

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 HRK 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 stable 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 liabilities) 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	In HRK	% of management	% of ownership
	SUBSCRIBED CAPITAL TOTAL	SUBSCRIBED CAPITAL PARENT COMPANY	PARENT COMPANY At 31 December 2012	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 13 th 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 international 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 expanding manufacturing capacities and investing into the most recent production technologies including the important segment of tailor made 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 HRK 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 HRK 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) amounted 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 Czech 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 largest 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 nodes 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 CO₂ 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 HRK 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 HRK 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 amounted 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.

Overview 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 VOLT AGE 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.

KONČAR

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

	Number of employees	TOTAL INCOME	PROFIT/	CORPORATE	PROFIT / LOSS FOR THE PERIOD			Index	Index	SUBSCRIBED	PARENT'S	% OWNERSHIP	Part of the
		Realized	LOSS	INCOME	Realized	Plan	Realized	16/14	16/15	CAPITAL	SUBSCRIBED	OF THE PAREN	PROFIT/LOSS
		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 VOLT AGE 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 VOLT AGE 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.										

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 KRISTIЈAN	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 PGP/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 Sesevski 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 doctoral 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 šetalistiše, improvement of the quality of supply with compressed air, repair of the sewage system at the location Fallerovo šetalistiše, reconstruction of hot water pipeline at the location Sesevski 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 low-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

Final note:

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, INC

Financial statements as at 31 December 2012
together with the auditor's report

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Management Board is responsible for ensuring that financial statements are prepared in accordance with the requirements of International Financial Reporting Standards endorsed for use in the European Union to give a true and fair view of the financial position and results of the company Končar-Electrical Industry Inc. (hereinafter: the Company) for that period.

The Board has a reasonable expectation that the Company 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 financial statements.

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

- suitable 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
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company 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 Company and must 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:



Darinko Bago, president of the Management Board



Končar-Electrical Industry Inc, Zagreb

Fallerovo šetalište 22,

10 000 Zagreb

15 March 2013

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

Independent auditor's report

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

We have audited the accompanying financial statements of Končar-Electrical Industry Inc. (hereinafter: the Company) which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and 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 50.

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 controls 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 given 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 as 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the Company'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, 15 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

Statement of comprehensive income

	Notes	2012 HRK	2011 HRK
Sales	3	53,744,840	52,359,890
Other operating income	4	64,184,570	88,926,361
Operating income		117,929,410	141,286,251
Cost of materials and energy	5	(5,372,829)	(5,354,319)
Cost of services	6	(29,313,278)	(33,260,880)
Personnel costs	7	(21,960,504)	(29,754,654)
Depreciation and amortization	8	(10,331,247)	(8,085,545)
Other costs	9	(7,762,772)	(68,162,777)
Value adjustment of non-current assets	10	(58,691,629)	(81,855,318)
Provisions	11	(241,079)	(6,202,882)
Operating expenses		(133,673,338)	(232,676,375)
Operating result		(15,743,928)	(91,390,124)
Dividend income from associates	12	71,786,659	101,042,753
Financial income	12	61,941,510	74,664,751
Financial expenses	13	(3,740,857)	(13,669,162)
Financial result		129,987,312	162,038,342
Profit before taxation		114,243,384	70,648,218
Corporate income tax	14	(5,087,802)	-
NET PROFIT FOR THE PERIOD		109,155,582	70,648,218
Earnings per share	15		
Basic earnings per share (HRK)		42.45	27.56
Diluted earnings per share (HRK)		42.45	27.56
Net profit for the period		109,155,582	70,648,218
Other comprehensive income:			
Foreign exchange differences in foreign operations		58,642	217,531
COMPREHENSIVE INCOME FOR THE YEAR		109,214,224	70,865,749

Notes are an integral part of the Statement of comprehensive income

Statement of financial position

	Notes	31 December 2012 HRK	31 December 2011 HRK
ASSETS			
Intangible assets	16	-	81,651
Property, plant and equipment	17	246,047,521	231,208,700
Investment property	18	99,664,965	93,849,613
Investments in subsidiaries	19	638,728,663	669,619,536
Investments in associates	20	67,722,257	67,722,257
Financial assets	21	3,920,985	4,461,578
Receivables	22	23,554,872	29,172,263
Non-current assets		1,079,639,263	1,096,115,598
Receivables from related companies	23	17,992,512	29,439,913
Trade accounts receivable	24	612,509	495,870
Advances given		794,388	90,441
Other receivables	25	20,327,260	18,828,878
Loans granted to related parties	26	83,018,262	53,915,000
Financial assets	27	126,535,566	263,908,242
Cash at bank and in hand	28	198,922,237	42,538,972
Current assets		448,202,734	409,217,316
Prepaid costs and accrued income	29	1,157,065	861,682
TOTAL ASSETS		1,528,999,062	1,506,194,596
Off-balance sheet items	37	745,924,395	796,880,027
EQUITY AND LIABILITIES			
Subscribed capital	30	1,028,847,600	1,028,847,600
Capital reserves		719,579	719,579
Legal reserves		17,997,220	14,464,809
Statutory reserves		102,458,881	84,276,008
Other reserves		76,544,648	62,002,198
Reserves from earnings		197,000,749	160,743,015
Retained earnings		41,085,994	36,408,610
Profit of the year		109,155,582	70,648,218
TOTAL EQUITY		1,376,809,504	1,297,367,022
Provisions	31	137,873,197	201,043,042
Long term liabilities	32	-	170,000
Liabilities to related companies	33	2,088,311	974,776
Liabilities for loans, deposits and similar	34	170,000	340,000
Trade accounts payable	35	1,579,536	1,054,832
Corporate income tax liability		5,087,802	-
Other current liabilities	36	5,390,712	5,244,924
Current liabilities		14,316,361	7,614,532
TOTAL EQUITY AND LIABILITIES		1,528,999,062	1,506,194,596
Off-balance sheet items	37	745,924,395	796,880,027

Notes are an integral part of the Statement of the financial position

Statement of cash flows

	Notes	2012 HRK	2011 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		76,386,399	64,803,973
Cash receipts from insurance compensations		-	39,753
Cash receipts from interests		19,328,494	5,047,436
Other cash receipts		12,432,002	22,733,926
Total cash receipts from operating activities		108,146,895	92,625,088
Cash payments to trade accounts payable		(45,267,611)	(55,882,862)
Cash payments to employees		(21,024,046)	(20,506,649)
Cash payments to insurance companies		-	(516,653)
Cash payments for interests		(2,672)	(10,149)
Cash payments for taxes		(5,377,528)	(5,646,069)
Other cash payments		(10,187,919)	(83,138,408)
Total cash payments for operating activities		(81,859,776)	(165,700,790)
Net cash flow from operating activities		26,287,119	(73,075,702)
Cash flow from investing activities			
Receipts from the sale of non-current tangible and intangible assets		2,113,109	2,900,915
Cash receipts from the sale of financial instruments		1,804,126	3,576,020
Receipts from dividends		95,447,103	208,096,650
Purchase of non-current tangible and intangible assets		(31,881,508)	(2,991,546)
Purchase of financial instruments		(11,417,400)	(14,799,627)
Total cash inflow from investing activities		56,065,430	196,782,412
Cash flow from financing activities			
Cash receipts from loans and borrowings		67,422,852	8,286,617
Other cash receipts from financial activities		162,478,816	2,026,374
Repayment of loans and bonds		(340,000)	(340,000)
Dividends paid		(30,766,728)	(30,751,068)
Other cash outflows for financing activities		(124,764,224)	(223,715,237)
Net cash used in financing activities		74,030,716	(244,493,314)
Increase/(decrease) in cash flow		156,383,265	(120,786,604)
Cash and cash equivalents at the beginning of the period	28	42,538,972	163,325,576
Cash and cash equivalents at the end of the period	28	198,922,237	42,538,972

Notes are an integral part of the Statement of cash flows

Statement of Changes in equity

	Share capital	Capital reserves	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
As at 1 January 2011	1,028,847,600	719,579	134,314,547	-	-	31,234,921	61,515,089	1,256,631,736
<i>Transactions with owners:</i>								
Allocation of the profit for 2010	-	-	20,649,660	10,000,000	-	30,865,429	(61,515,089)	-
Dividend payments	-	-	-	-	-	(30,865,429)	-	(30,865,429)
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)	-	-	-
<i>Profit for the year</i>	-	-	-	-	-	-	70,648,218	70,648,218
<i>Other comprehensive income:</i>								
Foreign exchange differences in foreign operations	-	-	217,531	-	-	-	-	217,531
<i>Total comprehensive income</i>	-	-	217,531	-	-	-	70,648,218	70,865,749
As at 31 December 2011	1,028,847,600	719,579	160,743,015	3,845,600	(3,845,600)	36,408,610	70,648,218	1,297,367,022
<i>Transactions with owners:</i>								
Allocation of the profit for 2011	-	-	39,898,158	-	-	30,750,060	(70,648,218)	-
Dividend payments	-	-	-	-	-	(30,750,060)	-	(30,750,060)
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)	-	-	-
<i>Profit for the year</i>	-	-	-	-	-	-	109,155,582	109,203,798
<i>Other comprehensive income:</i>								
Foreign exchange differences in foreign operations	-	-	58,642	-	-	-	-	58,642
<i>Total comprehensive income</i>	-	-	58,642	-	-	-	109,155,582	109,214,224
As at 31 December 2012	1,028,847,600	719,579	197,000,749	265,600	(265,600)	41,085,994	109,155,582	1,376,809,504

Notes are an integral part of the Statement of changes in equity

1. General information on the Company

Končar-Electrical Industry Inc, Zagreb, Fallerovo šetalište 22, is a parent company of the Končar-Electrical Industry Group. As a parent company, it complies consolidated reports which are presented and audited separately. These financial statements represent Company as a separate entity. The main activities of the Company are management of subsidiaries within Končar group.

As at 31 December 2012 the Company had 52 employees, while on 31 December 2011 the Company had 49 employees.

Structure of employees is as follows:

	31 December 2012	31 December 2011
Doctoral degree (PhD)	1	1
Master's degree	10	7
University degrees	27	27
College	7	6
Secondary school	6	7
Primary school + training on the job	1	1
	52	49

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 until 3 July 2012:

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

KONČAR – ELECTRICAL INDUSTRY INC.

Financial statements

31 December 2012

Notes to financial statements (continued)

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

Amount of remuneration paid to members of the Management Board and Supervisory Board is stated in note 7 and 9 to the financial statements.

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

2. Summary of significant accounting policies

Basis of presentation

Statement of compliance

Financial statements of the Company 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.

Accounting policies remained unchanged when compared to the last year. During the year, the Company have not applied any new or revised IFRS that might affect financial results or that might need additional disclosures in financial statements.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are stated at fair value.

The accounting policies have been applied consistently, except as disclosed otherwise.

The financial statements are prepared on the accrual basis and on a going concern basis.

The financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Company. As at 31 December 2012 exchange rate for 1 USD and 1 EUR was 5.73 HRK i.e. 7.55 HRK (31 December 2011: 5.82 HRK i.e. 7.53 HRK).

The consolidated financial statements of the Company and its subsidiaries must also be prepared by the Company in accordance with International Financial Reporting Standards and Croatian law, and will be disclosed as a separate document, soon after the disclosure of the unconsolidated financial statements.

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

The Company has applied for the year ended 31 December 2012 the following amendments issued which are or have become effective during the year and presented, in accordance with the requirements, comparative data. The application of new 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 which 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 Company'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 Company's financial statements.

Use of estimates and judgements

During the preparation of financial statements, the 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 Company and 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:

a) Revenue recognition

Sales revenue is recognized at the time when goods are delivered and services are rendered, and the title has passed. Interest income is calculated based on receivables which are not collected and using applicable interest rates.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred in respect of the transaction can be measured reliably.

Revenue from the services is recognized at the time when services are completed, using percentage of completion method.

b) Financial income and expenses

Financial income and expenses comprises interest income on loans and borrowings using the effective interest method, interest income on funds invested, dividend income, foreign currency losses and gains, gains and losses from changes in the fair value of financial assets at fair value through profit or loss.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Dividend income is recognized on the date that the Company's right to receive payment is established.

Financial expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets.

c) Taxation

The Company 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, adjusted for amounts which are not included in the tax base or tax deductible expenses. Corporate tax is calculated by 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 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.

d) Earnings per share

The Company presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the period minus potential shares which arise from options.

e) Foreign currency translation

Assets, receivables and liabilities reported in foreign currencies are translated into Kuna's by using Croatian National Bank's middle exchange rate at balance sheet date. Foreign exchange gains or losses are included in the profit and loss account as incurred.

f) Long-term 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 Company 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.

Investment property (land, buildings) which are the property of the Company are held to enable the Company to realize rental income and as a short-term potential for rendering of co-guarantees and solidarity warranties for related companies, as well as for capital appreciation with an intention of the future sale.

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:

	<u>Depreciation rate (from-to %)</u>
Intangible assets	25
Buildings	1.2 – 7.7
Plant and equipment	7.5 – 50
Tools, inventory and transport vehicles	5.6 – 25
Other assets	20

Impairment of tangible and intangible assets

At each balance sheet date, the Company 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, based on internal and external sources of information, 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 Company estimated the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company's cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 amount is 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 Company reviews if there are indicators that the previously recognized impairment of loss no longer exists 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 than the previously recognized impairment loss, decreased for the depreciation which would be calculated if the asset was not impaired.

g) 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.

h) Investment property

Investment property owned by the Company is held in order to realise revenues from property lease and to increase value of the property with intention of future sales. 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 short-term investment. Investment property is initially measured at cost reduced by accumulated depreciation. The Company at least annually reviews residual value and useful life of the property. The residual value is an estimated amount that the Company would gain selling the asset now, after reducing the estimated cost of sales, if assumed the asset is close to or at the end of its useful life. Since the Company has estimated that the residual value of the property exceeds its accounting value, depreciation is not charged until the residual value is reduced to the amount below the accounting value.

i) 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 Company 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.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

j) Financial assets and financial liabilities

Financial assets

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, and 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:

- At fair value through profit or loss" (FVTPL) - financial assets either held for trading or 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 – financial assets with fixed or determinable payments and fixed maturity dates for which there is a positive intent and ability to hold to maturity. 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 (AFS) - non-derivative financial assets which is designated as such or it cannot be included in none of the above mentioned categories. AFS is stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve 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 in revaluation reserves from investments, 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. 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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and reward ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

When company 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 issued by the Company

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 evidences 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 nominal amount of issued shares.

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 Company's own shares, including direct costs related to the repurchase, is recognized as 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 contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as 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 either held for trading or are classified as such by the Company. 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 - financial liabilities, including borrowings that are initially measured at fair value, net of transaction cost. They are 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 Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

k) Investment in subsidiaries

Subsidiaries are companies in which the Company has the control which means power to govern the financial and operating policies.

Associates are companies in which the Company has a significant influence, but not the control e.g. power to govern the financial and operating policies.

Investments in an associates and subsidiaries are stated at cost.

l) 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 Company 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

m) 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 Company 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.

n) 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.

o) 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.

p) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 given warranties, costs of legal proceedings in progress, restructuring costs, severance pay costs and 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.

q) Employee benefits

(i) Defined pension fund contributions

Obligations for defined contributions to pension funds are recognised as an expense in the income statement when incurred

(ii) Bonus plans

A liability for employee benefits is recognized in provisions based on the Company'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.

(iii) Share-based payments

The Company has a plan for share-based payments to the members of Management Board which are settled with equity instruments of the Company. Total amount that is recognized as cost and corresponding increase of equity are measured on fair-value basis of given equity instruments. Fair value of those equity instruments are measured on grant date. On every balance sheet date, the Company audits its estimated options number which complies with conditions for acquisition of rights.

r) 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.

s) Subsequent events

Post-year-end events that provide additional information about the Company'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.

t) Comparatives and reclassifications

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

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*Notes to financial statements (continued)***3. Sales**

	2012	2011
	HRK	HRK
Fee income - related parties	29,346,240	27,898,829
Rent income - related parties	24,000,000	24,000,000
Fee income - unrelated parties	398,600	461,061
	53,744,840	52,359,890

4. Other operating income

	2012	2011
	HRK	HRK
Income from release of provisions (note 31)	63,410,924	87,434,812
Prior years income	231,048	72,569
Net income from the asset disposal	86,320	351,215
Income from subventions and insurance claims	57,183	39,753
Rental income – third parties	20,133	20,233
Other income	378,962	1,007,779
	64,184,570	88,926,361

5. Cost of materials and energy

	2012	2011
	HRK	HRK
Cost of energy	4,866,774	4,795,588
Cost of raw materials	344,544	448,496
Small inventory	161,511	110,235
	5,372,829	5,354,319

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*Notes to financial statements (continued)***6. Cost of services**

	2012	2011
	HRK	HRK
Maintenance	4,317,088	5,100,732
Intellectual services	4,012,254	3,465,828
Utilities	3,424,951	3,463,073
Cleaning services	2,333,398	2,397,920
Supervisory services and services of property management at Sesvetski Kraljevec	2,100,000	2,100,000
Representation services	2,046,192	2,090,912
Security services	1,917,801	1,788,380
Graphical services	1,560,762	2,053,300
Advertising services and fair costs	1,365,772	839,862
Telephone cost, postal services and transport	966,873	1,042,559
Sponsorships and donations	900,982	1,118,164
Rent services and leases	795,132	797,526
Education and training services	715,292	820,778
Lawyer and audit services	410,893	3,907,306
Other services	2,445,888	2,274,540
	29,313,278	33,260,880

7. Personnel costs

	2012	2011
	HRK	HRK
Net wages and salaries	9,834,285	10,152,663
Costs of taxes and contributions from salaries	8,522,189	8,646,124
Contributions on salaries	2,309,570	2,487,772
Share-based payments	1,294,460	8,468,095
	21,960,504	29,754,654

Net wages and salaries in the amount of **HRK 9.834.285** (2011 in the amount of **HRK 10,152,663**) include compensations to the Management Board consisted of theirs salary in the amount of HRK 2,320,833 (2011 in the amount of HRK 2,623,125) and accrued bonuses in the amount of HRK 1.681.375 (2011 in the amount of HRK 1,953,000), and are an integral part of personnel costs.

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*Notes to financial statements (continued)***8. Depreciation and amortization**

	2012	2011
	HRK	HRK
Depreciation	10,249,596	7,922,243
Amortization	81,651	163,302
	10,331,247	8,085,545

9. Other operating expenses

	2012	2011
	HRK	HRK
Cost of arbitration proceedings - Cairo Phoenix	-	57,170,742
Compensations to members of the Supervisory Board	1,455,021	1,340,927
Public notary, legal costs, enforcements	1,158,065	194,007
Share-based payments (unrealised options)	1,029,447	5,561,275
Work agreements and copyrights	927,384	920,157
Taxes and contributions non-dependable on the results and similar costs	757,205	912,649
Travelling costs and per-diems	727,253	924,646
Insurance premiums	627,578	516,653
Compensations to employees	188,326	182,443
Memberships, contributions and similar	73,291	88,511
Bank services and commissions	63,237	205,440
Other	755,965	145,327
	7,762,772	68,162,777

10. Value adjustments

	2012	2011
	HRK	HRK
Value adjustment of non-current assets		
Value adjustment of shares in subsidiaries	57,691,629	80,812,774
Value adjustment of financial assets	1,000,000	902,932
	58,691,629	81,715,706
Value adjustment of current assets		
Value adjustment of trade accounts receivable	-	123,509
Value adjustment - other	-	16,103
	-	139,612
	58,691,629	81,855,318

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Notes to financial statements (continued)

At the reporting date the Company has recognized impairment loss on the shares in subsidiaries in the amount of HRK 57.7 million (2011: HRK 80.8 million).

11. Provisions

	2012	2011
	HRK	HRK
Provisions for costs within warranty periods	-	5,196,130
Provisions for court cases	-	1,006,752
Provisions for regular retirement and jubilee awards	241,079	-
	241,079	6,202,882

12. Financial revenues

	2012	2011
	HRK	HRK
<u>From the relations with associates</u>		
Dividends from associates	71,786,659	101,042,753
<u>From the relations with subsidiaries</u>		
Dividends and share in profits	23,597,265	31,845,637
Revenues from shares	-	15,895,054
Increase in share value (unrealised gain)	15,907,714	-
Interest income from loans granted	4,382,940	2,668,597
	43,887,919	50,409,288
<u>From the relations with unrelated parties</u>		
Interest income on deposits	12,040,636	4,654,938
Interest income on loans granted to employees	1,025,691	1,088,026
Interest income – other	403,876	2,642,726
Foreign exchange gains on deposits in foreign currency	3,335,041	13,938,598
Foreign exchange gains – other	656,168	972,297
Revenues from dividends and share in profits	63,179	30,653
	17,524,591	23,327,238
<u>Unrealized gain (income)</u>	529,000	928,225
	61,941,510	74,664,751
	133,728,169	175,707,504

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*Notes to financial statements (continued)***13. Financial expenses**

	2012	2011
	HRK	HRK
From the relations with unrelated parties		
Foreign exchange losses on deposits in foreign currency	2,877,139	9,563,151
Foreign exchange losses on loans granted to employees	580,644	616,710
Foreign exchange losses - other	209,784	148,470
Interest expenses / Cairo Phoenix (note 31)	-	2,832,698
Other financial expenses	73,290	508,133
	3,740,857	13,669,162

14. Corporate income tax

	2012	2011
	HRK	HRK
Profit before tax	114,243,384	70,648,218
Corporate income tax at 20%	22,848,677	14,129,644
Tax non-deductible expenses	12,592,078	23,190,623
Decreases of taxable basis (revenues from dividends and other)	(25,918,183)	(32,403,673)
Tax exemptions (government subsidies for education)	(122,448)	(125,781)
Adjusted corporate income tax	4,312,322	4,790,813
Used unrecognized deferred tax asset from previous period	(4,312,322)	(9,103,135)
Unrecognized deferred tax asset on tax losses to be carried forward	-	(4,312,322)
Tax liability	5,087,802	-

Current tax rate for the year 2012 and 2011 amounts to 20%.

15. Earnings per share*Basic and diluted earnings per share*

	2012	2011
	HRK	HRK
Net profit for the year	109,155.582	70,648,218
Weighted average number of shares (decreased by treasury shares)	2,571,455	2,562,505
Earnings per share in HRK	42.45	27.56

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*Notes to financial statements (continued)***16. Non-current intangible assets**

	Concessions, patents, licences, software and other rights HRK	Other HRK	Total HRK
Cost			
As at 1 January 2011	468,629	653,207	1,121,836
As at 31 December 2011	468,629	653,207	1,121,836
As at 31 December 2012	468,629	653,207	1,121,836
Accumulated amortization			
As at 1 January 2011	468,629	408,254	876,883
Amortization for the year 2011	-	163,302	163,302
As at 31 December 2011	468,629	571,556	1,040,185
Amortization for the year 2012	-	81,651	81,651
As at 31 December 2012	468,629	653,207	1,121,836
Carrying value			
31 December 2011	-	81,651	81,651
31 December 2012	-	-	-

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2012 amounts to HRK 1,122 thousand.(2011: HRK 469 thousand).

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Notes to financial statements (continued)
17. Property, plant and equipment

	Land	Buildings	Plant & equipment	Tools, fittings and transportation equipment	Other	Assets under construction	Advance payments	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Cost								
As at 1 January 2011	72,487,276	263,442,778	22,841,439	3,534,752	63,376	15,857,649	1,703,296	379,930,566
Transfer	-	14,426,888	2,853,515	1,538,485	-	(18,818,888)	-	-
Additions	899,269	2,571,849	-	69,010	-	11,420,441	1,619,748	16,580,317
Disposals	(66,421)	(284,367)	(241,829)	(1,281,902)	-	-	(3,279,476)	(5,153,995)
As at 31 December 2011	73,320,124	280,157,148	25,453,125	3,860,345	63,376	8,459,202	43,568	391,356,888
Transfer	-	49,908	8,577,580	1,788,643	-	(10,416,131)	-	-
Additions	2,880,911	11,982,222	16,322,808	-	-	2,673,545	23,700,042	57,559,528
Disposals	-	(4,341,836)	(258,169)	(826,396)	-	(270,000)	(10,355,967)	(16,052,368)
As at 31 December 2012	76,201,035	287,847,442	50,095,344	4,822,592	63,376	446,616	13,387,643	432,864,048
Accumulated depreciation								
As at 1 January 2011	-	139,707,742	9,755,291	3,130,305	-	-	-	152,593,338
Additions	-	5,250,071	2,168,793	503,379	-	-	-	7,922,243
Disposals	-	1,419,049	-	-	-	-	-	1,419,049
Depreciation for the year 2011	-	(284,367)	(220,173)	(1,281,902)	-	-	-	(1,786,442)
As at 31 December 2011	-	146,092,495	11,703,911	2,351,782	-	-	-	160,148,188
Depreciation for the year 2012	-	5,665,880	3,902,660	681,056	-	-	-	10,249,596
Additions	-	7,386,147	10,259,628	-	-	-	-	17,645,775
Disposals	-	(153,688)	(246,948)	(826,396)	-	-	-	(1,227,032)
As at 31 December 2012	-	158,990,834	25,619,251	2,206,442	-	-	-	186,816,527
Carrying value								
31 December 2011	73,320,124	134,064,653	13,749,214	1,508,563	63,376	8,459,202	43,568	231,208,700
31 December 2012	76,201,035	128,856,608	24,476,093	2,616,150	63,376	446,616	13,387,643	246,047,521

Additions in 2012 mostly relate to the purchase of property (land and buildings) on the locations Borongaj and Zlatar from the company Končar- Low Voltage Switches and Circuit Breakers Ltd, purchase of machinery, tools, fittings and transportation equipment from the company Končar – Tools Inc, advances given for purchase of property on Žitnjak from Končar – Household Appliances Ltd. and purchase of other equipment and vehicles.

Gross carrying value of fully depreciated property, plant and equipment, still in use as at 31 December 2012 amounts to HRK 18,679 thousand (31/12/2011: HRK 19,097 thousand).

The mortgage is registered over the land with carrying value of HRK 46,485 thousand (31/12/2011: HRK 46,485 thousand) and business facilities with carrying value of HRK 74,200 thousand (31/12/2011: HRK 77,528 thousand) as a collateral for subsidiary's liabilities.

In accordance with the Supervisory Board's decision from 13 December 2012 the Company has committed to purchase real estate from company Končar – Household Appliances Ltd. amounting to HRK 25 million.

18. Investment property

Investment property (located in Sesevetski Kraljevec, Samobor, Požega-Zvečevo and Zagreb) in the amount of HRK 99,664,965 (2011: HRK 93,849,610) relates to the investments in real estates for the capital appreciation intended for future sale. Part of the assets is under the court proceedings regarding its ownership rights. Fair value of these investments estimated by independent evaluators is higher than their carrying value, accordingly, depreciation is not charged to these investments.

Increases in investment property in the amount of HRK 5,815,352 relates to the reconstruction and restoration of real estate in Sesevetski Kraljevec, which is classified as investment property.

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*Notes to financial statements (continued)***19. Investments in subsidiaries**

	31 December 2012	31 December 2011
	HRK	HRK
<u>Domestic subsidiaries</u>		
Končar-Infrastructure and Services Ltd, Zagreb	56,691,318	56,691,318
Končar-Electrical Engineering Institute Inc, Zagreb	60,936,110	60,936,110
Končar-Electronics and Informatics Inc, Zagreb	38,709,693	38,709,693
Končar-Small Electrical Machines Inc, Zagreb	48,600,512	48,600,512
Končar-Generators and Motors Inc, Zagreb	73,176,047	73,176,047
Končar-Instrument Transformers Inc, Zagreb	12,450,769	12,450,769
Končar-Distribution and Special Transformers Inc, Zagreb	58,962,301	58,962,301
Končar-Medium Voltage Apparatus Inc, Zagreb	12,212,807	12,212,807
Končar-Electric Vehicles Inc, Zagreb	36,409,158	36,409,158
Končar-Switchgear Inc, Sesevski Kraljevec	15,648,553	15,648,553
Končar-Household Appliances Ltd, Zagreb	147,966,970	147,966,970
Končar-High Voltage Switchgear Inc, Zagreb	45,244,847	45,244,847
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zgb	81,432,641	81,432,641
Končar-Catering Equipment Inc, Zagreb	21,571,287	21,571,287
Končar-Tools Inc, Zagreb	31,278,153	31,278,153
Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb	5,673,822	5,673,822
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	37,196,266	37,196,266
Končar-Renewable Sources Ltd, Zagreb	79,323,700	68,489,300
Končar-Steel Structures Inc, Zagreb	16,703,123	16,703,123
Value adjustment	(248,707,945)	(206,924,030)
	631,480,132	662,429,647
<u>Foreign subsidiaries</u>		
KONES AG, Zurich, Switzerland	7,248,531	7,189,889
	7,248,531	7,189,889
	638,728,663	669,619,536

Increase in investments in subsidiaries during 2012 relates to increase in the share in Končar - Renewable Sources Ltd, Zagreb in the amount of HRK 10,834,400 by payment in cash.

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Notes to financial statements (continued)

Shares in ownership and voting rights as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012		31 December 2011	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Domestic subsidiaries				
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, Zgb	100.00	100.00	100.00	100.00
Končar-Generators and Motors Inc, 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
Končar-Electric Vehicles Inc, Zagreb	75.04	75.04	75.04	75.04
Končar-Steel 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, Sesevski 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	43.40	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	81.19	85.19
Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb	38.49	76.51	38.49	76.51
Foreign subsidiaries				
Kones AG, Zurich, Switzerland	100.00	100.00	100.00	100.00

The Company made value adjustment of investments in subsidiaries at balance sheet date on the basis of impairment test (note 10).

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*Notes to financial statements (continued)***20. Investments in associates**

Investments in associates amounting to HRK 67,722,257 (31/12/2011: HRK 67,722,257) relate to investment in the company Končar - Power Transformers Ltd, Zagreb.

21. Non-current financial assets

	31 December 2012	31 December 2011
	HRK	HRK
Shares in Tesla Savings Bank	3,500,010	3,500,010
Value adjustment of shares in Tesla Savings Bank	(1,902,932)	(902,932)
Shares in Zagrebačka Bank d.d., Zagreb	874,907	944,500
Shares in Croatia osiguranje d.d., Zagreb	1,449,000	920,000
	3,920,985	4,461,578

22. Long term receivables

	31 December 2012	31 December 2011
	HRK	HRK
<i>Receivable on the basis of sale on credit</i>		
Receivables for apartments sold	8,607,886	11,264,949
Value adjustment of the receivables for the apartments sold	(3,180,752)	(3,180,752)
Receivables for shares sold	17,155,556	20,434,605
Other loans granted	92,319	112,072
Advances given/purchase of shares	583,000	-
Other financial asset	438	438
Current portion	(5,001,442)	(5,133,515)
<i>Receivable on the basis of foreign sales</i>	5,685,715	5,858,351
Current portion	(387,848)	(183,885)
	23,554,872	29,172,263

In accordance with the Law on Sale of Apartments with Tenancy Rights, the apartments owned by the Company were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables increase/decrease 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 in EUR at fixed rate of 1 EUR =1.95583 DEM. As collateral the mortgage over the sold apartments has been registered.

Receivables for shares sold relate to the long term receivable for sold shares of related companies Končar-Electronics and Informatics Inc, Končar - Electric Vehicles Inc. and Končar – Steel Structures Inc. within the employee share ownership plan that includes instalment payments during 10 years.

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

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*Notes to financial statements (continued)***23. Receivables from related companies**

	31 December 2012	31 December 2011
	HRK	HRK
<i>Trade receivables</i>		
<u>Domestic subsidiaries</u>		
Končar-Infrastructure and Services Ltd, Zagreb	5,677,978	10,226,230
Končar-Electrical Engineering Institute Inc, Zagreb	257,192	66,547
Končar-Electronics and Informatics Inc, Zagreb	235,328	-
Končar-Small Electrical Machines Inc., Zagreb	194,431	368,951
Končar-Generators and Motors Inc, Zagreb	661,774	603,914
Končar-Instrument Transformers Inc, Zagreb	804,555	701,655
Končar-Distribution and Special Transformers Inc, Zagreb	1,127,136	445,925
Končar-Medium Voltage Apparatus Inc, Zagreb	226,288	123,732
Končar-Electric Vehicles Inc, Zagreb	972,999	2,828,449
Končar-Switchgear Inc, Sesevetski Kraljevec	906,891	751,041
Končar-Household Appliances Ltd, Zagreb	491,150	3,671,642
Končar-High Voltage Switchgear Inc, Zagreb	1,001,182	843,022
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zagreb	514,847	1,217,458
Končar-Catering Equipment Inc, Zagreb	167,670	161,542
Končar-Tools Inc, Zagreb	1,348,152	1,354,646
Končar- Engineering for Plant Installation and Commissioning Inc	193,855	362,462
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	1,106,311	1,377,386
Končar-Steel Structures Inc, Zagreb	409,986	973,536
Končar-Renewable Sources Ltd, Zagreb	339,179	63,272
<u>Associates</u>		
Končar-Power Transformers Ltd, Zagreb	359,974	703,322
	16,996,878	26,844,732
<i>Interest receivable (total)</i>	995,634	2,595,181
	17,992,512	29,439,913

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Notes to financial statements (continued)

As at 31 December 2012, the ageing structure of receivables from related parties was as follows:

	Total	Undue and collectible	< 60 days	Due but collectible			
				60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2012	17,992,512	10,450,788	4,228,287	825,465	1,035,883	1,351,089	101,000
2011	29,439,913	11,005,791	7,485,714	1,312,905	2,282,271	5,981,278	1,371,954

The average collection days from subsidiaries and customers during 2012 were 212 days (2011: 316 days).

24. Trade accounts receivable

	31 December 2012	31 December 2011
	HRK	HRK
Domestic customers	443,217	596,964
Value adjustment	(143,360)	(284,979)
Domestic customers, net	299,857	311,985
Foreign customers	312,652	183,885
	612,509	495,870

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

	Total	Undue and collectible	< 60 days	Due but collectible			
				60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2012	299,857	39,569	39,205	17,946	25,556	63,489	114,092
2011	311,985	54,974	53,313	24,559	52,698	85,767	40,674

Movement in value adjustment of trade accounts receivable was as follows:

	2012	2011
	HRK	HRK
Balance as at 1 January	284,979	871,672
Impaired in the current year	-	123,509
Collected in the current year	(141,619)	-
Write-off for the year	-	(710,202)
Balance as at 31 December	143,360	284,979

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*Notes to financial statements (continued)***25. Other receivables**

	31 December 2012	31 December 2011
	HRK	HRK
Receivables for apartments sold	7,637,736	6,971,386
Receivables for shares sold	5,586,027	3,085,414
Current portion of long-term receivables	5,001,442	5,133,515
Interest receivables on deposits	2,015,541	2,959,063
Receivables for value added tax	-	602,804
Other receivables	86,514	76,696
	20,327,260	18,828,878

26. Loans granted to related parties

	31 December 2012	31 December 2011
	HRK	HRK
Končar-Switchgear Inc, Sesvetski Kraljevec	3,500,000	3,500,000
Končar-Electric Vehicles Inc, Zagreb	50,241,420	50,415,000
Končar-High Voltage Switchgears Inc, Zagreb	11,266,500	-
Končar-Household Appliances Ltd, Zagreb	10,000,000	-
Končar-Renewable Sources Ltd, Zagreb	8,010,342	-
	83,018,262	53,915,000

Loans granted to related parties are repayable within one year bearing the annual interest rate of 7%.

27. Current financial assets

	31 December 2012	31 December 2011
	HRK	HRK
Deposits over 3 months	126,535,566	263,908,242
	126,535,566	263,908,242

Deposits over 3 months are related to deposits in Zagrebačka Bank d.d. bearing the annual interest rate from 1.6% to 4.9%.

28. Cash and cash equivalents

	31 December 2012	31 December 2011
	HRK	HRK
Balance at gyro accounts	9,025,379	3,016,174
Balance at accounts in foreign currency	867,918	452,994
Petty cash - HRK	6,036	8,390
Petty cash – foreign currencies	22,904	61,414
Deposits up to 3 months	189,000,000	39,000,000
	198,922,237	42,538,972

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Notes to financial statements (continued)

Deposits up to 3 months relate to deposit in Zagrebačka Bank d.d bearing the interest rate from 0.6% to 3.75%.

29. Prepaid expenses and accrued income

Prepaid expenses in the amount of HRK 1,157,065 (2011: HRK 861,682) are related to fairs participation costs, costs of professional education and audit services.

30. Subscribed capital

Subscribed capital is determined in the nominal amount of HRK 1,028,847,600 (as at 31 December 2011: HRK 1,028,847,600) and includes 2,572,119 shares of a nominal value of HRK 400 per share.

The ownership structure of the Company is as follows:

Shareholder	<u>31 December 2012</u>		<u>31 December 2011</u>	
	Number of shares	Ownership share %	Number of shares	Ownership share %
1. HPB d.d. (Kapitalni fond d.d.)	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
4. Societe Generale - Splitska Bank d.d./ Erste Plavi mandatory pension fund	184,189	7.16	172,199	6.69
5. Hypo-Alpe-Adria-Bank d.d./ PBZ Croatia Osiguranje OMF	164,777	6.41	107,159	4.17
6. LINTEUM SAVJETOVANJE d.o.o.	139,791	5.43	190,491	7.41
7. Societe Generale Bank/ AZ OMF	106,438	4.14	104,676	4.07
8. Florinčić Kristijan	85,714	3.33	85,714	3.33
9. Hypo Alpe Adria Bank/RBA OMF	35,250	1.37	35,250	1.37
10. PBZ d.d. (custodian account)	32,124	1.25	33,074	1.29
11. Other shareholders	453,749	17.64	464,519	18.06
12. KONČAR Inc (treasury shares)	664	0.03	9,614	0.37
	<u>2,572,119</u>	<u>100.00</u>	<u>2,572,119</u>	<u>100.00</u>

Ordinary shares of the Company are listed on the Official market at the Zagreb stock exchange under the name KOEI-R-A as at 21 December 2010 in accordance with the Zagreb Stock Exchange Resolution from 20 December 2010.

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*Notes to financial statements (continued)***31. Provisions**

	Provisions for guarantees	Legal court cases	Retirement and jubilee rewards	Total
	HRK	HRK	HRK	HRK
31 December 2011	120,153,400	79,943,326	946,316	201,043,042
Additional provisions	-	-	241,079	241,079
Release of provisions	(39,642,121)	(23,768,803)	-	(63,410,924)
31 December 2012	80,511,279	56,174,523	1,187,395	137,873,197

Provisions for liabilities from issued guarantees for the return of the advance payment in the amount of HRK 80,511,279 (2010: in the amount of HRK 120,153,400) relate to the HRK counter value of advance payments in the amount of USD 14,058,700 paid to the companies of former Rade Končar, which went into bankruptcy. Advance payments were received on the basis of agreed projects with Iraqi state institutions before the year 1990. For the received advances payments guarantees have been issued in various currencies, which HRK counter value as at 31 December 2012 amounts to HRK 69,082,570 (as at 31 December 2011 in the amount of HRK 65,491,426). Release of the part of provisions for issued guarantees in the amount of HRK 39,642,121 relates to contracts with Iraq state which were finished by other contractors.

Long-term provisions for legal proceedings in the amount of HRK 56,174,523 (2011: in the amount of HRK 79,943,326) relate to legal court cases in progress led against the Company in Croatia in the amount of HRK 53,700,000 and for the estimated costs of legal proceedings in the amount of HRK 2,474,523. Release of long-term provisions for legal proceedings in the amount of HRK 23,768,803 relate to claim of Central Bank of Syria in 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 as insurance instrument for delivery of electrical equipment to the Syria's national electric company, in the favour of Končar by the Central Bank of Syria. 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.

32. Long term liabilities

	31 December 2012	31 December 2011
	HRK	HRK
<u>Liabilities for loans</u>		
Environmental Protection and Energy Efficiency Fund	170,000	510,000
Current portion	(170,000)	(340,000)
	-	170,000

Agreement for using funds approved by Environmental Protection and Energy Efficiency Fund for the purpose of financing "Increase in energy efficiency for reconstruction of business facility Končar" project, was concluded in 2006 by the loan granted, for a period of 7 years with grace period of 2 years. The loan is interest-free and is repayable in semi-annual instalments.

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Notes to financial statements (continued)

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

	<u>HRK</u>
31 December 2011	170,000
Current portion	<u>(170,000)</u>
31 December 2012	-

33. Current liabilities toward related parties

	31 December 2012	31 December 2011
	<u>HRK</u>	<u>HRK</u>
Končar - Infrastructure and Services Ltd, Zagreb	1,520,949	-
Končar - Electronics and Informatics Inc, Zagreb	125,607	12,776
Končar - Household Appliances Ltd, Zagreb	4,205	-
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	396,313	-
Končar - Electrical Engineering Institute Inc, Zagreb	41,237	962,000
	<u>2,088,311</u>	<u>974,776</u>

34. Current liabilities for loans, deposits and similar

	31 December 2012	31 December 2011
	<u>HRK</u>	<u>HRK</u>
Environmental Protection and Energy Efficiency Fund	170,000	340,000
	<u>170,000</u>	<u>340,000</u>

Current liabilities for loans relate to the current portion of loan according to Agreement for Environmental Protection and Energy Efficiency Fund usage, for the purpose of financing "Increase in energy efficiency for reconstruction of business facility Končar" project.

35. Current trade accounts payable

	31 December 2012	31 December 2011
	<u>HRK</u>	<u>HRK</u>
Domestic suppliers	1,301,657	1,054,832
Foreign suppliers	277,879	-
	<u>1,579,536</u>	<u>1,054,832</u>

The average payment days to suppliers during 2012 were 50 days (2011: 38 days).

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Notes to financial statements (continued)

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

	Total	Undue	< 60 days	Due			
				< 60 days	60-90 days	90-180 days	180-365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2012	1,579,536	1,405,435	174,101	-	-	-	-
2011	1,054,832	968,434	86,398	-	-	-	-

36. Other current liabilities

	31 December 2012	31 December 2011
	HRK	HRK
<i>Liabilities toward employees</i>		
Liabilities for salaries	381,610	352,606
Liabilities for bonuses on the basis of result for the current year	1,681,375	1,953,000
	2,062,985	2,305,606
<i>Liabilities for taxes, contributions and similar</i>		
Liabilities for taxes	1,653,236	1,838,028
Liabilities for value added tax	589,581	-
Liabilities for contributions	858,293	864,490
	3,101,110	2,702,518
<i>Other liabilities</i>		
Interest liabilities	7,700	7,700
Liabilities toward state for apartments sold	23,704	28,960
Liabilities for dividends	97,692	114,360
Other liabilities	97,521	85,780
	226,617	236,800
	5,390,712	5,244,924

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Notes to financial statements (continued)

37. Off-balance sheet items

	31 December 2012	31 December 2011
	HRK	HRK
Subsidiarity guarantee (Zagrebačka Bank d.d.)	532,005,473	559,009,118
Corporative guarantees / Končar Inc.	65,514,983	29,772,485
Corporative guarantees / other banks	28,156,151	48,285,924
Apartments sold (65%)	29,729,526	98,397,500
Bills of exchange	83,018,262	53,915,000
Debentures	7,500,000	7,500,000
	745,924,395	796,880,027

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*Notes to financial statements (continued)***38. Transaction with related parties**

2012 Related party	Operating activities				Financial activities	
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000	Receivables HRK'000	Revenues HRK'000
Končar-Infrastructure and Services Ltd.	5,678	1,521	24,512	10,271	-	-
Končar-Household Appliances Ltd.	491	4	1,647	46	10,058	364
Končar-Electric Vehicles Inc.	973	-	1,445	165	51,054	3,316
Končar-High Voltage Switchgear Inc.	1,001	-	582	-	11,289	23
Končar-Generators and Motors Inc.	662	-	2,908	-	-	-
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	1,106	396	4,603	1,439	-	318
Končar-Steel Structures Inc.	410	-	1,254	-	-	-
Končar-Switchgear Inc.	907	-	497	202	3,520	238
Končar-Instrument Transformers Inc.	805	-	1,964	-	-	-
Končar-Low Voltage Switches and Circuit Breakers Ltd.	515	-	712	257	-	-
Končar-Distribution and Special Transformers Inc.	1,127	-	4,133	-	-	-
Končar-Electrical Engineering Institute Inc.	257	41	799	530	-	-
Končar-Tools Inc.	1,348	-	1,162	-	-	-
Končar-Catering Equipment Inc.	168	-	273	-	-	-
Končar-Small Electrical Machines Inc.	195	-	796	-	-	-
Končar-Engineering for Plant Installation and Commissioning Inc.	194	-	515	-	-	-
Končar-Electronics and Informatics Inc.	235	126	1,020	1,526	-	-
Končar-Medium Voltage Apparatus Inc.	226	-	479	-	-	-
Končar-Power Transformers Ltd.	360	-	2,473	-	-	-
Končar-Renewable Sources Ltd.	339	-	1,572	-	8,093	124
	16,997	2,088	53,346	14,436	84,014	4,383

Transactions with related parties do not include receivables for and income from dividends i.e. profit shares.

Dividends income, i.e. profit share is recognized in the amount of HRK 95,384 thousand (2011: HRK 132.889 thousand).

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Notes to financial statements (continued)

2011 Related party	Operating activities				Financial activities	
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000	Receivables HRK'000	Revenues HRK'000
Končar-Infrastructure and Services Ltd.	10,226	-	24,514	11,196	-	-
Končar-Household Appliances Ltd.	3,672	-	1,785	46	-	10
Končar-Electric Vehicles Inc.	2,828	-	1,964	-	52,979	2,400
Končar-High Voltage Switchgear Inc.	843	-	619	-	-	20
Končar-Generators and Motors Inc.	604	-	2,402	-	-	-
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	1,377	-	3,467	621	11	28
Končar-Steel Structures Inc.	974	-	1,228	-	-	-
Končar-Switchgear Inc.	751	-	435	1,027	3,520	211
Končar-Instrument Transformers Inc.	702	-	1,926	-	-	-
Končar-Low Voltage Switches and Circuit Breakers Ltd.	1,217	-	754	113	-	-
Končar-Distribution and Special Transformers Inc.	446	-	4,546	-	-	-
Končar-Electrical Engineering Institute Inc.	67	962	895	302	-	-
Končar-Tools Inc.	1,355	-	1,018	-	-	-
Končar-Catering Equipment Inc.	162	-	296	7	-	-
Končar-Small Electrical Machines Inc.	369	-	714	-	-	-
Končar-Engineering for Plant Installation and Commissioning Inc.	362	-	431	1,949	-	-
Končar-Electronics and Informatics Inc.	-	13	941	-	-	-
Končar-Medium Voltage Apparatus Inc.	124	-	376	-	-	-
Končar-Power Transformers Ltd.	703	-	3,101	-	-	-
Končar-Renewable Sources Ltd.	63	-	487	-	-	-
	26,845	975	51,899	15,261	56,510	2,669

Transactions with related parties do not include receivables for and income from dividends i.e. profit shares.

Dividends income, i.e. profit share is recognized in the amount of HRK 132.889 thousand.

39. Risk management

The Company is exposed in its operations to market (currency risk) and liquidity risk.

The Company doesn't use derivative financial instruments. 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 Company 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 Company manages capital and for the purpose of proper capital structure, in accordance with the economic conditions present on the market, decides if the retained earnings should be distributed to shareholders, if the capital needs increase or decrease, if the assets should be sold to cover the liabilities, etc. 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	31 December 2011
	HRK'000	HRK'000
Long-term financial liabilities	-	170
Short-term financial liabilities	170	340
Less: cash and cash equivalents (deposits)	(198,922)	(42,539)
Net debt	-	-
Capital	1,376,810	1,297,367
Gearing ratio	-	-

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 assets, financial liabilities and equity instrument are disclosed in note 2 to the financial statements.

Accounting policies for financial instruments are applied on the following items of the Statement of financial position:

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31 December 2012

*Notes to financial statements (continued)***31 December 2012**

	Loans and receivables	Fair value through P&L	Available for sale	Held to maturity	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Long-term financial assets	23,555	2,324	1,597	-	27,476
Short-term financial assets	209,554	-	-	-	209,554
Trade and other current receivables	38,932	-	-	-	38,932
Cash and cash equivalents	198,922	-	-	-	198,922
	470,963	2,324	1,597	-	474,884

31 December 2011

	Loans and receivables	Fair value through P&L	Available for sale	Held to maturity	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Long-term financial assets	29,172	1,865	2,597	-	33,634
Short-term financial assets	317,823	-	-	-	317,823
Trade and other current receivables	48,765	-	-	-	48,765
Cash and cash equivalents	42,539	-	-	-	42,539
	438,299	1,865	2,597	-	442,761

All of the Company's liabilities have been classified as "At amortized cost". The Company has no liabilities that have been classified as "Liabilities at fair value through profit and loss account".

Fair value of financial assets and liabilities

The following table represents financial assets and liabilities valued at fair value in the Statement of financial position according to the fair value hierarchy. This hierarchy groups financial assets and liabilities in three levels, depending on the significance of input variables used in the measurement of their fair values. 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)

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Notes to financial statements (continued)

- 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 in 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

<i>In thousands of HRK</i>	Level 1	Level 2	Level 3	Total
Assets				
Listed securities	2,324	-	1,597	3,921
	2,324	-	1,597	3,921

31 December 2011

<i>In thousands of HRK</i>	Level 1	Level 2	Level 3	Total
Assets				
Listed securities	1,865	-	2,597	4,462
Total	1,865	-	2,597	4,462

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

Receivables and deposits at bank

For assets due within three months, 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-termless 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 Company 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 Company's Management monitors and manages the financial risks relating to the operations of the Company 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 Company'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 Company's activities are primarily exposed to the foreign currency exchange rate risk.

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

a) Foreign currency risk management

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

The Company exposes itself to foreign currency risk through sales, purchasing, loans and depositing of funds denominated in foreign currencies.

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

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Notes to financial statements (continued)

	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
2012						
Long-term receivables	5,298	-	-	5,298	18,257	23,555
Trade receivables	313	-	-	313	300	613
Short-term financial asset	90,548	15,988	-	106,536	20,000	126,536
Cash and cash equivalents	832	-	-	832	198,090	198,922
Foreign trade accounts payables	(278)	-	-	(278)	-	(278)
	96,713	15,988	-	112,701	236,647	349,348

	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
2011						
Long-term receivables	5,674	-	-	5,674	23,498	29,172
Trade receivables	184	-	-	184	312	496
Short-term financial asset	88,106	15,802	-	103,908	160,000	263,908
Cash and cash equivalents	256	103	23	382	42,157	42,539
	94,220	15,905	23	110,148	225,967	336,115

	Short-term exposure			Long term exposure		
	EUR	CHF	Other	EUR	USD	CHF
	000 HRK	000 HRK	000 HRK	000 HRK	000 HRK	000 HRK
2012						
Financial assets	91,693	15,988	-	5,298	-	-
Financial liabilities	(278)	-	-	-	-	-
Total exposure	91,415	15,988	-	5,298	-	-
2011						
Financial assets	88,546	15,905	23	5,674	-	-
Financial liabilities	-	-	-	-	-	-
Total exposure	88,546	15,905	23	5,674	-	-

Sensitivity analysis

The strengthening of the HRK in relation to EUR for 1%, CHF for 1% at the date of reporting would increase/ (decrease) the profit before tax by the following amounts:

	2012	2011
	Effect on income before taxes	Effect on income before taxes
	<u>HRK'000</u>	<u>HRK'000</u>
EUR	(967)	(1,853)
GBP	-	(1)
CHF	(130)	(710)

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

A weakening 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, with assumption that all other variables remain constant.

b) Interest rate risk

The company is not exposed to interest rate risk.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company 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 from defaults. The Company uses information gathered from specialized credit agencies and Croatian Chamber of Economy, as well as other publicly available financial information and its own trading records to rate its major customers. The Company'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 Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company 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 Company 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 Company 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

KONČAR – ELECTRICAL INDUSTRY INC.

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Notes to financial statements (continued)

the monitoring of current, middle and long-term financing and all depends related to liquidity risk. The Company manages this risk by constant monitoring of estimated and actual cash flow and comparing it with the maturity of financial assets and liabilities.

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

	Carrying value	Contracted cash flows	0 – 12 Months	1 – 2 Years	2 – 5 Years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2012						
Loans	170	170	170			
Trade account and other payables	14,146	14,146	14,146			
	14,316	14,316	14,316			
31 December 2011						
Loans	510	510	340	170	-	-
Trade account and other payables	7,275	7,275	7,275	-	-	-
	7,785	7,785	7,615	170	-	-

40. Court cases and contingent liabilities

Several court cases are led against the Company in the country and abroad in the amount of HRK 95,518 thousand.

As at 31 December 2012 for these court cases the Company recognized the provision in the amount of HRK 56,175 thousand. The Management Board does not expect additional costs to arise from other court cases.

Total guarantees issued by the Company are established in the amount of HRK 637,677 thousand (2011 in the amount of HRK 637,067 thousand) whereof the amount of HRK 387.859 thousand relates to performance guarantees (2011 in the amount of HRK 430,397 thousand). The Company has recognized provisions for these guarantees in the amount of HRK 80,511 thousand (2011 in the amount of HRK 120,153 thousand).

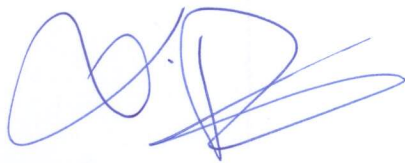
41. Subsequent events

In accordance with the decisions brought on 5th Supervisory Board meeting held on 13 December 2012, the Company will increase capital of related company Končar – High Voltage Switchgear Inc. by the amount of HRK 25 million and related company Končar – Switchgear Inc. by the amount of HRK 13 million.

After the reporting date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Company for the year 2012, and that should, consequently, be disclosed.

42. Approval of financial statements

These financial statements were approved by the Management Board and authorized for issue on 15 March 2013.



Darinko Bago

President of the Management Board



»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
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