2. 2012 MANAGING BOARD ANNUAL REPORT

2. 1. INTRODUCTION

In 2012 the Končar Group achieved good business results regardless a very challenging business environment. Consolidated incomes generated from sales of products and services are higher by 3.4 % than the incomes generated in the previous year and they are at the level of the 2012 Plan.

The Končar Group achieved a positive financial result for the year 2012. The consolidated profits before tax of the Group amount to HRK 200 million that is higher than the 2012 Plan by 8.7 % and lower by 5 % than 2011 achievements. The profit tax is accounted in the amount of HRK 21.7 million and the profit after tax amounts to HRK 178.3 million out of which the amount of HRK 27.8 million belongs to the non-controlling interest and the amount of HRK 150.5 million belongs to the Mother Company shareholders or the amount higher by 12.4% than planned and lower by 7.3 % than achieved in 2011.

In addition to good financial results, the Končar Group invested significant assets and human potentials into improvement of the technical and technological level of the complete Group in 2012. Therefore HRK 240.9 million were invested (50 % of which represented the own assets of the company). The majority was invested into the research and development, as well as the manufacture of the first domestic Wind Power Plant and into independent construction of a High Voltage Laboratory for Testing of Middle Power Transformers. A larger number of dependent companies participated in the above stated activities increasing the long term tangible as well as intangible assets. Due to a significant engagement of in-house cash assets of the company bound to the financing of the stated facilities, the cash and the cash equivalents were accordingly decreased. Valorisation and effects of invested assets as well as the synergy of the associated companies are expected during the next time period as an increase of the total consolidated income.

In 2012 incomes from sales of goods and services were generated in the amount of HRK 2,441.6 million being at the level of the plan and higher than achieved in 2011 by 3.4%. On the domestic market the achieved incomes from sales of goods and services amount to HRK 1,2265 million making it higher than achieved in 2011 by 12 % and higher by 3.8 % compared to 2012 Plan. Incomes from sales of goods and services on the foreign market were achieved in the amount of HKR 1,227.9 million or 4.8 % lower than the achieved in 2011 and 5 % lower than planned. The correction of incomes by deferred incomes amounts to HRK 12.8 million. Incomes from sales of goods and services to the Croatian Power Authority (HEP) increased by 39 % compared to 2011 achievements. The delivery, erection, assembly and putting into operation of A generator (first one out of 4 generators) for the reconstruction of Zakučac HPP were completed. The fact that Končar has been performing refurbishment of the facility constructed fifty years ago shows the continuity of Končar business operations and its capacity to perform even the most complex projects in the area of generation, transmission and distribution of power. In 2012 the construction of Pometeno Brdo Wind Power Plant resulting from in-house research and development as well as domestic production was completed.
Incomes from sales of goods and services in export were achieved in the amount of HRK 1,227.9 million making 50 % of the total incomes. A whole range of facilities were constructed on the very challenging markets of the European Union, of the neighbouring countries and significant export was performed to the countries of Africa and Asia as well.

The demand was decreased on those export markets on which Končar has been selling the majority of its products and therefore business activities in the area of generation, transmission and distribution of power and transport were decreased and worsened in the area of the production programme of household appliances and switchgear equipment as well. Končar Group companies took various measures to decrease negative influences of the economic and financial crises and to assure stabile business operations and maintain and strengthen its market position. First of all, efforts were invested into finding of new markets and offering activities were increased, the companies took measures to increase synergy within the system and to decrease business operation costs. Applied measures resulted in a continuation of profitable business operations and the financial stability of the

Group. Good business results were achieved on the basis of in-house development of products and production, while research and developing projects represent Končar permanent guideline that are going to be cherished during next periods as well through innovations and development that should result in new products and widening of business operation activities.

In 2012 new projects were contracted in the amount of HRK 2,435.4 million. Contracted projects (open liaiblities) amounted to HRK 2,234.7 million at the end of 2012 being at the level of the beginning of the year.

Thanks to a relatively well level of contracted projects, additional efforts invested into finding of new markets and the announcement of larger investments in the county, it is expected that Končar Group companies are going to realise 2013 Plan and to follow the positive trend in business operation.

The Končar Group systematically motivates and supports the system of values in which the culture of working, creativity and excellence gain more important position in our companies every day. Social responsibility is a part of every-day working processes in Končar in all segments of business operations and it depends on human potentials as a holder of the development of the company. In addition to the responsibility for its social environment, Končar has determined the environmental management as one of its business priorities. The results are visible in buyers' satisfaction and every day larger number of certificates proving compliance with the most important standards. In addition to ISO 9001 and OHSAS 18001 certificates as well as many other special authorisations, as many as seventeen Končar Group companies hold ISO 14001 certificate.

Socially responsible business operations help Končar to build its reputation and to motivate its employees to invest into business development of the company in the long run with the aim of achievement of drafted and adopted company business plans.

2.2. THE MOST IMPORTANT BUSINESS INDICATORS FOR THE TIME PERIOD FROM 2009 TO 2012

IN HRK 000	2009.	2010.	2011.	2012.	Index 4/1	Index 4/3
	1	2	3	4	5	6
Total revenue	2,980,479	2,826,292	2,762,963	2,895,319	97	105
Sales revenue						
Croatia	1,443,484	1,159,597	1,072,365	1,213,648	84	113
Export	1,231,654	1,305,22	1,289,837	1,227,910	100	95
Total	**2,675,138**	**2,464,817**	**2,362,202**	**2,441,558**	**91**	**103**
Works contracted						
Croatia	861,708	812,489	1,142,492	1,197,471	139	105
Export	1,199,820	1,287,723	1,338,428	1,237,956	103	92
Total	**2,061,528**	**2,100,212**	**2,480,92**	**2,435,427**	**118**	**98**
Balance of works contracted at the end of the year						
Domestic	1,218,166	900,027	970,154	1,004,298	82	104
Export	1,239,963	1,198,922	1,247,513	1,230,384	99	99
Total	**2,458,129**	**2,098,949**	**2,217,667**	**2,234,682**	**91**	**101**
Number of employes on 31.12.	**4,110**	**3,938**	**3,956**	**3,898**	**95**	**99**
Sales per employee	**650.9**	**625.9**	**597.1**	**626.4**	**96**	**105**
Group´s profit	145,113	186,036	192,238	178,352	123	93
Minority stakes	32,290	31,060	29,796	27,815	86	93
Net profits	**112,823**	**154,976**	**162,442**	**150,537**	**133**	**93**
Long term assets	1,173,484	1,186,101	1,343,732	1,453,053	124	108
Current assets	2,097,270	2,110,049	2,152,003	2,078,195	99	97
Total assets	**3,270,754**	**3,296,150**	**3,495,735**	**3,531,248**	**108**	**101**
Subscribed capital	1,028,848	1,028,848	1,028,848	1,028,848	100	100
Reserves, retained earnings, net profit for the period	388,427	550,940	683,884	804,485	207	118
Capital and reserves	1,417,275	1,579,788	1,712,732	1,833,333	129	107
Minority interest	200,388	214,388	224,477	234,610	117	105
Long term provisions	546,049	578,644	509,286	417,453	76	82
Long term liabilities	75,419	81,299	120,208	246,081	326	205
Current liabilities	933.729	775.540	832,473	677,161	73	81
Accrued expenses and deferred income	97,894	66,491	96,559	122,610	125	127
Total liabilities	**3,270,754**	**3,296,15**	**3,495,735**	**3,531,248**	**108**	**101**
EBIT	**176,714**	**218,944**	**230,379**	**213,420**	**121**	**93**
Return on Capital	**8.0%**	**9.8%**	**9.5%**	**8.2%**	**103**	**87**
Return on Sales	**4.2%**	**6.3%**	**6.9%**	**6.2%**	**146**	**90**
Earnings per Share	**43.86**	**60.25**	**63.15**	**58.53**	**133**	**93**

2.3. ORGANISATION AND MANAGEMENT

Business activities of the Končar Group are divided into the following business areas:

- Generation, transmission and distribution of power and transport: designing, construction of plants and equipment for generation, transmission and distribution of electric power, thyristor locomotives, Electrical Multiple Units, trams and railway electric line side equipment;
- Industry: electric motor drives, middle and low voltage electric equipment and catering equipment;
- Trade: electric house appliances, serial products and low voltage electric apparatus;
- Special activities: research and development of products and infrastructure services

The Končar Group is made of KONČAR – ELEKTROINDUSTRIJA d.d. (in English: KONČAR – ELECTRICAL INDUSTRY Inc.) as the Mother Company and 20 dependant companies whose majority influence is held by the Mother Company (more than 50 % of votes at the Annual General Meeting). Preferred shares are registered in a part of companies in addition to ordinary ones. Besides, the Mother Company has a minority managing interest (49 % of votes at the Annual General Meeting) in a company (the associated company).

Companies with the Group are legally independent companies supervised, strategically guided and supported by the Mother Company through Supervisory Boards of each dependent company in accordance with the Law on Trading Companies, the Statutes of KONČAR ELEKTROINDUSTRIJA d.d. (in English: KONČAR – ELECTRICAL INDUSTRY Inc.) and the Statutes of dependent companies. The Mother Company also manages a part of the property that is not invested into companies but has a direct or indirect function of a financial support to the sales of products and services of dependent companies as a credit and warranty potential.

KONČAR – ELEKTROINDUSTRIJA d.d. (in English: KONČAR – ELECTRICAL INDUSTRY Inc.) as the Mother Company invoices dependant companies for the following services:

- A fee for the usage of the name of the company, trade mark and service mark,
- A part of costs for organised common presentation at fairs,
- A part of costs for representative offices abroad,
- A part of costs for common marketing activities,
- Training and workshops for managers, and quality and environmental management systems.

A review of dependent companies and the associated company is given below together with their basic data.

SUBSIDIARIES	In HRK SUBSCRIBED CAPITAL TOTAL	In HRK SUBSRCIBED CAPITAL PARENT COMPANY	% of management PARENT COMPANY At 31 December 2012	% of ownership PARENT COMPANY At 31 December 2012
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	98,516,100	98,516,100	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	3,122,678	3,122,678	100.00	100.00

AFFILIATED COMPANY

POWER TRANSFORMERS	72,764,000	35,654,400	49.00	49.00

Managing Board

The Supervisory Board appoints and recalls the Chairman and members of the Managing Board. The Chairman and members of the Managing Board have the term of office of 5 years. They can be reappointed when their term of office expires. Pursuant the Law on Trade Companies and the Statutes of the Company, the Managing Board manages business operations at its own responsibilities and is responsible and authorised to perform all the activities and to pass all the decisions it considers necessary for a successful management of the Company. The Managing Board will need a Supervisory Board consent for some decisions prescribed by the Statutes.

During 2012 the Company Končar – Elektroindustrija d.d. (in English: Končar Electrical Industry Inc.) was managed by the Managing Board as follows:

Darinko Bago	Managing Board Chairman
Marina Kralj Miliša	Managing Board Member in charge of Legal, General and Human Affairs
Jozo Miloloža	Managing Board Member in charge of Finances
Davor Mladina	Managing Board Member in charge of Business Areas Industry and Trade
Miroslav Poljak	Managing Board Member in charge of Corporate Development and ICT

Supervisory Board

Pursuant provisions of the Law on Trading companies and the Statutes of KONČAR – ELEKTROINDUSTRIJA d.d. (in English: Končar Electrical Industry Inc.) the Annual General Meeting passes decisions on appointment and recall of the Supervisory Board. The Supervisory Board is responsible for appointment and recall of the Managing Board members and for supervision of management of the Company. Some individual big transactions (whose amount is defined in the Supervisory Board Rules of Procedure) and more significant business decisions require a Supervisory Board consent.

The Supervisory Board has 9 members as follows:

Supervisory Board Members of the Company since 3rd July, 2012:

Nenad Filipović	Supervisory Board Chairman
Jasminka Belačić	Supervisory Board Deputy Chairman
Boris Draženović	Supervisory Board Member
Kristina Čelić	Supervisory Board Member
Ivan Rujnić	Supervisory Board Member
Vicko Ferić	Supervisory Board Member
Tomislav Radoš	Supervisory Board Member
Petar Vlaić	Supervisory Board Member
Dragan Marčinko	Supervisory Board Member (since 13th December, 2012)

Supervisory Board Members of the Company by 3rd July, 2012:

Božidar Piller	Supervisory Board Chairman
Jasminka Belačić	Supervisory Board Deputy Chairman
Đuro Perica	Supervisory Board Member
Elvis Kovačević	Supervisory Board Member
Kristijan Floričić	Supervisory Board Member
Vicko Ferić	Supervisory Board Member
Nenad Matić	Supervisory Board Member
Ivan Rujnić	Supervisory Board Member
Ratko Žabčić	Supervisory Board Member

Pursuant the Audit Act (Art 28 of the Act) and the Corporate Managing Code, the Supervisory Board of the Company has established the Audit Committee. Pursuant provisions prescribed by the Audit Act and the Corporate Managing Code, the Audit Committee monitors financial reporting procedures, efficiency of the control system, supervises the performance of annual financial report auditing, monitors the independency of auditors, advices the Supervisory Board on the selection and appointment of the Auditing company.

The Audit Committee consists of 4 members as follows:
Jasminka Belačić - Audit Committee Chairwoman
Boris Draženović – Member
Ivan Rujnić – Member
Vicko Ferić – Member

On its meeting held on 28th September, 2012, the Supervisory Board established the Strategic Development Committee. The Supervisory Board charges the Strategic Development Committee with tasks regarding topics and activities from the scope of activities of the Supervisory Board with a special review to a long standing sustainability of the Končar Group, risk estimates, Group strategic priorities, restructuring needs and development of strategic human potentials within the Končar Group.

The Strategic Development Committee consists of 4 members as follows:
Nenad Filipović – Chairman of the Strategic Development Committee
Kristina Čelić - Member
Tomislav Radoš – Member
Petar Vlaić - Member

2.4. APPLICATION OF CORPORATE MANAGEMENT PRINCIPLE

Corporate management principles in Končar are based on positive rules and regulations of the Republic of Croatia and adopted international standards. Principles are available publicly at the Company web sites (www.koncar.hr) as well as at official sites of the Zagreb Stock Exchange (www.zse.hr).

A prescribed questionnaire comprising answers to questions about provisions of the Zagreb Stock Exchange Code that are applied by the Company is available at the Zagreb Stock Exchange official sites.

Adopted corporate management principles are based on responsible management, defining of corporate management procedures based on adopted recognisable internationals standards, as well as supervision of business operation management, with the aim to achieve a high corporate management standards and the transparency of business operation as a base for protection of shareholders, investors and other stakeholders, as well as care for employees, sustainable development and human environment protection.

2.5. MARKET POSITION

The Končar Group Production Programme is oriented to the basic business activity of generation, transmission and distribution of power and transport. Constantly expending manufacturing capacities and investing into the most recent production technologies including the important segment of tailor maid products make a strategic determination of the Group.

In 2012 new projects were contracted in the total amount of HRK 2,4354 million out of which HRK 1,197.5 million on the domestic market (49 %) and HRK 1,237.9 million to be performed in exports (51 %). The contracted project (open liabilities) at the end of 2012 amounted to HRK 2,234.7 million what was at the level of the beginning of the year.

The consolidated incomes from sales of products and services were generated in the amount of HRK 2,441.5 million; it is higher by HRK 79.3 million or 3.4 % than the consolidated incomes in 2011. On the domestic market the incomes from sales were generated in the amount of HKR 1,226.5 million (50 per cent) or 12% higher than in the previous year. In exports, incomes from sales of products and services were generated in the amount of HRK 1,227.9 million (50 per cent of the total sales) or by 4.8 % lower compared to the export realised in 2011. In 2012, the correction of incomes by deferred incomes amounted to HKR 12.9 million.

Looking at the structure of incomes from sales of products and services on the domestic market, the incomes from sales of products and services to HEP (Croatian Power Authority) amounedt to HRK 655.3 million or 53.4 per cent of the total generated amount on the domestic market, to companies from the area of industry and shipbuilding amounted to HRK 167,8 million or 13.7 per cent of the total incomes of sales of products in Croatia; products in the amount of HRK 182.8 million were delivered to trade companies, HRK 74.6 million to ZET (Zagreb Electric Tram), HRK 43.6 million to HŽ (Croatian Railways) and the rest amount of HRK 102.4 million referred to Croatian Highways, State and Local Government and other Public Companies (Plinacro, INA, etc.).

During the time period from January to December, 2012 on the foreign market the incomes from sales of goods and services amounted to HRK 1,227.9 million and they were by 4.8 % lower than the realisation during the same time period of the previous year. The most significant export was delivered to Germany in the amount of HRK 135.9 million, Sweden HRK 107.2 million, the Check Republic HRK 100.4 million, Bosnia and Herzegovina HRK 75.9 million, Finland HRK 65.3 million, Turkey HRK 51.6 million and Serbia HRK 51,1 million. Divided to markets, the larges exports were performed in the European Union Countries in the amount of HRK 713.8 million (58.1 % of total exports), goods and services were exported to neighbouring countries (Bosnia and Herzegovina, Serbia, Macedonia, Kosovo, Albania) in the amount of HRK 222.1 million (18.1 %), and the export to Africa and Asia amounted to HRK 84.5 million, while HRK 207.5 million belonged to other countries.

In addition to good financial results, a whole range of facilities were completed and contracted in Croatia and abroad in 2012.

The most important completed facilities:

Exported:

- Construction, assembly, testing and putting into operation of plants for Toro 3 HPP (2X30MVA) in Costa Rica were completed and the second unit of Zlatoličje HPP (85MVA) in Slovenia was put into operation;
- Testing and inspections of Bhavani Khatalai Barage III HPP in India entered the final phase;
- Dismantle of the equipment of the first unit of Rama HPP (2X100MVA) in Bosnia and Herzegovina was completed, the refurbishment was in the due course;
- The project of the construction of the testing station power supply plant for the Transformer Factory SMIT Transformtoren B.V. in Netherlands was completed;
- All works on reconstruction of Tirana 1, Fier and Elbasan 1 /S/S, 220/110/35 kV, in Albania were completed;
- Works on reconstruction project for Prizren 2 S/S, 220/110 kV at Kosovo were completed
- The rest of deliveries for all the generators for Binga HPP, Philippines (the total of 4 contracted and 2 assembled and put into successful operation, each one having the power of 37 MVA) were completed;
- The first stator for Pyhakoski HPP, Finland (out of 2 contracted), delivered, assembled and put into successful operation, power 58 MVA);
- Deliveries of instrument transformers (to Russia, Australia, Poland, Estonia, Hungary, Lithuania, Myanmar and Serbia) ;
- Deliveries of dry and small special transformers to 17 European countries;
- Four excitation systems for Afşin Elbistan A TPP (3 x 382,533MVA and 1 x 372,2MVA) were delivered and put into operation.

On the domestic market:

- Delivery, assembly and putting into operation of the generator A, of the power of 160 MVA (the first of 4 contracted generators) for refurbishment of Zakučac HPP were completed;
- Projects of construction / extension / reconstruction / refurbishment of Dugopolje S/S 110/10(20) kV, Funtana S/S 110/20 kV, Bjelovar I S/S 35/10 (20) kV, Seline S/S 35/10(20), Glina S/S 110/20(10) kV, Benkovac S/S 110/20(10) kV, Brod 1 S/S 35/10, Špišić Bukovica S/S 35/10(20) kV, Otok S/S 35/10(20) kV, Križevci S/S 110/35/10 kV were completed;
- Construction of electric energy plant for power supply of the HV laboratory and construction of the HV laboratory of the factory KONČAR – D&ST entered the final phase;
- Construction of Pometeno Brdo Wind Power Plant (17.5 MW) was completed;
- Equipment for the S/S for Učka tunnel, BINA – Istra was delivered;
- Control, protection and automation systems that were constructed / extended / upgraded: processing stations and other necessary equipment for establishment of processing communication nods in Stari Grad S/S 110/35 kV, Čiovo S/S 35/10 kV, 400 kV switchgear in Melina S/S AND in Konjsko S/S 380/220/110kV;
- A redundant remote control and protection system for the gas transport system was constructed and Plinacro – KSCADA IT resources were integrated;
- The first phase of the project ISEV was completed: 3 electric traction substations were constructed together with 5 sectioning plants, remote control and CDU in Rijeka

New projects contracted in 2012:

In export:

- Delivery of spare parts for Kamburu HPP in Kenya;
- Performance of warranty testing at Mostarsko Blato HPP in Bosnia and Herzegovina;
- Delivery of switchgear equipment and transformers to Iraq;
- Extension of Zemblak S/S 400/110/10 kV in Albania;
- Upgrading of SCADA software of the remote control system of DCV Elektro Primorska in Slovenia;
- Replacement of telemetering instruments in transformer substations Sarajevo 5 S/S 110/10 kV, Sarajevo 13 S/S 110/10 kV and Sarajevo 14 S/S 110/10 kV DCU ED Sarajevo, connection of Pecigrad S/S and Zitoprerada S/S to SCADA system DCU ED Bihac, delivery of local automation system for the gas transport system Zenica – Travnik in Bosnia and Herzegovina;
- Contracted SCADA licences for T/S 33/11KV in Nigeria;
- Upgrading of the power of the generator 2 in Borgforsen HPP in Sweden, power 19 MVA;
- Upgrading of the power of the generators in Pamilo HPP in Finland, power 34 MVA;
- Upgrading of the power of the generators 3 and 4 in Imatra HPP in Finland, power 34 MVA;
- Dismantle of existing excitation systems, designing, manufacturing, delivery, assembly and putting into operation of new static excitation systems in Soma TPP (6 blocks each one 194.12 MVA) for the Turkey Power Authority.

On the domestic market:

- Reconstruction of block transformers (3 pcs), 60MVA, with the belonging periphery equipment for Zagreb TE-TO cogeneration plant;
- Construction, extension, reconstruction and refurbishment of: Sesvete 4 S/S 110/20 kV, Hrvatska Kostajnica S/S 110(35)/20/10 kV, Čaglin S/S 35/20(10) kV, Imotski S/S;
- EOR project of construction of the plant for compressing, liquefying and transport of CO_2 on the processing plant Etan, Molve III PS, the membrane separator on Žutica KS, technological pipelines and depressed drills of the oil fields Ivanić and Žutica for INA – Industrija nafte d.d. (Oil Industry Inc.);
- Reconstruction of Trešnjevka ATC and construction of new data centre Selska 122 for Hrvatski Telekom d.d. (Croatian Telecom);
- Delivery of HV equipment for Funtana S/S 110 kV, Kneginec S/S 110 kV, purchase of the equipment for equipping of conducting bays in Meterize S/S and Sinj S/S towards Dugopolje S/S, replacement of switching equipment 220 kV and 110 kV in the switchgear of Bilice S/S;
- Delivery of the equipment and performance of works for implementation of fault indication system to the remote control system of Elektra Zagreb using of GPRS communication;
- Construction / extension / reconstruction of the protection , control and automation system: local automation system from Benkovac GC to Dugopolje GC – Plinacro, S/S 400/110/30 kV Tumbri, TS26 V, Gorica, Vinkovci S/S 110/35/10 kV, Brod 2 S/S 35/10 kV, Sopot S/S 29 kV Turnić, Sušak S/S 110/10(20) kV, S/S 9 EL-TO, Orlovac HPP, Hvar S/S 35/10 kV, Poliester S/S 35/10 kV;
- Support system to the natural gas quantity control – GPZ – performance of works on the construction of the connection CS-NUS – Vukovar;
- Upgrading of SCADA systems in dispatching centres Elektra Slavonski Brod and Elektra Šibenik, Elektra Bjelovar, Elektra Zadar, Elektrojug Dubrovnik and Elektrolika Gospić;
- Upgrading of the power of generators A and B in Dubrovnik HPP (an annex to the existing contract – Buyer HEP – Croatian Power Authority)

2.6. COMPANY BUSINESS RESULTS AND FINANCIAL REPORTS (BALANCE SHEET)

In 2012 Končar Group achieved positive financial results.
Obligations towards buyers, purchasers, employees, government, banks and other contracting parties were regularly fulfilled. Thanks to relatively good level of contracted projects in the previous and in the current year, the majority of Končar Group Companies achieved positive business results.

The total generated consolidated incomes amount to HRK 2,895.3 million making them by 4.8 % higher than incomes in 2011. Nonconsolidated incomes (the data comprise incomes generated among associated companies as well) amount to HRK 3,467.4 million and they are higher by 5.1 % than the achievement in the previous year.

The consolidated Group profit before tax amounts to HKR 200 million and it is lower by 5.1 % compared to 2011 achievements. The profit tax is calculated in the amount of HRK 21.7 million, while the profit after tax amounts to HRK 178.3 million. HRK 27.8 million belong to the non-controlling interest (minority shares), while HRK 150.5 million belong to the Group Mother Company shareholders. The generated profit is higher by 12.4 % than planned and lower by 7.3 % than generated in 2011.

The amount of the total consolidated assets and asset sources on 31st December, 2012 was HRK 3,531.2 million and compared to 31st December, 2011 it represents an increase in the amount of HRK 35.5 million or 1.1 %.

When we compare the structure of the assets to the situation on 31st December, 2011, the noncurrent assets are increased by HRK 109.3 million, while the current assets are decreased by HRK 69.9 million as well as the paid costs of the future period and collection of immature receivables (active time separations) by HRK 3.9 million.

When we compare the noncurrent asset structure to the situation on 31st December, 2011, the tangible assets are higher by the amount of HRK 107.8 million, the intangible assets by HRK 8.4 million, financial assets by HRK 8.2 million while the payables are lower by HRK 15.1 million.

More significant changes in the tangible assets compared to the tangible assets on 31st December, 2011 are present in Companies Končar – Renewable Sources that records an increase by the amount of HRK 91.8 million, Končar – Distributive and Special Transformers that records an increase by the amount of HRK 71.7 million and Company Končar – Household Appliances that has transferred HRK 46.6 million to short-term tangible assets. The Managing Board and the Supervisory Board have made the decisions to sell real estates at locations Žitnjak, Osijek and Zagreb /Ilica Street/ (for the amount of HKR 33.6 million), while the Company has entered into an agreement for sale of the location Žitnjak with the Mother Company.

On 31st December, 2012, the current assets were lower by HRK 69.9 million compared to the current assets on 31st December, 2011 and it was visible in the flowing changes:

- The total stocks were increased by HRK 20.7 million;
- The total current receivables were higher by HRK 5.9 million;
- The financial assets (deposits, interests, cash and cash equivalents) were decreased by HRK 89 million; deposits were decreased by HRK 180.5 million, loans and interests by HRK 0.8 million and the amount of cash and cash equivalents was increased by HRK 92.2 million.

On 31st December, 2012 asset sources were changed in the following manner:
- The capital, reserves, the retained profit and the profit of the current year amounted to HRK 1,833.3 million, the amount higher by HRK 120.6 million or 7 % compared to the situation on 31st December, 2011.
- Non-controlling (minority) interest amounted to HRK 234.6 million and it was higher by HRK 10.1 million or by 4.5 % compared to the situation on 31st December, 2011.

- Non-current reserves amounted to HRK 417.5 million and they were lower by HRK 91.8 million. The most important part of the decrease of the non-current reserves (HRK 63.2 million) referred to the relief of the reserves of the Mother Company bound to the claim of the Central Bank of Syria of 2004 and the relief of non-current reserves referring to a part of earlier formed reserves for potential liabilities based on advance payment guarantees for contracts made with Iraq State Institutions before 1990. A part of facilities for which potential obligations had been formed in 1990 and non-current reserves were formed consequently was completed by other contractors.
- Non-current payables amounedt to HRK 246.1 million out of which HRK 245.9 million referred to loan repayments. Non-current payables were higher by HRK 125.9 million compared to the situation on 31st December,2011, in the first line due to the increase of non-current loans in Companies Končar – Distributive and Special Transformers (the increase of HRK 52 million), Končar – Renewable Sources (HRK 60.9 million) and Končar – Electrical Vehicles (HRK 22.8 million).
- Current payables amounted to HRK 677.2 million and they were lower by HRK 155.3 million or by 18.7 % compared to the situation on 31st December, 2011. When we look at the current asset structure, it is visible that the largest part of the decrease compared to the situation on 31st December, 2011 refers to advance payments that were lower by HRK 72.8 million, payables to suppliers that were decreased by HRK 58.2 million and liabilities for current loans that were lower by HRK 35.1 million compared to the situation on 31st December, 2011.

Within the asset source structure, the registered capital, reserves, the retained profit, the current year profit and non-controlling interest amounted to HRK 2,067.9 million that was higher by HRK 130.7 million compared to the situation on 31st December, 2011 and that made 58.5 % of the total sources. Non-current reserves amounted to HRK 417.5 million and they were lower by HRK 91.8 million compared to the situation on 31st December, 2011 making 11.9 % of the total sources. Non-current and current payables amounted to HRK 923.2 million or HRK 29.4 million less than at the end of 2011 making 26 % of the total sources. Within current liabilities, payables towards suppliers amounted to HRK 350 million (HRK 58.2 million less compared to the situation at the end of 2011) and they made 10 % of the total sources. The total loans (non-current and current) amounted to HRK 347.4 million and they were higher by HRK 90.8 million compared to the situation on 31st December, 2011 and they made 9.8 % of the total sources.

Non-current asset sources (capital, long-term reserves and non-current payables) were higher by HRK 536.2 million than non-current assets and the average condition of stocks showing a good time structure of asset sources. Current assets were higher by 3.1 times compared to the current liabilities showing a good liquidity of the system. The consolidated balance Sheet structure shows a good financial stability of the Končar Group.

Overwiew of the business result for the year 2012. by companies of KONČAR Group (HRK)

	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
	31.12.2012.	1-12.2011.	2012.	1-12.2012.			1-12.2011.	2012.	1-12.2012.		
	1	2	3	4	5	6	7	8	9	10	11
POWER PLANT AND EL.TRACTION ENGINEERING	267	631.126.001	673.872.135	745.109.050	118,1	110,6	609.029.824	659.972.135	730.529.877	119,9	110,7
GENERATORS AND MOTORS	508	230.009.309	272.927.910	302.856.072	131,7	111,0	224.966.524	268.349.860	288.628.982	128,3	107,6
HIGH VOLTAGE SWITCHGEAR	147	71.234.833	65.348.581	61.457.656	86,3	94,0	71.182.373	64.594.681	80.344.468	112,9	124,4
MEDIUM VOLTAGE APPARATUS	79	52.132.394	58.350.000	61.535.611	118,0	105,5	43.057.819	50.190.000	52.659.166	122,3	104,9
SWITCHGEAR	120	53.830.691	65.250.000	46.972.815	87,3	72,0	61.398.009	64.950.000	52.789.106	86,0	81,3
DISTRIBUTION AND SPECIAL TRANSFORMERS	450	686.880.331	707.700.000	699.210.841	101,8	98,8	649.860.547	670.700.000	663.566.209	102,1	98,9
INSTRUMENT TRANSFORMERS	246	212.053.807	196.455.000	198.390.276	93,6	101,0	191.842.618	177.855.000	177.150.049	92,3	99,6
ELECTRONICS AND INFORMATICS	274	142.169.867	137.805.000	150.983.004	106,2	109,6	140.277.826	136.188.000	148.949.744	106,2	109,4
METAL STRUCTURES	248	194.537.719	195.925.000	186.577.385	95,9	95,2	186.392.517	187.640.000	180.854.493	97,0	96,4
ELECTRIC VEHICLES	243	137.241.826	126.500.000	194.627.952	141,8	153,9	130.785.233	121.710.000	190.401.990	145,6	156,4
RENEWABLE SOURCES	5	1.410.284	8.510.900	5.030.059	356,7	59,1	1.303.711	8.416.705	4.738.868	363,5	56,3
ENG. FOR PLANT INSTALLATION & COMMISSIONING	119	80.410.422	71.406.000	86.030.442	107,0	120,5	78.920.308	69.066.000	85.489.172	108,3	123,8
SMALL ELECTRICAL MACHINES	190	73.534.593	71.804.600	81.160.036	110,4	113,0	68.623.306	68.025.000	74.174.878	108,1	109,0
TOOLS	69	28.374.761	35.060.000	25.228.838	88,9	72,0	31.491.654	33.955.000	25.085.746	79,7	73,9
CATERING EQUIPMENT	72	23.791.918	23.000.000	16.608.433	69,8	72,2	24.810.200	22.782.759	20.551.605	82,8	90,2
HOUSEHOLD APPLIANCES	279	138.574.887	152.900.000	120.992.666	87,3	79,1	151.928.866	156.689.000	158.344.002	104,2	101,1
LOW VOLTAGE SWITCH. AND CIRCUIT BREAKERS	210	57.534.704	56.874.000	58.258.173	101,3	102,4	60.180.519	56.316.000	57.785.896	96,0	102,6
ELECTRICAL ENGINEERING INSTITUTE	169	92.727.509	97.900.000	84.700.255	91,3	86,5	85.854.344	91.227.350	78.820.701	91,8	86,4
INFRASTRUCTURE AND SERVICES	150	60.149.150	58.190.336	59.945.115	99,7	103,0	58.466.611	56.923.315	57.385.549	98,2	100,8
KONES AG	1	14.987.108	23.710.000	30.087.819	200,8	126,9	15.688.322	23.620.000	29.678.249	189,2	125,6
TOTAL DEPENDENT COMPANIES	3.846	2.982.712.114	3.099.489.462	3.215.762.498	107,8	103,8	2.886.061.131	2.989.170.805	3.157.928.750	109,4	105,6
KONČAR - Electrical Industry Inc.	52	316.993.755	145.266.000	251.657.579	79,4	173,2	246.345.537	79.338.000	137.414.195	55,8	173,2
TOTAL PARENT COMPANY AND DEPENDENT COMPANIES	**3.898**	**3.299.705.869**	**3.244.755.462**	**3.467.420.077**	**105,1**	**106,9**	**3.132.406.668**	**3.068.508.805**	**3.295.342.945**	**105,2**	**107,4**
	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*	517	1.346.661.119	1.311.081.999	1.036.128.314	76,9	79,0	1.065.901.407	1.115.876.349	839.806.655	78,8	75,3
Elkakon d.o.o.(D&ST 50% of share capital)		70.209.000		79.765.000	113,6		69.188.000		78.106.117	112,9	
TBEA**(Instrument trans. 27% of share capital)		88.638.000		96.493.000	108,9		100.079.000		88.221.512	88,2	

KONČAR Group's net profit

** Remark: Result 1.10.2011. - 30.09.2012.*

*** Capital is calculated according to the middle exchange rate of the euro 31.12.2012.*

Overwiew of the business result for

Overwiew of the business result for the year 2012. by companies of KONČAR Group (HRK)

	Number of employees	OTAL INCOM Realized	PROFIT/ LOSS	CORPORATE INCOME	PROFIT / LOSS FOR THE PERIOD Realized	Plan	Realized	Index 16/14	Index 16/15	SUBSCRIBED CAPITAL	PARENT'S SUBSCRIBED	% OWNERSHIP OF THE PARENT	Part of the PROFIT/LOSS that belongs to the shareholders of the Parent
	31.12.2012.	1-12.2011.	BEFORE TAXES	TAX	1-12.2011.	2012.	1-12.2012.			TOTAL	CAPITAL	31.12.2012.	
	1	2	12	13	14	15	16	17	18	19	20	21	22
POWER PLANT AND EL.TRACTION ENGINEERING	267	631.126.001	14.579.173	0	16.930.312	12.225.200	14.579.173	86,1	119,3	36.000.000	36.000.000	100,0000	14.579.173
GENERATORS AND MOTORS	508	230.009.309	14.227.090	3.621.383	5.042.785	4.578.050	10.605.707	210,3	231,7	107.927.700	107.927.700	100,0000	10.605.707
HIGH VOLTAGE SWITCHGEAR	147	71.234.833	-18.886.812		52.460	753.900	-18.886.812			49.751.400	42.000.300	84,4203	-15.944.311
MEDIUM VOLTAGE APPARATUS	79	52.132.394	8.876.445	1.828.399	7.243.316	6.500.000	7.048.046	97,3	108,4	19.679.700	8.220.000	41,7689	2.943.893
SWITCHGEAR	120	53.830.691	-5.816.291		-7.567.320	300.000	-5.816.291	76,9		36.966.000	16.899.000	45,7150	-2.658.916
DISTRIBUTION AND SPECIAL TRANSFORMERS	450	686.880.331	35.644.632	2.353.472	33.651.983	29.600.000	33.291.160	98,9	112,5	76.684.800	39.655.200	51,7119	17.215.506
INSTRUMENT TRANSFORMERS	246	212.053.807	21.240.227	4.463.259	16.237.619	15.000.000	16.776.968	103,3	111,8	18.989.100	8.265.600	43,5281	7.302.700
ELECTRONICS AND INFORMATICS	274	142.169.867	2.033.260		1.820.699	1.517.000	2.033.260	111,7	134,0	37.126.800	27.857.700	75,0339	1.525.635
METAL STRUCTURES	248	194.537.719	5.722.892	1.191.345	6.450.446	6.628.000	4.531.547	70,3	68,4	24.645.600	18.486.600	75,0097	3.399.102
ELECTRIC VEHICLES	243	137.241.826	4.225.962	601.427	5.808.770	3.530.230	3.624.535	62,4	102,7	47.026.800	35.288.700	75,0396	2.719.835
RENEWABLE SOURCES	5	1.410.284	291.191		106.573	94.195	291.191	273,2	309,1	98.516.100	98.516.100	100,0000	291.191
ENG. FOR PLANT INSTALLATION & COMMISSIONING	119	80.410.422	541.270	310.929	1.008.262	1.800.000	230.341	22,8	12,8	11.827.500	4.552.800	38,4933	88.666
SMALL ELECTRICAL MACHINES	190	73.534.593	6.985.158	1.594.332	3.951.844	2.969.600	5.390.826	136,4	181,5	41.641.800	41.641.800	100,0000	5.390.826
TOOLS	69	28.374.761	143.092		-3.116.893	1.105.000	143.092		12,9	49.166.400	49.166.400	100,0000	143.092
CATERING EQUIPMENT	72	23.791.918	-3.943.172		-1.018.282	217.241	-3.943.172	387,2	-1.815,1	25.447.800	25.447.800	100,0000	-3.943.172
HOUSEHOLD APPLIANCES	279	138.574.887	-37.351.336		-13.353.979	-3.789.000	-37.351.336	279,7	985,8	127.877.500	127.877.500	100,0000	-37.351.336
LOW VOLTAGE SWITCH. AND CIRCUIT BREAKERS	210	57.534.704	472.277		-2.645.815	558.000	472.277		84,6	81.466.900	81.466.900	100,0000	472.277
ELECTRICAL ENGINEERING INSTITUTE	169	92.727.509	5.879.554		6.873.165	6.672.650	5.879.554	85,5	88,1	40.763.520	40.763.520	100,0000	5.879.554
INFRASTRUCTURE AND SERVICES	150	60.149.150	2.559.566	614.884	1.294.176	986.765	1.944.682	150,3	197,1	49.891.600	49.891.600	100,0000	1.944.682
KONES AG	1	14.987.108	409.570		-701.214	90.000	409.570		455,1	3.122.678	3.122.678	100,0000	409.570
TOTAL DEPENDENT COMPANIES	3.846	2.982.712.114	57.833.748	16.579.430	78.068.907	91.336.831	41.254.318	52,8	45,2	984.519.698	863.047.898		15.013.674
KONČAR - Electrical Industry Inc.	52	316.993.755	114.243.384	5.087.802	70.648.218	65.928.000	109.155.582	154,5	165,6	1.028.847.600		100,0000	109.155.582
TOTAL PARENT COMPANY AND DEPENDENT COMPANIES	**3.898**	**3.299.705.869**	**172.077.132**	**21.667.232**	**148.717.125**	**157.264.831**	**150.409.900**	**101,1**	**95,6**	**2.013.367.298**	**863.047.898**		**124.169.256**
	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												-53.439.457
POWER TRANSFORMERS*	517	1.346.661.119	196.321.659	39.338.409	271.976.650	174.348.515	156.983.250	57,7	90,0	72.764.000	35.654.400	49,00005	**76.921.879**
Elkakon d.o.o.(D&ST 50% of share capital)		70.209.000	1.658.883	332.000	804.000		1.326.883	165,0		3.092.000	799.466	25,85559	**663.442**
TBEA**(Instrument trans. 27% of share capital)		88.638.000	8.271.488	45.315	-10.534.000		8.226.173			40.869.289	4.803.199	11,75250	**2.221.067**
KONČAR Group's net profit													**150.536.187**

** Remark: Result 1.10.2011. - 30.09.2012.*

*** Capital is calculated according to the middle exchange rate of the euro 31.12.2012.*

KONČAR

2.7. RISK VULNERABILITY

Končar Group Companies are exposed to various market and financial risks. The business environment risk is determined by political, economical and social conditions of the markets on which Companies run their business. Financial risks are bound to currency, interest, loan and liquidity risks.
Končar Group Companies monitor stated risks and try to decrease their potential influence to their financial stability.
All Group Companies monitor and control liquidity as a rule, define measures for preventing or repairing insolvency causes, take necessary measures to provide sufficient quantity of long term financing sources regarding the scope and the type of business activity and they monitor regularly the achievement of the capital adequacy.
Non-current asset sources (capital, noncurrent reserves and noncurrent liabilities) are higher than the long term assets and the average condition of stocks at the level of the whole Group showing a good term structure of asset sources. Current assets are 3.1 times higher than current liabilities showing a good liquidity of the system. The Consolidated Balance Sheet Structure shows a good financial stability of the Končar Group.

- *Market risks*

Markets risks are caused by possible losses resulting from unfavourable economic conditions and a decreased demand on the market.

Končar Group Companies run business on the Croatian and on international markets. The main business activity of the Group is bound to the area of generation, transmission and distribution of power and transport that depends heavily on the investments in the field. The recent economic crises and recession caused the appearance of the risk of closure of some markets and motivation to entrust projects to domicile companies. Further on, the competing capacity of products and services of our companies are influenced by changed conditions not only in which the Group companies run their business, but also in which our buyers run their businesses as well. The Managing Board of each Company determines prices of their products independently.

The official currency of the Group is Croatian kuna. Nevertheless, certain foreign currency transactions are calculated into Croatian kunas applying foreign currency exchange rates valid on the date of the Balance Sheet. Resulting exchange rate differences are booked in favour or in charge of the Profit and Loss Account.
Companies protect themselves from foreign currency risks contracting the sales and the purchase in the same currency and adjusting the dynamics of incomes and outgoes and planned buying of foreign currencies in accordance with the cash flow plans. A smaller part of companies use derived financial instruments for financial risk vulnerability protection.

The Group is exposed to interest risks since a part of loans has been contracted with changeable interest rates, while the majority of assets is not interest earning. Individual Group companies contract protection against vulnerability to changes of interest rates expressed in foreign currencies.

- *Credit risks*

A credit risk is the risk in which one party of a contractual relationship does not fulfil its obligations causing a financial loss for the other party. The Group has accepted the policy of business operations with exclusively financially sound companies decreasing the possibility of financial risks due to unfulfilled liabilities. The Group Companies use data and evaluations collected from specialised credit standing evaluation companies, the Chamber of Commerce and publicly published data on the financial standing of companies and they use their own data base to range more important buyers. Credit risk influence on the Group and credit rating changes are constantly monitored. As a rule, projects are contracted with financially stable business partners and appropriate payment assurance instruments are provided for.

Individual characteristics of each individual buyer usually influence the credit risk vulnerability. The Group adopted a credit policy that requires an analysis of the financial standing of each buyer on an individual basis prior to determination of terms and conditions of payment and delivery for that buyer. The Group companies determine the correction of value of receivables from the buyer as an evaluation of foreseeable losses from receivables and investments.

- *Liquidity risks*

A liquidity risk is a risk that Group Companies will not be able to fulfil its financial obligations in due time. The Managing Board of each Company is in charge of the liquidity risk management. The Group manages the liquidity risk monitoring continuously the foreseen cash flow and comparing it with the real cash inflows and outgos. The Group as a whole is not exposed to the liquidity risk in any more significant manner. Some Companies from the Group have problems with the liquidity that are being solved within the potentials of the Group.

2.8. SHARES

Shares of Končar – Elektroindustrija d.d. (in English: Končar – Electrical Industry Inc.) are quoted on the official market of the Zagreb Stock Exchange. Shares are marked with the symbol KOEI-R-A. Pursuant positive rules and regulations, the Company provides for a regular access to data on its business operation and activities as well as on data on the facts and circumstances influencing the price of shares (price sensible data).

The Share Capital of the Company amounts to HRK 1,028,847,600.00 and consists of 2,572,119 ordinary shares each one having the nominal value of HRK 400.00.

The Company treats all the shareholders in the same manner and under the same conditions independently on the number of shares they have, the country of their origin or any other features. The right to vote applies to all the Company shareholders in the manner that the number of votes they have at the Annual General Meeting is equal to the number of their shares.

In 2012 the price trends of Končar Electrical Industry shares followed the overall market trends. The highest share price was achieved in December, 2012 (HRK 650) while the lowest was recorded at the end of January (HRK 475). The average share price at the end of 2012 amounted to HRK 638.6.

The total turnover achieved by the trade of Končar shares amounts to HRK 118.9 million showing a decrease by 35.5 % compared to the trade realised in 2011. The quantity of traded shares amounts to 132,819 shares (43 % less than in 2011.).

Depending companies KONČAR – Distributive and Special Transformers and KONČAR – Switchgear was quoted on the ordinary market of the Zagreb Stocks Exchange for the first time. The price of ordinary and preferred shares of KONČAR – Distributive and Special Transformers moved within the range from HRK 900 to HRK 1.150. There was not any trading with shares of the Company KONČAR – Switchgear in 2012.

Shares of the company Končar – Instrument Transformers Inc. and Končar – Middle Voltage Electrical Apparatus entered the Multilateral Trade Platform (MTP) of het Zagreb Stock Exchange. In 2012 the price of the share of the Company Končar – Instrument Transformers moved within the range from HRK 930 to HRK 1,400, and the share of the Company Končar – Middle Voltage Electrical Apparatus within the range from HRK 810 to HRK 1,100.

During 2012 the Company acquired 5,610 pieces of its own shares. During December, 2012, the Company released 14,560 pieces of its own shares with the purpose of realisation of optional right to buy shares achieved by the President and the Members of the Managing board based on the Contract on Rights, Obligations and the Salary for 2006.

On 31st December, 2012, the Company had 664 pieces of its own shares making 0.03 % of the Share Capital of the Company.
Ownership Structure of the Company is the following:

Shareholder	**At 31 December 2012**		**At 31 December 2011**	
	No. of shares	**Ownership share**	**No. of shares**	**Ownership share**
1. HPB Inc. (Kapitalni fond Inc.)	724,515	28.17	724,515	28.17
2. AUDIO /HZMO	384,628	14.95	384,628	14.95
3. AUDIO/RH	260,280	10.12	260,280	10.12
5. Societe Generale - Splitska banka Inc./ Erste Plavi mandatory pension fund	184,189	7.16	172,199	6.69
6. Hypo-Alpe-Adria-Bank Inc./ PBZ Croatia Osiguranje	164,777	6.41	107,159	4.17
4. LINTEUM SAVJETOVANJE	139,791	5.43	190,491	7.41
7. SOCIETE GENERALE/ AZ OMF	106,438	4.14	104,676	4.07
8. FLORIČIĆ KRISTIJAN	85,714	3.33	85,714	3.33
9. HYPO ALPE ADRIA ANK/RBA OMF	35,250	1.37	35,250	1.37
10. PBZ Inc. /joint custody account of clients	32,124	1.25	33,074	1.29
11. Other shareholders	453,749	17.64	464,519	18.06
12. KONČAR Inc. (treasury stocks)	664	0.03	9,614	0.37
	2,572,119	**100.00**	**2,572,119**	**100.00**

2.9. RESEARCH AND DEVELOPMENT OF PRODUCTS AND MANUFACTURE

Relaying on products resulting from in-house research and development has always been a constituent part of the long standing business policy of the Company. With the aim to direct and coordinate research and development of new products and innovations of existing ones and adjustment to development of the KONČAR Group, Končar Electrical Industry Managing Board passed the Conclusion on Strategic Area Development Management at the beginning of 2012. All the companies signed the Agreement on Strategic Area Development Management in the Končar Group and Companies interested in certain areas also signed the contract with Companies - Holders of the Agreement on mutual coordination and exchange of business and technical data within strategic areas.

In accordance with the Agreement, Končar Electrical Industry Managing Board determined six areas of strategic interest for the Končar Group, nominated companies - holders of the development and coordinators for each strategic area. Pursuant the procedure adopted in 2012, three strategic projects were initiated and each of them is in a different performance stage:

1. Development of metal clad SF6 insulated switchgear up to 145 kV
2. DigiTran Digital Transformer Substation
3. Končar Group Knowledge and Know How Management

In addition to activities regarding defining of development policies, the year of 2012 also brought a larger number of individual research and development results. The most important are:

- Development of wind turbine, 2.5 MVA
- Integrated main drive converter with auxiliary power supply converter PGPN/DMV for diesel electrical motor unit
- Development of new high voltage SF6 circuit breaker for the voltage level of 123 kV
- Development of advanced sensors for protection of winding and measuring of air gap of asynchronous and synchronous motors and generators
- Innovation of the electric energy equipment monitoring (on the basis of in-house research of modular software and switching platforms)
- A new variant of multiple awarded autonomous power supply system KONČAR Hybrid Box with a diesel generator.
- Development of high voltage power transformer of voltages up to 362 kV and nominal powers up to 100 kVA VPT-362
- Development of insulation systems made in vacuum pressure impregnation (VPI) technology
- Completion of CSRCE Cetina River Basin Management Project
- Development of the application for energy market organisation and SUKOP modular system for commercial gas management

In addition to the development of products, a part of investments were spent on the development of manufacture and infrastructure:

- A new Testing Station of the Company Končar – Distributive and Special Transformers was constructed and equipped
- New switchgears and the electric energy system were thoroughly refurbished on the location at Jankomir.
- Works of reconstruction of the roof of the largest facility at the location Sesvetski Kraljevac – Hall 1 were completed in the last quarter of 2012.

2.10. EMPLOYEES

Starting from KONČAR strategic determination that employees represent the main capital of the Company and that the whole business depends on the engagement of each individual employee, the maintenance of competitive capacity of KONČAR is based on the experience, knowledge, know-how and innovativeness of its employees.

KONČAR concluded the year of 2012 employing the total of 3898 employees out of which 989 with a university degree. 70 % of them have a technical profession, 23 % are graduated economists and lawyers and the rest 7 % belong to other professions.
In 2012 KONČAR employed 23 philosophy doctors and 64 masters of sciences.

The average age of KONČAR employees in 2012 was 44 years, the same as in 2011. The average age of newly employed persons in 2012 was 30, while in 2011 it was 29 years.

Employment of younger highly educated workers with a degree from the Faculty of Electrical Engineering and Computing was dominant.

Traditionally, KONČAR assures employment of highly educated persons with scholarships granted to students attending various faculties / the Faculty of Electrical Engineering and Computing, the Faculty of Mechanical Engineering and Naval Construction /.
51 employee holding a faculty diploma attend a doctorial study, 16 attend a post graduate studies tending to achieve a master degree, while 23 attend a two or three year-long specialised study.

Since the lifelong education represents a warranty of the business success, KONČAR's priority is a constant investment into knowledge of its employees. That is the reason why an increase of employees participating in various forms of education and training is recorded with a simultaneous increase of average investment into education.

KONČAR pays a special attention to the selection of its managers, i.e. timely detection of managerial potentials, as well as to the investment into their development and making space for further advancements.

In 2012 education and training programme pursuant unique 3rd Education and Training Cycle including 13 modules was continued. Končar education and training programmes are "tailor made" as a rule and in addition to the education directed to acquire of specialist skills and knowledge also comprise the development of general and managerial competencies, foreign languages, information technologies as well as some "soft" skills such as motivation of employees, team leading, team working, communication skills, ethical values.

In 2012 a successful cooperation with a range of scientific and educational institutions was continued enabling detection, definition and implementation of a range of projects in which participating parties are equal partners, each one investing its own expertise and motivating cooperation between the scientific, educational and commercial sectors.

2.11. QUALITY AND ENVIRONMENT

Achieving a satisfaction of buyers with deliveries of high quality and reliable products, environmental protection and protection of the health and safety of employees in their working environments represent constituent parts of Končar business policy. This policy is implemented in all the Companies applying and certifying management systems in accordance with requirements of international quality management standards ISO 9001, environmental management standards ISO 14001 and health and working safety and security standards OHSAS 18001.

17 Companies have certified ISO 9001 quality assurance system. The main purpose of this system is management of key processes influencing the quality of products and/or services with the aim to increase clients' satisfaction. ISO 9001 Certificate issued by authorised independent certifying companies provides customers with a certain level of trust into capacity of the organisation to satisfy their requirements. Nevertheless we face every day more frequent situation in which clients perform "the other side audit", especially when they apply prequalification procedures to contract certain products, meaning that they check functioning of the quality management system directly in the Company to verify the capacity of the Company to fulfil their requirement and expectations.

ISO 14001 environment management system is certified in 18 companies. Applying this system, companies continuously monitor and analyse environmental aspects when perform their business activities and processes, influence of delivered products and services to the environment and take measures to decrease negative influences. ISO 14001 Certificates are issued by authorised independent certification institutions benefitting the thrust of all interested parties from the government to local communities that the Company treats the environment with respect.

2.12. SOCIAL RESPONSIBILITY

Socially responsible business running is a part of the business policy and every day activities regarding all the parts of business and manufacturing activities, position and security of employees, cooperation with social community and all the other interested parties involved in any manner in the business operation of the Group.

Preservation of the human environment not only in manufacturing facilities, but also in the environments where plants and equipment are installed present one of Končar priorities. Since the majority of the equipment is intended for generation, transmission and distribution of electric energy, industrial plants or transport of people and goods, the maximum safety and security as well as a maximum decrease of negative influences on the environment are the priority in the whole production process from the quality control of input raw materials, components, production processes to finished goods, equipment and plants.

In 2012 the Group realised several significant projects improving manufacturing conditions and consumption of raw materials. The most important activities in that segment were: rationalisation of technological water consumption at the location Fallerovo šetalište, improvement of the quality of supply with compressed air, repair of the sewage system at the location Fallerovo šetalište, reconstruction of hot water pipeline at the location Sesvetski Kraljevac, cleaning of the underground storage for replacement fuels, improvement of insulation of production facilities at several locations and other works enabling a more efficient consumption of energy and decrease of negative environmental influences.

Knowledge, skills, experience and dedication of our employees represent the most significant factor of successful business operation of the Company. Regular salaries and regular payment of all legal obligations are indispensable. In addition the Company apply a range of activities regarding continuous training and skilling of employees, improvement of working conditions (especially in manufacturing facilities, but also in all the others), activities of prevention of diseases and medical check-ups, recreation and free time. For those who have completed their working time period, the Company has organised KONČAR Retirement Club intended for gathering of retired persons to participate in cultural, recreational, educational, social and other activities.

Due to complexity of our products and their parts, continuous improvement and adjusting to the highest world standards is a must. Results are visible in the satisfaction of our clients in the most challenging markets on all the continents in various climatic, seismological and other conditions. THE proof for the stated is very day larger number of certificates proving the compliance with the highest requirements. In addition to ISO 9001, OHSAS 18001 as well as many other special certificates and standards, seventeen of the Končar Group Companies are holders of ISO 14001 Certificate.

Developing activities and projects in the area of application of new technologies are permanently present in all segments of manufacturing wholes. Research and development of renewable energy sources has a special place. Končar has developed the first Croatian wind turbine of the power of 1 and 2.5 MW, and Pometeno Brdo Wind Power Plant (17.5 MW) is in trial operation. During 2012, Končar – Institute for Electrical Engineering Inc. continued its activities on renewable sources and after the autonomous power supply system it has been developing other projects in cooperation with companies, faculties as well as independently.

Creativity, education, sport and recreation as well as other activities intended in the first line for children and teenagers, as well as social and humanitarian support to those who need it represent the basis for cooperation with the social community. Within the Končar Day celebration, the company traditionally donate assets for humanitarian purposes. In 2012 the assets were donated to the CHildern Disease Clinic Zagreb for purchase of needed medical equipment.
On the occasion of the Končar Day best students of Technical Two-Year Faculty Zagreb, a long standing Končar co-operator, are also awarded. During the year many other activities were supported in the first line activities intended for children and teenagers or activities having social and humanitarian character.

Končar is involved in the Global Compact Network (UN World Agreement), the largest world initiative in the area of socially responsible business operation. Končar prepares and publishes Social Responsibility Reports in accordance with the Global Compact (GC) Principles and in accordance with the Global Reporting Initiative (GRI 3). With those activities Končar listed itself into a small number group of Croatian companies preparing such reports.

Social Responsibility Reports were published on Global Reporting Initiative and Global Compact web sites proving the success of efforts the Group invested in that area of activities and also a proof that Končar is a socially responsible company pursuant the globally defined criteria as well.

2.13. 2013 BUSINESS PLAN

In accordance with the adopted 2013 Plan the consolidated profit before tax of the Group amounts to HRK 174.9 million, the profit tax HRK 22.7 million, the profit after tax in the amount of HRK 152.2 million, minority interest share in the amount of HRK 34.4 million and the Mother Company share in the profit of the Group is planned to be HRK 117.8 million.

The consolidated incomes from sales of goods and services are planned at the level of HRK 2.7 thousand million. The planned income on the domestic market amounts to HRK 1.4 thousand million and in export HRK 1.3 thousand million.
An increase of incomes from sales of products and services on the domestic market in 2013 by 20 % (approximately by HRK 230 thousand million) compared to 2012. A share of the domestic market in total incomes from sales of products will rise to 52 % in 2013. A rise of contracted project for INA (Croatian Oil Industry, Croatian Water Management, a number of invitation for bids of Croatian Power Authority (HEP) and announcements of investments of Croatian Railways (HŽ) provide for a real basis for a significant increase newly contracted projects in 2013.

2.14. FUTURE DEVELOPMENT STRATEGY

Končar Group Companies are permanently directed towards research, development and innovation of products to open launch new products to new markets and to be able to resist to very changeable and instable market conditions. A significant step in that direction has been made during recent years with the development and manufacture of the law-floor tramcar and the prototype of the low-floor Electrical Multiple Unit as well as with investments into the renewable energy sources.
Končar aim and commitment is to run the business in accordance with the rules of the profession and globally recognised standards and assure a place not only in the domestic, but also in the international marketS.

Končar – Electroical Industry Inc. Managing Board has reached the Decision on the concept of strategic area development management within the Končar Group, defined strategic areas and appointed Strategic Development Counsel, defined companies coordination activities holders and area coordinators. All reached decisions are in accordance with the long term development targets of the Končar Group, needs for development of new products of the Group Companies, development of techniques and technologies and available resources.
The following strategic development areas have been determined:

- Transformer substations
- Generation of electric power
- Renewable resources
- Advance network and IT communication
- Rail vehicles
- IT technologies

<u>Final note:</u>

Since the expiry of the business year 2012 up to compilation of this report no more significant business events have been recorded that would change the image of business operation and the status of the Company presented in this Report.
A stabile level of contracted projects at the beginning of 2013 and the announcement of larger investment in the country represent a real base that the plan of the current business year will be realised.

Supervisory Board President	Managing Board President
______________________	______________________
Nenad Filipović	Darinko Bago

In Zagreb, on 2nd April, 2013

KONČAR – ELECTRICAL INDUSTRY GROUP

Consolidated financial statements as at 31 December 2012
together with the Independent Auditor's report

Content

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards endorsed for use in the European Union which give a true and fair view of the financial position and results of Končar – Electrical Industry Group for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- appropriate accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette 109/07). The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on a behalf of Management Board:

Darinko Bago, President of the Management Board

Končar – Electrical Industry Inc., Zagreb
Fallerovo šetalište 22,
10 000 Zagreb

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8

25 March 2013

Independent Auditor's report

To the Management Board and Shareholders of Končar-Electrical Industry Inc.

We have audited the accompanying consolidated financial statements of Končar – Electrical Industry Inc. Zagreb (herein below: the Company) and its subsidiaries (herein below: Group) which comprise the consolidated statement of financial position as of 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 60.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards endorsed for use in the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the Group's financial position as of 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards endorsed for use in the European Union.

Grant Thornton revizija d.o.o.
Ivana Lučića 2A, 10000 Zagreb
Ivica Smiljan,
Certified auditor, Board President
Zagreb, 25 March 2013

GRANT THORNTON
revizija d.o.o.
ZAGREB

Reconsult d.o.o., revizija i konzalting
Trg hrvatskih velikana 4/1, 10000 Zagreb
Marija Zupančić,
Certified auditor, Board member

RECONSULT, d.o.o.
REVIZIJA I KONZALTING
ZAGREB

Consolidated statement of comprehensive income

	Notes	2012 HRK	2011 HRK
Sales	3	2,441,558,354	2,362,201,504
Other operating income	4	302,380,197	182,814,611
Operating revenues		**2,743,938,551**	**2,545,016,115**
Changes in inventories (work in progress and finished goods)		34,073,424	(25,609,518)
Cost of materials and energy	5	(1,339,875,585)	(1,178,145,329)
Cost of goods sold		(117,298,012)	(108,707,565)
Cost of services	6	(331,113,916)	(322,428,129)
Personnel costs	7	(473,601,605)	(474,922,769)
Depreciation and amortization	8	(70,115,355)	(75,770,261)
Other costs	9	(129,879,518)	(203,963,467)
Value adjustments	10	(140,519,615)	(23,398,038)
Provisions	11	(60,434,523)	(70,672,386)
Other operating expenses	12	(21,309,654)	(10,930,061)
Operating expenses		**(2,650,074,359)**	**(2,494,547,523)**
Operating profit		**93,864,192**	**50,468,592**
Share of profit of associates	13	79,806,388	133,670,740
Financial income	14	71,574,277	84,276,570
Financial expenses	15	(45,226,136)	(57,596,141)
Financial result		**106,154,529**	**160,351,169**
Profit before taxation		**200,018,721**	**210,819,761**
Corporate income tax	16	(21,667,232)	(18,582,074)
PROFIT FOR THE YEAR		**178,351,489**	**192,237,687**
Profit for the year attributable to:			
Owners of the parent		150,536,186	162,441,709
Non-controlling interest		27,815,303	29,795,978
Earnings per share			
Basic and diluted earnings per share in HRK	17	58.54	63.39
Net profit for the year		**178,351,489**	**192,237,687**
Other comprehensive income:			
Exchange differences on translating foreign operations		71,263	199,297
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**178,422,752**	**192,436,984**
Total comprehensive income for the year attributable to:			
Owners of the parent		150,607,449	162,641,006
Non-controlling interest		27,815,303	29,795,978

Notes are an integral part of the Consolidated statement of comprehensive income

Consolidated statement of financial position

	Notes	31/12/2012 HRK	31/12/2011 HRK
ASSETS			
Goodwill	18	7,500,898	7,503,528
Intangible assets	19	26,425,283	25,196,312
Property, plant and equipment	20	1,064,816,626	922,616,808
Investment property	21	92,667,771	94,603,651
Investments accounted for using the equity method	22	253,554,900	244,758,603
Financial assets	23	6,727,508	7,322,320
Receivables	24	26,748,148	41,865,654
Non-current assets		**1,478,441,134**	**1,343,866,876**
Inventories	25	476,435,979	511,923,148
Receivables from related companies	26	14,454,628	19,467,234
Trade accounts receivable	27	822,939,856	831,778,713
Receivable for corporate income tax		6,088,801	1,125,265
Other receivables	28	104,638,163	80,560,089
Financial assets	29	196,551,197	376,970,323
Cash and cash equivalents	30	411,667,762	319,420,075
Current assets		**2,032,776,386**	**2,141,244,847**
Prepaid costs and accrued income	31	5,828,902	9,711,305
Non-current assets held for sale	32	14,213,927	912,047
TOTAL ASSETS		**3,531,260,349**	**3,495,735,075**
Off-balance sheet items		**2,330,786,248**	**2,212,151,466**
EQUITY AND LIABILITIES			
Share capital	33	**1,028,847,600**	**1,028,847,600**
Capital reserves		**719,579**	**719,579**
Legal reserves		22,449,226	17,762,375
Statutory reserves		185,426,451	146,257,985
Other reserves		96,349,490	79,136,457
Reserves from earnings		**304,225,167**	**243,156,817**
Retained earnings		**349,004,034**	**277,566,082**
Profit for the current year		**150,536,186**	**162,441,709**
Non-controlling interest		**234,610,125**	**224,477,040**
TOTAL EQUITY		**2,067,942,691**	**1,937,208,827**
Provisions for warranty costs		329,945,204	399,299,269
Other provisions		87,507,847	108,934,237
Provisions	34	**417,453,051**	**508,233,506**
Liabilities for loans, deposits and similar		510,000	1,020,000
Liabilities toward banks and other financial institutions		245.571.105	119,188,139
Non-current liabilities	35	**246,081,105**	**120,208,139**
Liabilities toward related companies	36	439,126	6,899,329
Liabilities for loans, deposits and similar	37	510,000	680,000
Liabilities toward banks and other financial institutions	38	101,666,247	135,938,301
Trade accounts payable	39	349,504,869	403,671,321
Gross amounts due to customers for construction contracts	40	31,273,817	-
Liabilities for corporate income tax		10,961,308	3,273,228
Liabilities for advances received	41	131,632,451	202,109,680
Other liabilities	42	82,458,645	79,901,516
Current liabilities		**708,446,463**	**832,473,375**
Accrued expenses and deferred income	43	**91,337,039**	**97,611,228**
TOTAL EQUITY AND LIABILITIES		**3,531,260,349**	**3,495,735,075**
Off-balance sheet items		**2,330,786,248**	**2,212,151,466**

Notes are an integral part of the Consolidated statement of financial position

Consolidated statement of cash flows

	Notes	2012 HRK	2011 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		2,649,989,202	2,602,460,347
Cash receipts from insurance compensations		73,910,039	11,825,977
Cash receipts from tax returns		209,001,795	170,852,614
Cash receipts from interests		30,373,629	22,804,686
Other cash receipts		38,177,359	57,728,223
Total cash receipts from operating activities		**3,001,452,024**	**2,865,671,847**
Cash payments to trade accounts payable		(2,146,503,883)	(1,985,748,787)
Cash payments to employees		(581,734,988)	(576,378,659)
Cash payments to insurance companies		(10,550,569)	(11,048,500)
Cash payments for interests		(15,810,989)	(12,222,808)
Cash payments for taxes		(199,846,182)	(159,142,278)
Other cash payments		(132,562,656)	(198,408,928)
Total cash payments for operating activities		**(3,087,009,267)**	**(2,942,949,960)**
Net cash flow from operating activities		**(85,557,243)**	**(77,278,113)**
Cash flow from investing activities			
Receipts from the sale of non-current assets		5,293,893	3,501,658
Cash receipts from the sale of financial instruments		1,804,126	3,576,020
Receipts from dividends		73,601,566	177,720,400
Total cash inflow from investing activities		**80,699,585**	**184,798,078**
Purchase of non-current assets		(122,817,115)	(69,605,474)
Purchase of financial instruments		(583,000)	(5,598,423)
Other cash payments for investing activities		-	(1,675,552)
Total cash outflows for investing activities		**(123,400,115)**	**(76,879,449)**
Net cash from investing activities		**(42,700,530)**	**107,918,629**
Cash flow from financing activities			
Cash receipts from loans and borrowings		187,133,090	104,897,529
Other cash receipts from financing activities		333,846,275	179,257,808
Total cash receipts from financing activities		**520,979,365**	**284,155,337**
Repayment of loans and borrowings		(97,430,134)	(79,731,208)
Dividends paid out		(47,790,589)	(40,616,324)
Purchase of treasury shares		(3,418,557)	(687,701)
Other cash outflows for financing activities		(151,834,625)	(454,705,895)
Total cash outflow for financing activities		**(300,473,905)**	**(575,741,128)**
Net cash used in financing activities		**220,505,460**	**(291,585,791)**
Increase (decrease) in cash		**92,247,687**	**(260,945,275)**
Cash and cash equivalents at the beginning of the year	30	319,420,075	580,365,350
Cash and cash equivalents at the end for the year	30	**411,667,762**	**319,420,075**

Notes are an integral part of the Consolidated statement of cash flows

Consolidated statement of changes in equity

	Share capital HRK	Capital reserves HRK	Reserves from earnings HRK	Reserves for treasury shares HRK	Treasury shares HRK	Retained earnings HRK	Profit for the year HRK	Non-controlling interest HRK	Total HRK
As at 1 January 2011	**1,028,847,600**	**719,579**	**201,140,508**	**-**	**-**	**194,104,351**	**154,975,583**	**214,387,740**	**1,794,175,361**
Transaction with owners:									
Correction of opening balances	-	-	-	-	-	-	1,744	718,408	**720,152**
Allocation of the profit for 2010	-	-	36,753,252	10,000,000	-	108,224,075	(154,977,327)	-	-
Dividends	-	-	-	-	-	(30,649,660)	-	(18,035,489)	**(48,685,149)**
Realisation of reserves	-	-	(500,916)	-	-	-	-	(467,751)	**(968,667)**
Share-based payments	-	-	5,561,277	(13,127,200)	3,127,200	5,173,689	-	-	**734,966**
Purchase of treasury shares	-	-	-	6,972,800	(6,972,800)	-	-	-	-
Change in ownership	-	-	-	-	-	717,026	-	(1,921,846)	**(1,204,820)**
Profit for the year	-	-	-	-	-	-	162,441,709	29,795,978	**192,237,687**
Other comprehensive income									
Exchange differences on translating foreign operations	-	-	202,696	-	-	(3,399)	-	-	**199,297**
Total comprehensive income	-	-	*202,696*	-	-	*(3,399)*	*162,441,709*	*29,795,978*	*192,436,984*
As at 31 December 2011	**1,028,847,600**	**719,579**	**243,156,817**	**3,845,600**	**(3,845,600)**	**277,566,082**	**162,441,709**	**224,477,040**	**1,937,208,827**
Transaction with owners:									
Correction of opening balances	-	-	-	-	-	387,697	(187,275)	(274,155)	**(73,733)**
Allocation of the profit for 2011	-	-	65,124,720	-	-	97,129,714	(162,254,434)	-	-
Dividends	-	-	-	-	-	(30,750,060)	-	(17,001,537)	**(47,751,597)**
Realisation of reserves	-	-	(435,351)	-	-	-	-	(406,526)	**(841,877)**
Share-based payments	-	-	(3,699,065)	(5,824,000)	5,824,000	4,677,384	-	-	**978,319**
Purchase of treasury shares	-	-	-	2,244,000	(2,244,000)		-	-	-
Profit for the year	-	-	-	-	-		150,536,186	27,815,303	**178,351,489**
Other comprehensive income									
Exchange differences on translating foreign operations	-	-	78,046	-	-	(6,783)	-	-	**71,263**
Total comprehensive income	-	-	*78,046*	-	-	*(6,783)*	*150,536,186*	*27,815,303*	*178,422,752*
As at 31 December 2012	**1,028,847,600**	**719,579**	**304,225,167**	**265,600**	**(265,600)**	**349,004,034**	**150,536,186**	**234,610,125**	**2,067,942,691**

Notes are an integral part of the Consolidated statement of changes in equity

1. General data on the Group

1.1. Activities

The main activities of the Končar – Electrical industry Group, Zagreb („the Group“) include production of electrical machinery and appliances, production of transportation vehicles, equipment and similar activities.

Main activities of the Group are divided in three main areas:

I. Industry: electromotive drivers, electrical equipment of low and high voltage and catering equipment;

II. Energetic and transportation: design and construction of plant for the production, transfer and distribution of electrical energy, and related equipment, locomotives, trams, and electrical equipment for stable electric traction plant and

III. Trade: electrical household appliances, serial products and electrical low voltage switchgears.

There are 17 subsidiaries within the Group involved in core business and 2 subsidiaries involved in activities related to research and development of products and infrastructural services, as well as one subsidiary registered abroad which acts as representative office or the distributor of Group's products and supplier for raw materials.

The Group has two associates and one joint venture in China.

Parent company of the Group is Končar-Electrical industry Inc, Zagreb, Fallerovo šetalište 22 („the Company“). The Company is a holding company of all companies in the Group.

As at 31 December 2012 the Group had 3,897 employees, while as at 31 December 2011 the Group had 3,956 employees.

Members of the Supervisory Board from 3 July 2012:

Nenad Filipović	President
Jasminka Belačić	Deputy
Boris Draženović	Member
Kristina Čelić	Member
Ivan Rujnić	Member
Vicko Ferić	Member
Tomislav Radoš	Member
Petar Vlaić	Member
Dragan Marčinko	Member (from 13 December 2012)

Members of the Supervisory Board till 3 July 2013:

Božidar Piller	President
Jasminka Belačić	Deputy
Elvis Kovačević	Member
Kristijan Floričić	Member
Ivan Rujnić	Member
Vicko Ferić	Member
Đuro Perica	Member
Nenad Matić	Member
Ratko Žapčić	Member

Members of the Management Board

Darinko Bago	President
Marina Kralj Miliša	Member, in charge of legal, general and human resource activities
Jozo Miloloža	Member, in charge of finance
Davor Mladina	Member, in charge of IT and trade activities
Miroslav Poljak	Member, in charge of corporate development and ICT

Compensations to the members of the Management and Supervisory Board are presented in the notes 7 and 9.

The financial statements are denominated in Croatian Kuna (HRK). Stated amounts are rounded to the nearest HRK.

2. Summary of significant accounting policies

2.1 Basis for preparation

Statement of compliance

Consolidated financial statements of the Group are prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards endorsed for use in the European Union.

The consolidated financial statements are prepared on the accrual basis (where the transactions are recognized in the period in which transaction effects occur) and on a going concern basis.

The accounting policies have been consistently applied. The financial statements have been prepared using the historical cost convention except for any financial assets and liabilities stated at fair value.

The consolidated financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Group. At 31 December 2012, the exchange rate for USD 1 and EUR 1 was HRK 5.73 and HRK 7.55, respectively (31 December 2011: HRK 5.82 and HRK 7.53 respectively).

Standards, Amendments and Interpretations issued by IASB, adopted by the European Union and Croatian Board for financial reporting standards and effective

During the year 2012 the Group has adopted new International Financial Reporting Standards and their interpretations. The application of new standards had no effect on financial position and result of the Group and presented comparative information upon request. The adoption of amended standards had no effect on the equity as at 1 January 2012:

- IFRS 7 Financial instruments: Disclosures – Transfers of Financial Assets (amendments effective for annual periods beginning on or after 1 July 2011).

Standards, amendments and interpretations to existing standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the year ended 31 December 2012:

- IFRS 1 First time adoption of IFRS – replacement of fixed dates for certain exceptions – effective for annual periods beginning on or after 1 July 2013,
- IFRS 1 First time adoption of IFRS – additional exemptions for entities ceasing to suffer from severe hyperinflation – effective for annual periods beginning on or after 1 July 2013,
- IAS 12 Income taxes (revised) – limited scope amendment effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 Financial Instruments – new standard effective for annual periods beginning on or after 1 January 2015,

- IFRS 10 Consolidated financial statements – new standard effective for annual periods beginning on or after 1 January 2014,
- IFRS 11 Joint arrangements – new standard effective for annual periods beginning on or after 1 January 2014,
- IFRS 12 Disclosure of interests in other entities – new standard effective for annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance effective for the annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities effective for the annual periods beginning on or after 1 January 2014,
- IAS 27 and IAS 28 – consequential amendments due to above mentioned new consolidation standards - effective for annual periods beginning on or after 1 January 2014,
- IFRS 13 – Fair value measurement - new standard effective for annual periods beginning on or after 1 January 2013,
- IAS 1 Presentation of Financial Statements (revised) - amendments effective for annual periods beginning on or after 1 July 2012,
- IAS 19 Employee benefits (revised) – amendments effective for annual periods beginning on or after 1 January 2013,
- IAS 32 – Financial instruments: Presentation – amendments to application guidance on the offsetting of financial assets and financial liabilities – effective for annual periods beginning on or after 1 January 2014,
- IFRS 7 Financial instruments: Disclosures – offsetting Financial Asset and Financial Liabilities – amendments effective for annual periods beginning on or after 1 January 2013,
- IFRS 7 Financial instruments: Disclosures – amendments requiring disclosures about the initial application of IFRS 9 effective for annual periods beginning on or after 1 January 2015,
- Amendments to IFRS 1 - Government Loans – effective for annual periods beginning on or after 1 January 2013,
- Annual Improvements to IFRSs 2009-2011 Cycle (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 – effective for annual periods beginning on or after 1 January 2011,
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for annual periods beginning on or after 1 January 2013.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's financial statements for the first period beginning after the effective date of the pronouncement and its application should not have a material impact on the Group's financial statements.

Key estimates, judgements and uncertainties in the preparation of the financial statements

During the preparation of the consolidated financial statements, the Group's management used certain judgements, estimates and assumptions that affect the carrying amount of assets and liabilities, disclosures of contingent items at the balance sheet date and income and expenses for that period.

Estimations have been used, but are not limited on: calculation of depreciation and useful lives, residual value of property, plant and equipment and tangible assets, impairment losses estimation, value adjustment for inventories and doubtful receivables, provisions for employee benefits and legal cases. More details on the accounting policies for these estimations are presented in other parts of notes. Future events and their effects cannot be estimated with a certainty. Due to that accounting estimates require judgement, and estimates that are used in the preparation of the financial statements are subject to changes from future events, additional experience, new additional information and changes in environment in which the Group operates. Actual results can differ from estimated results.

Summary of significant accounting policies used for the preparation of the financial statements for the year is presented as follows.

2.2 Basis for the consolidation

Consolidated financial statements include financial statements of the parent company and financial statements of the companies controlled by the parent company (subsidiaries). The Company has a control over the companies in which it has power to govern financial and operating policies of those companies in which the parent company has invested in order to gain rewards from the operations of the subsidiary.

Results of the subsidiaries which are acquired or disposed during the year are included in profit and loss account from the acquisition, or up to disposal date.

Changes in the Parent's shares in a subsidiary, which do not result in loss of control are accounted as a transactions with owners. Carrying value of Company's share and non-controlling interest are adjusted in order to reflect the change in their relative shares in subsidiary. Every difference between the adjusted value of non-controlling interest and fair value of consideration paid or received is recognized directly in equity and it is attributable to the owners of the parent.

When the Company loses control over the subsidiary, gain or loss from the disposal is determined as a difference between:

- o Total fair value of the consideration received and fair value of potentially retained share and
- o Carrying value of assets (including goodwill) and liabilities of the subsidiary and non-controlling interest.

Fair value of the retained share in former subsidiary on the date when the control was lost is treated as, for the purpose of subsequent measurement in accordance with IAS 39 Financial instruments: recognition and measurement, cost during the initial recognition or, if applicable, as an initial cost for the investment into associate company.

All significant inter-company transactions and balances between the Group companies are eliminated during the consolidation.

2.3 Investments in associates and joint ventures

Associated companies are companies in which the Group has between 20% and 50% of voting power and in which the Group has significant influence, but not control, by participation in policy-making processes of the associate. In the consolidated financial statements results, assets and liabilities of the associates are stated on the basis of equity method which means that the carrying value of investment in an associate is stated in the balance sheet at cost adjusted for all changes of Group's share in profit or loss, and other comprehensive income of an associate after the acquisition date, and also for any impairments of the investment value.

If the Group's share in the loss incurred by an associate is higher than the carrying amount of the investment, Group ceases the recognition of its share in future losses. When the associate starts to incur profit, Group starts to include its share in those earnings after the reconciliation of its share in unrecognized losses.

When the Group has no longer significant influence over the associate this investment is accounted in accordance with IAS 39. The difference between fair value of retained investment and the proceeds from the disposal and carrying value of an investment at the date when the significant influence has been lost is recognized in the profit or loss.

In case when the Group losses significant influence over the associate, previously recognized profit or loss in other comprehensive income related to this investment is reclassified into the profit or loss. If the share in an associate decreases, but the significant influence remains, only the proportional amount of gain or loss previously recognized in other comprehensive income is reclassified into profit or loss.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic, financial and operating decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint venture are accounted for by using the equity method, a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. If a joint venturer's share of losses of joint venture equals or exceeds its interest in the joint venture, the joint venturer discontinues recognising its share of further losses. If joint venture subsequently reports profits, the joint venturer resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

2.4 Business combinations

Business combinations are accounted for by applying the acquisition method. Assets and liabilities are measured at fair value at the acquisition date which is the date when the Group has gained control over the acquired company. Non-controlling interest is measured in accordance with proposed share of non-controlling interest in the fair value of identifiable net assets of the acquired company.

Goodwill

Goodwill is determined as a difference between:

- o the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and

- o net identifiable assets acquired.

Costs related to the acquisition (consulting costs) are recognized in the profit or loss in the period in which incurred.

Goodwill is recognized as an asset at the acquisition date. If the acquirer has made a gain from a bargain purchase the gain is recognized in profit or loss account.

Goodwill is subject to impairment test at each reporting date.

2.5 Revenue recognition

Revenues from sale of goods and services are recognized in the moment of the delivery of goods and at the time when services are rendered and in the moment of the ownership transfer. Income from interests is calculated on the basis of unsettled receivable and on the basis of applicable interest rates. Income from dividends and shares in profit are recognized in the moment when the rights on dividends and shares are established.

Revenues from the sale of goods and finished products are recognized when all of the following conditions have been met:

- the Group has transferred all significant risks and benefits arising from the ownership of the goods or products to the buyer;
- the Group does not retain constant involvement in the control of the assets sold up to a point usually related with ownership nor does it have control over the sale of goods;
- the amount of income can be measured reliably;
- it is probable that the economic benefits arising from the transaction will flow to the Group; and
- costs, arising or that will arise in relation to the transaction, can be measured reliably.

Income from services is recognized in the period when the services have been rendered by the stage of completion method. Stage of completion is determined on the basis of share of service costs incurred until certain date in the total estimated service costs.

2.6 Financial revenues and expenses

Financial revenues and expenses comprise of interests on loans granted calculated by using the effective interest rate method, interest receivables from funds invested, income from dividends, foreign exchange gains/losses, gains/losses from financial assets held at fair value through the profit and loss account.

Interest revenues are recognized in the income statement on an accrual basis using the effective interest rate method.

Financial expenses are comprised from the interests calculated on loans, changes in the fair value of financial assets held at fair value through the profit and loss account, losses on value adjustments (impairments) of financial assets and losses from exchange rate differences.

2.7 Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by the reference to the stage of completion of the contract activity at the end of the reporting period, on the basis of the share of costs incurred to that date in total estimated contract costs. Variations in contract work, claims and incentive payments are included in contract revenue to the extent agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenues are recognized only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expense in the period in which are incurred.
When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

2.8 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

2.9 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period indispensable for the finalization and preparation of the asset for its intended use or sale.

Other borrowing costs are recognized in the income statement using the effective interest rate method.

2.10 Transactions in foreign currency

Transactions in foreign currency are initially translated into Kuna's by using the spot rates at the transaction date. Cash, receivables and liabilities reported in foreign currencies are translated into Kuna’s by using middle exchange rate at balance sheet date. Foreign exchange gains or losses are included in the profit and loss account as incurred.

During the consolidation, assets and liabilities of Group's foreign operations are translated into the Group presentation currency at the exchange rates ruling at the reporting date. Revenues and expenses are translated into at the foreign exchange rates ruling at the dates of the transactions and the exchange differences are recognized in other comprehensive income. All foreign exchange gains and losses are recognized in the profit or loss account in the period when the transaction occurred.

2.11 Taxation

The parent company as well as domestic subsidiaries within the Group provides for taxation liabilities in accordance with Croatian law. Corporate tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.

Deferred tax reflects the net tax effect of the temporary differentials between the book values of the assets and the liabilities for the purpose of the financial reporting and the values used for the purpose of establishing profit tax. A deferred tax asset for the carry-forward of unused tax losses and unused tax credits is recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets and liabilities are expected to be collected or paid.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

2.12 Earnings per share

The Group 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 by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, less potential shares based on share options.

2.13 Transactions with related parties

Within transactions with related parties the Group does not disclose relations with companies owned by the Government as parent company, pursuant to the exemption related to state-owned companies as stated in IAS 24.

2.14 Segment information

During the identification of business segments, the Management mostly follows sales of goods and provision of services within certain economic area. Every of these business segments are separately managed since they are determined on the basis of specific market needs.

Policies of valuation/measurement which the Group uses for the segment reporting are the same as those used during the preparation of the financial statements.

Furthermore, assets which cannot be directly attributable to certain business segments remains un-allocated.

There has not been any changes in the valuation methods used in the determination of profit or loss of business segment in comparison to previous periods.

2.15 Non-current intangible and tangible assets (property, plant and equipment)

Non-current intangible and tangible assets are initially recognized at cost which includes purchase price, import duties and non-refundable taxes after discounts and rebates, as well as all other costs directly linked to bringing the assets into working condition for intended use.

Item of intangible and tangible asset is recognized when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and when the cost is higher than HRK 3,500.

Subsequently after the initial recognition assets are stated at cost less accumulated depreciation and less impairment losses.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Where it is obvious that expenses incurred resulted in increase of expected future economic benefits to be derived from the use of an item of long-term intangible or tangible property in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of long-term intangible and tangible asset are included in the statement of income in the period in which they occur.

Depreciation starts when the fixed asset is available and ready for use, i.e. when it is appropriately located and in the right conditions needed for the use. Depreciation ceases when the assets is fully depreciated or when the asset is classified as the non-current asset held for sale. Depreciation is provided on a straight-line basis for each fixed asset item over their useful economic life (except for land and assets under construction), as follows:

	Depreciation rates (from – to %)
Development expenditures	20%
Concessions, patents, licences, software etc	20%
Other intangible assets	20%
Buildings	1.2% - 7.7%
Plant and equipment	6.8% - 25%
Tools, inventory and transport vehicles	3.4% - 25%
Other assets	20%

In 2012 the subsidiary Končar – Distribution and Special Transformers Inc. made the decision on change in depreciation rates (since this company revised useful economic lives and assessed that the depreciation rates should be adjusted based on experienced data). Effect of the change in depreciation rates is lower depreciation charge by the amount of HRK 7,798 thousand.

Impairment of property, plant and equipment

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

During the determination of impairment losses or reversal of impairment loss for an item of property, plant and equipment the depreciation rate is not changed but the useful life of an item is changed.

Recoverable amounts are determined as follows:

- For land – price determined by the tax authorities in the determination of real estate tax is used;
- For buildings – market value of the same or similar buildings at the same location of the valuation by independent evaluators is used;
- For equipment - net selling price – market price less costs to sale, e.g. last transaction price.

If the recoverable amount an asset (or cash-generating unit) is estimated to be less than its carrying amount, an impairment loss is recognized immediately in profit or loss.

At every balance sheet date the Group reviews if there are indicators that the previously recognized impairment loss no longer exist or it is decreased, and in that case the impairment loss is reversed fully or partially in the profit or loss account.

Increase of carrying value of an asset for the purpose of impairment loss reversal cannot be higher that the previously recognized impairment loss, decreased for the depreciation which would be calculated if the asset was not impaired.

2.16 Investment property

Investment property which are in Group's ownership are held for the purpose of earning rentals or as a potential for issuing solidarity guarantees for subsidiaries, and also for the future capital appreciations for the purpose of future sale. Investment property is recognised as a long-term investment, unless it is intended for sale within the next year and the customer is identified, in which case the investment property is recognised as a current asset. Investment property is initially measured at cost less accumulated depreciation. The Group at least annually reviews residual value and useful life of the property. The residual value is an estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Since the Group has estimated that the residual value of the property exceeds its carrying value, depreciation is not charged until the residual value is reduced to the amount below the carrying value.

2.17 Non-current assets held for sale

Non-current assets classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale when its carrying value will be recovered principally through a sale transaction rather than through continuing use.

This condition is satisfied only if the sale is highly probable and the asset is ready for sale in its current condition.

Assets which are once classified as held for sale are no longer depreciated.

2.18 Financial assets and financial liabilities

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories:

- At fair value through profit or loss (RVTPL) – Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.
- Held to maturity – bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale – is non-derivative financial assets determined as such or financial assets which cannot be included within above determined categories. AFS is stated at fair value, gains and losses arising from changes in fair value are recognized directly in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income is included in profit or loss for the period.
- Loans and receivables – Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows or the investment have been impacted.

For unlisted shares classified as AFS a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and reward ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

When Group derecognises (writes off) all financial assets, the difference between book value and sum of received compensations and claims for compensations and cumulative profit (loss), recognized within other comprehensive income, transfers from equity to profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that provides evidence to a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

Capital reserves includes premium at the issuance of shares. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

Reserves are stated at nominal amounts defined in the allocation of earnings, especially legal reserves, statutory reserves and other reserves.

Share repurchase

The amount paid for the repurchase of the Group's own shares, including direct costs related to the repurchase, is recognized as a impairment within equity and reserves. Repurchased shares are classified as own shares and represent a reduction of equity and reserves. Purchase of treasury shares is recorded at cost and sale on negotiated prices. Gain or loss from the sale of treasury shares is recognized in equity.

Financial guarantee of a contractual obligation

Financial guarantee of a contractual obligation is initially measured at its fair value and subsequently measured at the higher of:

- the contractual amount of liability determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest revenue.

Financial liabilities at fair value through profit and loss Financial liabilities are classified as financial liabilities at fair value through profit and loss when they are either intended to be traded or are classified as such by the Group. They are measured at their fair value, while the gains/losses relating to them are recognized in the profit and loss account. The net gain/loss recognized in the profit and loss account includes any interest paid in the name of the financial liability.

Other financial liabilities – including loans, initially are measured including borrowings, are initially measured at fair value, net of transaction cost, and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.19 Inventories

Inventories are measured at the lower of cost or net realizable value. Costs of inventories comprise all purchase costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories is calculated on the basis of weighted average cost method.

Net realizable value is estimated selling price in an ordinary course of the business decreased by estimated completion costs and estimated selling costs.

In the cases when it is necessary to bring the inventory value at its net selling price the Group makes inventory value adjustments recognized as an expense in the profit and loss for the current year.

Small inventory is depreciated by 100% when put into use.

2.20 Receivables

Receivables are initially measured at fair value. At the balance sheet date, receivables, whose collection is expected in the period longer than one year, are stated at amortized cost by using the effective interest rate method decreased for impairment loss. Current receivables are stated at initially recognized nominal amount decreased for appropriate value adjustment for estimated uncollectible amounts and impairment losses.

Value of the receivables is decreased and impairment losses are incurred if and only if there is objective evidence on the impairment as a result of one or more events which happened after the initial recognition when this event influences the estimated future cash flows for the receivables which can be reliably estimated. At every balance sheet date the Group estimates if there is objective evidence on the impairment of certain receivable. If the objective evidence on the impairment exists, impairment loss is measured as a difference between carrying value and estimated future cash flows. Carrying value of receivables is decreased directly or by the usage of separate value adjustment account. Impairment loss is recognized as an expense in the profit and loss account for the current year.

2.21 Cash and cash equivalents

Cash and cash equivalents consist of deposits, cash at banks and similar institutions and cash on hand, shares in cash funds at demand or collectible within 3 months.

2.22 Received loans

Interest-bearing bank loans and overdrafts are recorded on the basis of received amount decreased for direct cost needed for their approval. Financial costs, including premium paid on the settlement or withdrawals are recorded on accrual basis and added to the carrying value of the instrument, only for the un-settled amount in period in which they occurred.

2.23 Government grants

Government grants are not recognized until there is a reasonable assurance that the Group will meet all requirements defined in the subsidy contract and that the grant will be received.

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets, are recognized as deferred income in the balance sheet and released in the income statement on a systematic and appropriate basis in accordance with the useful life of that asset. Government grants are recognized as income during the period to match related costs on a systematic basis.

Government grants received as compensation for expenses or losses already incurred, or for the purpose of immediate financial support to the Group without further related costs, are recognized in the income statement in the period when received.

2.24 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are re-evaluated at every balance sheet date and adjusted according to the newest best estimates.

Provisions are determined for costs of repairs within warranty periods, awards to employees for long term employment and retirement (jubilee awards and severance payments).

Provisions for awards to employees for long term employment and retirement (regular jubilee awards and severance payments) are determined as the present value of future cash outflows using the government bond interest rate as the discount rate.

2.25 Employee benefits

Defined pension fund contributions - are recognised as an expense in the income statement when incurred.

Bonus plans - liability for employee benefits is recognized as provisions based on the Group's formal plan and when past practice has created a valid expectation by the Management Board/key employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements. For liability for bonuses it is expected that it will be settled within 12 months from balance sheet date, and the liability is recognized in the amount expected to be paid.

Share based payments – The Group operates an equity-settled, share-based compensation plans. The total amount to be expensed over the vesting period and the amount that is credited to the share capital is determined by reference to the fair value of the options granted. The fair value of the equity accounted instruments is measured at the grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest.

2.26 Contingent assets and liabilities

Contingent liabilities are not recognised in financial statements, but only disclosed in the notes to the financial statements.

Contingent assets are not recognized in the financial statements except when the inflow of economic benefits is virtually certain.

2.27 Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2.28 Comparatives and reclassifications

Where necessary, comparative figures have been adjusted to conform with the presentation in the current year.

2.29 Subsidiaries

	31 December 2012		31 December 2011	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Consolidated subsidiaries registered in Croatia:				
Končar – Household Appliances Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Small Electrical Machines Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Power Plant and Electric Traction Engineering Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Infrastructure and Services Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Electrical Engineering Institute Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Low Voltage Switches and Circuit Breakers Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Generators and Motors Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Tools Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Catering Equipment Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Renewable Sources Ltd, Zagreb	100.00	100.00	100.00	100.00
Direct ownership	*80.52*	*80.52*	*78.11*	*78.11*
Indirect ownership	*19.48*	*19.48*	*21.89*	*21.89*
Končar – Electrical Vehicles Inc, Zagreb	75.04	75.04	75.04	75.04
Končar – Metal Structures Inc., Zagreb	75.01	75.01	75.01	75.01
Končar – Electronics and Informatics Inc, Zagreb	75.03	75.03	75.03	75.03
Končar – Switchgear Inc, Sesvetski Kraljevec	45.71	66.85	45.71	66.85
Končar – Medium Voltage Apparatus Inc, Zagreb	41.77	69.87	41.77	69.87
Končar – Instrument Transformers Inc, Zagreb	43.53	72.35	43.53	72.35
Končar – Distribution and Special Transformers Inc, Zagreb	51.71	67.80	51.71	67.80
Končar – High Voltage Switchgear Inc, Zagreb	84.42	88.02	84.42	88.02
Končar – Engineering for Plant Installation & Commissioning Inc, Zagreb	38.49	76.51	38.49	76.51
Consolidated subsidiary registered abroad:				
Kones AG, Zurich, Switzerland	100.00	100.00	100.00	100.00
Non-consolidated subsidiaries:				
Konell d.o.o., Sofia, Bulgaria*	85.00	85.00	85.00	85.00
Končar-Inženjering d.d., Zagreb*	100.00	100.00	100.00	100.00
Mjerenja d.o.o., Beograd*, Serbia*	100.00	100.00	100.00	100.00

Non-consolidated subsidiaries are not consolidated since are insignificant on the Group level.

*companies in indirect ownership by the Company.

Associates and joint venture:

	31 December 2012	31 December 2011
	Share in ownership (%)	Share in ownership (%)
Associated companies accounted for by using equity method:		
Končar – Power Transformers Ltd, Zagreb	49.00	49.00
Elkakon d.o.o., Zagreb*	50.00	50.00
Joint venture accounted for by using equity method:		
TBEA Končar Instrument Transformers lth, China*	27.00	27.00

* company in indirect ownership by the Company

3. Sales

	2012	2011
	HRK	HRK
Domestic sales of goods	1,131,346,000	966,713,725
Foreign sales of goods	1,227,909,892	1,289,836,637
Sales to related parties	82,302,462	105,651,142
	2,441,558,354	**2,362,201,504**

4. Other operating income

	2012	2011
	HRK	HRK
Income from the release of provisions (note 34)	133,760,386	128,449,010
Income from insurance claims	99,263,144	12,189,992
Income from the release of accrued expenses	10,923,876	5,194,755
Collected receivables previously written off	10,259,259	6,158,539
Income from sale of materials	7,209,033	4,349,433
Income from the sale of non-current tangible assets	3,362,529	3,411,400
Income from subsequent rebates, bonuses and similar	3,281,535	1,225,975
Inventory surpluses	3,118,192	3,060,241
Rent income	1,909,433	1,702,736
Income from government grants and similar	1,051,731	342,916
Income from previous years	963,954	954,286
Debt written-off	66,899	1,987,939
Other income	27,210,226	13,787,389
	302,380,197	**182,814,611**

5. Costs of materials and energy

	2012	2011
	HRK	HRK
Raw and other materials	1,273,889,994	1,112,906,107
Spare parts	606,718	552,870
Small inventory	11,314,683	11,951,428
Energy costs	54,064,190	52,734,924
	1,339,875,585	**1,178,145,329**

6. Cost of services

	2012	2011
	HRK	HRK
External products design and selling services	149,321,021	147,685,098
Costs of telephone, post and transportation	37,283,785	48,431,364
Maintenance	33,420,284	32,261,518
Intellectual and similar services	19,339,010	22,662,844
Entertainment costs	15,151,559	14,211,593
Utilities costs	11,652,072	11,533,429
Costs of research and development	9,150,121	7,398,539
Advertising services and trade fairs	5,763,584	4,357,781
Rent	5,566,233	4,066,334
Education services	4,291,163	4,525,356
Sponsorships	1,779,965	2,178,671
Other costs of services	38,395,119	23,115,602
	331,113,916	**322,428,129**

7. Personnel costs

	2012	2011
	HRK	HRK
Net wages and salaries	266,155,947	262,980,489
Taxes and contributions	142,244,327	135,522,088
Contributions on salaries	63,906,871	67,952,077
Share-based payment options	1,294,460	8,468,115
	473,601,605	**474,922,769**

Net wages and salaries in the amount of HRK 266,155,947 (2011: HRK 262,980,489) include compensations to the Management Board of the Company and other related companies in the amount of HRK 13,101,402 (2011: HRK 13,012,181) and accrued bonuses for the Management Board in the amount of HRK 5,475,627 (2011: HRK 5,300,149), and are an integral part of the personnel costs.

8. Depreciation and amortization

	2012	2011
	HRK	HRK
Depreciation	64,552,471	69,888,151
Amortization	5,562,884	5,882,110
	70,115,355	**75,770,261**

9. Other costs

	2012	2011
	HRK	HRK
Cost of resolution of arbitration proceeding - Cairo Phoenix (notes 4 and 34)	-	57,170,742
Travelling costs and per diems	47,727,377	45,998,438
Compensations to employees	27,296,933	25,803,051
Banking services	17,481,371	22,154,575
Insurance premiums	14,388,184	14,725,663
Compensations to members of the Supervisory Board	5,905,998	5,768,137
Taxes and contributions and similar costs	4,715,447	4,737,022
Taxes non-dependable on the income and fees	1,635,830	2,966,916
Share-based payment options (unrealized share options)	1,029,447	5,561,275
Other	9,698,931	19,077,648
	129,879,518	**203,963,467**

10. Value adjustments

	2012	2011
	HRK	HRK
Value adjustment of long term financial assets	1,000,000	922,931
	1,000,000	**922,931**
Value adjustment of long term tangible assets	13,348,116	-
Value adjustment of long term intangible assets	2,005,306	-
	15,353,422	**-**
Value adjustment of current receivables	107,926,888	15,162,804
Value adjustment of inventories	16,237,458	7,312,105
Value adjustment of current financial assets	1,847	198
	124,166,193	**22,475,107**
	140,519,615	**23,398,038**

11. Provisions

	2012	2011
	HRK	HRK
Provisions for servicing costs within warranty periods	32,508,683	49,405,182
Provisions for retirement and jubilee awards	9,761,634	6,694,412
Provisions for court cases	608,772	1,939,232
Other provisions	17,555,434	12,633,560
	60,434,523	**70,672,386**

Movement in non-current provisions is presented in note 34, and movement in current provisions in note 43.

12. Other operating expenses

	2012	2011
	HRK	HRK
Penalties, compensations and similar	12,241,001	1,565,970
Subsequent expenses	2,743,009	1,794,381
Inventory shortages	2,540,164	3,643,997
Inventory write-off	635,436	279,714
Loss from the sale of property, plant and equipment	423,110	406,657
Receivables write-off	388,991	140,720
Rebates, discounts and similar	188,721	63,642
Other operating expenses	2,149,222	3,034,980
	21,309,654	**10,930,061**

13. Share of the profit of equity accounted investments

Share of the profit of equity accounted investments in the amount of HRK 79,806,388 (2011: HRK 133,670,740) relates to share of profit of an associate Končar – Power Transformers Ltd. in which the Group owns share of 49% in the amount of HRK 76,921,878, share of profit of an associate Elkakon Ltd. in which the Group indirectly owns 50% share in the amount of HRK 663,442 and to share of profit of a joint venture Tbea Končar Instrument Transformers ltd, China in the amount of HRK 2,221,068.

The above mentioned companies have realized total net profit in 2012 as follows:

- Power Transformers Ltd. HRK 156,983,265 (2011: HRK 271,976,678 thousand)
- Elkakon Ltd. HRK 1,326,883 (2011: 804,064)
- Tbea Končar Instrument transformers ltd. HRK 8,224,730.

14. Financial revenues

	2012	2011
	HRK	HRK
From the relations with related parties		
Dividend income	6,558	29,456
	6,558	*29,456*
From the relations with un-related parties		
Interest income	36,818,597	34,775,610
Foreign exchange gains	29,279,870	45,132,500
Dividend income	1,739,648	1,770,796
Other financial income	3,200,604	1,639,983
	71,038,719	*83,318,889*
Unrealised gains	*529,000*	*928,225*
	71,574,277	**84,276,570**

15. Financial expenses

	2012	2011
	HRK	HRK
From the relations with related parties		
Interest expenses	37,828	33,766
	37,828	*33,766*
From the relations with unrelated parties		
Interest expenses	12,784,731	17,961,991
Foreign exchange losses	31,726,560	37,298,368
Other financial expenses	677,017	2,302,016
	45,188,308	*57,562,375*
	45,226,136	**57,596,141**

16. Corporate income tax

Calculation of corporate income tax liability for the year ended 31 December 2012 was as follows:

	2012 HRK	2011 HRK
Consolidated profit before tax	200,018,721	210,819,761
Corporate income tax at rate of 20%	**40,003,744**	**42,163,952**
Consolidation adjustments	2,849,581	(3,023,412)
Increases of taxable basis	19,190,150	34,480,122
Decreases of taxable basis	(30,114,469)	(40,870,155)
Used tax assets	(5,768,594)	(7,913,946)
Tax liability	**26,160,412**	**24,836,561**
Incentives	(4,493,180)	(6,254,487)
Adjusted tax liability	**21,667,232**	**18,582,074**
Un-recognized tax asset on tax losses to be carried forward	**36,540,037**	**33,090,864**

The applicable corporate income tax rate for 2012 and 2011 was 20%.

The Group can carry forward tax losses from subsidiaries which incurred loss in the year 2012 and which had no tax liability and from subsidiaries who realized profit in 2012 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2012 unrecognized tax asset on tax losses carried forward amounts to HRK 36,540,037 and can be used as follows:

	31 December 2012 HRK	31 December 2011 HRK
31 December 2012	-	2,566,200
31 December 2013	6,292,724	6,428,630
31 December 2014	6,190,137	8,118,867
31 December 2015	8,018,502	10,478,289
31 December 2016	5,482,495	5,498,878
31 December 2017	10,556,179	**-**
	36,540,037	**33,090,864**

Deferred tax asset on the basis of tax losses carried forward was not recognized in the financial statements due to uncertainty of their usage in future periods.

The Management Board of subsidiary Končar – Power Plant and Electric Traction Engineering Inc made the decision to propose that a part of realized profit amounting to HRK 14,577,000 is reinvested, ie that the share capital is increased by the same amount by issuing new shares. Accordingly, the Group used the tax relief for the year 2012 in the amount of reinvested profit in accordance with Corporate Income Tax Act. The subsidiary is obliged to deliver to the Tax authority the Certificate of the registration of the increased share capital, within six months from the date of submission of the Tax Return, otherwise the subsidiary shall correct the submitted Tax Return.

17. Earnings per share

Basic and diluted earnings per share

	2012	2011
	HRK	HRK
Net profit attributable to owners of the parent	150,536,186	162,441,709
Weighted average number of shares (decreased by treasury shares)	2,571,455	2,562,505
Earnings per share in HRK	**58.54**	**63.39**

18. Goodwill

Goodwill amounting to HRK 7,500,898 relates to goodwill recognized in business combinations when the companies Končar - Instrument Transformers Inc, Končar - Distribution and Special Transformers Inc and Končar - Engineering for Plant Installation & Commissioning Inc have been acquired. Movement in goodwill during the year 2012 was as follows:

	Goodwill
	HRK
As at 1 January 2011	**7,040,919**
Increase	462,609
As at 31 December 2011	**7,503,528**
Decrease (foreign exchange differences and similar)	(2,630)
At 31 December 2012	**7,500,898**

19. Non-current intangible assets

	Development expenditure	Concessions, patents, software and other rights	Other	Intangible assets under construction	Advance payments	Total
Cost	HRK	HRK	HRK	HRK	HRK	HRK
As at 1 January 2011	**65,079,238**	**16,800,663**	**1,052,418**	**2,726,213**	-	**85,658,532**
Correction of opening balances	147,930	(69,318)	(344,028)	1,616,553	-	**1,351,137**
Transfers	1,681,800	1,013,923	-	(2,695,723)	-	-
Additions	960,001	1,728,036	127,297	7,793,911	388,695	**10,997,940**
Disposals	-	(16,096)	-	-	-	**(16,096)**
As at 31 December 2011	**67,868,969**	**19,457,208**	**835,687**	**9,440,954**	**388,695**	**97,991,513**
Correction of opening balances	-	(134,653)	81,180	-	-	**(53,473)**
Transfer to tangible assets	-	-	-	(1,551,164)	-	**(1,551,164)**
Transfers	-	755,669	289,300	(1,044,969)	-	-
Additions	3,174,181	1,430,527	-	6,033,666	659,883	**11,298,257**
Disposals	(1,235,840)	(318,907)	(39,906)	-	(570,781)	**(2,165,434)**
As at 31 December 2012	**69,807,310**	**21,189,844**	**1,166,261**	**12,878,487**	**477,797**	**105,519,699**
Accumulated amortization						
As at 1 January 2011	**52,616,383**	**13,748,716**	**798,361**	-	-	**67,163,460**
Correction of opening balances	147,926	(38,171)	(344,028)	-	-	**(234,273)**
Amortization for the year	4,552,428	1,163,005	166,677	-	-	**5,882,110**
Disposals	-	(16,096)	-	-	-	**(16,096)**
As at 31 December 2011	**57,316,737**	**14,857,454**	**621,010**	-	-	**72,795,201**
Correction of opening balances	3	-	81,180	-	-	**81,183**
Amortization for the year	4,080,230	1,365,694	116,960	-	-	**5,562,884**
Impairment	2,005,306	-	-	-	-	**2,005,306**
Disposals	(1,235,841)	(74,412)	(39,905)	-	-	**(1,350,158)**
As at 31 December 2012	**62,166,435**	**16,148,736**	**779,245**	-	-	**79,094,416**
Carrying value						
As at 31 December 2011	10,552,232	4,599,754	214,677	9,440,954	388,695	25,196,312
As at 31 December 2012	**7,640,875**	**5,041,108**	**387,016**	**12,878,487**	**477,797**	**26,425,283**

The gross carrying value of fully amortized intangible asset still in use as at 31 December 2012 amounts to HRK 16,802 thousand (31/12/2011: HRK 11,205 thousand).

20. Property, plant and equipment

	Land	Buildings	Plant & equipment	Tools, fittings and transportation equipment	Other	Assets under construction	Advance payments	Total
Cost	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**
As at 1 January 2011	**156,023,708**	**894,828,629**	**702,886,616**	**327,052,257**	**2,159,370**	**31,376,692**	**3,836,726**	**2,118,163,998**
Correction of opening balances	(813,325)	(2,082,400)	(1,612,385)	114,918	-	-	-	**(4,393,192)**
Transfers	66,166	16,929,596	31,160,060	21,748,684	-	(69,904,506)	-	-
Additions	565,672	136,645	1,814,558	4,790,466	407,253	192,176,347	45,390,515	**245,281,456**
Disposals	(117,512)	(1,393,975)	(18,332,135)	(9,355,568)	-	(386,478)	(42,044,284)	**(71,629,952)**
As at 31 December 2011	**155,724,709**	**908,418,495**	**715,916,714**	**344,350,757**	**2,566,623**	**153,262,055**	**7,182,957**	**2,287,422,310**
Correction of opening balances	184,909	-	(1,380,830)	1	-	-	(2,418,061)	**(3,613,981)**
Transfer from intangible assets	-	-	1,551,164	-	-	-	-	**1,551,164**
Transfer to assets held for sale	(604,976)	(8,393,284)	-	-	-	-	-	**(8,998,260)**
Transfers	17,160	1,145,096	38,675,257	15,214,995	19,884	(55,072,392)	-	-
Additions	2,880,911	12,802,978	75,126,002	9,215,940	78,878	165,385,756	45,969,245	**311,459,710**
Disposals	(72,105)	(5,102,170)	(37,331,714)	(10,227,528)	-	(8,123,272)	(43,163,695)	**(104,020,484)**
As at 31 December 2012	**158,130,608**	**908,871,115**	**792,556,593**	**358,554,165**	**2,665,385**	**255,452,147**	**7,570,446**	**2,483,800,459**
Accumulated depreciation								
As at 1 January 2011	-	**515,154,447**	**551,065,383**	**252,592,986**	**1,458,632**	**3,783,539**	-	**1,324,054,987**
Correction of opening balances	-	(1,983,678)	(508,524)	446,131	9,800	-	-	**(2,036,271)**
Depreciation for the year	-	21,301,870	30,471,267	17,906,594	208,420	-	-	**69,888,151**
Additions	-	-	1,411,693	481,915	-	-	-	**1,893,608**
Disposals	-	(1,210,159)	(18,282,926)	(9,501,888)	-	-	-	**(28,994,973)**
As at 31 December 2011	-	**533,262,480**	**564,156,893**	**261,925,738**	**1,676,852**	**3,783,539**	-	**1,364,805,502**
Correction of opening balances	-	-	8,999	(9,001)	(1)	-	-	**(3)**
Transfer to assets held for sale	-	(1,656,379)	-	-	-	-	-	**(1,656,379)**
Impairment	-	-	309,307	13,434,482	-	-	-	**13,743,789**
Depreciation for the year	-	19,183,410	27,523,009	17,547,691	298,361	-	-	**64,552,471**
Other additions	-	-	1,052,346	-	-	-	-	**1,052,346**
Additions	-	7,463,970	10,589,923	54,945	-	-	-	**18,108,838**
Disposals	-	(566,124)	(32,247,469)	(8,786,471)	-	(22,667)	-	**(41,622,731)**
As at 31 December 2012	-	**557,687,357**	**571,393,008**	**284,167,384**	**1,975,212**	**3,760,872**	-	**1,418,983,833**
Carrying value								
31 December 2011	155,724,709	375,156,015	151,759,821	82,425,019	889,771	149,478,516	7,182,957	922,616,808
31 December 2012	**158,130,608**	**351,183,758**	**221,163,585**	**74,386,781**	**690,173**	**251,691,275**	**7,570,446**	**1,064,816,626**

As a collateral for non-current loans (note 35) and current loans (note 38), mortgages have been registered over the real estates and movables of the Group in the amount of HRK 593.5 million and EUR 28.2 million.

The gross carrying value of property, plant and equipment which are fully depreciated and still in use as of 31 December 2012 amounts to HRK 506,330 thousand (31/12/2010: HRK 607,964 thousand).

As at 31 December 2012 the Group has contracted un-invoiced investments in the amount of HRK 1.1 million (31/12/2011: HRK 6.9 million).

Carrying value of Group's assets purchased on finance lease as at 31 December 2012 amounts to HRK 2.8 million (31/12/2010: HRK 4.1 million).

Effect of changes in depreciation rates in 2012 is lower depreciation charge by the amount of HRK 7,797,772.

In accordance with its restructuring plan, the subsidiary Končar – Household Appliance recognized impairment loss for non-current assets (note 10) which will no longer be used in the production process.

21. Investment property

Investment property in the amount of HRK 92,667,771 (2011: HRK 94,603,651) relates to the investments in real estates for the capital appreciation intended for future sale. Fair value of these investments estimated by independent evaluators is higher than their carrying value.

22. Investments in associates and joint venture accounted for using the equity method

	31 December 2012	31 December 2011
	HRK	HRK
Associates:		
Končar – Power Transformers Ltd, Zagreb	244,722,545	239,097,039
Other associates (indirect):		
Elkakon Ltd., Zagreb	3,577,735	3,470,212
Joint venture:		
Tbea Končar Instrument tranformers, China	5,254,620	2,191,352
	253,554,900	**244,758,603**

Summary information for associates are shown in the following table:

	Končar – Power Transformers Inc.		Elkakon Ltd.	
	2012	2011	2012	2011
	HRK'000	HRK'000	HRK'000	HRK'000
Revenues	1,036,128	1,319,400	79,765	70,209
Expenses	(839,807)	(1,054,636)	(78,106)	(69,188)
Profit before taxation	196,321	264,764	1,659	1,021
Corporate income tax	(39,338)	7,213	(332)	(217)
Net profit for the year	**156,983**	**271,977**	**1,327**	**804**
Non-current assets	253,049	284,919	6,336	6,937
Current assets	835,978	928,968	12,538	18,070
Total assets	**1,089,027**	**1,213,887**	**18,874**	**25,007**
Total liabilities	**443,090**	**518,724**	**10,964**	**18,119**

For associate Končar – Power Transformers Ltd. business year begins as at 1 October and ends as at 30 September.

Summary information for joint venture is shown in the following table:

	Tbea Končar Instrument transformers Ltd.	
	2012	2011
	HRK'000	HRK'000
Revenues	96,493	88,638
Expenses	(88,254)	(100,079)
Profit before taxation	8,239	(11,441)
Corporate income tax	(45)	907
Net profit/(loss) for the year	**8,194**	**(10,534)**
Non-current assets	19,785	24,376
Current assets	86,141	79,732
Total assets	**105,926**	**104,108**
Total liabilities	**59,973**	**66,207**

23. Non-current financial assets

	31 December 2012	31 December 2011
	HRK	HRK
Other subsidiaries		
Končar-Inženjering d.d., Zagreb	227,787	227,787
Konel d.o.o. Bulgaria	62,280	62,280
Mjerenja d.o.o., Beograd, Serbia	3,637	3,637
	293,704	**293,704**
Shares in capital up to 20%		
Novi Fermot d.o.o, Donji Kraljevec	429,300	429,300
Ferokotao d.o.o., Donji Kraljevec	262,016	262,016
Centar proizvodnog strojarstva i analitičarstva d.o.o,	110,000	110,000
Bio plinifikacija	10,000	10,000
	811,316	**811,316**
Investments in financial assets:		
Shares	6,118,045	5,678,748
Value adjustment of shares	(1,916,832)	(922,931)
	4,201,213	**4,755,817**
Loans granted, deposits and similar	**1,421,275**	**1,461,593**
	6,727,508	**7,322,320**

24. Non-current receivables

	31 December 2012 HRK	31 December 2011 HRK
Receivables on the basis of credit sale		
Receivables for sold apartments	8,607,886	11,264,949
Value adjustment of receivables for sold apartments	(3,180,752)	(3,180,752)
Receivables for shares sold	17,155,556	20,434,605
Receivable from Railways of Bosnia and Herzegovina	8,847,953	33,581,595
Other loans granted	92,319	112,072
Current portion (note 28)	(5,001,442)	(5,133,515)
Current portion (note 27)	(8,847,953)	(24,733,642)
	17,673,567	**32,345,312**
Other receivables		
Receivables on the basis of foreign sales	5,658,715	6,746,512
Loans granted to employees	3,976,569	3,679,026
Other long-term receivables	824,547	136,147
Current portion (note 27)	(387,848)	(183,885)
Current portion (note 28)	(997,402)	(857,458)
	9,074,581	**9,520,342**
	26,748,148	**41,865,654**

In accordance with the Law on Sale of apartments with Tenancy Rights, the flats owned by the Group were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables are increased or decreased, if the exchange rate of EUR is changed for more than 5.1% compared to the rate that existed at the signing date of the Sale agreements. Amounts of unpaid annuities in DEM have been converted into EUR at fixed rate of 1 EUR =1.95583 DEM. As a collateral the mortgage has been registered over the sold apartments.

As at 31 December 2011 value adjustment of long term receivables for sold apartments has been calculated on the basis of net present value of estimated cash flows bearing the discount rate of 4.5%.

Receivables for sold shares relate to long term receivable for sold shares in subsidiaries Končar-Electronics and Informatics Inc, Končar - Electric Vehicles Inc and Končar – Steel Structures Inc. within the employee’s stock-ownership program and with instalment payments through 10 years bearing the fixed interest rate of 4.5%.

Receivable from Railways of Bosnia and Herzegovina Sarajevo matures in July 2013 in accordance with contracted repayment schedule.

Receivable on the basis of foreign sales relates to receivable for the sale in Bosnia and Herzegovina through the company TAKRAF from Germany, taken by KfW Bank, Berlin.

25. Inventories

	31 December 2012 HRK	31 December 2011 HRK
Raw and other materials	290,380,801	301,970,147
Spare parts	97,286	80,443
Small inventory and packaging	2,807,359	2,389,596
Work in progress	110,880,854	101,295,101
Unfinished products and semi-finished products	52,167,565	54,142,112
Finished goods	74,443,322	60,704,804
Merchandise	11,124,204	13,717,172
Goods in transit	-	10,167,398
Less: Value adjustment of raw materials, spare parts, and small inventory	(30,103,117)	(27,659,087)
Less: Value adjustment of work in progress, finished goods and merchandise	(43,757,907)	(30,741,139)
	468,040,367	**486,066,547**
Advances for inventories		
Domestic advances	2,866,834	17,593,150
Value adjustment	(8,981)	(8,963)
	2,857,853	**17,584,187**
Foreign advances	**5,537,759**	**8,272,414**
Total advances	**8,395,612**	**25,856,601**
	476,435,979	**511,923,148**

Cost of goods sold recognized in the consolidated income statement in 2012 amounted to HRK 1,129,659 thousand (2011: HRK 1,026,713 thousand).

26. Current receivables from related parties

	31 December 2012 HRK	31 December 2011 HRK
Končar – Power Transformers Ltd, Zagreb	14,454,628	19,467,234
	14,454,628	**19,467,234**

27. Current trade accounts receivable

	31 December 2012	31 December 2011
	HRK	HRK
Domestic customers	562,189,180	475,550,613
Value adjustment	(53,881,903)	(40,474,710)
Total domestic customers	**508,307,277**	**435,075,903**
Foreign customers	407,660,411	391,764,370
Current portion (note 24)	387,848	183,885
Current portion (note 24)	8,847,953	24,733,642
Value adjustment	(102,263,633)	(19,979,087)
Total foreign customers	**314,632,579**	**396,702,810**
Total domestic and foreign customers	**822,939,856**	**831,778,713**

As at 31 December 2012 the ageing structure of trade accounts receivable was as follows:

	Total	**Undue and collectible**	**Due but collectible**				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2012	**822,939,856**	613,331,910	109,037,331	33,172,874	35,433,009	16,528,049	15,436,683
2011	**831,778,713**	557,537,035	117,591,199	28,711,666	40,049,627	46,450,751	41,438,435

Movement in the value adjustment account of trade receivables was as follows:

	2012	2011
	HRK	HRK
Balance as at 1 January	60,453,797	51,802,670
Impaired in the year	107,926,888	14,826,405
Collected in the year	(10,506,708)	(3,272,222)
Written – off in the year	(1,733,648)	(3,321,176)
Provisioned in the year	5,207	418,120
Balance as at 31 December	**156,145,536**	**60,453,797**

28. Other receivables

	31 December 2012 HRK	31 December 2011 HRK
Receivables from the state and other institutions		
Receivables for value added tax	24,471,882	41,752,667
Receivables from Croatian Health Fund	1,005,398	716,607
Other	105,070	163,273
	25,582,350	**42,632,547**
Other current receivables		
Receivables for sold apartments	7,637,736	6,971,386
Receivables for shares sold	5,586,027	3,085,414
Receivables for advances given for services	28,964,706	15,317,926
Receivables for loans granted to employees	9,259	12,633
Receivables for compensation claims	21,461,964	112,664
Other	8,235,717	5,115,493
Current portion of credit sale receivables (note 24)	5,001,442	5,133,515
Current portion of other receivables (note 24)	997,402	857,458
	77,894,253	**36,606,489**
Receivables from employees		
Receivables from employees	1,489,031	1,321,053
Value adjustment	(327,471)	-
	1,161,560	**1,321,053**
Total	**104,638,163**	**80,560,089**

29. Current financial assets

	31 December 2012 HRK	31 December 2011 HRK
Deposits over 3 months	196,551,197	376,970,323
	196,551,197	**376,970,323**

Contractual interests on deposits over 3-month period are between 1.6% - 4.9% (2011: 0.4% - 6%).

30. Cash and cash equivalents

	31 December 2012	31 December 2011
	HRK	HRK
Balance at gyro accounts	80,056,394	51,204,926
Balance at accounts in foreign currency	58,401,041	58,974,314
Petty cash	380,075	321,028
Cheques and similar	191,117	222,059
Deposits up to 3 months	263,633,058	182,519,401
Cash funds	9,191,069	26,152,852
Other	-	210,487
Less: Value adjustment	(184,992)	(184,992)
	411,667,762	**319,420,075**

Contractual interests on deposits over 3 month period are between 0.6% - 3.75% (2010: 0.4% - 5.45%).

31. Prepaid expenses and accrued income

Prepaid expenses and accrued income amounting to HRK 5,828,902 (31 December 2011: HRK 9,711,305) relate to paid future expenses amounting to HRK 4,992,574 (31 December 2011: HRK 9,182,434) and accrued income in the amount of HRK 836,328 (31 December 2011: HRK 528,871).

32. Non-current assets held for sale

Non-current assets held for sale in the amount of HRK 14,213,927 relate to real estates owned by the subsidiary Končar – Household Appliances Ltd. located in Ilica, Zagreb and Osijek amounting to HRK 8,253,927 and to real estate owned by the subsidiary Končar- Distribution and Special Transformers Inc. acquired in exchange for unsettled receivable from the company Elektromaterijal Ltd. in bankrupcy amounting to HRK 5,960,000.

33. Share capital

Share capital is determined in the nominal value amounting to HRK 1,028,847,600 (31 December 2011: HRK 1,028,847,600) and consist of 2,572,119 shares at nominal value of HRK 400.

Ownership structure of the Group was as follows:

Shareholder	**31 December 2012**		**31 December 2011**	
	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (Capital fund Inc.)	724,515	28.17	724,515	28.17
Croatian Privatization Fund /HZMO	384,628	14.95	384,628	14.95
Croatian Privatization Fund	260,280	10.12	260,280	10.12
Linteum savjetovanje d.o.o.	139,791	5.43	190,491	7.41
Societe Generale - Splitska bank/ Erste Blue mandatory pension fund	184,189	7.16	172,199	6.69
Hypo-Alpe-Adria-Bank/ PBZ Croatia insurance mandatory pension fund	164,777	6.41	107,159	4.17
Societe Generale - Splitska bank./ Allianz for AZ mandatory pension fund	106,438	4.14	104,676	4.07
Floričić Kristijan	85,714	3.33	85,714	3.33
Hypo-Alpe-Adria-Bank d.d./Raiffieisen pension company	35,250	1.37	35,250	1.37
PBZ d.d. (custodian account)	32,124	1.25	33,074	1.29
Other shareholders	453,749	17.64	464,519	18.06
Končar Inc. (treasury shares)	664	0.03	9,614	0.37
	2,572,119	**100.00**	**2,572,119**	**100.00%**

34. Provisions

	Servicing during warranty periods	Court case provisions	Jubilee and retirement rewards	Other	**Total**
	HRK	HRK	HRK	HRK	HRK
1 January 2011	**382,293,790**	**160,462,210**	**21,899,686**	**13,988,004**	**578,643,690**
Additional provisions	44,552,025	1,939,232	6,694,412	-	53,185,669
Subsidiary addition	4,853,157	-	-	-	4,853,157
Release of provisions	(32,399,703)	(77,748,946)	(6,784,351)	(11,516,010)	(128,449,010)
31 December 2011	**399,299,269**	**84,652,496**	**21,809,747**	**2,471,994**	**508,233,506**
Additional provisions	32,508,683	608,772	9,761,634	213,300	43,092,389
Release of provisions	(101,862,748)	(24,846,001)	(7,051,637)	-	(133,760,386)
Other (exchange differences)	-	-	-	(112,458)	(112,458)
31 December 2012	**329,945,204**	**60,415,267**	**24,519,744**	**2,572,836**	**417,453,051**

Provisions for liabilities for issued guarantees for the return of advance amounting to HRK 80,511,279 (2011: HRK 120,153,400) relate to value of advance in HRK amounting to USD 14,058,700 paid to companies of former Rade Končar, which went into bankruptcy. Advances have been received on the basis of agreed projects with Iraq state institutions before the year 1990. For the advances received guarantees have been issued in various currencies, which counter value in HRK as at 31 December 2012 amounts to HRK 69,082,570 (31 December 2011: HRK 65,491,426). Guarantees in question are in abeyance due to situation in Iraq.

Other provisions for guarantees relate to provisioned warranty costs of subsidiaries within the Group amounting to HRK 249,433,925 (31 December 2011: HRK 279,145,869).

Non-current provisions for court cases in the amount of HRK 60,415,267 (2011: HRK 84,652,496) relates to court cases in progress and contingent costs for court cases led against companies within the Group.

Release of part of long-term provisions for legal proceedings in the amount of HRK 23,768,803 relate to claim of Central Bank of Syria from the year 2004, which relates to remuneration for distortion of Bank reputation, in connection with claim in Switzerland for collection of bank guarantees, which were issued by the Central Bank of Syria in Končar's favour as insurance instrument for delivery of electrical equipment to the Syria's national electric company. Since arbitration procedure was closed at the end of year 2011, the payment was made and bank guarantees were returned to Company, there is no more legal risk for this legal case.

Provisions for jubilee and retirement rewards in the amount of HRK 24,519,744 (2011: HRK 21,809,747) relates to regular compensations to employees (regular retirement and jubilee rewards), and severance payments to the Management Board.

Other long-term provisions in the amount of HRK 2,572,836 (2011: HRK 2,471,994) relates to product testing.

35. Non-current liabilities

	31 December 2012 HRK	31 December 2011 HRK
Liabilities for loans, deposits and similar	1,020,000	1.700.000
Less: Current portion (note 37)	(510,000)	(680.000)
	510,000	**1.020.000**
Liabilities toward banks	296,910,703	184.629.511
Less: Current portion (note 38)	(51,339,598)	(65.441.372)
	245,571,105	**119.188.139**
	246,081,105	**120.208.139**

Significant long-term arrangements between banks and the companies within Končar Group were as follows:

Name of the company	Creditor	Loan purpose	Loan amount	Interest rate	Maturity	Collateral for the loan
Končar - Distribution and Special Transformers Inc.	RBA & CBRD	Purchase of equipment and production capacity expansion	HRK 15 million	4%	31/12/2014	Mortgage over that company's equipment
Končar - Distribution and Special Transformers Inc.	RBA & CBRD	Investment in production facilities - production hall development	EUR 1,025,233	4%	31/12/2014	Mortgage over that company's property in the amount of EUR 28.2 million
Končar - Distribution and Special Transformers Inc.	RBA & CBRD	Financing development and equipping laboratories production, warehouse and administrative facilities	EUR 6 million	4%	30/06/2022	Mortgage over that company's property
Končar - Distribution and Special Transformers Inc.	SG-SB & CBRD	Financing working capital	HRK 7.5 million + EUR 1,104,288	4%	30/09/2015	Mortgage over that company's property
Končar - Instrument Transformers Inc.	ZABA	Financing working capital	EUR 1,500,000	3-month EURIBOR + 5.46% per annum, variable	31/12/2015	Mortgage over property in Jankomir, land registry entries 1055, 1060 and 1063, co-borrower Končar - Electrical Industry Inc
Končar - Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward banks and other financial institutions c) Other - salaries	HRK 6,000,000	2.80%	30/09/2016	2 blank accepted bills of exchange without recourse and 2 debentures per PBZ share
Končar - Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward banks and other financial institutions c) Other - salaries	HRK 9,000,000	6.5% variable	30/09/2016	2 blank accepted bills of exchange without recourse and 2 debentures per PBZ share
Končar - Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward banks and other financial institutions c) Other - salaries	HRK 2,500,000	1.8%	31/03/2016	2 blank accepted bills of exchange without recourse and 2 debentures per PBZ share
Končar - Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward banks and other financial institutions c) Other - salaries	HRK 2,500,000	6.3% variable	31/03/2016	2 blank accepted bills of exchange without recourse and 2 debentures per PBZ share
Končar - Electric Vehicles Inc.	CBRD	Loan from credit programme for financing permanent working capital needs	Up to HRK 28 million	5.5 % variable	31/05/2019	Mortgage over that company's property in the amount of EUR 28 million, 16 blank accepted bills of exchange, 1 debenture
Končar - Household Appliances Ltd.	PBZ & CBRD	Club loan in HRK approved by PBZ and CBRD pursuant to financing model A for Company's current liabilities	HRK 15 million	Interest rate on PBZ share is equal to the rate of the Government treasury bills on the basis of 91 day + 3.4% per annum, and on HBOR share 3.8% per annum, fixed	30/06/2015	1 blank accepted bill of exchange of that company and Končar – Electrical Industry Inc. and 1 debenture of that company and Končar – Electrical Industry Inc, per share PBZ and CBCD separately.
Končar - Household Appliances Ltd.	PBZ & CBRD	Financing working capital	HRK 15 million	Interest rate on PBZ share is equal to the rate of the Government treasury bills +3.3% per annum, and on CBRD share 2.8% per annum	30/09/2016	1 blank accepted bill of exchange of that company and Končar – Electrical Industry Inc. and 1 debenture of that company and Končar – Electrical Industry Inc, per share PBZ and CBCD separately
Končar - Power Plant and Electric Traction Engineering Inc.	CBRD & University Hospital Mostar	This company has undertaken loan on behalf of University Hospital Mostar d.d., and the ultimate debtor is Croatian Ministry of Health and Social Welfare	HRK 1,4 million	6-month EURIBOR + 2% margin per annum	During 2013	Bills of exchange and debentures
Končar - Electric Vehicles Inc.		Unused funds from granted loan amount to HRK 2.9 million				

Changes in liabilities for loans, deposits and similar during the year were as follows:

	31 December 2012	31 December 2011
	HRK	HRK
1 January	1,020,000	2,300,000
Repayment of loans	-	(680,000)
Less: current portion	(510,000)	(680,000)
31 December	**510,000**	**1,020,000**

Long-term liabilities for loans, deposits and similar mature as follows:

	31 December 2012	31 December 2011
	HRK	HRK
Within one year	510,000	680,000
From 1 to 2 years	340,000	850,000
From 2 to 5 years	170,000	170,000
Less: current portion	(510,000)	(680,000)
	510,000	**1,020,000**

Changes in liabilities toward banks and other financial institutions during the year were as follows:

	HRK
1 January 2011	**79,684,423**
New loans	138,621,984
Repayment of loans	(34,677,131)
Foreign exchange gains/losses	1,000,235
Less: current portion	(65,441,372)
31 December 2011	**119,188,139**
New loans	177,419,092
Repayment of loans	-
Foreign exchange gains/losses	303,472
Less: current portion	(51,339,598)
31 December 2012	**245,571,105**

Long-term liabilities toward banks and other financial institutions mature as follows:

	31 December 2012	31 December 2011
	HRK	HRK
Within one year	51,339,598	65,441,372
From 1 to 2 years	33,854,028	25,803,775
From 2 to 5 years	114,441,590	61,346,161
More than 5 years	97,275,487	32,038,203
Less: current portion	(51,339,598)	(65,441,372)
	245,571,105	**119,188,139**

36. Current liabilities toward related parties

	31 December 2012 HRK	31 December 2011 HRK
Končar-Power transformers ltd, Zagreb:		
Liabilities for advances received	14,058	2,387,663
Other liabilities	425,068	4,511,666
	439,126	**6,899,329**

37. Current liabilities for loans, deposits and similar

	31 December 2012 HRK	31 December 2011 HRK
Current portion of long-term loans	510,000	680,000
	510,000	**680,000**

38. Current liabilities toward banks and other financial institutions

	31 December 2012 HRK	31 December 2011 HRK
Liabilities toward banks and other financial institutions	50,326,649	70,496,929
Plus: Current portion (note 35)	51,339,598	65,441,372
	101,666,247	**135,938,301**

Changes in liabilities toward banks and other financial institutions during the year were as follows:

	HRK
1 January 2011	**148,028,224**
New loans	13,255,682
Repayment of loans	(90,851,882)
Foreign currency gains/losses	64,905
Plus: current portion of long-term loans	65,441,372
31 December 2011	**135,938,301**
New loans	8,229,293
Repayment of loans	(87,911,020)
Transfer to long-term liabilities (reschedule)	(5,937,500)
Foreign currency gains/losses	7,575
Plus: current portion of long-term loans	51,339,598
31 December 2012	**101,666,247**

Significant current agreements between banks and certain companies within Končar Group were as follows:

Name of the company	Creditor	Loan purpose	Loan amount	Interest rate	Maturity	Collateral for the loan
Končar - Instrument Transformers Inc.	Erste bank	Export/import purposes	HRK 10,000,000	4.70% per annum	15/02/2013	5 blank accepted bills of exchange without recourse
Končar - Instrument Transformers Inc.	ZABA	Export/import purposes	HRK 15,000,000	4.70% per annum	15/04/2013	Mortgage over property in Jankomir, land registry entries 1055, 1060 and 1063, co-borrower Končar - Electrical Industry Inc
Končar - Renewable Sources Ltd.	CBRD	Financing "Wind power plant Pometeno brdo" project	EUR 13,544,162	4%	31/03/2013	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Končar - Renewable Sources Ltd.	ZABA	Financing of VAT during construction of power plant Pometeno brdo	HRK 19 million	Interest rate on the Government treasury bills on the basis of 91 day + 3% margin per annum	30/06/2013	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Končar - Renewable Sources Ltd.	ZABA	Financing "Wind power plant Pometeno brdo" projec	EUR 3 million	3-month EURIBOR+ 4% per annum	31/03/2013	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Končar - Electric Vehicles Inc.	CBRD	Financing the Contract for the production and delivery of the four-part regional electromotor train for Bosnia and Herzegovina	HRK 14.69 million	4.6%, fixed	15/07/2013	Mortgage over that company's property in the amount of EUR 30 million, 3 blank accepted bills of exchange and 1 debenture
Končar - Electric Vehicles Inc.	ZABA	Financing the Contract for the maintenance and modernization of 14 electrical traction engines owned by Bosnia and Herzegovina Federal Railways	HRK 2 million	3-month EURIBOR+ 4% per annum, variable	30/05/2013	Mortgage over that company's property in the amount of EUR 7 million, 28 blank accepted bills of exchange and 2 debentures, Asignation contract based on CBDR insurance policies amounting to EUR 10.6 million

39. Current trade accounts payable

	31 December 2012	31 December 2011
	HRK	HRK
Domestic suppliers	254,155,708	293,588,103
Foreign suppliers	94,524,599	107,128,972
Liabilities for un-invoiced goods	824,562	2,954,246
	349,504,869	**403,671,321**

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2012	**349,504,869**	275,063,142	55,619,494	4,915,350	6,883,093	3,390,738	3,633,052
2011	**403,671,321**	292,176,797	69,835,741	13,692,938	17,495,091	3,778,745	6,692,009

40. The gross amount due from customers for construction contracts

	2012
	HRK
As at 1 January	-
Invoiced in the year, less	64,007,783
Costs incurred plus recognized profits less the sum of recognized losses	(32,733,966)
As at 31 December	**31,273,817**

41. Current liabilities for advances

	31 December 2012	31 December 2011
	HRK	HRK
From domestic customers	33,559,378	28,684,002
From foreign customers	98,073,073	173,425,678
	131,632,451	**202,109,680**

42. Other current liabilities

	31 December 2012 HRK	31 December 2011 HRK
Liabilities to the state and other institutions		
Liability for value added tax	13,717,605	9,894,741
Liabilities for contributions on and from salary and taxes and surtaxes	30,673,271	28,841,467
Other liabilities	54,372	131,925
	44,445,248	**38,868,133**
Current other liabilities		
Interests payable	4,736,860	5,943,516
Liabilities to shareholders	226,041	234,805
Other liabilities	1,805,314	3,980,547
	6,768,215	**10,158,868**
Current liabilities toward employees		
Net salaries	26,948,946	26,703,689
Liabilities for severance pay	37,000	233,061
Liabilities toward Management Board for bonuses	3,794,835	3,498,053
Other liabilities	464,401	65,477
	31,245,182	**30,874,515**
	82,458,645	**79,901,516**

43. Accrued expenses and deferred income

	31 December 2012 HRK	31 December 2011 HRK
Deferred income	55,695,330	72,966,583
Current provisions	23,213,312	5,871,178
Accrued expenses	12,428,397	18,447,621
Deferred payment of corporate income tax	-	325,846
	91,337,039	**97,611,228**

44. Risk management

The Group is exposed in its business to market (interest and foreign currency risk), credit risk and liquidity risk.

Certain companies within the Group use derivative financial instruments as a protection from these risks. The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summed up as follows:

a) Capital risk management

The Group manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt to equity balance. The Group manages capital and for the purpose of proper capital structure, in accordance with the economic conditions present on the market, is makes appropriate adjustments. The Group can make a decision if the retained earnings should be distributed to shareholders, if the capital needs increase or decrease, if the assets should be sold in order to decrease liabilities and similar. Goals, policies and processes have not been changed during the period ending 31 December 2012 nor for the period ending 31 December 2011.

	31 December 2012 HRK'000	31 December 2011 HRK'000
Interest-bearing liabilities	348,257	256,826
Decrease for cash and cash equivalents (deposits)	(411,668)	(319,420)
Net debt	-	-

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Accounting policies for financial instruments are applied on the following Balance Sheet items:

2012

	Loans and receivables HRK'000	At fair value through P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	Total assets classified per IAS 39 HRK'000
31 December 2012					
Long-term financial assets	2,393	2,565	1,696	74	**6,728**
Non-current receivables	26,748	-	-	-	**26,748**
Current financial assets	196,519	-	-	32	**196,551**
Trade and other receivables	948,121	-	-	-	**948,121**
Cash and cash equivalents	406,977	4,691	-	-	**411,668**
	1,580,758	**7,256**	**1,696**	**106**	**1,589,816**

2011

	Loans and receivables	At fair value through P&L	Available for sale	Held to maturity	Total assets classified per IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2011					
Long-term financial assets	4,508	2,211	484	119	**7,322**
Non-current receivables	41,866	-	-	-	**41,866**
Current financial assets	376,939	-	-	31	**376,970**
Trade and other receivables	932,931	-	-	-	**932,931**
Cash and cash equivalents	255,411	64,009	-	-	**319,420**
	1,611,655	**66,220**	**484**	**150**	**1,678,509**

All of the Group's liabilities have been classified as „At amortized cost“. The Group does not have liabilities which are classified as Liabilities at „Fair value through Profit and Loss“.

<u>Fair value of financial instruments</u>

The following table presents financial assets and liabilities valuated in the Statement of financial position in accordance with fair value hierarchy. This hierarchy groups financial assets and liabilities into 3 levels in accordance with the observability of input variables used in the measurement of fair value of financial assets and liabilities. The fair value hierarchy has the following levels:

- level 1: quoted market prices for identical assets or liabilities traded on active markets
- level 2: input variables that do not represent the above stated prices from level 1 but are visible for assets or liabilities, be it directly (like prices) or indirectly (derived from prices for example)
- level 3: input variables for assets or liabilities which are not based on available market data

The level within which a financial asset/liability is classified is based on the lowest level of a significant input variable used I the fair value measurement. Financial assets and liabilities measured at fair value in the Statement of financial position are grouped within the hierarchy as follows:

31 December 2012

	Level 1	Level 2	Level 3	**Total**
Financial assets				
Listed securities	2,604	-	1,597	4,201
Cash funds	4,691	-	-	4,691
Total	**7,295**	**-**	**1,597**	**8,892**

31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets				
Listed securities	2,100	-	-	2,100
Cash funds	64,009	-	-	64,009
Total	**66,109**	**-**	**-**	**66,109**

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quote market price:
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices for observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The Group used the following methods and assumptions during its financial asset fair value estimation:

- Receivables and deposits at banks - for assets due within three months and cash funds, the accounting value is approximate to their fair value due to the shortness of the assets. For longer term assets, the contracted interest rates do not significantly deviate from the current market rates and their fair value is, therefore, approximate to their accounting value.
- Liabilities per loans received - current liability fair value is approximate to their accounting value due to the short maturities of these instruments. The Management Board believes that their fair value doesn't differ significantly from their accounting value.
- Other financial instruments - financial instruments of the Group that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical accounting value of receivables and liabilities, including provisions, that are in line with the usual terms of business, is approximately equal to their fair value.

c) Financial risk

The Group's Management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that the change in market prices, as change of foreign currencies and interest rates, would influence Group's result of the value of its financial instruments. Goal of the market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

The Group's activities expose it primarily to the financial risks of changes in materials' prices, foreign currency exchange rates and interest rates.

There have been no significant changes to the Group's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk management

The Group is exposed to this risk through sales, purchase and loans stated in foreign currency which is not the Group's functional currency. Foreign currencies to which the Group is mostly exposed are EUR and USD.

The Group exposes itself to foreign currency risk through sales, purchasing, loans and depositing of funds denominated in foreign currencies. Certain companies within the Group make agreements for the purpose of hedging this risk.

The Group's exposure to foreign currency risk is as follows:

2012	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Trade receivables	266,371	4,659	30,990	302,020	520,920	822,940
Other receivables	27,552	223	4,126	31,901	78,826	110,727
Deposits over 3 months	152,495	5,805	23,827	182,127	14,424	196,551
Cash and cash equivalents	56,505	3,793	17,833	78,131	333,537	411,668
	502,923	**14,480**	**76,776**	**594,179**	**947,707**	**1,541,886**
Trade payables	(88,298)	(219)	(5,271)	(93,788)	(255,717)	(349,505)
Other liabilities	(57,868)	(389)	(7,921)	(66,178)	(158,874)	(225,052)
Loan liabilities	(217,998)	-	-	(217,998)	(130,259)	(348,257)
	(364,164)	**(608)**	**(13,192)**	**(377,964)**	**(544,850)**	**(922,814)**

2011	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Trade receivables	336,642	18,385	36,177	391,204	440,575	831,779
Other receivables	49,701	52	2,328	52,081	29,604	81,685
Deposits up to 3 months	176,820	-	15,802	192,622	184,348	376,970
Cash and cash equivalents	119,015	2,267	8,135	129,417	190,003	319,420
	682,178	**20,704**	**62,442**	**765,324**	**844,530**	**1,609,854**
Trade payables	(121,776)	(232)	(9,075)	(131,083)	(272,588)	(403,671)
Other liabilities	(169,058)	(681)	(3,551)	(173,290)	(111,995)	(285,285)
Loan liabilities	(113,078)	-	-	(113,078)	(143,748)	(256,826)
	(403,912)	**(913)**	**(12,626)**	**(417,451)**	**(528,331)**	**(945,782)**

	Short-term exposure			**Long-term exposure**		
	EUR	USD	Other currencies	EUR	USD	Other currencies
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
2012						
Financial assets	497,490	14,480	76,776	5,433	-	-
Financial liabilities	(176,373)	(608)	(13,356)	(187,627)	-	-
Total exposure	**321,117**	**13,872**	**63,420**	**(182,194)**	**-**	**-**
2011						
Financial assets	603,513	20,704	61,094	78,665	-	1,348
Financial liabilities	(322,048)	(913)	(12,626)	(81,864)	-	-
Total exposure	**281,465**	**19,791**	**48,468**	**(3,199)**	**-**	**1,348**

Sensitivity analysis

The weakening of the HRK in relation to the following currencies by the presented percentages at the date of reporting would increase/(decrease) the profit before tax by the following amounts:

	2012 Effect on income before taxes	2011 Effect on income before taxes
	HRK’000	HRK’000
EUR (1%)	1,680	421
USD (2%)	(222)	(685)
Other currencies	773	(2,455)

This analysis assumes that all other, variables, interest rates especially, remain unchanged.

A strengthening of HRK against the above currencies for the same average % at the reporting date would have had the equal but opposite effect on the profit before tax, on the basis that all other variables remain constant.

b) Interest rate risk

The Group is exposed to interest risk since the part of loans received are agreed at variable interest rate while the most of assets does not bear interests. Certain companies within Group contract hedge against interest rate risk stated in foreign currencies.

The following table shows sensitivity of changes of interest rates relating to Group's loans as of 31 December 2012 and 31 December 2011, with the assumptions that all other variables are constant, on income before taxes:

2012	**Increase/ decrease in percentage**	**Effect on income before taxes HRK'000**
HRK	+1%	(2,487)
HRK	-1%	2,487

2011	**Increase/ decrease in percentage**	**Effect on income before taxes HRK'000**
HRK	+1%	(2,105)
HRK	-1%	2,105

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss form defaults. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transaction concluded is spread amongst approved counterparties.

Trade and other receivables - the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Risk management is the responsibility of the Management Board which has built quality frame for the monitoring of current, middle and long-term financing and all depends related to liquidity risk. The Group manages this risk by constant monitoring of estimated and actual cash flow with the maturity of financial assets and liabilities.

The following table shows the maturity of financial liabilities of the Group at 31 December 2012 and 2011 according to the contracted non-discounted payments:

	Carrying value	Contracted cash flows	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years
31 December 2012	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current advances received	131,632	131,632	65,974	65,609	36	13
Trade creditors	349,505	349,505	314,738	34,360	407	-
Other current liabilities	82,898	82,898	79,548	3,350	-	-
Interest-bearing loans	348,257	360,708	68,721	64,871	165,796	61,320
	912,292	**924,743**	**528,981**	**168,190**	**166,239**	**61,333**

	Carrying value	Contracted cash flows	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years
31 December 2011	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current advances received	202,110	202,110	91,376	109,001	1,733	-
Trade creditors	403,671	403,671	350,631	52,539	501	-
Other current liabilities	79,902	79,902	76,121	3,781	-	-
Interest-bearing loans	256,826	262,404	32,325	109,605	88,862	31,612
	942,509	**948,087**	**550,453**	**274,926**	**91,096**	**31,612**

45. Segment reporting

2012	**Industry**	**Energetic and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	106,846,348	2,034,195,638	161,348,690	56,466,616	398,600	-	2,359,255,892
Sale to related companies	9,943,012	454,604,151	6,041,247	95,254,255	53,346,240	(536,886,443)	82,302,462
Other operating income	3,778,716	202,494,125	10,804,944	20,143,051	64,184,570	974,791	302,380,197
Total operating revenues	*120,568,076*	*2,691,293,914*	*178,194,881*	*171,863,922*	*117,929,410*	(535,911,652)	*2,743,938,551*
Total operating expenses	(118,677,551)	(2,617,475,277)	(211,209,489)	(164,377,195)	(133,673,338)	595,338,491	(2,650,074,359)
Operating profit/(loss)	*1,890,525*	*73,818,637*	*(33,014,608)*	*7,486,727*	*(15,743,928)*	*59,426,839*	*93,864,192*
Financial result	1,294,553	8,860,402	(3,864,451)	1,361,963	129,987,312	(31,485,250)	106,154,529
Profit/(loss) before taxation	**3,185,078**	**82,679,039**	**(36,879,059)**	**8,848,690**	**114,243,384**	**27,941,589**	**200,018,721**
Corporate income tax	(1,594,332)	(14,370,214)	**-**	(614,884)	(5,087,802)	-	(21,667,232)
Net profit/(loss) for the year	**1,590,746**	**68,308,825**	**(36,879,059)**	**8,233,806**	**109,155,582**	**27,941,589**	**178,351,489**
Non-controlling interest							27,815,303
Profit for the Group							**150,536,186**
Non-current assets	33,701,168	692,015,380	111,695,885	60,167,306	1,079,639,263	(498,777,868)	1,478,441,134
Current assets	85,168,842	1,497,516,268	116,125,242	153,773,114	449,359,799	(249,124,050)	2,052,819,215
Total assets	**118,870,010**	**2,189,531,648**	**227,821,127**	**213,940,420**	**1,528,999,062**	**(747,901,918)**	**3,531,260,349**
Total liabilities	**29,794,546**	**1,403,594,599**	**103,359,949**	**40,906,313**	**152,189,558**	**(266,527,307)**	**1,463,317,658**

2011	**Industry**	**Energetic and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	108,298,615	1,915,523,794	181,604,642	50,662,250	461,061	-	2,256,550,362
Sale to related companies	9,646,220	430,352,413	7,908,104	110,211,309	51,898,828	(504,365,732)	105,651,142
Other operating income	5,314,810	91,827,170	4,898,450	5,100,289	88,926,362	(13,252,470)	182,814,611
Total operating revenues	*123,259,645*	*2,437,703,377*	*194,411,196*	*165,973,848*	*141,286,251*	*(517,618,202)*	*2,545,016,115*
Total operating expenses	(124,261,175)	(2,347,437,471)	(207,380,519)	(159,193,452)	(232,676,375)	576,401,469	(2,494,547,523)
Operating profit/(loss)	*(1,001,530)*	*90,265,906*	*(12,969,323)*	*6,780,396*	*(91,390,124)*	*58,783,267*	*50,468,592*
Financial result	1,777,642	13,754,267	(3,030,471)	1,074,094	162,038,342	(15,262,705)	160,351,169
Profit/(loss) before taxation	**776,112**	**104,020,173**	**(15,999,794)**	**7,854,490**	**70,648,218**	**43,520,562**	**210,819,761**
Corporate income tax	(959,443)	(17,234,268)	-	(388,363)	-	-	(18,582,074)
Net profit/(loss)for the year	**(183,331)**	**86,785,905**	**(15,999,794)**	**7,466,127**	**70,648,218**	**43,520,562**	**192,237,687**
Non-controlling interest	-	-	-	-	-	-	29,795,978
Profit for the Group	-	-	-	-	-	-	**162,441,709**
Non-current assets	41,278,642	542,872,937	141,572,305	55,898,956	1,096,115,598	(533,871,562)	1,343,866,876
Current assets	78,982,641	1,681,597,320	125,049,215	151,004,639	410,078,998	(294,844,614)	2,151,868,199
Total assets	**120,261,283**	**2,224,470,257**	**266,621,520**	**206,903,595**	**1,506,194,596**	**(828,716,176)**	**3,495,735,075**
Total liabilities	**32,776,565**	**1,476,827,531**	**105,281,283**	**41,392,402**	**208,827,574**	**(306,579,107)**	**1,558,526,248**

Sales by the regions was as follows:

	2012		2011	
	HRK'000	%	HRK'000	%
Croatia	**1,213,648**	**49.7%**	**1,072,365**	**45.4%**
Countries in European Union	713,832	29.2%	637,386	27.0%
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	158,044	6.5%	166,790	7.1%
Other European countries	134,327	5.5%	83,341	3.5%
Asia	46,846	1.9%	128,383	5.4%
America and Australia	51,326	2.1%	71,422	3.0%
Other countries	123,535	5.1%	202,515	8.6%
Total export	**1,227,910**	**50.3%**	**1,289,837**	**54.6%**
Total	**2,441,558**	**100%**	**2,362,202**	**100%**

46. Off-balance sheet items

Off-balance sheet items of the Group amounting to HRK 2,331 million (2011: HRK 2,212 million) mostly relate to the issued collateral (guarantees, bills of exchange, debentures), solidarity guarantees, liabilities toward the state for apartments sold to employees (65%) and similar.

47. Contractual liabilities

Group's contractual liabilities on the basis of unfinished projects as at 31 December 2012 amount to HRK 2,234 million (31 December 2011: HRK 2,240 million).

48. Subsequent events

After the reporting date and until the approval date of these consolidated financial statements there were no events that would significantly influence the financial statements of the Group as at 31 December 2012.

49. Preparation and the approval of the consolidated financial statements

The consolidated financial statements presented on the pages above have been prepared and approved by the Group's Management Board as at 25 March 2013.

Signed on a behalf of the Group:

Darinko Bago,

President of the Management Board

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
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Appendix 1

Reporting period: **1.1.2012** **to** **31.12.2012**

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

Internet address: www.koncar.hr

de and name of comune/town: **133** **ZAGREB**

Code and county name: **21** **GRAD ZAGREB**

Number of employees (at quarter end): **3.897**

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 - Ugostiteljska 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

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 31.12.2012.

Company: Končar - Electrical Industry Inc.				
Position	**AOP**	**Notes**	**Previous year**	**Current year**
1	2	3	4	5
ASSETS				
A) RECEIVABELS FOR SUBSCRIBED NOT PAID CAPITAL	001		0	0
B) NON-CURRENT ASSETS (003+010+020+029+033)	002		1.343.866.876	1.478.441.134
I. INTANGIBLE ASSETS (004 do 009)	003	19	32.699.840	33.926.181
1. Expenditure for development	004		10.552.232	7.640.875
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005		4.599.754	5.041.108
3. Goodwill	006	18	7.503.528	7.500.898
4. Advances for purchase of intangible assets	007		388.695	477.797
5. Intangible assets in progress	008		9.440.954	12.878.487
6. Other intangible assets	009		214.677	387.016
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	010	20	1.017.220.459	1.157.484.397
1. Land	011		155.724.709	158.130.608
2. Buildings	012		375.156.015	351.183.758
3. Plant and equipement	013		151.759.821	221.163.585
4. Tools, working inventory and transportation assets	014		82.425.019	74.386.781
5. Biological assets	015		0	0
6. Advances for purchase of tangible assets	016		7.182.957	7.570.446
7. Tangible assets in progress	017		149.478.516	251.691.275
8. Other tangible assets	018		889.771	690.173
9. Investment in real-estate	019	21	94.603.651	92.667.771
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	020	23	252.080.923	260.282.408
1. Share in related parties	021		293.704	293.704
2. Loans to related parties	022		0	0
3. Participating interests (shares)	023		811.316	811.316
4. Loans to companies with participating interest	024		0	
5. Investments in securities	025		4.755.707	4.201.213
6. Loans, deposits, etc.	026		1.461.593	1.421.275
7. Other non-current financial assets	027		2.191.352	5.254.620
8. Equity-accounted investments	028	22	242.567.251	248.300.280
IV. RECEIVABLES (030 do 032)	029	24	41.865.654	26.748.148
1. Receivables from related parties	030		0	0
2. Receivables arising from sales on credit	031		32.345.312	17.673.567
3. Other receivables	032		9.520.342	9.074.581
V. DEFERRED TAX ASSET	033		0	
C) CURRENT ASSETS (035+043+050+058)	034		2.142.156.894	2.046.990.313
I. INVENTORIES (036 do 042)	035	25	512.835.195	490.649.906
1. Raw materials and supplies	036		276.781.099	263.182.329
2. Production in progress	037		134.863.472	119.290.512
3. Finished products	038		60.704.804	74.443.322
4. Merchandise	039		13.717.172	11.124.204
5. Advances for inventories	040		25.856.601	8.395.612
6. Long term assets held for sale	041		912.047	14.213.927
7. Biological assets	042		0	
II. RECEIVABLES (044 do 049)	043		932.931.301	948.121.448
1. Receivables from related parties	044	26	19.467.234	14.454.628
2. Receivables from end-customers	045	27	831.778.713	822.939.856
3. Receivables from participating parties	046		0	0
4. Receivables from employees and members of the company	047	28	1.321.053	1.161.560
5. Receivables from government and other institutions	048	28	43.757.812	31.671.151
6. Other receivables	049	28	36.606.489	77.894.253
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	29	376.970.323	196.551.197
1. Share in related parties	051		0	0
2. Loans to related parties	052		0	0
3. Participating interests (shares)	053		0	0
4. Loans to companies with participating interest	054		0	0
5. Investments in securities	055		0	0
6. Loans, deposits, etc.	056		376.970.323	196.551.197
7. Other financial assets	057		0	0
IV. CASH AND CASH EQUIVALENTS	058	30	319.420.075	411.667.762
D) PREPAYMENTS AND ACCRUED INCOME	059	31	9.711.305	5.828.902
E) TOTAL ASSETS (001+002+034+059)	060		3.495.735.075	3.531.260.349
F) OFF BALANCE SHEET ITEMS	061	46	2.212.151.466	2.330.786.248

EQUITY AND LIABILITIES				
A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**		1.937.208.827	2.067.942.691
I. SUBSCRIBED SHARE CAPITAL	**063**	**33**	1.028.847.600	1.028.847.600
II. CAPITAL RESERVES	**064**		719.579	719.579
III.RESERVES FROM PROFIT (066+067-068+069+070)	**065**		243.156.817	304.225.167
1. Legal reserves	**066**		17.762.375	22.449.226
2. Reserve for own shares	**067**		3.845.600	265.600
3. Treasury shares and shares (deductible items)	**068**		3.845.600	265.600
4. Statutory reserves	**069**		146.257.985	185.426.451
5. Other reserves	**070**		79.136.457	96.349.490
IV. REVALUATION RESERVES	**071**		0	
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	**072**		277.566.082	349.004.034
1. Retained earnings	**073**		277.566.082	349.004.034
2. Loss carried forward	**074**		0	0
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	**075**		162.441.709	150.536.186
1. Net profit for the period	**076**		162.441.709	150.536.186
2. Net loss for the period	**077**		0	0
VII. MINORITY INTEREST	**078**		224.477.040	234.610.125
B) PROVISIONS (080 do 082)	**079**	**34**	508.233.506	417.453.051
1. Provisions for pensions, severance pay and similar libabilities	**080**		21.809.747	24.519.744
2. Provisions for tax liabilities	**081**		0	0
3. Other provisions	**082**		486.423.759	392.933.307
C) NON-CURRENT LIABILITIES (084 do 092)	**083**	**35**	120.208.139	246.081.105
1. Liabilites to related parties	**084**		0	0
2. Liabilities for loans, deposits, etc.	**085**		1.020.000	510.000
3. Liabilities to banks and other financial institutions	**086**		119.188.139	245.571.105
4. Liabilities for advances	**087**		0	0
5. Trade payables	**088**		0	0
6. Commitments on securities	**089**		0	0
7. Liabilities to companies with participating interest	**090**		0	0
8. Other non-current liabilities	**091**		0	0
9. Deferred tax liabilities	**092**		0	0
D) CURRENT LIABILITIES (094 do 105)	**093**		832.473.375	708.446.463
1. Liabilites to related parties	**094**	**36**	6.899.329	439.126
2. Liabilities for loans, deposits, etc.	**095**	**37**	680.000	510.000
3. Liabilities to banks and other financial institutions	**096**	**38**	135.938.301	101.666.247
4. Liabilities for advances	**097**	**41**	202.109.680	131.632.451
5. Trade payables	**098**	**39**	403.671.321	349.504.869
6. Commitments on securities	**099**		0	0
7. Liabilities to companies with participating interest	**100**		0	0
8. Liabilities to emloyees	**101**	**42**	30.874.515	31.245.182
9. Taxes, contributions and similar liabilities	**102**	**42**	42.141.361	55.406.556
10. Liabilities arising from share in the result	**103**	**42**	234.805	226.041
11. Liabilities arising from non-current assets held for sale	**104**		0	0
12. Other current liabilities	**105**	**42**	9.924.063	37.815.991
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	**43**	97.611.228	91.337.039
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	**107**		3.495.735.075	3.531.260.349
G) OFF BALANCE SHEET ITEMS	**108**	**46**	2.212.151.466	2.330.786.248
ADDITION TO BALANCE SHEET (only for consolidated financial statements)				
ISSUED CAPITAL AND RESERVES				
1. Attributable to majority owners	**109**		1.712.731.787	1.833.332.566
2. Attributable to minority interest	**110**		224.477.040	234.610.125

Income statement

period 1.1.2012. to 31.12.2012.

Company: Končar -Electrical Industry Inc.

Position	AOP	Notes	Previous year	Current year
1	2	3	4	5
I. OPERATING INCOME (112 do 113)	111		2.545.016.115	2.743.938.551
1. Rendering of services	112	3	2.362.201.504	2.441.558.354
2. Other operating income	113	4	182.814.611	302.380.197
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	114		2.493.624.593	2.649.072.512
1. Change in inventories of work in progress	115		25.609.518	-34.073.424
2. Material expenses (117 do 119)	116		1.609.281.023	1.788.287.513
a) Costs of raw materials	117	5	1.178.145.329	1.339.875.585
b) Cost of goods sold	118		108.707.565	117.298.012
c) Other material expenses	119	6	322.428.129	331.113.916
3. Employee benefits expenses (121 do 123)	120	7	474.922.770	473.601.605
a) Net salaries	121		271.448.604	267.450.407
b) Tax and contributions from salary expenses	122		135.522.088	142.244.327
c) Contributions on salary	123		67.952.078	63.906.871
4. Depreciation and amortisation	124	8	75.770.261	70.115.355
5. Other expenses	125	9	203.963.467	129.879.518
6. Write down of assets (127+128)	126	10	22.475.107	139.517.768
a) non-current assets (except financial assets)	127		0	15.353.422
b) current assets (except financial assets)	128		22.475.107	124.164.346
7. Provisions	129	11	70.672.386	60.434.523
8. Other operating costs	130	12	10.930.061	21.309.654
III. FINANCIAL INCOME (132 do 136)	131	14	84.276.570	71.574.277
1. Interest, foreign exchange differences, dividens and similar income from related parties	132		29.456	6.558
2. Interest, foreign exchange differences, dividens and similar income from third parties	133		83.318.889	71.038.719
3. Income from investments in associates and joint ventures	134		0	0
4. Unrealised gains (income) from financial assets	135		928.225	529.000
5. Other financial income	136		0	
IV. FINANCIAL EXPENSES (138 do 141)	137	15	58.519.071	46.227.983
1. Interest, foreign exchange differences, dividens and similar	138		33.766	37.828
2. Interest, foreign exchange differences, dividens and similar income from third parties	139		57.562.383	45.188.308
3. Unrealised losses (expenses) from financial assets	140		922.922	1.001.847
4. Other financial expenses	141		0	0
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142	13	133.670.740	79.806.388
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143		0	0
VII. EXTRAORDINARY - OTHER INCOME	144		0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	145		0	0
IX. TOTAL INCOME (111+131+144)	146		2.762.963.425	2.895.319.216
X. TOTAL EXPENSES (114+137+143+145)	147		2.552.143.664	2.695.300.495
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148		210.819.761	200.018.721
1. Profit before taxes (146-147)	149		210.819.761	200.018.721
2. Loss before taxes (147-146)	150		0	0
XII. TAXATION	151	16	18.582.074	21.667.232
XII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152		192.237.687	178.351.489
1. Profit for the period (149-151)	153		192.237.687	178.351.489
2. Loss for the period (151-148)	154		0	0
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)				
XIV. PROFIT OR LOSS FOR THE PERIOD				
1. Attributable to majority owners	155		162.441.709	150.536.186
2. Attributable to minority interest	156		29.795.978	27.815.303
STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)				
I. PROFIT OR LOSS FOR THE PERIOD (=152)	157		192.237.687	178.351.489
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 TO	158		199.297	71.263
1. Exchange differences from international settlement	159		199.297	71.263
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 associatied	164		0	0
7. Actuarial gains/losses from defined benefit plans	165		0	0
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE	166		0	0
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 TO	167		199.297	71.263
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168		192.436.984	178.422.752
ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)				
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD				
1. Attributable to majority owners	169		162.641.006	150.607.449
2. Attributable to minority interest	170		29.795.978	27.815.303

STATEMENT OF CASH FLOWS - Direct method

period 1.1.2012. to 31.12.2012.

Legal entity: Končar Electrical Industry INC.				
Position	**AOP**	**Notes**	**Previous year**	**Current year**
1	2	3	4	5
CASH FLOW FROM OPERATING ACTIVITIES				
1. Cash receipts from customers	001		2.602.460.347	2.649.989.202
2. Cash receipts from royalities, fees, commissions, etc.	002		0	0
3. Cash receipts from insurance for damages compensation	003		11.825.977	73.910.039
4. Cash receipts arising from tax refunds	004		170.852.614	209.001.795
5. Other cash receipts	005		80.532.908	68.550.988
I. Total increase in cash flow from operating activities (001 do 005)	006		2.865.671.846	3.001.452.024
1. Cash paid to suppliers	007		1.985.748.787	2.146.503.883
2. Cash paid to employees	008		576.378.659	581.734.988
3. Cash outflows for insurance for damages compensation	009		11.048.500	10.550.569
4. Interest paid	010		12.222.808	15.810.989
5. Tax paid	011		159.142.278	199.846.182
6. Other cash outflows	012		198.408.928	132.562.656
II. Total decrease in cash flow from operating activities (007 do 012)	013		2.942.949.960	3.087.009.267
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	014		0	0
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	015		77.278.114	85.557.243
CASH FLOW FROM INVESTING ACTIVITIES				
1. Cash flow from sale of long - term tangible and intangible assets	016		3.501.658	5.293.893
2. Cash inflows from sale of equity and debt financial instruments	017		3.576.020	1.804.126
3. Interest receipts	018		0	0
4. Dividend receipts	019		177.720.400	73.601.566
5. Other cash inflows from investing activities	020		0	
III. Total cash inflows from investing activities(016 do 020)	021		184.798.078	80.699.585
1.Cash outflows for purchase of long - term tangible and intangible assets	022		69.605.474	122.817.115
2. Cash outflows for purchase of equity and debt financial instruments	023		5.598.423	583.000
3. Other cash outflows from investing activities	024		1.675.552	0
IV. Total cash outflows from investing activities (022 do 024)	025		76.879.449	123.400.115
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	026		107.918.629	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	027		0	42.700.530
CASH FLOW FROM FINANCING ACTIVITIES				
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		104.897.529	187.133.090
3. Other cash inflows from financing activities	030		179.257.808	333.846.275
V. Total cash inflows from financing activities (028 do 030)	031		284.155.337	520.979.365
1. Cash outflows for repayment of loans and bonds	032		79.731.208	97.430.134
2. Dividends paid	033		40.616.324	47.790.589
3. Cash outflows for finance lease	034		0	0
4. Cash outflows for purchase of own stocks	035		687.701	3.418.557
5. Other cash outflows from financing activities	036		454.705.895	151.834.625
VI. Total cash outflows from financing activities (032 do 036)	037		575.741.128	300.473.905
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	038		0	220.505.460
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	039		291.585.791	0
Total increases of cash flows (014 – 015 + 026– 027 + 038 – 039)	040		0	92.247.687
Total decreases of cash flows (015 – 014 + 027– 026 + 039 – 038)	041		260.945.276	0
Cash and cash equivalents at the beginning of period	042	30	580.365.351	319.420.075
Decrease in cash and cash equivalents	043		0	92.247.687
Increase in cash and cash equivalents	044		260.945.276	0
Cash and cash equivalents at the end of period	045	60	319.420.075	411.667.762

STATEMENT OF CHANGES IN EQUITY

period 1.1.2012 to 31.12.2012

Legal entity: Končar Electrical Industry INC.

Position	AOP	Notes	Previous year	Current year
1	2	3	4	5
1. Subscribed share capital	001	33	1.150.319.400	1.150.319.400
2. Capital reserves	002		719.579	719.579
3. Reserves from profit	003		315.045.708	390.596.965
4. Retained earnings or loss carried forward	004		278.886.453	347.955.258
5. Net profit or loss for the period	005		192.237.687	178.351.489
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 revaliuation	009		0	0
10. Total equity and reserves (AOP 001 to 009)	010		1.937.208.827	2.067.942.691
11. Foreign exchenge differences ffrom foreign investments	011		199.297	71.263
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		1.437.178	-67.854
16. Other changes	016		141.396.991	130.730.455
17.Total increase or decrease of equity (AOP 011 to 016)	017		143.033.466	130.733.864
17 a. Attributable to majority owners	018		132.944.166	120.600.779
17 b. Attributable to minority interest	019		10.089.300	10.133.085

Notes to the consolidated financial reports