

## ***2. MANAGEMENT BOARD REPORT ON THE STATE OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2011***

### ***2. 1. INTRODUCTION***

The Končar Group achieved a positive financial result for the year ended 31 December 2011. Impressive results were achieved in exports, especially in the production and sales of power transformers area. The business environment of the domestic and neighbouring markets in 2011 was extremely unfavourable. A further decline was present in the areas of energy and transport business activities, as well as a continued downward trend in the areas of household appliances and switching apparatus and switchgear.

A series of measures was introduced in the Končar Group companies in order to reduce the negative impact of the global economic and financial crisis, ensure balanced business activities, as well as maintain and strengthen the market position. First of all, considerable efforts were made to find new markets and increase the offer, a higher level of synergy within the system was encouraged and operating cost cutting measures were established. All of the introduced measures resulted in a continuation of operating profitability and financial stability of the Group. Positive business results were achieved on the basis of own development of products and production, since research projects have always been a permanent feature of Končar and will remain as such in the next business period in view of innovation and development, which should result in new products and the growth of business activities.

The Končar Group achieved a positive financial result for the year ended 31 December 2011. The Group's consolidated profits before tax amounted to HRK 210.8 million, which is a 4.6 per cent increase as compared to the profits achieved in the year 2011. Income tax amounted to HRK 18.6 million. Thus, the profits after tax amounted to HRK 192.2 million, of which HRK 29.8 million refers to the minority stakes and HRK 162.4 million refers to the shareholders of the Parent Company, which is a 4.8 per cent increase as compared to the results achieved in 2010.

Following the favourable financial results, in 2011 the Končar Group invested significant resources and human resources in the improvement of the technical and technological performance of the entire Group. Therefore, HRK 235 million (50 per cent of which being the Group's own assets) was invested, mostly in the development and production of the first local wind power plant and independent construction of the High-voltage laboratory for testing of medium power transformers. These activities, which involved the majority of the subsidiaries, have influenced the increase of long-term tangible and intangible assets. Due to an increased investment of the company's own financial resources for the funding of the aforementioned facilities, a corresponding decrease of cash and cash equivalents has occurred. Assessment and the effects of funds invested along with the synergy

between related companies are to be expected in the next period in form of an increase in total consolidated revenue.

In 2011 revenues from sales of goods and services were generated in the amount of HRK 2,362.2 million. Revenues from sales of goods and services in the domestic market amounted to HRK 1,095.6 million. Revenues from sales of goods and services in the foreign market amounted to HRK 1,289.8 million or 55 per cent of total revenue. A vast array of facilities were constructed in Croatia, but also in the demanding market of the European Union, the neighbouring countries, while significant exports were achieved in African and Asian countries.

A total of HRK 2,480.9 million of new works were contracted in the year 2011. The state of the works contracted (active liabilities) at the end of the year 2011 totalled HRK 2,217.7 million and showed an increase of 6 per cent compared to the beginning of the year.

Owing to a reasonably large amount of works contracted, the additional efforts invested in finding new markets and the announcement of new investments in our country, it is to be expected that the Končar Group companies will achieve their set business plans for the year 2012 and continue doing business on a positive note.

The Končar Group systematically encourages and supports the value system which promotes work, creation and excellence as important values in our companies. Corporate social responsibility is part of the everyday work process on every level of business at Končar and it relies on human resources for company development. Along with environmental responsibility, Končar has set environmental management as one of its business priorities, which is obvious from customer satisfaction and a growing number of certificates indicating compliance with the most significant norms. Thus, as many as eighteen of the Končar Group companies have the ISO 14001 certificated, apart from the ISO 9001, the OHSAS 18001 and various other special licences.

Socially responsible business helps enhance Končar's image and motivate the employees to continuously work on the company's business development, with the long-term objective of achieving the set and determined goals of the Group.

## ***2.2. CORE BUSINESS INDICATORS FOR THE YEARS 2008 TO 2011***

IN HRK 000

	2008	2009	2010	2011	Index 4/1	Index 4/3
	1	2	3	4	5	6
<b>Total revenue</b>	3,194,798	2,980,479	2,826,292	2,762,963	86	98
<b>Sales revenue</b>						
Croatia	1,585,953	1,443,484	1,159,597	1,072,365	68	92
Export	1,288,618	1,231,654	1,305,220	1,289,837	100	99
<b>Total</b>	<b>2,874,571</b>	<b>2,675,138</b>	<b>2,464,817</b>	<b>2,362,202</b>	<b>82</b>	<b>96</b>
<b>Works contracted</b>						
Croatia	1,359,172	861,708	812,489	1,142,492	84	141
Export	1,157,581	1,199,820	1,287,723	1,338,428	116	104
<b>Total</b>	<b>2,516,753</b>	<b>2,061,528</b>	<b>2,100,212</b>	<b>2,480,920</b>	<b>99</b>	<b>118</b>
<b>Balance of works contracted at the end of the year</b>						
Domestic	1,903,316	1,218,166	900,027	970,154	51	108
Export	1,147,246	1,239,963	1,198,922	1,247,513	109	104
<b>Total</b>	<b>3,050,562</b>	<b>2,458,129</b>	<b>2,098,949</b>	<b>2,217,667</b>	<b>73</b>	<b>106</b>
<b>Number of employees</b>	<b>4,274</b>	<b>4,110</b>	<b>3,938</b>	<b>3,956</b>	<b>93</b>	<b>100</b>
<b>on 31/12</b>						
<b>Sales per employee</b>	<b>672.6</b>	<b>650.9</b>	<b>625.9</b>	<b>597.1</b>	<b>89</b>	<b>95</b>
Group's profit	129,570	145,113	186,036	192,238	148	103
Minority stakes	25,738	32,290	31,060	29,796	116	96
<b>Net profits</b>	<b>103,832</b>	<b>112,823</b>	<b>154,976</b>	<b>162,442</b>	<b>156</b>	<b>105</b>
Long term assets	1,111,601	1,173,484	1,186,101	1,343,732	121	113
Current assets	2,181,882	2,094,426	2,106,501	2,142,292	98	102
<b>Total assets</b>	<b>3,293,483</b>	<b>3,267,910</b>	<b>3,292,602</b>	<b>3,486,024</b>	<b>106</b>	<b>106</b>
Long term liabilities	68,040	75,419	81,299	120,208	177	148
Current liabilities	1,194,222	933,728	775,539	832,473	70	107
<b>Total liabilities</b>	<b>1,262,262</b>	<b>1,009,147</b>	<b>856,838</b>	<b>952,681</b>	<b>75</b>	<b>111</b>
Ownership equity	1,028,848	1,028,848	1,028,848	1,028,848	100	100
Issued capital and reserves	1,295,097	1,417,275	1,577,487	1,712,732	132	109
<b>EBIT</b>	<b>164,153</b>	<b>176,714</b>	<b>218,944</b>	<b>230,379</b>	<b>140</b>	<b>105</b>
<b>Return on Capital</b>	<b>8.02%</b>	<b>7.96%</b>	<b>9.82%</b>	<b>9.48%</b>	<b>118</b>	<b>97</b>
<b>Return on Sales</b>	<b>3.61%</b>	<b>4.22%</b>	<b>6.29%</b>	<b>6.88%</b>	<b>190</b>	<b>109</b>
<b>Earnings per Share</b>	<b>40.37</b>	<b>43.86</b>	<b>60.25</b>	<b>63.15</b>	<b>156</b>	<b>105</b>

## **2.3. CORPORATE ORGANISATION AND GOVERNANCE**

Business activities of the Končar Group are structured as follows:

- Energy and Transport: design and construction of plants for the production, transfer and distribution of electric energy and ancillary equipment, thyristor-controlled AC locomotives, tramcars, electric multiple units and electric equipment for lineside electric traction facilities
- Industry: electromotor drives, medium and low-voltage electric equipment and catering equipment
- Trade: electrical household appliances, serial products and low-voltage electrical appliances
- Special activities: research and development of products and infrastructure services

The Končar Group consists of KONČAR – ELECTRICAL INDUSTRY Inc., as the Parent Company, and twenty subsidiaries in which the Parent Company exercises a predominant managerial influence (more than 50 per cent of the votes at the General Assembly). Along with preference shares, common stock shares were subscribed in some of the companies. In addition to this, the parent company exercises a minority managerial influence (49 per cent of the votes at the General Assembly) in one company (affiliated company).

All of the companies pertaining to the Group are legally independent and are under the control and strategic guidance of the Parent Company via their respective Supervisory Boards and pursuant to the Companies Act, the KONČAR – ELECTRICAL INDUSTRY Inc. Charter and Charters of the individual companies. Furthermore, the Parent Company manages the portion of assets which have not been invested into companies, but function directly or indirectly as financial support of sales, products and equipment of the subsidiaries in lieu of a credit-guarantee potential.

KONČAR – ELECTRICAL INDUSTRY Inc. in its role as Parent Company bills its subsidiaries for the following services:

- Fees for the use of company name, trademark and brand name,
- A portion of costs for the organised joint participation in fairs,
- A portion of costs for foreign representative offices,
- A portion of costs for joint marketing activities,
- Management seminars, quality and environmental system seminars

The following table shows a basic overview data of the subsidiaries and the affiliated company.

	In HRK	In HRK		
<b>SUBSIDIARIES</b>	<b>SUBSCRIBED CAPITAL TOTAL</b>	<b>SUBSRCIBED CAPITAL PARENT COMPANY</b>	<b>% of management PARENT COMPANY  At 31 December 2010</b>	<b>% of ownership PARENT COMPANY  At 31 December 2010</b>
POWER PLANT AND ELECTRIC TRACTION ENGINEERING	36,000,000	36,000,000	100.00	100.00
GENERATORS AND MOTORS	107,927,700	107,927,700	100.00	100.00
HIGH VOLTAGE SWITCHGEAR	49,751,400	42,000,300	88.02	84.42
MEDIUM VOLTAGE APPARATUS	19,679,700	8,220,000	69.87	41.77
SWITCHGEAR	36,966,000	16,899,000	66.85	45.71
DISTRIBUTION AND SPECIAL TRANSFORMERS	76,684,800	39,655,200	67.80	51.71
INSTRUMENT TRANSFORMERS	18,989,100	8,265,600	72.35	43.53
ELECTRONICS AND INFORMATICS	37,126,800	27,857,700	75.03	75.03
METAL STRUCTURES	24,645,600	18,486,600	75.01	75.01
ELECTRIC VEHICLES	47,026,800	35,288,700	75.04	75.04
RENEWABLE SOURCES	87,681,700	87,681,700	100.00	100.00
ENGINEERING CO. FOR PLANT INSTALLATION AND COMMISSIONING	11,827,500	4,552,800	76.51	38.49
SMALL ELECTRICAL MACHINES	41,641,800	41,641,800	100.00	100.00
TOOLS	49,166,400	49,166,400	100.00	100.00
CATERING EQUIPMENT	25,447,800	25,447,800	100.00	100.00
HOUSEHOLD APPLIANCES	127,877,500	127,877,500	100.00	100.00
LOW VOLTAGE SWITCHGEAR AND CIRCUIT BREAKERS	81,466,900	81,466,900	100.00	100.00
ELECTRICAL ENGINEERING INSTITUTE	40,763,520	40,763,520	100.00	100.00
INFRASTRUCTURE AND SERVICES	49,891,600	49,891,600	100.00	100.00
KONES AG	3,097,414	3,097,414	100.00	100.00

#### **AFFILIATED COMPANY**

POWER TRANSFORMERS	72,764,00.0	35,654,400	49.00	49.00
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### ***The Management Board***

The President of the Management Board as well as the Members of the Management Board are appointed and relieved by the Supervisory Board. The tenure of the President of the Management Board and the Members of the Board is five years, with an option of reappointment. Pursuant to the Companies Act and the Company Charter, the Management Board is personally responsible for business operations. In doing so, it is obliged and authorised to take any action and make any decision it deems necessary for the successful management of the Company. The consent of the Supervisory Board is required in making certain decisions stipulated by the Company Charter.

During the year 2011, Končar – Electrical Industry Inc. was managed by the following Management Board:

Darinko Bago	President of the Management Board
Marina Kralj Miliša	Board member responsible for Legal Activities, General Administrative Services and Human Resources
Jozo Miloloža	Board member responsible for Finance
Davor Mladina	Board member responsible for the business area of Industry and Trade
Miroslav Poljak	Board member responsible for Electrical Energy Production, Corporate Development and ICT

### ***The Supervisory Board***

The Supervisory Board consists of the following nine members:

Pursuant to the provisions contained in the Companies Act and the KONČAR – Electrical Industry Inc. Charter, the General Assembly appoints and relieves the members of the Supervisory Board. The Supervisory Board is responsible for appointing and relieving the members of the Supervisory Board, as well as for supervising the business operations of the Company. More significant transactions (the amount of transactions has been stipulated by the Company Charter) and business decisions require the approval of the Supervisory Board.

The Supervisory Board consists of nine members and as of 28 July 2011 operated with the following members:

Božidar Piller	Chairman of the Supervisory Board
Jasminka Belačić	Vice-chairwoman of the Supervisory Board
Đuro Perica	Member
Elvis Kovačević	Member
Kristijan Floričić	Member
Vicko Ferić	Member
Nenad Matić	Member
Ivan Rujnić	Member

Ratko Žabčić                      Member

As of 28 July 2011 the members of the Supervisory Board were as follows:

Igor Lučić                      Chairman of the Supervisory Board

Jasminka Belačić              Vice-chairwoman of the Supervisory Board

Ante Babić                      Member

Kristijan Floričić              Member

Ruđer Friganović              Member

Zdenka Matković              Member

Nenad Matić                    Member

Đuro Perica                    Member

Ivan Rujnić                    Member

Pursuant to the Croatian Accounting Law (Article 28 of the Law) and the Code of Corporate Governance Code, the Supervisory Board of the Company has formed the Audit Committee. Pursuant to the provisions contained in the Croatian Accounting Law and the Code of Corporate Governance, the role of the Audit Committee is to monitor the procedure of financial reporting and the efficiency of the supervision system, to supervise the implementation of the annual financial statements auditing procedure, to monitor the independence of the auditors, to recommend an audit company for the Management Board to elect and the General Assembly to appoint.

The Audit Committee is comprised of the following three members:

Jasminka Belačić - Chairwoman of the Supervisory Board

Vladimir Plečko – Member

Ivan Rujnić - Member

## ***2.4. PRINCIPLES OF CORPORATE GOVERNANCE***

The principles of corporate governance at Končar are based on the positive regulations as applied in the Republic of Croatia and the adopted international standards. The abovementioned principles are publicly disclosed on the company's website ([www.koncar.hr](http://www.koncar.hr)) as well as on the official website of the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)).

The prescribed questionnaire, which includes the replies to the questions on the provisions of the Code the Company applies, is available for viewing on the official website of the Zagreb Stock Exchange.

The adopted Principles of corporate governance are founded upon management accountability, definition of corporate governance procedures based on the recognised international standards adopted as well as the supervision of operations. The underlying purpose is to establish high standards of corporate governance and transparency of operations



with the final objective of protecting the shareholders, investors and other stakeholders, as well as caring for the employees, sustainable development and environmental protection.

## **2.5. MARKET POSITION**

Energy and transport represent the basic activity of the production programme of companies pertaining to the Končar Group. Investments in modern production technologies help constantly increase production volumes, and especially tailor-made products which comprise the key strategy component of the Group.

A total of HRK 2,480.9 million of new works were contracted in the year 2011, of which HRK 1,142.5 million pertained to the domestic market (46 per cent) and HRK 1,338.4 million to the foreign market (54 per cent). The state of works contracted (active liabilities) at the end of 2011 totalled HRK 2,217.7 million which is an increase of 6 per cent as compared to the beginning of the year.

Total consolidated revenue from sales of goods and services was generated in the amount of HRK 2,362.2 million. In the domestic market sales revenue of HRK 1,072.4 million (45 per cent) was achieved, which is 7.5 per cent less in comparison with the previous year. Exports amounted to HRK 1,289.8 million (55 per cent of total sales) or 1.2 per cent less when compared with the exports in 2010.

The consolidated sales revenue was generated in the amount of HRK 1,994.6 million or 84 per cent of total Group sales by the companies from the business area of Energy and Transport, companies from the business area of Trade generated sales in the amount of HRK 181.8 million or 8 per cent, companies from the business area of Industry generated HRK 110.3 million or 5 per cent, and three of the Special activities companies generated HRK 75.5 million or 3 per cent of total Group sales.

In the structure of sales of goods and services revenues in the domestic market, revenues from sales of goods and services to the Croatian Electricity Company (Hrvatska Elektroprivreda or HEP) account for HRK 470.9 million or 44 per cent of the total domestic market revenue, the companies in the industry and shipbuilding industry categories were supplied with goods and services totalling HRK 199.7 million or 18.6 per cent of the total revenues of sales of goods in Croatia, trading companies were supplied with HRK 150.8 million worth of products, construction companies with HRK 88.4 million, Zagreb Electric Tram Company (ZET) with HRK 59.5 million, the Croatian Railways Company (Hrvatske željeznice or HŽ) with HRK 49.5 million, whereas the remainder in the amount of HRK 53.5 million pertained to the Croatian Motorways Company (Hrvatske autoceste), State and Local Administrations and other Public Companies (Plinacro, INA, etc.).

In the foreign market for the period January – December 2011, the revenue from sales of goods and services amounted to HRK 1,289.8 million or 1.2 per cent less than during the same period of last year. The most significant export undertakings were performed in the markets of Germany; totalling HRK 161.1 million, Bosnia and Herzegovina; totalling HRK 95.2 million, Nigeria; totalling HRK 81.1 million, Sweden; totalling HRK 79.8 million, Albania; totalling HRK 63.1 million, Cyprus; totalling HRK 56.9 million and Finland; totalling HRK 56.2 million.

According to markets, we primarily exported to the European Union countries in the amount of HRK 637.4 million (49 per cent of total export), to neighbouring countries (Bosnia and Herzegovina, Serbia, Macedonia, Kosovo, Albania) HRK 244.4 million (19 per cent) of goods and services were exported, to Africa and Asia HRK 209.9 million was exported and HRK 198.1 million to other countries.

On the heels of good financial results for the year 2011, a broad range of various facilities was performed and contracted in Croatia and abroad.

In the domestic market:

- End of construction Phase 1 of the wind power plant Pometeno brdo (6MW),
- End of construction, upgrade and reconstruction: S/S Dugopolje, S/S Bjelovar and S/S Glina,
- Supplying the IT system for organising the electrical energy market of HROTE (Croatian Energy Market Operator),
- End of construction (safety system overhaul) of remote control system at S/S Postira, S/S Gospić, S/S Međurić, S/S Željezara,
- Regional and city low-floor electric multiple units produced for the Croatian Railways Company (Hrvatske željeznice or HŽ) went into operation,
- Construction of the power supply of testing facility at Končar- Power Transformers,
- Delivery of the SF6 gas insulated metal clad switchgear unit for the expansion of the existing 123 kV facility at the 110/10 (20) kV S/S Sušak in Rijeka,
- Demonstration and delivery of two Hybrid Power Supply systems,
- Equipment and systems delivery for shipbuilding
- Power supply of testing facility for power transformers.

Of the many projects abroad, these are some of the most significant ones:

- Equipment delivered to Toro 3 HPP (Costa Rica),
- Equipment delivered to Doblar HPP (Slovenia),
- Final testing phase at BKB II HPP and BKB III HPP (India),
- Spare parts delivered to Haditha HPP (Iraq),
- Equipment delivered to and work on several transformer substations in Albania,

- Equipment delivered to S/S Prizren (Kosovo),
- Power transformer protection delivered and put in operation at S/S Prishtina 1, S/S Prishtina 2, S/S Klina and S/S Istog (Kosovo),
- Telemetry instruments delivered to S/S Bihać (Bosnia and Herzegovina),
- Final construction phase of the power supply of testing facility at SMIT – Transformatoren transformer plant in the Netherlands,
- Delivery of instrument transformers to Russia, India, Australia and Poland
- Delivery of distribution and instrument transformers to Sweden, Nigeria, Cyprus, the United Arab Emirates
- Construction of 400 kV busbar system at S/S Bicske, S/S Gonyu and S/S Szolnok (Hungary),
- Generators delivered to Binga HPP (the Philippines),
- Generators delivered to Maalismaa HPP, Pahkakoski HPP, Pyhakoski HPP (Finland),
- New markets for distribution and instrument transformers - India, Belarus, Estonia, Ghana, South Africa

New facilities and plants contracted in 2011 were:

In the domestic market:

- Reconstruction of TPP Sisak switchyard,
- Construction/completion/reconstruction of S/S Srđ, S/S Ferenčica, S/S Funtana, S/S Brod, S/S Valpovo, S/S Seline, S/S Benkovac, S/S Konjsko,
- Construction/overhaul of management systems at S/S Imotski and S/S Stari Grad, S/S Bedekovčina, S/S Bilje, S/S Dobovac,
- Overhaul of HPP Zakučac switchyard,
- Reconstruction of generators, excitation systems and information processing system at Dubrovnik HPP and Zakučac HPP,
- SCADA water supply and drainage system in Karlovac and Ogulin.

Abroad:

- Equipping of Koyna Reversible HPP (India),
- Reconstruction of Rama HPP (Bosnia and Herzegovina),
- Construction/overhaul of S/S Prishtina 2 and Prishtina 3 (Kosovo),
- Reconstruction of the SCADA system at DCU ED Tuzla (Bosnia and Herzegovina),
- Connection of process control systems for Elektro-Slovenija (Transmission System Operator in Slovenia),
- Construction of 400 kV busbar systems at S/S MAVIR (Hungary).

The enormous efforts devoted to offering and contracting in 2011 were rewarded with a good level of works contracted in 2011. Works contracted (open liabilities) at the year

ended 31 December 2011 amounted to HRK 2,217.7 million, which is a 6 per cent increase compared to the beginning of 2011.

## ***2.6. BUSINESS RESULTS AND FINANCIAL STATEMENTS (BALANCE SHEET) OF THE COMPANY***

The Končar Group achieved a positive financial result for the year ended 31 December 2011. Obligations to the customers, the suppliers, the employees, the state, the banks and other contractual parties were fulfilled on time. A majority of Končar companies achieved positive business results, owing to a comparatively high level of works contracted in the previous and current year.

Total consolidated revenue amounted to HRK 2,762.9 million, which is a 2.2 per cent decrease as compared with 2010. Unconsolidated revenue (data also includes revenue between related companies) amounted to HRK 3,299.7 million or a 3.6 per cent increase compared to last year.

The Group's consolidated profit before tax amounted to HRK 210.8 million or a 4.6 per cent increase compared to 2010. The income tax amounted to HRK 18.6 million and, therefore, profits after tax totalled HRK 192.2 million, of which the minority stakes in the profits structure amounted to HRK 29.8 million while the Group's net profit amounted to HRK 162.4 million or a 4.8 per cent increase compared to 2010.

The status of total consolidated resources and sources of funding as of 31 December 2011 totalled HRK 3,495.7 million, which is an increase of HRK 199.6 million or 0.8 per cent, compared with the same date of the previous year.

As compared to the state of assets on 31 December 2010, long-term assets increased by HRK 157.6 million. The largest increase of long-term tangible assets refers to the investment in Pometeno brdo (renewable sources) in the amount of HRK 128.6 million and the investment in the High-voltage laboratory at Distribution and Special Transformers Inc. which amounted to HRK 24.1 million. Within the structure of long-term tangible assets, intangible assets increased by HRK 21 million, tangible assets increased by HRK 112.1 million, financial property increased by HRK 39.1 million, while the accounts receivable decreased by HRK 14.6 million.

Current assets increased by HRK 35.8 million, of which inventories increased by HRK 17.9 million, total receivables rose by HRK 56 million, financial assets increased by HRK 222.8 million and cash and cash equivalents decreased by HRK 260.9 million. Substantial use of own funds, primarily for the wind power station project Pometeno brdo and the construction of the High-voltage laboratory for testing of medium power transformers, resulted in a significant decrease of the amount of cash and cash equivalents. In the overall accounts receivable structure, advances paid increased by HRK 22.9 million, receivables from

trade debtors increased by HRK 108.6 million, while other receivables decreased by HRK 75.5 million.

In the structure of funding sources, subscribed capital, reserves, retained earnings, current year profits and minority stakes totalled HRK 1,937.2 million, which is a HRK 143 million increase compared to 31 December 2010 and make up for 55 per cent of total sources. Long-term provisions amounted to HRK 509.3 million, which is a decrease of HRK 69.4 million compared to 31 December 2010. The decrease of long-term provisions was mostly influenced by the expiration of provisions intended for litigation between Končar – Electrical Industry Inc. and Cairo Phoenix Trade Center which ended in arbitral proceedings in 2011. Long-term and current liabilities amounted to HRK 952.7 million, which is a HRK 95.8 million increase as of the end of the previous year. In the structure of current liabilities, amounts due to trade creditors totalled HRK 408.2 million (a HRK 49.7 million increase as opposed to the previous year) and constitute 11.7 per cent of total sources. Total credits (long- and short-term) amounted to HRK 256.5 million, and are HRK 27.1 million higher than on 31 December 2010. They constitute 7.3 per cent of total sources.

Long-term sources of funding (equity, long-term provisions and long-term liabilities) were greater by HRK 736.1 million than fixed assets and average stock aggregate, which indicates a sound ageing structure of the sources of funding. Current assets stood at 2.6 times the current liabilities, indicating good liquidity of the system. The consolidated balance sheet indicates the financial soundness of the Končar Group.

The investment in long-term tangible and intangible assets for the year ended 31 December 2011 amounted to HRK 202.7 million. The most considerable part of the abovementioned amount was invested in the following: the continuation of investment in the wind power plant project Pometeno brdo, equipping of the A hall for the integration and testing of the wind power generator gondola, the construction of the new testing station in the company Končar – Distribution and Special transformers Inc., the development of a new generation of 123kV switchgear, the development of autonomous hybrid renewable energy sources (Končar - Electrical Engineering Institute) as well as equipment replacement on the existing electrical power transformers in Sesevski Kraljevec.

The export to import ratio is positive. Goods and services in the amount of HRK 1,289.8 million were exported, while raw and primary materials were imported in the amount of HRK 667.3 million. Thus, the export to import coverage coefficient amounted to 1.9.

	Number of employees	TOTAL INCOME			Index	Index	TOTAL EXPENSES			Index	Index
		Realized	Plan	Realized	4/2	4/3	Realized	Plan	Realized	9/7	9/8
	31.12.2011.	2010.	2011.	2011.			2010.	2011.	2011.		
	1	2	3	4	5	6	7	8	9	10	11
POWER PLANT AND EL.TRACTION	260	517.499.679	587.795.196	631.126.001	122,0	107,4	495.941.547	576.902.572	609.029.824	122,8	105,6
GENERATORS AND MOT ORS	481	191.049.525	191.222.922	230.009.309	120,4	120,3	190.638.303	190.978.090	224.966.524	118,0	117,8
HIGH VOLT AGE SWITCHGEAR	152	63.636.011	53.733.999	71.234.833	111,9	132,6	61.793.074	51.886.929	71.182.373	115,2	137,2
MEDIUM VOLT AGE APPARATUS	81	54.553.621	54.280.000	52.132.394	95,6	96,0	43.758.754	44.880.000	43.057.819	98,4	95,9
SWIT CHGEAR	121	43.663.916	60.215.000	53.830.690	123,3	89,4	54.436.444	63.015.000	61.398.010	112,8	97,4
DISTRIBUTION AND SPECIAL TRANSFORMERS	428	702.828.317	687.000.000	686.880.331	97,7	100,0	663.891.396	651.000.000	649.860.547	97,9	99,8
INSTRUMENT TRANSFORMERS	244	162.490.806	162.836.000	212.053.807	130,5	130,2	149.907.367	148.236.000	191.842.618	128,0	129,4
ELECTRONICS AND INFORMATICS	289	137.170.943	135.715.000	142.169.867	103,6	104,8	133.462.295	132.505.000	140.277.826	105,1	105,9
METAL STRUCTURES	248	173.913.996	182.095.000	194.537.719	111,9	106,8	163.457.317	174.580.000	186.392.517	114,0	106,8
ELECTRIC VEHICLES	278	339.782.862	142.464.051	137.241.826	40,4	96,3	329.896.089	134.441.630	130.785.233	39,6	97,3
RENEWABLE SOURCES	3	767.912	1.807.500	1.410.284	183,7	78,0	2.691.978	1.771.500	1.303.711	48,4	73,6
ENG. FOR PLANT INSTALLATION &	116	66.974.042	60.770.000	80.410.422	120,1	132,3	66.459.421	59.120.000	78.920.308	118,7	133,5
SMALL ELECTRICAL MACHINES	183	69.503.648	64.823.000	73.534.593	105,8	113,4	65.530.623	61.824.500	68.623.306	104,7	111,0
TOOLS	89	31.969.554	37.383.905	28.374.761	88,8	75,9	34.807.507	36.843.905	31.491.654	90,5	85,5
CATERING EQUIPMENT	74	20.802.542	21.120.000	23.791.918	114,4	112,7	23.800.837	21.047.783	24.810.200	104,2	117,9
HOUSEHOLD APPLIANCES	309	137.460.606	153.600.000	138.574.887	100,8	90,2	152.004.307	157.200.000	151.928.866	100,0	96,6
LOW VOLT AGE SWITCH. AND CIRC	223	48.163.015	52.991.000	57.534.704	119,5	108,6	60.058.324	52.288.000	60.180.519	100,2	115,1
ELECTRICAL ENGINEERING INSTITUTE	173	92.490.570	79.376.000	92.727.509	100,3	116,8	85.695.492	74.761.303	85.854.344	100,2	114,8
INFRASTRUCTURE AND SERVICES	154	57.270.982	56.466.865	60.149.150	105,0	106,5	54.982.018	55.615.712	58.466.611	106,3	105,1
KONES AG	1	36.929.357	33.505.300	14.987.108	40,6	44,7	36.883.717	33.422.800	15.688.322	42,5	46,9
KONČAR - Electrical Industry Inc.	49	234.587.768	144.410.000	316.993.755	135,1	219,5	173.072.679	75.033.000	246.345.537	142,3	328,3
TOTAL PARENT COMPANY AND DEPENDENT COMPANIES	3.956	3.183.509.672	2.963.610.738	3.299.705.868	103,6	111,3	3.043.169.489	2.797.353.724	3.132.406.669	102,9	112,0
deduction for the part of income of dependent companies and Končar - Electrical Industry Inc. which are generated from the internal relations and unadjusted state between related companies											
POWER TRANSFORMERS*		1.272.071.256	1.275.842.456	1.346.661.119	105,9	105,6	978.769.104	1.064.330.459	1.065.901.407	108,9	100,1
KONČAR Group's net profit											
* Remark: Result 1.10.2010. - 30.09.2011.											
14											

	PROFIT/ LOSS	CORPORATE INCOME	PROFIT / LOSS FOR THE PERIOD			Index 16/14	Index 16/15	SUBSCRIBED CAPITAL	PARENT'S SUBSCRIBED CAPITAL	% OWNERSHIP OF THE PARENT	Part of the PROFIT/LOSS that belongs to the shareholders of the Parent
	BEFORE TAXES	TAX	2010.	2011.	2011.			TOTAL	CAPITAL	31.12.2011.	
	12	13	14	15	16	17	18	19	20	21	22
POWER PLANT AND EL. TRACTION E	22.096.177	5.165.865	16.320.468	9.992.624	16.930.312	103,7	169,4	36.000.000	36.000.000	100,0000	16.930.312
GENERATORS AND MOTORS	5.042.785		411.222	244.832	5.042.785			107.927.700	107.927.700	100,0000	5.042.785
HIGH VOLTAGE SWITCHGEAR	52.460		1.842.937	1.847.070	52.460	2,8	2,8	49.751.400	42.000.300	84,4203	44.287
MEDIUM VOLTAGE APPARATUS	9.074.575	1.831.259	8.582.824	7.500.000	7.243.316	84,4	96,6	19.679.700	8.220.000	41,7689	3.025.456
SWITCHGEAR	-7.567.320		-10.772.528	-2.800.000	-7.567.320	70,2	270,3	36.966.000	16.899.000	45,7150	-3.459.399
DISTRIBUTION AND SPECIAL TRANSFORMERS	37.019.784	3.367.801	37.118.065	28.800.000	33.651.983	90,7	116,8	76.684.800	39.655.200	51,7119	17.402.094
INSTRUMENT TRANSFORMERS	20.211.189	3.973.570	10.200.488	12.500.000	16.237.619	159,2	129,9	18.989.100	8.265.600	43,5281	7.067.932
ELECTRONICS AND INFORMATICS	1.892.041	71.342	3.640.305	3.052.900	1.820.699	50,0	59,6	37.126.800	27.857.700	75,0339	1.366.142
METAL STRUCTURES	8.145.202	1.694.756	8.947.487	6.012.000	6.450.446	72,1	107,3	24.645.600	18.486.600	75,0097	4.838.463
ELECTRIC VEHICLES	6.456.593	647.823	9.234.711	5.912.524	5.808.770	62,9	98,2	47.026.800	35.288.700	75,0396	4.358.875
RENEWABLE SOURCES	106.573		-1.924.066	36.000	106.573		296,0	87.681.700	87.681.700	100,0000	106.573
ENG. FOR PLANT INSTALLATION & C	1.490.114	481.852	159.028	1.270.000	1.008.262	634,0	79,4	11.827.500	4.552.800	38,4933	388.114
SMALL ELECTRICAL MACHINES	4.911.287	959.443	3.106.858	2.368.500	3.951.844	127,2	166,9	41.641.800	41.641.800	100,0000	3.951.844
TOOLS	-3.116.893		-2.837.953	540.000	-3.116.893	109,8		49.166.400	49.166.400	100,0000	-3.116.893
CATERING EQUIPMENT	-1.018.282		-2.998.295	30.770	-1.018.282	34,0		25.447.800	25.447.800	100,0000	-1.018.282
HOUSEHOLD APPLIANCES	-13.353.979		-14.543.701	-3.600.000	-13.353.979	91,8	370,9	127.877.500	127.877.500	100,0000	-13.353.979
LOW VOLTAGE SWITCH. AND CIRCUIT	-2.645.815		-11.895.309	703.000	-2.645.815	22,2		81.466.900	81.466.900	100,0000	-2.645.815
ELECTRICAL ENGINEERING INSTITUTE	6.873.165		6.795.078	4.614.697	6.873.165	101,1	148,9	40.763.520	40.763.520	100,0000	6.873.165
INFRASTRUCTURE AND SERVICES	1.682.539	388.363	1.782.662	677.517	1.294.176	72,6	191,0	49.891.600	49.891.600	100,0000	1.294.176
KONES AG	-701.214		45.640	82.500	-701.214			3.097.414	3.097.414	100,0000	-701.214
KONČAR - Electrical Industry Inc.	70.648.218		61.515.089	69.377.000	70.648.218	114,8	101,8	1.028.847.600	0	100,0000	70.648.218
TOTAL PARENT COMPANY AND DEPENDENT COMPANIES	167.299.199	18.582.074	124.731.010	149.161.934	148.717.125	119,2	99,7	2.002.507.634	852.188.234		119.042.853
	deduction for the part of income of dependent companies and Končar - Electrical Industry Inc. which are generated from the internal relations										
	and unadjusted state between related companies										89.869.852
POWER TRANSFORMERS*	280.759.712	8.783.062	122.850.454	131.266.197	271.976.650	221,4	207,1947	72.764.000	35.654.400	49,00005	133.268.708
KONČAR Group's net profit											162.441.709
	* Remark: Result 1.10.2010. - 30.09.2011.										
					15						

## **2.7. RISK EXPOSURE**

The Končar Group companies are exposed to various market and financial risks. The business environment risk is determined by political, economic and social conditions in the markets in which the Companies operate. Financial risks relate to the currency, interest rate, credit and liquidity risks. The Group's companies monitor the abovementioned risks closely and try to diminish their influence on the financial stability.

### *a) Market risk*

Market risk occurs as a circumstance of potential losses which are a result of unfavourable economic conditions and decreased market demand.

The Končar Group companies operate in the Croatian and international markets. The core business of the Group is the area of Energy and Transport which mainly depends on the investments in this area. Due to the global crisis and recession, there is a risk of closing some of the markets as well as the encouragement of contracting of local companies. Furthermore, the competitiveness of our companies' products and services is also influenced by the changes in conditions according to which the Group's companies operate, as well as the conditions under which our client operate. The Management Boards of individual companies price their products separately.

### *b) Interest rate risk*

The interest rate risk is the risk of a changed financial instrument's value due to the changes in market rates in relation to the interest rates applied to a financial instrument. The cash flow risk is a risk of possible change in the interest rate cost of a given instrument over the course of time. The Group is not subject to significant exposure to interest rate risk.

### *c) Credit risk*

Financial assets which might possibly expose the Group to credit risk are mainly composed of cash and accounts receivable. Accounts receivable are adjusted according to the amount of bad debt provisions.

The Group's companies protect themselves against credit risk with guarantees and credit worthiness assessment of the customers with the help of independent agencies for credit worthiness and credit rating assessment.



#### *d) Currency risk*

The official currency of the Group is the Croatian kuna. However, certain transactions denominated in foreign currencies are translated to Croatian kuna by applying the exchange rates valid at the balance sheet date. Gains and losses resulting from translation are credited or charged to the profit and loss account.

The Companies are protected against currency risks by contracting sales and supply in the same currency and by adjusting the dynamics of currency inflow and outflow as well as futures purchase in accordance with the plan of cash inflow and outflow. A smaller number of companies use derivative financial instruments as a means of protection against financial risk exposure.

## **2.8. SHARES**

The shares of Končar – Electrical Industry Inc. are listed on the Official Market of the Zagreb Stock Exchange. The share is listed under the KOEI-R-A ticker. In accordance with positive regulations the Group permits regular access to information on its operations and activities as well as information on the facts and circumstances which can influence the share price (price sensitive information).

Equity of the Group amounts to HRK 1,028,847,600.00 is comprised of HRK 2,572,119 of common stock shares of HRK 400.00 par value.

The Company applies identical terms and conditions to all of its shareholders regardless of the number of shares they hold, their country of origin and their other properties. Voting rights apply to all of the Company's shareholders in so as the number of votes allotted to them at the General Assembly equals the number of shares they own.

The Company's ownership structure is as follows:

Shareholder	At 31 December 2011		At 31 December 2010	
	No. of shares	Ownership share	Number of shares	Ownership share
HPB Inc. (Kapitalni fond Inc.)	724,515	28.17%	724,515	28.17%
AUDIO / HZMO	384,628	14.95%	384,628	14.95%
AUDIO / RH	260,280	10.12%	260,280	10.12%
LINTEUM SAVJETOVANJE Ltd.	190,491	7.41%	189,744	7.38%
Societe Generale - Splitska banka Inc. / Erste Plavi mandatory pension fund	172,199	6.69%	167,784	6.52%
Hypo-Alpe-Adria-Bank Inc. / PBZ Croatia Osiguranje OMF	107,159	4.17%	75,497	2.94%
SOCIETE GENERALE / AZ OMF	104,676	4.07%	69,694	2.71%
FLORIČIĆ KRISTIJAN	85,714	3.33%	85,714	3.33%
HYPO ALPE ADRIA BANK / RBA OMF	35,250	1.37%	37,000	1.44%
PBZ Inc. / joint custody account of clients	33,074	1.29%	36,829	1.43%
Other shareholders	464,519	18.06%	540,434	21.01%
KONČAR Inc. (treasury stocks)	9,614	0.37%	-	-
	<b>2,572,119</b>	<b>100.00%</b>	<b>2,572,119</b>	<b>100.00%</b>

In 2011 the share price of Končar Electrical Industry Inc. followed the overall market trends. Share prices peaked in June 2011 (at HRK 699.48), and they reached their lowest point by the end of November (at HRK 480) and finally at the end of 2011 they were priced at HRK 514.00.

Overall trading of Končar shares amounted to HRK 118.9 million, which is an 8 per cent increase compared to the trading in 2010, and it amounted to 213.445 shares traded.

Subsidiaries KONČAR – Distribution and Special Transformers Inc. and KONČAR – Switchgear Inc. were listed on the Regular Market of the Zagreb Stock Exchange. Common stock and preference share prices of KONČAR – Distribution and Special Transformers Inc. fluctuated between HRK 973 and HRK 1,450.

Shares of company KONČAR – Switchgear Inc. were not traded in 2011.

During 2011 the Company acquired 27,046 of own shares. During September and November of 2011, the Company released 17,432 of own shares in order to allow for the call option of the President and the Members of the Management Board and on the basis of the Management contract (in Croatian: *Ugovor o pravima, obvezi i plaći*) for the period 2005-2006. One Management Board member was granted the call option right for the period 2005-2010 due to his retirement.

As of 31 December 2011 the Group owns 9,614 of own shares which constitute 0.37 per cent of the Company's equity.

## ***2.9. PRODUCTS AND PRODUCTION DEVELOPMENT***

The practice of relying on products developed on-site has always been a crucial part of the Company's long-term business policy. In accordance with this policy, the year 2011 saw a continuation and intensifying of product development using our own efforts and this practice will be continued in the future.

The development at the Electrical Engineering Institute and the R&D departments at plants depends on the continuous collaboration with educational and scientific institutions and the continuing professional development and education of employees from all stages of the production process.

In the year 2011 investments in intangible and tangible assets totalled HRK 235 million.

The most considerable part of the abovementioned amount was invested in the following:

- the continuation of investment in the wind power plant project Pometeno brdo,
- equipping of the 'A' hall for the integration and testing of the wind power generator gondola,
- the construction of a new testing station in the company Končar – Distribution and Special transformers Inc.,
- the development of a new generation of 123kV switchgear,
- the development of an autonomous hybrid renewable energy source,
- equipment replacement on the existing electrical power transformers in Sesevski Kraljevec

In 2012 about HRK 277 million are planned to be invested; the majority of the planned investments are destined for further investments in the wind power plant project Pometeno brdo, the investment in the company Končar – Distribution and Special transformers Inc. for the construction of a new testing station and for the development of the three-phase encapsulated SF6 gas insulated metal clad switchgear unit at the company Končar – High Voltage Switchgear Inc. These projects will be financed by the company's own funds and loans provided by business banks (in 50:50 ratio).

## ***2.10. EMPLOYEES***

Končar's competitiveness is maintained on the basis of its employees' experience, knowledge and innovation, since Končar's core strategy states that employees are the company's equity and that overall business activities depend on individual employee involvement.

Končar ended the year 2011 with an overall number of 3.956 employees, 953 of which are university graduates. Compared to the year 2010 (3,938 employees), a slight increase in the total number of employees was noted in the year 2011.

While in 2010 the average age of the employees was 46 years old, in 2011 it was 44 years old. The average age of the recently employed remained as it was in 2010 - 30 years old.

Most of the new employees were young; highly educated graduates from the Faculty of Electrical Engineering and Computing.

By analysing the turnover of employees in production professions, the overall number of following professionals has been on the rise in Končar in the previous period: engine fitters, power plant machinists, fitters, electrical technicians, electricians, locksmiths, electrical fitters, electrical winders, milling machine operators and technicians.

Končar traditionally acquires its university educated personnel by providing scholarships for students of various universities (Faculty of Electrical Engineering and Computing, Faculty of Mechanical Engineering and Naval Architecture). In 2011 Končar employed 19 PhD/DScs and 66 MSc/MBA staff. Some 80 university educated employees are currently attending their postgraduate studies.

Since lifelong education guarantees business success, Končar considers permanent investment in the knowledge of its employees a priority. And exactly for this reason the number of employees participating in numerous forms of further education has been increasing, and likewise the total investments on average in education.

Končar pays special attention to the selection of its managers and the timely recognition of its managerial potential, as well as investing in their development and providing opportunities for further advancement.

In 2011 education programmes continued with the 2nd and 3rd Education cycles, consisting of 13 modules. Končar's education programmes are most often tailor-made programmes, which cover not only expert knowledge education, but also the development of general and managerial skills, foreign language courses, improvement of IT skills, and some 'soft' skills, such as employee motivation, leadership skills, team work, communication skills and ethical values.

The year 2011 saw a continuation of a successful cooperation with numerous scientific and educational institutions, which allows for the recognition, defining and implementing of

various projects. These serve as an equal partnership platform for all the parties included, by allowing each partner to contribute its know-how and, therefore, encouraging the partnership between the scientific/educational and the economy sector.

## ***2.11. QUALITY AND THE ENVIRONMENT***

An integral component of Končar's business policy is customer satisfaction via delivery of high-quality and reliable products, along with environmental concerns of not only Končar's production facilities, but also the plants with installed Končar equipment.

Pursuant to the Policy of Sustainable Development the following standards are implemented at the Končar Group: the ISO 9001:2000 Quality Management Systems, the ISO14001:2004 Environmental Management Systems and the OHSAS 18001 Occupational Health and Safety Management System.

A definitive proof of compliance with the highest standards is the fact that 18 of the Končar Group companies possess the ISO 14001 certificate.

## ***2.12. CORPORATE SOCIAL RESPONSIBILITY***

In 2011 Končar continued to devise, implement and improve its socially responsible corporate activities, which is a constituent part of its business policy and day-to-day activities relating to all of its companies and on all levels. These activities not only relate to its business and production activities, but they also refer to the status and protection of the employees and the cooperation with the social community as well as all other parties which are in any way included in the Group's business operations.

Since Končar's success and development are founded on the skills, knowledge, experience and dedication of its employees, they are considered a core element of corporate social responsibility. Along with the dedicated fulfilment of regular payments and other legally binding obligations, a wide array of activities are carried out in view of qualification and continuous education of the employees, improvement of working conditions (especially in production, but other facilities as well), health prevention and physical check-ups, sports activities and leisure, along with other activities which serve for higher motivation and satisfaction of the employees.

Environmental protection, in both the production facilities and at plants where equipment and products are installed, is one of Končar's priorities. Since most of the equipment is aimed at production, transmission and distribution of electrical energy, industrial facilities or transport of people and goods, maximum safety and decreasing the environmental influence are considered priorities during the entire production process: from quality control of incoming

raw materials, components and production processes as well as finished products and facilities.

Due to the complexity of products and product parts, constant improvement and continuous adjusting to the highest global standards are necessary. The results are visible in customer satisfaction on the most demanding markets on all continents and in various conditions, along with a growing number of certificates which serve as proof of compliance with the highest demands. Hence, besides the ISO 9001, OHSAS 18001 certificates and numerous other special certificates and standards, as many as eighteen companies of the Končar Group possess the ISO 14001 certificate.

Končar continues to demonstrate its socially responsible corporate activities with continuous development activities and projects in the area of application of new technologies and especially in renewable sources. Končar developed the first Croatian wind turbine and later on started with the construction of the wind power plant Pometeno brdo. In 2011 Končar – Electrical Engineering Institute Inc. developed the autonomous hybrid power supply, the prototype of the regional and city/suburban low-floor electric multiple unit was developed and produced, also other products and facilities are being developed for improvements in energy and transport.

Cooperation with the close community and community at-large is based on core corporate values which support creativity, education, sport and recreation and other activities primarily for the children and the youth, as well as the social and humanitarian support of the needy. As part of Končar Day and the year commemorating the 90<sup>th</sup> anniversary of business activity of Končar, a portion of the funds was donated to charity. For Končar Day this donation was made out to the ‘Stepping into Life’ fund raiser which ensures the education of children without parental care.

This was also the perfect opportunity to reward the best students from the Polytechnic of Zagreb, Končar’s long-time partner. But this was just one of the many activities which contribute to enhancing and modernising the education process of children and the youth and its connections with the economy.

For the third year running, KONČAR – Electrical Engineering Institute was awarded with ‘Index CSR’, a prize awarded by the Croatian Chamber of Commerce to the best performing companies in the area of socially responsible operations.

Končar is part of the Global Compact (International Agreement with the United Nations) network, the largest global initiative for corporate social responsibility. For the fourth year running Končar has produced the Corporate Social Responsibility Report, in accordance with the Global Compact (GC) principles and the Global Reporting Initiative (GRI 3) guidelines. In this manner Končar is part of a small group of Croatian companies which produce such reports.

The corporate social responsibility reports were published on the official Global Reporting Initiative and Global Compact websites, which serves not only as proof of successful efforts which the Group devotes to this particular area of activity, but also of Končar's social responsibility according to globally defined standards.

### ***2.13. BUSINESS PLAN FOR THE YEAR 2012***

The Group's consolidated profits before tax are planned in the amount of HRK 183.9 million, the income tax in the amount of HRK 18.9 million, the profits after tax in the amount of HRK 165 million, minority stakes in the amount of HRK 31.1 million, while the amount pertaining to the parent company's shareholders will amount to HRK 133.9 million.

Total consolidated revenue from the sales of goods and services was generated in the amount of HRK 2,362.2 million. In the domestic market sales revenue of HRK 1,072.4 million (45 per cent) was achieved, which is 7.5 per cent less in comparison with the previous year. Exports amounted to HRK 1,289.8 million (55 per cent of total sales) or 1.2 per cent less when compared with the exports in 2010. Total consolidated revenue amounted to HRK 2,762.9 million, which is a 2.2 per cent decrease as compared with the year 2010. Unconsolidated revenue (data also includes revenue between related companies) amounted to HRK 3,299.7 million or a 3.6 per cent increase compared to last year.

Unconsolidated revenue from the sales of products and services (revenue from the sales of products and services between related companies included) are planned in the amount of HRK 3 billion or 7 per cent higher than the achievement assessment for 2011. Consolidated revenue from the sales of products and services are planned in the amount of HRK 2.5 billion (6 per cent more than the achievement assessment for 2011). Revenue in the amount of HRK 1.2 billion is planned in the domestic market, in the amount of HRK 1.3 billion in the foreign market; and the planned portion of export in total revenue from the sales of products and services will be 52 per cent. New works in the amount of HRK 2.9 billion are planned for contracting in 2012, of which HRK 1.2 billion in the domestic market and HRK 1.7 billion in exports. The planned state of works contracted at the end of 2012 would amount to HRK 2.7 billion, which is a 21 per cent increase when compared with the state at the end of this year. A total of 3,975 workers (1 per cent increase when compared to 2011) are planned to have been employed in 2012.

### ***2.14. FUTURE DEVELOPMENT STRATEGY***

The constant aim of the Končar Group companies is the research, development and innovation of products in order to enter new markets with new products and be able to fight the volatile and unstable market terms. In the previous years, development and production of the low-floor tramcar and the low-floor electric multiple unit prototype, along with the investment in renewable sources, have significantly helped attain this goal.

The aim and commitment are to do business according to trade rules and global standards and to secure a position on both the domestic and the global market.

In 2011 the Management Board of Končar – Electrical Industry Inc. reached a decision on the concept of development management in strategic area of the Končar Group, defined the strategic areas and appointed the Strategic Development Committee, determined the activity coordinating companies and area coordinators. All of the decisions were made in accordance with the long-term development goals of the Končar Group, the needs for new product development at the Group's Companies, the development of techniques and technology; and the available resources.

The following strategic areas of development have been determined:

- Area of power transformers
- Area of power engineering
- Area of renewable sources
- Area of advanced networks and computer communication networks
- Area of railcars
- Area of information technology

**Final note:**

At the end of the business year ended 31 December 2011 and up until the date of writing of this report, there have been no greatly significant business events which would considerably change the outcome of business operations or the state of the Company as portrayed in this report.

Both the increased amount of works contracted at the end of the year 2012 and the announcement of larger investments in the country provide a sound basis for the fulfilment of the current business year's plan.



**Appendix 1**

Reporting period:

1.1.2011

to

31.12.2011

**Annual financial report of entrepreneur GFI-POD**

Registration number (MB) 03282635

Identification number of subject (MBS) 080040936

Personal identification number (OIB) 45050126417

Issueer company: KONČAR - ELECTRICAL INDUSTRY Inc.

Postal code and place 10000 ZAGREB

Street and number FALLEROVO ŠETALIŠTE 22

E-mail address: [koncar.finance@koncar.hr](mailto:koncar.finance@koncar.hr)Internet address: [www.koncar.hr](http://www.koncar.hr)

Code and name of comune/town 133 ZAGREB

Code and county name 21 GRAD ZAGREB

Number of employees 3.956

(at quarter end)

Consolidated statement YES

NKD/NWC code: 2711

Subsidiaries subject to consolidation (according to IFRS)

in appendix

Registration number:

Končar - Energetika i usluge d.o.o.	Zagreb	1343068
Končar - Institut za elektrotehniku d.d.	Zagreb	3645363
Končar - Elektronika i informatika d.d.	Zagreb	3282899
Končar - Mali električni strojevi d.d.	Zagreb	3282678
Končar - Generatori i motori d.d.	Zagreb	1356216
Končar - Obnovljivi izvori d.o.o.	Zagreb	2435071
Končar - Mjerni transformatori d.d.	Zagreb	3654656
Končar - Distributivni i specijalni transform. d.d.	Zagreb	3654664
Končar - Električni aparati srednjeg napona d.d.	Zagreb	3641287
Končar - Električna vozila d.d.	Zagreb	3282660
Končar - Sklopna postrojenja d.d.	Sesvetski Kraljevec	3641279
Končar - Kućanski aparati d.o.o.	Zagreb	1403222
Končar - Električni visokonaponski aparati d.d.	Zagreb	3641252
Končar - Niskonaponske sklopke i prekidači d.o.o.	Zagreb	3228398
Končar - Ugoditeljska oprema d.d.	Zagreb	3788717
Končar - Alati d.d.	Zagreb	3672468
Končar - Montažni inženjering d.d.	Zagreb	3654362
Končar - Inženjering za energetiku i transport d.d.	Zagreb	3654354
Končar - Metalne konstrukcije d.d.	Zagreb	1114328
Kones AG	Zurich, Švicarska	

Book keeping service:

Contact person: BRANKA VELKOVSKI

(fill in only surname and name of contact person)

Phone number: 01 3667175

Fascimile: 01 3655377

E-mail address: [branka.velkovski@koncar.hr](mailto:branka.velkovski@koncar.hr)

Surname and name DARINKO BAGO

(authorised person for representation)

**Disclosure documents:**

1. Revised Financial statements together with the auditor's report
2. Report of the Management Board on position of the Company
3. Statement of responsible persons for preparation of financial statements
4. The decision of the competent authority (the proposal) about the determining of the annual financial statements
5. The decision on the distribution of profits or covering the losses

M.P.

(signed by authorised person for representation)

**Balance Sheet**  
as of 31.12.2011.

Company: Končar - Electrical Industry Inc.				
Position	AOP	Notes	Previous year	Current year
1	2	3	4	5
<b>ASSETS</b>				
<b>A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL</b>	<b>001</b>		0	
<b>B) NON-CURRENT ASSETS (003+010+020+029+033)</b>	<b>002</b>		1.182.984.550	1.343.866.876
I. INTANGIBLE ASSETS (004 do 009)	<b>003</b>	<b>18,19</b>	25.535.991	32.699.840
1. Expenditure for development	<b>004</b>		12.462.855	10.552.232
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	<b>005</b>		3.051.947	4.599.754
3. Goodwill	<b>006</b>		7.040.919	7.503.528
4. Advances for purchase of intangible assets	<b>007</b>		0	388.695
5. Intangible assets in progress	<b>008</b>		2.726.213	9.440.954
6. Other intangible assets	<b>009</b>		254.057	214.677
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	<b>010</b>	<b>20</b>	887.958.621	1.017.220.459
1. Land	<b>011</b>		156.023.708	155.724.709
2. Buildings	<b>012</b>		379.674.182	375.156.015
3. Plant and equipment	<b>013</b>		151.821.233	151.759.821
4. Tools, working inventory and transportation assets	<b>014</b>		74.459.271	82.425.019
5. Biological assets	<b>015</b>		0	0
6. Advances for purchase of tangible assets	<b>016</b>		3.836.726	7.182.957
7. Tangible assets in progress	<b>017</b>		27.593.153	149.478.516
8. Other tangible assets	<b>018</b>		700.738	889.771
9. Investment in real-estate	<b>019</b>	<b>21</b>	93.849.610	94.603.651
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	<b>020</b>	<b>23</b>	212.986.676	252.080.923
1. Share in related parties	<b>021</b>		293.704	293.704
2. Loans to related parties	<b>022</b>		0	0
3. Participating interests (shares)	<b>023</b>		806.316	811.316
4. Loans to companies with participating interest	<b>024</b>		0	0
5. Investments in securities	<b>025</b>		2.686.761	4.755.707
6. Loans, deposits, etc.	<b>026</b>		684.626	1.461.593
7. Other non-current financial assets	<b>027</b>		0	2.191.352
8. Equity-accounted investments	<b>028</b>		208.515.269	242.567.251
IV. RECEIVABLES (030 do 032)	<b>029</b>	<b>24</b>	56.503.262	41.865.654
1. Receivables from related parties	<b>030</b>		0	0
2. Receivables arising from sales on credit	<b>031</b>		47.262.055	32.345.312
3. Other receivables	<b>032</b>		9.241.207	9.520.342
V. DEFERRED TAX ASSET	<b>033</b>		0	0
<b>C) CURRENT ASSETS (035+043+050+058)</b>	<b>034</b>	<b>25</b>	2.109.617.444	2.142.156.894
I. INVENTORIES (036 do 042)	<b>035</b>		485.999.118	512.835.195
1. Raw materials and supplies	<b>036</b>		222.173.270	276.781.099
2. Production in progress	<b>037</b>		142.256.010	134.863.472
3. Finished products	<b>038</b>		85.428.778	60.704.804
4. Merchandise	<b>039</b>		18.380.883	13.717.172
5. Advances for inventories	<b>040</b>		13.889.218	25.856.601
6. Long term assets held for sale	<b>041</b>	<b>32</b>	3.870.959	912.047
7. Biological assets	<b>042</b>		0	0
II. RECEIVABLES (044 do 049)	<b>043</b>		886.053.481	932.931.301
1. Receivables from related parties	<b>044</b>	<b>26</b>	111.046.846	19.467.234
2. Receivables from end-customers	<b>045</b>	<b>27</b>	698.835.506	831.778.713
3. Receivables from participating parties	<b>046</b>		0	0
4. Receivables from employees and members of the company	<b>047</b>	<b>28</b>	1.563.937	1.321.053
5. Receivables from government and other institutions	<b>048</b>	<b>28</b>	34.579.177	43.757.812
6. Other receivables	<b>049</b>	<b>28</b>	40.028.015	36.606.489
III. CURRENT FINANCIAL ASSETS (051 do 057)	<b>050</b>	<b>29</b>	157.199.494	376.970.323
1. Share in related parties	<b>051</b>		0	0
2. Loans to related parties	<b>052</b>		0	0
3. Participating interests (shares)	<b>053</b>		0	0
4. Loans to companies with participating interest	<b>054</b>		0	0
5. Investments in securities	<b>055</b>		0	0
6. Loans, deposits, etc.	<b>056</b>		155.489.822	376.970.323
7. Other financial assets	<b>057</b>		1.709.672	0
IV. CASH AND CASH EQUIVALENTS	<b>058</b>	<b>30</b>	580.365.351	319.420.075
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	<b>31</b>	3.547.985	9.711.305
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>		3.296.149.979	3.495.735.075
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>		2.027.679.403	2.212.151.466

<b>EQUITY AND LIABILITIES</b>				
<b>A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>		1.794.175.361	1.937.208.827
I. SUBSCRIBED SHARE CAPITAL	<b>063</b>	<b>33</b>	1.028.847.600	1.028.847.600
II. CAPITAL RESERVES	<b>064</b>		719.579	719.579
III. RESERVES FROM PROFIT (066+067-068+069+070)	<b>065</b>		201.140.508	243.156.817
1. Legal reserves	<b>066</b>		13.150.803	17.762.375
2. Reserve for own shares	<b>067</b>		0	3.845.600
3. Treasury shares and shares (deductible items)	<b>068</b>		0	3.845.600
4. Statutory reserves	<b>069</b>		121.706.437	146.257.985
5. Other reserves	<b>070</b>		66.283.268	79.136.457
IV. REVALUATION RESERVES	<b>071</b>		0	0
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	<b>072</b>		194.104.351	277.566.082
1. Retained earnings	<b>073</b>		194.104.351	277.566.082
2. Loss carried forward	<b>074</b>		0	0
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	<b>075</b>		154.975.583	162.441.709
1. Net profit for the period	<b>076</b>		154.975.583	162.441.709
2. Net loss for the period	<b>077</b>		0	0
VII. MINORITY INTEREST	<b>078</b>		214.387.740	224.477.040
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	<b>34</b>	578.643.690	508.233.506
1. Provisions for pensions, severance pay and similar liabilities	<b>080</b>		21.899.686	21.809.747
2. Provisions for tax liabilities	<b>081</b>		0	0
3. Other provisions	<b>082</b>		556.744.004	486.423.759
<b>C) NON-CURRENT LIABILITIES (084 do 092)</b>	<b>083</b>	<b>35</b>	81.299.423	120.208.139
1. Liabilities to related parties	<b>084</b>		0	0
2. Liabilities for loans, deposits, etc.	<b>085</b>		1.615.000	1.020.000
3. Liabilities to banks and other financial institutions	<b>086</b>		79.684.423	119.188.139
4. Liabilities for advances	<b>087</b>		0	0
5. Trade payables	<b>088</b>		0	0
6. Commitments on securities	<b>089</b>		0	0
7. Liabilities to companies with participating interest	<b>090</b>		0	0
8. Other non-current liabilities	<b>091</b>		0	0
9. Deferred tax liabilities	<b>092</b>		0	0
<b>D) CURRENT LIABILITIES (094 do 105)</b>	<b>093</b>		775.540.242	832.473.375
1. Liabilities to related parties	<b>094</b>	<b>36</b>	13.175.194	6.899.329
2. Liabilities for loans, deposits, etc.	<b>095</b>	<b>37</b>	765.000	680.000
3. Liabilities to banks and other financial institutions	<b>096</b>	<b>38</b>	148.028.224	135.938.301
4. Liabilities for advances	<b>097</b>	<b>40</b>	180.197.510	202.109.680
5. Trade payables	<b>098</b>	<b>39</b>	358.020.213	403.671.321
6. Commitments on securities	<b>099</b>		0	0
7. Liabilities to companies with participating interest	<b>100</b>		0	0
8. Liabilities to employees	<b>101</b>	<b>41</b>	28.123.735	30.874.515
9. Taxes, contributions and similar liabilities	<b>102</b>	<b>41</b>	37.826.449	42.141.361
10. Liabilities arising from share in the result	<b>103</b>	<b>41</b>	374.235	234.805
11. Liabilities arising from non-current assets held for sale	<b>104</b>		0	0
12. Other current liabilities	<b>105</b>	<b>41</b>	9.029.682	9.924.063
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	<b>42</b>	66.491.263	97.611.228
<b>F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)</b>	<b>107</b>		3.296.149.979	3.495.735.075
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>		2.027.679.403	2.212.151.466
<b>ADDITION TO BALANCE SHEET (only for consolidated financial statements)</b>				
<b>ISSUED CAPITAL AND RESERVES</b>				
1. Attributable to majority owners	<b>109</b>		1.579.787.621	1.712.731.787
2. Attributable to minority interest	<b>110</b>		214.387.740	224.477.040

**Income statement**  
period 1.1.2011. to 31.12.2011.

Company: Končar -Electrical Industry Inc.

Position	AOP	Notes	Previous year	Current year
1	2	3	4	5
<b>I. OPERATING INCOME (112 do 113)</b>	<b>111</b>		2.637.560.093	2.545.016.115
1. Rendering of services	112	3	2.464.817.706	2.362.201.504
2. Other operating income	113	4	172.742.387	182.814.611
<b>II. OPERATING COSTS (115+116+120+124+125+126+129+130)</b>	<b>114</b>		2.568.631.196	2.493.624.593
1. Change in inventories of work in progress	115		74.603.310	25.609.518
2. Material expenses (117 do 119)	116		1.598.221.573	1.609.281.023
a) Costs of raw materials	117	5	1.132.606.393	1.178.145.329
b) Cost of goods sold	118		116.812.449	108.707.565
c) Other material expenses	119	6	348.802.731	322.428.129
3. Employee benefits expenses (121 do 123)	120	7	485.168.355	474.922.770
a) Net salaries	121		276.215.546	271.448.604
b) Tax and contributions from salary expenses	122		140.158.950	135.522.088
c) Contributions on salary	123		68.793.859	67.952.078
4. Depreciation and amortisation	124	8	76.716.868	75.770.261
5. Other expenses	125	9	129.235.040	203.963.467
6. Write down of assets (127+128)	126	10	37.278.849	22.475.107
a) non-current assets (except financial assets)	127		0	0
b) current assets (except financial assets)	128		37.278.849	22.475.107
7. Provisions	129	11	159.018.123	70.672.386
8. Other operating costs	130	12	8.389.078	10.930.061
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>14</b>	74.716.332	84.276.570
1. Interest, foreign exchange differences, dividends and similar income from related parties	132		60.982	29.456
2. Interest, foreign exchange differences, dividends and similar income from third parties	133		74.596.700	83.318.889
3. Income from investments in associates and joint ventures	134		0	0
4. Unrealised gains (income) from financial assets	135		58.650	928.225
5. Other financial income	136		0	0
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>15</b>	56.015.434	58.519.071
1. Interest, foreign exchange differences, dividends and similar income from third parties	138		17.137	33.766
2. Interest, foreign exchange differences, dividends and similar income from third parties	139		50.288.459	57.562.383
3. Unrealised losses (expenses) from financial assets	140		5.709.838	922.922
4. Other financial expenses	141		0	0
<b>V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES</b>	<b>142</b>	<b>13</b>	114.015.279	133.670.740
<b>VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES</b>	<b>143</b>		0	0
<b>VII. EXTRAORDINARY - OTHER INCOME</b>	<b>144</b>		0	0
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>		0	0
<b>IX. TOTAL INCOME (111+131+144)</b>	<b>146</b>		2.826.291.704	2.762.963.425
<b>X. TOTAL EXPENSES (114+137+143+145)</b>	<b>147</b>		2.624.646.630	2.552.143.664
<b>XI. PROFIT OR LOSS BEFORE TAXES (146-147)</b>	<b>148</b>		201.645.074	210.819.761
1. Profit before taxes (146-147)	149		201.645.074	210.819.761
2. Loss before taxes (147-146)	150		0	0
<b>XII. TAXATION</b>	<b>151</b>	<b>16</b>	15.609.173	18.582.074
<b>XII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>		186.035.901	192.237.687
1. Profit for the period (149-151)	153		186.035.901	192.237.687
2. Loss for the period (151-148)	154		0	0
<b>ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)</b>				
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>				
1. Attributable to majority owners	155		154.975.583	162.441.709
2. Attributable to minority interest	156		31.060.318	29.795.978
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)</b>				
<b>I. PROFIT OR LOSS FOR THE PERIOD (=152)</b>	<b>157</b>		186.035.901	192.237.687
<b>II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 TO 167)</b>	<b>158</b>		1.311.326	199.297
1. Exchange differences from international settlement	159		1.311.326	199.297
2. Changes in revaluation reserves of long-term tangible and intangible	160		0	0
3. Profit or loss from re-evaluation of financial assets held for sale	161		0	0
4. Profit or loss from cash flow hedging	162		0	0
5. Profit or loss from hedging of foreign investments	163		0	0
6. Share of other comprehensive income/loss from associated	164		0	0
7. Actuarial gains/losses from defined benefit plans	165		0	0
<b>III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD (166-167)</b>	<b>166</b>		0	0
<b>IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 TO 167)</b>	<b>167</b>		1.311.326	199.297
<b>V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>		187.347.227	192.436.984
<b>ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)</b>				
<b>VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD</b>				
1. Attributable to majority owners	169		155.831.108	162.641.006
2. Attributable to minority interest	170		31.516.119	29.795.978

**STATEMENT OF CASH FLOWS - Direct method**  
period 1.1.2011. to 31.12.2011.

Legal entity: Končar Electrical Industry INC.				
Position	AOP	Notes	Previous year	Current year
1	2	3	4	5
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
1. Cash receipts from customers	001		2.834.812.367	2.602.460.347
2. Cash receipts from royalties, fees, commissions, etc.	002		0	0
3. Cash receipts from insurance for damages compensation	003		6.274.878	11.825.977
4. Cash receipts arising from tax refunds	004		154.549.872	170.852.614
5. Other cash receipts	005		77.427.626	80.532.908
<b>I. Total increase in cash flow from operating activities (001 do 005)</b>	<b>006</b>		3.073.064.743	2.865.671.846
1. Cash paid to suppliers	007		1.864.804.673	1.985.748.787
2. Cash paid to employees	008		560.288.420	576.378.659
3. Cash outflows for insurance for damages compensation	009		10.877.133	11.048.500
4. Interest paid	010		13.923.825	12.222.808
5. Tax paid	011		180.046.948	159.142.278
6. Other cash outflows	012		125.078.646	198.408.928
<b>II. Total decrease in cash flow from operating activities (007 do 012)</b>	<b>013</b>		2.755.019.645	2.942.949.960
<b>A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>014</b>		318.045.098	0
<b>A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>015</b>		0	77.278.114
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
1. Cash flow from sale of long - term tangible and intangible assets	016		2.999.245	3.501.658
2. Cash inflows from sale of equity and debt financial instruments	017		7.076.566	3.576.020
3. Interest receipts	018		0	0
4. Dividend receipts	019		64.646.202	177.720.400
5. Other cash inflows from investing activities	020		0	0
<b>III. Total cash inflows from investing activities(016 do 020)</b>	<b>021</b>		74.722.013	184.798.078
1. Cash outflows for purchase of long - term tangible and intangible assets	022		49.955.772	69.605.475
2. Cash outflows for purchase of equity and debt financial instruments	023		2.668.809	5.598.423
3. Other cash outflows from investing activities	024		0	1.675.552
<b>IV. Total cash outflows from investing activities (022 do 024)</b>	<b>025</b>		52.624.581	76.879.450
<b>B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>026</b>		22.097.432	107.918.628
<b>B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>027</b>		0	0
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
1. Cash receipts from issuance of equity and debt financial instruments	028		0	0
2. Cash inflows from loans, debentures, credits and other borrowings	029		88.187.843	104.897.529
3. Other cash inflows from financing activities	030		99.649.532	179.257.808
<b>V. Total cash inflows from financing activities (028 do 030)</b>	<b>031</b>		187.837.375	284.155.337
1. Cash outflows for repayment of loans and bonds	032		134.730.732	79.731.208
2. Dividends paid	033		17.196.110	40.616.324
3. Cash outflows for finance lease	034		0	0
4. Cash outflows for purchase of own stocks	035		0	687.701
5. Other cash outflows from financing activities	036		106.009.072	454.705.895
<b>VI. Total cash outflows from financing activities (032 do 036)</b>	<b>037</b>		257.935.914	575.741.128
<b>C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>038</b>		0	0
<b>C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>039</b>		70.098.539	291.585.791
<b>Total increases of cash flows (014 – 015 + 026– 027 + 038 – 039)</b>	<b>040</b>		270.043.991	0
<b>Total decreases of cash flows (015 – 014 + 027– 026 + 039 – 038)</b>	<b>041</b>		0	260.945.277
<b>Cash and cash equivalents at the beginning of period</b>	<b>042</b>	<b>30</b>	310.321.360	580.365.351
<b>Decrease in cash and cash equivalents</b>	<b>043</b>		270.043.991	0
<b>Increase in cash and cash equivalents</b>	<b>044</b>		0	260.945.276
<b>Cash and cash equivalents at the end of period</b>	<b>045</b>	<b>30</b>	580.365.351	319.420.075

# STATEMENT OF CHANGES IN EQUITY

period 1.1.2011 to 31.12.2011

Legal entity: Končar Electrical Industry INC.

Position	AOP	Notes	Previous year	Current year
1	2	3	4	5
1. Subscribed share capital	001	33	1.151.410.796	1.150.319.400
2. Capital reserves	002		719.579	719.579
3. Reserves from profit	003		261.601.518	315.045.708
4. Retained earnings or loss carried forward	004		194.407.567	278.886.453
5. Net profit or loss for the period	005		186.035.901	192.237.687
6. Revaluation of tangible assets	006		0	0
7. Revaluation of intangible assets	007		0	0
8. Revaluation of available for sale assets	008		0	0
9. Other revaluation	009		0	0
<b>10. Total equity and reserves (AOP 001 to 009)</b>	<b>010</b>		1.794.175.361	1.937.208.827
11. Foreign exchange differences from foreign investments	011		1.311.326	199.297
12. Current and deferred taxes	012		0	0
13. Cash flow hedge	013		0	0
14. Change of accounting policies	014		0	0
15. Correction of significant mistakes of prior period	015		-441.292	1.437.178
16. Other changes	016		175.642.047	141.396.991
<b>17. Total increase or decrease of equity (AOP 011 to 016)</b>	<b>017</b>		176.512.081	143.033.466
17 a. Attributable to majority owners	018		162.512.664	132.944.166
17 b. Attributable to minority interest	019		13.999.417	10.089.300

## Notes to the consolidated financial reports