

**MANAGING BOARD REPORT ON BUSINESS OPERATIONS OF THE  
KONČAR GROUP  
FOR THE TIME PERIOD FROM JANUARY TO JUNE 2012**

The KONČAR Group consists of KONČAR – ELECTRICAL INDUSTRY Inc. as the Mother Company and 20 dependant companies in which the mother company has a prevailing influence (more than 50 % of votes at the AGM/EGM). In a smaller part of companies, besides ordinary shares, preferred shares have been registered as well. In addition, the Mother Company has a minority managing impact (49 % of votes at the AGM/EGM) in one company (associated company). Companies within the Group are legally independent companies and the Mother Company supervises and directs them through Company Supervisory Boards in accordance with the Trading Company Act, the Statutes of KONČAR – ELECTRICAL INDUSTRY Inc and the Statues of each individual company. The Mother Company also manages a part of the assets that are not invested into companies, but, directly or indirectly, has the function of a financial support to marketing and sales, products and equipment of associated companies as credit and guarantee potential.

As of 30<sup>th</sup> June, 2012, the potential liability of Končar – Electrical Industry Inc. for the total issued warranties amounted to HRK 683.2 million out of which amount HRK 423.97 million refers to guarantees (bid bonds, advance payment guarantees, good performance guarantees and warranty period guarantees).

The Company has formed reserves in the amount of HRK 120.1 million for potential liabilities from those guarantees.

The KONČAR Group business activities are divided into business areas:

- Energy and transport: designing and construction of plants for generation, transmission and distribution of electric energy with belonging equipment, thyristor locomotives, electrical multiple units, tram cars, and electrical line side equipment;
- Industry: electric motor drives, middle voltage and low voltage electric equipment and catering equipment;
- Trade: electric household appliances, serial products and low voltage electric apparatus.
- Special business activities: research and development of products and infrastructural services.

### ***Managing Board***

The President and Members of the Managing Board are appointed and recalled by the Supervisory Board. The term of office of the President and Members of the Managing Board lasts 5 years; after expiry of their term of office, they can be reappointed. Pursuant the Trading Company Act and the Statutes of the Company, the Managing Board manages business activities at its own responsibility; it is obliged and authorised to perform all possible actions and make decisions it considers necessary for a successful managing of the Company. Some decisions, prescribed by the Statues, require consent of the Supervisory Board.

The Company Končar – Electrical Industry Inc. is managed by the Managing Board consisting of:

Darinko Bago	The President of the Managing Board
Marina Kralj Miliša	A Member of the Managing Board in charge of Legal, Common and Personnel Affairs
Jozo Miloloža	A Member of the Managing Board in charge of Finances
Davor Mladina	A Member of the Managing Board in charge of Transmission and Distribution of Electric Energy, Industry and Trade
Miroslav Poljak	A Member of the Managing Board in charge of Generation of Electric Energy, Corporate Development and ICT

### ***Supervisory Board***

Pursuant provisions of the Trading Company Act and the Statutes of KONČAR – ELECTRICAL INDUSTRY Inc. the Annual (Extraordinary) General Meeting makes decision on nomination and recalling of the Supervisory Board. The Supervisory Board is responsible for appointment and recall of Managing Board Members and supervision over management of business activities of the Company. Any more significant transactions and business decisions (the level of transactions is defined by the Statues of the Company) requires the Supervisory Board consent.

According to the proposal of the Government of the Republic of Croatia of 19<sup>th</sup> April, 2012, the AGM recalled the Supervisory board Members Božidar Piller, Đuro Perica, Nenad Matić, Elvis Kovačević, Kristijan Floričić and Vicko Ferić from duty on 3<sup>rd</sup> July, 2012. Pursuant the proposal of the Government of the Republic of Croatia, the following ladies and gentlemen were elected the Supervisory Board Members: dr.sc. Tomislav Radoš, dr.sc. Nenad Filipović, dr.sc. Kristina Čelić, Petar Vlaić and Vicko Ferić. Supervisory Board Members were elected for the term of office of four years. The Agency for Management of State Property of the Republic of Croatia made a decision on 3<sup>rd</sup> May, 2012 to elect M.Sc. Boris Draženović to be a member of the Supervisory Board. Jasminka Belačić was elected to be a member of the Supervisory Board by employees and Ivan Rujnić was elected to be a member of the Supervisory Board by the Small Shareholder Association. The constituting meeting of the Supervisory Board was held on 9<sup>th</sup> July, 2012 and the meeting elected dr.sc. Nenad Filipović to be the Supervisory Board President and Jasminka Belačić to be the Deputy President.

## **JANUARY – JUNE 2012 BUSINESS RESULTS OF THE KONČAR GROUP**

The Končar Group generated a positive financial result for the first half-year 2012. The total consolidated incomes amount to HRK 1,207.4 million occupying the same level of achievement as for the same time period of the previous year. The unconsolidated incomes (data including incomes generated among associated companies as well) amount to HRK 1,509.9 million or 7.5 % higher than the previous year result. A part of works and assets not included into consolidated incomes was invested among associated companies for generation of potentials for improvement of the technical and the technological level of the Group as a whole that will be reflected into the consolidated business results in the future.

The total consolidated revenues amount to HRK 1,132.3 million being at the level of the first half-year of 2011.

The Group consolidated profits before tax amount to HRK 75.1 million or 9 % less than the achievement for the same period in 2011. The profit tax advance amounts to HRK 10.5 million resulting in the profits after tax in the amount of HRK 64.6 million, out of which HRK 15 million belongs to the uncontrolled interest and HRK 49.6 million belongs to the Mother Company shareholders or 16% less than achieved for the same period in 2011.

A share in the profits of the associated companies is generated in the amount of HRK 29.4 million making HRK 18.7 million less compared to the share achieved during the same time period of the previous year.

The financial incomes are generated in the amount of HRK 22.3 million and they are made of interests in the amount of HRK 7.4 million, exchange rate differences in the amount of HRK 13.5 million and other financial incomes in the amount of HRK 1.4 million. The financial revenues are generated in the amount of HRK 20.1 million and they are made of negative exchange rate differences in the amount of HRK 14.5 million, interests and other financial revenues in the amount of HRK 5.6 million.

The positive difference between the financial incomes and the financial revenues amounts to HRK 2.2 million.

Profits from sales of products and services in the amount of HRK 43.5 million, a share of the profits of the associated companies in the amount of HRK 29.4 million and the positive difference between the financial incomes and revenues in the amount of HRK 2.2 million generate the consolidated profits before tax in the amount of HRK 75.1 million.

Out of 21 Končar Group Companies, 16 companies have positive business results, while five companies express a loss in the total amount of HRK 18.3 million.

Consolidated incomes from sales of products and services are generated in the amount of HRK 1,105.6 million that is higher than the result for the same period of the previous year by 1 %. On the domestic market, products and services have been sold in the amount of HRK 540 million (49 % out of the total generated incomes from sales of products and services) or 21 % more than in the same period of the previous year, while HRK 559 million has been generated in export (51 % out of the total generated incomes from sales of products and services) or 15 % less compared to the export generated during the first half year of 2011. Incomes from the export of products and services are smaller compared to the achievement of the same period of the previous year due to unevenly contracted dynamics of delivery throughout the quarters. It is expected that the level of incomes from sales of goods and services abroad will achieve the planned values.

The positive correction of incomes for deferred incomes amounts to HRK 6.6 million.

Out of the consolidated incomes from sales of products and services, companies belonging to the Energy and Transport business area have generated sales in the amount of HRK 925.7 million or 85 % out of the total sales of the Group, companies of the Trade business area generated sales in the amount of HRK 80.7 million of 7 per cent, companies of the Industry business area HRK 58.9 million or 5 per cent and three companies belonging to the Special Business Activities HRK 33.7 million or 3 per cent of the total sales of the Group.

Regarding the structure of incomes from sales of products and services on the domestic market, incomes from sales of products and services to the Croatian Power Authority (HEP) amount to HRK 274.8 million or 50 per cent of the total amount generated on the domestic market, to the companies from the area of industry and shipping industry amount to HRK 88.2 million or 16.1 per cent of the total incomes from sales of products and services in Croatia, to trading companies products and services in the amount of HRK 75.4 million were delivered, to Zagreb Holding (Zagreb Electric Tram) HRK 36.3 million were delivered, to Croatian Railways HRK 18.1 million and the rest of HRK 53.8 million were delivered to Croatian Motorways, state and local government bodies and public companies.

During the time period January – June, 2012 incomes from sales of goods and services amount to HRK 559 million. The most important export was realised in Germany in the amount of HRK 71.1 million, Sweden HRK 41.1 million, Finland HRK 37 million, Bosnia and Herzegovina HRK 30.2 million, Slovenia HRK 25.8 million, Russia HRK 24.1 million and Cyprus HRK 20.4 million.

During the same period the Group companies imported the investment equipment, raw and other materials in the amount of HRK 360.1 million. The import is completely covered by the export and the coverage coefficient amounts to 1.6.

In the first half-year of 2012, Končar Group companies contracted new projects in the amount of HRK 1,162.8 million. The contracted project position (unsettled liabilities) at the end of June, 2012 amounted to HRK 2,274.9 million making more than the contracted project position at the beginning of the year by 3 %.

Out of total business activities, 48 % is contracted for the domestic market and 52 % for the international market. HRK 866.1 million on new projects was contracted for execution in 2012, and HRK 296.7 million was contracted for execution in 2013 and subsequent years.

The position of the total consolidated assets of the Končar Group as of 30<sup>th</sup> June, 2012 amounts to HRK 3,597.6 million representing an increase of HRK 101.9 million or 3 % compared to the position as of 31<sup>st</sup> December, 2011.

Within the structure of the assets, the registered capital, provisions/reserves, retained profits, current year profits, uncontrolled interest amount to HRK 1,987 million making 49,8 million more than on the 31<sup>st</sup> December, 2011 and representing 55 % of the total sources.

Long term financial sources (capital, long term provisions / reserves and long term liabilities) are higher by HRK 589.9 million from the long term assets and average stock status indicating a good time structure of the asset sources. Current assets are 2.6 times higher than the current liabilities indicating a good liquidity of the system. The consolidated balance structure indicates a good financial stability of the Končar Group.

It is estimated that the consolidated incomes from sales of products and services will amount to HRK 1.8 thousand million during the time period January – September, 2012 or 5 % higher than incomes generated during the same period of 2011. It is estimated for the same time period that a part of profits belonging to the Mother Company shareholder will amount to approximately HRK 70 million.

It is estimated that the Končar Group companies will generate incomes from sales of goods and services for 2012 in the amount of HRK 2.4 thousand million making an increase of 5 % compared to the generated in 2011.

Signed in the name of the Managing Board:

Končar – Electrical Industry Inc.  
Managing Board President

Darinko Bago

26<sup>th</sup> July, 2012

**STATEMENT OF PERSONS RESPONSIBLE FOR COMPILATION OF THE KONČAR  
GROUP CONSOLIDATED FINANCIAL REPORTS**

This Statement of the Končar – Electrical Industry Inc., Zagreb is given regarding compilation and publishing of the Končar Group Consolidated Financial Reports for the time period January – June 2012.

Financial Reports are compiled in accordance with the Croatian Accounting Act valid on the day of publishing of these financial reports as well as with the International Financial Reporting Standards.

According to our best consideration, consolidated financial reports express a complete and true reflection of the balance sheet, the profit and loss account, the cash flow and the report on changes of the caption of the Končar Group.

Signed in the name of the Managing Board:

Končar – Electrical Industry Inc.  
Managing Board President

Darinko Bago

26<sup>th</sup> July, 2012

- Note:

Consolidated Financial Reports are compiled by expert services of Končar – Electrical Industry Inc.

Contract persons:

Ervin Filipčić, Managing Board Office Head, [filipcic@koncar.hr](mailto:filipcic@koncar.hr)

Branka Velkovski, accounting expert, [branka.velkovski@koncar.hr](mailto:branka.velkovski@koncar.hr)

Vesna Ilić, Accounting Department Head, [vesna.ilic@koncar.hr](mailto:vesna.ilic@koncar.hr)

Appendix 1			
Reporting period:	1.1.2012	to	30.6.2012
<b>Quarterly financial report of entrepreneur TFI-POD</b>			
Registration number (MB)	03282635		
Identification number of subject (MBS)	080040936		
Personal identification number (OIB)	45050126417		
Issuer company:	KONČAR - ELECTRICAL INDUSTRY Inc.		
Postal code and place	10000	ZAGREB	
Street and number	FALLEROVO ŠETALIŠTE 22		
E-mail address:	<a href="mailto:koncar.finance@koncar.hr">koncar.finance@koncar.hr</a>		
Internet address:	<a href="http://www.koncar.hr">www.koncar.hr</a>		
Code and name of comune/town	133	ZAGREB	
Code and county name	21	GRAD ZAGREB	Number of employees (at quarter end)
Consolidated statement	YES		NKD/NWC code: 2711
Subsidiaries subject to consolidation (according to IFRS) in appendix Registration number:			
Končar - Energetika i usluge d.o.o.	Zagreb	1343068	
Končar - Institut za elektrotehniku d.d.	Zagreb	3645363	
Končar - Elektronika i informatika d.d.	Zagreb	3282899	
Končar - Mali električni strojevi d.d.	Zagreb	3282678	
Končar - Generatori i motori d.d.	Zagreb	1356216	
Končar - Obnovljivi izvori d.o.o.	Zagreb	2435071	
Končar - Mjerni transformatori d.d.	Zagreb	3654656	
Končar - Distributivni i specijalni transform. d.d.	Zagreb	3654664	
Končar - Električni aparati srednjeg napona d.d.	Zagreb	3641287	
Končar - Električna vozila d.d.	Zagreb	3282660	
Končar - Sklopna postrojenja d.d.	Sesvetski Kraljevec	3641279	
Končar - Kućanski aparati d.o.o.	Zagreb	1403222	
Končar - Električni visokonaponski aparati d.d.	Zagreb	3641252	
Končar - Niskonaponske sklopke i prekidači d.o.o.	Zagreb	3228398	
Končar - Ugostiteljska oprema d.d.	Zagreb	3788717	
Končar - Alati d.d.	Zagreb	3672468	
Končar - Montažni inženjering d.d.	Zagreb	3654362	
Končar - Inženjering za energetiku i transport d.d.	Zagreb	3654354	
Končar - Metalne konstrukcije d.d.	Zagreb	1114328	
Kones AG	Zurich, Switzerland		
Book keeping service:			
Contact person:	BRANKA VELKOVSKI (fill in only surname and name of contact person)		
Phone number:	01 3667175	Fascimile:	01 3655377
E-mail address:	<a href="mailto:branka.velkovski@koncar.hr">branka.velkovski@koncar.hr</a>		
Surname and name	DARINKO BAGO (authorised person for representation)		
<b>Disclosure documents:</b>			
1. Financial statements (balance sheet, profit and loss account, cash flow statement, statement of changes in shareholders' equity and notes to the financial statements)			
2. Report of the Management Board on position of the Company			
3. Statement of responsible persons for preparation of financial statements			
		M.P.	(signed by authorised person for representation)



<b>Balance Sheet</b>			
<b>as of 30.06.2012.</b>			
<b>Company: Končar - Electrical Industry Inc.</b>			
Position	AOP	Previous period	Current period
1	2	3	4
<b>ASSETS</b>			
<b>A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL</b>	<b>001</b>	0	0
<b>B) NON-CURRENT ASSETS (003+010+020+029+033)</b>	<b>002</b>	1.343.866.876	1.470.140.404
<b>I. INTANGIBLE ASSETS (004 do 009)</b>	<b>003</b>	32.699.840	32.561.472
1. Expenditure for development	<b>004</b>	10.552.232	8.890.327
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	<b>005</b>	4.599.754	4.822.260
3. Goodwill	<b>006</b>	7.503.528	7.500.596
4. Advances for purchase of intangible assets	<b>007</b>	388.695	752.566
5. Intangible assets in progress	<b>008</b>	9.440.954	7.322.305
6. Other intangible assets	<b>009</b>	214.677	3.273.418
<b>II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)</b>	<b>010</b>	1.017.220.459	1.115.119.964
1. Land	<b>011</b>	155.724.709	155.909.618
2. Buildings	<b>012</b>	375.156.015	373.104.216
3. Plant and equipment	<b>013</b>	151.759.821	154.126.362
4. Tools, working inventory and transportation assets	<b>014</b>	82.425.019	85.288.081
5. Biological assets	<b>015</b>	0	
6. Advances for purchase of tangible assets	<b>016</b>	7.182.957	9.132.250
7. Tangible assets in progress	<b>017</b>	149.478.516	236.671.216
8. Other tangible assets	<b>018</b>	889.771	7.038.608
9. Investment in real-estate	<b>019</b>	94.603.651	93.849.613
<b>III. NON-CURRENT FINANCIAL ASSETS (021 do 028)</b>	<b>020</b>	252.080.923	281.962.217
1. Share in related parties	<b>021</b>	293.704	293.031
2. Loans to related parties	<b>022</b>	0	
3. Participating interests (shares)	<b>023</b>	811.316	870.317
4. Loans to companies with participating interest	<b>024</b>	0	
5. Investments in securities	<b>025</b>	4.755.707	4.462.017
6. Loans, deposits, etc.	<b>026</b>	1.461.593	992.500
7. Other non-current financial assets	<b>027</b>	2.191.352	2.893.215
8. Equity-accounted investments	<b>028</b>	242.567.251	272.451.137
<b>IV. RECEIVABLES (030 do 032)</b>	<b>029</b>	41.865.654	40.496.751
1. Receivables from related parties	<b>030</b>	0	
2. Receivables arising from sales on credit	<b>031</b>	32.345.312	28.728.865
3. Other receivables	<b>032</b>	9.520.342	11.767.886
<b>V. DEFERRED TAX ASSET</b>	<b>033</b>	0	0
<b>C) CURRENT ASSETS (035+043+050+058)</b>	<b>034</b>	2.142.156.894	2.116.956.245
<b>I. INVENTORIES (036 do 042)</b>	<b>035</b>	512.835.195	674.056.252
1. Raw materials and supplies	<b>036</b>	276.781.099	274.452.872
2. Production in progress	<b>037</b>	134.863.472	203.256.270
3. Finished products	<b>038</b>	60.704.804	95.958.677
4. Merchandise	<b>039</b>	13.717.172	44.631.270
5. Advances for inventories	<b>040</b>	25.856.601	55.757.163
6. Long term assets held for sale	<b>041</b>	912.047	0
7. Biological assets	<b>042</b>	0	0
<b>II. RECEIVABLES (044 do 049)</b>	<b>043</b>	932.931.301	844.992.648
1. Receivables from related parties	<b>044</b>	19.467.234	21.051.161
2. Receivables from end-customers	<b>045</b>	831.778.713	775.247.841
3. Receivables from participating parties	<b>046</b>	0	0
4. Receivables from employees and members of the company	<b>047</b>	1.321.053	1.606.657
5. Receivables from government and other institutions	<b>048</b>	43.757.812	13.621.515
6. Other receivables	<b>049</b>	36.606.489	33.465.474
<b>III. CURRENT FINANCIAL ASSETS (051 do 057)</b>	<b>050</b>	376.970.323	257.648.319
1. Share in related parties	<b>051</b>	0	0
2. Loans to related parties	<b>052</b>	0	0
3. Participating interests (shares)	<b>053</b>	0	0
4. Loans to companies with participating interest	<b>054</b>	0	0
5. Investments in securities	<b>055</b>	0	0
6. Loans, deposits, etc.	<b>056</b>	376.970.323	257.612.604
7. Other financial assets	<b>057</b>	0	35.715
<b>IV. CASH AND CASH EQUIVALENTS</b>	<b>058</b>	319.420.075	340.259.026
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	9.711.305	10.489.019
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	3.495.735.075	3.597.585.668
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	2.212.151.466	2.167.801.709

<b>EQUITY AND LIABILITIES</b>			
<b>A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	1.937.208.827	1.986.993.545
I. SUBSCRIBED SHARE CAPITAL	<b>063</b>	1.028.847.600	1.028.847.600
II. CAPITAL RESERVES	<b>064</b>	719.579	719.579
III. RESERVES FROM PROFIT (066+067-068+069+070)	<b>065</b>	243.156.817	308.366.439
1. Legal reserves	<b>066</b>	17.762.375	22.449.374
2. Reserve for own shares	<b>067</b>	3.845.600	3.845.600
3. Treasury shares and shares (deductible items)	<b>068</b>	3.845.600	3.845.600
4. Statutory reserves	<b>069</b>	146.257.985	185.426.449
5. Other reserves	<b>070</b>	79.136.457	100.490.616
IV. REVALUATION RESERVES	<b>071</b>	0	0
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	<b>072</b>	277.566.082	376.988.655
1. Retained earnings	<b>073</b>	277.566.082	376.988.655
2. Loss carried forward	<b>074</b>	0	0
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	<b>075</b>	162.441.709	49.551.923
1. Net profit for the period	<b>076</b>	162.441.709	49.551.923
2. Net loss for the period	<b>077</b>	0	0
VII. MINORITY INTEREST	<b>078</b>	224.477.040	222.519.349
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	508.233.506	492.815.599
1. Provisions for pensions, severance pay and similar liabilities	<b>080</b>	21.809.747	10.476.704
2. Provisions for tax liabilities	<b>081</b>	0	2.910.748
3. Other provisions	<b>082</b>	486.423.759	479.428.147
<b>C) NON-CURRENT LIABILITIES (084 do 092)</b>	<b>083</b>	120.208.139	198.444.698
1. Liabilities to related parties	<b>084</b>	0	0
2. Liabilities for loans, deposits, etc.	<b>085</b>	1.020.000	1.020.000
3. Liabilities to banks and other financial institutions	<b>086</b>	119.188.139	197.084.751
4. Liabilities for advances	<b>087</b>	0	0
5. Trade payables	<b>088</b>	0	0
6. Commitments on securities	<b>089</b>	0	0
7. Liabilities to companies with participating interest	<b>090</b>	0	0
8. Other non-current liabilities	<b>091</b>	0	339.947
9. Deferred tax liabilities	<b>092</b>	0	0
<b>D) CURRENT LIABILITIES (094 do 105)</b>	<b>093</b>	832.473.375	823.714.229
1. Liabilities to related parties	<b>094</b>	6.899.329	9.776.895
2. Liabilities for loans, deposits, etc.	<b>095</b>	680.000	510.000
3. Liabilities to banks and other financial institutions	<b>096</b>	135.938.301	104.763.775
4. Liabilities for advances	<b>097</b>	202.109.680	202.277.808
5. Trade payables	<b>098</b>	403.671.321	398.103.215
6. Commitments on securities	<b>099</b>	0	0
7. Liabilities to companies with participating interest	<b>100</b>	0	0
8. Liabilities to employees	<b>101</b>	30.874.515	33.096.223
9. Taxes, contributions and similar liabilities	<b>102</b>	42.141.361	32.358.989
10. Liabilities arising from share in the result	<b>103</b>	234.805	17.330.920
11. Liabilities arising from non-current assets held for sale	<b>104</b>	0	0
12. Other current liabilities	<b>105</b>	9.924.063	25.496.404
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	97.611.228	95.617.597
<b>F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	3.495.735.075	3.597.585.668
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	2.212.151.466	2.167.801.709
<b>ADDITION TO BALANCE SHEET (only for consolidated financial statements)</b>			
<b>ISSUED CAPITAL AND RESERVES</b>			
1. Attributable to majority owners	<b>109</b>	1.712.731.787	1.764.474.196
2. Attributable to minority interest	<b>110</b>	224.477.040	222.519.349



Income statement					
period 1.1.2012. to 30.06.2012.					
Company: Končar -Electrical Industry Inc.					
Position	AOP	Previous period		Current period	
		Cummulative	Quarter	Cummulative	Quarter
1	2	3	4	5	6
<b>I. OPERATING INCOME (112 do 113)</b>	<b>111</b>	1.131.091.284	559.682.400	1.155.647.644	621.320.825
1. Rendering of services	112	1.094.856.624	538.689.755	1.106.143.009	588.073.795
2. Other operating income	113	36.234.660	20.992.645	49.504.635	33.247.030
<b>II. OPERATING COSTS (115+116+120+124+125+126+129+130)</b>	<b>114</b>	1.103.749.294	548.586.016	1.112.142.144	601.470.877
1. Change in inventories of work in progress	115	-29.419.750	2.447.857	-93.939.795	283.608
2. Material expenses (117 do 119)	116	725.372.533	350.991.034	812.858.539	400.640.834
a) Costs of raw materials	117	561.487.578	257.662.368	661.483.340	316.252.539
b) Cost of goods sold	118	52.010.102	31.859.446	45.778.369	27.518.066
c) Other material expenses	119	111.874.853	61.469.220	105.596.830	56.870.229
3. Employee benefits expenses (121 do 123)	120	231.942.818	115.703.578	223.999.975	111.597.380
a) Net salaries	121	132.696.020	66.161.366	127.086.869	63.135.707
b) Tax and contributions from salary expenses	122	71.480.963	37.109.696	67.872.203	34.768.852
c) Contributions on salary	123	27.765.835	12.432.516	29.040.903	13.692.821
4. Depreciation and amortisation	124	38.060.790	19.224.247	34.757.819	17.113.911
5. Other expenses	125	94.010.139	52.747.983	97.175.383	52.982.696
6. Write down of assets (127+128)	126	2.270.180	1.258.880	9.342.022	1.771.459
a) non-current assets (except financial assets)	127	0	0	0	0
b) current assets (except financial assets)	128	2.270.180	1.258.880	9.342.022	1.771.459
7. Provisions	129	38.733.089	4.873.528	13.301.048	5.097.732
8. Other operating costs	130	2.779.495	1.338.909	14.647.153	11.983.257
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	35.515.912	21.650.080	22.365.334	11.578.972
1. Interest, foreign exchange differences, dividends and similar income from related parties	132	952.514	408.742	379.784	-93.708
2. Interest, foreign exchange differences, dividends and similar income from third parties	133	33.760.482	20.978.860	20.569.010	11.318.706
3. Income from investments in associates and joint ventures	134	0	0	0	0
4. Unrealised gains (income) from financial assets	135	0	0	57.236	21.846
5. Other financial income	136	802.916	262.478	1.359.304	332.128
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	28.768.199	12.921.690	20.126.067	7.846.830
1. Interest, foreign exchange differences, dividends and similar income from third parties	138	964.145	413.462	369.422	-381.520
2. Interest, foreign exchange differences, dividends and similar income from third parties	139	27.258.593	11.984.039	19.754.145	8.225.850
3. Unrealised losses (expenses) from financial assets	140	395.451	395.451	0	0
4. Other financial expenses	141	150.010	128.738	2.500	2.500
<b>V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES</b>	<b>142</b>	48.108.909	28.981.426	29.387.724	10.617.194
<b>VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES</b>	<b>143</b>	0	0	0	0
<b>VII. EXTRAORDINARY - OTHER INCOME</b>	<b>144</b>	0	0	0	0
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>	0	0	0	0
<b>IX. TOTAL INCOME (111+131+144)</b>	<b>146</b>	1.214.716.105	610.313.906	1.207.400.702	643.516.991
<b>X. TOTAL EXPENSES (114+137+143+145)</b>	<b>147</b>	1.132.517.493	561.507.706	1.132.268.211	609.317.707
<b>XI. PROFIT OR LOSS BEFORE TAXES (146-147)</b>	<b>148</b>	82.198.612	48.806.200	75.132.491	34.199.284
1. Profit before taxes (146-147)	149	82.198.612	48.806.200	75.132.491	34.199.284
2. Loss before taxes (147-146)	150	0	0	0	0
<b>XII. TAXATION</b>	<b>151</b>	9.848.440	5.214.564	10.530.991	5.894.262
<b>XII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	72.350.172	43.591.636	64.601.500	28.305.022
1. Profit for the period (149-151)	153	72.350.172	43.591.636	64.601.500	28.305.022
2. Loss for the period (151-148)	154	0	0	0	0
<b>ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)</b>					
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>					
1. Attributable to majority owners	155	59.187.236	36.480.170	49.551.923	20.050.507
2. Attributable to minority interest	156	13.162.936	7.111.466	15.049.577	8.254.515
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)</b>					
<b>I. PROFIT OR LOSS FOR THE PERIOD (=152)</b>	<b>157</b>	72.350.172	43.591.636	64.601.500	28.305.022
<b>II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 TO 165)</b>	<b>158</b>	111.897	227.813	77.344	20.349
1. Exchange differences from international settlement	159	111.897	227.813	77.344	20.349
2. Changes in revaluation reserves of long-term tangible and	160	0	0	0	0
3. Profit or loss from re-evaluation of financial assets held for sale	161	0	0	0	0
4. Profit or loss from cash flow hedging	162	0	0	0	0
5. Profit or loss from hedging of foreign investments	163	0	0	0	0
6. Share of other comprehensive income/loss from associated	164	0	0	0	0
7. Actuarial gains/losses from defined benefit plans	165	0	0	0	0
<b>III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>166</b>	0	0	0	0
<b>IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 TO 166)</b>	<b>167</b>	111.897	227.813	77.344	20.349
<b>V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	72.462.069	43.819.449	64.678.844	28.325.371
<b>ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)</b>					
<b>VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD</b>					
1. Attributable to majority owners	169	59.194.437	36.495.149	49.629.267	20.070.856
2. Attributable to minority interest	170	13.267.632	7.324.300	15.049.577	8.254.515

<b>STATEMENT OF CASH FLOWS - Direct method</b>			
period 1.1.2012. to 30.06.2012.			
Legal entity: Končar Electrical Industry INC.			
Position	AOP	Previous period	Current period
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Cash receipts from customers	001	1.275.384.687	1.291.365.918
2. Cash receipts from royalties, fees, commissions, etc.	002	0	0
3. Cash receipts from insurance for damages compensation	003	7.185.203	4.259.077
4. Cash receipts arising from tax refunds	004	80.909.138	102.602.352
5. Other cash receipts	005	33.809.396	28.066.076
<b>I. Total increase in cash flow from operating activities (001 to 005)</b>	<b>006</b>	<b>1.397.288.424</b>	<b>1.426.293.423</b>
1. Cash paid to suppliers	007	936.413.175	1.071.521.755
2. Cash paid to employees	008	274.548.557	286.579.964
3. Cash outflows for insurance for damages compensation	009	3.910.086	3.541.032
4. Interest paid	010	6.185.280	8.384.485
5. Tax paid	011	79.537.112	95.941.643
6. Other cash outflows	012	65.437.278	65.731.397
<b>II. Total decrease in cash flow from operating activities (007 to 012)</b>	<b>013</b>	<b>1.366.031.488</b>	<b>1.531.700.276</b>
<b>A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>014</b>	<b>31.256.936</b>	<b>0</b>
<b>A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>015</b>	<b>0</b>	<b>105.406.853</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Cash flow from sale of long - term tangible and intangible assets	016	1.706.863	1.024.104
2. Cash inflows from sale of equity and debt financial instruments	017	2.937.239	0
3. Interest receipts	018	0	0
4. Dividend receipts	019	75.897.078	1.055.037
5. Other cash inflows from investing activities	020	0	0
<b>III. Total cash inflows from investing activities(016 to 020)</b>	<b>021</b>	<b>80.541.180</b>	<b>2.079.141</b>
1. Cash outflows for purchase of long - term tangible and intangible assets	022	32.717.462	42.923.988
2. Cash outflows for purchase of equity and debt financial instruments	023	1.873.294	0
3. Other cash outflows from investing activities	024	0	0
<b>IV. Total cash outflows from investing activities (022 to 024)</b>	<b>025</b>	<b>34.590.756</b>	<b>42.923.988</b>
<b>B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>026</b>	<b>45.950.424</b>	<b>0</b>
<b>B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>027</b>	<b>0</b>	<b>40.844.847</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Cash receipts from issuance of equity and debt financial instruments	028	0	0
2. Cash inflows from loans, debentures, credits and other borrowings	029	30.029.171	87.359.282
3. Other cash inflows from financing activities	030	48.867.010	208.132.130
<b>V. Total cash inflows from financing activities (028 to 030)</b>	<b>031</b>	<b>78.896.181</b>	<b>295.491.412</b>
1. Cash outflows for repayment of loans and bonds	032	57.785.846	40.511.048
2. Dividends paid	033	43.699.733	12.523
3. Cash outflows for finance lease	034	0	0
4. Cash outflows for purchase of own stocks	035	0	0
5. Other cash outflows from financing activities	036	132.881.364	87.877.190
<b>VI. Total cash outflows from financing activities (032 to 036)</b>	<b>037</b>	<b>234.366.943</b>	<b>128.400.761</b>
<b>C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>038</b>	<b>0</b>	<b>167.090.651</b>
<b>C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>039</b>	<b>155.470.762</b>	<b>0</b>
<b>Total increases of cash flows (014 – 015 + 026– 027 + 038 – 039)</b>	<b>040</b>	<b>0</b>	<b>20.838.951</b>
<b>Total decreases of cash flows (015 – 014 + 027– 026 + 039 – 038)</b>	<b>041</b>	<b>78.263.402</b>	<b>0</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>042</b>	<b>580.365.351</b>	<b>319.420.075</b>
<b>Decrease in cash and cash equivalents</b>	<b>043</b>	<b>0</b>	<b>20.838.951</b>
<b>Increase in cash and cash equivalents</b>	<b>044</b>	<b>78.263.402</b>	<b>0</b>
<b>Cash and cash equivalents at the end of period</b>	<b>045</b>	<b>502.101.949</b>	<b>340.259.026</b>

**Notes to the consolidated financial reports**

**Taxpayer: 03282635 Končar Electrical Industry INC.**

**1. Distribution of shares**

There has been no distribution of shares.

**2. Earnings per share**

Earnings per share for the period January - June 2012 are HRK 19.27 and are lower than earnings per share during the same period of the previous year by HRK 3.74.

**3. Changes in ownership structure**

Compared to the previous trimestre, there have been no significant changes in the top ten shareholders.

**4. Mergers and acquisitions**

There have been no new mergers and acquisitions.

**5. Uncertainty (description of cases in which exists the uncertainty of collection of outstanding debts or possible future expenses)**

There have been no significant uncertainties in collection or future expenses.

**6. Business results**

During the period January - June 2012, as opposed to the same period of the previous year, revenues decreased by 0.6 per cent, while operational revenues, which make up for 95.7 per cent of the total revenues, increased by 2.2 per cent. Total expenses are at the level of realization of total expenses in the same period of last year, while operating expenses with changes in stock, which constitute 98.2 per cent of the total expenses, increased by 0.8 per cent. Financial income and income from investment into affiliated companies decreased by 38.1 per cent compared to the same period of last year. Financial expenses decreased by 30.0 per cent in comparison with the same period of the previous year.

**7. Products and services description**

Production of electrical equipment for production, transmission and consumption of electrical energy, production of transport equipment and electric household appliances.

**8. Operating and other costs**

For the period January - June of the year 2012, in comparison with the same period of last year, the share of material expenses in the total revenue increased by 2.0 percentage point, expenses of values adjustment rose by 1.0 percentage points, while the share of employees expenses decreased by 2.0 percentage points, costs of provisions decreased by 2.0 percentage points.

**9. Profit or loss**

Consolidated Group profits after tax decreased by 10.7 per cent compared to the same period of the previous year. The Group's net profit subscribed to the parent capital holders for the period January - June of the year 2012 amounts to HRK 49.55 million, which is a decrease of HRK 9.64 million compared to the same period of the previous year. Of the 21 companies comprising the Končar Group, five companies declared a loss in the amount of HRK 18.36 million, of which HRK 16,89 million is subscribed to the parent capital holders.

**10. Solvency**

Cash and cash equivalents by the end of the second trimester of 2012, as opposed to the beginning of the year, increased by HRK 20.84 million.

**11. Other notes**

There have been no changes in accounting policies and procedures, and there are no new noteworthy lawsuits.