KONČAR

D&ST

Annual Report 2013

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

ANNUAL REPORT
2 0 1 3

KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.

Contents

I.

MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2013







1. Introductory word by the Management Board

2013 - YEAR OF GREAT INVESTMENTS FOR A STRATEGIC STEP FORWARD AND A SIGNIFICANT INCREASE IN NEW ORDERS

In 2013 Končar D&ST has continued with a series of successful business years. Total sales of goods and services in 2013 reached up to HRK 646 million (HRK 680 million in 2012), which is a 5% decrease on annual level. Export operations with HRK 513 million (HRK 509 million in 2012) reached 79.4% of sales, which is an increase of 1% realized in the previous year.

The gross profit of HRK 32.5 million (net 30.4 million) in 2013 was 9% lower than the gross profit in the 2012, in which it amounted HRK 35.6 million (net profit HRK 33.3 million).

The amount of total contracts at the end of the 2013 totalled 640 million which, compared to the end of the 2012, from HRK 512 million, means an increase of 25%.

In June 2013, after installing the planned equipment and obtaining all permits, an investment for strategic breakthrough in the field of medium power transformers with 63 MVA to 100 MVA was officially put into operation under the name High Voltage laboratory. In this project and other investments, mainly related to purchase of new production, testing and IT equipment in 2013, the amount of HRK 28.0 million (in 2012 HRK 86.2 million) was invested.

In 2013, strengthening of technical and sales sector has been continued through hiring of new employees and implementing of a new software for Quotation Management System.

Quality Management System according to ISO 9001:2008, Environmental Management System according to ISO 14001:2004 and Occupational Health and Safety Management System according to OHSAS 18001:2007, within the process of continuous improvement have been successfully maintained and verified. By adopting the documents Ethics in Business and Business Continuity Plan - social responsibility in the company has been further emphasized.

In regular market quotation of Zagreb Stock Exchange in 2013 ordinary and preferred shares of Končar D&ST were traded. At the beginning of the year, the price of ordinary Končar D&ST shares was around HRK 965 and at the end of the year was about HRK 1,146.

The overall business performance of Končar D&ST in demanding year of 2013 - considering the conditions in the environment and management of large investment activities - is regarded as successful and the company is well prepared for future business challenges. The confidence of shareholders, employees, business partners and banks as well as the harmonization of common interests were very important for the achievement of business results. Management of Končar D&ST, d.d. is grateful for the support and is pleased to present this Annual Report for 2013.

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

Ivan Klapan
President of the Management Board

2. Major 2013 figures and their comparison with 2012, 2011 and 2010

	INDEX 2013./2012
Net profit	91.2
Sales	95.0
Exports	100.8
Balance of orders at year's end	125.1

	HRK ('000)				EUR ('000)		INDEX
	2013	2012	2011	2010	2013	2012	13/12
Sales							
Croatia	133.139	171.332	152.738	126.137	17.580	22.792	77,7
Exports	512.884	508.791	520.333	563.544	67.721	67.682	100,8
Total	646.023	680.123	673.071	689.681	85.301	90.474	95,0
Balance of orders at the year's end							
Croatia	59.337	65.017	36.173	49.639	7.835	8.649	91,3
Exports	580.594	447.013	424.533	391.313	76.661	59.465	129,9
Total	639.931	512.030	460.706	440.952	84.496	68.114	125,0
Annual sales per employee	1.411	1.553	1.606	1.720	186	207	90,9
Investments	28.045	86.150	33.258	8.192	3.703	11.460	32,6
Net profit	30.364	33.291	33.652	37.118	4.009	4.429	91,2
Dividend HRK/share							
Ordinary	*	52,10	52,66	55,18**			
Preferred	*	52,10	52,66	55,18**			
Net profit/sales in %	4,7%	4,9%	5,0%	5,4%			
Net earning per total equity	16,4%	20,1%	23,0%	29,9%			
Total equity and reserves as at 31/12	215.323	198.738	179.750	161.171	28.431	26.437	108,3
No. of employees							
Average	458	438	419	401			104,6
as at 31/12	466	447	428	403			104,3

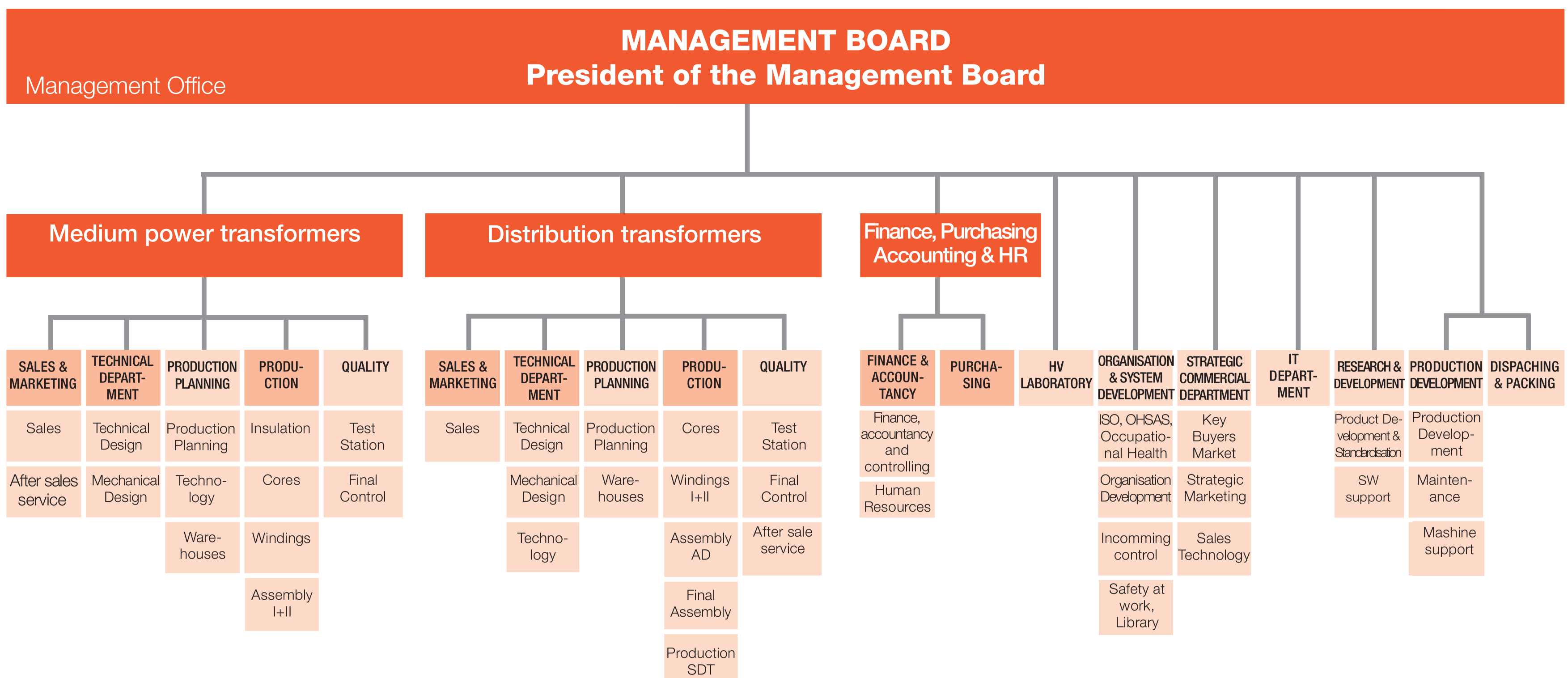
Note: Average exchange rate 2010. 1EUR = 7,2862 KN 2011. 1EUR = 7,4342 KN 2012. 1EUR = 7,5173 KN 2013. 1EUR = 7,5735 KN

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

3. Organisation Scheme in 2013

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.



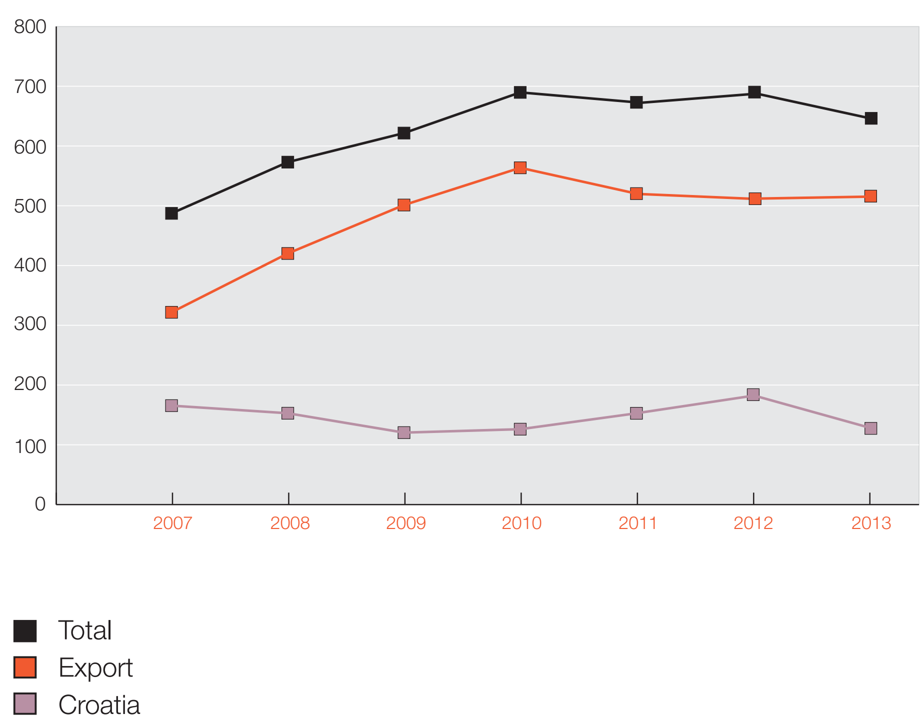
4. General position of the Company

The construction and equipping of a new High Voltage Laboratory with production, warehouse and office spaces has significantly increased the overall potential of the company, in particular, the possibility of participating in the power transformers segment 63-100 MVA and 170 kV.

Company successfully found the answers to complex market conditions by putting priorities in sales and development activities, recruiting and systematic training of young professionals, motivating employees, investing in products development and production modernization plus by adapting the organization to fit the new size and position of the company.

Despite a small decline in the profitability of 2013, company has achieved very good business results. These results together with successful business figures form previous years have financially strengthen the company. The company has an adequate financial stability and a good basis for further business development.

SALES TRENDS (HRK mil.)



5. Corporate organisation and management in 2013

During the 2013 Management Board of Končar D&ST d.d. was composed of:

Ivan Klapan, President of the Management Board
Josip Belamarić, Board Member, Director of MPT Profit Centre
Ivan Sitar, Board Member, Director of DT Profit Centre
Petar Vlaić, Board Member, Finance and Purchasing Director
Vanja Burul, Deputy Board Member, Deputy Director of MPT Profit Centre
Martina Mikulić, Deputy Board Member, Deputy Director of DT Profit Centre

Business processes in 2013 were organized through Distribution Transformers (DT) Profit Centre and Medium 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 level.

Project team for the preparation and construction of the strategic investment in High Voltage Laboratory which was organized as a separate unit finished its activity by 31.12.2013.

Within common services, as of the beginning of 2013, IT Department has been set up, with responsibility for development and maintenance of the IT for the entire company.

In 2013, the Company has been operating at a single location, at the address: Josipa Mokrovića 8, 10090 Zagreb. For the purpose of conducting of the works on the transport and assembly of medium power transformers in Morocco, the branch office in Casablanca, Morocco, under the name Končar D&ST Succursale Maroc has been operating.

6. Corporate Governance Code application

The Company implements most of the provisions of the Code of Corporate Governance created by Zagreb Stock Exchange and HANFA, which was released on the official website of the Zagreb Stock Exchange (www.zse.hr). The only exceptions to this are certain provisions the Company believes that cannot be applied in the prescribed form. The Company believes that the non-implementation of the respective provisions does not impair the high level of transparency of the Company and will not have a significant impact on current and prospective investors in making their investment decisions.

A questionnaire with responses to 64 questions contain precise answers regarding the implemented and non-implemented provisions, which is also publicly available on the official website of the Zagreb Stock Exchange (www.zse.hr) and company's website (www.koncar-dst.hr).

Within its organizational model, in which the company operates and in which all business processes take place, the company has developed internal control systems at all important levels. These systems, among other things, allow for an objective and fair presentation of the financial and business reports.

Information on significant shareholders is available on daily basis on the official Central Depository & Clearing Company Inc. website at (www.skdd.hr), while its status on 31. December 2013 i 2012 was also published in the audit report. Preferred shares of the Company do not provide the voting rights.

7. Market position and sales by countries and product groups

In 2013 production capacities were exceeding the demand causing a decrease in market prices and shortening delivery times. The exchange rate between USD and EUR is still unstable and it is on such level that makes sales challenging for European producers. Most European utilities carry out costs reduction programs in all business segments, particularly in the procurement process.

Compared to the previous year, sales of goods and services has decreased by 4.7% and amounts HRK 646 million, while the status per product group compared to previous period is the following:

- Distribution transformers: decrease of 13.7%
- Medium power transformers: growth of 1.6%
- Dry and special transformers: growth of 1.4%
- Other goods and services: decrease of 16.2%

Total production increased 6.5% in MVA, which also signifies a long-standing trend of market price reductions.

Sales by major markets were as follows:

Croatia: in 2013 sales reached HRK 133 million, which compared by HRK 171 million in 2012 means a reduction of 22%.

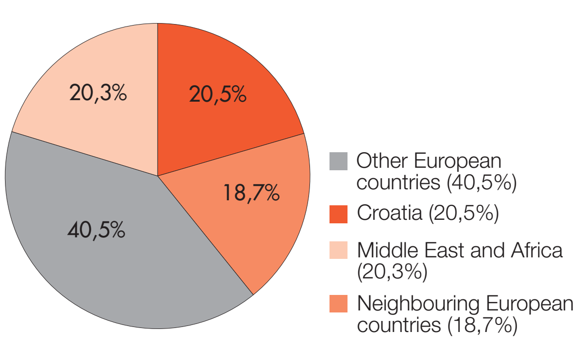
Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Czech Republic, Slovakia, Hungary, Kosovo, Bulgaria, Serbia - in 2013 sales reached HRK 113 million, which compared to HRK 167 million in 2012 is a decrease of 32%.

Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Poland, Russia, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Italy, Norway, Romania, Luxembourg, Belarus, Malta, Netherlands - sales in 2013 reached HRK 270 million, which compared to HRK 277 million in 2012 is a decrease of 3%.

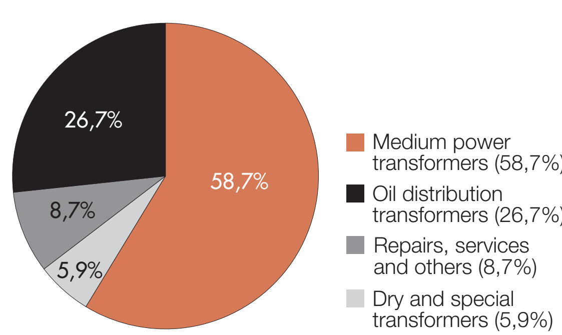
Gulf countries, Middle East, Africa and America: in 2013 we delivered HRK 130 million, which compared to HRK 65 million in 2012 is an increase of 100%.

Sales activities in 2013 have led to total new orders of HRK 775 million or 5% more than in 2012. Balance of orders at the year's end was HRK 640 million or 25% more than at the end of 2012.

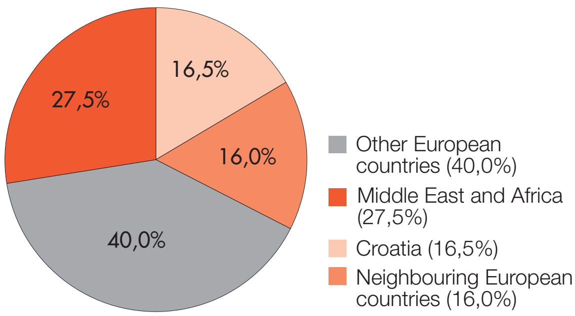
SALES STRUCTURE PER MARKETS



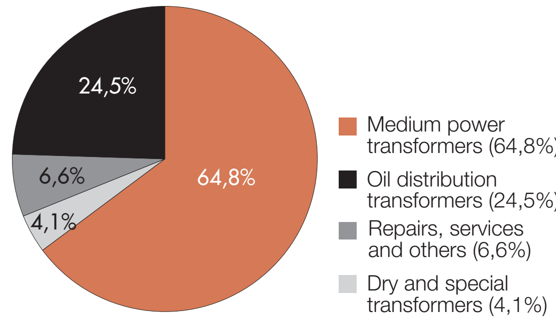
SALES STRUCTURE PER PRODUCTS



NEW ORDERS PER MARKETS



STRUCTURE OF NEW ORDERS PER PRODUCTS



8. Financial position (Balance Sheet)

On 31.12.2013 the company's total assets totalled HRK 506.8 million, and at the end of 2012 that amounted HRK 517.3 million.

In the assets structure percentage of fixed assets is 33% and percentage of current assets is 67%. On 31.12.2013 fixed assets have increased for HRK 9.5 million compared to the previous year, which is mainly a result of on-going investments in equipment. In 2013 the total investment in testing, production, warehousing and administrative capacities named High Voltage Laboratory in the amount of HRK 106 million was put into use.

Within current assets, a trend of increase in the most liquid asset components is noticeable and it is reflected in the significant decrease in receivables and inventories and, on the other hand, in the increase of financial assets compared to the previous year.

Inventory status on 31.12.2013 was reduced from HRK 149.2 million to HRK 144.6 million, which constitutes 28.5% of assets. Accounts receivable have decreased by 28.4% compared to year 2012 and they reach up to HRK 138.1 million. Financial assets have increased by 3.5 times and reaching HRK 54.8 million, of which HRK 52.9 million is cash on the account.

This is a result of an efficient collection of receivables as well as the effect of legislative changes to the VAT system, which came into force on Croatian accession to the EU.

On the liabilities side, equity and reserves for the current year, due to the continuing policy of retaining a larger portion of net profits in reserves, have increased by HRK 16.6 million, hence these HRK 215.3 million at the end of the 2013 make up 42.5% of total assets sources.

Long-term borrowings at the end of the 2013 amounted HRK 47.1 million, which is a reduction of 18% compared to the previous year. Long-term sources of funding together reached up to HRK 402.1 million and account for nearly four-fifths of total liabilities, which makes it 2.4 times higher than the sum of fixed assets, and can be regarded as an indicator of satisfactory financial stability.

Short-term liabilities together with Accured expenses and deferred income amount HRK 104.8 million, which represents 20% of total liabilities. Accounts payables are lower by HRK 15 million, compared to the previous year and reach up to 47.8 million kuna.

The trend of balance sheet positions is characterized by a strong position of financial assets and growth in equity and reserves, which speaks in favour of improving the Company's liquidity and financial stability.

9. Operating results (Income Statement) and share price trends

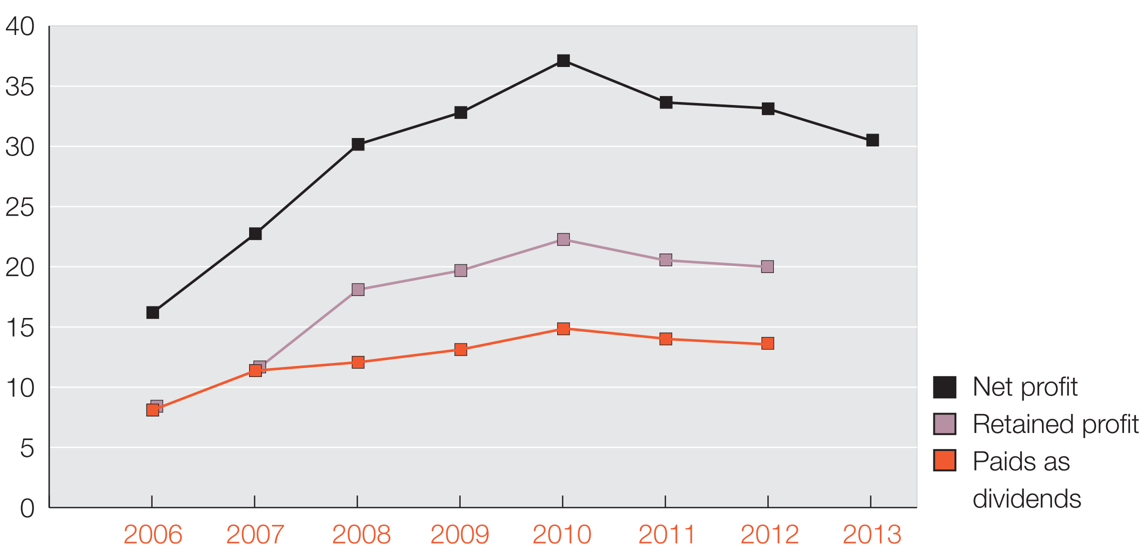
In 2013 Končar D&ST made HRK 665 million in revenues, which is a reduction of 5% compared to the previous year. In the structure of total revenue operating income comprise the majority of 97.9%. Revenues generated in exports, amounting to HRK 512.9 million, make 79.4% of sales.

On the expenditure side, the single most significant costs are the costs of raw materials which, together with the cost of goods sold, amount HRK 432.3 million. It makes a share of 67.3% in sales adjusted for growth in inventories of unfinished production and finished products. Depreciation and amortization expenses are increased by 80% compared to the previous year and in 2013 amount HRK 14.7 million. The increase in depreciation is a result of putting the investment High Voltage Laboratory into use within approx. 5,000 m 2 of a modern test, production, warehouse and office space was built.

In the area of financial activities an income of HRK 11.3 million was generated with a positive result of HRK 3.8 million.

Gross profit for the 2013 totalled HRK 32,476 thousand which represents a gross profit margin of 4.9% which is a slight decrease in this indicator compared to the previous year when it stood at 5.1%.

NET PROFIT THROUGH YEARS (HRK mil.)



Given that the company is a recipient of tax incentives for realized investment projects, according to the Act on Promotion of Investment, the calculated effective income tax rate for 2013 is 6.5%, while net profit amounts HRK 30,364 thousand.

At the Zagreb Stock Exchange 26,603 shares changed owners during the 2013. Price ranged from HRK 867 to 1,290 per share. The last transaction with the ordinary shares was concluded at HRK 1,146.97 kuna, and that with preferred shares at HRK 1,030.

According to the ordinary share price, the P/E ratio on the last day of 2013 was 9.7.

During the 2013 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 modernisation

In June 2013 the company officially put into operation a strategic investment with the working title "HV Laboratory". The new High Voltage Laboratory, new office, production and warehouse facilities with a total area of cca 4,900 m^2 significantly enhance the capabilities and capacity of the production and testing of medium power transformers.

Among the other significant investments there were investments in IT and logistics equipment, a new line for magnetic steel sheet cross-cutting for medium power transformers up to 100 MVA cores and equipment for chromatographic analysis of gases dissolved in transformer oil.

The total value of investments in 2013 amounted HRK 28 million.

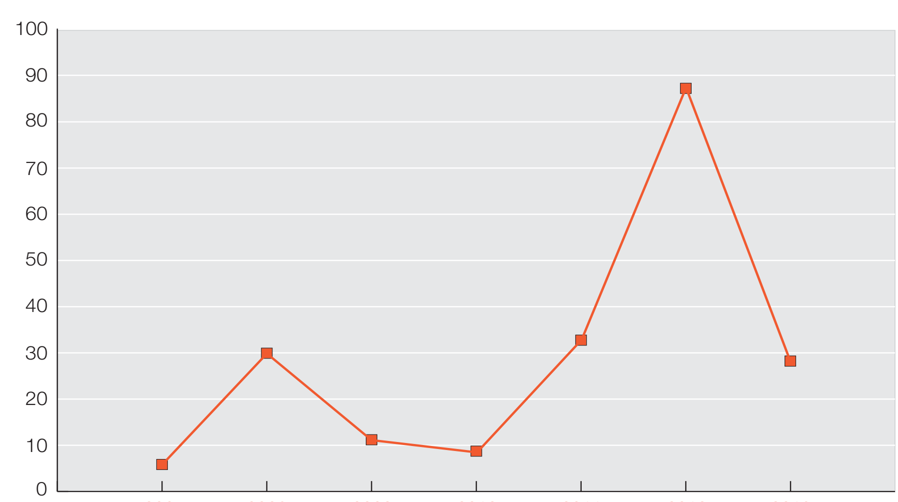
12. Technical development and products innovation

As part of the technical development, which includes Department of Product Development and Production Development in the 2013 there were 22 graduate engineers employed, of which five graduate electrical engineers, one MSc. and one PhD in the field of electrical engineering, 13 graduate mechanical engineers and two graduate chemical technology engineers.

During 2013 in the Product Development Department a new system for design of oval distribution transformers (PRODIST2) was developed, which compared to the old program allows for much faster development of projects and in particular different variants which will enable faster response to inquiries by the technical sector coming from the sales department, as well as electronic data archives. Company has successfully developed and tested 1000 kVA transformer for Swiss customer EWZ. The transformer had to meet a very strict customer requirement that the magnetic flux must not exceed 1 Microtesla in the area above the transformer on the vertical distance of 2.5 m from the ground. Trying to follow the EU guidelines on reducing losses (EU target is to increase energy efficiency by 20% in the period 1990-2020), but also due to an increasing electricity costs, the project of development of amorphous transformers, which can achieve up to 50% lower core losses in relation to transformers with grain oriented electrical steel, was initiated. In the range of medium power transformers a significant reduction in transformer noise was achieved. A new insulation design was also developed for SI170 of single-phase transformers for Lebanon and further work on reducing the main insulation oil gap has continued. The system for design of medium power transformers (PRO2012) now includes possibility of calculating inductance, capacitance, power switching, reactors, and zero impedance. New flitch plates have also been developed.

In the Production Development Department in 2013 a revision of the winding stabilization process and revision of medium power transformers cooling process has been made. Existing cross-cutting steel sheet was dismantled and new bigger one was installed. In cooperation with the Faculty of Mechanical Engi-

INVESTMENT TRENDS (HRK mil.)



neering a measuring table for cut sheets was developed. New concept variable diameter mandrels were purchased, a new device for active part pressurizing, tailored to the needs of larger power transformer production, has been put into operation. System of handling and transport of transformer oil from external tanks to the point of consumption in the production hall was commissioned. Along with the said equipment, a new road scale up to 50 tons was installed, equipment for weighing transformers up to 120 tons, and new forklifts were aquired.

Research project of magnetostriction and transformer noise, which took place at Cardiff University (Wolfson Centre for Magnetics) was completed. Together with Končar D&ST in this project another six European transformer manufacturers participated. The cooperation with Končar Institute for Electrical Engineering, Faculty of Electrical Engineering and the Faculty of Mechanical Engineering has been continued. More and more of young professionals is attending specialist and doctoral studies at faculties of University of Zagreb.

Experts from Technical Development Department and other departments actively participated in symposiums and seminars on transformers (Energycon in Zagreb, CIGRE Cavtat) and worked in the SO2 study committee for transformers and in the technical committee HZN/TO E1 Power Transformers.

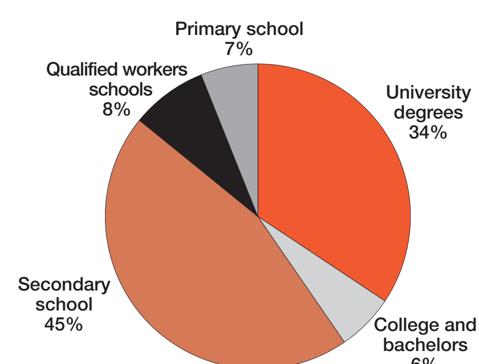
13. Human Resources

At the beginning of the 2013 there were 447 employees in Končar D&ST. During year new 24 employees were employed and 4 left. The year ended with 466 employees. Employment policy is to continue to rejuvenate the company so most of new employees in the 2013 were younger ones, and the average age of employees is still 40 years.

In the area of employee training and continuing education company still carries out continuous training at universities and polytechnics studies. The company supports enrolment in postgraduate studies, the result of which is a growing number of employees being educated in various technical and economic faculties. Rewarding approach and promotion of professional and scientific training significantly enriches the knowledge of the company as well as enables contacts with the relevant university institutions.

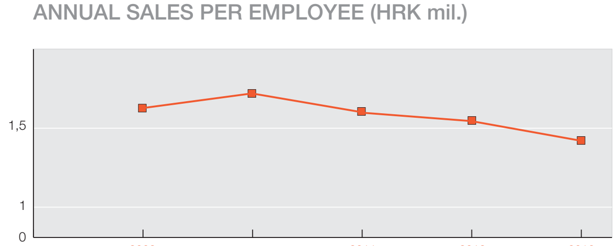
EDUCATION STRUCTURE OF EMPLOYEES AT YEAR-END:

Level of education	Years of education	2012.	2013.
University degrees	16+	**139**	160
College and bachelors	14-15	**33**	27
Secondary school	12	**203**	211
Qualified workers schools	11-13	**36**	37
Primary school + training on the job	8	**36**	31
Total		**447**	466

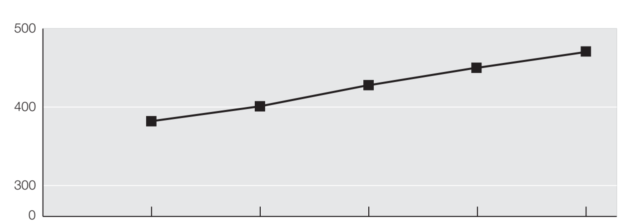


Productivity measured by sales per employee in 2013 was HRK 1.41 million.

ANNUAL SALES PER EMPLOYEE (HRK mil.)



NUMBER OF EMPLOYEES



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

Končar D&ST operates in accordance with internationally recognized standards and requirements of corporate social responsibility and, therefore, through its activities, encourages their utilisation for development of community and preserving the environment for future generations.

Supervisions of certified quality management system according to ISO 9001:2008, Environmental Management according to ISO 14001:2004 and Management of Health and Safety according to OHSAS 18001:2007 are regularly conducted through periodic audits certification, internal audits are conducted as well as audits of customers. IT support enables continuous collection and analysis of data, which is periodically presented to the Management Board.

Končar D&ST in its operations rationally use energy and raw materials, handles waste management, and continuously prevents activities that could have a negative impact on the environment. Preventive environmental strategies are continuously applied to production processes, products and services in order to increase efficiency and reduce risks to humans and the environment.

By investing in modern equipment while taking into account the safety rules contribute to the reduction of hazards and risks, and thus potential injuries at work.

This is confirmed and obtained certificates of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007.

15. Future development strategy

Development, sales and production of oil distribution transformers up to 2500 kVA and 36 kV, special transformers, medium power transformers up to 100 MVA and 170 kV, and know how transfer projects on selected markets, and continue to be Končar D&ST main business activities.

Identifying and meeting the needs of target customers to the largest extent, commitment to quality and sustainability, technical and organizational development, training and motivating employees for excellent work and for teamwork is the way through which Končar D&ST shall continue to secure high ranking and even better place among top European producers of distribution, special and medium power transformers.

Final remark: From the end of the year 2013 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 2013 ANNUAL REPORT

Pursuant to Article 403 of the Croatian Act on Capital Market (Official Journal NN 88/08, 146/08, 74/09, 54/13), we herewith declare that according to our best knowledge and belief:

- Annual Financial Statements of Končar D&ST d.d. for 2013 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, 25 February 2014

On behalf of Kon_ar 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 18 March 2014, Supervisory Board and Management Board have adopted the following

DECISION
ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2013

Supervisory Board and Management Board of Končar-D&ST d.d. have jointly adopted the Annual Financial Statements for 2013.

Explanation

Supervisory Board and Management Board of Končar-D&ST d.d. have jointly adopted the Annual Financial Statements for 2013 as follows:

Total income	HRK 665,018,465
Total expenses	HRK 632,542,791
Profits before taxation	HRK 32,475,674
Corporate income tax	HRK 2,111,623
Profits after taxation	HRK 30,364,051
Total assets / liabilities	HRK 506,823,498

Zagreb, 18 March 2014

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 18 March 2014, Supervisory Board and Management Board adopted the following

DECISION
ON ALLOCATION OF PROFITS FOR 2013

1. Profits after taxation (net profits) for 2013 amount to HRK 30,364,051.01.

2. Management Board and Supervisory Board have allocated a sum of HRK 18,217,178.69 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 47.52 per share, which totals HRK 12,146,872.32 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.

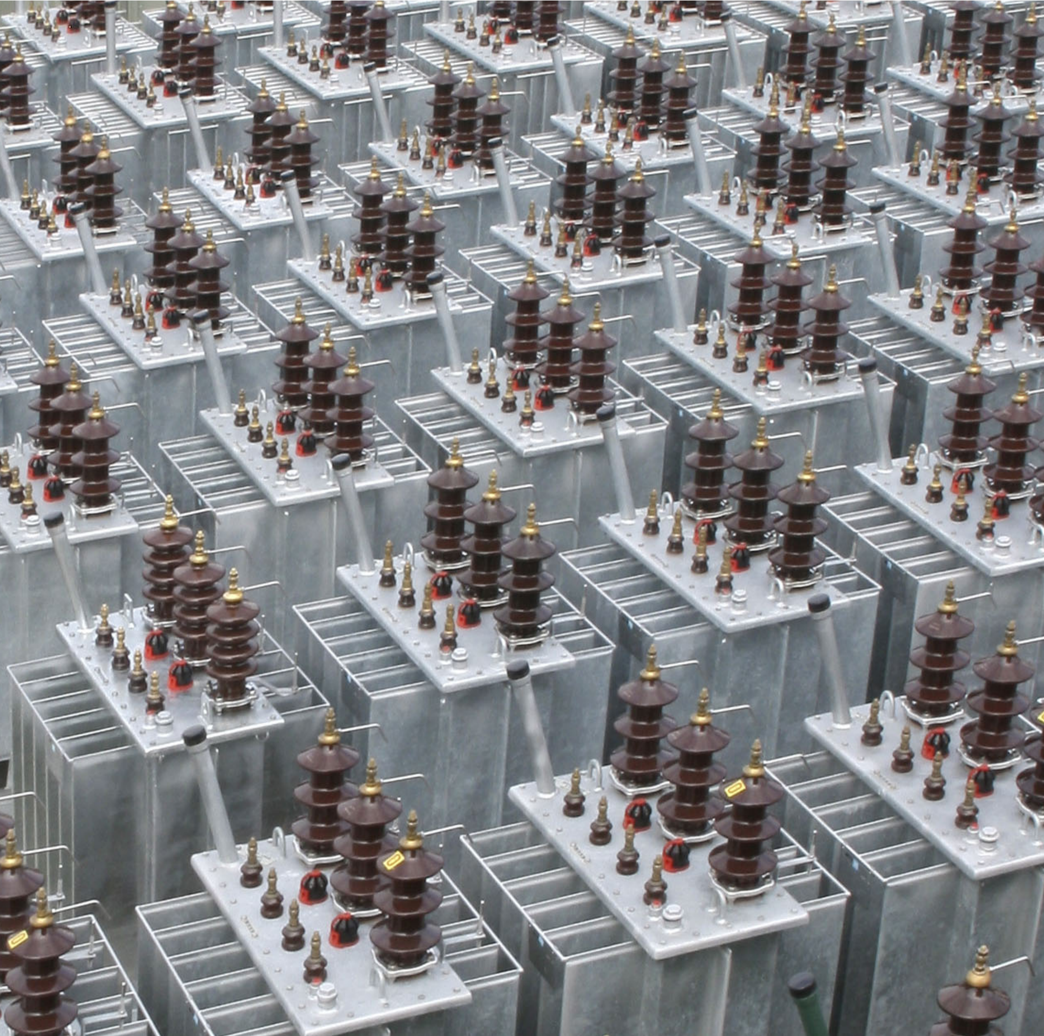
Zagreb, 18 March 2014

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

III.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES




KONČAR

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards 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
5

Končar - Distribution and Special Transformers Inc.
Josipa Mokrovića 8, 10 090 Zagreb
25 February 2014

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 2013, the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 45.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the Company's financial position as of 31 December 2013 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, Director
Zagreb, 25 February 2014

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 2013

	Notes	2013 in HRK	2012 in HRK
Sales	3	646,022,798	680,123,230
Other operating income	4	4,846,175	9,010,694
Operating revenues		**650,868,973**	**689,133,924**
Changes in inventories (work in progress and finished goods)		3,367,654	26,940,559
Cost of materials and energy	5	(406,318,060)	(457,840,873)
Cost of goods sold		(26,005,553)	(45,507,450)
Cost of services	6	(60,068,478)	(50,438,789)
Personnel costs	7	(99,090,252)	(94,059,406)
Depreciation and amortization	8	(14,740,413)	(8,172,824)
Other costs	9	(16,988,488)	(16,162,152)
Value adjustment of current assets	10	(383,780)	—
Provisions	11	(493,521)	(5,189,625)
Other operating expenses	12	(1,514,812)	(3,708,338)
Operating expenses		**(622,235,703)**	**(654,138,898)**
Operating profit		**28,633,270**	**34,995,026**
Financial income	13	14,149,491	10,076,917
Financial expenses	14	(10,307,087)	(9,427,311)
Financial result		**3,842,404**	**649,606**
Total revenues		**665,018,464**	**699,210,841**
Total expenses		**(632,542,790)**	**(663,566,209)**
Profit before taxation		**32,475,674**	**35,644,632**
Corporate income tax	15	(2,111,623)	(2,353,472)
PROFIT FOR THE YEAR		**30,364,051**	**33,291,160**
Earnings per share	16	118,79	130,24
Other comprehensive income		—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**30,364,051**	**33,291,160**

Notes are an integral part of the Statement of profit and loss and other comprehensive income

Statement of financial position

31 December 2013

	Notes	31/12/2013 HRK	31/12/2012 HRK
ASSETS			
Intangible assets	17	1,942,003	1,857,335
Property, plant and equipment	18	162,450,685	155,080,476
Investments in associates	19	1,732,458	1,732,458
Financial assets	19	2,812,364	730,316
Non-current assets		**168,937,510**	**159,400,585**
Inventories	20	138,657,407	143,237,044
Non-current assets held for sale	21	5,960,000	5,960,000
Receivables from related companies	22	10,751,432	14,801,699
Trade accounts receivable	23	120,689,150	162,361,333
Receivables for value added tax		5,918,512	15,412,096
Other receivables		709,756	174,824
Financial assets	24	1,913,754	—
Cash and cash equivalents	25	52,932,968	15,660,651
Current assets		**337,532,979**	**357,607,647**
Prepaid expenses and accrued income	26	**353,009**	**275,822**
TOTAL ASSETS		**506,823,498**	**517,284,054**
Off-balance sheet items	37	**145,029,817**	**97,749,530**

Statement of financial position - continued

	Notes	31/12/2013 HRK	31/12/2012 HRK
EQUITY AND LIABILITIES			
Subscribed capital	27	**76,684,800**	**76,684,800**
Legal reserves		3,839,641	3,839,641
Statutory reserves		93,063,054	73,089,487
Other reserves		11,371,723	11,833,228
Reserves from earnings		**108,274,418**	**88,762,356**
Profit for the year		**30,364,051**	**33,291,160**
EQUITY		**215,323,269**	**198,738,316**
Provisions for retirement and jubilee rewards and similar		1,592,164	1,463,380
Other provisions		138,049,087	138,557,506
Non-current provisions	28	**139,641,251**	**140,020,886**
Liabilities toward banks and other financial institutions		47,091,522	57,724,815
Non-current liabilities	29	**47,091,522**	**57,724,815**
Liabilities toward related companies	30	3,634,626	6,196,229
Liabilities toward banks and other financial institutions	31	11,279,044	8,346,736
Trade accounts payable	32	44,185,012	56,553,005
Liabilities for advance payments received	33	28,744,546	29,091,643
Other liabilities	34	12,776,320	12,380,324
Current liabilities		**100,619,548**	**112,567,937**
Accrued expenses and deferred income	35	**4,147,908**	**8,232,100**
TOTAL EQUITY AND LIABILITIES		**506,823,498**	**517,284,054**
Off-balance sheet items	37	**145,029,817**	**94,749,530**

Notes are an integral part of the Statement of financial position

Statement of cash flows

31 December 2013

	Notes	2013 in HRK	2012 in HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		721,191,949	660,755,017
Cash receipts from insurance compensations		264,358	232,392
Cash receipts from tax returns		72,309,599	113,752,447
Cash receipts from interests		285,101	63,489
Other cash receipts		7,273,775	2,019,480
Total cash receipts from operating activities		**801,324,782**	**776,822,825**
Cash payments to trade accounts payable		(557,693,725)	(599,079,868)
Cash payments to employees		(94,939,762)	(89,865,947)
Cash payments to insurance companies		(1,383,265)	(1,186,873)
Cash payments for interests		(3,853,562)	(1,117,819)
Cash payments for taxes		(48,438,697)	(88,405,630)
Other cash payments		(18,936,253)	(12,561,234)
Total cash payments for operating activities		**(725,245,264)**	**(792,217,371)**
Net cash flow from operating activities		**76,079,518**	**(15,394,546)**
Cash flow from investing activities			
Proceeds from disposal of non-current assets		1,256,215	538,330
Dividends received		1,614,110	1,739,648
Purchase of intangible and tangible assets		(21,246,227)	(117,111,489)
Net cash used in investing activities		**(18,375,902)**	**(114,833,511)**
Cash flow from financing activities			
Other proceeds from financial activities		14,000,000	192,673,038
Repayment of loans, debentures and other borrowings		(7,108,961)	(7,759,760)
Dividends paid		(13,322,338)	(13,483,871)
Other cash payments for financial activities		(14,000,000)	(67,666,302)
Net cash from/used in financing activities		**(20,431,299)**	**107,960,262**
Increase (decrease) in cash		**37,272,317**	**(22,267,795)**
Cash and cash equivalents at the beginning of the year	25	15,660,651	37,928,446
Cash and cash equivalents at the end of the year	25	**52,932,968**	**15,660,651**

Notes are an integral part of the Statement of cash flows

Statement of changes in equity

31 December 2013

	Subscribed capital HRK	Reserves from earnings HRK	Current year profit HRK	Total HRK
Balance at 1 January 2012	**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
Transactions with owners:				
Allocation of the profit for the year 2012	—	19,973,567	(19,973,567)	—
Dividends paid	—	—	(13,317,593)	**(13,317,593)**
Other decreases	—	(461,505)	—	**(461,505)**
Profit for the year	—	—	30,364,051	**30,364,051**
Total comprehensive income	—	—	**30,364,051**	**30,364,051**
Balance at 31 December 2013	**76,684,800**	**108,274,418**	**30,364,051**	**215,323,269**

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

Notes to the financial statements

31 December 2013

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 2013 the Company had 466 employees, while on 31 December 2012 the Company had 447 employees.

The Company has a branch (which is not a legal entity) in Morocco, and its financial information are also included in financial statements of the Company.

The employee structure is as follows:

	31/12/2013	31/12/2012
M.Sc., Ph.D.	12	10
University degrees	148	131
College	27	32
Secondary school	211	207
Qualified workers schools	37	37
Primary school + training on the job	31	30
Total	**466**	**447**

Members of the Supervisory Board:

Darinko Bago, president,
Miroslav Poljak, deputy
Jozo Miloloža, member
Davor Mladina, member
Josipa Šutalo, member

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 2013, the exchange rate for USD 1 and EUR 1 was HRK 5.55 and HRK 7.64, respectively (31 December 2012: HRK 5.73 and HRK 7.55 respectively).

Standards, Amendments and Interpretations issued by IASB, adopted by the European Union and made effective

For the year ended 31 December 2013 the Company has adopted the following amendments which are or have become effective during the year, and in accordance with the requirements, presented comparative data. The application of new standards had no effect on the equity as at 1 January 2013:

- Changes in IAS 1 - Presentation of Financial statements - amendments effective for annual periods beginning on or after 1 July 2012 and amendments effective for annual periods beginning on or after 1 January 2013. As a result of "Presentation of other comprehensive income items" as part of amendments of IAS 1, certain points have been amended, revised or deleted for the following standards: IAS 1, 12, 20, 21, 32, 33, 34 and IFRS 1, 5 and 7;
- IFRS 1 First time adoption of IFRS - replacement of fixed dates for certain exceptions - effective for annual periods beginning on or after 1 January 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 January 2013;
- IAS 12 Income taxes (revised) - limited scope amendments effective for annual periods beginning on or after 1 January 2013;
- IFRS 13 - Fair value measurement - new standard effective for annual periods beginning on or after 1 January 2013;
- IAS 19 Employee benefits (revised) - amendments effective for annual periods beginning on or after 1 January 2013. As a result of revised IAS 19 the following standards have been also amended: IAS 24, IFRS 1, IFRS 8, IFRS 13 and IFRIC 14;
- IFRS 7 Financial instruments: Disclosures - offsetting Financial Asset and Financial Liabilities - amendments effective for annual periods beginning on or after 1 January 2013;
- 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 2013;
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for annual periods beginning on or after 1 January 2013.

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

At the approval date 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 2013:

- 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;
- 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 - amendments requiring disclosures about the initial application of IFRS 9 for which mandatory effective date is deferred;
- IFRS 9 Financial Instruments - new standard for which mandatory effective date is deferred;
- Amendments to IAS 36 - Impairment of assets - amendments arising from recoverable amount disclosures for non-financial assets - effective for annual periods beginning on or after 1 January 2014;
- Amendments to IAS 39 - Financial instruments: Recognition and Measurement - amendments for novations of derivatives - effective for annual periods beginning on or after 1 January 2014;
- Annual Improvements to IFRSs 2010 - 2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) - effective for annual periods beginning on or after 1 July 2014 by IASB, not endorsed for use by EU yet;
- Annual Improvements to IFRSs 2011 - 2013 Cycle (IFRS 1, IFRS 3, IFRS 13 and IAS 40) - effective for annual periods beginning on or after 1 July 2014 by IASB, not endorsed for use by EU yet.

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 %)	
	2013.	2012.
Concessions, patents, licences, software etc.	25%	25%
Buildings	3% - 5%	3% - 5%
Plant and equipment	10% -25%	10% - 25%

The effect of changes in depreciation rates is the cost of depreciation in 2012 which is less 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 separately disclose 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

	2013 in HRK	2012 in HRK
Domestic sales of goods	133,138,686	171,332,066
Foreign sales of goods	512,884,112	508,791,164
Total	**646,022,798**	**680,123,230**

Domestic and foreign sales include revenue from the sale to related parties as presented in Note 38.

Sales by operating segments in 2013:

	Medium power transformers HRK	Distribution transformers HRK	Total HRK
Sales to unrelated parties	373,587,398	230,033,010	**603,620,408**
Sales to related parties	27,894,238	14,508,152	**42,402,390**
Total	**401,481,636**	**244,541,162**	**646,022,798**

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

	2013 in HRK	2012 in HRK
Collection of previously impaired receivables	—	5,998,311
Income from the sale of non-current assets	1,388,930	122,200
Income from the release of provisions	873,156	—
Income from the inventory value adjustments	728,437	2,045,549
Income from rebates and discounts	486,612	114,322
Prior year income	481,423	145,433
Inventory surpluses	314,711	175,608
Income from insurance claims	264,358	232,392
Other income	177,170	176,879
Income from collected penalties, awards and similar	131,378	—
Total	**4,846,175**	**9,010,694**

5. COSTS OF MATERIALS AND ENERGY

	2013 in HRK	2012 in HRK
Costs of raw materials	398,727,825	450,944,130
Cost of energy	6,587,719	6,046,503
Cost of small inventory	1,002,516	850,240
Total	**406,318,060**	**457,840,873**

6. COSTS OF SERVICES

	2013 in HRK	2012 in HRK
Transportation costs	19,665,970	15,275,158
Services related to product design and sale	10,209,669	4,330,622
Maintenance costs	6,107,149	6,915,494
Compensation for the usage of company's name and trade mark - Končar Inc.	4,162,970	3,836,751
Entertainment	2,535,771	3,064,440
Costs of telephone and post	1,708,368	2,452,639
Rent	1,592,834	1,569,672
Intellectual services	1,218,799	1,295,023
Utilities costs	707,906	603,352
Advertising services	680,040	480,587
Costs of agent commissions	7,305,368	6,150,749
Other costs	4,173,634	4,464,302
Total	**60,068,478**	**50,438,789**

7. PERSONNEL COSTS

	2013 in HRK	2012 in HRK
Net salaries and wages	53,185,509	50,413,409
Taxes and contributions from salary	32,796,658	30,884,696
Contributions on salary	13,108,085	12,761,301
Total	**99,090,252**	**94,059,406**

Net salaries in the amount of HRK 53,185,509 (HRK 50,413,409 in 2012) contain compensations to the Management Board consisted from their salary in the amount of HRK 1,588,666 (in 2012 in the amount of HRK 1,624,665) and an accrual for the Management Board bonus in the amount of HRK 909,900 (HRK 909,900 in 2012), which are an integral part of the personnel expenses.

8. DEPRECIATION AND AMORTIZATION

	Notes	2013 in HRK	2012 in HRK
Depreciation	18	14,051,251	7,694,267
Amortization	17	689,162	478,557
Total		**14,740,413**	**8,172,824**

9. OTHER COSTS

	2013 in HRK	2012 in HRK
Travelling costs and per-diems	3,050,681	2,531,031
Employee transportation costs	2,945,718	2,734,588
Bank services	2,211,804	2,912,738
Insurance premiums	1,845,163	1,489,913
Compensations to employees	1,622,582	1,223,521
Compensations to members of the Supervisory Board	454,569	433,280
Contributions, memberships and similar costs	265,672	300,538
Taxes and contributions non-dependable on the results and similar costs	37,236	45,438
Other	4,555,063	4,491,105
Total	**16,988,488**	**16,162,152**

10. VALUE ADJUSTMENTS

Value adjustment refers to impairment of trade receivables.

11. PROVISIONS

	2013 in HRK	2012 in HRK
Provisions for warranty costs	—	4,840,833
Provisions for retirement and jubilee awards	128,784	348,792
Provisions for litigations	364,737	—
Total	**493,521**	**5,189,625**

Movement in provisions by categories is presented in Note 28.

12. OTHER OPERATING EXPENSES

	2013 in HRK	2012 in HRK
Costs identified subsequently	506,580	660,543
Penalties, indemnifications and similar costs	185,704	2,024,137
Loss from the sale of non-current assets	137,020	198,032
Inventory shortages	123,411	85,080
Other operating expenses	562,097	740,546
Total	**1,514,812**	**3,708,338**

13. FINANCIAL REVENUES

	2013 in HRK	2012 in HRK
From the relations with related parties		
Foreign exchange gains on receivables	110,634	149,240
	110,634	***149,240***
From the relations with un-related parties		
Foreign exchange gains	8,029,590	6,991,127
Gains on fair value of derivate instruments	2,754,965	—
Revenues from dividends and shares in profits of associates	2,902,010	1,739,648
Interest income on deposits	252,337	1,024,547
Other interest income	99,955	172,355
	14,038,857	***9,927,677***
Total	**14,149,491**	**10,076,917**

14. FINANCIAL EXPENSES

	2013 in HRK	2012 in HRK
From the relations with related parties		
Foreign exchange losses	14,173	14,344
	14,173	***14,344***
From the relations with un-related parties		
Interest on loans and other financial instruments	2,592,035	1,590,244
Foreign exchange losses	7,700,879	7,822,723
	10,292,914	***9,412,967***
Total	**10,307,087**	**9,427,311**

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.

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

	Notes	2013 in HRK	2012 in HRK
Accounting profit before taxation		32,475,674	35,644,632
Corporate income tax at 20%		6,495,135	7,128,926
Non-allowable expenses (20%)		374,427	1,191,338
Decreases in taxable basis (20%)		(836,353)	(1,596,060)
Adjusted corporate income tax		6,033,209	6,724,204
Incentives		(3,921,586)	(4,370,732)
Tax liability		**2,111,623**	**2,353,472**
Effective tax rate		7%	7%
Advances paid		2,607,054	1,683,900
Difference in return		495,431	—
Tax payable	34	—	669,572

16. EARNINGS PER SHARE

	2013 in HRK	2012 in HRK
Basic		
Net profit for the year	30,364,051	33,291,160
Weighted average number of shares (ordinary and preference)	255,616	255,616
Earnings per share in HRK	**118.79**	**130.24**

In previous years, the dividend declared on ordinary and preference shares was equal. The Company does not own treasury shares.

Diluted earnings per share

Diluted earnings per share for the year 2013 and 2012 is the same as basic since the Company had no convertible instruments or options in both periods.

17. NON-CURRENT INTANGIBLE ASSETS

	Concessions, patents, licences, software and other HRK	Assets under construction HRK	Total HRK
Cost			
Balance at 1 January 2012	**4,982,580**	**474,331**	**5,456,911**
Additions	—	1,177,366	1,177,366
Transfer	821,845	(821,845)	—
Balance at 31 December 2012	**5,804,425**	**829,852**	**6,634,277**
Additions	—	773,830	773,830
Transfer	1,189,343	(1,189,343)	—
Balance at 31 December 2013	**6,993,768**	**414,339**	**7,408,107**
Accumulated amortization			
Balance at 1 January 2012	**4,298,385**	—	**4,298,385**
Amortization for the year	478,557	—	478,557
Balance at 31 December 2012	**4,776,942**	—	**4,776,942**
Amortization for the year	689,162		689,162
Balance at 31 December 2013	**5,466,104**		**5,466,104**
Net carrying value			
31 December 2012	1,027,483	829,852	1,857,335
31 December 2013	**1,527,664**	**414,339**	**1,942,003**

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2013 amounts to HRK 4,538,211 (31 December 2012: 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 2012	**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**
Additions	—	—	—	—	7,613,800	27,269,901	**34,883,701**
Transfer	—	54,004,063	51,976,749	7,303,025	—	(113,283,837)	—
Disposals	—	(425,639)	(6,502,259)	(1,097,760)	(12,709,614)	—	**(20,735,272)**
Balance at 31 December 2013	**9,012,529**	**117,275,295**	**167,938,432**	**23,987,898**	**117,772**	**12,613,649**	**330,945,575**
Accumulated depreciation							
Balance at 1 January 2012	—	**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**
Depreciation for the year	—	3,605,654	8,396,731	2,048,866	—	—	**14,051,251**
Other decreases	—	—	615,605	—	—	—	**615,605**
Disposals	—	(303,267)	(6,502,258)	(1,083,111)	—	—	**(7,888,636)**
Balance at 31 December 2013	—	**54,769,677**	**99,805,434**	**13,919,779**	—	—	**168,494,890**
Net carrying value							
31 December 2012	9,012,529	12,229,581	25,168,586	4,828,609	5,213,586	98,627,585	**155,080,476**
31 December 2013	**9,012,529**	**62,505,618**	**68,132,998**	**10,068,119**	**117,772**	**12,613,649**	**162,450,685**

The carrying value of real estate under mortgage as at 31 December 2013 amounts to HRK 58,3363,266 (31/12/2011: HRK 21,242,110). The total amount of mortgages registered over these assets amounts to EUR 36.7 million (31/12/2012: EUR 36.7 million) (Note 29).

Assets under construction in the amount of HRK 12,613,649 mainly relate to the line of cross-cutting sheet metal.

The gross carrying value of all non-current assets fully depreciated and still in use on 31 December 2013 amounts to HRK 103,091,614 (2012: HRK 103,091,614).

19. NON-CURRENT FINANCIAL ASSETS

	31/12/2013 HRK	31/12/2012 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)	1,717,200	429,300
	1,979,216	***691,316***
Financial assets available for sale		
Shares in Zagrebačka Bank d.d., Zagreb	**39,000**	**39,000**
Other financial assets		
Derivative instruments - FX Forward contracts	**794,148**	—
Total	**4,544,822**	**2,462,774**

20. INVENTORIES

	31/12/2013 HRK	31/12/2012 HRK
Raw materials	49,127,768	57,962,126
Work in progress	56,150,270	48,346,978
Unfinished and semi-finished products	5,778,535	5,467,257
Finished products	29,362,552	34,109,468
Minus: Value adjustment of raw materials	(1,923,396)	(2,651,833)
	138,495,729	**143,233,996**
Advances	161,678	3,048
Total	**138,657,407**	**143,237,044**

The cost of finished goods sold amounts to HRK 469,067 thousand in 2013 (HRK 481,177 thousand in 2012).

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 Inc. in bankruptcy (Note 4). Management of the Company made a decision to sell this real estate and it is working actively towards its achievement giving the existing constraints due to inactive real estate market in Croatia.

22. RECEIVABLES FROM RELATED COMPANIES

	31/12/2013 HRK	31/12/2012 HRK
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	5,926,352	6,239,390
Končar - Engineering for Plant Installation and Commissioning Inc, Zagreb	—	940,968
Končar - Switchgear Inc, Zagreb	908,834	905,090
Končar - Generators and Motors Inc, Zagreb	—	69,725
Končar - Electronics and Informatics Inc, Zagreb	35,938	36,550
Končar - Instrument Transformers Inc, Zagreb	15,000	10,677
Kones AG	3,743,565	6,586,115
	10,629,689	**14,788,515**
Končar - Power Transformers Ltd, Zagreb	121,743	13,184
Total	**10,751,432**	**14,801,699**

As at 31 December 2013, 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
2013	**10,751,432**	10,054,976	189,243	—	507,213	—	—
2012	**14,801,699**	12,448,118	1,465,591	450	887,540	—	—

23. TRADE ACCOUNTS RECEIVABLE

	31/12/2013 HRK	31/12/2012 HRK
Domestic customers	29,182,976	68,485,899
Less: Value adjustment	(3,934,790)	(3,940,642)
	25,248,186	***64,545,257***
Foreign customers	*98,448,271*	*100,452,635*
Less: Value adjustment	(3,007,307)	(2,636,559)
	95,440,964	***97,816,076***
Total	**120,689,150**	**162,361,333**

As at 31 December 2013 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
2013	**120,689,150**	105,876,222	13,924,682	166,162	617,674	75,781	28,629
2012	**162,361,333**	129,496,829	20,918,558	6,572,068	3,078,489	1,320,653	974,736

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

	Notes	2013 in HRK	2012 in HRK
Balance at 1 January		6,577,201	12,570,149
Impaired in the current year	10	377,021	—
Collected in the current year	4	—	(5,998,311)
Written off in the current year		(44,277)	—
Written off in the year (foreign exchange)		32,152	5,363
Balance at 31 December		**6,942,097**	**6,577,201**

24. CURRENT FINANCIAL ASSETS

	31/12/2013 HRK	31/12/2012 HRK
Other current financial assets		
Derivative instruments - FX Forward contracts	1,913,754	—
Total	**1,913,754**	—

25. CASH AND CASH EQUIVALENTS

	31.12.2013. HRK	31.12.2012. HRK
Balance on gyro accounts	4,627,547	266,613
Balance at accounts in foreign currency	21,519,643	15,333,088
Petty cash - HRK	21,007	21,864
Petty cash - foreign currencies	33,020	39,086
Deposits up to three months (interest rate 2%)	26,731,751	—
Total	**52,932,968**	**15,660,651**

26. PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses and accrued income in the amount of HRK 353,009 (HRK 275,822 as at 31 December 2012) 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 2012: HRK 76,684,800) and consists of 255,616 shares at the 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
HPB d.d./HPB GLOBAL	4,299	1,68	5,053	1,98
Knežević Nikola	8,358	3,27	8,358	3,27
Floričić Kristijan	9,916	3,88	9,916	3,88
Erste & Steiermarkische Bank d.d./CSC	5,301	2,07	—	—
Vulić Tomislav	2,470	0,97	2,470	0,97
Radić Antun	3,315	1,30	3,315	1,30
Other	89,773	35,12	94,320	36,89
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 2012 in the amount of HRK 33,291,160 has been distributed, as per the decisions of the Board of Directors, the Supervisory Board and the General Assembly, as follows:

	HRK
Statutory reserves	19,973,566
Liability to pay out dividends	13,317,594
Total	**33,291,160**

Dividends per share paid to Company’s shareholders in 2013 amounted to HRK 52.10 per share.

28. PROVISIONS

	Warranty costs HRK	Legal court cases HRK	Retirement and jubilee rewards HRK	Total HRK
1 January 2012	**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**
Additional provisions	—	364,737	128,784	493,521
Release of provisions	(873,156)	—	—	(873,156)
31 December 2013	**137,684,350**	**364,737**	**1,592,164**	**139,641,251**

29. LONG TERM LIABILITIES

	31/12/2013 HRK	31/12/2012 HRK
Liabilities towards banks and other financial institutions		
Raiffeisen bank Austria d.d., Zagreb - CBRD program	48,722,597	51,002,758
Splitska bank SG - CBRD program	9,647,969	15,068,793
Less: Current portion	(11,279,044)	(8,346,736)
Total	**47,091,522**	**57,724,815**

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

The first loan, in the amount of HRK 15 million and 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 bearing the annual interest rate of 4% and with the 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 started 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 2012	**66,071,551**
Loan repayments	(8,346,736)
New loans	—
Foreign exchange gains/losses	645,751
	58,370,566
Less: Current portion	(11,279,044)
31 December 2013	**47,091,522**

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

	HRK
From 1 to 2 years	9,953,083
From 2 to 3 years	5,727,557
From 3 to 4 years	5,727,557
From 4 to 5 years	5,727,557
More the 5 years	19,955,768
Total	**47,091,522**

30. CURRENT LIABILITIES TOWARD RELATED PARTIES

	31/12/2013 HRK	31/12/2012 HRK
Končar - Infrastructure and Services Ltd, Zagreb	1,112,682	2,084,482
Končar - Electrical Industry Inc, Zagreb	961,566	1,127,136
Končar - Electrical Engineering Institute Inc, Zagreb	455,739	863,932
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	—	717,723
Kones AG, Zürich, Switzerland	385,882	667,615
Končar - Low Voltage Switches and Circuit Breakers Ltd, Zagreb	—	157,407
Končar - Switchgear Inc, Sesvetski Kraljevac	103,875	89,962
Končar - Small Electrical Machines Inc, Zagreb	94,909	62,581
Končar - Instrument Transformers Inc, Zagreb	12,580	53,697
Končar - Electronics and Informatics Inc, Zagreb	52,847	32,453
Končar-Medium Voltage Apparatus, Zagreb	3,546	—
Končar-Steel structures Inc., Zagreb	370,500	—
	3,544,126	**5,856,988**
Končar - Power Transformers Ltd, Zagreb	80,500	339,241
Total	**3,634,626**	**6,196,229**

As at 31 December 2013 the ageing structure of liabilities to related parties liabilities was as follows:

	Total	Undue and collectible	Due but collectible < 60 days	60-90 days	90-180 days	180-365 days	> 356 days
2013	**3,634,626**	3,616,476	18,150	—	—	—	—
2012	**6,196,229**	5,124,501	1,071,728	—	—	—	—

31. CURRENT LIABILITIES TOWARD BANKS AND OTHER FINANCIAL INSTITUTIONS

	Notes	31/12/2013 HRK	31/12/2012 HRK
Current portion	29	11,279,044	8,346,736
Total		**11,279,044**	**8,346,736**

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

	HRK
As at 1 January 2013	**8,346,736**
Loan repayment	(8,346,736)
Plus: Current portion of long-term loans	11,279,044
As at 31 December 2013	**11,279,044**

32. CURRENT TRADE ACCOUNTS PAYABLE

	31/12/2013 HRK	31/12/2012 HRK
Domestic suppliers	15,666,828	21,387,369
Foreign suppliers	28,518,184	35,165,636
Total	**44,185,012**	**56,553,005**

As at 31 December 2013 the ageing structure of trade accounts payable was as follows:

	Total HRK	Undue and collectible HRK	Due but collectible < 60 days HRK	60-90 days HRK	90-180 days HRK	180-365 days HRK	> 356 days HRK
2013	**44,185,012**	42,217,704	1,967,308	—	—	—	—
2012	**56,553,005**	55,778,653	774,352	—	—	—	—

33. LIABILITIES FOR ADVANCE PAYMENTS RECEIVABLES

	31/12/2013 HRK	31/12/2012 HRK
Liabilities for advance payments received		
From domestic customers	346,210	124,000
From foreign customers	27,936,885	28,948,049
Related parties		
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	461,451	19,594
Total	**28,744,546**	**29,091,643**

34. OTHER CURRENT LIABILITIES

	31/12/2013 HRK	31/12/2012 HRK
Liabilities toward employees		
Liabilities for salaries	5,233,004	4,862,115
	5,233,004	***4,862,115***
Liabilities for taxes and contributions and similar		
Liabilities for taxes and contributions	6,470,067	6,081,616
Liabilities for value added tax	198,174	17,016
Other liabilities toward the state	—	54,372
Corporate income tax liability	—	669,572
	6,668,241	***6,822,576***
Other liabilities		
Liabilities for sick leave and similar	74,073	45,378
Liabilities for interest	510,309	528,477
Other liabilities	190,733	23,123
	775,115	***596,978***
Liabilities for dividends	***99,960***	***98,655***
Total	**12,776,320**	**12,380,324**

35. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and deferred income in the amount of HRK 4,147,908 (HRK 8,232,100 at 31 December 2012) relate to deferred income per phase contracts, accrued expenses based on contracts with customers from Nigeria for goods delivered in 2010, accrued agent commissions and other accruals.

36. CONTRACTUAL LIABILITIES

Contractual liabilities of the Company for unfinished projects as of 31 December 2013 amount to HRK 640 million (HRK 512 million at 31 December 2012).

37. OFF-BALANCE SHEET ITEMS

The Company had at 31 December 2013 the following items in its off-balance sheet:

	31/12/2013 HRK	31/12/2012 HRK
Guarantees		
- in HRK	2,709,169	10,482,600
- in foreign currencies	142,320,648	84,266,930
Total	**145,029,817**	**94,749,530**

38. TRANSACTIONS WITH RELATED PARTIES

During 2013 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:

2013

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.	—	961	—	—	4,588
Končar - Power Plant and Electric Traction Engineering Inc.	5,926	—	461	23,238	2,670
Končar - Infrastructure and Services Inc.	36	1,113	—	520	8,197
Končar - electrical Engineering Institute Inc.	—	456	—	3	2,898
Končar - Electronics and Informatics Inc.	—	53	—	275	3,578
Končar - Small Electrical Machines Ltd.	—	95	—	—	1,865
Končar - Generators and Motors Inc	—	—	—	—	41
Končar - Instrument Transformers Inc.	15	13	—	651	644
Končar - Power Transformers Ltd.	122	80	—	1,021	605
Končar - Mediumm Voltage Apparatus Inc.	—	4	—	5	23
Končar - Electrical Vehicles Inc.	—	—	—	18	—
Končar - Switchgear Inc.	909	104	—	1,566	1,151
Končar - Low Voltage Switches and Circuit Breakers Ltd	—	—	—	—	504
Končar - Tools Inc.	—	—	—	—	9
Končar - Engineering for Plant Installation and Commissisioning Inc	—	—	—	555	1
Končar - Steel Structures Inc.	—	370	—	—	503
Kones AG, Switzerland	3,743	386	—	14,550	1,046
Total	**10,751**	**3,635**	**461**	**42,402**	**28,323**

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	Liabilities	Operating activities Libilities for advences pyments	Income	Expenses
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Končar - Electrical Industry Inc.	—	1,127	—	—	4,416
Končar - Power Plant and Electric Traction Engineering Inc.	6,239	718	20	21,410	20,032
Končar - Infrastructure and Services Inc.	—	2,084	—	82	2,177
Končar - electrical Engineering Institute Inc.	—	864	—	—	2,098
Končar - Electronics and Informatics Inc.	37	32	—	666	999
Končar - Small Electrical Machines Ltd.	—	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 - Mediumm Voltage Apparatus Inc.	—	—	—	5	12
Končar - Electrical Vehicles Inc.	—	—	—	38	1
Končar - Switchgear Inc.	905	90	—	1,452	1,118
Končar - Low Voltage Switches and Circuit Breakers Ltd	—	157	—	—	264
Končar - Tools Inc.	—	—	—	—	264
Končar - Engineering for Plant Installation and Commissisioning Inc	941	—	—	2,580	—
Končar - Steel Structures Inc.	—	—	—	—	2,688
Kones AG, Switzerland	6,586	668	—	19,639	2,382
Total	**14,802**	**6,196**	**20**	**46,531**	**43,950**

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:

31/12/2013	Loans and receivables HRK'000	Fair value through P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	**Assets under IAS 39 HRK'000**
Derivative financial instruments - non current	—	794	—	—	**794**
AFS financial assets	—	—	39	—	**39**
Derivative financial instruments - current	—	1,914	—	—	**1,914**
Trade and other receivables	127,670	—	—	—	**127,670**
Trade receivables from related parties	10,751	—	—	—	**10,751**
Cash & cash equivalents	52,933	—	—	—	**52,933**
Total	**191,354**	**2,708**	**39**	—	**194,101**

31/12/2012	Loans and receivables HRK'000	Fair value through P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	**Assets under IAS 39 HRK'000**
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**

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

	31/12/2013 HRK	31/12/2012 HRK
Debt (interest-bearing)	**58,370,566**	**66,071,551**
Long-term loans	47,091,522	57,724,815
Short-term loans (including the current portion of long-term loans)	11,279,044	8,346,736
Less: Cash and cash equivalents	**(52,932,968)**	**(15,660,651)**
Net debt	**5,437,598**	**50,410,900**
Equity	215,323,269	198,738,316
Equity and net debt	220,760,867	249,149,216
Gearing	**3%**	**25%**

Fair value of financial assets and liabilities

Fair value of a financial instrument is the amount at which an asset could be exchanged or a liability be settled between knowledgeable and willing parties in transaction under agreement. The Company uses the following hierarchy for determining fair value of financial instruments:

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

31/12/2013	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Shares listed on stock exchange	39	-	-	39
Fair value of derivative financial instruments	-	2,708	-	2,708
Total	**39**	**2,708**	**-**	**2,747**

31/12/2012	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Shares listed on stock exchange	39	-	-	39
Fair value of derivative financial instruments	-	-	-	-
Total	**39**	**-**	**-**	**39**

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 66,120.

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, MAD, 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:

31/12/2013	EUR	USD	MAD	SEK	CZK	CHF	GBP	Total foreign currencies	HRK	Total
Trade receivables	88,473	5,155	1,191	1,404	3,744	214	1	100,182	35,003	135,185
Other receivables	172	—	108	—	—	—	—	280	6,348	6,628
Advances	260	—	—	—	—	—	—	260	—	260
Cash and cash equivalents	17,345	203	17	2,258	—	1,724	—	21,547	27,642	49,189
Total assets	**106,250**	**5,358**	**1,316**	**3,662**	**3,744**	**1,938**	**1**	**122,269**	**68,993**	**191,262**
Trade payables and other liabilities	26,406	75	838	232	—	1,352	—	28,903	31,693	60,596
Advances	26,613	61	602	926	—	—	—	28,202	542	28,744
Financial liabilities	53,598	—	—	—	—	—	—	53,598	4,773	58,371
Total liabilities	**106,617**	**136**	**1,440**	**1,158**	**—**	**1,352**	**—**	**110,703**	**37,008**	**147,711**

31/12/2012	EUR	USD	MAD	SEK	CZK	CHF	GBP	Total foreign currencies	HRK	Total
Trade receivables	81,412	801	—	22,065	—	124	—	104,402	72,761	177,163
Other receivables	33	—	—	—	—	—	—	33	15,554	15,587
Advances given	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**

	Short-term exposure							Long-term exposure
	EUR HRK	USD HRK	SEK HRK	CZK HRK	CHF HRK	MAD HRK	GBP HRK	EUR HRK
31/12/2013								
Financial assets	106,250	5,358	3,662	3,744	1,938	1,316	1	—
Financial liabilities	(61,572)	(136)	(1,158)	—	(1,352)	(1,440)	—	(45,045)
Total exposure	**44,678**	**5,222**	**2,504**	**3,744**	**586**	**(124)**	**1**	**(45,045)**
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)**

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:

	2013 % Change	2012 % Change	2013 Effect on income before taxes HRK '000	2012 Effect on income before taxes HRK '000
EUR	1%	1%	(5)	(40)
USD	(3)%	(2)%	(162)	(12)
SEK	(3)%	4%	(63)	627
CZK	(7)%	3%	(275)	(4)
CHF	(1)%	1%	(1)	24

This analysis assumes that all other, variables, interest rates especially, remain unchanged. Percentage of changes in exchange rates are determined on the average change in these currencies over the past 12 months. This analysis assumes that all other variables, in particular interest rates remain unchanged.

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

b) Interest rate risk

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

c) Other price risks

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

2) Credit risk

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

The most significant part of credit risk is based on trade receivables.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. From customers with low creditworthiness the Company requires common payment collateral, such as letters of credit, bank collateral, mortgages, debentures, etc.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The Company has not used derivative financial instruments to protect itself against those risks.

3) Liquidity risk

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

The following table shows the maturity of financial liabilities of the Company at 31 December 2013 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 2013						
Liabilities						
Current advances received	28,745	28,745	8,623	14,372	5,750	—
Current liabilities to related parties	3,635	3,635	2,511	697	427	—
Current trade accounts payable	44,185	44,185	29,504	13,165	1,516	—
Other current liabilities	12,776	12,776	10,442	2,334	—	—
Long-term loan liabilities	47,092	47,092	—	—	—	47,092
Short-term loan liabilities	11,279	11,279	—	2,820	8,459	—
Total liabilities	**147,712**	**147,712**	**51,080**	**33,388**	**16,152**	**47,092**

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**

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 2013 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 25 February 2014.

Ivan Klapan

President of the Management Board

Končar – Distribution and Special Transformers, Inc.

Mokrovićeva 8
P. O. Box 100
10090 Zagreb
Croatia

Phone: (+385 1) 378 3713
Fax: (+385 1) 379 4051
E-mail: info@koncar-dst.hr

www.koncar-dst.hr

357017 (2) 2014