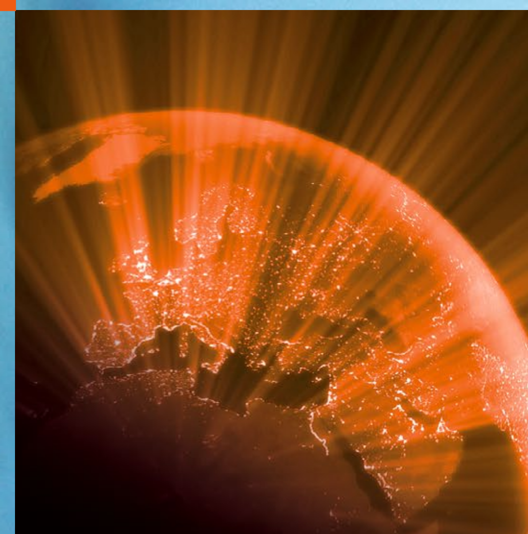


KONČAR D&ST

Annual Report 2012

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

ANNUAL REPORT
2012

KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.

Contents

I.

MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2012

Detail of the Trakoscan castle in northern Croatia that dates back to the 13. century

1. Introductory word by the Management Board

2012 - YEAR OF COMPLETION OF A MAJOR INVESTMENT FOR A STRATEGIC STEP FORWARD

Despite the recession and difficult operating conditions, Končar D&ST continued its sequence of successful operating years in 2012. Total sales of goods and services in 2012 amounted to HRK 680 mil. (compared to HRK 673 mil. in 2011), which represents the annual growth of 1%. Export operations at HRK 509 mil. (HRK 520 mil. in 2011) represented 75% sales.

Gross profits in 2012 were HRK 35.6 mil. (net profits: HRK 33.3 mil.), which was by 4% lower than in 2011, when they amounted to HRK 37.0 mil. (net profits: HRK 33.7 mil.).

Total sum of contracts at the end of 2012 was HRK 512 mil., which was by 11% higher than at the end of 2011, when it was HRK 461 mil.

For the most part, the construction works, supply and installation of the equipment related to the investment for the strategic step forward from 63 MVA to 100 MVA medium range power transformers under the operating title High Voltage (HV) Laboratory have been completed. The final certificate for the use for the main facility was obtained in December, and the facility was then equipped and placed in operation. The investment in the project and for the purchase of new production, testing and IT equipment in 2012 was in the amount of HRK 86.2 mil. (in 2011, the investment was HRK 33.7 mil.).

In the course of 2012, the sales sector strengthening continued through the management organisation on both sector and department level. Several candidates have been selected for the future sales personnel and the introduction of special software for the support to the estimation and quotation processes has started.

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

In 2012, the ordinary and preferred shares of Končar D&ST at the Zagreb Stock Exchange were listed on the regular market. At the start of the year, price of Končar D&ST ordinary share was approximately HRK 1,035 and the price at the end of the year was HRK 965.

Considering the circumstances in the environment and the parallel major investment in progress, when looking at the overall results of Končar D&ST in 2012, we find our operations successful and the company well prepared for the further development. Management Board of Končar D&ST would like to thank our shareholders, employees, partners and banks for their support and trust. Harmony of our common interest and the coordination of activities have been of major importance for our operating results, which we proudly present in this Report for the year 2012.

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

Ivan Klapan
President of the Management Board

2. Major 2012 figures and their comparison with 2011, 2010 and 2009

	INDEX 2012./2011.
Net profit	98.9
Sales	101.0
Exports	97.8
Balance of orders at year's end	111.1

	HRK ('000)				EUR ('000)		INDEX
	2012	2011	2010	2009	2012	2011	12/11
Sales							
Croatia	171,332	152,738	126,137	120,396	22,792	20,545	112.2
Exports	508,791	520,333	563,544	501,237	67,682	69,992	97.8
Total	680,123	673,071	689,681	621,633	90,474	90,537	101.0
Balance of orders at the year's end							
Croatia	65,017	36,173	49,639	61,181	8,649	4,866	179.7
Exports	447,013	424,533	391,313	431,320	59,465	57,105	105.3
Total	512,030	460,706	440,952	492,501	68,114	61,971	111.1
Annual sales per employee	1,553	1,606	1,720	1,627	207	216	96.7
Investments	86,150	33,258	8,192	12,150	11,460	4,474	259.0
Net profit	33,291	33,652	37,118	32,811	4,429	4,527	98.9
Dividend HRK/share							
Ordinary	*	52.66	55.18**	102.69			
Preferred	*	52.66	55.18**	102.69			
Net profit/sales in %	4.9%	5.0%	5.4%	5.3%			
Net earning per total equity	20.1%	23.0%	29.9%	31.1%			
Total equity and reserves as at 31/12	198,738	179,750	161,171	138,147	26,437	24,179	110.6
No. of employees							
Average	438	419	401	382			104.5
as at 31/12	447	428	403	389			104.4

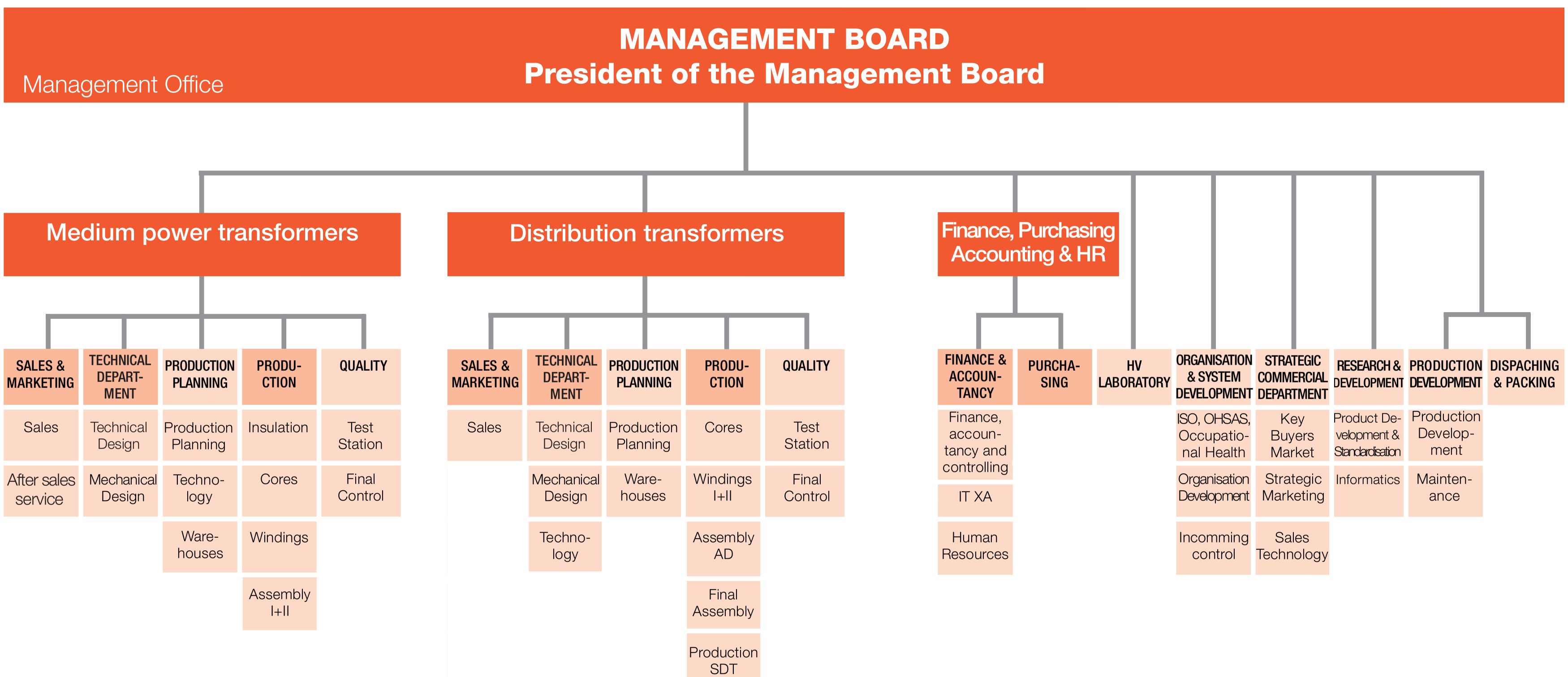
Note: Average exchange rate 2009. EUR 1 = 7,3396 HRK 2010. EUR 1 = 7,2862 HRK
2011. EUR 1 = 7,4342 HRK 2012. EUR 1 = 7,5173 HRK

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

3. Organisation Scheme in 2012

Supervisory Board
Darinko Bago, president
Miroslav Poljak, vice-president
Jozo Miloloža, member
Davor Mladina, member
Josipa Šutalo, member

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



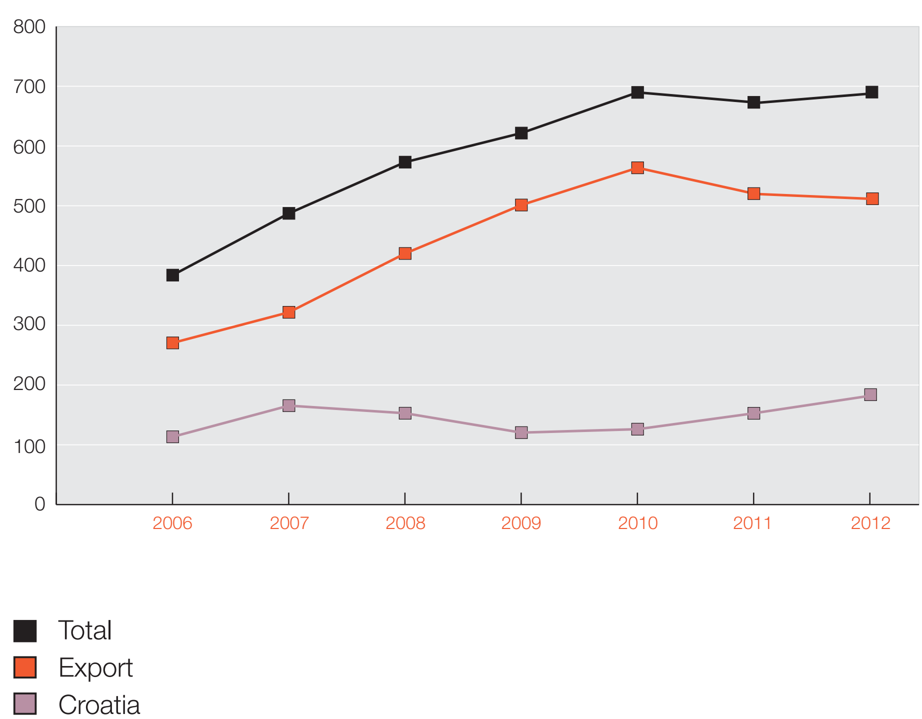
4. General position of the Company

The construction of the new High Voltage Laboratory with the production, storage and office premises significantly increased the overall potentials of the company, particularly with the option of participating in the segment of 63 to 100 MVA and 170 kV medium range power transformers.

By prioritizing the sales and development activities and by the recruitment and systematic introduction of young experts, motivation of employees, investments in the product development and production update, as well as by adjustment of the organisation to the new size and position of the company, we have successfully responded to the requirements of the complex market conditions.

Very good operating results in the several recent fiscal years have financially strengthened the company. The major capital investment founded from our long-term assets has made possible the appropriate financial stability for the company and a good basis for the further development of our operations.

SALES TRENDS (HRK mil.)



5. Corporate organisation and management in 2012

In the course of 2012, 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 2012 were organized through Distribution Transformers (DT) Profit Centre and Medium Range Power Transformers (MPT) Profit Centre, managed by their management of directors (Profit Centre Director and Deputy Director and Directors of Sales, Engineering and Production of Profit Centres) with common 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 2012, the Company has been operating at a single location, at the address: Josipa Mokrovića 8, 10090 Zagreb. In 2012, for the purpose of conducting of the works on the transport and assembly of medium range power transformers in Morocco, the branch office in Casablanca, Morocco, under the name Koncar D&ST Succursale Maroc has been established.

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 2012 and 2011 respectively are published in this report. Preferred shares do not provide votes.

7. Market position and sales by countries and product groups

In 2012, the strong impact of the global crisis on the investments in energy sector continued on most markets, including power distribution. The market position is additionally jeopardized by the fact that the transformer production capacities are currently exceeding the demand causing *inter alia* a fall in the market prices. The USD/EUR rate is still unstable and at such level that it is making the sales by European manufacturers difficult.

Sales of goods and services have increased by 1% compared to the preceding year and reached HRK 680 mil. and according to product groups, compared to the preceding year, the status is the following:

- Distribution transformers: 10% fall;
- Medium range power transformers: 5% growth;
- Dry and small special transformers: 88% growth;
- Other goods and services: 6% growth.

Total production was 10% more MVA and 7.4% more tons than in 2011, which also shows the trend of market price lowering.

Sales by principal markets were as follows:

Croatia: in 2012, HRK 171 mil. or 12% more than in 2011 (HRK 153 mil.).

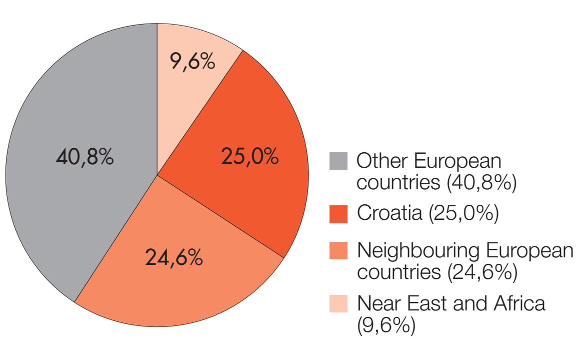
Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Czech Republic, Slovakia, Hungary, Kosovo, Romania, Albania, Serbia - HRK 167 mil. sales in 2012, which is by 61% growth from HRK 104 mil. in 2011.

Other European countries: Sweden, Switzerland, Germany, Finland, Island, France, United Kingdom, Poland, Russia, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Italy, Norway - HRK 277 mil. sales in 2012, which is 1% less than in 2011 (HRK 283 mil.).

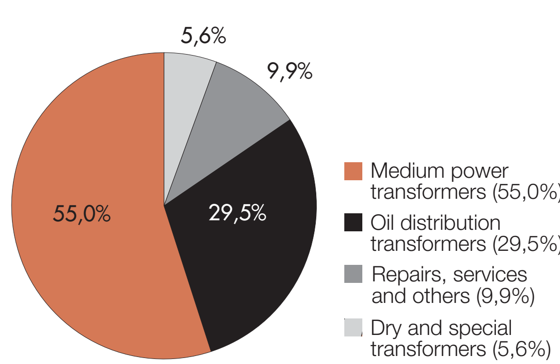
Gulf countries, Near East, Africa and America: HRK 65 mil. deliveries in 2012, or 51% reduction from HRK 133 mil. in 2011.

Sales activities in 2012 have led to total new contracts of HRK 738 mil. or 8% more than in 2011. Balance of contracts at the year's end was HRK 512 mil. or 11% more than at the end of 2011.

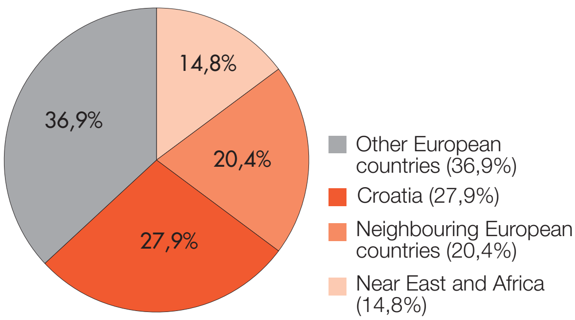
SALES STRUCTURE PER MARKETS



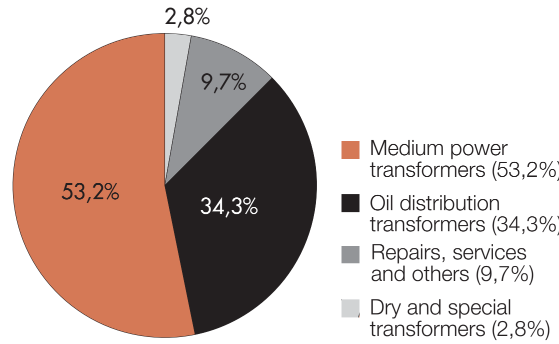
SALES STRUCTURE PER PRODUCTS



NEW CONTRACTS PER MARKETS



STRUCTURE OF NEW CONTRACTS PER PRODUCTS



8. Financial position (Balance Sheet)

Corporate assets as at 31 December 2012 were HRK 517.3 mil., which was by HRK 75.7 million or 17% more than in 2011.

The operations in 2012 led to significant changes in the structure of assets. The fixed assets have grown by HRK 72.4 million or 83% and on the last day of 2012, their value was HRK 159.4 million or 30% of total assets (a year before, the share of fixed assets was 20%). Such significant growth of fixed assets was the result of investment activities related to the High Voltage Laboratory Project - construction and furnishing of a laboratory for the testing of mid-range power transformers with the additional production, storage and office premises. The effect of the investment in the Balance Sheet was HRK 98.6 million in “Fixed tangible assets in preparation”, and the start of their use is planned for the first half of 2013.

In addition to the fixed assets, the stocks have also grown by 24.3 mil. and at the end of 2012, they amount to 143.2 million and form almost 30% of overall assets.

Short-term receivables, primarily those from customers, have grown by 47.8% to 192.8 million and they form 37% of assets. Such significant growth of receivables is a result of the unbalanced deliveries, which were characteristic of the entire year, with exceptionally high deliveries in the end of the year.

The most liquid part of the assets, cash and deposits, as the result of the mentioned investment cycle and intensified funding of stocks aimed at the balancing and adjustment of the production cycle to end customer deliveries, have been reduced and on the last day of the year, they amount to HRK 15.7 million, which represents a fall of 86.3 million compared to the year before. Despite that, all liquidity ratios are very good (current liquidity ratio 3.2, accelerated liquidity ratio: 1.9).

As for liabilities, due to the policy of retention of the major part of the profit in the reserves, equity and reserves have grown by HRK 19 million, and they amount to 198.7 million or 38% of total funds. The finance plan for the High Voltage Laboratory Project in 2012 was completed by withdrawal of EUR 6 million of the approved loan from the Croatian Bank from the Croatian Bank for Reconstruction and Development (HBOR) program of incentives for development of economic activities through Raiffeisenbank Austria d.d. with the repayment schedule of 10 years. Jointly with another loan from the HBOR program of EUR 2 million, through SG Splitska banka d.d., long-term loans at the end of 2012 amount to HRK 57.7 million. Long-term funding sources jointly amount of HRK 396.4 million and form more than three fourths of the total liabilities and by 2.5 times exceed the fixed assets, which is one of the important factors of financial stability.

Short-term liabilities amount to HRK 112.7 million, which is approximately the same as on the last day of the preceding year.

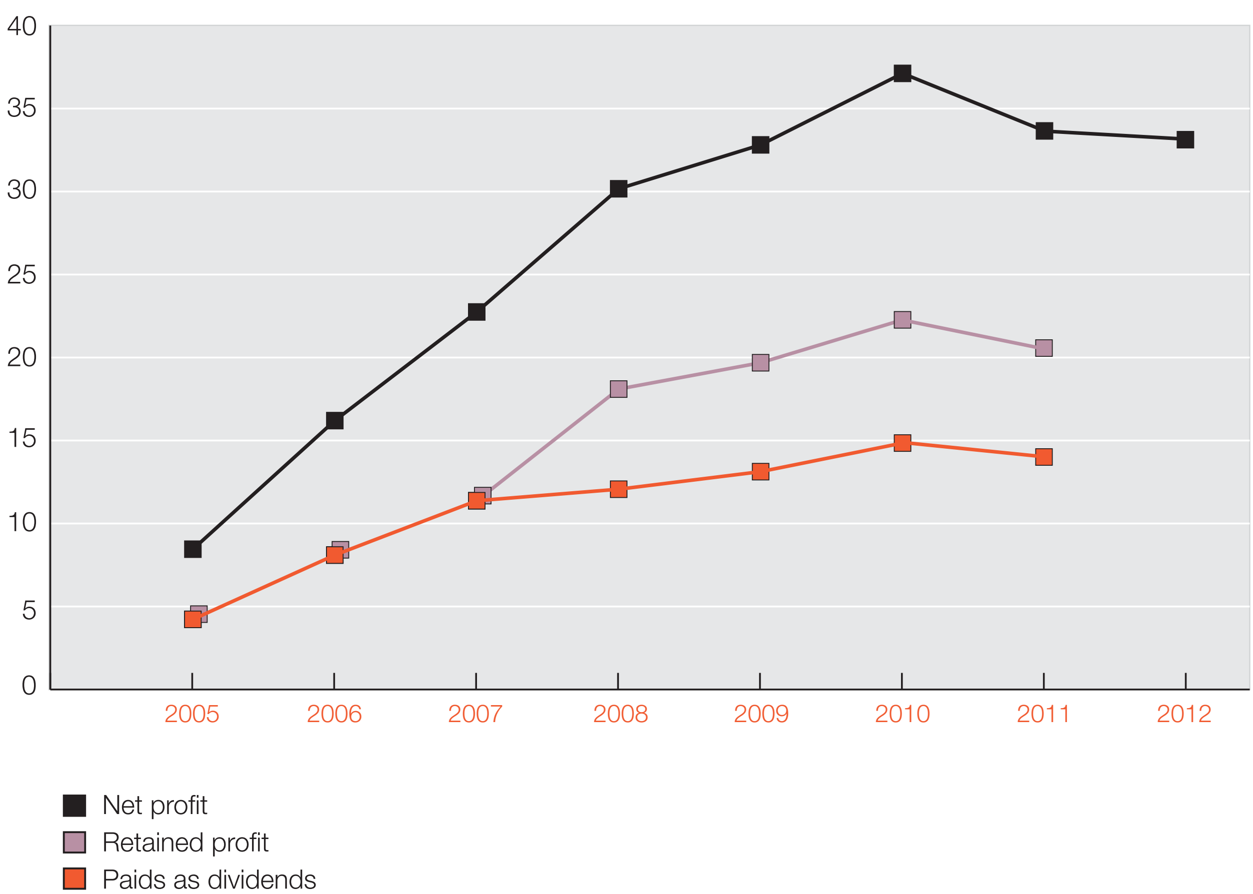
9. Operating results (Profit & Loss Statement) and share price trends

In 2012, Končar D&ST made HRK 689.1 million operating income, which is by 2.1% higher than in the preceding year. In the structure of total income, the operating income forms the majority of 98.6%.

Out of that sum, the sales of transformers on international markets (exports) brought HRK 508.8 million or 73.8% of operating income. Sales on domestic market brought HRK 171.3 million or 24.9%. The remaining 9 million mostly refers to the acquisition of the real property in Zagreb, obtained in a bankruptcy procedure through a preferential claim.

Costs of raw materials and consumables are the most significant individual cost. At HRK 457.8 million, they form 64% share in the operating income adjusted by the growth of the works in progress and stocks of finished products. Depreciation cost has been reduced by somewhat less than half compared to the preceding year and in 2012, it amounts to HRK 8.2 million. The reduction is a result of a change in the accounting policy whereby in 2012, depreciation rates for the most items of fixed assets were reduced from the former double rates as set out in the Corporate Income Tax Act to the normal rates, according to the revised estimate of the useful lifecycle. Other costs mostly follow the income growth or they

NET PROFIT THROUGH YEARS (HRK mil.)



are on similar levels as in the preceding year. Income from financial activities was HRK 10 million, with the positive result of HRK 650 thousand was made.

Gross profits in 2012 were HRK 35,645 thousand, yielding gross profit margin of 5.1% and mild reduction of the ratio compared to the year before, when it was 5.39%.

Considering that the Company received incentives for the investment projects according to the Investment Incentives Act, corporate income tax for 2012 amounts to 7% and net profits to HRK 33,239 thousand.

At the Zagreb Stock Exchange, 19,460 stocks changed their owner in 2012. The price varied in the range from HRK 850 to HRK 1,150 per share. The last transaction with ordinary shares was concluded at HRK 965 and that with preferred shares at HRK 863.

According to the ordinary share price on the last day of 2012, P/E ratio was 7.5.

In the course of 2012, 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 - specifically 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.

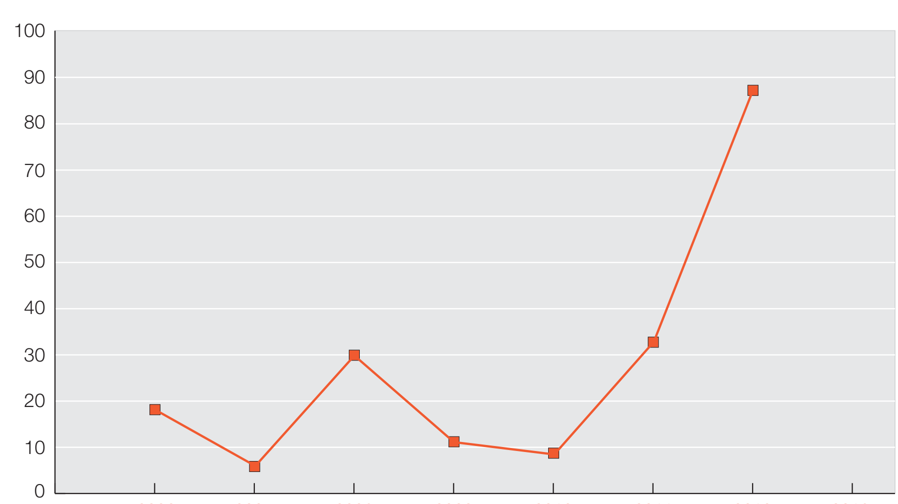
11. Investments and technology update

In December 2012, construction works were completed for the most part of the strategic project under the title “High Voltage Laboratory”, the equipment was supplied and installed, the project successfully passed the technical testing and obtained the use permit for the main facility. Thereby the operation and use of the new HV Laboratory, new office and production premises and warehouse in total area of approximately 4900 m^2 was started.

Among other investments, the most significant were those in IT and logistic equipment, new coiler and core stacking device up to 15 tons for mid-range power transformers and an outdoor 80 ton portal crane on the dispatch plateau. New line for the cross cutting of transformer sheets for cores of medium range power transformers up to 100 MVA has been contracted in October 2012 with the delivery term in the third quarter 2013.

The total value of investments in 2012 was HRK 86.2 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 2012, there were 22 graduated engineers, out of which 6 graduate engineers of electrical engineering, one MSc and one PhD in the field of electrical engineering, 13 graduated engineers of mechanical engineering, and one graduated engineer of chemistry.

In 2012, the Product Development Division started the work on the development of PRODIST software for design of distribution transformers, the main benefit of which is expected to be much faster preparation of bids and an electronic archives system. They also made new templates for the calculation of distribution transformer idle operation losses. For the Swiss market, we made a conceptual design of a distribution transformer with a reduced magnetic field in its environment. PRO2011 system for design and bidding of mid-range power transformers was upgraded to PRO2012 system. The new system shall include significantly improved graphics. New design solutions have been developed and tested, which make possible the use of cost-efficient tensile bars. The operations on the isolation system and ODAF system of cooling mid-range power transformers were continued.

In the Production Development Division in 2012, we audited the coil stabilisation process and the process of cooling of mid-range power transformers. In the course of the year, new equipment in the core cutting and stacking processes was selected and placed in operation, as well as in the processes of assembly and drying of distribution and mid-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. Our cooperation with Končar Institute for Electrical Engineering, Faculty of Electrical Engineering and Computing and Faculty of Mechanical Engineering and Naval Architecture has also continued. 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 (Transformers Conference in Cavtat, CIRED in Sv. Martin na Muri, CIGRÉ in Paris, smart grid IntelliSub Europe in Frankfurt) 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 complied 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.

Our intensive efforts have resulted in 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. The continuous implementation of preventive strategies of environment protection on production processes, products and services has led to an increased efficacy and reduction of risk for humans and environment.

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

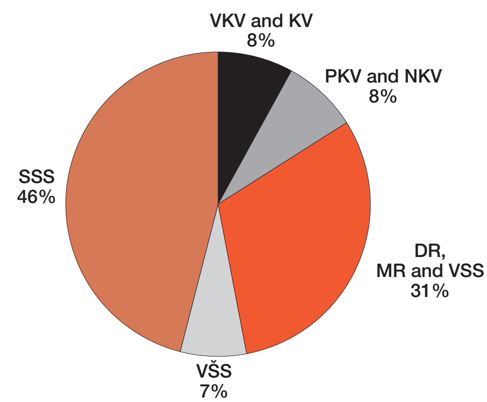
14. Human Resources

At the beginning of 2012, there were 428 employees at Končar D&ST. By the end of the year, 27 new employees were hired and 8 employees left. The year ended with 447 employees. At the hiring, we continued taking care on rejuvenation and most of the newly hired employees in 2012 are of young age. The average age of our employees has remained at 40.

Our permanent personnel training has continued, including university studies, various specialist seminars, residential learning of foreign languages and IT training.

EMPLOYEE EDUCATION STRUCTURE AT THE END OF THE YEAR:

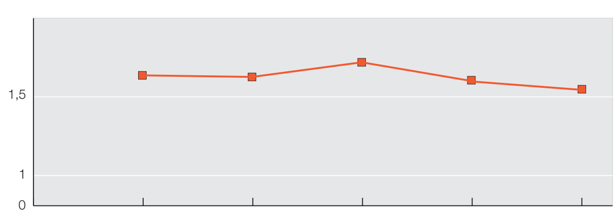
Level of education	Years of education	2011.	2012.
University degrees (DR, MR, VSS)	16+	132	139
College (VŠS)	14-15	32	33
Secondary school (SSS)	12	195	203
Qualified workers schools (VKV, KV)	11-12	37	36
Primary school + training on the job (PKV)	8	32	36
Total		428	447



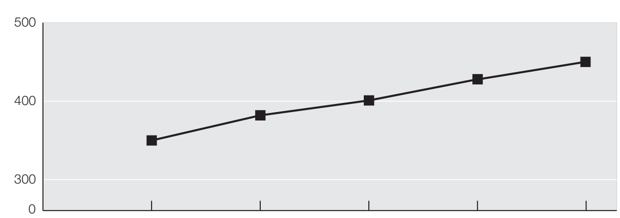
Productivity measured by sales per employee in 2012 was HRK 1.55 mil.

Among special projects, we may emphasize the strengthening of the sales department in 2012. New managers were appointed and special attention was paid to their training and adoption of new sales skills.

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.

Our commitment to quality and sustainable development, recognizing our target customers' requirements and their fulfilment to the best of our ability, technical and organisational development, training and incentives for our employees to achieve excellence, and teamwork development, that is the way in which Končar D&ST will continue to ensure its rising among the leading European producers of distribution, special and medium range power transformers.

Final remark: From the end of the year 2012 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 2012 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 2012 have been prepared in compliance with the Croatian Accounting Act (Official Journal NN 109/07) and the International Financial Reporting Standards (IFRS) (Official Journal NN 140/06, 30/08, 130/08, 137/08), and provide a comprehensive and true presentation of assets and liabilities, profit and loss, financial position and operations of the Company.

- Management Report truly presents the development and results of operations and position of the Company and describes most significant risks and contingencies which the Company is exposed to.

Zagreb, 27 February 2013

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 12 March 2013, Supervisory Board and Management Board have adopted the following

DECISION
ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS
FOR 2012

Supervisory Board and Management Board of Končar D&ST d.d. have jointly adopted the Annual Financial Statements for 2012.

Explanation

Supervisory Board and Management Board of Končar D&ST d.d. have jointly adopted the Annual Financial Statements for 2012 as follows:

Total income	HRK 699,210,841
Total expenses	HRK 663,566,209
Profits before taxation	HRK 35,644,632
Corporate income tax	HRK 2,353,472
Profits after taxation	HRK 33,291,160
Total assets / liabilities	HRK 517,284,054

Zagreb, 12 March 2013

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 12 March 2013, Supervisory Board and Management Board adopted the following

DECISION
ON ALLOCATION OF PROFITS FOR 2012

1. Profits after taxation (net profits) for 2012 amount to HRK 33,291,160.03.

2. Management Board and Supervisory Board have allocated a sum of HRK 19,973,566.43 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 52.10 per share, which totals HRK 13,317,593.60 in respect of 255,616 shares.

The dividends shall be paid to the shareholders registered in the depository of the Central Depository & Clearing Company Inc. (CDCC) 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, 12 March 2013

Darinko Bago	Ivan Klapan
President of the Supervisory Board	President of the Management Board

III.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES


New Head Office


New High Voltage Laboratory

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 Board

KONČAR
Distributivni i specijalni transformatori d.d.
Zagreb

Končar - Distribution and Special Transformers Inc.
Josipa Mokrovića 8, 10 090 Zagreb
27 February 2013

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 2012, 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 44.

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 present fairly, in all material respects, the Company's financial position as of 31 December 2012 and the results of its operations and its cash flows 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.
Ivana Lučića 2a, 10000 Zagreb
Ivica Smiljan, certified auditor, President of the Board
Zagreb, 27 February 2013

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, Board member

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

Statement of comprehensive income

31 December 2012

	Notes	2012 in HRK	2011 in HRK
Sales	3	680,123,230	673,071,461
Other operating income	4	9,010,694	2,061,331
Operating revenues		**689,133,924**	**675,132,792**
Changes in inventories (work in progress and finished goods)		26,940,559	(25,532,776)
Cost of materials and energy	5	(457,840,873)	(383,893,796)
Cost of goods sold		(45,507,450)	(40,440,693)
Cost of services	6	(49,215,608)	(48,753,928)
Personnel costs	7	(94,059,406)	(90,737,678)
Depreciation and amortization	8	(8,172,824)	(15,631,415)
Other costs	9	(17,385,333)	(16,160,934)
Value adjustment of current assets	10	—	(4,748,626)
Provisions	11	(5,189,625)	(14,955,642)
Other operating expenses	12	(3,708,338)	(2,236,577)
Operating expenses		**(654,138,898)**	**(643,092,065)**
Operating profit		**34,995,026**	**32,040,727**
Financial income	13	10,076,917	11,747,539
Financial expenses	14	(9,427,311)	(6,768,482)
Financial result		**649,606**	**4,979,057**
Total revenues		**699,210,841**	**686,880,331**
Total expenses		**(663,566,209)**	**(649,860,547)**
Profit before taxation		**35,644,632**	**37,019,784**
Corporate income tax	15	(2,353,472)	(3,367,801)
PROFIT FOR THE YEAR		**33,291,160**	**33,651,983**
Earnings per share	16	130,24	131,65
Other comprehensive income		—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**33,291,160**	**33,651,983**

Notes are an integral part of the Statement of comprehensive income

Statement of financial position

31 December 2012

	Notes	31/12/2012 HRK	31/12/2011 HRK
ASSETS			
Intangible assets	17	1,857,335	1,158,526
Property, plant and equipment	18	155,080,476	83,374,665
Investments in associates	19	1,732,458	1,732,458
Financial assets	19	730,316	730,316
Non-current assets		**159,400,585**	**86,995,965**
Inventories	20	143,237,044	122,051,272
Non-current assets held for sale	21	5,960,000	—
Receivables from related companies	22	14,801,699	14,448,070
Trade accounts receivable	23	162,361,333	97,101,243
Receivables for value added tax		15,412,096	18,323,816
Other receivables		174,824	563,166
Financial assets	24	—	64,008,570
Cash and cash equivalents	25	15,660,651	37,928,446
Current assets		**357,607,647**	**354,424,583**
Prepaid expenses and accrued income	26	**275,822**	**204,846**
TOTAL ASSETS		**517,284,054**	**441,625,394**
Off-balance sheet items	37	**94,749,530**	**105,110,808**

Statement of financial position - continued

	Notes	31/12/2012 HRK	31/12/2011 HRK
EQUITY AND LIABILITIES			
Subscribed capital	27	**76,684,800**	**76,684,800**
Legal reserves		3,839,641	3,839,641
Statutory reserves		73,089,487	52,898,242
Other reserves		11,833,228	12,675,105
Reserves from earnings		**88,762,356**	**69,412,988**
Profit for the year		**33,291,160**	**33,651,983**
EQUITY		**198,738,316**	**179,749,771**
Provisions for retirement and jubilee rewards and similar		1,463,380	1,114,588
Other provisions		138,557,506	133,716,673
Non-current provisions	28	**140,020,886**	**134,831,261**
Liabilities toward banks and other financial institutions		57,724,815	5,722,796
Non-current liabilities	29	**57,724,815**	**5,722,796**
Liabilities toward related companies	30	6,196,229	4,390,404
Liabilities toward banks and other financial institutions	31	8,346,736	3,576,748
Trade accounts payable	32	56,553,005	64,090,158
Liabilities for advance payments received	34	29,091,643	30,820,423
Other liabilities	34	12,380,324	12,374,643
Current liabilities		**112,567,937**	**115,252,376**
Accrued expenses and deferred income	35	**8,232,100**	**6,069,190**
TOTAL EQUITY AND LIABILITIES		**517,284,054**	**441,625,394**
Off-balance sheet items	37	**94,749,530**	**105,110,808**

Notes are an integral part of the Statement of financial position

Statement of cash flows

31 December 2012

	Notes	2012 in HRK	2011 in HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		660,755,017	619,473,240
Cash receipts from insurance compensations		232,392	58,221
Cash receipts from tax returns		113,752,447	79,193,737
Cash receipts from interests		63,489	136,173
Other cash receipts		2,019,480	2,660,434
Total cash receipts from operating activities		**776,822,825**	**701,521,805**
Cash payments to trade accounts payable		(599,079,868)	(502,163,563)
Cash payments to employees		(89,865,947)	(86,975,143)
Cash payments to insurance companies		(1,186,873)	(1,051,727)
Cash payments for interests		(1,117,819)	(457,237)
Cash payments for taxes		(88,405,630)	(65,129,717)
Other cash payments		(12,561,234)	(10,932,359)
Total cash payments for operating activities		**(792,217,371)**	**(666,709,746)**
Net cash flow from operating activities		**(15,394,546)**	**34,812,059**
Cash flow from investing activities			
Proceeds from disposal of non-current assets		538,330	238,327
Dividends received		1,739,648	1,848,958
Purchase of intangible and tangible assets		(117,111,489)	(33,619,353)
Net cash used in investing activities		**(114,833,511)**	**(31,532,068)**
Cash flow from financing activities			
Other proceeds from financial activities		192,673,038	128,124,317
Repayment of loans, debentures and other borrowings		(3,562,603)	(7,759,760)
Dividends paid		(13,483,871)	(14,134,363)
Other cash payments for financial activities		(67,666,302)	(184,010,706)
Net cash used in financing activities		**107,960,262**	**(77,780,512)**
Increase (decrease) in cash		**(22,267,795)**	**(74,500,521)**
Cash and cash equivalents at the beginning of the year	25	37,928,446	112,428,967
Cash and cash equivalents at the end of the year	25	**15,660,651**	**37,928,446**

Notes are an integral part of the Statement of cash flows

Statement of changes in equity

31 December 2012

	Subscribed capital HRK	Reserves from earnings HRK	Current year profit HRK	Total HRK
Balance at 1 January 2011	**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)**
Other decreases	—	(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**
Transactions with owners:				
Allocation of the profit for the year 2011	—	20,191,245	(20,191,245)	—
Dividends paid	—	—	(13,460,738)	**(13,460,738)**
Other decreases	—	(841,877)	—	**(841,877)**
Profit for the year	—	—	33,291,160	**33,291,160**
Total comprehensive income	—	—	33,291,160	**33,291,160**
Balance at 31 December 2012	**76,684,800**	**88,762,356**	**33,291,160**	**198,738,316**

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

Notes to the financial statements

31 December 2012

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 2012 the Company had 447 employees, while on 31 December 2011 the Company had 428 employees.

The employee structure is as follows:

	31/12/2012	31/12/2011
M.Sc., Ph.D.	10	10
University degrees	131	122
College	32	32
Secondary school	207	195
Qualified workers schools	37	37
Primary school + training on the job	30	32
Total	**447**	**428**

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

Members of the Management Board

Ivan Klapan, president
Josip Belamarić, member
Petar Vlaić, member
Ivan Sitar, member
Martina Mikulić, Board member's assistant
Vanja Burul, Board member's assistant

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 have been prepared using the historical cost convention except for any financial assets and liabilities stated at fair value.

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 functional and reporting currency of the Company. At 31 December 2012, the exchange rate for USD 1 and EUR 1 was HRK 5.73 and HRK 7.55, respectively (31 December 2011: HRK 5.82 and HRK 7.53 respectively).

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

The Company has applied for the year ended 31 December 2012 the following amendments 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 2012:

- IFRS 7 Financial instruments: Disclosures - Transfers of Financial Assets - amendments effective for annual periods beginning on or after 1 July 2011.

Standards, amendments and interpretations to existing standards which 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 2012:

- IFRS 1 First time adoption of IFRS - replacement of fixed dates for certain exceptions - effective for annual periods beginning on or after 1 July 2013,
- 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 2013,
- IAS 12 Income taxes (revised) - limited scope amendment effective for annual periods beginning on or after 1 January 2013,
- 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 2014,
- IFRS 11 Joint arrangements - new standard effective for annual periods beginning on or after 1 January 2014,
- IFRS 12 Disclosure of interests in other entities - new standard effective for annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 - Transition Guidance effective for the annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities effective for the annual periods beginning on or after 1 January 2014,
- IAS 27 and IAS 28 - consequential amendments due to above mentioned new consolidation standards - effective for annual periods beginning on or after 1 January 2014,
- 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 7 Financial instruments: Disclosures - offsetting Financial Asset and Financial Liabilities - amendments effective for annual periods beginning on or after 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,
- Amendments to IFRS 1 - Government Loans - effective for annual periods beginning on or after 1 January 2013,
- Annual Improvements to IFRSs 2009-2011 Cycle (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 - effective for annual periods beginning on or after 1 January 2011,
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for annual periods beginning on or after 1 January 2013.

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) Segment reporting
The Company's Management considers Company's business operations as one operating segment while only the sales revenues are considered as two operating segments: Medium power transformers and Distribution transformers as presented in Note 3.

e) 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.

f) 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.

g) 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.

In the year 2012 the Company's Management brought decision on the change of the depreciation rates (since the Company revised useful lives of assets and estimated that the depreciation rate should be adjusted based on experienced data), as follows:

	Depreciation rates (from - to %)	
	2012	2007-2011
Concessions, patents, licences, software etc.	25%	50%
Buildings	3% - 5%	6% - 10%
Plant and equipment	10% -25%	20% - 50%

The effect of changes in depreciation rates is the lower depreciation charge by the amount of HRK 7,798 thousand.

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.

h) 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.

i) 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 Company'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.

j) Investments in associates

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.

The Company does not present in addition financial statements in which the investment in associate is accounted for using the equity method since the Company's share in this company is not significant and does not have significant impact on the Company's financial statement and this associate is accounted for using the equity method in the consolidated financial statements of Končar group.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) 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.

q) 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.

r) 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.

s) Comparatives and reclassifications

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

3. SALES

	2012 in HRK	2011 in HRK
Domestic sales of goods	171,332,066	152,738,325
Foreign sales of goods	508,791,164	520,333,136
Total	**680,123,230**	**673,071,461**

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

Sales by operating segments in 2012:

	Medium power transformers HRK	Distribution transformers HRK	Total HRK
Sales to unrelated parties	352,111,538	281,480,931	633,592,469
Sales to related parties	33,341,497	13,189,264	46,530,761
Total	**385,453,035**	**294,670,195**	**680,123,230**

4. OTHER OPERATING INCOME

	Notes	2012 in HRK	2011 in HRK
Collection of previously impaired receivables		5,998,311	—
Income from the inventory value adjustments		2,045,549	540,175
Income from insurance claims		232,392	58,221
Inventory surpluses		175,608	380,043
Prior year income		145,433	67,200
Income from the sale of non-current assets		122,200	156,464
Income from rebates and discounts		114,322	283,670
Income from the release of provisions	28	—	58,912
Other income		176,879	516,646
Total		**9,010,694**	**2,061,331**

Income from collection of previously impaired receivables in the amount of HRK 5,959,647 relates to collection of impaired receivable through the takeover of the real estate and to partial collection of impaired receivable from customer Merkur d.d. in the amount of HRK 38,664.

5. COSTS OF MATERIALS AND ENERGY

	2012 in HRK	2011 in HRK
Costs of raw materials	450,944,130	378,013,746
Cost of energy	6,046,503	5,001,194
Small inventory	850,240	878,856
Total	**457,840,873**	**383,893,796**

6. COSTS OF SERVICES

	2012 in HRK	2011 in HRK
Transportation costs	15,275,158	16,040,835
Services related to product design and sale	4,330,622	6,665,484
Maintenance costs	6,915,494	6,385,478
Compensation for the usage of company's name and trade mark - Končar d.d.	3,836,751	4,329,387
Entertainment	3,064,440	2,493,443
Costs of telephone and post	2,452,639	1,887,656
Rent	1,569,672	1,877,443
Intellectual services	1,295,023	1,195,257
Utilities costs	603,352	629,790
Advertising services	480,587	409,275
Sponsorships and donations	69,800	83,868
Other costs	9,322,070	6,756,012
Total	**49,215,608**	**48,753,928**

7. PERSONNEL COSTS

	2012 in HRK	2011 in HRK
Net salaries and wages	50,413,409	48,731,285
Taxes and contributions from salary	30,884,696	28,901,937
Contributions on salary	12,761,301	13,104,456
Total	**94,059,406**	**90,737,678**

Net salaries in the amount of HRK 50,413,409 (HRK 48,731,285 in 2011) contain compensations to the Management Board consisted from their salary in the amount of HRK 1,624,665 (in 2011 in the amount of HRK 1,664,788) and an accrual for the Management Board bonus in the amount of HRK 909,900 (HRK 864,900 in 2011), which are an integral part of the personnel expenses.

8. DEPRECIATION AND AMORTIZATION

	Notes	2012 in HRK	2011 in HRK
Depreciation	18	7,694,267	15,373,178
Amortization	17	478,557	258,237
Total		**8,172,824**	**15,631,415**

9. OTHER COSTS

	2012 in HRK	2011 in HRK
Bank services	2,912,738	2,414,755
Employee transportation costs	2,734,588	2,248,637
Travelling costs and per-diems	2,531,031	2,752,357
Insurance premiums	1,489,913	1,417,720
Compensations to employees	1,223,521	1,254,499
Compensations to members of the Supervisory Board	433,280	426,743
Contributions, memberships and similar costs	300,538	463,921
Taxes and contributions non-dependable on the results and similar costs	74,525	472,111
Other	5,685,199	4,710,191
Total	**17,385,333**	**16,160,934**

10. VALUE ADJUSTMENTS OF CURRENT ASSETS

	2012 in HRK	2011 in HRK
Value adjustment of current receivable from:	—	***2,928,322***
Customer Merkur, Slovenia	—	12,682
Customer DAYAKAS NIGERIA, Nigeria	—	76,923
Customer PHCN, Nigeria	—	748,538
Customer NDPHC ABUJA, Nigeria	—	1,506,065
Customer Elektropromet, BiH	—	488,031
Customer Gebruder Meier AG, Switzerland	—	96,083
Value adjustment of inventories	—	***1,820,304***
Total	—	**4,748,626**

11. PROVISIONS

	2012 in HRK	2011 in HRK
Provisions for warranty costs	4,840,833	14,955,642
Provisions for retirement and jubilee awards	348,792	—
Total	**5,189,625**	**14,955,642**

Movement in provisions by categories is presented in Note 28

12. OTHER OPERATING EXPENSES

	2012 in HRK	2011 in HRK
Penalties, indemnifications and similar costs	2,024,137	89,736
Costs subsequently identified	660,543	1,491,434
Loss from the sale of non-current assets	198,032	2,274
Inventory shortages	85,080	468,912
Other operating expenses	740,546	184,221
Total	**3,708,338**	**2,236,577**

13. FINANCIAL REVENUES

	2012 in HRK	2011 in HRK
From the relations with related parties		
Foreign exchange gains on receivables	149,240	12,480
	149,240	***12,480***
From the relations with un-related parties		
Foreign exchange gains	6,991,127	7,362,860
Revenues from dividends and shares in profits of associates	1,739,648	1,733,740
Interest income on deposits	1,024,547	1,857,138
Other interest income	172,355	781,321
	9,927,677	***11,735,059***
Total	**10,076,917**	**11,747,539**

14. FINANCIAL EXPENSES

	2012 in HRK	2011 in HRK
From the relations with related parties		
Foreign exchange losses	14,344	80,122
	14,344	***80,122***
From the relations with un-related parties		
Interest on loans and other financial instruments	1,590,244	520,156
Foreign exchange losses	7,822,723	6,168,204
	9,412,967	***6,688,360***
Total	**9,427,311**	**6,768,482**

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 2011 the Company calculated the corporate income tax liability at the preferential rate of 9%.

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

	Notes	2012 in HRK	2011 in HRK
Accounting profit before taxation		35,644,632	37,019,784
Corporate income tax at 20%		7,128,926	7,403,957
Non-allowable expenses (20%)		1,191,338	3,406,984
Decreases of taxable basis (20%)		(1,596,060)	(1,188,653)
Adjusted corporate income tax		6,724,204	9,622,288
Incentive		(4,370,732)	(6,254,487)
Tax liability		**2,353,472**	**3,367,801**
Effective tax rate		7%	9%
Advances paid		1,683,900	1,712,513
Tax receivable		—	—
Tax payable	34	669,572	1,655,288

16. EARNINGS PER SHARE

	2012 in HRK	2011 in HRK
Net profit for the year	33,291,160	33,651,983
Weighted average number of shares (ordinary and preference)	255,616	255,616
Earnings per share in HRK	**130.24**	**131.65**

17. NON-CURRENT INTANGIBLE ASSETS

	Concessions, patents, licences, software and other HRK	Assets under construction HRK	Total HRK
Cost			
Balance at 1 January 2011	**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**
Additions	—	1,177,366	1,177,366
Transfer	821,845	(821,845)	—
Disposals	—	—	—
Balance at 31 December 2012	**5,804,425**	**829,852**	**6,634,277**
Accumulated amortization			
Balance at 1 January 2011	**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**
Amortization for the year	478,557	—	478,557
Disposals	—	—	—
Balance at 31 December 2012	**4,776,942**	—	**4,776,942**
Carrying value			
31 December 2011	684,195	474,331	1,158,526
31 December 2012	**1,027,483**	**829,852**	**1,857,335**

The gross carrying value of completely amortized intangible assets still in use on 31 December 2012 amounts to HRK 2,065,260 (31 December 2011: HRK 2,065,260).

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 2011	**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**
Additions	—	—	—	—	16,600,344	82,729,870	**99,330,214**
Transfer	—	29,953	3,618,092	506,721	—	(4,154,766)	—
Disposals	—	—	(853,658)	(321,293)	(18,679,758)	—	**(19,854,709)**
Balance at 31 December 2012	**9,012,529**	**63,696,871**	**122,463,942**	**17,782,633**	**5,213,586**	**98,627,585**	**316,797,146**
Accumulated depreciation							
Balance at 1 January 2011	—	**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**
Depreciation for the year	—	1,330,887	5,177,151	1,186,229	—	—	**7,694,267**
Other decreases	—	—	1,052,346	—	—	—	**1,052,346**
Disposals	—	—	(735,404)	(241,515)	—	—	**(976,919)**
Balance at 31 December 2012	—	**51,467,290**	**97,295,356**	**12,954,024**	—	—	**161,716,670**
Carrying value							
31 December 2011	**9,012,529**	**13,530,515**	**27,898,245**	**5,587,895**	**7,293,000**	**20,052,481**	**83,374,665**
31 December 2012	**9.012.529**	**12.229.581**	**25.168.586**	**4.828.609**	**5.213.586**	**98.627.585**	**155.080.476**

The carrying value of real estate under mortgage as at 31 December 2012 amounts to HRK 21,242,110 (31/12/2011: HRK 19,913,741). As at 31 December 2012 the total amount of mortgages registered over these assets amounts to EUR 36.7 million (31/12/2011: EUR 28.2 million) (Note 29).

Assets under construction in the amount of HRK 98,627,585 consist mostly of investment in "The High-Voltage Laboratory" project.

The gross carrying value of all non-current assets fully depreciated and still in use on 31 December 2012 amounts to HRK 103,091,614 (2011: HRK 109,713,864).

The effect of changes in depreciation rates is the lower depreciation charge by the amount of HRK 7,798 thousand.

19. NON-CURRENT FINANCIAL ASSETS

	31/12/2012 HRK	31/12/2011 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 in Zagrebačka Bank d.d., Zagreb	***39,000***	***39,000***
Total	**2,462,774**	**2,462,774**

20. INVENTORIES

	31/12/2012 HRK	31/12/2011 HRK
Raw materials	57,962,126	62,599,109
Work in progress	48,346,978	38,101,375
Unfinished and semi-finished products	5,467,257	4,762,015
Finished products	34,109,468	18,119,754
Minus: Value adjustment of raw materials	(2,651,833)	(4,697,382)
	143,233,996	**118,884,871**
Advances	3,048	3,166,401
Total	**143,237,044**	**122,051,272**

The cost of finished goods sold amounts to HRK 481,177 thousand in 2012 (HRK 438,148 thousand in 2011).

21. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale in the amount of HRK 5,960,000 relates to real estate taken over in exchange for uncollected secured receivables from the company Elektromaterijal d.d. in bankruptcy (Note 4). Management of the Company made a decision to sell this real estate.

22. RECEIVABLES FROM RELATED COMPANIES

	31/12/2012 HRK	31/12/2011 HRK
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	6,239,390	10,255,506
Končar - Engineering for Plant Installation and Commissioning Inc, Zagreb	940,968	2,325,957
Končar - Switchgear Inc, Zagreb	905,090	1,284,789
Končar - Generators and Motors Inc, Zagreb	69,725	—
Končar - Electronics and Informatics Inc, Zagreb	36,550	48,376
Končar - Instrument Transformers Inc, Zagreb	10,677	10,932
Končar - Electric Vehicles Inc, Zagreb	—	413,680
Končar - Electrical Engineering Institute Inc, Zagreb	—	108,830
Kones AG	6,586,115	—
	14,788,515	**14,448,070**
Končar - Power Transformers Ltd, Zagreb	13,184	—
Total	**14,801,699**	**14,448,070**

As at 31 December 2012, 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
2012	**14,801,699**	12,448,118	1,465,591	450	887,540	—	—
2011	**14,448,070**	12,804,883	249,745	913,982	456,673	—	22,787

23. TRADE ACCOUNTS RECEIVABLE

	31/12/2012 HRK	31/12/2011 HRK
Domestic customers	68,485,899	44,512,486
Minus: Value adjustment	(3,940,642)	(9,500,052)
	64,545,257	***35,012,434***
Foreign customers	100,452,635	65,158,906
Minus: Value adjustment	(2,636,559)	(3,070,097)
	97,816,076	***62,088,809***
Total	**162,361,333**	**97,101,243**

As at 31 December 2012 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
2012	**162,361,333**	129,496,829	20,918,558	6,572,068	3,078,489	1,320,653	974,736
2011	**97,101,243**	63,701,816	20,514,236	7,095,421	2,978,039	2,081,436	730,295

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

	Notes	2012 in HRK	2011 in HRK
Balance at 1 January		12,570,149	9,815,631
Impaired in the current year	10	—	2,928,322
Collected in the current year		(5,998,311)	(38,499)
Written off in the current year		5,363	(135,305)
Balance at 31 December		**6,577,201**	**12,570,149**

24. CURRENT FINANCIAL ASSETS

	31/12/2012 HRK	31/12/2011 HRK
Loans given, deposits and similar		
Deposits (interest rates 3.2% and 3.6%)	—	64,008,570
Total	**—**	**64,008,570**

25. CASH AND CASH EQUIVALENTS

	31/12/2012 HRK	31/12/2011 HRK
Balance on gyro accounts	266,613	14,989,149
Balance at accounts in foreign currency	15,333,088	21,733,626
Petty cash - HRK	21,864	23,527
Petty cash - foreign currencies	39,086	20,159
Deposits up to three months (interest rate 0.4%)	-	1,161,985
Total	**15,660,651**	**37,928,446**

26. PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses and accrued income in the amount of HRK 275,822 (HRK 204,846 as at 31 December 2011) relate to prepaid expenses for future periods.

27. SUBSCRIBED CAPITAL

Subscribed capital is determined in the nominal amount of HRK 76,684,800 (31 December 2011: HRK 76,684,800) and consists of 255,616 shares of a nominal value of HRK 300.

The ownership structure of the Company is as follows:

	31 December 2012		31 December 2011	
Shareholder	**Number of shares**	**Ownership %**	**Number of shares**	**Ownership %**
Končar - Electrical Industry Inc.	132,184	51.71	132,184	51.71
Floričić Kristijan	9,916	3.88	9,916	3.88
Knežević Nikola	8,358	3.27	10,358	4.05
Zagrebačka Bank d.d.	6,405	2.51	6,522	2.55
HPB d.d.	5,053	1.98	10,781	4.22
Berkopić Dražen	4,072	1.59	5,510	2.16
Radić Antun	3,315	1.30	821	0.32
Other	86,313	33.76	79,524	31.11
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.

Profit realised in the year 2011 in the amount of HRK 33,651,983 has been distributed, as per the decisions of the Board of Directors, the Supervisory Board and the General Assembly, as follows:

	HRK
Statutory reserves	20,191,245
Liability to pay out dividends	13,460,738
Total	**33,651,983**

28. PROVISIONS

	Warranty costs HRK	Legal court cases HRK	Retirement and jubilee rewards HRK	Total HRK
1 January 2011	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**
Additional provisions	4,840,833	—	348,792	5,189,625
Release of provisions	—	—	-	-
31 December 2012	**138,557,506**	—	**1,463,380**	**140,020,886**

29. LONG TERM LIABILITIES

	31/12/2012 HRK	31/12/2011 HRK
Liabilities towards banks and other financial institutions		
Raiffeisen bank Austria d.d., Zagreb - CBRD program	51,002,758	9,299,544
Splitska bank SG - CBRD program	15,068,793	—
Less: Current portion	(8,346,736)	(3,576,748)
Total	**57,724,815**	**5,722,796**

Long-term liabilities towards banks and financial institutions relate to three loans from Raiffeisen bank Austria d.d. and one loan from Splitska bank d.d. from the CBRD program for financing the economy's development.

The first loan, in the amount of HRK 15 million at the annual interest rate of 4% and with the due date of 31 December of 2014, was granted in January 2005 for the purchase of equipment and the re-construction of production capacities. The collateral for the loan is a mortgage over the Company's equipment.

The second 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 third loan was approved in October 2011 in amount of EUR 5,999,293 at the annual interest rate of 4% for financing investment in HV Laboratory. The repayment start on 30 September 2014 and due date is on 30 June 2022. The collateral for the loan is a mortgage over the Company's real estates.

The fourth loan from CBRD program is realized through Splitska bank d.d. and was approved in September 2012. Part of this loan is granted by CBRD in amount of HRK 7.5 million and part granted by Splitska bank d.d. in amount of EUR 1,014,288 at the annual interest rate of 4%. The repayment start on 31 March 2013 and due date is on 30 September 2015. The collateral for the loan is a mortgage over the Company's real estates. Purpose of the loan is the settlement of trade payables.

The mortgage over the Company's non-current assets amounts to EUR 36.7 million (Note 18).

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

	HRK
31 December 2011	**9,299,544**
Loan repayments	(3,562,603)
New loans	60,077,975
Foreign exchange gains/losses	256,635
	66,071,551
Less: Current portion	(8,346,736)
31 December 2012	**57,724,815**

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

	HRK
From 1 to 2 years	11,176,011
From 2 to 3 years	9,768,222
From 3 to 4 years	5,658,551
From 4 to 5 years	5,658,551
More the 5 years	25,463,480
Total	**57,724,815**

30. CURRENT LIABILITIES TOWARD RELATED PARTIES

	31/12/2012 HRK	31/12/2011 HRK
Končar - Infrastructure and Services Ltd, Zagreb	2,084,482	612,302
Končar - Electrical Industry Inc, Zagreb	1,127,136	445,925
Končar - Electrical Engineering Institute Inc, Zagreb	863,932	427,403
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	717,723	447,503
Kones AG, Zürich, Switzerland	667,615	351,199
Končar - Low Voltage Switches and Circuit Breakers Ltd, Zagreb	157,407	-
Končar - Switchgear Inc, Sesvetski Kraljevac	89,962	21,341
Končar - Small Electrical Machines Inc, Zagreb	62,581	85,318
Končar - Instrument Transformers Inc, Zagreb	53,697	674,828
Končar - Electronics and Informatics Inc, Zagreb	32,453	1,304,684
	5,856,988	**4,370,503**
Končar - Power Transformers Ltd, Zagreb	339,241	19,901
Total	**6,196,229**	**4,390,404**

As at 31 December 2012 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
2012	**6,196,229**	5,124,501	1,071,728	—	—	—	—
2011	**4,390,404**	4,236,435	153,969	—	—	—	—

31. CURRENT LIABILITIES TOWARD BANKS AND OTHER FINANCIAL INSTITUTIONS

	Notes	31/12/2012 HRK	31/12/2011 HRK
Current portion	29	8,346,736	3,576,748
Total		**8,346,736**	**3,576,748**

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

	HRK
As at 31 December 2011	**3,576,748**
Loan repayment	(3,576,748)
Plus: Current portion of long-term loans	8,346,736
As at 31 December 2012	**8,346,736**

32. CURRENT TRADE ACCOUNTS PAYABLE

	31/12/2012 HRK	31/12/2011 HRK
Domestic suppliers	21,387,369	31,137,585
Foreign suppliers	35,165,636	32,952,573
Total	**56,553,005**	**64,090,158**

As at 31 December 2012 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
2012	**56,553,005**	55,778,653	774,352	—	—	—	—
2011	**64,090,158**	57,751,924	6,338,234	—	—	—	—

33. LIABILITIES FOR ADVANCE PAYMENTS RECEIVABLES

	31/12/2012 HRK	31/12/2011 HRK
Liabilities for advance payments received		
From domestic customers	124,000	1,450,000
From foreign customers	28,948,049	29,110,407
Related parties		
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	19,594	260,016
Total	**29,091,643**	**30,820,423**

34. OTHER CURRENT LIABILITIES

	31/12/2012 HRK	31/12/2011 HRK
Liabilities toward employees		
Liabilities for salaries	4,862,115	4,629,218
	4,862,115	***4,629,218***
Liabilities for taxes and contributions and similar		
Liabilities for taxes and contributions	6,081,616	5,713,200
Liabilities for value added tax	17,016	87,683
Other liabilities toward the State	54,372	1,008
Corporate income tax liability	669,572	1,655,288
	6,822,576	***7,457,179***
Other liabilities		
Liabilities for sick leave and similar	45,378	54,244
Liabilities for interest	528,477	95,229
Other liabilities	23,123	33,028
	596,978	***182,501***
Liabilities for dividends	***98,655***	***105,745***
Total	**12,380,324**	**12,374,643**

35. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and deferred income in the amount of HRK 8,232,100 (HRK 6,069,190 at 31 December 2011) 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.

	31/12/2012 HRK	31/12/2011 HRK
Accrued expenses		
Accrued expenses	8,116,724	5,743,344
Accrued corporate income tax liability	115,376	325,846
Total	**8,232,100**	**6,069,190**

36. CONTRACTUAL LIABILITIES

Contractual liabilities of the Company for unfinished projects as of 31 December 2012 amount to HRK 512 million (HRK 461 million at 31 December 2011).

37. OFF-BALANCE SHEET ITEMS

The Company had at 31 December 2012 the following items in its off-balance sheet:

	31/12/2012 HRK	31/12/2011 HRK
Guarantees		
- in HRK	10,482,600	10,125,000
- in foreign currencies	84,266,930	94,985,808
Total	**94,749,530**	**105,110,808**

38. TRANSACTIONS WITH RELATED PARTIES

During 2012 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:

2012

Related party	Receivables HRK'000	Liabilities HRK'000	Operating activities Libilities for advences pyments HRK'000	Income HRK'000	Expenses HRK'000
Končar - Electrical Industry Inc.	—	1,127	—	—	4,416
Končar - Infrastructure and Sevices Ltd,	—	2,084	—	82	2,117
Končar - Electrical Engineering Institute Inc,	—	864	—	—	2,098
Končar - Electronics and Informatics Inc,	37	32	—	666	999
Končar - Small Electrical Machines Inc,	—	63	—	—	2,292
Končar - Generators and Motors Inc,	70	—	—	94	253
Končar - Instrument Transformers Inc,	11	54	—	426	4,556
Končar - Power Transformers Ltd,	13	339	—	139	398
Končar - High Voltage Switchgear Inc,	—	—	—	5	12
Končar - Electric Vehicles Inc,	—	—	—	38	1
Končar - Switchgear Inc,	905	90	—	1,452	1,118
Končar - Low Voltage Switchers and Circuit Breakers Ltd,	—	157	—	—	264
Končar - Tools Inc,	—	—	—	—	49
Končar - Engineering for Plant Installation and Commissioning Inc,	941	—	—	2,580	—
Končar - Power Plant and Electric Traction Engineering Inc,	6,239	718	20	21,410	20,032
Končar - Steel Structures Inc,	—	—	—	—	2,688
Kones AG	6,586	668	—	19,639	2,382
Total	**14,802**	**6,196**	**20**	**46,531**	**43,753**

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

Related party	Receivables	Liabilities	Operating activities Lilibities for advences pyments	Income	Expenses
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Končar - Electrical Industry Inc.	—	446	—	—	4.817
Končar - Infrastructure and Sevices Ltd,	—	612	—	84	2.041
Končar - Electrical Engineering Institute 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 - High Voltage Switchgear Inc,	—	—	—	18	2
Končar - Electric Vehicles Inc,	414	—	—	404	—
Končar - Switchgear Inc,	1.285	21	—	2.609	1.261
Končar - Low Voltage Switchers and Circuit Breakers Ltd,	—	—	—	4	96
Končar - Tools Inc,	—	—	—	—	188
Končar - Engineering for Plant Installation and Commissioning Inc,	2.326	—	—	1.975	97
Končar - Power Plant and Electric Traction Engineering Inc,	10.255	448	260	23.362	2.264
Kones AG	—	351	—	9.486	918
Total	**14.448**	**4.390**	**260**	**39.601**	**21.201**

39. 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:

31/12/2012	Loans and receivables	Fair value through P&L	Available for sale	Held to maturity	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
AFS financial assets	—	—	39	—	**39**
Trade and other receivables	177,948	—	—	—	**177,948**
Trade receivables from related parties	14,802	—	—	—	**14,802**
Cash & cash equivalents	15,661	—	—	—	**15,661**
Total	**208,411**	—	**39**	—	**208,450**

31/12/2011	Loans and receivables	Fair value through P&L	Available for sale	Held to maturity	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
AFS financial assets	—	—	39	—	**39**
Trade and other receivables	115,988	—	—	—	**115,988**
Trade receivables from related parties	14,448	—	—	—	**14,448**
Deposits	—	—	—	64,009	**64,009**
Cash & cash equivalents	37,928	—	—	—	**37,928**
Total	**168,364**	—	**39**	**64,009**	**232,412**

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

	31/12/2012 HRK	31/12/2011 HRK
Debt (interest bearing)	**66,071,551**	**9,299,544**
Long-term loans	57,724,815	5,722,796
Short-term loans (including the current portion of long-term loans)	8,346,736	3,576,748
Less: Cash and cash equivalents	**(15,660,651)**	**(37,928,446)**
Net debt	**50,410,900**	—
Equity	198,738,316	179,749,771
Equity and net debt	**249,149,216**	—
Gearing	**25%**	—

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 85,705.

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):

31/12/2012	EUR '000	USD '000	MAD '000	SEK '000	CZK '000	CHF '000	GBP '000	Total foreign currencies	HRK '000	Total '000
Trade receivables	81,412	801	—	22,065	—	124	—	104,402	72,761	177,163
Other receivables	33	—	—	—	—	—	—	33	15,554	15,587
Advances	18	—	—	—	—	2,490	—	2,508	2,709	5,217
Cash and cash equivalents	14,558	16	362	89	1	344	2	15,372	289	15,661
Total assets	**96,021**	**817**	**362**	**22,154**	**1**	**2,958**	**2**	**122,315**	**91,313**	**213,628**
Trade payables and other liabilities	35,053	66	—	562	137	15	—	35,833	39,296	75,129
Advances received	21,971	—	356	6,621	—	—	—	28,948	144	29,092
Financial liabilities	58,572	—	—	—	—	—	—	58,572	7,500	66,072
Total liabilities	**115,596**	**66**	**356**	**7,183**	**137**	**15**	**—**	**123,353**	**46,940**	**170,293**

31/12/2011	EUR '000	USD '000	SEK '000	CZK '000	CHF '000	GBP '000	Total foreign currencies	HRK '000	Total '000
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**

	Short-term exposure							Long-term exposure
	HRK EUR '000	HRK USD '000	HRK SEK '000	HRK CZK '000	HRK CHF '000	HRK MAD '000	HRK GBP '000	HRK EUR '000
31/12/2012								
Financial assets	96,026	817	22,154	1	2,958	362	2	—
Financial liabilities	(62,644)	(66)	(7,183)	(137)	(16)	(356)	—	(52,952)
Total exposure	**33,382**	**751**	**14,971**	**(136)**	**2,942**	**6**	**2**	**(52,952)**
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**

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

	2012 % Change	2011 % Change	2012 Effect on income before taxes HRK'000	2011 Effect on income before taxes HRK'000
EUR	1%	2%	(40)	1.579
USD	-2%	5%	(12)	76
SEK	4%	3%	627	8
CZK	3%	4%	(4)	2
CHF	1%	—	24	15

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 2012 according to the contracted non-discounted payments:

	Carrying value HRK '000	Contracted cash flows HRK '000	Less than 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 5 years HRK '000
31 December 2012						
Liabilities						
Current advances received	29,092	29,092	29,092	—	—	—
Current liabilities to related parties	6,196	6,196	5,787	189	220	—
Current trade accounts payable	56,553	56,553	46,684	7,542	2,327	—
Other current liabilities	12,380	12,380	11,532	80	768	—
Long-term loan liabilities	57,725	57,725	—	—	—	57,725
Short-term loan liabilities	8,347	8,347	—	2,087	6,260	—
Total liabilities	**170,293**	**170,293**	**93,095**	**9,898**	**9,575**	**57,725**

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 '000	Contracted cash flows HRK '000	Less than 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 5 years HRK '000
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**

40. 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 2012 and that should, consequently, be disclosed.

41. 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 27 February 2013.

Ivan Klapan

President of the Management Board

Končar – Distribution and Special Transformers, Inc.

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