KONČAR – ELECTRICAL INDUSTRY INC

Financial statements as at 31 December 2010
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 adopeted in European Union so as 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 also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette 109/07). The Management Board is also responsible for safeguarding the assets of the 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

18 March 2011

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

GrantThornton reconsult d.o.o. revizija i konzalting

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 2010, 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 52.

Financial statements for the year ended 31 December 2009 were audited by another auditor who issued unqualified opinion on 8 March 2010.

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 adopted by 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 give true and fair view of the Company's financial position as of 31 December 2010 and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards adopted by European Union.

Consolidated financial statements

Company has investments in subsidiaries and it has, in accordance with IAS 27 "Consolidated and separate financial statemnsts", separately published consolidated financial statements on 18 March 2011.

Grant Thornton revizija d.o.o.
Koranska 16, 10000 Zagreb
Ivica Smiljan, certified auditor
Zagreb, 18 March 2011

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revizija d.o.o.
ZAGREB

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

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ZAGREB

Statement of Comprehensive Income

Profit and loss account	**Note**	**2010 HRK**	**2009 HRK**
Operating income		**79,806,652**	**78,811,460**
Sales revenue	3	52,382,226	56,113,773
Other operating income	4	27,424,426	22,697,687
Operatig expenses		**(162,079,789)**	**(127,022,630)**
Cost of materials and energy	5	(5,229,385)	(4,622,617)
Cost of services	6	(26,878,865)	(26,968,447)
Personnel costs	7	(33,204,658)	(22,947,097)
Depreciation and amortization	8	(7,336,036)	(6,980,764)
Value adjustment of non-current assets	9	(57,925,456)	(21,188,951)
Value adjustment of current assets	9	-	(260,271)
Provisions	10	(25,802,155)	(39,130,033)
Other operating expenses	11	(5,703,234)	(4,924,450)
Operating result		**(82,273,137)**	**(48,211,170)**
Dividends income from associates	12	74,791,631	65,962,736
Financial income	12	79,989,485	53,776,927
Financial expenses	13	(10,992,890)	(6,338,031)
Financial result		**143,788,226**	**113,401,632**
Profit before taxation		**61,515,089**	**65,190,462**
Corporate income tax	14	-	-
NET PROFIT FOR THE PERIOD		**61,515,089**	**65,190,462**
Earnings per share			
Basic earnings per share (HRK)	15	23.92	25.35

Statement of comprehensive income

Net profit for the period		**61,515,089**	**65,190,462**
Other comprehensive income:			
Exchange differences		**825,532**	**(19,272)**
COMPREHENSIVE INCOME FOR THE YEAR		**62,340,621**	**65,171,190**

Notes are an integral part of the Statement of Comprehensive Income

Statement of financial position

	Notes	31 December 2010 HRK	31 December 2009 HRK
ASSETS			
Intangible assets	16	244,953	422,183
Property, plant and equipment	17	227,337,228	211,368,584
Investement property	18	93,849,610	93,857,391
Investments in subsidiaries	19	723,283,592	688,532,318
Investments in associates	20	67,722,257	67,722,257
Financial assets	21	2,372,633	2,360,300
Receivables	22	34,316,705	45,444,440
Non-current assets		**1,149,126,978**	**1,109,707,473**
Inventories		6,091	17,479
Receivables from related companies	23	103,492,189	109,929,244
Trade accounts receivable	24	597,490	294,434
Other receivables	25	15,305,408	13,588,671
Short-term loans given to related parties	26	31,400,000	55,882,938
Financial assets	27	84,181,504	83,056,043
Cash at bank and in hand	28	163,325,576	108,862,227
Current assets		**398,308,258**	**371,631,036**
Prepaid costs and accrued income	29	733,263	795,395
TOTAL ASSETS		**1,548,168,499**	**1,482,133,904**
Off-balance sheet items	39	658,114,155	677,581,792
EQUITY AND LIABILITIES			
Share capital		**1,028,847,600**	**1,028,847,600**
Capital reserves		**719,579**	**(2,940,923)**
Legal reserves		11,389,054	8,129,531
Treasury shares		-	(7,753,019)
Statutory reserves		75,489,055	44,523,585
Other reserves		47,436,438	34,788,675
Reserves from earnings		**134,314,547**	**79,688,772**
Retained earnings		**31,234,921**	**15,752,186**
Profit of the year		**61,515,089**	**65,190,462**
TOTAL EQUITY	30	**1,256,631,736**	**1,186,538,097**
Provisions	31	**282,274,972**	**282,464,852**
Long term liabilities	32	**510,000**	**850,000**
Liabilities to related companies	33	899,906	16,094
Liabilities for loans, deposits and similar	34	340,000	340,000
Amounts due to banks and other financial institutions	35	-	1,742,743
Trade accounts payable	36	1,174,806	1,116,777
Other current liabilities	37	6,144,403	6,229,711
Current liabilities		**8,559,115**	**9,445,325**
Accrued expenses and deferred income	38	**192,676**	**2,835,630**
TOTAL EQUITY AND LIABILITIES		**1,548,168,499**	**1,482,133,904**
Off-balance sheet items	39	658,114,155	677,581,792

Notes are an integral part of the Statement of financial position

Statement of cash flows

	Notes	2010 HRK	2009 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		78,934,555	74,411,852
Cash receipts from insurance compensations		49,900	6,784
Cash receipts from interests		10,983,885	16,866,451
Other cash receipts		27,684,798	16,750,793
Total cash receipts from operating activities		117,653,138	108,035,880
Cash payments to trade accounts payable		(45,896,338)	(49,823,749)
Cash payments to employees		(20,348,621)	(21,470,053)
Cash payments to insurance companies		(514,028)	(576,560)
Cash payments for interests		(141,159)	(246,419)
Cash payments for taxes		(4,137,250)	(8,903,357)
Other cash payments		(17,944,020)	(11,301,483)
Total cash payments for operating activities		(88,981,416)	(92,321,621)
Net cash flow from operating activities		**28,671,722**	**15,714,259**
Cash flow from investing activities			
Receipts from the sale of non-current tangible and intangible assets		2,609,117	4,831,303
Cash receipts from the sale of financial instruments		5,976,566	3,541,927
Receipts from dividends		86,791,144	80,918,862
Purchase of non-current tangible and intangible assets		(20,960,209)	(24,394,906)
Purchase of financial instruments		(69,158,109)	(40,098,000)
Total cash inflow from investing activities		**5,258,509**	**24,799,186**
Cash flow from financing activities			
Cash receipts from loans and borrowings		63,982,939	29,416,519
Other cash receipts from financial activities		51,519,155	2,171,833
Repayment of loans and bonds		(2,183,457)	(4,996,016)
Dividends paid out		(72)	-
Other cash outflows for financing activities		(92,785,447)	(135,463,327)
Net cash used in financing activities		**20,533,118**	**(108,870,991)**
Increase/(decrease) in cash flow		**54,463,349**	**(68,357,546)**
Cash and cash equivalents at the beginning of the period		108,862,227	177,219,773
Cash and cash equivalents at the end of the period	28	**163,325,576**	**108,862,227**

Notes are an integral part of the Statement of cash flows

Statement in 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
Balance as at 1 January 2009	**1,028,847,600**	**(1,387,727)**	**60,707,457**	**11,255,853**	**(11,255,854)**	**1,730,410**	**29,519,529**	**1,119,417,268**
Transactions with owners:	-	-	-	-	-	-	-	-
Distribution of profit for the year ended 31/12/2008	-	-	19,000,587	(3,502,834)	-	14,021,776	(29,519,529)	-
Employee share-based payment options	-	(1,553,196)	-	-	3,502,835	-	-	1,949,639
Purchase of treasury shares	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	65,190,462	65,190,462
Other comprehensive income	-	-	-	-	-	-	-	-
Foreign exchange differences on net investments in foreign operation	-	-	(19,272)	-	-	-	-	(19,272)
Total comprehensive income	-	-	*(19,272)*	-	-	-	*65,190,462*	*65,171,190*
Balance as at 31 December 2009	1,028,847,600	(2,940,923)	79,688,772	7,753,019	(7,753,019)	15,752,186	65,190,462	1,186,538,097
Transactions with owners:	-	-	-	-	-	-	-	-
Distribution of profit for the year ended 31/12/2009	-	-	49,707,727	-	-	15,482,735	(65,190,462)	-
Employee share-based payment options	-	3,660,502	4,092,516	(9,234,826)	9,234,826	-	-	7,753,018
Purchase of treasury shares	-	-	-	1,481,807	(1,481,807)	-	-	-
Profit for the year	-	-	-	-	-	-	61,515,089	61,515,089
Other comprehensive income	-	-	-	-	-	-	-	-
Foreign exchange differences on net investments in foreign operation	-	-	825,532	-	-	-	-	825,532
Total comprehensive income	-	-	*825,532*	-	-	-	*61,515,089*	*62,340,621*
Balance as at 31 December 2010	1,028,847,600	719,579	134,314,547	-	-	31,234,921	61,515,089	1,256,631,736

Notes are an integral part of Statement in 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 prepares consolidated reports which are presented and audited separately. These financial statements represent Company as a separate entity. The main activiities of the Company is a management of subsidiaries within Končar group.

As at 31 December 2010 the Company had 49 employees, and as at 31 December 2009 the same.

Structure of employees is as follows:

	31 December 2010	31 December 2009
Master degree	8	6
University degrees	25	29
College	7	5
Secondary school	8	8
Primary school+training on the job	1	1
Total:	**49**	**49**

Supervisory Board:

Igor Lučić	President
Jasminka Belačić	Deputy
Ante Babić	Member
Kristijan Floričić	Member
Ruđer Friganović	Member
Ivan Rujnić	Member
Zdenka Matković	Member
Đuro Perica	Member
Nenad Matić	Member

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
Vladimir Plečko	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 11 to the financial statements.

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 as adopted by 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 affected financial results or that might need additional discosures 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 Group. As at 31 December 2010 exchange rate for 1 USD and 1 EUR was 5.57 HRK i.e. 7.39 HRK (31 December 2009: 5.09 HRK i.e. 7.31 HRK).

Standards, Amendments and Interpretations issued by IASB, adopted by the Croatian Board and effective

At the date of authorisation of these financial statements, below stated standards and interpretations have been issued in the Republic of Croatia and have been effective for the year ended 31 December 2010.

The Company has adopted new and revised Standards and Interpretations in the current period. The application of the revised Standards has not materially affected financial position and results of the Company's operations and comparative information has been disclosed as required. Adoption of revised Standards had no effect on the equity as at 1 January 2010:

- *IFRS 1 First-time Adoption of IFRS, cost of an investment at first application - revised (effective for annual periods beginning on or after 1 January 2010),*
- *IFRS 2 Share based payment – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2010),*

- *IAS 1 Presentation of Financial Statements – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 16 Property, Plant and Equipment – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 18 Revenue (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 19 Employee Benefits – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 23 Borrowing costs – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 27 Consolidated and Separate Financial Statements – Cost of an investment at first application (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 28 Investments in Associates – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 31 Interests in Joint Ventures – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 36 Impairment of Assets – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 38 Intangible Assets – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 39 Financial Instruments: Recognition and Measurements – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 40 Investment Property –revised (effective for annual periods beginning on or after 1 January 2010),,*
- *IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2010),*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 January 2010),*

- *IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 January 2010),*
- *IFRIC 18 Transfers of Assets from Customers (effective for annual periods beginning on or after 1 January 2010),*
- *IFRS 3 Business Combinations – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – revised (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 28 Investments in Associates - revised based on IFRS improvements (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 31 Interests in Joint Ventures - revised based on IFRS 3 amendment (effective for annual periods beginning on or after 1 January 2010),*
- *IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedge items (effective for annual periods beginning on or after 1 January 2010).*

Standards, Interpretations and Amendments to existing standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the year ended 31 December 2010:

- *2010 IFRS Improvements (most of those improvements are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011),*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010),*
- *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013),*
- *Amendments to IAS 24 Related party Disclosures (as revised in 2009) (effective for annual periods beginning on or after 1 January 2011).*

Management anticipates that all of the relevant interpretations and standards will be adopted in the financial statements of the Company for the first period beginning after their effective date and that their adoption should not have a material impact on the Company’s financial statements in the first year of application.

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:

	Depreciation rate (from-to%)
Intangible assets	25
Buildings	1.2 – 7.7
Plant and equipment	7.5 – 50
Tools, inventory and transport vehicles	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 or 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 loss no longer exist or it is decreased, and in that case the impairment loss is reversed fully or partially in the profit or loss account.

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

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) 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.

i) 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 are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.

"Held-to-maturity"

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

"Available for sale (AFS) "

Financial assets available for sale is 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 are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

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

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

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

De-recognition of financial assets

The 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 for recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

When company derecognises (writtes 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 instruments 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.

<u>Share capital</u>

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 an 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 are classified as financial liabilities at fair value through profit and loss when they are either intended to be traded or are classified as such by the Company. Financial liabilities at fair value through the profit and loss account 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

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction cost.

Other financial liabilities 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.

j) 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.

k) 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

l) 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.

m) 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.

n) 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.

o) 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.

p) 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 it's estimated options number which complies to conditions for acquisition of rights .

q) 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.

r) 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.

s) Comparatives and reclassifications

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

3. Sales

	2010 HRK	2009 HRK
Sales of goods to related parties	27,900,283	30,129,889
Rental income – related parties	24,000,000	25,500,000
Domestic sales of goods	481,943	483,884
Total	**52,382,226**	**56,113,773**

4. Other operating income

	2010 HRK	2009 HRK
Income from release of provisions (note 31)	25,992,035	22,133,228
Net income from the asset disposal	316,384	34,427
Income from previous years	149,829	94,560
Income from subventions and insurance claims	49,900	6,784
Rent	22,433	20,320
Other income	893,845	408,368
Total	**27,424,426**	**22,697,687**

5. Cost of materials and energy

	2010 HRK	2009 HRK
Cost of energy	4,774,552	4,191,142
Cost of raw materials	399,283	376,265
Small inventory	55,550	55,210
Total	**5,229,385**	**4,622,617**

6. Cost of services

	2010	2009
	HRK	HRK
Maintenance	3,854,698	3,469,517
Utilities costs	3,212,735	3,112,918
Intelectual services	2,747,995	2,403,407
Entertainment costs	1,983,914	2,632,190
Cleaning services	1,962,254	1,958,278
Graphical services	1,682,098	1,831,237
Security services	1,538,878	1,740,383
Supervisory services and services of property management at Sesvetski Kraljevec	1,534,476	-
Advertasing services and fair costs	1,450,826	977,670
Telephone, postal services and transport	1,063,853	1,258,172
Education and training	934,983	1,132,050
Sponsorships and donations	842,387	1,100,600
Lawyer and auditing costs	695,301	2,075,437
Rental services and leases	548,624	541,066
Other services	2,825,843	2,735,522
Total	**26,878,865**	**26,968,447**

7. Personnel costs

	2010	2009
	HRK	HRK
Share-based payments	12,483,990	-
Net wages and salaries	9,292,368	10,286,052
Costs of taxes and contributions	8,396,025	9,397,205
Contributions on salary	3,032,275	3,263,840
Total	**33,204,658**	**22,947,097**

Net wages and salaries in the amount of **HRK 9,292,368** (2009 in the amount of HRK **10,286,052**) contain compensations to the Management Board consisted from theirs salary in the amount of HRK 2,137,166 (2009 in the amount of HRK 3,037,876) and accrued bonuses in the amount of HRK 1,768,000 (2009 in the amount of HRK 1,784,000), and are an integral part of personnel costs.

8. Depreciation and amortization

	2010	2009
	HRK	HRK
Depreciation	7,158,806	6,789,606
Amortization	177,230	191,158
Total	**7,336,036**	**6,980,764**

9. Value adjustments

	2010 HRK	2009 HRK
Value adjustment of shares in subsidiaries	57,925,456	21,188,951
Value adjustment of short-term receivables	-	260,271
Total	**57,925,456**	**21,449,222**

The Company has recognized, at balance sheet date, impaiment loss on the shares in subsidiaries in the amount of HRK 58 milion.

10. Provisions

	2010 HRK	2009 HRK
Provisions for court cases	14,850,570	24,220,081
Provisions for costs within warranty periods	9,888,025	12,271,443
Provisions for regular retirement and jubilee awards	1,063,560	-
Current provisions	-	2,638,509
Total	**25,802,155**	**39,130,033**

Movement in provisions by categories is presented in the note 31.

11. Other operating expenses

	2010 HRK	2009 HRK
Compensations to members of the Supervisory Board	1,107,166	959,934
Work agreements and copyrights	1,069,930	545,766
Taxes and contributions non-dependable on the results and similar costs	943,876	975,174
Business trip expenses and travelling costs	799,368	825,045
Insurance premiums	525,347	576,560
Compensations to employees	453,345	441,613
Memberships, contributions and similar	295,905	313,160
Bank services and commissions	106,731	105,992
Other	401,566	181,206
Total	**5,703,234**	**4,924,450**

12. Financial revenues

	2010 HRK	2009 HRK
From the relations with associates		
Revenues from dividends from associates	**74,791,631**	**65,962,736**
From the relations with related parties		
Revenues from dividends and share in profits	23,370,581	30,249,462
Revenues from shares	16,971,892	-
Increase in share value (unrealised gain)	7,203,007	-
Interest income from loans	2,972,953	2,394,242
Other financial revenues	-	108,164
	50,518,433	**32,751,868**
From the relations with un-related parties		
Interest income on deposits	3,852,518	12,134,174
Yield from cash funds	2,710,913	-
Interest income on loans granted to employees	1,204,796	1,355,136
Interest income - other	577,282	605,916
Foreign exchange gains on deposits in foreign currency	19,934,492	4,304,772
Foreign exchange gains – other	1,036,066	1,820,473
Revenues from dividends and share in profits	96,335	9,451
	29,412,402	**20,229,922**
Unrealised gain (income)	**58,650**	**795,137**
	79,989,485	**53,776,927**
Total	**154,781,116**	**119,739,664**

13. Financial expenses

	2010 HRK	2009 HRK
From the relations with un-related parties		
Foreign exchange losses on deposits in foreign currency	5,736,720	4,299,704
Foreign exchange losses on granted to employees	651,547	837,214
Foreign exchange losses on foreign loans	-	578,841
Foreign exchange losses - other	307,445	515,271
Interest expenses	141,886	107,001
Unrealised losses(discount on borowings)	4,108,975	-
Other financial expense	46,317	-
Total	**10,992,890**	**6,338,031**

14. Corporate income tax

	2010, HRK	2009, HRK
Profit before tax	61,515,089	65,190,462
Corporate income tax at 20%	**12,303,018**	**13,038,092**
Tax non-deductible expenses	15,073,753	5,172,404
Decreases of taxable basis (revenues from dividends and other)	(29,685,096)	(20,439,834)
Tax exemptions (government subsidies for education)	(151,462)	(182,062)
Tax asset on tax losses	**(2,459,787)**	**(2,411,400)**
Deferred tax asset from previous period	(6,643,348)	(4,231,948)
Deferred tax asset on tax losses to be carried forward	(9,103,135)	(6,643,348)
Tax liability	**-**	**-**

Current tax rate for the year 2010 and 2009 amounts to 20%.

Tax losses to be carried forward for the purpose of reducing taxable profits are available in the period of the following five (5) years. As at 31 December 2010, deferred tax asset on tax losses amount to HRK 9,103,135. Unrecognized deferred tax asset expires as follows:

	31 December 2010 HRK	31 December 2009 HRK
31 December 2013	4,231,948	4,231,948
31 December 2014	2,411,400	2,411,400
31 December 2015	2,459,787	-
	9,103,135	**6,643,348**

15. Earnings per share

Basic earnings per share

	2010 HRK	2009 HRK
Net profit for the year	61,515,089	65,190,462
Weighted average number of shares	2,572,119	2,572,119
Earnings per share in HRK	**23.92**	**25.35**

16. Non-current intangible assets

	Concessions, patents, licences, software and other rights HRK	Other HRK	Total HRK
Cost			
Balance as at 1 January 2009	**468,629**	**653,207**	**1,121,836**
Balance as at 31 December 2009	**468,629**	**653,207**	**1,121,836**
Balance at 31 December 2010	**468,629**	**653,207**	**1,121,836**
Accumulated amortization			
Balance as at 1 January 2009	426,844	81,651	508,495
Amortization for the year 2009	27,857	163,301	191,158
Balance as at 31 December 2009	**454,701**	**244,952**	**699,653**
Amortization for the year 2010	13,928	163,302	177,230
Balance as at 31 December 2010	**468,629**	**408,254**	**876,883**
Carrying value			
31 December 2009	13,928	408,255	422,183
31 December 2010	**-**	**244,953**	**244,953**

The purchase cost of completely amortized intangible assets which were in use on 31 December 2010 amounts to HRK 469 thousand.(2009: HRK 469 thousand)

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								
Balance at 1 January 2009	**62,584,201**	**242,787,725**	**14,700,717**	**3,875,619**	**50,776**	**4,829,018**	**882,174**	**329,710,230**
Transfer from assets under construction	-	99,271	544,477	118,475	-	(762,223)	-	-
Additions	1,583,231	5,855,870	-	-	-	6,913,840	10,652,324	25,005,265
Disposals	-	-	(240,680)	(270,924)	-	-	(1,433,583)	(1,945,187)
Balance at 31 December 2009	**64,167,432**	**248,742,866**	**15,004,514**	**3,723,170**	**50,776**	**10,980,635**	**10,100,915**	**352,770,308**
Transfer from assets under construction	3,913,630	9,286,369	8,179,306	-	12,600	(21,391,905)	-	-
Additions	4,406,214	5,540,615	12,832	-	-	26,268,919	13,849,782	**50,078,362**
Disposals	-	(127,072)	(355,213)	(188,418)	-	-	(22,247,401)	(22,918,104)
Balance at 31 December 2010	**72,487,276**	**263,442,778**	**22,841,439**	**3,534,752**	**63,376**	**15,857,649**	**1,703,296**	**379,930,566**
Accumulated depreciation								
Balance at 1 January 2009	-	**123,766,267**	**7,104,672**	**2,910,134**	-	-	-	**133,781,073**
Additions	-	1,327,176	-	-	-	-	-	1,327,176
Disposals	-	-	(225,207)	(270,924)	-	-	-	(496,131)
Deprecation for the year 2009	-	4,984,720	1,416,421	388,465	-	-	-	6,789,606
Balance at 31 December 2009	-	**130,078,163**	**8,295,886**	**3,027,675**	-	-	-	**141,401,724**
Additions	-	4,633,951	12,832	-	-	-	-	4,646,783
Disposals	-	(107,398)	(318,159)	(188,418)	-	-	-	(613,975)
Deprecation for the year 2010	-	5,103,026	1,764,732	291,048	-	-	-	7,158,806
Balance at 31 December 2010	-	**139,707,742**	**9,755,291**	**3,130,305**	-	-	-	**152,593,338**
Carrying value								
31 December 2009	64,167,432	118,664,703	6,708,628	695,495	50,776	10,980,635	10,100,915	211,368,584
31 December 2010	**72,487,276**	**123,735,036**	**13,086,148**	**404,447**	**63,376**	**15,857,649**	**1,703,296**	**227,337,228**

Additions in 2010 mostly relate to the purchase of real estate (land and buildings) at a carrying value from subsidiaries within Končar Group (warehouse located at Fallerovo šetalište and business facilities located at Borongaj) and continuance of the assets under construction (an adaptation of a hall A needed for the production of wind turbines located at Fallerovo šetalište, Zagreb and investment in new switchyard TS 137 located at Sesvetski Kraljevec).

Cost of fully depreciated property, plant and equipment, which were still in use at 31 December of 2010 amounts to HRK 19,066,000 (2009: HRK 18,268,000).

The mortgage is registered over the land with carrying valueof HRK 46,321,000 and business facilities with carrying value of HRK 69,530,000, as a collateral for subsidiary's liabilities.

At 31 December 2010 Company has the following contractual investments that are in progress:

1. Investment (equipment delivery and performance of electrical installation and construction) in new switchyard TS 137 located at Sesvetski Kraljevec with contracted value of HRK 6,657,922. The investment has started in the middle of the year 2008, and it is currently in the process of takeover by HEP. Completion of the works relalated to routing and landscaping is planned for the end of May 2011.
2. Investment in Hall "A" with annexes for adjustments for project "Production of wind turbines", has estimated value of HRK 7,577,000. Final completion of Hall "A" is expecxted to be in June 2011.

18. Investment property

Investment property in the amount of HRK 93,849,610 (2009: HRK 93,857,391) relates to the investments in real estates for the capital appreciation intended for future sale. Fair value of these investments estimated by independent evaluators is higher than their carrying value.

19. Investments in the subsidiaries

	31 December 2010 HRK	31 December 2009 HRK
Subsidiaries in Croatia		
Končar-Energetika i usluge, Zagreb	56,691,318	56,691,318
Končar-Electrical engineering institute In,, 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	12,402,769	12,402,769
Končar-Distribution and Special Transformers Inc, Zagreb	58,962,301	41,990,409
Končar-Medium Voltage Apparatus Inc, Zagreb	12,212,807	12,212,807
Končar-Electric Vehicles Inc, Zagreb	36,409,158	36,409,158
Končar-Switchgears Inc, Sesvetski Kraljevec	15,648,553	15,648,553
Končar-Household Appliances Ltd, Zagreb	147,966,970	147,966,970
Končar-High Voltage Switchgear Inc, Zagreb	36,694,847	36,607,847
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zagreb	81,432,641	81,431,951
Končar-Ugostiteljska oprema, Zagreb	21,571,287	21,571,287
Končar-Tools Ltd, 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	21,301,212	21,301,212
Končar-Renewable energy sources Ltd, Zagreb	68,489,300	900,000
Končar-Metalne kosntrukcije, Zagreb	16,703,123	16,703,123
Value adjustment	(126,111,256)	(75,686,231)
	718,749,367	***684,525,510***
Subsidiary companies abroad		
KONES AG, Zurich, Switzerland	4,534,225	3,753,889
Končar Intertrade, Kuala Lumpur, Malaysia (dormant)	298,114	252,919
Value adjustment	(298,114)	-
	4,534,225	***4,006,808***
Total	**723,283,592**	**688,532,318**

Inreased investments in subsidiaries during the year 2010 relate to:

- Increase of capital in the company Končar-Renewable energy sources Ltd., Zagreb in the amount of HRK 67,589,300;
- Increased investment in Končar-Distribution and special transformers Inc, Zagreb in the amount of HRK 16,971,892;
- Increase in the Company's share in the company Končar-High voltage switchgear Inc. in the amount of HRK 87,000.

Shares in ownership and voting rights as at 31 December 2010 and 31 December 2009 were as follows:

	31 December 2010		31 December 2009	
	Ownership share %	Voting rights share %	Ownership share %	Voting rights share %
Subsidiaries in Croatia:				
Končar- Energetika i usluge, Zagreb	100.00	100.00	100.00	100.00
Končar-Electrical engineering institute Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Electronics and informatics Inc, Zagreb	75.03	75.03	75.03	75.03
Končar-Small electrical machines Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Generators and motors Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Instrument transformers Inc, Zagreb	43.40	72.35	43.40	72.35
Končar-Distribution and Special Transformers Inc, Zagreb	51.71	67.79	51.71	67.79
Končar-Medium Voltage Apparatus Inc, Zagreb	41.77	69.87	41.77	69.87
Končar-Electric Vehicles Inc, Zagreb	75.04	75.04	75.04	75.04
Končar-Switchgears Inc, Sesvetski Kraljevec	45.71	66.85	45.71	66.85
Končar-Household Appliances Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-High Voltage Switchgear Inc, Zagreb	81.19	85.19	80.98	85.19
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Ugostiteljska oprema, Zagreb	100.00	100.00	100.00	100.00
Končar-Tools Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Engineering for plant installation and commissioning Inc, Zagreb	38.49	76.51	38.49	76.51
Končar-Power plant and Electric Traction Engineering Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Renewable energy sources Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Metalne konstrukcije, Zagreb	75.01	75.01	75.01	75.01
Foriegn subsidiary:				
Kones AG, Zurich, Switzerland	64.00	77.50	64.00	77.50

The Company made value adjustment of investments in subsidiaries at balance sheet date on the basis of imparment test (Note 9).

20. Investments in associates

Investments in associates amounts to HRK 67,722,257 and are related to investments in Končar-Power Transformers Ltd, Zagreb.

21. Non-current financial assets

	31 December 2010 HRK	31 December 2009 HRK
Shares of Zagrebačka Bank	1,163,983	1,210,300
Shares of Croatia osiguranje d.o.o.	1,208,650	1,150,000
Total	**2,372,633**	**2,360,300**

22. Long term receivables

	31 December 2010 HRK	31 December 2009 HRK
Receivable on the basis of sale on credit		
Receivables for the sold apartments	9,473,723	16,501,016
Receivables for the shares sold	24,216,466	28,203,371
Receivables for banks' guarantees	-	807,931
Other loans granted	130,957	149,013
Other financial asset	439	439
Current portion (Note 25)	(5,250,238)	(6,272,921)
Receivable on the basis of foreing sale	5,954,115	6,055,591
Current portion (Note 24)	(208,757)	-
	34,316,705	**45,444,440**

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 a collateral the mortgage over the sold apartments has been registered.

As at 31 December 2010 value adjustment of long term receivables for sold apartments has been calculated on the basis of net present value of estimated cash flows using the discount rate of 4.9%.

Receivables for sold shares relate to long term receivable for sold shares in subsidiaries Končar-Electronics and Informatics Inc, Končar - Electric Vehicles Inc and Končar-Metalne konstrukcije d.d. within the employee's stock-ownership program and with instalment payments through 10 years.

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

23. Receivables from related companies

	31 December 2010 HRK	31 December 2009 HRK
Trade receivables		
Subsidiaries in Croatia		
Končar-Energetika i usluge, Zagreb	12,935,213	9,914,463
Končar-Electrical engineering institute Inc, Zagreb	470,618	473,564
Končar-Electronics and informatics Inc, Zagreb	109,546	731,897
Končar-Small electrical machines Inc, Zagreb	363,038	428,272
Končar-Generators and motors Inc, Zagreb	1,310,016	6,914,617
Končar-Instrument transformers Inc, Zagreb	785,735	1,234,499
Končar-Distribution and special transformers Inc, Zagreb	473,607	877,432
Končar-Medium voltage apparatus Inc, Zagreb	70,384	233,869
Končar-Electric Vehicles Inc, Zagreb	2,164,392	2,872,938
Končar-Switchgears Inc, Sesvetski Kraljevec	825,032	717,379
Končar-Household Appliances Ltd, Zagreb	2,578,544	1,242,643
Končar-High voltage switchgear Inc, Zagreb	1,548,949	543,710
Končar-Low voltage switches and circuit breakers Ltd, Zagreb	747,272	1,084,379
Končar-Ugostiteljska oprema, Zagreb	381,322	262,850
Končar-Tools Ltd, Zagreb	433,570	366,666
Končar-Engineering for plant installation and commissioning Inc, Zagreb	256,105	423,315
Končar-Power plant and electric traction engineering Inc, Zagreb	1,113,535	12,654,266
Končar-Metalne konstrukcije, Zagreb	971,839	1,130,364
Končar-Renewable energy sources Ltd, Zagreb	200	10,549
Foreign subsidiary		
Kones AG, Zurich, Switzerland	32,666	-
Associates		
Končar-Power transformers Ltd, Zagreb	497,443	566,120
	28,069,026	*42,683,792*
Receivables for dividends		
Associates		
Končar-Power transformers Ltd, Zagreb	*74,791,632*	*65,962,736*
Receivables for interest	*631,531*	*1,282,716*
	103,492,189	**109,929,244**

As at 31 December 2010, the ageing structure of receivables from related parties was as follows:

	Total	Undue and collectible	Due but collectible				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2010	103,492,189	85,773,876	6,078,280	3,506,707	1,899,817	1,164,194	5,069,315
2009	109,929,244	85,455,826	4,269,639	3,526,593	4,001,832	6,296,878	6,378,476

Average collection days from subsidiaries and customers during 2010 were 320 days (2009: 349).

24. Trade accounts receivable

	31 December 2010	31 December 2009
	HRK	HRK
Domestic customers		
ThyssenKrupp Končar Dizala d.o.o., Zagreb	123,000	108,626
Elektroagregati Končar d.o.o., Rijeka	-	20,602
Arma d.o.o., Zagreb	403,405	403,405
SDR d.o.o., Zagreb	40,917	40,917
Croatian chamber of economy	21,705	-
Artica d.o.o., Zagreb	189,975	189,975
Končar-Termotehnika d.o.o., Sesvetski Kraljevec	79,950	105,631
Končar-PEX d.o.o., Zagreb	303,239	299,405
Individuals	75,904	75,904
Other	22,310	21,549
	1,260,405	*1,266,014*
Value adjustment	(871,672)	(971,580)
Foreign customers	*208,757*	-
Total	**597,490**	**294,434**

As at 31 December 2010 the ageing structure of trade accounts receivable was as follows:

	Total	Undue and collectible	Due but colectible				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2010	**597,490**	34,339	29,688	20,203	30,633	37,506	445,121
2009	**294,434**	33,607	49,305	27,444	28,868	31,160	124,050

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

	2010	2009
	HRK	HRK
Balance at 1 January	971,580	971,580
Impaired in the current year	-	-
Collected in the current year	(99,908)	-
Balance at 31 December	**871,672**	**971,580**

25. Other receivables

	31 December 2010	31, December 2009
	HRK	HRK
Receivables for the sold apartments	6,664,960	6,016,619
Receivables for the shares sold	1,791,546	639,792
Current portion of non-current loans	5,250,238	6,272,921
Receivables for interests	1,521,419	390,351
Receivables for corporate income tax	-	193,174
Other receivables	77,245	75,814
Total	**15,305,408**	**13,588,671**

26. Loans granted to related parties

	31 December 2010	31 December 2009
	HRK	HRK
Končar-Switchgears Inc, Sesvetski Kraljevec	1,000,000	-
Končar-Generators and motors Inc, Zagreb	-	20,800,000
Končar-Electric Vehicles Inc, Zagreb	28,500,000	20,000,000
Končar-Household Appliances Ltd, Zagreb		5,395,915
Končar-High voltage switchgears Inc, Zagreb	1,900,000	5,987,023
Končar-Power plant and electric traction engineering Inc, Zagreb	-	3,700,000
Total:	**31,400,000**	**55,882,938**

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

27. Current financial assets

	31 December 2010	31 December 2009
	HRK	HRK
Deposits over 3 months	84,181,504	83,056,043
	84,181,504	**83,056,043**

Deposits over 3 months are related to deposits in Zagrebačka Bank bearing the annual interest rate from 2.0% to 5.0%

28. Cash and cash equivalents

	31 December 2010	31 December 2009
	HRK	HRK
Balance at gyro accounts	4,335,250	5,042,587
Balance at accounts in foreign currency	350,375	418,428
Cash at bank in HRK	97,367	87,138
Cash at bank in foreign currency	29,208	16,124
Deposits up to 3 months	76,802,463	103,297,950
Cash funds	81,710,913	-
Total	**163,325,576**	**108,862,227**

Deposits up to 3 months relate to deposit in Zagrebačka Bank in the amount of CHF 12.950 thousand with interest rate of 0.3 %.

Investments in cash funds are related to cash fund ZB Invest in the amount of HRK 30,126 thousand, Raiffeisen Invest in the amount of HRK 26,251 thousand and PBZ Invest in the amount of HRK 25,334 thousand. Avarage yields on during 2010 were from 2.10% to 3.51%.

29. Prepaid expenses and accrued income

Prepaid expenses are related to costs of participating on fairs, professional education and intelectual services.

30. Subscribed capital

Subscribed capital is determined in the nominal amount of HRK 1,028,847,600 (HRK 1,028,847,600 on 31 December 2009) and consists of 2,572,119 shares of a nominal value of HRK 400.

The ownership structure of the Company is as follows:

Shareholder	**31 December 2010**		**31 December 2009**	
	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (capital fund)	724,515	28.17%	724,515	28.17%
Croatian Privatization Fund /HZMO	384,628	14.95%	384,628	14.95%
Croatian Privatization Fund	260,280	10.12%	278,925	10.82%
RBA d.d. (mutual account)	189,744	7.38%	190,171	7.39%
Societe Generale - Splitska bank/ Allianz for AZ mandatory pension fund	69,694	2.71%	71,501	2.78%
Floričić Kristijan	85,714	3.33%	85,714	3.33%
PBZ d.d. (Bank of New York as custodian)	-	-	77,307	3.01%
Societe Generale - Splitska bank./ Erste Blue mandatory pension fund	167,784	6.52%	146,785	5.71%
Hypo-Alpe-Adria-Bank/ PBZ Croatia Insurance mandatory pension fund	75,497	2.94%	-	-
PBZ d.d. (custodian account)	36,829	1.43%	-	-
Hypo-Alpe-Adria-Bank d.d./Raiffieisen pension company	37,000	1.44%	37,000	1.44%
Other shareholders	540,434	21.01%	551,813	21.45%
Končar Inc (treasury shares)	-	-	24,460	0.95%
	2,572,119	**100.00%**	**2,572,119**	**100.00%**

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

Movements of reserves in 2010 were as followed:

Legal reserves

	HRK
31 December 2009	**8,129,531**
Distribution of the profit for 2009	3,259,523
31 December 2010	**11,389,054**

Statutary reserves

	HRK
31 December 2009	**44,523,585**
Distribution of the profit for 2009	30,965,470
31 December 2010	**75,489,055**

Other reserves

	HRK
Other reserves	34,788,675
Treasury shares	(7,753,019)
31 December 2009	**27,035,656**
Distribution of the profit for the year 2009	15,482,735
Share-based options	9,234,825
Purchase of treasury shares	(5,142,310)
Foreign exchange differences on foreign operation	825,532
31 December 2010	**47,436,438**

Retained earnings

	HRK
31 December 2009	**15,752,186**
Distribution of the profit for the year ended 2009	15,482,735
31 December 2010	**31,234,921**

Net profit of the current year

Operations of the company during 2010 resulted with net profit in the amount of HRK **61,515,089** (2009: HRK 65,190,462).

Profit realised in the year 2009 in the amount of HRK 65,190,462 has been distributed, as per the decisions of the Board of Directors, the Supervisory Board and the General Assembly, as follows:

	HRK
Legal reserves	3,259,523
Statutory reserves	30,965,470
Other reserves	15,482,734
Retained earnings	15,482,735
	65,190,462

31. Provisions

	Provisions for guarantees	Legal court cases	Retirement and jubilee rewards	Other long term provisions	Total
	HRK	**HRK**	**HRK**	**HRK**	**HRK**
31 December 2009	**105,069,245**	**140,059,407**	**227,600**	**37,108,600**	**282,464,852**
Additional provisions	9,888,025	14,850,570	1,063,560	-	25,802,155
Release of provisions	-	(399,445)	-	(25,592,590)	(25,992,035)
31 December 2010	**114,957,270**	**154,510,532**	**1,291,160**	**11,516,010**	**282,274,972**

Provisions for contingent liabilities for issued guarantees for the return of advance payment in the amount of HRK 114,957,270 (At 31 December 2009 in the amount of HRK 105,069,245) relate to the HRK countervalue of advance payments in the amount of USD 20,645,127 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 advance payments guarantees have been issued in various currencies, which HRK countervalue at 31 December 2010 amounts to HRK 62,670,652 (At 31 December 2009 in the amount of HRK 57,243,611). Guarantees in question are in abeyance due to situation in Iraq.

Long-term provisions for legal proceedings in the amount of HRK 154,510,534 (At 31 December 2009 in the amount of HRK 140,059,407) relate to legal court cases in progress led against the Company in Croatia and abroad in the amount of HRK 151,131,810 and for potential costs for legal proceedings in the amount of HRK 3,378,724.

Other long term provisions in the amount of HRK 11,516,010 (2009: HRK 37,106,600) relate to personnel costs which could be realised on the basis of vested rights of share based payment options.

On the basis of Agreement of rights, obligations and salaries, President and Members of the Management Board earned the option rights in previous accounting periods (from 1 January 1999 to 31 December 2010) to purchase 83,439 shares of the Company. During 2010 right to purchase 27,583 own shares has been realized. Vested rights can be realised until 18 January 2014.

32. Long term liabilities

	31 December 2010 HRK	31 December 2009 HRK
Liabilities for loans		
Fund for environmental protection and energy efficiency	850,000	1,190,000
Current portion	(340,000)	(340,000)
	510,000	*850,000*
Liabilities toward banks and other financial instiitutions		
Zagrebačka Bank	-	1,742,743
Current portion	-	(1,742,743)
	-	-
Total	**510,000**	**850,000**

Agreement for using funds from Environmental protection and energy efficiency fund for the purpose of financing “Increase in energy efficiency for reconstruction of business facility Končar“ project, by the loan granted, was concluded in 2006 for a period of 7 years with grace period of 2 years.The loan is interest-free and is repayable in semi-annual installments.

Changes in liabilities for loans, deposits and similiar during 2010 are as follows:

	HRK
31 December 2009	850,000
Current portion	(340,000)
31 December 2010	**510,000**

Long term liabilities for loans mature as follows:

	HRK
From 1 to 2 years	340,000
From 2 to 3 years	510,000
Current portion	(340,000)
Total	**510,000**

33. Current liabilities toward related parties

	31 December 2010 HRK	31 December 2009 HRK
Končar-Energetika i usluge, Zagreb	471,636	-
Končar-Electronics and informatics Inc, Zagreb	561	-
Končar-Switchgears Inc, Sesvetski Kraljevec	389,522	-
Končar-Low voltage switches and circuit breakers Ltd, Zagreb	-	13,005
Končar-Power plant and electric traction engineering Inc, Zagreb	38,187	-
Končar-Engineering for plant installation and commissioning Inc, Zagreb	-	3,089
Total	**899,906**	**16,094**

34. Current liabilities for loans, deposits and similar

	31 December 2010 HRK	31 December 2009 HRK
Fund for environmental protection and energy efficiency	340,000	340,000
	340,000	**340,000**

Current liabilities for loans refer to current portion of loan according to Agreement for Environmental protection and energy efficiency fund usage, for the purpose of financing a project “Increase in energy efficiency for recontruction of Končar building“.

35. Current liabilities toward banks and other financial institutions

	31 December 2010 HRK	31 December 2009 HRK
Current portion	-	1,742,743
Total	**-**	**1,742,743**

36. Current trade accounts payable

	31 December 2010 HRK	31 December 2009 HRK
Domestic trade creditors		
GSKG, Zagreb	356,716	216,653
Grant Thornton revizija d.o.o., Zagreb	276,750	-
Cotrugli d.o.o., Zagreb	-	197,475
Weishaupt d.o.o., Zagreb	-	134,604
Prigorac d.o.o., Zagreb	-	83,218
Znanje d.d., Zagreb	57,695	65,903
Ugostiteljstvo Zbiljski d.o.o., Zagreb	54,439	54,922
T-Mobile d.d., Zagreb	49,783	41,396
PBZ Card d.d., Zagreb	-	23,073
Hrvatsko energetsko društvo, Zagreb	-	20,000
Komunalac d.o.o., Zagreb	41,270	80
Vjesnik d.d., Zagreb	25,313	-
Berlitz-jezični centar d.o.o. Zagreb	14,080	-
Zagrebački holding d.o.o, Zagreb	11,408	10,856
Digitel komunikacije, Zagreb	31,365	-
Hrvatska autorska agencija, Zagreb	15,490	-
Hrvatski telekom, Zagreb	17,220	18,620
Siq Croatia d.o.o., Zagreb	18,357	12,337
Central Depositary & Clearing Company, Zagreb	12,564	12,231
Vis KG d.o.o., Varaždin	26,802	-
Zagrebačka banka d.d., Zagreb	42,399	9,355
Other	121,375	215,654
Foreign trade creditors	1,780	400
Total	**1,174,806**	**1,116,777**

Average payment days to creditors during 2010 were 35 days (2009.: 49 days).

As at 31 December 2010 the ageing structure of trade accounts payable was as follows:

	Total	Undue	Due < 60 days	Due 60-90 days	Due 90-180 days
	HRK	HRK	HRK	HRK	HRK
2010	**1,174,806**	946,218	197,742	13,031	17,815
2009	**1,116,777**	738,811	336,879	16,635	24,452

37. Other current liabilities

	31 December 2010 HRK	31 December 2009 HRK
Liabilities toward employees		
Liabilities for salaries	360,977	546,276
Liabilities for bonuses on the basis of result for the current year	1,768,000	1,784,000
	2,128,977	***2,330,276***
Liabilities for taxes, contributions and similar		
Liabilities for taxes and surcharges	2,816,321	3,331,835
Liabilities for value added tax	584,211	372,497
Liabilities for contributions	269,463	-
	3,669,995	***3,704,332***
Other liabilities		
Liabilities for interest	11,000	11,000
Liabilities toward State for apartments sold	8,119	4,623
Liabilities for dividends	127,658	127,730
Other labilities	198,654	51,750
	345,431	***195,103***
Total	**6,144,403**	**6,229,711**

38. Accrued expenses and deferred income

Accrued expenses and deferred income in the amount of HRK **192,676** (31 December 2009: HRK **2,835,630**) relate on accrued expenses for the return of funds to Končar-Engineering Ltd Zagreb for accomplished payment according to out-of-court settlement with Minel Kotlogradnja Beograd. Refund of the expenses was made in January 2011.

39. Off-balance sheet items

	31 December 2010 HRK	31 December 2009 HRK
Subsidiary guarantee (Zagrebačka Bank,)	442,611,980	464,781,964
Apartments sold (65%)	100,597,102	99,407,257
Corporative guarantees / other banks	76,005,073	50,892,571
Bills of exhange	31,400,000	55,000,000
Debentures	7,500,000	7,500,000
	658,114,155	**677,581,792**

40. Transaction with related parties

2010

Name	Operating activities				Financial activities	
	Receivables HRK'000	Liabilities HRK'000	Revenue HRK'000	Expense HRK'000	Receivables HRK'000	Revenue HRK'000
Končar-Energetika i usluge, Zagreb	12,935	472	24,503	9,302	-	-
Končar-Household Appliances Ltd, Zagreb	2,579	-	1,790	44	-	316
Končar-Electric Vehicles Inc, Zagreb	2,164	-	3,674	-	28,664	1,851
Končar-High voltage switchgear Inc, Zagreb	1,549	-	585	-	2,273	316
Končar-Generators and motors Inc, Zagreb	1,310	-	2,150	-	89	436
Končar-Power plant and electric traction engineering Inc, Zagreb	1,114	38	3,391	23	-	41
Končar-Metalne konstrukcije, Zagreb	972	-	1,232	-	-	-
Končar-Switchgears Inc, Sesvetski Kraljevec	825	389	503	1,868	1,000	13
Končar-Instrument transformers Inc, Zagreb	786	-	1,468	-	-	-
Končar-Low voltage switches and circuit breakers Ltd, Zagreb	747	-	736	111	-	-
Končar-Distribution and special transformers Inc, Zagreb	474	-	4,454	-	-	-
Končar-Electrical engineering institute Inc, Zagreb	471	-	822	294	-	-
Končar-Tools Ltd, Zagreb	434	-	315	-	5	-
Končar-Ugostiteljska oprema, Zagreb	380	-	309	-	-	-
Končar-Small electrical machines Inc, Zagreb	363	-	649	-	-	-
Končar-Engineering for plant installation and commissioning Inc, Zagreb	256	-	462	-	-	-
Končar-Electronics and informatics Inc, Zagreb	110	1	1,053	1,744	-	-
Končar-Medium voltage apparatus Inc, Zagreb	70	-	444	-	-	-
Kones AG, Zurich, Switzerland	33	-	-	-	-	-
Končar-Power transformers Ltd, Zagreb	497	-	3,250	-	-	-
Končar-Renewable energy sources Ltd, Zagreb	-	-	110	-	-	-
Total	**28,069**	**900**	**51,900**	**13,386**	**32,031**	**2,973**

The transactions listed in the above table do not include receivable and income from dividends, i.e. share in profit.
Dividend income, ie. share in profit is recognized in the amount of HRK 98,162,212 (2009: HRK 96,212,198).
At 31 December 2010 the Company has receivable for dividends in the amount of HRK 74,791,632 towards associate Končar-Power transformers Ltd, Zagreb

2009

Name	Operating activities				Financial activities	
	Receivables HRK'000	**Liabilities HRK'000**	**Revenue HRK'000**	**Expanse HRK'000**	**Receivables HRK'000**	**Revenue HRK'000**
Končar-Power plant and electric traction engineering Inc, Zagreb	12,654	-	4,568	-	4,142	403
Končar-Energetika i usluge, Zagreb	9,914	-	25,993	7,779	-	-
Končar-Generators and motors Inc, Zagreb	6,915	-	2,516	-	21,376	693
Končar-Electric Vehicles Inc, Zagreb	2,873	-	3,764	-	20,169	663
Končar-Household Appliances Ltd, Zagreb	1,243	-	1,825	49	5,434	366
Končar-Instrument transformers Inc, Zagreb	1,235	-	1,485	-	-	-
Končar-Metalne konstrukcije, Zagreb	1,130	-	1,303	-	-	16
Končar-Low voltage switches and circuit breakers Ltd, Zagreb	1,084	13	788	-	-	-
Končar-Distribution and special transformers Inc, Zagreb	877	-	4,385	-	-	-
Končar-Electronics and informatics Inc, Zagreb	732	-	1,329	1,766	-	-
Končar-Switchgears Inc, Sesvetski Kraljevec	717	-	654	2,344	-	108
Končar-High voltage switchgear Inc, Zagreb	544	-	529	-	6,045	249
Končar-Electrical engineering institute Inc, Zagreb	474	-	872	260	-	-
Končar-Small electrical machines Inc, Zagreb	428	-	692	3	-	-
Končar-Engineering for plant installation and commissioning Inc, Zagret	423	3	466	5	-	-
Končar-Tools Ltd, Zagreb	367	-	260	-	-	4
Končar-Ugostiteljska oprema, Zagreb	263	-	356	-	-	-
Končar-Medium voltage apparatus Inc, Zagreb	234	-	518	-	-	-
Končar-Renewable energy sources Ltd, Zagreb	11	-	60	-	-	-
Kones AG, Zurich, Switzerland	-	-	-	415	-	-
Končar-Power transformers Ltd, Zagreb	566	-	3,267	-	-	-
Total	**42,684**	**16**	**55,630**	**12,621**	**57,166**	**2,502**

The transactions listed in the table above do not include receivable and income from dividends, i.e. share in profit.
At 31 December 2010 the Company has receivable for dividends in the amount of HRK 65,962,736 toward associate Končar-Power transformers Ltd, Zagreb.

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41. Risk management

The Company is exposed in its business to credit, interest and foreign currency 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, etc. Goals, policies and processes have not been changed during the period ending 31 December 2010 nor for the period ending 31 December 2009.

	31 December 2010 HRK'000	31 December 2009 HRK'000
Long-term financial liabilities	510	850
Short-term financial liabilities	340	2,083
Less: cash and cash equivalents	(163,326)	(108,862)
Net debt	-	-
Capital	1,256,632	1,186,538
Gearing	-	-

b) Significant accounting policies

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

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

2010

	Loans and receivables	Fair value through P&L	Available for sale	Held to maturity	**Assets classified per IAS 39**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Long-term financial asset	34,316	2,373	-	-	**36,689**
Short-term financial asset	115,582	-	-	-	**115,582**
Trade and other current receivables	119,394	-	-	-	**119,394**
Cash and cash equivalents	81,615	81,711	-	-	**163,326**
Total	**350,907**	**84,084**	**-**	**-**	**434,991**

2009

	Loans and receivables	Fair value through P&L	Available for sale	Held to maturity	**Assets classified per IAS 39**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Long-term financial asset	45,445	2,360	-	-	**47,805**
Short-term financial asset	138,939	-	-	-	**138,939**
Trade and other current receivables	123,812	-	-	-	**123,812**
Cash and cash equivalents	108,862	-	-	-	**108,862**
Total	**417,058**	**2,360**	**-**	**-**	**419,418**

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 trough 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 level, 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)
- level 3: input variables for assets or liabilities which are not based on available market data.

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

31 December 2010

In thousands of HRK	Level 1	Level 2	Level 3	Total
Assets				
Listed securities	2,373	-	-	2,373
Cash funds	81,711	-	-	81,711
Total	**84,084**	**-**	**-**	**84,084**

31 December 2009

In thousands of HRK	Level 1	Level 2	Level 3	Total
Assets				
Listed securities	2,360	-	-	2,360
Cash funds	-	-	-	-
Total	**2,360**	**-**	**-**	**2,360**

Shares in money market founds were placed under cash and cash equivalents.

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

There have been no significant change 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:

2010	EUR	USD	CHF	Total foreign currencies	HRK	Total
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Long-term receivables	5,745			5,745	28,572	34,317
Trade receivables	209	-	-	209	388	597
Short-term financial asset	84,191	-	-	84,191	-	84,191
Cash and cash equivalents	-	-	76,793	76,793	86,533	163,326
Non-current provisions	-	-	(75,159)	(75,159)	(207,116)	(282,275)
	90,145	**-**	**1,634**	**91,779**	**(91,622)**	**156**

2009	EUR	USD	CHF	Ukupno strane valute	HRK	Ukupno
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Long-term receivables	6,056			6,056	39,388	45,444
Trade receivables	83,056	-	-	83,056	-	83,056
Short-term financial asset	-	1,832	63,331	65,163	43,699	108,862
Cash and cash equivalents	-	(1,743)	-	(1,743)	-	(1,743)
Non-current provisions	-	-	(62,224)	(62,224)	(220,241)	(282,465)
	89,112	**89**	**1,107**	**90,308**	**(137,154)**	**(46,846)**

	Short-term exposure			Long term exposure		
	EUR	USD	CHF	EUR	USD	CHF
	000 HRK	000 HRK	000 HRK	000 HRK	000 HRK	000 HRK
2010						
Financial assets	84,191	-	76,793	5,745	-	-
Financial liabilities	-	-	-	-	-	(75,159)
Total exposure	**84,191**	**-**	**76,793**	**5,745**	**-**	**(75,159)**
2009						
Financial assets	83,056	1,832	63,331	6,056	-	-
Financial liabilities	-	(1,743)	-	-	-	(62,224)
Total exposure	**83,056**	**89**	**63,331**	**6,056**	**-**	**(62,224)**

Sensitivity analysis

The strengthening of the HRK in relation to EUR for 1%, USD for 9%, CHF for 21% at the date of reporting would increase/(decrease) the profit before tax by the following amounts:

	2010	2009
	Effect on income before taxes	Effect on income before taxes
	HRK'000	HRK'000
EUR	(901)	(891)
USD	-	(8)
CHF	(343)	(232)

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 form defaults. The Company only transacts with entities with good credibility. The Company uses 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 build quality frame for 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 with the maturity of financial assets and liabilities.

The following table shows the maturity of financial liabilities of the Company at 31 December 2010 according to the contracted non-discounted payments:

	Carrying vlaue	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 2010						
Loans	850	850	340	340	170	-
Trade account and other payables	8,412	8,412	8,412	-	-	-
	9,262	**-**	**8,752**	**340**	**170**	-

	Carrying vlaue	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 2009						
Loans	2,933	2,933	2,083	340	510	-
Trade account and other payables	10,198	10,198	10,198	-	-	-
	13,131	**-**	**12,281**	**340**	**510**	-

42. Court cases and contingent liabilities

Several court cases are led against the Company in the country and abroad in the amount of HRK 276,219 thousands.

At 31 December 2010 for these court cases the Company recognized the provision in the amount of HRK 154,511 thousand.

Total guarantees issued by the Company are established in the amount of HRK 518,617 thousand (2009 in the amount of HRK 515,673 thousand) whereof the amount of HRK 349,039 thousand relates to performance guarantees (2009 in the amount of HRK 346,219,000). The Company has recognized provisions for these quarantees in the amount of HRK 114,957,000 (2009 in the amount of 105,069,000).

43. Subsequent events

After the balance sheet date and until the approval date of these consolidated financial statements there were no events that would significantly influence the financial statements of the Company as at 31 December 2010.

44. Approval of financial statements

These financial statements were approved by the Management Board and authorized for issue on 18 March 2011.

Darinko Bago

President of the Management Board

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

KONČAR – ELECTRICAL INDUSTRY GROUP

Consolidated financial statements as at 31 December 2010
together with the Independent Auditor's report

Content

Responsibility for the consolidated financial statements

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

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

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

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

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

Signed on a behalf of Management Board:

Darinko Bago, president of the Management Board

Končar – Electrical industry Inc, Zagreb
Fallerovo šetalište 22,
10 000 Zagreb

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

18 March 2011

Independent Auditor's report

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

We have audited the accompanying consolidated financial statements of Končar – Electrical industry Inc Zagreb (herein below: the Company) and its subsidiaries (herein below: Group) which comprise the consolidated statement of financial position as of 31 December 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 56.

Consolidated financial statements for the year ended 31 December 2009 have been audited by another auditor who issued unqualified opinion on 8 March 2010.

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 adopted by European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give true and fair view of the Group's financial position as of 31 December 2010 and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards adopted in European Union.

Grant Thornton revizija d.o.o.
Koranska 16, 10000 Zagreb
Ivica Smiljan, certified auditor
Zagreb, 18 March 2011

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

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

Consolidated statement of comprehensive income

Consolidated profit and loss account	Notes	2010 HRK	2009 HRK
Operating revenues		**2,637,560,093**	**2,795,680,476**
Sales	3	2,464,817,706	2,675,137,917
Other operating income	4	172,742,387	120,542,559
Operating expenses		**(2,568,929,425)**	**(2,760,589,117)**
Changes in inventories (work in progress and finished goods)		(74,603,310)	14,870,955
Cost of materials and energy	5	(1,132,606,393)	(1,378,518,176)
Cost of goods sold		(116,812,449)	(123,088,383)
Cost of services	6	(361,286,721)	(374,339,429)
Personnel costs	7	(472,684,365)	(475,014,074)
Depreciation and amortization	8	(76,716,868)	(76,516,548)
Other costs	9	(129,235,040)	(123,142,332)
Value adjustments	10	(37,577,078)	(36,665,539)
Provisions	11	(159,018,123)	(174,291,909)
Other operating expenses	12	(8,389,078)	(13,883,682)
Operating profit		**68,630,668**	**35,091,359**
Share or profit from equity accounted investments	13	114,015,279	110,645,889
Financial income	14	74,716,332	74,152,131
Financial expenses	15	(55,717,205)	(61,512,189)
Financial result		**133,014,406**	**123,285,831**
Profit before taxation		**201,645,074**	**158,377,190**
Corporate income tax	16	(15,609,173)	(13,264,023)
PROFIT FOR THE YEAR		**186,035,901**	**145,113,167**
Profit for the year attributable to:			
Owners of the parent		154,975,583	112,822,916
Non-controlling interest		31,060,318	32,290,251
Earnings per share			
Basic earnings per share in kunas	17	60.25	43.86

Consolidated statement of comprehensive income

		2010 HRK	2009 HRK
Net profit for the year		**186,035,901**	**145,113,167**
Other comprehensive income:			
Exchange differences on translating foreign operations		1,311,326	(59,932)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**187,347,227**	**145,053,235**
Total comprehensive income for the year attributable to:			
Owners of the parent		155,831,108	112,767,502
Non-controlling interest		31,516,119	32,285,733

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

Consolidated statement of financial position

ASSETS	Notes	31/12/2010 HRK	31/12/2009 HRK
Goodwill	18	7,040,919	6,551,752
Intangible assets	19	18,495,072	22,423,370
Property, plant and equipment	20	794,109,011	800,495,885
Investment property	21	93,849,610	93,857,391
Investment accounted for using the equity method	22	208,515,269	169,585,609
Financial assets	23	4,471,407	4,968,320
Receivables	24	56,503,262	75,603,445
Non-current assets		**1,182,984,550**	**1,173,485,772**
Inventories	25	482,128,159	580,614,449
Receivables from related companies	26	111,046,846	86,121,171
Trade accounts receivable	27	698,835,506	866,101,705
Receivable for corporate income tax		3,951,542	7,413,104
Other receivables	28	72,219,587	93,359,644
Financial assets	29	157,199,494	149,739,330
Cash and cash equivalents	30	580,365,351	310,321,360
Current assets		**2,105,746,485**	**2,093,670,763**
Prepaid costs and accrued income	31	3,547,985	2,843,799
Non-current assets held for sale	32	3,870,959	754,036
TOTAL ASSETS		**3,296,149,979**	**3,270,754,370**
EQUITY AND LIABILITIES			
Share capital	33	**1,028,847,600**	**1,028,847,600**
Capital reserves		**719,579**	**(2,940,923)**
Legal reserves		13,150,803	11,976,389
Reserves for treasury shares		-	7,753,019
Treasury shares		-	(7,753,019)
Statutory reserves		121,706,437	97,190,649
Other reserves		66,283,268	47,570,617
Reserves from earnings		**201,140,508**	**156,737,655**
Retained earnings		**194,104,351**	**121,807,709**
Profit for the current year		**154,975,583**	**112,822,916**
Non-controlling interest		**214,387,740**	**200,388,323**
TOTAL EQUITY		**1,794,175,361**	**1,617,663,280**
Provisions for guarantees		382,293,790	342,783,794
Other provisions		196,349,900	203,264,999
Provisions	34	**578,643,690**	**546,048,793**
Liabilities for loans, deposits and similar		1,615,000	2,380,000
Liabilities toward banks and other financial institutions		79.684.423	72,028,222
Other non-current liabilities		-	1,010,890
Non-current liabilities	35	**81,299,423**	**75,419,112**
Liabilities toward related companies	36	13,175,194	29,189,648
Liabilities for loans, deposits and similar	37	765,000	510,000
Liabilities toward banks and other financial institutions	38	148,028,224	198,193,145
Trade accounts payable	39	358,020,213	418,503,448
Liabilities for corporate income tax		3,917,582	2,068,597
Liabilities for advances received	40	180,197,510	197,941,888
Other liabilities	41	71,436,519	87,321,784
Current liabilities		**775,540,242**	**933,728,510**
Accrued expenses and deferred income	42	66,491,263	97,894,675
TOTAL EQUITY AND LIABILITIES		**3,296,149,979**	**3,270,754,370**

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

Consolidated statement of cash flows

	Notes	2010 HRK	2009 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		2,834,812,367	2,844,372,212
Cash receipts from insurance compensations		6,274,878	3,704,661
Cash receipts from tax returns		154,549,872	133,461,089
Cash receipts from interests		22,922,389	23,733,090
Other cash receipts		54,505,237	39,925,800
Total cash receipts from operating activities		**3,073,064,743**	**3,045,196,852**
Cash payments to trade accounts payable		(1,864,804,673)	(2,090,096,985)
Cash payments to employees		(560,288,420)	(559,834,839)
Cash payments to insurance companies		(10,877,133)	(10,538,253)
Cash payments for interests		(13,923,825)	(15,922,999)
Cash payments for taxes		(180,046,948)	(166,110,365)
Other cash payments		(125,078,646)	(138,070,060)
Total cash payments for operating activities		(2,755,019,645)	(2,980,573,501)
Net cash flow from operating activities		**318,045,098**	**64,623,351**
Cash flow from investing activities			
Receipts from the sale of non-current tangible and intangible assets		2.999.245	233,322
Cash receipts from the sale of financial instruments		7,076,566	3,541,927
Receipts from dividends		64,646,202	51,578,485
Total cash inflow from investing activities		74,722,013	55,353,734
Purchase of non-current tangible and intangible assets		(49.955.772)	(48,079,175)
Purchase of financial instruments		(2.668.809)	(50,000)
Other cash payments for investing activities		-	(964,711)
Total cash outflows for investing activities		(50,624,581)	(49,093,886)
Net cash used in investing activities		**22,097,432**	**6,259,848**
Cash flow from financing activities			
Cash receipts from the issuance of financial instruments		-	249,000
Cash receipts from loans and borrowings		88,187,843	164,338,486
Other cash receipts from financing activities		99,649,532	47,683,269
Total cash receipts from financing activities		187,837,375	212,270,755
Repayment of loans and bonds		(134,730,732)	(171,340,496)
Dividends paid out		(17,196,110)	(19,059,466)
Other cash outflows for financing activities		(106,009,072)	(154,827,124)
Total cash outflow for financing activities		(257,935,914)	(345,227,086)
Net cash used in financing activities		**(70,098,539)**	**(132,956,331)**
Increase (decrease) of cash		**270,043,991**	**(62,073,132)**
Cash and cash equivalents at the beginning of the year	28	310,321,360	372,394,492
Cash and cash equivalents at the end for the year	28	**580,365,351**	**310,321,360**

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

Consolidated statement of changes in equity

	Share capital	Capital reserves	Reserves from earnings	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Non-controlling interest	**Total**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
At 1 January 2009	**1,028,847,600**	**(1,387,727)**	**106,624,638**	**11,255,853**	**(11,255,853)**	**57,179,891**	**103,832,296**	**181,977,057**	**1,477,073,755**
Transactions with owners:									
Correction of opening balances	-	-	-	-	-	7,747,142	214,893	74,485	**8,036,520**
Allocation of the profit for the year ended 31/12/2008	-	-	50,640,259	(3,502,834)	-	56,880,676	(104,018,101)	-	-
Dividends	-	-	-	-	-	-	-	(19,115,935)	**(19,115,935)**
Realisation of reserves	-	-	(500,916)	-	-	-	-	(467,751)	**(968,667)**
Employee share-based payment options	-	(1,553,196)	-	-	3,502,834	-	-	-	**1,949,638**
Change in ownership	-	-	-	-	-	-	-	5,634,734	**5,634,734**
Profit for the year	-	-	-	-	-	-	112,822,916	32,290,251	**145,113,167**
Other comprehensive income:									
Exchange differences on translating foreign operations	-	-	(26,326)	-	-	-	(29,088)	(4,518)	**(59,932)**
Total comprehensive income	-	-	*(26,326)*	-	-	-	*112,793,828*	*32,285,733*	*145,053,235*
At 31 December 2009	**1,028,847,600**	**(2,940,923)**	**156,737,655**	**7,753,019**	**(7,753,019)**	**121,807,709**	**112,822,916**	**200,388,323**	**1,617,663,280**
Transactions with owners:									
Correction of opening balances	-	-	-	-	-	(513,979)	-	72,687	**(441,292)**
Allocation of the profit for the year ended 31/12/2009	-	-	39,956,842	-	-	72,866,074	(112,822,916)	-	-
Dividends	-	-	-	-	-	-	-	(17,090,907)	**(17,090,907)**
Realisation of reserves	-	-	(500,916)	-	-	-	-	(467,751)	**(968,667)**
Employee share-based payment options	-	3,660,502	4,092,518	(9,234,827)	9,234,827	-	-	-	**7,753,020**
Purchase of treasury shares	-	-	-	1,481,808	(1,481,808)	-	-	-	-
Change in ownership	-	-	-	-	-	(56,569)	-	(30,731)	**(87,300)**
Profit for the year	-	-	-	-	-	-	154,975,583	31,060,318	**186,035,901**
Other comprehensive income:									
Exchange differences on translating foreign operations	-	-	854,409	-	-	1,116	-	455,801	**1,311,326**
Total comprehensive income	-	-	*854,409*	-	-	*1,116*	*154,975,583*	*31,516,119*	*187,347,227*
At 31 December 2010	**1,028,847,600**	**719,579**	**201,140,508**	-	-	**194,104,351**	**154,975,583**	**214,387,740**	**1,794,175,361**

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

1. General data on the Group

1.1. Activities

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

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

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

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

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

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

The Group has two associated companies.

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

1.2. Employees

As at 31 December 2010 the Group had 3,938 employees, while as at 31 December 2009 the Group had 4,110 employees.

1.3. Supervisory and Management Board

Members of the Supervisory Board:

Igor Lučić	President
Jasminka Belačić	Deputy
Ante Babić	Member
Kristijan Floričić	Member
Ruđer Friganović	Member
Ivan Rujnić	Member
Zdenka Matković	Member
Đuro Perica	Member
Nenad Matić	Member

Members of the Management Board:

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

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

2. Summary of significant accounting policies

2.1 Basis for preparation

Statement of compliance

Consolidated financial statements of the Group are prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards as adopted by the European Union.

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

The accounting policies have been consistently applied. The financial statements for the year 2010 have been prepared using the historical cost convention except for any financial assets and liabilities stated at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

The consolidated financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Group. At 31 December 2010, the exchange rate for USD 1 and EUR 1 was HRK 5.57 and HRK 7.39, respectively (31 December 2009: HRK 5.09 and HRK 7.31 respectively).

Standards, amendments and interpretations adopted by the European Union and the Croatian Board and effective

On the approval date of these consolidated financial statements the below mentioned standards and interpretations have been effective for the year ended 31 December 2010.

The following new and revised Standards and Interpretations have been adopted in the current period and had no affected the amounts reported in these financial statements as at 1 January 2010:

- IFRS 1 First-time Adoption of IFRS (revised) – effective for annual periods beginning on or after 1 January 2010
- IFRS 2 Share based payment (revised) – effective for annual periods beginning on or after 1 January 2010
- IFRS 7 Financial Instruments: Disclosures – effective for annual periods beginning on or after 1 January 2010

- IAS 1 Presentation of Financial Statements (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 16 Property, Plant and Equipment (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 18 Revenue – effective for annual periods beginning on or after 1 January 2010
- IAS 19 Employee Benefits (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance – effective for annual periods beginning on or after 1 January 2010
- IAS 23 Borrowing costs (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 27 Consolidated and Separate Financial Statements – Cost of an investment at first application – effective for annual periods beginning on or after 1 January 2010
- IAS 28 Investments in Associates (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 31 Interests in Joint Ventures (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 36 Impairment of Assets (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 38 Intangible Assets (revised) – effective for annual periods beginning on or after 1 January 2010
- AS 39 Financial Instruments: Recognition and Measurements (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 40 Investment Property (revised) – effective for annual periods beginning on or after 1 January 2010
- IFRIC 15 Agreements for the Construction of Real Estate – effective for annual periods beginning on or after 1 January 2010
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – effective for annual periods beginning on or after 1 January 2010
- IFRIC 17 Distributions of Non-cash Assets to Owners – effective for annual periods beginning on or after 1 January 2010

- IFRIC 18 Transfers of Assets from Customers – effective for annual periods beginning on or after 1 January 2010
- IFRS 3 Business Combinations (revised) – effective for annual periods beginning on or after 1 January 2010
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (revised) – effective for annual periods beginning on or after 1 January 2010
- IAS 27 Consolidated and Separate Financial Statements – effective for annual periods beginning on or after 1 January 2010
- IAS 28 Investments in Associates (revised based on IFRS improvements) – effective for annual periods beginning on or after 1 January 2010
- IAS 31 Interests in Joint Ventures (revised based on IFRS 3 amendment) – effective for annual periods beginning on or after 1 January 2010
- IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedge items – effective for annual periods beginning on or after 1 January 2010

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

At the date of authorisation of these consolidated 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 2010:

- Improvements of IFRSs issued in May 2010 effective for annual periods beginning on or after 1 July 2010 or 1 January 2011,
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – effective for annual periods beginning on or after 1 July 2010
- IFRS 9 Financial Instruments – effective for annual periods beginning on or after 1 January 2013
- Amendments to IAS 24 Related party Disclosures (as revised in 2009)- effective for annual periods beginning on or after 1 January 2011

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

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

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

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

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

2.2 Basis for the consolidation

Consolidated financial statements include financial statements of the parent company and financial statements of the companies controlled by the parent company (subsidiaries). The Company has a control over the companies in which directly or indirectly owns more than 50 percent of the voting rights and in which the parent company has invested in order to gain rewards from the operations of the subsidiary.

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

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

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

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

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

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

2.3 Investments in associates

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

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

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

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

2.4 Business combinations

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

Goodwill

Goodwill is determined as a difference between:

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

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

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

Goodwill is subject to impairment test at each reporting date.

2.5 Revenue recognition

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

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

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

Income from services is recognized in the period when the services have been rendered by the stage of completion method.

Financial revenues and expenses

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

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

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

2.6 Construction contracts

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

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

2.7 Leases

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

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

2.8 Borrowing costs

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

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

2.9 Transaction in foreign currency

Transactions in foreign currency are initially translated into Kuna's by using the exchange rate at the transaction date. Cash, receivables and liabilities reported in foreign currencies are translated into Kuna's by using middle exchange rate at balance sheet date. Foreign exchange gains or losses are included in the profit and loss account as incurred.
During the consolidation, assets and liabilities of Group's foreign operations are translated into the Group presentation currency at the exchange rates ruling at the reporting date. Revenues and expenses are translated into at the foreign exchange rates ruling at the dates of the transactions and the exchange differences are recognized in other comprehensive income. All foreign exchange gains and losses are recognized in the profit or loss account in the period when the transaction occurred.

2.10 Taxation

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

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

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

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

2.11 Earnings per share

The Group 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 by the weighted average number of ordinary shares outstanding during the period.

2.12 Segment information

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

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

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

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

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

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

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

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

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

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

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

Impairment of property, plant and equipment

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

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

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

Recoverable amounts are determined as follows:

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

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

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

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

2.14 Investment property

Investment property which are in Group's ownership are held for the purpose of earning rentals or as a potential for issuing joint and several liability for subsidiaries, and also for the future capital appreciations for the purpose of future sale.

2.15 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.

Management must commit to the sale for which it expects to be realised within one year from the classification date.

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

2.16 Financial assets and financial liabilities

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

Financial assets are classified into the following categories:

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

- Loans and receivables – Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

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

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

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

De-recognition of financial assets

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

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share repurchase

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

Financial guarantee of a contractual obligation

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

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

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

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

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

De-recognition of financial liabilities

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

2.17 Inventories

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

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

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

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

2.18 Receivables

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

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

2.19 Cash and cash equivalents

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

2.20 Received loans

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

2.21 Provisions

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

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

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

2.22 Employee benefits

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

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

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

2.23 Contingent assets and liabilities

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

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

2.24 Subsequent events

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

2.25 Comparatives and reclassifications

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

2.26 Subsidiaries

	31 December 2010		31 December 2009	
	Ownership share (%)	Voting power share (%)	Ownership share (%)	Voting power share (%)
Subsidiaries registered in Croatia which are consolidated:				
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 - Energetika i usluge d.o.o., Zagreb	100.00	100.00	100.00	100.00
Končar - Electrical engineering institute Inc, Zagreb	100.00	100.00	100.00	100.00
Končar - Low Voltage Switches and Circuit Breakers Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Generators and motors ltd, Zagreb	100.00	100.00	100.00	100.00
Končar - Tools Inc, Zagreb	100.00	100.00	100.00	100.00
Končar - Ugostiteljska oprema, Zagreb	100.00	100.00	100.00	100.00
Končar - Renewable energy 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 - Metalne konstrukcije, Zagreb	75.01	75.01	75.01	75.01
Končar - Electronics and Informatics Inc., Zagreb	75.03	75.03	75.03	75.03
Končar - Switchgears Inc., Sesvetski Kraljevec	45.71	66.85	45.71	66.85
Končar - Medium voltage apparatus Inc, Zagreb	41.77	69.87	41.77	69.87
Končar - Instrument Transformers Inc, Zagreb	43.40	72.35	43.40	72.35
Končar - Distribution and Special Transformers Inc, Zagreb	51.71	67.79	51.71	67.79
Končar - High Voltage Switchgear Inc, Zagreb	81.19	85.19	80.98	85.19
Končar - Engineering Co. for plant installation & commissioning Inc, Zagreb	38.49	76.51	38.49	76.51
Subsidiary registered abroad which is consolidated:				
Kones AG, Zurich, Switzerland	64.00	77.50	64.00	77.50
Subsidiries which are not consolidated:				
Konell d.o.o., Sofija, Bulgaria*	85.00	85.00	85.00	85.00
Končar-Inženjering d.d., Zagreb*	100.00	100.00	100.00	100.00
Mjerenja d.o.o., Beograd*	100.00	100.00	100.00	100.00
Končar-Intertade Sdn Bhd, Kuala Lumpur, Malaysia	-	-	58.41	58.41

Above mentioned subsidiaries which are not consolidated are not consolidated since are insignificant on the Group level.

*companies in indirect ownership by the parent

Associates:

	31 December 2010	31 December 2009
	Share in ownership (%)	Share in ownership (%)
Associated companies accounted for by using equity method:		
Končar – Power transformers ltd, Zagreb	49.00	49.00
Elkakon d.o.o., Zagreb*	50.00	50.00

* company in indirect ownership

3. Sales

	2010 HRK	2009 HRK
Domestic sales of goods	1,016,857,124	1,334,448,272
Foreign sales of goods	1,305,220,227	1,231,653,463
Sales to related parties	142,740,355	109,036,182
	2,464,817,706	**2,675,137,917**

4. Other operating income

	2010 HRK	2009 HRK
Income from the release of provisions (note 34 and 42)	131,157,243	86,268,844
Collected receivables previously written off	7,493,919	6,056,006
Income from insurance claims	6,515,097	9,451,133
Income from subsequent rebates, bonuses and similar	3,062,624	1,458,903
Inventory surpluses	2,590,707	1,667,849
Income from government grants and similar	2,579,051	1,404,467
Rent	1,885,165	2,912,679
Income from sale of materials	1,734,262	1,494,831
Income from previous years	1,196,953	1,646,924
Net gain from assets disposal	1,189,669	1,966,155
Debt written-off	453,185	1,176,452
Other income	12,884,512	5,038,316
	172,742,387	**120,542,559**

5. Costs of materials and energy

	2010	2009.
	HRK	HRK
Raw materials and other materials	1,071,662,088	1,320,312,625
Spare parts	649,398	765,354
Small inventory	14,645,251	9,889,404
Energy	45,649,656	47,550,793
	1,132,606,393	**1,378,518,176**

6. Cost of services

	2010	2009
	HRK	HRK
External products design and selling services	154,444,566	182,094,295
Costs of telephone, post and transportation	62,411,943	45,747,408
Maintenance	30,741,468	36,892,069
Intellectual and similar services	23,503,485	27,284,979
Entertainment costs	13,676,782	14,048,640
Utilities costs	10,940,203	17,929,430
Costs of research and development	7,450,277	4,338,595
Advertising services and trade fairs	5,603,259	5,080,323
Rent	4,871,299	4,800,911
Education	4,207,047	3,358,317
Sponsorships	3,145,833	2,562,148
Other costs of services	40,290,559	30,202,314
	361,286,721	**374,339,429**

7. Personnel costs

	2010	2009
	HRK	HRK
Net wages and salaries	263,731,556	263,719,609
Taxes and contributions	208,952,809	211,294,465
	472,684,365	**475,014,074**

Net wages and salaries in the amount of HRK 263,731,556 (2009: HRK 263,719,609) include compensations to Management board amounting to HRK 13,192,167 (2009: HRK 15,091,936) and accrued bonuses for Management in the amount of HRK 4,214,009 (2009; HRK 4,731,839), and represent integral part of personnel costs.

8. Depreciation and amortization

	2010 HRK	2009 HRK
Depreciation	69,504,005	69,797,071
Amortization	7,212,863	6,719,477
	76,716,868	**76,516,548**

9. Other costs

	2010 HRK	2009 HRK
Travelling costs and per-diems	41,099,374	42,468,528
Compensations to employees	27,101,568	26,138,390
Compensations to members of the Supervisory Board	5,380,531	5,371,962
Insurance premiums	13,384,981	11,789,671
Banking services	17,444,953	16,818,175
Taxes and contributions and similar costs	4,720,759	5,484,600
Taxes non-dependable on the income and fees	4,179,779	4,821,835
Other	15,923,095	10,249,171
	129,235,040	**123,142,332**

10. Value adjustments

	2010 HRK	2009 HRK
Value adjustment of long term financial assets	298,113	-
Value adjustment of long-term intangible assets	-	5,917,632
Value adjustment of property, plant and equipment	-	33,929
	298,113	**5,951,561**
Value adjustment of inventories	17,639,078	8,803,695
Value adjustment of current receivables	19,639,771	21,910,283
Value adjustment of current financial assets	116	-
	37,278,965	**30,713,978**
	37,577,078	**36,665,539**

11. Provisions

	2010	2009
	HRK	HRK
Provisions for servicing costs within warranty periods	125,406,924	134,748,302
Provisions for court cases	18,035,857	27,098,928
Provisions for development projects	1,500,000	3,500,000
Provisions for stimulation severance payments	-	600,000
Provisions for retirement and jubilee awards	10,870,699	5,519,731
Other provisions	3,204,643	2,824,948
	159,018,123	**174,291,909**

Movement in non-current provisions by categories is presented in the note 34 while the amount of HRK 3,958,782 is presented as movement in current provisions in note 42.

12. Other operating expenses

	2010	2009
	HRK	HRK
Penalties, compensations and similar	2,959,183	5,504,620
Inventory shortages	1,930,663	1,574,466
Rebates, discounts and similar	746,755	2,168,813
Receivables write-off	457,326	21,757
Subsequent expenses	608,798	500,344
Inventory write-off	348,349	1,627,339
Loss from the sale of property, plant and equipment	119,733	931,836
Other operating expenses	1,218,271	1,554,507
	8,389,078	**13,883,682**

13. Share of profit from equity accounted investments

Share of profit from equity accounted investments in the amount of HRK 114,015,279 (2009: HRK 110,645,889) relates to share in profit of an associate Končar – Power transformers ltd in which the Group has share of 49% in the amount of HRK 113,809,567 and share in profit of an associate Elkakon ltd in which the Group indirectly owns 50% share in the amount of HRK 205,712.

The above mentioned companies have realized net income in 2010 as follows:

- Power transformers ltd HRK 232,264,422
- Elkakon ltd HRK 795,605.

14. Financial revenues

	2010 HRK	2009 HRK
From the relations with related parties		
Dividend income	60,982	63,505
Other financial income	-	169,297
	60,982	*232,802*
From the relations with un-related parties		
Interest income	24,056,754	26,670,738
Foreign exchange gains	48,447,161	44,023,386
Dividend income	1,222,021	920,934
Other financial income	870,764	1,508,134
	74,596,700	*73,123,192*
Unrealised gains	*58,650*	*796,137*
	74,716,332	**74,152,131**

15. Financial expenses

	2010 HRK	2009 HRK
From the relations with related parties		
Interest expenses	17,137	96,384
	17,137	*96,384*
From the relations with un-related parties		
Interest expenses	17,281,410	18,240,699
Foreign exchange losses	32,563,790	41,651,106
Other financial expenses	443,259	1,524,000
	50,288,459	*61,415,805*
Unrealised losses on financial assets	*5,411,609*	-
	55,717,205	**61,512,189**

16. Corporate income tax

Calculation of corporate income tax liability for the year ended 31 December 2010 was as follows:

	2010 HRK	2009 HRK
Consolidated profit before tax	201,645,074	158,377,190
Corporate income tax at the rate of 20%	**40,329,014**	**31,675,438**
Consolidation adjustments	(785,289)	7,100,950
Increases of tax	28,438,176	18,127,900
Decreases of tax	(41,753,292)	(34,573,380)
Used tax assets	(1,482,461)	(977,885)
Tax liability	**24,746,148**	**21,353,023**
Incentives	(9,136,975)	(8,089,000)
Adjusted tax liability	**15,609,173**	**13,264,023**
Un-recognized tax asset on tax losses to be carried forward	37,096,777	28,847,907

The applicable income tax rate for 2010 and 2009 was 20%.

The Group can carry forward tax losses from subsidiaries which incurred loss in the year 2010 and which had no tax liability and from subsidiaries who realized profit in 2010 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2010 un-recognized tax asset on tax losses carried forward amounts to HRK 37,096,777 and can be used as follows:

	31 December 2010 HRK	31 December 2009 HRK
31 December 2010	-	821,475
31 December 2011	3,179,600	3,708,709
31 December 2012	2,556,200	2,587,295
31 December 2013	11,904,223	12,755,679
31 December 2014	8,968,465	8,974,749
31 December 2015	10,478,289	-
	37,096,777	**28,847,907**

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

17. Earnings per share

Basic earnings per share

	31 December 2010	31 December 2009
	HRK	HRK
Net profit attributable to owners of the parent	154,975,583	112,822,916
Weighted average number of shares	2,572,119	2,572,119
Earnings per share in kunas	**60.25**	**43.86**

18. Goodwill

Goodwill amounting to HRK 7,040,919 relates to goodwill recognized in business combinations when the companies Končar - Instrument Transformers Inc, Končar - Distribution and special transformers Inc and Končar - Engineering Co. for plant installation & commissioning Inc have been acquired. Movement in goodwill during the year 2010 was as follows:

	Goodwill
	HRK
At 1 January 2008	**6,188,533**
Acquisition of subsidiaries	895,121
Impairment of goodwill	-
At 31 December 2008	**7,083,654**
Acquisition of subsidiaries	5,385,734
Impairment of goodwill	(5,917,632)
At 31 December 2009	**6,551,756**
Increase	489,163
At 31 December 2010	**7,040,919**

19. Non-current intangible assets

	Development expenditure	Concessions, patents, software and other rights	Other	Intangible assets under construction	Total
	HRK	HRK	HRK	HRK	HRK
Cost					
At 1 January 2009	**55,814,526**	**14,552,007**	**1,401,470**	**17,299,006**	**89,067,009**
Transfer from assets under construction	17,293,364	516,481	-	(17,809,845)	-
Additions	1,400,608	149,566	-	510,839	**2,061,013**
Disposals	-	(346,707)	-	-	**(346,707)**
At 31 December 2009	**74,508,498**	**14,871,347**	**1,401,470**	-	**90,781,315**
Transfer from assets under construction	-	350,696	-	(350,696)	-
Additions	1,431,438	1,866,226	-	3,098,909	**6,396,573**
Disposals	(10,860,698)	(287,606)	(349,052)	-	**(11,497,356)**
At 31 December 2010	**65,079,238**	**16,800,663**	**1,052,418**	**2,748,213**	**85,680,532**
Accumulated amortization					-
At 1 January 2009	**49,470,532**	**11,704,279**	**810,364**	-	**61,985,175**
Reclassifications	-	-	-	-	-
Amortization for the year	5,029,000	1,521,953	168,524	-	**6,719,477**
Disposals	-	(346,707)	-	-	**(346,707)**
At 31 December 2009	**54,499,532**	**12,879,525**	**978,888**	-	**68,357,945**
Correction of opening balances	-	(4,916)	-	-	**(4,916)**
Amortization for the year	5,860,625	1,161,713	168,525	22,000	**7,212,863**
Disposals	(7,743,774)	(287,606)	(349,052)	-	**(8,380,432)**
At 31 December 2010	**52,616,383**	**13,748,716**	**798,361**	**22,000**	**67,185,460**
Carrying value					
31 December 2009	20,008,966	1,991,822	422,582	-	22,423,370
31 December 2010	**12,462,855**	**3,051,947**	**254,057**	**2,726,213**	**18,495,072**

Notes to the consolidated financial statements (continued)

20. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools, fixtures and fittings	Other	Assets under construction	Advances	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Cost								
At 1 January 2009	**154,469,239**	**874,166,315**	**646,425,138**	**303,989,892**	**793,730**	**30,196,560**	**3,943,142**	**2,013,984,016**
Reclassification	-	-	5,159	(992,130)	986,971	-	-	**-**
Transfer from assets under construction	389,480	13,702,628	36,374,940	18,247,641	139,070	(68,853,759)	-	**-**
Additions	1,583,231	5,871,206	581,482	727,696	252,643	69,639,840	21,074,685	**99,730,783**
Disposals	(1,374,407)	(5,984,467)	(6,136,188)	(8,051,798)	-	-	(22,975,807)	**(44,522,667)**
At 31 December 2009	**155,067,543**	**887,755,682**	**677,250,531**	**313,921,301**	**2,172,414**	**30,982,641**	**2,042,020**	**2,069,192,132**
Reclassification	-	-	227,255	(227,255)	-	-	-	**-**
Transfer from assets under construction	4,272,916	7,491,873	28,616,573	17,149,950	12,600	(57,543,912)	-	**-**
Additions	-	-	4,607,115	3,938,673	-	59,085,608	24,296,159	**91,927,555**
Disposals	(3,316,751)	(418,926)	(7,814,858)	(7,730,412)	(25,644)	(1,147,645)	(22,501,453)	**(42,955,689)**
At 31 December 2010	**156,023,708**	**894,828,629**	**702,886,616**	**327,052,257**	**2,159,370**	**31,376,692**	**3,836,726**	**2,118,163,998**
Accumulated depreciation								
At 1 January 2009	-	**472,147,256**	**499,701,426**	**234,761,872**	**50,220**	**3,783,539**	-	**1,210,444,313**
Reclassifications	-	-	5,159	(838,119)	832,960	-	-	**-**
Depreciation for the year	-	22,144,831	29,923,162	17,348,058	381,020	-	-	**69,797,071**
Increases	-	1,327,176	1,210,834	-	-	-	-	**2,538,010**
Disposals	-	(1,367,328)	(4,828,180)	(7,887,639)	-	-	-	**(14,083,147)**
At 31 December 2009	-	**494,251,935**	**526,012,401**	**243,384,172**	**1,264,200**	**3,783,539**	-	**1,268,696,247**
Reclassifications	-	-	227,255	(227,255)	-	-	-	**-**
Depreciation for the year	-	21,028,525	31,291,140	16,989,908	194,432	-	-	**69,504,005**
Increases	-	-	1,215,889	-	-	-	-	**1,215,889**
Disposals	-	(126,013)	(7,681,302)	(7,553,839)	-	-	-	**(15,361,154)**
At 31 December 2010	-	**515,154,447**	**551,065,383**	**252,592,986**	**1,458,632**	**3,783,539**	-	**1,324,054,987**
Carrying value								
31 December 2009	155,067,543	393,503,747	151,238,130	70,537,129	908,214	27,199,102	2,042,020	800,495,885
31 December 2010	**156,023,708**	**379,674,182**	**151,821,233**	**74,459,271**	**700,738**	**27,593,153**	**3,836,726**	**794,109,011**

As a collateral for long-term loans (note 35) and short-term loans (note 38), mortgages have been registered over the real estates and movables of the Group in the amount of HRK 272 million and EUR 38 million.

The cost of property, plant and equipment which are fully depreciated and still in use on 31 December 2010 amounts to HRK 310,103 thousand.

As at 31 December 2010 the Group has contracted un-invoiced investments in the amount of HRK 14 million.

Carrying value of Group's assets purchased on finance lease as at 31 December 2010 amounts to HRK 13 million.

21. Investment property

Investment property in the amount of HRK 93,849,610 (2009: HRK 93,857,391) relates to the investments in real estates for the capital appreciation intended for future sale. Fair value of these investments estimated by independent evaluators is higher than their carrying value.

22. Investment accounted for using the equity method

	31 December 2010 HRK	31 December 2009 HRK
Associates:		
Končar – Power transformers ltd, Zagreb	206,871,085	167,853,151
Other associates (indirect):		
Elkakon ltd, Zagreb	1,644,184	1,732,458
Total	**208,515,269**	**169,585,609**

23. Non-current financial assets

	31 December 2010	31 December 2009
Subsidiaries:	HRK	HRK
Končar-Intertrade Sdn, Bhd, Kuala Lumpur, Malaysia	-	252,919
Other subsidiaries		
Končar-Inžinjering d.d., Zagreb	227,787	227,787
Konel d.o.o. Bulgaria	62,280	62,280
Mjerenja d.o.o.,Beograd, Serbia	3,637	3,637
	293,704	293,704
Shares in capital up to 20%		
Novi Fermot d.o.o, Donji Kraljevec	429,300	429,300
Ferokotao d.o.o., Donji Kraljevec	262,016	262,016
Centar proizvodnog strojarstva i analitičarstva d.o.o, Zagreb	110,000	110,000
Bioto plinifikacija	5,000	-
Total	806,316	801,316
Financial assets at fair value through profit and loss		
Shares	2,686,761	2,659,738
Total	2,686,761	2,659,738
Loans granted, deposits and similar	684,626	960,643
	4,471,407	**4,968,320**

24. Non-current receivables

	31 December 2010	31 December 2009
	HRK	HRK
Receivables on the basis of credit sale		
Receivables for sold apartments	9,473,723	16,501,455
Receivables for shares sold	24,216,466	28,203,371
Receivables on the bank guarantees	-	807,931
Loan granted to Railways of Bosnia and Herzegovina	18,691,147	27,189,141
Other loans granted	130,957	149,013
Current portion (see note 28)	(5,250,238)	(6,272,921)
	47,262,055	66,577,990
Other receivables		
Receivables on the basis of foreign sales	6,804,158	6,055,591
Loans granted to employees	3,292,895	3,499,853
Current portion (see note 27, 28)	(855,846)	(529,989)
	9,241,207	9,025,455
	56,503,262	**75,603,445**

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

As at 31 December 2010 value adjustment of long term receivables for sold apartments has been calculated on the basis of net present value of estimated cash flows using the discount rate of 4.9%.

Receivables for sold shares relate to long term receivable for sold shares in subsidiaries Končar-Electronics and Informatics Inc, Končar - Electric Vehicles Inc and Končar-Metalne konstrukcije d.d. within the employee's stock-ownership program and with instalment payments through 10 years.

Loan granted to Railways of Bosnia and Herzegovina Sarajevo matures in July 2013 in accordance with contracted repayment schedule.

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

25. Inventories

	31 December 2010	31 December 2009
	HRK	HRK
Raw and other materials	258,184,200	246,256,813
Spare parts	97,619	64,640
Small inventory	2,247,566	2,166,164
Work in progress	96,249,912	123,408,319
Unfinished products and semi-finished products	61,805,797	69,195,904
Finished products	85,428,778	126,305,704
Merchandise	17,367,743	20,316,115
Goods in transit	1,013,140	3,710,627
Less: Value adjustment of taw materials, spare parts, and small inventory	(38,356,115)	(23,870,664)
Value adjustment of goods in transit	-	(2,237,529)
Value adjustment of work in progress, finished goods and merchandise	(15,799,699)	(12,905,175)
	468,238,941	552,410,918
Advances for inventories		
Domestic advances	5,421,975	13,790,267
Value adjustment	(198,863)	(190,217)
	5,223,112	13,600,050
Foreign advances	8,666,106	14,870,345
Value adjustment	-	(266,864)
	8,666,106	14,603,481
Total advances	13,889,218	28,203,531
Total inventories	**482,128,159**	**580,614,449**

26. Current receivables from related parties

	31 December 2010	31 December 2009
	HRK	HRK
Receivable from associate	111,046,846	86,121,171
	111,046,846	**86,121,171**

27. Current trade accounts receivable

	31 December 2010 HRK	31 December 2009 HRK
Domestic customers	407,353,183	561,108,554
Value adjustment	(22,909,105)	(21,467,893)
Total domestic customers	**384,444,078**	**539,640,661**
Foreign customers	330,810,123	347,000,159
Current portion	208,757	-
Value adjustment	(16,627,452)	(20,539,115)
Total foreign customers	**314,391,428**	**326,461,044**
Total domestic and foreign customers	**698,835,506**	**866,101,705**

As at 31 December 2010 the ageing structure of trade accounts receivable was as follows:

	Total	**Due and collectible**	**Due, but collectible**				
			< 30 days	**30-60 days**	**60-90 days**	**90-120 days**	**> 120 days**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2010	**698,835,506**	341,463,020	181,065,493	47,953,207	13,229,538	29,571,560	85,552,688
2009	**866,101,705**	379,926,058	263,345,481	67,985,222	45,075,488	23,125,620	86,643,836

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

	2010 HRK	2009 HRK
Balance at 1 January	42,007,006	28,749,726
Impaired in the year	5,023,470	19,313,286
Collected in the year	(7,493,919)	(6,056,006)
Balance at 31 December	**39,536,557**	**42,007,006**

28. Other receivables

	31 December 2010 HRK	31 December 2009 HRK
Receivables from the state and other institutions		
Receivables for value added tax	29,032,008	39,113,294
Receivables from Croatian Health Fund	641,270	721,885
Other	954,357	551,215
	30,627,635	40,386,394
Other current receivables		
Receivables for sold apartments	6,664,960	6,016,619
Receivables for shares sold	1,791,546	639,792
Receivables for advances given for services	23,869,193	29,449,118
Receivables for loans granted to employees	-	10,075
Other	1,804,989	9,063,026
Current portions (see note 24)	5,250,238	6,272,921
Current portions	647,089	529,989
	40,028,015	51,981,540
Receivables from employees		
Receivables from employees	1,891,408	1,319,181
Value adjustment	(327,471)	(327,471)
	1,563,937	991,710
Total	**72,219,587**	**93,359,644**

29. Current financial assets

	31 December 2010 HRK	31 December 2009 HRK
Loans granted, deposits and similar	155,489,822	149,620,937
Other	1,709,672	118,393
	157,199,494	**149,739,330**

30. Cash and cash equivalents

	31 December 2010	31 December 2009
	HRK	HRK
Balance at gyro accounts	42,874,907	67,014,141
Balance at accounts in foreign currency	84,971,532	43,827,951
Petty cash	572,852	278,350
Cheques and similar	295,564	367,018
Deposits up to 3 months	299,040,898	191,091,287
Cash funds	150,849,092	7,523,421
Other	1,945,498	404,184
Less: value adjustment	(184,992)	(184,992)
	580,365,351	**310,321,360**

31. Prepaid expenses and accrued income

Prepaid expenses and accrued income amounting to HRK 3,547,985 (31 December 2009: HRK 2,843,799) relate to paid future expenses amounting to HRK 3,009,067 (31 December 2009: HRK 2,756,560) and accrued income in the amount of HRK 538,918 (31 December 2009: HRK 87,239).

32. Non-current assets held for sale

Non-current assets held for sale in the amount of HRK 3,870,959 relates to apartment which is in accordance with the Management's Decision of the company Končar – Switchgears Inc, Sesvetski Kraljevec, held for sale amounting to HRK 754,036 and prototype for wind aggregate 1.2 MW in the amount of HRK 3,116,923 which was at 31 December 2010 reclassified from non-current intangible assets in accordance with the Decision of Supervisory Board of Končar Electrical Industry Inc on the programme of the construction of wind power plant Pometeno brdo and planned increase of capital in the company Renewable energy sources Ltd.

33. Share capital

Share capital is determined in the nominal value amounting to HRK 1,028,847,600 (31 December 2009: HRK 1,028,847,600) and consist of 2,572,119 shares at nominal value of HRK 400.

Ownership structure of the Group was as follows:

Shareholder	**31 December 2010**		**31 December 2009**	
	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (capital fund)	724,515	28.17%	724,515	28.17%
Croatian Privatization Fund /HZMO	384,628	14.95%	384,628	14.95%
Croatian Privatization Fund	260,280	10.12%	278,925	10.82%
RBA d.d. (mutual account)	189,744	7.38%	190,171	7.39%
Societe Generale - Splitska bank/ Allianz for AZ mandatory pension fund	69,694	2.71%	71,501	2.78%
Floričić Kristijan	85,714	3.33%	85,714	3.33%
PBZ d.d. (Bank of New York as custodian)	-	-	77,307	3.01%
Societe Generale - Splitska bank./ Erste Blue mandatory pension fund	167,784	6.52%	146,785	5.71%
Hypo-Alpe-Adria-Bank/ PBZ Croatia Insurance mandatory pension fund	75,497	2.94%	-	-
PBZ d.d. (custodian account)	36,829	1.43%	-	-
Hypo-Alpe-Adria-Bank d.d./Raiffieisen pension company	37,000	1.44%	37,000	1.44%
Other shareholders	540,434	21.01%	551,813	21.45%
Končar Inc (treasury shares)	-	-	24,460	0.95%
	2,572,119	**100.00%**	**2,572,119**	**100.00%**

34. Provisions

	Servicing during warranty periods	Court cases	Jubilee and retirement rewards	Other	**Total**
	HRK	HRK	HRK	HRK	HRK
31 December 2009	**342,783,794**	**146,044,892**	**15,241,223**	**41,978,884**	**546,048,793**
Additional provisions	125,538,407	18,035,857	11,485,077	-	155,059,341
Release of provisions	(86,028,411)	(3,618,539)	(4,826,614)	(27,990,880)	(122,464,444)
31 December 2010	**382,293,790**	**160,462,210**	**21,899,686**	**13,988,004**	**578,643,690**

Provisions for contingent liabilities for issued guarantees for the return of advance amounting to HRK 114,957,270 (2009: HRK 105,069,245) relate to value of advance in HRK amounting to USD 20,645,127 paid to companies of former Rade Končar, which went into bankruptcy. Advances have been received on the basis of agreed projects with Iraq state institutions before the year 1990. For the advances received guarantees have been issued in various currencies, which countervalue in HRK as at 31 December 2010 amounts to HRK 62,670,652 (31 December 2009: HRK 57,243,611). Guarantees in question are in abeyance due to situation in Iraq.

Other provisions for guarantees relate to issued guarantees of subsidiaries within the Group amounting to HRK 267,336,520 (31 December 2009: HRK 237,714,549).

Non-current provisions for court cases in the amount of HRK 160,462,210 (2009: HRK 146,044,892) relates to court cases in progress and contingent costs for court cases led against companies within the Group.

Provisions for jubilee and retirement rewards in the amount of HRK 21,899,686 (2009: HRK 15,241,223) relates to regular compensations to employees (regular retirement and jubilee rewards), and severance payments to Management.

Other non-current provisions amounting to HRK 13,988,004 (2009: HRK 44,978,884) mostly related to personnel costs which could be realised on the basis of vested rights of share based payment options of the Group (HRK 11.5 million). On the basis of Agreement of rights, obligations and salaries, President and Members of the Management Board earned the option rights in previous accounting periods (from 1 January 1999 until 31 December 2010) to purchase 83,439 shares of the parent company. During the year 2010 the right on purchase of 27,583 own shares has been realized. Vested rights can be realised until 18 January 2014.

35. Non-current liabilities

	31 December 2010 HRK	31 December 2009 HRK
Liabilities for loans, deposits and similar	2,380,000	2,890,000
Less: Current portion (note 37)	(765,000)	(510,000)
Total	1,615,000	2,380,000
Liabilities toward banks	125,298,944	120,089,751
Less: Current portion (note 38)	(45,614,521)	(48,061,529)
Total	79,684,423	72,028,222
Other non-current liabilities	-	2,505,652
Less: Current portion	-	(1,494,762)
Total	-	1,010,890
Total	**81,299,423**	**75,419,112**

Significant long-term arrangements between banks and the companies within Končar group have been as follows:

- Long-term loan in foreign currency has been granted by Zagrebačka Bank to the subsidiary KONČAR – Electrical vehicles Inc in 2007 for the purpose of financing the Contract for main repairs and modernization of 14 electrical locomotives for Railway of Bosnia and Herzegovina. Usage of the loan is on the basis of revolving principle un to total granted amount of EUR 7 million, with the interest rate of 3-month EURIBOR plus 4% per annum, variable. Loan is repayable in instalments and the last instalment is due until 30 May 2014. Mortgage over the real estates has been registered as a collateral in the amount of EUR 7 million.

- Croatian bank for the reconstruction and development (CBRD) has granted long-term loan to the Company KONČAR-Power plant and Electric Traction Engineering Inc which this company has took over on behalf of the Clinical hospital Mostar while the final payer of this liability is a Ministry of health and social care of the Republic of Croatia. Loan agreement has been signed on 10 October 2008 between the company in the amount of EUR 1,447 thousand. Loan is repayable within 5 years and the interest rate amounts to 6-month EURIBOR plus margin of 2% per annum. Collateral for the loan (beside the concession agreements) are bills of exchange and debentures.
- Raiffeisen Bank Austria d.d., Zagreb granted two loans from the development programme run by CBRD to the company Končar – Distribution and special transformers Inc amounting to HRK 15 million with currency clause and EUR 1 million, respectively, with interest rate amounting to 4% per annum. Due date for both loans is 31 December 2014. Collateral for the loans are mortgage over the real estates and movables in the amount of EUR 28.2 million.
- Loan from Zagrebačka Bank is granted to the company Končar-Instrument transformers Inc bearing the interest 5% insured by the mortgage over the real estates of that company in the amount of HRK 19 million.
- The company Končar – Household appliances ltd has concluded on 16 June 2010 Agreement on club loan in HRK with banks Privredna bank Zagreb and CBRD in accordance with A financing model. Loan is granted in the principal amount of HRK 15 million for the purpose of payment of current liabilities. Interest rate on Privredna bank's share is defined as a yield on treasury bills of the Ministry of finance payable within 91 days plus 2.4% per annum, and on CBRD's share 3.8% per annum, fixed. Due date is on 30 June 2013. Collateral is 1 blank accepted own bill of exchange of that company and of the parent company Končar – Electrical industry Inc, 1 debenture of the company and parent company Končar-Electrical Industry Inc, separately for PBZ's share and CBRD's share.
- As a collateral for the loan granted by Centar Bank to the company Končar - Metalne konstrukcije d.d. mortgage in bank’s favour over the real estate of that company in the amount of HRK 16.5 million.

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

	31 December 2010 HRK
31 December 2009	2,380,000
Repayment of loans	-
Less: current portion	(765,000)
31 December 2010	**1,615,000**

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

	31 December 2010
	HRK
From 2 to 5 years	1,615,000
	1,615,000

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

	31 December 2010
	HRK
31 December 2009	120,089,751
New loans	46,583,880
Repayment of loans	(42,064,331)
Foreign exchange gains/losses	689,644
Less: current portion	(45,614,521)
31 December 2010	**79,684,423**

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

	31 December 2010
	HRK
From 2 to 5 years	77,043,905
More than 5 years	2,640,518
	79,684,423

36. Current liabilities toward related parties

	31 December 2010	31 December 2009
	HRK	HRK
Associates		
Liabilities for loans received	6,877,160	28,219,344
Other liabilities	6,298,034	970,304
	13,175,194	**29,189,648**

37. Current liabilities for loans, deposits and similar

	31 December 2010	31 December 2009
	HRK	HRK
Current portion of long-term loans	765,000	510,000
	765,000	**510,000**

38. Current liabilities toward banks and other financial institutions

	31 December 2010 HRK	31 December 2009 HRK
Liabilities toward banks and other financial institutions	102,413,703	150,131,616
Plus: Current portion (note 35)	45,614,521	48,061,529
	148,028,224	**198,193,145**

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

	31 December 2010 HRK
31 December 2009	198,193,145
New loans	43,354,903
Repayment of loans	(140,264,422)
Foreign currency gains/losses	1,130,077
Plus: current portion of long-term loans	45,614,521
31 December 2010	**148,028,224**

Significant short-term agreements between banks and certain companies within Končar group are were as follows:

- Loan from Zagrebačka Bank has been granted to the company Končar Generators and motors Inc bearing the interest rate of 5.9% (2009: 7.95%). It is used on a revolving principle, up to maximum amount of HRK 30 million in 2010. Collateral for the loan is: 3 blank bills of exchange, 1 debenture and mortgage over the real estate.

- To the company Končar Electrical vehicles Inc revolving loan has been granted for the export from funds of Croatian Bank for Reconstruction and Development for the purpose of financing of the Contract for the production and delivery of one four-part regional electromotor train for Bosnia and Herzegovina, with variable interest rate of 5% per annum. Loan, which amounts to HRK 30 million, is repayable until 15 January 2011, the latest. Mortgage over the real estates in the amount of HRK 30 million is registered in bank's favour.

- Three loans have been grated to the company Končar – Instrument transformers Inc by the banks Erste bank, PBZ bank and Zagrebačka Bank (HRK 10, 15 and 10 million) bearing the interest rate of 5%. For the loan granted by Zagrebačka Bank is secured by the mortgage over the real estates of that company.

- Two loans have been granted to the company Končar Household appliances ltd from Privredna Bank Zagreb (initially for the amount of HRK 20 million). By the annexes to the agreements loan amount is decreased to the amount of HRK 10 million. Interest rate amounts to 5% per annum, variable. Loan is secured by 1 blank accepted own bill of exchange and 1 debenture of that company and parent company Končar Electrical industry Inc.

39. Current trade accounts payable

	31 December 2010 HRK	31 December 2009 HRK
Domestic suppliers	233,761,556	268,210,179
Foreign suppliers	118,995,197	136,699,013
Liabilities for un-invoiced goods	5,263,460	13,594,256
	358,020,213	**418,503,448**

40. Current liabilities for advances

	31 December 2010 HRK	31 December 2009 HRK
From domestic customers	30,414,981	80,293,183
From foreign customers	149,782,529	117,648,705
	180,197,510	**197,941,888**

41. Other current liabilities

	31 December 2010 HRK	31 December 2009 HRK
Liabilities to the state and other institutions		
Liability for value added tax	7,275,204	8,525,032
Liabilities for contributions and taxes on and from salary	26,459,474	39,575,621
Other liabilities	174,189	89,157
	33,908,867	**48,189,810**
Current other liabilities		
Interests payable	2,786,654	1,684,814
Other liabilities	6,617,263	2,928,964
Plus: Current portion	-	1,494,762
	9,403,917	**6,108,540**
Current liabilities toward employees		
Net salaries	24,783,656	28,166,041
Liabilities for severance pay	8,000	1,053,750
Liabilities toward Management Board for bonuses	3,075,798	2,742,862
Liabilities to shareholders	-	435,950
Other liabilities	256,281	624,831
	28,123,735	**33,023,434**
Total	**71,436,519**	**87,321,784**

42. Accrued expenses and deferred income

	31 December 2010 HRK	31 December 2009 HRK
Deferred payment of corporate income tax	568,012	810,179
Accrued expenses	17,167,738	13,392,143
Deferred income	47,255,513	77,553,844
Current provisions	1,500,000	6,138,509
	66,491,263	**97,894,675**

43. Risk management

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

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

a) Capital risk management

The Group manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt to equity balance. The Group manages capital and for the purpose of proper capital structure, in accordance with the economic conditions present on the market, is makes appropriate adjustments. The Group can make a decision if the retained earnings should be distributed to shareholders, if the capital needs increase or decrease, if the assets should be sold in order to decrease liabilities and similar. Goals, policies and processes have not been changed during the period ending 31 December 2010 nor for the period ending 31 December 2009.

	31 December 2010 HRK'000	31 December 2009 HRK'000
Interest bearing liabilities	230,092	273,111
Decrease for cash and cash equivalents (deposits)	(580,365)	(310,321)
Net debt	-	-

b) Significant accounting policies

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

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

2010

	Loans and receivables	At fair value through P&L	Available for sale	Held to maturity	Total assets classified per IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2010					
Long-term financial assets	1,803	2,608	60	-	**4,471**
Non-current receivables	56,503	-	-	-	**56,503**
Current financial assets	157,199	-	-	-	**157,199**
Trade and other receivables	886,055	-	-	-	**886,055**
Cash and cash equivalents	429,516	150,849	-	-	**580,365**
Total	**1,531,076**	**153,457**	**60**	**-**	**1,684,593**

2009

	Loans and receivables	Fair value through P&L	Available for sale	Held to maturity	**Assets classified per IAS 39**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2009					
Long-term financial assets	1,787	2,595	40	-	**4,422**
Non-current receivables	75,603	-	-	-	**75,603**
Current financial assets	149,739	-	-	-	**149,739**
Trade and other receivables	1,052,996	-	-	-	**1,052,996**
Cash and cash equivalents	310,321	-	-	-	**310,321**
Total	**1,590,446**	**2,595**	**40**	**-**	**1,593,081**

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

Fair value of financial instruments

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

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

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

31 December 2010

	Level 1	Level 2	Level 3	**Total**
Financial assets				
Listed securities	2,608	-	-	2,608
Cash funds	150,849	-	-	150,849
Total	**153,457**	**-**	**-**	**153,457**

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

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

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

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

c) Financial risk

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

<u>Market risk</u>

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

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

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

<u>a) Foreign currency risk management</u>

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

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

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

2010	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Trade receivables	332,580	5,846	33,557	371,983	326,853	698,836
Other receivables	36,341	651	2,323	39,315	36,856	76,171
Deposits up to 3 months	155,190	-	-	155,190	-	155,190
Cash and cash equivalents	219,719	2,997	80,318	303,034	277,331	580,365
	743,830	**9,494**	**116,198**	**869,522**	**614,040**	**1,510,562**
Trade payables	(157,321)	(1,013)	(8,052)	(166,386)	(191,634)	(358,020)
Other liabilities	(134,429)	(5,719)	(3,629)	(143,777)	(111,775)	(255,552)
Loan liabilities	(57,661)	-	(75,159)	(132,820)	(97,273)	(230,093)
Deferred income	(7,979)	(5,084)	-	(13,063)	(53,428)	(66,491)
	(357,390)	**(11,816)**	**(86,840)**	**(456,046)**	**(454,110)**	**(910,156)**

Notes to the consolidated financial statements (continued)

2009	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Trade receivables	374,471	1,366	18,364	394,201	471,901	866,102
Other receivables	38,434	486	66	38,986	61,787	100,773
Deposits up to 3 months	153,129	-	-	153,129	-	153,129
Cash and cash equivalents	75,849	3,629	68,323	147,801	162,520	310,321
	641,883	**5,481**	**86,753**	**734,117**	**696,208**	**1,430,325**
Trade payables	(193,884)	(1,882)	(4,632)	(200,398)	(218,105)	(418,503)
Other liabilities	(100,459)	(5,227)	(4,376)	(110,062)	(177,270)	(287,332)
Loan liabilities	(80,746)	(3,873)	(62,224)	(146,843)	(126,268)	(273,111)
Deferred income	-	(6,107)	-	(6,107)	(91,788)	(97,895)
	(375,089)	**(17,089)**	**(71,232)**	**(463,410)**	**(613,431)**	**(1,076,841)**

	Short-term exposure			**Long-term exposure**		
	EUR	USD	Other currencies	EUR	USD	Other currencies
	HRK	HRK	HRK	HRK	HRK	HRK
2010						
Financial assets	683,343	9,494	115,348	61,092	-	850
Financial liabilities	(326,910)	(11,816)	(11,644)	(30,480)	-	(75,196)
Total exposure	**356,433**	**(2,322)**	**103,704**	**30,612**	**-**	**(74,346)**
2009						
Financial assets	586,719	5,481	86,753	55,164	-	-
Financial liabilities	(323,965)	(17,010)	(9,008)	(51,124)	(79)	(62,224)
Total exposure	**262,754**	**(11,529)**	**77,745**	**4,040**	**(79)**	**(62,224)**

Sensitivity analysis

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

	2010 Effect on income before taxes HRK'000	2009 Effect on income before taxes HRK'000
EUR (1%)	750	1,763
USD (9%)	1,315	1,277
Other currencies	3,486	2,060

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

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

b) Interest rate risk

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

The following table shows sensitivity of changes of interest rates relating to Group's loans as of 31 December 2010 and 31 December 2009, with the assumptions that all other variables are constant, on income before taxes.

2010	**Increase/ decrease in percentage**	**Effect on income before taxes HRK'000**
HRK	+1%	(1,956)
HRK	-1%	1,956

2009	**Increase/ decrease in percentage**	**Effect on income before taxes HRK'000**
HRK	+1%	(2,216)
HRK	-1%	2,216

Credit risk

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

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

Liquidity risk

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

The following table shows the maturity of financial liabilities of the Group at 31 December 2010 according to the contracted non-discounted payments:

	Carrying value	Contracted cash flows	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years
31 December 2010	HRK	HRK	HRK	HRK	HRK	HRK
Current advances received	187,075	187,075	111,515	75,560	-	-
Trade creditors	358,020	358,020	267,907	81,755	8,358	-
Other current liabilities	81,652	81,652	67,315	14,337	-	-
Interest-bearing loans	230,093	238,381	54,044	93,288	89,917	1,132
	856,840	**865,128**	**500,781**	**264,940**	**98,275**	**1,132**

	Carrying value	Contracted cash flows	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years
31 December 2009	HRK	HRK	HRK	HRK	HRK	HRK
Current advances received	226,161	226,161	149,515	76,646	-	-
Trade creditors	418,503	418,503	299,268	119,235	-	-
Other current liabilities	90,360	90,360	25,937	64,423	-	-
Interest-bearing loans	273,111	296,272	59,605	161,166	72,960	2,541
	1,008,135	**1,031,296**	**534,325**	**421,470**	**72,960**	**2,541**

44. Segment reporting

2010	**Industry**	**Energetic and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	101,651,251	1,968,102,227	173,396,234	66,433,975	481,943	12,011,721	2,322,077,351
Sale to related companies	15,379,733	319,195,602	5,936,561	106,550,682	51,900,283	(356,222,506)	142,740,355
Other operating income	3,001,379	125,374,246	5,660,853	11,281,483	27,424,426	-	172,742,387
Total operating revenues	120,032,363	2,412,672,075	184,993,648	184,266,140	79,806,652	(344,210,785)	2,637,560,093
Total operating expenses	(123,223,303)	(2,314,036,482)	(208,858,987)	(174,568,372)	(162,079,789)	413,837,508	(2,568,929,425)
Operating profit/(loss)	(3,190,940)	98,635,593	(23,865,339)	9,697,768	(82,273,137)	69,626,723	68,630,668
Financial result	1,327,717	(637,948)	(2,573,671)	(568,086)	143,788,226	(8,321,832)	133,014,406
Profit/(loss) before taxation	**(1,863,223)**	**97,997,645**	**(26,439,010)**	**9,129,682**	**61,515,089**	**61,304,891**	**201,645,074**
Corporate income tax	(866,167)	(14,236,704)	-	(506,302)	-	-	(15,609,173)
Net profit/(loss)for the year	**(2,729,390)**	**83,760,941**	**(26,439,010)**	**8,623,380**	**61,515,089**	**61,304,891**	**186,035,901**
Non-controlling interests	-	-	-	-	-	-	31,060,318
Profit for the Group	-	-	-	-	-	-	**154,975,583**
Non-current assets	38,336,751	375,947,468	141,214,976	56,158,448	1,149,126,978	(577,800,071)	1,182,984,550
Current assets	80,980,171	1,625,568,624	133,516,406	150,759,675	399,041,521	(276,700,968)	2,113,165,429
Total assets	**119,316,922**	**2,001,516,092**	**274,731,382**	**206,918,123**	**1,548,168,499**	**(854,501,039)**	**3,296,149,979**
Total liabilities	**31,648,873**	**1,318,489,801**	**97,391,351**	**48,335,068**	**291,536,763**	**(285,427,236)**	**1,501,974,620**

Notes to the consolidated financial statements (continued)

2009	**Industry**	**Energetic and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	92,968,274	2,216,145,433	179,576,883	97,594,276	483,884	(20,667,015)	2,566,101,735
Sale to related companies	11,655,062	439,372,797	10,236,916	94,841,340	55,629,889	(502,699,822)	109,036,182
Other operating income	4,230,298	80,893,229	15,792,870	8,348,418	22,697,687	(11,419,943)	120,542,559
Total operating revenues	108,853,634	2,736,411,459	205,606,669	200,784,034	78,811,460	(534,786,780)	2,795,680,476
Total operating expenses	(113,304,494)	(2,627,155,375)	(227,728,018)	(195,068,728)	(127,022,630)	529,690,128	(2,760,589,117)
Operating profit/(loss)	(4,450,860)	109,256,084	(22,121,349)	5,715,306	(48,211,170)	(5,096,652)	35,091,359
Financial result	2,561,754	(6,961,402)	(3,179,272)	3,029,428	113,401,632	14,433,691	123,285,831
Profit/(loss) before taxation	**(1,889,106)**	**102,294,682**	**(25,300,621)**	**8,744,734**	**65,190,462**	**9,337,039**	**158,377,190**
Corporate income tax	(1,000,751)	(11,786,273)	-	(476,999)	-	-	(13,264,023)
Net profit/(loss)for the year	**(2,889,857)**	**90,508,409**	**(25,300,621)**	**8,267,735**	**65,190,462**	**9,337,039**	**145,113,167**
Non-controlling interests	-	-	-	-	-	-	32,290,251
Profit for the Group	-	-	-	-	-	-	**112,822,916**
Non-current assets	40,250,387	404,965,690	154,100,209	56,361,567	1,117,460,492	(599,652,573)	1,173,485,772
Current assets	80,117,106	1,727,594,322	164,324,748	154,054,120	372,426,431	(401,248,129)	2,097,268,598
Total assets	**120,367,493**	**2,132,560,012**	**318,424,957**	**210,415,687**	**1,489,886,923**	**(1,000,900,702)**	**3,270,754,370**
Total liabilities	**29,970,054**	**1,559,696,662**	**114,645,916**	**60,822,501**	**295,595,806**	**(407,639,849)**	**1,653,091,090**

Sales by the regions was as follows:

	2010		2009	
	HRK'000	**%**	**HRK'000**	**%**
Croatia	**1,119,872**	**45%**	**1,443,485**	**54%**
Countries in European Union	654,873	26.6%	591,193	22.1%
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	238,167	9.7%	197,064	7.4%
Other European countries	12,305	0.5%	14,807	0.6%
Middle East	111,568	4.5%	147,798	5.5%
Asia	123,384	5.0%	89,824	3.4%
America and Australia	27,760	1.1%	46,559	1.7%
Other countries	176,889	7.2%	144,408	5.4%
Total export	**1,344,946**	**55%**	**1,231,653**	**46%**
Total	**2,464,818**	**100%**	**2,675,138**	**100%**

45. Off-balance sheet items

Off-balance sheet items of the Group amounting to HRK 2,009 million (u 2009: HRK 2,094 million) mostly relate to the issued collateral (guarantees, bills of exchange, debentures), solidarity guarantees, liabilities toward the state for apartments sold to employees (65%) and similar.

46. Contractual liabilities

Group's contractual liabilities on the basis of unfinished projects as at 31 December 2010 amount to HRK 2,233 million (31 December 2009: HRK 2,458 million).

47. Subsequent events

After the balance sheet date and until the approval date of these consolidated financial statements there were no events that would significantly influence the financial statements of the Group as at 31 December 2010.

48. Preparation and the approval of the consolidated financial statements

The consolidated financial statements presented on the pages above have been prepared and approved by the Group's Management Board as at 18 March 2011.

Signed on a behalf of the Group:

Darinko Bago,

President of the Management Board

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