



KONČAR

D&ST

Annual Report 2009

ISO 9001:2000
ISO 14001:2004
OHSAS 18001: 2007



ANNUAL REPORT

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KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.

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MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2009



1. Introductory word by the Management Board

2009 - YEAR IN WHICH EXPORTS GROWTH SUCCESSFULLY COMPENSATED LOWER DOMESTIC SALES

Končar D&ST continued its sequence of successful operating years in 2009. Total sales of goods and services in 2009 grew to HRK 622 mil. (compared to HRK 573 mil. in 2008), which is annual growth of 8%. Export operations grew by 19% from HRK 420 mil. in 2008 to HRK 501 mil. in 2009.

Despite the recession and difficult operations even on global scale, due to more appropriate management of operating processes and risks, gross profits in 2009 were HRK 34.2 mil. (net HRK 32.8 mil.), which is an increase compared to gross profits in 2008 of HRK 32.2 mil. (net profits HRK 30.2 mil.) by 6% (by 9% net profits).

Total sum of contracts at the end of 2009 was HRK 493 mil. or 4% lower than at the end of 2008 with HRK 513 mil.

In 2009, remaining investments were completed from the second investment cycle worth HRK 12 mil. and significant preparations were made for the following investment cycle in the field of medium power transformers under title "HV (High Voltage) Laboratory".

Throughout the year, within the constant improvement process, certified Quality Management System based on ISO 9001:2000, Environment Management System based on ISO 14001:2004 as well as Occupational Health and Safety Management System based on OHSAS 18001:2007 was successfully maintained.

Trade in Končar-D&ST shares at the Zagreb Stock Exchange in 2009 was in compliance with general investment trends. At the start of the year, price of Končar D&ST ordinary share was HRK 1,300.00 and the price at the end of the year was HRK 1,900.00.

Despite difficult operating conditions, which mostly affected the fall in prices and new contracts, our overall operations in 2009 is considered successful. In our performance, key factors were support and confidence by our shareholders, employees, partners and banks. Management board would like to thank them and is pleased to present this report companies our results.

For the Management Board of Končar D&ST, Inc.

Ivan Klapan



President of the Management Board

2. Major 2009 figures and their comparison with 2008, 2007 and 2006

Trends of income and profit growth have continued, as a sound basis for the future.

	2009/2008
■ net profit	108.8
■ sales	108.5
■ exports	119.3
■ balance of orders at year's end	96.1

	HRK ('000)				EUR ('000)		INDEX 09/08
	2009	2008	2007	2006	2009	2008	
Sales							
Croatia	120,396	152,830	165,532	113,414	16,404	21,158	78.8
Exports	501,237	420,158	321,752	270,519	68,292	58,168	119.3
Total	621,633	572,988	487,284	383,933	84,696	79,326	108.5
Balance of orders at the year's end							
Croatia	61,181	70,036	51,759	71,770	8,336	9,696	87.4
Exports	431,320	442,718	284,625	129,715	58,766	61,291	97.4
Total	492,501	512,754	336,384	201,485	67,102	70,987	96.1
Annual sales per employee	1,627	1,637	1,577	1,401	222	227	99.4
Investments	12,150	31,493	5,390	17,878	1,655	4,360	38.6
Net profit	32,811	30,166	22,745	16,199	4,470	4,176	108.8
Dividend HRK/share							
Ordinary	*	94.41	88.99	63.38			
Preferred	*	94.41	88.99	63.38			
Net profit/sales in %	5.3%	5.3%	4.7%	4.2%			
Net earning per total equity	31.1%	34.2%	29.2%	23.1%			
Total equity and reserves as at 31/12	138,147	118,370	100,547	86,460	18,822	16,387	116.7
No. of employees							
Average	382	350	309	274			109.1
as at 31/12	389	368	329	294			105.7

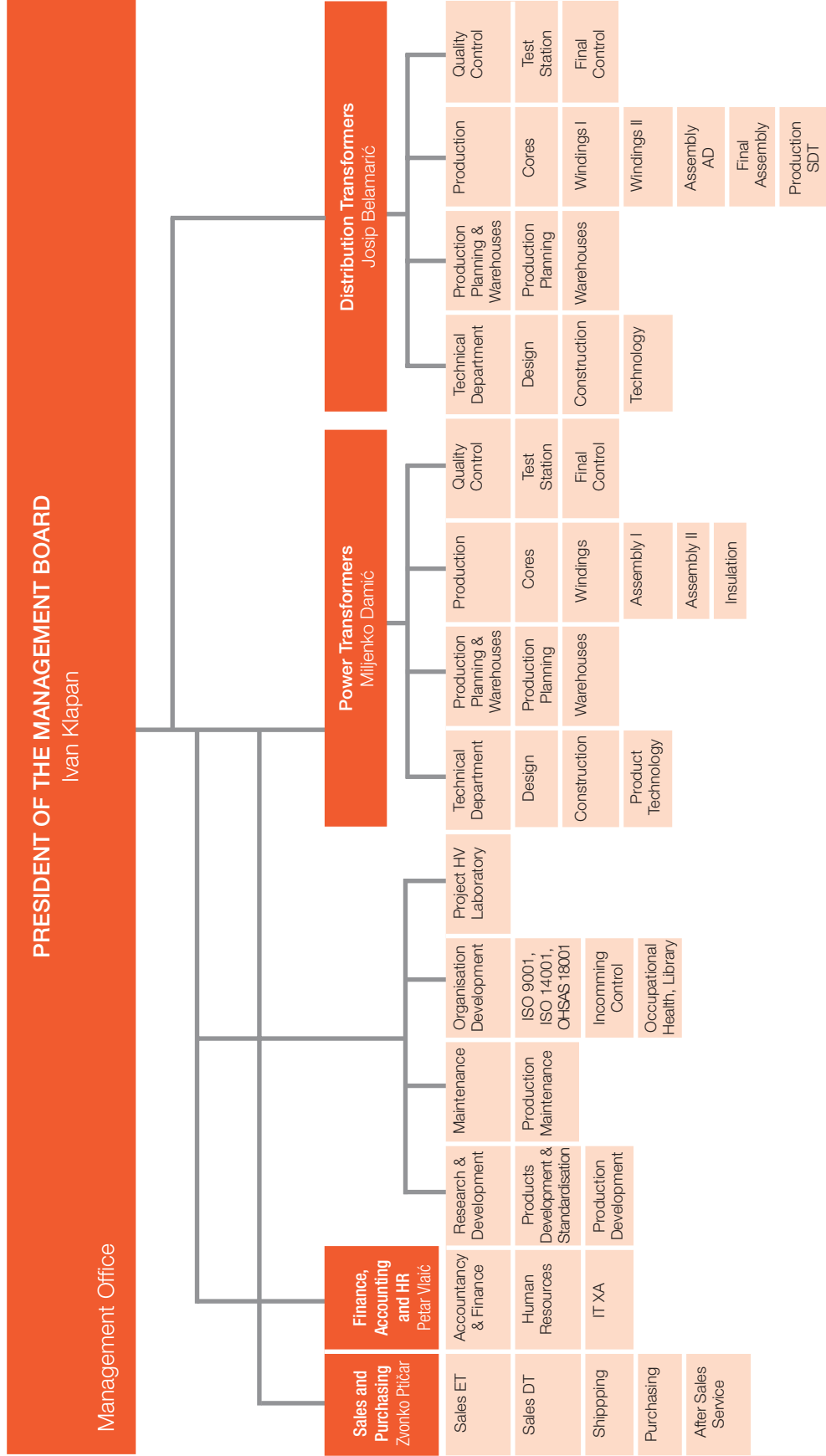
Note: Average exchange rate 2006: EUR 1 = HRK 7.3229 2007: EUR 1 = HRK 7.3362
 2008: EUR 1 = HRK 7.2232 2009: EUR 1 = HRK 7.3396

* Dividend amount will be known after the General Assembly.

3. Organisational Scheme

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

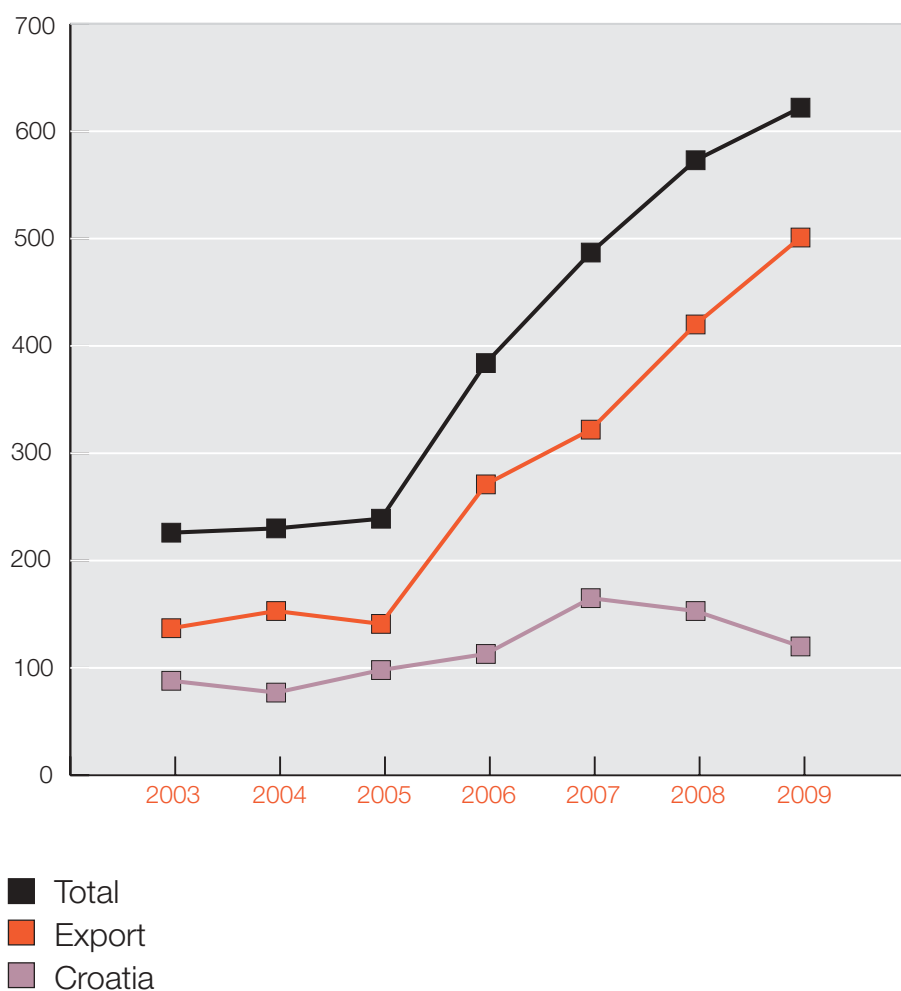
Auditors:
 AUDIT d.o.o.
 RECONSULT d.o.o.



4. General position of the Company

Appropriate management of operating processes and risks, prioritising of development and sales activities, appropriate organisational and personnel solutions, have all lead to successful corporate performance. Building upon results of former years, despite the global recession the company has potentials for further growth and creation of new value, and that it is ready to operate successfully on the global market of distribution, special and medium power transformers.

SALES TRENDS (HRK mil.)



5. Corporate organisation and management in 2009

In the course of 2009, Management Board of Končar D&ST d.d. was composed of:

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 Centre, with common departments. At the start of the year, in order to improve the cooperation of sales representatives with other functions within the production centres, the sales sector was divided according to the type of products in production centres. In the middle of the year, the technical office and production of special distribution transformers were included into the technical and production sector of distribution transformers, and the design team for the preparation and construction of strategic investment under the name "HV (High Voltage) Laboratory" was formed as a separate unit.

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 & Clearing Company (SKDD) website (www.skdd.hr), and the balances as at 31 December 2009 and 2008 respectively are published at page 41. Preferred shares do not provide votes.

7. Market position and sales by countries and product groups

In 2009, there is an obvious impact of the global crisis on the investments in energy sector, including power distribution. Some countries have recorded a huge fall in investments in energy sector (e.g. Croatia - exceeding 25%, Spain - exceeding 30%, some Gulf countries), as well as giving up on already started projects.

Despite that, intensified activities in the contracting of new orders in the preceding period have caused total sales growth of 8%. Sales of distribution transformers have remained on approximately same level (HRK 191 mil. in 2009 compared to HRK 190 mil. in 2008), and sales of medium power transformers have grown by 18% (HRK 351 mil. in 2009 compared to HRK 295 mil. in 2008).

Sales by principal markets have been as follows:

Croatia: HRK 120 mil. sales in 2009, which is 21% reduction from HRK 153 mil. in 2008.

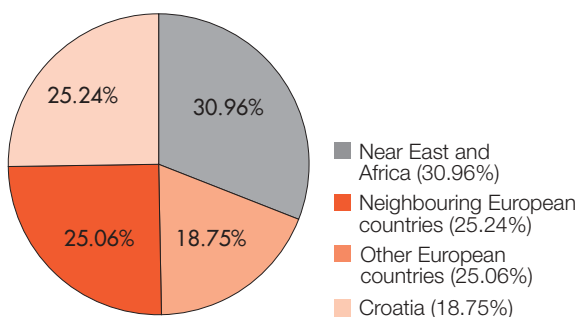
Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Czech Republic, Slovakia, Hungary, Italy, Kosovo, Bulgaria - HRK 154.1 mil. sales in 2009, which means almost no change from HRK 153,6 mil. in 2008.

Other European countries: Sweden, Switzerland, Germany, Finland, France, United Kingdom, Estonia, Latvia, Lithuania, Poland, Greece, Cyprus - HRK 153 mil. sales in 2009, which is 12% reduction compared to HRK 173 mil. in 2008.

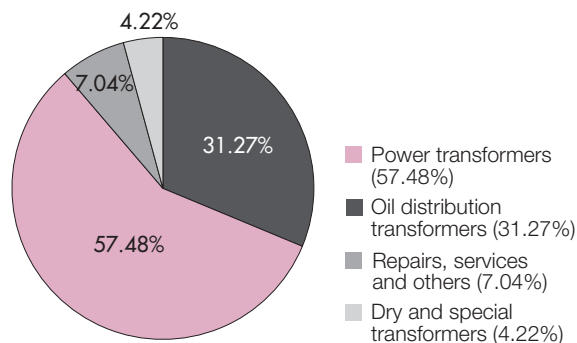
Near East and Africa: HRK 189 mil. sales in 2009, or 101% increase compared to HRK 94 mil. in 2008.

With total new contracts in 2009 of HRK 559 mil., balance of contracts at the year's end was HRK 493 mil. or 4% less than at the end of 2008.

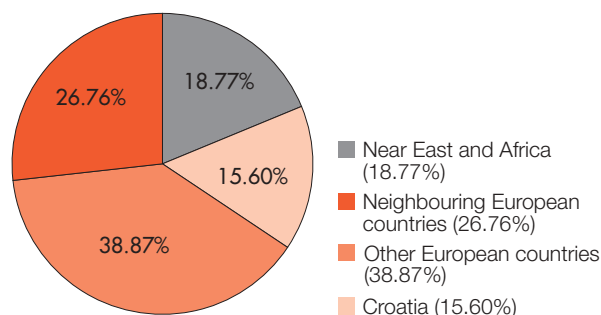
SALES STRUCTURE PER MARKETS



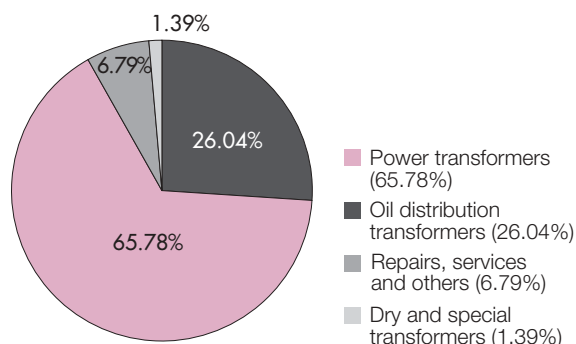
SALES STRUKTURE PER PRODUCTS



NEW CONTRACTS PER MARKETS



STRUKTURE OF NEW CONTRACTS PER PRODUCTS



8. Financial position (Balance Sheet)

Corporate assets as at 31 December 2009 were HRK 378.9 mil., similar as year before, when they were HRK 377.4 mil.

In the structure of assets, fixed assets share is 19%, and current assets share is 81%, which is approximately the same as in the year before. However, significant changes have been recorded in current assets, namely growth of short-term financial assets. Thus, cash at banks with short-term deposits accounts for almost 15% of total assets or HRK 55.1 mil., which is 7.7 times more than a year before. On the other hand, receivables from customers are in a significant fall from HRK 108.6 mil. to HRK 75.6 mil. or 20% assets. Inventories have remained approximately at the same level and with HRK 158.4 mil. their share in assets is 42%.

As for liabilities, reserves and equity continue their absolute and relative growth trend as consequence of growth of net profits and policy of retaining part of profits in reserves. As at 31 December 2009, they formed 36% total sources of assets. Item of liabilities which had maximum growth are long-term reservations, which have grown from HRK 63.7 mil. as at 31 December 2008 by HRK 30.9 mil. to HRK 94.6 mil. or 25% of liabilities. Company indebtedness to the financial sector has been significantly reduced. Long-term loans have been reduced from HRK 13.9 to 11.1 mil. as consequence of gradual capital sum repayment and the fact that there were no new debts. Short-term loans were more significantly reduced, from HRK 35.5 mil. to HRK 8.7 and as at 31 December 2009 they form 2% of liabilities. Liabilities to suppliers have also been reduced and they form 13% of liabilities, similar as liabilities for advances received.

This trend of balance items, including the strengthening of cash item with reduction of receivables from customers on the side of assets and growth of equity and long-term reservations with reduction of short-term liabilities on the side of liabilities shows the improvement of liquidity management and reduction of general indebtedness.

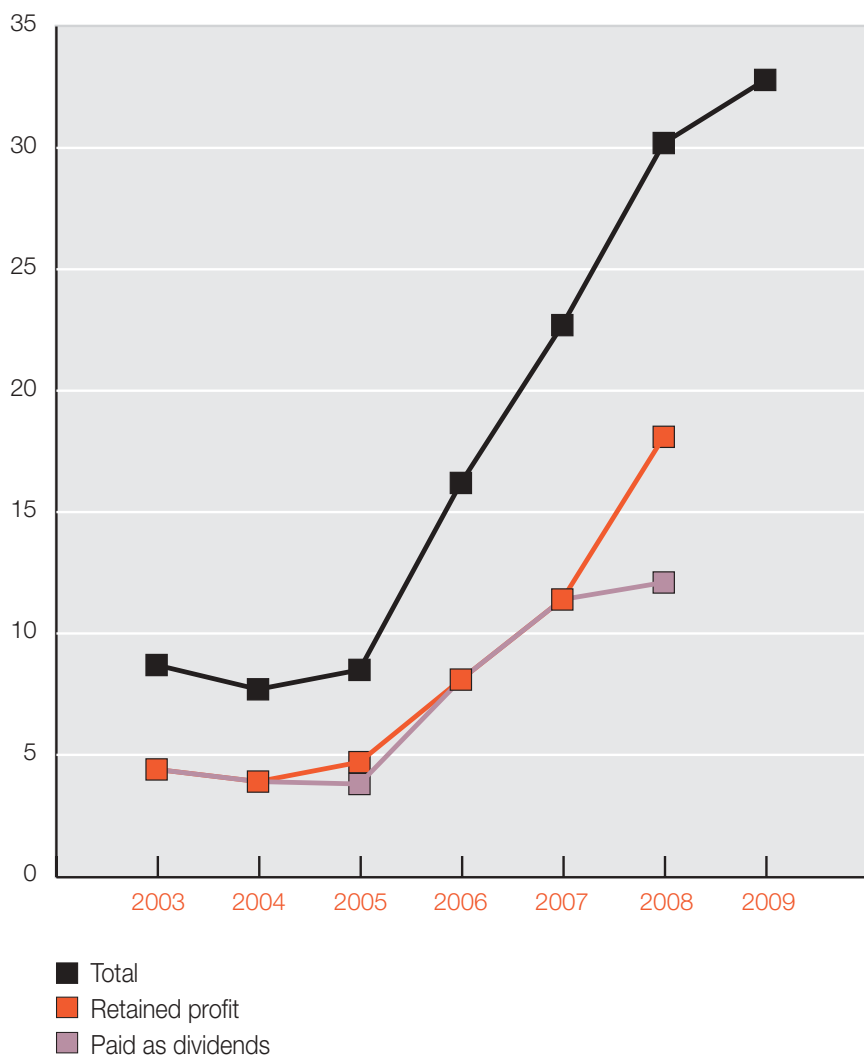
9. Operating results (Profit & Loss Statement) and share price trends

In 2009, the income growth trend continued. Total income amounts to HRK 636.6 mil. or 8% growth compared to income in 2008.

Operating income, forming 98% of total income, grew in 2009 by HRK 44.3 mil. to HRK 623.1 mil. or 8% compared to 2008. Within operating income, income in Croatia has continue to fall for the second year in row, namely by HRK 32.4 mil. to HRK 120.4 mil. Fall in income in Croatia has been compensated with growth of exports, which form 80% of operating income or HRK 501.2 mil.

Parallel with income growth is the growth of expenses. As for operating expenses, most significant item are expenses of raw materials and supplies, with 58% share in total income.

NET PROFIT THROUGH YEARS (HRK mil.)



Highest growth was that of long-term reservations, which amount to HRK 32.4 mil. or 14% total income. Highest growth after reservations is that of costs of services, which amount to HRK 45.5 mil. or 7% share in income. Growth of personnel expenses by 6% to HRK 87.7 mil. or 14% of income is a consequence of the growth in the number of employees from 368 at the year's start to 389 on the last day of 2009.

Financial income amounts to HRK 11.3 mil., with currency gains of HRK 9.5 mil.

Financial expenses are HRK 11.8 mil., with currency losses of HRK 8.6 mil. and interests of HRK 3.2 mil.

Gross profits of the Company for 2009 amount to HRK 34.2 mil. and exceed gross profits of the year 2008 by 5.9%, and presented net profits of HRK 32.8 mil. have recorded 8.7% growth.

To sum up, Company operations in 2009 were featured with continued growth of operations measured by increased income (primarily from exports) with the retained profitability level from the preceding year. Structure of assets has also seen positive shifts, significantly improving the liquidity, indebtedness and activity ratios.

Končar D&ST shares were from time to time traded at the Zagreb Stock Exchange and only 8,157 shares were in trade (2008 - 13,398; 2007 - 30,512). Price ranged from HRK 931 to 2,385 per share and the last transaction with ordinary shares was concluded at HRK 1,999 and that with preferred shares at HRK 1,850.

According to the price of ordinary shares on the last day of 2009, P/E ratio was 7.8.

In the course of 2009, the Company did not acquire treasury shares.

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 it is not expected 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.

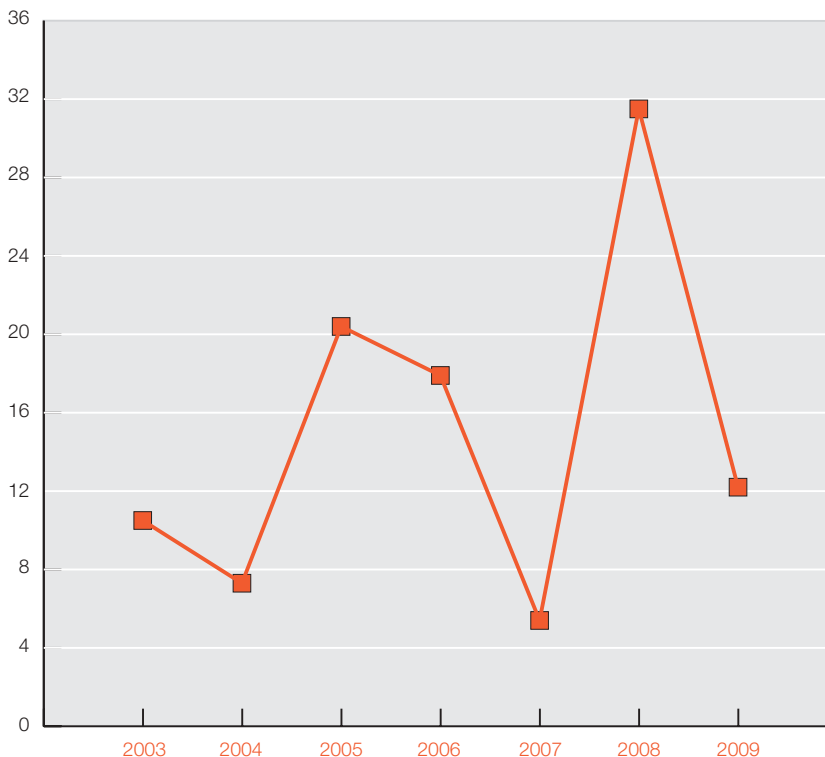
11. Investments and technology update

In 2009, last investments were made in the second investment cycle of reconstruction and update of the Company production facilities, both for the production of distribution transformers and medium power transformers.

Significant investments have been made into infrastructure and environmental projects. Total value of investments in 2009 was HRK 12.2 mil.

Major preparations were made during the year for the following investment cycle in the field of medium power transformers under the name "HV (High Voltage) Laboratory".

INVESTMENT TRENDS (HRK mil.)



12. Technical development and products innovation

In Technical Development Sector at the end of 2009, there were 18 graduated engineers of electrical engineering, mechanical engineering, chemistry and chemical technology, two MSc and one PhD in the field of electrical engineering. Sector has two divisions: Product Development Division and Production Development Division.

In 2009, Product Development Division worked on the improvements of technical guidelines and programs for the calculation and design of distribution, special and power transformers. New isolation systems were developed with environmentally friendly materials, which resulted in the production and deliveries of distribution and special transformers for several customers and purchase order for three power transformers of 40 MVA rating power, Si 123 voltage sequence, filled with synthetic ester. With the completion of this project, Končar D&ST has joined the group of rare manufacturers of power transformers which mastered this technology on such powers and voltage level.

Equipment has been developed for testing of mechanical durability of distribution transformer tanks made of corrugated metal sheets according to EN 50464. This opened new possibilities for testing of products for all markets which accepted these or similar standards.

EDO system has been implemented for electronic storage, browsing and distribution of transformer drawings and documents.

Production Development Division has worked on the projects of technology update of the production of components of distribution, power and special transformers. Workshop for production of isolation has been completely reconstructed. Several state-of-the-art machines have been purchased, a new lay-out has been made and new work organisation has been introduced. Thus work conditions have been improved and productivity increased.

New winding machines for distribution transformer foil windings and two machines for power transformer windings with axial-radial pressurization of conductors during winding process have been purchased. 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 methods.

Technical development experts and associates from other departments actively participated in symposiums and seminars, HRO-CIGRÉ and International Colloquium on Transformers in Cavtat, Croatia, in activities of Cigré A2-35 task force and in operations of HZN/TO E14 Power Transformers technical board.

13. Quality Management, Environment Management and OH&S Management

Following the same practice, in 2009 there were two annual audits of certified systems (Quality Management System based on ISO 9001:2000, Environment Management System based on ISO 14001:2004, and Occupational Health and Safety Management System based on OHSAS 18001:2007).

There is regular training of all new employees as regards the certified systems.

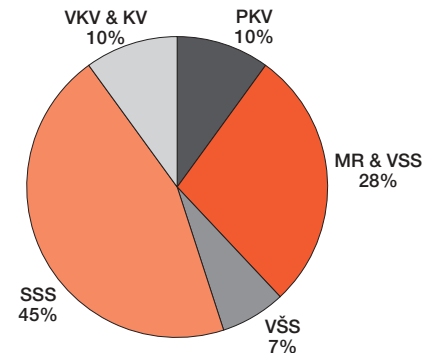
Končar D&ST continues to show its care for the environment as well as for occupational health and safety of all its employees through regular investments in work conditions, consideration of better engineering solutions and more appropriate organisation of operations.

14. Human Resources

At the beginning of 2009, there were 368 employees at Končar D&ST. By the end of the year, 33 new employees were hired and 12 employees left. The year ended with 389 employees. At the hiring, we continued taking care on rejuvenation and most of the newly hired employees in 2009 are of young age. Average age of employees is 39.

EMPLOYEE EDUCATION STRUCTURE AT THE END OF THE YEAR:

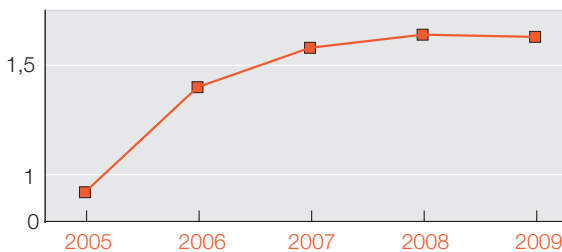
Level of education	Years of education	2008	2009
University degrees (MR, VSS)	16+	101	108
College (VŠS)	14	31	29
Secondary school (SSS)	12	152	175
Qualified workers schools (VKV, KV)	11-13	45	39
Primary school + training on the job (PKV)	8	39	38
Total		368	389



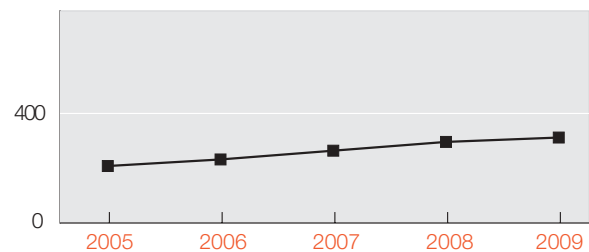
Productivity per employee in 2009 was HRK 1.63 mil.

In the field of training of employees, there were numerous activities, among which particularly significantly higher number of young associates at postgraduate courses of studies.

ANNUAL SALES PER EMPLOYEE (HRK mil.)



NUMBER OF EMPLOYEES



15. Future development strategy

Development, sales and production of distribution oil transformers up to 2500 kVA and 36 kV, special distribution transformers up to 5 MVA, and medium power transformers up to 170 kV, according to a five-year plan, will continue to be the principal activities of 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 2009 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.



DECLARATION BY PERSONS RESPONSIBLE
FOR PREPARATION OF 2009 ANNUAL REPORT

KONČAR - Distribution and Special Transformers, Inc.
Josipa Mokrovića 8, ZAGREB
CROATIA

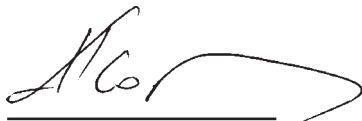
**DECLARATION BY PERSONS RESPONSIBLE
FOR PREPARATION
OF 2009 ANNUAL REPORT**

Pursuant to Article 403 of the Croatian Act on Capital Market (Official Journal NN 88/08, 146/08, 74/09), we herewith declare that according to our best knowledge and belief:

- Annual Financial Statements of Končar D&ST d.d. for 2009 have been prepared in compliance with the Croatian Accounting Act (Official Journal NN 109/07) and the International Financial Reporting Standards (IFRS) (Official Journal NN 140/06, 30/08, 130/08, 137/08), and provide a comprehensive and true presentation of assets and liabilities, profit and loss, financial position and operations of the Company.
- Management Report truly presents the development and results of operations and position of the Company and describes most significant risks and contingencies which the Company is exposed to.

Zagreb, 19 February 2010

On behalf of Končar D&ST Management Board:



Ivan Klapan, CEO
President of the Management Board



Petar Vlaić, CFO
Member of the Management Board



AUDITOR'S REPORT
AND FINANCIAL STATEMENTS WITH NOTES



Responsibility for the Financial Statements

The Company's Board is responsible for ensuring that the financial statements for year ended 31 December 2009 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, 29/09) 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, 29/09) 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 - Distribution and Special Transformers, Inc.
Josipa Mokrovića 8, 10090 Zagreb, Croatia

19 February 2010



reconsult

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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** ("the Company") for the year ended 31 December 2009, 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 2009, the results of operations, the changes in equity and the cash flows of the Company for the year 2009 in accordance with the Accounting Law and the International Financial Reporting Standards effective in the Republic of Croatia.

Reconsult d.o.o., Zagreb

Marija Zupančić, certified auditor, Managing Director
RECONSULT, d.o.o.
REVIZIJSKI I KONZALTING
ZAGREB, 19 February 2010



Audit d.o.o., Zagreb

Zdenko Balen, certified auditor,
Member of the Management

Income Statement

For the year ended 31 December 2009

	Note	2009 in HRK	2008 in HRK
Revenue	3	621,632,524	572,988,389
Other operating income	4	3,680,273	8,436,584
Operating income		625,312,797	581,424,973
Increase in inventories of work in progress and finished goods	5	4,184,787	28,409,062
Cost or raw material and supplies	6	(371,207,988)	(370,525,989)
Costs of goods sold	7	(24,397,605)	(32,611,440)
Other external charges	8	(53,636,643)	(47,473,886)
Material costs		(449,242,236)	(450,611,315)
Net wages and salaries		(41,913,280)	(39,665,174)
Taxes and contributions from wages and salaries		(24,690,178)	(22,770,551)
Contributions on wages and salaries		(11,393,764)	(10,681,882)
Staff costs	9	(77,997,222)	(73,117,607)
Depreciation and amortization expense	10	(17,270,707)	(14,276,521)
Other costs	11	(15,973,760)	(15,763,307)
Value adjustment of short-term property		(44,451)	(2,400,339)
Value adjustment	12	(44,451)	(2,400,339)
Provisions for risks and charges	13	(32,375,360)	(14,302,188)
Other operating expenses	14	(1,931,360)	(2,090,298)
Operating expenses		(590,650,309)	(544,152,513)
Interest, foreign exchange differences, dividends and similar income from relations with related companies		211,341	598,841
Interest, foreign exchange differences, dividends and similar income from relations with non-related companies and other entities		11,096,794	5,883,030
Financial income	15	11,308,135	6,481,871
Interest, foreign exchange differences and other expenses from relations with related companies		(370,846)	(866,515)
Interest, foreign exchange differences and other expenses from relations with non-related companies and other entities		(10,452,251)	(8,794,506)
Other financial expenses		(961,191)	(1,823,890)
Financial expenses	16	(11,784,288)	(11,484,911)
TOTAL INCOME		636,620,932	587,906,844
TOTAL EXPENSES		(602,434,597)	(555,637,424)
PROFIT BEFORE TAXATION		34,186,335	32,269,420
Income tax expense	17	(1,375,059)	(2,103,832)
PROFIT FOR THE PERIOD	33	32,811,276	30,165,588

The accompanying notes from 1 to 50 set out below form an inseparable part of these financial statements.

Balance Sheet

As of 31 December 2009

	Note	At 31 December 2009 in HRK	At 31 December 2008 in HRK
ASSETS			
Concessions, patents, licences, trade and service marks, software and other rights		516,205	705,265
Intangible property in the course of preparation		—	5,642
Intangible property	19	516,205	710,907
Land		9,012,497	8,623,017
Buildings		16,044,605	20,419,459
Plant and equipment		38,553,210	28,204,744
Tools, fittings and transport vehicles		3,617,363	3,231,328
Advance payments for tangible property		145,553	1,682,284
Tangible property under construction		182,223	13,079,318
Tangible property	20	67,555,451	75,240,150
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		70,534,430	78,413,831
Raw material and supplies		52,979,058	63,363,193
Work in progress		26,649,552	42,462,975
Unfinished and semi-finished products		5,190,011	2,216,791
Finished goods		73,575,386	55,640,930
Prepayments for stocks		223,467	774,880
Inventories	22	158,617,474	164,458,769
Amounts due from related companies	23	7,185,574	17,078,403
Trade receivables	24	68,453,164	91,496,060
Amounts due from employees and company's members		47,166	40,959
Receivables from the state and other institutions	25	18,657,331	18,152,991
Receivables		94,343,235	126,768,413
Advances and loans, deposits, etc.		26,918,597	—
Financial property	26	26,918,597	—
Cash with banks and in hand	27	28,225,787	7,181,502
SHORT TERM PROPERTY		308,105,093	298,408,684
Prepaid costs of the future period and accrued income	28	262,288	550,568
TOTAL ASSETS		378,901,811	377,373,083

Balance Sheet - continued

	Note	At 31 December 2009 in HRK	At 31 December 2008 in HRK
EQUITY AND LIABILITIES			
Registered capital	29	38,342,400	38,342,400
Legal reserves	30	1,983,738	1,983,738
Statutory reserves	31	50,396,699	32,297,464
Other reserves	32	14,612,439	15,581,106
Reserves from net income		66,992,876	49,862,308
Profit of the year	33	32,811,276	30,165,588
CAPITAL AND RESERVES		138,146,552	118,370,296
Provisions for retirement costs, severance pays and similar liabilities		885,345	792,950
Other provisions		93,713,103	62,879,211
Provisions	34	94,598,448	63,672,161
Amounts due to banks and other financial institutions		11,104,796	13,915,624
Long term liabilities	35	11,104,796	13,915,624
Liabilities to related companies	36	4,157,536	3,409,718
Amounts due to banks and other financial institutions	37	8,470,250	35,452,181
Advance payments received	38	49,979,010	38,854,844
Trade payables	39	46,739,470	67,810,947
Amounts due to employees	40	4,901,698	4,087,666
Liabilities for taxes, contributions and similar appropriations	41	4,348,427	5,185,312
Liabilities on the basis of participation in the result		21,887	14,901
Other short-term liabilities	42	230,295	395,076
Short term liabilities		118,848,573	155,210,645
Deferred payment of costs and income of the future period	43	16,203,442	26,204,357
TOTAL EQUITY AND LIABILITIES		378,901,811	377,373,083

The accompanying notes from 1 to 50 set out below form an inseparable part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2009

	Note	2009 in HRK	2008 in HRK
Subscribed capital	29	38,342,400	38,342,400
Reserves from net income	30, 31, 32	66,992,876	49,862,308
Profit of the current year	33	32,811,276	30,165,588
Total capital and reserves		138,146,552	118,370,296
Other changes in capital		19,776,256	17,823,286
Total increase in capital		19,776,256	17,823,286

The accompanying notes from 1 to 50 set out below form an inseparable part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 in HRK	2008 in HRK
I BUSINESS ACTIVITIES			
Cash received from customers		680,696,059	592,180,251
Cash received from insurance companies		129,037	68,563
Cash received on the basis of a refund of taxes		72,357,984	68,217,511
Interest received		376,712	637,185
Other cash receipts		808,237	8,410,047
Total cash receipts from business activities		754,368,029	669,513,557
Cash paid to suppliers		(500,308,183)	(500,214,462)
Cash paid for gross wages and salaries		(75,266,460)	(69,000,465)
Cash paid to insurance companies		(1,016,901)	(887,048)
Interest paid		(2,841,992)	(2,438,992)
Taxes paid		(64,140,658)	(77,986,355)
Other money expenses		(8,698,000)	(18,147,820)
Total money expenses from business activities		(652,272,194)	(668,675,142)
NET INCREASE IN CASH FLOW FROM BUSINESS ACTIVITIES		102,095,835	838,415
II INVESTING ACTIVITIES			
Cash receipts from sale of long-term intangible and tangible property		435,175	26,365
Dividends received		909,084	747,974
Total money receipts from investing activities		1,344,259	774,339
Cash paid for the acquisition of long-term intangible and tangible property		(13,653,299)	(23,586,444)
Total money expenses from investing activities		(13,653,299)	(23,586,444)
NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES		(12,309,040)	(22,812,105)
III FINANCIAL ACTIVITIES			
Cash receipts from the loan principal, debentures, advances and other loans		46,516,319	25,777,055
Other receipts from financial activities		7,727,950	25,093,468
Total money receipts from financial activities		54,244,269	50,870,523
Cash expenses for the repayment of loan principal and bonds		(76,260,991)	(9,310,084)
Cash expenses for the payment of dividends		(12,059,367)	(11,373,635)
Other cash expenses from financial activities		(34,666,421)	(25,093,467)
Total money expenses from financial activities		(122,986,779)	(45,777,186)
NET INCREASE /(DECREASE) IN CASH FLOW FROM FINANCIAL ACTIVITIES		(68,742,510)	5,093,337
TOTAL INCREASE/(DECREASE) IN CASH FLOW		21,044,285	(16,880,353)
CASH & CASH EQUIVALENTS AT THE BEGINN. OF THE PERIOD	27	7,181,502	24,061,855
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		21,044,285	(16,880,353)
CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD	27	28,225,787	7,181,502

The accompanying notes from 1 to 50 set out below form an inseparable part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2009

1. GENERAL

1.1. Activity

Končar - Distribution and Special Transformers, Inc., 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 medium 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 2009 was 389 employees (At 31 December 2008 was 368 employees).

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

	31 December 2009	31 December 2008
Master's and Doctor's of Science degree	8	6
University degree	100	95
Two-year post secondary diploma	29	31
Secondary school certificate	175	152
Skilled workers	39	45
Unskilled workers	38	39
Total	389	368

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 2009 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, 29/09) issued by the Committee for Financial Reporting Standards and in

Notes to the Financial Statements - continued

accordance with the Regulation 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 2009 the official rate of Croatia kuna was 7.31 HRK for 1 EUR (At 31 December 2008 was 7.32 HRK) and 5.09 HRK for 1 USD (At 31 December 2008 was 5.16 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

Notes to the Financial Statements - continued

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	6.0% - 10.0%
Plant and equipment	20.0% - 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.

Notes to the Financial Statements - continued

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.

Notes to the Financial Statements - continued

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. REVENUE

	2009 in HRK	2008 in HRK
Revenue from sale of products in Croatia	94,539,586	136,649,528
Revenue from sale of products abroad	454,864,355	387,405,714
Revenue from sale to related companies	72,228,583	48,933,147
Total	621,632,524	572,988,389

4. OTHER OPERATING INCOME

	2009 in HRK	2008 in HRK
Income from sale of long-term property	113,911	1,296,005
Income from reversal of provisions	1,449,073	393,410
Income from rebates, discounts and similar	325,648	172,729
Income from previous years	137,988	189,856
Income from collection of receivables previously written-off	1,404,879	5,155,530
Income from indemnifications	129,037	68,563
Surpluses	69,649	912,255
Other income	50,088	248,236
Total	3,680,273	8,436,584

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 4,184,787** (2008 in the amount of **HRK 28,409,062**) is included in the value of inventories.

Notes to the Financial Statements - continued

6. COST OF RAW MATERIAL AND SUPPLIES

	2009 in HRK	2008 in HRK
Cost of raw material and supplies	366,510,083	365,587,445
Small inventory	547,127	885,710
Energy	4,150,778	4,052,834
Total	371,207,988	370,525,989

7. COSTS OF GOODS SOLD

Costs of goods sold in the amount of **HRK 24,397,605** (2008 in the amount of **HRK 32,611,440**) relate to the purchase value of goods sold.

8. OTHER EXTERNAL CHARGES

	2009 in HRK	2008 in HRK
Transport services	14,849,383	12,050,635
Telephone cost, postal services, etc.	1,756,116	1,758,525
Compensation for the utilization of trade and service mark of Končar d.d.	4,092,130	3,613,680
External services of manufacturing and sale of goods and services	4,837,001	4,513,534
Maintenance (services)	9,104,181	12,646,383
Rental costs and lease	1,570,320	1,043,622
Advertising, promotion and trade fairs	114,149	141,711
Sponsorships and donations	115,667	158,841
Intellectual and personal services	945,026	867,209
Municipal costs	661,865	682,291
Entertainment expenses	2,231,625	2,258,277
Other external costs	13,359,180	7,739,178
Total	53,636,643	47,473,886

9. STAFF COSTS

Net wages and salaries in the amount of **HRK 41,913,280** (2008 in the amount of **HRK 39,665,174**) include wages and salaries of the Company's management in the amount of HRK 1,339,872 (2008 in the amount of HRK 1,360,422) and bonuses to Company's management in the amount of HRK 689,664 (2008 in the amount of HRK 718,400) and are a component of stated staff costs.

Notes to the Financial Statements - continued

10. DEPRECIATION AND AMORTIZATION EXPENSE

	2009 in HRK	2008 in HRK
Depreciation of intangible property	705,541	959,682
Depreciation of tangible property	16,565,166	13,316,839
Total	17,270,707	14,276,521

11. OTHER COSTS

	2009 in HRK	2008 in HRK
Daily allowances and travelling costs	3,430,803	3,185,835
Compensation of costs to employees, grants and subventions	1,966,004	1,692,458
Compensations to members of the Supervisory Board	329,382	388,879
Insurance premiums	953,608	753,749
Banking services and payment traffic costs	2,272,432	1,982,615
Contributions, memberships and similar appropriations	553,162	516,544
Taxes not depending on income and charges	1,087,174	3,649,122
Other costs	5,381,195	3,594,105
Total	15,973,760	15,763,307

12. VALUE ADJUSTMENT OF ASSETS

	2009 in HRK	2008 in HRK
Value adjustment of short-term receivables	44,451	1,281,410
Value adjustment of inventories	—	1,118,929
Total	44,451	2,400,339

13. PROVISIONS FOR RISKS AND CHARGES

	2009 in HRK	2008 in HRK
Provisions for risks in a guarantee period	32,282,965	14,231,679
Provisions for regular severance pays and jubilee awards	92,395	70,509
Total	32,375,360	14,302,188

Notes to the Financial Statements - continued

14. OTHER OPERATING EXPENSES

	2009 in HRK	2008 in HRK
Net book value of disposed long-term property	11,521	5,866
Rebates, discounts, bonuses, restitutions, etc.	1,497,016	278,995
Deficit	63,653	956,280
Penalties, amends, etc.	13,323	—
Costs of prior periods	234,460	829,390
Other operating expenses	111,387	19,767
Total	1,931,360	2,090,298

15. FINANCE INCOME

	2009 in HRK	2008 in HRK
In connections with related companies		
Foreign exchange gains	211,341	598,841
In connections with non-related companies		
Interest income	897,357	613,835
Foreign exchange gains	9,290,354	4,521,221
Dividend income and share in the profit	909,083	747,974
	11,096,794	5,883,030
Total	11,308,135	6,481,871

16. FINANCE COST

	2009 in HRK	2008 in HRK
In connections with related companies		
Foreign exchange losses	370,846	866,515
In connections with non-related companies		
Interest expense	2,211,022	1,669,851
Foreign exchange losses	8,241,229	7,124,655
	10,452,251	8,794,506
Other financial expenses -factoring costs - repurchase of receivables	961,191	1,823,890
Total	11,784,288	11,484,911

Notes to the Financial Statements - continued

17. INCOME TAX

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

	2009 in HRK
Accounting profit (profit before tax)	34,186,335
Tax non-deductible expenses	29,599,249
Tax exemptions	(17,950,290)
Taxable profit after tax non-deductible expenses and exemptions	45,835,294
Tax at applicable tax rate of 20%	9,167,059
Investment incentives	(7,792,000)
Income tax liability	1,375,059

The applicable income tax rate for 2009 and 2008 was 20%.

18. GAINS PER SHARE

	2009 in HRK	2008 in HRK
Net income	32,811,276	30.165,588
Weighted average number of shares	127,808	127,808
Gains per share	256.72	236.02

19. LONG TERM INTANGIBLE ASSETS

in HRK	Concessions, patents, licences, software and other rights	Assets in progress	Total
Cost			
At 31 December 2008	3,652,576	5,642	3,658,218
Additions	—	510,839	510,839
Transfers	516,481	(516,481)	—
Disposals or retirements	(25,402)	—	(25,402)
At 31 December 2009	4,143,655	—	4,143,655
Accumulated depreciation			
At 31 December 2008	2,947,311	—	2,947,311
Depreciation charge for 2009	705,541	—	705,541
Disposals or retirements	(25,402)	—	(25,402)
At 31 December 2009	3,627,450	—	3,627,450
Net book value			
At 31 December 2009	516,205	—	516,205
At 31 December 2008	705,265	5,642	710,907

20. LONG TERM TANGIBLE ASSETS

in HRK	Land	Buildings	Plant and equipment	Tools and office equipment	Prepayments	Assets under construction	Total
Cost							
At 31 December 2008	8,623,017	60,830,349	87,944,268	11,948,714	1,682,284	13,079,318	184,107,950
Additions	—	—	262	—	7,653,657	11,956,543	19,610,462
Transfers	389,480	53,000	22,105,707	2,305,451	—	(24,853,638)	—
Disposals or retirements	—	(91,155)	(1,178,100)	(828,455)	(9,190,388)	—	(11,288,098)
At 31 December 2009	9,012,497	60,792,194	108,872,137	13,425,710	145,553	182,223	192,430,314
Accumulated depreciation							
At 31 December 2008	—	40,410,890	59,739,524	8,717,386	—	—	108,867,800
Depreciation charge for 2009	—	4,336,699	10,309,051	1,919,416	—	—	16,565,166
Accelerated depreciation	—	—	1,210,834	—	—	—	1,210,834
Disposals or retirements	—	—	(940,482)	(828,455)	—	—	(1,768,937)
At 31 December 2009	—	44,747,589	70,318,927	9,808,347	—	—	124,874,863
Net book value							
At 31 December 2009	9,012,497	16,044,605	38,553,210	3,617,363	145,553	182,223	67,555,451
At 31 December 2008	8,623,017	20,419,459	28,204,744	3,231,328	1,682,284	13,079,318	75,240,150

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.

Notes to the Financial Statements - continued

21. LONG TERM FINANCIAL PROPERTY

	At 31 December 2009 in HRK	At 31 December 2008 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 2009 in HRK	At 31 December 2008 in HRK
Inventories		
Raw material and supplies	55,737,255	74,699,498
Work in progress	26,649,552	42,462,975
Finished products	74,103,845	57,078,854
Unfinished products and semi-finished products	5,190,011	2,216,791
Less: Value provision of raw material and supplies	(2,758,197)	(11,336,305)
Less: Value provision of finished goods	(528,459)	(1,437,924)
	158,394,007	163,683,889
Prepayments for stocks abroad	223,467	774,880
Total	158,617,474	164,458,769

Notes to the Financial Statements - continued

23. AMOUNTS DUE FROM RELATED COMPANIES

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Subsidiary companies		
Končar-Inženjering za energetiku i transport d.d., Zagreb	4,190,475	15,850,584
Kones AG, Zurich, Switzerland	2,557,170	—
Končar-Električna vozila d.d., Zagreb	366,086	—
Končar-Mjerni transformatori d.d., Zagreb	26,030	675,400
Končar-Generatori d.d., Zagreb	20,910	—
Končar-Sklopna postrojenja d.d., Sesvetski Kraljevec	15,407	—
Končar-Elektronika i informatika d.d., Zagreb	8,881	864
Končar-Montažni inženjering d.d., Zagreb	615	542,504
	7,185,574	17,069,352
Associated companies		
Končar-Energetski transformatori d.d., Zagreb	—	9,051
Total	7,185,574	17,078,403

Notes to the Financial Statements - continued

24. CURRENT TRADE RECEIVABLES

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Domestic trade receivables		
Cotra d.o.o., Varaždin	8,150,935	5,262,485
Brodmerkur d.d., Split	7,197,598	10,663,048
HEP d.d., Zagreb	6,000,000	7,910,911
Elektromaterijal d.d., Rijeka	5,419,955	7,597,450
Elkakon d.o.o., Zagreb	3,817,825	5,125,372
Dalekovod d.d., Zagreb	3,613,125	—
INA Industrija nafte d.d., Zagreb	996,300	643,550
Ferokotao d.o.o., Donji Kraljevec	338,687	935,707
Others	1,169,417	4,848,360
Less: Value provision	(44,277)	(44,277)
	36,659,565	42,942,606
Foreign trade receivables		
Inabensa S.A, Abu Dhabi, UA Emirates	5,468,252	—
CEZ Distribution AD, Sofia, Bulgaria	4,936,433	—
Danieli, Udine, Italy	3,324,321	—
Alstom Hydro France, Levallois Perret Cedex, France	2,353,783	—
Al Mostajed Trading Co., Dubai, UA Emirates	2,111,492	11,217,962
EDF Hydraulics, Toulouse, France	1,886,346	—
DEWA, Dubai, UA Emirates	1,546,710	819,846
Power Holding Company, Abuja, Nigeria	1,463,044	—
ABB AG, Mannheim, Germany	1,249,360	—
Deling d.o.o., Tuzla, Bosnia and Hercegovina	1,121,597	1,267,770
Stadtwerke, München GmbH, Germany	847,884	121,585
Others	5,573,601	36,574,586
Less: Value provision	(89,224)	(1,448,295)
	31,793,599	48,553,454
Total	68,453,164	91,496,060

25. CURRENT RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Receivables for the income tax	3,817,855	3,563,125
Receivables for a value added tax	14,543,189	14,489,964
Other receivables	296,287	99,902
Total	18,657,331	18,152,991

Notes to the Financial Statements - continued

26. CURRENT FINANCIAL PROPERTY

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Given loans, deposits, etc.		
Time deposits	26,918,597	—
Total	26,918,597	—

27. CASH WITH BANKS AND IN HAND

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Current account balance	6,662,857	1,002,679
Foreign currency account balance	21,524,325	6,135,745
Cash in hand - HRK	21,979	31,715
Cash in hand - foreign currency	16,626	11,363
Total	28,225,787	7,181,502

28. PREPAID COSTS OF THE FUTURE PERIOD AND ACCRUED INCOME

The amount of **HRK 262,288** (At 31 December 2008 in the amount of **HRK 550,568**) relates to prepaid costs of the future period.

29. REGISTERED CAPITAL

Registered capital is ascertained in nominal value amounting to **HRK 38,342,400** (At 31 December 2008 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 2009		At 31 December 2008	
	Number of shares	Ownership share %	Number of shares	Ownership share %
Končar-Elektroindustrija d.d., Zagreb Total	66,092	51.71	66,092	51.71
HPB d.d. Total	15,767	12.34	16,248	12.71
Floričić Kristijan Total	4,958	3.88	4,958	3.88
Knežević Nikola Total	3,614	2.83	4,159	3.25
PBZ d.d. Total	2,173	1.70	2,278	1.78
Others	35,204	27.54	34,073	26.66
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.

Notes to the Financial Statements - continued

30. LEGAL RESERVES

Legal reserves in the amount of **HRK 1,983,738** (At 31 December 2008 in the same amount) were ascertained on the basis of appropriation of income from previous year.

31. STATUTORY RESERVES

		in HRK
At 31 December 2008		32,297,464
A part of 2008 net income	(see Note 33)	18,099,235
At 31 December 2009		50,396,699

32. OHTER RESERVES

		in HRK
At 31 December 2008		15,581,106
Deferred net income		(968,667)
At 31 December 2009		14,612,439

33. NET PROFIT FOR THE YEAR

In 2009 the Company generated net profit in the amount of **HRK 32,811,276** (2008 in the amount of **HRK 30,165,588**).

Profit of the Company for the year 2008 in the amount of HRK 30,165,588 was allocated on the basis of decisions of the Management Board, Supervisory Board and the Assembly of the Company, as follows:

		in HRK
Statutory reserves	(see Note 31)	18,099,235
Liabilities for dividends		12,066,353
Total		30,165,588

Notes to the Financial Statements - continued

34. PROVISIONS FOR RISKS AND CHARGES

	Costs of repairs in a guarantee period in HRK	Costs upon legal proceedings in HRK	Jubilee awards and severance pays in HRK	Total in HRK
At 31 December 2008	61,430,138	1,449,073	792,950	63,672,161
Additional provisions	32,282,965	—	92,395	32,375,360
Reversal of provisions	—	(1,449,073)	—	(1,449,073)
At 31 December 2009	93,713,103	—	885,345	94,598,448

35. LONG TERM BORROWINGS

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Liabilities to banks and other financial institutions		
Raiffeisenbank Austria d.d., Zagreb (int. rate 4%)-from the HBOR programme	14,575,046	17,394,530
Less: Current portion (see Note 37)	(3,470,250)	(3,478,906)
Total	11,104,796	13,915,624

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

	in HRK
At 31 December 2008	17,394,530
Amounts repaid	(2,786,459)
Foreign exchange differences	(33,025)
	14,575,046
Less: Current portion	(3,470,250)
At 31 December 2009	11,104,796

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

	in HRK
Due in one to two years	2,776,199
Due in two to three years	2,776,199
Due in three to four years	2,776,199
Due in four to five years	2,776,199
Total	11,104,796

Notes to the Financial Statements - continued

36. CURRENT LIABILITIES TO RELATED COMPANIES

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Subsidiary companies		
Končar - Energetika i usluge d.o.o., Zagreb	1,365,933	1,440,637
Kones AG, Zurich, Switzerland	1,136,955	—
Končar - Elektroindustrija d.d., Zagreb	877,432	858,061
Končar - Sklopna postrojenja d.d., Sesvetski Kraljevec	438,003	311,893
Končar - Mjerni transformatori d.d., Zagreb	124,380	181,120
Končar - Elektronika i informatika d.d., Zagreb	73,057	112,361
Končar - Institut za elektrotehniku d.d., Zagreb	37,814	443,892
Končar - Mali električni strojevi d.d., Zagreb	37,786	—
Končar - Električni aparati srednjeg napona d.d., Zagreb	9,719	—
Končar - Inženjering za energetiku i transport d.d., Zagreb	4,305	—
Končar - Alati d.d., Zagreb	—	5,112
Končar - Električna vozila d.d., Zagreb	—	4,914
Končar - Montažni inženjering d.d., Zagreb	—	1,220
	4,105,384	3,359,210
Associated companies		
Končar - Energetski transformatori d.d., Zagreb	52,152	50,508
Total	4,157,536	3,409,718

37. SHORT TERM LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
SG-Splitska banka d.d., Split (int. rate 5%)	—	5,000,000
Banco Popolare Croatia d.d., Zagreb (int. rate 5%)	5,000,000	5,000,000
Raiffeisenbank 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
	5,000,000	31,973,275
Add: Current portion (see Note 35)	3,470,250	3,478,906
Total	8,470,250	35,452,181

Notes to the Financial Statements - continued

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

	in HRK
At 31 December 2008	35,452,181
New borrowings	46,410,543
Amounts repaid	(76,862,724)
	5,000,000
Add: Current portion	3,470,250
At 31 December 2009	8,470,250

38. ADVANCE PAYMENTS RECEIVED

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Domestic customers	1,094,536	697,945
Foreign customers	45,052,610	36,518,880
Subsidiary companies		
Kones AG, Zürich, Switzerland	3,792,655	—
Končar-Inženjering za energetiku i transport d.d., Zagreb	39,209	1,315,375
Končar-Električna vozila d.d., Zagreb	—	322,644
	3,831,864	1,638,019
Total	49,979,010	38,854,844

Notes to the Financial Statements - continued

39. TRADE PAYABLES

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Domestic suppliers		
Ferokotao d.o.o., Donji Kraljevec	3,207,212	4,277,152
Elkakon d.o.o., Zagreb	2,792,848	4,078,663
Komet d.o.o., Prelog	1,505,876	2,128,941
DMB d.o.o., Zagreb	1,364,876	1,147,862
Rotometal d.o.o., Samobor	629,376	723,846
Elka Kabeli d.o.o. Zagreb	544,953	—
Zagrebtrans d.o.o. Zagreb	329,507	643,885
Metal Dekor d.o.o., Čakovec	312,517	364,379
RALU logistika d.o.o., Sesvete	207,421	244,747
Auto Hrvatska dijelovi d.o.o. Zagreb	174,191	—
Seifert & Bogolin d.o.o Rijeka	143,346	133,263
Transporti Domjančić, Draganić	133,531	66,837
Jadroagent d.d., Rijeka	43,951	5,894
Selling el d.o.o., Sesvete	26,691	134,840
Others	5,482,618	12,525,053
	16,898,914	26,475,362
Foreign suppliers		
Sumitomo Benelux S.A./N.V., Bruxelles, Belgium	5,486,440	660,070
Maschinenfabrik Reinhausen, Regensburg, Germany	3,818,600	5,634,811
Thyssen Krupp, Gelsenkirchen, Germany	3,447,515	5,489,589
ORB Electrical Steels Limited, Newport, G.Britain	2,308,934	6,576,237
Preis & Co GmbH, Pernitz, Austria	1,948,718	2,157,588
De Angeli Prodotti S.r.l., Bagnoli di Sopra, Italy	1,502,660	4,953,665
Orbico Maziva Zagreb	1,360,931	—
Wieland Werke Langenberg, Velbert, Germany	1,204,314	—
Nynas-Technol, Vienna, Austria	1,045,593	1,637,129
Others	7,716,851	14,226,496
	29,840,556	41,335,585
Total	46,739,470	67,810,947

40. CURRENT LIABILITIES TO EMPLOYEES

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Liabilities for net wages and salaries	4,901,698	4,087,666
Total	4,901,698	4,087,666

Notes to the Financial Statements - continued

41. CURRENT LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR APPROPRIATIONS

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Liabilities for contributions, taxes and surtaxes	4,256,247	4,908,815
Liabilities for a value added tax	11,903	172,444
Other liabilities to the state	80,277	104,053
Total	4,348,427	5,185,312

42. OTHER CURRENT LIABILITIES

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Illness, deductions, etc.	38,505	25,179
Interest liability	191,790	369,897
Total	230,295	395,076

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

	At 31 December 2009 in HRK	At 31 December 2008 in HRK
Deferred payment of costs		
Deferred payment of costs	1,363,005	—
Deferred payment of liabilities for the income tax	810,179	1,052,346
	2,173,184	1,052,346
Income of the future period of subsidiary companies		
Končar-Inženjering za energetiku i transport d.d., Zagreb	7,305,458	10,610,429
Income of the future period of external customers	6,724,800	14,541,582
Total	16,203,442	26,204,357

44. STATEMENT OF CHANGES IN CAPITAL

	At 31 December 2008 in HRK	Distribution of profit in HRK	Liabilities for dividends in HRK	Deferred net income in HRK	Profit for the current year in HRK	At 31 December 2009 in HRK
Registered capital	38,342,400	—	—	—	—	38,342,400
Legal reserves	1,983,738	—	—	—	—	1,983,738
Statutory reserves	32,297,464	18,099,235	—	—	—	50,396,699
Other reserves	15,581,106	—	—	(968,667)	—	14,612,439
Profit of the year	30,165,588	(18,099,235)	(12,066,353)	—	32,811,276	32,811,276
	118,370,296	—	(12,066,353)	(968,667)	32,811,276	138,146,552

Notes to the Financial Statements - continued

45. CASH FLOWS STATEMENT

Cash flows statement during 2009 was prepared on the basis of direct method.

46. 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.

47. POTENTIAL LIABILITIES

Upon the estimate of the Company's management, at 31 December 2009 the Company has no significant potential liabilities.

48. 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 2009 and which consequently should have been notified.

49. 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 19 February 2010.

50. AUDIT OF THE FINANCIAL STATEMENTS

Audit of the financial statements of the Company for 2009 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 100,000 increased for a value added tax.

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



Ivan Klapan, president of the Management Board



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