KONČAR D&ST

Annual Report 2010

ISO 9001:2008
ISO 14001:2004
OHSAS 18001: 2007

ANNUAL REPORT
2010

KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.

Contents

I.

MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2010

Oil-lamp, 1-2 c., City Museum of Šibenik

1. Introductory word by the Management Board

2010 - A YEAR OF FURTHER GROWTH OF EXPORTS AND PROFITS

Končar D&ST continued its sequence of successful operating years in 2010. Total sales of goods and services in 2010 grew to HRK 690 mil. (compared to HRK 622 mil. in 2009), which means annual growth of 11%. Export operations grew by 12% from HRK 501 mil. in 2009 to HRK 564 mil. in 2010.

Gross profits in 2010 were HRK 38.9 mil. (net HRK 37.1 mil.), which is an increase compared to gross profits in 2009 of HRK 34.1 mil. (net profits HRK 32.8 mil.) by 14% (by 13% net profits). Despite the recession and difficult operations even on global scale, due to more appropriate management of operating processes and risks, highest ever corporate profits have been made.

Total sum of contracts at the end of 2010 was HRK 441 mil. or 10% lower than at the end of 2009 with HRK 493 mil.

In 2010, the design documents and the process of obtaining municipal licenses for the following investment cycle in the field of mid-range power transformers under title "HV (High Voltage) Laboratory" were completed. A sum of HRK 8.2 mil. was invested into the remaining investment activities, mostly for the purchase of new production and testing equipment.

Within the constant improvement process, Quality Management System based on ISO 9001:2008 has been recertified, and Environment Management System based on ISO 14001:2004 as well as Occupational Health and Safety Management System based on OHSAS 18001:2007 were maintained and certified.

Shares of Končar D&ST at the Zagreb Stock Exchange in 2010 were listed on the regular market. At the start of the year, price of Končar D&ST ordinary share was approximately HRK 1,900 and the price at the end of the year was HRK 1,100 and when pondered twice due to conversion of provisions into equity in November 2010 it corresponds to HRK 2,200.

When looking at overall results of Končar D&ST in 2010, we find our operations successful and the status of the company well harmonized for the further development. In our performance, key factors have been support and confidence of our shareholders, employees, partners and banks. We would like to thank them and we proudly present this report on our results.

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

Ivan Klapan

President of the Management Board

2. Major 2010 figures and their comparison with 2009, 2008 and 2007

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

	INDEX 2010/2009
net profit	**113.1**
sales	**110.9**
exports	**112.4**
balance of orders at year's end	**89.5**

	HRK ('000)				EUR ('000)		INDEX
	2010	2009	2008	2007	2010	2009	10/09
Sales							
Croatia	126,137	120,396	152,830	165,532	17,312	16,404	104.8
Exports	563,544	501,237	420,158	321,752	77,344	68,292	112.4
Total	689,681	621,633	572,988	487,284	94,656	84,696	110.9
Balance of orders at the year's end							
Croatia	49,639	61,181	70,036	51,759	6,813	8,336	81.1
Exports	391,313	431,320	442,718	284,625	53,706	58,766	90.7
Total	440,952	492,501	512,754	336,384	60,519	67,102	89.5
Annual sales per employee	1,720	1,627	1,637	1,577	236	222	105.7
Investments	8,192	12,150	31,493	5,390	1,123	1,655	67.9
Net profit	37,118	32,811	30,166	22,745	5,904	4,470	113.1
Dividend HRK/share							
Ordinary	*	102,69	94,41	88,99			
Preferred	*	102,69	94,41	88,99			
Net profit/sales in %	5,4%	5,3%	5,3%	4,7%			
Net earning per total equity	29,9%	31,1%	34,2%	29,2%			
Total equity and reserves as at 31/12	161,171	138,147	118,370	100,547	22,120	18,822	116.7
No. of employees							
Average	401	382	350	309			105.0
as at 31/12	403	389	368	329			103.6

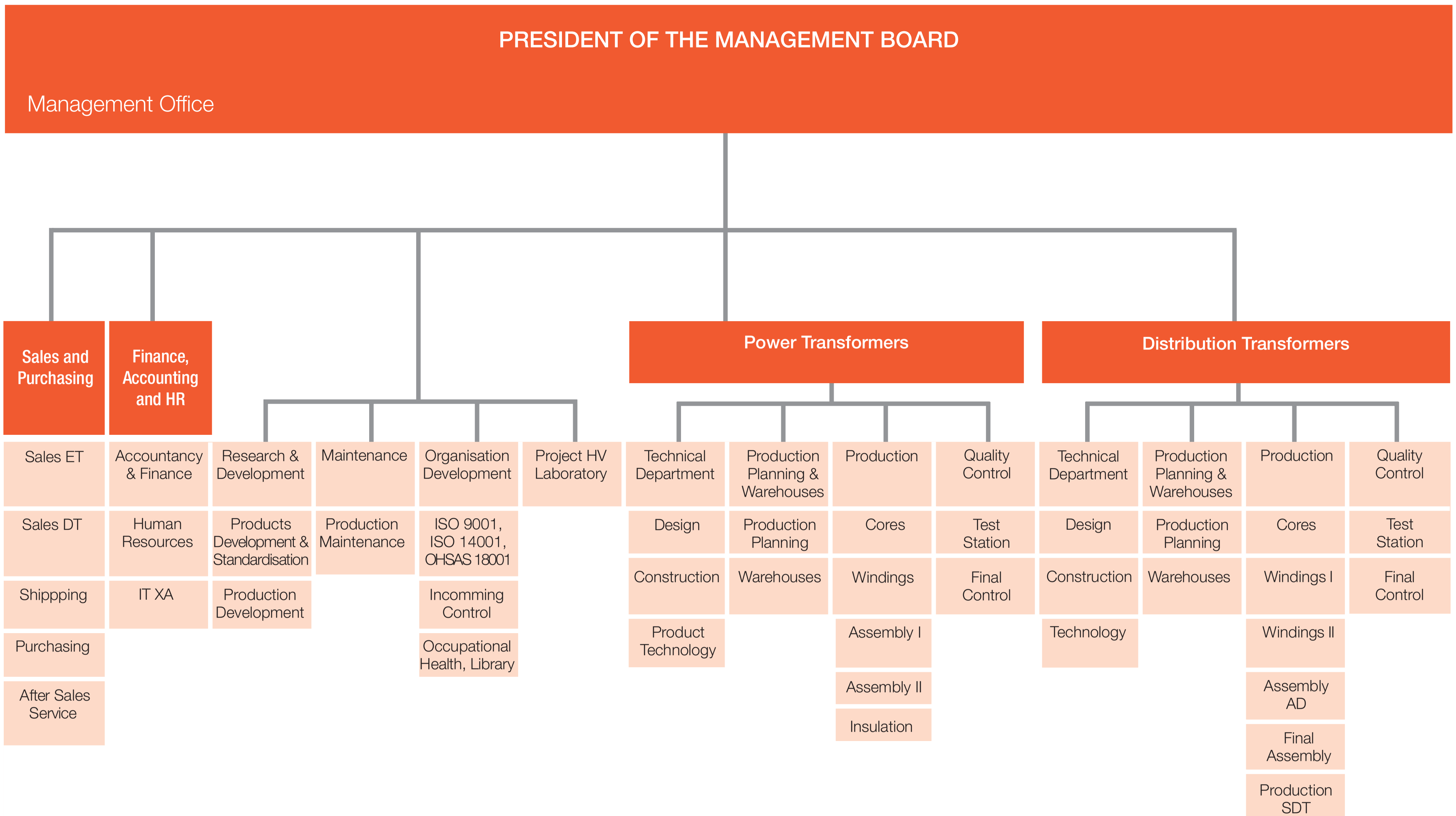
Note: Average exchange rate 2007: EUR 1 = HRK 7.3360 2008: EUR 1 = HRK 7.2232
2009: EUR 1 = HRK 7.3396 2010: EUR 1 = HRK 7.2862

* Dividend amount will be known after the General Assembly.

3. Organisational Scheme in 2010

Supervisory Board
Darinko Bago, president
Vladimir Plečko, vice-president
Jozo Miloloža, member
Božidar Piller, member till June 18 2010
Davor Mladina, member from June 18 2010
Nenad Peremin, member

Auditors:
RECONSULT d.o.o.
Grant Thornton revizija d.o.o.

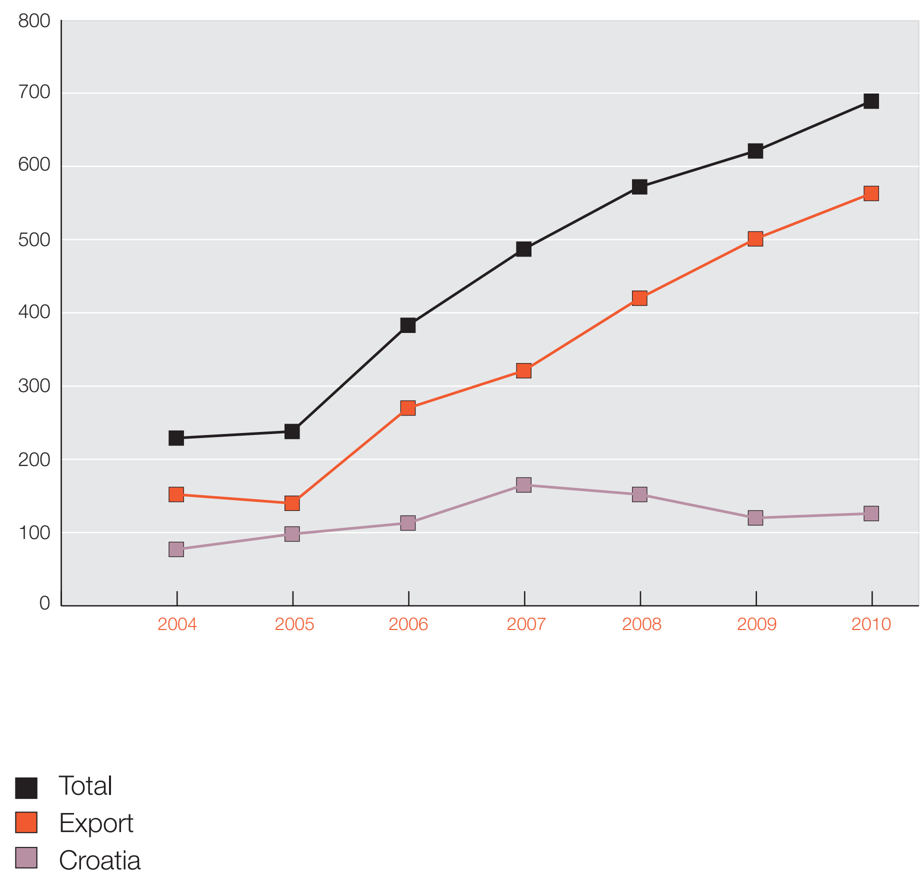


4. General position of the Company

By prioritising development and sales, providing appropriate organisation and HR solutions, and appropriate management of business processes and risks, in 2010 the company had successful performance.

With intensified development and sales forces, new investments increasing the quality and efficiency, and financial strength built upon results from the preceding years, the company is estimated to have potentials for further growth and creation of new value, and is ready to be a global player in the field of distribution, special and medium range power transformers.

SALES TRENDS (HRK mil.)



5. Corporate organisation and management in 2010

In the course of 2010, 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 until 4 October 2010
Zvonko Ptičar, member, Sales and Procurement Director until 28 September 2010
Petar Vlaić, member, Finance Director

In December 2010, Supervisory Board appointed Ivan Sitar to the position of Management Board member, and verified Martina Mikulić and Vanja Burul as deputy members of Management Board starting as from 1 January 2011.

Business processes in 2010 were organized through Distribution Transformers Production Centre and Power Transformers Production Centre, with common departments. A separate unit is project team for the strategic investment named “HV (High Voltage) Laboratory”.

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 Management 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 68 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) and at corporate website (www.koncar-dst.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 2010 and 2009 respectively are published at page 49 of this report. Preferred shares do not provide votes.

7. Market position and sales by countries and product groups

The effects of the global crises on investments in energy sector, including power distribution, have continued on the majority of markets. In some regions, such as Scandinavia and West Europe, signs of recovery can be observed, but some regions have become insecure due to political turbulences.

Despite that, intensified activities in the contracting of new transactions in the preceding period have caused total sales growth of 11% including growth of two major product groups - distribution and medium range power transformers.

Sales by principal markets have been as follows:

Croatia: HRK 126 mil. sales in 2010, which is 5% increase from HRK 120 mil. in 2009.

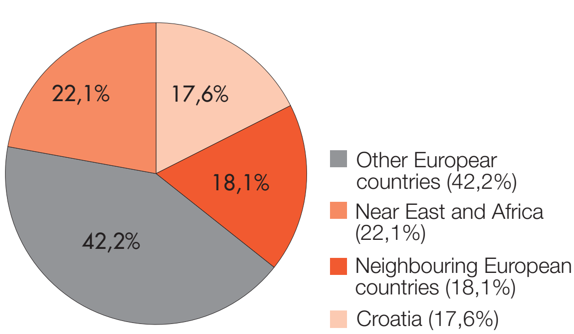
Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Czech Republic, Slovakia, Hungary, Italy, Kosovo, Bulgaria, Romania, Albania - HRK 122 mil. sales in 2010, which is 20% reduction from HRK 154 mil. in 2009.

Other European countries: Sweden, Switzerland, Germany, Finland, France, United Kingdom, Estonia, Latvia, Lithuania, Poland, Greece, Cyprus, Spain, Norway - HRK 291 mil. sales in 2010, which is 84% increase from HRK 158 mil. in 2009.

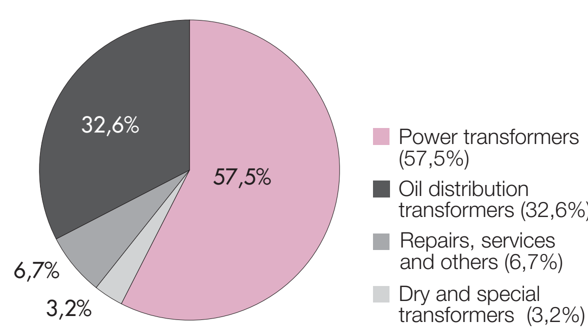
Gulf countries, Near East, Africa and America: HRK 151 mil. deliveries in 2010, or 20% reduction from HRK 189 in 2009.

Sales activities in 2010 lead to total new contracts of HRK 639 mil. or 6% more than in 2009. Balance of contracts at the year's end was HRK 441 mil. or 10% less than at the end of 2009.

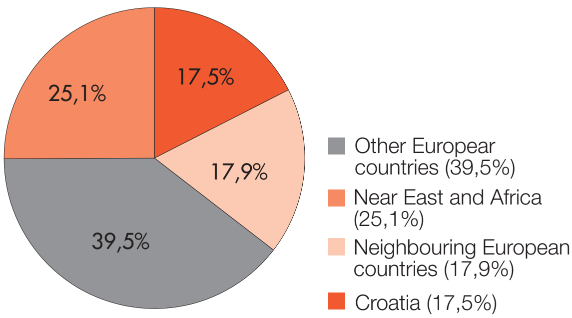
SALES STRUCTURE PER MARKETS



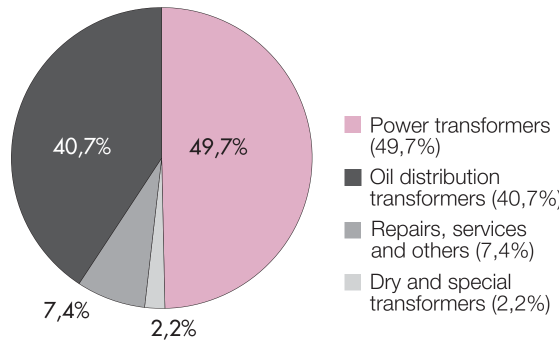
SALES STRUCTURE PER PRODUCTS



NEW CONTRACTS PER MARKETS



STRUKTURE OF NEW CONTRACTS PER PRODUCTS



8. Financial position (Balance Sheet)

Corporate assets as at 31 December 2010 were HRK 452.9 mil., or 20% more than at the end of 2009, when they amounted to HRK 378.9 mil.

In the structure of assets, fixed assets share is 14%, and current assets share is 86%. Significant changes have been recorded in current assets, namely growth of short-term financial assets. Cash at banks with short-term deposits accounts for 33% of total assets or HRK 149.4 mil., which is 2.7 times more than a year before. One of the reasons is the preparation for the forthcoming investment “HV Laboratory”, mostly to take place in 2011. On the other hand, inventories were reduced from HRK 158.6 mil. to HRK 136.6 mil. and they form 30% assets. Receivables have increased by 10% compared to end 2009, which is in compliance with the growth of income.

As for liabilities, reserves and equity continue their absolute growth trend as consequence of growth of net profits and policy of retaining part of profits in reserves. General Assembly of Končar D&ST held on 17 June 2010 made a decision on increase of capital stock from corporate assets. Based on General Assembly decision, capital stock was increased by conversion of statutory reserves (formed out of profits) from HRK 38.4 mil. to HRK 76.7 mil. by issue of new 127,808 shares. As at 31 December 2010, equity and reserves formed 36% total sources of assets. Company indebtedness to the financial sector has been significantly reduced. Long-term loans have been reduced from HRK 11.1 mil. to HRK 8.4 mil. as consequence of gradual capital sum repayment and the fact that there were no new debts. As at 31 December 2010, Company had no significant loans, and HRK 3.5 mil. refers to short-term component of a long-term loan. On the other hand, liabilities for advances received have been increased from HRK 50 mil. to HRK 81.7 mil.

This trend of balance items, including the strengthening of cash item and growth of equity and long-term reservations shows the improvement of Company liquidity and maintenance of financial stability.

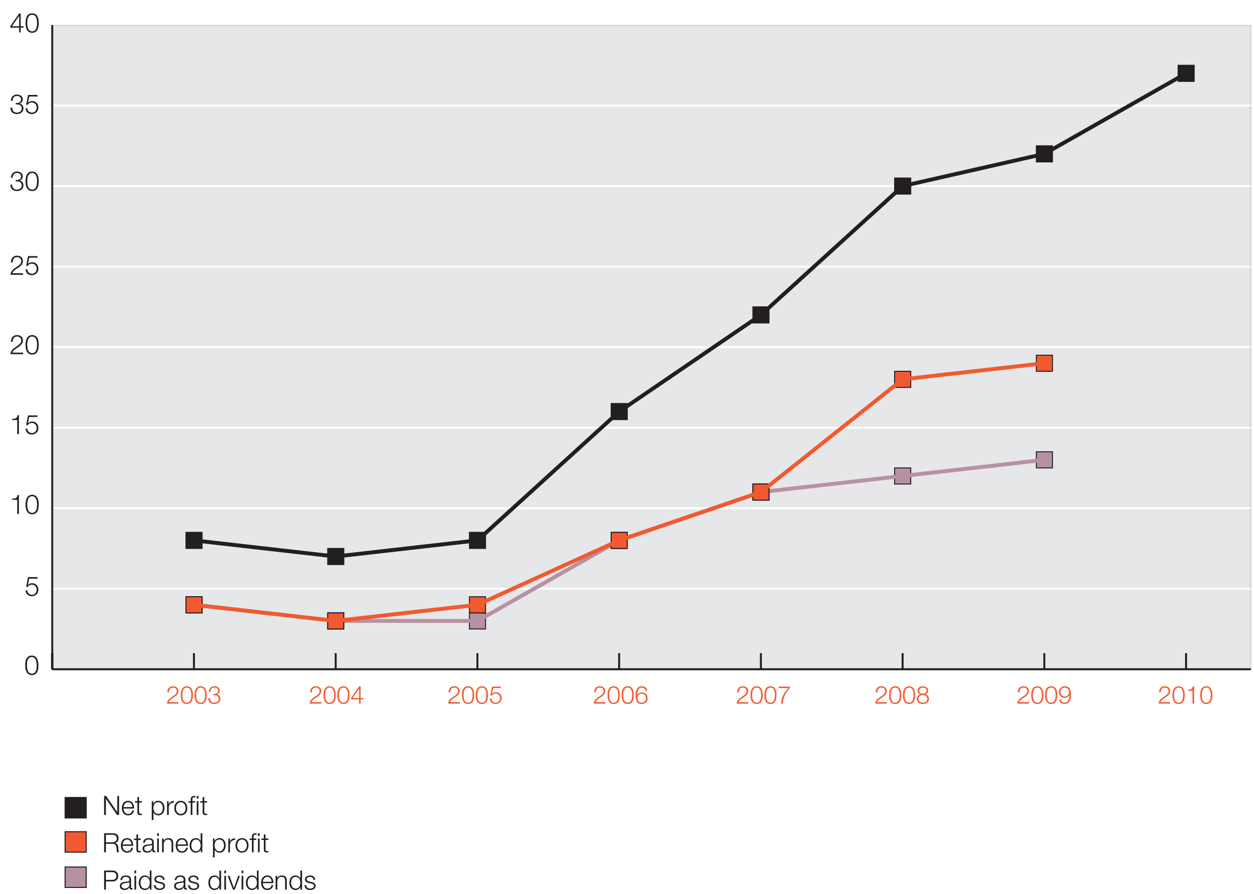
9. Operating results (Profit & Loss Statement) and share price trends

In 2010, the income growth trend continued. Total income amounts to HRK 702.8 mil. or 10% growth compared to income in 2009.

Income from sales, forming 98% of total income, grew in 2010 to HRK 690 mil. (2009: HRK 622 mil.), which is 11% growth compared to 2009. Exports in 2010 compared to 2009 grew by 12% or from HRK 501 mil. to HRK 564 mil. and exports form 82% of income from sales. Within operating income, income made in Croatia grew by HRK 5.7 mil. to HRK 126 mil.

Parallel with income growth is the growth of expenses. As for operating expenses, most significant item is that of expenses of raw materials and supplies, with 56% share in total income.

NET PROFIT THROUGH YEARS (HRK mil.)



Financial income amounts to HRK 9.4 mil. and financial expenses amount to HRK 8 mil.

In 2010, the Company made gross profits of HRK 38.9 mil. which is 14% growth compared to 2009 when it amounted to HRK 34.2 mil. Profit after taxation in 2010 amounts to HRK 27.1 mil. and exceeds by 13% the net profits of HRK 32.8 mil from 2009.

To sum up, Company operations in 2010 were characterised with the 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 and financial stability ratios.

Capital stock in 2010 increased with the issue of new 127,808 shares and total number of shares after the first issue amounted to 255,616 shares, out of which 194,188 ordinary shares and 61,428 preferred shares without votes. Trade in the new issue of shares started at the Zagreb Stock Exchange on 11 November 2010.

From the start of 2010 until the new issue, the price of ordinary shares ranged from HRK 1,930 to HRK 2,450 per share and after the new issue until the end of year, the price ranged from HRK 975 to HRK 1,099. According to the price of ordinary shares on the last day of 2010, P/E ratio was 7.6. In the course of 2010, the Company did not acquire treasury shares.

10. Main operating risks

Market risks. Demand for transformers on 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.

Considering the available options, the Company protects itself from the risk of sudden changes in prices of strategic raw materials in several ways. 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.

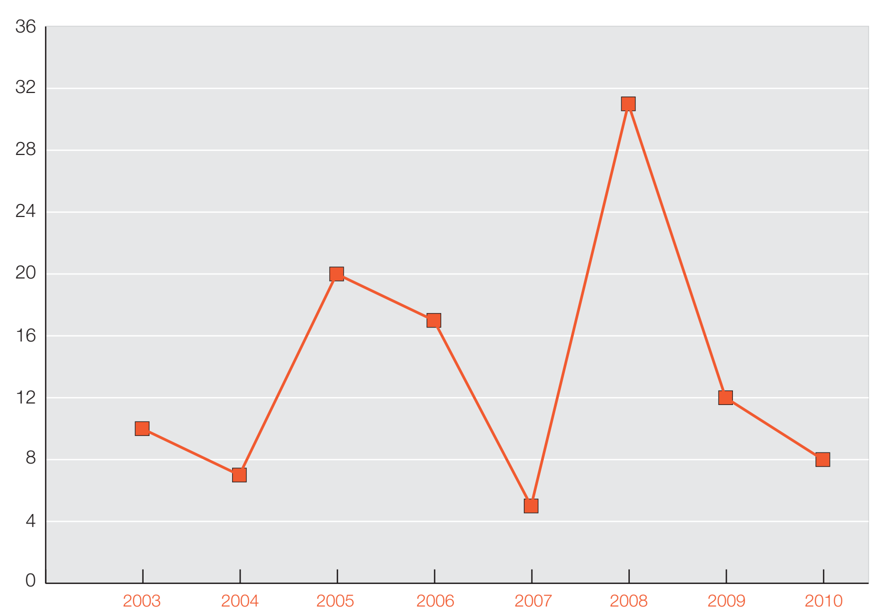
11. Investments and technology update

In 2010, investments into the reconstruction and update of the Company production facilities were continued, both for the production of distribution transformers and medium range power transformers.

Significant investments have also been made into infrastructure and environmental projects. Total value of investments in 2010 was HRK 8.2 mil.

In the course of the year, design documents were made and location permits were obtained for the following investment cycle in the field of medium range power transformers under the name “HV (High Voltage) Laboratory”. The project obtained incentive from the Ministry of Economy and will be exempt from corporate income tax in the following years. The start of construction is scheduled for the first half of 2011 and the completion is planned for mid 2012.

INVESTMENT TRENDS (HRK mil.)



12. Technical development and products innovation

In Technical Development Sector at the end of 2010, there were 20 graduated engineers of electrical engineering, mechanical engineering, chemistry and chemical technology, and one specialist, two MSc and one PhD in the field of electrical engineering. Sector has two divisions: Product Development & Standardisation Division and Production Development Division.

In 2010, a new series of small distribution transformers up to 200 kVA was developed as well as a generation of distribution transformers with aluminium coils. Works have continued on the improvement of the current programs and bases for design and construction of distribution transformers. A special task force made of development specialists and technical office was formed for the field of medium range power transformers, and it continued its activities from the preceding year on development of PRO design system. All individual modules have been revised and connected to obtain a modern system for fast offering and design of medium range power transformers up to 100 MVA rating power and up to 170 kV voltage. In 2010, three power transformers of 40 MVA rating power, Si 123 voltage level, filled with synthetic ester were delivered and put into operation. With the completion of this project, Končar D&ST has joined the group of rare manufacturers of power transformers which mastered the technology of application of alternative insulation materials and liquids on such powers and voltage level.

Production Development Division has worked on the projects of technology update of the production of components of distribution, power and special transformers. In cooperation with domestic equipment suppliers, a new device was developed for core production of medium range power transformers with total weight up to 40 tons. This created conditions for production of transformers of higher power, lower loss and low noise level.

Several winding machines have been ordered for a new generation of small distribution transformers and modernisation continued of machines for medium range power transformer coils with axial-radial pressurization of conductors during winding process. Purchase of modern production equipment increased production capacities, quality and productivity of the whole production range.

Cooperation with external institutions continues, such as that 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. Several associates are attending specialist and doctorate studies at faculties of the University of Zagreb. With 11 European manufacturers of transformers and transformer sheets, Končar D&ST has been taking part in Magnetostriction and Transformer Noise Project at the University of Cardiff, UK.

Technical development experts and associates from other departments actively participated in symposiums and seminars concerning transformers: 43rd CIGRÉ Conference in Paris; ARWtr 2010 Santiago de Compostella, Spain; 2nd Conference of the Croatian Branch of CIRED in Umag and in operations of HZN/TO E14 Power Transformers Technical Board.

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

Our products and production processes are based on systematic quality management principles and we are making efforts to fulfil the requirements of our clients with constant improvement of the quality of products and production processes. In 2010, we had the 5th recertification of the quality management system according to ISO 9001:2008.

Končar D&ST has been operating with cost efficient use of energy and raw materials, waste management and constant prevention of adverse effects on environment. We have been continuously implementing preventive strategies of environment protection on production processes, products and services for increase of efficacy and reduction of risk for humans and environment. This has been confirmed by ISO 14001:2004 and OHSAS 18001:2007 certificates we have obtained.

We have clearly expressed our commitment through regular investments in work conditions, training of employees, consideration of better engineering solutions and more appropriate organisation of operations. Twice per year, all three certified management systems are subject to periodic controls.

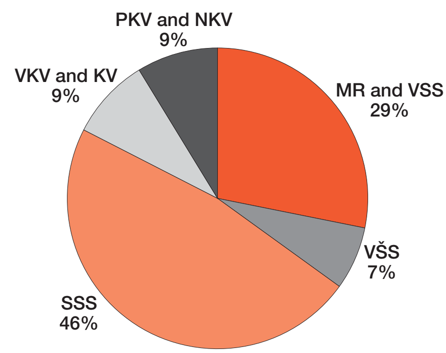
14. Human Resources

At the beginning of 2010, there were 389 employees at Končar D&ST. By the end of the year, 23 new employees were hired and 9 employees left. The year ended with 403 employees.

At the hiring, we continued taking care on rejuvenation and most of the newly hired employees in 2010 are of young age. Average age of employees is 39.

EMPLOYEE EDUCATION STRUCTURE AT THE END OF THE YEAR:

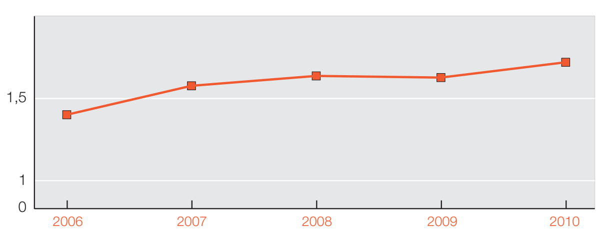
Level of education	Years of education	2009	2010
University degrees (MR, VSS)	16+	**108**	118
College (VŠS)	14	**29**	28
Secondary school (SSS)	12	**175**	184
Qualified workers schools (VKV, KV)	11-13	**39**	38
Primary school + training on the job (PKV)	8	**38**	35
Total		**389**	403



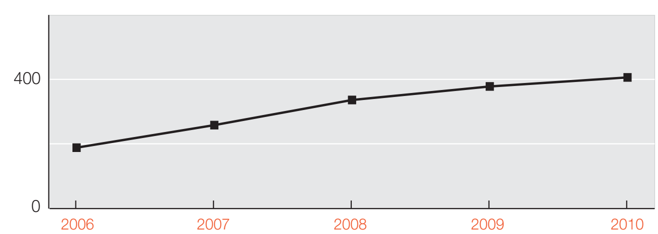
Productivity measured by sales per employee in 2010 was HRK 1.7 mil.

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 transformers, medium range power transformers up to 100 MVA and 170 kV, and know-how transfer projects on the selected markets 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 2010 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.

II.

DECLARATION AND DECISIONS PROVIDED BY LAW

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

DECLARATION BY PERSONS RESPONSIBLE FOR PREPARATION OF 2010 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 2010 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, 8 March 2011

On behalf of Končar D&ST Management Board:

Ivan Klapan, CEO	Petar Vlaić, CFO
President of the Management Board	Member of the Management Board

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

Pursuant to Articles 220 and 300 d of the Croatian Act on Companies, and Article 22 of Articles of Association of KONČAR D&ST d.d., at Supervisory Board meeting of 22 March 2011, Supervisory Board and Management Board have adopted the following

DECISION
ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS
FOR 2010

Supervisory Board and Management Board of Končar D&ST d.d. have jointly approved the Annual Financial Statements for 2010.

Explanation

Supervisory Board and Management Board of Končar D&ST d.d. have jointly approved the Annual Financial Statements for 2010 as follows:

Total income .... HRK 702,828,317
Total expenses .... HRK 663,891,396
Profits before taxation........... HRK 38,936,921
Corporate income tax............. HRK 1,818,856
Profits after taxation.............. HRK 37,118,065
Total assets / liabilities .... HRK 452,921,043

Zagreb, 22 March 2011

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

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

Pursuant to Article 220 of the Croatian Act on Companies and Articles 22, 24 and 25 of Articles of Association of KONČAR D&ST d.d., at Supervisory Board meeting held on 22 March 2011, Supervisory Board and Management Board adopted the following

DECISION
ON ALLOCATION OF PROFITS FOR 2010

1. Profits after taxation (net profits) for 2010 amount to HRK 37,118,064.59.

2. Management Board and Supervisory Board have allocated a sum of HRK 1,855,903.23 into legal reserves of the Company (5% net profits).

3. Management Board and Supervisory Board have allocated a sum of HRK 21,157,270.48 into statutory reserves of the Company.

4. Management Board and Supervisory Board have proposed to General Assembly to make a decision on payment of dividends on ordinary shares and preferred shares at a sum of HRK 55.18 per share, which totals HRK 14,104,890.88 in respect of 255,616 shares.

The dividends shall be paid to the shareholders registered in the depository of the Central Clearing Deposit Company (SKDD) as shareholders on a day 30 (thirty) days after the date of the General Assembly. That will be the record date when shareholders become entitled to the payment of dividends.

Dividends shall be paid at latest within 30 (thirty) days from the record date.

Zagreb, 22 March 2011

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

III.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES


KONČAR

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in European Union which give a true and fair view of the financial position and results of Končar - Distributivni i specijalni transformatori d.d., Zagreb (the "Company") for that period.

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

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

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

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

Signed on a behalf of the Management Board:

Ivan Klapan
President of the Management Board

KONČAR
Distributivni i specijalni transformatori d.d.
Zagreb

Končar - Distribution and Special Transformers Inc.
Josipa Mokrovića 8, 10 090 Zagreb
8 March 2011

Grant Thornton

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revizija i konzalting

Independent Auditor's report

To the Management Board and Shareholders of Končar – Distribution and Special Transformers Inc.

We have audited the accompanying financial statements of Končar – Distribution and Special Transformers Inc., Zagreb (herein below: the Company) which comprise the statement of financial position as of 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year that ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 47.

Financial statements for the year ended 31 December 2009 have been audited by another auditor who issued unqualified opinion on 19 February 2010.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Grant Thornton revizija d.o.o.
Koranska 16, 10000 Zagreb
Ivica Smiljan, certified auditor
Zagreb, 8 March 2011

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ZAGREB

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

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ZGOMBIĆ & PARTNERI GRUPA

Grant Thornton revizija d.o.o. Koranska 16, Zagreb, Trgovački sud u Zagrebu; MBS: 080642448; Žiro-račun 2500009-1101268790 kod Hypo Alpe-Adria-Bank d.d., Zagreb; Temeljni kapital: 20.000,00 kuna uplaćen u cijelosti; članovi uprave: M. Butković, S. Dušić, I. Smiljan
Član mreže Grant Thornton International Ltd.

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Reconsult d.o.o. Trg hrvatskih velikana 4/1, Zagreb, Trgovački sud u Zagrebu; MBS: 080091897; Žiro-račun: 2360000-1101271099 kod Zagrebačke banke d.d., Zagreb; Temeljni kapital društva u iznosu od 250.000,00 kuna uplaćen u cijelosti. Uprava: Filip Brekalo; Marija Zupančić

Statement of comprehensive income

31 December 2010

Profit and loss account	Notes	2010 in HRK	2009 in HRK
Operating revenues		**693,476,069**	**625,312,797**
Sales	3	689,680,621	621,632,524
Other operating income	4	3,795,448	3,680,273
Operating expenses		**(655,926,633)**	**(590,650,309)**
Changes in inventories (work in progress and finished goods)		(19,427,566)	4,184,787
Cost of materials and energy	5	(394,769,120)	(371,207,988)
Cost of goods sold		(27,520,724)	(24,397,605)
Cost of services	6	(62,487,328)	(53,636,643)
Personnel costs	7	(83,839,278)	(77,997,222)
Depreciation and amortization	8	(16,309,553)	(17,270,707)
Other costs	9	(15,173,344)	(15,973,760)
Value adjustment of current assets	10	(9,901,951)	(44,451)
Provisions	11	(25,336,083)	(32,375,360)
Other operating expenses	12	(1,161,686)	(1,931,360)
Operating profit		**37,549,436**	**34,662,488**
Financial income	13	9,352,248	11,308,135
Financial expenses	14	(7,964,763)	(11,784,288)
Financial result		**1,387,485**	**(476,153)**
Profit before taxation		**38,936,921**	**34,186,335**
Corporate income tax	15	(1,818,856)	(1,375,059)
PROFIT FOR THE YEAR		**37,118,065**	**32,811,276**
Earnings per share	16	254.82	256.72
Statement of comprehensive income			
Other comprehensive income		—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**37,118,065**	**32,811,276**

Notes are an integral part of Statement of comprehensive income

Statement of financial position

31 December 2010

	Notes	31/12/2010 HRK	31/12/2009 HRK
ASSETS			
Intangible assets	17	199,621	516,205
Property, plant and equipment	18	60,190,947	67,555,451
Investments accounted for using the equity method	19	1,732,458	1,732,458
Financial assets	19	730,316	730,316
Non-current assets		**62,853,342**	**70,534,430**
Inventories	20	136,593,348	158,617,474
Receivables from related companies	21	4,460,966	5,540,721
Trade accounts receivable	22	82,176,216	70,098,017
Receivables for value added tax		14,600,888	14,543,189
Other receivables		297,546	343,453
Receivables for corporate income tax	15	1,998,998	3,817,855
Financial assets	23	36,925,865	26,918,597
Cash and cash equivalents	24	112,428,967	28,225,787
Current assets		**389,482,794**	**308,105,093**
Prepaid expenses and accrued income	25	**584,907**	**262,288**
TOTAL ASSETS		**452,921,043**	**378,901,811**
Off-balance sheet items	**36**	**78,794,955**	**90,458,287**

Statement of financial position - continued

	Notes	31/12/2010 HRK	31/12/2009 HRK
EQUITY AND LIABILITIES			
Subscribed capital	26	**76,684,800**	**38,342,400**
Legal reserves		1,983,738	1,983,738
Statutory reserves		31,740,972	50,396,699
Other reserves		13,643,772	14,612,439
Reserves from earnings		**47,368,482**	**66,992,876**
Profit/(loss) for the year		**37,118,065**	**32,811,276**
EQUITY AND RESERVES		**161,171,347**	**138,146,552**
Provisions for retirement and jubilee rewards and similar		1,173,500	885,345
Other provisions		118,761,031	93,713,103
Non-current provisions	27	**119,934,531**	**94,598,448**
Liabilities toward banks and other financial institutions		8,418,622	11,104,796
Non-current liabilities	28	**8,418,622**	**11,104,796**
Liabilities toward related companies	29	3,111,870	4,157,536
Liabilities toward banks and other financial institutions	30	3,507,760	8,470,250
Trade accounts payable	31	50,088,967	46,739,470
Liabilities for advance payments received	32	81,670,966	49,979,010
Other liabilities	33	9,706,760	9,502,307
Current liabilities		**148,086,323**	**118,848,573**
Accrued expenses and deferred income	34	**15,310,220**	**16,203,442**
TOTAL EQUITY AND LIABILITIES		**452,921,043**	**378,901,811**
Off-balance sheet items	36	**78,794,955**	**90,458,287**

Notes are an integral part of Statement of financial position

Statement of cash flows

31 December 2010

	Notes	2010 in HRK	2009 in HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		722,453,995	680,696,059
Cash receipts from insurance compensations		781,746	129,037
Cash receipts from tax returns		80,334,709	72,357,984
Cash receipts from interests		799,283	376,712
Other cash receipts		2,029,195	808,237
Total cash receipts from operating activities		**806,398,928**	**754,368,029**
Cash payments to trade accounts payable		(516,351,279)	(500,308,183)
Cash payments to employees		(81,153,368)	(75,266,460)
Cash payments to insurance companies		(1,392,999)	(1,016,901)
Cash payments for interests		(589,038)	(2,841,992)
Cash payments for taxes		(72,756,890)	(64,140,658)
Other cash payments		(11,044,883)	(8,698,000)
Total cash payments for operating activities		**(683,288,457)**	**(652,272,194)**
Net cash flow from operating activities		**123,110,471**	**102,095,835**
Cash flow from investing activities			
Proceeds from disposal of intangible and tangible assets		316,175	435,175
Dividends received		1,219,045	909,084
Purchase of intangible and tangible assets		(9,410,985)	(13,653,299)
Net cash used in investing activities		**(7,875,765)**	**(12,309,040)**
Cash flow from financing activities			
Proceeds from loans, debentures and similar borrowings		—	46,516,319
Other proceeds from financial activities		26,780,591	7,727,950
Repayment of loans, debentures and other borrowings		(7,759,760)	(76,260,991)
Dividends paid out		(13,126,492)	(12,059,367)
Other cash payments for financial activities		(36,925,865)	(34,666,421)
Net cash used in financing activities		**(31,031,526)**	**(68,742,510)**
Increase (decrease) of cash		**84,203,180**	**21,044,285**
Cash and cash equivalents at the beginning of the year	24	28,225,787	7,181,502
Cash and cash equivalents at the end for the year	**24**	**112,428,967**	**28,225,787**

Notes are an integral part of statement of cash flows

Statement of changes in equity

31 December 2010

	Subscribed capital HRK	Reserves from earnings HRK	Current year profit HRK	Total HRK
Balance at 1 January 2009	**38,342,400**	**49,862,308**	**30,165,588**	**118,370,296**
Transactions with owners:				
Allocation of the profit for the year ended 31/12/2008	—	18,099,235	(18,099,235)	—
Dividends paid out	—	—	(12,066,353)	**(12,066,353)**
Realisation of reserves	—	(968,667)	—	**(968,667)**
Profit for the year	—	—	32,811,276	**32,811,276**
Total comprehensive income	—	—	**32,811,276**	**32,811,276**
Balance at 31 December 2009	**38,342,400**	**66,992,876**	**32,811,276**	**138,146,552**
Transactions with owners:				
Increase in capital from reserves	38,342,400	(38,342,400)	—	—
Allocation of the profit for the year ended 31/12/2009	—	19,686,673	(19,686,673)	—
Dividends paid out	—	—	(13,124,603)	**(13,124,603)**
Realisation of reserves	—	(968,667)	—	**(968,667)**
Profit for the year	—	—	37,118,065	**37,118,065**
Total comprehensive income	—	—	**37,118,065**	**37,118,065**
Balance at 31 December 2010	**76,684,800**	**47,368,482**	**37,118,065**	**161,171,347**

Notes are an integral part of Statement of Changes in Equity

Notes to the financial statements

31 December 2010

1. GENERAL DATA ON THE COMPANY

Končar - Distribution and Special Transformers Inc., Zagreb, Josipa Mokrovića 8, ("the Company") is a subsidiary of the Končar - Electrical Industry Group where the ultimate parent is the company Končar - Electrical Industry Inc., Zagreb, Fallerovo šetalište 22, and deals with the production, sale and servicing of distribution, special and mid-sized energy transformers with a power rating of up to 100 MVA and a voltage rating of up to 170 kV.

As at 31 December 2010 the Company had 403 employees, while on 31 December 2009 the Company had 389 employees.

The employee structure is as follows:

	31/12/2010	31/12/2009
Master's and Doctor's of Science degree	10	8
University degree	106	100
Two-year post secondary diploma	29	29
Secondary school certificate	185	175
Skilled workers	38	39
Unskilled workers	35	38
Total	**403**	**389**

Member of the Supervisory Board:

Darinko Bago, president,
Vladimir Plečko, deputy
Božidar Piller, member until 17 June 2010
Jozo Miloloža, member
Nenad Peremin, member
Davor Mladina, member from 17 June 2010

Members of the Management Board

Ivan Klapan, president
Josip Belamarić, member
Petar Vlaić, member
Miljenko Damić, member until 4 October 2010
Zvonko Ptičar, member until 28 September 2010

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for preparation

Statement of compliance

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

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

The accounting policies have been consistently applied, except where disclosed otherwise. The financial statements are prepared on the accrual basis and on a going concern basis.

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

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

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

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

- IFRS 1 First-time Adoption of IFRS (revised) - effective for annual periods beginning on or after 1 January 2010,
- IFRS 2 Share based payment (revised) - effective for annual periods beginning on or after 1 January 2010,
- IFRS 7 Financial Instruments: Disclosures - effective for annual periods beginning on or after 1 January 2010,
- IAS 1 Presentation of Financial Statements (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 16 Property, Plant and Equipment (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 18 Revenue - effective for annual periods beginning on or after 1 January 2010,
- IAS 19 Employee Benefits (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance - effective for annual periods beginning on or after 1 January 2010,
- IAS 23 Borrowing costs (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 27 Consolidated and Separate Financial Statements - Cost of an investment at first application - effective for annual periods beginning on or after 1 January 2010,
- IAS 28 Investments in Associates (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 29 Financial Reporting in Hyperinflationary Economies (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 31 Interests in Joint Ventures (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 36 Impairment of Assets (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 38 Intangible Assets (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 39 Financial Instruments: Recognition and Measurements (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 40 Investment Property (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 41 Agriculture (revised) - effective for annual periods beginning on or after 1 January 2010,
- IFRIC 15 Agreements for the Construction of Real Estate - effective for annual periods beginning on or after 1 January 2010,
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation - effective for annual periods beginning on or after 1 January 2010,
- IFRIC 17 Distributions of Non-cash Assets to Owners - effective for annual periods beginning on or after 1 January 2010,
- IFRIC 18 Transfers of Assets from Customers - effective for annual periods beginning on or after 1 January 2010,
- IFRS 3 Business Combinations (revised) - effective for annual periods beginning on or after 1 January 2010,
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (revised) - effective for annual periods beginning on or after 1 January 2010,
- IAS 27 Consolidated and Separate Financial Statements - effective for annual periods beginning on or after 1 January 2010,
- IAS 28 Investments in Associates (revised based on IFRS improvements) - effective for annual periods beginning on or after 1 January 2010,
- IAS 31 Interests in Joint Ventures (revised based on IFRS 3 amendment) - effective for annual periods beginning on or after 1 January 2010,
- IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedge items - effective for annual periods beginning on or after 1 January 2010

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

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

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

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

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

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

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

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

a) Revenue recognition

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

Revenues from the sale of goods and own products

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

the Company has transferred all significant risks and benefits arising from the ownership of the goods or products to the buyer;

the Company does not retain constant involvement in the control of the assets sold up to a point usually related with ownership nor does it have control over the sale of goods;

the amount of income can be measured reliably;

it is probable that the economic benefits arising from the transaction will flow to the Company; and

costs, arising or that will arise in relation to the transaction, can be measured reliably.

b) Financial revenues and expenses

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

Interest revenues are recognized in the income statement on an accrual basis using the effective interest rate method. Income from dividends is recognized in the profit and loss account on the date when the Company's right to receive dividends is established.

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period indispensible for the finalization and preparation of the asset for its intended use or sale. Other borrowing costs are recognized in the income statement using the effective interest rate method.

c) Taxation

The Company provides for taxation liabilities in accordance with Croatian law. Corporate tax for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.

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

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

d) Earnings per share

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

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

e) Transactions in foreign currency

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

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

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

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

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

Costs of current repairs and maintenance, replacement and investment maintenance of lower extent are recognized as an expense in a period in which are incurred. In the situation when it is clear that the expenses resulted with the increase in future economic benefits which should be realised by the asset usage beyond its originally assessed standard of performance, these expenses are capitalized i.e. included in the carrying value of the related asset. Any gain or loss arising from disposal of the asset is included in the income statement under the other operating income or expenses.

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

	Depreciation rates (from - to %)
Concessions, patents, licences, software etc	50%
Buildings	6% - 10%
Plant and equipment	20% - 50%

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimated the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company's cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revaluated amount, in which case the impairment loss is treated as a revaluation decrease within the comprehensive income.

g) Leases

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

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

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

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

h) Financial assets and financial liabilities

Financial assets

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

Financial assets are classified into the following categories:

- "At fair value through profit or loss" (FVTPL)"

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. All derivative financial instruments are included in this category, except if designated and effective as hedge instruments in

- "Held-to-maturity"

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

- "Available for sale (AFS)"

Financial assets available for sale is non-derivative financial assets which is designated as such or it cannot be included in none of the above mentioned categories. AFS is stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income is included in profit or loss for the period.

- "Loans and receivables"

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

Impairment of financial assets

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

For certain categories of financial asset, such as trade receivables, assets that are objectively assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Share capital

a) Ordinary shares

Share capital represents the nominal value of shares issued.

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

b) Share repurchase

The amount paid for the repurchase of the Company's own shares, including direct costs related to the repurchase, is recognized as impairment within equity and reserves. Repurchased shares are classified as own shares and represent a reduction of equity and reserves.

Financial guarantee of a contractual obligation

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

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

Financial liabilities at fair value through profit and loss

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

Financial liabilities at fair value through the profit and loss account are measured at their fair value, while the gains/losses relating to them are recognized in the profit and loss account. The net gain/loss recognized in the profit and loss account includes any interest paid in the name of the financial liability.

Other financial liabilities

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

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

De-recognition of financial liabilities

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

i) Investments in associates accounted for under equity method

Associates are companies in which the Company has a significant influence, but not the control over the bringing forward or the enforcement of financial and operating policies.

Investments in associates are stated at cost in the Company's standalone financial statements.

Investment in an associate is accounted for in accordance with equity method in the consolidated financial statements of the Končar group.

j) Inventories

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

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

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

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

k) Receivables

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

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

l) Cash and cash equivalents

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

m) Received loans

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

n) Provisions

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

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

Provisions for warranties are recognized at the moment the underlying products are sold. Provisions are made based on estimates and experiences from other manufacturers of energy transformers within the Group and estimate of possible solutions in accordance with their probabilities.

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

o) Employee benefits

(i) Defined pension fund contributions

Obligations for defined contributions to pension funds are recognised as an expense in the income statement when incurred.

(ii) Bonus plans

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

p) Contingent assets and liabilities

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

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

q) Subsequent events

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

r) Comparatives and reclassifications

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

3. SALES

	2010 in HRK	2009 in HRK
Domestic sales of goods	126,136,994	120,395,887
Foreign sales of goods	563,543,627	501,236,637
Total	**689,680,621**	**621,632,524**

Domestic and foreign sales include revenue from sale to related parties as shown in note 37.

4. OTHER OPERATING INCOME

	Notes	2010 in HRK	2009 in HRK
Income from rebates and discounts		2,180,248	325,648
Income from insurance claims		918,219	129,037
Prior year income		235,711	137,988
Income from the sale of non-current assets		115,208	113,911
Income from the release of provisions	27	—	1,449,073
Income from collected receivables previously written off		—	1,404,879
Inventory surpluses		105,467	69,649
Other income		240,595	50,088
Total		**3,795,448**	**3,680,273**

5. COSTS OF MATERIALS AND ENERGY

	2010 in HRK	2009 in HRK
Costs of raw materials	389,468,278	366,510,083
Cost of energy	4,717,961	4,150,778
Small inventory	582,881	547,127
Total	**394,769,120**	**371,207,988**

6. COSTS OF SERVICES

	2010 in HRK	2009 in HRK
Transportation costs	26,778,663	14,849,383
Maintenance costs (service costs)	6,877,650	9,104,181
Compensation for the usage of company's name and trade-mark - Končar d.d.	4,331,861	4,092,130
Services related to product design and sale	4,177,340	4,837,001
Costs of telephone and post	2,047,216	1,756,116
Representation services	2,516,780	2,231,625
Rent	1,690,870	1,570,320
Intellectual services	936,425	945,026
Utilities costs	654,171	661,865
Advertising services	437,451	114,149
Sponsorships and donations	128,219	115,667
Other costs	11,910,682	13,359,180
Total	**62,487,328**	**53,636,643**

7. PERSONNEL COSTS

	2010 in HRK	2009 in HRK
Net salaries and wages	44,261,769	40,976,280
Costs of taxes and contributions from salary	27,345,116	25,639,178
Contributions on salary	12,232,393	11,381,764
Total	**83,839,278**	**77,997,222**

Net salaries in the amount of HRK 44,261,769 (HRK 40,976,280 in 2009) contain compensations to the Management Board consisted from theirs salary in the amount of HRK 1,185,597 (HRK 1,339,872 in 2009) and a provision for the Management Board bonus in the amount of HRK 643,686 (HRK 689,664 in 2009), which are an integral part of personnel expenses.

8. DEPRECIATION AND AMORTIZATION

	Notes	2010 in HRK	2009 in HRK
Depreciation	18	15,880,759	16,565,166
Amortization	17	428,794	705,541
Total		**16,309,553**	**17,270,707**

9. OTHER COSTS

	2010 in HRK	2009 in HRK
Travelling costs and per-diems	4,052,092	3,430,803
Banking services	2,714,038	2,272,432
Compensations to employees	1,624,656	1,966,004
Taxes and contributions non-dependable on the results and similar costs	1,074,625	1,087,174
Insurance premiums	977,897	953,608
Contributions, memberships and similar costs	553,730	553,162
Compensations to members of the Supervisory Board	394,193	329,382
Other	3,782,113	5,381,195
Total	**15,173,344**	**15,973,760**

10. VALUE ADJUSTMENTS OF CURRENT ASSETS

	2010 in HRK	2009 in HRK
Value adjustment of current receivables	***9,771,354***	***44,451***
From customer Elektromaterijal, Rijeka	9,455,775	—
From customer Merkur, Slovenia	315,579	—
Other	—	44,451
Value adjustment of inventories	***130,597***	—
Total	**9,901,951**	**44,451**

11. PROVISIONS

	2010 in HRK	2009 in HRK
Provisions for servicing costs within warranty periods	25,047,928	32,282,965
Provisions for retirement and jubilee awards	288,155	92,395
Total	**25,336,083**	**32,375,360**

Movement in provisions by categories is presented in the note 27.

12. OTHER OPERATING EXPENSES

	2010 in HRK	2009 in HRK
Penalties, indemnifications and similar costs	659,614	13,323
Costs subsequently identified	345,455	234,460
Inventory shortages	99,306	63,653
Losses on the sale of non-current assets	14,606	11,521
Rebates, discounts and similar costs	—	1,497,016
Other operating expenses	42,705	111,387
Total	**1,161,686**	**1,931,360**

13. FINANCIAL REVENUES

	2010 in HRK	2009 in HRK
From the relations with related parties		
Foreign exchange gains	305,935	211,341
	305,935	***211,341***
From the relations with un-related parties		
Foreign exchange gains	6,863,785	9,290,354
Revenues from dividends and shares in profits of associates	1,222,021	909,083
Interest income on deposits	960,507	897,357
	9,046,313	***11,096,794***
Total	**9,352,248**	**11,308,135**

14. FINANCIAL EXPENSES

	2010 in HRK	2009 in HRK
From the relations with related parties		
Foreign exchange losses	568,887	370,846
	568,887	***370,846***
From the relations with un-related parties		
Fair value losses on derivative financial instruments	861,747	—
Interest on loans	608,294	2,211,022
Foreign exchange losses	5,570,242	8,241,229
	7,040,283	***10,452,251***
Other financial expenses - factoring	***355,593***	***961,191***
Total	**7,964,763**	**11,784,288**

15. CORPORATE INCOME TAX

The Company calculates its corporate income tax liability at the preferential rate of 3% since it is the beneficiary of incentives in line with the Law on incentives for the “Modernization and extension of production capacities - Distribution transformers” project. The Croatian Ministry of economy, work and entrepreneurship issued a confirmation that the aforementioned investments fulfil the requirements in accordance with the Law on incentives on 6 March 2008 and that the Company can use these incentives. The maximal amount of granted incentive amounted to HRK 27,355 thousand and was used entirely by the Company until 31 December 2010.

The reduction of accounting income to taxable income is as follows:

	2010 in HRK	2009 in HRK
Accounting profit (loss) before taxation	38,936,921	34,186,335
Corporate income tax at 20%	7,787,384	6,837,267
Non-allowable expenses	4,682,241	5,919,850
Decreases of taxes	(1,513,794)	(3,590,058)
Adjusted corporate income tax	10,955,831	9,167,059
Incentive (tax rate 3%)	(9,136,975)	(7,792,000)
Tax liability	**1,818,856**	**1,375,059**
Advance payments for income tax made	3,817,854	5,192,914
Tax receivable	1,998,998	3,817,855

The Company received a confirmation from the Ministry of economy, work and entrepreneurship on 3 September 2010 that it had been re-awarded the status of a beneficiary of incentives for the high voltage laboratory - laboratory construction, equipment installation and production capacity extension with a maximum incentive amount of up to HRK 37,327 thousand. These incentives will be used in the following periods.

16. EARNINGS PER SHARE

	2010 in HRK	2009 in HRK
Net profit for the year	37,118,065	32,811,276
Weighted average number of shares (ordinary and preference)	145,666	127,808
Earnings per share in kunas	**254.82**	**256.72**

On 11 November 2010 an increase in share capital of the Company was made from the Company’s reserves (note 26) which had an effect of doubling the share capital and the number of shares.

17. NON-CURRENT INTANGIBLE ASSETS

	Concessions, patents, licences, software and other HRK	Assets under construction HRK	Total HRK
Cost			
Balance at 1 January 2009	**3,652,576**	**5,642**	**3,658,218**
Additions	—	510,839	510,839
Transfer from assets under constructions	516,481	(516,481)	—
Disposals	(25,402)	—	(25,402)
Balance at 31 December 2009	**4,143,655**	—	**4,143,655**
Additions	—	112,210	112,210
Transfer from assets under constructions	70,748	(70,748)	—
Balance at 31 December 2010	**4,214,403**	**41,462**	**4,255,865**
Accumulated amortization			
Balance at 1 January 2009	**2,947,311**	—	**2,947,311**
Amortization for the year 2009	705,541	—	705,541
Decreases	(25,402)	—	(25,402)
Balance at 31 December 2009	**3,627,450**	—	**3,627,450**
Amortization for the year 2010	428,794	—	428,794
Balance at 31 December 2010	**4,056,244**	—	**4,056,244**
Carrying value			
31 December 2009	516,205	—	516,205
31 December 2010	**158,159**	**41,462**	**199,621**

The purchase cost of completely amortized intangible assets which were in use on 31 December 2010 amounts to HRK 3,894,057.

18. PROPERTY, PLANT AND EQUIPMENT

in HRK	Land	Buildings	Plant and equipment	Tools and furniture	Advances	Assets under construction	Total
Cost							
Balance at 1 January 2009	**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**
Transfer from assets under construction	389,480	53,000	22,105,707	2,305,451	—	(24,853,638)	—
Disposals	—	(91,155)	(1,178,100)	(828,455)	(9,190,388)	—	**(11,288,098)**
Balance at 31 December 2009	**9,012,497**	**60,792,194**	**108,872,137**	**13,425,710**	**145,553**	**182,223**	**192,430,314**
Correction of opening balances	—	—	227,255	(227,255)	—	—	—
Additions	—	—	—	—	7,824,659	8,079,697	**15,904,356**
Transfer from assets under construction	—	2,934,987	1,698,590	851,681	—	(5,485,258)	—
Disposals	—	—	(1,483,680)	(868,220)	(6,162,661)	—	**(8,514,561)**
Balance at 31 December 2010	**9,012,497**	**63,727,181**	**109,314,302**	**13,181,916**	**1,807,551**	**2,776,662**	**199,820,109**
Accumulated depreciation							
Balance at 1 January 2009	—	**40,410,890**	**59,739,524**	**8,717,386**	—	—	**108,867,800**
Depreciation for the year 2009	—	4,336,699	10,309,051	1,919,416	—	—	**16,565,166**
Accelerated depreciation	—	—	1,210,834	—	—	—	**1,210,834**
Disposals	—	—	(940,482)	(828,455)	—	—	**(1,768,937)**
Balance at 31 December 2009	—	**44,747,589**	**70,318,927**	**9,808,347**	—	—	**124,874,863**
Correction of opening balances	—	—	227,255	(227,255)	—	—	—
Depreciation for the year 2010	—	3,046,898	11,294,764	1,539,097	—	—	**15,880,759**
Accelerated depreciation	—	—	1,210,834	—	—	—	**1,210,834**
Disposals	—	—	(1,469,074)	(868,220)	—	—	**(2,337,294)**
Balance at 31 December 2010	—	**47,794,487**	**81,582,706**	**10,251,969**	—	—	**139,629,162**
Carrying value							
31 December 2009	9,012,497	16,044,605	38,553,210	3,617,363	145,553	182,223	67,555,451
31 December 2010	**9,012,497**	**15,932,694**	**27,731,596**	**2,929,947**	**1,807,551**	**2,776,662**	**60,190,947**

The carrying value of real estates under mortgage on 31 December 2010 amounts to HRK 22,141,860. The carrying value of all other non-current assets under liens on 31 December 2010 amounts to HRK 1,105,251. The total amount of mortgages subscribed to these assets amounts to EUR 28.2 million (note 28).

Assets under construction in the amount of HRK 2,776,662 consist mostly of investments in equipment in the amount of HRK 2,007,876 and the investment in the high voltage laboratory in the amount of HRK 768,786.

The cost of all non-current assets that had been fully depreciated and still in use on 31 December 2010 amounts to HRK 89,836,339.

19. NON-CURRENT FINANCIAL ASSETS

	31/12/2010 HRK	31/12/2009 HRK
Shares in associates		
Elkakon d.o.o., Zagreb (50% share)	1,732,458	1,732,458
Total	***1,732,458***	***1,732,458***
Other financial assets		
Shares in other companies (up to 20% of equity)		
Ferokotao d.o.o., Donji Kraljevec (16% share)	262,016	262,016
Novi Feromont d.o.o., Donji Kraljevec (18.9% share)	429,300	429,300
	691,316	***691,316***
Financial assets available for sale		
Shares of Zagrebačka banka d.d., Zagreb	39,000	39,000
Total	**2,462,774**	**2,462,774**

20. INVENTORIES

	31/12/2010 HRK	31/12/2009 HRK
Raw materials	53,035,582	55,737,255
Work in progress	40,680,996	26,649,552
Unfinished and semi-finished products	5,960,621	5,190,011
Finished products	39,874,224	74,103,845
Minus: Value adjustment of raw materials	(2,877,078)	(2,758,197)
Minus: Value adjustment of finished products	(540,175)	(528,459)
	136,134,170	**158,349,007**
Advances	459,178	223,467
Total	**136,593,348**	**158,617,474**

The cost of own products sold amounts to HRK 421,352 in 2010 (HRK 383,630 in 2009).

21. RECEIVABLES FROM RELATED COMPANIES

	31/12/2010 HRK	31/12/2009 HRK
Related companies		
Končar - Električna vozila d.d., Zagreb	3,131,372	366,086
Končar - Inženjering za energetiku i transport d.d., Zagreb	611,141	2,545,622
Končar - Sklopna postrojenja d.d., Sesvetski Kraljevac	454,214	15,407
Končar - Montažni inženjering d.d., Zagreb	178,738	615
Končar - Elektronika i informatika d.d., Zagreb	60,860	8,881
Končar - Mjerni transformatori d.d., Zagreb	8,315	26,030
Kones AG, Zürich, Switzerland	—	2,557,170
Končar - Generatori d.d., Zagreb	—	20,910
	4,444,640	**5,540,721**
Končar - Energetski transformatori d.o.o., Zagreb	**16,326**	—
Total	**4,460,966**	**5,540,721**

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

	Total	Undue and collectible	Due but collectible				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2010	**4,460,966**	815,075	1,851,574	9,225	15,323	1,363,352	406,417
2009	**5,540,721**	1,986,198	487,878	1,900,388	747,246	80,110	338,901

22. TRADE ACCOUNTS RECEIVABLE

	31/12/2010 HRK	31/12/2009 HRK
Domestic customers		
Brodomerkur d.d., Split	14,415,400	7,197,598
Elektromaterijal d.d., Rijeka (Note 10)	9,455,775	5,419,955
Cotra d.o.o., Varaždin	8,402,040	8,150,935
Elkakon d.o.o., Zagreb	5,273,764	3,817,825
HEP d.d., Zagreb	1,313,148	6,000,000
Ferokotao d.o.o., Donji Kraljevec	595,341	338,687
INA Industrija nafte d.d., Zagreb	498,150	996,300
Dalekovod d.d., Zagreb	195,281	3,613,125
Other	1,906,132	2,814,270
Minus: Value adjustment	(9,500,052)	(44,277)
	32,554,979	***38,304,418***
Foreign customers		
Helmerverken holding AB, Sweeden	21,805,961	798,356
Multirel OY, Finland	4,596,606	363,483
Al Mostejed Trading Co. Dubai, UA Emirates	3,588,391	2,111,492
Abencor Suministros S.A, Spain	3,153,129	—
PHCN-Power Holding Co Abuja, Nigeria	2,458,909	1,463,044
DEWA, Dubai, UA Emirates	2,421,730	1,546,710
Danieli, Udine, Italy	2,256,909	3,324,321
EDF Hydraulics, Toulouse, France	1,523,192	1,886,346
UAB Slo, Lithuania	1,192,041	—
Gebruder Meier AG, Switzerland	808,527	145,053
Deling d.o.o. Tuzla, Bosnia and Herzegovina	757,386	1,121,597
Elektropromet d.o.o., Bosnia and Herzegovina	748,447	404,039
Other	4,625,588	18,718,382
Minus: Value adjustment	(315,579)	(89,224)
	49,621,237	***31,793,599***
Total	**82,176,216**	**70,098,017**

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

	Total	Undue and collectible	Due but collectible				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2010	**82,176,216**	48,736,188	9,037,325	9,071,929	3,146,876	6,553,194	5,630,704
2009	**70,098,017**	50,564,235	1,406,393	6,156,240	7,449,125	1,459,199	3,062,825

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

	2010 in HRK	2009 in HRK
Balance at 1 January	133,501	1,492,571
Impaired in the current year (Note 10)	9,771,354	44,451
Collected in the current year	—	(1,403,521)
Written off in the current year	(89,224)	—
Balance at 31 December	**9,815,631**	**133,501**

23. CURRENT FINANCIAL ASSETS

	31/12/2010 HRK	31/12/2009 HRK
Loans given, deposits and similar		
Deposits (2.5% interest rate)	36,925,865	26,918,597
Total	**36,925,865**	**26,918,597**

24. CASH AND CASH EQUIVALENTS

	31/12/2010 HRK	31/12/2009 HRK
Balance on gyro accounts	5,512,226	6,662,857
Balance at accounts in foreign currency	55,129,627	21,524,325
Petty cash - HRK	81,548	21,979
Petty cash - foreign currencies	9,355	16,626
Deposits up to three months (interest rates from 2.5% to 3%)	51,696,211	—
Total	**112,428,967**	**28,225,787**

25. PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses and accrued income in the amount of HRK 584,907 (HRK 262,288 on 31 December 2009) relate to prepaid expenses for future periods.

26. SUBSCRIBED CAPITAL

Subscribed capital is determined in the nominal amount of HRK 76,684,800 (HRK 38,342,400 on 31 December 2009) and consists of 255,616 shares of a nominal value of HRK 300.

The ownership structure of the Company is as follows:

	31 December 2010		31 December 2009	
Shareholder	**Number of shares**	**Ownership %**	**Number of shares**	**Ownership %**
Končar - Elektroindustrija d.d.	132,184	51.71	66,092	51.71
HPB d.d.	16,941	6.63	15,767	12.34
Knežević Nikola	10,358	4.05	3,614	2.83
Floričić Kristijan	9,916	3.88	4,958	3.88
Zagrebačka banka d.d.	5,954	2.33	2,125	1.66
Berkopić Dražen	5,082	1.99	1,613	1.26
PBZ d.d.	3,050	1.19	2,173	1.70
Other	72,131	28.22	31,466	24.62
Total	**255,616**	**100.00**	**127,808**	**100.00**

Subscribed capital of the Company consists of 194,188 ordinary shares and 61,428 preference shares.

The subscribed capital of the Company was increased to HRK 76,684,800 in accordance with the Decision of General Assembly from 17 June 2010 by the conversion of statutory reserves in the amount of HRK 38,342,400 (formed from earnings). The subscribed capital was increased by the issue of 127,808 dematerialized shares, out of which 97,094 are ordinary shares, each with a nominal value of HRK 300 and 30,714 are preference shares without voting rights, each with a nominal value of HRK 300.

Profit realised in the year 2009 in the amount of HRK 32,811,276 has been distributed, as per the decisions of the Board of Directors, the Supervisory Board and the General Assembly, as follows:

	HRK
Legal reserves	—
Statutory reserves	19,686,673
Other reserves	—
Liability to pay out dividends	13,124,603
Total	**32,811,276**

27. PROVISIONS

	Servicing during warranty periods HRK	Legal court cases HRK	Retirement and jubilee rewards HRK	Total HRK
1 January 2009	61,430,138	1,449,073	792,950	63,672,161
Additional provisions	32,282,965	—	92,395	32,375,360
Release of provisions	—	(1,449,073)	—	(1,449,073)
31 December 2009	**93,713,103**	**-**	**885,345**	**94,598,448**
Additional provisions	25,047,928	—	288,155	25,336,083
Release of provisions	—	—	—	—
31 December 2010	**118,761,031**	—	**1,173,500**	**119,934,531**

28. LONG TERM LIABILITIES

	31/12/2010 HRK	31/12/2009 HRK
Liabilities towards banks and other financial institutions		
Raiffeisen bank Austria d.d., Zagreb - Croatian Bank for Reconstruction and Development's program	11,926,382	14,575,046
Less: Current portion	(3,507,760)	(3,470,250)
Total	**8,418,622**	**11,104,796**

Liabilities towards Raiffeisen bank Austria d.d., Zagreb relate to two loans from the Croatian Bank for reconstruction and Development's program for financing the economy's development. The first loan, in the amount of HRK 15 million with an annual interest rate of 4% and a due date of 31 December of 2014, was granted in January 2005 for the purchase of equipment and the reconstruction of production capacities. The collateral for the loan is a lien over the Company's equipment with a total carrying value of HRK 1,105,251.

The other loan, in the amount of EUR 1,025,233 with an annual interest rate of 4% and a due date on 31 December 2014, was approved in April 2006 for financing the investments in the production capacities (the construction of a production all). The collateral for the loan is a mortgage over the Company's real estates.

The mortgage over the Company's non-current assets amounts to EUR 28.2 million (Note 18).

Changes in liabilities towards banks and other financial institutions during 2010 are as follows:

	HRK
31 December 2009	**14,575,046**
Loan repayments	(2,753,509)
Foreign exchange gains/losses	104,845
	11,926,382
Less: Current portion	(3,507,760)
31 December 2010	**8,418,622**

Long term liabilities towards banks and other financial institutions fall due as follows:

	HRK
From 1 to 2 years	2,806,207
From 2 to 3 years	2,806,207
From 3 to 4 years	2,806,208
From 4 to 5 years	—
Total	**8,418,622**

29. CURRENT LIABILITIES TOWARD RELATED PARTIES

	31/12/2010 HRK	31/12/2009 HRK
Related parties		
Končar - Energetika i usluge d.o.o., Zagreb	1,387,649	1,365,933
Končar - Elektroindustrija d.d., Zagreb	473,608	877,432
Končar - Institut za elektrotehniku d.d., Zagreb	380,532	37,814
Kones AG, Zürich, Switzerland	291,104	1,136,955
Končar - Generatori i Motori d.d., Zagreb	153,312	—
Končar - Elektronika i informatika d.d., Zagreb	137,904	73,057
Končar - Mali električni strojevi d.d., Zagreb	115,940	37,786
Končar - Sklopna postrojenja d.d., Sesvetski Kraljevac	88,400	438,003
Končar - Mjerni transformatori d.d., Zagreb	66,162	124,380
Končar - Alati d.d., Zagreb	17,259	—
Končar - Električni aparati srednjeg napona d.d., Zagreb	—	9,719
Končar - Inženjering za energetiku i transport d.d., Zagreb	—	4,305
Pridružena društva		
Končar - Energetski transformatori d.d., Zagreb	—	52,152
Total	**3,111,870**	**4,157,536**

30. CURRENT LIABILITIES TOWARD BANKS AND OTHER FINANCIAL INSTITUTIONS

	31/12/2010 HRK	31/12/2009 HRK
Banco Popolare Croatia d.d., Zagreb	—	5,000,000
	—	**5,000,000**
Plus: Current portion of long term loans	3,507,760	3,470,250
Total	**3,507,760**	**8,470,250**

Changes in liabilities towards banks and other financial institutions during 2010 are as follows:

	HRK
31 December 2009	**8,470,250**
Loan repayment	(7,768,698)
Plus: Current portion of long term loans	2,806,208
31 December 2010	**3,507,760**

31. CURRENT TRADE ACCOUNTS PAYABLE

	31/12/2010 HRK	31/12/2009 HRK
Domestic trade creditors		
Elkakon d.o.o., Zagreb	4,419,185	2,792,848
Ferokotao d.o.o., Donji Kraljevec	3,621,047	3,207,212
Komet d.o.o., Prelog	1,415,613	1,505,876
DMB d.o.o., Zagreb	1,082,176	1,364,876
Rotometal d.o.o., Samobor	548,217	629,376
Konzalt Ing d.o.o., Zagreb	435,435	—
Metal Dekor d.o.o., Čakovec	400,430	312,517
Elektropartner d.o.o., Zagreb	270,842	—
Transport Domjančić, Draganić	260,580	133,531
Auto Hrvatska dijelovi d.o.o., Zagreb	199,614	134,982
Strojopromet d.o.o., Zagreb	140,738	88,763
Antunović, Zagreb	135,179	—
Gumiimpex-GRP d.d., Zagreb	29,315	77,302
Seifert & Bogolin d.o.o., Rijeka	121,493	143,346
Other	4,958,695	6,508,285
	18,138,559	***16,898,914***
Foreign trade creditors		
KME AG, Osnabrueck, Germany	3,316,472	574,148
DE Angeli Prodotti S.r.L. Bagnoli Di Sopra, Italy	3,252,799	1,502,660
Thyssen Krupp, Gelesenkirchen, Germany	2,722,393	3,447,515
ESSEX S.P.A, Quattordio, Italy	2,258,194	895,653
NYNAS-Technol, Vienna, Austria	1,867,259	1,045,593
Weiland Werke Landenberg, Velbert, Germany	1,699,151	1,204,314
ORB Electrical Steels Limited, Newport, United Kingdom	1,652,866	2,308,934
Chris Ejik, Ikeja, Lagos, Nigeria	1,639,138	—
Dahrentrad, Nossebro, Sweden	1,429,308	—
Orbico maziva	1,392,958	1,360,931
Machinenfabrik Reinhausen, Regensburg, Germany	1,336,458	3,818,600
Arcelormittal, Frydek Mistek, Czech Republic	1,095,664	—
Aurubis AG, Hamburg	1,066,722	668,267
Other	7,221,026	13,013,941
	31,950,408	***29,840,556***
Total	**50,088,967**	**46,739,470**

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

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-360 days	> 360 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2010	**50,088,967**	46,309,223	3,779,744	—	—	—	—
2009	**46,739,470**	43,467,283	2,652,455	—	—	—	619,732

32. LIABILITIES FOR ADVANCE PAYMENTS RECEIVED

	31/12/2010 HRK	31/12/2009 HRK
Liabilities for advance payments received		
From domestic customers	398,000	1,094,536
From foreign customers	80,684,508	45,052,610
Related parties		
Kones AG, Zürich, Switzerland	21,941	3,792,655
Končar - Inženjering za energetiku i transport d.d., Zagreb	566,517	39,209
	81,670,966	**49,979,010**

33. OTHER CURRENT LIABILITIES

	31/12/2010 HRK	31/12/2009 HRK
Liabilities toward employees		
Liabilities for salaries	4,297,043	3,964,698
	4,297,043	***3,964,698***
Liabilities for taxes and contributions and similar		
Liabilities for taxes and contributions	5,176,765	5,193,247
Liabilities for value added tax	18,569	11,903
Other liabilities toward the State	2,665	80,277
	5,197,999	***5,285,427***
Other liabilities		
Liabilities for sick leave and similar	68,999	38,505
Liabilities for interest	122,720	191,790
	191,719	**230,295**
Liabilities for dividends	***19,999***	***21,887***
Total	**9,706,760**	**9,502,307**

34. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and deferred income in the amount of HRK 15,310,220 (HRK 18,376,626 at 31 December 2009) relate to deferred income per phase contracts, accrued expenses based on contracts with customers from Nigeria for goods delivered in 2010, accrued corporate income tax liability and other similar items.

	31/12/2010 HRK	31/12/2009 HRK
Accrued expenses		
Accrued expenses	7,021,314	1,363,005
Accrued corporate income tax liability	568,012	810,179
	7,589,326	***2,173,184***
Deferred income from related companies		
Končar - Inženjering za energetiku i transport d.d., Zagreb	7,720,894	7,305,458
Deferred income from external customers	—	6,724,800
	7,720,894	***14,030,258***
Total	**15,310,220**	**16,203,442**

35. CONTRACTUAL LIABILITIES

Contractual liabilities of the Company for unfinished projects as of 31 December 2010 amount to HRK 441 million (HRK 493 million at 31 December 2009).

36. OFF-BALANCE SHEET ITEMS

At 31 December 2010 the Company reports the following items in its off-balance sheet:

	31/12/2010 HRK	31/12/2009 HRK
Guarantees		
- in HRK	10,469,517	2,371,476
- in foreign currencies	68,325,438	88,086,811
Total	**78,794,955**	**90,458,287**

37. TRANSACTIONS WITH RELATED PARTIES

During 2010 the Company had transaction with related parties and incurred revenues and expenses based on the trade of goods and services which can be analysed as follows:

2010

Name		Operating activities		
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000
Končar - Elektroindustrija d.d.	—	474	—	4,751
Končar - Energetika i usluge d.o.o.	—	1,388	267	1,618
Končar - Institut za elektrotehniku d.d.	—	381	17	1,825
Končar - Elektronika i informatika d.d.	61	138	118	904
Končar - Mali električni strojevi d.d.	—	116	—	794
Končar - Generatori i Motori d.d.	—	153	—	286
Končar - Mjerni transformatori d.d.	8	66	248	1,979
Končar - Energetski transformatori d.d.	16	—	1,341	205
Končar - Električni aparati srednjeg napona d.d.	—	—	5	—
Končar - Električna vozila d.d.	3,131	—	3,194	5
Končar - Sklopna postrojenja d.d.	454	88	1,187	1,715
Končar - Niskonaponske sklopke i prekidači d.d.	—	—	—	78
Končar - Alati d.d.	—	17	—	134
Končar - Montažni inženjering d.d.	179	—	152	57
Končar - Inženjering za energetiku i transport d.d.	612	567	12,853	—
Končar - Metalne konstrukcije d.d.	—	—	—	5
Kones AG, Zürich, Switzerland	—	313	22,455	1,557
Total	**4,461**	**3,701**	**41,837**	**16,913**

During 2009 the Company had transaction with related parties and incurred revenues and expenses based on the trade of goods and services which can be analysed as follows:

2009

Name		Operating activities		
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000
Končar - Elektroindustrija d.d.	—	877	—	4,699
Končar - Energetika i usluge d.o.o.	—	1,366	244	1,658
Končar - Institut za elektrotehniku d.d.	—	38	10	1,571
Končar - Elektronika i informatika d.d.	9	73	83	1,203
Končar - Mali električni strojevi d.d.	—	38	—	72
Končar - Generatori i Motori d.d.	21	—	17	76
Končar - Mjerni transformatori d.d.	26	124	1,051	1,715
Končar - Energetski transformatori d.d.	—	52	383	665
Končar - Električni aparati srednjeg napona d.d.	—	10	9	8
Končar - Električna vozila d.d.	366	—	1,989	—
Končar - Sklopna postrojenja d.d.	15	438	94	2,570
Končar - Niskonaponske sklopke i prekidači d.d.	—	—	—	119
Končar - Alati d.d.	—	—	—	25
Končar - Montažni inženjering d.d.	1	—	11	14
Končar - Inženjering za energetiku i transport d.d.	2,546	43	19,037	8
Končar - Metalne konstrukcije d.d.	—	—	17	201
Kones AG, Zürich, Switzerland	2,557	4,931	45,879	2,511
Total	**5,541**	**7,990**	**68,824**	**17,115**

38. FINANCIAL INSTRUMENTS

The Company is exposes in its business to credit, interest and foreign currency risk.

The company uses derivative financial instruments (FX forwards). The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summed up as follows:

a) Capital risk management

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

The Company manages capital and for the purpose of proper capital structure, in accordance with the economic conditions present on the market, decides if the retained earnings should be distributed to shareholders, if the capital needs increase or decrease, etc. Goals, policies and processes have not been changed during the period ending 31 December 2010 nor for the period ending 31 December 2009.

	31/12/2010 HRK	31/12/2009 HRK
Debt (interest bearing)	**11,926,382**	**19,575,046**
Long-term loans	8,418,622	11,104,796
Short-term loans (including the current portion of long-term loans)	3,507,760	8,470,250
Less: Cash and cash equivalents	**(112,428,967)**	**(28,225,787)**
Net debt	—	—

b) Significant accounting policies

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

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

2010	Loans and receivables HRK'000	Fair value thro ugh P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	Assets classified per IAS 39 HRK'000
Financial assets	—	—	39	—	**39**
Trade and other current receivables	99,659	—	—	—	**99,659**
Trade receivables from related parties	4,461	—	—	—	**4,461**
Deposits	—	—	—	36,926	**36,926**
Cash and cash equivalents	112,429	—	—	—	**112,429**
Total	**216,549**	—	**39**	**36,926**	**253,514**

2009	Loans and receivables HRK'000	Fair value thro ugh P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	Assets classified per IAS 39 HRK'000
Financial assets	—	—	39	-—	**39**
Trade and other current receivables	89,065	—	—	—	**89,065**
Trade receivables from related parties	5,541	—	—	—	**5,541**
Deposits	—	—	—	26,919	**26,919**
Cash and cash equivalents	28,226	—	—	—	**28,226**
Total	**122,832**	—	**39**	**26,919**	**149,790**

All of the Company's liabilities have been classified as „At amortized cost".

Fair value of financial instruments

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

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

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

31 December 2010

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Non-current financial assets available for sale	39	—	—	**39**
Total	**39**	—	—	**39**

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

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

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

Receivables and deposits at banks

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

Liabilities per loans received

Current liability fair value is approximate to their accounting value due to the short maturities of these instruments. The Management Board believes that their fair value doesn't differ significantly from their accounting value.

Other financial instruments

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

c) Financial risk

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

Market risk

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

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

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

a) Foreign currency risk management

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

The Company exposes itself to foreign currency risk through sales, purchasing, loans and depositing of funds denominated in foreign currencies. EUR is not considered a significantly risky currency and the Company does not hedge itself against it, as opposed to all other currencies where the Company protects itself through forward contracts on the trade of currencies with banks.

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

In thousand of HRK 2010	EUR	USD	SEK	CZK	CHF	GBP	Total foreign currencies	HRK	Total
Trade receivables	41,997	—	7,736	—	808	—	50,541	36,095	86,636
Other receivables	—	—	—	—	1,369	—	1,369	15,529	16,898
Advances given	828	—	—	—	—	—	828	1,439	2,267
Cash and cash equivalents	104,639	—	329	3	1,854	—	106,825	5,603	112,428
Deposits	36,926	—	—	—	—	—	36,926	—	36,926
Total assets	**184,390**	—	**8,065**	**3**	**4,031**	—	**196,489**	**56,666**	**255,155**
Trade payables and other liabilities	30,987	693	524	—	—	37	32,241	30,666	62,907
Advances received	77,622	—	3,629	—	—	—	81,251	420	81,671
Financial liabilities	11,225	—	—	—	—	—	11,225	702	11,927
Total liabilities	**119,834**	**693**	**4,153**	—	—	**37**	**124,717**	**31,788**	**156,505**

In thousand of HRK 2009	EUR	USD	SEK	CZK	CHF	GBP	Total foreign currencies	HRK	Total
Trade receivables	32,794	-	586	—	145	—	33,525	42,114	75,639
Other receivables	—	—	—	—	—	—	—	18,704	18,704
Advances given	201	—	—	—	—	—	201	168	369
Cash and cash equivalents	16,824	1	427	3,807	463	—	21,522	6,704	28,226
Deposits made	21,919	—	—	—	—	—	21,919	5,000	26,919
Total assets	**71,738**	**1**	**1,013**	**3,807**	**608**	—	**77,167**	**72,690**	**149,857**
Trade payables and other liabilities	29,714	651	293	95	225	—	30,978	25,264	56,242
Advances received	44,784	—	277	3,793	—	—	48,854	1,125	49,979
Financial liabilities	13,881	-	—	—	—	—	13,881	5,694	19,575
Total liabilities	**88,379**	**651**	**570**	**3,888**	**225**	—	**93,713**	**32,083**	**125,796**

		Short-term exposure				Long-term exposure	
	EUR HRK	USD HRK	SEK HRK	CZK HRK	CHF HRK	GBP HRK	EUR HRK
2010							
Financial assets	147,464	—	8,065	3	4,031	—	36,926
Financial liabilities	(111,416)	(693)	(4,153)	—	—	37	(8,419)
Total exposure	**36,048**	**(693)**	**3,912**	**3**	**4,031**	**37**	**28,507**
2009							
Financial assets	49,819	1	1,013	3,807	608	—	21,919
Financial liabilities	(77,969)	(651)	(570)	(3,888)	(225)	—	(10,411)
Total exposure	**(28,150)**	**(650)**	**443**	**(81)**	**383**	**—**	**11,508**

Sensitivity analysis

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

	% Change	2010. Effect on income before taxes HRK'000	2009. Effect on income before taxes HRK'000
EUR	1%	(698)	180
USD	9%	65	61
SEK	16%	(623)	(71)
CZK	21%	—	4
CHF	5%	—	(79)
GBP	7%	2	—

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

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

b) Interest rate risk

The Company is not exposed to interest rate risks because all loans are contracted with a fixed interest rate, there are no variable interest rates, while most of the assets are not interest bearing.

c) Credit risk

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

Trade and other receivables

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

The Company has not used derivative financial instruments to protect itself against those risks.

d) Liquidity risk

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

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

	Carrying value HRK	Contracted cash flows HRK	Less than 1 month HRK	1 - 3 months HRK	3 - 12 months HRK	1 - 5 years HRK
31 December 2010						
Liabilities						
Current advances received	81,671	81,671	20,954	32,156	28,561	—
Current liabilities to related parties	3,112	3,112	856	2,256	—	—
Current trade accounts payable	50,089	50,089	21,854	26,456	1,779	—
Other current liabilities	9,707	9,707	5,656	—	4,051	—
Short-term loan liabilities	8,419	9,219	—	—	—	9,219
Long-term loan liabilities	3,508	3,908	702	—	3,206	—
Total liabilities	**156,506**	**157,706**	**50,022**	**60,868**	**37,597**	**9,219**

The following table shows the maturity of financial liabilities of the Company at 31 December 2009 according to the contracted non-discounted payments:

	Carrying value HRK	Contracted cash flows HRK	Less than 1 month HRK	1 - 3 months HRK	3 - 12 months HRK	1 - 5 years HRK
31 December 2010						
Liabilities						
Current advances received	49,979	49,979	10,186	22,252	17,541	—
Current liabilities to related parties	4,157	4,157	1,015	3,142	—	—
Current trade accounts payable	46,739	46,739	19,365	21,142	6,232	—
Other current liabilities	9,502	9,502	5,456	—	4,046	—
Short-term loan liabilities	11,105	12,205	—	—	—	12,205
Long-term loan liabilities	8,470	8,970	1,694	—	7,276	-
Total liabilities	**129,952**	**131,552**	**37,716**	**46,536**	**35,095**	**12,205**

39. SUBSEQUENT EVENTS

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

40. PREPARATION AND THE APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements presented on the pages above have been prepared and approved by the Company's Management Board as at 8 March 2011.

Ivan Klapan

President of the Management Board

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