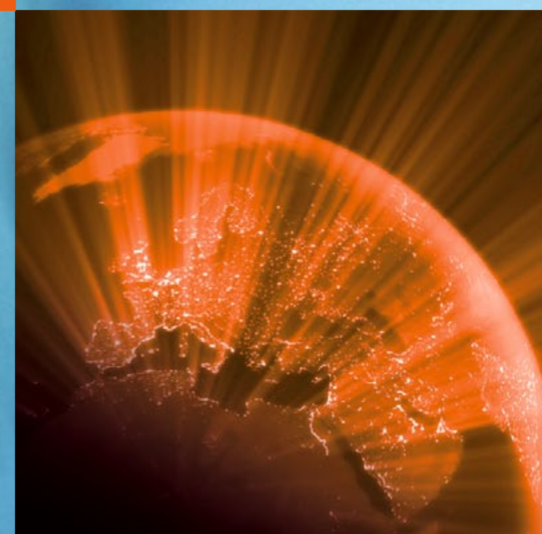


KONČAR D&ST

Annual Report 2011

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

ANNUAL REPORT 2011

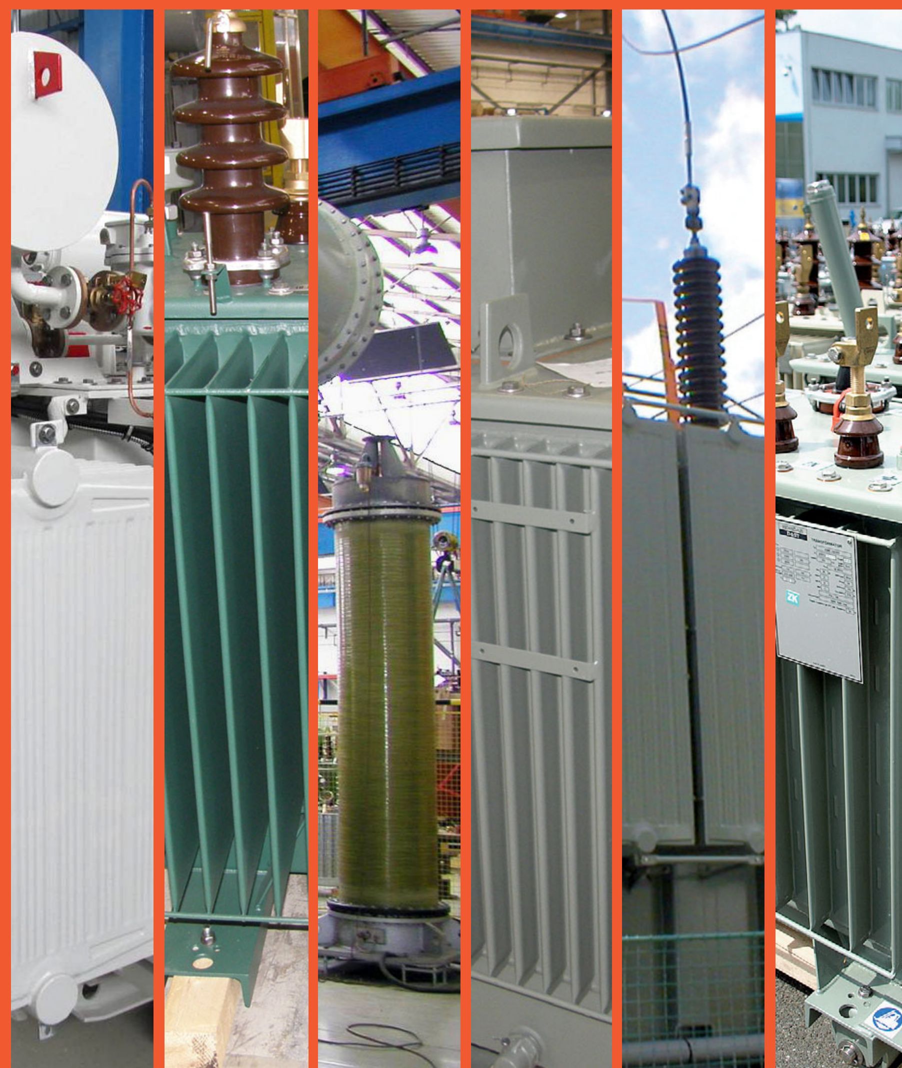
KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.

Contents

I.

MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2011

Dubrovnik



1. Introductory word by the Management Board

2011 - YEAR OF BUILDING UP THE PRODUCTION AND TESTING CAPACITIES FOR A STRATEGIC STEP FORWARD

Končar D&ST continued its sequence of successful operating years in 2011 despite the recession and difficult operating circumstances. Total sales of goods and services in 2011 amounted to HRK 673 mil. (compared to HRK 690 mil. in 2010), which means annual fall of 2%. Export operations at the sum of HRK 520 mil. (HRK 564 mil. in 2010) amounted to 77% sales.

Gross profits in 2011 were HRK 37 mil. (net HRK 33.7 mil.), which is by 5% lower than gross profits in 2010, when they were HRK 38.9 mil. (net profit HRK 37.1 mil.).

Total sum of contracts at the end of 2011 was HRK 461 mil. or 5% higher than at the end of 2010 with HRK 441 mil.

In mid-2011, a contract was made for the construction and the works started on the investment for a strategic step forward from 63 MVA to 100 MVA in the area of medium voltage power transformers under operating title “High Voltage (HV) Laboratory”. Investments in the project and the related investment activities, mostly purchase of new production, testing and IT equipment amounted to HRK 33.7 mil. (investment in 2010 - HRK 8.2 mil.).

Structural changes in the management and engagement of 16 young experts through the project “Trainee at Končar-D&ST” and their organised introduction into the job have been successfully conducted.

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

Shares of Končar-D&ST at the Zagreb Stock Exchange in 2011 were listed on the regular market. At the start of the year, price of Končar D&ST ordinary share was approximately HRK 1,100 and the price at the end of the year was HRK 1,035.

When looking at overall results of Končar D&ST in 2011, we find our operations successful and the company well prepared for the further development. In our performance, key factors have been support and confidence of our shareholders, employees, partners and banks. Management Board of Končar D&ST would like to thank them and proudly presents this report on our results.

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

Ivan Klapan
President of the Management Board

2. Major 2011 figures and their comparison with 2010, 2009 and 2008

	RATIO 2011/2010
net profits	90,7
sales	97,6
exports	92,3
balance of orders at yearís end	104,5

	HRK ('000)				EUR ('000)		INDEX
	2011.	2010.	2009.	2008.	2011.	2010.	11/10
Sales							
Croatia	152,738	126,137	120,396	152,830	20,545	17,312	121.1
Exports	520,333	563,544	501,237	420,158	69,992	77,344	92.3
Total	673,071	689,681	621,633	572,988	90,537	94,656	97.6
Balance of orders at the yearís end							
Croatia	36,173	49,639	61,181	70,036	4,866	6,813	72.9
Exports	424,533	391,313	431,320	442,718	57,105	53,706	108.5
Total	460,706	440,952	492,501	512,754	61,971	60,519	104.5
Annual sales per employee	1,606	1,720	1,627	1,637	216	236	93.4
Investments	33,258	8,192	12,150	31,493	4,474	1,123	406.0
Net profit	33,652	37,118	32,811	30,166	4,527	5,094	90.7
Dividend HRK/share							
Ordinary	*	55.18a)	102.69	94.41			
Preferred	*	55.18	102.69	94.41			
Net profit/sales in %	5.0%	5.4%	5.3%	5.3%			
Net earning per total equity	23.0%	29.9%	31.1%	34.2%			
Total equity and reserves as at 31/12	179,750	161,171	138,147	118,370	24,179	22,120	111.5
No. of employees							
Average	419	401	382	350			104.5
as at 31/12	428	403	389	368			106.2

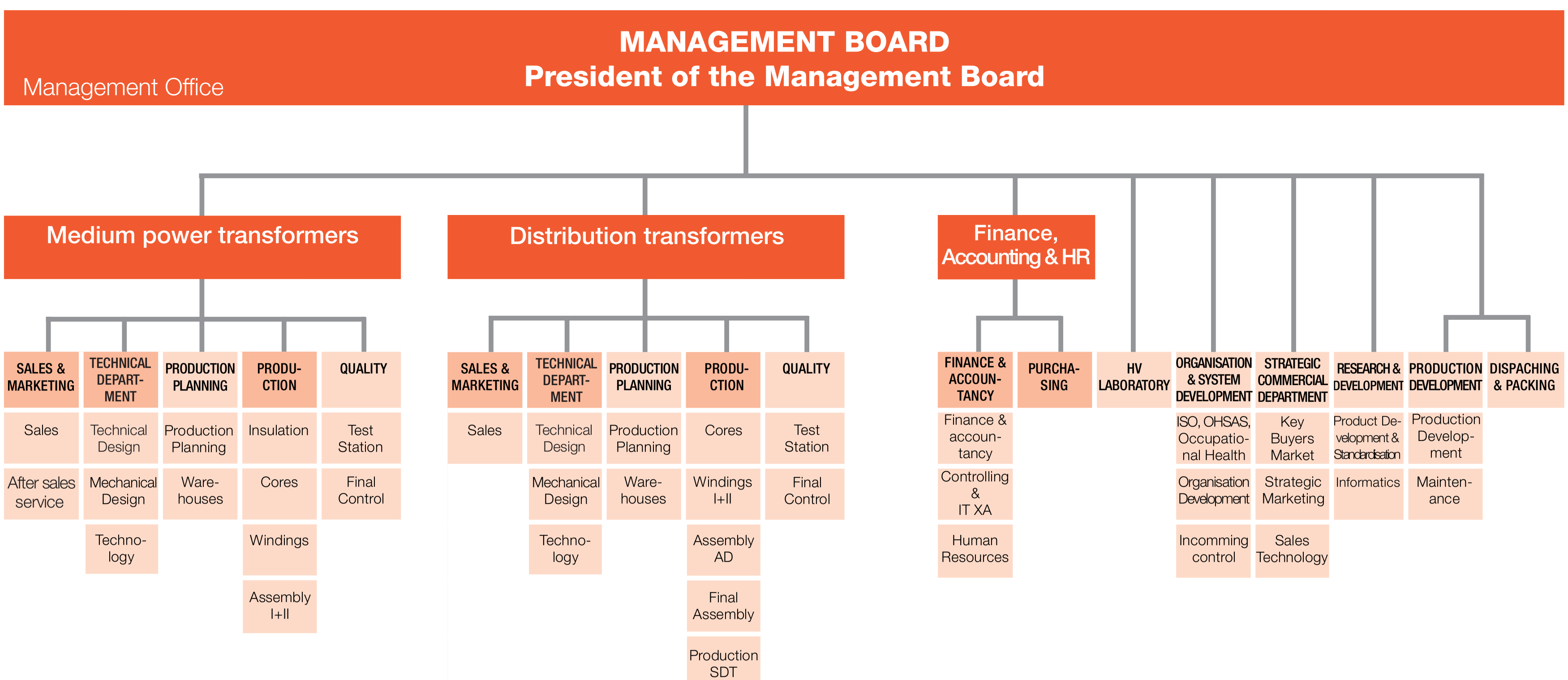
Note: Average exchange rate 2008 1EUR = 7.2232 KN 2009 1EUR = 7.3396 KN
2010 1EUR = 7.2862 KN 2011 1EUR = 7.4342 KN

* Dividend amount will be known after the General Assembly.
a) Number of shares doubled in November 2010

3. Organisational Scheme in 2011

Supervisory Board
Darinko Bago, president
Vladimir Plečko, vice-president till 7 December 2011
Jozo Miloloža, member
Davor Mladina, member
Nenad Peremin, member till 7 December 2011
Miroslav Poljak, vice-president from 7 December 2011
Josipa Šutalo, member from 7 December 2011

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

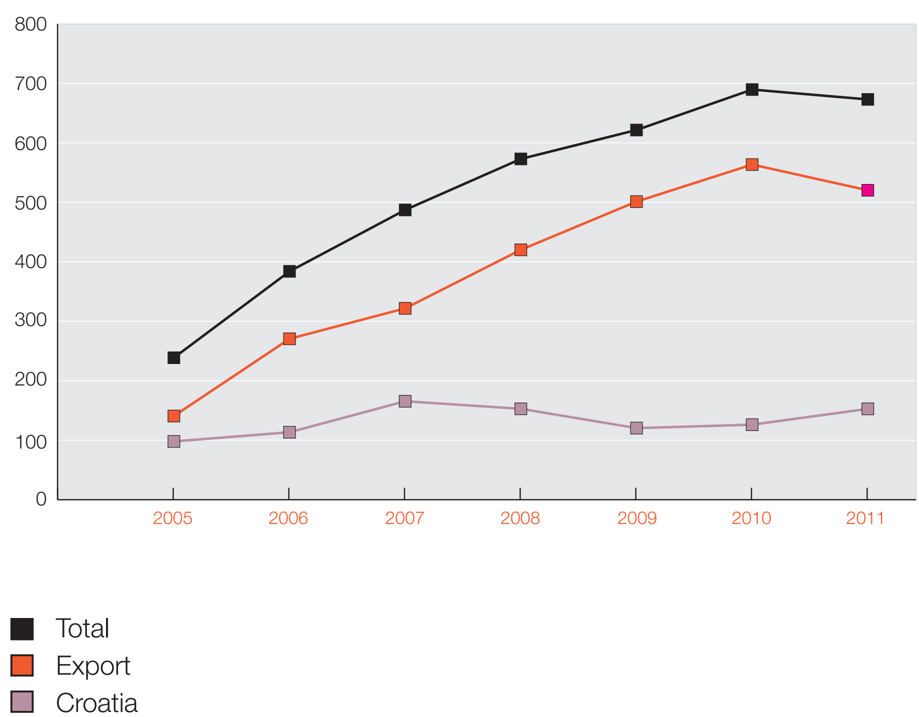


4. General position of the Company

Very good operating results in the several recent fiscal years have financially strengthened the company and enabled its major restructuring with the stable operations even in the difficult transformer market conditions in 2011.

Investments into the development of products and upgrading the high voltage laboratory for transformers up to 100 MVA and 170 kV, recruitment and systematic introduction of young experts, appropriate organisation and motivation of employees and placement of sales and development activities among priorities has created new options for further development and growth of business and the new values for the company.

SALES TRENDS (HRK mil.)



5. Corporate organisation and management in 2011

In the course of 2011, Management Board of Končar D&ST d.d. was composed of:

Ivan Klapan, President of the Management Board
Josip Belamarić, member, Director of MPT profit centre
Ivan Sitar, member, Director of DT profit centre
Petar Vlaić, member, Finance Director
Vanja Burul, deputy member, Deputy Director of MPT profit centre
Martina Mikulić, deputy member, Deputy Director of DT profit centre

Business processes in 2011 were organized through Distribution Transformers Profit Centre and Medium Power Transformers Profit Centre, managed by their meeting of directors (director and deputy director of profit centres and directors of sales, engineering and production) with shared departments on the Company basis. Project team for the preparation and construction of the strategic investment named "HV (High Voltage) Laboratory" is organised as a separate unit.

In 2011, the Company has been operating at a single location, Josipa Mokrovića 8, 10090 Zagreb, and has had 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 2011 and 2010 respectively are published in this report. Preferred shares do not provide votes.

7. Market position and sales by countries and product groups

In 2011, the global crisis had a strong impact on the investments in energy sector, including power distribution on most markets. In some regions, such as Scandinavia, signs of recovery can be observed, while in West Europe there is a significant fall in investments and accordingly in the consumption. Some regions have become insecure also due to political turbulences.

Despite the crisis, intensified market activities in the preceding year have led to the sales value only by 2% lower than in the record-breaking 2010 for both two major product groups - distribution and medium range power transformers.

Sales by principal markets have been as follows:

Croatia: HRK 153 mil. sales in 2011, which is 21% increase from HRK 126 mil. in 2010.

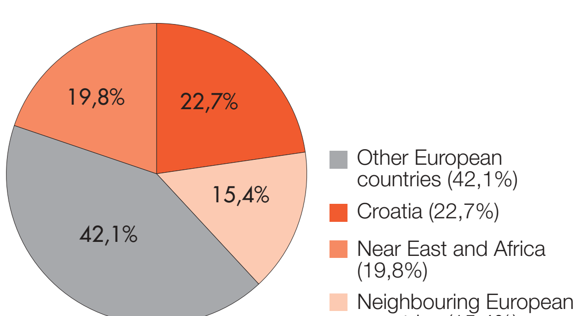
Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Czech Republic, Slovakia, Hungary, Kosovo, Romania, Albania, Serbia - HRK 104 mil. sales in 2011, which is 15% reduction from HRK 122 mil. in 2010.

Other European countries: Sweden, Switzerland, Germany, Finland, Island, France, United Kingdom, Estonia, Latvia, Lithuania, Poland, Cyprus, Spain, Netherlands, Denmark - HRK 283 mil. sales in 2011, which is 3% reduction from HRK 291 mil. in 2010.

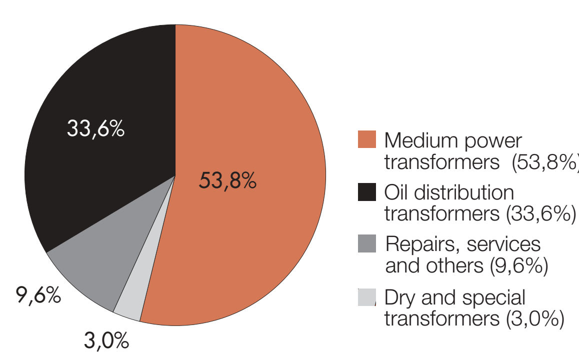
Gulf countries, Near East, Africa and America: HRK 133 mil. deliveries in 2011, or 12% reduction from HRK 151 mil. in 2010.

Sales activities in 2011 have led to total new contracts of HRK 680 mil. or 6% more than in 2010. Balance of contracts at the year's end was HRK 461 mil. or 5% more than at the end of 2010.

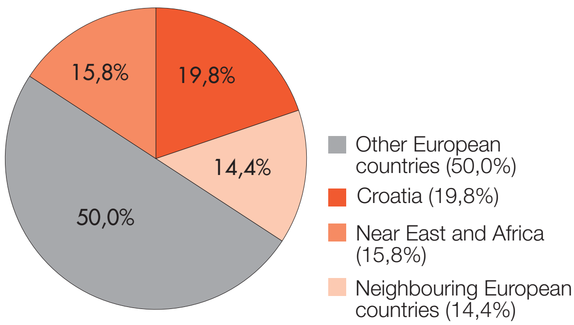
SALES STRUCTURE PER MARKETS



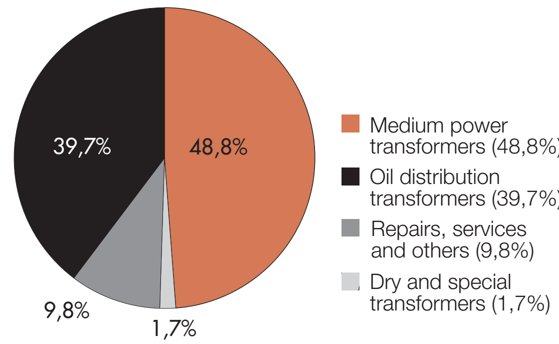
SALES STRUCTURE PER PRODUCTS



NEW CONTRACTS PER MARKETS



STRUCTURE OF NEW CONTRACTS PER PRODUCTS



8. Financial position (Balance Sheet)

Corporate assets as at 31 December 2011 were HRK 441.6 mil., while at the end of 2010 they amounted to HRK 452.9 mil.

In the structure of assets, fixed assets share is 19%, and current assets share is 81%. Fixed assets were increased by HRK 24 mil. compared to the preceding year, as consequence of the start of the works in 2011 at the construction of the new “HV Laboratory” for the testing of medium range power transformers, with additional production, office and warehouse premises and new production and testing equipment. The completion of the investment is scheduled for 2012. Current assets have been reduced compared to the preceding year by HRK 35 mil. Inventories have been reduced by HRK 14.5 mil. (from HRK 136.6 mil to HRK 122.1 mil) and they account for 28% of assets. Receivables have increased by HRK 27 mil. (from HRK 103.5 to HRK 130.4) compared to 2010. Significant changes have been recorded in current assets, which were reduced by HRK 47 mil. in 2011. The main reasons are the financing of fixed assets (start of investment “HV Laboratory”) and reduction in the funding sources (advance payments from customers). Despite the reduction, cash in hand with short-term deposits is still high and amounts to HRK 101.9 mil. or 23% of total assets.

As for liabilities, reserves and equity, they continue their absolute growth trend as consequence of policy of retaining part of profits in reserves. As at 31 December 2011, equity and reserves formed 41% total sources of assets. Company indebtedness to the financial sector has remained low. Long-term loans have been reduced from HRK 8.4 mil. to HRK 5.7 mil. as consequence of gradual capital sum repayment. In 2011, a long-term loan has been contracted for the investment in “HV Laboratory” at EUR 6 mil. with Raiffeisenbank Austria d.d., Zagreb from the Croatian Bank for Reconstruction and Development program of incentives for development of economic activities. In 2011, no funds from the loan have been withdrawn, and their use is planned for the first half of 2012. As at 31 December 2011, the Company has no short-term loans and HRK 3.5 million refers to short-term component of the long-term debt. Liabilities for received advances have been reduced from HRK 81.7 million to HRK 30.8 million.

This trend of balance items, including the strong cash item and short-term deposits 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

Total income in 2011 amounted to HRK 687 mil. which is in compliance with the annual plan. Compared to the same period 2010, when total income amounted to HRK 703 mil., it has been reduced by 2.3%

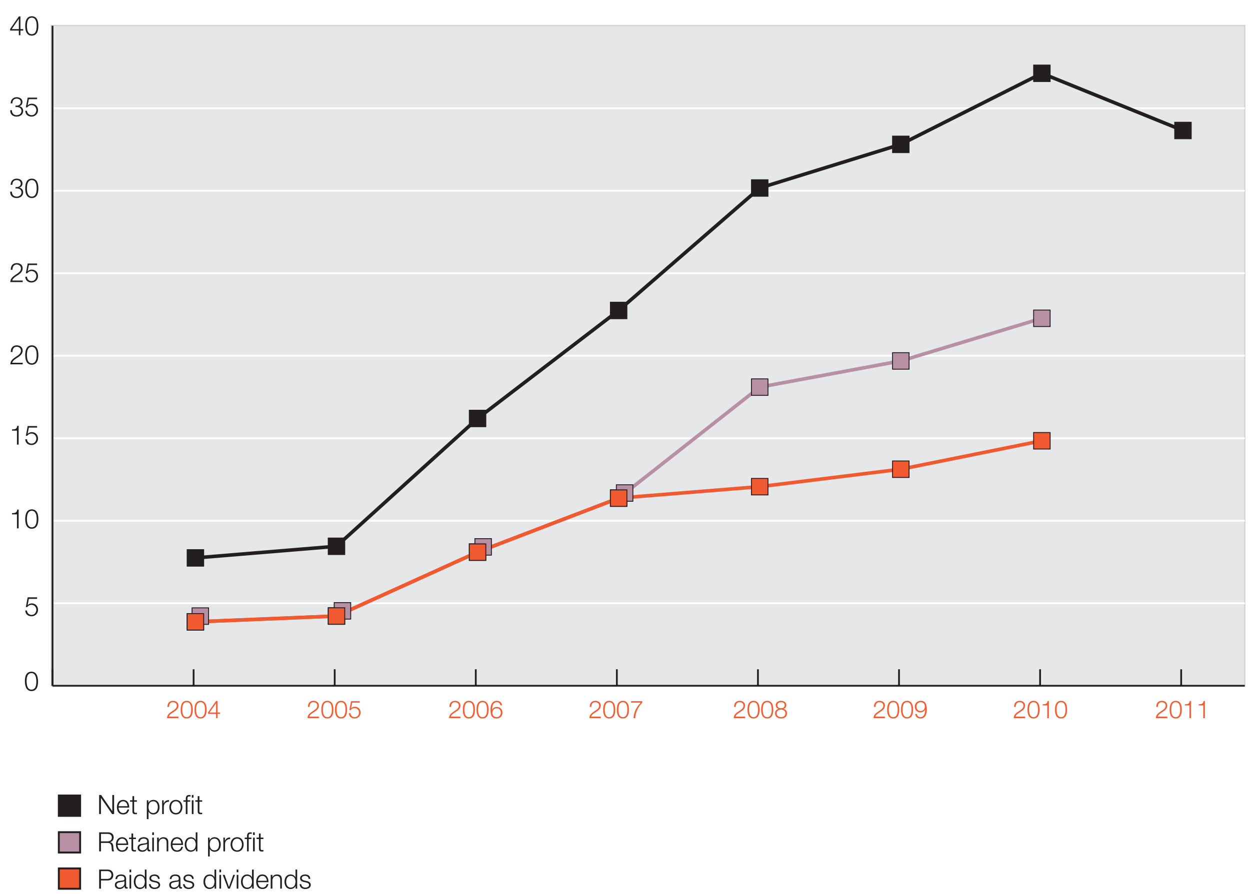
Sales accounts for 98% total income and in 2011, they amounted to HRK 673 mil. (in 2010, HRK 690 mil.). Exports of HRK 520 mil. accounted to 77% sales in 2011.

Parallel with the reduction in income, expenses were reduced as well. Major reduction was in material expenses which, corrected by the change in value of the inventories, have been reduced by HRK 13.7 mil. or by 2.7% compared to 2010. Costs of raw materials and consumables accounted for 56% in total income, same as in the preceding year.

Financial income amounted to HRK 11.7 mil. and financial expenses amounted to HRK 6.8 mil.

In 2011, gross profits were made at HRK 37 mil. which is by 3% higher than the planned gross profits. In the same period 2010, gross profits amounted to HRK 38.9 mil. Profit after taxation in 2011 amounted to HRK 33.7 mil.

NET PROFIT THROUGH YEARS (HRK mil.)



Ending with 2010, the incentives based on the Act on incentives for the investments into the project “Update and expansion of production capacities - Distribution Transformers”’ have been used. In late 2010, Končar D&ST regained the title to incentives for the “HV Laboratory” project. The incentives were related to the tax exemptions by reduction of 2010 corporate income tax by 85% and that for 2011 was reduced by 65%. This led to increased tax burden on corporate income in 2011 compared to 2010.

In the course of 2011, there were 24,582 stocks of Končar D&ST in trade at the Zagreb Stock Exchange. The price ranged from HRK 973 to HRK 1,450 per share. The last transaction with ordinary shares was concluded at HRK 1,035, and the last transaction with preferred shares was at HRK 980.

According to the price of the ordinary share on the last day of 2011, P/E ratio was 7.9. In the course of 2011, the Company did not acquire any 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. On the other hand, periods of global recession and economic crisis bring with them more difficult contracting of new works and the resulting decrease in profit margins. Several recent years may be characterised as years of recession and crisis.

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. In the several recent years, there has been a prominent trend of increase of production capacities in the transformer industry - especially in Asia.

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. However, there were no such disturbances in deliveries in the several recent years.

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

Activities on the "HV Laboratory" project continued in 2011 by obtaining the verification of the project and drafting of detailed documents. In mid-2011, the construction works started, which also started a new investment cycle. The planned completion of the construction is mid-2012. Parallel with the construction, contracts are also made for the purchase of the required equipment. In the second half of 2012, new testing, production and warehouse premises would be launched into operation.

In 2011, 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. New winding machines for distribution transformers have been launched into operation and the drying facility has been refurbished. The winding machine for medium power transformers has been installed with a system for wire pressurization and expansion. A new device has been ordered for the production of core of medium power transformers, the delivery of which shall increase total core production facility.

In 2011, significant investments have also continued into the infrastructure. A lighting technology modernisation project has been started aimed to achieve electricity savings.

Total value of investments in 2011 was HRK 33.2 mil.

INVESTMENT TRENDS (HRK mil.)

12. Technical development and products innovation

Technical Development Sector consists of Product Development Division and Production Development Division. At the end of 2011, there were 21 graduated engineers, 6 of them of electrical engineering, one MSc and one PhD in the field of electrical engineering, 12 graduated engineers of mechanical engineering, and one graduated engineer of chemistry.

In 2011, the Product Development Division completed and launched in operation PRO2011 SYSTEM for the design and supply of medium range power transformers up to 100 MVA and up to 170 kV. The system has significantly shortened the transformer design time and made possible much faster response by the technical office to inquiries and thus increased the competitiveness of Končar D&ST. The works also started on the improvement of the insulation system and revision of the insulation bases. In the course of 2011, new cooling systems for medium range power transformers have been developed, as well as new noise bases and the works were done on the improvement of design of distribution transformers.

In the course of 2011, the Production Development Division introduced the transformer sheet traceability system. In the course of year, new equipment was selected and launched into operation in the processes of core production, winding, assembly and drying of distribution transformers and medium range power transformers.

Cooperation at Magnetostriction and Transformer Noise Project at the University of Cardiff, UK (Wolfson Centre for Magnetics) has continued, where Končar D&ST has been taking part with 6 other European manufacturers of transformers, 3 manufacturers of transformer sheets and 2 manufacturers of transformers cores. We have also continued our cooperation with Končar Institute for Electrical Engineering, Faculty of Electrical Engineering and Computing and Faculty of Mechanical Engineering and Naval Architecture. Several young associates are attending specialist and doctorate studies at faculties of the University of Zagreb.

Technical Development experts and associates from other departments actively participated in symposiums and seminars concerning transformers (10th HRO CIGR… Conference in Cavtat, 21st CIRED IN Frankfurt, CATIA V6 European Customer Forum in Paris, 28th Danubia-Adria Symposium in Siofok, “Developments in Distribution and Power Transformers” seminar in Cardiff) and in operations of HZN/TO E14 Power Transformers Technical Board.

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

In its daily operations, Končar D&ST has been in compliance with the international standards and requirements of community responsible business. In its activities, Končar D&ST has been stimulating their implementation with the aim of development of community and environment protection for the future generations.

We are making constant efforts to fulfil the requirements of our clients by innovation and continuous improvement of quality of both our products and production processes. We have been intensively working on the investments into the new modern equipment, in compliance with the OHS rules with the aim to reduce the hazards and risks as well as possible injuries at work.The entire Quality Management System is controlled according to ISO 9001:2008, Environment Management System is controlled according to ISO 14001:2004 and Occupational Health and Safety Management System is controlled according to OHSAS 18001:2007 through regular external audits by certification company and by customers as well as through internal audits. Through our IT support, information is continuously collected and analysed and periodically presented to the Management Board. 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 efficiency and reduction of risk for people and environment.

This has been confirmed by ISO 14001:2004 and OHSAS 18001:2007 certificates we have obtained.

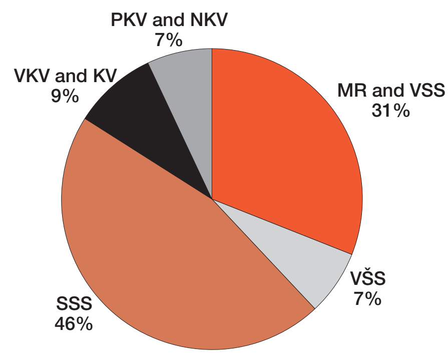
In 2011, we successfully conducted the fourth recertification of the Environment Management System according to ISO 14001:2004, and the first recertification of the OHSM System according to OHSAS 18001:2007.

14. Human Resources

At the beginning of 2011, there were 403 employees at Končar D&ST. By the end of the year, 33 new employees were hired and 8 employees left. The year ended with 428 employees. At the hiring, we continued taking care on rejuvenation and most of the newly hired employees in 2011 are of young age. Through the "D&ST Trainee" Project, 16 young highly educated experts were employed for a year. We have kept the average age of employees at 39.

EMPLOYEE EDUCATION STRUCTURE AT THE END OF THE YEAR:

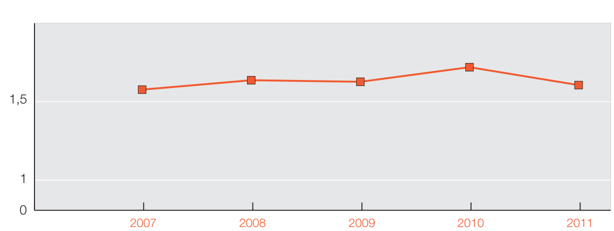
Level of education	Years of education	2010	2011
University degrees (MR, VSS)	16+	**118**	132
College (VŠS)	14	**28**	32
Secondary school (SSS)	12	**184**	195
Qualified workers schools (VKV, KV)	11-12	**38**	37
Primary school + training on the job (PKV)	8	**35**	32
Total		403	428



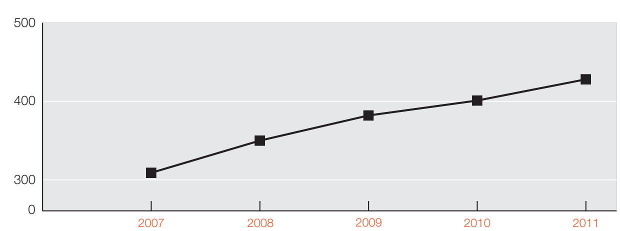
Productivity measured by sales per employee in 2011 was HRK 1.6 mil.

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.

Recognizing our target customers requirements and the importance of fulfilling them, as well as 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 2011 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 2011 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 posi tion of the Company and describes most significant risks and contingencies which the Company is exposed to.

Zagreb, 9 March 2012

On behalf of Končar D&ST Management Board:

Ivan Klapan, CEO
President of the Management Board

Petar Vlaić, CFO
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 15 March 2012, Supervisory Board and Management Board have adopted the following

DECISION
ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2011

Supervisory Board and Management Board of Končar D&ST d.d. have jointly adopted the Annual Financial Statements for 2011.

Explanation

Supervisory Board and Management Board of Končar D&ST d.d. have jointly adopted the Annual Financial Statements for 2011 as follows:

Total income	HRK 686,880,331
Total expenses	HRK 649,860,547
Profits before taxation	HRK 37,019,784
Corporate income tax	HRK 3,367,801
Profits after taxation	HRK 33,651,983
Total assets / liabilities	HRK 441,625,394

Zagreb, 15 March 2012

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 15 March 2012, Supervisory Board and Management Board adopted the following

DECISION
ON ALLOCATION OF PROFITS FOR 2011

1. Profits after taxation (net profits) for 2011 amount to HRK 33,651,983.65.

2. Management Board and Supervisory Board have allocated a sum of HRK 20,191,245.09 into statutory reserves of the Company.

3. 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 52.66 per share, which totals HRK 13,460,738.56 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 15 (fifteen) 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 15 (fifteen) days from the record date.

Zagreb, 15 March 2012

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

III.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES

Nature Park Kopački rit

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 endorsed for use in the European Union which give a true and fair view of the financial position and results of Končar - Distribution and Special Transformers Inc., 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 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
9 March 2012

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 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 45.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards endorsed for use in 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 2011 and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards endorsed for use in the European Union.

Grant Thornton revizija d.o.o.
Koranska 16, 10000 Zagreb
Ivica Smiljan, certified auditor
Zagreb, 9 March 2012

GRANT THORNTON
revizija d.o.o.
ZAGREB

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

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Član mreže Grant Thornton International Ltd.

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: Željko Trcin; Marija Zupančić

Statement of comprehensive income

31 December 2011

	Notes	2011 in HRK	2010 in HRK
Sales	3	673,071,461	689,680,621
Other operating income	4	2,061,331	3,795,448
Operating revenues		**675,132,792**	**693,476,069**
Changes in inventories (work in progress and finished goods)		(25,532,776)	(19,427,566)
Cost of materials and energy	5	(383,893,796)	(394,769,120)
Cost of goods sold		(40,440,693)	(27,520,724)
Cost of services	6	(48,753,928)	(62,487,328)
Personnel costs	7	(90,737,678)	(83,839,278)
Depreciation and amortization	8	(15,631,415)	(16,309,553)
Other costs	9	(16,160,934)	(15,173,344)
Value adjustment of current assets	10	(4,748,626)	(9,901,951)
Provisions	11	(14,955,642)	(25,336,083)
Other operating expenses	12	(2,236,577)	(1,161,686)
Operating expenses		**(643,092,065)**	**(655,926,633)**
Operating profit		**32,040,727**	**37,549,436**
Financial income	13	11,747,539	9,352,248
Financial expenses	14	(6,768,482)	(7,964,763)
Financial result		**4,979,057**	**1,387,485**
Total revenues		**686,880,331**	**702,828,317**
Total expenses		**649,860,547**	**663,891,396**
Profit before taxation		**37,019,784**	**38,936,921**
Corporate income tax	15	(3,367,801)	(1,818,856)
PROFIT FOR THE YEAR		**33,651,983**	**37,118,065**
Earnings per share	16	**131.65**	**254.82**
Other comprehensive income		—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**33,651,983**	**37,118,065**

Notes are an integral part of the Statement of comprehensive income

Statement of comprehensive income

31 December 2011

	Notes	31/12/2011 HRK	31/12/2010 HRK
ASSETS			
Intangible assets	17	1,158,526	199,621
Property, plant and equipment	18	83,374,665	60,190,947
Investments in associates	19	1,732,458	1,732,458
Financial assets	19	730,316	730,316
Non-current assets		**86,995,965**	**62,853,342**
Inventories	20	122,051,272	136,593,348
Receivables from related companies	21	14,448,070	4,460,966
Trade accounts receivable	22	97,101,243	82,176,216
Receivables for value added tax		18,323,816	14,600,888
Other receivables		563,166	297,546
Receivables for corporate income tax	15	—	1,998,998
Financial assets	23	64,008,570	36,925,865
Cash and cash equivalents	24	37,928,446	112,428,967
Current assets		**354,424,583**	**389,482,794**
Prepaid expenses and accrued income	25	**204,846**	**584,907**
TOTAL ASSETS		**441,625,394**	**452,921,043**
Off-balance sheet items	**36**	**105,110,808**	**78,794,955**

Statement of financial position - continued

	Notes	31/12/2011 HRK	31/12/2010 HRK
EQUITY AND LIABILITIES			
Subscribed capital	26	**76,684,800**	**76,684,800**
Legal reserves		3,839,641	1,983,738
Statutory reserves		52,898,242	31,740,972
Other reserves		12,675,105	13,643,772
Reserves from earnings		**69,412,988**	**47,368,482**
Profit for the year		**33,651,983**	**37,118,065**
EQUITY AND RESERVES		**179,749,771**	**161,171,347**
Provisions for retirement and jubilee rewards and similar		1,114,588	1,173,500
Other provisions		133,716,673	118,761,031
Non-current provisions	27	**134,831,261**	**119,934,531**
Liabilities toward banks and other financial institutions		5,722,796	8,418,622
Non-current liabilities	28	**5,722,796**	**8,418,622**
Liabilities toward related companies	29	4,390,404	3,111,870
Liabilities toward banks and other financial institutions	30	3,576,748	3,507,760
Trade accounts payable	31	64,090,158	50,088,967
Liabilities for advance payments received	32	30,820,423	81,670,966
Other liabilities	33	12,374,643	9,706,760
Current liabilities		**115,252,376**	**148,086,323**
Accrued expenses and deferred income	34	**6,069,190**	**15,310,220**
TOTAL EQUITY AND LIABILITIES		**441,625,394**	**452,921,043**
Off-balance sheet items	36	**105,110,808**	**78,794,955**

Notes are an integral part of the Statement of comprehensive income

Statement of cash flows

31 December 2011

	Notes	2011 in HRK	2010 in HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		619,473,240	722,453,995
Cash receipts from insurance compensations		58,221	781,746
Cash receipts from tax returns		79,193,737	80,334,709
Cash receipts from interests		136,173	799,283
Other cash receipts		2,660,434	2,029,195
Total cash receipts from operating activities		**701,521,805**	**806,398,928**
Cash payments to trade accounts payable		(502,163,563)	(516,351,279)
Cash payments to employees		(86,975,143)	(81,153,368)
Cash payments to insurance companies		(1,051,727)	(1,392,999)
Cash payments for interests		(457,237)	(589,038)
Cash payments for taxes		(65,129,717)	(72,756,890)
Other cash payments		(10,932,359)	(11,044,883)
Total cash payments for operating activities		**(666,709,746)**	**(683,288,457)**
Net cash flow from operating activities		**34,812,059**	**123,110,471**
Cash flow from investing activities			
Proceeds from disposal of intangible and tangible assets		238,327	316,175
Dividends received		1,848,958	1,219,045
Purchase of intangible and tangible assets		(33,619,353)	(9,410,985)
Net cash used in investing activities		**(31,532,068)**	**(7,875,765)**
Cash flow from financing activities			
Other proceeds from financial activities		128,124,317	26,780,591
Repayment of loans, debentures and other borrowings		(2,815,381)	(7,759,760)
Dividends paid		(14,134,363)	(13,126,492)
Other cash payments for financial activities		(188,955,085)	(36,925,865)
Net cash used in financing activities		**(77,780,512)**	**(31,031,526)**
Increase (decrease) of cash		**(74,500,521)**	**84,203,180**
Cash and cash equivalents at the beginning of the year	24	112,428,967	28,225,787
Cash and cash equivalents at the end of the year	**24**	**37,928,446**	**112,428,967**

Notes are an integral part of the Statement of cash flows

Statement of changes in equity

31 December 2011

	Subscribed capital HRK	Reserves from earnings HRK	Current year profit HRK	Total HRK
Balance at 1 January 2010	**38,342,400**	**66,992,876**	**32,811,276**	**138,146,552**
Transactions with owners:				
Increase of capital from reserves	38,342,400	(38,342,400)	—	—
Allocation of the profit for the year 2009	—	19,686,673	(19,686,673)	—
Dividends paid	—	—	(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**
Transactions with owners:				
Allocation of the profit for the year 2010	—	23,013,174	(23,013,174)	—
Dividends paid	—	—	(14,104,891)	**(14,104,891)**
Realisation of reserves	—	(968,668)	—	**(968,668)**
Profit for the year	—	—	33,651,983	**33,651,983**
Total comprehensive income	—	—	**33,651,983**	**33,651,983**
Balance at 31 December 2011	**76,684,800**	**69,412,988**	**33,651,983**	**179,749,771**

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

Notes to the financial statements

31 December 2011

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 2011 the Company had 428 employees, while on 31 December 2010 the Company had 403 employees.

The employee structure is as follows:

	31/12/2011	31/12/2010
University degrees	10	10
College	122	106
Secondary school	32	29
Qualified workers schools - VKV	195	185
Qualified workers schools - KV	37	38
Primary school + training on the job	32	35
Total	**428**	**403**

Members of the Supervisory Board:

Darinko Bago, president,
Miroslav Poljak, deputy from 7 December 2011
Jozo Miloloža, member
Davor Mladina, member from 17 June 2010
Josipa Šutalo, member from 7 December 2011
Vladimir Plečko, deputy until 7 December 2011
Nenad Peremin, member until 7 December 2011

Members of the Management Board

Ivan Klapan, president
Josip Belamarić, member
Petar Vlaić, member
Ivan Sitar, member from 1 January 2011
Vanja Burul, Deputy Board Member from 1 January 2011
Martina Mikulić, Deputy Board Member from 1 January 2011

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

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 endorsed for use in the European Union.

The financial statements for the year 2011 have been prepared using the historical cost convention except for any financial assets and liabilities stated at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

The 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 2011, the exchange rate for USD 1 and EUR 1 was HRK 5.82 and HRK 7.53, respectively (31 December 2010: HRK 5.57 and HRK 7.38 respectively).

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

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

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

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

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

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

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

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 the ownership is transferred. 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 indispensable for the finalization and preparation of the asset for its intended use or sale. Other borrowing costs are recognized in the income statement using the effective interest rate method.

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 (FVTP)"

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 which case the hedge accounting is applied.

- "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 Company 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 a decrease 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

	2011 in HRK	2010 in HRK
Domestic sales of goods	152,738,325	126,136,994
Foreign sales of goods	520,333,136	563,543,627
Total	**673,071,461**	**689,680,621**

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

4. OTHER OPERATING INCOME

	Notes	2011 in HRK	2010 in HRK
Income from the inventory value adjustments		540,175	—
Inventory surpluses		380,043	105,467
Income from rebates and discounts		283,670	2,180,248
Income from the sale of non-current assets		156,464	115,208
Prior year income		67,200	235,711
Income from insurance claims		58,221	918,219
Income from the release of provisions	27	58,912	—
Other income		516,646	240,595
Total		**2,061,331**	**3,795,448**

5. COSTS OF MATERIALS AND ENERGY

	2011 in HRK	2010 in HRK
Costs of raw materials	378,013,746	389,468,278
Cost of energy	5,001,194	4,717,961
Small inventory	878,856	582,881
Total	**383,893,796**	**394,769,120**

6. COSTS OF SERVICES

	2011 in HRK	2010 in HRK
Transportation costs	16,040,835	26,778,663
Services related to product design and sale	6,665,484	4,177,340
Maintenance costs (service costs)	6,385,478	6,877,650
Compensation for the usage of company's name and trade mark - Končar d.d.	4,329,387	4,331,861
Entertainment	2,493,443	2,516,780
Costs of telephone and post	1,887,656	2,047,216
Rent	1,877,443	1,690,870
Intellectual services	1,195,257	936,425
Utilities costs	629,790	654,171
Advertising services	409,275	437,451
Sponsorships and donations	83,868	128,219
Other costs	6,756,012	11,910,682
Total	**48,753,928**	**62,487,328**

7. PERSONNEL COSTS

	2011 in HRK	2010 in HRK
Net salaries and wages	48,731,285	44,261,769
Costs of taxes and contributions from salary	28,901,937	27,345,116
Contributions on salary	13,104,456	12,232,393
Total	**90,737,678**	**83,839,278**

Net salaries in the amount of HRK 48,731,285 (HRK 44,261,769 in 2010) contain compensations to the Management Board consisted from theirs salary in the amount of HRK 1,664,788 (in 2010 for 5 and part of the year for 3 members of the Management Board in the amount of HRK 1,185,597) and a provision for the Management Board bonus in the amount of HRK 864,900 (HRK 643,686 in 2010), which are an integral part of the personnel expenses.

8. DEPRECIATION AND AMORTIZATION

	Notes	2011 in HRK	2010 in HRK
Depreciation	18	15,373,178	15,880,759
Amortization	17	258,237	428,794
Total		**15,631,415**	**16,309,553**

9. OTHER COSTS

	2011 in HRK	2010 in HRK
Travelling costs and per-diems	2,752,357	1,989,830
Employee transportation costs	2,248,637	2,062,262
Banking services	2,414,755	2,714,038
Compensations to employees	1,254,499	1,624,656
Insurance premiums	1,417,720	977,897
Taxes and contributions non-dependable on the results and similar costs	472,111	1,074,625
Contributions, memberships and similar costs	463,921	553,730
Compensations to members of the Supervisory Board	426,743	394,193
Other	4,710,191	3,782,113
Total	**16,160,934**	**15,173,344**

10. VALUE ADJUSTMENTS OF CURRENT ASSETS

	2011 in HRK	2010 in HRK
Value adjustment of current receivables	***2,928,322***	***9,771,354***
From customer Elektromaterijal, Rijeka	—	9,455,775
From customer Merkur, Slovenia	12,682	315,579
From customer DAYAKAS NIGERIA, Nigeria	76,923	—
From customer PHCN, Nigeria	748,538	—
From customer NDPHC ABUJA, Nigeria	1,506,065	—
From customer Elektropromet, BiH	488,031	—
From customer Gebruder Meier AG, Switzerland	96,083	—
Value adjustment of inventories	***1,820,304***	***130,597***
Total	**4,748,626**	**9,901,951**

11. PROVISIONS

	2011 in HRK	2010 in HRK
Provisions for servicing costs within warranty periods	14,955,642	25,047,928
Provisions for retirement and jubilee awards	—	288,155
Total	**14,955,642**	**25,336,083**

Movement in provisions by categories is presented in Note 27.

12. OTHER OPERATING EXPENSES

	2011 in HRK	2010 in HRK
Costs subsequently identified	1,491,434	345,455
Inventory shortages	468,912	99,306
Penalties, indemnifications and similar costs	89,736	659,614
Losses on the sale of non-current assets	2,274	14,606
Other operating expenses	184,221	42,705
Total	**2,236,577**	**1,161,686**

13. FINANCIAL REVENUES

	2011 in HRK	2010 in HRK
From the relations with related parties		
Foreign exchange gains on receivables	12,480	305,935
	12,480	***305,935***
From the relations with un-related parties		
Foreign exchange gains	7,362,860	6,863,785
Revenues from dividends and shares in profits of associates	1,733,740	1,222,021
Interest income on deposits	1,857,138	737,090
Other interest income	781,321	223,417
	11,735,059	***9,046,313***
Total	**11,747,539**	**9,352,248**

14. FINANCIAL EXPENSES

	2011 in HRK	2010 in HRK
From the relations with related parties		
Foreign exchange losses	80,122	568,887
	80,122	***568,887***
From the relations with un-related parties		
Interest on loans and other financial instruments	520,156	608,294
Foreign exchange losses	6,168,204	6,431,989
	6,688,360	***7,040,283***
Other financial expenses - factoring	—	**355,593**
Total	**6,768,482**	**7,964,763**

15. CORPORATE INCOME TAX

The Company calculates its corporate income tax liability at the preferential rate of 7% as it is the beneficiary of incentives in line with the Law on incentives for the "High-Voltage Laboratory - Development of the Laboratory and extension of production capacities" project. The Government issued a confirmation that the aforementioned investments fulfil the requirements in accordance with the Law on incentives on 3 September 2010 and that the Company can use these incentives. The maximal amount of granted incentive amounted to HRK 37,327 thousand. In 2010 the Company had calculated the corporate income tax liability at the preferential rate of 3%.

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

	Notes	2011 in HRK	2010 in HRK
Accounting profit before taxation		37,019,784	38,936,921
Corporate income tax at 20%		7,403,957	7,787,384
Non-allowable expenses (20%)		3,406,984	4,682,241
Decreases of taxes (20%)		(1,188,653)	(1,513,794)
Adjusted corporate income tax		9,622,288	10,955,831
Incentive		(6,254,487)	(9,136,975)
Tax liability		**3,367,801**	**1,818,856**
Effective Tax Rate		9%	5%
Advances paid		1,712,513	3,817,854
Tax receivable		—	1,998,998
Tax payable	33	1,655,288	—

16. EARNINGS PER SHARE

	2011 in HRK	2010 in HRK
Net profit for the year	33,651,983	37,118,065
Weighted average number of shares (ordinary and preference)	255,616	145,666
Earnings per share in HRK	**131.65**	**254.82**

On 11 November 2010 an increase in share capital of the Company was made from the Company's reserves in the SKDD system (Note 26) which doubled the amount of 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 2010	**4,143,655**	—	**4,143,655**
Additions	—	112,210	112,210
Transfer	70,748	(70,748)	—
Balance at 31 December 2010	**4,214,403**	**41,462**	**4,255,865**
Additions	—	1,217,142	1,217,142
Transfer	784,273	(784,273)	—
Disposals	(2,921)	—	(2,921)
Transfer to equipment	(13,175)	—	(13,175)
Balance at 31 December 2011	**4,982,580**	**474,331**	**5,456,911**
Accumulated amortization			
Balance at 1 January 2010	**3,627,450**	—	**3,627,450**
Amortization for the year	428,794	—	428,794
Balance at 31 December 2010	**4,056,244**	—	**4,056,244**
Amortization for the year	258,237	—	258,237
Disposals	(2,921)	—	(2,921)
Transfer to equipment	(13,175)	—	(13,175)
Balance at 31 December 2011	**4,298,385**	—	**4,298,385**
Carrying value			
31 December 2010	158,159	41,462	199,621
31 December 2011	**684,195**	**474,331**	**1,158,526**

The purchase cost of completely amortized intangible assets which were still in use on 31 December 2011 amounts to HRK 2,065,260 thousand.

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 2010	**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	—	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**
Additions	—	—	—	—	23,553,268	34,284,555	**57,837,823**
Transfer	32	838,312	11,388,416	4,781,976	—	(17,008,736)	—
Transfer from intangible assets	—	—	13,175	—	—	—	**13,175**
Disposals	—	(898,575)	(1,016,385)	(366,687)	(18,067,819)	—	**(20,349,466)**
Balance at 31 December 2011	**9,012,529**	**63,666,918**	**119,699,508**	**17,597,205**	**7,293,000**	**20,052,481**	**237,321,641**
Accumulated depreciation							
Balance at 1 January 2010	—	**44,747,589**	**70,318,927**	**9,808,347**	—	—	**124,874,863**
Correction of opening balances	—	—	227,255	(227,255)	—	—	—
Depreciation for the year	—	3,046,898	11,294,764	1,539,097	—	—	**15,880,759**
Other decreases	—	—	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**
Transfer from intangible assets	—	—	13,175	—	—	—	**13,175**
Depreciation for the year	—	3,240,491	10,008,659	2,124,028	—	—	**15,373,178**
Other decreases	—	—	1,210,834	—	—	—	**1,210,834**
Disposals	—	(898,575)	(1,014,111)	(366,687)	—	—	**(2,279,373)**
Balance at 31 December 2011	—	**50,136,403**	**91,801,263**	**12,009,310**	—	—	**153,946,976**
Carrying value							
31 December 2010	9,012,497	15,932,694	27,731,596	2,929,947	1,807,551	2,776,662	**60,190,947**
31 December 2011	**9,012,529**	**13,530,515**	**27,898,245**	**5,587,895**	**7,293,000**	**20,052,481**	**83,374,665**

The carrying value of real estates under mortgage as at 31 December 2011 amounts to HRK 19,913,741 (31/12/2010: HRK 22,141,860). The carrying value of all other non-current assets under liens on 31 December 2011 amounts to HRK 0 (31/12/2010: HRK 1,105,251). As at 31 December 2011 the total amount of mortgages registered over these assets amounts to EUR 28.2 million (as at 31/12/2010 in the same amount) (Note 28).

Assets under construction in the amount of HRK 20,052,481 consist mostly of investment in "The High-Voltage Laboratory" project.

The cost of all non-current assets fully depreciated and still in use on 31 December 2011 amounts to HRK 109,713,864.

19. NON-CURRENT FINANCIAL ASSETS

	31/12/2011 HRK	31/12/2010 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 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 Bank d.d., Zagreb	***39,000***	***39,000***
Total	**2,462,774**	**2,462,774**

20. INVENTORIES

	31/12/2011 HRK	31/12/2010 HRK
Raw materials	62,599,109	53,035,582
Work in progress	38,101,375	40,680,996
Unfinished and semi-finished products	4,762,015	5,960,621
Finished products	18,119,754	39,874,224
Minus: Value adjustment of raw materials	(4,697,382)	(2,877,078)
Minus: Value adjustment of finished products	—	(540,175)
	118,884,871	**136,134,170**
Advances	3,166,401	459,178
Total	**122,051,272**	**136,593,348**

The cost of goods sold amounts to HRK 438,148 thousand in 2011 (HRK 421,352 thousand in 2010).

21. RECEIVABLES FROM RELATED COMPANIES

	31/12/2011 HRK	31/12/2010 HRK
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	10,255,506	611,141
Končar - Engineering for Plant Installation and Commissioning Inc, Zagreb	2,325,957	178,738
Končar - Switchgear Inc, Zagreb	1,284,789	454,214
Končar - Electric Vehicles Inc, Zagreb	413,680	3,131,372
Končar - Institute for Electrical Engineering Inc., Zagreb	108,830	—
Končar - Electronics and Informatics Inc, Zagreb	48,376	60,860
Končar - Instrument Transformers Inc, Zagreb	10,932	8,315
	14,448,070	**4,444,640**
Končar - Power Transformers Ltd, Zagreb	—	16,326
Total	**14,448,070**	**4,460,966**

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

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 356 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**14,448,070**	12,804,883	249,745	913,982	456,673	—	22,787
2010	**4,460,966**	815,075	1,860,799	15,323	1,363,352	—	406,417

22. TRADE ACCOUNTS RECEIVABLE

	31/12/2011 HRK	31/12/2010 HRK
Domestic customers	44,512,486	42,055,031
Minus: Value adjustment	(9,500,052)	(9,500,052)
	35,012,434	***32,554,979***
Foreign customers	65,158,906	49,936,816
Minus: Value adjustment	(3,070,097)	(315,579)
	62,088,809	***49,621,237***
Total	**97,101,243**	**82,176,216**

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

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 356 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**97,101,243**	63,701,816	20,514,236	7,095,421	2,978,039	2,081,436	730,295
2010	**82,176,216**	48,736,188	18,109,254	3,146,876	6,553,194	5,042,241	588,463

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

	2011 in HRK	2010 in HRK
Balance at 1 January	9,815,631	133,501
Impaired in the current year (Note 10)	2,928,322	9,771,354
Collected in the current year	(38,499)	—
Written off in the current year	(135,305)	(89,224)
Balance at 31 December	**12,570,149**	**9,815,631**

23. CURRENT FINANCIAL ASSETS

	31/12/2011 HRK	31/12/2010 HRK
Loans given, deposits and similar		
Deposits (interest rates 3.2% and 3.6%)	64,008,570	36,925,865
Total	**64,008,570**	**36,925,865**

24. CASH AND CASH EQUIVALENTS

	31/12/2011 HRK	31/12/2010 HRK
Balance on gyro accounts	14,989,149	5,512,226
Balance at accounts in foreign currency	21,733,626	55,129,627
Petty cash - HRK	23,527	81,548
Petty cash - foreign currencies	20,159	9,355
Deposits up to three months (interest rate 0.4%)	1,161,985	51,696,211
Total	**37,928,446**	**112,428,967**

25. PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses and accrued income in the amount of HRK 204,846 (HRK 584,907 as at 31 December 2010) relate to prepaid expenses for future periods.

26. SUBSCRIBED CAPITAL

Subscribed capital is determined in the nominal amount of HRK 76,684,800 (in the same amount as at 31 December 2010) and consists of 255,616 shares of a nominal value of HRK 300.

The ownership structure of the Company is as follows:

	31 December 2011		31 December 2010	
Shareholder	**Number of shares**	**Ownership %**	**Number of shares**	**Ownership %**
Končar - Electrical Industry Inc.	132,184	51.71	132,184	51.71
HPB d.d.	10,781	4.22	16,941	6.63
Knežević Nikola	10,358	4.05	10,358	4.05
Floričić Kristijan	9,916	3.88	9,916	3.88
Zagrebačka Bank d.d.	6,522	2.55	5,954	2.33
Berkopić Dražen	5,510	2.16	5,082	1.99
PBZ d.d.	3,311	1.29	3,050	1.19
Other	77,034	30.14	72,131	28.22
Total	**255,616**	**100.00**	**255,616**	**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 2010 in the amount of HRK 37,118,065 has been distributed, as per the decisions of the Board of Directors, the Supervisory Board and the General Assembly, as follows:

	HRK
Legal reserves	1,855,903
Statutory reserves	21,157,271
Other reserves	—
Liability to pay out dividends	14,104,891
Total	**37,118,065**

27. PROVISIONS

	Servicing during warranty periods HRK	Legal court cases HRK	Retirement and jubilee rewards HRK	Total HRK
1 January 2010	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**
Additional provisions	14,955,642	—	—	14,955,642
Release of provisions	—	—	(58,912)	(58,912)
31 December 2011	**133,716,673**	—	**1,114,588**	**134,831,261**

28. LONG TERM LIABILITIES

	31/12/2011 HRK	31/12/2010 HRK
Liabilities towards banks and other financial institutions		
Raiffeisen bank Austria d.d., Zagreb - CBRD program	9,299,544	11,926,382
Less: Current portion	(3,576,748)	(3,507,760)
Total	**5,722,796**	**8,418,622**

Liabilities towards Raiffeisen bank Austria d.d., Zagreb relate to two loans from the CBRD 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 mortgage over the Company's equipment.

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 hall). 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 2011 are as follows:

	HRK
31 December 2010	**11,926,382**
Loan repayments	(2,814,381)
Foreign exchange gains/losses	187,543
	9,299,544
Less: Current portion	(3,576,748)
31 December 2011	**5,722,796**

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

	HRK
From 1 to 2 years	2,861,398
From 2 to 3 years	2,861,398
From 3 to 4 years	—
From 4 to 5 years	—
Total	**5,722,796**

Unused funds from loans granted

On 4 October 2011 the Company signed the Loan agreement with Raiffeisenbank Austria d.d. on the amount of EUR 5,999 thousand. Until the reporting date the Company has not used any funds on the basis of this agreement.

29. CURRENT LIABILITIES TOWARD RELATED PARTIES

	31/12/2011 HRK	31/12/2010 HRK
Končar - Electronics and Informatics Inc, Zagreb	1,304,684	137,904
Končar - Instrument Transformers Inc, Zagreb	674,828	66,162
Končar - Infrastructure and Services Ltd, Zagreb	612,302	1,387,649
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	447,503	—
Končar - Electrical Industry Inc, Zagreb	445,925	473,608
Končar - Institute for Electrical Engineering Inc., Zagreb	427,403	380,532
Kones AG, Zürich, Switzerland	351,199	291,104
Končar - Small Electrical Machines Inc, Zagreb	85,318	115,940
Končar - Switchgear Inc, Sesvetski Kraljevac	21,341	88,400
Končar - Generators and Motors Inc, Zagreb	—	153,312
Končar - Tools Inc, Zagreb	—	17,259
	4,370,503	**3,111,870**
Končar - Power Transformers Ltd, Zagreb	19,901	—
Total	**4,390,404**	**3,111,870**

As at 31 December 2011 the ageing structure of liabilities to related parties liabilities was as follows:

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 356 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**4.390.404**	4.236.435	153.969	—	—	—	—
2010	**3.111.870**	2.216.884	894.986	—	—	—	—

30. CURRENT LIABILITIES TOWARD BANKS AND OTHER FINANCIAL INSTITUTIONS

	Notes	31/12/2011 HRK	31/12/2010 HRK
Current portion	28	3,576,748	3,507,760
Total		**3,576,748**	**3,507,760**

Changes in liabilities towards banks and other financial institutions during 2011 are as follows:

	HRK
As at 31 December 2010	**3,507,760**
Loan repayment	(3,507,760)
Plus: Current portion of long-term loans	3,576,748
As at 31 December 2011	**3,576,748**

31. CURRENT TRADE ACCOUNTS PAYABLE

	31/12/2011 HRK	31/12/2010 HRK
Domestic suppliers	31,137,585	18,138,559
Foreign suppliers	32,952,573	31,950,408
Total	**64,090,158**	**50,088,967**

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

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 356 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2011	**64,090,158**	57,751,924	6,338,234	—	—	—	—
2010	**50,088,967**	46,309,223	3,779,744	—	—	—	—

32. LIABILITIES FOR ADVANCE PAYMENTS RECEIVED

	31/12/2011 HRK	31/12/2010 HRK
Liabilities for advance payments received		
From domestic customers	1,450,000	398,000
From foreign customers	29,110,407	80,684,508
Related parties		
Kones AG, Zürich, Switzerland	—	21,941
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	260,016	566,517
Total	**30,820,423**	**81,670,966**

33. OTHER CURRENT LIABILITIES

	31/12/2011 HRK	31/12/2010 HRK
Liabilities toward employees		
Liabilities for salaries	4,629,218	4,297,043
	4,629,218	***4,297,043***
Liabilities for taxes and contributions and similar		
Liabilities for taxes and contributions	5,713,200	5,176,765
Liabilities for value added tax	87,683	18,569
Other liabilities toward the State	1,008	2,665
Corporate income tax liability	1,655,288	—
	7,457,179	***5,197,999***
Other liabilities		
Liabilities for sick leave and similar	54,244	68,999
Liabilities for interest	95,229	122,720
Other liabilities	33,028	—
	182,501	***191,719***
Liabilities for dividends	***105,745***	***19,999***
Total	**12,374,643**	**9,706,760**

34. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and deferred income in the amount of HRK 6,069,190 (HRK 15,310,220 at 31 December 2010) 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.

	31/12/2011 HRK	31/12/2010 HRK
Accrued expenses		
Accrued expenses	5,743,344	7,021,314
Accrued corporate income tax liability	325,846	568,012
	6,069,190	***7,589,326***
Deferred income from related companies		
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	—	7,720,894
	—	**7,720,894**
Total	**6,069,190**	**15,310,220**

35. CONTRACTUAL LIABILITIES

Contractual liabilities of the Company for unfinished projects as of 31 December 2011 amount to HRK 461 million (HRK 441 million at 31 December 2010).

36. OFF-BALANCE SHEET ITEMS

The Company had at 31 December 2011 the following items in its off-balance sheet:

	31/12/2011 HRK	31/12/2010 HRK
Guarantees		
- in HRK	10,125,000	10,469,517
- in foreign currencies	94,985,808	68,325,438
Total	**105,110,808**	**78,794,955**

37. TRANSACTIONS WITH RELATED PARTIES

During 2011 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:

2011

Name		Operating activities		
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000
Končar - Electrical Industry Inc.	—	446	—	4,817
Končar -Infrastructure and Sevices Ltd,	—	612	84	2,041
Končar - Institute for Electrical Engineering Inc,	109	427	126	1,599
Končar - Electronics and Informatics Inc,	48	1,305	903	2,636
Končar - Small Electrical Machines Inc,	—	85	157	1,495
Končar - Generators and Motors Inc,	—	—	3	—
Končar - Instrument Transformers Inc,	11	675	180	3,694
Končar - Power Transformers Ltd,	—	20	290	93
Končar - Medium Voltage Apparatus Inc,	—	—	18	2
Končar - Electric Vehicles Inc,	414	—	404	—
Končar - Switchgear Inc,	1,285	21	2,609	1,261
Končar - Low Woltage Switchers and Circuit Breakers Ltd,	—	—	4	96
Končar - Tools Inc,	—	—	—	188
Končar - Engineering for Plant Installation Inc,	2,326	—	1,975	97
Končar - Power Plant and Electric Traction Engineering Inc,	10,255	708	23,362	2,264
Končar - Metal Structures Inc,	—	—	—	—
Kones AG, Zürich, Switzerland	—	351	9,486	918
Total	**14,448**	**4,650**	**39,601**	**21,201**

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 - Electrical Industry Inc.	—	474	—	4,751
Končar -Infrastructure and Sevices Ltd.	—	1,388	267	1,618
Končar - Institute for Electrical Engineering Inc.	—	381	17	1,825
Končar - Electronics and Informatics Inc.	61	138	118	904
Končar - Small Electrical Machines Inc.	—	116	—	794
Končar - Generators and Motors Inc.	—	153	—	286
Končar - Instrument Transformers Inc.	8	66	248	2,979
Končar - Power Transformers Ltd.	16	—	1,341	205
Končar - Medium Voltage Apparatus Inc.	—	—	5	—
Končar - Electric Vehicles Inc.	3,131	—	3,194	5
Končar - Switchgear Inc.	454	88	1,187	1,715
Končar - Low Woltage Switchers and Circuit Breakers Ltd.	—	—	—	78
Končar - Tools Inc.	—	17	—	134
Končar - Engineering for Plant Installation Inc.	179	—	152	57
Končar - Power Plant and Electric Traction Engineering Inc.	612	567	12,853	—
Končar - Metal Structures Inc.	—	—	—	5
Kones AG, Zürich, Switzerland	—	313	22,455	1,557
Total	**4,461**	**3,701**	**41,837**	**16,913**

38. FINANCIAL INSTRUMENTS

In this note the following information will be disclosed:
A) The significance of financial instruments for the financial position and performance of the Company, and
B) The types and the nature of risks arising from financial instruments to which the Company is exposed at the end of the reporting period, and the method used by the Company in order to manage those risks

A) The significance of financial instruments for the Company's financial position and its performance

The significance of financial instruments for the financial position and performance of the Company is presented in the following table:

31/12/2011	Loans and receivables HRK'000	Fair value through P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	Assets under IAS 39 HRK'000
Financial assets available for sale	—	—	39	—	**39**
Trade and other current receivables	116,293	—	—	—	**116,293**
Trade receivables from related parties	14,143	—	—	—	**14,143**
Deposits	—	—	—	64,009	**64,009**
Cash and cash equivalents	37,928	—	—	—	**37,928**
Total	**168,364**	—	**39**	**64,009**	**232,412**

31/12/2010	Loans and receivables HRK'000	Fair value through P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	Assets under IAS 39 HRK'000
Financial assets available for sale	—	—	39	—	**39**
Trade and other current receivables	99,074	—	—	—	**99,074**
Trade receivables from related parties	4,461	—	—	—	**4,461**
Deposits	—	—	—	36,926	**36,926**
Cash and cash equivalents	112,429	—	—	—	**112,429**
Total	**215,964**	—	**39**	**36,926**	**252,929**

All of the Company's liabilities have been classified as "At amortised cost",

	31/12/2011 HRK	31/12/2010 HRK
Debt (interest bearing)	**9,299,544**	**11,926,382**
Long-term loans	5,722,796	8,418,622
Short-term loans (including the current portion of long-term loans)	3,576,748	3,507,760
Less: Cash and cash equivalents	**(37,928,446)**	**(112,428,967)**
Net debt	—	—

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities approximates to carrying amounts of the Company's assets and liabilities.

Investments in equity instruments

Of all financial assets of the Company, only shares in Zagrebačka Bank d.d. are listed on the active market. The carrying value of these shares amounts to HRK 39,000 and the fair value (according to the closing price at the Zagreb Stock Exchange) amounts to HRK 95,874.

Other investments in equity instruments (shares in Elkakon d.o.o., Ferokotao d.o.o. and Novi Feromont d.o.o.) are investments not listed on the active market, therefore those investments are measured at the cost under IAS 39 since the fair value of those instruments cannot be measured reliably.

Apart from investments in equity instruments, the Company has used the following methods and assumptions in evaluation of the fair value of the financial instruments:

Receivables and deposits at banks

For assets due within three months, the carrying 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 carrying value due to the short-term nature of these instruments. The Management Board believes that their fair value doesn't differ significantly from their carrying 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 carrying value of receivables and liabilities, including provisions that are in line with the usual terms of business, is approximately equal to their fair value.

B) Risks arising from financial instruments

The Company's operations are exposed to the following financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risk includes currency risk, interest rate risk and other price risk.

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

a) Foreign currency risk management

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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 the currency risk as at the balance sheet date is as follows (expressed in thousands of HRK):

31/12/2011	EUR	USD	SEK	CZK	CHF	GBP	Total foreign currencies	HRK	Total
Trade receivables	59,042	1,151	1,974	—	229	—	62,396	49,153	111,549
Other receivables	324	—	—	—	—	—	324	18,563	18,887
Advances given	5,789	11	—	—	—	—	5,800	4,659	10,459
Cash and cash equivalents	19,773	1,229	486	1,162	264	1	22,915	15,013	37,928
Deposits made	64,009	—	—	—	—	—	64,009	—	64,009
Total assets	**148,937**	**2,391**	**2,460**	**1,162**	**493**	**1**	**155,444**	**87,388**	**242,832**
Trade payables and other liabilities	32,514	29	646	—	114		33,303	47,552	80,855
Advances received	26,848	681	1,539	—	42	—	29,110	1,710	30,820
Financial liabilities	9,300	—	—	—	—	—	9,300	—	9,300
Total liabilities	**68,662**	**710**	**2,185**	—	**156**	—	**71,713**	**49,262**	**120,975**

31/12/2010	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 made	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**

	Short-term exposure						Long-term exposure
	EUR HRK	USD HRK	SEK HRK	CZK HRK	CHF HRK	GBP HRK	EUR HRK
31/12/2011							
Financial assets	84,928	2,391	2,460	1,162	493	1	64,008
Financial liabilities	(62,939)	(710)	(2,185)	—	(156)	—	(5,723)
Total exposure	**21,989**	**1,681**	**275**	**1,162**	**337**	**1**	**57,285**
31/12/2010							
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**

Sensitivity analysis

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

	2011 % Change	2010 % Change	2011 Effect on income before taxes HRK'000	2010 Effect on income before taxes HRK'000
EUR	2%	1%	1.579	698
USD	5%	9%	76	(65)
SEK	3%	16%	8	623
CZK	4%	21%	2	—
CHF	—	5%	15	—
GBP	4%	7%	—	2

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

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

b) Interest rate risk

The 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) Other price risks

The Company is not exposed to other price risks of the financial instruments.

2. Credit risk

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

The most 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. From customers with low creditworthiness the Company requires common payment collateral, such as letters of credit, bank collateral, mortgages, debentures, etc. 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.

3. Liquidity risk

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

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

	Carrying value HRK	Contracted cash flows HRK	Less than 1 month HRK	1 - 3 months HRK	3 - 12 months HRK	1 - 5 months HRK
31 December 2011						
Liabilities						
Current advances received	30,820	30,820	3,125	8,653	19,042	—
Current liabilities to related parties	4,390	4,390	1,323	3,067	—	—
Current trade accounts payable	64,090	64,090	23,516	40,303	271	—
Other current liabilities	12,375	12,375	6,153	6,222	—	—
Long-term loan liabilities	5,723	6,323	—	—	—	6,323
Short-term loan liabilities	3,577	3,777	295	892	2,590	—
Total liabilities	**120,975**	**121,775**	**34,412**	**59,137**	**21,903**	**6,323**

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	Manje od 1month HRK	1 - 3 month HRK	3 - 12 month HRK	1 - 5 month 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	—
Long-term loan liabilities	8,419	9,219	—	—	—	9,219
Short-term loan liabilities	3,508	3,908	702	—	3,206	—
Total liabilities	**156,506**	**157,706**	**50,022**	**60,868**	**37,597**	**9,219**

39. SUBSEQUENT EVENTS

After the reporting 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 2011 and that should, consequently, be disclosed.

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 9 March 2012.

Ivan Klapan

President of the Management Board

Končar – Distribution and Special
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