

MANAGEMENT BOARD REPORT ON THE BUSINESS ACTIVITY OF THE KONČAR GROUP FOR THE PERIOD JANUARY – DECEMBER 2011

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 just a few 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 companies, under the control and strategic guidance of the parent company by the respective supervisory boards of the companies and in accordance with the Companies Act, the KONČAR – Electrical Industry Inc. Charter and the Charters of the individual companies. The parent company also manages the portion of the assets which have not been invested into companies, but are in direct or indirect function of financial support of sales, products and equipment of the subsidiaries as credit-guarantee potential.

The parent company has issued joint and several guarantees in the total amount of HRK 637 million, of which HRK 360.2 million corresponds to performance guarantees (bid bonds, advanced payment guarantees, performance guarantees and warranty guarantees).

Business activities of the KONČAR Group are structured as follows:

- Energy and transport: Designing and building of electrical energy production, transmission and distribution plants and the manufacture of accompanying equipment; electric vehicles and electric equipment for vehicles and electric traction plants
- Industry: Electromotor drives, medium and low-voltage electric equipment and catering equipment;
- Trade: Electrical household appliances, serial production goods and low-voltage electrical goods.
- Special activities: product research and development and infrastructure services

The Management Board

The Supervisory Board appoints and relieves the President of the Management Board and the Members of the Management Board. The terms of office of the President of the Management Board and the Board Members' terms last for five years, with an option of reappointment. Pursuant to the Companies Act and the Company Charter, the Management Board is responsible for running the 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 KONČAR – Electrical Industry Inc. Charter.

KONČAR – Electrical Industry Inc. is managed by the Management Board consisting of:

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

Končar – Electrical Industries Inc., Fallerovo šetalište 22, 10000 Zagreb, Hrvatska, www.koncar.hr

Davor Mladina	Board member responsible for transmission and distribution of electrical energy, industry and trade
Miroslav Poljak	Board member responsible for electrical energy production, corporate development and ICT

The Supervisory Board

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

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

The Končar Group business activity for the period January to December of the year 2011

For the period January to December of the year 2011 the Končar Group achieved overall revenues in the amount of HRK 2,750.6 million, during the same period total expenses amounted to HRK 2,547.8 million and the Group's consolidated profit before tax amounted to HRK 202.8 million. The income tax amounts to HRK 18.8 million; therefore the profits after tax amounted to HRK 184 million, of which the portion of the minority stakes in the profits structure amounted to HRK 29.8 million, while the portion of the parent company's shareholders amounted to HRK 154.2 million.

Operating income totalled HRK 2,541.7 million, of which sales revenues amounted to HRK 2,346.9 million or 92.4 per cent of overall operating income.

Operating costs totalled HRK 2,489.7 million. The positive difference between operating income and operating costs amounted to HRK 52 million.

Income from relations with related companies amounted to HRK 125.4 million.

Financial income was generated in the amount of HRK 83.5 million and it was composed of interest in the amount of HRK 34.8 million, income from positive foreign exchange differences in the amount of HRK 45.1 million and other financial incomes in the amount of HRK 3.6 million. Financial expenses totalled HRK 58.1 million and were composed of negative exchange differences in the amount of HRK 37.3 million, interest rates in the amount of HRK 20.1 million and other

financial expenses in the amount of 0.7 million. The positive difference between financial income and expenses amounted to HRK 25.4 million.

Operating income in the amount of HRK 52 million along with income from relations with related companies amounted to HRK 125.4 million and the positive difference between financial income and expenses in the amount of HRK 25.4 million represent the consolidated profit before taxation in the amount of HRK 202.8 million.

Of the 21 companies comprising the KONČAR Group, 15 companies performed with a profit, while 6 companies performed with a loss in the total amount of HRK 28 million.

Consolidated revenues from the sales of goods and services totalled HRK 2,346.9 million or 4.8 per cent less in comparison to the previous year or 2.9 per cent less than previously planned.

Domestic market sales revenues amounted to HRK 1,057.1 million (45 per cent) or 8 per cent less in comparison to the previous year and 2 per cent less than previously planned. In the structure of the domestic market sales of goods and services revenues, revenues from the 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 191.2 million or 18 per cent of the total revenues of the sales of goods in Croatia, trading companies were supplied with HRK 150.3 million, the construction companies with HRK 87.4 million, the Croatian Railways Company (Hrvatske željeznice) with HRK 49.5 million worth of products, Zagreb Electric Tram Company (Zagrebački električni tramvaj) with HRK 59.5 million, whereas the remainder worth HRK 48.3 million pertains to the Croatian Motorways Company (Hrvatske autoceste), the state and local administrations and public enterprises.

Export revenues from the sales of goods and services totalled HRK 1,289.8 million (55 per cent of total sales). Sales revenues from foreign markets decreased by 1.2 per cent compared to the amount achieved during the same period of the previous year and are 3.4 less than the previously planned amounts.

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 79.5 million, Albania totalling HRK 63.1 million; Cyprus; totalling HRK 56.9 million, Finland; totalling HRK 56.2 million and Slovenia; totalling HRK 43.9 million.

The consolidated sales revenues were generated in the amount of HRK 1,981.2 million or 84 per cent of the overall sales structure of the Group by 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, sales of the companies from the business area of Industry amounted to HRK 110.3 million or 5 per cent, and three of the Special activities companies generated sales in the amount of HRK 73.6 million or 4 per cent of the overall sales structure of the Group.

During the same accounting period, investment equipment, raw and primary materials in the amount of HRK 667.2 million were imported. The import was completely covered by the exports and the coverage coefficient amounts to 1.93.

The investment in long term tangible and intangible assets for the period January to December of the year 2011 amounts to HRK 233.5 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, the equipping of the hall A 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 the new generation of 123kV switchgear, the development of an autonomous hybrid renewable energy source (Končar - Electrical Engineering Institute), as well as equipment replacement on the existing electrical substations in Sesevski Kraljevec.

For the period January to December of the year 2011 the Končar Group companies contracted a HRK 2,486.3 million worth of new works. Of the overall works contracted 46 per cent was contracted on the domestic market and 54 per cent on the foreign market. New works in the value of HRK 1,347.1 million have been contracted for implementation for the year 2011, while a HRK 1,139.2 million new works have been contracted for implementation for subsequent years. The status of the works contracted (active liabilities) at the end of the year 2011 totals HRK 2,216 million which is an 6 per cent increase as compared to the works contracted at the beginning of the year.

In the period January to December of the year 2011 the KONČAR Group business activities were conducted under complex and demanding circumstances which primarily resulted in a slump of investment in infrastructure projects.

Positive results for the period January to December of the year 2011 can mostly be attributed to companies from the business area of Energy which tend to be oriented towards exports, while in the business areas of Transport and Switchgear there is still a negative business trend.

Signed on behalf of the Board:

KONČAR – Electrical Industry Inc.
President of the Management Board
Darinko Bago

On 15 February 2012

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KONČAR GROUP

This statement by the Management Board of KONČAR – Electrical Industry Inc. is issued in relation to the preparation and publishing of the consolidated financial statements for the KONČAR Group for the period January to December of the year 2011.

This set of financial statements (financial statements for KONČAR – Electrical Industry Inc. and consolidated financial statements) reports on the quarterly and cumulative unaudited information. Therefore, variations are possible with respect to the final annual report.

The financial statements have been prepared in accordance with the Croatian Accounting Law valid on the day of publishing of these financial statements, as well as being with the International Financial Reporting Standards.

These consolidated financial statements, to the best of our knowledge, provide a true and fair view of the balance sheet, income statement, cash flow statement and statements of changes in equity of the KONČAR Group.

Signed on behalf of the Board:

KONČAR – Electrical Industry Inc.
President of the Management Board
Darinko Bago

On 15 February 2012

- Note:

The consolidated financial statements have been prepared by Končar – Electrical Industry Inc. expert departments.

Persons to contact:

Ervin Filipčić, Head of the Management Board office, filipcic@koncar.hr

Branka Velkovski, Accounting Specialist, branka.velkovski@koncar.hr

Ilić Vesna, Accounting Department Manager, vesna.ilic@koncar.hr