KONČAR – ELECTRICAL INDUSTRY GROUP

Consolidated financial statements as at 31 December 2011
together with the Independent Auditor's report

Content

Responsibility for the consolidated financial statements

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

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

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

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

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

Signed on a behalf of Management Board:

Darinko Bago, president of the Management Board

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

20 March 2012

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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 2011, 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 59.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 2011 and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards endorsed for use in the European Union.

Grant Thornton revizija d.o.o.
Koranska 16, 10000 Zagreb
Ivica Smiljan, certified auditor
Zagreb, 20 March 2012

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

Consolidated statement of comprehensive income

	Notes	2011 HRK	2010 HRK
Sales	3	2,362,201,504	2,464,817,706
Other operating income	4	182,814,611	172,742,387
Operating revenues		**2,545,016,115**	**2,637,560,093**
Changes in inventories (work in progress and finished goods)		(25,609,518)	(74,603,310)
Cost of materials and energy	5	(1,178,145,329)	(1,132,606,393)
Cost of goods sold		(108,707,565)	(116,812,449)
Cost of services	6	(322,428,129)	(348,802,731)
Personnel costs	7	(474,922,769)	(485,168,355)
Depreciation and amortization	8	(75,770,261)	(76,716,868)
Other costs	9	(203,963,467)	(129,235,040)
Value adjustments	10	(23,398,038)	(37,577,078)
Provisions	11	(70,672,386)	(159,018,123)
Other operating expenses	12	(10,930,061)	(8,389,078)
Operating expenses		**(2,494,547,523)**	**(2,568,929,425)**
Operating profit		**50,468,592**	**68,630,668**
Share of the profit of associate accounted for using the equity method	13	133,670,740	114,015,279
Financial income	14	84,276,570	74,716,332
Financial expenses	15	(57,596,141)	(55,717,205)
Financial result		**160,351,169**	**133,014,406**
Profit before taxation		**210,819,761**	**201,645,074**
Corporate income tax	16	(18,582,074)	(15,609,173)
PROFIT FOR THE YEAR		**192,237,687**	**186,035,901**
Profit for the year attributable to:			
Owners of the parent		162,441,709	154,975,583
Non-controlling interest		29,795,978	31,060,318
Earnings per share			
Basic earnings per share in HRK	17	63.15	60.25
Diluted earnings per share in HRK	17	63.39	60.25
Net profit for the year		**192,237,687**	**186,035,901**
Other comprehensive income:			
Exchange differences on translating foreign operations		199,297	1,311,326
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**192.436.984**	**187,347,227**
Total comprehensive income for the year attributable to:			
Owners of the parent		162,641,006	155,831,108
Non-controlling interest		29,795,978	31,516,119

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

Consolidated statement of financial position

	Notes	31/12/2011 HRK	31/12/2010 HRK
ASSETS			
Goodwill	18	7,503,528	7,040,919
Intangible assets	19	25,196,312	18,495,072
Property, plant and equipment	20	922,616,808	794,109,011
Investment property	21	94,603,651	93,849,610
Investment accounted for using the equity method	22	242,567,251	208,515,269
Financial assets	23	9,513,672	4,471,407
Receivables	24	41,865,654	56,503,262
Non-current assets		**1,343,866,876**	**1,182,984,550**
Inventories	25	511,923,148	482,128,159
Receivables from related companies	26	19,467,234	111,046,846
Trade accounts receivable	27	831,778,713	698,835,506
Receivable for corporate income tax		1,125,265	3,951,542
Other receivables	28	80,560,089	72,219,587
Financial assets	29	376,970,323	157,199,494
Cash and cash equivalents	30	319,420,075	580,365,351
Current assets		**2,141,244,847**	**2,105,746,485**
Prepaid costs and accrued income	31	9,711,305	3,547,985
Non-current assets held for sale	32	912,047	3,870,959
TOTAL ASSETS		**3,495,735,075**	**3,296,149,979**
Off-balance sheet items		**2,212,151,466**	**2,027,679,403**
EQUITY AND LIABILITIES			
Share capital	33	**1,028,847,600**	**1,028,847,600**
Capital reserves		**719,579**	**719,579**
Legal reserves		17,762,375	13,150,803
Statutory reserves		146,257,985	121,706,437
Other reserves		79,136,457	66,283,268
Reserves from earnings		**243,156,817**	**201,140,508**
Retained earnings		**277,566,082**	**194,104,351**
Profit for the current year		**162,441,709**	**154,975,583**
Non-controlling interest		**224,477,040**	**214,387,740**
TOTAL EQUITY		**1,937,208,827**	**1,794,175,361**
Provisions for warranty costs		399,299,269	382,293,790
Other provisions		108,934,237	196,349,900
Provisions	34	**508,233,506**	**578,643,690**
Liabilities for loans, deposits and similar		1,020,000	1,615,000
Liabilities toward banks and other financial institutions		119,188,139	79,684,423
Non-current liabilities	35	**120,208,139**	**81,299,423**
Liabilities toward related companies	36	6,899,329	13,175,194
Liabilities for loans, deposits and similar	37	680,000	765,000
Liabilities toward banks and other financial institutions	38	135,938,301	148,028,224
Trade accounts payable	39	403,671,321	358,020,213
Liabilities for corporate income tax		3,273,228	3,917,582
Liabilities for advances received	40	202,109,680	180,197,510
Other liabilities	41	79,901,516	71,436,519
Current liabilities		**832,473,375**	**775,540,242**
Accrued expenses and deferred income	42	97,611,228	66,491,263
TOTAL EQUITY AND LIABILITIES		**3,495,735,075**	**3,296,149,979**
Off-balance sheet items		**2,212,151,466**	**2,027,679,403**

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

Consolidated statement of cash flows

	Notes	2011 HRK	2010 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		2,602,460,347	2,834,812,367
Cash receipts from insurance compensations		11,825,977	6,274,878
Cash receipts from tax returns		170,852,614	154,549,872
Cash receipts from interests		22,804,686	22,922,389
Other cash receipts		57,728,221	54,505,237
Total cash receipts from operating activities		**2,865,671,845**	**3,073,064,743**
Cash payments to trade accounts payable		(1,985,748,787)	(1,864,804,673)
Cash payments to employees		(576,378,659)	(560,288,420)
Cash payments to insurance companies		(11,048,500)	(10,877,133)
Cash payments for interests		(12,222,808)	(13,923,825)
Cash payments for taxes		(159,142,278)	(180,046,948)
Other cash payments		(198,408,928)	(125,078,646)
Total cash payments for operating activities		**(2,942,949,960)**	**(2,755,019,645)**
Net cash flow from operating activities		**(77,278,115)**	**318,045,098**
Cash flow from investing activities			
Receipts from the sale of non-current tangible and intangible assets		3.501.658	2,999,245
Cash receipts from the sale of financial instruments		3,576,020	7,076,566
Receipts from dividends		177,720,400	64,646,202
Total cash inflow from investing activities		**184,798,078**	**74,722,013**
Purchase of non-current tangible and intangible assets		(69.605.474)	(49,955,772)
Purchase of financial instruments		(5.598.423)	(2,668,809)
Other cash payments for investing activities		(1,675,552)	-
Total cash outflows for investing activities		**(76,879,449)**	**(52,624,581)**
Net cash from investing activities		**107,918,629**	**22,097,432**
Cash flow from financing activities			
Cash receipts from loans and borrowings		104,897,529	88,187,843
Other cash receipts from financing activities		179,257,808	99,649,532
Total cash receipts from financing activities		**284,155,337**	**187,837,375**
Repayment of loans and bonds		(79,731,208)	(134,730,732)
Dividends paid out		(40,616,324)	(17,196,110)
Purchase of treasury shares		(687,701)	-
Other cash outflows for financing activities		(454,705,895)	(106,009,072)
Total cash outflow for financing activities		**(575,741,128)**	**(257,935,914)**
Net cash used in financing activities		**(291,585,791)**	**(70,098,539)**
Increase (decrease) of cash		**(260,945,277)**	**270,043,991**
Cash and cash equivalents at the beginning of the year	30	580,365,350	310,321,360
Cash and cash equivalents at the end for the year	30	**319,420,073**	**580,365,351**

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

Consolidated statement of changes in equity

	Share capital HRK	Capital reserves HRK	Reserves from earnings HRK	Reserves for treasury shares HRK	Treasury shares HRK	Retained earnings HRK	Profit for the year HRK	Non-controlling interest HRK	Total HRK
As at 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**
Transaction with owners:									
Correction of opening balances	-	-	-	-	-	-513,979	-	72,687	**-441,292**
Allocation of the profit for 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*
As 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**
Transaction with owners:									
Correction of opening balances	-	-	-	-	-	-	1,744	718,408	**720,152**
Allocation of the profit for 2010	-	-	36,753,252	10,000,000	-	108,224,075	(154,977,327)	-	-
Dividends	-	-	-	-	-	(30,649,660)	-	(18,035,489)	**(48,685,149)**
Realisation of reserves	-	-	(500,916)	-	-	-	-	(467,751)	**(968,667)**
Share based payments	-	-	5,561,277	(13,127,200)	3,127,200	5,173,689	-	-	**734,966**
Purchase of treasury shares	-	-	-	6,972,800	(6,972,800)	-	-	-	-
Change in ownership	-	-	-	-	-	717,026	-	(1,921,846)	**(1,204,820)**
Profit for the year	-	-	-	-	-	-	162,441,709	29,795,978	**192,237,687**
Other comprehensive income									
Exchange differences on translating foreign operations	-	-	202,696	-	-	(3,399)	-	-	**199,297**
Total comprehensive income	-	-	*202,696*	-	-	*(3,399)*	*162,441,709*	*29,795,978*	*192,436,984*
As at 31 December 2011	**1,028,847,600**	**719,579**	**243,156,817**	**3,845,600**	**(3,845,600)**	**277,566,082**	**162,441,709**	**224,477,040**	**1,937,208,827**

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

1. General data on the Group

1.1. Activities

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

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

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

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

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

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

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

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

As at 31 December 2011 the Group had 3,956 employees, while as at 31 December 2010 the Group had 3,938 employees.

Members of the Supervisory Board from 28 July 2011:

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

Members of the Supervisory Board till 28 July 2011:

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

Members of the Management Board

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

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

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

2. Summary of significant accounting policies

2.1 Basis for preparation

Statement of compliance

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

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

The accounting policies have been consistently applied. The financial statements for the year 2011 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 2011, the exchange rate for USD 1 and EUR 1 was HRK 5.82 and HRK 7.53, respectively (31 December 2010: HRK 5.57 and HRK 7.38 respectively).

Standards, Amendments and Interpretations issued by IASB, adopted by the European Union and Croatian Board for Financial Reporting Standards and effective

During the year 2011 the Group has adopted new International Financial Reporting Standards and their interpretations. The application of new standards had no effect on financial position and result of the Group and presented comparative information upon request. The adoption of amended standards had no effect on the equity as at 1 January 2011:

- 2010 Annual Improvements to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 – effective for annual periods beginning on or after 1 January 2011,
- 2010 Annual improvements to IFRSs – amendments of transitional requirements to IAS 21, IAS 28, IAS 31, IAS 32 and IAS 39 – effective for annual periods beginning on or after 1 January 2011,
- IAS 24 Related parties (amended) - effective for annual periods beginning on or after 1 January 2011,
- IFRS 1 First time adoption of IFRS – limited exemption from comparative IFRS 7 disclosures for first-time adopters (amended) – effective for annual periods beginning on or after 1 January 2011,
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - amendments effective for annual period beginning on or after 1 January 2011,
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 January 2011).

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the year ended 31 December 2011:

- IFRS 9 Financial Instruments – new standard effective for annual periods beginning on or after 1 January 2015,
- IFRS 10 Consolidated financial statements – new standard effective for annual periods beginning on or after 1 January 2013,
- IFRS 11 Joint arrangements – new standard effective for annual periods beginning on or after 1 January 2013,
- IFRS 12 Disclosure of interests in other entities – new standard effective for annual periods beginning on or after 1 January 2013,
- IAS 27 and IAS 28 – consequential amendments due to above mentioned new consolidation standards - effective for annual periods beginning on or after 1 January 2013,
- IFRS 13 – Fair value measurement - new standard effective for annual periods beginning on or after 1 January 2013,
- IAS 1 Presentation of Financial Statements (revised) - amendments effective for annual periods beginning on or after 1 July 2012,
- IAS 19 Employee benefits (revised) – amendments effective for annual periods beginning on or after 1 January 2013,
- IAS 32 – Financial instruments: Presentation – amendments to application guidance on the offsetting of financial assets and financial liabilities – effective for annual periods beginning on or after 1 January 2014,
- IFRS 1 First time adoption of IFRS – replacement of fixed dates for certain exceptions – effective for annual periods beginning on or after 1 July 2011,
- IFRS 1 First time adoption of IFRS – additional exemptions for entities ceasing to suffer from severe hyperinflation – effective for annual periods beginning on or after 1 July 2011,
- IFRS 7 Financial instruments: Disclosures – amendments effective for annual periods beginning on or after 1 July 2011 or 1 January 2013,
- IFRS 7 Financial instruments: Disclosures – amendments requiring disclosures about the initial application of IFRS 9 effective for annual periods beginning on or after 1 January 2015,
- IAS 12 Income taxes (revised) – limited scope amendment effective for annual periods beginning on or after 1 January 2012.

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 an initial cost for the investment into associate company.

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

2.3 Investments in associates and joint ventures

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

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

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

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

Investments in joint venture are accounted for by using the equity method.

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 finished products are recognized when all of the following conditions have been met:

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

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

2.6 Financial revenues and expenses

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

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

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

2.7 Construction contracts

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

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

2.8 Leases

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

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

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

2.9 Borrowing costs

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

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

2.10 Transaction in foreign currency

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

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

2.11 Taxation

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

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

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

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

2.12 Earnings per share

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

2.13 Transactions with related parties

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

2.14 Segment information

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

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

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

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

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

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

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

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

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

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

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

Impairment of property, plant and equipment

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

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

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

Recoverable amounts are determined as follows:

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

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

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

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

2.16 Investment property

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

2.17 Non-current assets held for sale

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

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

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

2.18 Financial assets and financial liabilities

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

Financial assets are classified into the following categories:

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

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

Impairment of financial assets

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

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

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

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

De-recognition of financial assets

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

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

Financial liabilities and equity instruments

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 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.

<u>Financial guarantee of a contractual obligation</u>

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.

<u>Financial liabilities at fair value through profit and loss</u> 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.

<u>Other financial liabilities – including loans, initially are measured </u>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.

<u>De-recognition of financial liabilities</u>

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

2.19 Inventories

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

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

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

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

2.20 Receivables

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

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

2.21 Cash and cash equivalents

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

2.22 Received loans

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

2.23 Government grants

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

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

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

2.24 Provisions

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

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

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

2.25 Employee benefits

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

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

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

2.26 Contingent assets and liabilities

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

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

2.27 Subsequent events

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

2.28 Comparatives and reclassifications

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

2.29 Subsidiaries

	31 December 2011		31 December 2010	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Consolidated subsidiaries registered in Croatia:				
Končar – Household Appliances Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Small Electrical Machines Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Power Plant and Electric Traction Engineering Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Infrastructure and Services Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Institute for Electrical Engineering Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Low Voltage Switches and Circuit Breakers Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Generators and Motors Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar – Tools Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Catering Equipment Inc, Zagreb	100.00	100.00	100.00	100.00
Končar – Renewable Sources Ltd, Zagreb	100.00	100.00	100.00	100.00
Direct ownership	*78.11*	*78.11*	*100.00*	*100.00*
Indirect ownership	*21.89*	*21.89*	-	-
Končar – Electrical Vehicles Inc, Zagreb	75.04	75.04	75.04	75.04
Končar – Metal Structures Inc., Zagreb	75.01	75.01	75.01	75.01
Končar – Electronics and Informatics Inc, Zagreb	75.03	75.03	75.03	75.03
Končar – Switchgear Inc, Sesvetski Kraljevec	45.71	66.85	45.71	66.85
Končar – Medium Voltage Apparatus Inc, Zagreb	41.77	69.87	41.77	69.87
Končar – Instrument Transformers Inc, Zagreb	43.53	72.35	43.40	72.35
Končar – Distribution and Special Transformers Inc, Zagreb	51.71	67.80	51.71	67.80
Končar – High Voltage Switchgear Inc, Zagreb	84.42	88.02	81.19	85.19
Končar – Engineering for Plant Installation & Commissioning Inc, Zagreb	38.49	76.51	38.49	76.51
Consolidated subsidiary registered abroad:				
Kones AG, Zurich, Switzerland	100.00	100.00	64.00	77.50
Non-consolidated subsidiaries:				
Konell d.o.o., Sofia, Bulgaria	85.00	85.00	85.00	85.00
Končar-Inženjering d.d., Zagreb*	100.00	100.00	100.00	100.00
Mjerenja d.o.o., Beograd*, Serbia	100.00	100.00	100.00	100.00

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

*companies in indirect ownership by the Company

Associates:

	31 December 2011	31 December 2010
	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 by the Company

Joint venture – company TBEA Končar Instrument Transformers Ltd. in China is not accounted for by using equity method since it is not significant on the Group level.

3. Sales

	2011 HRK	2010 HRK
Domestic sales of goods	966,713,725	1,016,857,124
Foreign sales of goods	1,289,836,637	1,305,220,227
Sales to related parties	105,651,142	142,740,355
	2,362,201,504	**2,464,817,706**

4. Other operating income

	2011 HRK	2010 HRK
Income from the release of provisions (note 34)	128,449,010	122,464,444
Income from the release of accrued expenses	5,194,755	8,692,799
Collected receivables previously written off	6,158,539	7,493,919
Income from insurance claims	12,189,992	6,515,097
Income from subsequent rebates, bonuses and similar	1,225,975	3,062,624
Inventory surpluses	3,060,241	2,590,707
Income from government grants and similar	342,916	2,579,051
Rent	1,702,736	1,885,165
Income from sale of materials	4,349,433	1,734,262
Income from previous years	954,286	1,196,953
Gains from assets disposal	3,411,400	1,189,669
Debt written-off	1,987,939	453,185
Other income	13,787,389	12,884,512
	182,814,611	**172,742,387**

5. Costs of materials and energy

	2011 HRK	2010 HRK
Raw materials and other materials	1,112,906,107	1,071,662,088
Spare parts	552,870	649,398
Small inventory	11,951,428	14,645,251
Energy	52,734,924	45,649,656
	1,178,145,329	**1,132,606,393**

6. Cost of services

	2011 HRK	2010 HRK
External products design and selling services	147,685,098	154,444,566
Costs of telephone, post and transportation	48,431,364	62,411,943
Maintenance	32,261,518	30,741,468
Intellectual and similar services	22,662,844	23,503,485
Representation costs	14,211,593	13,676,782
Utilities costs	11,533,429	10,940,203
Costs of research and development	7,398,539	7,450,277
Advertising services and trade fairs	4,357,781	5,603,259
Rent	4,066,334	4,871,299
Education services	4,525,356	4,207,047
Sponsorships	2,178,671	3,145,833
Other costs	23,115,602	27,806,569
	322,428,129	**348,802,731**

7. Personnel costs

	2011 HRK	2010 HRK
Net wages and salaries	262,980,489	263,731,556
Taxes and contributions	135,522,088	140,158,950
Contributions on salaries	67,952,077	68,793,859
Share-based payment options	8,468,115	12,483,990
	474,922,769	**485,168,355**

Net wages and salaries in the amount of HRK 262,980,489 (2010: HRK 263,731,556) include compensations to the Management Board of the Company and other related companies in the amount of HRK 13,012,181 (2010: HRK 13,192,167) and accrued bonuses for the Management Board in the amount of HRK 5,300,149 (2010: HRK 4,214,009), and are an integral part of the personnel costs.

8. Depreciation and amortization

	2011	2010
	HRK	HRK
Depreciation	69,888,151	69,504,005
Amortization	5,882,110	7,212,863
	75,770,261	**76,716,868**

9. Other costs

	2011	2010
	HRK	HRK
Cost of resolution of arbitration proceeding - Cairo Phoenix (notes 4 and 34)	57,170,742	-
Travelling costs and per diems	45,998,438	41,099,374
Compensations to employees	25,803,051	27,101,568
Compensations to members of the Supervisory Board	5,768,137	5,380,531
Insurance premiums	14,725,663	13,384,981
Banking services	22,154,575	17,444,953
Taxes and contributions and similar costs	4,737,022	4,720,759
Taxes non-dependable on the income and fees	2,966,916	4,179,779
Share-based payment options (unrealized share options)	5,561,275	-
Other	19,077,648	15,923,095
	203,963,467	**129,235,040**

10. Value adjustments

	2011	2010
	HRK	HRK
Value adjustment of long term financial assets	922,931	298,113
	922,931	**298,113**
Value adjustment of inventories	7,312,105	17,639,078
Value adjustment of current receivables	15,162,804	19,639,771
Value adjustment of current financial assets	198	116
	22,475,107	**37,278,965**
	23,398,038	**37,577,078**

11. Provisions

	2011	2010
	HRK	HRK
Provisions for servicing costs within warranty periods	49,405,182	125,538,407
Provisions for court cases	1,939,232	18,035,857
Provisions for retirement and jubilee awards	6,694,412	11,485,077
Other provisions	12,633,560	3,958,782
	70,672,386	**159,018,123**

12. Other operating expenses

	2011	2010
	HRK	HRK
Penalties, compensations and similar	1,565,970	2,959,183
Inventory shortages	3,643,997	1,930,663
Rebates, discounts and similar	63,642	746,755
Receivables write-off	140,720	457,326
Subsequent expenses	1,794,381	608,798
Inventory write-off	279,714	348,349
Loss from the sale of property, plant and equipment	406,657	119,733
Other operating expenses	3,034,980	1,218,271
	10,930,061	**8,389,078**

13. Share of the profit from equity accounted investments

Share of the profit from equity accounted investments in the amount of HRK 133,670,740 (2010: HRK 114,015,279) relates to share in profit of an associate Končar – Power Transformers Ltd. in which the Group owns share of 49% in the amount of HRK 113,268,708 and share in profit of an associate Elkakon d.o.o. in which the Group indirectly owns 50% share in the amount of HRK 402,032.

The above mentioned companies have realized net income in 2011 as follows:

- Power Transformers Ltd. HRK 271,976,678 (2010: HRK 232,252 thousand)
- Elkakon d.o.o. HRK 804,064 (2010: HRK 795,605)

14. Financial revenues

	2011	2010
	HRK	HRK
From the relations with related parties		
Dividend income	29,456	60,982
	29,456	*60,982*
From the relations with un-related parties		
Interest income	34,775,610	24,056,754
Foreign exchange gains	45,132,500	48,447,161
Dividend income	1,770,796	1,222,021
Other financial income	1,639,983	870,764
	83,318,889	*74,596,700*
Unrealised gains	*928,225*	*58,650*
	84,276,570	**74,716,332**

15. Financial expenses

	2011	2010
	HRK	HRK
From the relations with related parties		
Interest expenses	33,766	17,137
	33,766	*17,137*
From the relations with unrelated parties		
Interest expenses	17,961,991	17,281,410
Foreign exchange losses	37,298,368	32,563,790
Other financial expenses	2,302,016	443,259
	57,562,375	*50,288,459*
Unrealised losses on financial assets	-	*5,411,609*
	57,596,141	**55,717,205**

16. Corporate income tax

Calculation of corporate income tax liability for the year ended 31 December 2011 was as follows:

	2011 HRK	2010 HRK
Consolidated profit before tax	210,819,761	201,645,074
Corporate income tax at the rate of 20%	**42,163,952**	**40,329,014**
Consolidation adjustments	(3,023,412)	(785,289)
Increases of tax	34,480,122	28,438,176
Decreases of tax	(40,870,155)	(41,753,292)
Used tax assets	(7,913,946)	(1,482,461)
Tax liability	**24,836,561**	**24,746,148**
Incentives	(6,254,487)	(9,136,975)
Adjusted tax liability	**18,582,074**	**15,609,173**
Un-recognized tax asset on tax losses to be carried forward	**33,090,864**	**37,096,777**

The applicable income tax rate for 2011 and 2010 was 20%.

The Group can carry forward tax losses from subsidiaries which incurred loss in the year 2011 and which had no tax liability and from subsidiaries who realized profit in 2011 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2011 unrecognized tax asset on tax losses carried forward amounts to HRK 33,090,864 and can be used as follows:

	31 December 2011 HRK	31 December 2010 HRK
31 December 2011	-	3,179,600
31 December 2012	2,566,200	2,566,200
31 December 2013	6,428,630	11,904,223
31 December 2014	8,118,867	8,968,465
31 December 2015	10,478,289	10,478,289
31 December 2016	5,498,878	-
	33,090,864	**37,096,777**

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 2011	31 December 2010
	HRK	HRK
Net profit attributable to owners of the parent	162,441,709	154,975,583
Weighted average number of shares	2,572,119	2,572,119
Earnings per share in HRK	**63.15**	**60.25**

Diluted earnings per share

	31 December 2011	31 December 2010
	HRK	HRK
Net profit attributable to owners of the parent	162,441,709	154,975,583
Weighted average number of shares (less treasury shares)	2,562,505	2,572,119
Earnings per share in HRK	**63.39**	**60.25**

18. Goodwill

Goodwill amounting to HRK 7,503,528 relates to goodwill recognized in business combinations when the companies Končar - Instrument Transformers Inc, Končar - Distribution and Special Transformers Inc and Končar - Engineering for Plant Installation & Commissioning Inc have been acquired. Movement in goodwill during the year 2011 was as follows:

	Goodwill
	HRK
As at 1 January 2009	**7,083,654**
Acquisition of subsidiaries	5,385,734
Impairment of goodwill	(5,917,632)
As at 31 December 2009	**6,551,756**
Increase	489,163
At 31 December 2010	**7,040,919**
Increase (foreign exchange differences and similar)	462,609
At 31 December 2011	**7,503,528**

19. Non-current intangible assets

	Development expenditure	Concessions, patents, software and other rights	Other	Intangible assets under construction	Advance payments	Total
	HRK	HRK	HRK	HRK	HRK	HRK
Cost						
As at 1 January 2010	**74,508,498**	**14,871,347**	**1,401,470**	-	-	**90,781,315**
Transfer	-	350,696	-	(350,696)	-	**-**
Additions	1,431,438	1,866,226	-	3,076,909	-	**6,374,573**
Disposals	(10,860,698)	(287,606)	(349,052)	-	-	**(11,497,356)**
As at 31 December 2010	**65,079,238**	**16,800,663**	**1,052,418**	**2,726,213**	-	**85,658,532**
Correction of opening balances	147,930	(69,318)	(344,028)	1,616,553	-	**1,351,137**
Transfer	1,681,800	1,013,923	-	(2,695,723)	-	**-**
Additions	960,001	1,728,036	127,297	7,793,911	388,695	**10,997,940**
Disposals	-	(16,096)	-	-	-	**(16,096)**
As at 31 December 2011	**67,868,969**	**19,457,208**	**835,687**	**9,440,954**	**388,695**	**97,991,513**
Accumulated amortization						
As at 1 January 2010	**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	1,183,713	168,525	-	-	**7,212,863**
Disposals	(7,743,774)	(309,606)	(349,052)	-	-	**(8,402,432)**
As at 31 December 2010	**52,616,383**	**13,748,716**	**798,361**	**-**	**-**	**67,163,460**
Correction of opening balances	147,926	(38,171)	(344,028)	-	-	**(234,273)**
Amortization for the year	4,552,428	1,163,005	166,677	-	-	**5,882,110**
Disposals	-	(16,096)	-	-	-	**(16,096)**
As at 31 December 2011	**57,316,737**	**14,857,454**	**621,010**	**-**	**-**	**72,795,201**
Carrying value						
31 December 2010	12,462,855	3,051,947	254,057	2,726,213	**-**	18,495,072
31 December 2011	**10,552,232**	**4,599,754**	**214,677**	**9,440,954**	**388,695**	**25,196,312**

The carrying value of fully amortized intangible asset still in use as at 31 December 2011 amounts to HRK 11,205 thousand (31/12/2010: HRK 4,146 thousand).

20. Property, plant and equipment

	Land	Buildings	Plant & equipment	Tools, fittings and transportation equipment	Other	Assets under construction	Advance payments	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Cost								
As at 1 January 2010	**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**
Reclassifications	-	-	227,255	(227,255)	-	-	-	-
Transfer	4,272,916	18,713,781	28,616,573	17,149,950	12,600	(68,765,820)	-	-
Additions	4,406,214	2,857,822	4,607,115	3,938,673	-	70,307,516	24,296,159	**110,413,499**
Disposals	(7,722,965)	(14,498,656)	(7,814,858)	(7,730,412)	(25,644)	(1,147,645)	(22,501,453)	**(61,441,633)**
As 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**
Correction of opening balances	(813,325)	(2,082,400)	(1,612,385)	114,918	-	-	-	**(4,393,192)**
Transfer	66,166	16,929,596	31,160,060	21,748,684	-	(69,904,506)	-	-
Additions	565,672	136,645	1,814,558	4,790,466	407,253	192,176,347	45,390,515	**245,281,456**
Disposals	(117,512)	(1,393,975)	(18,332,135)	(9,355,568)	-	(386,478)	(42,044,284)	**(71,629,952)**
As at 31 December 2011	**155,724,709**	**908,418,495**	**715,916,714**	**344,350,757**	**2,566,623**	**153,262,055**	**7,182,957**	**2,287,422,310**
Accumulated depreciation								
As at 1 January 2010	-	**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	31,283,363	16,989,908	194,432	-	-	**69,496,228**
Additions	-	4,641,728	1,223,666	-	-	-	-	**5,865,394**
Disposals	-	(4,767,741)	(7,681,302)	(7,553,839)	-	-	-	**(20,002,882)**
As at 31 December 2010	-	**515,154,447**	**551,065,383**	**252,592,986**	**1,458,632**	**3,783,539**	-	**1,324,054,987**
Correction of opening balances	-	(1,983,678)	(508,524)	446,131	9,800	-	-	**(2,036,271)**
Depreciation for the year	-	21,301,870	30,471,267	17,906,594	208,420	-	-	**69,888,151**
Additions	-	-	1,411,693	481,915	-	-	-	**1,893,608**
Disposals	-	(1,210,159)	(18,282,926)	(9,501,888)	-	-	-	**(28,994,973)**
As at 31 December 2011	-	**533,262,480**	**564,156,893**	**261,925,738**	**1,676,852**	**3,783,539**	-	**1,364,805,502**
Carrying value								
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
31 December 2011	**155,724,709**	**375,156,015**	**151,759,821**	**82,425,019**	**889,771**	**149,478,516**	**7,182,957**	**922,616,808**

As a collateral for non-current loans (note 35) and current loans (note 38), mortgages have been registered over the real estates and movables of the Group in the amount of HRK 281.2 million and EUR 28.2 million.

The cost of property, plant and equipment which are fully depreciated and still in use on 31 December 2011 amounts to HRK 607,964 thousand (31/12/2010: HRK 522,210 thousand).

As at 31 December 2011 the Group has contracted un-invoiced investments in the amount of HRK 6.9 million (31/12/2010: HRK 14 million).

Carrying value of Group's assets purchased on finance lease as at 31 December 2011 amounts to HRK 4.1 million (31/12/2010: HRK 13 million).

21. Investment property

Investment property in the amount of HRK 94,603,651 (2010: HRK 93,849,610) 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 2011 HRK	31 December 2010 HRK
Associates:		
Končar – Power Transformers Ltd, Zagreb	239,097,039	206,871,085
Other associates (indirect):		
Elkakon d.o.o., Zagreb	3,470,212	1,644,184
	242,567,251	**208,515,269**

Summary information for associates are shown in the following table:

	Končar – Power Transformers Inc.		**Elkakon d.o.o.**	
	2011 **HRK'000**	**2010** **HRK'000**	**2011** **HRK'000**	**2010** **HRK'000**
Income	1,319,400	1,256,722	70,209	51,992
Expenses	(1,054,636)	(965,981)	(69,188)	(51,040)
Profit before taxation	264,764	290,741	1,021	952
Corporate income tax	7,213	(58,489)	(217)	(157)
Profit for the year	**271,977**	**232,252**	**804**	**795**
Non-current assets	284,919	273,322	6,937	4,501
Current assets	928,968	829,519	18,070	13,143
Total assets	**1,213,887**	**1,102,841**	**25,007**	**17,644**
Total liabilities	**518,724**	**528,032**	**18,119**	**12,580**

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

23. Non-current financial assets

	31 December 2011	31 December 2010
	HRK	HRK
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,	110,000	110,000
Bio plinifikacija	10,000	-
	811,316	**801,316**
Joint venture:		
Investment in joint venture – TBEA Končar Instrument Transformers Ltd, Shenyang, China (27%)	2,191,352	-
	2,191,352	-
Investments in financial assets:		
Shares	5,678,748	2,686,761
Value adjustment of shares	(922,931)	-
	4,755,817	**2,686,761**
Loans granted, deposits and similar	1,461,593	684,626
	9,513,672	**4,471,407**

24. Non-current receivables

	31 December 2011 HRK	31 December 2010 HRK
Receivables on the basis of credit sale		
Receivables for sold apartments	11,264,949	13,582,698
Value adjustment of receivables for sold apartments	(3,180,752)	(4,108,975)
Receivables for shares sold	20,434,605	24,216,466
Loan granted to Railways of Bosnia and Herzegovina	33,581,595	18,691,147
Other loans granted	112,072	130,957
Current portion (see note 28)	(5,133,515)	(5,250,238)
Current portion (see note 27)	(24,733,642)	-
	32,345,312	**47,262,055**
Other receivables		
Receivables on the basis of foreign sales	6,746,512	6,804,158
Loans granted to employees	3,679,026	3,292,895
Other long-term receivables	136,147	-
Current portion (see note 27)	(183,885)	(208,757)
Current portion (see note 28)	(857,458)	(647,089)
	9,520,342	**9,241,207**
	41,865,654	**56,503,262**

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

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

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

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 2011 HRK	31 December 2010 HRK
Raw and other materials	301,970,147	258,184,200
Spare parts	80,443	97,619
Small inventory	2,389,596	2,247,566
Work in progress	101,295,101	96,249,912
Unfinished products and semi-finished products	54,142,112	61,805,797
Finished products	60,704,804	85,428,778
Merchandise	13,717,172	17,367,743
Goods in transit	10,167,398	1,013,140
Less: Value adjustment of raw materials, spare parts, and small inventory	(27,659,087)	(38,356,115)
Value adjustment of work in progress, finished goods and merchandise	(30,741,139)	(15,799,699)
	486,066,547	**468,238,941**
Advances for inventories		
Domestic advances	17,593,150	5,421,975
Value adjustment	(8,963)	(198,863)
	17,584,187	5,223,112
Foreign advances	8,272,414	8,666,106
Total advances	**25,856,601**	**13,889,218**
	511,923,148	**482,128,159**

Cost of goods sold recognized in the consolidated income statement in 2011 amounted to HRK 1,026,713,096 (2010: HRK 902,353,797).

26. Current receivables from related parties

	31 December 2011 HRK	31 December 2010 HRK
Končar – Power Transformers Ltd, Zagreb	19,467,234	111,046,846
	19,467,234	**111,046,846**

27. Current trade accounts receivable

	31 December 2011	31 December 2010
	HRK	HRK
Domestic customers	475,550,613	414,489,627
Value adjustment	(40,474,710)	(30,045,549)
Total domestic customers	**435,075,903**	**384,444,078**
Foreign customers	391,764,370	335,939,792
Current portion (note 24)	183,885	208,757
Current portion (note 24)	24,733,642	-
Value adjustment	(19,979,087)	(21,757,121)
Total foreign customers	**396,702,810**	**314,391,428**
Total domestic and foreign customers	**831,778,713**	**698,835,506**

As at 31 December 2011 the ageing structure of trade accounts receivable was as follows:

	Total	**Undue and collectible**	**Due but collectible**				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**831,778,713**	557,537,035	117,591,199	28,711,666	40,049,627	46,450,751	41,438,435
2010	**698,835,506**	402,750,808	124,328,668	29,414,827	71,930,190	47,407,296	23,003,717

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

	2011	2010
	HRK	HRK
Balance as at 1 January	51,802,670	42,007,006
Provisioned in the year	418,120	637,681
Collected in the year	(3,272,222)	(6,980,227)
Impaired in the year	14,826,405	17,476,719
Written-off in the year	(3,321,176)	(1,338,509)
Balance as at 31 December	**60,453,797**	**51,802,670**

28. Other receivables

	31 December 2011 HRK	31 December 2010 HRK
Receivables from the state and other institutions		
Receivables for value added tax	41,752,667	29,032,008
Receivables from Croatian Health Fund	716,607	641,270
Other	163,273	954,357
	42,632,547	**30,627,635**
Other current receivables		
Receivables for sold apartments	6,971,386	6,664,960
Receivables for shares sold	3,085,414	1,791,546
Receivables for advances given for services	15,317,926	23,869,193
Receivables for loans granted to employees	12,633	-
Other	5,228,157	1,804,989
Current portions	5,133,515	5,250,238
Other current portions	857,458	647,089
	36,606,489	**40,028,015**
Receivables from employees		
Receivables from employees	1,321,053	1,891,408
Value adjustment	-	(327,471)
	1,321,053	**1,563,937**
Total	**80,560,089**	**72,219,587**

29. Current financial assets

	31 December 2011 HRK	31 December 2010 HRK
Loans granted, deposits and similar	376,970,323	155,489,822
Other	-	1,709,672
	376,970,323	**157,199,494**

Contractual interests on loans granted and deposits over 3 month period are between 0.4% - 6% (2010: 0.4% - 6%).

30. Cash and cash equivalents

	31 December 2011	31 December 2010
	HRK	HRK
Balance at gyro accounts	51,204,926	42,874,907
Balance at accounts in foreign currency	58,974,314	84,971,532
Petty cash	321,028	572,852
Cheques and similar	222,059	295,564
Deposits up to 3 months	182,519,401	299,040,898
Cash funds	26,152,852	150,849,092
Other	210,487	1,945,498
Less: Value adjustment	(184,992)	(184,992)
	319,420,075	**580,365,351**

Contractual interests on loans granted and deposits over 3 month period are between 0.4% - 5.45% (2010: 0.4% - 5.45%).

31. Prepaid expenses and accrued income

Prepaid expenses and accrued income amounting to HRK 9,711,305 (31 December 2010: HRK 3,547,985) relate to paid future expenses amounting to HRK 9,182,434 (31 December 2010: HRK 3,009,967) and accrued income in the amount of HRK 528,871 (31 December 2010: HRK 538,918).

32. Non-current assets held for sale

Non-current assets held for sale in the amount of HRK 912,047 relate to a property in Ilica, Zagreb, in which Končar – Household Appliances Inc. held a retail store, and for which the Management Board brought decision to sell this property.

33. Share capital

Share capital is determined in the nominal value amounting to HRK 1,028,847,600 (31 December 2010: 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 2011		31 December 2010	
	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
Croatian Privatization Fund /HZMO	384,628	14.95	384,628	14.95
Croatian Privatization Fund	260,280	10.12	260,280	10.12
Linteum savjetovanje d.o.o.	190,491	7.41	189,744	7.38
Societe Generale - Splitska bank/ Erste Blue mandatory pension fund	172,199	6.69	167,784	6.52
Hypo-Alpe-Adria-Bank/ PBZ Croatia insurance mandatory pension fund	107,159	4.17	75,497	2.94
Societe Generale - Splitska bank./ Allianz for AZ mandatory pension fund	104,676	4.07	69,694	2.71
Floričić Kristijan	85,714	3.33	85,714	3.33
Hypo-Alpe-Adria-Bank d.d./Raiffieisen pension company	35,250	1.37	37,000	1.44
PBZ d.d. (custodian account)	33,074	1.29	36,829	1.43
Other shareholders	464,519	18.06	540,434	21.01
Končar Inc. (treasury shares)	9,614	0.37	-	-
	2,572,119	**100.00%**	**2,572,119**	**100.00%**

34. Provisions

	Servicing during warranty periods	Court case provisions	Jubilee and retirement rewards	Other	**Total**
	HRK	HRK	HRK	HRK	HRK
1 January 2010	**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**
Additional provisions	44,552,025	1,939,232	6,694,412	-	53,185,669
Subsidiary addition	4,853,157	-	-	-	4,853,157
Release of provisions	(32,399,703)	(77,748,946)	(6,784,351)	(11,516,010)	(128,449,010)
31 December 2011	**399,299,269**	**84,652,496**	**21,809,747**	**2,471,994**	**508,233,506**

Provisions for liabilities for issued guarantees for the return of advance amounting to HRK 120,153,400 (2010: HRK 114,957,270) relate to value of advance denominated 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 counter value in HRK as at 31 December 2011 amounts to HRK 65,670,652 (31 December 2010: HRK 62,670,652). Guarantees in question are in abeyance due to situation in Iraq.

Other provisions for guarantees relate to provisioned warranty costs of subsidiaries within the Group amounting to HRK 279,145,869 (31 December 2010: HRK 267,336,520).

Non-current provisions for court cases in the amount of HRK 84,652,496 (2010: HRK 160,462,210) 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 21,809,747 (2010: HRK 21,899,686) relates to regular compensations to employees (regular retirement and jubilee rewards), and severance payments to the Management Board

At the end of the year 2011 the arbitration proceedings led by International Chamber of Commerce between Končar – Electrical Industry Inc. and Cairo Phoenix Trade Center were finished. As a result, related long-term provisions in the amount of HRK 75,158,800 have been released.

Other long-term provisions in the amount of HRK 11,516,010 as at 31 December 2010 were released during 2011 on the basis of realized option purchase rights of 17,432 shares owned by president and members of the Company's Management Board.

35. Non-current liabilities

	31 December 2011 HRK	31 December 2010 HRK
Liabilities for loans, deposits and similar	1,700,000	2,380,000
Less: Current portion (note 37)	(680,000)	(765,000)
	1,020,000	**1,615,000**
Liabilities toward banks	184,629,511	125,298,944
Less: Current portion (note 38)	(65,441,372)	(45,614,521)
	119,188,139	**79,684,423**
	120,208,139	**81,299,423**

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

Company	Creditor	Purpose of loan	Loan amount	Interest rate	Loan maturity date	Collateral for the loan
Končar - Electric Vehicles Inc.	Zagrebačka Bank d.d. (ZABA)	Financing of the Contract for the maintenance and modernization of 14 electrical traction engines owned by Bosnia and Herzegovina Federal Railways	Up to EUR 7 million	3 month EURIBOR+ 4% per annum, variable	30 May 2014	Mortgage over the Company's property in the amount of EUR 7 million
Končar - Household Appliances Inc.	Zagrebačka Bank d.d. (ZABA)	Purchase of equipment and other durable goods	HRK 3.7 million	Interest rate on treasury bills on the basis of 91 day + 2.5% per annum	During 2012	3 blank accepted bills of exchange and 1 debenture
Končar - Household Appliances Inc.	Privredna Bank Zagreb d.d. (PBZ) & CBRD	Loan in HRK approved by PBZ and CBRD pursuant to model A of financing the Company's current liabilities	HRK 15 million	Interest rate on PBZ share is equal to the rate of the Government treasury bills on the basis of 91 day + 3.4% per annum, and on HBOR share 3.8% per annum, fixed	30 June 2013	1 blank accepted bill of exchange of that company and Končar – Electrical Industry Inc. and 1 debenture of the Company and Končar – Electrical Industry Inc, per share PBZ and CBCD separately.
Končar - Household Appliances Inc.	PBZ & CBRD	Financing working capital of the Company	HRK 15 million	Interest rate on PBZ share is equal to the rate of the Government treasury bills +3.3% per annum, and on CBRD share 2.8% per annum	30 September 2014	1 blank accepted bill of exchange of the Company and Končar – Electrical Industry Inc. and 1 debenture of the Company and Končar – Electrical Industry Inc, per share PBZ and CBCD separately
Končar - Renewable Sources Ltd.	ZABA & CBRD	Financing "Wind power plant Pometeno brdo" project	EUR 13,544,162	4%	31/03/2013	
Končar - Renewable Sources Ltd.	ZABA & CBRD	Financing of VAT during construction of power plant Pometeno brdo	HRK 19 million	Interest rate on the Government treasury bills on the basis of 91 day + 3% margin per annum	30 June 2013	
Končar - Renewable Sources Ltd.	CBRD	As at 25 March 2009 Croatian Bank for Reconstruction and Development granted long-term loan to the Company in the amount of USD 128,627 for the purpose of financing "Wind power plant Pometeno brdo" project.	USD 128,627	4%	31/03/2012	Bills of exchange and debentures
Končar - Distribution and Special Transformers Inc.	RBA Zagreb d.d. & HBOR	Purchase of equipment and production capacity expansion	HRK 15 million	4%	31/12/2014	Mortgage over the Company's equipment
Končar - Distribution and Special Transformers Inc.	RBA Zagreb d.d. & HBOR	Investment in production facilities - production hall development	EUR 1,025,233	4%	31/12/2014	Mortgage over the Company's property in the amount of EUR 28.2 million
Končar - Instrument Transformers Inc.	ZABA	Refinancing current short-term loan in the amount of EUR 1,380,000, the residual value of the loan is paid on the Company's account.	EUR 2,000,000	3 month EURIBOR + 4.7% per annum, variable	27/12/2015	Mortgage over property in Jankomir, land registry entries 1055, 1060 and 1063, co-borrower Končar - Electrical Industry Inc
Končar - Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward banks and other financial institutions c) Other - salaries	HRK 15,000,000	Interest rate is equal to the Government treasury bills on the basis of 91 day + 3.3% per annum	30/09/2014	2 blank accepted bills of exchange without recourse and 2 debentures per PBZ share
Končar - Power Plant and Electric Traction Engineering Inc.	CBRD & University Hospital Mostar	The Company has undertaken loan on behalf of University Hospital Mostar d.d., and the ultimate debtor is the Government	HRK 1,4 million	6-month EURIBOR + 2% margin per annum	During 2013	Bills of exchange and debentures
Unused funds from loans granted						
Končar - Renewable Sources Ltd.	ZABA	Financing "Wind power plant Pometeno brdo" project. Until 31 December 2011 the Company has not withdrawn funds from the loan	EUR 3 million	3 month EURIBOR + 4% margin per annum	Until 31 December 2022	
Končar - Distribution and Special Transformers Inc.	RBA Zagreb d.d.		EUR 6 million			

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

	31 December 2011	31 December 2010
	HRK	HRK
31 December 2010	2,380,000	2,380,000
Repayment of loans	(680,000)	-
Less: current portion	(680,000)	(765,000)
31 December 2011	**1,020,000**	**1,615,000**

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

	31 December 2011	31 December 2010
	HRK	HRK
Within one year	680,000	765,000
From 1 to 2 years	850,000	340,000
From 2 to 5 years	170,000	1,275,000
Less: current portion	(680,000)	(765,000)
	1,020,000	**1,615,000**

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

	HRK
1 January 2010	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**
New loans	138,621,984
Repayment of loans	(34,677,131)
Foreign exchange gains/losses	1,000,235
Less: current portion	(65,441,372)
31 December 2011	**119,188,139**

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

	31 December 2011	31 December 2010
	HRK	HRK
Within one year	65,441,372	45,614,521
From 1 to 2 years	25,803,775	21,460,175
From 2 to 5 years	61,346,161	55,583,730
More than 5 years	32,038,203	2,640,518
Less: current portion	(65,441,372)	(45,614,521)
31 December 2011	**119,188,139**	**79,684,423**

36. Current liabilities toward related parties

	31 December 2011 HRK	31 December 2010 HRK
Končar-Power transformers ltd, Zagreb:		
Liabilities for advances received	2,387,663	6,877,160
Other liabilities	4,511,666	6,298,034
	6,899,329	**13,175,194**

37. Current liabilities for loans, deposits and similar

	31 December 2011 HRK	31 December 2010 HRK
Current portion of long-term loans	680,000	765,000
	680,000	**765,000**

38. Current liabilities toward banks and other financial institutions

	31 December 2011 HRK	31 December 2010 HRK
Liabilities toward banks and other financial institutions	70,496,929	102,413,703
Plus: Current portion (note 35)	65,441,372	45,614,521
	135,938,301	**148,028,224**

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

	HRK
1 January 2010	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**
New loans	13,255,682
Repayment of loans	(90,851,882)
Foreign currency gains/losses	64,905
Plus: current portion of long-term loans	65,441,372
31 December 2011	**135,938,301**

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

- The Croatian Bank for Reconstruction and Development granted the revolving loan to the company Končar Electrical vehicles Inc for the export 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 5.2% per annum. Loan, which amounts to HRK 30 million, is repayable until 12 July 2012, the latest. Mortgage over the real estates in the amount of HRK 30 million is registered in Bank's favour.

  Also, short-term loan agreement in foreign currency has been granted to that company for the purpose of payment of the loan instalment determined for refinancing, with variable interest rate of 3-month EURIBOR plus 4.3% per annum. Loan, which amounts to HRK 1.4 million is repayable until 12 July 2012, the latest.

- Company Končar Household appliances ltd signed short-term loan with Zagrebačka Bank for financing working capital on 30 June 2011 on the amount of EUR 350,000. Interest rate amounts to 3-month EURIBOR plus 5.5% per annum, variable. Loan is secured by 3 blank accepted own bills of exchange and 1 debenture of that company. Loan is due on 31 December 2011.

- Two loans have been granted to the company Končar – Instrument transformers Inc. by Erste and Zagrebačka Bank (HRK 10 and 15 million) bearing the interest rate of 5.21% and 5%, respectively for the export purposes. Both loans mature on 15 February 2012. Loans are secured by 3 blank accepted own bills of exchange and 1 debenture of that company , solidarity guarantee issued by Končar Electrical company Inc. and by the mortgage over the real estates of that company.

39. Current trade accounts payable

	31 December 2011	31 December 2010
	HRK	HRK
Domestic suppliers	293,588,103	233,761,556
Foreign suppliers	107,128,972	118,995,197
Liabilities for un-invoiced goods	2,954,246	5,263,460
	403,671,321	**358,020,213**

	Total	Undue	< 60 days	Due 60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**403,671,321**	292,176,797	69,835,741	13,692,938	17,495,091	3,778,745	6,692,009
2010	**358,020,213**	229,989,039	80,468,052	8,383,274	20,551,602	9,482,135	9,146,111

40. Current liabilities for advances

	31 December 2011 HRK	31 December 2010 HRK
From domestic customers	28,684,002	30,414,981
From foreign customers	173,425,678	149,782,529
	202,109,680	**180,197,510**

41. Other current liabilities

	31 December 2011 HRK	31 December 2010 HRK
Liabilities to the state and other institutions		
Liability for value added tax	9,894,741	7,275,204
Liabilities for contributions and taxes on and from salary	28,841,467	26,459,474
Other liabilities	131,925	174,189
	38,868,133	**33,908,867**
Current other liabilities		
Interests payable	5,943,516	2,786,654
Liabilities to shareholders	234,805	374,235
Other liabilities	3,980,547	6,243,028
	10,158,868	**9,403,917**
Current liabilities toward employees		
Net salaries	26,703,689	24,783,656
Liabilities for severance pay	233,061	8,000
Liabilities toward Management Board for bonuses	3,498,053	3,075,798
Other liabilities	65,477	256,281
	30,874,515	**28,123,735**
	79,901,516	**71,436,519**

42. Accrued expenses and deferred income

	31 December 2011 HRK	31 December 2010 HRK
Deferred payment of corporate income tax	325,846	568,012
Accrued expenses	18,447,621	17,167,738
Deferred income	72,966,583	47,255,513
Current provisions	5,871,178	1,500,000
	97,611,228	**66,491,263**

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 2011 nor for the period ending 31 December 2010.

	31 December 2011 HRK'000	31 December 2010 HRK'000
Interest bearing liabilities	256,826	230,092
Decrease for cash and cash equivalents (deposits)	(319,420)	(580,365)
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:

2011

	Loans and receivables	At fair value through P&L	Available for sale	Held to maturity	Total assets classified per IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2011					
Long-term financial assets	4,508	2,211	2,676	119	**9,514**
Non-current receivables	41,866	-	-	-	**41,866**
Current financial assets	376,939	-	-	31	**376,970**
Trade and other receivables	932,931	-	-	-	**932,931**
Cash and cash equivalents	255,411	64,009	-	-	**319,420**
	1,611,655	**66,220**	**2,676**	**150**	**1,680,701**

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**
	1,531,076	**153,457**	**60**	**-**	**1,684,593**

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 for 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 2011

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

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

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

- Receivables and deposits at banks - For assets due within three months and cash funds, the accounting value is approximate to their fair value due to the shortness of the assets. For longer term assets, the contracted interest rates do not significantly deviate from the current market rates and their fair value is, therefore, approximate to their accounting value.

- Liabilities per loans received - Current liability fair value is approximate to their accounting value due to the short maturities of these instruments. The Management Board believes that their fair value doesn't differ significantly from their accounting value.
- Other financial instruments - financial instruments of the Group that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical accounting value of receivables and liabilities, including provisions, that are in line with the usual terms of business, is approximately equal to their fair value.

c) Financial risk

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

Market risk

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

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

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

a) Foreign currency risk management

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

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

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

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

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**	**641,040**	**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)
	(349,411)	**(6,732)**	**(86,840)**	**(442,983)**	**(400,682)**	**(843,665)**

	Short-term exposure			Long-term exposure		
	EUR	USD	Other currencies	EUR	USD	Other currencies
	HRK	HRK	HRK	HRK	HRK	HRK
2011						
Financial assets	603,513	20,704	61,094	78,665	-	1,348
Financial liabilities	(322,048)	(913)	(12,626)	(81,864)	-	-
Total exposure	**281,465**	**19,791**	**48,468**	**(3,199)**	**-**	**1,348**
2010						
Financial assets	683,343	9,494	115,348	61,092	-	850
Financial liabilities	(318,931)	(6,732)	(11,644)	(30,480)	-	(75,196)
Total exposure	**364,412**	**2,762**	**103,704**	**30,612**	**-**	**(74,346)**

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:

	2011 Effect on income before taxes HRK'000	2010 Effect on income before taxes HRK'000
EUR (1%)	421	750
USD (9%)	(685)	1,315
Other currencies	(2,455)	3,486

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 2011 and 31 December 2010, with the assumptions that all other variables are constant, on income before taxes.

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

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

Credit risk

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

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

Liquidity risk

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

The following table shows the maturity of financial liabilities of the Group at 31 December 2011 and 2010 according to the contracted non-discounted payments:

31 December 2011	Carrying value HRK'000	Contracted cash flows HRK'000	0 - 3 months HRK'000	3 - 12 months HRK'000	2 – 5 years HRK'000	More than 5 years HRK'000
Current advances received	202,110	202,110	91,376	109,001	1,733	-
Trade creditors	403,671	403,671	350,631	52,539	501	-
Other current liabilities	79,902	79,902	76,121	3,781	-	-
Interest-bearing loans	256,826	262,404	32,325	109,605	88,862	31,612
	942,509	**948,087**	**550,453**	**274,926**	**91,096**	**31,612**

31 December 2010	Carrying value HRK'000	Contracted cash flows HRK'000	0 - 3 months HRK'000	3 - 12 months HRK'000	2 – 5 years HRK'000	More than 5 years HRK'000
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**

44. Segment reporting

2011	**Industry**	**Energetic and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	108,298,615	1,915,523,794	181,604,642	50,662,250	461,061	-	2,256,550,362
Sale to related companies	9,646,220	430,352,413	7,908,104	110,211,309	51,898,828	(504,365,732)	105,651,142
Other operating income	5,314,810	91,827,170	4,898,450	5,100,289	88,926,362	(13,252,470)	182,814,611
Total operating revenues	*123,259,645*	*2,437,703,377*	*194,411,196*	*165,973,848*	*141,286,251*	*(517,618,202)*	*2,545,016,115*
Total operating expenses	(124,261,175)	(2,347,437,471)	(207,380,519)	(159,193,452)	(232,676,375)	576,401,469	(2,494,547,523)
Operating profit/(loss)	*(1,001,530)*	*90,265,906*	*(12,969,323)*	*6,780,396*	*(91,390,124)*	*58,783,267*	*50,468,592*
Financial result	1,777,642	13,754,267	(3,030,471)	1,074,094	162,038,342	(15,262,705)	160,351,169
Profit/(loss) before taxation	**776,112**	**104,020,173**	**(15,999,794)**	**7,854,490**	**70,648,218**	**43,520,562**	**210,819,761**
Corporate income tax	(959,443)	(17,234,268)	-	(388,363)	-	-	(18,582,074)
Net profit/(loss)for the year	**(183,331)**	**86,785,905**	**(15,999,794)**	**7,466,127**	**70,648,218**	**43,520,562**	**192,237,687**
Non-controlling interest	-	-	-	-	-	-	29,795,978
Profit for the Group	-	-	-	-	-	-	**162,441,709**
Non-current assets	41,278,642	542,872,937	141,572,305	55,898,956	1,096,115,598	(533,871,562)	1,343,866,876
Current assets	78,982,641	1,681,597,320	125,049,215	151,004,639	410,078,998	(294,844,614)	2,151,868,199
Total assets	**120,261,283**	**2,224,470,257**	**266,621,520**	**206,903,595**	**1,506,194,596**	**(828,716,176)**	**3,495,735,075**
Total liabilities	**32,776,565**	**1,252,350,491**	**105,281,283**	**41,392,402**	**208,827,574**	**(82,102,067)**	**1,558,526,248**

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**

Sales by the regions was as follows:

	2011		2010	
	HRK'000	**%**	**HRK'000**	**%**
Croatia	**1,072,365**	**45.4%**	**1,119,872**	**45.4%**
Countries in European Union	637,386	27.0%	654,873	26.6%
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	166,790	7.1%	238,167	9.7%
Other European countries	83,341	3.5%	12,305	0.5%
Asia	128,383	5.4%	123,384	5.0%
America and Australia	71,422	3.0%	27,760	1.1%
Other countries	202,515	8.6%	288,457	11.7%
Total export	**1,289,837**	**54.6%**	**1,344,946**	**54.6%**
	2,362,202	**100%**	**2,464,818**	**100%**

45. Off-balance sheet items

Off-balance sheet items of the Group amounting to HRK 2,212 million (2010: HRK 2,028 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 2011 amount to HRK 2,218 million (31 December 2010: HRK 2,133 million).

47. Subsequent events

After the reporting date and until the approval date of these consolidated financial statements there were no events that would significantly influence the financial statements of the Group as at 31 December 2011.

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 20 March 2012.

Signed on a behalf of the Group:

Darinko Bago,

President of the Management Board

KONČAR – ELECTRICAL INDUSTRY, INC

Financial statements as at 31 December 2011
together with the auditor's report

Contents

Responsibility for the financial statements

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

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

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

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

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

Signed on behalf of the Management Board:

Darinko Bago, president of the Management Board

Končar-Electrical Industry Inc, Zagreb
Fallerovo šetalište 22,
10 000 Zagreb

15 March 2012

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 2011, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 50.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give true and fair view of the Company's financial position as of 31 December 2011 and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards endorsed for use in the European Union.

Grant Thornton revizija d.o.o.	Reconsult d.o.o., revizija i konzalting
Koranska 16, 10000 Zagreb	Trg hrvatskih velikana 4/1, 10000 Zagreb
Ivica Smiljan, certified auditor	Marija Zupančić, certified auditor
Zagreb, 15 March 2012	

Statement of comprehensive income

	Notes	2011 HRK	2010 HRK
Sales	3	52,359,890	52,382,226
Other operating income	4	88,926,361	27,424,426
Operating income		**141,286,251**	**79,806,652**
Cost of materials and energy	5	(5,354,319)	(5,229,385)
Cost of services	6	(33,260,880)	(26,878,865)
Personnel costs	7	(29,754,654)	(33,204,658)
Depreciation and amortization	8	(8,085,545)	(7,336,036)
Other costs	9	(68,162,777)	(5,410,952)
Value adjustment of non-current assets	10	(81,855,318)	(57,925,456)
Provisions	11	(6,202,882)	(25,802,155)
Other operating expenses		-	(292,282)
Operating expenses		**(232,676,375)**	**(162,079,789)**
Operating result		**(91,390,124)**	**(82,273,137)**
Dividends income from associates	12	101,042,753	74,791,631
Financial income	12	74,664,751	79,989,485
Financial expenses	13	(13,669,162)	(10,992,890)
Financial result		**162,038,342**	**143,788,226**
Profit before taxation		**70,648,218**	**61,515,089**
Corporate income tax	14	-	-
NET PROFIT FOR THE PERIOD		**70,648,218**	**61,515,089**
Earnings per share	15		
Basic earnings per share (HRK)		27.47	23.92
Diluted earnings per share (HRK)		27.56	23.92
Net profit for the period		**70,648,218**	**61,515,089**
Other comprehensive income:			
Exchange differences		**217,531**	**825,532**
COMPREHENSIVE INCOME FOR THE YEAR		**70,865,749**	**62,340,621**

Notes are an integral part of the Statement of comprehensive income

Statement of financial position

	Notes	31 December 2011 HRK	31 December 2010 HRK
ASSETS			
Intangible assets	16	81,651	244,953
Property, plant and equipment	17	231,208,700	227,337,228
Investment property	18	93,849,613	93,849,610
Investments in subsidiaries	19	669,619,536	723,283,592
Investments in associates	20	67,722,257	67,722,257
Financial assets	21	4,461,578	2,372,633
Receivables	22	29,172,263	34,316,705
Non-current assets		**1,096,115,598**	**1,149,126,978**
Inventories		90,441	6,091
Receivables from related companies	23	29,439,913	103,492,189
Trade accounts receivable	24	495,870	597,490
Other receivables	25	18,828,878	15,305,408
Loans granted to related parties	26	53,915,000	31,400,000
Financial assets	27	263,908,242	84,181,504
Cash at bank and in hand	28	42,538,972	163,325,576
Current assets		**409,217,316**	**398,308,258**
Prepaid costs and accrued income	29	861,682	733,263
TOTAL ASSETS		**1,506,194,596**	**1,548,168,499**
Off-balance sheet items	37	796,880,027	658,114,155
EQUITY AND LIABILITIES			
Subscribed capital	30	**1,028,847,600**	**1,028,847,600**
Capital reserves		**719,579**	**719,579**
Legal reserves		14,464,809	11,389,054
Statutory reserves		84,276,008	75,489,055
Other reserves		62,002,198	47,436,438
Reserves from earnings		**160,743,015**	**134,314,547**
Retained earnings		**36,408,610**	**31,234,921**
Profit of the year		**70,648,218**	**61,515,089**
TOTAL EQUITY		**1,297,367,022**	**1,256,631,736**
Provisions	31	**201,043,042**	**282,274,972**
Long term liabilities	32	**170,000**	**510,000**
Liabilities to related companies	33	974,776	899,906
Liabilities for loans, deposits and similar	34	340,000	340,000
Trade accounts payable	35	1,054,832	1,174,806
Other current liabilities	36	5,244,924	6,144,403
Current liabilities		**7,614,532**	**8,559,115**
Accrued expenses and deferred income		**-**	**192,676**
TOTAL EQUITY AND LIABILITIES		**1,506,194,596**	**1,548,168,499**
Off-balance sheet items	37	796,880,027	658,114,155

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

Statement of cash flows

	Notes	2011 HRK	2010 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		64,803,973	78,934,555
Cash receipts from insurance compensations		39,753	49,900
Cash receipts from interests		5,047,436	10,983,885
Other cash receipts		22,733,926	27,684,798
Total cash receipts from operating activities		92,625,088	117,653,138
Cash payments to trade accounts payable		(55,882,862)	(45,896,338)
Cash payments to employees		(20,506,649)	(20,348,621)
Cash payments to insurance companies		(516,653)	(514,028)
Cash payments for interests		(10,149)	(141,159)
Cash payments for taxes		(5,646,069)	(4,137,250)
Other cash payments		(83,138,408)	(17,944,020)
Total cash payments for operating activities		(165,700,790)	(88,981,416)
Net cash flow from operating activities		**(73,075,702)**	**28,671,722**
Cash flow from investing activities			
Receipts from the sale of non-current tangible and intangible assets		2,900,915	2,609,117
Cash receipts from the sale of financial instruments		3,576,020	5,976,566
Receipts from dividends		208,096,650	86,791,144
Purchase of non-current tangible and intangible assets		(2,991,546)	(20,960,209)
Purchase of financial instruments		(14,799,627)	(69,158,109)
Total cash inflow from investing activities		**196,782,412**	**5,258,509**
Cash flow from financing activities			
Cash receipts from loans and borrowings		8,286,617	63,982,939
Other cash receipts from financial activities		2,026,374	51,519,155
Repayment of loans and bonds		(340,000)	(2,183,457)
Dividends paid		(30,751,068)	(72)
Other cash outflows for financing activities		(223,715,237)	(92,785,447)
Net cash used in financing activities		**(244,493,314)**	**20,533,118**
Increase/(decrease) in cash flow		**(120,786,604)**	**54,463,349**
Cash and cash equivalents at the beginning of the period	28	163,325,576	108,862,227
Cash and cash equivalents at the end of the period	28	**42,538,972**	**163,325,576**

Notes are an integral part of the Statement of cash flows

Statement of Changes in equity

	Share capital	Capital reserves	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
As at 1 January 2010	**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:								
Allocation of the profit for 2009		-	49,707,727	-	-	15,482,735	(65,190,462)	-
Share-based payments		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 2010	-	-	-	-	-	-	61,515,089	61,515,089
Other comprehensive income:				-				
Foreign exchange differences in foreign operations	-	-	825,532	-	-	-	-	825,532
Total comprehensive income	-	-	*825,532*	-	-	-	*61,515,089*	*62,340,621*
As at 31 December 2010	**1,028,847,600**	**719,579**	**134,314,547**	-	-	**31,234,921**	**61,515,089**	**1,256,631,736**
Transactions with owners:								
Allocation of the profit for 2010		-	20,649,660	10,000,000	-	30,865,429	(61,515,089)	-
Dividend payments	-	-	-	-	-	(30,865,429)	-	(30,865,429)
Share-based payments		-	5,561,277	(13,127,200)	3,127,200	5,173,689	-	734,966
Purchase of treasury shares		-	-	6,972,800	(6,972,800)	-	-	-
Profit for the year 2011	-	-	-	-	-	-	70,648,218	70,648,218
Other comprehensive income*:*								
Foreign exchange differences in foreign operations	-	-	217,531	-	-	-	-	217,531
Total comprehensive income	-	-	*217,531*	-	-	-	*70,648,218*	*70,865,749*
As at 31 December 2011	**1,028,847,600**	**719,579**	**160,743,015**	**3,845,600**	**(3,845,600)**	**36,408,610**	**70,648,218**	**1,297,367,022**

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

1. General information on the Company

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

As at 31 December 2011 the Company had 49 employees, same as at 31 December 2010.

Structure of employees is as follows:

	31 December 2011	31 December 2010
Doctoral degree (PhD)	1	-
Master's degree	7	8
University degrees	27	25
College	6	7
Secondary school	7	8
Primary school + training on the job	1	1
	49	**49**

Members of the Supervisory Board from 28 July 2011:

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

Members of the Supervisory Board until 28 July 2011:

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

Members of the Management Board:

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

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

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

2. Summary of significant accounting policies

Basis of presentation

Statement of compliance

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

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

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

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

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

The financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Group. As at 31 December 2011 exchange rate for 1 USD and 1 EUR was 5.82 HRK i.e. 7.53 HRK (31 December 2010: 5.57 HRK i.e. 7.38 HRK).

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

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

The Company has applied in the year ended 31 December 2011 the following amendments and interpretations issued which are or have become effective during the year and presented, in accordance with the requirements, comparative data. The application of new standards had no effect on the equity as at 1 January 2011:

- 2010 Annual Improvements to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 – effective for annual periods beginning on or after 1 January 2011,
- 2010 Annual improvements to IFRSs – amendments of transitional requirements to IAS 21, IAS 28, IAS 31, IAS 32 and IAS 39 – effective for annual periods beginning on or after 1 January 2011,
- IAS 24 Related parties (amended) - effective for annual periods beginning on or after 1 January 2011,

- IFRS 1 First time adoption of IFRS – limited exemption from comparative IFRS 7 disclosures for first-time adopters (amended) – effective for annual periods beginning on or after 1 January 2011,
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - amendments effective for annual period beginning on or after 1 January 2011,
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 January 2011).

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the year ended 31 December 2011:

- IFRS 9 Financial Instruments – new standard effective for annual periods beginning on or after 1 January 2015,
- IFRS 10 Consolidated financial statements – new standard effective for annual periods beginning on or after 1 January 2013,
- IFRS 11 Joint arrangements – new standard effective for annual periods beginning on or after 1 January 2013,
- IFRS 12 Disclosure of interests in other entities – new standard effective for annual periods beginning on or after 1 January 2013,
- IAS 27 and IAS 28 – consequential amendments due to above mentioned new consolidation standards - effective for annual periods beginning on or after 1 January 2013,
- IFRS 13 – Fair value measurement - new standard effective for annual periods beginning on or after 1 January 2013,
- IAS 1 Presentation of Financial Statements (revised) - amendments effective for annual periods beginning on or after 1 July 2012,
- IAS 19 Employee benefits (revised) – amendments effective for annual periods beginning on or after 1 January 2013,
- IAS 32 – Financial instruments: Presentation – amendments to application guidance on the offsetting of financial assets and financial liabilities – effective for annual periods beginning on or after 1 January 2014,
- IFRS 1 First time adoption of IFRS – replacement of fixed dates for certain exceptions – effective for annual periods beginning on or after 1 July 2011,
- IFRS 1 First time adoption of IFRS – additional exemptions for entities ceasing to suffer from severe hyperinflation – effective for annual periods beginning on or after 1 July 2011,

- IFRS 7 Financial instruments: Disclosures – amendments effective for annual periods beginning on or after 1 July 2011 or 1 January 2013,
- IFRS 7 Financial instruments: Disclosures – amendments requiring disclosures about the initial application of IFRS 9 effective for annual periods beginning on or after 1 January 2015,
- IAS 12 Income taxes (revised) – limited scope amendment effective for annual periods beginning on or after 1 January 2012.

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

Use of estimates and judgements

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

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

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

a) Revenue recognition

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

Sale of goods

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

- The company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred in respect of the transaction can be measured reliably.

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

b) Financial income and expenses

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

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

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

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

c) Taxation

The Company provides for taxation liabilities in accordance with Croatian law. Corporate tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, adjusted for amounts which are not included in the tax base or tax deductible expenses. Corporate tax is calculated by using tax rates enacted at the balance sheet date.

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

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

d) Earnings per share

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

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

e) Foreign currency translation

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

f) Long-term intangible and tangible assets (property, plant and equipment)

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

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

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

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

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

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

	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 of the valuation by independent evaluators is used;
- For equipment- net selling price – market price less costs to sale, e.g. last transaction price.

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

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

Increase of carrying value of an asset for the purpose of impairment loss reversal cannot be higher 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) Investment property

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

i) Leases

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

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

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

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

j) Financial assets and financial liabilities

Financial assets

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

Financial assets are classified into:

- At fair value through profit or loss" (FVTPL) - financial assets either held for trading or designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.
- Held-to-maturity – financial assets with fixed or determinable payments and fixed maturity dates for which there is a positive intent and ability to hold to maturity. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale (AFS) - non-derivative financial assets which is designated as such or it cannot be included in none of the above mentioned categories. AFS is stated at fair value Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income in revaluation reserves from investments, is included in profit or loss for the period.
- Loans and receivables - trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

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

Financial liabilities and equity instruments issued by the Company

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

An equity 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.

Share capital

Ordinary shares

Share capital represents nominal amount of issued shares.

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

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

Share repurchase

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

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

- the amount initially recognized less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest revenue).

Financial liabilities at fair value through profit and loss - financial liabilities either held for trading or are classified as such by the Company. They are measured at their fair value, while the gains/losses relating to them are recognized in the profit and loss account. The net gain/loss recognized in the profit and loss account includes any interest paid in the name of the financial liability.

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

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

De-recognition of financial liabilities

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

k) Investment in subsidiaries

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

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

Investments in an associates and subsidiaries are stated at cost.

l) Inventories

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

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

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

Small inventory is depreciated by 100% when put into use

m) Receivables

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

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

n) Cash and cash equivalents

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

o) Received loans

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

p) Provisions

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

Provisions are determined for given warranties, costs of legal proceedings in progress, restructuring costs, severance pay costs and awards to employees for long term employment and retirement (jubilee awards and severance payments).

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

q) Employee benefits

(i) Defined pension fund contributions
Obligations for defined contributions to pension funds are recognised as an expense in the income statement when incurred

(ii) Bonus plans
A liability for employee benefits is recognized in provisions based on the Company’s formal plan and when past practice has created a valid expectation by the Management Board/key employees that they will receive a bonus and the amount can be determined before the time of issuing the financial

statements. For liability for bonuses it is expected that it will be settled within 12 months from balance sheet date, and the liability is recognized in the amount expected to be paid.

(iii) Share-based payments

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

r) Contingent assets and liabilities

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

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

s) Subsequent events

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

t) Comparatives and reclassifications

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

3. Sales

	2011 HRK	2010 HRK
Fees to related parties	27,898,829	27,900,283
Rent to related parties	24,000,000	24,000,000
Fees to unrelated parties	461,061	481,943
	52,359,890	**52,382,226**

4. Other operating income

	2011 HRK	2010 HRK
Income from release of provisions (notes 9 and 31)	87,434,812	25,992,035
Net income from the asset disposal	351,215	316,384
Prior years income	72,569	149,829
Income from subventions and insurance claims	39,753	49,900
Rental income – third parties	20,233	22,433
Other income	1,007,779	893,845
	88,926,361	**27,424,426**

5. Cost of materials and energy

	2011 HRK	2010 HRK
Cost of energy	4,795,588	4,774,552
Cost of raw materials	448,496	399,283
Small inventory	110,235	55,550
	5,354,319	**5,229,385**

6. Cost of services

	2011	2010
	HRK	HRK
Maintenance	5,100,732	3,854,698
Lawyer and audit services	3,907,306	695,301
Intellectual services	3,465,828	2,747,995
Utilities	3,463,073	3,212,735
Cleaning services	2,397,920	1,962,254
Supervisory services and services of property management at Sesvetski Kraljevec	2,100,000	1,534,476
Representation services	2,090,912	1,983,914
Graphical services	2,053,300	1,682,098
Security services	1,788,380	1,538,878
Sponsorships and donations	1,118,164	842,387
Telephone cost, postal services and transport	1,042,559	1,063,853
Advertising services and fair costs	839,862	1,450,826
Education and training services	820,778	934,983
Rent services and leases	797,526	548,624
Other services	2,274,540	2,825,843
	33,260,880	**26,878,865**

Costs of lawyers have significantly increased in 2011 as a result of court case settlement described in note 31.

7. Personnel costs

	2011	2010
	HRK	HRK
Net wages and salaries	10,152,663	9,292,368
Share-based payments	8,468,095	12,483,990
Costs of taxes and contributions from salaries	8,646,124	8,396,025
Contributions on salaries	2,487,772	3,032,275
	29,754,654	**33,204,658**

Net wages and salaries in the amount of **HRK 10,152,663** (2010 in the amount of **HRK 9,292,368**) include compensations to the Management Board consisted of theirs salary in the amount of HRK 2,623,125 (2010 in the amount of HRK 2,137,166) and accrued bonuses in the amount of HRK 1,953,000 (2010 in the amount of HRK 1,768,000), and are an integral part of personnel costs.

8. Depreciation and amortization

	2011 HRK	2010 HRK
Depreciation	7,922,243	7,158,806
Amortization	163,302	177,230
	8,085,545	**7,336,036**

9. Other operating expenses

	2011 HRK	2010 HRK
Cost of arbitration proceedings - Cairo Phoenix (notes4 and 31)	57,170,742	-
Share-based payments (unrealised options)	5,561,275	-
Compensations to members of the Supervisory Board	1,340,927	1,107,166
Travelling costs and per-diems	924,646	799,368
Work agreements and copyrights	920,157	1,069,930
Taxes and contributions non-dependable on the results and similar costs	912,649	943,876
Insurance premiums	516,653	525,347
Bank services and commissions	205,440	106,731
Compensations to employees	182,443	453,345
Memberships, contributions and similar	88,511	295,905
Other	339,334	109,284
	68,162,777	**5,410,952**

10. Value adjustments

	2011 HRK	2010 HRK
Value adjustment of non-current assets		
Value adjustment of shares in subsidiaries	80,812,774	57,925,456
Value adjustment of financial assets	902,932	-
	81,715,706	**57,925,456**
Value adjustment of current assets		
Value adjustment of trade accounts receivable	123,509	-
Value adjustment - other	16,103	-
	139,612	-
	81,855,318	**57,925,456**

At the reporting date the Company has recognized impairment loss on the shares in subsidiaries in the amount of HRK 80.8 million (2010: HRK 58 million).

11. Provisions

	2011 HRK	2010 HRK
Provisions for costs within warranty periods	5,196,130	9,888,025
Provisions for court cases	1,006,752	14,850,570
Provisions for regular retirement and jubilee awards	-	1,063,560
	6,202,882	**25,802,155**

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

12. Financial revenues

	2011 HRK	2010 HRK
From the relations with associates		
Dividends from associates	**101,042,753**	**74,791,631**
From the relations with subsidiaries		
Dividends and share in profits	31,845,637	23,370,581
Revenues from shares	15,895,054	16,971,892
Increase in share value (unrealised gain)	-	7,203,007
Interest income from loans granted	2,668,597	2,972,953
	50,409,288	**50,518,433**
From the relations with unrelated parties		
Interest income on deposits	4,654,938	3,852,518
Yield from cash funds	-	2,710,913
Interest income on loans granted to employees	1,088,026	1,204,796
Interest income – other	2,642,726	577,282
Foreign exchange gains on deposits in foreign currency	13,938,598	19,934,492
Foreign exchange gains – other	972,297	1,036,066
Revenues from dividends and share in profits	30,653	96,335
	23,327,238	**29,412,402**
Unrealized gain (income)	**928,225**	**58,650**
	74,664,751	**79,989,485**
	175,707,504	**154,781,116**

13. Financial expenses

	2011 HRK	2010 HRK
From the relations with unrelated parties		
Foreign exchange losses on deposits in foreign currency	9,563,151	5,736,720
Foreign exchange losses on loans granted to employees	616,710	651,547
Foreign exchange losses - other	148,470	307,445
Interest expenses / Cairo Phoenix (note 31)	2,832,698	141,886
Unrealised losses(discount on borrowings)	-	4,108,975
Other financial expenses	508,133	46,317
	13,669,162	**10,992,890**

14. Corporate income tax

	2011 HRK	2010 HRK
Profit before tax	70,648,218	61,515,089
Corporate income tax at 20%	**14,129,644**	**12,303,018**
Tax non-deductible expenses	23,190,623	15,073,753
Decreases of taxable basis (revenues from dividends and other)	(32,403,673)	(29,685,096)
Tax exemptions (government subsidies for education)	(125,781)	(151,462)
Tax asset on tax losses	**4,790,813**	**(2,459,787)**
Deferred tax asset from previous period	(9,103,135)	(6,643,348)
Deferred tax asset on tax losses to be carried forward	(4,312,322)	(9,103,135)
Tax liability	**-**	**-**

Current tax rate for the year 2011 and 2010 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 2011, unrecognized deferred tax asset on tax losses carried forward amounts to HRK 4,312,322 and is available for use as follows:

	31 December 2011 HRK	31 December 2010 HRK
31 December 2013	-	4,231,948
31 December 2014	1,852,535	2,411,400
31 December 2015	2,459,787	2,459,787
	4,312,322	**9,103,135**

15. Earnings per share

Basic earnings per share

	2011 HRK	2010 HRK
Net profit for the year	70,648,218	61,515,089
Weighted average number of shares	2,572,119	2,572,119
Earnings per share in HRK	**27.47**	**23.92**

Diluted earnings per share

	2011 HRK	2010 HRK
Net profit for the year	70,648,218	61,515,089
Weighted average number of shares (less treasury shares)	2,562,505	2,572,119
Earnings per share in HRK	**27.56**	**23.92**

16. Non-current intangible assets

	Concessions, patents, licences, software and other rights HRK	**Other HRK**	**Total HRK**
Cost			
As at 1 January 2010	**468,629**	**653,207**	**1,121,836**
As at 31 December 2010	**468,629**	**653,207**	**1,121,836**
As at 31 December 2011	**468,629**	**653,207**	**1,121,836**
Accumulated amortization			
As at 1 January 2010	**454,701**	**244,952**	**699,653**
Amortization for the year 2010	13,928	163,302	177,230
As at 31 December 2010	**468,629**	**408,254**	**876,883**
Amortization for the year 2011	-	163,302	163,302
As at 31 December 2011	**468,629**	**571,556**	**1,040,185**
Carrying value			
31 December 2010	-	244,953	244,953
31 December 2011	**-**	**81,651**	**81,651**

The cost of completely amortized intangible assets still in use as at 31 December 2011 amounts to HRK 469 thousand.(2010: 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								
As at 1 January 2010	**64,167,432**	**248,742,866**	**15,004,514**	**3,723,170**	**50,776**	**10,980,635**	**10,100,915**	**352,770,308**
Transfer	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)
As 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**
Transfer		14,426,888	2,853,515	1,538,485	-	(18,818,888)	-	-
Additions	899,269	2,571,849	-	69,010	-	11,420,441	1,619,748	16,580,317
Disposals	(66,421)	(284,367)	(241,829)	(1,281,902)	-	-	(3,279,476)	(5,153,995)
As at 31 December 2011	**73,320,124**	**280,157,148**	**25,453,125**	**3,860,345**	**63,376**	**8,459,202**	**43,568**	**391,356,888**
Accumulated depreciation								
As at 1 January 2010	-	**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)
Depreciation for the year 2010	-	5,103,026	1,764,732	291,048	-	-	-	7,158,806
As at 31 December 2010	-	**139,707,742**	**9,755,291**	**3,130,305**	-	-	-	**152,593,338**
Depreciation for the year 2011	-	5,250,071	2,168,793	503,379	-	-	-	7,922,243
Additions	-	1,419,049	-	-	-	-	-	1,419,049
Disposals	-	(284,367)	(220,173)	(1,281,902)	-	-	-	(1,786,442)
As at 31 December 2011		**146,092,495**	**11,703,911**	**2,351,782**	-	-	-	**160,148,188**
Carrying value								
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
31 December 2011	**73,320,124**	**134,064,653**	**13,749,214**	**1,508,563**	**63,376**	**8,459,202**	**43,568**	**231,208,700**

Additions in 2011 mostly relate to the purchase of real estate (land and buildings) at a carrying value from related company Končar – Electrical Engineering Institute Inc. (technological laboratory), to the completion of investment in hall A for the production of wind turbines on location Fallerovo šetalište, Zagreb, to the investment in the replacement and installation of distribution transformers as a part of the electric power distribution system on location Sesvetski Kraljevec, and the continuing investment in new switchyard TS 137 on location Sesvetski Kraljevec.

Cost of fully depreciated property, plant and equipment, still in use as at 31 December 2011 amounts to HRK 19,097 thousand (31/12/2010: HRK 19,066 thousand).

The mortgage is registered over the land with carrying value of HRK 46,485 thousand (31/12/2010: HRK 46,321 thousand) and business facilities with carrying value of HRK 77,528 thousand (31/12/2010: HRK 69,530 thousand) as a collateral for subsidiary's liabilities.

At 31 December 2011 Company has the following contractual investments that were in progress:

- 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 started in the middle of the year 2008, and it is currently in the process of takeover by Croatian electrical company. Completion of the works related to routing and landscaping is planned for the beginning of 2012

18. Investment property

Investment property (located in Sesvetski Kraljevec, Samobor, Požega-Zvečevo and Zagreb) in the amount of HRK 93,849,613 (2010: HRK 93,849,610) relates to the investments in real estates for the capital appreciation intended for future sale. Apart from property in Samobor, the assets are not used for business purposes or the court proceedings are led regarding their ownership. Fair value of these investments estimated by independent evaluators is higher than their carrying value, accordingly, depreciation is not charged to these investments.

19. Investments in subsidiaries

	31 December 2011 HRK	31 December 2010 HRK
Domestic subsidiaries		
Končar-Infrastructure and Services Ltd, Zagreb	56,691,318	56,691,318
Končar-Electrical Engineering Institute Inc, Zagreb	60,936,110	60,936,110
Končar-Electronics and Informatics Inc, Zagreb	38,709,693	38,709,693
Končar-Small Electrical Machines Inc, Zagreb	48,600,512	48,600,512
Končar-Generators and Motors Inc, Zagreb	73,176,047	73,176,047
Končar-Instrument Transformers Inc, Zagreb	12,450,769	12,402,769
Končar-Distribution and Special Transformers Inc, Zagreb	58,962,301	58,962,301
Končar-Medium Voltage Apparatus Inc, Zagreb	12,212,807	12,212,807
Končar-Electric Vehicles Inc, Zagreb	36,409,158	36,409,158
Končar-Switchgear Inc, 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	45,244,847	36,694,847
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zgb	81,432,641	81,432,641
Končar-Catering Equipment Inc, Zagreb	21,571,287	21,571,287
Končar-Tools Inc, Zagreb	31,278,153	31,278,153
Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb	5,673,822	5,673,822
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	37,196,266	21,301,212
Končar-Renewable Sources Ltd, Zagreb	68,489,300	68,489,300
Končar-Steel Structures Inc, Zagreb	16,703,123	16,703,123
Value adjustment	(206,924,030)	(126,111,256)
	662,429,647	***718,749,367***
Foreign subsidiaries		
KONES AG, Zurich, Switzerland	7,189,889	4,534,225
Končar Intertrade, Kuala Lumpur, Malaysia (dormant)	-	298,114
Value adjustment	-	(298,114)
	7,189,889	***4,534,225***
	669,619,536	**723,283,592**

Increase in investments in subsidiaries during the year 2011 relate to:

- Increase in investment in Končar-Power Plant and Electric Traction Engineering Inc, Zagreb in the amount of HRK 15,895,054,
- Increase of capital in Končar-High Voltage Switchgear Inc, Zagreb in the amount of HRK 8,550,000,
- Share acquisition of the company KONES AG in the amount of HRK 2,453,147 (HRK counter value amounts to CHF 396,000)
- Increase of the Company's share in Končar – Instrument Transformers Inc, Zagreb in the amount of HRK 48,000.

Shares in ownership and voting rights as at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011		31 December 2010	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Domestic subsidiaries				
Končar-Household Appliances Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Small Electrical Machines Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Infrastructure and Services Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Electrical Engineering Institute Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zgb	100.00	100.00	100.00	100.00
Končar-Generators and Motors Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Tools Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Catering Equipment Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Renewable Sources Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Electric Vehicles Inc, Zagreb	75.04	75.04	75.04	75.04
Končar-Steel Structures Inc, Zagreb	75.01	75.01	75.01	75.01
Končar-Electronics and Informatics Inc, Zagreb	75.03	75.03	75.03	75.03
Končar-Switchgear Inc, Sesvetski Kraljevec	45.71	66.85	45.71	66.85
Končar-Medium Voltage Apparatus Inc, Zagreb	41.77	69.87	41.77	69.87
Končar-Instrument Transformers Inc, Zagreb	43.53	72.35	43.40	72.35
Končar-Distribution and Special Transformers Inc, Zagreb	51.71	67.80	51.71	67.80
Končar-High Voltage Switchgear Inc, Zagreb	84.42	88.02	81.19	85.19
Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb	38.49	76.51	38.49	76.51
Foreign subsidiaries				
Kones AG, Zurich, Switzerland	100.00	100.00	64.00	77.50

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

20. Investments in associates

Investments in associates amounts to HRK 67,722,257 (31/12/2010: HRK 67,722,257) are related to investments in Končar - Power Transformers Ltd, Zagreb.

21. Non-current financial assets

	31 December 2011 HRK	31 December 2010 HRK
Shares of Tesla Savings Bank	3,500,010	-
Value adjustment of shares in Tesla Savings Bank	(902,932)	-
Shares of Zagrebačka Bank d.d., Zagreb	944,500	1,163,983
Shares of Croatia osiguranje d.d., Zagreb	920,000	1,208,650
	4,461,578	**2,372,633**

22. Long term receivables

	31 December 2011 HRK	31 December 2010 HRK
Receivable on the basis of sale on credit		
Receivables for apartments sold	11,264,949	13,582,698
Value adjustment of the receivables for the apartments sold	(3,180,752)	(4,108,975)
Receivables for shares sold	20,434,605	24,216,466
Other loans granted	112,072	130,957
Other financial asset	438	439
Current portion	(5,133,515)	(5,250,238)
Receivable on the basis of foreign sales	5,858,351	5,954,115
Current portion	(183,885)	(208,757)
	29,172,263	**34,316,705**

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

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

Receivables for shares sold relate to the long term receivable for sold shares of related companies Končar-Electronics and Informatics Inc, Končar - Electric Vehicles Inc. and Končar – Steel Structures Inc. within the employee share ownership plan that includes instalment payments during 10 years. Receivable on the basis of foreign sales relates to the receivable for sales in Bosnia and Herzegovina realized by the company TAKRAF from Germany, acquired by KfW Bank, Berlin.

23. Receivables from related companies

	31 December 2011 HRK	31 December 2010 HRK
Trade receivables		
Domestic subsidiaries		
Končar-Infrastructure and Services Ltd, Zagreb	10,226,230	12,935,213
Končar-Electrical Engineering Institute Inc, Zagreb	66,547	470,618
Končar-Electronics and Informatics Inc, Zagreb	-	109,546
Končar-Small Electrical Machines Inc., Zagreb	368,951	363,038
Končar-Generators and Motors Inc, Zagreb	603,914	1,310,016
Končar-Instrument Transformers Inc, Zagreb	701,655	785,735
Končar-Distribution and Special Transformers Inc, Zagreb	445,925	473,607
Končar-Medium Voltage Apparatus Inc, Zagreb	123,732	70,384
Končar-Electric Vehicles Inc, Zagreb	2,828,449	2,164,392
Končar-Switchgear Inc, Sesvetski Kraljevec	751,041	825,032
Končar-Household Appliances Ltd, Zagreb	3,671,642	2,578,544
Končar-High Voltage Switchgear Inc, Zagreb	843,022	1,548,949
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zagreb	1,217,458	747,272
Končar-Catering Equipment Inc, Zagreb	161,542	381,322
Končar-Tools Inc, Zagreb	1,354,646	433,570
Končar- Engineering for Plant Installation and Commissioning Inc	362,462	256,105
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	1,377,386	1,113,535
Končar-Steel Structures Inc, Zagreb	973,536	971,839
Končar-Renewable Sources Ltd, Zagreb	63,272	200
Foreign subsidiaries		
Kones AG, Zurich, Switzerland	-	32,666
Associates		
Končar-Power Transformers Ltd, Zagreb	703,322	497,443
	26,844,732	*28,069,026*
Dividends receivable		
Associates		
Končar-Power Transformers Ltd, Zagreb	-	*74,791,632*
Interest receivable (total)	*2,595,181*	*631,531*
	29,439,913	**103,492,189**

As at 31 December 2011, the ageing structure of receivables from related parties was as follows:

	Total	Undue and collectible	< 60 days	Due but collectible 60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**29,439,913**	11,005,791	7,485,714	1,312,905	2,282,271	5,981,278	1,371,954
2010	**103,492,189**	85,773,876	9,584,987	1,899,817	2,334,963	3,102,748	795,798

The average collection days from subsidiaries and customers during 2011 were 316 days (2010: 320 days).

24. Trade accounts receivable

	31 December 2011	31 December 2010
	HRK	HRK
Domestic customers	596,964	1,260,405
Value adjustment	(284,979)	(871,672)
Domestic customers with value adjustment	311,985	388,733
Foreign customers	183,885	208,757
	495,870	**597,490**

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

	Total	Undue and collectible	< 60 days	Due but collectible 60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**311,985**	54,974	53,313	24,559	52,698	85,767	40,674
2010	**388,733**	34,339	49,890	30,633	79,381	142,603	51,887

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

	2011	2010
	HRK	HRK
Balance as at 1 January	871,672	971,580
Impaired in the current year	123,509	-
Collected in the current year	-	(99,908)
Write-off for the year	(710,202)	-
Balance as at 31 December	**284,979**	**871,672**

25. Other receivables

	31 December 2011	31, December 2010
	HRK	HRK
Receivables for apartments sold	6,971,386	6,664,960
Receivables for shares sold	3,085,414	1,791,546
Current portion of long-term receivables	5,133,515	5,250,238
Interest receivables on deposits	2,959,063	1,521,419
Receivables for value added tax	602,804	-
Other receivables	76,696	77,245
	18,828,878	**15,305,408**

26. Loans granted to related parties

	31 December 2011	31 December 2010
	HRK	HRK
Končar-Switchgear Inc, Sesvetski Kraljevec	3,500,000	1,000,000
Končar-Electric Vehicles Inc, Zagreb	50,415,000	28,500,000
Končar-High Voltage Switchgears Inc, Zagreb	-	1,900,000
	53,915,000	**31,400,000**

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

27. Current financial assets

	31 December 2011	31 December 2010
	HRK	HRK
Deposits over 3 months	263,908,242	84,181,504
	263,908,242	**84,181,504**

Deposits over 3 months are related to deposits in Zagrebačka Bank d.d. bearing the annual interest rate from 0.4% to 6.0%.

28. Cash and cash equivalents

	31 December 2011 HRK	31 December 2010 HRK
Balance at gyro accounts	3,016,174	4,335,250
Balance at accounts in foreign currency	452,994	350,375
Petty cash - HRK	8,390	97,367
Petty cash – foreign currencies	61,414	29,208
Deposits up to 3 months	39,000,000	76,802,463
Cash funds	-	81,710,913
	42,538,972	**163,325,576**

Deposits up to 3 months relate to deposit in Zagrebačka Bank d.d bearing the interest rate from 2.55% to 4.45%.

29. Prepaid expenses and accrued income

Prepaid expenses in the amount of HRK 861,682 (2010: HRK 733,263) are related to fairs participation costs, costs of professional education and audit services.

30. Subscribed capital

Subscribed capital is determined in the nominal amount of HRK 1,028,847,600 (as at 31 December 2010: HRK 1,028,847,600) and includes 2,572,119 shares of a nominal value of HRK 400 per share.

The ownership structure of the Company is as follows:

Shareholder	31 December 2011		31 December 2010	
	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
AUDIO /HZMO	384,628	14.95	384,628	14.95
AUDIO/RH	260,280	10.12	260,280	10.12
LINTEUM SAVJETOVANJE d.o.o.	190,491	7.39	189,744	7.38
Societe Generale - Splitska Bank d.d./ Erste Plavi mandatory pension fund	172,199	6.69	167,784	6.52
Hypo-Alpe-Adria-Bank d.d./ PBZ Croatia Osiguranje OMF	107,159	4.16	75,497	2.94
Societe Generale Bank/ AZ OMF	104,676	4.06	69,694	2.71
Florinčić Kristijan	85,714	3.33	85,714	3.33
Hypo Alpe Adria Bank/RBA OMF	35,250	1.37	37,000	1.44
PBZ d.d. (custodian account)	33,074	1.28	36,829	1.43
Other shareholders	464,519	18.2	540,434	21.01
KONČAR d.d. (treasury shares)	9,614	0.37	-	-
	2,572,119	**100.00%**	**2,572,119**	**100.00%**

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

31. Provisions

	Provisions for guarantees	Legal court cases	Retirement and jubilee rewards	Other long term provisions	Total
	HRK	**HRK**	**HRK**	**HRK**	**HRK**
31 December 2010	**114,957,270**	**154,510,532**	**1,291,160**	**11,516,010**	**282,274,972**
Additional provisions	5,196,130	1,006,752	-	-	6,202,882
Release of provisions	-	(75,573,958)	(344,844)	(11,516,010)	(87,434,812)
31 December 2011	**120,153,400**	**79,943,326**	**946,316**	**-**	**201,043,042**

Provisions for liabilities from issued guarantees for the return of the advance payment in the amount of HRK 120,153,400 (2010: in the amount of HRK 114,957,270) relate to the HRK counter value 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 advances payments guarantees have been issued in various currencies, which HRK counter value as at 31 December 2011 amounts to HRK 65,491,426 (as at 31 December 2010 in the amount of HRK 62,670,562). The stated guarantees are in abeyance due to situation in Iraq.

Long-term provisions for legal proceedings in the amount of HRK 79,943,326 (2010: in the amount of HRK 154,510,534) relate to legal court cases in progress led against the Company in Croatia in the amount of HRK 53,700,000, in foreign countires in the amount of HRK 23,279,760 and for the estimated costs of legal proceedings in the amount of HRK 2,963,566.

At the end of the year 2011 the arbitration proceedings led by International Chamber of Commerce between Končar – Electrical Industry Inc. and Cairo Phoenix Trade Center has been finished. As a result, related long-term provisions in the amount of HRK 75,158,800 have been released.

Other long-term provisions in the amount of HRK 11,516,010 as at 31 December 2010 are released during 2011 on the basis of realized share options rights of 17,432 shares owned by president and members of the Company's Management Board.

32. Long term liabilities

	31 December 2011 HRK	31 December 2010 HRK
Liabilities for loans		
Environmental Protection and Energy Efficiency Fund	510,000	850,000
Current portion	(340,000)	(340,000)
	170,000	**510,000**

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

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

	HRK
31 December 2010	510,000
Current portion	(340,000)
31 December 2011	**170,000**

Long term liabilities for loans mature as follows:

	HRK
Within a year	340.000
From 1 to 2 years	170.000
Current portion	(340.000)
	170.000

33. Current liabilities toward related parties

	31 December 2011	31 December 2010
	HRK	HRK
Končar-Infrastructure and Services Ltd, Zagreb	-	471,636
Končar-Electronics and Informatics Inc, Zagreb	12,776	561
Končar-Switchgear Inc, Sesvetski Kraljevec	-	389,522
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	-	38,187
Končar-Electrical Engineering Institute Inc, Zagreb	962,000	-
	974,776	**899,906**

34. Current liabilities for loans, deposits and similar

	31 December 2011	31 December 2010
	HRK	HRK
Environmental Protection and Energy Efficiency Fund	340,000	340,000
	340,000	**340,000**

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

35. Current trade accounts payable

	31 December 2011	31 December 2010
	HRK	HRK
Domestic suppliers	1,054,832	1,173,026
Foreign suppliers	-	1,780
	1,054,832	**1,174,806**

The average payment days to suppliers during 2011 were 38 days (2010: 35 days).

As at 31 December 2011 the ageing structure of trade accounts payable was as follows:

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**1,054,832**	968,434	86,398	-	-	-	-
2010	**1,174,806**	946,218	197,742	30,846	-	-	-

36. Other current liabilities

	31 December 2011 HRK	31 December 2010 HRK
Liabilities toward employees		
Liabilities for salaries	352,606	360,977
Liabilities for bonuses on the basis of result for the current year	1,953,000	1,768,000
	2,305,606	***2,128,977***
Liabilities for taxes, contributions and similar		
Liabilities for taxes	1,838,028	2,167,321
Liabilities for value added tax	-	584,211
Liabilities for contributions	864,490	918,463
	2,702,518	***3,669,995***
Other liabilities		
Interest liabilities	11,000	11,000
Liabilities toward state for apartments sold	28,960	8,119
Liabilities for dividends	114,360	127,658
Other liabilities	82,480	198,654
	236,800	***345,431***
	5,244,924	**6,144,403**

37. Off-balance sheet items

	31 December 2011 HRK	31 December 2010 HRK
Subsidiarity guarantee (Zagrebačka Bank d.d.)	559,009,118	442,611,980
Apartments sold (65%)	98,397,500	100,597,102
Corporative guarantees / other banks	78,058,409	76,005,073
Bills of exchange	53,915,000	31,400,000
Debentures	7,500,000	7,500,000
	796,880,027	**658,114,155**

38. Transaction with related parties

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

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

Dividends income, i.e. profit share is recognized in the amount of HRK 132,889 thousand.

2010	**Operating activities**				**Financial activities**	
Related party	**Receivables HRK'000**	**Liabilities HRK'000**	**Revenues HRK'000**	**Expenses HRK'000**	**Receivables HRK'000**	**Revenues HRK'000**
Končar-Infrastructure and Services Ltd,	12,935	472	24,503	9,302	-	-
Končar-Household Appliances Ltd,	2,579	-	1,790	44	-	316
Končar-Electric Vehicles Inc,	2,164	-	3,674	-	28,664	1,851
Končar-High Voltage Switchgear Inc,	1,549	-	585	-	2,273	316
Končar-Generators and Motors Inc,	1,310	-	2,150	-	89	436
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	1,114	38	3,391	23	-	41
Končar-Steel Structures Inc,	972	-	1,232	-	-	-
Končar-Switchgear Inc,	825	389	503	1,868	1,000	13
Končar-Instrument Transformers Inc,	786	-	1,468	-	-	-
Končar-Low Voltage Switches and Circuit Breakers Ltd.	747	-	736	111	-	-
Končar-Distribution and Special Transformers Inc,	474	-	4,454	-	-	-
Končar-Electrical Engineering Institute Inc,	471	-	822	294	-	-
Končar-Tools Inc.	434	-	315	-	5	-
Končar-Catering Equipment Inc,	380	-	309	-	-	-
Končar-Small Electrical Machines Inc.,	363	-	649	-	-	-
Končar-Engineering for Plant Installation and Commissioning Inc,	256	-	462	-	-	-
Končar-Electronics and Informatics Inc,	110	1	1,053	1,744	-	-
Končar-Medium Voltage Apparatus Inc,	70	-	444	-	-	-
Kones AG, Zürich, Switzerland	33	-	-	-	-	-
Končar-Power Transformers Ltd.	497	-	3,250	-	-	-
Končar-Renewable Sources Ltd,	-	-	110	-	-	-
	28,069	**900**	**51,900**	**13,386**	**32,031**	**2,973**

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

Dividends income, i.e. profit share is recognized in the amount of HRK 98,162 thousand.

As at 31 December 2010 the Company has receivables for dividends in the amount of HRK 74,792 thousand toward Končar-Power Transformers Ltd.

39. Risk management

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

The Company doesn't use derivative financial instruments. The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summed up as follows:

a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt to equity balance.

The Company manages capital and for the purpose of proper capital structure, in accordance with the economic conditions present on the market, decides if the retained earnings should be distributed to shareholders, if the capital needs increase or decrease, if the assets should be sold to cover the liabilities, etc. Goals, policies and processes have not been changed during the period ending 31 December 2011 nor for the period ending 31 December 2010.

	31 December 2011 HRK'000	31 December 2010 HRK'000
Long-term financial liabilities	170	510
Short-term financial liabilities	340	340
Less: cash and cash equivalents	(42,539)	(163,326)
Net debt	-	-
Capital	1,297,367	1,256,632
Gearing ratio	-	-

b) Significant accounting policies

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

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

2011

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

2010

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

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

<u>Fair value of financial assets and liabilities</u>

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

- level 1: quoted market prices for identical assets or liabilities traded on active markets

- level 2: input variables that do not represent the above stated prices from level 1 but are visible for assets or liabilities, be it directly (like prices) or indirectly (derived from prices for example)

- 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 2011

In thousands of HRK	Level 1	Level 2	Level 3	Total
Assets				
Listed securities	1,865	-	-	1,865
	1,865	**-**	**-**	**1,865**

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**

Shares in money market funds 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-termless of these instruments. The Management Board believes that their fair value doesn't differ significantly from their accounting value.

Other financial instruments

Financial instruments of the Company that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical accounting value of receivables and liabilities, including provisions that are in line with the usual terms of business is approximately equal to their fair value.

c) Financial risk

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

Market risk

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

The Company's activities are primarily exposed to the foreign currency exchange rate risk.

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

a) Foreign currency risk management

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

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

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

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

20010	EUR	CHF	Other currencies	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	84,181	-	-	84,181	-	84,181
Cash and cash equivalents	-	-	76,793	76,793	86,533	163,326
	90,135	**-**	**76,793**	**166,928**	**115,493**	**282,421**

	Short-term exposure			**Long term exposure**		
	EUR	CHF	Other	EUR	USD	CHF
	000 HRK	000 HRK	000 HRK	000 HRK	000 HRK	000 HRK
2011						
Financial assets	88,546	15,905	23	5,674	-	-
Financial liabilities	-	-	-	-	-	-
Total exposure	**88,546**	**15,905**	**23**	**5,674**	**-**	**-**
2010						
Financial assets	84,191	76,793	-	5,745	-	-
Financial liabilities	-	-	-	-	-	-
Total exposure	**84,191**	**76,793**	**-**	**5,745**	**-**	**-**

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:

	2011 Effect on income before taxes HRK'000	2010 Effect on income before taxes HRK'000
EUR	(1,853)	(901)
GBP	(1)	-
CHF	(710)	(343)

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

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

b) Interest rate risk

The company is not exposed to interest rate risk.

Credit risk

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

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Liquidity risk

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

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

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

	Carrying value	Contracted cash flows	0 – 12 Months	1 – 2 Years	2 – 5 Years	More than 5 Years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2010						
Loans	850	850	340	340	170	-
Trade account and other payables	8,219	8,219	8,219	-	-	-
	9,069	**9,069**	**8,559**	**340**	**170**	-

40. Court cases and contingent liabilities

Several court cases are led against the Company in the country and abroad in the amount of HRK 126,247 thousand.

As at 31 December 2011 for these court cases the Company recognized the provision in the amount of HRK 79,943 thousand. The Management Board does not expect additional costs to arise from other court cases.

Total guarantees issued by the Company are established in the amount of HRK 637,067 thousand (2010 in the amount of HRK 518,617 thousand) whereof the amount of HRK 430,397 thousand relates to performance guarantees (2010 in the amount of HRK 349,039 thousand). The Company has recognized provisions for these guarantees in the amount of HRK 120,153 thousand (2010 in the amount of HRK 114,957 thousand).

41. Subsequent events

The Company has bought fixed assets (tools, fittings and transportation equipment) from related company Končar-Tools Inc. in the amount of HRK 5,372 thousand and made the decision about purchase of a property on location Borongaj and Zlatar from related company Končar – Low Voltage Switches and Circuit Breakers Ltd in the amount of HRK 11.4 million.

After the balance sheet date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Company for the year 2011.

42. Approval of financial statements

These financial statements were approved by the Management Board and authorized for issue on 15 March 2012.

Darinko Bago

President of the Management Board