



MANAGEMENT BOARD REPORT ON THE BUSINESS ACTIVITY OF THE KONČAR GROUP FOR THE PERIOD JANUARY - JUNE 2011

The KONČAR Group consists of KONČAR - Electrical Industry Inc., as the parent company, and twenty subsidiaries in which the parent company exercises a predominant managerial influence (more than 50 per cent of the votes at the General Assembly). In addition to this, the parent company exercises a minority managerial influence (49 per cent of the votes at the General Assembly) in one company (affiliated company).

All of the companies pertaining to the group are legally independent companies, under the control and strategic guidance of the parent company by the respective supervisory boards of the companies and in accordance with the Companies Act, the KONČAR – Electrical Industry Inc. Charter and the Charters of the individual companies. The parent company also manages the portion of the assets which have not been invested into companies, but are in direct or indirect function of financial support of sales, products and equipment of the subsidiaries as credit-guarantee potential.

Parent company has issued joint and several guarantee in the total amount of HRK 543.3 million, of which HRK 390,9 million corresponds to performance guarantees (bid bonds, advanced payment guarantees, performance guarantees and warranty guarantees).

Business activities of the KONČAR Group are structured as follows:

- Energy and transport: Designing and building of production plants, transmission and distribution plants and the manufacture of accompanying equipment; electric vehicles and electric equipment for vehicles and electric traction plants
- Industry: Electromotor drives, medium and low-voltage electric equipment and catering equipment
- Trade: Electrical household appliances, serial production goods and low-voltage electrical goods
- Special activities: product research and development and infrastructure services

The Management Board

The Supervisory Board appoints and relieves the President of the Management Board and the Members of the Management Board. The terms of office of the President of the Management Board and the Board Members' mandates last for five years, with an option of reappointment. Pursuant to the Companies Act and the Company Charter, the Management Board is responsible for running the operations. In doing so, it is obliged and authorised to take any action and make any decision it deems necessary for the successful management of the Company. The consent of the Supervisory Board is required in making certain decisions stipulated by the KONČAR – Electrical Industry Inc. Charter.

KONČAR – Electrical Industry Inc. is managed by the Management Board consisting of:

Darinko Bago	President of the Management Board
Marina Kralj Miliša	Member of the Management Board
Jozo Miloloža	Member of the Management Board
Davor Mladina	Member of the Management Board
Miroslav Poljak	Member of the Management Board

Končar - Elektroindustrija d.d., Fallerovo šetalište 22, 10000 Zagreb, Hrvatska, www.koncar.hr

The Supervisory Board

Pursuant to the provisions contained in the Companies Act and the KONČAR – Electrical Industry Inc. Charter, the General Assembly makes the decisions on appointing and relieving the Supervisory Board. The Supervisory Board is responsible for appointing and dismissing the members of the Management Board, as well as for supervising the operations of the Company. More significant transactions and business decisions (the amount of transactions has been stipulated by the Company Charter) require the approval of the Supervisory Board. The Supervisory Board consists of the following nine members:

Igor Lučić	Chairman of the Supervisory Board
Jasminka Belačić	Vice-chairwoman of the Supervisory Board
Ante Babić	Member of the Supervisory Board
Kristijan Floričić	Member of the Supervisory Board
Ruder Friganović	Member of the Supervisory Board
Zdenka Matković	Member of the Supervisory Board
Nenad Matić	Member of the Supervisory Board
Đuro Perica	Member of the Supervisory Board
Ivan Rujnić	Member of the Supervisory Board

Končar Group business results for the period January – June 2011

The KONČAR Group achieved a positive financial result for the period January – June 2011. Total consolidated revenues for the half year ended 30 June 2011 amounts to HRK 1,214.7 million, while total expenses amount to HRK 1,132.5 million. The Group's consolidated profit before tax amounts to HRK 82.2 million. The income tax amounts to HRK 9.8 million and the profits after tax totals HRK 72.4 million, of which the portion of the minority stakes in the profits structure amounts to HRK 13.2 million, and the portion of the parent company's shareholders amounts to HRK 59.2 million.

Overall revenues in the amount of HRK 1,131.4 million were generated and they amount to 93.1 per cent of the total revenues. Financial income was generated in the amount of HRK 35.3 million, and it is composed of income from interest and foreign exchange differences in the amount of HRK 34.7 million and other financial income totalling HRK 0.8 million. Financial expenses total HRK 28.7 million and are composed of interest and negative foreign exchange differences in the amount of HRK 28.2 million, financial assets expenses in the amount of HRK 0.4 million and other financial expenses in the amount of HRK 0.1 million. The income from the part of income from associated companies amounted to HRK 48.1 million. The positive difference between financial income and expenses totalled HRK 6.8 million, the operating income amounted to HRK 27.3 million, as well as the income from the part of income from associated companies in the amount of HRK 48.1 million represent the consolidated profit before taxation in the amount of HRK 82.2 million. Of the 21 companies in the KONČAR Group, fifteen companies performed with a profit, while six companies performed with a loss in the total amount of HRK 17 million.

The consolidated sales revenues were generated in the amount of HRK 1,094.8 million and a total of HRK 434.1 million was generated in sales in the domestic market (39.6 per cent of the total sales of goods and services revenues) or a 18.6 per cent decrease with respect to the previous year and a 9.4 per cent decrease according to the plan. The exports generated revenue of sales of goods and services in the amount of HRK 660.7 million (60.4 per cent of total sales). Sales revenues in foreign markets were 8 per

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cent lower than in the same period of the previous year and 1.1 per cent less than the previously planned amount.

The consolidated sales revenues were generated in the amount of HRK 907.5 million or 83 per cent of the overall sales structure of the Group by companies from the business area of Energy and transport, companies from the business area of Trade generated sales in the amount of HRK 85.6 million or 7.8 per cent, sales of the companies from the business area of Industry amounted to HRK 55.8 million or 5.1 per cent, and three of the Special activities companies generated sales in the amount of HRK 45.9 million or 4.1 per cent of the overall sales structure of the Group.

In the structure of the domestic market sales of goods and services revenues, revenues from the sales of goods and services to the Croatian Electricity Company (Hrvatska Elektroprivreda or HEP) account for HRK 147.9 million or 34 per cent of the total domestic market revenue, the companies falling under the industry and shipbuilding industry categories were supplied with goods and services totalling HRK 96.6 million or 22.2 per cent of the total revenues of the sales of goods in Croatia, trading companies were supplied with HRK 67.3 million worth of products, the construction companies with HRK 48.7 million, the Croatian Railways Company (Hrvatske željeznice or HŽ) with HRK 31.2 million, Zagreb Electric Tram Company (ZET) with HRK 26.7 million, whereas the remainder worth HRK 15.7 million pertains to the Croatian Motorways Company (Hrvatske autoceste), the state and local administrations and public enterprises.

In the foreign market for the period January – June 2011 the turnover from the sales of goods and services amounts to HRK 660.7 million. The most significant export undertakings were performed in the markets of Germany; totalling HRK 86.8 million, Nigeria; totalling HRK 69.8 million, Bosnia and Herzegovina; totalling HRK 56.4 million, Sweden; totalling HRK 34.7 million, Finland; totalling HRK 28.1 million and Slovenia; totalling HRK 28 million.

During the same accounting period, investment equipment, raw and primary materials in the amount of HRK 337.9 million were imported. The import was completely covered by the exports and the coverage coefficient amounts to 1.95.

The investment in long term tangible and intangible assets for the period January to June 2011 amounts to HRK 87.1 million. The most considerable part of the abovementioned amount was invested in the following: the continuation of investment in the wind power plant project Pometeno brdo, equipping of the hall A for the integration and testing of the wind power generator gondola, the construction of the new testing station in the company Končar – Distribution and Special transformers Inc., the development of the new generation of 123kV switchgear, the development of autonomous hybrid renewable energy sources (Končar - Electrical Engineering Institute), as well as equipment replacement on the existing electrical substations in Sesevski Kraljevec.

For the period ended 30 June 2011 the KONČAR Group companies contracted a HRK 1,251.1 million worth of new works, which is 12.1 per cent less than the half-year plan for the foreign markets. Of the overall works contracted, 52.5 per cent pertains to the domestic market, and 47.5 per cent to the foreign markets. New works in the value of HRK 829.7 million have been contracted for implementation for the year 2011, while a HRK 421.4 million new works have been contracted for implementation for the year 2012 and subsequent years. The status of the works contracted (active liabilities) at the end of June 2011 totals HRK 2,255.7 million, which is 7 per cent higher as compared with the contracted works at the beginning of the year.

Despite the positive business results achieved during the first half-year period of this year, the complex market conditions which governed the year 2010 have continued to exercise their influence throughout this year. A further decrease in earnings from the sales of products and services on the domestic market, as well as slightly lower earnings on the foreign markets as compared to the same period of the previous year have both had an impact on the overall business results of the Končar Group for the period January to June of the current year. At the same time, an increase in contracted works (active liabilities) has been noted as compared with the situation at the beginning of the year.

The works thus contracted to be carried out in the year 2011 present a solid foundation for the fulfilment of the business plan for the current year. The main concerns of the Končar Group in the following period are creating new business opportunities, maximising efforts in order to increase exports and exploiting to the fullest the potential of the announced investments in Croatia.

Signed on behalf of the Board:

KONČAR – Electrical Industry Inc.
President of the Management Board
Darinko Bago

On 27 July 2011

Statement of the Management Board responsibility

This statement by the Management Board of KONČAR – Electrical Industry Inc. is issued in relation to the preparation and publishing of the consolidated financial statements for the KONČAR Group for the period January - July 2011.

The financial statements have been prepared in accordance with the Croatian Accounting Law valid on the day of publishing of these financial statements, as well as being with the International Financial Reporting Standards.

These consolidated financial statements, to the best of our knowledge, provide a true and fair view of the balance sheet, income statement, cash flow statement and statements of changes in equity of the KONČAR Group.

Signed on behalf of the Management Board:

Končar – Electrical Industry Inc.
President of the Management Board
Darinko Bago

On 27 July, 2011