the entire surface of the plate.

An important factor in the development of cooking appliances is the so-called »self-cleaning oven«, which oxidates impurities by pyrolytic decomposition (decomposition at high temperatures). These ovens are most popular in France, where they account for 65 percent of ovens sold.

Also appearing in the market are cooking appliances with colour TFT screens enabling users to operate and control their appliances.

Other Trends

Smart circuits, more commonly used in IT technologies and telecommunications, are slowly but surely penetrating into home appliances. These circuits will enable further improvements in energy efficiency and new functions in certain appliances.

At the end of 2010, the EU Energy Label came into effect, introducing energy classes A+, A++ and A+++ in the original classification (A-G). The use of this classification will become compulsory for all manufacturers in December of 2011.

6.4 Products and Innovations

Cooking Appliances

In 2010 the Company continued to introduce innovative solutions for cooking appliances. We presented to our customers a series of new self-cleaning pyrolytic ovens with improved functioning PyrolyseSupreme, which makes cleaning even easier. At the IFA fair we presented for the first time our new iChef multi-touch colour display, which offers a revolutionary way of operating ovens and a completely different user experience.

Picture 2: iChef display

For the first time we presented and offered to our customers an innovative oven developed in cooperation with the internationally acclaimed designer Karim Rashid. Besides excellent baking results, the oven features a Moodlite colour setting function on the external LED light strip, providing complete adaptation to the wishes and moods of users. Within the scope of the Gorenje by Karim collection, we also introduced, alongside the oven, a cooker hood featuring Moodlite technology and touch control, as well as a premium induction hob. By adding new products to all our product groups, we filled the previous gaps in our product range.

Picture 3: Gorenje by Karim

We have expanded our offer of cookers with the introduction of highly efficient XtremePower induction hobs and gas cookers featuring electronic touch control.

The Atag stainless steel gas cooker received the international "Red Dot Winner" design award in 2010.

Under the Atag label, we expanded our range of products in the Matrix line with a new, innovative design suited for every kitchen. Last year we also presented, for the first time, a series of innovative induction and glass ceramic plates with an intuitive Iris Slide Control interface and new gas-on-glass gas cookers with digital timers, which make cooking even easier. Our stainless steel Atag MAGNA HG9711MBB gas cooker won the prestigious international "Red Dot Winner" design award in 2010.

Picture 4: Matrix line

Within the scope of the Atag brand, we presented an induction wok that provides an entirely new experience in wok cooking.

Washers and Dryers

In 2010 we continued to introduce energy-efficient and user-friendly appliances. One of these is the SteamTech clothes dryer, which joined our product range in the spring of 2010. This is an upgraded version of our condenser dryers, featuring a new drying function combined with steam treatment as well as independent steam treatment of linen. Steam drying offers considerably improved results and wrinkle-free linen. The steam treatment programmes provide optimal pre-preparation (moistening) of linen before ironing.

Last year we presented, for the first time, washing machines with large LCD screens offering a simple, transparent and interactive system of selecting and modifying the selected wash programme.

Picture 5: Washer with LCD display

We offer washing machines that reduce energy consumption by up to 30 percent.

Following the implementation of the new European Directive on the declaration and labelling of energy efficiency of washing machines in December of 2010, we presented new appliances with A++ and A+++

energy efficiency. These appliances are distinguished by exceptional programme, sensor and mechanical solutions enabling accurate dosing of water and optimal functioning of the heating element and circulation pump. This allows for the achievement of excellent washing results and up to a 30 percent reduction of energy consumption compared to the best appliances of the previous period.

Refrigerators and Freezers

We have refreshed our collection of RETRO appliances with new colours that follow fashion trends. Our customers can choose from youthful, funky coloured refrigerators for younger generations, and new VINTAGE colours.

Picture 6: RETRO refrigerator with funky colours

We devoted special attention to products that enhance the applicability of refrigerators and freezers, and enriched our collection of Gorenje Ora-Ïto products with new, more energy-efficient appliances. Energy efficiency is one of the most important qualities of our products. In 2010 our efforts were focused in this direction, and we continued to offer energy-efficient appliances of class A++ and higher throughout the entire year.

Under the Atag label, we introduced new premium, high-efficiency refrigerators with complete LED illumination.

6.5 After sale services

The excellence of after sales services is part of our strategic policies. Our reputation grounds among others on a well organised and technically equipped customer service network which renders high-quality services and hence stimulates the customer loyalty.

The growing competitiveness on the home appliances market showed the need for new technical and organisational solutions in our customer service network. Slovenia saw the launch of an entirely new service network model in September 2009. A uniform modern call centre was set up using the most up-to-date information, organisational and logistic solutions.

The new model significantly increases the efficiency, boasts of short response time, and based on a highly professional customer support service provides exceptional customer satisfaction.

Slovenia's Chamber of Commerce and Industry (GZS) presented Gorenje the innovation award for its service network business model in Slovenia.

The innovative service business model shall together with IT tools be used as the basis for reengineering the operations of the after sales or service organisations within the entire Gorenje Group.

7 Production

7.1 Restructuring the production

Home Appliances Division

Gorenje's biggest location for manufacturing large home appliances is situated in Velenje, where more than 70 percent of products were manufactured last year. Further, the manufacture of cooking appliances is carried out also in Mariánské Údolí in the Czech Republic, while refrigerators, freezers and cooling equipment are produced in Valjevo in Serbia.

The manufacture of washers and dryers is carried out within the controlling company at the production location in Velenje and by taking over the Asko Group, Gorenje acquired its first own factory for producing dish washers. Asko manufactures dish washers and dryers in Var in Sweden while cooking appliances, ovens and ironing systems in Lahti, Finland.

Gorenje Tiki, d.o.o. manufactured the programme of thermic and heating appliances in Ljubljana and in Stara Pazova (Serbia) but at the end of 2010 the manufacturing plant in Ljubljana was closed due to high production costs and the entire production was moved to Stara Pazova.

In compliance with its strategic policies envisaging a partial production internationalisation in form of moving the production of lower priced appliances to low cost countries and keeping the production of products with higher added value in Slovenia, the Managament of Gorenje adopted a decision at the start of 2011 on making investments in the production capacities of Zaječar in Serbia.

The industrial complex in Zaječar includes two manufacturing halls with a total area of 18,000 square meters, standing on a property of 14 hectares. The halls will host Gorenje's assembly line for washing machines and driers at the complex. All washing machines and dryers will still be manufactured at the controlling company plant in Velenje; however, assembly of appliances bound for sale in Serbia and some Eastern European countries will take place in Zaječar, which will allow reaping the advantages of a free trade agreement that Serbia has signed with Russia and some other countries in the region. As a result, Gorenje will boost their sales in these markets which are highly important for the Group's profitability.

In addition to the above-mentioned, the Division includes also:

- two supporting programmes which manufacture in-built components for home appliances:
  - the Mekom mechanical component programme carried out within the framework of the controlling company and at production locations in Velenje, Šoštanj, Bistrica ob Sotli, and Rogatec,
  - the IPC programme (entrepreneurial centre for disabled persons) carried out within the framework of the Gorenje I.P.C. company, with programmes at locations in Velenje and Šoštanj;
- a factory for the manufacture and assembly of wheeled vehicles, Indop, d.o.o., in Šoštanj. This activity shall in 2011 be moved to the Ecology, Energy and Services Division.

Interior Home Division

The production activities of the Interior Home Division were conducted at a lower number of locations that are specialized for individual product. The Division hereunder consists of five production programmes, namely the kitchen programme, the furniture programme, the bathroom programme and the ceramics programme with locations in Velenje, Šoštanj, the village Gorenje and Maribor. The year 2010 saw a significant optimisation of production processes, whereas also materials and semi-finished products were unified at several production locations and sales programme were refurbished.

With these measures Gorenje aims at fully utilising the synergies between the programmes, increasing the cost efficiency, lower the cost of materials via unification and, last but not least, lower the level of operating assets.

At the beginning of 2011 Gorenje started with activities to set up a manufacturing plant for plastic bathroom basins in Zaječar (Serbia) since the basin production at the existing Šoštanj plant is no longer economically viable. Relocating this part of the production programme to Serbia will result in reducing the number of employees at Gorenje's Home Interior Division company in Šoštanj from 132 to approximately 50 presumably in the second half of the year.

7.2 Efficiency of production activities

One of great challenges for Gorenje in 2010 was certainly the adjustment or lowering of production costs to the current economic situation. Great emphasis was laid on optimising the costs of appliances, while most of other efforts concentrated on lowering the cost of materials and attaining alternative components (introducing components from low-cost countries), increasing the productivity (proactive job creation), and optimising the number of employees. Examples of good practice were promptly transferred from factories in Velenje to other plants.

Table 4: Own production of home appliances by volume

Programme / Location	2010	2009
Cooking programme / Slovenia	1,001,244	862,237
Cooking programme / The Czech Republic	378,617	334,443
Cooking programme / Finland	51,718	0
Cooking programme total	**1,431,579**	**1,196,680**
Wet and dry programme / Slovenia	700,226	674,280
Wet and dry programme / Sweden	105,894	0
Wet and dry programme total	**806,120**	**674,280**
Cooling programme / Slovenia	558,944	539,883
Cooling programme / Serbia	438,345	402,821
Cooling programme total	**997,289**	**942,704**
Washing and dishwashing programme / Sweden	**124,948**	**0**
Own production of large household appliances total	**3,359,936**	**2,813,664**
Own production of large household appliances total / exclusive of Asko	**3,077,376**	**2,813,664**
Irons / Finland	**7,087**	**0**
Water heaters / Slovenia	316,318	375,054
Water heaters / Serbia	206,910	132,872
Water heaters	**523,228**	**507,926**
Own prodution of household appliances total	**3,890,251**	**3,321,590**
Own prodution of household appliances total / exclusive of Asko	**3,600,604**	**3,321,590**

Legend: Programme KA = Cooking Appliances
Programme PPA = Washing and Drying Appliances
Programme HZA = Refrigerators and Freezers
Source: Data by Gorenje Group

7.3 Purchasing

The raw material markets experienced another year of strong price increases which were boosted by positive business results and improvement of macroeconomic data. In addition to the price increase and the demand on the emerging markets, the economic recovery in the USA and the EU caused growing optimism. The demand for raw materials not only came closer but even exceeded the level as recorded prior to the worldwide economic crisis.

As a result of the major impact on the production cost, the Gorenje Group paid special attention to strategic materials in 2010. The trend of price increase of strategic materials which started in the second half of 2009, continued throughout 2010 as well.

With the global economies recovering, problems occurred on the side of the offer, where production capacities were reduced and new projects halted during the financial crisis. The lack of some raw materials was followed by natural disasters and political unrest in MENA in 2011, which additionally limited the number of sources and increased the danger of bottlenecks.

The Gorenje Group observes its strategic policy to protect against the increase of raw material prices in 2010 and 2011 by:

- actively monitor and timely detect the market influences,
- the timely lease of raw materials via dealers,
- conducting auctions for acquiring the most competitive price terms,
- developing and increasing the scope of supply sources from Asia as well as US Dollar areas in South-East Europe,
- consolidating relations with strategic partners solely on competitive basis.

In connection with the project of unifying the kitchen programme within the Home Interior Division, Gorenje defined the policy of unifying the in-built materials for kitchens as well as unifying the suppliers and in this way generate favourable purchase terms and decreasing inventories. The aforesaid activities shall certainly result in revenues in 2011.

8 Quality

The Gorenje Group operates according to the established international standard quality management system ISO 9001, ISO 17025, which regulates the operation of all processes directed towards the needs, requirements and expectations of customers. The efficiency of the system is verified by internal and external evaluations conducted by the TUV certification authority.

The ISO quality management system with a technological growth is applied more intensively as it increases the efficiency of internal processes, services and products as well as the satisfaction of final customers. A successful management of these processes is essential for the Gorenje Group and is reflected in its business results. The quality processes are constantly measured, analyses and improved in compliance with the set efficiency measures.

All teams in charge of quality management within Gorenje continued wits its steady work in 2010 and started with reforming the quality system in the factory Tiki in Stara Pazova and integrating the quality system in manufacturing plants of the Asko Group.

9 Gorenje Shares, Investor Relations

9.1 Share Price in 2010

Trading on the Ljubljana Stock Exchange continued to reflect the effects of the debt crisis, falling exchange rates and low liquidity. The consequences of the financial and economic crisis are persisting significantly longer in the Slovenian capital market in comparison with other developed capital markets. For example, the SBI TOP index attained a 15-percent growth in 2009, surpassing only the Icelandic and Maltese indexes in Europe. In 2010, the SBI TOP index dropped 13.5 percent and was, alongside those of Cyprus and Spain, the only share index in the EU to lose part of its value.

At year-end the GRVG share closed at EUR 13.49 and was, in comparison with the last trading day in 2009, higher by 8.01 percent. In the First Listing, the GRVG share was the only share besides that of Mercator to record a positive growth in the past year.

The share price of Gorenje share rose in 2010 by 8 percent.

Such developments can be attributed to the successful implementation of anti-crisis measures within the Group, which significantly increased the stability of our operations through the stabilisation of cash flow and the restructuring of financial debts. In 2010 we repeatedly achieved positive business results, and are looking at the future operations of our Group with optimism.

Table 5: Trading data of Gorenje shares

	2010	2009	2008	2007	2006	2005	2004
Shares outstanding	15,906,876	14,030,000	14,030,000	14,030,000	12,200,000	12,200,000	12,200,000
Number of own shares	121,311	121,311	121,311	1,183,342	1,183,342	717,192	251,042
Number of shareholders	20,627	21,623	21,359	19,779	17,168	19,779	17,168
Annual turnover	14,974,483.0	13,732,616.1	15,899,680.2	152,035,954.7	63,995,302.6	50,622,953.7	26,675,752.2
Average market capitalisation	194,909,228	161,415,150	368,497,950	454,825,150	297,863,000	300,608,000	288,408,000
Value turnover (turnover / average market capitalisation)	0.08	0.09	0.04	0.33	0.21	0.17	0.09

Source: Data by Gorenje Group and Ljubljanska borza, d.d.
Remark: All data are for the year end, except the Annual turnover and Average market capitalisation, which are for the total year.

Table 6: Ratios on Gorenje shares

	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005	31 Dec 2004
Closing rate	13.49	12.49	10.52	42.01	26.25	22.58	26.7
Highest value	14.72	13.98	42.18	49.64	26.71	27.53	29.05
Lowest value	11.59	7.69	10.5	25.9	21.29	22.12	20.83
Earnings per share	0.2	-0.44	0.89	1.03	1.08	1.07	0.95
Book value of share (BV)	21.04	21.87	22.47	24.6	18.99	18.34	18.69
Dividend	-	-	0.45	0.42	0.42	0.42	0.42
P/E (price / earnings per share)	67.45	-28.39	11.82	40.79	24.31	21.1	28.11
P/B (price / book value of share)	0.64	0.57	0.47	1.71	1.38	1.23	1.43
Dividend yield	-%	-%	4.28%	1.00%	1.60%	1.86%	1.57%

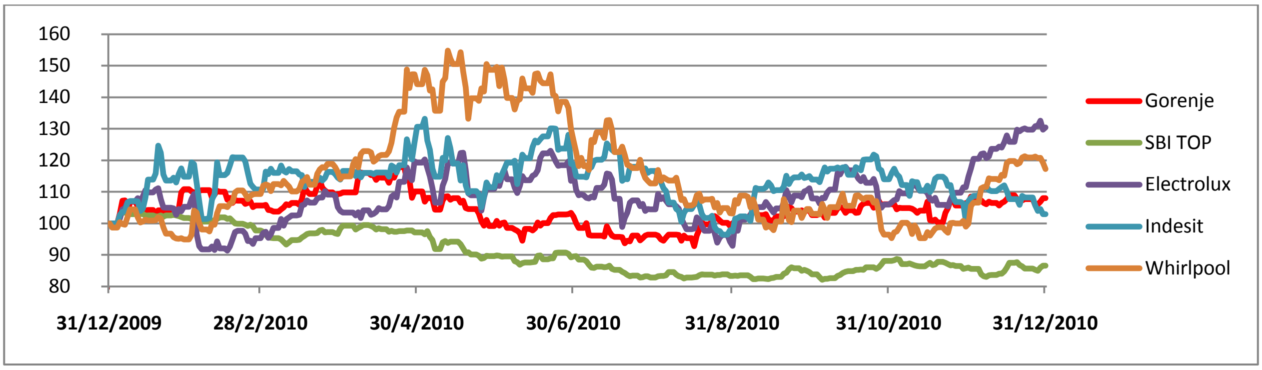
Source: Data by Gorenje Group and Ljubljanska borza, d.d.

Table 7: Basic data on shares

Share quotation	Ljubljana Stock Exchange
Class	All shares are of the same class.
Voting rights	Each share entitles the holder to one vote per share, except shares that have no such right
Stock exchange listing	GRVG
Bloomberg	GRVG:SV
Reuters	GORE.LJ

Source: Data by Gorenje Group.

Chart 4: Movement of Gorenje shares



9.2 Capital Increase

The principal goal of the capital increase was to enable the continuation of investments in the development of new products and services, as well as takeovers of potential acquisition targets in the home appliances branch. Through the capital increase we shall also finance certain investments in the home appliances branch and in the Ecology, Energy and Services Division, where there is potential for higher growth.

The Strategic Plan of the Gorenje Group through the Year 2013 forecasts sees an increase of sales revenue up to EUR 1.5 billion (w.o. divestments effects), which will be generated through internal – organic growth. Increased capital also enables more efficient achievement of the strategic plan in case of any changes in the assumptions embodied in the strategic plan over which the Management has no control (e.g. substantial rise in the prices of raw materials, semi-finished products, etc.).

Read more about our capital increase here (link: http://www.gorenjegroup.com/en/investor_relations/capital_increase)

Chronological Review

At the 14th General Meeting of Shareholders of Gorenje, d.d. held on the 28th of May, 2010, a resolution on capital increase was adopted. The first part of the increase in the amount of EUR 7,832,064.76, was implemented by the issue of 1,876,876 new ordinary, freely transferable, registered, no par value shares for monetary contributions, at the selling price of EUR 13.32. All newly issued shares were purchased by the International Financial Corporation (IFC) (link: http://www.ifc.org/). The second capital increase was expected in the same amount as the first, and was to be carried out in three rounds.

The Group increased its capital by EUR 7.8 million through capital increase.

2 June 2010: The District Court of Celje adopts an order on the entry of the General Meeting's resolutions on capital increase and amendments to the Articles of Association in the Court Register.

22 June 2010: The Agency for the Securities Market (ATVP) issues a decision approving the Prospectus for admission to trading on the regulated market of 1,876,876 ordinary, no par value shares in registered, book-entry form bearing the designation GRVG.

5 July 2010: The District Court of Celje issues an order on the entry of the change in share capital from EUR 58,546,152.56 to EUR 66,378,217.32, the change in the number of shares from 14,030,000 to 15,906,876, and the amendments to the Articles of Association.

8 July 2010: Entry of newly issued shares with the designation GRVG in the central register of the Central Securities Clearing Corporation (KDD).

9 July 2010: Extension of listing of shares with the designation GRVG in the First Listing of the Ljubljana Stock Exchange from 14,030,000 to 15,906,876.

15 July 2010: Formal commencement of the second capital increase procedure in line with the resolution adopted by shareholders at the general meeting held on 28 May 2010.

2 September 2010: ATVP issues a decision approving Gorenje's Prospectus for the public offering of ordinary shares.

7 September 2010: Announcement of notice regarding the public offering of Gorenje shares to the public.

9 September 2010: Publication of Prospectus for the public offering of ordinary shares of Gorenje.

17 November 2010: Completion of capital increase procedure. Because the total amount of subscribed amounts did not reach the required threshold (70 percent), the capital increase procedure was unsuccessful.

9.3 Ownership Structure

In 2010, major changes occurred in Gorenje's ownership structure as the result of capital increase. The share of foreign investors increased from 18.4 percent to 30.9 percent (of which 30.8 percent is owned by legal entities and the remainder by foreign natural persons).

The share of foreign investors increased in 2010 to 30.9 percent.

Conversely, the ownership shares of other investors decreased accordingly: the share of state-owned legal entities decreased from 26.0 percent to 22.9 percent, and of domestic natural persons from 26.8 percent to 22.7 percent.

Table 8: Top 10 shareholders of Gorenje

Shareholder	No. of shares	Share	Place	Country
KAPITALSKA DRUŽBA, D.D.	3,534,615	22.22%	Ljubljana	Slovenia
IFC	1,876,876	11.80%	Washington, DC	USA
HOME PRODUCTS EUROPE B.V.	1,070,000	6.73%	Velp	The Netherlands
INGOR, d.o.o., & co. k.d.	794,473	4.99%	Ljubljana - Črnuče	Slovenia
KD GALILEO, FLEKSIBILNA STRUKTURA NALOŽB	564,984	3.55%	Ljubljana	Slovenia
EECF AG	411,727	2.59%	Zürich	Switzerland
RAIFFEISEN BANK INTERNATIONAL AG (RBI)	383,038	2.41%	Vienna	Austria
PROBANKA, d.d.	379,706	2.39%	Maribor	Slovenia
KD ID, delniška ID, d.d.	331,799	2.09%	Ljubljana	Slovenia
TRIGLAV VZAJEMNI SKLADI - DELNIŠKI TRIGLAV	297,090	1.87%	Ljubljana	Slovenia
Top 10 shareholders:	**9,644,308**	**60.63%**		
Total:	**15,906,876**	**100%**		

Source: Klirinško depotna družba (www.kdd.si)

Table 9: Shares owned by members of the Management Board and the Supervisory Board

	Ownership		Net sales during period	
	2010	**2009**	**2010**	**2009**
Total Supervisory Board	**3,208**	**4,128**	**-920**	**0**
Uroš Slavinec	-	-	-	-
Maja Makovec Brenčič	-	-	-	-
Keith Charles Miles	-	-	-	-
Peter Kraljič	-	-	-	-
Marcel van Assen	-	-	-	-
Bernard C. Pasquier	-	-	-	-

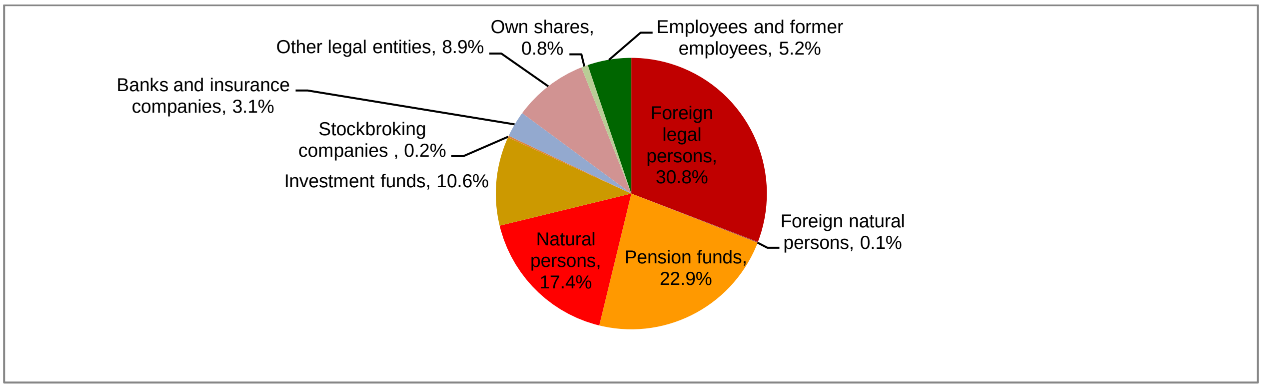
Krešimir Martinjak	115	115	-	-
Drago Krenker	-	920	-920	-
Jurij Slemenik	1,738	1,738	-	-
Peter Kobal	1,355	1,355	-	-
Total Management Board	**13,230**	**13,230**	**0**	**0**
Franjo Bobinac	2,096	2,096	-	-
Drago Bahun	9,032	9,032	-	-
Franc Košec	1,380	1,380	-	-
Mirjana Dimc Perko	96	96	-	-
Branko Apat	626	626	-	-
Uroš Marolt	-	-	-	-

Note: Mandate of SB from 19 July 2010 to 19 July 2014
Source: Data by the Gorenje Group.

	Ownership		Net sales during period	
	2010	**2009**	**2010**	**2009**
Total Management Board	**13,226**	**14,146**	**-920**	**-**
Jože Zagožen	466	466	-	-
Peter Ješovnik	-	-	-	-
Milan Podpečan	-	-	-	-
Andrej Presečnik	-	-	-	-
Gregor Sluga	55	55	-	-
Ivan Atelšek	9,497	9,497	-	-
Peter Kobal	1,355	1,355	-	-
Drago Krenker	-	920	-920	-
Krešimir Martinjak	115	115	-	-
Jurij Slemenik	1,738	1,738	-	-

Note: Mandate of SB from 18 July 2006 to 18 July 2010; Krešimir Martinjak until 31 May 2010.
Source: Data by the Gorenje Group.

Chart 5: Ownership structure as of 31 December 2010



Ownership structure of Gorenje on the Web Site (link: http://www.gorenjegroup.com/en/investor_relations/ownership_structure)

9.4 Own Shares and Voting Rights

The number of Gorenje's own shares did not change in 2010 and remains at 121,311. Owing to the increased total number of issued shares (capital increase), the share of own shares in the ownership structure decreased from 0.8647 percent at the beginning of the year to 0.7626 percent at year-end.

At year end, the Company had 121,311 own shares.

The Company's Articles of Association stipulate that one share entitles its holder to one vote, but own shares do not have voting rights. The Articles of Association do not contain any provisions invalidating the proportionality of rights arising from share ownership, such as the rights of minority shareholders or restrictions of voting rights, and do not have any adopted resolutions on the conditions of increases in capital.

9.5 General Meeting of Shareholders and Dividend Policy

Two general meetings of shareholders of Gorenje were organised in 2010. At the 14th general meeting held on the 28th of May, 2010, the shareholders approved the capital increase and the amendments to the Articles of Association, and elected five members of the Supervisory Board as representatives of capital: Peter Kraljič, Ph.D., Maja Makovec Brenčič, Ph.D., Keith Miles, FCA, Uroš Slavinec, and Marcel Van Assen, Ph.D.

At the 15th general meeting of shareholders held on the 15th of July, 2010, the 2009 Annual Report and the Report of the Supervisory Board on the Review of the 2009 Annual Report were presented. The General Meeting decided on the appropriation of accumulated profit for the year 2009, and released the members of the Management Board and the Supervisory Board of their duties. The General Assembly also appointed an auditor for the year 2010, and a sixth member of the Supervisory Board as a representative of capital, Bernarda C. Pasquier.

At Gorenje, general meetings of shareholders are generally organised once annually at Hotel Paka in Velenje. The current requirements for participation in general meetings are described in the notice sent to all shareholders, which is also posted on the web pages of the Ljubljana Stock Exchange via the SEOnet system (link: http://seonet.ljse.si/), our corporate web pages (link: http://www.gorenje.com), and in the Delo daily newspaper (link: http://www.delo.si/). The general meetings are closed to the public and the media, so that the entire contents and course of a general meeting are known only to the shareholders present at the meeting. However, in line with applicable laws and standards, the Company publishes the resolutions adopted at general meetings and issues relevant press releases.

In the year 2010 we did not pay out dividends, due to the loss.

Dividend Policy

The dividend policy of the Gorenje Group for the 2010-2013 period specifies that up to one third-of the net profit of the Group shall be allocated for the annual payment of dividends. Owing to losses in the year 2009, dividends for 2009 were not paid out in the previous year.

Read more about the above topics here (link: http://www.gorenjegroup.com/en/investor_relations/agm)

9.6 Financial Calendar for the year 2011

Controlled and other price-sensitive information is published on the website of the Ljubljana Stock Exchange via the SEOnet system, on the website of the Gorenje Group, whereas certain other information prescribed by the Articles of Association (e.g. convening of meetings) is also published in the Delo newspaper.

Any alterations of anticipated release dates will be duly announced on our corporate website (link: http://www.gorenjegroup.com/en/investor_relations/release_schedule).

Table 10: Schedule of releases

Type of release	Anticipated release date
- **Summary of non-audited financial statements** of Gorenje, d.d. for 2010 - **Summary of non-audited consolidated financial statements** of the Gorenje Group for 2010	**Friday, 11 Mar. 2011**
- **Annual Report** of Gorenje, d.d. and Gorenje Group for 2010 - **Corporate Governance Code Compliance statement**	**Tuesday, 19 Apr. 2011**
- **Business Report** of Gorenje, d.d. and the Gorenje Group **for the period January-March 2011**	**Monday, 30 May 2011**

- **Resolutions of the 16th General Annual Meeting** of Gorenje, d.d.	**Friday, 1 Jul. 2011**
- **Business Report** of Gorenje, d.d. and the Gorenje Group **for the period January-June 2011**	**Monday, 29 Aug. 2011**
- **Business Report** of Gorenje, d.d. and the Gorenje Group **for the period January-September 2011**	**Friday, 11 Nov. 2011**
- **Summary of business operations** assessment for 2011 and the Business Plan for 2012	**Monday, 19 Dec. 2011**

9.7 Communications with Investors

In 2010 the Company posted 60 announcements in both the Slovenian and English languages on the SEOnet web portal, which is almost double the number posted in the previous year.

In 2010 the Company posted 60 announcements on the SEOnet web portal.

The key goals of communications with investors are: providing an information base enabling effective share valuation, further improving corporate disclosures, improving the recognisability and credibility of the Management Board, developing an appropriate ownership structure that supports the Company's further development; increasing the Group's coverage in the financial media, and ensuring proper presentation of the Group's data in professional data bases such as Bloomberg and ThomsonReuters.

After publishing our quarterly results in 2010, we organised meetings with investors, financial analysts, and representatives of financial investors (banks). The presentations made at these meetings are posted on our web pages (link: http://www.gorenjegroup.com/en/18609). Among these you will find the first virtual presentation of the Gorenje Group for investors, which took place on the 28th of September, 2010 at the seat of the Ljubljana Stock Exchange.

For the third consecutive year, we issued a magazine for Gorenje shareholders (available only in the Slovene language), entitled Delničar (link: http://www.gorenjegroup.com/si/22360).

We are always at the disposal of all investors for providing answers to concrete questions by phone, e-mail and classic mail. Communications with major investors are carried out in the form of conferences, individual or group meetings, and conference calls (particularly after the publication of periodical results). Communications with minor investors are carried out by phone, e-mail and classic mail, or in person. Answers to their questions are delivered in the shortest possible time.

We communicate with foreign investors at »road shows« abroad, to which we are invited by investment bankers and the Ljubljana Stock Exchange. In 2010 we attended six such events (London, Stockholm, Frankfurt, Zurich, Vienna and Stegersbach).

All public announcements in English are sent to international press agencies, foreign media, investors and analysts through a distribution system, i.e. mailing list, which currently includes more than 120 recipients.

In line with one of our fundamental goals in the area of investor relations – acquiring broader coverage from analysts – we are encouraging analysts to actively cooperate with us. We are always available for commentary and additional explanations of public announcements, thus contributing to the objectivity of information in their analyses.

9.8 Contact person

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10 Corporate Governance Statement

Gorenje, d.d. and the Gorenje Group have introduced high standards of corporate governance, which we observe and implement consistently. Observing and surpassing the prescribed, recommended and agreed-upon standards is our permanent task. A high degree of transparency of operations and proper communication with shareholders and other stakeholders are also recognised in our environment as important values of Gorenje. For this reason we are continuously improving the level attained in this area, and updating it according to the best practice principle. The Company consistently implements a two-tier system of management, on the basis of which the Management Board is responsible for managing the affairs of the Company, and the Supervisory Board is responsible for supervising the Company's operations.

In April of 2010, the Management Board and the Supervisory Board adopted the Corporate Governance Policy of the entire Gorenje Group, thereby strengthening cooperation in the area of corporate governance. In accordance with the adopted documents, we proactively and regularly published all relevant information that could affect the business decisions of investors or interested public. We also responded regularly and quickly to the questions of journalists, thus reducing the probability of rumours and articles with untruthful contents.

The Management Board and Supervisory Board adopted the Corporate Governance Policy of the entire Gorenje Group.

With the purpose to preserve the integrity of the Company and the employees, an open and consistent communication with all participants and stakeholders is observed, whereas the response to public letters by some Gorenje stakeholders was adequate as well. Further, the Company encourages an open and dynamic communication among members of the Management and the Supervisory Board. Although opinions on individual business decisions differ, their harmonisation and co-ordination is always directed towards the Company's future development. Accordingly, we shall continue to respond to any letters in a similar manner and thus protect the Company's reputation, which is all the more important in these intense times.

10.1 Report of the Supervisory Board on the Review of the 2010 Annual Report

Dear shareholders,

In 2010 the Supervisory Board oversaw the business operations of Gorenje, d.d. and the Gorenje Group within the scope of powers and authorisations bestowed by applicable legal regulations and the Articles of Association of the Company, and also performed other tasks within its competences.

The Supervisory Board, which is comprised of ten members, carried out its tasks until the 18th of July, 2010, in the following composition: Jože Zagožen, Ph.D., as Chairman, Ivan Atelšek as Deputy Chairman, Peter Ješovnik, M.Sc., Milan Podpečan, Andrej Presečnik, Gregor Sluga, M.Sc., Peter Kobal, Drago Krenker, Krešimir Martinjak, and Jurij Slemenik. At its 14th and 15th meetings, the General Meeting of Shareholders elected new members of the Supervisory Board to four-year terms of office beginning on the 19th of July, 2010.

The General Meeting of shareholders elected new members of the Supervisory Board to four-year terms of office beginning on the 19th of July, 2010.

At the constitutive meeting of the new Supervisory Board held on the 19th of July, 2010, its members elected a Chairman and two deputies. The Supervisory Board has the following composition: Uroš Slavinec as Chairman, Maja Makovec Brenčič, Ph.D., as Deputy Chairman, Krešimir Martinjak as Deputy Chairman, Marcel van Assen, Ph.D., Peter Kraljič, Ph.D., Keith Miles, FCA, Bernard Pasquier, Peter Kobal, Drago Krenker, and Jurij Slemenik.

Activities of the Supervisory Board

Over the course of the year, the Supervisory Board devoted most of its attention to the business and financial development of the Gorenje Group and the parent company, significant business events, and the implementation of general strategic and business policies. In 2010 the Supervisory Board held seventeen meetings, of which five were correspondence meetings. The members of the former composition held twelve meetings (of which five were correspondence meetings), and the members of the present composition held five meetings.

The Supervisory Board adopted the 2010 business plan before the beginning of the previous financial year, which was followed in January 2010 by the adoption of the Strategic Plan of the Gorenje Group for the 2010-2013 period. The two documents embody the goals and business frames whose fulfilment was monitored by the Supervisory Board during the year. Given the fact that the Gorenje Group operated in a very difficult business environment in 2009 and recorded losses, yet nevertheless attained a significant level of free cash flow, the Supervisory Board devoted most of its attention to improving performance indicators in all business areas, attaining higher profitability, preserving productive job positions, and conquering new markets with the goal of putting the Company back on at positive track of business operation. In line with its established practice, the Supervisory Board was regularly informed of significant business events and the implementation of general strategic and business policies. As both the business plan and the strategic plan had been ambitiously prepared, the Supervisory Board assessed Gorenje's business operation in 2010 as favourable, which is undoubtedly the result of work performed by Management and all employees of the Company. The Supervisory Board instructed the Management Board to more efficiently manage the working capital, both in the areas of inventories and in particular receivables, in order to improve free cash flow.

The Supervisory Board and the Management Board of the Company unanimously supported the entry of the International Finance Corporation (IFC) into the ownership and debt structure of the Company. With the payment of a share amounting to slightly less than EUR 25 million, IFC became the second largest owner of the Company with an 11.8 percent shareholding. IFC also arranged for a long-term loan to the Company in the total amount of slightly more than EUR 101 million, of which EUR 50 million was contributed by IFC and the remainder through a syndicated loan of three banks. Gorenje, d.d. concluded a complex loan agreement with IFC, specifying the indicators to be attained by the Company. Precisely due to the extensiveness and complexity of the agreement, the Supervisory Board authorised the Audit Committee to regularly monitor the attainment of indicators specified in the agreement, and regularly report to the Supervisory Board thereon. The Management Board also regularly and promptly informed the Supervisory Board of the business operations of competitors and of operating conditions, in particular the situation in world markets, changes in the prices of materials and raw materials, and risk management. The Supervisory Board also regularly monitored the implementation of resolutions adopted at its meetings, and established that the Management Board had implemented all the resolutions adopted at meetings of the Supervisory Board. In addition to the above-mentioned, the Supervisory Board closely monitored all public announcements and messages related to Gorenje in the media, and regularly instructed the Management Board to be accurate and consistent in its replies to various statements, and to ensure that all stakeholders are equally informed thereon.

In line with the best practice principles of corporate governance, the Supervisory Board appointed a six-member nomination committee in the following composition: Jože Zagožen, Ph.D., Chairman of the Supervisory Board, Peter Ješovnik, M.Sc., Member of the Supervisory Board, the representatives of the Company's three largest shareholders (Bachtiar Djalil from Kapitalska družba, d.d., Andraž Grahek from KD Skladi, d.o.o., and Philip Sluiter from Home Products Europe B.V.), as well as representatives of the public and small shareholders (Bogomir Kovač, Ph.D., from the Recruitment and Professional Certification Council (KAS). The Nomination Committee carefully inspected the selection of candidates for the new term of office of the Supervisory Board, and proposed candidates to the Supervisory Board.

The Supervisory Board devoted the necessary attention to the integration of acquired companies (particularly Asko) into the Gorenje Group, and drew the Management Board's attention to the fact that synergies needed to be utilised in all areas of operation, and that the acquired companies should be integrated into the system of the Gorenje Group as soon as possible.

The Supervisory Board also discussed the earnings of the Management Board and, on its proposal, reduced them by ten percent alongside the introduction of a 36-hour work week in the beginning of 2009. In November, the Supervisory Board repeatedly reduced the earnings of Management Board members on average by an additional 25 percent. Owing to the uncertain conditions, the earnings of members of the Management Board in 2011 will remain at the same reduced levels until further notice.

As in the year 2008 and 2009, when the Management Board had renounced their incentive bonus, the members of the Management Board are renouncing their incentive bonus also for the business year 2010.

The Supervisory Board also evaluated its own activities and the activities of the committees that were active in 2010. The Supervisory Board has established that both the Supervisory Board and its committees adequately performed their work in line with their competencies and in a larger scope compared to the resolutions of the Supervisory Board and individual committees. The Supervisory Board has established that no circumstances exist in connection with any members of the Supervisory Board or its committees that could lead to the occurrence of a conflict of interest or dependence, and that the composition of the Supervisory Board is appropriate. The Supervisory Board has also acquainted itself relatively quickly with the operations and organisation of the Company on all levels, and called on the Management Board to devote additional efforts to regularly informing the Supervisory Board on the most relevant issues that are otherwise not on the agenda of the Supervisory Board.

The Audit Committee, a compulsory committee of the Supervisory Board, carried out its activities until the 18th of July, 2010 in the following composition: Milan Podpečan as Chairman, Peter Ješovnik, M.Sc., Gregor Sluga, M.Sc., Drago Krenker, and Mateja Vrankar. From the 19th of July, 2010 onwards, the committee had the following composition: Keith Miles as Chairman, Drago Krenker, and Aleksander Igličar, M.Sc. The Audit Committee devoted most of its attention to determining whether the materials prepared for meetings of the Supervisory Board that fall within the domain of

Committee's operation, are in conformity with all relevant standards and whether the principles of conservativeness and consistency of reporting, and similar standards, have been observed. In 2010 the Audit Committee met at seven meetings, three in its previous composition and four in its new composition. In addition to examining periodical reports, the Audit Committee also discussed the work of the internal audit in the parent company, the risk management system in the parent company, and tax risks from the aspect of transfer prices in the Gorenje Group. It also held a meeting with the representatives of our external auditors, KPMG Slovenija, d.o.o. regarding pre-audit and audit procedures for the year 2010. In line with a resolution of the Supervisory Board, the Audit Committee devoted special attention to a further verification of the loan granted to the Inter Solar company. The loan was disclosed in all approved annual reports of companies; external auditors and legal counsel have previously reported, and in 2011 an external audit group conduct a new audit of the loan and present its opinion.

The Supervisory Board established a benchmark committee comprised of Maja Makovec Brenčič, Ph.D., as Chairman, Marcel van Assen, Ph.D., Peter Kraljič, Ph.D., Bernard Pasquier, and Peter Kobal. The goals of the Benchmark Committee are primarily to identify the real competitors with which the Company needs to compare itself and in which areas, as well as the methods and criteria to be used in such comparisons. On the basis of selected competitors, methods and indicators, the Committee will define the time frame of the Company's activities aimed at implementing improvements in the areas of strategies and the Strategic Plan in the period from 2011 onwards.

Also operating within the Supervisory Board is the Corporate Governance Committee comprised of the following members: Peter Kraljič, Ph.D., Bernard Pasquier and, representing the company, Franjo Bobinac, President of the Management Board. The task of this committee is to find the best mode of organisation and corporate governance of the Gorenje Group for the future, taking into consideration its increasing international presence and need to adjust in all areas of its operation.

Annual Report

On the 11th of April, 2011 the Management Board of the Company presented the audited Annual Report of Gorenje, d.d. and the Gorenje Group for the year 2010 to the Supervisory Board for approval. The Supervisory Board discussed the Annual Report at a meeting held on the 19th of April, 2010.

The Annual Report of Gorenje, d.d. and the Gorenje Group for the year 2010 was audited by the external audit group, KPMG Slovenija, d.o.o.. The audit was also performed for all subsidiary companies of the Gorenje Group. On the 15th of April, 2011, the external auditors issued an unqualified opinion on the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group for the year 2010.

The Audit Committee of the Supervisory Board examined the 2010 Annual Report together with the Auditor's Report and the Letter to Management, and presented its comments and opinion in connection therewith.

In reviewing the submitted Annual Report for the year 2010, given the fact that the Supervisory Board consistently monitored the management and business operations of the Company and the Gorenje Group, and regularly discussed the operating results, financial position and assets, as well as the changed circumstances in the markets where Gorenje is present, the Supervisory Board established that the Company's operation in 2010 can be assessed as good, but only moderate in terms of free cash flow. Following the considerably high losses recorded in 2009, the Management Board managed to make an important breakthrough by implementing measures in the areas of cost control, increased margin, market shares and profitability, particularly in the Home Appliances Division, and consequently achieved better results than originally planned. The Management Board will, however, devote its best efforts to ensuring that the planned net profit for 2011 is achieved and that the level of free cash flow will improve through better control of inventories, trade receivables and trade liabilities.

The Supervisory Board has confirmed that the Annual Report for 2010, as prepared by the Management Board and reviewed by the external auditors, has been compiled clearly, transparently, and in line with the provisions of the Companies Act and applicable International Financial Reporting Standards. The Supervisory Board has also examined and approved the Auditor's Report, and has no comments in connection therewith. On the basis thereof, the Supervisory Board has assessed that the Annual Report presents a true and fair picture of the assets, liabilities, financial position and operating results, and presents a true view of the development of operations and the financial position of the parent company and the Gorenje Group.

On the basis of the above-mentioned findings, the Supervisory Board approved at its meeting held on the 19th of April, 2011 the Annual Report of Gorenje, d.d. and the Consolidated Annual Report of the Gorenje Group for the year 2010 as proposed by the Management Board.

Determination and Proposed Appropriation of Accumulated Profit

In accordance with the Companies Act and the Articles of Association of Gorenje, d.d., the Management Board has decided that part of the net profit for the 2010 financial year in the amount of EUR 2,924,939,50 shall be appropriated for the creation of statutory reserves in the amount of EUR 292,493.95 and for the creation of other revenue reserves in the amount of EUR 1,316,222.78 which has been approved by the Supervisory Board.

The part of the net profit for the 2010 financial year amounted to EUR 1,316,222.77 and the retained earnings amounted to EUR 928,597.92, and therefore the accumulated profit for the year 2010 amounted to EUR 2,244,820.69.

The Management Board and the Supervisory Board have proposed to the General Meeting of Shareholders that the accumulated profit for the 2010 financial year in the amount of EUR 2,244,820.69 shall remain unappropriated.

In preparing the proposed resolution on the appropriation of profit for the year 2010, the Management Board and the Supervisory Board gave due consideration to the applicable provisions of the Companies Act and the Articles of Association of Gorenje, d.d.

The Supervisory Board further proposes to the General Meeting of Shareholders that the members of the Management Board be discharged of their duties in 2010.

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

Velenje, 19 April 2011

Uroš Slavinec
Chairman of the Supervisory Board

10.2 Statement of Management Responsibility

The Management Board is responsible for the preparation of the annual report of Gorenje, d.d. and the Gorenje Group, as well as the financial statements, in a manner providing the public with a true and fair presentation of the financial position and the results of operations of Gorenje, d.d. and its subsidiaries in 2010.

The Management Board confirms that the financial statements of Gorenje, d.d. and the Gorenje Group have been prepared in conformity with applicable accounting policies, that the accounting estimates have been prepared under the principles of prudence and due diligence, and that the financial statements of the Company and the Group give a true and fair view of their financial position and the results of their operations in 2010.

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

The Management Board confirms that, to the best of its knowledge, the financial report has been prepared in compliance with the accounting reporting framework, and that it gives a true and fair view of the assets and liabilities, financial position, and the profit or loss of the controlling company and other companies included in the consolidation of the Gorenje Group. The Management Board also confirms that the Management Report presents a fair view of information on relevant transactions with related persons, and is compiled in accordance with applicable legislation and International Financial Reporting Standards.

The Chairman and members of the Management Board are familiar with the contents of integral parts of the Annual Report of Gorenje, d.d. and the Gorenje Group for 2010, and thus also with the entire annual report. We agree with the annual report and hereby confirm this with our signatures.

Mr. Franjo Bobinac, President

Mrs. Mirjana Dimc Perko, member

Mr. Branko Apat, member

Mr. Drago Bahun, member

Mr. Uroš Marolt, member

Mr. Franc Košec, member

10.3 Corporate Governance Code Compliance Statement

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

The contents of the statement refer to the period from the adoption of the previous Statement of Compliance with the Corporate Governance Code for Public Limited Companies, i.e. from the 17th of April, 2010, to the 19th of April, 2011, when its contents were jointly formulated and adopted by the Management Board and the Supervisory Board of Gorenje, d.d.

Chapter: Company Management Framework

Recommendation under 1:

The key goals of the company are not specifically defined in the Articles of Association, but are included and clearly defined in the mission: "To create original, technically perfected, superiorly designed, as well as user- and environmentally-friendly products for the home. We are focused on increasing the satisfaction of consumers while creating value for all our stakeholders in a socially responsible manner. By responding to key global trends and challenges, we are developing fast-growing areas with above-average returns."

Chapter: Relationship between the Company and Shareholders

Recommendation under 5.7:

In connection with the policy of determining the remunerations, compensations and other benefits of the members of the Management Board, the Supervisory Board fully observes the principles and criteria of the Code, as well as the current conditions in the market. The Supervisory Board assesses the performance of the Management Board as a whole on the basis of the Criteria for the Determination of Corporate Performance of the Gorenje Group, which were adopted for this purpose by the Supervisory Board of the Company.

Recommendation under 5.8:

According to the present practice, the General Meeting of Shareholders decides on granting discharge of duties to the members of the Management and Supervisory Boards simultaneously. This has proved to be appropriate and in compliance with the method of work employed so far, the high standards of cooperation of both bodies, and the attained level of trust.

Chapter: Supervisory Board

Recommendation under 8.4:

The company devotes special care to the protection of business secrets. The documents intended for the members of the Supervisory Board are discussed with absolute confidentiality. Materials and notices of meetings are primarily sent to the members of the Supervisory Board in paper form.

Recommendation under 12:

For their work, the members of the Supervisory Board are entitled to meeting attendance fees and the reimbursement of expenses for meeting attendance. So far, the General Meeting of Shareholders has not yet decided on additional payments to members of the Supervisory Board. Should the General Meeting of Shareholders adopt a resolution on additional payment for performing the function as of member of the Supervisory Board, the costs thereof would be debited to the current operations of the Company in the current year.

Recommendation under 13 (13.1 – 13.6):

The issue of establishing supervisory board committees is laid down in the Rules of Procedure of the Supervisory Board, which was adopted by the Supervisory Board at a meeting held on the 23rd of November, 2010. Until the 18th of July, 2010, the Supervisory Board had an Audit Committee comprised of five members, of whom four were appointed from among the members of the Supervisory Board, and one member was appointed from among external experts in the field of accounting and auditing.

Upon the appointment of a new Supervisory Board, a three-member Audit Committee was appointed, of which two members are members of the Supervisory Board, and one member is appointed from among external experts in the field of accounting and auditing.

Given the fact that the members of the Supervisory Board began their four-year term of office on the 19th of July, 2010, and the terms of office of the members of the Management Board expires on the 26th of July, 2013, the Supervisory Board did not appoint an appointment committee. Following the recall of Mirjana Dimc Perko from the post of Member of the Management Board, the Supervisory Board unanimously, as a collective body, instructed the President of the Management Board to propose a new member of the Management Board responsible for finance and economics. Due to the short time available and the necessity of appointing a new member of the Management Board as soon as possible, the Supervisory Board assumed a task that could have been performed by the staff committee of the Supervisory Board.

The Supervisory Board also established a so-called benchmark committee comprised of five of its members, and a corporate governance committee comprised of three of its members. The Supervisory Board deals with all other issues within its competences without forming any special committees, which in practice has neither proved to be necessary nor appropriate.

Chapter: Management Board

Recommendation under 16.1:

The earnings of members of the Management Board are comprised of both a fixed and variable component. For the period from the 1st of November, 2009 to the 31st of October, 2010, all members of the Management Board signed annexes to their employment contracts in which their salaries were reduced on average by 25 percent, and that of the President of the Management Board was reduced by 35 percent with respect to the provisions of his employment contract. On the 1st of January, 2011 all members of the Management Board signed new annexes to their employment contracts, in which their salaries were set at the amounts specified in the first annex. Given the considerable reduction, the existing salaries are outlined by the annex in fixed form.

10.4 Management Board

10.4.1 Franjo Bobinac

President of the Management Board, also responsible for the Ecology, Energy and Services Division and for the finance and economics area from the 2nd of January, 2011 through the 2nd of March, 2011.

He graduated in international economic relations in 1982 from the Faculty of Economics and in 1997 finished his MBA at Ecole Superieure de Commerce in Paris. He has a fluent command of English, French, German and Serbo-Croatian. He started his career in Emo Celje and worked there for three years. In 1986 he joined Gorenje Commerce as assistant to the Director of Export. Four years later he was appointed Director of Export in Gorenje Household Appliances and 1991 took over the position of Marketing Manager. In the period from 1993 to 1998 he acted as the Managing Director of Gorenje Sidex France, a branch office of Gorenje in Paris. Since March 1998 he was a member of the temporary Management Board, and thereupon member of the present Management Board of Gorenje, d.d., responsible for sales and marketing. He was appointed President of the Management Board in 2003 and and was re-elected for another five-year term on the 18th of July, 2008. In a relatively short period of time, he implemented quality changes in the organisation and contents of work in marketing, and contributed a great deal to the exceptional growth of Gorenje.

He boasts of extraordinary international experiences from various business functions and holds in-depth theoretical and practical knowledge that he occasionally shares at the IEDC Bled School of Management and at the Faculty of Economics in Ljubljana, where he occasionally gives lectures for the managerial training. Further, he is engaged as guest lecturer at the Jožef Stefan International Postgraduate School.

He is a member of the Steering Committee of the International Association CECED, member of supervisory boards in some renowned companies, member of the Management Board of the IEDC Bled School of Management, of the Jožef Stefan International Postgraduate School, member of the collegiate economic body of the University in Ljubljana, and President of the Handball Association Slovenia. He was engaged as President of the Manager Association of Slovenia for five years and at present acts as its Vice-President.

Franjo Bobinac is the holder and owner of the French National Order of Merit awarded by the President of the Republic of France. In 2008 he received an award by the the Chamber of Commerce and Industry of Slovenia for exceptional results achieved in 2007, as well as the medal of Janez Vajkard Valvasor for economists awarded by the International Postgraduate School of Jožef Stefan. He was named Slovenia's most reputable manager according to studies conducted in 2006 and 2008 by the Kline & Partner agency. In 2007 he received the Primus Award 2007 for the best Slovenian manager at excellence in communication granted by the Slovenian Association for Public Relations, as well as the Merit Excel Award 2008 (Excellence in Communication Leadership) for extraordinary communication skills and their impact on Gorenje's value and growth, granted by the International Association of Business Communicators (IABC).

10.4.2 Branko Apat

Member of the Management Board, responsible for the Home Appliances Division.

Obtained a degree in foreign trade from the Faculty of Economics in Maribor in 1984. He completed a specialist study programme of the Chamber of Commerce and Marketing in the USA in 1988. He is fluent in English and German. He began working as a trainee in Gorenje Commerce, later assuming the tasks of sales assistant for the so-called green programme. He continued his career as Head of Exports for Middle East markets. In 1988, he became Assistant Director of Export for programmes outside of white goods, and was also responsible for marketing in South America. After the restructuring of Gorenje in 1990, he assumed the position of Director of Purchasing in Gorenje gospodinjski aparati, d.o.o., and in April 1993 was appointed Marketing Director. In September 1999 he took over the rehabilitation of Gorenje Tiki, d.o.o., and was its Director until the end of 2009. In 2003 the Management Board appointed him Executive Director in charge of coordinating the work of companies within the Gorenje Group in the fields of thermal technique, tool making, and industrial machinery, and from 2006 onward also of the supplementary programme of Gorenje, d.d. In September 2007 he was for the first time appointed member of the Management Board of Gorenje, d.d. for a term of office lasting until the 18th of July, 2013), and until March 2009 was responsible for the area of complementary programmes, purchasing and logistics.

10.4.3 Drago Bahun

Member of the Management Board responsible for organisation and personnel, and Work Director.

Completed the study of sociology – majoring in human resources training - at the Faculty of Sociology, Political Sciences and Journalism in Ljubljana in 1979. He finished post-graduate studies in staffing at the Faculty of Social Sciences in Ljubljana. He is fluent in English, and understands German and French. In January 1979 he started working for the Mining and Energy Engineering State Combine in Velenje, where he was Head of the Department of Business System Organisation until the end of 1984. At the beginning of Gorenje's rehabilitation, he was invited, as a young expert in the field of staffing, to join the Management Board of the Gorenje business system. He has been employed at Gorenje since the beginning of 1985 in the following positions: from 1985 to 1987 as Vice-chairman of the management committee of the composite organisation for the field of socio-economic relations, from 1987 to 1990 as a member of the Management Board of Gorenje Gospodinjski Aparati responsible for staffing, and from 1990 to 1997 as Director of Human Resources and General Affairs. He was a member of the temporary Management Board after the restructuring of the company into a public limited company in 1997, a member of the Management Board in charge of personnel and simultaneously Work Director for the 1998-2003 term. Since 2003 he has been a member of the Management Board in charge of organisation and personnel, and also holds the position of Work Director. His term of office expires on the 18th of July, 2013.

10.4.4 Franc Košec

Member of the Management Board, co-responsible for the Home Appliances Division and the areas of industrial machinery and tool making.

Electrical engineering technician who started to work for Gorenje in 1971. Since then, he is continuously engaged in the home appliances programme, in the core activity of the Company. In his more than 30-year career at Gorenje, he has been engaged primarily in the production/technical field. In Gorenje he has tread the path from technician in charge of technical changes, Head of the Department of Technical Changes, Head of the Product Development Department, Technical Head of the Washing Technique Programme, and Director of this programme. From 1997 to 2003 he was Executive Director of the Management Board for the production/ technical field. His working career is closely interwoven with Gorenje, which significantly shaped his professional and personal development. He was the principal investigator and the driving force of numerous projects in Gorenje. In this role he can in particular be merited for the creation of new generations of household appliances, the introduction of electronics in Gorenje products and the adaptation of their functions to the expectations of customers. He has played an important role in developing the design of household appliances, the achievements of which have placed Gorenje in the very forefront when confronting its competitors. He has played a responsible role in managing some of Gorenje's largest investments to date, such as the new factory of cooling-freezing appliances in Velenje, galvanisation plant, a plastics plant, a styrofoam factory, the NAVIS high-bay warehouse, and the construction of a factory in Valjevo in the Republic of Serbia. He was appointed as a member of the Management Board for the first time in 2003, and until March 2009 was in charge of quality and development. His present term of office expires on the 18th of July, 2013.

10.4.5 Uroš Marolt

Member of the Management board, responsible for the Home Interior Division.

Obtained a degree in marketing from the Faculty of Economics in Ljubljana in 1997. He is completing the M.Sc. programme at the Faculty of Economics & Business Administration in Maribor. He is fluent in English, German and Polish. In 1996 and 1997 he was employed at MGA Nazarje as Senior Controller in the Controlling Department of MGA Nazarje (BSH Nazarje). He began to work for Gorenje, d.d. in 1998. Until 2001 he was a Sales Representative for the Russian market, and was then in charge of commercial activities in the sales company in Poland, Gorenje Polska Sp. z.o.o., and was appointed Director of the company in 2002. In September 2005 he became Director of the sales company Gorenje Austria Handels GmbH. In September 2007 he was for the first time appointed as a member of the Management Board of the company, and was until March 2009 responsible for marketing and sales. His term of office expires on the 18th of July, 2013.

10.4.6 Changes in the Management Board at the beginning of 2011

At a meeting held on the 20th of December, 2010, the Supervisory Board approved the consensual termination of Mirjana Dimc Perko's term of office as Member of the Management Board responsible for economics and finance, and recalled her from the post of Member of the Management Board as of the 1st of January, 2011. Mirjana Dimc Perko shall remain in the Gorenje Group in the position of Advisor to the President of the Management Board.

At a meeting held on the 3rd of March, 2011, the Supervisory Board appointed Mr. Marko Mrzel as the new member of the Management Board responsible for finance and economics, whose term of office expires on the 18th of July, 2013.

10.4.7 Marko Mrzel

Member of the Management, responsible for finance and economics.

Graduated from the Technical Faculty in Maribor in 1995. Following his university study, he enrolled in MBA post-graduate studies in Radovljica under the patronage of the Faculty of Economics in Ljubljana, and obtained a Master's degree in economics in 1999. He is fluent in English and Serbian. He completed his traineeship at the Velenje Coal Mine. In 1997 he was employed in the Finance Department of the Era trade company, and advanced to the position of Head of Wholesaling.

He began his business career with the Gorenje Group in 2001 as Director of the Supplementary Programme within the scope of the parent company. In 2003 he was appointed Director of Gorenje's commercial company in Belgrade, which is responsible for the purchasing, distribution, sales and development, and the management of the Gorenje brand name in Serbia. He was also employed as Finance Director of the company, and participated in other projects of the Gorenje Group in Serbia.

10.5 Supervisory Board

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

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

Board operates transparently and efficiently, which has been ensured by regular press releases of summaries of its meetings and resolutions.

On the 18th of July, 2010 the four-year term of office of the following members of the Supervisory Board expired:

Representatives of capital:

- Jože Zagožen, Ph.D., Chairman
- Peter Ješovnik, M.Sc., Member
- Milan Podpečan, Member
- Andrej Presečnik, Member
- Gregor Sluga, M.Sc., Member

Representatives of employees:
- Ivan Atelšek, Deputy Chairman
- Peter Kobal, Member
- Drago Krenker, Member
- Krešimir Martinjak, Member (until 31 May 2010)
- Jurij Slemenik, Member

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

Representatives of capital:

- Uroš Slavinec, Chairman
- Maja Makovec Brenčič, Ph.D., Deputy Chairman
- Marcel van Assen, Ph.D., Member
- Peter Kraljič, Ph.D., Member
- Keith Charles Miles, FCA, Member
- Bernard Pasquier, Member

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

10.5.1 Uroš Slavinec

Chairman of the Supervisory Board

Holds a university degree in economics. Since the 1st of June, 1990 he has been the President of the Management Board of Helios Domžale, d.d. He was employed in management and in different areas of the company from the beginning of his working career (1975) until 1986: Head of Planning and Analytics, member of the Collegial Management Committee, and Chairman of the Collegial Management Committee. From 1986 to 1990 he was a member of the Executive Council of the Assembly of the Republic of Slovenia for industry and civil engineering.

He is Chairman of the Assembly of the Slovenian Chamber of Commerce and Industry. In 1997 he received the Award of the Slovenian Chamber of Commerce and Industry for exemplary business and entrepreneurial achievements. In 2006 he was named Manager of the Year.

10.5.2 Maja Makovec Brenčič, Ph.D.

Deputy Chairman of the Supervisory Board

Currently an Associate Professor for international business operations and marketing, and Deputy Dean for development at the Faculty of Economics of the University of Ljubljana. At this and other universities abroad, she lectures on international business operations, international marketing, strategic marketing, interorganisational marketing, marketing in sports, and marketing in health care. She is President of the Slovenian Marketing Association and Vice-President of the Advertising Tribunal at the Slovenian Advertising Chamber, President and Member of the Programme Council of the Slovenian Marketing Conference, member of the Marketing Council of the Slovenian Olympic Committee, and President of the SPORTO Award Committee. She is also co-founder and President of the Student Business Conference, which connects the research work of students with the needs of companies. She is a member of numerous Slovenian and international professional and scientific associations in the area of international operations and marketing (AIB, EIBA, AMA), and a representative of the Executive Committee of the largest European academic association for marketing (European Marketing Academy – EMAC).

Her contributions are published in distinguished scientific and professional magazines specialising in international operations and marketing, both in Slovenia and abroad. Her bibliography comprises more than 300 scientific and professional papers. Her research work is focused primarily on the internationalisation of companies, relation-based marketing, international marketing, and the connectedness of marketing and sales. She also spreads her knowledge among Slovenian companies operating abroad, and offers consulting in the areas of internationalisation, marketing development and marketing strategies. She heads the post-graduate international business programme at the Faculty of Economics and, as Deputy Dean of the Faculty is responsible for the development of new products, the strategy of the FE, and quality assurance. She is also Vice-President of the University of Ljubljana's Quality Committee, member of the FE Quality Committee, President of the NAKVIS Council, and member of the Council for Higher Education.

10.5.3 Marcel van Assen, Ph.D.

Member of the Supervisory Board

Currently a Managing Consultant at Berenschot, a leading Dutch consultancy firm, where he is responsible for all consultancy activities with respect to Operational Excellence. His consulting experience covers various operations management and innovation management issues, from operational excellence, lean six sigma to value-innovation based on strategic conversation, roadmapping and foresight, aiming to professionalise both industrial and service organisations.

Marcel van Assen is a Full Professor of Operational Excellence for Services at TiasNimbas Business School, the business school of the University of Tilburg and the Technical University of Eindhoven, where he teaches various courses, workshops and Masters classes. He holds a M.Sc. degree in mechanical engineering from the University of Twente, a M.Sc. degree in strategy and organisation from the Open University, and a Ph.D. in business administration from Erasmus University in Rotterdam. He is also an ambassador of the University of Twente. He is co-author of various articles and books, including i) Operational Excellence new style: implementation, instruments and models for management excellence, Practices of Supply Chain Management, Key Management Models, and Reconfigurations of chains and networks.

Since the 1st of February, 2011 he has been a Full Professor of Operational Excellence at the TiasNimbas Business School in Tilburg.

10.5.4 Peter Kraljič, Ph.D.

Member of the Supervisory Board

Obtained his B.Sc. degree in metallurgy from the University of Ljubljana, his Ph.D. from the Technical University of Hanover, and his MBA from INSEAD, Fontainebleau. From 1970 until his retirement in 2002 he was employed at McKinsey & Co., Inc., acting as Director after 1982. Prior to this, he worked at La Continental Nucléaire, Luxembourg from 1967 until 1970, at TH Hanover from 1965 to 1967, and in 1964 he was active in the welding industry in Slovenia. His activities are mainly related to industrial activities, such as chemical, pharmaceutical, automobile and steel industries, as well as industry service sectors in Germany, Austria, France and Eastern Europe.

He has published numerous scientific and business papers in reputable journals. He has also been a speaker at numerous meetings, institutions and forums, where he lectured on several topics, including industry and company restructuring in Eastern Europe. He is a member of the supervisory boards of the companies SID, LEK, and Severstal. He was also president of IEDC Bled School of Management, as well as a member of the McKinsey Global Institute Advisory Council. In 2002 he was a member of the Federal Committee for the Restructuring of the German Employment Agency.

10.5.5 Keith Charles Miles, FCA

Member of the Supervisory Board

Although in retirement, Keith Charles Miles, FCA, still remains very active in all the fields in which he worked during his career as a Chartered Accountant. Among others, he was director of several British public and non-public joint stock companies. Currently, he is Chairman of the British-Slovene Society and a lecturer on retail, finance, economics and business administration. He regularly publishes articles in the Žurnal24 daily paper and occasionally in the Finance daily paper. He is active in several other fields both in Slovenia and in Great Britain.

He gained his working experience while being employed at various companies and enterprises, mostly dealing with accounting, treasury, finance and retailing. From 1958 to 1970 he was employed at G.H.FLETCHER & CO (professional public accountants and auditors), as a partner; from 1970 to 1972 he worked at the P&O Group (transport activities) in the Group Accounting Division; from 1972 to mid 1973 he worked at the Grindlays Bank Group (banking) as Assistant Company Secretary (group accounts); from mid 1973 to mid 1983 he worked at the Datnow "Group" (investments and sales), as a Director; from mid 1983 to mid 1985 he was Director of Finance and Administration at the

Greater London Enterprise Board (investments, local/municipal administration); from mid 1985 to 1988 he was Director of Finance and Administration at the Cable Authority (regulatory body); from 1988 to mid 1990 he was Director of Finance and Administration at the Institute of Economic Affairs (academic institution); from mid 1990 to October 1998 he worked at ETAM PLC (retail company) as Company Secretary and Director of Finance of the Etam Group. He was also a member of numerous boards, mostly in Great Britain.

10.5.6 Bernard Pasquier

Member of the Supervisory Board

Obtained his undergraduate degree in Business Administration (Finance and Investment Analysis) from the Ecole Supérieure de Commerce et d'Administration des Entreprises de Montpellier (France) in 1976 and his Masters degree in Public Administration (Business and Economic Development) from Harvard University, John F. Kennedy School of Government (USA) in 1984. He has been a consultant since 2008. His portfolio of assignments includes advising the Monaco Parliament on economic and financial issues and the World Bank on various projects linked to private sector development. He also represents the International Finance Corporation on the Board of Directors of Grupo Mundial, Panama.

In the period from 2004 to 2007 he was Secretary General at Compagnie Monegasque de Banque in Monaco, responsible for overall corporate strategy, the Legal Department, internal and external communications, and participating in Board of Directors and Executive Committee meetings. From 2001 to 2004 he was Director of the Latin America and Caribbean Department at the International Finance Corporation, Washington, responsible for the overall strategy of IFC, including new investments ($1.5 billion per year) and portfolio ($5 billion).

In the period from 1984 to 2001 he also performed several other functions with IFC: he was an Investment Officer through the Young Professional Programme (1984-1985), Principal Economist and Country Officer for the Africa region (1985-1990), Manager of the Africa Department (1990-1995), Senior Advisor in the Office of the President of The World Bank (1998-2001), and Director of the South Asia Department (2001-2004). In the period from 1980 to 1983 he was a founder and Managing Director of the company Dream Food International in San Francisco. From 1977-1980 he worked as an Investment Analyst at The Chase Manhattan Bank in Rio de Janeiro, and in 1976 and 1977 he was Economic Consultant at the Finance Ministry in Rio de Janeiro. He is fluent in French, English and Portuguese, and has a command of conversational Spanish, and undertands Italian. From 1998 to 2004 he was a Board member of SMBP, a private bank based in Monaco, whose shareholders were Dexia and La Caixa de Barcelona. He is also Secretary General of the Monaco Méditerranée Foundation, Secretary General of the Club of Monaco, Secretary General of l'Association des Monégasques de l'Etranger, and a member of the Rotary Club of Monaco.

10.5.7 Krešimir Martinjak

Deputy Chairman of the Supervisory Board

Holds a university degree in law, and has worked for Gorenje since 1986. He carried out various duties, tasks and obligations in the fields of labour, obligational and status or corporate law within the Legal Department of the company for sixteen years. In 2002 he was elected member of the Supervisory Board of Gorenje for the first time. From 2002 to 2008 he was Chairman of the SKEI Trade Union of Gorenje, after which he returned to work in the legal office of Gorenje.

10.5.8 Peter Kobal

Member of the Supervisory Board

Assistant Director of Maintenance in Gorenje. He is an electrical engineering technician. He has worked for Gorenje since 1971, and has carried out various tasks relating to maintenance, from maintenance worker to Assistant Director. In 1997 he was elected Chairman of the Workers' Council of Gorenje for the first time. He has held this position for a fourth consecutive term. He was as a appointed member of the Supervisory Board of Gorenje for the first time in 1998. He has been successful both in his professional field as well as in the co-management of workers.

10.5.9 Drago Krenker

Member of the Supervisory Board

Assistant Director of the refrigerator-freezer programme. He is a sales representative by profession. He started his career in the field of electronics in 1974. He worked 14 years in the Procesna Oprema company within the Gorenje system, and two years for Iskra Delta, particularly in the field of medical electronic engineering. In 1989 he began to work in the refrigerator-freezer programme as Head of the plant, Head of Production Preparation, Head of Production, and Head of the General Affairs Department. He was elected as a member of the Supervisory Board of Gorenje for the first time in 1998. He holds a position in the Workers' Council for a fourth consecutive term, and was its Vice-President for one term. He is Chairman of the Committee for Safe and Healthy Work for a second consecutive term.

10.5.10 Jurij Slemenik

Member of the Supervisory Board

Currently Head of Production in the washer-dryer programme. He is a mechanical engineering technician by profession. He has worked for Gorenje since 1978 in various job positions in the washer-dryer programme. He has been a member of the Workers' Council since 2002, when he was elected to the Supervisory Board of Gorenje for the first time.

10.6 Supervisory Board Committees

Audit Committee

The audit Committee performs its tasks within the scope of authorisations granted under Article 280 of the Companies Act. Until the 18th of July, 2010, the committee was comprised of the following members of the Supervisory Board: Milan Podpečan, Gregor Sluga, M.Sc., Peter Ješovnik, M.Sc., Drago Krenker, and an external member, Mateja Vrankar, employed at BDO EOS Revizija.

The changes in the composition of the Supervisory Board have also brought changes in the composition of the Audit Committee. Its new members have been elected to terms of four years, beginning on the 19th of July, 2010, in the following composition: Keith Charles Miles, FCA, as Chairman, Drago Krenker, member, Aleksander Igličar, M.Sc., external member, employed as Senior Lecturer in accounting and auditing at the Faculty of Economics in Ljubljana.

Benchmark Committee

The committee is comprised of the following members: Maja Makovec Brenčič, Ph.D., as Chairwoman, and Marcel van Assen, Ph.D., Peter Kraljič, Ph.D., Bernard Pasquier, and Peter Kobal as members.

The fundamental task of the Benchmark Committee is to determine the companies with which the Gorenje Group should compare its operation. The committee is primarily engaged in methodological issues and setting the basic criteria for comparisons. On the basis of a final selection of comparable companies and defined methods and indicators, the committee will define the time frame of the Company's activities aimed at improving strategies and the Strategic Plan in the period from 2011 onwards. Some of the committee's members are representatives of the Company's management: Franjo Bobinac, President of the Management Board, Aleksander Uranc, Director of Marketing, and Klemen Prešeren, Director of Gorenje Vertriebs GmbH.

Corporate Governance Committee

The task of the Corporate Governance Committee is to find the best possible way of organising the Gorenje Group with respect to its increasing international presence and need to adapt in all areas of its operations.

The members of the committee are Peter Kraljič, Ph.D., Bernard Pasquier and, representing the company, Franjo Bobinac, President of the Management Board.

10.7 Annual General Meeting of Shareholders

The General Meeting of Shareholders decides on all issues prescribed by law, in particular the appropriation of accumulated profit and statutory issues. The General Meeting is generally convened once a year by the Management Board. Shareholders may participate in general meetings in person or through proxies, who are required to obtain authorisations in accordance with the law. This also enables small shareholders, who normally do not attend meetings in large numbers, to vote. Between fifty and sixty percent of the capital is normally represented at general meetings.

The option of indirect participation in general meetings is an incentive for shareholders to exercise their voting rights, and at the same time provides for improved shareholder information on the convening of general assembly meetings and the contents of resolutions to be adopted. The Company ensures equal delivery of information to shareholders and the interested public via announcements in electronic form on the website of the Ljubljana Stock Exchange (link: http://seonet.ljse.si/) in accordance with its rules and instructions, and on the Company's website (link:

http://www.gorenje.com), in the Slovenian and English languages. The Company also publishes announcements in the Delo daily newspaper (link: http://www.delo.si/) when this is expressly required by law or other applicable regulations.

General meetings are closed to the general public, and the entire content and course of the meetings are known only to the shareholders present. However, in line with applicable legislation and established standards, the Company's resolutions are publicly announced and explained in press releases.

All shareholders have equal rights during voting, as all the Company's shares comprise a single share class, and each share entitles its holder to one vote. Own shares, which under applicable law do not have voting rights, are an exception.

In 2010 the Company held two general meetings. At the 14th general meeting held on the 28th of May, 2010, the General Meeting approved the capital increase and the amendments to the Articles of Association, and elected five members of the Supervisory Board as representatives of capital.

At the 15th Annual general meeting held on the 15th of July, 2010, the 2009 Annual Report and the Report of the Supervisory Board on the Review of the 2009 Annual Report were presented. The General Meeting decided on the appropriation of accumulated profit for 2009 and discharged the Management Board and the Supervisory Board of their duties. The General Meeting also appointed an auditor for the year 2010 and a sixth member of the Supervisory Board as a representative of capital. No challenging actions were announced at the general meetings held in 2010.

The general meeting for the 2010 financial year will be held on the 1st of July, 2011.

The general meeting for the 2010 financial year will be held on the 1st of July, 2011. The issues to be discussed at the meeting primarily include normal topics, such as: examining the annual report, deciding on the appropriation of accumulated profit, discharging members of their duties, and appointing of an auditor for the 2011 financial year.

10.8 Payments to Management and Supervisory Board members

Table 11: Payments to members of the Managament and Supervisory Board (the additional disclosure is illustrated in Note 38 of the Accounting Report of Gorenje, d.d.)

TEUR	Gross amount		Net amount	
	2010	2009	2010	2009
Franjo Bobinac	190,293	249,346	93,771	120,805
Mirjana Dimc Perko	171,758	195,985	84,232	95,278
Drago Bahun	169,972	201,861	82,473	97,054
Branko Apat	168,469	199,015	83,743	97,675
Franc Košec	174,294	211,079	85,397	102,215
Uroš Marolt	176,919	199,258	87,625	97,788
Philip Alexander Sluiter	-	31,741	-	23,806
Total Management Board	**1,051,705**	**1,288,285**	**517,241**	**634,621**
Uroš Slavinec	1,710	-	1,325	-
Maja Makovec Brenčič	2,588	-	2,006	-
Marcel Van Assen	9,329	-	7,231	-
Peter Kraljič	5,105	-	3,956	-
Keith Miles, FCA	7,989	-	6,192	-
Bernard C. Pasquier	1,796	-	1,392	-
Peter Kobal	5,442	4,825	4,217	3,739
Drago Krenker	7,896	6,173	6,119	4,764
Krešimir Martinjak	4,797	4,825	3,717	3,739
Jurij Slemenik	5,442	4,825	4,217	3,739
Jože Zagožen, Ph.D.	5,128	5,930	3,975	4,596
Peter Ješovnik, M.Sc.	6,481	7,157	5,023	5,547
Milan Podpečan	2,726	6,716	2,113	5,204
Andrej Presečnik	2,804	4,729	2,173	3,664

Gregor Sluga, M.Sc.	4,990	7,257	3,868	5,547
Ivan Atelšek	3,443	5,020	2,667	3,890
Total Supervisory Board	**77,666**	**57,457**	**60,191**	**44,429**

On the basis of employment contracts concluded in 2008, the earnings of members of the Management Board are comprised of a fixed and a variable component. For the period from the 1st of November, 2009 through the 31st of October, 2010, all members of the Management Board signed annexes to their employment contracts, in which their salaries were reduced, on average, by 25 percent, and that of the President of the Management Board was reduced by 35 percent with respect to the provisions of his employment contract. On the 1st of January, 2011, all members of the Management Board signed new annexes to their employment contracts, in which their salaries were set at the amounts specified in the first annex. Given the considerable reduction, the existing salaries are outlined by the annex in fixed form.

On the 1st of January, 2011 all members of the Management Board signed annexes in which their salaries were reduced, on average, by 25 percent, and that of the President of the Management Board by 35 percent.

The Company has not adopted a stock option remuneration plan.

For their work, the members of the Supervisory Board are entitled to meeting attendance fees and the reimbursement of expenses for meeting attendance. So far, the General Meeting of Shareholders has not yet decided on additional payments to members of the Supervisory Board. Should the General Meeting of Shareholders adopt a resolution on additional payment for performing the function of member of the Supervisory Board, the costs thereof would be debited to the current operations of the Company in the current year.

10.9 Trading in Shares of the Management and Supervisory Board members

In 2010 the percentage of shares owned by members of the Management Board decreased from 0.0943 percent to 0.0832 percent due to the capital increase. Owing to the new composition of the Supervisory Board, the capital increase, and the disposal of shares owned by Supervisory Board member Drago Krenker in December of 2010, the number of shares owned by the Supervisory Board decreased to 3,208 shares, which accounts for a 0.0201 percent share in the capital of the Company.

The recipients of internal information are not allowed to trade in the Company's shares 30 days before the announcement of relevant information.

In accordance with applicable laws and the Company's rules, all recipients of internal information – primarily members of the Management Board, Supervisory Board and the Audit Committee – are required to observe special rules for trading in the Company's shares, commonly referred to as ”trading windows.” Such persons are not allowed to trade in the Company's shares thirty days prior to the announcement of periodical results or other information that could influence the share price. Regulations governing internal information and informing individuals with respect to the openness of trading windows are kept by the Secretary of the Management Board.

On the 31st of December, 2010, the company Ingor, d.o.o., & co., k.d. was the owner of 794,473 shares representing a 4.9945 percent ownership share in Gorenje. The limited partners who invested their own funds in the capital of the Company are members of the narrow and broader management of Gorenje, certain members of the Supervisory Board and the SKEI trade union, while the company is managed by a general partner – the company Ingor, d.o.o.. This company is not privileged in comparison to other stakeholders. All internal owners who have, or could have access to internal information are required to consistently observe the so-called trading windows, and may only trade in Gorenje shares when their information base is balanced with other investors. At Gorenje, we fully observe the principle of equal treatment of all stakeholders.

10.10 External Audit

The audit of the financial statements of the controlling company and the majority of its subsidiaries is conducted by the KPMG audit group. The company observes the recommendations of the Corporate Governance Code for Public Limited Companies regarding the changing of auditors every three years. The proposal for the selection of an auditor for the 2010 financial year was prepared by the Audit Committee, and the Supervisory Board proposed its appointment to the General Meeting of Shareholders.

The external auditor reports on its findings to the Management Board, the Supervisory Board, and the audit committee.

The transactions of the parent company and the Gorenje Group with the company KPMG Slovenija, podjetje za revidiranje, d.o.o., and the transactions of the Group companies with individual auditing companies are presented in the Notes to the Financial Statements.

10.11 Corporate communication

The Gorenje Group builds its image and reputation with others through clear and open corporate communication. This encompasses external communication with third parties and internal communication with employees. The Group consistently observes and follows the Rules of Internal Information and Rules Defining the Protection of Business Secrecy. The flow of information is hereby clearly defined, whereas access to internal information is recorded and supervised. As a first listed company on the Ljubljana Stock Exchange, Gorenje pursues the highest standards for publishing business reports as defined under the Financial Instruments Market Act and Recommendations of the Ljubljana Stock Exchange.

Gorenje won the Best 2009 Annual Report Award among enterprises in the category of communication, at a contest held for 11th consecutive year by the Finance Daily Paper and its Business Academy.

11 Social Responsibility

11.1 Employees

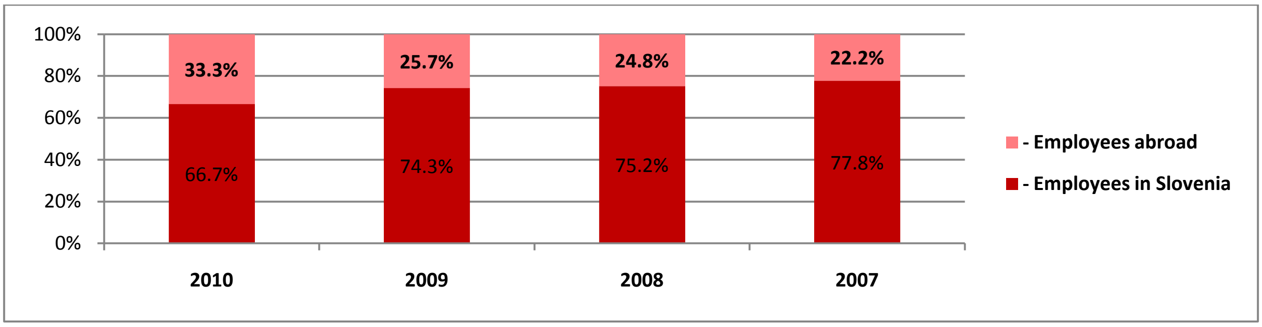
In the Slovenian based companies of the Gorenje Group the number of employees decreased by almost one tenth in the year 2010. The reduction was most evident in the companies characterised by high-volume production. The main reasons for the reduction are adjustments to the number of employees in response to demand and consequently the production, changes in the technology, and complexity and rationalisation of business processes. The educational structure of the employees who were newly employed in the companies of the Gorenje Group last year shows an increase in the complexity of business processes. The scope of employment was significantly lower than in the previous years, but mostly staff with higher professional education were employed than in the past.

Table 12: Staff

	2010	2009	2008	2007
Total number of staff	**11,174**	**10,907**	**11,432**	**11,456**
Home Appliances	9,042	8,741	9,153	9,261
Home Interior	926	991	1,134	1,155
Ecology, Energy and Services	1,206	1,175	1,145	1,040
Staff - Slovenia	7,450	8,104	8,597	8,913
Staff - abroad	3,724	2,803	2,835	2,543
New employment	186	161	489	915
Average employment period total (years)	21.58	21.75	21.08	20.42
Average employment period in Gorenje (years)	17.75	17.83	17.17	16.33
Average age (years)	42.33	42.50	41.91	41.08
Average absence from work (hours)	525	592	529	520
Average absence from work - sick leave (hours)	140	112	134	126
Average salary (in EUR) - gross	1,231	1,068	1,093	1,018
Average salary (in EUR) net	820	721	737	681

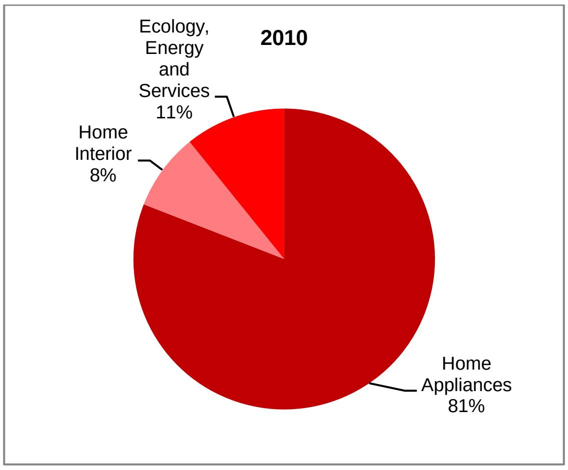
In 2010, the number of employees increased considerably in the production companies abroad and at the end of the year it amounted to 2,185 employees. The most significant factor for this increase is the integration of the Asko Group into the Gorenje Group. In Slovenia, 6,330 employees worked for Gorenje in the same period. At the end of 2010, a total of 8,515 persons, or four-fifths of all employees worked in the production companies of the Gorenje Group.

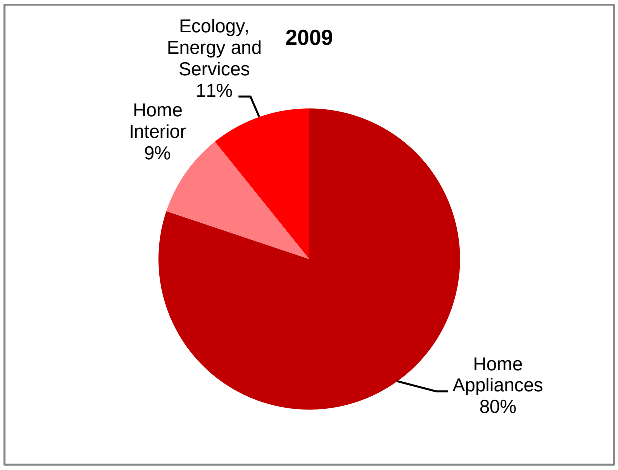
Chart 6: Structure of employees by countries



The major part of employees (84 percent) worked within the companies of the Home Appliances Division, eight percent in the companies of the Home Interior Division and eight percent in the companies of the Ecology, Energy and Services Division.

Chart 7: Structure of employees by divisions





At Gorenje, our responsibility for our employees is primarily understood as care for their social security. It has gained importance when the reduction of the number of employees is required. Due to the cancellation of employment contracts special emphasis has been placed on the provision of social security to dismissed employees in the last year. The majority of these employees will retire in compliance with the provisions of the "former" Pension Insurance Act.

In cases of termination of employment we strived to timely inform employees of the purposes and enable them to search for new jobs. The employees of the company Gorenje Tiki, in Ljubljana were informed about the closing down of the company six months before their employment contracts were cancelled. We concluded an agreement about additional termination benefits with these employees and assisted some of them with their job searches by performance of additional activities in co-operation with the Employment Service of Slovenia. Some works councils and a series of informative – consulting meetings were organised to inform them of their rights upon the cancellation of an employment contract, various possibilities of employment and provision of social security. We believe that in this way the degree of uncertainty was reduced with the majority of such employees and we helped them to find new jobs.

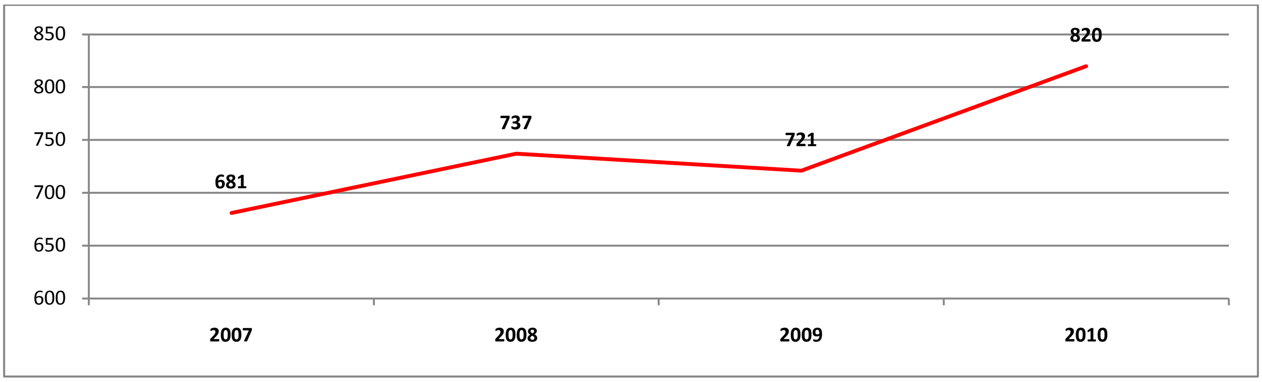
The increase in the average age of the employees temporarily stopped in the last two years, but it is still relatively high. Due to the low volume of employment and the increase in the retirement age, it is expected that the average age will start increasing again in the future. High average age of the employees is the main reason for a relatively high absenteeism rate as well as the increase in workload that cannot be avoided due to competition requirements. Special attention, concrete activities and solutions are, therefore, paid to the ergonomic arrangement of workplaces and working conditions. Working groups successfully deal with the search for solutions in this field and these groups include colleagues from the field of technology, production, human resources and occupational safety and health. Our commitment to continual improvement of the working environment is evidenced also by the allocation of substantial funds to this field during the economic crisis.

Similar trends apply also to the education and training of the employees to which Gorenje traditionally devotes much of attention. This enables quick and efficient introduction of changes in the production, technological and business processes and provides a high level of effectiveness also in the later stage of a professional career.

We at Gorenje believe that constant improvement in the educational level of our employees is one of the keys to the control of strong competition in our most important markets, enlargement of qualifications and encouragement of their creativity. The scope of scholarships for secondary schools, and studies at colleges and universities has been increased. Scholarship applicants are recruited mostly in schools, training and fairs. Scholarship recipients have the possibility of undergoing practical training at Gorenje. The Company provides relevant data required in the preparation of seminar projects and graduation theses, and some of our leading experts also act as mentors to students.

In the year 2010, the average salary increased by just over 10 percent.

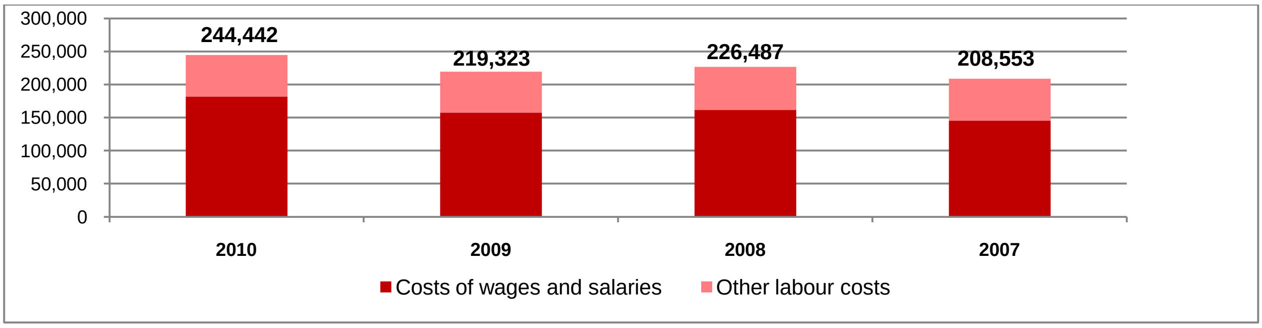
Chart 8: Movement of average net salary in Slovenian companies, in EUR



The average salary in Slovenian companies increased by just over one-tenth in the year 2010. One of the relevant reasons for the increase is that the production volume was reduced in 2009 - until September and consequently, the salaries were lower. The new increase in the production volume brought about new requirements for higher salaries. The increase of the lowest salary up to EUR 600 was agreed with the employees, a fixed allowance was introduced and the temporary reduction in salaries was eliminated, which was one of the anti-crisis measures. The consequence of this situation is significant uniformity of salaries, especially for workers performing less complex work.

At the time of the temporary cessation of work in October 2009 and in the period that followed, several meetings with the representatives of the trade unions and employees were held in Gorenje. The need for direct and relevant communication with the employees emerged. It became evident that the quantity and contents of the information provided to employees was not the concern, but rather the lack of confidence in and directness of the information communicated. As a result, meetings with the employees are now organised more frequently and the contents of these meetings are explained with respect to the needs of the employees.

Chart 9: Movement of labour costs in TEUR



Occupational safety

In the Gorenje Group the system of occupational safety and health is organised in compliance with the OHSAS 18001 standard. The system has been certified in three production companies (Gorenje, d.d., Gorenje - IPC and Gorenje Orodjarna). The parent company obtained the certificate in 2006, Gorenje IPC and Gorenje Orodjarna in the year 2007. Operation in compliance with the requirements of the standard is checked during internal and external annual audits.

Measures for the reduction of the noise level have been constantly implemented in the scope of occupational safety and health in working environments. Safety - technical inspections of work equipment are performed on a regular basis. At present, the information support has been introduced (the TREF programme). It involves management in the field of safe and healthy work enabling efficient care of all statutory records in this field. Risk assessments on workplaces have been up-dated in compliance with the plan.

Table 13: Occupational accidents in Gorenje, d.d.

	2010	2009	2008	2007	2006
Number of accidents	186	195	193	124	130
Frequency (F)	20	23	23	18	18
Severity (S)	438	560	609	484	451

Source: Data by Gorenje Group.
Frequency – days of absence due to illness per million hours.
Severity – number of occupational accidents per million hours.

In co-operation with an authorised medical doctor the improvement of ergonomic working conditions has continued in individual programmes and working environments. When planning new production lines a certain number of jobs are planned also for handicapped workers. Employees trainings for safe and healthy work is periodically organised. It has been supplemented by practical training relating to the workplace. In 2010, 1360 employees took part in training courses.

Over 7000 employees and their family members regularly participate in various sports- recreational activities that are organised by the sports club that has operated for several years. In the year 2010, preparations for the performance of new preventive activities for the employees began and these activities will be implemented in select health resorts during the year 2011.

11.2 Social environment

For many decades Gorenje has consciously and responsibly transferred its success to the wide and broad communities. Initially, activities were focused on the employees and local environment. Over the course of these years the focus expanded to include other partners and, today, he philosophy of a socially responsible operation is an integral part of the successful operation of Gorenje.

Through planned charitable contributions and sponsorships, important measures in culture, sports, education and health care were implemented in the year 2010. These measures were of essential importance for some of the employees and the wide environment. Due to economic conditions, the majority of charitable contributions were allocated to humanitarian activities. For years we have sponsored the Slovene Nordic Teams operating within the scope of the Ski Association of Slovenia, and in the year 2010, we became their general sponsor for a period of four years. As the general sponsor of the Handball Club of Gorenje - Velenje a portion of sponsorship funds was awarded to handball teams throughout Slovenia in the year 2010.

In the field of sports Gorenje co-financed the organisation of the FIS championship in ski jumping in Velenje and contributed funds to amateur societies and activities for the direction youth in sports activities that contribute to healthy and meaningful recreational activities. We also support the Association for recreation in Gorenje, which offers a wide range of organised recreational activities to its members free of charge.

In the field of culture we supported the Velenje Gallery, a fine arts institution that was established in partnership with the Town Municipality of Velenje, the Architecture and Design Museum's 22nd Biennial of Industrial Design and the Gorenje mixed choir. We also support the Culture Association of Gorenje whose efforts include the organisation of art exhibitions and cultural events.

In the field of education we supported various primary schools that share locations with production plants, the Sports & Media Institute whose efforts support events for school youth, the School Centre - Velenje, the College of Environmental Protection - Velenje, and the Faculty of Mechanical Engineering - Ljubljana.

In the fields of both humanitarian activities and health care we donated equipment to the first hospice established in Slovenia, sponsored the institution founded by Danilo Türk - Let Them Dream, the event Good Work for the Workers of Vegrad, and the preventive specialist and medical centre Fori Tinko.

We also supported the Club for retired persons of Gorenje whose objective is to enrich the quality of life of our former employees through organised activities.

11.3 Ecology

Environmental protection

The Gorenje Group has devoted close attention to the responsible relation to the environment in all production locations where we operate. The development of new products and introduction of technological procedures have been carried out in accordance with our environmental policy.

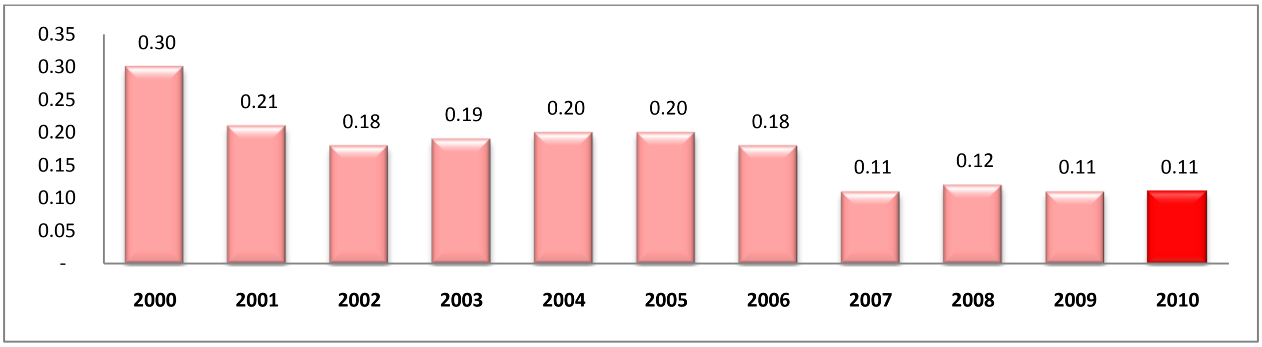
Our environmental impact has been closely monitored through our system of long-term and annual objectives relating to the reduction in waste quantity, water consumption and energy products. A systematic approach to the environment has been introduced in compliance with the ISO 14001 standard and the EMAS decree. The number of companies in the Group with the certified system of environmental management increases every year. The system it was also introduced in our production plants in Valjevo in the year 2010.

The Gorenje Group meets all the legally prescribed conditions relating to emissions into the environment and has obtained all relevant environmental permits that are periodically renewed and sustained. All these permits have limited validity and can be extended only if the operation is organised in line with the topical environmental legislation.

All environmental aspects are considered in our introduction of new technologies and technological procedures along with economic efficiently, enabling us to achieve our long-term objectives of operation.

Special attention has been paid to the reduction of the impact of finished products on the environment. Increases in energy efficiency have become our constant development task and simultaneously an important market advantage of our products.

Chart 10: Water consumption in the Gorenje Group (in m3/piece)



The greatest reduction of water consumption has been achieved in modernised technological procedures for pre-processing sheet metal in the processes of surface protection. The reduction in water consumption in the years 2001-2002 was achieved by the introduction of new technologies of galvanisation and in the years 2006-2007 by new procedures of preliminary treatment before enamelling. In recent years, no major leaps in technology have been made, but the existing processes have been optimised and water consumption has been maintained within the quantities planned.

Still acceptable quantities of hazardous waste have been defined in the waste management plan. The majority of these are spent mineral oils. Their quantity has decreased in over the long-term, but quantities can still fluctuate in short-term with respect to the number of maintenance operations on the machines and devices used in the production. The situation in 2010 was similar.

Since 2010 no wastes have been deposited in the Gorenje Group. They have been collected separately by type of material and place of origin, and are then directed to special flows of waste management. Wastes that were deposited in the past have now been processed to solid fuel with controlled composition in the process of mechanical treatment.

Chart 11: Quantities of hazardous waste (kg/piece)

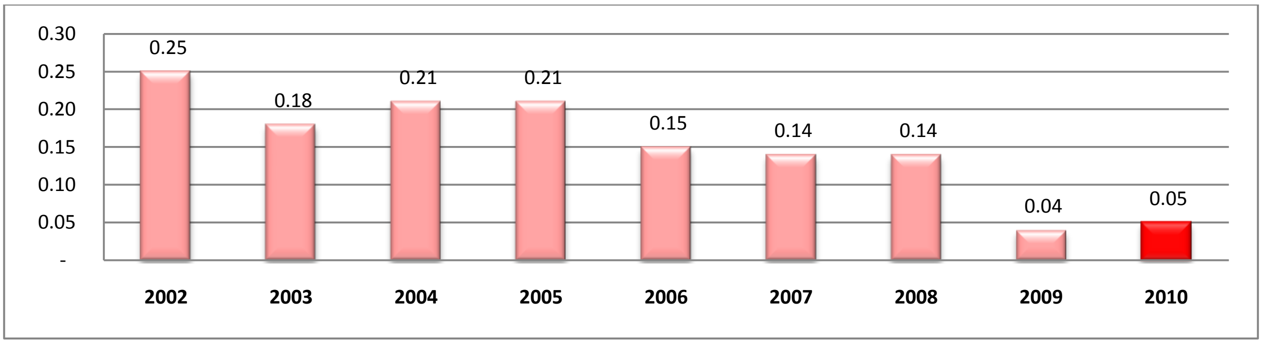
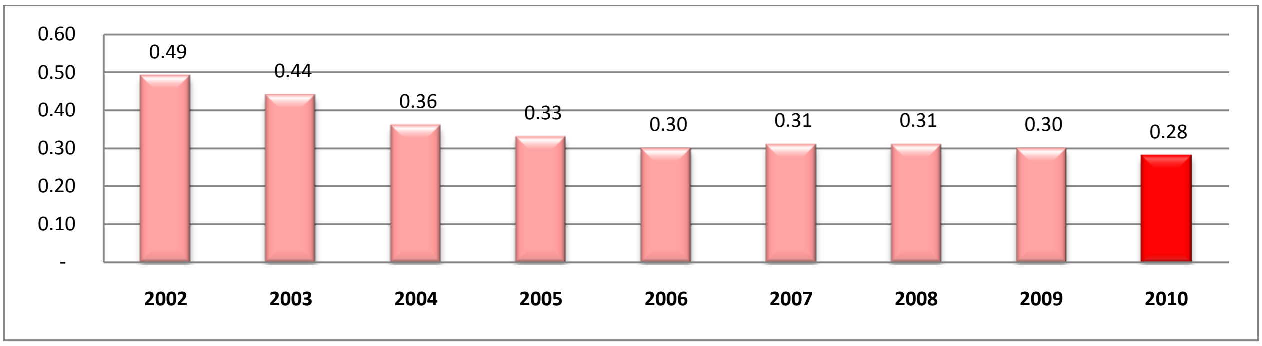


Chart 12: Quantities of waste for depositing or mechanical treatment (kg/piece)



Responsibility for products

The environmental concerns of the home appliances producer do not end when the products leave a factory. The majority of environmental impacts caused by individual products have been defined during the planning stage. Through planned stage development we ensure that these products have a longer useful life, are energy efficient, and can be easily dismantled at the end of their useful life. Such policy is not only part of the environmental orientation, but also represents a market opportunity, which is shown by data on increases in sales of appliances with high-energy efficiency.

Chart 13: Sale of refrigerators and freezers per energy class

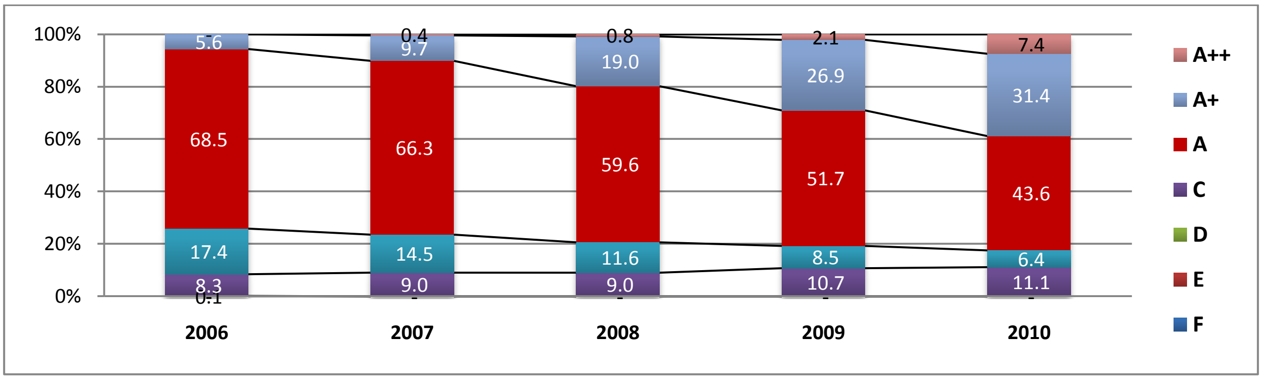
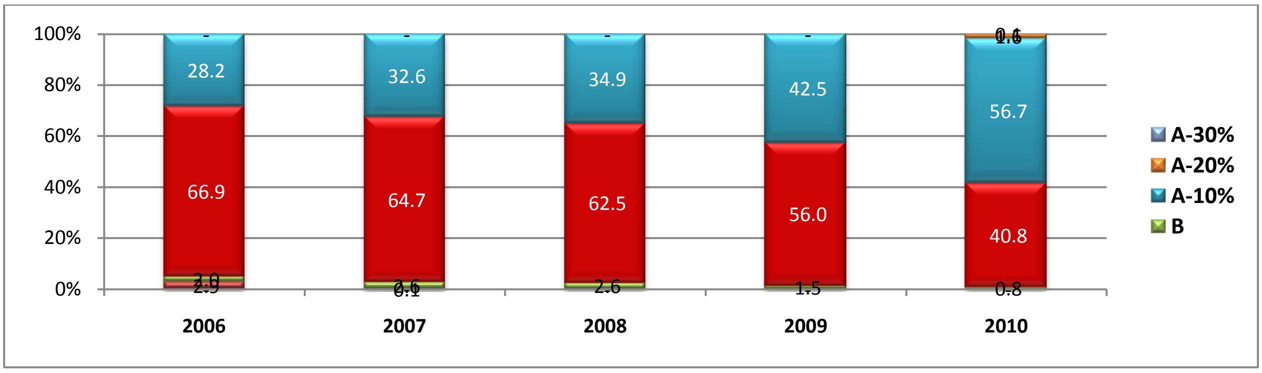


Chart 14: Sale of washing machines per energy class



12 Management Report

12.1 Economic environment and key markets

Table 14: Macroeconomic data on key markets of Gorenje

	EMU	Germany	Denmark	France	Slovenia	Russia	Ukraine	Serbia	Croatia
GDP growth	1.7%	3.6%	2.3%	1.6%	1.1%	4.0%	3.7%	1.6%	-1.8%
Unemployment	10.1%	7.3%	6.9%	9.6%	7.2%	7.5%	8.8%	19.2%	12.5%
Change in exchange rate of local currency	-	-	0.2%	-	-	-5.4%	-10.6%	11.5%	1.2%

Sources: European Commission, Eurostat, EIU, MDS for EMU, Russia and Ukraine, Bank of Slovenia.

Economic environment

After a dramatic decline in economic activity in the year 2009 the global economy recovered from the recession in the year 2010 as expected. All our key markets followed this trend, except Croatia, where GDP decreased for the second year in a row. The main growth factor in the European economy is the increased demand in the export markets, primarily a result of rapid growth in developing markets (primarily India and China).

The European economy will return to its pre-crisis level of activity in the year 2012.

On the other hand growth in consumer spending was minimal which is also reflected in the relatively low demand for durable goods. Weak consumer spending is one of the most important reasons why European economies achieve only low growth rates. Growth in the year 2010 replaced less than one-half of the decrease in the year 2009, which means that the European economy will likely return its pre-crisis level of activity in the year 2012.

Data on unemployment are of vital importance to the situation in our central lines of business. The fear of potential job loss results in the postponement of purchases of durable goods. Unemployment has remained high in all our key markets. This indicates precautionary and savings policies of the companies that continue implementing anti-crisis measures as the answer to the complex situation in the market, on one hand, and, on the other hand, continuation of the recession spiral causing collapse of many companies due to poor payment discipline and continuation of the credit crunch.

Debt crises in some of the European countries were the economic factor with the strongest impact on our key markets in the year 2010. Their (present) successful solution through various crisis funds within EU significantly contributed to the stabilisation of the currency. Due to different problems in some of the non-European markets this situation brought about an increase in euro compared to local currencies. And this resulted in the increase of prices of our products in some key East-European markets and reduction in demand for them.

Countries of Central and in particular Eastern Europe are still seeking a way out of the recession. Croatia had negative economic growth and recorded a sharp decline in sales, which is a result of continuous declines in investments and low consumer spending. The downward trend in purchasing power and the poor economic situation is present in Serbia as well. The year 2010 was marked among others factors by continuous depreciation of select currencies. The Serbian dinar dropped against the euro by 9.6 percent in 2010, while the Croatian kuna depreciated in the last quarter of 2010.

Source: IMF, "World Economic Outlook Updat", October 2010
Source: Reports of the Bank of Slovenija

12.1.1 Conditions in the industry

The market of large home appliances grew in the year 2010 in compliance with the forecasts, but the circumstances in individual markets were very different. Features of the mature industry are still in the foreground in developed markets that are characterised by slow growth in products sold and strong competition where companies search for competitive advantages in the fields of energy efficiency, functionality and top product design.

In developing markets, this industry still has great potential for the growtht due to an increae in the size of the middle class, which is marked by an increase in purchasing power and a pattern of consumer focus on innovation. In these countries the demand for energy efficient home appliances will continue to increase.

In the year 2010, the quantity sale of home appliances grew by seven percent.

In the year 2010 the quantity sale of home appliances grew by seven percent in the global market. After a sharp decline at the beginning of the year 2009 the recovery continued in the markets of Europe and North America. Nevertheless, some Asian and Latin-American markets continued to experience record growth.

European markets

The situation in European markets is the most relevant for the Gorenje Group. Despite the recovery in the last year, the value of sales volume remained at the level for the year 2006. In the last year, Eastern European markets, in particular, responded very differently to uncertainties in the global economy.

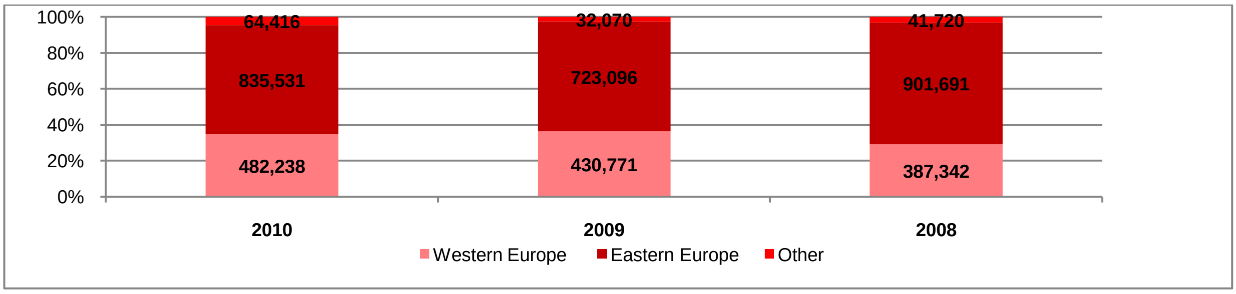
In these markets total sales increased by eight percent. Dramatic decreases in sales volume on a value basis were observed in the markets of the Czech Republic, Poland, Romania, Hungary and Slovenia. Conversely, the Russian market (with growth between 12 and 22 percent) and the Ukrainan market (with growth between 24 and 32 percent) turned in the opposite directions. These latter markets filled the gap of sharp declines in the year 2010. The markets mentioned observed especially high growth in the last quarter of the year.

The size of the Western European market is three times larger than the Eastern European market And, in the year 2010, the Western European market was estimated at 31.9 billon EUR. Sales in Western European markets increased by 3.7 percent in the year 2010 and amounted to a total of 23.5 million EUR. The most dramatic decrease was observed in the Greek market due to debt crisis where the market shrunk by one-fifth. The highest growth (4.1 percent) was observed in British market.

Other markets

Among other markets, the largest Asian markets are worth mentioning due their rapid growth. The Chinese and Indian markets grew by more than one-quarter in the year 2010. High sales growth of high-capacity washing machines and refrigerators was observed. The growth in these markets is driven by an increase in purchasing power of the middle class, whose financing options for purchases of durable goods have noticeably improved. It has been estimated that these markets have an excellent base for the continuations of future growth.

Chart 15: Sales revenue by key markets



Expectations and forecasts

In the future the demand for durable goods, including home appliances, will depend on the speed of recovery of the global economy. Various uncertainties must be eliminated and the situation in financial markets must be improved before unemployment, consequently, will be reduced.

Recently, inflation has appeared as another threat to the recovery of the global economy. As oil prices increase as a result of political unrest in Arab countries, the prices of food and other products are driven up which results in a reduction in the willingness of customers to spend money on durable goods, and results in an increase in production costs which increases the pressure on our employees' salaries.

Based on Datamonitor data for 2010-2013 CAGR for Europe planned growth by 4.3 percent in volume and 3.8 percent in value.

Continuation of the prevailing recently trend in our industry has been expected with respect to supply. In developed markets the maturity of the industry will challenge all producers and force them to produce new products again and again that will be energy efficient, functional, will have top design and will be competitive in terms of prices.

The penetration of our line of business is significantly lower in developing markets than in developed markets. The growth potential is, therefore, significantly higher and competition is significantly lower in developing markets. It is expected that these markets will grow faster than developed markets, mostly due to an increase in middle-class purchasing power. Source: GfK TEMAX: http://www.gfkrt.com

12.2 Performance of the Group

Table 15: Profitability of Group's operations

2010	2009	TEUR	Q4 2010	Q4 2009
1,382,185	1,185,937	Sales revenue	416,366	320,125
525,422	463,550	Contribution margin	144,017	125,321
38.0%	39.1%	Gross margin	34.6%	39.1%
56,438	12,149	EBIT	12,041	11,578
4.1%	1.0%	*EBIT margin in %*	2.9%	3.6%
108,675	68,199	EBITDA	25,314	24,747
7.9%	5.8%	*EBITDA margin in %*	6.1%	7.7%
20,024	-12,232	PAT	3,210	2,336
1.4%	-1.0%	ROS in %	0.8%	0.7%

Table 16: Profitability of Group's operations / comparable (upon excluding the Asko Group and Merkur)

2010	2009	TEUR	Q4 2010	Q4 2009
1,315,829	1,185,937	Sales revenue	374,683	320,125
496,111	463,550	Contribution margin	125,778	125,321
37.7%	39.1%	Gross margin	33.6%	39.1%
41,313	12,149	EBIT	10,611	11,578
3.1%	1.0%	*EBIT margin in %*	2.8%	3.6%
91,226	68,199	EBITDA	22,456	24,747
6.9%	5.8%	*EBITDA margin in %*	6.0%	7.7%
10,768	-12,232	PAT	83	2,336
0.8%	-1.0%	ROS in %	0.02%	0.7%

12.2.1 Impact of single events on profit or loss, financial position and cash flow

After the elimination of the effects of the Asko Group and the company Merkur net profit or loss of the Gorenje Group amounted to 10.8 million EUR.

Since the 1st of August 2010 the Asko Group, the Swedish producer of home appliances, has been integrated into the Gorenje Group. Its impact on the performance of the Gorenje Group since the month of its integrations is presented in the table:

TEUR	2010
Total operating income	**66,356**
EBITDA	**4,112**
* EBITDA margin	6.2%
EBIT	**1,788**
* EBIT margin	2.7%
PAT	**2,719**
* ROS	4.1%

The acquisition of the Asko Group increased also other operating revenue of the Gorenje Group by the net value of negative goodwill amounting to 13.3 million EUR, i.e. the difference between the purchase money and the value of equity of the Group acquired (the value of the difference amounts to 25.1 million EUR), reduced by expected costs of after-acquisition activities amounting to 11.8 million EUR.

Due to the procedure of compulsory settlement of the largest Slovene buyer of home appliances Merkur,d.d. the Gorenje Group formed an allowance for trade receivables and loans amounting to 6.8 million EUR. The materiality of this event and the negative impact on the Slovenian market of operation of the Gorenje Group must be considered as special events. In terms of accounting, the allowance has been discussed under other financial expenses.

After the elimination of effects of Asko Group and the company Merkur, net profit or loss of the Gorenje Group amounted to 10.8 million EUR.

The integration of the Asko Group in August has resulted in significant increases in the items of the statement of financial position. Those that directly influence the cash flow formation and changes in indebtedness are most important from the aspect of comparability: items of net working capital (net current assets) and financial liabilities.

In order to achieve interim comparability of the movement of net current assets, it is necessary to consider the eliminations of values presented in the table, that is, the balances of the Asko Group as of the 31st of December, 2010:

TEUR	2010
Net working capital	**34,500**
Working capital	**68,802**
Inventories	37,432
Trade receivables	25,748
Other current assets	5,622
Current liabilities	**-34,302**
Trade payables	-15,893
Other current liabilities	-18,409

On this basis the comparable balance of net working capital amounts to 242.9 million EUR and exceeds the capital achieved in 2009 by 22.9 million EUR or 10.4 percent.

With respect to indebtedness the balances of the Asko Group must be eliminated as of the 31st of December, 2010, as presented in the table, to achieve comparability:

TEUR	2010
Total financial liabilities	**21,157**
Non-current financial liabilities	9,538
Current financial liabilities	11,619

As of the 31st of December, 2010, and following the elimination of the effect of the Asko Group, indebtedness of the Gorenje Group amounted to 462.8 million EUR, or was by 2.3 percent higher than in the year 2009.

Other items of the statement of financial position have no impact from the aspect of comparability.

12.2.2 Volume of business activities of the Group

Growth of sales amounted to 16.5 percentage in the year 2010.

Chart 16: Movement of Group's annual sales revenue

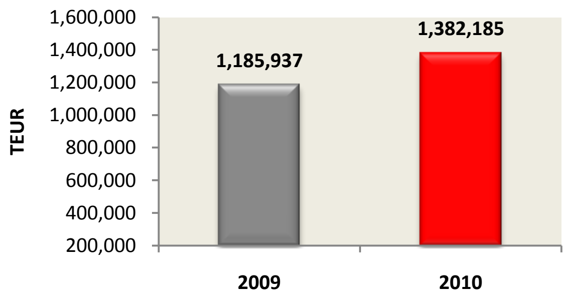
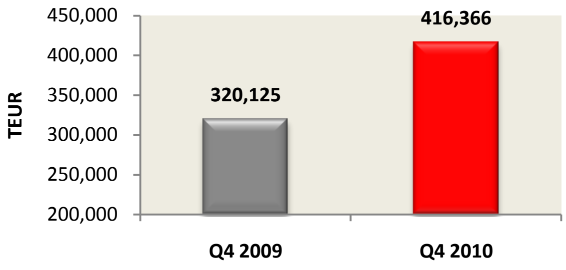


Chart 17: Movement of sales revenue generated by the Group in the last quarter



Sales in the last quarter of the year 2010 amounted to 54.6 million EUR and grew by 17.0 percent before the effect of the Asko Group. It consolidated the important sales growth in all quarters of the year 2010. The Gorenje Group generated 1,382.2 million EUR of sales revenue or 196.2 million EUR (+16.5 percent) more than in the year 2009. Comparably, after the elimination of the effect of the Asko Group, sales amounted to 1,315.8 million EUR or 129.9 million EUR (+11.0 percent) more than in the year 2009.

In the last quarter of the year 2010, the Gorenje Group was more successful, generating 374.7 million EUR in sales before the effects of the Asko Group, with 54.6 million EUR of growth (+17.0 percent) and generated sales amounting to 416.4 million EUR, after the effect of the Asko Group, with 96.2 million EUR of growth (+30.1 percent).

The Home Appliances Division (HA) grew by 42.1 million EUR (+4.8 percent) and the achieved annual sales volume amounted to 913.4 million EUR before the effect of the Asko Group, in comparison with the year 2009. With the effect of the Asko Group it achieved the sales volume amounting to 979.8 million EUR and was by 108.5 million EUR (+12.5 percent) higher than in the previous year.

In the year 2010, the Home Interior Division (HI) faced the continuing trend of the sales volume and reduced the volume amounting to 34.4 million EUR of the revenue generated in 2009 by -6.3 million EUR or by 15.6 percent.

The segments of ecology and energy of the Ecology, Energy and Services Division (EES) are of key importance due to the generated 94.1 million EUR or 34.3 percent growth in the sales of the Division. In otal, the Division generated over 70 percent of the total growth in revenue of the Gorenje Group, after the elimination of the effect of the Asko Group.

Chart 18: Sales revenue per division (in TEUR)

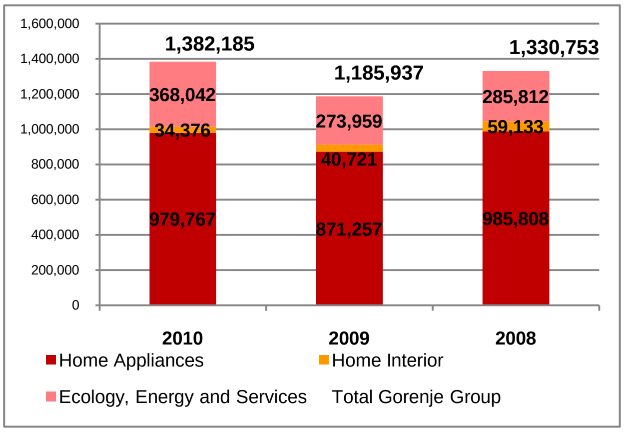
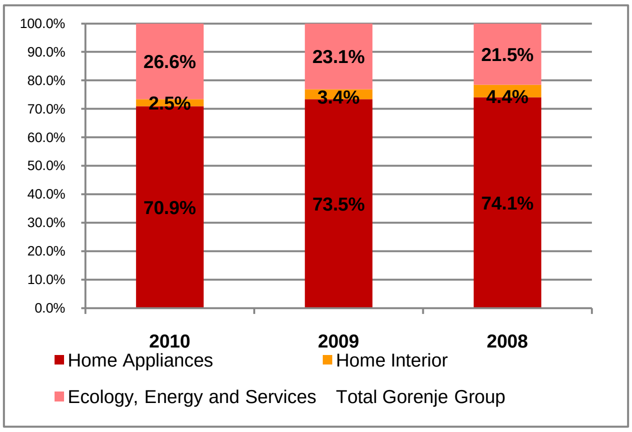


Chart 19: Structure of sales revenue per division



12.2.3 Profitability of the Group's operation

Earnings before interest and taxes (EBIT), earnings before interest and taxes, depreciation and amortisation (EBITDA)

Chart 20: Movement of the Group's annual EBIT

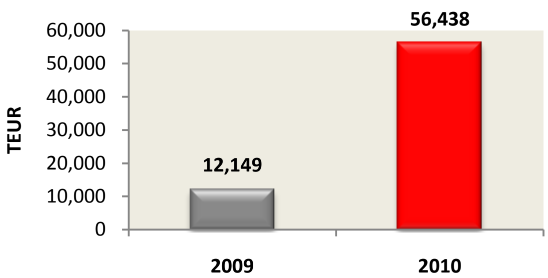
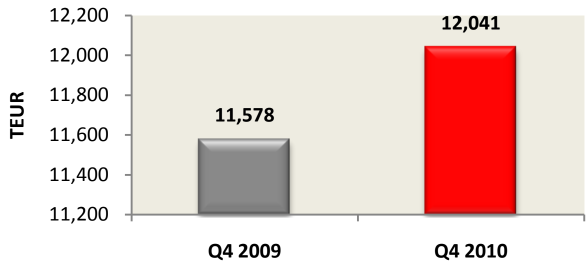


Chart 21: Movement of Group's EBIT in the last quarter



Contribution margin at the level of costs of goods and material (gross margin)

The Gorenje Group concluded its operations for the year 2010 with a contribution margin lower by 1.1 -percentage points (gross margin) at the level of the difference between sales revenue and costs of goods and materials, than in the year 2009. With a contribution margin of 38.0 percent at this level, comparable after the elimination of the effect of the Asko Group amounting to 37.7 percent, it achieved, due to increased sales scope, a contribution margin higher by 77.1 million EUR, but reduced it to 61.9 million EUR growth due to the before-mentioned impairment of its rate (-1.1 -percentage points or 15.2 million EUR).

Impairment of profitability at this level is mostly the result of extremely high growth in sales of the EES Division that has a materially lower contribution margin due to the nature of operation than the other two divisions. The improvement of profitability of the EES Division meant also structural changes among individual business segments of the division (ecology, energy and services), where those with lower contribution margins increased. An important reason for the impairment of the contribution margin is also the increase in prices of raw materials in the second half of the year 2010 that were not replaced by the quality structural changes in the sales segment.

In the last quarter of the year 2010, the contribution margin significantly worsened over the comparable period last year (from 39.1 percent to 34.6 percent, or after the elimination of the effects of the Asko Group. to 33.6 percent) and was due mostly to large increases in the prices of raw materials and materials that could not be replaced by structural changes from the product and geographic-sales segment whose result was a four percent growth of the average sales price of Gorenje products.

Operating costs

Due to the continuation of structural improvements in the operation of the Group, the cost of services comparably decreased in 2010, without the effects of the Asko integration, by 4.4 percent, or by 8.3 million

EUR, in spite of the increase in the volume of business activities. Despite of the increase in costs of goods and materials, this reduction allowed the added value level, before the effects of the Asko Group, to reach the level achieved in the year 2009 (measured by the share in sales revenue). With the effect of the Asko integration, it even improved by 1.3 percentage points – i.e. to 25.5 percent.

In 2010, productivity of labour cost (measured by the generated added value per employee) improved by 19.9 percent, by the growth of labour cost of 8.8 percent.

Earnings before interest and taxes (EBIT)

Earning before interest and taxes (EBIT) of the Gorenje Group achieved 56.4 million EUR in the year 2010 and improved by 44.3 million EUR over the year 2009. The EBIT margin significantly improved – from 1.0 percent to 4.1 percent. Before the effect of the Asko Group the Group generated EBIT amounting to 41.3 million EUR and improved it by 29.2 million EUR over the previous year. After the above mentioned effects, the EBIT margin improved from 1.0 percent to 4.1 percent.

Profitability at the EBIT level worsened in the last quarter of the year 2010 due to a substantial increase in the prices of raw materials and materials, and an increase in the costs of services in the logistics segment as a result of sales model changes for Russia. It dropped from 3.6 percent to 2.9 percent, or to 2.8 percent before the effects of the Asko Group.

Earnings before interest and taxes, depreciation and amortisation (EBITDA)

The Gorenje Group achieved similar improvement also at the level of earnings before interest and taxes, depreciation and amortisation (EBITDA). In the last year EBITDA increased by 40.5 million EUR and achieved 108.7 million EUR in the year 2010. The EBITDA margin also improved - i.e. from 5.8 percent in the year 2009 to 7.9 percent in the year 2010. Before the effect of the Asko Group the Group generated EBITDA amounting to 91.2 million EUR and improved it by 32.0 million EUR over the previous year.

Profitability at the EBITDA level worsened in the last quarter of the year 2010 - i.e. it dropped from 7.7 percent to 6.1 percent, considering the effects of the Asko Group to 6.0 percent.

Chart 22: Movement of Group's annual EBITDA

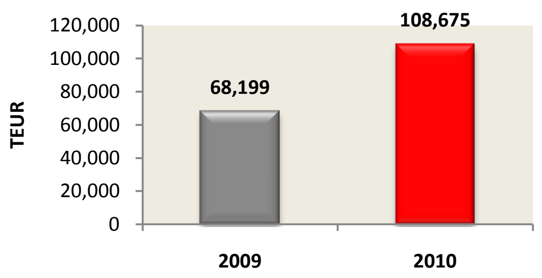
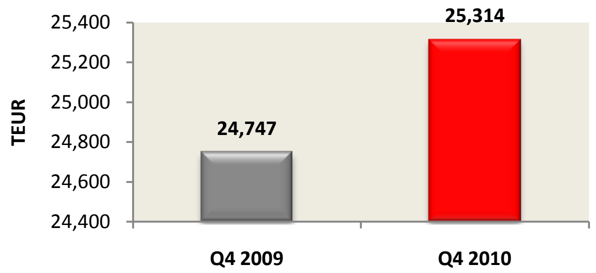


Chart 23: Movement of Group's EBITDA in the last quarter



Financial result

In the year 2010, financial revenue decreased by 7.0 million EUR. The main reasons for this result are decreases in both interest earned and revenue from exchange gains. The financial expenses, however, increased by 5.5 million EUR due to increases in both exchange losses and allowances for receivables.
The financial result was thus negative and amounted to -34.0 million EUR. From the year 2009 it declined by an additional 12.5 million EUR. Without the effect of single events (Asko and Merkur), the financial result would amount to -27.2 million EUR and be, by 5.8 million EUR, lower than the result in 2009.

In the last quarter of the year 2010, the Gorenje Group improved the negative financial result by 0.9 million EUR over the year 2009 and remained at the level of the year 2009 before the effects of the Asko Group.

Net profit

In 2010, net profit amounted to 20.0 million EUR.

In the year 2010, the Gorenje Group generated net profit in the amount of 20.0 million EUR and improved it by 32.3 million EUR over the year 2009, or comparably, by 23.0 million EUR. The tax effects relating to corporate income tax and deferred taxes decreased to 2.4 million EUR (-16.3 percent) over the year 2009, or to 3.3 million EUR (+13.5 percent) before the effects of the Asko Group.

In the last quarter of the year 2010, the Gorenje Group improved net profit or loss by 0.9 million EUR or by 2.3 million EUR before the effects of the Asko Group.

Chart 24: Movement of Group's annual PAT

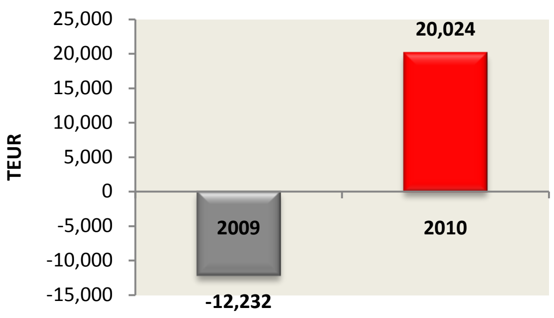
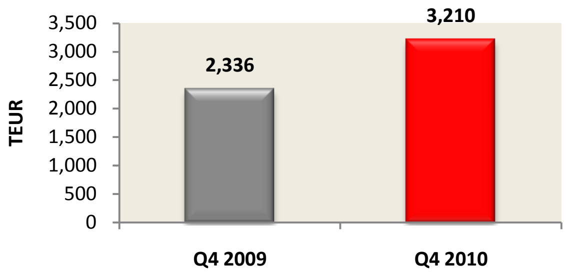


Chart 25: Movement of Group's PAT in the last quarter



12.3 Performance of the Home Appliances Division

Table 17: Profitability of operations of the Home Appliances Division

2010	2009	TEUR	Q4 2010	Q4 2009
979,767	871,257	Sales revenue	298,648	237,526
425,096	362,365	Contribution margin	117,129	101,635
43.4%	41.6%	Gross margin	39.2%	42.8%
56,790	15,970	EBIT	14,664	17,837
5.8%	1.8%	*EBIT margin in %*	4.9%	7.5%
100,853	63,834	EBITDA	25,871	28,785
10.3%	7.3%	*EBITDA margin in %*	8.7%	12.1%
22,581	-6,840	PAT	7,697	9,731
2.3%	-0.8%	ROS in %	2.6%	4.1%

Table 18: Profitability of operations of the Home Appliances Division / comparable (upon excluding the Asko Group and Merkur)

2010	2009	TEUR	Q4 2010	Q4 2009
913,411	871,257	Sales revenue	256,965	237,526
395,785	362,365	Contribution margin	98,890	101,635
43.3%	41.6%	Gross margin	38.5%	42.8%
41,665	15,970	EBIT	13,234	17,837
4.6%	1.8%	*EBIT margin in %*	5.2%	7.5%
83,404	63,834	EBITDA	23,013	28,785
9.1%	7.3%	*EBITDA margin in %*	9.0%	12.1%
13,069	-6,840	PAT	4,570	9,731
1.4%	-0.8%	ROS in %	1.8%	4.1%

12.3.1 Impact of single events on profit or loss, financial position and cash flow of the HA Division

The complete effect of the Asko Group integration is associated with the Home Appliances Division.

The complete effect of single events of the integration of the Asko Group into the Gorenje Group in August of 2010 and allowances for receivables and loans of the company Merkur are related, in large part to the Home Appliances Division (HA) due to the following issues:

- **effects of profitability operations of the Asko Group**
- 66.4 million EUR effect at the level of sales,
- 4.1 million EUR effect at the level of EBITDA,
- 1.8 million EUR effect at the level of EBIT,
- 2.7 million EUR effect at the level of net profit.

- **Negative goodwill**
- 13.3 million EUR effect at the level of other operating revenue (net profit).

- **allowances for receivables and loans of the company Merkur**
- 6.8 million at the level of financial expenses (net profit).

- **items of the statement of financial position relevant to cash flow and indebtedness**
- 34.5 million EUR effect at the level of net current assets,
- 21.1 million EUR effect at the level of financial liabilities.

Other items of the statement of financial position have no relevant impact from the aspect of comparability.

12.3.2 Scope of business activities of the HA Division

Increases in sales revenue amounted to 12.5 percent in 2010.

The Home Appliances Division (HA) grew by 42.2 million EUR (+4.8 percent) in accordance with the implemented annual scope of sales amounting to 913.4 million EUR, before the effect of the Asko Group, when compared to the year 2009. Due to the effect of the Asko Group, the sales volume amounted to 979.8 million EUR, which is higher by 108.5 million EUR (+12.5 percent) than in the previous year.

Chart 26: Movement of annual sales revenue generated by Home Appliances Division

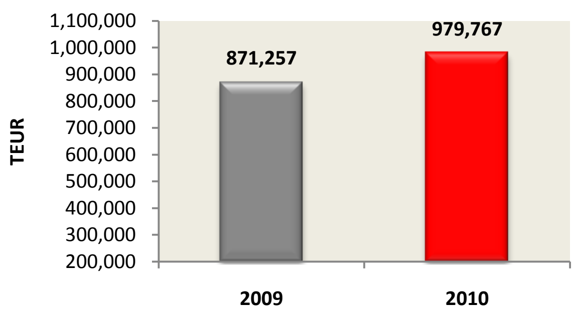
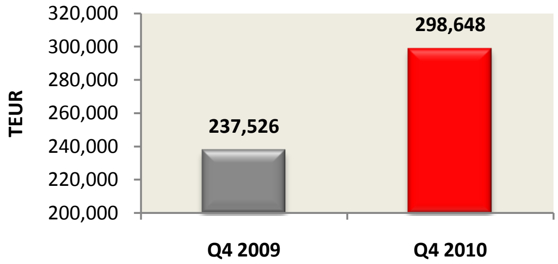


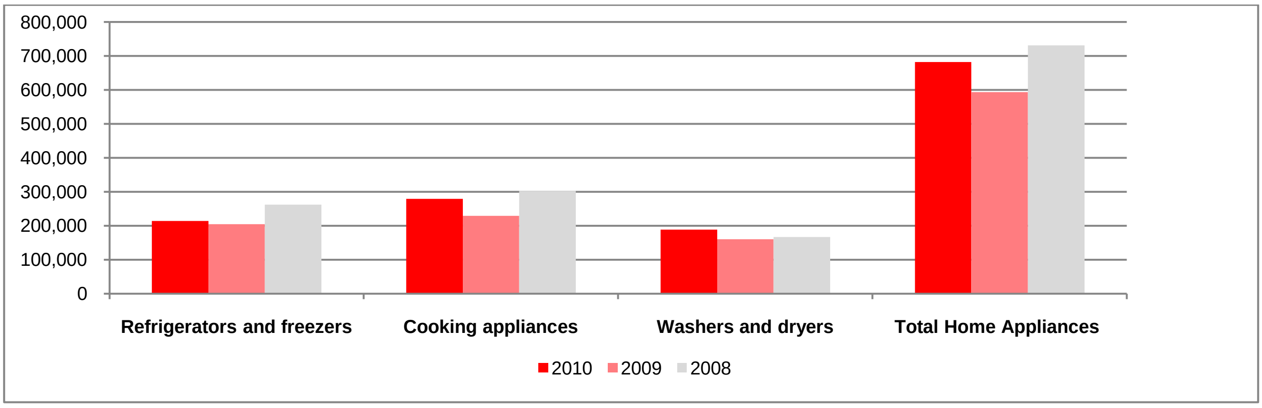
Chart 27: Movement of sales revenue generated by Home Appliances Division in the last quarter



The last quarter of the year was successful from the aspect of sales volume. The Division earned 257.0 million EUR before the effect of the Asko Group and increased its sales by 19.4 million EUR (+8.2 percent). After the effect of the Asko Group, the division earned sales amounting to 298.6 million EUR or 61.1 million EUR more (+25.7 percent) than it achieved in the last quarter of the year 2009.

The Division achieved the highest growth in the markets of Russia and Ukraine, in Germany and in the Scandinavian countries, as well as in the markets of the Near and Far East. When discussing the programme, the sales of cooking appliances increased, but the sales of washing appliances, dish washers and refrigerators-freezers was much lower without the effect of the Asko Group.

Chart 28: Net sales revenue by Home Appliances programmes in TEUR



12.3.3 Profitability of operation of the HA Division

Contribution margin for costs of goods and materials (gross margin)

The HA Division ended its operation of the year 2010 by a contribution margin (gross margin) higher by 1.8 percentage points at the level of the difference between sales revenue and costs of goods and materials achieved in 2009. The contribution margin, amounting to 43.4 percent at this level (comparable with 43.3 percent after the elimination of effects of the Asko Group), was higher due to the increased sales volume and amounted to 33.4 million EUR. It improved as a result of the above mentioned rate increases by another 29.3 million EUR, totalling to 62.7 million EUR.

The improved contribution margin is mostly attributable to the increase of the average price of Gorenje products by four percent, whereas the latter increase is a result of the enhanced sales structure in view of products and geographic markets despite the cost increase of raw materials and materials in the last six months of 2010.

In the last quarter of 2010 the contribution margin decreased significantly in comparison to the period last year (from 42.8 percent to 39.2 percent or to 38.5 percent after the elimination of effects of the Asko Group), which was due mostly to significant increases in the prices of raw materials and materials that the above mentioned structural changes from the product and geographical-sales aspect could not completely replace in the last quarter.

Operating costs

Due to the continuation of structural improvements in the operation of the HA Division, the costs of services comparably decreased by 0.9 percent (by 1.2 million EUR) in 2010 (i.e. without the effects of the Asko Group) in spite of the increase in business activities. In addition to the improvement of the contribution margin at the level of costs of goods and materials and a favourable ratio of increasing other operating revenue and other operating expenses, this reduction increased the share of added value in sales revenue by 1.3 percent over the year 2009 (by 2.9 percent including the effect of the Asko Group).

In 2010, productivity of labour cost (measured by added value per employee) improved by 20.3 percent in spite of the fact that labour costs per employee increased by 8.5 percent.

Earnings before interest and taxes (EBIT)

Chart 29: Movement of the annual EBIT

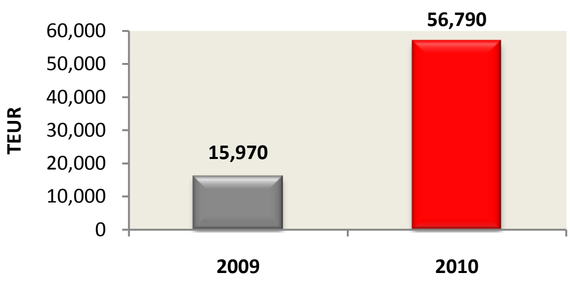
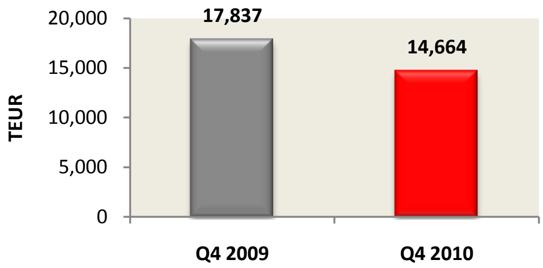


Chart 30: Movement of EBIT in the last quarter



Earnings before interest and taxes (EBIT) of the HA Division achieved 56.8 million EUR in 2010 and improved by 40.8 million EUR over the year 2009. The EBIT margin also increased substantially - from 1.8 percent to 5.8 percent. Before the effect of the Asko Group, it achieved the level of 41.7 million EUR and improved by 25.7 million EUR over the year 2009 or from the aspect of the EBIT margin from 1.8 percent to 4.6 percent.

In the last quarter of the year 2010, profitability at the EBIT level dropped from 7.5 percent to 4.9 percent or to 5.2 percent before the effects of the Asko Group due to significant increases in the prices of raw materials and materials, and due to increases in the costs of services in the segment of logistic costs as a result of sales model changes in the territory of Russia.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Chart 31: Movement of the annual EBITDA

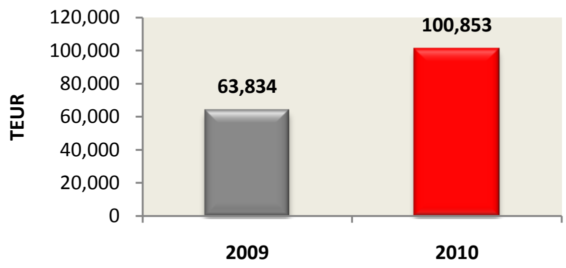
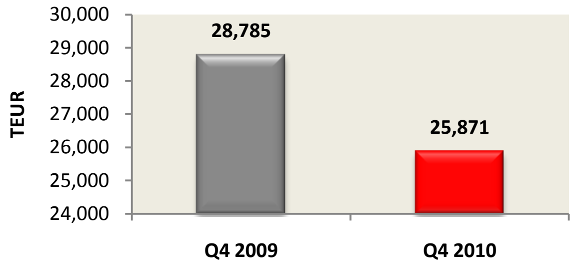


Chart 32: Movement of EBITDA in the last quarter



A similar improvement was also achieved at the level of earnings before interest, taxes, depreciation and amortisation (EBITDA). In the last year the Division increased it by 37.0 million EUR and achieved the level of 100.9 million EUR when theEBITDA margin improved from 7.3 percent to 10.3 percent. Before the effect of the Asko Group it achieved the level of 83.4 million EUR and improved by 19.6 million EUR over the year 2009 when the EBITDA margin improved from 7.3 percent to 9.1 percent.

In the last quarter of the year 2010, profitability at the level of EBITDA decreased from 12.1 percent to 8.7 percent and to 9.0 percent before the effects of the Asko Group.

Financial result

In 2010, financial revenue decreased by 8.9 million EUR compared to the last year. Financial expenses increased by 4.1 million EUR, due mostly to exchange losses and allowances for receivables.

The financial result was negative and amounted to -33.0 million EUR. In comparison with the year 2009 it lowered by an additional 13.0 million EUR. Without the effect of extraordinary events (Asko and Merkur) the financial result amounted to -26.5 million EUR and was by 6.5 million EUR lower than the one achieved in 2009.

In the last quarter of the year 2010, the Division improved the negative financial result by 1.5 million EUR over the year 2009, and by 0.6 million EUR before the effects of the Asko Group.

Net profit

In 2010, net profit amounted to 22.6 million EUR.

Chart 33: Movement of the annual PAT

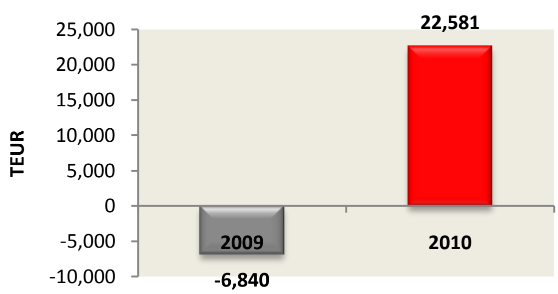
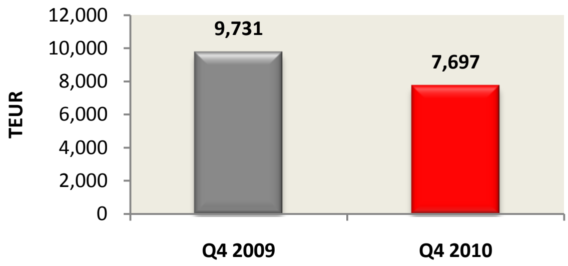


Chart 34: Movement of the PAT in the last quarter



In 2010, net profit amounted to 22.6 million EUR. In comparison with the year 2009, it improved by 29.4 million EUR or comparable by 19.9 million EUR. The tax effect relating to corporate income tax and deferred taxes decreased to 1.2 million EUR (-57.0 percent) over the year 2009, and to 2.1 million EUR (-26.1 percent) before the effects of the Asko Group.

In the last quarter of the year 2010, the Division reduced net profit by 2.0 million EUR, and comparable by 5.2 million EUR.

12.4 Performance of the HI Division

Table 19: Profitability of operations of the Home Interior Division

2010	2009	TEUR	Q4 2010	Q4 2009
34,376	40,721	Sales revenue	7,635	9,801
13,282	16,216	Contribution margin	2,366	3,620
38.6%	39.8%	Gross margin	31.0%	36.9%
-6,722	-4,748	EBIT	-2,266	-1,634
-19.6%	-11.7%	*EBIT margin in %*	-29.7%	-16.7%
-5,005	-2,711	EBITDA	-1,866	-1,153
-14.6%	-6.7%	*EBITDA margin in %*	-24.4%	-11.8%
-6,312	-5,082	PAT	-2,223	-1,881
-18.4%	-12.5%	ROS in %	-29.1%	-19.2%

12.4.1 Volume of business activities in the HI Division

Chart 35: Movement of annual sales revenue generated by the Home Interior Division

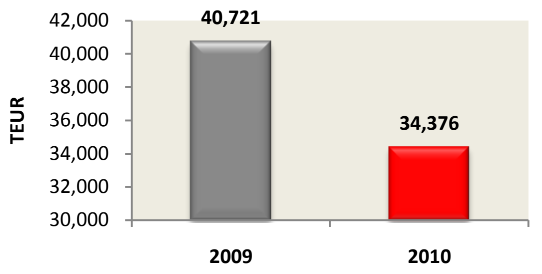
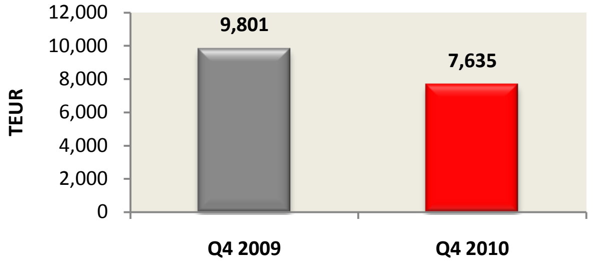


Chart 36: Movement of sales revenue generated by Home Interior Division in the last quarter



The negative trend of sales in the furniture industry continued in the majority of European markets. Total sales revenue of the Division dropped by 15.6 percent in the year 2010. The decline in sales was most evident in Austria, France and in the Czech Republic. The reduction in sales in these Eastern European markets that are extremely important for us was lower than in the previous year, but very good results were achieved in some of the markets.

With the exception of kitchen furniture sales revenue increased in all other programmes of the Division.

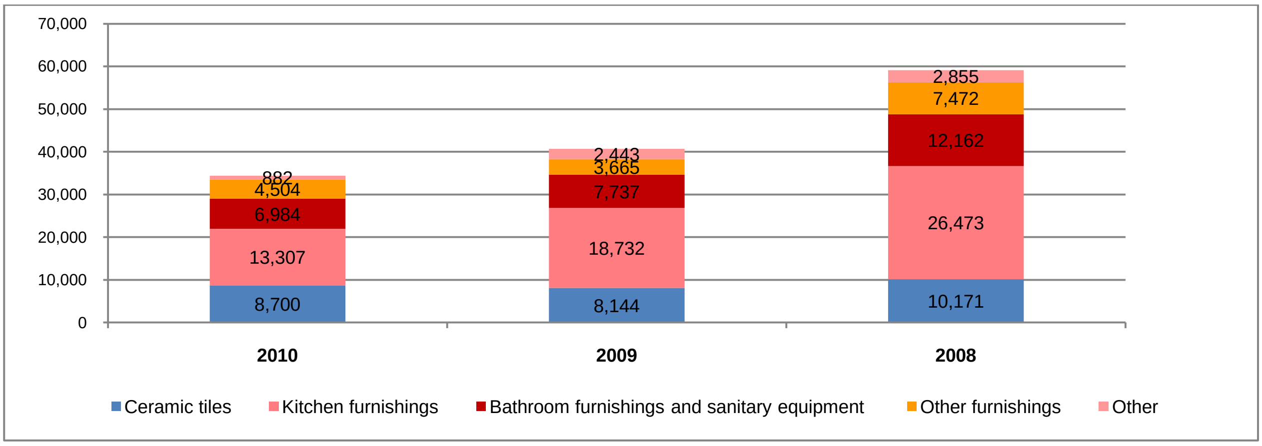
The largest portion of sales revenue was generated by the kitchen programme. It decreased by 31 percent in 2010, the reduction in the domestic market wasthe lowest.

A quarter of sales revenue was earned in the ceramics programme. In 2010, the growth of this programme amounted to eight percent and the majority was generated in the markets of Slovenia, South Eastern and Central Europe. The sale in the complex European markets of Austria, Hungary, and Germany successfully increased in 2010. The main obstacle to the achievement of higher growth is the problems of the construction sector, especially in the domestic market.

Products of bathroom furnishings and sanitary equipment account for 24 percent of the Division sales. Revenue again reduced in this segment, but the fall was significantly lower than in the year 2009. The sale of bathroom furnishings dropped by 13 percent, but the sales of basins has increased since the last quarter of the year 2009. In 2010, sales revenue earned by these products increased by eight percent.

The programme of furnishings accounts for a 14 percent share in the sales revenue of the Division. The majority of our activities (modernisation of products, quality of products) were associated with the transition from low to middle class. In 2010, sales revenue increased by three percent, whereby the sales increased mainly in the domestic market and in Germany. The sales started to increase in the last four months of the year, which is a favourable forecast for the year 2011.

Chart 37: Net sales revenue by Home Interior programmes in TEUR



12.4.2 Profitability of operation of the HI Division

Operating costs

The main objective of the Division in the year 2010 was optimisation of costs. Production functions were focused on fewer locations that are specialised in individual products and the subsidiaries abroad have become sales companies. Already before the reorganisation re-vamping of the sales programme and repositioning of trade marks of kitchen furnishings – kitchens Gorenje and Marles were carried out. By these measures it took advantage of the synergies among the programmes, increased costs efficiency, reduced cost of materials and decreased the level of current assets. When compared to the year 2009, costs of services were lower by 0.4 million EUR or 8.6 percent due to the activities mentioned.

Labour cost was optimised in the Division. In comparison with the year 2009 it increased, but mostly because of the costs caused by the reduction of the number of employees. By the use of soft methods their number was reduced by 13 percent and the majority of retirements were carried out in the last months of the year 2010. In the first half of the year the Division was fully included in the Government measure of a short working time. At a later stage only some other programmes were included. Over the year 2009 labour productivity measured by added value per employee decreased by 9.0 percent

Contribution margin at the level of costs of goods and materials (gross margin)

Activities in the field of control of prices of input materials became increasingly important. Special attention was paid to the so-called strategic materials – i.e. those with major impact on costs of division. The trend of price increase started in the second half of the year 2009 and continued through the year 2010. Estimates forecast new increases in prices also in the year 2011. The contribution margin at the level of costs of goods and materials was reduced by 2.5 million EUR due to lower sales volume and, in terms of quality due to poorer sales structure and increase in prices of input materials by 1.2 percent point (to 38.6 percent) or by 0.4 million EUR, a total by 2.9 million EUR or by -18.1 percent.

In scope of harmonisation of kitchen programmes the Division harmonised the built-in materials for kitchens and their suppliers. In this way it ensured better purchasing conditions and reduced inventories. The activities mentioned will reflect in savings in the year 2011.

Earnings before interest and taxes (EBIT)

Chart 38: Movement of the annual EBIT

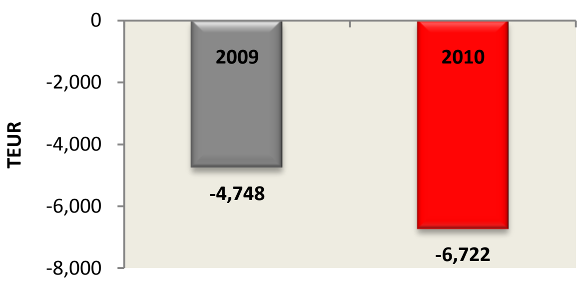
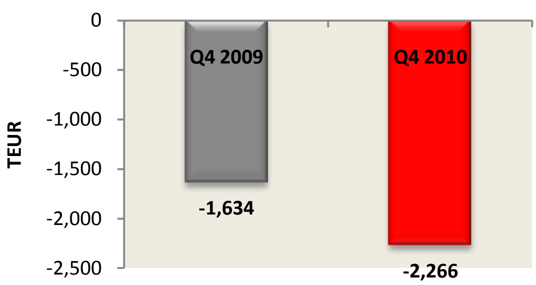


Chart 39: Movement of EBIT in the last quarter



Earnings before interest and taxes (EBIT) of the HI Division amounted to -6.7 million EUR in the year 2010 and dropped by 2.0 million EUR over the year 2009, mostly as a result of decrease in the sales volume.

In the last quarter of the year 2010 it dropped by -0.6 million EUR.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Chart 40: Movement of the annual EBITDA

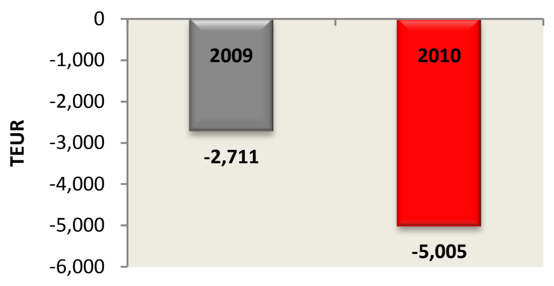
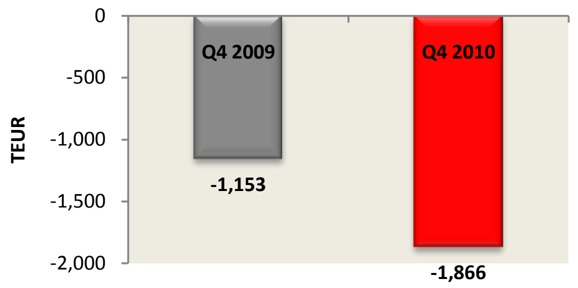


Chart 41: Movement of EBITDA in the last quarter



Similar worsening was achieved at the level of earnings before interest, taxes, depreciation and amortisation (EBITDA). The Division lowered it by 2.3 million EUR and it reached -5.0 million EUR along with the proportional reduction in the EBITDA margin from -6.7 percent to -14.6 percent.

In the last quarter of the year 2010 it dropped also by -0.7 million EUR.

Financial result

In 2010, the Division achieved a positive financial result amounting to 0.4 million EUR and improved it by 0.5 million EUR over the previous year.

Net profit

In 2010, loss amounted to -6.3 million EUR.

Net profit or loss amounting to -6.3 million EUR was by 1.2 million EUR lower than profit or loss achieved in 2009. In the last quarter it dropped by -0.3 million EUR over the last quarter of the year 2009.

Chart 42: Movement of the annual PAT

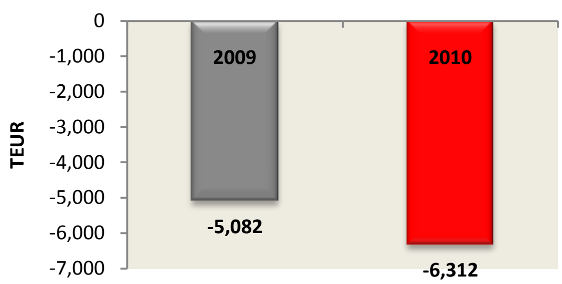
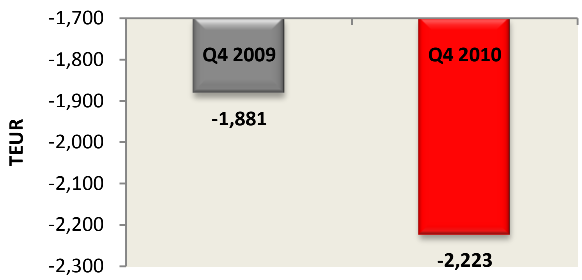


Chart 43: Movement of the PAT in the last quarter



12.5 Performance of operation of the EES Division

Table 20: Profitability of operations of the Ecology, Energy and Services Division

2010	2009	TEUR	Q4 2010	Q4 2009
368,042	273,959	Sales revenue	110,083	72,798
87,044	84,969	Contribution margin	24,522	20,066
23.7%	31.0%	Gross margin	22.3%	27.6%
6,370	927	EBIT	-357	-4,625
1.7%	0.3%	*EBIT margin in %*	-0.3%	-6.4%
12,827	7,076	EBITDA	1,309	-2,885
3.5%	2.6%	*EBITDA margin in %*	1.2%	-4.0%
3,755	-310	PAT	-2,264	-5,514
1.0%	-0.1%	ROS in %	-2.1%	-7.6%

12.5.1 Scope of business activities of the EES Division

Chart 44: Movement of the annual sales revenue generated by the Ecology, Energy and Services Division

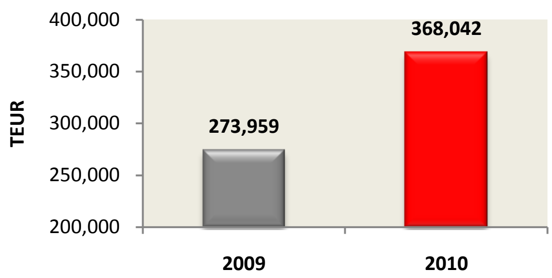
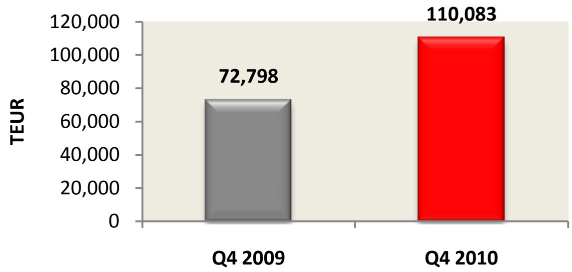


Chart 45: Movement of sales revenue generated by the Ecology, Energy and Services Division in the last quarter



Sales revenue increased by 34 percent.

In 2010, sales revenue of the Division increased by more than 34 percent. The main reasons for good results are diversity of activities in the Division and organisation that enabled quick adjustment to the changes in the business environment.

A significant increase in revenue was generated, especially, in the field of Ecology, which is a result of favourable movements in prices of secondary raw materials in the year 2010 and maintenance of market shares at the time of crisis. Successful operation of the company Gorenje Surovina had an important impact on the growth of the field. The market share of the company Kemis increased considerably since it recorded positive effects of the investment in the processing centre. The company Publicus acquired additional business deals relating to collection and processing of trade waste.

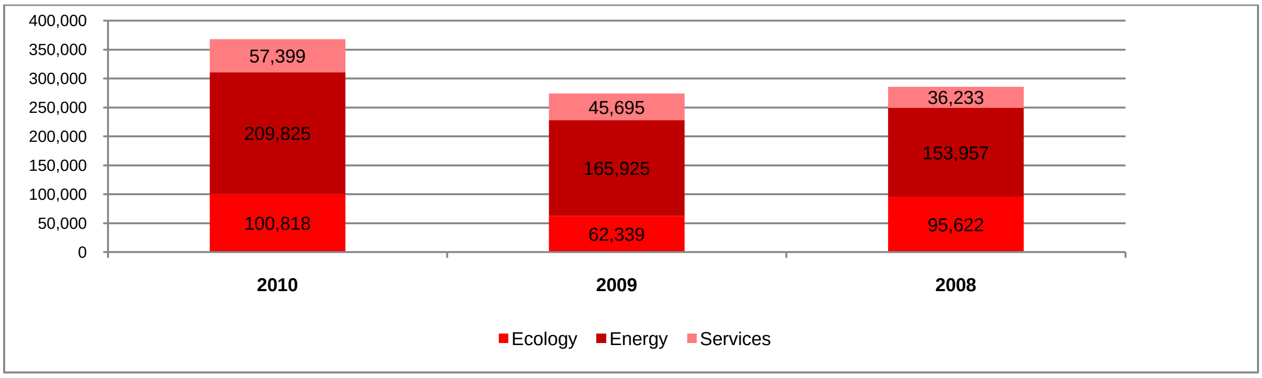
In the field of services lower volume of investments in the public sector had a negative impact on the volume of revenue. On the other hand, some projects that had already started before the crisis and newly acquired business deals in the countries of South Eastern Europe and in the automobile industry and their suppliers, had a positive impact.

The Istrabenz Gorenje Group exceeded the revenue of the year 2009 by 39 percent.

In the field of Energy the Istrabenz Gorenje Group increased its market share and exceeded revenue from the year 2009 by 39.0 percent. The number of countries where the Group traded increased considerably and several activities were focused also on the increase in the number of end users – natural and legal persons.

The production of wooden briquettes has not achieved the levels desired. The main reason is lack of resources of wooden biomass due to the economic crisis. But this had a favourable impact on the coal trade where some new business deals were acquired.

Chart 46: Net sales revenue by segments of the Ecology, Energy and Services Division in TEUR



12.5.2 Profitability of operation of the EES Division

In 2010, the Division earned profit amounting to 3.8 million EUR.

Contribution margin at the level of costs of goods and materials (gross margin)

The major share of the Division activities represented power trading, which did not achieve the same share in the structure of profit or loss due to the reduction in margins. Contribution margin at the level of costs of goods and materials decreased by 7.3 percent and therefore the Division with 34.3 percent sales growth achieved only 2.4 percent growth of the contribution margin. Prices of secondary raw material had a favourable impact on the scope of activities and the profit of division. This similarly applies to new activities such as: engineering in the field of solar-panel system, sorting of light waste fractures and beginning of production of alternative fuel. In 2010, several activities were devoted to the conquest of new markets in the field of power sale, collection and processing of waste; the main impacts on operation can be expected in the following years.

Operating costs

In 2010, the Division significantly improved its profit or loss. In addition to the factors that had a positive impact on the increase in revenue, savings in costs were also of vital importance for the achievement of this result. Companies from the field of trade and services were especially successful. The Division decreased costs of services by 6.7 million EUR (-14.1 percent). On the other hand, production companies needed additional means of production for the performance of their activities. Consequently, their fixed costs account for the major part of total costs, and building up of savings has been rather difficult.

Financial result

In 2010, financial result remained unchanged when compared to the year 2009.

Earnings before interest and taxes (EBIT)

Earnings before interest and taxes (EBIT) of the EES Division amounted to 6.4 million EUR in 2010. It improved by 5.4 million EUR over the year 2009. The EBIT margin also increased significantly – i.e. from 0.3 percent to 1.7 percent.

Chart 47: Movement of the annual EBIT

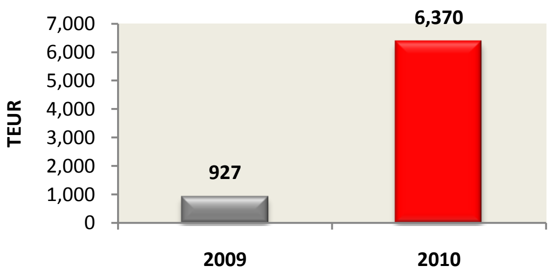
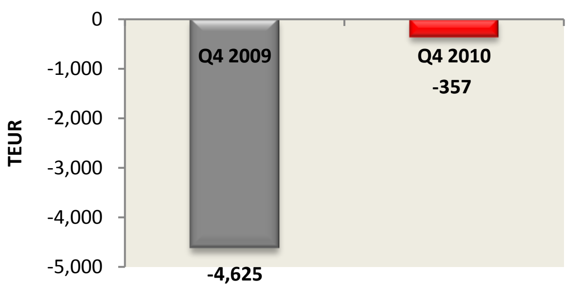


Chart 48: Movement of EBIT in the last quarter



Earnings before interest, taxes, depreciation and amortisation (EBITDA)

The Division achieved similar improvement at the level of the EBITDA. In 2010, it increased by 5.8 million EUR and reached 12.8 million EUR when EBITDA margin increased from 2.6 percent to 3.5 percent.

Chart 49: Movement of the annual EBITDA

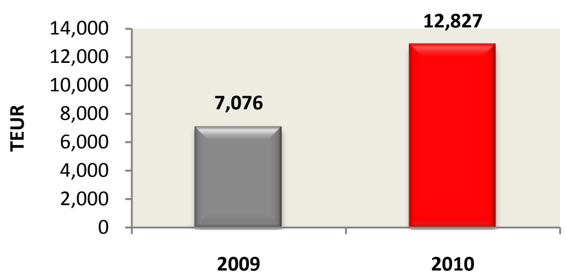
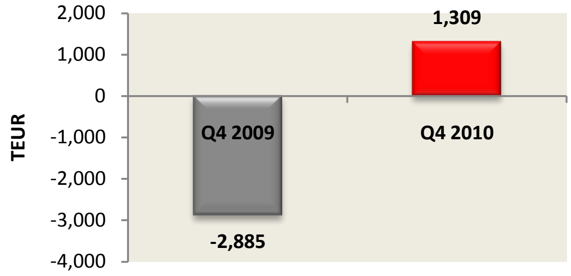


Chart 50: Movement of EBITDA in the last quarter



Net profit

In 2010, net profit amounted to 3.8 million EUR.

Net profit amounting to 3.8 million EUR was by 4.1 million EUR higher than profit or loss of the year 2009. In the last quarter of 2010, it improved by 3.3 million EUR when compared to the last quarter of 2009.

Chart 51: Movement of the annual PAT

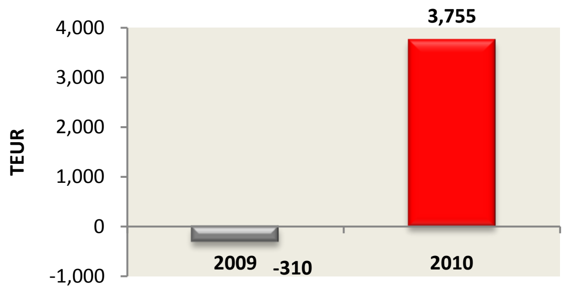
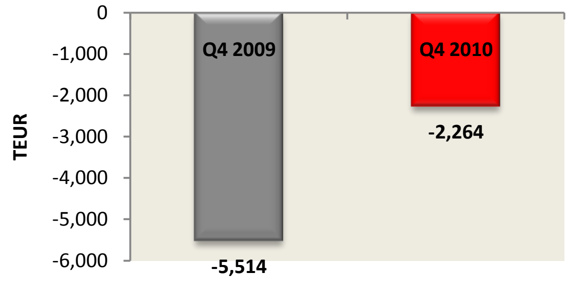


Chart 52: Movement of the PAT in the last quarter



12.6 Financial position

Table 21: Financial soundness of the Gorenje Group

TEUR	2010	2009
Financial debt	**483,947**	**452,242**
- Current	223,015	209,883
- Non-current	260,932	242,359
In EUR	448,314	431,298
In other currencies	35,633	20,944
With fixed interest rate	72,469	79,638
With variable interest rate	411,478	372,604
Total liabilities	1,317,754	1,178,677

In 2010, financial liabilities increased by 31.7 million EUR (+7.0 percent). In spite of that net financial debt was successfully decreased by 23.9 million EUR (by 5.6 percent) in this period, since funds in the accounts of the companies within the Gorenje Group significantly increased. Such development is the result of the free cash flow relating to improved profitability of operation and less intensive investments.

Table 22: Financial liabilities in terms of maturity

TEUR	2010	2009
Current financial liabilities	223,015	209,883
Non-current financial liabilities	260,932	242,359
Total	**483,947**	**452,242**
Cash and cash equivalents	-82,728	-27,130
Net financial liabilities	**401,219**	**425,112**

Lower net financial debt along with the improved profitability of operation contributed significantly to the improvement of ratios of financial position of the Gorenje Group. One of the key ratios - comparison of net financial debt to EBITDA - shows that the Group could repay its total financial liabilities by the gross cash flow generated in the year 2010 in 3.7 years. In 2009, the Group would need 6.2 years.

In 2010, total financial liabilities could be repaid by the generated gross cash flow in 3.7 years.

The increase in capital amounting to 25 million EUR, by which the international financial corporation IFC entered the ownership structure of Gorenje and the activities of debt restructuring from short-term into long-term had a positive impact on the financial soundness of the Group.

Table 23: Ratios of financial soundness of the Gorenje Group

	2010	2009
Equity / Total assets	0.30	0.31
Financial liabilities / EBITDA	4.45	6.63
Net financial liabilities / EBITDA	3.69	6.23
Current ratio	1.30	1.19
Quick ratio	0.23	0.19

12.6.1 Cash flow management

Table 24: Free cash flow of the Gorenje Group / Narrow

TEUR	2010	2009	2008	Change
PAT	20,024	-12,232	10,181	32,256
Amortisation and depreciation expense	52,237	56,050	57,121	-3,813
Net cash flow	72,261	43,818	67,302	28,443
Capex	-44,668	-28,732	-76,807	-15,936
Investments in net current assets	-14,231	17,936	-35,616	-32,167
• change in inventories	-5,987	35,023	-35,533	-41,010
• change in trade receivables	-25,315	10,277	-3,482	-35,592
• change in trade payables	17,071	-27,364	3,399	44,435
Free cash flow / Narrow	**13,362**	**33,022**	**-45,121**	**-19,660**

In 2010, free cash flow was created in the amount of 13.4 million EUR or it was 19.7 million lower, less than in the year 2009. In this respect profitability greatly improved and more free cash flow was thus created (28.4 million EUR), but investments in long-term (Capex) and current assets increased.

In 2010, free cash flow amounted to 13.4 million EUR.

In 2010, the policy of limiting the amount of investments continued by focusing these investments on the development of home appliances, the restructure of production activities (relocating the production of thermal and heating technique from Slovenia to Serbia) and the integration of the companies of the Asko Group into the Gorenje Group. The amount of investments was therefore materially lower than the one in the pre-crisis year 2008 (41.8 percent), but it increased over the year 2009 due to the focused development of the home appliances product, restructuring of the production activities (relocation of the water heaters production from Slovenia to Serbia) and also due in part to the inclusion of the Asko Group.

In 2010, the increase in net current assets had a negative impact on free cash flow. Some structural changes relating to the control of their level were observed, since inventories were successfully controlled (taking into the consideration the dynamic of sales growth) and of trade payables as a result of the efficient control of purchasing and partly due to prolongation of payment terms relating to suppliers.

The negative impact on the free cash flow was caused by the increase especially trade receivables. These receivables are the results of high credit risks and poor liquidity of consumers, which will most likely continue in the future. Activities in the field of receivable control will become increasingly important in order to assure capacity of the Gorenje Group to create the desired levels of free cash flow.

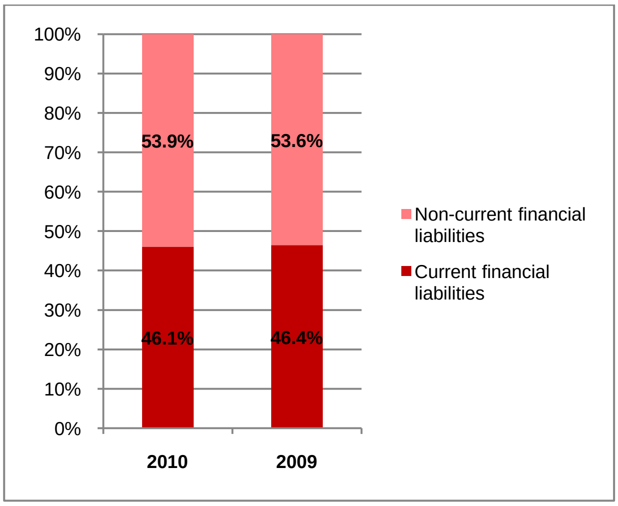
Impact of single events on free cash flow

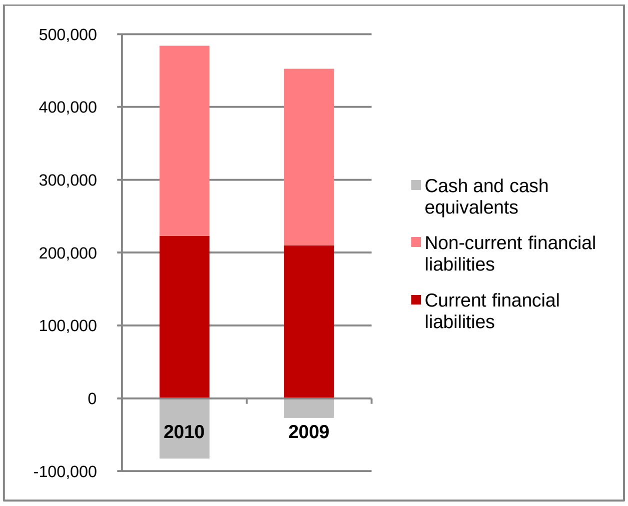
TEUR	2010	2010 (w.o. Asko and Merkur)	2009
PAT	20,024	10,768	-12,232
Amortisation and depreciation expense	52,237	49,913	56,050
Net cash flow	72,261	60,681	43,818
Capex	-44,668	-40,698	-28,732
Net working capital	-14,231	-7,650	17,936
• Inventories	-5,987	-2,180	35,023
• Trade receivables	-25,315	-30,301	10,277
• Trade payables	17,071	24,831	-27,364
Free cash flow / Narrow	**13,362**	**12,333**	**33,022**

Both one-off events (compulsory settlement of Merkur and integration of Asko into our Group) had increased totally the free cash flow by app. 1 million EUR. The integration of the Asko Group had a positive impact on the created net cash flow, but investments in long-term assets (Capex) and Net Working Capital (NWC) increased because of it.

12.6.2 Debt restructuring

In 2010, the maturity structure of the financial debt was maintained at the levels comparable to those of the year 2009 in spite of the declining situation in international financial markets.





Taking a long-term loan from the International Financial Corporation (IFC) amounting to 101.07 million EUR in co-operation with the syndicate of banks had the strongest impact. The loan is intended for refinancing of the existing loans. A portion of the loan (60 million EUR) was utilised at the end of the year 2010 and the rest will be probably used in the first half of the year 2011.

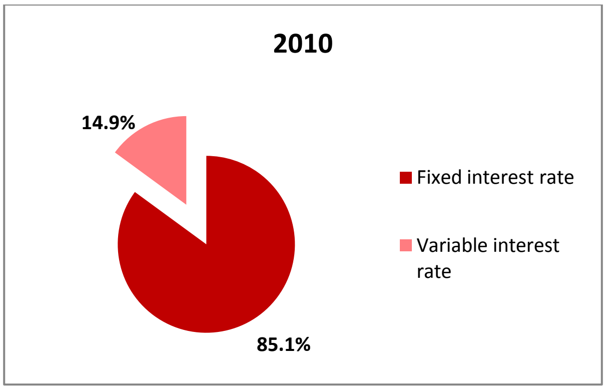
At the end of 2010 available cash amounted to 231.8 million EUR.

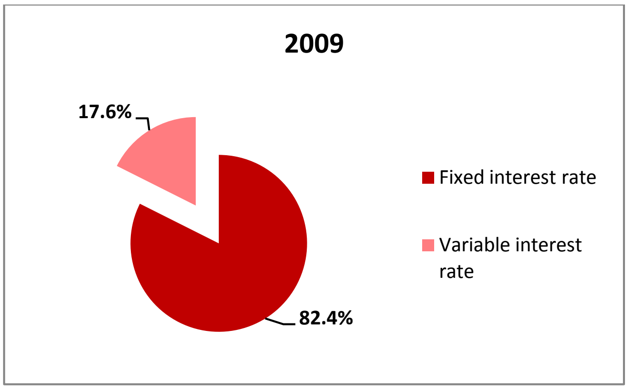
In 2010, funds in business accounts of the companies in Slovenia significantly increased. Additionally, the loans granted, but not utilised, amounted to 149.09 million EUR at the end of the year. At the end of 2010, cash available amounted to 231.8 million EUR. It is estimated that the risk of short-term liquidity of the Gorenje Group can thus be minimised.

TEUR	2010	2009
Unutilised borrowings	149,090	119,417
Cash and cash equivalents	82,723	27,130
Assets available	**231,813**	**146,547**

A portion of the loans of the Gorenje Group was granted with a fixed interest rate, which results in a decrease of risk relating to the increase in variable interest rates. Loans with a variable interest rate were taken in 2010, which is mostly because of the availability of assets on financial markets. As the variable interest rates are expected to change and with the purpose to hedge against interest rate risks, specific measures were taken in 2010 in the form of additional financial instruments. These measures shall be implemented in 2011.

Chart 53: Structure of financial liabilities in terms of interest rate variations

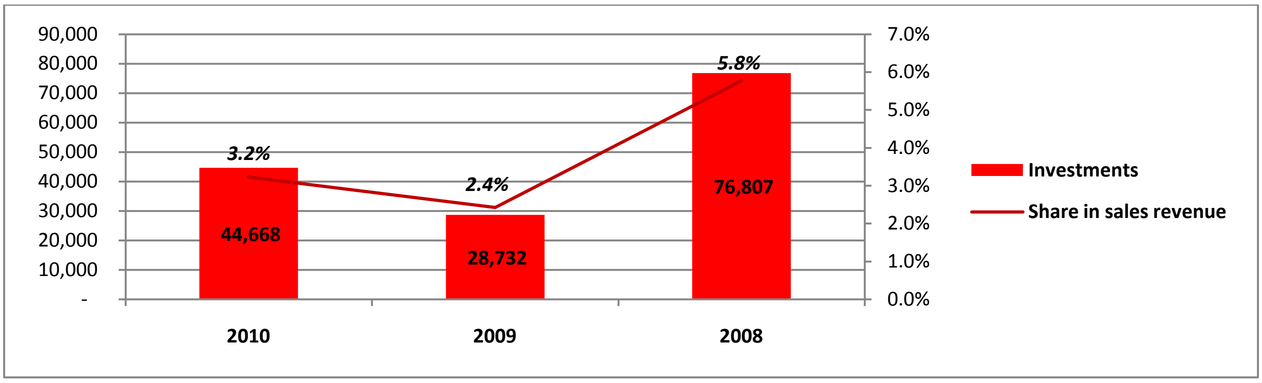




12.7 Investments

In 2010, the Gorenje Group made investments amounting to 44.7 million EUR, of which 39.4 million in property, plant and equipment and 5.3 million EUR in intangible assets.

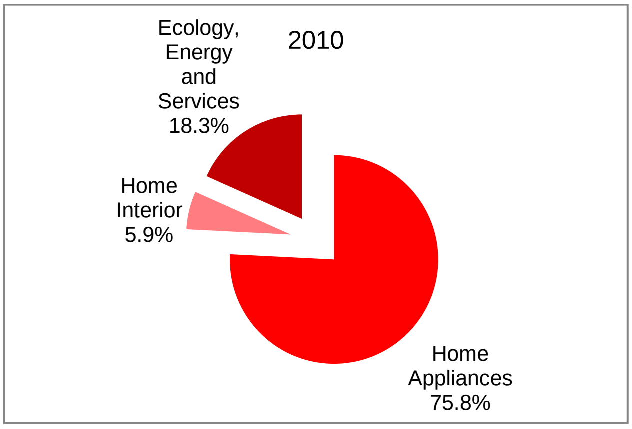
Chart 54: Investments and shares in sales revenue of the Gorenje Group

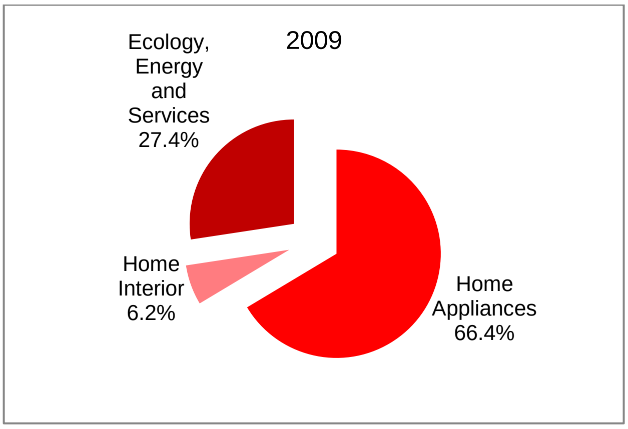


In 2010, the Gorenje Group made investments amounting to 44.7 million EUR.

Their total value increased by 15.9 million EUR or 55.5 percent in comparison with the year 2009. The main reason for the increase is the introduction of products in the Group. Two - thirds of total investments were realised in the Home Appliances Division.

Chart 55 Structure of investments by divisions





Activities in the field of product development and key markets that the Group considers as decisive ones, we have performed the further investments:

- NG503 project and Premium Pyrolysis in the programme of kitchen appliances;
- SPK-A project and the beginning of NG PS SP 10 project in the programme of dish washers – washing machines;
- the projects Combi 750, A++, NGC 600 stage 3 , NGC 540 stage 2 and the project of heat pumps in the programme of refrigerators - freezers.

From the view of the restructuring of the production activities, the most important activity is the relocation of water heater production from Slovenia to Serbia.

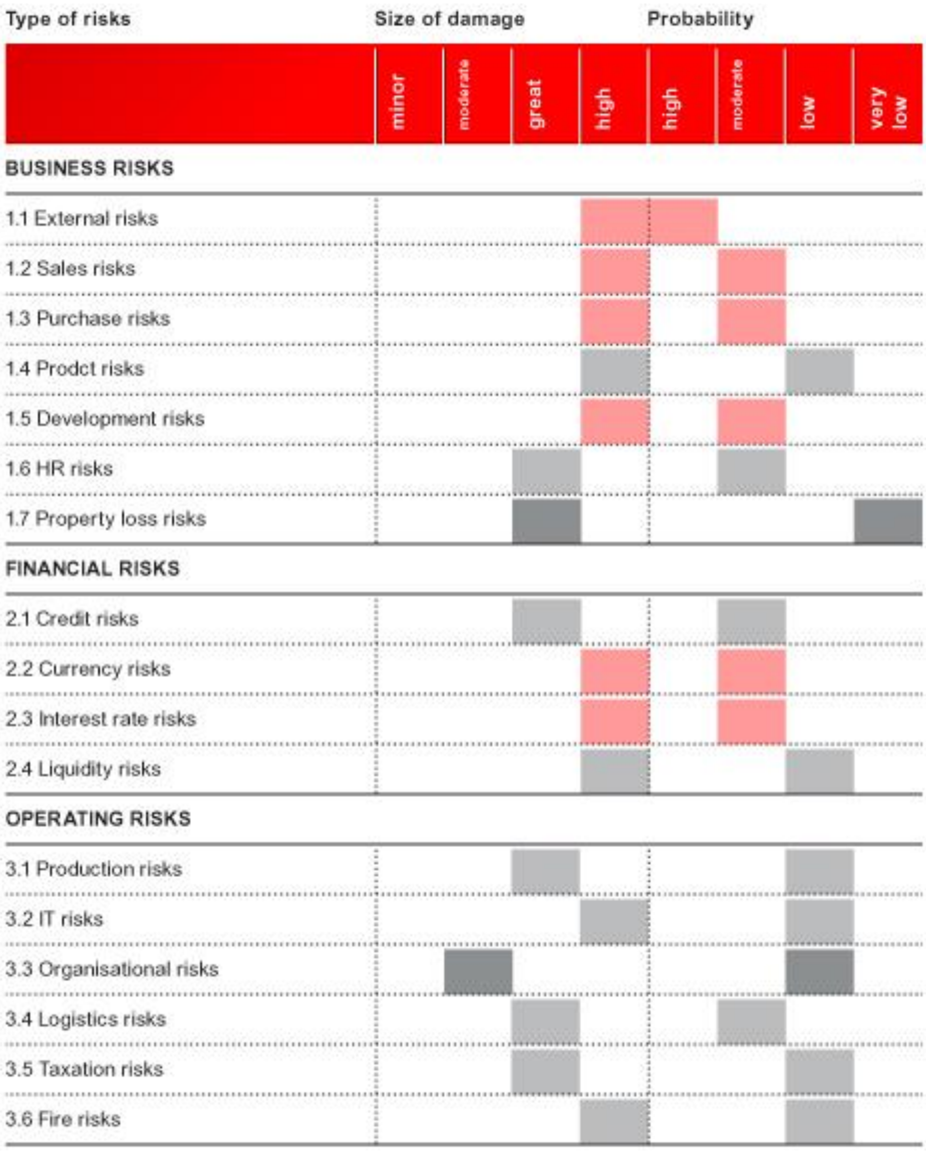
12.8 Risks

In 2010, the Gorenje Group continued risk management per individual division. Three boards operate in each of them: board of business, board of financial and board of operating risks. The risk management council of the Group thus consists of nine boards.

The risk management council of the Group consists of nine boards dealing with various risks of individual divisions.

Risks to which the Group is exposed have been observed and assessed at the level of individual boards. They have been assessed with respect to the power of impact on the budgeted result and the estimate of frequency or probability of the impact. Measures have been prepared on the basis of assessments and thus risks have been limited to an acceptable level in order to achieve the budgeted results in the year 2011. The Council then analysed the interconnection of risks and their mutual effects. The last stage of risk management is marked by the confirmation of measures for their control on the basis of the assessed costs. The Council directed and co-ordinated activities of risk reduction to an acceptable level. Risks were joined in groups and put on the strategic map relating to the potential size and probability of damage.

Picture 7: Strategic map of risks



The assessed risks represented the basis for the plan of audit reviews and the audit of the internal control system. The efficiency of the adopted risk control will be analysed at the end of each quarter in the year 2011.

12.8.1 Risk management in the Home Appliances Division

Business risk management

Business risks are classified as risks associated with the ability or provision of generating short-term and long-term operating revenue, control of business processes and maintenance of asset value.

Within the division we defined the following business risks:

- external risks,
- sales risks,
- purchase risks,
- product risks,
- development risks,
- human resources risks,
- property loss risks.

The Management Board of the Group has assessed that external and sales risks are very high.

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

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

Unpredictability in the raw materials markets and the movement of the US dollar exchange rates still represent the main impact on **purchasing risks**. Due to the extraordinary events in the year 2011 (weather catastrophes, civil disorders in the territory of MENA, debt crisis of the EU countries, increasing inflation pressure, etc.) the risks of the unpredictable movements in the raw materials markets have significantly increased. The purchasing department actively monitors market conditions and the impacts, forward purchases of stock-exchange metals on the LME are made and contracts for non-stock exchange metals are concluded. Such activities have reduced the exposure level of Gorenje to raw materials markets. Long-term partnerships have remained the strategic advantage of purchasing, but exclusively on competitive bases. The development of supply sources in the LCC markets has continued and these are mostly US dollar areas by which natural hedging of sales in US dollars has been provided. In spite of the expected growth of the global economy and prices of raw materials in the world stock exchanges the Management Board of the Group has assessed that the exposure to purchase risks has increased.

Product risks have been focused on the control of risks that may lead to incorrect operation of appliances in the market and finally to a mass failure or product liability of the producer. Risks are limited by suitable development systems and quality assurance in scope of production, sales and after-sales processes and additionally by the insurance of product liability. A quality management system in accordance with the requirements of SIST EN ISO 9001/2000 and the system of accredited methods under ISO 17025 and the six sigma quality management system have been established. By the use of Businesses Intelligence information tools the time to the detection of any possible cancellations has been shortened and thus costs arising from serial failures have been limited. The Management Board of the Group has assessed that the exposure to product risks is moderate with respect to the measures for risks protection.

Risks associated with the achievement of the planned economics of investments, successful activation of investments in the development of new product generations, and successful introduction of new technologies are of key importance among **investment and development risks.** Thereby appropriate planning and control of investment effects is relevant. Risks related to the introduction of new generations and new technologies have been reduced by the exact preparation of business plans, by systematic, active project approach where achievement of the objectives set has been regularly monitored as well as the definition of the corrective activities in case of deviations or quick changes in the market. In spite of all activities reducing the exposure to risk, the Management Board of the Group has assessed that the exposure to investment and development risks is high due to numerous new projects and unforeseeable changes in the business environment influencing the reliability of planning.

In 2010, the production volume stabilised and thus there is no need for further reduction in the number of employees. In spite of that the optimisation of labour costs must be continued in order to be able to achieve strategic objectives and therefore special attention has been devoted to a social dialogue. The reduction of **human resources risks** requires adequate and timely information of the employees, response to their questions and explanation of any lack of clarity, especially in the field of salaries and healthy workplace environment.

Link: Social responsibility - employees
http://www.gorenjegroup.com/si/druzbena_odgovornost/odgovornost_do_zaposlenih

Continuation of the dialogue about the salary policy and establishment of suitable ratios among salary brackets based on the complexity of work and achievement of performance of an individual are of key importance for the reduction in human resources risks. In order to be able to provide appropriate human resources on key positions we will continue the policy of granting scholarships, off-the-job-training and motivation for the assumption of new challenges and the possibility of variable remuneration. The management of the Group has assessed that the exposure to human resources risks is moderate due to the activities mentioned. Property loss risks include property and transport risks. The companies of the Group systematically transfer key property loss risks to insurance companies or business partners and thus the exposure to such risks has been reduced. The Management Board of the Group has assessed that the exposure to such property loss risks is low.

Financial risk management

In 2010, internal financial policies were followed in the field of financial risk management. The policies include starting points for their efficient and systematic management. Objectives of the process of financial risk management are:

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

In the Gorenje Group we defined the following key financial risks:

- credit risks,
- currency risks,
- interest rate risks,
- liquidity risks.

Exposure to individual kinds of financial risks has been judged and measures for the protection against them have been carried out on the basis of effects on cash flows. In scope of regular activities adequate protective activities (hedging) have been performed in the business, investment, and financial fields for the protection against financial risks.

In 2010, considerable of attention was devoted to credit risks.

Due to the difficult macro-economic situation in the year 2010, special attention was paid to **credit risks** that include all risks where economic benefits of the Group are reduced because of the non-fulfilment of contractual obligations of business partners (buyers). They were controlled by:

- protection of the major portion of operating receivables at Slovene Export Company - Slovenska izvozna družba – Prva kreditna zavarovalnica, d.d. - and other insurance companies,
- additional insurance of risky receivables due from customers by bank guarantees and other insurance facilities,
- regular supervision of operation and limitation of exposure to new and existing business partners,
- joint and chain off-setting operations with buyers,
- systematic and active processes controlling credit limits and recovery of receivables.

The Management Board of the Group has assessed that the exposure to credit risks is increased, but it is moderate due to the measures mentioned v.s. hedging instruments.

With respect to the geographic diversification of operations the Gorenje Group is fully exposed to **foreign exchange risks,** where the economic benefits of the company may decrease due to changes in the exchange rate of an individual currency. The exposure off balance sheet has been considered in the valuation of risks. Among foreign exchange risks those risks prevail that arise from business activities in the markets of Serbia, Great Britain, the Czech Republic, Slovakia, Poland, Hungary, Croatia, Turkey, and in all US dollar markets. Special attention has been paid to the control of currency risk by regulation of sales and purchasing in a separate currency. Futures contracts and short-term borrowings in local currencies have been used as protection against short-term currency fluctuations. Irrespective of the measures taken against foreign exchange risks and due to important macro-economic changes and fluctuations mostly in Eastern European currencies, the Management Board of the Group has assessed that the exposure to foreign-exchange risks is increased.

At the end of the year 2010, the share of loans with a fixed interest rate in the Gorenje Group amounted to 17.6 percent. Due to the expected increases in variable interest rates starting points were prepared in 2010 in order to increase the share of loans with a fixed interest rate and to improve the protection against **interest risks**. This will be carried out by the conclusion of loan agreements with a fixed interest rate and the use of derivative financial instruments. The Management Board of the Gorenje Group has assessed that the exposure to interest risks is increased.

Liquidity risk includes risks associated with the lack of financial resources available and consequently the inability of the Group to settle its liabilities within the time limits agreed.

In 2011, loans granted to the Gorenje Group in the amount of 205.89 million EUR will fall due and discussions with banks concerning their refinancing have already been in progress. As of the 31st of December, 2010 the liquidity reserve amounted to 231.81 million EUR and consisted of non-utilised revolving facilities, non-utilised long-term credit lines, fixed short-term deposits in banks and funds in the accounts of the Group. It provides adequate short-term balancing of cash flows and decreased short-term liquidity risk.

The risk of short-term liquidity of the Group has been assessed as moderate due to efficient management of cash, suitable and available credit lines, high rate of financial flexibility and a favourable approach to financial markets and sources.

The risk of long-term liquidity has been assessed as moderate due to efficient asset management, sustained ability of generating cash flows from operating activities and suitable equity structure.

The Group has prepared a plan of long-term loan servicing, arising from the strategy to the year 2013 that defines exact the amount of debt maturity per year and sources for its refinancing.

The Management Board of the Group has assessed that the exposure to the liquidity risk is moderate.

Operating risk management

The Management Board of the Group has assessed that the exposure to operating risks is moderate.

Operating risks include a reduction in economic benefits of the Group arising from the ability of unsuitable planning, performance and control of business processes and activities.

- production risks,
- information system risks,
- organisational risks,
- logistic risks,
- tax risks,
- fire risks.

Production risks have been controlled by the activities in the fields:

- operation of key equipment: machines, tools, production lines and units for material processing,
- operation of infrastructure including smooth supply with energy products,
- adequate management of hazardous waste and operation of the central wastewater treatment plant,
- availability of production capacities.

The **production risk** is greater in line production and it is controlled by qualifications of employees and regular maintenance of production lines. The Management Board of the Group has assessed that the exposure to production risks is moderate.

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

- the complete update of the SAP system environment based on the open-code operating system and high availability of installation of hardware and software,
- operation of the centre for continuous operation or safe secondary locations (i.e. Disaster Recovery Centre – DRC),
- changes in the architecture of server systems (server virtualisation),
- BCM (business continuity management) process control and the related measures,
- preliminary prepared measures for individual types of disturbances in the operation of the local computer network, supporting servers, global communications and network connections in the system,
- regular maintenance of hardware and software, communications and network connections,
- control of changes in the development of information systems,
- suitable training of employees and other measures.

The Management Board of the Group has assessed that the exposure to information system risks is moderate.

Organisational risks are associated with the non-observan of rules and regulations. Managers play the key role in the control of these risks since they are responsible for the implementation of adequate procedures, they provide compliance of authorisation and responsibilities of individual employees and simultaneously consider the need for creativity and innovative spirit of separate working units. The Gorenje Group disapproves of processes that are too automated since the innovative spirit of the employees can thus be limited. In some cases violation of rules and regulations can cause great damage to the Group. These cases have already been assessed within individual risks. Such a risk may also include mismatched operation of functional organisational units due to which some urgently needed activities have already been eliminated. Such risks have been controlled by a complete process approach. The

Management Board of the Group has assessed that exposure to organisational risks is low.

Logistic risks are associated with the increase in transport costs of products. Supply and demand are the most important factors influencing prices of sea transport, but oil prices influence road that change the price of transport in compliance with contracts concluded with transport companies. Risks are assessed with respect to assumptions of movements in oil prices and prices of sea transport. A characteristic of the complete European territory is the lack of trucks in the markets that additionally contributed to the instability of the market and thus to increased risks in the last year. Lack of trucks is the result of high indebtedness of transport operators trying to restructure debts by disinvestments. The Management Board of the Group has assessed that the exposure to the logistic risk is moderate.

Tax risks are associated with:

- correct interpretation of material and process tax legislation and thus the related correct and timely accounting and payment of levies,
- potential changes in tax legislation, and
- implementation of tax legislation in daily business processes.
- provision of adequate documents, etc.

The basic control measure is a consistent following of regulations of tax legislation, monitoring of tax and legal practice, establishment of internal control mechanisms and intensive co-operation among the departments, co-operation in all stages of business activities, preparation of adequate documents for the support of adopted solutions and similar. When operating with subsidiaries risks are controlled by the implementation of a co-ordinated policy of transfer prices and the preparation of suitable documents. The management of the Group has assessed that the exposure to tax risks is high due to complexity of operation, large volume of international transactions, complexity of tax legislation, but probability of occurrence of risky events is low.

Fire risks have been limited by regular assessment of fire danger on the basis of which all facilities have been equipped with active fire protection systems, the supervision over the performance of fire protection measures has been intensified, and the employees have been additionally trained in the area of fire protection. In 2010, leased premises and newly equipped premises (development laboratory) were additionally equipped with fire-detection systems. The Management Board of the Group has assessed that the exposure to fire risks is moderate.

12.8.2 Risk management in the EES Division and Home Interior Division

Energy, Ecology and Services Division (EES)

Risk management in the division mentioned has been presented in detail in annual reports of the companies in the Group that belong to the EES Division.

Home Interior Division (HI)

Risk management in the division mentioned has been presented in detail in the annual report of the company Gorenje Home Interior. Only the most important risks to which the Division is exposed will be presented as well as the risks that have an impact on the parent company or the Gorenje Group.

Business risks

In the scope of business risks, full attention was directed to **purchase risks** in this Division since the financial crisis and the recession increased unpredictability and fluctuations in prices of input materials. Costs of materials of the Division are chipboards of all types that have a major impact on all important production factors: costs, quality, smooth course of the production and others.

Suppliers of chipboards are organised as a cartel and carry out a harmonised price policy. Price competitiveness is also limited in space and time since the materials cannot be exposed to long transport. Risks are controlled by the involvement of all suitable suppliers in our purchase chains, which results in the achievement of optimal prices and smooth deliveries. The Management Board of the Company has assessed that the exposure to purchase risks is moderate.

An important field in scope of business risks is also **human resources risks**. The reduced volume of orders and thus the decreased production volume dictate the reduction of employees as well as labour costs which makes the conditions for a social dialogue difficult and increases the risks mentioned. The Management Board of the Company has assessed that the exposure to human resource risks is moderate.

Financial risks

Due to the serious macro-economic situation undivided attention was directed to **credit risks** that include all risks where economic benefits of the company may decrease due to non-fulfilment of contractual obligations of business partners (buyers). The exposure to credit risks has been controlled by the same measures as in the parent company. The Management Board of the Company has assessed that the exposure to credit risks is moderate.

Liquidity risk is mostly associated with the negative profit or loss of the Home Interior Division. To a great extent, this risk is controlled by optimal current asset management. Current operation of the Home Interior Division has been financed also by the parent company, which means that the liquidity risk is transferred also to it. The Management Board of the

Company has assessed that the exposure to the liquidity risk is moderate.

Operating risk

In scope of production risks a lot of attention was devoted to the:

- operation of key equipment,
- operation of infrastructure including smooth supply with energy products, and
- provision of infrastructural adequacy of hazardous waste management.

Production risks are higher for production lines and therefore close attention was paid to the risks in the ceramics production. It has been controlled by good qualification for work of the employees and regular maintenance of production lines. Risks in the field of hazardous waste management have been limited by constant control, prevention and employee training. The Management Board of the Company has assessed that the exposure to production risks is moderate.

Risks associated with the provision of availability and responsiveness of the IT system, depending on hardware and software are relevant among **information systems risks.** Exposure to these risks has been controlled by:

- gradual introduction of uniform information system for all programmes,
- preliminary prepared measures for individual types of disturbances in the operation of the local computer network, supporting servers, global communications and network connections in the system,
- planning of procedures viz. actions at the time of failure of the information support,
- regular archiving of data,
- regular maintenance of software and hardware and communication and network connections,
- control of changes in the development of information systems,
- suitable training of employees and other measures.

The Management Board of the Company has assessed that the exposure to the information system risk is moderate.

12.9 Important events after the end of the financial year

The President of the Management Board of Gorenje and the representatives of the Serbian Government and the Municipality of Zaječar have signed, in Zaječar a precontract on the implementation of the Gorenje's investment in the production capacities of the Home Appliances Division. With this investment in estimated in the amount of EUR 2.9 million, Gorenje will yield employment for 300 employees.

Gorenje has opened up in Sarajevo its first own service in Bosnia and Herzegovina as the upgrade of the existing authorised service network. A team of newly employed service engineers of Gorenje will cover the area of Sarajevo and the neighbouring municipalities.

At its meeting on the 3rd of March, 2011, the Supervisory Board of Gorenje appointed Mr. Marko Mrzel as the newest member of the Management Board of Gorenje. He will be in charge of finance and economics and will exercise his function until the expiry of the mandate of the present Management Board, i.e. until the 18th of July, 2013.

12.10 Objectives for the year 2011

Thematic and methodological starting points, assumptions and limitations on planning

The business plan of the Gorenje Group for the year 2011 has been prepared on the basis of plans of the parent company and subsidiaries. The exchange rate EUR/USD has been foreseen at the level of USD 1.3 = EUR 1.

The basic assumptions of going concern and long-term operation have been considered. Methodological approaches and the quality of financial and economic calculations are comparable to those used for the preparation of interim and annual business accounts.

The plan does not include the effects of disinvestments of unnecessary property and any activities of optimising property, financial and business portfolio of the companies in the Gorenje Group that will be carried out in the year 2011. At the time of planning their effects cannot be measured by a degree of probability that would be high enough. The effects of implementation of an agreement with the IFC have been considered.

The planned organisation and composition of the Gorenje Group in the year 2011

In 2011, the elimination of mechanical engineering from the parent company is planned and the formation of a new legal entity, transfer of the activities of mechanical engineering and tool industry (including production of military vehicles) to the EES Division, and the elimination of activities of the Home Appliances Division from the company GTI, d.o.o. that operates within the EES Division is planned.

Table 25: Highlights of the Business Plan 2011

TEUR	B2011	vs 2010	B2011 (w.o. Asko)	vs 2010 (w.o. Asko)	2010	2010 (w.o. Asko and Merk.)	B2010	2009
Total operating revenue	**1,547,964**	112.0	**1,368,232**	104.0	**1,382,185**	**1,315,829**	**1,244,037**	**1,185,937**
EBITDA	**107,414**	98.8	**98,740**	108.2	**108,675**	**91,226**	**97,764**	**68,199**
**** EBITDA margin***	***6.9%***		***7.2%***		***7.9%***	***6.9%***	***7.9%***	***5.8%***
EBIT	**54,574**	96.7	**51,837**	125.5	**56,438**	**41,313**	**45,005**	**12,149**
**** EBIT margin***	***3.5%***		***3.8%***		***4.1%***	***3.1%***	***3.6%***	***1.0%***
PAT / accumulated	**21,104**	105.4	**19,359**	179.8	**20,024**	**10,768**	**10,086**	**-12,232**
**** ROS***	***1.4%***		***1.4%***		***1.4%***	***0.8%***	***0.8%***	***-1.0%***
No. of employees / closing	**11,022**	102.8	**10,228**	103.3	**10,721**	**9,899**	**10,206**	**10,675**
No. of employees / average	**11,130**	99.6	**10,330**	99.9	**11,174**	**10,340**	**10,535**	**10,907**

In 2011, the Strategic Plan will be further implemented and the emphasis will be placed on the strategy of the administration of trademarks and product management of the Home Appliance Division. A main challenge will be neutralisation of the expected growth in prices in purchase markets of raw materials and materials.

Profitability of the Home Appliance Division will be higher that the one of the other two divisions. Due to a high unemployment rate, lack of quality financial sources and high risks modest growth is expected in our sales markets. Due to the decrease in production in the last two years, high over-capacities have been observed in the industry, which influences the reduction in prices of our products. Control of business processes related to the optimisation of costs and optimisation of working capital will be of vital importance for the provision of our competitiveness.

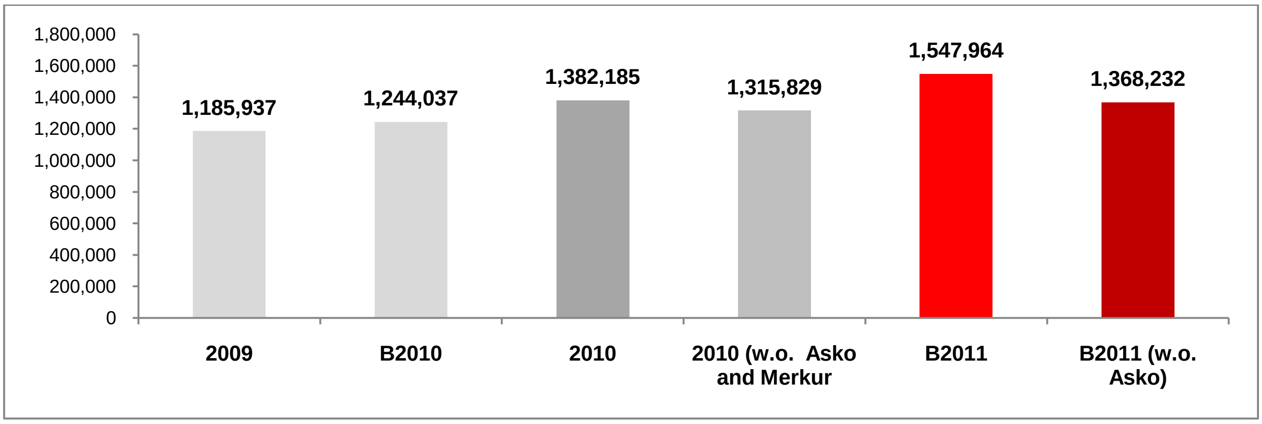
We will focus on the sale of our own trademarks, control of key customers or international chains and changes in the distribution channels (kitchen studios). Innovative spirit and design will play a crucial role in the development of new products. With their help we would like to continue price repositioning of our trademarks and, in 2011, growth of average sales prices, by four percent is planned. Trends in the field of end users will be followed - demographic changes, changes in life-style and other similar changes.

The integration of the Asko Group into the Gorenje Group will continue and its success and performance will be improved (Scandinavian sales organisation, synergy in business processes, spreading of the Asko trademark to selected markets). The organisation of sales and marketing will change and the introduction of the SAP system will continue. Procedures of operational planning will be upgraded and corporate management will be further developed. The development of production centres in Serbia - Valjevo, Stara Pazova as well as the activities of financial restructuring of the Gorenje Group will continue, but the Home Interior Division will be strategically restructured.

Planned performance of the Gorenje Group

In 2011, comparable growth in sales revenue amounting to 4.0 percent and net profit higher by EUR 8.6 million have been planned.

Chart 56: Movement of consolidated net sales revenue

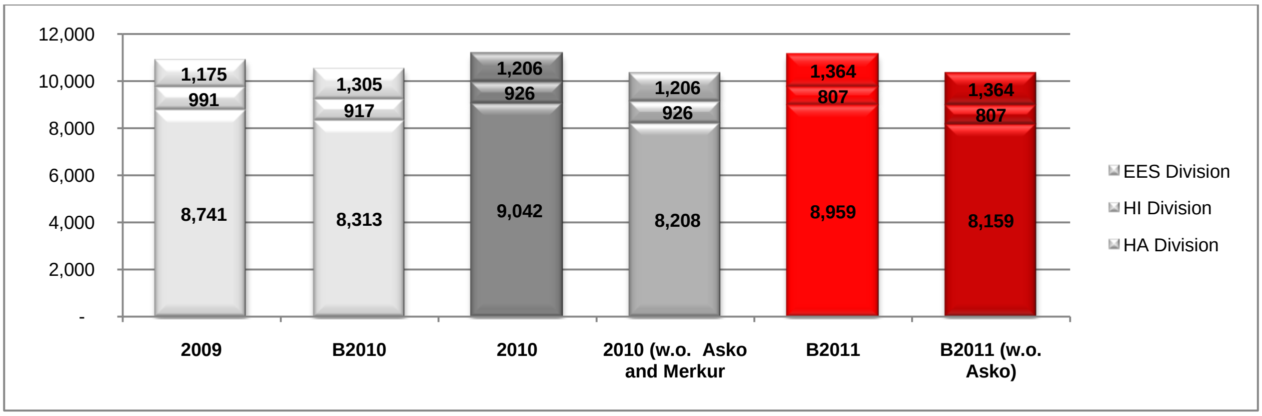


In 2011, growth in sales revenue is planned in the amount of 165.8 million EUR (+12.0 percent). If the impact of the Asko Group is eliminated from the data it will amount to +4.0 percent. The highest growth will be achieved in the Home Appliances Division (162.7 million EUR or 16.6 percent). It will be slightly lower without the effects of the acquisition of Asko, but still very sound in the amount of 5.4 percent (49.3 million EUR). The other two divisions will also grow, with the Ecology, Energy and Services Division by 0.6 percent and the Home Interior Division by 2.9 percent. Due to the restructuring business activities in the Itater division, the growth of sales revenue and the operating producing loss will be especially important.

Balanced growth of sales in the EU markets and the markets of Eastern and South Eastern Europe, outside the EU has been planned from the geographical aspect, which is of essential importance due to stabilisation of operation at the time of crisis and therafter.

Planned number of employees

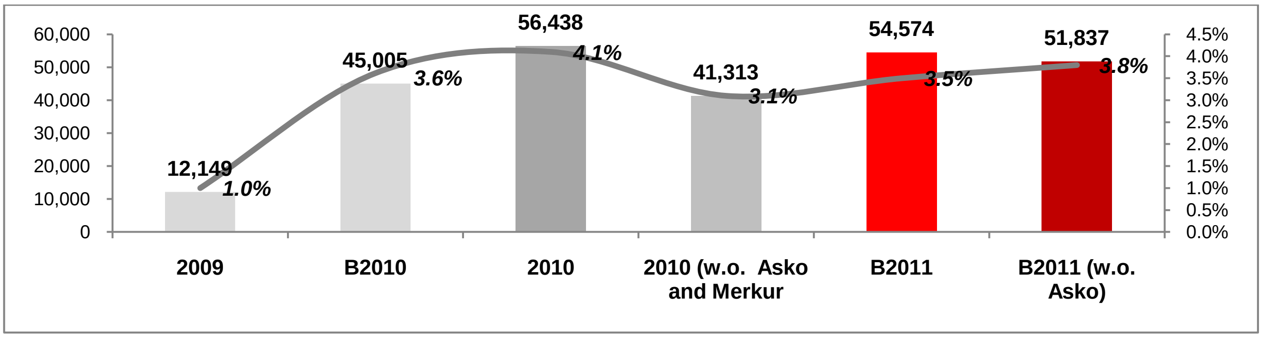
Chart 57: Average number of employees in theGorenje Group by division



Earnings before interest and taxes (EBIT)

The planned growth of earnings before interest and taxes (EBIT) has to be observed only at a comparable level – i.e. after the elimination of acquisition effects of the Asko Group. In 2011, an improvement of EBIT margin by 0.7 - percentage points has been planned. The main factors of such development will be higher growth of gross margin than the growth of operating costs and reduction in depreciation/amortisation expenses. These expenses will be lower due to lower volume of investments in the last two years and restructuring of infrastructure in production centres.

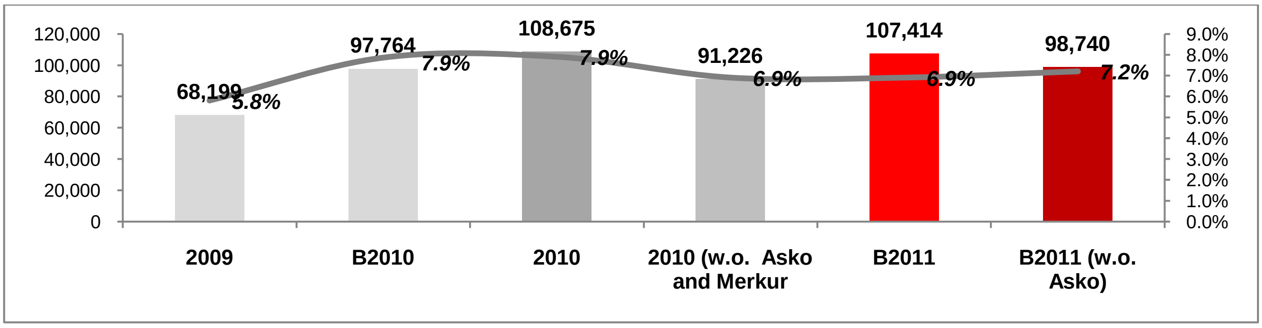
Chart 58: Movement of EBIT and the EBIT margin



Earnings before interest, taxes, depreciation and amortisation (EBITDA)

In 2011, the comparable EBITDA margin will, according to our plans, amount to 7.2 percent and will be a bit higher than that achieved in the year 2010.

Chart 59: Movement of EBITDA and the EBITDA margin

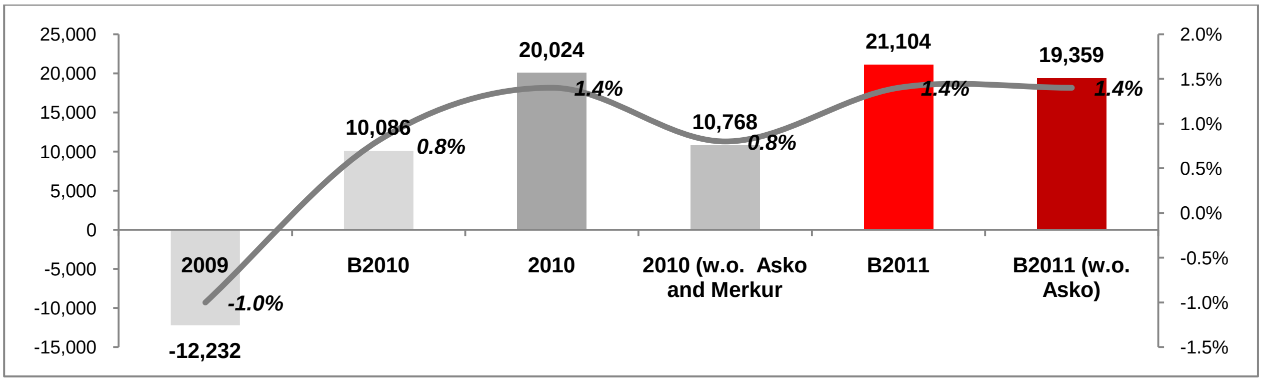


Net profit

The budgeted comparable financial revenue will be lower by 4.9 million EUR than in the year 2010 and financial expenses by 5.3 million EUR. The lower financial revenue and expenses will also be with included effects of the Asko Group. Due to the assurance of comparability the negative effect of allowances for receivables due from the company Merkur, d.d., amounting to 6.8 million EUR was eliminated from the estimate of the year 2010.

Taxation of the complete profit will be by 2.4 million EUR higher than in the year 2010. It has been planned that net profit will be by 8.6 million EUR higher than in the year 2010.

Chart 60: Movement of PAT and ROS



Free cash flow

The budgeted free cash flow amounting to 29.1 million EUR, will be used for the reduction of the total debt of the Group. In spite of the relevant growth in the volume of business activities, the investments in net working capital will remain at the level of the year 2010, which is a result of shorter - term - deposits. In 2011, Capex will be lower than the amortisation/depreciation expense..

Table 26: Planned free cash flow / Narrow

TEUR	B2011	B2011 (w.o. Asko)	2010	2010 (w.o. Asko and Merkur)	B2010	2009
PAT	21,104	19,359	20,024	10,768	10,086	-12,232
Amortisation and depreciation expense	52,840	46,903	52,237	49,913	52,759	56,050
Net cash flow	73,944	66,262	72,261	60,681	62,845	43,818
Capex	-40,433	-36,333	-44,668	-40,698	-28,795	-28,732
Investments in current assets	-4,377	-2,631	-14,231	-7,650	-9,573	17,936
• change in inventories	-4,531	-3,962	-5,987	-2,180	7,407	35,023
• change in trade receivables	-8,443	-6,705	-25,315	-30,301	9,116	10,277
• change in trade payables	8,597	8,036	17,071	24,831	-26,096	-27,364
Free cash flow / Narrow	**29,134**	**27,298**	**13,362**	**12,333**	**24,477**	**33,022**

Financial management

In 2011, considirable attention will be paid to the reduction and restructuring of the debt. A portion of long-term financial liabilities will amount to 53.5 percent at the end of the year 2011, which is comparable to the end of the year 2010 (53.9 percent). In addition to the utilisation of the loan granted by the IFC restructuring of the debt has been planned also with other financial institutions.

In 2010, total financial liabilities amounted to 483.9 million EUR. In 2011, their reduction by 44.4 million EUR to the level of 439.5 million EUR has been planned in 2011.

Due to the difficult macro-economic situation, special attention will be paid to the control of credit risks with the emphasis on the active management of credit lines of individual business partners, provision of adequate quality instruments for the security and intensive recovery of receivables.

Risk of short-term liquidity will be controlled by the granted revolving credit lines whose free credit potential in the Gorenje Group ranges from 75 to 100 million EUR, on average. Risk of long-term liquidity is minimal since the refinancing of long-term loans before their maturity will be provided due to the activities for restructuring debt maturity.

Currency risks to which the Group is exposed will be balanced and minimised by natural harmonisation of cash flows in a separate currency. Derivative financial instruments will be also used for additional protection, especially in the territory of Eastern and South - Eastern Europe.

13 Accounting Report under IFRS as adopted by EU

13.1 Accounting Report of the Gorenje Group

13.1.1 Consolidated Financial Statements of the Gorenje Group

Consolidated Income Statement of the Gorenje Group

in TEUR	Note	2010	2009
Revenue	14	**1,382,185**	**1,185,937**
Changes in inventories		-13,510	-12,119
Other operating income	15	47,554	33,254
Gross profit		**1,416,229**	**1,207,072**
Cost of goods, materials and services	16	-1,040,509	-901,146
Employee benefits expense	17	-244,442	-219,323
Amortisation and depreciation expense	18	-52,237	-56,050
Other operating expenses	19	-22,603	-18,404
Results from operating activities		**56,438**	**12,149**
Finance income	20	12,485	19,516
Finance expenses	20	-46,451	-40,973
Net finance expense	20	-33,966	-21,457
Profit or loss before income tax		**22,472**	**-9,308**
Income tax expense	21	-2,448	-2,924
Profit or loss for the period		**20,024**	**-12,232**
Attributable to minority interest		101	-728
Attributable to equity holders of the parent		19,923	-11,504
Basic and diluted earnings per share (in EUR)	33	1.34	-0.83

Statement of Comprehensive Income of the Gorenje Group

in TEUR	Note	2010	2009
Net profit or loss for the period		**20,024**	**-12,232**
Other comprehensive income			
Change in fair value of land	23	-7,777	-4
Net change in fair value of available-for-sale financial assets		50	-878
Net change in fair value of available-for-sale financial assets transferred to profit or loss	20	145	-3,097
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge		317	597
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	20	0	-1,611
Income tax on other comprehensive income	26	91	2,663
Translation reserve		-8,563	-2,903
Other comprehensive income for the period		**-15,737**	**-5,233**
Total comprehensive income for the period		**4,287**	**-17,465**
Attributable to equity holders of the parent		4,186	-16,737
Attributable to minority interest		101	-728

Consolidated Statement of Financial Position of the Gorenje Group

in TEUR	Note	2010	2009
ASSETS		**1,317,754**	**1,178,677**
Non-current assets		**563,435**	**574,307**
Intangible assets	22	160,161	161,560
Property, plant and equipment	23	375,400	382,801
Investment property	24	4,518	7,802
Non-current investment	25	5,313	6,614
Deferred tax assets	26	18,043	15,530
Current assets		**754,319**	**604,370**
Assets classified as held for sale		1,066	1,137
Inventories	27	257,593	217,981
Current investments	28	48,002	68,218
Trade receivables	29	306,284	251,740
Other current assets	30	55,438	35,796
Current tax assets		3,208	2,368
Cash and cash equivalents	31	82,728	27,130
EQUITY AND LIABILITIES		**1,317,754**	**1,178,677**
Equity	32	**392,096**	**369,644**
Share capital		66,378	58,546
Capital surplus (share premium)		175,575	158,487
Legal and statutory reserves		21,990	21,697
Retained earnings		107,382	97,788
Own shares		-3,170	-3,170
Translation reserve		8,842	17,405
Fair value reserve		13,294	12,822
Equity attributable to equity holders of the parent		**390,291**	**363,575**
Minority interest		**1,805**	**6,069**
Non-current liabilities		**356,027**	**311,313**
Provisions	34	88,167	62,158
Deferred income	35	866	1,211
Deferred tax liabilities	26	6,062	5,585
Non-current financial liabilities	36	260,932	242,359
Current liabilities		**569,631**	**497,720**
Current financial liabilities	37	223,015	209,883
Trade payables	38	237,020	196,296
Other current liabilities	39	106,698	87,260
Current tax liabilities		2,898	4,281

Consolidated Statement of Cash Flows of the Gorenje Group

	in TEUR	Note	2010	2009
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
	Profit for the period		**20,024**	**-12,232**
	Adjustments for:			
	- Depreciation of property, plant and equipment	23	46,227	50,061
	- Amortisation of intangible assets	22	6,010	5,989
	- Investment income	20	-12,485	-19,516
	- Finance expenses	20	46,451	40,973
	- Gain on sale of property, plant and equipment	15	-2,321	-416
	- Negative goodwill	15	-13,337	0
	Income tax expense	21	2,448	2,924
	Operating profit before changes in net operating current assets and provisions		**93,017**	**67,783**
	Change in trade and other receivables		-80,635	6,579
	Change in inventories		-39,612	35,023
	Change in provisions		25,664	-933
	Change in trade and other liabilities		60,162	-19,267
	Cash generated from operations		**-34,421**	**21,402**
	Interest paid		-23,607	-21,223
	Income taxes paid		-7,272	-2,385
	Net cash from operating activities		**27,717**	**65,577**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
	Proceeds from sale of property, plant and equipment		6,775	1,517
	Proceeds from sale of available-for-sale investments		5,621	5,598
	Interest received		3,046	4,153
	Dividends received		305	373
	Disposal of subsidiary, net of cash disposed		0	263
	Acquisition of subsidiary, net of cash acquired		1,144	0
	Acquisition of property, plant and equipment		-39,358	-24,198
	Payments for acquisition of available-for-sale investments		-1,695	3,958
	Loans		-2,564	3,824
	Acquisition of other investments		14,341	-10,412
	Acquisition of intangible assets		-5,310	-4,534
	Net cash used in investing activities		**-17,695**	**-19,458**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
	Repurchase of minority interest		-6,902	-7,551
	Capital increase		24,920	0
	Borrowings / Repayment of borrowings		27,558	-35,553
	Dividends and premiums paid		0	0
	Net cash used in financing activities		**45,576**	**-43,104**
	Net increase in cash and cash equivalents		55,598	3,015
	Cash and cash equivalents at beginning of period		27,130	24,115
	Cash and cash equivalents at end of period		82,728	27,130

Statement of Changes in Equity of the Gorenje Group

in TEUR	Share capital	Capital surplus (share premium)	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity attributable to equity holders of the parent	Minority interest	Total
Opening balance at 1 Jan 2010	**58,546**	**158,487**	**21,697**	**97,788**	**-3,170**	**17,405**	**12,822**	**363,575**	**6,069**	**369,644**
Total comprehensive income for the period										
Net profit or loss for the period				19,923				19,923	101	20,024
Total other comprehensive income				-7,646		-8,563	472	-15,737		-15,737
Total comprehensive income for the period	**0**	**0**	**0**	**12,277**	**0**	**-8,563**	**472**	**4,186**	**101**	**4,287**
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distributions to owners										
Capital increase	7,832	17,088						24,920		24,920
Payment of dividends								0		0
Creation of statutory reserves			293	-293				0		0
Total contributions by owners and distributions to owners	**7,832**	**17,088**	**293**	**-293**	**0**	**0**	**0**	**24,920**	**0**	**24,920**
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Disposal of a subsidiary								0		0
Acquisition of non-controlling interests				-2,390				-2,390	-4,365	-6,755
Total changes in ownership interests in subsidiaries				**-2,390**				**-2,390**	**-4,365**	**-6,755**
Total transactions with owners	**7,832**	**17,088**	**293**	**-2,683**	**0**	**0**	**0**	**22,530**	**-4,365**	**18,165**
Closing balance at 31 December 2010	**66,378**	**175,575**	**21,990**	**107,382**	**-3,170**	**8,842**	**13,294**	**390,291**	**1,805**	**392,096**

in TEUR	Share capital	Capital surplus (share premium)	Legal and statutory reserves	Retained earnings	Own shares	Translation reserve	Fair value reserve	Equity attributable to equity holders of the parent	Minority interest	Total
Opening balance at 1 Jan 2009	**58,546**	**158,487**	**21,697**	**110,324**	**-3,170**	**20,308**	**15,087**	**381,279**	**13,243**	**394,522**
Total comprehensive income for the period										
Net profit or loss for the period				-11,504				-11,504	-728	-12,232
Total other comprehensive income						-2,903	-2,330	-5,233		-5,233
Total comprehensive income for the period	**0**	**0**	**0**	**-11,504**	**0**	**-2,903**	**-2,330**	**-16,737**	**-728**	**-17,465**
Transactions with owners (when acting as owners) recognised directly in equity										
Contributions by owners and distributions to owners										
Payment of dividends										
Total contributions by owners and distributions to owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Changes in ownership interests in subsidiaries that do not result in a loss of control.										
Acquisition of non-controlling interests				-1,032			65	-967	-6,446	-7,413
Total changes in ownership interests in subsidiaries	**0**	**0**	**0**	**-1,032**	**0**	**0**	**65**	**-967**	**-6,446**	**-7,413**
Total transactions with owners	**0**	**0**	**0**	**-1,032**	**0**	**0**	**65**	**-967**	**-6,446**	**-7,413**
Closing balance at 31 December 2009	**58,546**	**158,487**	**21,697**	**97,788**	**-3,170**	**17,405**	**12,822**	**363,575**	**6,069**	**369,644**

13.1.2 Notes to the Consolidated Financial Statements

1. Reporting company

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

The consolidated financial statements of Gorenje, d.d. at and for the year ended 31 December 2010 comprise the parent company and its subsidiaries (together referred to as the "Group"), and the Group's interests in jointly controlled entities. The Group is engaged mainly in the production and sale of household appliances.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in EU, and provisions of the Companies Act.

The financial statements were approved by the Management Board of Gorenje, d.d. on 7 March 2011.

(b) Basis of measurement

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

- derivative financial instruments
- available-for-sale financial assets
- land
- investment property

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

(c) Functional and presentation currency

These financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes below:

Note 10, 11, 12 - acquisition of a non-controlling interest, acquisition of a company, and disposal of companies
Note 33 and accounting policy 3(l)(iv) – measurement of liabilities for retirement benefits and jubilee premiums
Note 33 – provisions for litigations
Note 33 and accounting policy 3 (l)(i) – provisions for warranties
Note 40 and accounting policy 3 (i)(i) – valuation of financial instruments, including receivables

(e) Changes in accounting policies

(i) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

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

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

Acquisitions between 1 January 2004 and 1 January 2010
For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)
As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework.

(ii) Accounting for acquisitions of non-controlling interests
From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interests. The

change in accounting policy has been applied prospectively and has had no significant impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e).

(a) Basis of consolidation

(i) Business combinations

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(i) for further details.

(ii) Subsidiaries

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

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

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, except that any share capital of the acquired entities is recognised as a part of share premium. Any cash paid for the acquisition is recognised directly in equity..

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.
(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the
beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments or a financial liability designated as a hedge.

(ii) Foreign operations

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

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

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets of the Group comprise: liabilities and receivables, available-for-sale financial assets and cash and cash equivalents.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand are a part of current financial liabilities.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, taking into account changes in fair value. Impairment losses (see not 3(i)(i) and foreign exchange differences on available-for-sale equity instruments (see note 3(b)(i)) are recognised in profit or loss and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity and presented in other comprehensive income is reclassified to profit or loss.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group records the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments, including hedge accounting

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

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

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

Cash flow hedge

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

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

Other non-trading derivatives

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

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

Dividends are recognised as liabilities in the period in which a resolution was adopted by the Shareholder’s Meeting on their distribution.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property (except land), plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(ii) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment and measured at cost until construction of development is completed, at which time it is reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

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

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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

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

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

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

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 2(e)(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment loss.
(ii) Research and development

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

• patents and trademarks	5 - 10 years
• capitalised development costs	5 - 10 years

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

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value (see note 4(iii)) with any change therein recognised in profit or loss.

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

(g) Leased assets

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

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

Other leases are operating leases and are not recognised in the Group's statement of financial position.

(h) Inventories

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

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

(i) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline
in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment
securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In line with the Accounting Manual, the Group considers evidence of impairment for receivables based on the observance of criteria pertaining to the maturity and collateralisation of receivables. Thereafter, it is corrected by an individual estimate.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year prior to the compilation of the financial statements.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Non-current assets held for sale or distribution

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

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(k) Employee benefits

(i) Short-term employee benefits

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

(l) Provisions

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

(i) Warranties

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

A provision for warranties is reduced directly by costs for which it has been created. It means that such costs are no longer recorded in the income statement. At the end of the period for which provisions have been created, the unused portion of provisions is transferred to other operating income.

(ii) Restructuring

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

(iii) Onerous contracts

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

(iv) Provisions for retirement benefits and jubilee premiums

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

Provisions are created by discounting, at the reporting date, the estimated future payments of retirement benefits and jubilee premiums. The obligation is calculated separately for each employee by estimating the costs of retirement benefits and the costs of all expected jubilee premiums until retirement. The selected annual discount rate is 5.40percent, which is the rate of return on 10-year entrepreneurial bonds in euro area. The calculation has been performed by a certified actuary using the projected unit method.

(v) Site restoration

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

(m) Revenue

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

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

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

(ii) Revenue from services rendered

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

(iii) Commissions

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

(iv) Rental income

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

(n) Government grants

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

(o) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings (a portion of borrowing costs may be capitalised within property, plant and equipment), foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs are recognised in profit or loss using the effective interest method,except the borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill when it is not a deductible expense, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Earnings per share

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

(s) Comparative information

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

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

An operating segment is an identifiable component of the Group engaged in products or services (business segment) or in products and services in a special economic environment (geographical segment). It is subject to risks and yields different from those in other segments. Information by segment is disclosed by business segment and geographical segment of the Group. Segment reporting of the Group is based on business segments. Business segments of the Group are based on the management of the Group and its internal structure of reporting.
The transfer prices between segments satisfy the arm's length principle.

Operating results, assets and liability by segment include items directly attributable to a segment as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (except investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(u) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group’s 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Amendment to IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)
The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.
Revised IAS 24 is not relevant to the Group's financial statements as the Group is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)
The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Group's financial statements as the Group does not have any defined benefit plans with minimum funding requirements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)
The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.
The Group did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)
The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments at any time in the past.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

The items of property, plant and equipment are measured at cost.

A revaluation of land is based on the independent valuer's report and is carried out every five to eight years. The Group examines, on an annual basis, if revaluation of land is required.

(ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every five years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iv) Investments in equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to maturity investments is determined for disclosure purposes only.

(v) Trade and other receivables

The fair value of long-term trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables are not discounted due to short-term maturity. However, impairment to fair value is considered.

(vi) Derivatives

The fair value of derivatives is based on the present value of estimated future cash flows, taking into account the market value of equivalent derivatives at the reporting date.
The fair value of financial instruments is determined on the basis of data provided by Reuters. The decisive values are those of the opposite forward exchange transactions with equal maturities effective at the reporting date. The fair value of forward exchange transactions at the reporting date is the difference between the value of actually concluded forward exchange transactions and the value of opposite forward exchange transactions at the reporting date, taking into consideration equal maturities of the individual forward exchange transactions.

Decisive are the values of interest transactions with equal maturities effective at the date of the statement of financial position.

The fair value of interest rate swaps at the date of the statement of financial position is the discounted difference between the cash flow for interest under the interest rate swap contracts and the cash flow for interest under equivalent interest rate swap contracts at the date of the statement of financial position.

(vii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Loans and borrowings are measured, on the basis of recalculation, at effective interest rates that insignificantly differ from the contractual interest rates. Therefore the contractual interest rate is used in calculations.

5. Financial risks management

In respect of financial risks management, the internal financial policies comprising the bases for efficient and systematic risk management were observed in 2010. The objectives of risk management are:

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

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

Financial risks	• Credit risk
	• Currency risk
	• Interest rate risk
	• Liquidity risk

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

In the light of the strained macroeconomic situation, more attention was paid in 2010 to the credit risk which includes all risks where the failure of a party (a buyer) to discharge contractual obligations results in a decrease in economic benefits of the Group. The credit risk was managed by application of the following sets of measures:

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

The Gorenje Group’s management estimates that the credit risk exposure has increased irrespective of stated hedge measures taken.

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

The share of loans with fixed interest rate in the Gorenje Group was 17.6 percent at the year end 2010. In the light of the expected changes in variable interest rates in the markets, bases and starting points were prepared in 2010 for an increase in the share of loans with fixed interest rates, both in the form of loans with fixed interest rates and in the form of derivative financial instruments, in order to increase hedging against interest rate risk. The Group's management estimates that the exposure to interest rate risk has increased.

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

Borrowings in the amount of TEUR 205,891 mature in 2011. For this reason, debt refinancing is being negotiated with banks in order to decrease refinancing risk. The liquidity reserve as at 31 December 2010 in the amount of TEUR 231,812 TEUR, which consists of unused revolving credit lines, short-term deposits with banks, and cash in banks, is used to assure adequate short-term control of cash flows and to decrease short-term liquidity risk.

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

Long-term liquidity risk is estimated as moderate due to efficient business performance, effective cash management, sustainable ability to generate cash flows from operating activities, and an adequate capital structure. The Gorenje Group has compiled a plan of long-term debt servicing based on the strategic plan of the Gorenje Group for the period up to 2013, which accurately defines the volume of debt maturity by individual year as well as the sources for debt refinancing.

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

Equity management

The Management Board decided to maintain a strong capital base in order to secure confidence of all stakeholders and to sustain future development of the Gorenje Group. As one of the strategic ratios, the Group defined the return on equity as net profit for the period attributable to majority shareholders divided by average shareholders' equity, excluding minority interests. The Group seeks to maintain a balance between the higher returns, which are rendered possible by a higher level of borrowings, and the advantages and security assured by a strong capital structure. The Group's objective in the 2010-2013 Strategic Plan is to achieve a 11.8 percent rate of return on invested capital.

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

The Gorenje Group has no employee share-owning scheme and no share option programme. There were no changes in the approach to equity management in 2010. Neither the controlling company nor its subsidiaries were subject to capital requirements determined by the regulatory authorities.

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

6. Segment reporting

Business segments

The Group comprises the following key business segments:

(i) Home appliances business segment

Home appliances: the manufacture and sale of household appliances of own manufacture, the sale of household appliance of other producers (supplementary programme), the sale of products from the complementary programme outside of the three main programmes of large household appliances, the manufacture and sale of heating appliances of own manufacture and manufacture of mechanical components.

(ii) Home interior business segment

Home interior: the manufacture and sale of kitchen furniture, bathroom furniture, sanitary fixtures and fittings, and ceramic tiles.

(iii) Ecology, energy and services business segment

Ecology, energy and services: Ecology and energy, tool manufacture, machine construction, trade, engineering, representation, catering, tourism, and real estate management.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The Group comprises the following main geographical segments:

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

East: Ukraine, Russia, Macedonia, Croatia, Serbia, Montenegro, Albania, Bosnia and Herzegovina, Belarus, Kosovo, Moldova, Kazakhstan, Latvia, Lithuania, Estonia, Slovenia, Czech Republic, Hungary, Poland, Bulgaria, Romania, Slovak Republic

Other: other countries

7. Statement of cash flows

The statement of cash flows has been compiled under the indirect method on the basis of the items in the statement of financial position as at 31 December 2010, the statement of financial position as at 31 December 2009, the income statement for the year ended 31 December 2010, and the additional information required for the adjustment of inflows and outflows.

8. Composition of the Gorenje Group

Pursuant to International Financial Reporting Standards (IFRSs) as adopted by EU, the consolidated financial statements of the Gorenje Group comprise the financial statements of the holding company Gorenje, d.d., the financial statements of 72 subsidiaries, and the financial statements of 25 jointly controlled companies:

	Companies operating in Slovenia	Equity interest in %	
		31 Dec 2010	31 Dec 2009
1.	Gorenje I.P.C., d.o.o., Velenje	100.00	100.00
2.	Gorenje GTI, d.o.o., Velenje	100.00	100.00
3.	Gorenje Notranja oprema, d.o.o., Velenje	99.98	99.98
4.	Gorenje Gostinstvo, d.o.o., Velenje	100.00	100.00
5.	ENERGYGOR, d.o.o., Velenje	100.00	100.00
6.	KEMIS, d.o.o., Vrhnika	100.00	100.00
7.	Gorenje Orodjarna, d.o.o., Velenje	100.00	100.00
8.	ZEOS, d.o.o., Ljubljana	51.00	51.00
9.	ISTRABENZ GORENJE, d.o.o., Nova Gorica	48.686	49.344
10.	GEN-I, d.o.o., Krško	24.343	24.67
11.	Istrabenz investicijski inženiring, d.o.o., Nova Gorica	48.686	49.344
12.	Gorenje Surovina, d.o.o., Maribor	99.75	78.29
13.	Indop, d.o.o., Šoštanj	100.00	100.00
14.	ERICo, d.o.o., Velenje	51.00	51.00
15.	Istrabenz Gorenje inženiring, d.o.o., Ljubljana	48.686	49.344
16.	Gorenje Projekt, d.o.o., Velenje	50.00	100.00
17.	Gorenje design studio, d.o.o., Velenje	52.00	52.00
18.	Istrabenz Gorenje energetsko svetovanje, d.o.o., Nova Gorica	48.686	49.344
19.	PUBLICUS, d.o.o., Ljubljana	51.00	51.00
20.	IG AP, d.o.o., Kisovec	48.686	49.344
21.	EKOGOR, d.o.o., Jesenice	26.00	/
22.	Gorenje GAIO, d.o.o., Šoštanj	100.00	/
23.	Vitales RTH, d.o.o., Trbovlje	24.343	/

	Companies operating abroad	Equity interest in %	
		31 Dec 2010	31 Dec 2009
24.	Gorenje Beteiligungsgesellschaft m.b.H., Austria	100.00	100.00
25.	Gorenje Austria Handelsgesellschaft m.b.H., Austria	100.00	100.00
26.	Gorenje Vertriebsgesellschaft m.b.H., Germany	100.00	100.00
27.	Gorenje Körting Italia S.r.l., Italy	100.00	100.00
28.	Gorenje France S.A.S., France	100.00	100.00
29.	Gorenje BELUX S.a.r.l., Belgium	100.00	100.00
30.	Gorenje Espana, S.L., Spain	100.00	100.00
31.	Gorenje UK Ltd., Great Britain	100.00	100.00
32.	Gorenje Skandinavien A/S, Denmark	100.00	100.00
33.	Gorenje AB, Sweden	100.00	100.00
34.	Gorenje OY, Finland	100.00	100.00
35.	Gorenje AS, Norway	100.00	100.00
36.	Gorenje spol. s r.o., Czech Republic	100.00	100.00
37.	Gorenje real spol. s r.o., Czech Republic	100.00	100.00
38.	Gorenje Slovakia s.r.o., Slovakia	100.00	100.00
39.	Gorenje Budapest Kft., Hungary	100.00	100.00
40.	Gorenje Polska Sp. z o.o., Poland	100.00	100.00
41.	Gorenje Bulgaria EOOD, Bulgaria	100.00	100.00
42.	Gorenje Zagreb, d.o.o., Croatia	100.00	100.00
43.	Gorenje Skopje, d.o.o., Macedonia	100.00	100.00
44.	Gorenje Commerce, d.o.o., Bosnia and Herzegovina	100.00	100.00
45.	Gorenje, d.o.o., Serbia	100.00	100.00
46.	Gorenje Podgorica, d.o.o., Montenegro	99.972	99.972
47.	Gorenje Romania S.R.L., Romania	100.00	100.00
48.	Gorenje aparati za domaćinstvo, d.o.o., Serbia	100.00	100.00
49.	Mora Moravia s r.o., Czech Republic	100.00	100.00
50.	Gorenje - kuchyně spol. s r.o., Czech Republic	99.98	99.98
51.	Kemis -Termoclean, d.o.o., Croatia	100.00	100.00
52.	Kemis - BH, d.o.o., Bosnia and Herzegovina	100.00	100.00
53.	Gorenje Studio, d.o.o., Serbia	100.00	100.00

54.	Gorenje Gulf FZE, United Arab Emirates	100.00	100.00
55.	Gorenje Tiki, d.o.o., Serbia	100.00	99.982
56.	GEN-I Zagreb, d.o.o., Croatia	24.343	24.67
57.	Intrade energija, d.o.o., Bosnia and Herzegovina	24.83	25.17
58.	Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	48.686	49.344
59.	Gorenje Istanbul Ltd., Turkey	100.00	100.00
60.	Sirovina DOO, Bačka Palanka, Serbia	99.75	78.29
61.	Gorenje TOV, Ukraine	100.00	100.00
62.	Vitales, d.o.o., Bihać, Bosnia and Herzegovina	48.686	24.67
63.	Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	24.343	24.67
64.	GEN-I, d.o.o, Beograd, Serbia	24.343	24.67
65.	ST Bana Nekretnine, d.o.o., Serbia	100.00	100.00
66.	GEN-I Budapest, Kft., Hungary	24.343	24.67
67.	Kemis Valjevo d.o.o., Serbia	100.00	/
68.	Kemis – SRS, d.o.o., Bosnia and Herzegovina	100.00	100.00
69.	ATAG Europe BV, The Netherlands	100.00	100.00
70.	ATAG Nederland BV, The Netherlands	100.00	100.00
71.	ATAG België NV, Belgium	100.00	100.00
72.	ATAG Financiele Diensten BV, The Netherlands	100.00	100.00
73.	ATAG Financial Solutions BV, The Netherlands	100.00	100.00
74.	Intell Properties BV, The Netherlands	100.00	100.00
75.	ATAG Special Product BV, The Netherlands	100.00	100.00
76.	Gorenje Nederland BV, The Netherlands	100.00	100.00
77.	Gorenje Kazakhstan, TOO, Kazakhstan	100.00	100.00
78.	Gorenje kuhinje, d.o.o., Ukraine	69.986	69.986
79.	Vitales Energie Biomasse S.r.l., Italy	32.78	25.17
80.	Vitales Čakovec, d.o.o., Croatia	48.686	49.344
81.	» Euro Lumi & Surovina » SH.P.K., Kosovo	39.93	39.93
82.	GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina	24.343	24.67
83.	GEN-I DOOEL Skopje, Macedonia	24.343	24.67
84.	GEN-I Athens SMLLC, Greece	24.343	24.67
85.	GEN-I Tirana Sh.p.k., Albania	24.343	24.67
86.	OOO Gorenje BT, Russia	100.00	100.00
87.	Vitales inženjering d.o.o., Prijedor, Bosnia and Herzegovina	24.343	24.67
88.	S.C. GEN-I Bucharest, Romania	24.343	24.67
89.	Gorenje GTI d.o.o. Beograd, Serbia	100.00	/
90.	Asko Appliances AB, Sweden	100.00	/
91.	Asko Hvitevarer AS, Norway	100.00	/
92.	AM Hvidevarer A/S, Denmark	100.00	/
93.	Asko Appliances Inc, USA	100.00	/
94.	Asko Appliances Pty, Australia	100.00	/
95.	GEN-I Sofia SpLLC, Bulgaria	24.343	/
96.	GEN-I Milano S.r.l., Italy	24.343	/
97.	GEN-I Vienna GmbH, Austria	24.343	/

9. Minority interests

Minority interests at 31 December 2010:

		2010			2009	
	Equity interest in %	Minority interest in TEUR	Share in net profit or loss in TEUR	Equity interest in %	Minority interest in TEUR	Share in net profit or loss in TEUR
Gorenje Tiki, d.o.o. - in liquidation, Ljubljana	/	/	/	0.018	3	0
Gorenje Tiki, d.o.o., Serbia	/	/	/	0.018	2	0
Gorenje Podgorica, d.o.o., Montenegro	0.028	1	0	0.028	1	0
Gorenje Notranja oprema, d.o.o., Velenje	0.020	3	-1	0.020	3	-1
Gorenje kuchyne spol. s r.o., Czech Republic	0.020	0	0	0.020	0	0
ZEOS, d.o.o., Ljubljana	49.00	356	14	49.00	343	15

Gorenje Surovina, d.o.o., Maribor	0.25	57	4	21.71	4,562	-629
»Euro Lumi & Surovina« SH.P.K., Kosovo	60.07	335	95	60.07	240	-20
Sirovina, DOO, Bačka Palanka, Serbia	0.25	0	0	21.71	-99	-61
ERICo, d.o.o., Velenje	49.00	604	52	49.00	552	42
Gorenje Kuhinje, d.o.o., Ukraine	30.014	24	-86	30.014	97	-39
PUBLICUS, d.o.o., Ljubljana	49.00	201	21	49.00	180	26
Gorenje design studio, d.o.o., Velenje	48.00	191	6	48.00	185	-61
EKOGOR, d.o.o., Jesenice	74.00	33	-4	/	/	/
Total		**1,805**	**101**		**6,069**	**-728**

The ownership transfer between the Gorenje Group companies did not have any impact on the consolidated financial statements of the Gorenje Group, because the intra-group transactions were eliminated in the consolidation process.

10. Acquisition of a non-controlling interest

The Group acquired in 2010 an additional 21.46 percent interest in Gorenje Surovina d.o.o. for a consideration of TEUR 6,902. The equity interest thus increased from 78.29 percent to 99.75 percent. Net assets of Gorenje Surovina d.o.o. amounted to TEUR 22,675 as at the date of acquisition. The Group recognised a decrease in the minority interest in the amount of TEUR 4,512 and a decrease in retained earnings in the amount of TEUR 2,390.

in TEUR	**2010**
Share of equity holders of the parent at the period's beginning	16,452
Effect of increase in share of equity holders of the parent	6,195
Share in comprehensive income	-29
Share of equity holders of the parent at the period's end	22,618

11. Acquisition of a company

At the end of July 2010, Gorenje signed a contract on acquisition of a 100 percent interest in the Swedish Asko Appliances Group. Asko is a Swedish manufacturer and seller of large household appliances in the highest market segments. Asko produces dishwashers, washing and drying machines in Vara, Sweden, as well as cookers, ovens and ironing systems in Lahti, Finland. The acquisition of the Swedish producer of top-quality household appliances is of strategic importance, for the portfolio of the Gorenje Group's brand names was supplemented with a highly positioned brand name Asko, which strengthened the market position of the Gorenje Group in the Scandinavian countries, North America, and Australia.
In the second half-year of 2010, the activities related to the business integration of the acquired Asko Group were started. In the initial phase of these activities, the estimate of costs expected to be incurred in association with the aforementioned procedures was prepared:

in TEUR	**2010**
Provisions for expected losses	5,300
Provisions for business restructuring	4,500
Provisions for impairment losses on plant and equipment	2,000
Total provisions	**11,800**

The effect of the acquisition on the Group's assets and liabilities is shown below:

in TEUR	**Book value prior to acquisition**	**Fair value adjustments**	**Recognised post acquisition value**
Property, plant and equipment	22,103	-2,000	20,103
Intangible assets	380		380
Investments	3,406		3,406

Inventories	33,625		33,625
Operating receivables	36,503		36,503
Cash	5,811		5,811
Financial liabilities	-13,193		-13,193
Operating liabilities	-41,769		-41,769
Provisions	-16,398	-9,800	-26,198
Deferred tax liabilities	-664		-664
Net difference (assets – liabilities)	**29,804**	**-11,800**	**18,004**
Appurtenant share (100 %)			18,004
Negative goodwill			13,337
Purchase price			4,667
Cash			5,811
Net outflow			-1,144

12. Disposal of company

The company Gorenje Tiki, d.o.o., Ljubljana has been in liquidation proceeding since 4 August 2010. The liquidation proceeding had not been completed by 31 December 2010. Therefore, the following assets and liabilities have been eliminated from the Gorenje Group:

in TEUR	**2010**
Property, plant and equipment	-15,620
Intangible assets	-713
Investment property	-3
Investments	-1,826
Inventories	-7,652
Operating receivables	-8,994
Cash	-29
Financial liabilities	9,768
Operating liabilities	5,506
Provisions	2,040
Net difference (assets – liabilities)	**-17,523**

13. Joint ventures

The Group holds a proportionate 48.686 percent share in Istrabenz Gorenje energetski sistemi, d.o.o., Nova Gorica and its subsidiaries. The Group and the holding company Istrabenz, d.d. hold an equivalent share in the company.

The proportionate shares of assets, liabilities, revenue and expenses are included in the consolidated financial statements.

Direct and indirect shares of assets, liabilities, revenue and expenses included in the 2010 consolidated financial statements:

in TEUR

Company	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax	Net profit or loss
Istrabenz Gorenje, d.o.o., Nova Gorica	9,892	6,903	-10,369	-6,426	11,687	-10,520	0	1,167
GEN-I, d.o.o., Krško	952	28,142	-6,043	-23,051	143,136	-140,155	-330	2,651
Intrade energija, d.o.o., Sarajevo, Bosnia and Herzegovina	2,342	65	-2,098	-309	314	-350	0	-36
Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	4,779	377	-1,757	-3,399	1,474	-2,394	0	-920
Istrabenz investicijski inženiring, d.o.o., Nova Gorica	6,051	934	-5,423	-1,562	236	-234	0	2
Istrabenz Gorenje inženiring, d.o.o., Ljubljana	199	222	-100	-321	575	-546	-5	24
GEN – I, d.o.o., Zagreb, Croatia	2	2,102	-134	-1,970	10,429	-10,358	-14	57
GEN – I, d.o.o., Beograd, Serbia	5	4,671	-269	-4,407	24,879	-24,769	-11	99
Vitales, d.o.o., Bihać, Bosnia and Herzegovina	2,524	207	-1,510	-1,221	696	-1,297	0	-601
GEN – I Budapest, Kft., Budapest	0	5,449	-560	-4,889	26,988	-27,006	-1	-19
GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina	0	2,272	-210	-2,062	7,733	-7,666	0	67
GEN-I DOOEL Skopje, Macedonia	0	1,541	-326	-1,215	8,268	-7,950	-1	317
GEN-I Athens SMLLC, Greece	5	3,921	-49	-3,877	21,147	-21,158	0	-11
GEN-I Tirana Sh.p.k, Albania	1	1,280	-103	-1,178	6,531	-6,418	-11	102
S.C. GEN-I Bucharest, Romania	138	1,572	-183	-1,527	6,513	-6,426	-21	66
Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	1	14	55	-70	31	-90	0	-59
Vitales Čakovec d.o.o., Croatia	0	1	-1	0	0	-1	0	-1
Vitales inženjering d.o.o. Prijedor, Bosnia and Herzegovina	0	12	-12	0	0	0	0	0
Vitales Energie Biomasse S.r.l., Italy	1	0	13	-14	0	-7	0	-7
IG AP, d.o.o., Kisovec	253	240	-106	-387	541	-602	11	-50
IGENS d.o.o., Nova Gorica	0	13	0	-13	13	-19	0	-6
GEN-I Sofia SpLLC, Bulgaria	2	200	-17	-185	97	-105	1	-7
GEN-I Milano S.r.l., Italy	0	27	-20	-7	0	-4	0	-4
GEN-I Vienna GmbH, Austria	1	9	-7	-3	0	-5	0	-5
Vitales RTH, d.o.o., Trbovlje	0	11	-11	-0	0	-1	0	-1

Direct and indirect shares of assets, liabilities, revenue and expenses included in the 2009 consolidated financial statements:

in TEUR

Company	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Income tax	Net profit or loss
Istrabenz Gorenje, d.o.o., Nova Gorica	10,952	5,356	-8,809	-7,499	9,529	-8,510	1	1,020
GEN-I, d.o.o., Krško	667	14,133	-5,750	-9,050	106,897	-104,014	-446	2,437
Intrade energija, d.o.o., Sarajevo, Bosnia and Herzegovina	2,445	50	-2,299	-196	270	-393	0	-123
Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	5,137	410	-2,792	-2,755	1,650	-2,603	0	-953
Istrabenz investicijski inženiring, d.o.o., Nova Gorica	6,496	630	-6,070	-1,056	338	-334	-1	3
Istrabenz Gorenje inženiring, d.o.o., Ljubljana	197	227	-77	-347	645	-784	21	-118
GEN – I, d.o.o., Zagreb, Croatia	0	1,662	-140	-1,522	6,301	-6,226	-15	60
GEN – I, d.o.o., Beograd, Serbia	7	4,891	-1,533	-3,365	21,881	-20,396	-134	1,351
Vitales, d.o.o., Bihać, Bosnia and Herzegovina	1,388	139	-1,031	-496	320	-561	0	-241
GEN – I Budapest, Kft., Hungary	0	4,894	-587	-4,307	31,881	-31,514	-103	264
GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina	0	1,652	-143	-1,509	4,418	-4,399	-2	17
GEN-I DOOEL Skopje, Macedonia	0	641	-300	-341	1,861	-1,550	0	311
GEN-I Athens SMLLC, Greece	0	463	-61	-402	1,305	-1,273	-8	24
GEN-I Tirana Sh.p.k, Albania	1	8	-1	-8	0	-10	0	-10
S.C. GEN-I Bucharest, Romania	0	193	-121	-72	192	-193	0	-1
Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	0	30	-1	-29	0	-2	0	-2
Vitales Čakovec d.o.o., Croatia	0	1	-1	0	0	0	0	0
Vitales inženjering d.o.o. Prijedor, Bosnia and Herzegovina	0	13	-13	0	0	0	0	0
Vitales Energie Biomasse S.r.l., Italy	1	1	5	-7	0	-8	0	-8
IGP, d.o.o., Trbovlje	3	52	-14	-41	208	-202	-1	5
IGENS, d.o.o., Nova Gorica	0	7	-7	0	0	-1	0	-1
IG AP, d.o.o., Kisovec	259	448	-160	-547	371	-646	53	-222

Note 14 – Revenue 1,382,185 TEUR

in TEUR	2010	2009
Revenue from the sale of products and merchandise	1,301,536	1,105,809
Revenue from the sale of services	80,649	80,128
Total	**1,382,185**	**1,185,937**

Note 15 – Other operating income 47,554 TEUR

in TEUR	2010	2009
Income from subsidies, grants and compensations	4,883	7,672
Rental income	1,206	1,153
Income from reversal of provisions	5,557	1,905
Income from use of deferred income for government grants	3,755	10,725
Gains on disposal of property, plant and equipment	2,321	416
Income from revaluation of investment property	0	0
Negative goodwill	13,337	0
Other operating income	16,495	11,383
Total	**47,554**	**33,254**

Income from the use of deferred income for government grants in the amount of TEUR 3,755 relates to Gorenje IPC, d.o.o., a company employing disabled persons, in which government grants were used in line with the Vocational Rehabilitation and Employment of Disabled Persons Act.

Negative goodwill in the amount of TEUR 13,337, which was recognised directly in the 2010 income statement, was generated by the acquisition of a 100 percent interest in the Swedish Asko Appliances Group.

Other operating income includes mainly income from write-off of debts, income from compensation for damages, income arising from the implementation of the Directive on Waste Electrical and Electronic Equipment and other operating income.

Rental income

in TEUR	2010	2009
Rental income – up to 1 year	1,206	1,153
Anticipated rental income – from 2 to 5 years	1,135	1,812
Total	**2,341**	**2,965**

Note 16 – Cost of goods, materials and services 1,040,509 TEUR

in TEUR	2010	2009
Cost of merchandise sold	366,075	321,037
Cost of materials	477,178	389,231
Cost of services	197,256	190,878
Total	**1,040,509**	**901,146**

Cost of services includes cost of provisions for warranties in the amount of TEUR 23,834 (in 2009: TEUR 23,835).

Note 17 – Employee benefits expense 244,442 TEUR

in TEUR	2010	2009
Wages and salaries	181,343	157,308
Social security contributions	35,374	33,160
Other employee benefits expense	27,725	28,855
Total	**244,442**	**219,323**

Other employee benefits expense includes cost of provisions for retirement benefits and jubilee premiums in the amount of TEUR 2,939 (in 2009: TEUR 1,765).

A portion of employee benefits expense (TEUR 3,410) was used to create provisions from government grants in Gorenje I.P.C., d.o.o., which has the status of a company employing disabled persons.

Other employee benefits expense includes mainly annual leave bonuses, meal allowances, commuting allowances, retirement benefits and jubilee premiums in compliance with the national labour legislation and the companies' internal regulations.

Number of employees by division	**As at 31 December**		**Average**	
	2010	**2009**	**2010**	**2009**
Home appliances division	8,699	8,541	9,042	8,741
Home interior division	825	963	926	991
Ecology, energy and services division	1,197	1,171	1,206	1,175
Total	**10,721**	**10,675**	**11,174**	**10,907**

Note 18 – Amortisation and depreciation expense 52,237 TEUR

in TEUR	**2010**	**2009**
Amortisation of intangible assets	6,010	5,989
Depreciation of property, plant and equipment	46,227	50,061
Total	**52,237**	**56,050**

A lower depreciation and amortisation expense in 2010 is due to full write-off of obsolete plant and equipment, sale of plant and equipment, and a lower volume of investments in intangible assets and property, plant and equipment.

Note 19 – Other operating expenses 22,603 TEUR

in TEUR	**2010**	**2009**
Write-off of inventories to realisable value	2,202	4,748
Disposal and impairment of assets	3,483	282
Other taxes and charges	3,557	3,272
Other expenses	13,361	10,102
Total	**22,603**	**18,404**

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

Other expenses include expenditure on ecology, of which the majority under the Directive on Waste Electrical and Electronic Equipment, scholarships expense, and compensation in damages.

Note 20 – Net finance expenses 33,966 TEUR

Finance income 12,485 TEUR

in TEUR	**2010**	**2009**
Dividend income from available-for-sale investments	305	373
Interest income	3,333	3,964
Income from interest rate swap transactions	0	1,252
Change in fair value of interest rate swap	199	0
Income from net exchange differences	921	2,372
Gain on disposal of subsidiaries	0	132

Gain on disposal of available-for-sale investments	0	3,168
Income from forward exchange transactions	175	4,274
Change in fair value of forward exchange transactions	0	0
Other finance income	7,552	3,981
Total	**12,485**	**19,516**

Finance expenses **46,451 TEUR**

in TEUR	2010	2009
Interest expenses	19,438	20,137
Expense for interest rate swap transactions	1,696	1,096
Change in fair value of interest rate swap transactions	0	526
Expense for net foreign exchange differences	0	0
Expense for forward exchange transactions	2,625	740
Change in fair value of forward exchange transactions	4,197	3,507
Loss on disposal of available-for-trade investments	792	0
Impairment loss on available-for-sale investments	699	2,308
Impairment loss on trade receivables	8,317	8,780
Impairment loss on loans	5,332	2,000
Other finance expenses	3,355	1,879
Total	**46,451**	**40,973**

Due to the compulsory composition proceedings applied by Merkur, d.d., the largest Slovenian buyer of household appliances, the Gorenje Group impaired trade receivables and loans in the amount of TEUR 6,800.

Impairment loss on available-for-sale investments in the amount of TEUR 699 (in 2009: TEUR 2,308) relates to available-for-sale investments revalued to market value.

Finance expenses recognised directly in other comprehensive income (net)

in TEUR	2010	2009
Net change in effective portion of gains and losses on hedging instruments in a cash flow hedge	300	2,659
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	0	-1,611
Net change in fair value of available-for-sale financial assets	33	-712
Net change in fair value of available-for-sale financial assets transferred to profit or loss	112	-2,746
Foreign currency translation differences for foreign operations	-8,563	-2,903
Finance expenses recognised in other comprehensive income	**-8,118**	**-5,313**
Finance expenses recognised in other comprehensive income attributable to equity holders of the Company	**-8,118**	**-5,313**
Finance expenses recognised in other comprehensive income attributable to minority interest	**0**	**0**

Note 21 – Income tax expense **2,448 TEUR**

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

in TEUR	2010	2009
Current tax expense	5,049	5,759
Deferred tax expense	-2,601	-2,835
Total	**2,448**	**2,924**

Effective income tax rates:

in TEUR	2010	2010	2009	2009
Profit or loss excluding income tax		**22,472**		**-9,308**
Income tax using the domestic tax rate	20.0 %	4,494	21.0 %	-1,955
Effect of tax rates in foreign jurisdictions	6.8 %	1,534	-2.6 %	242
Non-deductible expenses	-16.5 %	-3,703	-36.6 %	3,405
Tax exempt income	8.3 %	1,862	-9.4 %	873
Tax incentives	-6.6 %	-1,486	12.4 %	-1,152
Tax losses	0.1 %	28	-16.7 %	1,553
Other differences	-1.3 %	-281	0.5 %	-42
Income tax expense	**10.9 %**	**2,448**	**-31.4 %**	**2,924**

Deferred tax amounts recognised in other comprehensive income:

in TEUR	2010		
	Pre-tax amount	**Tax**	**After-tax amount**
Change in fair value of available-for-sale financial assets	50	-17	33
Change in fair value of available-for-sale financial assets transferred to profit or loss	145	-33	112
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	317	-17	300
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	0	0	0
Change in fair value of land	-7,777	158	-7,619
Foreign currency translation differences for foreign operations	-8,563	0	-8,563
Other comprehensive income	**-15,828**	**91**	**-15,737**

in TEUR	2009		
	Pre-tax amount	**Tax**	**After-tax amount**
Change in fair value of available-for-sale financial assets	-878	166	-712
Change in fair value of available-for-sale financial assets transferred to profit or loss	-3,097	351	-2,746
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	597	2,062	2,659
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	-1,611	0	-1,611
Change in fair value of land	-4	84	80
Foreign currency translation differences for foreign operations	-2,903		-2,903
Other comprehensive income	**-7,896**	**2,663**	**-5,233**

Note 22 – Intangible assets 160,161 TEUR

in TEUR	2010	2009
Development costs	12,096	12,492
Industrial property rights	15,373	16,890
Trademark	61,964	61,964

Goodwill	69,358	69,358
Intangible assets under construction	1,370	856
Total	**160,161**	**161,560**

Intangible assets include mainly trademarks (Atag, Etna and Pelgrim), deferred development costs, and software.

Goodwill in the amount of TEUR 62,130 and fair value of trademarks Atag, Etna and Pelgrim in the amount of TEUR 61,964 were established in 2008 at the acquisition of the company ATAG Europe BV; in addition, goodwill was established in 2008 in the amount of TEUR 1,617 at the acquisition of the majority interest in PUBLICUS, d.o.o. and in the amount of TEUR 705 at the acquisition of a proportionate share in IG AP, d.o.o. Goodwill in the amount of TEUR 2,030 was established in 2007 at the acquisition of the majority interest in Gorenje Surovina, d.o.o. Goodwill in the amount of TEUR 2,875 was established in 2005 at the acquisition of Mora Moravia, s r. o. in the Czech Republic and Gorenje Invest, d.o.o. in Serbia.

Impairment testing of goodwill and trademarks
Impairment testing of goodwill and trademarks Atag, Etna and Pelgrim arising from the acquisition of ATAG Europe BV was carried out. The calculations are based on cash flow projections for ATAG, which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 12.31 percent.
The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill and trademarks Atag, Etna and Pelgrim. Therefore there was no need for impairment.

Impairment testing of goodwill arising from the acquisition of Publicus, d.o.o. was carried out. The calculations are based on cash flow projections for Publicus, d.o.o., which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 9.5 percent.
The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill. Therefore there was no need for impairment of goodwill.

Impairment testing of goodwill arising from the acquisition of IG AP, d.o.o. was carried out. The calculations are based on cash flow projections for IG AP, d.o.o., which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 9.5 percent.
The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill. Therefore there was no need for impairment of goodwill.

Impairment testing of goodwill arising from the acquisition of Mora Moravia, s r.o. was carried out. The calculations are based on cash flow projections for Mora Moravia, s r.o., which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 2 percent and the discount rate of 9.5 percent.
The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill. Therefore there was no need for impairment of goodwill.

Impairment testing of goodwill arising from the acquisition of Gorenje Studio, d.o.o. was carried out. The calculations are based on cash flow projections for Gorenje Studio, d.o.o., which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The main underlying assumptions used to calculate the value in use are: the revenue growth rate of 2 percent and the discount rate of 9.5 percent.
The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill. Therefore there was no need for impairment of goodwill.

Impairment testing of goodwill arising from the acquisition of Gorenje Surovina, d.o.o. was carried out. The calculations are based on cash flow projections for Surovina, d.d., which have been prepared on the basis of the adopted business plan for 2011 and strategic business plan for the period from 2012 to 2015. The

main underlying assumptions used to calculate the value in use are: the revenue growth rate of 3 percent and the discount rate of 9.5 percent.
The recoverable value of the cash-generating unit was determined to be higher than its carrying amount, including that of goodwill. Therefore there was no need for impairment of goodwill.

Movement of intangible assets in 2010

in TEUR	Development costs	Industrial property rights	Trade-marks	Goodwill	Intangible assets under construction	Total
Cost 1 January 2010	**27,379**	**34,113**	**61,964**	**69,358**	**856**	**193,670**
Acquisition	1,910	1,194			2,206	**5,310**
Disposal of Group companies		-1,333				**-1,333**
Acquisition through business combinations		380				**380**
Disposals, write-offs	-1,775	-3,488				**-5,263**
Other transfers	851	676			-1,685	**-158**
Exchange differences	66	106			-7	**165**
Ownership change in joint ventures	-1	-2				**-3**
Cost 31 December 2010	**28,430**	**31,646**	**61,964**	**69,358**	**1,370**	**192,768**
Accumulated amortisation 1 January 2010	**14,887**	**17,223**	**0**	**0**	**0**	**32,110**
Disposal of Group companies		-618				**-618**
Disposals, write-offs	-2,096	-3,074				**-5,170**
Amortisation expense	3,320	2,690				**6,010**
Other transfers	94	-190				**-96**
Exchange differences	130	243				**373**
Ownership change in joint ventures	-1	-1				**-2**
Accumulated amortisation 31 December 2010	**16,334**	**16,273**	**0**	**0**	**0**	**32,607**
Carrying amount 1 January 2010	**12,492**	**16,890**	**61,964**	**69,358**	**856**	**161,560**
Carrying amount 31 December 2010	**12,096**	**15,373**	**61,964**	**69,358**	**1,370**	**160,161**

Movement of intangible assets in 2009

in TEUR	Development costs	Industrial property rights	Trade-marks	Goodwill	Intangible assets under construction	Total
Cost 1 January 2009	**25,035**	**32,750**	**61,964**	**69,358**	**270**	**189,377**
Acquisition	1,945	642			1,947	**4,534**
Disposal of Group companies		-12				**-12**

Disposals, write-offs	-1	-275				**-276**
Other transfers	382	976			-1,361	**-3**
Exchange differences	18	32				**50**
Cost 31 December 2009	**27,379**	**34,113**	**61,964**	**69,358**	**856**	**193,670**
Accumulated amortisation 1 January 2009	**10,981**	**15,410**	**0**	**0**	**0**	**26,391**
Disposal of Group companies		-11				**-11**
Disposals, write-offs	-1	-241				**-242**
Amortisation expense	3,929	2,060				**5,989**
Other transfers	-11	-32				**-43**
Exchange differences	-11	37				**26**
Accumulated amortisation 31 December 2009	**14,887**	**17,223**	**0**	**0**	**0**	**32,110**
Carrying amount 1 January 2009	**14,054**	**17,340**	**61,964**	**69,358**	**270**	**162,986**
Carrying amount 31 December 2009	**12,492**	**16,890**	**61,964**	**69,358**	**856**	**161,560**

Note 23 – Property, plant and equipment 375,400 TEUR

in TEUR	**2010**	**2009**
Land	50,391	60,033
Buildings	166,489	170,617
Manufacturing and other equipment	141,197	145,662
Property, plant and equipment under construction	17,323	6,489
Total	**375,400**	**382,801**

Movement of property, plant and equipment in 2010

in TEUR	**Land**	**Buildings**	**Manufacturing plant and equipment**	**PPE under constructio n**	**Total**
Cost 1 January 2010	**60,033**	**322,957**	**571,831**	**6,489**	**961,310**
Acquisition	240	2,787	10,573	25,758	**39,358**
Acquisition through business combinations	346	5,007	12,145	2,605	**20,103**
Disposal of Group companies	-10,100	-6,051	-14,441	-87	**-30,679**
Ownership change in joint ventures	95	370	698	72	**1,235**
Disposals, write-offs	-1,227	-3,907	-19,910	-506	**-25,550**
Revaluation					
Transfer from investment property	1,200	123			**1,323**

Other transfers	150	1,979	14,576	-16,904	**-199**
Exchange differences	-346	-1,301	-1,095	-104	**-2,846**
Cost 31 December 2010	**50,391**	**321,964**	**574,377**	**17,323**	**964,055**
Accumulated depreciation 1 January 2010	**0**	**152,340**	**426,169**	**0**	**578,509**
Disposal of Group companies		-3,718	-11,341		**-15,059**
Disposal, write-offs		-1,975	-18,146		**-20,121**
Ownership change in joint ventures		21	68		**89**
Depreciation expense		9,328	36,899		**46,227**
Transfer from investment property		16			**16**
Other transfers		-324			**-324**
Exchange differences		-213	-469		**-682**
Accumulated depreciation 31 December 2010	**0**	**155,475**	**433,180**	**0**	**588,655**
Carrying amount 1 January 2010	**60,033**	**170,617**	**145,662**	**6,489**	**382,801**
Carrying amount 31 December 2010	**50,391**	**166,489**	**141,197**	**17,323**	**375,400**

Investments in the amount of TEUR 39,358 relate mainly to the continuation of the policy of focused investment in the development of Home Appliances, the restructuring of production activities (transfer of production of hot-water and heating systems from Ljubljana to Stara Pazova, Serbia), and partly the integration activities related to the Asko Group acquired in July 2010.

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

The Group's land was last valued as at 31 December 2008 by an independent certified valuer. No conditions for revaluation of land and impairment of other items of property, plant and equipment were identified in 2010.

As at 31 December 2010, no financial liabilities were secured by mortgage on real property.

No borrowing costs were attributed to the items of property, plant and equipment in 2010.

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

Movement in property, plant and equipment in 2009

in TEUR	Land	Buildings	Manufacturing plant and equipment	PPE under constructio n	Total
Cost 1 January 2009	**57,270**	**308,774**	**559,611**	**28,155**	**953,810**
Acquisition	2,316	1,235	6,759	13,872	**24,182**
Acquisition through business combinations	163		276		**439**
Disposal of Group companies		-18	-65		**-83**
Disposals, write-offs	-43	-3,425	-10,388	-108	**-13,964**
Revaluation	-4				**-4**
Transfer to investment property		-876			**-876**
Other transfers	493	18,109	16,382	-34,983	**1**
Exchange differences	-162	-842	-744	-447	**-2,195**

Cost 31 December 2009	**60,033**	**322,957**	**571,831**	**6,489**	**961,310**
Accumulated depreciation 1 January 2009	**0**	**145,792**	**395,065**	**0**	**540,857**
Disposal of Group companies		-9	-44		**-53**
Disposals, write-offs		-2,879	-9,351		**-12,230**
Depreciation expense		9,449	40,612		**50,061**
Transfer to investment property		-36			**-36**
Other transfers		-8	51		**43**
Exchange differences		31	-164		**-133**
Accumulated depreciation 31 December 2009	**0**	**152,340**	**426,169**	**0**	**578,509**
Carrying amount 1 January 2009	**57,270**	**162,982**	**164,546**	**28,155**	**412,953**
Carrying amount 31 December 2009	**60,033**	**170,617**	**145,662**	**6,489**	**382,801**

Note 24 – Investment property 4,518 TEUR

in TEUR	2010	2009
Land	1,598	4,332
Buildings	2,920	3,470
Total	**4,518**	**7,802**

Investment property includes land and buildings acquired for resale or increase in investments. Investment property is measured using fair value model. On the basis of valuation carried out in 2010, the conditions for impairment in the amount of TEUR 1,493 were established.

Movement of investment property

in TEUR	2010	2009
Opening balance at 1 January	7,802	7,090
Increase	0	16
Revaluation	-1,493	0
Decrease	-481	-144
Disposal of Group companies	-3	0
Transfer from property, plant and equipment	0	840
Transfer to property, plant and equipment	-1,307	0
Closing balance at 31 December	**4,518**	**7,802**

Note 25 – Non-current investments 5,313 TEUR

in TEUR	2010	2009
Loans (1 to 5 years)	4,269	5,290
Deposits	129	401
Other investments	915	923
Total	**5,313**	**6,614**

Movement of loans

in TEUR	2010	2009
Opening balance at 1 January	5,290	6,093

Increase	88	217
Decrease	-673	-1,009
Transfer to current investments	-436	-11
Closing balance at 31 December	**4,269**	**5,290**

Loans include loans extended by the holding company and its subsidiaries to non-group companies. The interest rate, which depends on the currency in which the loan is denominated, ranges from 3.727 percent to 7.0 percent.

Note 26 – Deferred tax assets and tax liabilities

Deferred taxes are recognised using the statement of financial position liability method based on temporary differences. The applied tax rate is the current tax rate applicable in the country in which the respective Group company is domiciled.

in TEUR	Deferred tax assets		Deferred tax liabilities		Tax assets – tax liabilities	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	934	353	4,708	5,282	-3,774	-4,929
Investments	1,812	1,687	-19	72	1,831	1,615
Receivables	1,523	1,027	85	48	1,438	979
Inventories	258	147	-106	246	364	-99
Liabilities from litigations		7				7
Provisions in lines with local standards and tax laws	1,632	1,022	1,308	-40	324	1,062
Provisions for retirement benefits and jubilee premiums	3,110	3,480		-33	3,110	3,513
Provisions for warranties	2,466	2,506	-43	10	2,509	2,496
Unused tax losses	5,117	2,616	196		4,921	2,616
Unused tax incentives	1,191	623			1,191	623
Interest rate swaps – cash flow hedge		2,062	-12		12	2,062
Changes in the Group			-55		55	
Total	**18,043**	**15,530**	**6,062**	**5,585**	**11,981**	**9,945**

in TEUR	Tax assets – Tax liabilities		Through profit or loss		Through other comprehensive income	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	-3,774	-4,929	159	-206	158	84
Investments	1,831	1,615	124	475	-50	517
Receivables	1,438	979	239	-121		
Inventories	364	-99	-23	-98		
Liabilities from litigations		7		-6		
Provisions in lines with local standards and tax laws	324	1,062	1,054	-441		
Provisions for retirement benefits and jubilee premiums	3,110	3,513	-209	-325		
Provisions for warranties	2,509	2,496	-81	270		
Unused tax losses	4,921	2,616	95	2,664	2,033	
Unused tax incentives	1,191	623		623		
Interest rate swaps – cash flow hedge	12	2,062				2,062

Changes in the Group	55		1,243		-2,050	
Total	**11,981**	**9,945**	**2,601**	**2,835**	**91**	**2,663**

Both deferred tax assets and deferred tax liabilities were recognised by the Group companies in 2010. Creation of deferred tax liabilities (through profit or loss) is based on the amounts of a decrease in the tax base of the Group companies in 2010 with regard to the determined profit or loss before taxes. Creation of deferred tax assets, however, is based on an increase in the tax base of the Group companies in 2010 with regard to the determined profit or loss before tax and the determined tax losses.

Note 27 – Inventories 257,593 TEUR

in TEUR			2010				2009	
	Home appliances	**Home interior**	**Ecology, energy and services**	**Total**	**Home appliances**	**Home interior**	**Ecology, energy and services**	**Total**
Materials	69,759	3,013	6,608	79,380	51,683	3,486	8,929	64,098
Work in progress	12,161	1,188	5,611	18,960	11,145	904	18,435	30,484
Products	109,314	3,436	20	112,770	88,102	3,655	1,954	93,711
Merchandise	42,216	267	2,362	44,845	26,709	374	1,307	28,390
Advances	1,510	20	108	1,638	1,151	139	8	1,298
Total	**234,960**	**7,924**	**14,709**	**257,593**	**178,790**	**8,558**	**30,633**	**217,981**

In 2010, allowances for inventories and inventory write-offs amounted to TEUR 2,202 (in 2009: TEUR 4,748). Allowances for inventories and inventory write-offs were recorded under other operating expenses.

Advances for inventories include advances for inventories of raw materials and materials.

The carrying amount of inventories of products, of which production costs were adjusted to net realisable value, amounted to TEUR 35,078.

Note 28 – Current investments 48,002 TEUR

in TEUR	**2010**	**2009**
Available-for-sale investments	11,940	15,248
Short-term deposits	1,055	16,121
Loans	31,525	31,697
Transfer from non-current loans	436	11
Interest receivable	760	473
Other current financial receivables	2,286	4,668
Total	**48,002**	**68,218**

Loans include cash surplus deposited in short-term time deposits with banks and entities. The interest rate for bank deposits and loans ranges from 0.25 percent to 12.5 percent.

Movement of available-for-sale shares and interests

in TEUR	**2010**	**2009**
Opening balance at 1 January	15,248	22,224
Increase	1,695	272
Disposal of Group companies	413	0
Decrease	-4,311	-3,615
Change in fair value	-1,105	-3,186
Transfers	0	-447
Closing balance at 31 December	**11,940**	**15,248**

Note 29 – Trade receivables **306,284 TEUR**

In 2010, write-off and impairment of trade receivables amounted to TEUR 8,317 (in 2009: TEUR 8,780).

As at 31 December 2010, allowances for trade receivables amounted to TEUR 23,142 (in 2009: TEUR 20,406). The changes in allowances for operating receivables are discussed in note 41 (Financial instruments).

Note 30 – Other current assets **55,438 TEUR**

in TEUR	**2010**	**2009**
Other short-term receivables	35,367	20,736
Short-term advances and collaterals given	6,788	4,516
Short-term deferred costs	11,270	9,455
Other current assets	2,013	1,089
Total	**55,438**	**35,796**

Other short-term receivables include, as a major item, input VAT receivable recorded by the Gorenje Group in the amount of TEUR 19,425 as at the year-end 2010 (in 2009: TEUR 10,398).

A significant portion of other current assets includes accrued receivables recorded by Gorenje, d.d. Short-term deferred costs include costs of services billed but not yet provided.

Note 31 – Cash and cash equivalents **82,728 TEUR**

in TEUR	**2010**	**2009**
Cash in hand	403	405
Cash balances in banks and other financial institutions	82,325	26,725
Total	**82,728**	**27,130**

Note 32 – Equity **392,096 TEUR**

In accordance with the resolution of the 14th Shareholders' Meeting of Gorenje, d.d. of 28 May 2010 and the District Court Order of 5 July 2010 on a change in share capital, the share capital was increased by 1,876,876 ordinary, freely transferable, registered, no par value shares. At 31 December 2010, the share capital of Gorenje, d.d. amounted to EUR 66,378,217.32 (at 31 December 2009: EUR 58,546,152.56) and was divided into 15,906,876 ordinary, freely transferable, registered, no par value shares.
Capital surplus (share premium) in the amount of TEUR 175,575 includes paid-in capital in excess of par value of shares in the amount of TEUR 64,352, surplus in excess of book value of disposed own shares in the amount of TEUR 15,312 (1,070,000 own shares were disposed in 2008 in order to acquire the ATAG company), and general equity revaluation adjustment in the amount of TEUR 78,048 transferred upon the transition to IFRS.
Legal and statutory reserves in the amount of TEUR 21,990 include legal reserves in the amount of TEUR 12,895 (31 December 2009: TEUR 12,895), reserves for own shares in the amount of TEUR 3,170 (31 December 2009: TEUR 3,170), and statutory reserves in the amount of TEUR 5,925 (31 December 2009: TEUR 5,632).
Retained earnings in the amount of TEUR 107,382 (31 December 2009: TEUR 97,788) were decreased by the value of a derivative financial instrument held for trading in the amount of TEUR 7,646, which was designated in 2009 as a hedging derivative financial instrument in a cash flow hedge and recorded in the statement of comprehensive income. In 2010, however, it did not meet the criterion for classification as a hedging derivative financial instrument of that kind. A decrease in the amount of TEUR 2,390 relates to the purchase of a minority interest in Gorenje Surovina, d.o.o.

Translation reserve was decreased by TEUR 8,563 compared to 2009 and amounted to TEUR 8,842 as at 31 December 2010. The decrease is due to exchange differences arising from the translation of individual items in the financial statements of companies operating abroad from the national currencies to the reporting currency.

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

The changes in fair value reserve are shown in the table below:

in TEUR	Fair value reserve for land	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Total
Balance at 1 Jan 2010	**17,461**	**3,117**	**-7,756**	**12,822**
Revaluation of land	0	0	0	0
Disposal of land	0	0	0	0
Change in fair value of cash flow hedge	0	0	9,758	9,758
Change in fair value of available-for-sale financial assets	0	288	0	288
Disposal of available-for-sale financial assets	0	145	0	145
Impairment of available-for-sale financial assets	0	0	0	0
Disposal of a subsidiary	-7,777	0	0	-7,777
Acquisition of non-controlling interests		0	0	0
Deferred taxes	158	-50	-2,050	-1,942
Balance at 31 Dec 2010	**9,842**	**3,500**	**-48**	**13,294**

in TEUR	Fair value reserve for land	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives	Total
Balance at 1 Jan 2009	**17,316**	**6,575**	**-8,804**	**15,087**
Revaluation of land	-4	0	0	-4
Disposal of land	0	0	0	0
Change in fair value of cash flow hedge	0	0	-1,014	-1,014
Change in fair value of available-for-sale financial assets	0	-878	0	-878
Disposal of available-for-sale financial assets	0	-3,097	0	-3,097
Impairment of available-for-sale financial assets	0	0	0	0
Disposal of a subsidiary	0	0	0	0
Acquisition of non-controlling interests	65	0	0	65
Deferred taxes	84	517	2,062	2,663
Balance at 31 Dec 2009	**17,461**	**3,117**	**-7,756**	**12,822**

Note 33 – Earnings per share

Earnings per share amounted to EUR 1.34 in 2010 (in 2009: EUR -0.83). No preference shares have been issued by the Group, hence basic and diluted earnings per share are equal.

The calculation of EPS ratio is based on net profit or loss of the Group and the weighted average number of ordinary shares in the period:

2010	(in TEUR)
Net profit or loss	19,923
Weighted average number of ordinary shares	14,847,127
Basic / Diluted earnings per share (in EUR)	1,34
2009	(in TEUR)
Net profit or loss	-11,504
Weighted average number of ordinary shares	13,908,689
Basic / Diluted earnings per share (in EUR)	-0.83

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

Dividends were not paid in 2010.

Note 34 – Provisions **88,167 TEUR**

in TEUR	2010	2009
Provisions for warranties	50,261	38,000
Provisions for retirement benefits and jubilee premiums	22,687	19,623
Other provisions	15,219	4,535
Total	**88,167**	**62,158**

Provisions for warranties were created on the basis of estimated costs of warranties calculated by taking into account the past known data on the quality level of products and the costs of repairs under warranties.

Provisions for retirement benefits and jubilee premiums were created on the basis of the actuarial calculation of estimated future payments of retirement benefits and jubilee premiums, which was made as at 31 December 2010. The actuarial calculation was based on the following assumptions:

- a discount rate of 4.90 percent in December 2010 representing the rate of return on 10-year entrepreneurial bonds with high credit rating in the euro area;
- current retirement benefits and jubilee premiums as defined in the internal acts of individual companies or in the national regulations;
- an employee turnover depending in particular on the employee's age;
- a mortality rate stated in the latest available mortality tables of the local population;
- an increase in wages and salaries due to adjustment for inflation and career promotion.

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

A significant portion of other provisions includes provisions for corporate restructuring and anticipated losses in the amount of TEUR 9,800 which were created in line with the anticipated costs of post-acquisition activities for the Asko Group, provisions for costs in connection with the Directive on Waste Electrical and Electronic Equipment in the amount of TEUR 1,955 recorded by ZEOS, d.o.o., and provisions for compensation claims arising from legal actions brought against Gorenje, d.d. in the amount of TEUR 1,900.

Movement of provisions in 2010

in TEUR	Balance 1 Jan 2010	Use	Exchange difference	Reversal	Creation	Disposal of companies	Acquisition of companies	Balance 31 Dec 2010
Provisions for warranties	38,000	-17,923	-733	-5,280	23,834	-516	12,879	50,261
Provisions for retirement benefits and jubilee premiums	19,623	-1,842	-11	-91	2,939	-1,450	3,519	22,687
Other provisions	4,535	-1,112	12	-186	2,247	-77	9,800	15,219
Total	**62,158**	**-20,877**	**-732**	**-5,557**	**29,020**	**-2,043**	**26,198**	**88,167**

Movement of provisions in 2009

in TEUR	Balance 1 Jan 2009	Use	Exchange difference	Reversal	Creation	Disposal of companies	Balance 31 Dec 2009
Provisions for warranties	32,735	-17,057	-153	-1,330	23,835	-30	38,000
Provisions for retirement benefits and jubilee premiums	19,563	-1,359	-7	-299	1,765	-40	19,623
Other provisions	3,068	-718	2	-276	2,509	-50	4,535
Total	**55,366**	**-19,134**	**-158**	**-1,905**	**28,109**	**-120**	**62,158**

Note 35 – Deferred income 866 TEUR

in TEUR	Balance 1 Jan 2010	Depreciation	Creation	Balance 31 Dec 2010
Deferred income from government grants	1,211	-3,755	3,410	866
Total	**1,211**	**-3,755**	**3,410**	**866**

in TEUR	Balance 1 Jan 2009	Depreciation	Creation	Balance 31 Dec 2009
Deferred income from government grants	8,936	-10,725	3,000	1,211
Total	**8,936**	**-10,725**	**3,000**	**1,211**

Note 36 – Non-current financial liabilities 260,932 TEUR

in TEUR	2010	2009
Borrowings	356,449	297,073
Other financial liabilities	7,168	7,698
Transfer to current financial liabilities	-102,685	-62,412
Total	**260,932**	**242,359**

Borrowings by maturity	**in TEUR**
	97,487
2–4 years	123,455
4–6 years	26,669
6–9 years	6,153
Total	**253,764**

Borrowings

Currency		Amount in TEUR	Interest rate	
			from	to
EUR		253,764	1.66%	12.00%
Total		**253,764**		

The effective interest rate does not deviate essentially from the contractually agreed interest rate.

Collateralisation	**in TEUR**
Bills	193,284
Financial covenants	202,312
Guarantees	67,602
Guarantee Scheme of the Republic of Slovenia	35,016

Some borrowings are simultaneously secured by several forms of collateralisation. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje BeteiligungsGmbH to the commercial banks to secure liabilities of the Group companies.

The provision of collateral through the Guarantee Scheme of the Republic of Slovenia includes the nominal value of borrowings secured by a guarantee through the Guarantee Scheme of the Republic of Slovenia. The average amount of a guarantee is 30 percent.

Note 37 – Current financial liabilities 223,015 TEUR

in TEUR	2010	2009

Borrowings from banks	103,207	133,944
Transfer from non-current financial liabilities from banks	102,542	62,412
Borrowings from other entities	1,803	1,977
Transfer from non-current financial liabilities from other entities	143	0
Interest payable from financing activities	805	653
Dividend payable	184	630
Derivatives	14,185	10,267
Other financial liabilities	146	0
Total	**223,015**	**209,883**

As at 31 December 2010, forward exchange contracts were concluded by Gorenje, d.d. in the value of hedged items totalling TEUR 5,810. The forward exchange contracts were used in the financial year 2010 to hedge against a change in the foreign exchange rates: EUR/PLN, EUR/USD, and EUR/HUF. At the year end, hedging of the EUR/USD exchange rate was recorded. Maturities of the forward exchange contracts are short-term (up to one year).

The total value of hedged items recorded by Gorenje, d.d. as at 31 December 2010, for which interest rate swap contracts were concluded, amounted to TEUR 78,214. The interest rate swap contracts are used to hedge against the fluctuation of the variable interest rate EURIBOR. Maturities of the interest rate swap contracts are long-term, i.e. progressively until 28 June 2013.

Current borrowings from banks			Interest rate	
Currency	Amount in currency (in 000)	Amount in TEUR	from	to
EUR	170,116	170,116	1.39%	12.00%
CZK	363,528	14,506	1.71%	4.49%
HUF	516,772	1,859	7.90%	7.90%
TRY	11,138	5,382	9.00%	12.00%
HRK	4,434	601	5.95%	5.95%
RSD	100,866	939	18.00%	18.00%
DKK	5,099	684	3.44%	4.65%
PLN	400	101	4.91%	4.91%
SEK	82,037	9,150	2.76%	3.55%
NOK	14,193	1,820	4.55%	4.55%
USD	789	591	3.76%	5.20%
Total		**205,749**		

Current borrowings from other entities			Interest rate	
Currency	Amount in currency (in 000)	Amount in TEUR	from	to
EUR				
Total		**1,946**	1.006%	10.00%

The effective interest rate does not deviate essentially from the contractually agreed interest rate.

Collateralisation	**in TEUR**
Bills	136,308
Financial covenants	72,157
Guarantees	47,731

Some borrowings are simultaneously secured by several forms of collateralisation. Guarantees include guarantees and sureties issued by Gorenje, d.d. and Gorenje BeteiligungsGmbH to the commercial banks to secure liabilities of the Group companies.

The loan contracts concluded by Gorenje d.d. with the banks include financial covenants, which were fully fulfilled in 2010 (on the basis of unaudited consolidated financial statements). The covenants are reviewed on the basis of the audited consolidated financial statements for the respective financial year.

Note 38 – Trade payables 237,020 TEUR

As at 31 December 2010, the item of trade payables in the amount of TEUR 237,020 does not include any payables to the members of the Management Board and Supervisory Board and the internal owners.

Note 39 – Other current liabilities 106,698 TEUR

in TEUR	2010	2009
Payables to employees	18,955	17,139
Payables to state institutions	14,135	13,055
Accrued costs and expenses	40,872	31,425
Other payables	32,736	25,641
Total	**106,698**	**87,260**

Payables to employees and contributions and taxes payable to state institutions relate to wages and salaries for December paid in January of the following year.

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

Note 40 – Contingent liabilities

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

Note 41 – Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure.

The maximum credit exposure at the reporting date:

in TEUR	2010	2009
Available-for-sale financial assets	11,940	15,248
Loans	36,229	36,998
Trade and other receivables	350,452	278,081
Deposits	1,185	16,522
Other financial receivables	3,961	6,064
Cash and cash equivalents	82,728	27,130
Total	**486,495**	**380,043**

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

in TEUR	2010	2009
Western Europe	95,553	69,011
Eastern Europe	205,116	182,388
Other countries	5,615	341
Total	**306,284**	**251,740**

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

in TEUR	2010	2009
Wholesale customers	220,572	210,017

Retail customers	78,626	32,804
Other customers	7,086	8,919
Total	**306,284**	**251,740**

Maturity of trade receivables at the reporting date:

in TEUR	Gross amount	Allowance	Gross amount	Allowance
	2010	**2010**	**2009**	**2009**
Not past due	237,229		195,299	
Past due 1 - 45 days	33,647		29,501	
Past due 46 - 90 days	8,063		8,679	
Past due 91 - 180 days	8,407		8,282	
Past due more than 180 days	42,080	23,142	30,385	20,406
Total	**329,426**	**23,142**	**272,146**	**20,406**

Movement of allowances for trade receivables:

in TEUR	**2010**	**2009**
Opening balance at 1 January	20,406	15,444
Exchange differences	-57	-24
Impairment loss	8,317	8,780
Allowance for secured receivables	0	1,532
Recovered bad debts	-1,868	-1,641
Write-off of receivables	-3,836	-3,243
Changes in the Group	180	-442
Closing balance at 31 December	**23,142**	**20,406**

Liquidity risk

The maturity of financial liabilities is show below:

31 December 2010

in TEUR	**Carrying amount**	**Contractual cash flows**	**1 year or less**	**1 – 2 years**	**2 – 5 years**	**Over 5 years**
Non-derivative financial liabilities						
Bank borrowings	459,513	496,294	225,736	105,381	158,796	6,382
Borrowings from other entities	1,946	2,102	2,102			
Other financial liabilities	8,303	10,448	2,434	2,434	4,090	1,490
Trade and other payables	302,846	302,846	302,846			
Total	**772,608**	**811,690**	**533,118**	**107,815**	**162,886**	**7,872**
Derivative financial liabilities						
Interest rate swaps	-58	-68	-51	-17		
Forward exchange contracts used for hedging	-20	-20	-20			
Outflow	-20	-20	-20			
Inflow						
Other forward exchange contracts	-14,107	-14,107	-14,107			
Outflow	-14,107	-14,107	-14,107			
Inflow						
Total	**-14,185**	**-14,195**	**-14,178**	**-17**		

31 December 2009

in TEUR	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	Over 5 years
Non-derivative financial liabilities						
Bank borrowings	431,017	457,685	206,329	103,415	145,327	2,614
Borrowings from other entities	1,977	2,056	2,056			
Other financial liabilities	8,981	8,981	8,981			
Trade and other payables	252,131	252,131	252,131			
Total	**694,106**	**720,853**	**469,497**	**103,415**	**145,327**	**2,614**
Derivative financial liabilities						
Interest rate swaps	-10,017	-10,017	-6,177	-3,840		
Forward exchange contracts used for hedging						
Outflow	-250	-250	-250			
Inflow						
Total	**-10,267**	**-10,267**	**-6,427**	**-3,840**		

Currency risk

The Group's exposure to foreign currency risk:

31 December 2010

in TEUR	EUR	HRK	DKK	PLN	RSD	CZK	Other
Trade receivables	189,874	31,762	4,490	6,682	13,919	7,446	52,111
Financial liabilities (borrowings)	-423,861	-601	-684	-101	-939	-14,506	-18,821
Trade payables	-201,795	-1,850	-1,491	-1,638	-6,799	-5,354	-18,093
Exposure of the financial position	**-435,782**	**29,311**	**2,315**	**4,943**	**6,181**	**-12,414**	**15,197**
Forward exchange contracts							-8,295
Net exposure	**-435,782**	**29,311**	**2,315**	**4,943**	**6,181**	**-12,414**	**6,902**

31 December 2009

in TEUR	EUR	HRK	DKK	PLN	RSD	CZK	Other
Trade receivables	160,304	29,051	4,205	6,897	13,029	8,411	29,843
Financial liabilities (borrowings)	-410,073	-1,130	-772	-425	-953	-13,870	-3,794
Trade payables	-179,771	-1,091	-731	-1,366	-3,862	-3,905	-5,570
Exposure of the financial position	**-429,540**	**26,830**	**2,702**	**5,106**	**8,214**	**-9,364**	**20,479**
Forward exchange contracts	0	0	0	0	0	0	4,176
Net exposure	**-429,540**	**26,830**	**2,702**	**5,106**	**8,214**	**-9,364**	**24,655**

The following significant exchange rates were applied during the year:

	Average rate		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
HRK	7.289	7.341	7.383	7.300
CZK	25.294	26.455	25.061	26.473
DKK	7.447	7.446	7.454	7.442
RSD	102.762	93.797	107.470	95.025
PLN	3.995	4.330	3.975	4.105

Sensitivity analysis

A 5 percent increase in the euro against the stated currencies as at 31 December would have increased (decreased) net profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain unchanged. The analysis has been performed on the same basis as for 2009.

31 December 2010	in TEUR
	Net profit or loss
HRK	-1,466
DKK	-116
PLN	-247
RSD	-309
CZK	621
Other currencies	-345

31 December 2009	in TEUR
	Net profit or loss
HRK	-1,342
DKK	-135
PLN	-255
RSD	-411
CZK	468
Other currencies	-1.288

A 5 percent decrease in the euro against the stated currencies as at 31 December would have had the equal yet opposite effect, provided that all other variables remain unchanged.

Interest rate risk

The Group's exposure to interest rate risk:

in TEUR	**2010**	**2009**
Fixed rate financial instruments		
Financial assets	11,271	13,448
Financial liabilities	96,273	90,094
Variable rate financial instruments	24,958	23,550
Financial liabilities	363,239	340,923

Fair value sensitivity analysis for fixed rate instruments
No fixed rate financial instruments at fair value through profit or loss and no derivatives designated as fair value hedge are recorded by the Group. Therefore, a change in the interest rate at the reporting date would have no impact on net profit or loss.

Fair value sensitivity analysis for variable rate instruments
A change in the interest rate by 50 basis points at the reporting date would have increased (decreased) net profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain unchanged. The analysis has been performed on the same basis as for 2009.

in TEUR	**Net profit or loss**		**Other comprehensive income**	
	Increase by 50 bp	**Decrease by 50 bp**	**Increase by 50 bp**	**Decrease by 50 bp**
31 December 2010				
Variable rate instruments	-4,122	4,122		
Interest rate swap contracts				
Cash flow variability (net)	**-4,122**	**4,122**		

31 December 2009				
Variable rate instruments	-1,180	1,180	0	0
Interest rate swap contracts	51	-51	304	-304
Cash flow variability (net)	**-1,129**	**1,129**	**304**	**-304**

Note 42 – Fair value

The fair value and the carrying amount of assets and liabilities:

in TEUR	Carrying amount	Fair value	Carrying amount	Fair value
	2010	**2010**	**2009**	**2009**
Available-for-sale investments	11,940	11,940	15,248	15,248
Non-current loans	4,398	4,398	5,691	5,691
Current loans	33,776	33,776	48,302	48,302
Derivatives	-14,185	-14,185	-10,267	-10,267
Trade receivables	306,284	306,284	251,740	251,740
Other current assets	44,168	44,168	26,341	26,341
Cash and cash equivalents	82,728	82,728	27,130	27,130
Non-current financial liabilities	-188,463	-188,463	-162,721	-162,721
Non-current financial liabilities (fixed interest rate)	-72,469	-64,003	-79,638	-67,016
Current financial liabilities	-208,830	-208,830	-199,616	-199,616
Trade payables	-237,020	-237,020	-196,296	-196,296
Other payables	-65,826	-65,826	-55,835	-55,835
Total	**-303,499**	**-295,033**	**-329,921**	**-317,299**

Available-for-sale investments are valued at fair value using market prices.

Fair value scale

The table below shows the method of valuing financial assets recorded at fair value.

Level 1: stock price (unadjusted) in the active market for identical assets and liabilities
Level 2: data differing from stock price data (these are included in Level 1) monitored with the intention of direct or indirect valuation of assets and liabilities
Level 3: data on the value of assets and liabilities not based on the active market

Year 2010

(in TEUR)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	2,551	-	9,389	11,940
Derivatives – assets	-	-	-	-
Derivatives - liabilities	-	-14,185	-	-14,185

Year 2009

(in TEUR)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	3,770	-	11,478	15,248
Derivatives – assets	-	-	-	-
Derivatives - liabilities	-	-10,267	-	-10,267

Forward exchange contracts

The total fair value of forward exchange contracts amounted to TEUR -14,127 as at 31 December 2010 and was recorded under other financial liabilities.

Interest rate swaps

The total fair value of interest rate swaps as at 31 December 2010 amounted to TEUR -58 and was recorded under other financial liabilities.
Interest rate swap hedges, which refer to hedged items in the statement of financial position, are recorded in equity as a fair value reserve.

Note 43 – Covenants related to investments

The value of contractually agreed investments in intangible assets and property, plant and equipment, not yet recognised in the financial statements at the date of the statement of financial position, amounted to TEUR 10,178.

Note 44 – Related party transactions

The transactions with related parties were conducted by the Group companies on the basis of sale/purchase contracts. The prices used in these related party transactions were the market prices of products and services.

Information on groups of persons

In **2010**, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

in TEUR

Type of earnings	**Management Board**	**Supervisory Board**	**Employees under individual employment agreements**
Salaries	6,985		8,488
Benefits and other earnings	1,076	84	805
Total	**8,061**	**84**	**9,293**

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

In **2009**, the Gorenje Group companies paid to the groups of persons stated below the following gross personal earnings:

in TEUR

Type of earnings	**Management Board**	**Supervisory Board**	**Employees under individual employment agreements**
Salaries	6,184		9,208
Benefits and other earnings	987	59	749
Total	**7,171**	**59**	**9,957**

Joint venture transactions undertaken by the Group companies:

in TEUR	**Amount of transactions**		**Balance**	
	2010	**2009**	**2010**	**2009**
Financial revenue				

Holding company	2	6	0	0
Sales				
Joint venture companies	1,414	1,533	975	207

Note 45 – Events after the reporting date

- The President of the Management Board of Gorenje and the representatives of the Serbian Government and the Municipality of Zaječar have signed in Zaječar a precontract on the implementation of the Gorenje's investment in the production capacities of the Home Appliances Division. With this investment in the estimated amount of EUR 2.9 million, Gorenje will yield employment for 300 employees.
- Gorenje has opened up in Sarajevo its first own service in Bosnia and Herzegovina as the upgrade of the existing authorised service network. A team of newly employed service engineers of Gorenje will cover the area of Sarajevo and the neighbouring municipalities.
- At its meeting of 3 March 2011, the Supervisory Board of Gorenje appointed Mr Marko Mrzel the new member of the Management Board of Gorenje, who will be in charge of finance and economics. He will exercise his function until the expiry of the mandate of the present Management Board, i.e. until 18 July 2013.

Note 46 – Transactions with the auditing firm

The costs of the audit of the financial statements of the Gorenje Group companies and the consolidated financial statements of the Gorenje Group amounted to TEUR 847 in 2010. The auditors of the Group companies did not provide any other services for the Gorenje Group companies.

Note 47 – Business segments

in TEUR	Home Appliances		Home Interior		Ecology, energy and services		Group	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue from the sale to third parties	979,767	871,257	34,376	40,721	368,042	273,959	1,382,185	1,185,937
Inter-Division sales	5,846	6,480	11,031	14,454	10,564	11,212	27,441	32,146
Interest income	3,115	4,675	27	67	390	474	3,532	5,216
Interest expenses	19,002	19,662	113	82	2,020	2,015	21,135	21,759
Amortisation and depreciation expense	44,063	47,864	1,717	2,037	6,457	6,149	52,237	56,050
Profit or loss before income tax	23,791	-4,026	-6,357	-4,922	5,038	-360	22,472	-9,308
Income tax							2,448	2,924
Net profit or loss for the period	22,581	-6,840	-6,312	-5,082	3,755	-310	20,024	-12,232
Total assets	1,107,776	975,185	32,336	34,130	177,642	169,362	1,317,754	1,178,677
Total liabilities	793,293	684,751	12,286	11,843	120,079	112,439	925,658	809,033
Investments	33,840	18,911	2,630	1,792	8,198	8,029	44,668	28,732
Impairment loss on investments	1,428	2,206	0	0	63	102	1,491	2,308

Note 48 – Geographical segments

in TEUR	West		East		Other		Group	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue from the sale to third parties	482,238	430,771	835,531	723,096	64,416	32,070	1,382,185	1,185,937
Total assets	447,472	376,490	775,393	754,973	94,889	47,214	1,317,754	1,178,677
Investments	9,084	6,167	33,530	21,539	2,054	1,026	44,668	28,732

13.1.3 Auditor's Report

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Gorenje, d.d. and its subsidiaries (Gorenje Group), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Gorenje Group as at 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Other matters

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

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

Danilo Bukovec, B.Sc.Ec.
Certified Auditor

Marjan Mahnič, B.Sc.Ec.
Certified Auditor
Partner

Ljubljana, 7 April 2011

KPMG Slovenija, d.o.o.

Appendix 1: Information on the Gorenje Group companies

Group companies	Share capital (in TEUR)	Number of employees
Gorenje, d.d., Slovenia	66,378	4,527
Gorenje I.P.C., d.o.o., Slovenia	93	705
Gorenje GTI, d.o.o., Slovenia	8,426	126
Gorenje Notranja oprema, d.o.o., Slovenia	3,835	801
Gorenje Gostinstvo, d.o.o., Slovenia	3,790	184
Energygor, d.o.o., Slovenia	9	0
Kemis, d.o.o., Slovenia	2,650	27
Gorenje Orodjarna, d.o.o., Slovenia	927	207
Indop, d.o.o., Slovenia	1,000	16
ZEOS, d.o.o., Slovenia	477	4
Gorenje Surovina, d.o.o., Slovenia	4,849	306
Istrabenz Gorenje, d.o.o., Slovenia	6,317	20
GEN-I, d.o.o., Slovenia	3,135	22
Istrabenz investicijski inženiring, d.o.o., Slovenia	699	0
Istrabenz Gorenje inženiring, d.o.o., Slovenia	599	5
ERICo, d.o.o., Slovenia	278	55
Gorenje design studio, d.o.o., Slovenia	500	20
Gorenje Projekt, d.o.o., Slovenia	150	2
PUBLICUS, d.o.o., Slovenia	897	96
IG AP, d.o.o., Slovenia	4	5
Istrabenz Gorenje energetsko svetovanje, d.o.o., Slovenia	4	1
Vitales RTH, d.o.o., Slovenia	12	0
EKOGOR, d.o.o., Slovenia	50	0
Gorenje GAIO, d.o.o., Slovenia	1,000	0
Gorenje Beteiligungs GmbH, Austria	26,600	4
Gorenje Austria Handels GmbH, Austria	3,275	56
Gorenje Vertriebs GmbH, Germany	5,700	64
Gorenje Körting Italia S.r.l., Italy	90	10
Gorenje France S.A.S., France	3,225	27
Gorenje Belux S.a.r.l., Belgium	19	5
Gorenje UK Ltd., Great Britain	116	14
Gorenje Skandinavien A/S, Denmark	2,391	47
Gorenje AB, Sweden	223	5
Gorenje spol. s r.o., Czech Republic	4,895	41
Gorenje real spol. s r.o., Czech Republic	10,375	56
Gorenje Slovakia s.r.o., Slovak Republic	1,892	41
Gorenje Budapest Kft., Hungary	2,573	26
Gorenje Polska Sp. z o.o., Poland	8,742	35
Gorenje Bulgaria EOOD, Bulgaria	3,175	16
Gorenje Zagreb, d.o.o., Croatia	15,311	102
Gorenje Skopje, d.o.o., Macedonia	251	17
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1	56
Gorenje, d.o.o., Serbia	3,596	61
Gorenje Studio, d.o.o., Serbia	940	3
Gorenje Podgorica, d.o.o., Montenegro	2,800	17
Gorenje OY, Finland	115	2
Gorenje AS, Norway	282	4
Gorenje Romania S.r.l., Romania	383	9
Gorenje aparati za domaćinstvo, d.o.o., Serbia	23,415	491
Mora Moravia s r.o., Czech Republic	10,922	615

Gorenje – kuchyně spol. s r.o., Czech Republic	1,676	12
ST Bana Nekretnine, d.o.o., Serbia	2,217	0
KEMIS - Termoclean, d.o.o., Croatia	769	58
Kemis - BH, d.o.o., Bosnia and Herzegovina	210	9
Gorenje Gulf FZE, United Arab Emirates	209	5
Gorenje Espana S.L., Spain	3	0
Gorenje Tiki, d.o.o., Serbia	9,946	233
GEN-I Zagreb,d.o.o., Croatia	49	1
GEN-I d.o.o., Beograd,, Serbia	174	1
Intrade energija, d.o.o., Bosnia and Herzegovina	10	2
Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	974	27
Vitales, d.o.o., Bihać, Bosnia and Herzegovina	554	17
Gorenje Istanbul Ltd., Turkey	3,633	30
Gorenje TOV, Ukraine	67	5
Sirovina DOO, Bačka Palanka, Serbia	214	0
GEN-I Budapest, Kft., Hungary	46	1
Gorenje kuhinje, d.o.o., Ukraine	948	12
Kemis - SRS, d.o.o., Bosnia and Herzegovina	72	2
ATAG Nederland BV, The Netherlands	16	376
ATAG België NV, Belgium	248	47
ATAG Financiele Diensten BV, The Netherlands	200	0
ATAG Financial Solutions BV, The Netherlands	18	0
Intell Properties BV, The Netherlands	45	0
ATAG Europe BV, The Netherlands	18	0
ATAG Special Products BV, The Netherlands	18	0
Gorenje Nederland BV, The Netherlands	20,796	1
Gorenje Kazakhstan, TOO, Kazakhstan	35	3
OOO Gorenje BT, Russia	710	50
»Euro Lumi & Surovina« SH.P.K., Kosovo	431	14
Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	5	1
Vitales inženjering d.o.o., Prijedor, Bosnia and Herzegovina	12	0
Vitales Energie Biomasse S.r.l., Italy	4	0
Vitales Čakovec d.o.o., Croatia	1	0
GEN-I d.o.o., Sarajevo, Bosnia and Herzegovina	124	1
GEN-I DOOEL Skopje, Macedonia	5	1
GEN-I Athens SMLLC, Greece	37	1
GEN-I Tirana Sh.p.k., Albania	11	1
S.C. GEN-I Bucharest, Romania	120	1
GEN-I Sofia SpLLC, Bulgaria	24	1
GEN-I Milano S.r.l., Italy	24	0
GEN-I Vienna GmbH, Austria	12	0
Kemis Valjevo d.o.o., Serbia	23	3
Gorenje GTI d.o.o., Beograd, Serbia	1	16
Asko Appliances AB, Sweden	47,962	676
Asko Hvitevarer AS, Norway	1,923	19
AM Hvidevarer A/S, Denmark	537	16
Asko Appliances Inc, USA	1	32
Asko Appliances Pty, Australia	7,613	79

Appendix 2: Managing directors

In 2010, the Group companies were managed by the following managing directors:

Company	Managing Director
Gorenje, d.d., Slovenia	Franc Bobinac, President of the Management Board
	Franc Košec, Member of the Management Board
	Mirjana Dimc Perko (until 1 January 2011), Marko Mrzel (since 3 March 2011), Member of the Management Board
	Uroš Marolt, Member of the Management Board
	Branko Apat, Member of the Management Board
	Drago Bahun, Member of the Management Board
Gorenje, I.P.C., d.o.o., Slovenia	Mirko Rožanc
Gorenje GTI, d.o.o., Slovenia	Cita Špital-Meh
Gorenje Notranja oprema, d.o.o., Slovenia	Uroš Marolt
Gorenje Gostinstvo, d.o.o., Slovenia	Saša Oprešnik (until 14 October 2010), Stanko Brunšek (since 15 October 2010)
Energygor, d.o.o., Slovenia	Marijan Penšek
Kemis, d.o.o., Slovenia	Emil Nanut
Gorenje Orodjarna, d.o.o., Slovenia	Blaž Nardin Ph.D.
Indop, d.o.o., Slovenia	Boris Jurkošek (until 30 November 2010), Matej Sevčnikar (since 1 December 2010)
ZEOS, d.o.o., Slovenia	Emil Šehič
Gorenje Surovina, d.o.o., Slovenia	Jure Fišer
Istrabenz Gorenje, d.o.o., Slovenia	Robert Golob Ph.D., President of the Management Board
GEN-I, d.o.o., Slovenia	Robert Golob Ph.D., President of the Management Board
	Martin Novšak, Deputy President of the Management Board
	Dejan Paravan Ph.D., Member of the Management Board
	Igor Koprivnikar Ph.D., Member of the Management Board
Istrabenz investicijski inženiring, d.o.o., Slovenia	Robert Golob Ph.D.
Istrabenz Gorenje inženiring, d.o.o., Slovenia	Robert Seme
	Ciril Pucko, Holder of a General Commercial Power of Attorney
ERICo, d.o.o., Slovenia	Marko Mavec
Gorenje design studio, d.o.o., Slovenia	Jasna Petan
Gorenje Projekt, d.o.o., Slovenia	Uroš Razdevšek
PUBLICUS, d.o.o., Slovenia	Slavko Hrženjak
IG AP, d.o.o., Slovenia	Marko Urbanija (until 22 February 2010), Samo Žolger (since 23 February 2010)
	Ciril Pucko, Holder of a General Commercial Power of Attorney
Istrabenz Gorenje energetsko svetovanje, d.o.o., Slovenia	Robert Golob Ph.D.
Vitales RTH d.o.o., Slovenia	Robert Golob Ph.D., President of the Management Board
	Aleš Berger, Deputy President of the Management Board
	Matej Požun, Member of the Management Board
	Henrik Bajda, Member of the Management Board
EKOGOR d.o.o., Slovenia	Ivan Hrženjak
Gorenje GAIO, d.o.o., Slovenia	Andrej Koželj
Gorenje Beteiligungs GmbH, Austria	Marko Šefer

Gorenje Austria Handels GmbH, Austria	Sandra Lubej
Gorenje Vertriebs GmbH, Germany	Klemen Prešeren
Gorenje Körting Italia S.r.l., Italy	Matjaž Geratič
Gorenje France S.A.S., France	Matej Čufer
Gorenje Belux S.a.r.l., Belgium	Matej Čufer
Gorenje UK Ltd., Great Britain	Jernej Hren
Gorenje Skandinavien A/S, Denmark	Kristian Hansen
Gorenje AB, Sweden	Kristian Hansen
Gorenje spol. s r.o., Czech Republic	Suad Hadžić
Gorenje real spol. s r.o., Czech Republic	Suad Hadžić
Gorenje Slovakia s.r.o., Slovak Republic	Bogdan Urh
Gorenje Budapest Kft., Hungary	Bogdan Urh
Gorenje Polska Sp. z o.o., Poland	Franc Rogan
Gorenje Bulgaria EOOD, Bulgaria	Darko Mlinar (until 30 September 2010), Gregor Gržina (since 1 October 2010)
Gorenje Zagreb, d.o.o., Croatia	Jan Štern
Gorenje Skopje, d.o.o., Macedonia	Nenad Jovanović
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	Robert Polšak
Gorenje, d.o.o., Serbia	Marko Mrzel
Gorenje Studio, d.o.o., Serbia	Marko Mrzel
Gorenje Podgorica, d.o.o., Montenegro	Darko Vukčević
Gorenje OY, Finland	Kristian Hansen
Gorenje AS, Norway	Kristian Hansen
Gorenje Romania S.r.l., Romania	Anton Prislan
Gorenje aparati za domaćinstvo, d.o.o., Serbia	Mirko Meža
Mora Moravia s r.o., Czech Republic	Vitezslav Ružička Simon Kumer
Gorenje – kuchyně spol. s r.o., Czech Republic	Viktor Faktor
ST Bana Nekretnine, d.o.o., Serbia	Rudolf Krebl
KEMIS - Termoclean, d.o.o., Croatia	Zoran Matić
Kemis - BH, d.o.o., Bosnia and Herzegovina	Maid Hadžimujić
Gorenje Gulf FZE, United Arab Emirates	Nermin Salman
Gorenje Espana, S.L., Spain	Jernej Hren
Gorenje Tiki, d.o.o., Serbia	Branko Apat
GEN-I Zagreb, d.o.o., Croatia	Igor Koprivnikar Ph.D. Dejan Paravan Ph.D.
GEN-I d.o.o., Beograd, Serbia	Igor Koprivnikar Ph.D.
Intrade energija, d.o.o., Bosnia and Herzegovina	Emir Avdić
Vitales, d.o.o., Nova Bila, Bosnia and Herzegovina	Andrej Hrabar (until 31 March 2010), Matej Požun (from 1 April 2010 to 15 June 2010), Matjaž Kompara (since 16 June 2010)
	Matej Požun, Holder of a General Commercial Power of Attorney (until 31 March10 and from 15 June 2010 to 1 September 2010)
Vitales, d.o.o., Bihać, Bosnia and Herzegovina	Šerif Kosatica (until 31 March 2010), Saša Matić (since 1 April 2010)
	Matej Požun, Holder of a General Commercial Power of Attorney (until 15 November 2010), Samo Žolger (since 16 November 2010)
Gorenje Istanbul Ltd., Turkey	Suad Mujakić (until 30 September 2010), Doga Yarman (since 1 October 2010)
Gorenje TOV, Ukraine	Matjaž Podlogar

Sirovina DOO, Bačka Palanka, Serbia	Boris Keber
GEN-I Budapest, Kft., Hungary	Igor Koprivnikar Ph.D.
Gorenje kuhinje, d.o.o., Ukraine	Ljudmila Zvezday (until 17 March 2010), Beryei Yozikov (since 18 March 2010)
Kemis - SRS, d.o.o., Bosnia and Herzegovina	Slobodan Sjenčić
ATAG Nederland BV, The Netherlands	Berend Johannes Hofenk
ATAG België NV, Belgium	Jackie Haeck in Guy De Mey (until 28 February 2010), Robert Meenink (since 1 March 2010)
ATAG Financiele Diensten BV, The Netherlands	Berend Johannes Hofenk
ATAG Financial Solutions BV, The Netherlands	Berend Johannes Hofenk
Intell Properties BV, The Netherlands	Berend Johannes Hofenk
ATAG Europe BV, The Netherlands	Berend Johannes Hofenk
ATAG Special Products BV, The Netherlands	Berend Johannes Hofenk
Gorenje Nederland BV, The Netherlands	Marko Šefer
Gorenje Kazakhstan, TOO, Kazakhstan	Roman Jeglič (until 13 May 2010), Igor Gobec (since 14 May 2010)
OOO Gorenje BT, Russia	Marko Špan
»Euro Lumi & Surovina« SH.P.K., Kosovo	Amir Pira
Vitales, d.o.o., Sokolac, Bosnia and Herzegovina	Matej Požun
Vitales inženjering d.o.o., Prijedor, Bosnia and Herzegovina	Tatjana Bojić
Vitales Energie Biomasse S.R.L., Italy	Jure Špacal, President of the Management Board
	Robert Golob Ph.D., Member of the Management Board
	Rado Kotar, Member of the Management Board
	Mirko Prevedello, Member of the Management Board
	Devis Faccani, Member of the Management Board
	Maurizio Pontarolo, Member of the Management Board
Vitales Čakovec d.o.o., Croatia	Saša Matić
GEN-I d.o.o., Sarajevo, Bosnia and Herzegovina	Igor Koprivnikar Ph.D.
GEN-I DOOEL Skopje, Macedonia	Igor Koprivnikar Ph.D.
GEN-I Athens SMLLC, Greece	Igor Koprivnikar Ph.D.
GEN-I Tirana Sh.p.k., Albania	Igor Koprivnikar Ph.D.
S.C. GEN-I Bucharest, Romania	Igor Koprivnikar Ph.D.
GEN-I Sofia SpLLC, Bulgaria	Igor Koprivnikar Ph.D.
GEN-I Milano S.r.l., Italy	Dejan Paravan Ph.D.
GEN-I Vienna GmbH, Austria	Dejan Paravan Ph.D.
Kemis Valjevo d.o.o., Serbia	Zoran Milovanović
Gorenje GTI d.o.o., Beograd, Serbia	Miloš Leković
Asko Appliances AB, Sweden	Staffan Billinger (until 31 March 2011) Berend Johannes Hofenk (since 1 April 2011)
Asko Hvitevarer AS, Norway	Staffan Billinger
AM Hvidevarer A/S, Denmark	Michael Bilde Jensen
Asko Appliances Inc, USA	Stevo Piro
Asko Appliances Pty, Australia	Richard Sim

Appendix 3: Foreign exchange rates

			2010		2009	
Country	**Currency**	**Unit**	**Final exchange rate in EUR**	**Average exchange rate in EUR**	**Final exchange rate in EUR**	**Average exchange rate in EUR**
Australia	AUD	1	1.314	1.444	1.601	1.775
Czech Republic	CZK	1	25.061	25.294	26.473	26.455
Denmark	DKK	1	7.454	7.447	7.442	7.446
Great Britain	GBP	1	0.861	0.858	0.888	0.891
Croatia	HRK	1	7.383	7.289	7.300	7.341
Hungary	HUF	1	277.950	275.354	270.420	280.543
Norway	NOK	1	7.800	8.006	8.300	8.729
Poland	PLN	1	3.975	3.995	4.105	4.330
Sweden	SEK	1	8.966	9.547	10.252	10.620
USA	USD	1	1.336	1.327	1.441	1.393
Turkey	TRY	1	2.069	1.997	2.155	2.162
Bosnia and Herzegovina	BAM	1	1.956	1.956	1.956	1.956
Bulgaria	BGN	1	1.956	1.956	1.956	1.956
Macedonia	MKD	1	60.977	61.453	62.100	61.649
Switzerland	CHF	1	1.250	1.382	1.484	1.510
Romania	RON	1	4.262	4.211	4.236	4.240
Serbia	RSD	1	107.470	102.762	95.025	93.797
Estonia	EEK	1	15.647	15.647	15.647	15.647
Ukraine	UAH	1	10.361	10.565	12.016	11.151
Latvia	LVL	1	0.709	0.709	0.709	0.706
United Arab Emirates	AED	1	4.774	4.883	5.529	5.115
Kazakhstan	KZT	1	191.980	196.012	223.500	203.035
Russia	RUB	1	40.820	40.278	43.154	44.139
Albania	ALL	1	138.790	137.981	138.900	131.547

13.2 Accounting Report of Gorenje, d.d.

13.2.1 Financial Statements of Gorenje, d.d.

Income Statement of Gorenje, d.d.

in TEUR	Note	**2010**	**2009**
Revenue	**8**	**648,386**	**586,643**
Changes in inventories		-279	-13,069
Other income	9	11,969	13,573
Gross profit		**660,076**	**587,147**
Cost of goods, materials and services	10	-513,289	-458,817
Employee benefits expense	11	-102,401	-100,769
Amortisation and depreciation expense	12	-26,856	-32,801
Other expenses	13	-5,691	-4,575
Results from operating activities		**11,839**	**-9,815**
Finance income		17,114	26,835
Finance expense		-27,036	-25,760
Net finance expense / income	14	-9,922	1,075
Profit before income tax		**1,917**	**-8,740**
Income tax expense	15	1,008	2,656
Profit for the period		**2,925**	**-6,084**
Basic and diluted earnings per share (in EUR)		0.20	-0.44

Statement of Comprehensive Income of Gorenje, d.d.

in TEUR	**Note**	**2010**	**2009**
Net profit or loss for the period		**2,925**	**-6,084**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	23	-126	-843
Net change in fair value of available-for-sale financial assets transferred to profit or loss	14	145	-3,097
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge		80	597
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	14	0	-1,611
Income tax on other comprehensive income	21	49	2,668
Other comprehensive income for the period		**148**	**-2,286**
Total comprehensive income for the period		**3,073**	**-8,370**

Statement of Financial Position of Gorenje, d.d.

in TEUR	Note	2010	2009
ASSETS		**851,648**	**775,820**
Non-current assets		**425,215**	**436,865**
Intangible assets	16	15,428	15,999
Property, plant and equipment	17	157,864	172,267
Investment property	18	1,695	4,462
Investments in subsidiaries	19	238,096	232,375
Other non-current investments	20	1,165	1,773
Deferred tax assets	21	10,967	9,989
Current assets		**426,433**	**338,955**
Inventories	22	93,660	75,215
Current investments	23	76,472	87,684
Trade receivables	24	183,967	165,181
Other current assets	25	22,656	10,442
Current tax assets	25	0	347
Cash and cash equivalents	26	49,678	86
EQUITY AND LIABILITIES		**851,648**	**775,820**
Equity	27	**332,189**	**304,196**
Share capital		66,378	58,546
Share premium		157,712	140,624
Legal reserves and statutory reserves		21,990	21,697
Retained earnings		82,962	87,975
Fair value reserve		6,317	-1,476
Own shares		-3,170	-3,170
Non-current liabilities		**205,739**	**171,783**
Provisions	29	27,397	26,113
Deferred tax liabilities	21	1,402	1,480
Non-current financial liabilities	30	176,940	144,190
Current liabilities		**313,720**	**299,841**
Current financial liabilities	31	137,176	136,792
Trade payables	32	154,803	143,918
Other current liabilities	33	21,741	19,131

Statement of Cash Flows of Gorenje, d.d.

	in TEUR	Note	2010	2009
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
	Profit for the period		**2,925**	**-6,084**
	Adjustments for:			
	Depreciation of property, plant and equipment	12,17	24,362	29,516
	Amortisation of intangible assets	12,16	2,494	3,285
	Investment income	14	-17,114	-26,835
	Finance expenses	14	27,036	25,760
	Gain on sale of property, plant and equipment		-299	-40
	Gain from revaluation of investment property	13	1,528	0
	Income tax expense	15	-1,008	-2,656
	Operating profit before changes in net operating current assets and provisions		**39,924**	**22,946**
	Change in trade and other receivables		-28,746	12,613
	Change in inventories	22	-18,445	30,732
	Change in provisions	29	1,285	1,925
	Change in trade and other liabilities		13,495	-13,510
	Cash generated from operations		**-32,411**	**31,760**
	Interest paid		-12,040	-15,901
	Income taxes paid		0	489
	Net cash from operating activities		**-4,527**	**39,294**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
	Proceeds from sale of property, plant and equipment		1,307	339
	Proceeds from sale of investment property		1,260	0
	Interest received		2,577	8,378
	Dividends received		9,305	6,322
	Proceeds from salel of available-for-sale investments		5,621	5,004
	Disposal of subsidiary, net of cash disposed		0	42,685
	Acquisition of subsidiary, net of cash acquired		-12,722	-5,000
	Acquisition of property, plant and equipment		-10,986	-6,745
	Loans		4,848	-9,319
	Acquisition of other investments		-1,358	434
	Acquisition of intangible assets		-1,923	-1,844
	Net cash used in investing activities		**-2,071**	**40,254**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
	Equity increase		24,920	0
	Borrowings / Repayment of borrowings		31,270	-79,536
	Net cash used in financing activities		**56,190**	**-79,536**
	Net increase in cash and cash equivalents		49,592	12
	Cash and cash equivalents at beginning of period		86	74
	Cash and cash equivalents at end of period		49,678	86

Statement of Changes in Equity of Gorenje, d.d.

in TEUR	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Fair value reserve	Total
Opening balance at 1 Jan 2010	**58,546**	**140,624**	**21,697**	**87,975**	**-3,170**	**-1,476**	**304,196**
Total comprehensive income for the period							
Net profit or loss for the period				2,925			2,925
Total other comprehensive income				-7,645		7,793	148
Total comprehensive income for the period	**0**	**0**	**0**	**-4,720**	**0**	**7,793**	**3,073**
Transactions with owners (when acting as owners) recognised directly in equity							
Contributions by owners and distributions to owners							
Equity increase	7,832	17,088					24,920
Creation of statutory reserves			293	-293			0
Total contributions by owners and distributions to owners	**7,832**	**17,088**	**293**	**-293**	**0**	**0**	**24,920**
Total transactions with owners	**7,832**	**17,088**	**293**	**-293**	**0**	**0**	**24,920**
Closing balance at 31 Dec 2010	**66,378**	**157,712**	**21,990**	**82,962**	**-3,170**	**6,317**	**332,189**

in TEUR	Share capital	Share premium	Legal and statutory reserves	Retained earnings	Own shares	Fair value reserve	Total
Opening balance at 1 Jan 2009	**58,546**	**140,624**	**21,697**	**94,059**	**-3,170**	**810**	**312,566**
Total comprehensive income for the period							
Net profit or loss for the period				-6,084			-6,084
Total other comprehensive income						-2,286	-2,286
Total comprehensive income for the period	**0**	**0**	**0**	**-6,084**	**0**	**-2,286**	**-8,370**
Transactions with owners (when acting as owners) recognised directly in equity							
Contributions by owners and distributions to owners							
Payment of dividends							
Total contributions by owners and distributions to owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Closing balance at 31 Dec 2009	**58,546**	**140,624**	**21,697**	**87,975**	**-3,170**	**-1,476**	**304,196**

13.2.2 Notes to the Financial Statements

1. Reporting entity

Gorenje, d.d. (the "Company") is the controlling company in the Gorenje Group with its registered office at Partizanska 12, 3503 Velenje, Slovenia.

The financial statements of the Company have been prepared for the financial year ended 31 December 2010. The Company is mainly engaged in the production and sale of household appliances.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in EU, and with the provisions of the Companies Act.

The financial statements were approved by the Management Board of the Company on 7 March 2011.

b) Basis of measurement

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

- derivative financial instruments,
- available-for-sale financial assets,
- land,
- investment property.

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

c) Functional and presentation currency

These financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes below:

Note 19 and 20	- acquisition and disposal of companies
Note 29 and accounting policy (k)	- measurement of liabilities for retirement benefits and jubilee premiums
Note 29	- provisions for litigations
Note 29 and accounting policy (m)	- provisions for warranties
Note 23	- valuation of investments
Accounting policy (i)	- impairment of financial assets, including receivables

e) Changes in accounting policies
The Company has not changed its accounting policies.

3. Significant accounting policies

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

a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to euro (functional currency of the Company) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain and loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to euro at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, or a non-financial liability designated as a hedge.

b) Financial instruments

(i) Non-derivative financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: liabilities and receivables, available-for-sale financial assets and cash and cash equivalents.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Company's current financial liabilities.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, these investments are measured at fair value and changes therein are accounted for. Impairment losses and foreign currency differences on available-for-sale equity instruments are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Available-for-sale financial assets include equity securities and debt securities.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company 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 statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

Dividends are recognised as a liability in the period in which a resolution on dividend payment is adopted by the Shareholders' Meeting.

(iv) Derivative financial instruments, including hedge accounting

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

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, 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 during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.
Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedge

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

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

Other non-trading derivatives

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

c) Subsidiaries

Investments in subsidiaries are valued at cost. Incremental costs directly attributable to the acquisition of a subsidiary are recognized as an increase in the cost of equity investment. Share of profit is recognized as income when a resolution on dividend payment is adopted by the Shareholders' Meeting.

d) Property, plant and equipment (PPE)

(i) Recognition and measurement

Items of property (expect land), plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income in profit or loss. When revalued assets are sold, any related amount included in the fair value reserve is transferred to retained earnings.

(ii) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment and measured at cost until construction or development is completed, at which time it is reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

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

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment; this method most accurately reflects the expected pattern of the use of the asset. Leased assets are depreciated over the lease term and their useful lives. Land is not depreciated.

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

Buildings	34–50 years
Plant and equipment	5–20 years
Computer equipment	2–5 years
Transportation means	5–14 years
Office equipment	5–10 years
Tools	5–7 years

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

e) Intangible assets

(i) Research and development

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

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

(ii) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

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

(iv) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

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

Patents and trademarks	10 years
Capitalised development costs	10 years

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

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 cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Property rented to a subsidiary and associated with the conduct of the Company's business activities, is accounted for as an item of property, plant and equipment. Investment property also includes property, of which more than 50% of the available surface area is leased out.

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

g) Leased assets

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

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

Other leases are operating leases and are not recognised in the Company’s statement of financial position.

h) Inventories

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

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

i) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is an objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on term that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Company considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When a subsequent event. causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In line with the Accounting Manual, the Company considers evidence of impairment for receivables based on the observance of criteria pertaining to the maturity and collateralisation of receivables. Thereafter, it is corrected by an individual estimate.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.
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(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j) Non-current assets held for sale or distribution

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

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

k) Employee benefits

(i) Short-term employee benefits

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

l) Provisions

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

(i) Warranties

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

Provisions for warranties are decreased directly by expenditure for which they were set up. Such expenditure is no longer recognised in the income statement for the period. At the end of the period for which provisions were set up, the total amount of unused provisions is transferred to other operating income.

(ii) Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements, the collective agreement, and the internal regulations, the Company is engaged to pay to its employees jubilee premiums and retirement benefits. For these obligations, long-term provisions are created. Other retirement obligations do not exist.

Provisions are created by discounting, at the reporting date, the estimated future payments of retirement benefits and jubilee premiums. The obligation is calculated separately for each employee by estimating the costs of retirement benefits and the costs of all expected jubilee premiums until retirement. The selected annual discount rate is 4.90%, which is the rate of return on long-term entrepreneurial bonds in euro area. The calculation has been made by a certified actuary using the projected unit method.

(iii) Restructuring

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

(iv) Site restoration

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

(v) Onerous contracts

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

m) Revenue

(i) Revenue from the sale of products

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

The transfer of risks and rewards varies depending on the individual terms of the contract of sale. For sales of goods, usually transfer occurs when the product is received at the customer’s warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the seller. Generally for such products the customer has no right of return.

(ii) Revenue from services rendered

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

(iii) Commissions

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

(iv) Rental income

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

n) Government grants

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

o) Finance income and finance expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in profit or loss.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

p) Income tax

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

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

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

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

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

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

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

r) Earnings per share

The Company presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

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) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements of the Company. None of these standards is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Company's 2013 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

Amendment to IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)
The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.
The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

Revised IAS 24 is not relevant to the Company's financial statements as the Company is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)
The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Company's financial statements as the Company does not have any defined benefit plans with minimum funding requirements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)
The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial

measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Company did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Company's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)
The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Company's financial statements as the Company has not issued such instruments at any time in the past.

4. Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The items of property, plant and equipment are measured at cost.

A revaluation of land is based on the independent valuer's report and is carried out every five to eight years. The Company examines, on an annual basis, if revaluation of land is required.

(ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Company's investment property portfolio every five years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Company and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iv) Investments in equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(v) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables are not discounted due to short-term nature. However, impairment of fair value is taken into consideration.

(vi) Derivatives

The fair value of derivatives is estimated as the present value of estimated future cash flows, taking into account the market value of equivalent derivatives at the reporting date and using market interest rates for similar derivatives at the reporting date.

The fair value of financial instruments is determined on the basis of data provided by Reuters. The decisive values are those of the opposite forward exchange transactions with equal maturities effective at the reporting date. The fair value of forward exchange transactions at the reporting date is the difference between the value of actually concluded forward exchange transactions and the value of opposite forward exchange transactions at the reporting date, taking into consideration equal maturities of the individual forward exchange transactions.

Decisive are the values of interest transactions with equal maturities effective at the reporting date.

The fair value of interest rate swaps at the reporting date is the discounted difference between the cash flow for interest under the interest rate swap contracts and the cash flow for interest under equivalent interest rate swap contracts at the reporting date.

(vii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Loans and borrowings are valued using the effective interest rates, which differ insignificantly from the contractually defined interest rates. Therefore, the contractual interest rate is applied in the calculation.

5. Financial risk management

In respect of financial risk management, the internal financial policies comprising the bases for efficient and systematic risk management were observed in 2010. The objectives of risk management are:

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

In the Company, the following key financial risks have been defined:

Financial risks	• Credit risk
	• Currency risk
	• Interest rate risk
	• Liquidity risk

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

In the light of the strained macroeconomic situation, more attention was paid in 2010 to the credit risk which includes all risks where the failure of a party (a buyer) to discharge contractual obligations results in a decrease in economic benefits of the Company. The credit risk was managed by application of the following sets of measures:

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

Due to the macroeconomic situation, the Company's management estimates that the exposure to credit risk has significantly increased. It is, however, adequately reduced by the applied hedge measures.

In 2010, currency risk was transferred by the holding company to its subsidiaries. Consequently, the Company is no longer exposed to currency risk, which is the risk that the economic benefits of the Company may be decreased due to changes in foreign exchange rates. When assessing currency risk, the statement of financial position exposure was taken into consideration. In 2010, the currency risk mainly originated from the performance of business activities in the US dollar markets, while the exposure to other currencies was lower than in the previous years. When managing currency risk, particularly in the US dollar markets, a greater attention was paid to natural hedging of currency risk and harmonisation of business operations to ensure long-term decrease in currency fluctuation exposure by matching or netting sales and purchases.

Additional short-term hedging is carried out by currency future contracts and short-term borrowings in currencies, to which the Company is exposed.

In the light of the expected changes in variable interest rates in the markets, bases and starting points were prepared in 2010 for an increase in the share of loans with fixed interest rates, both in the form of loans with fixed interest rates and the derivative financial instruments, in order to increase hedging against interest rate risk in 2011. The Company’s management estimates that the exposure to interest rate risk has increased.

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

Credit lines in the amount of TEUR 95,699 mature in 2011. The refinancing was to a great extent secured in 2010, partly by a credit line granted by the International Finance Corporation (IFC) and partly by borrowing limits agreed with commercial banks, thus reducing the refinancing risk. The liquidity reserve as at 31 December 2010 in the amount of TEUR 92,308, consisting of unused revolving credit lines, short-term deposits with banks, and cash in banks, is used to secure adequate short-term control of cash flows and to decrease short-term liquidity risk.

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

Gorenje, d.d. and the Gorenje Group have compiled a plan of long-term debt servicing based on the strategic plan of the Gorenje Group for the period up to 2013, which accurately defines the volume of debt maturity by individual year as well as the sources for debt refinancing.

Long-term liquidity risk is estimated as moderate due to effective performance of the Company, effective cash management, sustainable ability to generate cash flows from operating activities, and an adequate capital structure.

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

Equity management

The Management Board to maintain a strong capital base in order to secure confidence of all stakeholders and to sustain future development of Gorenje. As one of the strategic ratios, the Company defined the return on equity as net profit for the period attributable to majority shareholders divided by average shareholders' equity, excluding minority interests. The Company seeks to maintain a balance between the higher returns, which are rendered possible by a higher level of borrowings, and the advantages and security ensured by a strong capital structure. The Company's objective in the 2010-2013 Strategic Plan is to achieve a 5.2 percent rate of return on invested capital.

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

The Company has no employee share-owning scheme and no share option programme. There were no changes in the approach to equity management in 2010. Neither the controlling company nor its subsidiaries were subject to capital requirements determined by the regulatory authorities.

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

6. Segment reporting

The Company has no reportable segment. Segment information is presented in the consolidated financial statements.

7. Statement of cash flows

The statement of cash flows has been compiled under the indirect method on the basis of the items in the statement of financial position at 31 December 2010, the statement of financial position at 31 December 2009 periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset. The income statement for the year ended 31 December 2010, and the additional information required for the adjustment of inflows and outflows.

Notes to the Income Statement

Note 8 – Revenue **648,386 TEUR**

in TEUR	**2010**	**2009**
Revenue from the sale of products – domestic market	23,203	28,638
Revenue from the sale of products – foreign market	421,040	380,310
Revenue from the sale of merchandise – domestic market	38,021	36,735
Revenue from the sale of merchandise – foreign market	110,427	91,066
Revenue from the sale of services – domestic market	9,525	12,144
Revenue from the sale of services – foreign market	6,143	6,248
Revenue from the sale of materials and work in progress – domestic market	14,493	9,105

Revenue from the sale of materials and work in progress – foreign market	25,534	22,397
Total	**648,386**	**586,643**

Revenue from the sale to subsidiaries in the Gorenje Group amounts to TEUR 425,609 (in 2009: TEUR 386,206), showing a 10.2 percent increase over 2009.

Note 9 – Other operating income **11,969 TEUR**

in TEUR	2010	2009
Income from subsidies and donations	2,661	5,488
Income from license fees	1,723	961
Rental income	1,571	1,859
Income from compensation in damages	4,689	4,260
Income from reversal of long-term provisions	979	850
Income from disposal of investment property	22	0
Gain on disposal of property, plant and equipment	289	41
Other operating income	35	114
Total	**11,969**	**13,573**

Income from license fees includes fees for the use of the Gorenje trademark rights and fees for the use of the software licence. Income from compensation in damages includes damages charged to suppliers.

Rental income

in TEUR	2010	2009
Rentals - up to 1 year (companies in the Gorenje Group)	1,440	1,731
Rentals - up to 1 year (other companies)	131	128
Expected rentals – from 2 to 5 years (companies in the Gorenje Group)	0	0
Expected rentals (other companies)	0	0
Total	**1,571**	**1,859**

Rental income relates mainly to real property which is partly used by the Company and partly leased out to subsidiaries.

Note 10 – Cost of goods, materials and services **513,289 TEUR**

in TEUR	2010	2009
Cost of goods sold	147,369	128,977
Cost of materials	287,518	257,153
Cost of services	78,402	72,687
Total	**513,289**	**458,817**

Cost of services includes cost of creation of provisions for warranties in the amount of TEUR 10,453 (in 2009: TEUR 11,503).

Cost of services includes cost of rentals in the amount of TEUR 2,111 (in 2009: TEUR 2,470).

Note 11 – Employee benefits expense **102,401 TEUR**

in TEUR	2010	2009
Wages and salaries	73,231	70,414
Social security costs	15,090	13,797
Provisions for retirement benefits and jubilee premiums	1,211	908

Provisions for restructuring	0	1,585
Other employee benefits expense	12,869	14,065
Total	**102,401**	**100,769**

Social security costs include costs of voluntary, additional, collective pension insurance in the amount of TEUR 3,012 (in 2009: TEUR 2,683).

Other employee benefits expense includes costs of annual leave bonus, meals allowance, commuting allowance, and other work-related payments to employees.

Note 12 – Amortisation and depreciation expense 26,856 TEUR

in TEUR	2010	2009
Amortisation expense of intangible assets	2,494	3,285
Depreciation expense of property, plant and equipment	24,362	29,516
Total	**26,856**	**32,801**

A lower depreciation and amortisation expense in 2010 is due to a full writeoff of obsolete plant and equipment, the sale of plant and equipment, and a lower volume of investments in intangible assets and property, plant and equipment.

Note 13 – Other operating expenses 5,691 TEUR

in TEUR	2010	2009
Impairment of assets	178	3
Writedown of inventories to net realisable value	1,322	1,133
Other taxes and charges	1,203	1,085
Environmental levies	823	665
Scholarships	131	115
Creation of provisions for litigations	85	1,072
Other operating expenses	1,949	502
Total	**5,691**	**4,575**

Other taxes and charges include charges for the use of building plot, water charge, environmental taxes, and other mandatory taxes and charges. Other operating expenses include mainly revaluation of investment property in amount of TEUR 1,528 and compensations for accidents at work in the amount of TEUR 209 (in 2009: TEUR 292).

Note 14 – Net finance income/expenses 9,922 TEUR

Finance income 17,114 TEUR

in TEUR	2010	2009
Dividend income and income from other profit shares	9,305	6,322
Interest income from transactions with Group companies	2,556	2,878
Interest income from transactions with other entities	1,439	1,204
Income from interest rate swap transactions	0	1,252
Change in fair value of interest rate swaps	199	0
Income from forward exchange transactions	175	4,273
Income from net exchange differences	332	1,747
Gain on disposal of subsidiaries	0	5,677
Gain on disposal of available-for-sale investments	72	3,169
Other finance income	3.036	313
Total	**17,114**	**26,835**

Other finance income includes mostly income from reversal of allowances for loans and operating receivables and income from commissions for loan guarantees issued to subsidiaries and third parties.

Finance expenses **27,036 TEUR**

in TEUR	2010	2009
Interest expenses from transactions with Group companies	1,448	1,132
Interest expenses from transactions with other entities	8,440	11,459
Expenses from interest rate swap transactions	1,696	1,096
Change in fair value of interest rate swaps	0	526
Expenses from forward exchange transactions	2,625	740
Change in fair value of interest rate swaps	4,197	3,507
Loss on disposal of available-for-sale investments	864	0
Impairment loss on investments	523	2,068
Impairment loss on trade receivables	1,961	2,917
Impairment loss on loans	4,332	2,000
Other finance expenses	949	315
Total	**27,036**	**25,760**

The fair value of trade receivables and loans was assured by impairment of trade receivables and loans in the amount of TEUR 6,293 (in 2009: 4,917). The impairment of loans in the amount of TEUR 4,322 relates mainly to the impairment of loan receivable and the related interest receivable from Merkur in the amount of TEUR 4,295. mpairment loss on investments in the amount of TEUR 523 (in 2009: TEUR 2,068) relates to available-for-sale financial assets that were revalued to market value.

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

in TEUR	2010	2009
Net change in fair value of available-for-sale financial assets	-101	-662
Net change in fair value of available-for-sale financial assets transferred to profit or loss	112	-2,746
Net change in effective portion of gains and losses on hedging instruments in a cash flow hedge	63	2,659
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge, transferred to profit or loss	0	-1,611
Finance expenses recognised in other comprehensive income	**74**	**-2,360**

Net effect from the statement of comprehensive income is shown in the above table; it does not, however, include a change in fair value of land.

Note 15 – Income tax expense **1,008 TEUR**

Income tax is positive due to a tax loss determined in the amount of TEUR 12,102 and determined deferred tax assets and tax liabilities.
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in TEUR	2010	2009
Current tax expense	0	0
Deferred tax assets (through income statement)	1,008	2,656
Deferred tax liabilities (through income statement)	0	0
Total	**1,008**	**2,656**

Presentation of the effective income tax rate calculated on the basis of the commercial statement of financial position:

in TEUR	2010	2010	2009	2009
Profit excluding income tax		**1,917**		**-8,740**
Income tax using the domestic tax rate	20.00%	383	21.00%	-1,835
Non-deductible expenses	86.12%	1,651	-20.91%	1,828
Tax exempt income	-132.00%	-2,530	23.18%	-2,026

Tax incentives	-26.71%	-512	7.12%	-623
Income tax expense	**-52.59%**	**-1,008**	**30.39%**	**-2,656**

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

in TEUR	2010		
	Pre-tax amount	**Tax**	**After-tax amount**
Change in fair value of available-for-sale financial assets	-126	25	-101
Change in fair value of available-for-sale financial assets transferred to profit or loss	145	-33	112
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	80	-17	63
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	0	0	0
Change in fair value of land	0	74	74
Total	**99**	**49**	**148**

in TEUR	**2009**		
	Pre-tax amount	**Tax**	**After-tax amount**
Change in fair value of available-for-sale financial assets	-843	181	-662
Change in fair value of available-for-sale financial assets transferred to profit or loss	-3,097	351	-2,746
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge	597	2,062	2,659
Change in effective portion of gains and losses on hedging instruments in a cash flow hedge transferred to profit or loss	-1,611	0	-1,611
Change in fair value of land	0	74	74
Total	**-4,954**	**2,668**	**-2,286**

Notes to the Statement of Financial Position

Note 16 – Intangible assets — 15,428 TEUR

in TEUR	**2010**	**2009**
Development costs	9,222	9,610
Industrial property rights	5,087	5,826
Intangible assets under construction	1,119	563
Total	**15,428**	**15,999**

Changes in intangible assets in 2010

in TEUR	Development costs	Industrial property rights	Intangible assets under construction	**Total**
Cost at 1 Jan 2010	**20,343**	**16,712**	**563**	**37,618**
Additions			1,923	**1,923**
Disposals, writedowns	-1,704	-3,402		**-5,106**

Transfers	669	698	-1,367	**0**
Cost at 31 Dec 2010	**19,308**	**14,008**	**1,119**	**34,435**
Accum. amortisation at 1 Jan 2010	**10,733**	**10,886**		**21,619**
Disposals, writedowns	-2,118	-2,988		**-5,106**
Amortisation expense	1,471	1,023		**2,494**
Accum. amortisation at 31 Dec 2010	**10,086**	**8,921**	**0**	**19,007**
Carrying amount at 1 Jan 2010	**9,610**	**5,826**	**563**	**15,999**
Carrying amount at 31 Dec 2010	**9,222**	**5,087**	**1,119**	**15,428**

Changes in intangible assets in 2009

in TEUR	Development costs	industrial property rights	Intangible assets under construction	**Total**
Cost at 1 Jan 2009	**19,907**	**15,811**	**58**	**35,776**
Additions			1,844	**1,844**
Disposals, writedowns		-2		**-2**
Transfers	436	903	-1,339	**0**
Cost at 31 Dec 2009	**20,343**	**16,712**	**563**	**37,618**
Accum. amortisation at 1 Jan 2009	**8,843**	**9,493**		**18,336**
Disposals, writedowns		-2		**-2**
Amortisation expense	1,890	1,395		**3,285**
Accum. amortisation at 31 Dec 2009	**10,733**	**10,886**	**0**	**21,619**
Carrying amount at 1 Jan 2009	**11,064**	**6,318**	**58**	**17,440**
Carrying amount at 31 Dec 2009	**9,610**	**5,826**	**563**	**15,999**

Writedowns in the amount of TEUR 5,106 relate to the retirement of fully amortised intangible assets. An increase in long-term development costs is largely due to the development of packaging in the amount of TEUR 288 and the development of a new technology in the amount of TEUR 381. Long-term industrial property rights include an upgrade of the information systems (TEUR 529) and the software (TEUR 131).

Intangible assets under construction include mainly the development of combined refrigerators, width 750, for the US market.

Note 17 – Property, plant and equipment (PPE) **157,864 TEUR**

in TEUR	**2010**	**2009**
Land	20,365	20,118
Buildings	57,843	59,382
Production and other equipment	77,844	90,737
Property, plant and equipment under construction	1,812	2,030
Total	**157,864**	**172,267**

Changes in property, plant and equipment in 2010

in TEUR	Land	Buildings	Production and other equipment	PPE under construction	**Total**
Cost at 1 Jan 2010	**20,118**	**150,295**	**418,873**	**2,030**	**591,316**

Additions				10,986	**10,986**
Disposals, writedowns	-8	-121	-11,853		**-11,982**
Transfers	255	2,081	8,868	-11,204	**0**
Cost at 31 Dec 2010	**20,365**	**152,255**	**415,888**	**1,812**	**590,320**
Accum. depreciation at 1 Jan 2010		**90,913**	**328,136**		**419,049**
Disposals, writedowns		-6	-10,949		**-10,955**
Reposting to investment property					**0**
Depreciation expense		3,505	20,857		**24,362**
Accum. depreciation at 31 Dec 2010		**94,412**	**338,044**		**432,456**
Carrying amount at 1 Jan 2010	**20,118**	**59,382**	**90,737**	**2,030**	**172,267**
Carrying amount at 31 Dec 2010	**20,365**	**57,843**	**77,844**	**1,812**	**157,864**

Changes in property, plant and equipment in 2009

in TEUR	Land	Buildings	Production and other equipment	PPE under constructio n	**Total**
Cost at 1 Jan 2009	**20,118**	**145,717**	**414,586**	**8,302**	**588,723**
Additions				6,743	**6,743**
Revaluation					**0**
Disposals, writedowns		-3	-4,147		**-4,150**
Transfers		4,581	8,434	-13,015	**0**
Reposting to investment property					**0**
Cost at 31 Dec 2009	**20,118**	**150,295**	**418,873**	**2,030**	**591,316**
Accum. depreciation at 1 Jan 2009		**87,410**	**305,621**		**393,031**
Disposals, writedowns		-3	-3,495		**-3,498**
Reposting to investment property					**0**
Depreciation expense		3,506	26,010		**29,516**
Accum. depreciation at 31 Dec 2009		**90,913**	**328,136**		**419,049**
Carrying amount at 1 Jan 2009	**20,118**	**58,307**	**108,965**	**8,302**	**195,692**
Carrying amount at 31 Dec 2009	**20,118**	**59,382**	**90,737**	**2,030**	**172,267**

Buildings 57,843 TEUR

Additions to buildings in the amount of TEUR 2,081 include mainly the purchase of the office building from the subsidiary Gorenje Notranja oprema, d.o.o., Velenje, in which the service's storage area is located.

A decrease in value is due to depreciation.

No real property has been pledged as security for liabilities arising from borrowings. Borrowings secured by real property were repaid on 3 January 2008 in the amount of TEUR 164.

Production and other equipment 77,844 TEUR

Additions include capitalised technological equipment acquired and commissioned in 2010 and computer hardware acquired within the annual upgrade of software and technology equipment.

In 2010, the reconstruction and upgrade of production equipment was carried out in the amount of EUR 3.4 million and of test equipment in the amount of TEUR 775; investments in new tools amounted to EUR 2.6 million, in computer equipment to TEUR 457, and in computer-assisted production equipment to TEUR 329. The modernisation of transportation means amounted to TEUR 627.

A decrease in value is due to the sale of equipment, disposal of obsolete equipment, and depreciation.

Property, plant and equipment under construction **1,812 TEUR**

Property, plant and equipment under construction include mainly the equipment for production of the new generation of refrigerator-freezer appliances and for production of energy saving appliances.

In 2008, land was appraised on the basis of fair value determined by an independent certified appraiser of real property. The effect of revaluation to fair value amounted to TEUR 7,455. The conditions for impairment were not established.

In 2009, the appraisal of property, plant and equipment to determine their recoverable value was carried out. No conditions for impairment were established.

Note 18 – Investment property **1,695 TEUR**

in TEUR	2010	2009
Land	1,151	3,752
Buildings	544	710
Total	**1,695**	**4,462**

Investment property includes land and buildings intended for resale or to increase investment property.

Changes in investment property

in TEUR	2010	2009
Balance at 1 Jan 2010	4,462	4,462
Impairment loss	-1,528	0
Disposals	-1,239	0
Balance at 31 Dec 2010	**1,695**	**4,462**

Investment property is measured using the fair value model. In 2010, the conditions for impairment in the amount of TEUR 1,242 were met. Disposals relate to the sale of land to the subsidiary Kemis, d.o.o., Ljubljana and to the sale of apartments.

Note 19 – Investments in subsidiaries **238,096 TEUR**

in TEUR	Equity share	Investment at 31 Dec 2010	Investment at 31 Dec 2009
Gorenje I.P.C., d.o.o., Velenje	100.00 %	377	377
Gorenje design studio, d.o.o., Velenje	52.00 %	260	260
ERICo, d.o.o., Velenje	51.00 %	256	256
Energygor, d.o.o., Velenje	100.00 %	58	58
Gorenje Notranja oprema, d.o.o., Velenje	99.89 %	18,215	18,215
Gorenje GTI, d.o.o., Velenje	100.00 %	8,795	8,795
Gorenje Gostinstvo, d.o.o., Velenje	100.00 %	5,958	5,958
Gorenje Orodjarna, d.o.o., Velenje	100.00 %	3,038	3,038
Indop, d.o.o., Šoštanj	100.00 %	1,000	1,000
GAIO d.o.o., Šoštanj	100.00 %	1,000	0
Kemis, d.o.o., Radomlje	100.00 %	2,553	1,353
Gorenje Surovina, d.o.o, Maribor	72.46 %	18,938	12,036
Gorenje Tiki d.o.o. – in liquidation, Ljubljana	99.98 %	0	7,001
ZEOS, d.o.o., Ljubljana	51.00 %	242	242
Istrabenz Gorenje inženiring, d.o.o., Ljubljana	48.69%	7,249	5,755
Gorenje Projekt d.o.o., Velenje	100.00 %	463	87

Publicus, d.o.o., Ljubljana	51.00 %	2,000	2,000
Gorenje Zagreb, d.o.o., Croatia	100.00 %	14,553	14,553
STBana Nekretnine, d.o.o., Serbia	100.00 %	50	50
Gorenje Tiki, d.o.o., Serbia	100.00 %	12,697	10,947
Gorenje Skopje, d.o.o., Macedonia	100.00 %	538	538
Mora Moravia s r.o., Czech Republic	67.95 %	8,750	8,750
Gorenje Nederland BV, The Netherlands	100.00 %	131,106	131,106
Total		**238,096**	**232,375**

Changes in investments in subsidiaries in 2010

in TEUR	**Investments in subsidiaries**
Balance at 1 Jan 2010	**232,375**
Increase	12,722
Transfer	-7,001
Decrease	0
Balance at 31 Dec 2010	**238,096**

Increase in investments in subsidiaries in the Gorenje Group includes:

- establishment of the subsidiary GAIO d.o.o., Šoštanj, in the amount of TEUR 1,000,
- capital increase in the subsidiary Kemis, d.o.o., Radomlje, in the amount of TEUR 1,200,
- capital increase in the subsidiary Gorenje Surovina, d.o.o., Maribor, in the amount of TEUR 6,902 (from 51.00% to 72.46 %),
- capital increase in the subsidiary Istrabenz Gorenje inženiring, d.o.o., Ljubljana, in the amount of TEUR 1,494,
- capital increase in the subsidiary Gorenje Projekt, d.o.o., Velenje, in the amount of TEUR 376,
- capital increase in the subsidiary Gorenje Tiki, d.o.o., Serbia, in the amount of TEUR 1,750.

Transfer relates to an investment in the subsidiary Gorenje Tiki d.o.o. – in liquidation, Ljubljana in the amount of TEUR 7,001. The subsidiary has been in liquidation since 1 August 2010. The investment was allocated to other current assets.

Note 20 – Other non-current investments **1,165 TEUR**

Other non-current investments include long-term loans in the amount of TEUR 489 (31 Dec 2009: TEUR 1,083) and other non-current investments in the amount of TEUR 676 (31 Dec 2009: TEUR 690).

In respect of non-current investments, the Company is not exposed to higher financial risks because most of these investments are made in subsidiaries. Long-term loans to other entities are to a great extent secured by bills.

Changes in other non-current investments

in TEUR	**2010**	**2009**
Opening balance at 1 January	690	5,950
Increase	28	1
Decrease	-42	0
Transfer to current investments	0	-5,261
Closing balance	**676**	**690**

Changes in long-term loans

in TEUR	**2010**	**2009**
Opening balance at 1 January	1,083	1,494
Increase	0	100
Decrease	-353	-400
Transfer to current investments	-241	-111
Closing balance	**489**	**1,083**

Long-term loans by maturity

in TEUR	2010	2009
Maturity from 1 to 2 years	367	486
Maturity from 2 to 3 years	0	432
Maturity from 3 to 4 years	0	0
Maturity from 4 to 5 years	0	0
Maturity over 5 years	122	165
Total	**489**	**1,083**

Long-term loans bear interest at the nominal interest rate ranging from 6.00 % to 6.50 %. Loans with a maturity over 5 years include housing loans under the Housing Act of 1991.

Long-term loans to specific groups of persons

No long-term loans were granted to the Management Board members, the Supervisory Board members, and internal owners.

Note 21 – Deferred tax assets and liabilities

	Tax assets		Tax liabilities		Tax assets – Tax liabilities	
in TEUR	2010	2009	2010	2009	2010	2009
PPE	91	87	1,491	1,565	-1,400	-1,478
Investments	1,777	1,450	-77	-85	1,854	1,535
Receivables	683	662			683	662
Provisions for retirement benefits and jubilee premiums	2,098	2,220			2,098	2,220
Provisions for warranties	1,360	1,482			1,360	1,482
Unused tax losses	3,767	1,403			3,767	1,403
Unused tax incentives	1,191	623			1,191	623
Cash flow hedge – interest rate swaps		2,062	-12		12	2,062
Total	**10,967**	**9,989**	**1,402**	**1,480**	**9,565**	**8,509**

	Tax assets – Tax liabilities		Through profit or loss		Through other comprehensive income	
in TEUR	2010	2009	2010	2009	2010	2009
PPE	-1,400	-1,478	3	22	75	74
Investments	1,854	1,535	327	392	-8	532
Receivables	683	662	21	289		
Inventories				-76		
Liabilities from litigations				-13		
Provisions for retirement benefits and jubilee premiums	2,098	2,220	-122	-123		
Provisions for warranties	1,360	1,482	-121	139		
Unused tax losses	3,767	1,403	553	1,403	**2,032**	
Unused tax incentives	1,191	623	347	623		
Cash flow hedge – interest rate swaps	12	2,062			-2,050	2,062
Total	**9,565**	**8,509**	**1,008**	**2,656**	**49**	**2,668**

Note 22 – Inventories 93,660 TEUR

in TEUR	2010	2009
Materials	52,389	42,242
Work in progress	9,085	9,109
Products	16,118	16,374
Merchandise	15,434	6,396
Advances	634	1,094
Total	**93,660**	**75,215**

The book value of inventories of products, of which corrections were made from production cost to net realisable value, amounts to TEUR 2,351 (in 2009:TEUR 2,736).

Note 23 – Current investments 76,472 TEUR

in TEUR	2010	2009
Available-for-sale financial assets	9,035	12,175
Short-term loans	64,128	70,532
Short-term interest receivable	1,023	309
Other short-term receivables from investments	2,286	4,668
Total	**76,472**	**87,684**

Other short-term receivables from investments include receivables transferred from non-current to current investments due to their maturity less payments received. They relate to non-operating assets disposed in 2008. A portion of other short-term receivables in the amount of TEUR 718 include receivables from the sale of available-for-sale shares that will be paid in January 2011.

Changes in available-for-sale shares and interests

in TEUR	2010	2009
Opening balance at 1 January	12,175	18,353
Acquisition	1,358	160
Disposal	-3,243	-3,538
Impairment loss	-1,255	-2,800
Closing balance at 31 December	**9,035**	**12,175**

A portion of available-for-sale shares and interests was sold. Loss on disposal of these shares and interests amounted to TEUR 792. Impairment loss in the amount of TEUR 1,129 was recorded under financial expenses and impairment loss in the amount of TEUR 126 was recorded in the statement of comprehensive income as net change in fair value.

Short-term loans

in TEUR	2010	2009
Short-term portion of long-term loans to companies in the Gorenje Group	0	100
Short-term loans to companies in the Gorenje Group	46,852	39,672
Short-term portion of long-term loans to other entities	388	420
Short-term loans to other entities	16,850	15,218
Short-term deposits with banks	38	15,122
Total	**64,128**	**70,532**

Short-term loans bear interest at a nominal interest rate ranging from 4.534 % to 7.5 %.

As for short-term loans, the Company is not exposed to higher financial risks because most of these loans are granted to its subsidiaries. Short-term loans to other entities are secured by bills.

Short-term loans to specific groups of persons

No short-term loans were granted to the Management Board members, the Supervisory Board members, and internal owners.

Note 24 – Trade receivables **183,967 TEUR**

in TEUR	2010	2009
Trade receivables – companies in the Gorenje Group	131,873	115,745
Trade receivables – other companies	52,094	49,436
Total	**183,967**	**165,181**

Short-term trade receivables due from Group companies

in TEUR	2010	2009
Trade receivables – domestic market	9,923	6,616
Trade receivables – foreign market	121,950	109,129
Total	**131,873**	**115,745**

Short-term trade receivables due from Group companies – domestic market

in TEUR

Company	2010	2009
Gorenje Tiki d.o.o.,Ljubljana	0	583
Energygor, d.o.o., Ljubljana	1	7
ZEOS, d.o.o., Ljubljana	27	6
PUBLICUS, d.o.o., Ljubljana	6	1
Kemis, d.o.o., Radomlje	253	6
GEN–I, d.o.o., Krško	1	1
Gorenje Surovina, d.o.o., Maribor	612	223
Gorenje Notranja oprema, d.o.o., Velenje	222	270
Gorenje I.P.C., d.o.o., Velenje	1,186	2,311
Gorenje GTI, d.o.o., Velenje	1,525	2,182
Gorenje Gostinstvo, d.o.o., Velenje	23	50
Gorenje Orodjarna, d.o.o., Velenje	134	193
ERICo, d.o.o., Velenje	7	1
Gorenje design studio, d.o.o., Velenje	10	35
Gorenje Projekt, d.o.o., Velenje	67	0
Indop, d.o.o., Šoštanj	5,849	747
Total	**9,923**	**6,616**

Short-term trade receivables due from Group companies – foreign market

in TEUR

Company	2010	2009
Gorenje Zagreb, d.o.o., Croatia	27,924	21,973
KEMIS-Termoclean, d.o.o., Croatia	2	2
Gorenje, d.o.o., Serbia	8,928	5,049
Gorenje aparati za domaćinstvo, d.o.o., Serbia	817	3,519
Gorenje Tiki, d.o.o., Serbia	1,268	40
Gorenje Studiot, d.o.o., Serbia	0	1

Gorenje Commerce, d.o.o., Bosnia and Herzegovina	1,021	1,288
Kemis- BH, d.o.o., Bosnia and Herzegovina	0	1
Kemis - SRS d.o.o., Bosnia and Herzegovina	1	0
Gorenje Skopje, d.o.o., Macedonia	1,777	1,446
Gorenje Podgorica, d.o.o., Montenegro	5,096	3,923
Gorenje Vertriebs GmbH, Germany	20,318	15,364
Gorenje Austria Handels GmbH, Austria	2,514	2,892
Gorenje Beteiligungs GmbH, Austria	1	8
Asko Appliances AB, Sweden	307	0
Gorenje AB, Sweden	2	0
Gorenje Skandinavien A/S, Denmark	10,622	13,195
ATAG Nederland BV, The Netherlands	442	234
ATAG Europe BV, The Netherlands	1	0
Gorenje Nederland BV, The Netherlands	893	208
Gorenje UK Ltd., Great Britain	744	1,749
Gorenje Belux S.a.r.l., Belgium	1,370	863
Gorenje France S.A.S., France	5,569	7,393
Gorenje Koerting Italia S.r.l., Italy	4,034	3,562
Gorenje Espana, S.L., Spain	403	1,285
OOO Gorenje BT, Russia	6,389	4,358
Gorenje TOV, Ukraine	30	39
Gorenje Kazakhstan, TOO, Kazakhstan	4	0
Gorenje Slovakia s.r.o., Slovak Republic	2,018	3,113
Gorenje spol. s.r.o., Czech Republic	252	-36
Gorenje - real spol, s.r.o., Czech Republic	1	1
Gorenje - kuchyne spol, s.r.o., Czech Republic	2	1
Mora Moravia, a.s., Czech Republic	724	555
Gorenje Budapest Kft., Hungary	4,414	4,563
GEN-I Budapest, Kft., Hungary	0	1
Gorenje Polska Sp.z.o.o., Poland	7,145	8,272
Gorenje Bulgaria EOOD, Bulgaria	737	971
Gorenje Romania S.r.L., Rumania	1	1
Gorenje Istanbul Ltd., Turkey	5,105	2,328
Gorenje Gulf FZE, United Arab Emirates	1,082	744
Revaluation	-8	223
Total	**121,950**	**109,129**

Note 25 – Other current assets **22,656 TEUR**

in TEUR	**2010**	**2009**
Advances for services	1,687	1,909
Other current assets	18,649	7,835
Current tax receivable	0	347
Short-term deferred costs and expenses	2,320	698
Total	**22,656**	**10,789**

Advances for services include mainly advances for coal transportation in the amount of TEUR 1,141 (31 Dec 2009: TEUR 1,764).

Other current assets include input VAT receivable in the Republic of Slovenia in the amount of TEUR 8,006 (at 31 Dec 2009: TEUR 3,286), VAT receivable in foreign countries in the amount of TEUR 996 (at 31 Dec 2009: TEUR 1,326), and receivables not yet charged in the amount of TEUR 758 arising from uncompleted projects in the INDOP programme (at 31 Dec 2009: TEUR 1,391).

Other current assets include an investment in the subsidiary Gorenje Tiki, d.o.o., Ljubljana, which was transferred to other current assets in the amount of TEUR 7,001. The subsidiary has been in liquidation since 1 August 2010.

Short-term deferred costs include deferred costs relating to subsequent periods.

Note 26 – Cash and cash equivalents **49,678 TEUR**

in TEUR	2010	2009
Cash in hand and readily liquid securities	27	27
Cash in banks	49,651	59
Total	**49,678**	**86**

Note 27 – Equity **332,189 TEUR**

In accordance with the resolution of the 14th Shareholders' Meeting of Gorenje, d.d. of 28 May 2010 and the District Court Order of 5 July 2010 on a change in share capital, the share capital was increased by 1,876,876 ordinary, freely transferable, registered, no par value shares. At 31 December 2010, the share capital of Gorenje, d.d. amounted to EUR 66,378,217.32 (at 31 December 2009: EUR 58,546,152.56) and was divided into 15,906,876 ordinary, freely transferable, registered, no par value shares.

Capital surplus (share premium) in the amount of TEUR 157,712 includes paid-in capital in excess of par value of shares in the amount of TEUR 64,352 (including costs of capital increase in 2010 in the amount of TEUR 80), surplus in excess of book value of disposed own shares in the amount of TEUR 15,313 (1,070,000 own shares were disposed in 2008 in order to acquire the ATAG company), and general equity revaluation adjustment in the amount of TEUR 78,047 transferred upon the transition to IFRS.

Legal and statutory reserves in the amount of TEUR 21,990 include legal reserves in the amount of TEUR 12,895 (31 December 2009: TEUR 12,895), reserves for own shares in the amount of TEUR 3,170 (31 December 2009: TEUR 3,170), and statutory reserves in the amount of TEUR 5,925 (31 December 2009: TEUR 5,632).

Pursuant to the Companies Act, retained earnings in the amount of TEUR 82,962 consist of other revenue reserves in the amount of TEUR 80,717 (31 Dec 2009: TEUR 87,047) created on the basis of resolutions on the appropriation of profit for the period adopted by the Company's Management Board and Supervisory Board and resolutions on the appropriation of accumulated profit adopted by the Shareholders' Meeting, and determined accumulated profit in the amount of TEUR 2,245 (in 2009: TEUR 928). Retained earnings were decreased by the value of a derivative financial instrument held for trading in the amount of TEUR 7,645, which was defined in 2009 as a hedging derivative financial instrument in a cash flow hedge and recorded in the statement of comprehensive income. In 2010, however, it did not meet the criterion for classification as a hedging derivative financial instrument.

Fair value reserve amounting to TEUR 6,317 as at 31 December 2010 includes a surplus from revaluation of land which is valued using the revaluation model, a change in fair value of available-for-sale investments, and a change in value of cash flow hedge shown in a separate table.

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

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

in TEUR	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Reserve for fair value of investments in subsidiaries	Total
Balance at 1 Jan 2010	**5,888**	**-321**	**-7,756**	**713**	**-1,476**
Revaluation of land	0	0	0	0	0
Disposal of land	0	0	0	0	0
Change in fair value of cash flow hedge	0	0	9,758	0	9,758
Change in fair value of available-for-sale financial assets	0	-126	0	0	-126
Disposal of available-for-sale financial assets	0	145	0	0	145
Impairment of available-for-sale financial assets	0	0	0	0	0
Disposal of a subsidiary	0	0	0	0	0
Deferred taxes	74	-8	-2,050	0	-1,984
Balance at 31 Dec 2010	**5,962**	**-310**	**-48**	**713**	**6,317**

in TEUR	Reserve for fair value of land	Reserve for fair value of available-for-sale financial assets	Reserve for fair value of derivatives	Reserve for fair value of investments in subsidiaries	Total
Balance at 1 Jan 2009	**5,814**	**1,584**	**-8,804**	**2,216**	**810**
Revaluation of land	0	0	0	0	0
Disposal of land	0	0	0	0	0
Change in fair value of cash flow hedge	0	0	-1,014	0	-1,014
Change in fair value of available-for-sale financial assets	0	-843	0	0	-843
Disposal of available-for-sale financial assets	0	-1,594	0	0	-1,594
Impairment of available-for-sale financial assets	0	0	0	0	0
Disposal of a subsidiary	0	0	0	-1,503	-1,503
Deferred taxes	74	532	2,062	0	2,668
Balance at 31 Dec 2009	**5,888**	**-321**	**-7,756**	**713**	**-1,476**

Own shares

Number of shares	**1 Jan 2010**	**Purchase**	**Sale**	**31 Dec 2010**
Repurchased own shares	121,311	0	0	121,311

Earnings per share amounted to EUR 0.20 (in 2009: EUR -0.44).
To determine earnings per share, the following data on the net profit or loss for the period and the average number of shares were used:

in TEUR	**2010**	**2009**
Net profit or loss for the period	2,925	-6,084
Weighted average number of shares	14,847,127	13,908,689
Earnings per share (in EUR)	**0.20**	**-0.44**

No preference shares have been issued, therefore basic and diluted earnings per share are equal.
Dividends: No dividends were paid in 2010 (in 2008: EUR 0.45 gross per share).

Note 28 – Determination of accumulated profit and proposal for its appropriation in line with the Companies Act

In accordance with the Companies Act and the Articles of Association of Gorenje, d.d., the Management Board has decided that part of the net profit for the 2010 financial year in the amount of EUR 2,924,939,50 shall be appropriated for the creation of statutory reserves in the amount of EUR 292,493.95 and for the creation of other revenue reserves in the amount of EUR 1,316,222.78 which has been approved by the Supervisory Board.

Determination of accumulated profit for 2010 is shown below:

in EUR

Net profit or loss for the period	2,924,939.50
- creation of statutory reserves	-292,493.95
- creation of other revenue reserves under the resolution of MB	-1,316,222.78
+ retained earnings	928,597.92
= accumulated profit	**2,244,820.69**

The Management Board and the Supervisory Board have proposed to the General Meeting of Shareholders that the accumulated profit for the 2010 financial year in the amount of EUR 2,244,820.69 shall remain unappropriated.

Note 29 – Provisions 27,397 TEUR

in TEUR	2010	2009
Provisions for warranties	13,603	12,707
Provisions for retirement benefits and jubilee premiums	11,894	11,458
Other provisions	1,900	1,948
Total	**27,397**	**26,113**

Changes in provisions in 2010

in TEUR	Balance 1 Jan 2010	Use	Reversal	Creation	Balance 31 Dec 2010
Provisions for warranties	12,707	-8,688	-869	10,453	13,603
Provisions for retirement benefits and jubilee premiums	11,458	-775	0	1,211	11,894
Other provisions	1,948	-112	-110	174	1,900
Total	**26,113**	**-9,575**	**-979**	**11,838**	**27,397**

Changes in provisions in 2009

in TEUR	Balance 1 Jan 2009	Use	Reversal	Creation	Balance 31 Dec 2009
Provisions for warranties	11,773	-9,989	-580	11,503	12,707
Provisions for retirement benefits and jubilee premiums	11,143	-593	0	908	11,458
Other provisions	1,271	-125	-270	1,072	1,948
Total	**24,187**	**-10,707**	**-850**	**13,483**	**26,113**

Long-term provisions for warranties were created on the basis of estimated costs of warranties calculated by taking into account the past known data on the quality level of products and the costs of repairs under warranties. The actuarial calculation of estimated future payments of retirement benefits and jubilee premiums was made as at 31 December 2010. In 2010, provisions were created in the amount of TEUR 1,211 (in 2009: TEUR 908) and charged against profit or loss for the period. Creation of provisions was due to a lower discount rate applied in the calculation of provisions (in 2010: 4.9%, in 2009: 5.4%) and a yearly increase in provisions for the existing employees. Other provisions include provisions for claims filed with the court.

Note 30 – Non-current financial liabilities **176,940 TEUR**

in TEUR	**2010**	**2009**
Non-current financial liabilities to banks	190,062	203,104
Non-current financial liabilities to other entities	53,333	12
Short-term portion of non-current financial liabilities	-66,550	-59,026
Long-term finance lease	95	100
Total	**176,940**	**144,190**

Non-current financial liabilities are denominated in euro. At the year end 2010, borrowings bore interest at the variable interest rate ranging from 1.649 % to 5.48 %.

Non-current financial liabilities to other entities include liabilities from borrowings from International Finance Corporation (IFC).

Non-current financial liabilities by maturity

in TEUR	**2010**	**2009**
Maturity from 1 to 2 years	70,482	65,015
Maturity from 2 to 3 years	47,087	41,136
Maturity from 3 to 4 years	33,998	20,849
Maturity from 4 to 5 years	14,779	17,178
Maturity over 5 years	10,594	12
Total	**176,940**	**144,190**

Collateralisation of non-current financial liabilities

in TEUR	**2010**	**2009**
Bills	123,512	144,178
Pari-Passu Clause, Negative Pledge Clause	175,946	141,911
Financial covenants (ratios)	155,646	137,711
Guarantee Scheme of the Republic of Slovenia	32.216	24,500

The major portion of borrowings is collateralised by blank bills, financial covenants, and the Pari-Passu and Negative Pledge clauses, as stipulated in individual contracts. Some borrowings are simultaneously secured by several types of collaterals. The provision of collateral through the Guarantee Scheme of the Republic of Slovenia includes the nominal value of borrowing secured by a guarantee through the Guarantee Scheme of the Republic of Slovenia. The average amount of a guarantee is 30 percent.

Note 31 – Current financial liabilities **137,176 TEUR**

in TEUR	**2010**	**2009**
Short-term borrowings from banks	29,150	42,100
Short-term borrowings from related companies	25,799	21,872
Current interest payable	664	352
Current dividends payable	175	175
Current portion of non-current financial liabilities	66,550	59,026
Other current financial liabilities	14,838	13,267
Total	**137,176**	**136,792**

Other current financial liabilities include liabilities from hedges by derivative financial instruments in the amount of TEUR 14,185 and liabilities arising from capital increase of Gorenje Tiki, d.o.o., Serbia, not yet paid up.

Collateralisation of current financial liabilities

in TEUR	2010	2009
Bills	95,700	101,126
Pari-Passu Clause, Negative Pledge Clause	86,633	95,558
Financial covenants (ratios)	58,583	65,627
Guarantee Scheme of the Republic of Slovenia	8,040	0

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

The loan contracts concluded by the Company with its bank partners include financial covenants that are expected to have been fully met on the basis of the audited consolidated financial statements for the respective financial year. A portion of financial covenants relating to borrowings from International Finance Corporation (IFC) are reviewed on a three-month basis.

Current borrowings

Currency	Amount in currency	Amount in TEUR	Interest rate	
			from	to
EUR	121,499	121,499	1.66%	5.50%
Total		**121,499**		

Note 32 – Trade payables — 154,803 TEUR

in TEUR	2010	2009
Trade payables to suppliers in the Gorenje Group	25,903	23,711
Trade payables to other suppliers	128,900	120,207
Total	**154,803**	**143,918**

Trade payables to suppliers in the Gorenje Group

in TEUR	2010	2009
Trade payables to suppliers in the Gorenje Group – domestic market	8,956	7,752
Trade payables to suppliers in the Gorenje Group – foreign market	16,947	15,959
Total	**25,903**	**23,711**

Trade payables to suppliers in the Gorenje Group - domestic market

in TEUR

Company	2010	2009
Gorenje Tiki, d.o.o., Ljubljana	0	14
Kemis, d.o.o., Radomlje	34	27
GEN-I, d.o.o., Krško	1,024	554
Gorenje Surovina, d.o.o., Maribor	102	3
Gorenje Notranja oprema, d.o.o, Velenje	358	32
Gorenje I.P.C., d.o.o., Velenje	4,370	3,532
Gorenje GTI, d.o.o., Velenje	193	1,481
Gorenje Gostinstvo, d.o.o., Velenje	180	282
Gorenje Orodjarna, d.o.o., Velenje	1,943	1,517
ERICo, d.o.o., Velenje	6	4
Gorenje design studio, d.o.o., Velenje	269	305
Gorenje Projekt, d.o.o., Velenje	47	0

Indop, d.o.o, Šoštanj	430	1
Total	**8,956**	**7,752**

Trade payables to suppliers in the Gorenje Group – foreign market

in TEUR

Company	2010	2009
Gorenje Zagreb, d.o.o., Croatia	-25	-20
Gorenje, d.o.o., Serbia	13	10
Gorenje aparati za domaćinstvo, d.o.o., Serbia	4,788	4,295
Gorenje Tiki, d.o.o., Serbia	0	58
Gorenje Commerce, d.o.o., Bosnia and Herzegovina	0	1
Gorenje Vertriebs GmbH, Germany	222	35
Gorenje Austria Handels GmbH, Austria	35	35
Gorenje Beteiligungs GmbH, Austria	278	195
Asko Appliances AB, Sweden	1	0
Gorenje Skandinavien A/S, Denmark	3	86
ATAG Nederland BV, The Netherlands	15	11
Gorenje Nederland BV, The Netherlands	13	0
Gorenje UK Ltd., Great Britain	44	23
Gorenje Belux S.a.r.l., Belgium	5	10
Gorenje France S.A.S., France	129	26
Gorenje Koerting Italia S.r.l., Italy	135	163
Gorenje Espana, S.L., Spain	-20	24
Gorenje Slovakia s.r.o., Slovak Republic	59	61
Gorenje spol. s r.o., Czech Republic	0	4
Mora Moravia s r.o., Czech Republic	11,040	10,556
Gorenje Budapest Kft., Hungary	117	0
Gorenje Polska Sp.z.o.o., Poland	5	138
Gorenje Romania S.r.l., Rumania	45	136
Gorenje Gulf FZE, United Arab Emirates	44	63
Gorenje Istanbul Ltd., Turkey	0	48
Revaluation	1	1
Total	**16,947**	**15,959**

Trade payables to other suppliers

in TEUR	2010	2009
Trade payables to other suppliers – domestic market	52,508	45,016
Trade payables to other suppliers – foreign market	76,392	75,191
Total	**128,900**	**120,207**

Note 33 – Other current liabilities **21,741 TEUR**

in TEUR	2010	2009
Payables to employees	9,227	8,870
Payables to state and other institutions	1,082	1,022
Payables for advances received	5,802	2,373
Other payables	171	101
Short-term accrued costs and expenses	5,459	6,765
Total	**21,741**	**19,131**

As at 31 December, payables to employees include:

in TEUR	2010	2009
Wages and salaries, continued pay	5,880	5,630
Payroll contributions	1,389	1,353
Payroll taxes	748	688
Other work-related earnings	155	141
Deductions from wages and salaries	1,009	1,011
Other payables	46	47
Total	**9,227**	**8,870**

Payables for advances received refer mainly to advance payments for tools financed by the buyer of household appliances.

Short-term accrued costs and expenses were created for accrued costs of services in the amount of TEUR 3,425 (in 2009: TEUR 2,961), accrued interest expenses on borrowings in the amount of TEUR 624 (in 2009: TEUR 624), and accrued employee benefits in the amount of TEUR 1,072 relating to unused annual leave in 2010.

Note 34 – Contingent liabilities

Contingent liabilities from loan guarantees given to financial institutions for financial burdens of its subsidiaries in the amount of TEUR 184,208 (in 2009: TEUR 147,510), to third parties in the amount of TEUR 1,100 (in 2009: TEUR 1,451), and to the subsidiary Gorenje Beteiligungs in the amount of TEUR 14,000 (in 2009: TEUR 15,000) are recorded in a separate account. In addition, contingent liabilities from performance bonds and payment guarantees in the amount of TEUR 7,053 (in 2009: TEUR 8,757) are also recorded in a separate account.

In line with the common business practices prevailing at the corporate seat of the company, the ATAG company is not liable to publish the annual results of operations on the basis of a special statement of the shareholder, by which the shareholder shall assume liability for any unpaid and outstanding obligations of the company. The respective statement remains in effect until countermanded by the shareholder.

Note 35 – Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure.

The maximum credit risk exposure at the reporting date:

in TEUR	2010	2009
Available-for-sale financial assets	9,035	12,175
Loans	64,617	71,615
Trade and other receivables	204,303	174,925
Cash and cash equivalents	49,678	86
Interest rate swaps used for hedging: assets	0	0
Forward exchange contracts used for hedging: assets	0	0
Other financial receivables	4,985	5,667
Total	**332,618**	**264,468**

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

in TEUR	2010	2009
EU countries	65,483	61,335
South-East European countries	89,842	81,906
Other countries	28,642	21,940
Total	**183,967**	**165,181**

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

in TEUR	2010	2009
Wholesale customers	183,705	164,971
Other customers	262	210
Total	**183,967**	**165,181**

	Gross amount	Allowance	Gross amount	Allowance
in TEUR	2010	2010	2009	2009
Not past due	141,535		132,785	
Past due 1 to 45 days	10,847		13,240	
Past due 46 to 90 days	10,924		7,007	
Past due 91 to 180 days	10,036		7,362	
Past due over 180 days	16,644	-6,019	10,283	-5,496
Total	**189,986**	**-6,019**	**170,677**	**-5,496**

Changes in allowances for trade receivables due to impairment:

in TEUR	2010	2009
Balance at 1 January	5,496	3,940
Impairment loss	1,961	2,917
Payments	-570	-51
Writedown of receivables	-868	-1,310
Balance at 31 December	6,019	5,496

Liquidity risk

Financial liabilities by maturity:

31 December 2010

in TEUR	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 year
Non-derivative financial liabilities						
Bank borrowings	272,545	296,164	105,281	76,999	102,823	11,061
Other financial liabilities	27,387	27,386	27,386			
Trade payables	154,803	154,803	154,803			
Other payables	16,282	16,282	16,282			
Total	**471,017**	**494,636**	**303,753**	**76,999**	**102,823**	**11,061**
Derivative receivables and financial liabilities						
Interest rate swaps	-58	-68	-51	-17		
Forward exchange contracts used for hedging	-20	-20	-20			
Outflow	-20	-20	-20			
Inflow						
Other forward exchange contracts	-14,106	-14,106	-14,106			
Outflow	-14,106	-14,106	-14,106			
Inflow						
Total	**-14,184**	**-14,194**	**-14,177**	**-17**		

31 December 2009

in TEUR	Carrying amount	Contractual cash flows	1 year or less	1 – 2 years	2 – 5 years	More than 5 year
Non-derivative financial liabilities						
Bank borrowings	245,204	255,542	105,129	67,915	82,498	
Other financial liabilities	25,511	25,511	25,511			
Trade payables	143,918	143,918	143,918			
Other payables	12,366	12,366	12,366			
Total	**426,999**	**437,337**	**286,924**	**67,915**	**82,498**	
Derivative financial receivables and liabilities						
Interest rate swaps	-10,017	-10,017	-6,177	-3,840		
Forward exchange contracts used for hedging	-250	-250	-250			
Outflow	-250	-250	-250			
Inflow						
Other forward exchange contracts						
Outflow						
Inflow						
Total	**-10,267**	**-10,267**	**-6,427**	**-3,840**		

Currency risk

Exposure to currency risk:

31 December 2010

in TEUR	EUR	HRK	DKK	PLN	USD	HUF	Other currencies
Trade receivables	177,817	2,501			3,585	2	62
Financial liabilities	-299,931						
Trade payables	-152,786				-1,450	-117	-450
Financial position exposure	**-274,900**	**2,501**			**2,135**	**-115**	**-388**
Forward exchange contracts					5,810		-14,106
Net exposure	**-274,900**	**2,501**			**7,945**	**-115**	**-14,494**

31 December 2009

in TEUR	EUR	HRK	DKK	PLN	USD	HUF	Other currencies
Trade receivables	113,024	21,916	13,430	8,350	2,622	3,820	2,019
Financial liabilities	-267,075						
Trade payables	-142,119			-1	-1,312		-485
Financial position exposure	**-296,170**	**21,916**	**13,430**	**8,349**	**1,310**	**3,820**	**1,534**
Forward exchange contracts					6,378	-2,202	
Net exposure	**-296,170**	**21,916**	**13,430**	**8,349**	**7,688**	**1,618**	**1,534**

The following significant exchange rates were applied during the year:

	Average rate		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
HRK	7289	7.341	7.383	7.300

DKK	7.447	7.446	7.454	7.441
PLN	3.995	4.329	3.975	4.104
USD	1.327	1.393	1.336	1.440
HUF	275.354	280.543	277.950	270.420

Sensitivity analysis

A 5 percent increase in the euro's value against the above stated currencies as at 31 December would have resulted in an increase (decrease) in net profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain unchanged. The analysis has been performed on the same basis as for 2009.

31 December 2010

in TEUR	**Net profit or loss**
HRK	-125
DKK	0
PLN	0
USD	-397
HUF	-6
Other currencies	-725

31 December 2009

in TEUR	**Net profit or loss**
HRK	-1,096
DKK	-672
PLN	-417
USD	-384
HUF	-81
Other currencies	-77

A 5 percent decrease in the euro's value against the above stated currencies as at 31 December would have had equal yet opposite effect, provided that all other variables remain unchanged.

Interest rate risk

Exposure to interest rate risk:

in TEUR	**2010**	**2009**
Fixed rate financial instruments		
Financial assets	17,243	33,126
Financial liabilities	0	22,872
Variable rate financial instruments		
Financial assets	47,374	38,489
Financial liabilities	-299,931	244,203

Fair value sensitivity analysis for fixed rate instruments

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

Fair value sensitivity analysis for variable rate instruments

A change in the interest rate by 50 basis points (bp) at the reporting date would have increased (decreased) net profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain unchanged. The analysis has been performed on the same basis as for 2009.

in TEUR	Net profit or loss		Other comprehensive income	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
31 December 2010				
Variable rate instruments	-2,748	2,748		
Interest rate swap contracts				
Cash flow variability (net)	**-2,748**	**2,748**	**0**	**0**
31 December 2009				
Variable rate instruments	-810	810	0	0
Interest rate swap contracts	51	-51	304	-304
Cash flow variability (net)	**-759**	**759**	**304**	**-304**

Note 36 – Fair value

The fair value and the carrying amount of assets and liabilities:

in TEUR	Carrying amount	Fair value	Carrying amount	Fair value
	2010	**2010**	**2009**	**2009**
Available-for-sale investments	9,035	9,035	12,175	12,175
Non-current loans	489	489	1,083	1,083
Current loans	64,128	64,128	70,532	70,532
Derivatives	-14,184	-14,184	-10,267	-10,267
Trade receivables	183,967	183,967	165,181	165,181
Other current assets	20,336	20,336	9,744	9,744
Cash and cash equivalents	49,678	49,678	86	86
Non-current financial liabilities	-176,940	-176,940	-144,190	-144,190
Current financial liabilities	-122,992	-122,992	-126,525	-126,525
Trade payables	-154,803	-154,803	-143,918	-143,918
Other payables	-16,282	-16,282	-12,366	-12,366
Total	**-157,568**	**-157,568**	**-178,465**	**-178,465**

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

Fair value scale

The table shows method of valuing financial assets recorded at fair value. The levels are as follows:
- Level 1: stock price (unadjusted) in the active market of identical assets and liabilities
- Level 2: data differing from stock price data (these are included in Level 1) monitored with the intention of direct or indirect valuation of assets and liabilities
- Level 3: data on the value of assets and liabilities not based on the active market

Year 2010

in TEUR	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,242	-	7,793	9,035
Derivatives – assets	-	-	-	-
Derivatives - liabilities	-	-14,184	-	14,184

Year 2009

in TEUR	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	3,220	-	8,955	12,175
Derivatives – assets	-	-	-	-
Derivatives - liabilities	-	-10,267	-	-10,267

Forward exchange contracts

The total fair value of forward exchange contracts amounted to TEUR -14,126 as at 31 December 2010 and was recorded under other financial liabilities.

Interest rate swaps

The total fair value of interest rate swaps as at 31 December 2010 amounted to TEUR -58 and was recorded under other financial liabilities.

Interest rate swap hedges, which relate to hedged items in the statement of financial position, are recorded in equity as a fair value reserve.

Note 37 – Commitments relating to investments

Contractually agreed investments in intangible assets and property, plant and equipment not yet recognised in the statement of financial position at the reporting date amounted to TEUR 7,651 in 2010 (in 2009: TEUR 808).

Note 38 – Related party transactions

The transactions with related parties were conducted on the basis of sale/purchase contracts. The prices used in these contracts were the market prices of products and services equivalent to those prevailing in the arm's length transactions. The transactions with related parties were disclosed under the respective items in the statement of financial position.

Information on earnings

In 2010, the following personal earnings were paid to the groups of persons stated below:

Gross earnings in 2010

in TEUR	Management Board	Supervisory Board	Employees under individual employment agreements
- salaries	952		5,047
- incentive bonuses			
- other income	100		303
- attendance fees		64	
- refund of work-related expenses		20	
Total	**1,052**	**84**	**5,350**

Net earnings in 2010

in TEUR	Management Board	Supervisory Board	Employees under individual employment agreements
- salaries	420		2,551
- incentive bonuses			

- other income	98		283
- attendance fees		49	
- refund of work-related expenses		16	
Total	**518**	**65**	**2,834**

Gross earnings in 2009

in TEUR	**Management Board**	**Supervisory Board**	**Employees under individual employment agreements**
- salaries	1,194		5,222
- incentive bonuses			
- other income	94		355
- attendance fees		56	
- refund of work-related expenses		3	
Total	**1,288**	**59**	**5,577**

Net earnings in 2009

in TEUR	**Management Board**	**Supervisory Board**	**Employees under individual employment agreements**
- salaries	542		2,666
- incentive bonuses			
- other income	92		331
- attendance fees		43	
- refund of work-related expenses		2	
Total	**634**	**45**	**2,997**

Pursuant to the Companies Act, the total payments, reimbursements, and other benefits to the Management Board members and the Supervisory Board members with the audit committee are given below:

Management Board members

Gross earnings in 2010

in EUR	Salaries	Incentive bonuses	Other income	**Total**
Franc Bobinac	169,554		20,739	190,293
Franc Košec	158,054		16,240	174,294
Branko Apat	157,268		11,201	168,469
Uroš Marolt	154,555		22,364	176,919
Mirjana Dimc Perko	155,555		16,203	171,758
Drago Bahun	156,983		12,989	169,972
Total	**951,969**	**0**	**99,736**	**1,051,705**

Net earnings in 2010

in EUR	Salaries	Incentive bonuses	Other income	**Total**
Franc Bobinac	73,384		20,387	93,771
Franc Košec	69,508		15,889	85,397
Branko Apat	72,892		10,851	83,743
Uroš Marolt	65,612		22,013	87,625

Mirjana Dimc Perko	68,380		15,852	84,232
Drago Bahun	69,835		12,638	82,473
Total	**419,611**	**0**	**97,630**	**517,241**

Gross earnings in 2009

in EUR	Salaries	Incentive bonuses	Other income	**Total**
Franc Bobinac	226,954		22,392	249,346
Franc Košec	193,761		17,318	211,079
Branko Apat	192,921		6,094	199,015
Uroš Marolt	176,223		23,035	199,258
Mirjana Dimc Perko	183,792		12,193	195,985
Philip Alexander Sluiter	31,741		0	31,741
Drago Bahun	188,631		13,230	201,861
Total	**1,194,023**	**0**	**94,262**	**1,288,285**

Net earnings in 2009

in EUR	Salaries	Incentive bonuses	Other income	**Total**
Franc Bobinac	98,759		22,046	120,805
Franc Košec	85,240		16,975	102,215
Branko Apat	91,923		5,752	97,675
Uroš Marolt	75,094		22,694	97,788
Mirjana Dimc Perko	83,426		11,852	95,278
Philip Alexander Sluiter	23,806		0	23,806
Drago Bahun	84,166		12,888	97,054
Total	**542,414**	**0**	**92,207**	**634,621**

Supervisory Board members and Audit Committee

Gross earnings in the period January - July 2010

in EUR	Meeting attendance fees	Incentive bonuses	Refund of work-related expenses	**Total**
Jože Zagožen	4,725		403	5,128
Milan Podpečan	2,577		149	2,726
Peter Ješovnik	5,943		538	6,481
Andrej Presečnik	2,649		155	2,804
Gregor Sluga	4,511		479	4,990
Ivan Atelšek	3,294		149	3,443
Jure Slemenik	3,652		0	3,652
Drago Krenker	4,797		0	4,797
Krešimir Martinjak	3,007		0	3,007
Peter Kobal	3,652		0	3,652
Mateja Vrankar	573		0	573
Bachtiar Djalil	1,432		0	1,432
Andraž Grahek	1,432		0	1,432
Bogomir Kovač	573		0	573
Philip Alexander Sluiter	573		0	573
Total	**43,390**	**0**	**1,873**	**45,263**

Net earnings in the period January - July 2010

in EUR	Meeting attendance fees	Incentive bonuses	Refund of work-related expenses	**Total**
Jože Zagožen	3,662		313	3,975
Milan Podpečan	1,998		115	2,113
Peter Ješovnik	4,606		417	5,023
Andrej Presečnik	2,053		120	2,173
Gregor Sluga	3,496		372	3,868
Ivan Atelšek	2,552		115	2,667
Jure Slemenik	2,830		0	2,830
Drago Krenker	3,718		0	3,718
Krešimir Martinjak	2,330		0	2,330
Peter Kobal	2,830		0	2,830
Mateja Vrankar	444		0	444
Bachtiar Djalil	1,110		0	1,110
Andraž Grahek	1,110		0	1,110
Bogomir Kovač	444		0	444
Philip Alexander Sluiter	444		0	444
Total	**33,627**	**0**	**1,452**	**35,079**

Gross earnings in the period August - December 2010

in EUR	Meeting attendance fees	Incentive bonuses	Refund of work-related expenses	**Total**
Uroš Slavinec	1,432		278	1,710
Maja Makovec Brenčič	2,076		512	2,588
Marcel Van Assen	1,432		7,897	9,329
Peter Kraljič	1,432		3,673	5,105
Keith Miles	2,578		5,411	7,989
Bernard C. Pasquier	1,718		78	1,796
Jure Slemenik	1,790		0	1,790
Drago Krenker	2,936		163	3,099
Krešimir Martinjak	1,790		0	1,790
Peter Kobal	1,790		0	1,790
Aleksander Igličar	1,146		283	1,429
Total	**20,120**	**0**	**18,295**	**38,415**

Net earnings in the period August – December 2010

in EUR	Meeting attendance fees	Incentive bonuses	Refund of work-related expenses	**Total**
Uroš Slavinec	1,110		215	1,325
Maja Makovec Brenčič	1,609		397	2,006
Marcel Van Assen	1,110		6,121	7,231
Peter Kraljič	1,110		2,846	3,956
Keith Miles	1,998		4,194	6,192
Bernard C. Pasquier	1,332		60	1,392
Jure Slemenik	1,387		0	1,387
Drago Krenker	2,275		126	2,401
Krešimir Martinjak	1,387		0	1,387
Peter Kobal	1,387		0	1,387
Aleksander Igličar	888		219	1,107
Total	**15,593**	**0**	**14,178**	**29,771**

Gross earnings in 2009

in EUR	Meeting attendance fees	Incentive bonuses	Refund of work-related expenses	**Total**
Jože Zagožen	5,700		230	5,930
Milan Podpečan	6,272		444	6,716
Peter Ješovnik	6,388		769	7,157
Andrej Presečnik	4,413		316	4,729
Gregor Sluga	6,388		869	7,257
Ivan Atelšek	4,825		195	5,020
Jure Slemenik	4,825		0	4,825
Drago Krenker	6,058		115	6,173
Krešimir Martinjak	4,825		0	4,825
Peter Kobal	4,825		0	4,825
Mateja Vrankar	1,563		269	1,832
Total	**56,082**	**0**	**3,207**	**59,289**

Net earnings in 2009

in EUR	Meeting attendance fees	Incentive bonuses	Refund of work-related expenses	**Total**
Jože Zagožen	4,417		179	4,596
Milan Podpečan	4,861		343	5,204
Peter Ješovnik	4,951		596	5,547
Andrej Presečnik	3,420		244	3,664
Gregor Sluga	4,951		596	5,547
Ivan Atelšek	3,739		151	3,890
Jure Slemenik	3,739		0	3,739
Drago Krenker	4,695		89	4,764
Krešimir Martinjak	3,739		0	3,739
Peter Kobal	3,739		0	3,739
Mateja Vrankar	1,211		209	1,420
Total	**43,462**	**0**	**2,407**	**45,869**

No non-current and current loans were extended by the Company to the Management Board members, Supervisory Board members, and internal owners.

Note 39 – Events after the date of the statement of financial position

There have been no significant events after the date of the statement of financial position as at 31 December 2010.

Note 40 – Transactions with the audit firm

Pursuant to Article 57 of the Companies Act, the auditing firm KPMG Slovenija carried out the audit and issued the auditor's report on 7 April 2011. In 2010, the Company recorded the cost of audit of the annual report in the amount of TEUR 58 (in 2009: TEUR 58) and the cost of translation in the amount of TEUR 13 (in 2009: TEUR 11).

13.2.3 Auditor's Report

KPMG

Independent Auditor's Report

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

We have audited the accompanying financial statements of Gorenje, d.d., which comprise the statement of financial position as at 31 December 2010, the income statement and the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gorenje, d.d. as at 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by EU.

Other matters

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

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

Danilo Bukovec, B.Sc.Ec.
Certified Auditor

Marjan Mahnič, B.Sc.Ec.
Certified Auditor
Partner

Ljubljana, 7 April 2011

KPMG Slovenija, d.o.o.
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