



ANNUAL REPORT 2008



KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.
10090 Zagreb, CROATIA, Josipa Mokrvića 8, P.O. Box 62

Zagreb, May 2009.

CONTENTS

I MANAGEMENT BOARD REPORT ON THE COMPANY POSITION IN 2008

1. INTRODUCTORY WORD BY THE MANAGEMENT BOARD
2. MAJOR 2008 FIGURES AND THEIR COMPARISON WITH 2007, 2006, AND 2005
3. ORGANISATION SCHEME WITH MANAGEMENT AND SUPERVISORY BOARD
4. GENERAL POSITION OF THE COMPANY
5. CORPORATE ORGANISATION AND MANAGEMENT IN 2008
6. CORPORATE GOVERNANCE CODE APPLICATION
7. MARKET POSITION AND SALES – BY COUNTRIES AND PRODUCT GROUPS
8. FINANCIAL POSITION (BALANCE SHEET)
9. OPERATING RESULTS (PROFIT AND LOSS ACCOUNT) AND SHARE PRICE TRENDS
10. MAIN OPERATING RISKS
11. INVESTMENTS AND TECHNOLOGY UPDATE
12. TECHNICAL DEVELOPMENT AND PRODUCT INNOVATION
13. HUMAN RESOURCES
14. QUALITY MANAGEMENT, ENVIRONMENT MANAGEMENT AND OHSM
15. FUTURE DEVELOPMENT STRATEGY

II SUPERVISORY BOARD REPORT

III AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES

1. INTRODUCTORY WORD BY THE MANAGEMENT BOARD

2008 – YEAR OF SIGNIFICANT GROWTH OF EXPORTS AND SUCCESSFUL COMPLETION OF SECOND INVESTMENT CYCLE

In 2008, Končar D&ST continued its sequence of successful business years. Total sales of goods and services in 2008 grew to HRK 573 mil. (in 2007: HRK 487 mil.), which is an annual growth of 18%. Exports grew from HRK 322 mil. in 2007 by 31% to HRK 420 mil. in 2008.

Appropriate management of business processes and risks, as well as increased productivity have led to gross profit of HRK 32.3 mil. (net HRK 30.2 mil.), which is an increase compared to gross profit in 2007 of HRK 29.3 mil. (net profit HRK 22.7 mil.) by 10% (35% for net profit).

Total contracts at the end of 2008 amounted to HRK 513 mil. that was an increase of 52% compared to end 2007 and the amount of HRK 336 mil.

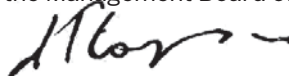
In the second half of the year, we started the operation of the Special Distribution Transformers program in a completely furnished and equipped hall. In that way, conditions were created for increased sales of small special transformers, which will due to their complexity and specific features contribute to future increase of company value. Investments in 2008 amounted to HRK 31.5 mil. and completed for the most part the second investment cycle in the technological update of the company.

With the regular certification of Quality Management System based on ISO 9001:2000, Environment Management System based on ISO 14001:2004, in 2008 we also certified the Occupational Health and Safety Management System based on OHSAS 18001:2007.

Trade in Končar-D&ST shares and their price at the Zagreb Stock Exchange in 2008 was in compliance with overall negative trends of investment climate in the world. At the start of the year, the price of ordinary shares of Končar D&ST was HRK 4,510.00 and at the end of 2008, it was HRK 1,300.00.

Estimating 2008 as a successful year, with well prepared contracts for 2009, despite adverse impacts of the global financial crisis, the Management Board of Končar D&ST d.d. would like to thank for the support and trust to all our shareholders, employees, partners and banks and is pleased to present this report on the status and results of operations of the Company.

For the Management Board of Končar D&ST d.d.



Ivan Klapan
President of the Management Board

2. MAJOR 2008 FIGURES AND THEIR COMPARISON WITH 2007, 2006 AND 2005

A trend of growing income with increased profitability and new contracts has continued, as a sound basis for the future.

	2008/2007
- net profit	132,6
- sales	117,6
- exports	130,6
- balance of orders at year's end	152,4

	HRK ('000)				EUR ('000)		INDEKS 08/07
	2008	2007	2006	2005	2008	2007	
Sales							
Croatia	152.830	165.532	113.414	98.003	21.158	22.564	93,8
Exports	420.158	321.752	270.519	140.703	58.168	43.858	132,6
Total	572.988	487.284	383.933	238.706	79.326	66.422	119,4
Balance of orders at the year's end							
Croatia	70.036	51.759	71.770	23.041	9.696	7.055	137,4
Exports	442.718	284.625	129.715	109.498	61.291	38.797	158,0
Total	512.754	336.384	201.485	132.539	70.987	45.852	154,8
Annual sales per employee	1.637	1.577	1.401	929	227	215	105,6
Investments	31.493	5.390	17.878	20.426	4.360	735	593,2
Net profit	30.166	22.745	16.199	8.453	4.176	3.100	134,7
Dividend HRK/share							
Ordinary	*	88,99	63,38	33,07			
Preferred	*	88,99	63,38	33,07			
Net profit/ sales in %	5,3%	4,7%	4,2%	3,5%			
Net profit per total equity	34,2%	29,2%	23,1%	13,6%			
Total equity and reserves as at 31/12	118.370	100.547	86.460	70.634	16.387	13.706	119,6
No. of employees							
Average	350	309	274	257			113,3
as at 31/12	368	329	294	259			111,9

Note: Average rate

2005: EUR 1 = HRK 7.4009

2006: EUR 1 = HRK 7.3229

2007: EUR 1 = HRK 7.3362

2008: EUR 1 = HRK 7.2232

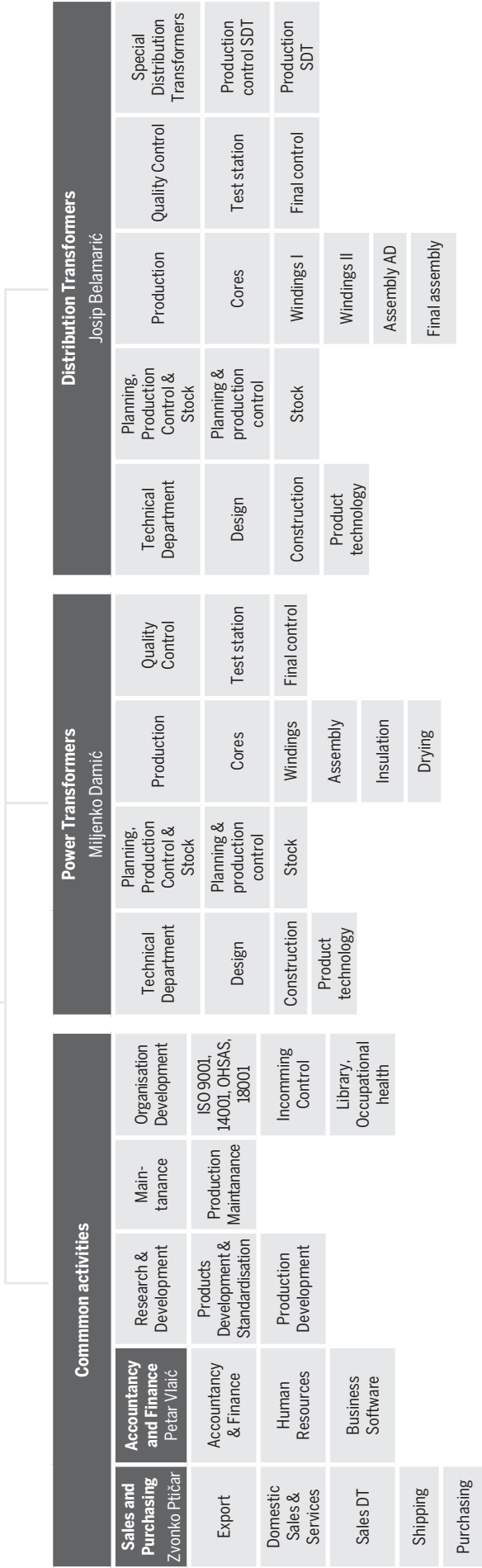
* Dividend amount will be known after the General Assembly.

3. ORGANISATIONAL SCHEME KONCAR D&ST Inc.

Supervisory Board
 Darinko Bago, president
 Vladimir Plečko, vice-president
 Jozo Miloloža, member
 Božidar Piller, member
 Nenad Peremin, member

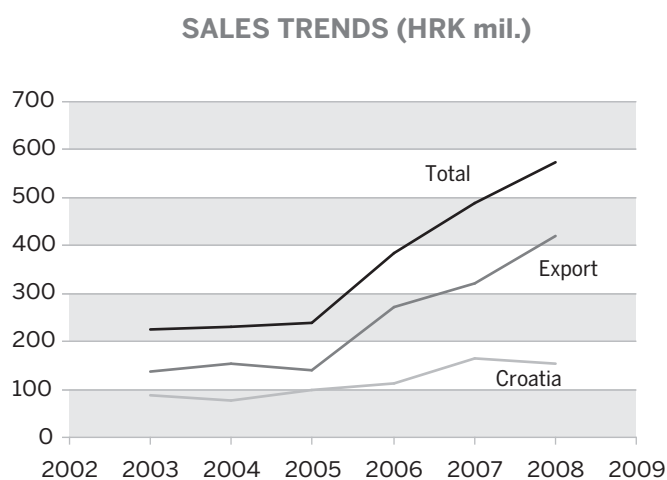
Auditors:
 AUDIT d.o.o.
 RECONSULT d.o.o.

PRESIDENT OF THE MANAGEMENT BOARD
 Ivan Klapan
 Management Office



4. GENERAL POSITION OF THE COMPANY

Good performance in the preceding years, good contracting of new jobs, successful restructuring, investments into new modern equipment, new production facilities, new products and successful introduction of new young and creative employees have created conditions for stable operations. Even in difficult conditions caused by global financial crisis, the Company is estimated to have potential for further growth and creation of new value.



5. CORPORATE ORGANISATION AND MANAGEMENT IN 2008

In the course of 2008, members of the Management Board of Končar D&ST d.d. were:

- Ivan Klapan, President of the Management Board
- Josip Belamarić, member, Director of DT production centre
- Miljenko Damić, member, Director of PT production centre
- Zvonko Ptičar, member, Sales and Procurement Director
- Petar Vlaić, member, Finance Director

Business processes are organized through Distribution Transformers Production Centre and Power Transformers Production Centres with common departments. At the start of year, product quality control with test stations was organized into Production Centres, which continued their further integration of business processes.

The Company is operating at a single location, Josipa Mokrovića 8, 10090 Zagreb, and has no branches.

6. CORPORATE GOVERNANCE CODE APPLICATION

The Company has been applying most of the provisions of the Corporate Governance Code issued by the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (HANFA), published at the official Zagreb Stock Exchange website (www.zse.hr) except for certain provisions deemed as not required for application in the prescribed form. The Company finds that non-application of such provisions does not impair a high level of transparency of the corporate operations, and will not have a significant effect on the current and prospective investors in their investment decisions.

A questionnaire with answers to 71 questions precisely responding to the questions on the Code provisions applied and those not applied by the Company is available to the public at the official Zagreb Stock Exchange website (www.zse.hr)

Within the framework of its organisation model of operations and all business processes, the Company has developed internal control systems on all significant levels enabling among other things fair and correct presentation of financial statements and operation reports.

Information on major shareholders are available on daily basis at the official Central Depository Agency (SDA) website (www.sda.hr), and the balance as at 31 December 2008 and 2007 respective is published at page 25 of the Audit Report. Preferred shares do not provide votes.

7. MARKET POSITION AND SALES – BY COUNTRIES AND PRODUCT GROUPS

2008 was a start of a period of lower investments into distribution (15% reduction of sales of distribution transformers). Sales on Croatian market were reduced by 7%.

Long-term activities in European countries have led to a significant increase of sales and stable market position, while on the market of Near East and Africa we have kept an unchanged level of sales. Sales of power transformers have increased by 10%.

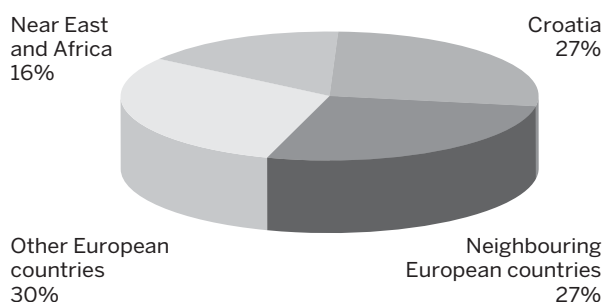
Sales by major markets were as follows:

- **Croatia:** 2008 sales of HRK 154 mil., compared to HRK 166 mil. in 2007, are 7% decrease.
- **Neighbouring European countries:** Bosnia, Slovenia, Macedonia, Montenegro, Austria, Czech Republic, Slovakia, Hungary, Albania – in 2008, sales were HRK 153.6 mil. which is a 34% increase compared to HRK 114.7 mil. in 2007.
- **Other European countries:** Sweden, Switzerland, Germany, Finland, France, United Kingdom, Estonia, Latvia, Lithuania, Poland, Greece, Cyprus – in 2008, sales were HRK 173.5 mil. which is an increase of 53.8% compared to HRK 113 mil. in 2007.
- **Near East and Africa:** in 2008, deliveries were HRK 94.5 mil. which is a 1% increase compared to HRK 93.6 mil. in 2007.

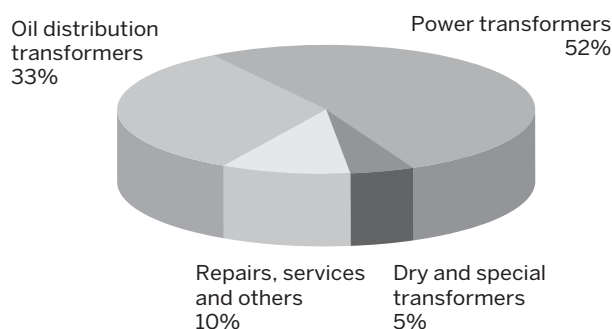
In total sales in 2008, two products groups were dominant – distribution transformers and special distribution transformers with HRK 190 mil. and mid-range power transformers with HRK 295 mil.

Due to new contracts in 2008 in total amount of HRK 722 mil., the balance of contracts at the end of year was increased significantly and exceeded HRK 512 mil.

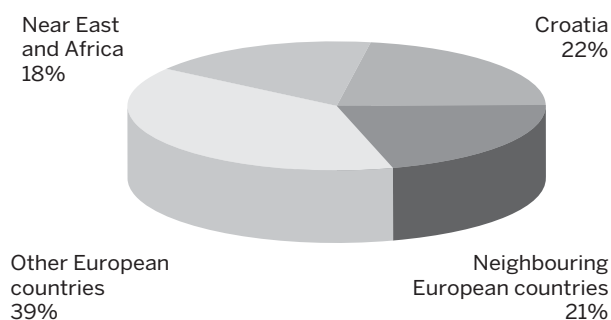
SALES STRUCTURE PER MARKETS



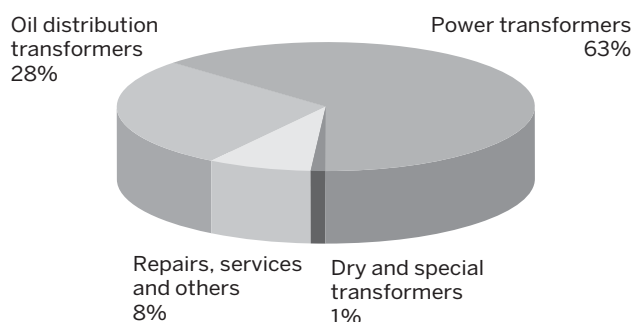
SALES STRUCTURE PER PRODUCTS



NEW CONTRACTS PER MARKETS



STRUCTURE OF NEW CONTRACTS PER PRODUCTS



8. FINANCIAL POSITION (BALANCE SHEET)

The balance of assets as at 31 December 2008 amounted to HRK 377.4 mil., which is a growth of 20% from the balance of assets in the preceding year. According to terms, there has been no significant change, and long-term assets form 21% and short-term assets form 79% of assets.

Most significant growth is in inventories that, in comparison to end 2007, have grown by 45% and take 43% of total assets. Trend of growth of inventories is visible through average days of binding of inventories. According to balance at the end of 2008, the ratio is 110 days, while it was 91 days in the preceding year.

The following significant item, with 29% share in total assets, is receivables from customers. They have also grown in comparison to the end of 2007 but more slowly than total assets and income, which means that turnover ratio is better, and the collection period is shorter than in the year before.

On the side of liabilities, there have been no significant changes based on terms in relation to balance at the end of 2007. Long-term liabilities form 52% and short-term liabilities form 48%.

Own sources, due to the policy of allocation of 50% profits in 2007 into reserves and growth of net profits in 2008, are following the growth of total liabilities. Also, long-term reservations are growing as opposed to long-term loans that, considering there have been no new debts, are reduced as a consequence of regular annual repayments.

In short-term sources of assets, there is a significant growth of liabilities to suppliers by 62% in comparison to the preceding year. In the structure of total liabilities, they form 18%.

Short-term loans have also grown. In the second half of 2008, due to growth of short-term assets (inventories), investments (HRK 31.5 mil.) and extended payment terms on the Croatian market, short-term indebtedness with commercial banks has been increased.

Such trends have been reflected in general liquidity ratio which has mildly worsened from 1.7 to 1.65. The impact on accelerated liquidity is even more powerful as it fell from 0.93 in 2007 to 0.75 in 2008. Indebtedness ratios have remained on the same levels as in the preceding year, which means that the Company is financed at 31% from its own resources.

9. OPERATING RESULTS (PROFIT & LOSS ACCOUNT) AND SHARE PRICE TRENDS

In 2008, the trend of growth of operations through growth of production and sales continued.

Total income of HRK 588.2 mil. was made, which is a 20% growth from 2007.

In operating income, exports form 73%, which is a growth of almost HRK 100 mil. or 31% from the preceding year. As opposed to exports, domestic sales have been falling as a consequence of reduction of investments into power equipment.

On the side of expenses, growth of sales is followed by growth of raw materials and supplies.

Personnel expenses have also grown in compliance with the growth of sales, and their share in total income remained on the last year's level of 13%.

There is a significant growth of net financial expenses, which in 2007 amounted to HRK 2.8 mil. and reached HRK 5.0 mil. in 2008. Major impact on such growth was that of currency losses mostly as a result of depreciation of Kuna in relation to EUR.

In 2008, the Company made gross profits of HRK 32.3 mil., which is a 10% growth, and net profits of HRK 30.2 mil., which is a growth of 35% compared to profits in 2007.

Gross profit margin is 5.5%, while net margin is 5.3% as opposed to 2007, when it was 4.7%.

Gross profitability of total assets (gross profits plus interest costs in relation to assets) is on the level of last year and amounts to 9.5%, while net profitability of equity is measured by relation of net profits to equity of 34.2%.

Trends in prices of ordinary and preferred shares in Končar D&ST at the Zagreb Stock Exchange have been in compliance with overall market trends.

Preferred stock (KODT-P-A) price moved from HRK 4,301.01 at the start of the year to HRK 1,260.00 at the end of the year, which is a fall of 70%.

Ordinary stock (KODT-R-A) price at the start of the year was HRK 4,510.00 and HRK 1,300.00 at the end of the year, which is a fall of 71%.

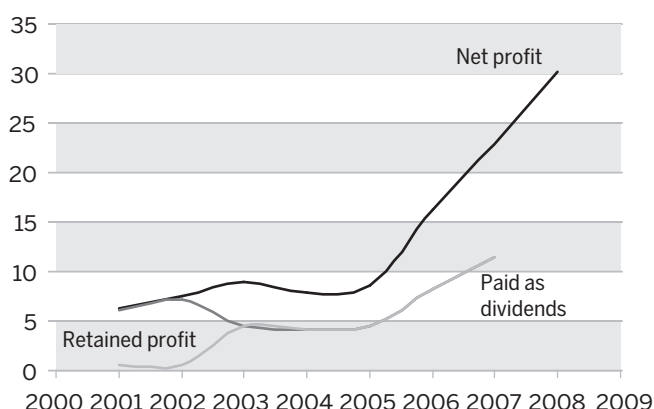
Such price trends can be compared with the CROBEX fall in 2008 of 68%.

We should note that there were only 13,398 shares in trade in 2008, compared to 2007, when the quantity of shares in trade was more than double (30,512 shares).

According to the price of ordinary shares on the last day of 2008, P/E ratio was 5.5.

In the course of 2008, the Company did not acquire treasury shares.

NET PROFIT THROUGH YEARS (mil. KN)



10. MAIN OPERATING RISKS

Market risks - Demand for transformers at the target markets of Končar-D&ST is one of the main operating risk factors. Global demand for transformers as well as demand on target markets has varied significantly in specific periods, depending on a number of factors. Periods of high demand (positive trends) are definitely periods of easier contracting and lower competition pressure, with appropriate reflection on total growth and profitability.

Supply of transformers by other producers – competition pressure – is another significant risk factor for Končar-D&ST operations. Transformer market is generally in most target export markets close to the full competition pattern or a form of mild oligopoly, and the market pressure on majority of target markets is very strong. The entire transformer industry has been through major changes in the recent 10-20 years with a number of restructurings, winding-ups of plants, opening of new plants, take-overs and mergers (consolidations) and the trends are continuing.

Procurement market risks – Prices of major raw materials and supplies for the production of transformers (copper, transformer sheets, transformer oil, insulation, steel, etc.) have been significantly volatile in the several recent years and sometimes with enormous growth in a relatively short time period. Also, market disturbances are sometimes possible in terms of availability of appropriate raw materials and supplies in appropriate delivery terms.

The Company protects itself from the risk of sudden changes in prices of strategic raw materials in several ways, considering its available options. As for copper, being a raw material listed on commodity exchange markets (London Metal Exchange), forward contracts are used to agree on quantities and prices for the forward period based on balance of contracts. As for steel, transformer oil and some significant parts, semi-annual or annual contracts with suppliers are used to reduce this risk.

Currency risk is highly expressed in our operations, considering a high percentage of exports and imports in our income and considering that majority of bank loans (both long-term and short-term ones) are expressed in EUR. The Company protects itself from currency risk by forward contracts with banks as well as by internal methods of harmonisation of currency inflow and outflow.

Technology and development risks – At this moment, the Company has at its disposal state-of-the-art technology for the transformer production and appropriate technical solutions for the majority of products within its range. The Company is capable to follow the technical and technology development at an enviable level. In the future we do not expect any technical or technological lagging behind our major competitors.

Credit risk and liquidity risk – Credit risk is observed as a risk that a certain debtor of the Company (e.g. customer to whom delivery is made without security) will not be able or willing to make a payment to the Company in compliance with the agreed terms, and the Company will therefore incur losses at write-off or reduction of receivables. Liquidity risk is observed as a risk that the Company will not be able to perform its liabilities to creditors in the agreed terms.

The Company protects itself from credit risk with collaterals (L/C, guarantees, etc.), and evaluation of customer solvency in cooperation with external credit rating agencies.

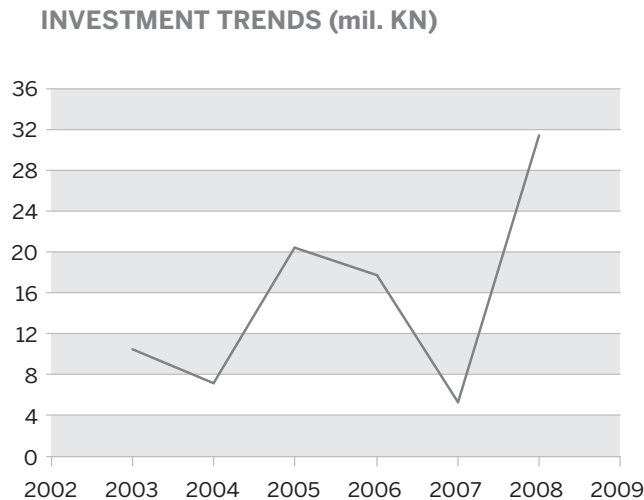
The Company has contracts with commercial banks about credit facilities which make possible for the Company to surmount the current need for liquid funds fast and under known conditions. Also, receivables with relatively long maturity terms are most frequently collected by sale to financial institutions (factoring, forfeiting).

Management and personnel risks – Usual fluctuations and changes in management and leading experts do not have significant effect on corporate operations while sudden or major fluctuations of such personnel categories might affect the corporate results.

In addition to those specified above, there are also to a certain extent design risks, production risks, political risks and other risk groups, but they are not very prominent at the moment.

11. INVESTMENTS AND TECHNOLOGY UPDATE

In 2008, the second investment cycle of reconstruction and update of the Company production facilities has been mostly completed. The hall for the production of special distribution transformers has been furnished and equipped and the capacities in the production of cores, coils, drying and storage of transformers have been increased. Significant investments have been made into infrastructure and environmental projects. Total value of investments in 2008 was HRK 31.49 mil.



12. TECHNICAL DEVELOPMENT AND PRODUCT INNOVATION

In the Technical Development Sector at the end of 2008, there were 21 graduated engineers and MSc in the field of electrical engineering, mechanical engineering and chemistry. The Sector has two divisions: Product Development Division and Production Development Division.

Among most important projects in 2008, we should emphasize the development and completion of the main transformer for electrical power driven train. The transformer successfully fulfilled all type and special tests, including tests on shock and vibration in the Mechanical Tests Laboratory CESI (Ismes) in Italy. Thereby Končar D&ST became part of a small group of European producers of transformers for state-of-the-art trailing vehicles fulfilling the strictest requirements in terms of mechanical and thermal stresses, minimum weight and volume of products.

In the production centre of distribution and special transformers, several types of oil-immersed reactors for earthing of neutral point and compensation of capacitive currents in distribution and railway networks. Tests of a series of distribution transformers have been completed for several European distributions (EON, EnSO, EnBW, Vattenfall etc.). Development of transformers for the French ERDF and Spanish distribution has started. A project of a new solution of small distribution transformers up to 200 kVA is close to its completion.

In the production centre of power transformers, low-noise and more efficient coil cooling type transformers have been developed. A new noise measurement method by sound intensity has been introduced, which practically eliminates the impact of environmental noise to measurement result. Single-phase transformers have been completed and type tested for new power traction sub-stations of the Croatian Railways, of 7.5 MVA and 10 MVA rating power, and a similar transformer of 16/2x8 MVA for Hungarian Railways MAV. Special transformers have been developed and are delivered for a wind power plant park in the UK and for supply of alarm systems in power plants (AVČE, Uganda, etc.)

Production Development Division has worked on the projects of technology update of the production of components of distribution, power and special transformers. Second LFH2 plant has been put into operation for drying of the active part with NF currents, as well as HADP2 plant for special transformers with separate mineral oil filling systems, silicone oil and synthetic ester. Additional coils of new generation have been installed for HV coils of distribution transformers, and a machine has been ordered for foil coils as well as two state-of-the-art machines for production of power transformer coils. Also, the second line for cross cutting of distribution transformer core sheets was put into

operation. Purchase of modern production equipment increased production capacities and created conditions for production of highest quality transformers.

Cooperation with external institutions continues, namely with Končar Institute for Electrical Engineering in the field of development and testing of transformers and materials, with the Faculty of Mechanical Engineering and Naval Architecture in the field of calculation of mechanical structures and training of engineers for design with state-of-the-art tools and methods. Several associates are attending specialist and doctorate studies at faculties of the University of Zagreb.

Several associates have actively participated in symposiums and seminars, HO-CIRED and CIGRÉ-Paris, in activities of Cigré A2-35 task force in the operations of technical board of HZN/TO E14 Power Transformers.

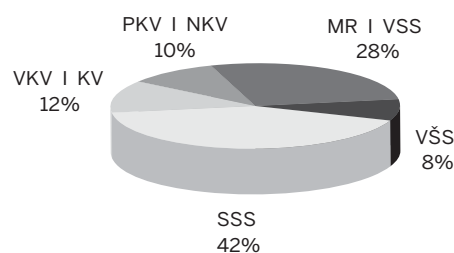
13. HUMAN RESOURCES

At the beginning of 2008, there were 329 employees at Končar D&ST. By the end of the year, 49 new employees were hired and 12 employees left. The year ended with 368 employees.

At the hiring, we took care on rejuvenation and most of the newly hired employees in 2008 are of young age. Thereby we have kept the average age of employees on a similar level.

Employee education structure at the end of the year:

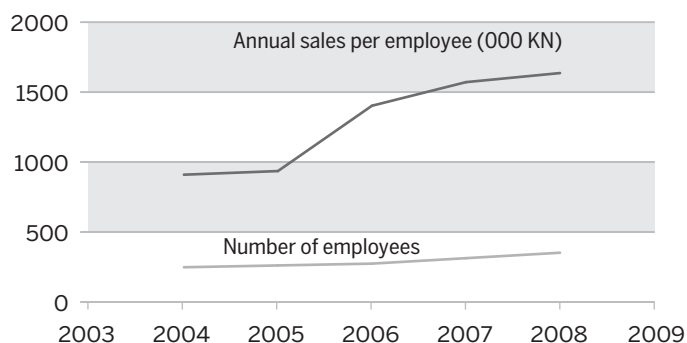
	2007	2008
1. University degree MR i VSS (16 and more years of education)	80	101
2. College VŠŠ (14 years of education)	26	31
3. Secondary school SSS (12 years of education)	129	152
4. High trade schools VKV i KV (11 to 13 years of education)	51	45
5. Primary school + training on the job PKV, KV (8 years of education)	43	39
Total	329	368



Productivity per employee in 2008 was HRK 1.64 mil.

In the field of training of employees, there were numerous activities, among which particularly seminars in Production Planning and Negotiating Skills.

PRODUCTIVITY AND NUMBER OF EMPLOYEES TREND



14. QUALITY MANAGEMENT, ENVIRONMENT MANAGEMENT AND OHSM

Same as in the preceding years, in 2008 there were two annual audits of Quality Management System based on ISO 9001:2000, by an independent certification company BVC. There is regular training of all new employees and refreshing of knowledge of management staff for quality management system.

Environment Management System based on ISO 14001:2004 passed its third recertification in mid June 2008. The System has been improved by considering the aspects of new technological solutions and Končar D&ST continues to show its care for the environment.

In early October 2008, the Occupational Health and Safety Management System based on OHSAS 18001:2007 was successfully certified. Also, parallel with the implementation of this system, the OHS documents have been prepared and revised, including risk assessment, OHS manual, etc.

15. FUTURE DEVELOPMENT STRATEGY

Distribution oil transformers up to 2500 kVA, special distribution transformers up to 5 MVA, and mid-range power transformers up to 63 MVA and 170 kV will continue to be the principal production program that will be developed in Končar D&ST.

Appropriate organisational adjustments, training and incentives for employees, teamwork, commitment to quality and sustainable development will contribute to an increasingly better position of Končar D&ST among the leading European transformer producers.

Final remark: From the end of the year 2008 until the preparation of this report, there were no unusual or significant events that could significantly change the image of the operations and position of the Company as presented in this report.

KONČAR- Distribution and Special Transformers, Inc.
Josipa Mokrovića 8
Zagreb
GENERAL ASSEMBLY

Pursuant to Article 263, Paragraph 3 of the Croatian Act on Companies, the Supervisory Board of KONČAR – Distribution and Special Transformers, Inc. hereby submits to the General Shareholders' Assembly the following

REPORT

on the Supervisory Board activities

In the period starting as from 1 January 2008 until 31 December 2008, the Supervisory Board of Končar - Distribution and Special Transformers, Inc. acted in the following composition: Mr. Darinko Bago – Chairman, Mr. Vladimir Plečko – Deputy Chairman, Mr. Božidar Piller – Member, Mr. Nenad Peremin – Member, and Mr. Jozo Miloloža – Member.

In the reporting period, the Supervisory Board was supervising the Company operations in accordance with the Act on Companies.

In 2008, the Supervisory Board held four meetings at which, by regular monitoring of the Company's operations based on the Management Board reports, it continuously discussed and decided on the issues falling under its competencies in accordance with Art. 263 of the Act on Companies, and the provisions of the Articles of Association.

Pursuant to the Articles of Association, the Supervisory Board provided consents to the specific Management Board decisions within the scope of its competencies, when required.

Pursuant to the Act on Companies, the Supervisory Board proceeded also outside the meetings, through reports and explanations of the Management Board on the status of the operations, where there was need for such proceeding.

The Company operated in accordance with legal provisions and the provisions of the Company bylaws and the General Shareholders' Assembly decisions.

The Supervisory Board finds that the financial statements of the Company are in accordance with the actual status as recorded in the corporate records and that they accurately present the status of assets and operations of the Company and herewith agrees with the proposal by the Management Board concerning the allocation of profits from 2008.

Zagreb, 24 March 2009

Supervisory Board Chairman
Darinko Bago, B.Sc. (signed)

A handwritten signature in black ink, consisting of several overlapping loops and lines, positioned below the printed name of the chairman.

KONČAR - DISTRIBUTIVNI I SPECIJALNI TRANSFORMATORI
dioničko društvo, Zagreb

Annual financial statements
and the Independent Auditor's Report
for the year ended
31 December 2008

CONTENTS

Responsibility for the Financial Statements	1
Independent Auditor's Report	2
Income Statement	3
Balance Sheet	4 - 5
Statement of Changes in Equity	6
Cash Flows Statement	7
Notes to the Financial Statements	8 - 26

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's Board is responsible for ensuring that the financial statements for year ended 31 December 2008 are prepared in accordance with the Accounting Law (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 140/06, 30/08, 130/08, 137/08) issued by the Committee for Financial Reporting Standards, to give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows of the Company for that period.

After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the financial statements of the Company.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting 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 such assumption is not appropriate.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and the results of operations of the Company and their compliance with the Accounting Law (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 140/06, 30/08, 130/08, 137/08) issued by the Committee for Financial Reporting Standards. The 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 Board:



Ivan Klapan, President of the Management Board

Končar – Distributivni i specijalni transformatori d.d., Zagreb
Josipa Mokrvića 8
10 090 Zagreb

24 February 2009



reconsult

MOORE STEPHENS
AUDIT ZAGREB

RECONSULT d.o.o. revizija i konzalting
Trg hrvatskih velikana 4/1
10000 Zagreb
HRVATSKA

Tel: + 385 (0) 1 481 04 61
Faks: + 385 (0) 1 481 04 67
E-mail: info@reconsult.hr

AUDIT d.o.o. za revizijske usluge
Baštijanova 52 A
10000 Zagreb
HRVATSKA

Tel: + 385 (0) 13 667 994
+ 385 (0) 13 667 995
+ 385 (0) 13 667 996
Fax: + 385 (0) 13 667 997
E-mail: audit-revizija@audit.hr

INDEPENDENT AUDITOR'S REPORT

To the shareholders of the company Končar – Distributivni i specijalni transformatori d.d., Zagreb

We have audited the accompanying annual financial statements of the company **Končar – Distributivni i specijalni transformatori d.d.**, Zagreb, Josipa Mirovića 8, Reg. No. 3654664, ("the Company") for the year ended 31 December 2008, which comprise of the Balance sheet as of that date, the Income statement, the Statement of changes in equity and the Cash flows statement for the year then ended, and the accompanying Notes to the financial statements which concisely set out the principal accounting policies and other disclosures.

Responsibilities of the Company's management

The preparation and a fair presentation of the enclosed financial statements according to the International Financial Reporting Standards effective in the Republic of Croatia are the responsibility of the Company's management. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Responsibility of Auditor

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

An audit includes performing of procedures to obtain proof and evidence supporting 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 misstatements in 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 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 Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that auditing proof and evidence being collected by us are sufficient and suitable as the basis for our opinion.

Opinion

In our opinion, the accompanying financial statements, in all material respects, give true and fair presentation of the financial position of the Company as of 31 December 2008, the results of operations, the changes in equity and the cash flows of the Company for the year 2008 in accordance with the Accounting Law and the International Financial Reporting Standards effective in the Republic of Croatia.

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

Marija Zupančić, certified auditor, Managing Director



Audit d.o.o., Zagreb

Zdenko Balen, certified auditor,
Member of the Management

Zagreb, 24 February 2009

INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 in HRK	2007 in HRK
Sales revenues	3	572.988.389	487.284.243
Other operating income	4	8.436.584	1.328.761
Operating income		581.424.973	488.613.004
Increase in inventories of work in progress and finished goods	5	28.409.062	31.755.535
Cost of raw material and supplies	6	(370.525.989)	(291.421.900)
Costs of goods sold	7	(32.611.440)	(29.933.782)
Other external charges	8	(47.473.886)	(36.173.731)
Material costs		(450.611.315)	(357.529.413)
Net wages and salaries		(37.515.174)	(30.103.085)
Taxes and contributions from wages and salaries		(21.505.551)	(17.014.573)
Contributions on wages and salaries		(10.096.882)	(8.035.910)
Staff costs	9	(69.117.607)	(55.153.568)
Depreciation and amortization expense	10	(14.276.521)	(15.068.717)
Other costs	11	(19.763.307)	(14.388.329)
Value adjustment of short-term property		(2.400.339)	(14.553.280)
Value adjustment	12	(2.400.339)	(14.553.280)
Provisions for risks and charges	13	(14.302.188)	(30.533.999)
Other operating expenses	14	(2.090.298)	(1.048.823)
Operating expenses		(544.152.513)	(456.520.594)
Interest, foreign exchange differences, dividends and similar income from relations with related companies		598.841	180.803
Interest, foreign exchange differences, dividends and similar income from relations with non-related companies and other entities		5.883.030	2.986.310
Financial income	15	6.481.871	3.167.113
Interest, foreign exchange differences and other expenses from relations with related companies		(866.515)	(129.464)
Interest, foreign exchange differences and other expenses from relations with non-related companies and other entities		(8.794.506)	(5.480.721)
Other financial expenses		(1.823.890)	(384.825)
Financial expenses	16	(11.484.911)	(5.995.010)
TOTAL INCOME		587.906.844	491.780.117
TOTAL EXPENSES		(555.637.424)	(462.515.604)
PROFIT BEFORE TAXATION		32.269.420	29.264.513
Income tax expense	17	(2.103.832)	(6.519.156)
PROFIT FOR THE PERIOD	32	30.165.588	22.745.357

The accompanying notes from 1 to 49 set out below form an inseparable part of these financial statements.

BALANCE SHEET

As of 31 December 2008

	Note	At 31 December 2008 in HRK	At 31 December 2007 in HRK
ASSETS			
Concessions, patents, licences, trade and service marks, software and other rights		705.265	952.175
Intangible property in the course of preparation		5.642	371.917
Intangible property	19	710.907	1.324.092
Land		8.623.017	8.067.401
Buildings		20.419.459	20.607.821
Plant and equipment		28.204.744	24.958.139
Tangible property under construction		13.079.318	697.697
Tools and office equipment		3.231.328	2.613.696
Advance payments for tangible property		1.682.284	3.223.480
Tangible property	20	75.240.150	60.168.234
Participating interests (portions)		2.423.774	2.423.774
Investments into securities		39.000	39.000
Financial property	21	2.462.774	2.462.774
LONG TERM PROPERTY			
Raw material and supplies		63.363.193	41.229.736
Work in progress		42.462.975	36.836.663
Unfinished and semi-finished products		2.216.791	5.542.871
Finished goods		55.640.930	29.531.841
Prepayments for stocks		774.880	19.275
Inventories	22	164.458.769	113.160.386
Amounts due from related companies	23	17.078.403	12.960.189
Trade receivables	24	91.496.060	89.652.798
Amounts due from employees and company's members		40.959	-
Receivables from the state and other institutions	25	18.152.991	10.133.194
Receivables		126.768.413	112.746.181
Cash with banks and in hand	26	7.181.502	24.061.855
SHORT TERM PROPERTY			
Prepaid costs of the future period and accrued income	27	550.568	73.847
TOTAL ASSETS		377.373.083	313.997.369

EQUITY AND LIABILITIES			
Registered capital	28	38.342.400	38.342.400
Legal reserves	29	1.983.738	1.983.738
Statutory reserves	30	32.297.464	6.359.465
Other reserves	31	15.581.106	31.116.050
Reserves from net income		49.862.308	39.459.253
Profit of the year	32	30.165.588	22.745.357
CAPITAL AND RESERVES		118.370.296	100.547.010
Provisions for retirement costs, severance pays and similar liabilities		792.950	722.441
Other provisions		62.879.211	49.040.942
Provisions	33	63.672.161	49.763.383
Amounts due to banks and other financial institutions		13.915.624	16.700.358
Long-term liabilities	34	13.915.624	16.700.358
Liabilities to related companies	35	3.409.718	2.307.439
Amounts due to banks and other financial institutions	36	35.452.181	15.823.283
Advance payments received	37	38.854.844	48.913.029
Trade payables	38	67.810.947	41.964.197
Amounts due to employees	39	4.087.666	3.407.710
Liabilities for taxes, contributions and similar appropriations	40	5.185.312	8.623.818
Liabilities on the basis of participation in the result		14.901	10.146
Other short-term liabilities	41	395.076	219.741
Short-term liabilities		155.210.645	121.269.363
Deferred payment of costs and income of the future period	42	26.204.357	25.717.255
TOTAL EQUITY AND LIABILITIES		377.373.083	313.997.369

The accompanying notes from 1 to 49 set out below form an inseparable part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note	2008 in HRK	2007 in HRK
Subscribed capital	28	38.342.400	38.342.400
Reserves from net income	29, 30, 31	49.862.308	39.459.253
Profit of the current year	32	30.165.588	22.745.357
Total capital and reserves		118.370.296	100.547.010
Other changes in capital		17.823.286	14.087.128
Total increase in capital		17.823.286	14.087.128

The accompanying notes from 1 to 49 set out below form an inseparable part of these financial statements.

CASH FLOWS STATEMENT

For the year ended 31 December 2008

	Note	2008 in HRK	2007 in HRK
I BUSINESS ACTIVITIES			
Cash received from customers		592.180.251	543.919.077
Cash received from insurance companies		68.563	93.483
Cash received on the basis of a refund of taxes		68.217.511	37.333.827
Interest received		637.185	122.566
Other cash receipts		8.410.047	989.738
Total cash receipts from business activities		669.513.557	582.458.691
Cash paid to suppliers		(500.214.462)	(398.976.607)
Cash paid for gross wages and salaries		(56.727.682)	(48.587.414)
Cash paid to insurance companies		(887.048)	(1.103.014)
Interest paid		(2.438.992)	(3.726.459)
Taxes paid		(77.986.355)	(41.766.446)
Other money expenses		(30.420.603)	(29.826.718)
Total money expenses from business activities		(668.675.142)	(523.986.658)
NET INCREASE IN CASH FLOW FROM BUSINESS ACTIVITIES		838.415	58.472.033
II INVESTING ACTIVITIES			
Cash receipts from sale of long-term intangible and tangible property		26.365	442.512
Dividends received		747.974	513.055
Total money receipts from investing activities		774.339	955.567
Cash paid for the acquisition of long-term intangible and tangible property		(23.586.444)	(9.930.889)
Total money expenses from investing activities		(23.586.444)	(9.930.889)
NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES		(22.812.105)	(8.975.322)
III FINANCIAL ACTIVITIES			
Cash receipts from the loan principal, debentures, advances and other loans		25.777.055	32.716.142
Other receipts from financial activities		25.093.468	18.408.467
Total money receipts from financial activities		50.870.523	51.124.609
Cash expenses for the repayment of loan principal and bonds		(9.310.084)	(73.946.574)
Cash expenses for the payment of dividends		(11.373.635)	(8.100.471)
Other cash expenses from financial activities		(25.093.467)	(18.387.540)
Total money expenses from financial activities		(45.777.186)	(100.434.585)
NET INCREASE / (DECREASE) IN CASH FLOW FROM FINANCIAL ACTIVITIES		5.093.337	(49.309.976)
TOTAL INCREASE / (DECREASE) IN CASH FLOW		(16.880.353)	186.735
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	26	24.061.855	23.875.120
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(16.880.353)	186.735
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	26	7.181.502	24.061.855

The accompanying notes from 1 to 49 set out below form an inseparable part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL

1.1. Activity

Končar – Distributivni i specijalni transformatori dioničko društvo, Zagreb, Josipa Mokrovića 8, ("the Company") subsidiary company of the Group Končar – Elektroindustrija where the Parent company is the ultimate company Končar – Elektroindustrija d.d. Zagreb, is engaged into the production, sale and service of distributive, special and power-supply transformers with a holding power up to 63 MVA and a voltage up to 170 kV.

1.2. Number of staff

The number of staff employed by the Company at 31 December 2008 was **368** employees (At 31 December 2007 was **329** employees).

The structure of the staff by qualification level is presented below:

	31 December 2008	31 December 2007
University degree	100	80
Two-year post secondary diploma	32	26
Secondary school certificate	155	129
Skilled workers	43	51
Unskilled workers	38	43
Total	368	329

1.3. Supervisory and Management Board of the Company

The members of the Supervisory Board of the Company are as follows:

Darinko Bago, president
Vladimir Plečko, vice-president
Božidar Piller, member
Jozo Miloloža, member
Nenad Peremin, member

The members of the Management Board are as follows:

Ivan Klapan, president
Josip Belamarić, member
Miljenko Damić, member
Zvonko Ptičar, member
Petar Vlaić, member

The amount of compensation to members of the Management and the Supervisory Board of the Company is stated in Notes 9 and 11 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies.

2.1. Basis of presentation

Financial statements of the Company for 2008 are prepared in accordance with the Accounting Law (National gazette 109/07) and the International Financial Reporting Standards ("IFRS") (National gazette No 140/06, 30/08, 130/08, 137/08) issued by the Committee for Financial Reporting Standards and in accordance with the Regulations on the structure and content of the annual financial statements (National gazette No 38/08, 12/09).

Financial statements have been prepared by the application of basic accounting presumption of the business event inception upon which the effects of operations are recognized when arisen and are shown in the financial statements for the period to which they relate and with the basic accounting assumption that going concern concept is applied.

2.2. Reporting currency

The financial statements of the Company are prepared in Croatian kuna as a measuring and reporting currency of the Company.

2.3. Revenue recognition

Sales of goods and services are recognized when goods are delivered and services are rendered, and the title has passed. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

Dividend income, or income from the share in the profit, is recognized when the right to receive payment has been recognized.

2.4. Borrowing costs

Borrowing costs are charged to the statement of income in the period in which they are incurred.

2.5. Foreign currency transactions

Transactions in currencies other than Croatian kuna are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets, receivables and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on translation are included in the income statement for the current year.

At 31 December 2008 the official rate of Croatia kuna was 7.32 HRK for 1 EUR (At 31 December 2007 was 7.33 HRK) and 5.16 HRK for 1 USD (At 31 December 2007 was 4.99 HRK).

2.6. Income tax

The tax currently payable is based on the result for the year, adjusted by non-taxable and tax non-deductible items (70% of entertainment expenses; 30% of costs for the use of personal cars, etc.). Income tax is calculated using tax rates that have been enacted by the balance sheet date.

The company utilizes tax incentives on the basis of state subsidies for explorative developing projects as well as the incentive measures according to the Law on incentives for the investments.

2.7. Long-term intangible and tangible assets

Long-term intangible and tangible assets are carried at historical acquisition cost which comprises purchase price, import duties and non-refundable sales taxes, after deduction of commercial discounts and rebates, as well as all other costs directly attributable to bringing the asset to its working condition for its intended use.

Long-term intangible and tangible assets are recognized if it is likely that future benefits attributable to the property will inflow to the Company, and if the cost of acquisition of an asset can be reliably measured, and if a single purchase value of property exceeds HRK 2,000.

After first recognition, the property is carried at historical acquisition cost less accumulated depreciation and any accumulated 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 commences on putting an asset in use, i.e. when it is at the location and in a condition necessary for utilization. Depreciation count of property ceases when the property is classified as property held for sale. Depreciation is charged so as to write off the cost or valuation of each asset, other than land and long-term intangible and tangible

property under construction, over their estimated useful lives, using the straight-line method, on the following basis:

	Depreciation rate (from – to %)
Concessions, patents, licences, software, etc.	50,0%
Buildings	6% – 10,0%
Plant and equipment	20% – 50,0%

2.8. Financial property

Financial property represents the cash, the investments in cash, objects and the cession of rights with an intention of securing of income and is classified at the balance sheet date, as follows:

- financial property intended for trade which change in fair value is recognized into the profit and loss account;
- investments held to the maturity date;
- advances, loans and receivables;
- financial property available for sale which change in fair value is recognized into capital as a revaluation reserve.

2.9. Portions (shares) with related companies

Subsidiary companies are the companies where the Company has a control over bringing and implementing of financial and business policies.

Associated companies are the companies where the Company has significant influence, but not a control over bringing and implementing of financial and business policies.

Investments into subsidiary and associated companies are stated at cost method.

2.10. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories comprises all purchase costs, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Net realizable value represents the estimated selling price during a normal course of operations less all estimated costs of completion and necessary costs to be incurred in selling.

If the value of inventories is higher than the estimated net selling price, an allowance is created and charged to income statement for the current year.

Small inventories, packing and car tyres are written off by 100% at the moment when they are put into use.

2.11. Other property intended for sale

Property intended for sale represents long-term intangible and tangible property which is expected, due to ceasing of utilization or suspension of operations, to be sold within a one year period from the date of classification.

Property intended for sale is stated at the lower of a net book value and fair value less selling costs.

2.12. Receivables

Receivables are initially measured at fair value. At each balance sheet date, receivables, which collection is expected in a period longer than a year, are stated at depreciated cost by the application of effective interest rate method less impairment value. Short-term receivables are stated at initially recognized nominal amount less corresponding amount of value provision for estimated uncollectible amounts and the value decreases.

The value of receivables is decreased and the impairment losses arise only and exclusively if an objective evidence exists in respect of a value decrease resulted from a certain or more events arisen after the initial recognition of property, when such event has the impact to the estimated future cash flows from receivables which can be reliably determined. At each balance sheet date, it is estimated whether an objective evidence in respect of a value decrease of a single receivable exists. If an objective evidence exists in respect of a value decrease of receivables, the amount of loss is measured as a difference between a net book value and the estimated future cash flows. Net book value of receivables will be decreased directly or by using a separate account of value provision. The amount of a loss is recognized by charging the profit and loss account for the current year.

2.13. Cash with banks and in hand

Cash consists of balances with banks and cash in hand, demand deposits and securities payable at call or with maturities of up to three months.

2.14. Impairment

At each balance sheet date, the Company reviews the carrying amounts of its 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

2.15. Financial instruments

Financial instruments are classified as assets, liabilities or equity instruments in accordance with applicable contracts. Interest, dividends, gains and losses on financial instruments classified as financial assets or liabilities are recognized as income or expense when they arise.

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Liabilities are stated at their nominal amounts.

Investments are recognized on a trade-date basis of accounting and initially are measured at cost, which includes transaction costs. Investments are classified as held for trading which change in fair value is recognized in the profit and loss account or as investments available for sale which change in fair value is recognized in capital as revaluation reserve. Interest-bearing bank borrowings and overdrafts are recorded at the proceeds received and to the extent of approved overdraft facility.

The Management Board of the Company believes that the fair values of all assets and liabilities stated in the balance sheet are not materially different from their carrying amounts.

2.16. Provisions

A provision is recognized only when the Company has a present obligation as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provisions are determined for possible repair costs in a guarantee period, costs of legal proceedings, costs of jubilee awards to employees and retirement costs (regular jubilee awards and severance pays).

Provision of costs of jubilee awards to employees and retirement costs (regular jubilee awards and severance pays) is determined as a net book value of the future pay-offs using a discount rate equal to the interest rate on government bonds.

2.17. Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements but disclosed in notes to the financial statements.

A contingent asset is not recognized in the financial statements but disclosed in the moment when an inflow of economic benefits is probable.

2.18. Subsequent events

After the balance sheet date 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 to the financial statements when material.

3. SALES REVENUES

	2008 in HRK	2007 in HRK
Revenue from sales of products in Croatia	136.649.528	142.977.291
Revenue from sales of products abroad	387.405.714	286.793.751
Revenue from sales to related companies	48.933.147	57.513.201
Total	572.988.389	487.284.243

4. OTHER OPERATING INCOME

	2008 in HRK	2007 in HRK
Income from sales of long-term property	1.296.005	398.634
Income from reversal of provisions	393.410	-
Income from rebates, discounts and similar	172.729	22.086
Income from previous years	189.856	83.051
Income from collection of receivables previously written-off	5.155.530	271.768
Income from indemnifications	68.563	93.483
Surpluses	912.255	307.455
Other income	248.236	152.284
Total	8.436.584	1.328.761

5. INCREASE IN INVENTORIES OF WORK IN PROGRESS AND FINISHED GOODS

The increase in value of inventories of work in progress and finished goods compared to the prior reporting period in the amount of **HRK 28,409,062** (2007 in the amount of **HRK 31,755,535**) is included in the value of inventories.

6. COST OF RAW MATERIAL AND SUPPLIES

	2008 in HRK	2007 in HRK
Cost of raw material and supplies	365.587.445	287.467.260
Small inventory	885.710	493.077
Energy	4.052.834	3.461.563
Total	370.525.989	291.421.900

7. COSTS OF GOODS SOLD

Costs of goods sold in the amount of **HRK 32,611,440** (2007 in the amount of **HRK 29,933,782**) relate to the purchase value of goods sold.

8. OTHER EXTERNAL CHARGES

	2008 in HRK	2007 in HRK
Telephone cost, postal services and transport	13.809.160	9.529.855
Compensation for the utilization of trade and service mark of Končar d.d.	3.613.680	3.168.210
External services of manufacturing and sale of goods and services	4.513.534	4.761.878
Maintenance (services)	12.646.383	7.766.989
Rental costs and lease	1.043.622	529.147
Advertising, promotion and trade fairs	141.711	232.742
Sponsorships and donations	158.841	56.825
Intellectual and personal services	867.209	783.251
Municipal costs	682.291	482.127
Entertainment expenses	2.258.277	1.598.646
Other external costs	7.739.178	7.264.061
Total	47.473.886	36.173.731

9. STAFF COSTS

Net wages and salaries in the amount of **HRK 37,515,174** (2007 in the amount of **HRK 30,103,085**) include wages and salaries of the Company's management in the amount of HRK 1,360,422 (2007 in the amount of HRK 1,329,459) and bonuses to Company's management in the amount of HRK 718,400 (2007 in the amount of HRK 721,500) and are a component of stated staff costs.

10. DEPRECIATION AND AMORTIZATION EXPENSE

	2008 in HRK	2007 in HRK
Depreciation of intangible property	959.682	447.578
Depreciation of tangible property	13.316.839	14.621.139
Total	14.276.521	15.068.717

11. OTHER COSTS

	2008 in HRK	2007 in HRK
Daily allowances and travelling costs	3.185.835	2.546.196
Compensation of costs to employees, grants and subventions	5.692.458	5.095.315
Compensations to members of the Supervisory board	388.879	346.048
Insurance premiums	753.749	807.150
Banking services and payment traffic costs	1.982.615	1.297.135
Contributions, memberships and similar appropriations	516.544	434.914
Taxes not depending on income and charges	3.649.122	1.442.216
Other costs	3.594.105	2.419.355
Total	19.763.307	14.388.329

12. VALUE ADJUSTMENT OF ASSETS

	2008 in HRK	2007 in HRK
Value adjustment of short-term receivables	1.281.410	5.250.065
Value adjustment of inventories	1.118.929	9.303.215
Total	2.400.339	14.553.280

13. PROVISIONS FOR RISKS AND CHARGES

	2008 in HRK	2007 in HRK
Provisions for risks in a guarantee period	14.231.679	30.150.604
Provisions for regular severance pays and jubilee awards	70.509	59.912
Other provisions	-	323.483
Total	14.302.188	30.533.999

14. OTHER OPERATING EXPENSES

	2008 in HRK	2007 in HRK
Net book value of disposed long-term property	5.866	25.490
Rebates, discounts, bonuses, restitutions, etc.	278.995	169.927
Deficit	956.280	105.958
Penalties, amends, etc.	-	19.223
Costs of prior periods	829.390	511.864
Other operating expenses	19.767	216.361
Total	2.090.298	1.048.823

15. FINANCE INCOME

	2008 in HRK	2007 in HRK
In connections with related companies		
Interest income		3.501
Foreign exchange gains	598.841	177.302
	598.841	180.803
In connections with non-related companies		
Interest income	613.835	398.021
Foreign exchange gains	4.521.221	1.995.234
Dividend income and share in the profit	747.974	593.055
	5.883.030	2.986.310
Total	6.481.871	3.167.113

16. FINANCE COST

	2008 in HRK	2007 in HRK
In connections with related companies		
Foreign exchange losses	866.515	129.464
In connections with non-related companies		
Interest expense	1.669.851	2.670.794
Foreign exchange losses	7.124.655	2.809.927
	8.794.506	5.480.721
Other financial expenses –factoring costs – repurchase of claims	1.823.890	384.825
Total	11.484.911	5.995.010

17. INCOME TAX

17.1. The reconciliation of accounting profit to taxable profit was made as follows:

	2008 in HRK
Accounting profit (profit before tax)	32.269.420
Tax non-deductible expenses	12.004.909
Tax incentives	(14.219.580)
Taxable profit after tax non-deductible expenses and incentives	30.054.749
Tax at applicable tax rate of 20%	6.010.949
Investment incentives	(3.907.117)
Income tax	2.103.832

The applicable income tax rate in the Republic of Croatia for 2008 and 2007 was 20%.

18. EARNINGS PER SHARE

	2008 in HRK	2007 in HRK
Net income	30.165.588	22.745.357
Weighted average number of shares	127.808	127.808
Earnings per share	236,02	177,97

19. LONG TERM INTANGIBLE ASSETS

in HRK	Concessions, patents, licences, software and other rights	Assets in progress	Total
Cost			
At 31 December 2007	2.940.095	371.917	3.312.012
Transfers from / to	2.398	346.497	348.895
Transfers	712.772	(712.772)	-
Disposals or retirements	(2.689)	-	(2.689)
At 31 December 2008	3.652.576	5.642	3.658.218
Accumulated depreciation			
At 31 December 2007	1.987.920	-	1.987.920
Transfers from / to	2.398	-	2.398
Depreciation charge for 2008	959.682	-	959.682
Disposals or retirements	(2.689)	-	(2.689)
At 31 December 2008	2.947.311	-	2.947.311
Net book value			
At 31 December 2008	705.265	5.642	710.907
At 31 December 2007	952.175	371.917	1.324.092

20. LONG TERM TANGIBLE ASSETS

in HRK	Land	Buildings	Plant and equipment	Tools and office equipment	Assets under construction	Prepayments	Total
Cost							
At 31 December 2007	8.067.401	56.323.260	88.303.943	10.490.752	697.697	3.223.480	167.106.533
Additions	-	-	-	-	31.146.652	10.173.083	41.319.735
Transfers	555.616	4.507.089	11.858.007	1.844.319	(18.765.031)	(11.714.279)	(11.714.279)
Disposals or retirements	-	-	(12.217.682)	(386.357)	-	-	(12.604.039)
At 31 December 2008	8.623.017	60.830.349	87.944.268	11.948.714	13.079.318	1.682.284	184.107.950
Accumulated depreciation							
At 31 December 2007	-	35.715.439	63.345.804	7.877.056	-	-	106.938.299
Depreciation charge for 2008	-	4.695.451	7.428.444	1.192.944	-	-	13.316.839
Accelerated depreciation	-	-	1.210.835	-	-	-	1.210.835
Disposals or retirements	-	-	(12.245.559)	(352.614)	-	-	(12.598.173)
At 31 December 2008	-	40.410.890	59.739.524	8.717.386	-	-	108.867.800
Net book value							
At 31 December 2008	8.623.017	20.419.459	28.204.744	3.231.328	13.079.318	1.682.284	75.240.150
At 31 December 2007	8.067.401	20.607.821	24.958.139	2.613.696	697.697	3.223.480	60.168.234

Real estate with a net book value in the amount of HRK 28,675,222 is pledged by the owner as a collateral for the loan repayment of the Raiffeisenbank Austria d.d., Zagreb and SG-Splitska banka d.d., Split.

21. LONG TERM FINANCIAL PROPERTY

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Participating interests (portions)		
Portion into Ferokotao d.o.o., Donji Kraljevec (a portion of 16%)	262.016	262.016
Portion into Novi Feromont d.o.o., Donji Kraljevec (a portion of 18.9%)	429.300	429.300
Portion into Elkakon d.o.o., Zagreb (a portion of 50.0%)	1.732.458	1.732.458
	2.423.774	2.423.774
Investments into securities		
Shares of Zagrebačka banka d.d., Zagreb	39.000	39.000
Total	2.462.774	2.462.774

22. INVENTORIES

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Inventories		
Raw material and supplies	74.699.498	51.447.708
Work in progress	42.462.975	36.836.663
Finished products	57.078.854	30.969.169
Unfinished products and semi-finished products	2.216.791	5.542.871
Less: Value provision of raw material and supplies	(11.336.305)	(10.217.972)
Less: Value provision of finished goods	(1.437.924)	(1.437.328)
	163.683.889	113.141.111
Prepayments for stocks abroad	774.880	19.275
Total	164.458.769	113.160.386

23. AMOUNTS DUE FROM RELATED COMPANIES

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Subsidiary companies		
Končar-Inženjering za energetiku i transport d.d., Zagreb	15.850.584	11.671.180
Končar-Mjerni transformatori d.d., Zagreb	675.400	746.367
Končar-Montažni inženjering d.d., Zagreb	542.504	137.196
Končar-Elektronika i informatika d.d., Zagreb	864	6.895
	17.069.352	12.561.638
Associated companies		
Končar-Energetski transformatori d.d., Zagreb	9.051	398.551
	9.051	398.551
Total	17.078.403	12.960.189

24. CURRENT TRADE RECEIVABLES

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Domestic trade receivables		
Brodomerkur d.d., Split	10.663.048	18.314.031
HEP-OPS d.o.o., Zagreb	7.910.911	7.907.458
Elektromaterijal d.d., Rijeka	7.597.450	5.313.912
Cotra d.o.o., Varaždin	5.262.485	-
Elkakon d.o.o., Zagreb	5.125.372	4.791.194
Elektropromet d.d., Zagreb	3.237.789	223.658
Ferokotao d.o.o., Donji Kraljevec	935.707	390.149
DMB, Zagreb	643.882	378.896
Other	1.610.239	4.915.900
Less: Value provision	(44.277)	(44.277)
	42.942.606	42.190.921
Foreign trade receivables		
Al Mostajed Trading Co., Dubai, UA Emirates	11.217.962	4.846.376
Scientechnic, Dubai, UA Emirates	6.504.089	-
Multirel OY, Estoo, Finland	4.689.287	1.268.530
Vetrna Energic HL s.r.o., Brno, Czech Republic	3.435.155	-
Helmerverken Holding AB, Partille, Sweden	3.414.782	8.238.947
EDF Electricite de France, Paris, France	3.253.601	216.641
Rima Engineering Ltd., Prishtine, Kosovo	3.152.339	-
ESM EVN Macedonia AD, Skopje, Macedonia	3.056.043	663.844
Cegelec, Nanterre Cedex, France	2.274.673	4.498.802
Onninen AB, Orebro, Sweden	2.254.388	845.144
Deling d.o.o., Tuzla, Bosnia and Herzegovina	1.267.770	1.174.197
Dewa Dubai, UA Emirates	819.846	10.311.059
Other	4.661.814	21.030.478
Less: Value provision	(1.448.295)	(5.632.141)
	48.553.454	47.461.877
Total	91.496.060	89.652.798

24.1. Trade receivables doubtful for collection amounting to HRK 1,492,572 were the object of reexamination, with a goal of making their possible provision by charging the Profit and loss account. As a result, a value provision of trade receivables was made on the basis of estimates upon their collection in the amount of HRK 1,281,410.

25. CURRENT RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Receivables for the over-paid income tax	3.563.125	-
Receivables for a value added tax	14.489.964	10.033.958
Other receivables from the state	99.902	99.236
Total	18.152.991	10.133.194

26. CASH WITH BANKS AND IN HAND

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Current account balance	1.002.679	6.681.489
Foreign currency account balance	6.135.745	17.363.751
Cash in hand – HRK	31.715	9.971
Cash in hand – foreign currency	11.363	6.644
Total	7.181.502	24.061.855

27. PREPAID COSTS OF THE FUTURE PERIOD AND ACCRUED INCOME

The amount of **HRK 550,568** (At 31 December 2007 in the amount of **HRK 73,847**) relates to prepaid costs of the future period.

28. REGISTERED (SUBSCRIBED) CAPITAL

Registered capital is ascertained in nominal value in the amount of **HRK 38,342,400** (At 31 December 2007 in the same amount) and consists of **127,808** shares, with a nominal value of **HRK 300** per share.

The ownership structure of the Company is, as follows:

Shareholder	At 31 December 2008 in HRK		At 31 December 2007 in HRK	
	Number of shares	Ownership share %	Number of shares	Ownership share %
Končar-Elektroindustrija d.d., Zagreb	66.092	51,71	66.092	51,71
HPB d.d./HPB-Invest-HPB GLOBAL OIF	6.070	4,75	6.070	4,75
HPB d.d. / Collective account for the Bank's clients	6.235	4,88	7.688	6,02
Floričić Kristijan	4.958	3,88	4.958	3,88
Knežević Nikola	4.159	3,25	3.188	2,49
Others	40.294	31,53	39.812	31,15
Total	127.808	100,00	127.808	100,00

The registered capital of the Company comprises of 97,094 ordinary shares and 30,714 preferential shares.

29. LEGAL RESERVES

Legal reserves in the amount of **HRK 1,983,738** (At 31 December 2007 in the same amount) were ascertained on the basis of appropriation of income from previous year.

30. STATUTORY RESERVES

	in HRK
At 31 December 2007	6.359.465
Transfer from other reserves	25.937.999
At 31 December 2008	32.297.464

31. OHTER RESERVES

	in HRK
At 31 December 2007	31.116.050
A part of net income for 2007 (see Note 32)	11.371.722
Transfer to statutory reserves (see Note 30)	(25.937.999)
Deferred net income	(968.667)
At 31 December 2008	15.581.106

32. NET PROFIT FOR THE YEAR

In 2008 the Company generated net profit in the amount of **HRK 30,165,588** (2007 in the amount of **HRK 22,745,357**).

Profit of the Company for the year 2007 in the amount of HRK 22,745,357 was allocated on the basis of the decision of the Assembly of the Company, as follows:

	in HRK
Other reserves (see Note 31)	11.371.722
Liabilities for dividends	11.373.635
Total	22.745.357

33. PROVISIONS FOR RISKS AND CHARGES

	Costs of repairs in a guarantee period in HRK	Costs of legal proceedings in HRK	Jubilee awards and severance pays in HRK	Total in HRK
At 31 December 2007	47.198.459	1.842.483	722.441	49.763.383
Additional provisions	14.231.679	-	70.509	14.302.188
Reversal of provisions	-	(393.410)	-	(393.410)
At 31 December 2008	61.430.138	1.449.073	792.950	63.672.161

34. LONG TERM BORROWINGS

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
SG-Splitska banka d.d., Split (int. rate 5.9%)	-	2.344.041
Raiffeisenbank Austria d.d., Zagreb (int. rate 4%)	17.394.530	20.179.600
	17.394.530	22.523.641
Less: Current portion (see Note 36)	(3.478.906)	(5.823.283)
Total	13.915.624	16.700.358

34.1. The movements in liabilities to banks during the year may be summarized as follows:

	in HRK
At 31 December 2007	22.523.641
Amounts repaid	(5.077.979)
Foreign exchange differences	(51.132)
	17.394.530
Less: Current portion	(3.478.906)
At 31 December 2008	13.915.624

34.2. The repayment schedule of long-term liabilities to banks, is as follows:

	in HRK
Due in one to two years	2.783.125
Due in two to three years	2.783.125
Due in three to four years	2.783.125
Due in four to five years	2.783.125
Over five years	2.783.124
Total	13.915.624

35. CURRENT LIABILITIES TO RELATED COMPANIES

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Subsidiary companies		
Končar – Energetika i usluge d.o.o., Zagreb	1.440.637	1.080.582
Končar – Elektroindustrija d.d., Zagreb	858.061	699.872
Končar – Mjerni transformatori d.d., Zagreb	181.120	255.035
Končar – Institut za elektrotehniku d.d., Zagreb	443.892	132.923
Končar – Elektronika i informatika d.d., Zagreb	112.361	48.399
Končar – Mali električni strojevi d.d., Zagreb	-	24.933
Končar – Alati d.d., Zagreb	5.112	2.498
Končar – Električna vozila d.d., Zagreb	4.914	-
Končar – Sklopna postrojenja d.d., Sesvetski Kraljevec	311.893	-
Končar – Montažni inženjering d.d., Zagreb	1.220	-
	3.359.210	2.244.242
Associated companies		
Končar – Energetski transformatori d.d., Zagreb	50.508	63.197
Total	3.409.718	2.307.439

36. SHORT TERM LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
SG-Splitska banka d.d., Split (int. rate 5%)	5.000.000	5.000.000
Banco Popolare Croatia d.d., Zagreb (int. rate 5%)	5.000.000	5.000.000
Raiffeisen bank d.d., Zagreb (int. rate 3 month libor+2.65%)	10.986.637	-
SG-Splitska banka d.d., Split (int. rate 1 month euribor+3.0%)	10.986.638	-
	31.973.275	10.000.000
Add: Current portion (see Note 34)	3.478.906	5.823.283
Total	35.452.181	15.823.283

36.1. Movements in liabilities to banks during the year can be summarized as follows:

	in HRK
At 31 December 2007	10.000.000
New borrowings	21.973.275
	31.973.275
Add: Current portion	3.478.906
At 31 December 2008	35.452.181

37. ADVANCE PAYMENTS RECEIVED

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Domestic customers	697.945	1.038.062
Foreign customers	36.518.880	46.451.931
Subsidiary companies		
Končar-Inženjering za energetiku i transport d.d., Zagreb	1.315.375	747.871
Končar-Električna vozila d.d., Zagreb	322.644	482.875
Končar-Montažni inženjering d.d., Zagreb	-	192.290
	1.638.019	1.423.036
Total	38.854.844	48.913.029

38. TRADE PAYABLES

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Domestic suppliers		
Ferokotao d.o.o., Donji Kraljevec	4.277.152	1.257.097
Elkakon d.o.o., Zagreb	4.078.663	2.639.485
Orbico maziva d.o.o., Zagreb	3.017.613	-
Komet d.o.o., Prelog	2.128.941	1.289.426
DMB d.o.o., Zagreb	1.147.862	-
Rotometal d.o.o., Samobor	723.846	284.985
Horex trade d.o.o., Zagreb	472.385	655.989
Metaldekor d.o.o., Čakovec	364.379	301.166
RALU logistika d.o.o., Sesvete	244.747	171.692
Selling el d.o.o., Sesvete	134.840	832.550
Jadroagent d.d., Rijeka	5.894	222.180
Brodmerkur d.d., Split	5.801	4.500.787
Others	9.873.239	8.197.680
	26.475.362	20.353.037
Foreign suppliers		
ORB Electrical Steels Limited, Newport, G.Britain	6.576.237	458.802
Maschinenfabrik Reinhausen, Regensburg, Germany	5.634.811	1.738.039
Thyssen Krupp, Gelsenkirchen, Germany	5.489.589	3.636.757
De Angeli Prodotti S.r.l., Bagnoli di Sopra, Italy	4.953.665	1.296.738
Essex Italy S.p.A. Quattordio, Italy	2.370.537	-
Preis & Co GmbH, Pernitz, Austria	2.157.588	-
Norddeutsche Affinerie, Hamburg, Germany	1.935.471	2.647.345
Nynas-Technol, Vienna, Austria	1.637.129	729.486
Weidmann Systems Int. AG Rapperswill, Switzerland	1.138.266	670.408
Sumitomo Benelux S.A./N.V., Bruxelles, Belgium	660.070	620.633
Others	8.782.222	9.812.952
	41.335.585	21.611.160
Total	67.810.947	41.964.197

39. CURRENT LIABILITIES TO EMPLOYEES

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Liabilities for net wages and salaries	4.087.666	3.407.710
Total	4.087.666	3.407.710

40. CURRENT LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR APPROPRIATIONS

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Liabilities for contributions, taxes and surtaxes	4.908.815	4.418.337
Liabilities for the income tax	-	4.101.887
Liabilities for a value added tax	172.444	19.107
Other liabilities to the state	104.053	84.487
Total	5.185.312	8.623.818

41. OTHER CURRENT LIABILITIES

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Illness, deductions, etc.	25.179	19.172
Interest liability	369.897	200.569
Total	395.076	219.741

42. DEFERRED PAYMENT OF COSTS AND INCOME OF THE FUTURE PERIOD

	At 31 December 2008 in HRK	At 31 December 2007 in HRK
Deferred payment of liabilities for the income tax	1.052.346	1.294.513
Income of the future period of subsidiary companies		
Končar-Inženjering za energetiku i transport d.d., Zagreb	10.610.429	6.698.604
Končar-Montažni inženjering d.d., Zagreb	-	443.349
	10.610.429	7.141.953
Income of the future period of external customers	14.541.582	17.280.789
Total	26.204.357	25.717.255

43. STATEMENT OF CHANGES IN CAPITAL

	At 31 December 2007 in HRK	Distribution of profit in HRK	Liabilities for dividends in HRK	Transfer from/to in HRK	Profit for the current year in HRK	At 31 December 2008 in HRK
Registered (subscribed) capital	38.342.400	-	-	-	-	38.342.400
Legal reserves	1.983.738	-	-	-	-	1.983.738
Statutory reserves	6.359.465	-	-	25.937.999	-	32.297.464
Other reserves	31.116.050	11.371.722	-	(26.906.666)	-	15.581.106
Profit of the year	22.745.357	(11.371.722)	(11.373.635)	-	30.165.588	30.165.588
Total	100.547.010	-	(11.373.635)	(968.667)	30.165.588	118.370.296

44. CASH FLOWS STATEMENT

Cash flows statement during 2008 was prepared on the basis of direct method.

45. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Market risk

The Company operates in the Croatian and international markets. The management determines the prices of its products separately for domestic and foreign markets by reference to the market prices.

b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market rates relative to the interest rate applicable to the financial instrument. Interest rate cash flow risk is the risk that the interest cost of an instrument will fluctuate over time.

c) Credit risk

Financial assets that potentially expose the Company to credit risk consist mainly of cash and trade receivables. Trade receivables have been adjusted for the allowance for bad and doubtful accounts. The Company's cash is held with Raiffeisenbank Austria d.d., Zagreb, SG-Splitska banka d.d., Split and Zagrebačka banka d.d., Zagreb. The Company has no significant concentrations of credit risk.

d) Currency risk

The official currency of the Company is Croatian kuna. However, certain transactions denominated in foreign currencies are translated into Croatian kuna by applying the exchange rates in effect at the balance sheet date. Gains and losses resulting from translation are credited or charged to the income statement, but do not affect the cash flows.

46. POTENTIAL LIABILITIES

Upon the estimate of the Company's management, at 31 December 2008 the Company has no significant potential liabilities.

47. AFTER THE BALANCE SHEET DATE EVENTS

After the balance sheet date, there were no events which could inflow materially to the annual financial statements of the Company for 2008 and which consequently should have been notified.

48. PREPARATION AND THE APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements, set out on previous pages, were prepared by the Management Board of the Company, and authorized for issue on 24 February 2009.

49. AUDIT OF THE FINANCIAL STATEMENTS

Audit of the financial statements of the Company for 2008 was made by auditing company AUDIT d.o.o., Zagreb, Baštijanova 52A and RECONSULT d.o.o., Zagreb, Trg hrvatskih velikana 4/1 for the stipulated fee amounting to HRK 130,000 increased for a value added tax.

For Končar-Distributivni i specijalni transformatori d.d., Zagreb:



Ivan Klapan, President of the Management Board

KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.
10090 Zagreb, CROATIA, Josipa Mokrovića 8, P.O. Box 62

