

nature :: energy :: končar

annual report :: 2002

**KONČAR**

KONČAR - ELECTRICAL INDUSTRIES GROUP



n a t u r e : : e n e r g y : : k o n ě a r

annual report :: 2002

## Basic Indicators

in HRK '000

	2002	2001	2000
Operating revenues	1,561,171	1,410,604	1,266,049
Sales of goods and services	1,512,195	1,349,566	1,227,178
Profit	34,124	28,764	23,222
Net profit	24,039	20,144	17,028
Total assets	2,088,031	1,987,271	1,914,940
Total capital and reserves	1,022,346	1,013,073	1,009,353
Current assets	1,055,418	913,215	798,029
Current liabilities	534,475	480,529	423,499
Number of employees as of Dec. 31	3,989	4,032	3,988
Sales per employee	379	335	308

1 EUR (average for 2002) = 7.407

1 EUR (as of Dec. 31, 2002) = 7.442

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## Foreword by the CEO



In keeping with its business policy as laid out previously, the Končar Group devoted the year 2002 as well to restructuring itself, guided by principles of corporate excellence and transparency in governance, without disregarding either profits or the steady increase in the sales of its products and services, the Company's fundamental goals.

In accordance with these principles, the Restructuring Activities Team, consisting of experts from Končar, the Končar Supervisory Board and the University of Zagreb, completed the Končar Concern Restructuring and Privatisation Program, winning the agreement of PWC / CPP consultants to the programme. It was the programme in this form that the Supervisory Board adopted.

As envisaged by the Program's implementation measures, Končar - Industry Engineering Inc. was liquidated, and Končar - Energy and Transport Engineering Inc. took on its employees and business activities.

A 67 percent stake in the ownership of Končar - Electrical Rotating Machines Inc. was sold to an Italian partner, the new partner assuming the obligation to keep on the employees and double production over a five-year period.

Due to our desire to place much more stress on the position of computer sciences and information technologies within the Končar Group, Končar - Business Informatics Inc. was merged with Končar - Electronics and Informatics Inc. Simultaneously, Končar very successfully launched the production of its personal and portable computer lines. This meant that we additionally strengthened our computer sciences and information technologies within the Group, the long-term goal being to take the leading position in this industry not only in Croatia but also in the surrounding region.

These are only highlights from among a series of measures undertaken during 2002, to be continued in the future as well. Restructuring activities have not resulted in any decline in performance. In comparison to the previous year, the Group's profit increased by 19 percent, sales by 16.7 percent, while contracted jobs grew by 70 percent.

Our employees are Končar's greatest asset, and accomplishments in 2002, as in previous years, are the result of their dedication and hard work. Particular attention, then, was devoted to staff matters this year as well and nearly 15 percent of all personnel underwent some form of additional training during the year. Noteworthy in the context of such specialized care are the 90 scholarship holders educated by Končar as an investment in its own future.

The high level of employee expertise results in high product quality, and 20 companies hold the Quality Management System certificates as per the international ISO 9001 standard and 10 companies hold the Environmental Protection Management System as per the international ISO 14001 standard. Environmental protection and quality assurance are processes subject to ongoing improvements and progress, and are vital for Končar. Therefore, further quality improvements and additional progress in respect to environmental protection are ongoing tasks for all our employees.

I believe that a business year of this degree of success is due reward for all our efforts and is at the same time an obligation upon us to make the next year even better.

Chairman of the Management Board  
Darinko Bago

A handwritten signature in blue ink, appearing to be 'D. Bago', written over a light blue background.

## Supervisory Board Report



This report encompasses the period from January 1, 2002 to December 31, 2002.

During 2002, the Supervisory Board held four sessions in which it discussed and made decisions on an ongoing basis in respect to issues within the Supervisory Board's jurisdiction as per the provisions contained in Article 263 of the Company Act, the Company Charter and the Supervisory Board Procedural Rules, as well as decisions of the General Assembly. These occasions served for the Supervisory Board to give the necessary consents and guidelines to Company's Management Board.

The Supervisory Board considers that the financial reports are in keeping with the status shown in the Company's books and present an accurate representation of the Company's assets and business activities.

During the period from January 1, 2002 to December 31, 2002, the Supervisory Board had the following members:

Supervisory Board Chairman: Neven Mimica

Supervisory Board Deputy Chairman: Roman Nota

Supervisory Board Members: Jasminka Belačić

Georg Eltz

Ruder Friganović

Goran Krmpotić

Ivan Rujnić

Gavin Michael Susman

Dubravka Vukmanović

Based on supervision of the Company's operations conducted according to the legal powers vested in the Supervisory Board, the Supervisory Board has determined that the Company operated in accordance with the law, the General Assembly's decisions and the regulations of the Company.

Zagreb, April 2003

KONČAR-ELECTRICAL INDUSTRIES Inc.

Supervisory Board Chairman

Neven Mimica, MA

A handwritten signature in blue ink, which appears to read "Neven Mimica". The signature is written in a cursive, flowing style.

## Management Board Report



### :: Management Board

The operations of KONČAR - ELECTRICAL INDUSTRIES Inc. during 2002 were managed by the Management Board consisting of:

CEO: Darinko Bago

Management Board members: Marina Kralj Miliša, Jozo Miloloža, Davor Mladina, Božidar Piller, Vladimir Plečko

### :: Income Statement

The KONČAR Group generated a net profit in the amount of HRK 24 million, of which HRK 17.6 million belongs to minority interests, and HRK 6.4 million to the parent company.

The generated operating revenues accounted for HRK 1,561.2 million, which exceeds the actual financial figure for the previous year by 10.7 percent. Operating expenses accounted for HRK 1,550.4 million, exceeding last year's figure by 10.6 percent. Hence business activities generated a profit of HRK 10.8 million, an amount 17.4 percent greater than in 2001.

Financial and extraordinary revenues were HRK 23.3 million greater than financial and extraordinary expenses, and coupled with pre-tax business activity profit, totaled HRK 34.1 million.

Profit tax amounted to HRK 10.1 million.



## Management Board Report

### :: Balance Sheet

As of December 31, 2002, total assets and principal were HRK 100.7 million, i.e. 5.1 percent greater than on the same day the year before.

The Company's asset structure was noticeably improved. Fixed tangible assets were reduced by HRK 26.3 million, i.e. 3.1 percent, mostly because of divestiture of buildings and real estate. Intangible assets were reduced by HRK 0.2 million, i.e. 1.4 percent. Total receivables from trade debtors increased by HRK 81.6 million, i.e. 16.5 percent, while both fixed and current financial assets as well as cash increased by HRK 39.9 million, i.e. 10.2 percent. Inventories increased by HRK 13.5 million, i.e. 4.8 percent.

The following structural changes occurred on the liability side:

- Total capital including reserves and undistributed profits increased by HRK 9.2 million
- Long-term provisions increased by HRK 4 million, i.e. 1.8 percent.
- Long-term and current liabilities by way of loans increased by only HRK 0.5 million, i.e. 0.3 percent.
- Amounts due to trade creditors increased by HRK 31.9 million, i.e. 13.1 percent.
- Minority stakes increased by HRK 3.6 million, i.e. 2.7 percent.

The maturity structure of the sources of funds and the funds themselves is favorable. Capital, provisions and long-term liabilities are 21.1 percent greater than overall fixed assets.

Current assets are two times greater than current liabilities, and 1.6 times greater than total liabilities. The favorable maturity structure of the sources and funds, coupled with a favorable relation between current assets and current liabilities and a relatively low level of credit indebtedness (loans comprise 9 percent of total sources) indicates the financial stability and liquidity of the Group.

### :: Cash flow

The cash and cash equivalents status at the end of 2002 amounted to HRK 212.6 million, i.e. the amount is 35.8 percent greater than its level at the start of the year. The difference of HRK 33.7 million constituted the actual pure cash flow, as a result of a positive cash flow from business activities amounting to HRK 43.9 million and a negative cash flow from investments and financial activities amounting to HRK 6.3 million and HRK 3.9 million, respectively.

## Organization, Ownership Structure and Management

The KONČAR Group includes the parent company with its 25 subsidiary companies in the country, divided into four business areas (Energy, Industry, Trade and Special Activities), five affiliated companies (companies in which KONČAR - ELECTRICAL INDUSTRIES Inc. has a considerable equity stake but a minority management control), as well as subsidiaries and representative offices abroad. The names of the companies broken down by business area and with their respective addresses can be found at the end of this report.

The core production program of the companies within the KONČAR Group consists of the manufacture of electrical equipment and power generation, transmission and distribution plants, as well as equipment for use in other activities of the company (industry, households, traction, etc.)

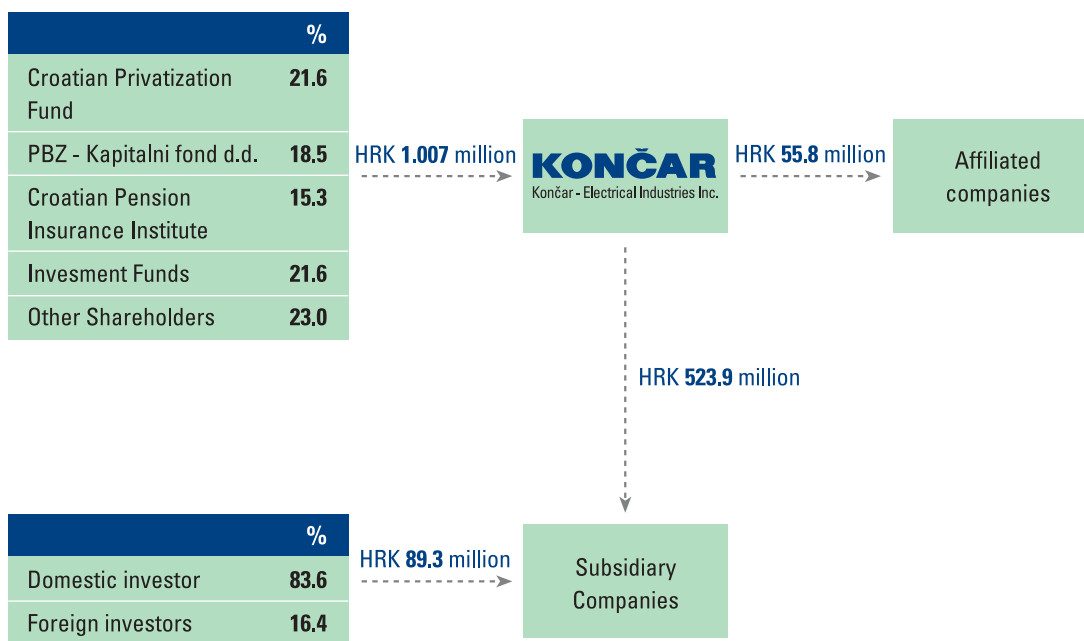
A detailed description of the production program can be found at [www.koncar.hr](http://www.koncar.hr)

Shareholder equity of the parent company KONČAR - ELECTRICAL INDUSTRIES Inc. amounts to HRK 1,006,821,200 and is distributed in 2,517,053 shares with a unit value of HRK 400.

The shareholders consist of legal and natural persons from Croatia and abroad, while they exercise their interests through the General Assembly and the Supervisory Board, in accordance with Republic of Croatia's legislation.

Subsidiary companies are (mostly) joint-stock companies with KONČAR - ELECTRICAL INDUSTRIES Inc. as the majority shareholder, the small shareholders mainly made up of employees but also of other investors.

### :: Ownership Structure as of December 31, 2002



## Sales of Good and Services

Revenue totaling HRK 1,512.2 was generated from the sales of goods and services, which is 17 percent more than the figure for 2001, measured on a comparable basis (because of status changes in the company since 2001, figures for Electrical Rotating Machines Rijeka were excluded).

Of the total sales figure, 40 percent was generated in foreign markets.

Sales in the domestic market were 29 percent greater than in the same period of the previous year, and account for 60 percent of overall sales. The Croatian Electricity Company is the greatest buyer in the domestic market (48 percent of total domestic sales). In comparison to 2001, sales to the Croatian Electricity Company grew by 38 percent.

Total exports of goods and services came to HRK 593.3 million and were 2 percent greater than in 2001. A perceptible growth of exports in comparison to the year 2001 was achieved in the markets of Saudi Arabia, Cyprus, Russia, Slovenia and Yugoslavia.

KONČAR companies sold exports worth HRK 404.7 million to the first 10 countries, i.e. 68 percent of KONČAR's overall exports.

in HRK '000

Business area	index*		index*		Total	index*
	Croatia	2002/2001	Exports	2002/2001		
Energy and Transport	669,329	132	451,914	100	1,121,243	121
Industry	82,021	110	55,730	114	137,751	112
Trade	146,932	104	72,850	122	219,782	109
Special activities	20,654	77	12,765	71	33,419	75
Total	918,936	129	593,259	102	1,512,195	117

\* due to data incomparability, the actual sales figures for 2001 exclude data for the Rijeka-based Electrical Rotation Machines (status changes in the company were effective in 2002)

### :: Structure of Buyers in Croatia

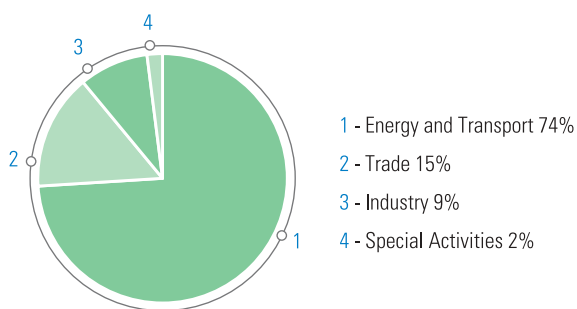
in HRK '000

	2002	%	2001	%
Croatian Electricity Company	443,161	48	320,227	44
Trade	209,027	23	190,181	26
Croatian Railways	103,103	11	28,087	4
Industry and shipbuilding industry	73,627	8	103,927	14
State administration	37,079	4	32,675	4
Public enterprises	36,964	4	31,994	4
Construction industry	15,975	2	22,380	3
Other buyers	0		4,415	1
TOTAL	918,936	100	733,886	100

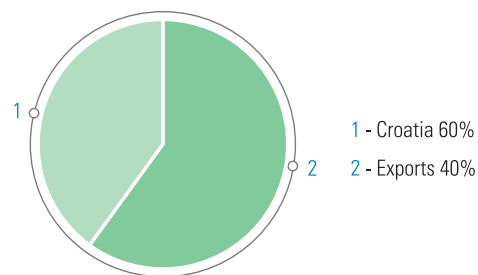
## Sales of Good and Services

### 2002 Sales of Goods and Services

by Business Area



### Sales of Goods and Services Structure



### Exports Structure

in HRK '000

Country	2002	%	2001	%	2000	%
Bosnia-Herzegovina	99,166		116,803		62,202	
Slovenia	68,342		55,613		49,177	
Germany	38,757		34,314		33,184	
Yugoslavia	33,080		23,242		7,433	
Nigeria	35,145	68	41,864	62	21,466	53
Macedonia	29,428		44,373		23,152	
France	29,194		34,878		32,591	
Czech Republic	26,686		17,884		28,760	
Saudi Arabia	23,814		539		9,030	
Sweden	21,072		14,900		15,536	
Cyprus	18,805	32	1,275	38	180	46
Great Britain	16,236		16,883		22,802	
Austria	14,018		18,636		34,435	
Italy	13,559		13,436		13,403	
UAE	11,568	32	44,773	38	10,284	47
Bulgaria	10,687		3,398		21,468	
Russia	10,680		2,416		652	
Hungary	9,844		4,543		2,668	
Switzerland	9,595		13,464		16,354	
Albania	5,497		1,140		1,827	
Other countries	68,086		111,306		125,960	
<b>Total</b>	<b>593,259</b>	<b>100</b>	<b>615,680</b>	<b>100</b>	<b>532,984</b>	<b>100</b>

## Business activities

### :: Energy and transport

The companies from the ENERGY AND TRANSPORT business area carry out engineering assignments involving the development of complex facilities and plants as well as remote control systems in the field of electric energy. Additionally, they manufacture electric energy equipment for power generation, transmission and distribution. In the field of transport, they manufacture electric locomotives, electromotor trains and tramcars, electrical equipment for diesel locomotives and passenger train cars, coupled with the manufacture of all types of stable electric traction units, such as electric traction substations, sectioning plants, energy and transport remote control systems, signaling-safety devices, plants for electrical switch heating and other.

Operations in the domestic market were marked by the signing of the contract for and the commencement of the works on the 400 kV Ernestinovo and Žerjavinec substations; the delivery of equipment and works for the 110 kV Dobri power substation and the Vinodol hydro power plant; concluding a contract for and the commencement of work on the Peruća hydro power plant; and the thyristorisation of 15 locomotives for the Croatian Railway Company, as well as the modernization of five tramcars for the Zagreb Electric Tram Company.

Engineering activities for hydro power plant continued to be a strategic focus to support export sales in 2002. Activities and equipment deliveries were continued with respect to seventeen previously concluded contracts for equipping hydropower plants. The more prominent contracts among these are: HPP Bhavani Kattalai Barage in India, HPP Raven, HPP Tikveš, HPP Vrben, HPP Vrutok, HPP Globočica and HPP Špilje in Macedonia, HPP Ulza and HPP Shkopeti in Albania and HPP Ožbalt and Vuhred in Slovenia. Furthermore, new contracts were concluded and activities begun on the refurbishment of HPP Moste in Slovenia and HPP Peć Mlini in Bosnia-Herzegovina.

The transport-related entities worked on the repair and modernization of the BDŽ 46 and BDŽ 44 series electric locomotives for the Bulgarian National Railways.

In addition to the aforementioned, noteworthy among the significant contracts concluded during 2002 are the contracts for the delivery of electric equipment for the El Nasr 4 pumping station, which is being developed for the needs of the Egyptian Ministry of Water Management and Irrigation.

Following world trends, the Company devoted itself to the improvement of development solutions for products and production, the introduction of technical enhancements and the reduction of delivery times. The high level of quality and reliability of the equipment and plants delivered are the result of the Company's ongoing investment in its own development, as well as the result of the constant attention paid to the needs and wishes of the Company's clients.

### :: Industry

The INDUSTRY business area consists of companies that manufacture components and equipment, and render engineering services to their clients in the field of industry, water management and environmental protection, road building, construction and others. Complex devices and plants are being carried out through engineering, while production companies sell their components and equipment from a range of rotating machines, vertical and horizontal transport, tools and catering equipment.

During 2002, the sales of goods and services of companies in the INDUSTRY business area were 12 percent greater than those of the previous year.

Exports amounted to 40% of overall sales, the major markets among the more than 30 countries to which the companies export including Germany, Italy, Austria, Bosnia-Herzegovina, Macedonia, Slovenia and Yugoslavia.

## Business activities

Highlights for the 2002 business year:

- Petruševac water pumping station, Zagreb - drinking water demagnetization plant, electromotor pump drive system, instrument set and process management came on stream,
- delivery of 6 kV motor cells, 810 kW motors and rotor starters to Dubai,
- delivery of tools to the automotive industry (Audi, BMW) and manufacturers of consumer goods (Electrolux and Lipovica),
- from the field of rotating machines: reconstruction of Chromos reactor mixing unit, planetary regulated water treatment plants in INA - Sisak Oil Refinery, reconstruction of confectionery production line in Kraš, manufacture of drive system for carts used to transport trunks in the Bratstvo factory,
- delivery of galleys for a dozen new ships, as well as kitchens for the Solaris Hotel in Šibenik and Umag's Aurora Hotel,
- delivery of new elevators and the replacement of existing ones for the following investors: Vjesnik, the Ministry of Maritime Affairs, Transportation and Communications, Rebro Clinical Hospital, panoramic elevators for Jadransko osiguranje in Zagreb, as well as the delivery of approximately ten elevators to Macedonia.

Major projects contracted in 2002, the implementation of which is expected during 2003 include the following:

- INA - Molve and Žutica fields: replacement of the existing gas motors with electromotor drive regulation (complete engineering, project development, delivery of mechanical and electrical engineering equipment, construction and assembly activities, putting into operation),
- INA - Rijeka Oil Refinery: replacement of generator excitation system, design of a power substation,
- INA - Sisak Oil Refinery: delivery of replacement electro motors,
- Croatian Motorways Company: power supply to Sv. Rok Tunnel,
- Croatian Motorways Company: power supply to Zagreb - Split motorway (Prgomet - Dugopolje, Maslenica - Zadar 2, Zadar 2 - Sv. Rok, Bosiljevo - Jezerane sections),
- Croatian Motorways Company: power supply to Zagreb - Rijeka motorway (Kupjak - Vrbovsko section).

### :: Trade

The TRADE business area encompasses the following:

- manufacture of household appliances and large-series products,
- servicing of household appliances,
- sale of household appliances, products of other KONČAR production sections and other goods,
- representation of foreign manufacturers,
- warehousing, distribution and transport.

The sales network in the territory of Croatia comprises sales centers located in Osijek, Split, Rijeka and Zadar. The network uses its warehouses to supply the buyers with standard KONČAR products on a daily basis, and also has 13 retail outlets.

The service network for household appliances, catering equipment and professional devices provides quality coverage throughout Croatia.

Permanent cooperation with leading trade companies, public enterprises and ministries, coupled with smoothly functioning sales channels abroad, enabled a performance that outdid that planned.

Exports amount to 33 percent of all sales, the major markets among the more than 30 countries to which the Company exports including Bosnia-Herzegovina, Yugoslavia, Macedonia, Italy, Great Britain, Germany and Slovenia.

## Business activities

### :: Quality - Environment - Safety

An integral part of KONČAR business policy in 2002 was to achieve customer satisfaction through the delivery of high-quality and reliable products. Accomplishing this high quality necessitates recognizing and satisfying the needs and requirements of clients during the entire process of creating a product, i.e. from contracting to delivery, including after-sales support services. Policies and goals in respect to quality are accomplished through a systematic approach to quality management as per ISO 9001 standard requirements, confirming the system and conducting ongoing improvements of business processes. A total of 20 companies hold ISO 9001 certificates.

Special attention is paid to environmental protection for the benefit of all interested parties. This focuses on the development of products and the application of technologies entailing no detrimental effects on the environment, in addition to the rational use of natural resources, especially energy and materials. Significant attention is also paid to the reduction of the quantity of waste materials, as well as their disposal. The environmental protection policy and goals are accomplished through the application of the Environmental Management System, as per the requirements of the ISO 14001 standard, which were established and confirmed in 10 KONČAR companies (10 ISO 14001 certificates).

In addition to having satisfied customers and environmentally friendly products and production, another aspect of our high quality operations is employee health care and safety standards at work. Therefore, during 2002 preparation activities were commenced for the establishment and confirmation of the Health and Workers' Safety Management System as per OHSAS 18001 specification requirements.

### :: Human potentials

Končar - Electrical Industries Inc. with its dependent and affiliated companies in the country, as well as the companies and representative offices abroad, comprise the KONČAR Group, with more than 4,500 employees.

As KONČAR views the know-how and skills of its employees as an advantage in the ongoing battle with its competitors in the market, people are continuously encouraged to achieve top results, as well as to accept and cultivate the highest values of corporate ethics at all levels.

During 2002, the KONČAR Group paid close attention to the ongoing development of human potential in the following areas:

- KNOW-HOW - improvements in professional disciplines, IT, marketing, management, foreign languages
- CORPORATE ETHICS - readiness to learn and accept new knowledge and skills, discipline and cooperation on joint projects, transfer of knowledge and experience.

With almost 20 percent of its staff achieving high educational standards, a percentage which is constantly growing, the Company can show its significant dedication to meeting both market demands and client requirements.

### :: Marketing

During 2002, the KONČAR companies jointly exhibited their products on an exhibition space totalling 1,050 square metres at 11 specialized and general trade fairs (three in Croatia and eight abroad).

Technical, scientific and production achievements in the field of electricity distribution, motor drives, IT and transport were promoted through presentations, exhibitions, expert activities and active participation in the work of six trade congresses and conferences.

The usual information and publishing activities were also supplemented by the printing of special sets of prospectuses and materials for thematic appearances at fairs and professional gatherings, as well as by the procurement of the usual promotional and business gifts.

Along with numerous activities throughout the year for the purpose of reinforcing the KONČAR brand name through advertising in professional publications, newspapers and other appropriate locations and media, numerous sponsorships and donations were provided to support projects and activities in the field of culture, sport, education, science and other areas, with a special emphasis on activities that bring young people together.

## Consolidated Financial Report for KONČAR - ELECTRICAL INDUSTRIES Group

### Independent Auditors' Report

#### To the Shareholders

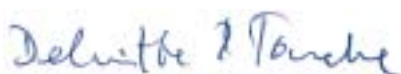
1. We have audited the accompanying consolidated financial statements of the Končar - Elektroindustrija Group, Zagreb for the years ended 31 December 2002 and 2001, set out on pages 4 to 28, prepared in accordance with International Accounting Standards as published by International Accounting Standards Committee. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes the review of the consolidation process, examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements mentioned above give a true and fair view, in all material respects, of the financial position of the Končar - Elektroindustrija Group as of 31 December 2002 and 31 December 2001, and the results of its operations, changes in equity and its cash flows for the years then ended in accordance with the International Accounting Standards.

Deloitte & Touche

Zagreb, 24 March 2003





## Consolidated Balance Sheet

At 31 december

(All amounts in thousands of HRK)

	Notes	2002	2001
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1	720,048	750,396
Assets held for sale or capital appreciation	2	111,982	109,680
Intangible assets	3	17,649	17,897
<b>Long-term financial assets</b>	4		
Investments in associates	4.1	76,463	60,763
Investments in foreign companies	4.2	828	681
Other long-term financial assets	4.3	30,728	47,882
<b>Long-term receivables</b>	5	74,915	86,757
<b>Total non-current assets</b>		<b>1,032,613</b>	<b>1,074,056</b>
<b>Current assets</b>			
Inventories	6	292,967	279,476
Trade receivables	7	504,533	411,075
Financial assets	8	172,746	144,340
Cash with banks and in hand	9	85,172	78,324
<b>Total current assets</b>		<b>1,055,418</b>	<b>913,215</b>
<b>TOTAL ASSETS</b>		<b>2,088,031</b>	<b>1,987,271</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Ordinary shares	10	1,006,821	1,006,821
Share premium	10	(1,393)	(1,393)
Treasury shares	10	(1,877)	(1,877)
Reserves	11	13,385	6,097
Profit (retained earnings and profit for the year)		5,410	3,425
		<b>1,022,346</b>	<b>1,013,073</b>
<b>Minority interest</b>	12	<b>138,320</b>	<b>134,674</b>
<b>Long-term provisions for risks and charges</b>	14	<b>228,993</b>	<b>224,989</b>
<b>Non-current liabilities</b>	13	<b>112,337</b>	<b>134,006</b>
<b>Current liabilities</b>			
Trade payables	15	507,721	424,510
Borrowings	16	78,314	56,019
<b>Total liabilities</b>		<b>698,372</b>	<b>614,535</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,088,031</b>	<b>1,987,271</b>

## Consolidated Income Statement

At 31 december

(All amounts are in thousands of HRK)

	Notes	2002	2001
Sales	17	1,512,195	1,349,565
Other operating income	18	48,976	61,039
<b>TOTAL OPERATING INCOME</b>		<b>1,561,171</b>	<b>1,410,604</b>
Change in inventories		3,732	(31,360)
Costs of materials	19	934,121	856,875
Personnel costs	20	354,802	336,436
Depreciation		56,960	53,489
Value adjustment of current assets	21	16,141	10,213
Other operating expenses	22	149,567	145,402
Provisions for risks and charges		35,060	30,358
<b>TOTAL OPERATING EXPENSES</b>		<b>1,550,383</b>	<b>1,401,413</b>
<b>PROFIT/(LOSS) FROM OPERATIONS</b>		<b>10,788</b>	<b>9,191</b>
FINANCIAL INCOME	23	66,711	65,297
FINANCIAL EXPENSES	24	56,932	70,256
EXTRAORDINARY INCOME	25	27,500	42,958
EXTRAORDINARY EXPENSES	26	13,943	18,426
<b>TOTAL INCOME</b>		<b>1,655,382</b>	<b>1,518,859</b>
<b>TOTAL EXPENSES</b>		<b>1,621,258</b>	<b>1,490,095</b>
<b>PROFIT BEFORE TAX</b>		<b>34,124</b>	<b>28,764</b>
Income tax		10,085	8,620
<b>GROUP PROFIT AFTER TAX</b>		<b>24,039</b>	<b>20,144</b>
<b>Minority interests</b>		<b>17,629</b>	<b>15,977</b>
<b>NET GROUP PROFIT</b>		<b>6,410</b>	<b>4,167</b>
Earnings per share	28	2.55	1.66
Dividends per share			

## Consolidated Statement of Changes in Equity

At 31 december

(All amounts are in thousands of HRK)

	Note	Share capital	Share premium	Reserves for treasury shares	Reserves	Retained profit/loss	Total
<b>Balance at 31 December 2000</b>		<b>1,006,821</b>	<b>(1,966)</b>	<b>(2,172)</b>	<b>5,719</b>	<b>951</b>	<b>1,009,353</b>
Share swap for shares of Končar-Inženjering za industriju d.d.		-	573	295	-	-	868
Transfer to statutory reserves		-	-	-	164	(164)	-
Transfer to other reserves		-	-	-	(296)	-	(296)
Transfer to dividends payable		-	-	-	-	(3,020)	(3,020)
Change in ownership structure		-	-	-	805	1,491	2,296
Foreign exchange differences		-	-	-	(295)	-	(295)
Net profit for the year		-	-	-	-	4,167	4,167
<b>Balance at 31 December 2001</b>	<b>10,11</b>	<b>1,006,821</b>	<b>(1,393)</b>	<b>(1,877)</b>	<b>6,097</b>	<b>3,425</b>	<b>1,013,073</b>
Transfer to statutory reserves		-	-	-	221	(221)	-
Transfer to other reserves		-	-	-	4,204	(4,204)	-
Transfer to dividends payable		-	-	-	-	-	-
Change in ownership structure		-	-	-	318	-	318
Foreign exchange differences		-	-	-	9	-	9
Reserves on one-off write-off of tangible assets		-	-	-	2,536	-	2,536
Net profit for the year		-	-	-	-	6,410	6,410
<b>Balance at 31 December 2002</b>	<b>10,11</b>	<b>1,006,821</b>	<b>(1,393)</b>	<b>(1,877)</b>	<b>13,385</b>	<b>5,410</b>	<b>1,022,346</b>

## Consolidated cash flow Statement

At 31 december

(All amounts are in thousands of HRK)

	2002	2001
<b>Operating activities</b>		
Cash received from customers	1,435,965	1,355,714
Advances received	203,537	173,082
Interest received	13,019	14,630
Paid interest	(8,798)	(20,150)
Payments to suppliers	(1,037,670)	(1,013,367)
Prepayments	(106,428)	(99,221)
Salaries paid	(352,200)	(336,737)
Other receipts/disbursements - net	(103,532)	(66,835)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>43,893</b>	<b>7,116</b>
<b>Investing activities</b>		
Sale of property, plant and equipment	19,938	78,702
Purchases of property, plant and equipment	(34,990)	(28,272)
Dividends received	540	907
Sale of long-term investments	8,215	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(6,297)</b>	<b>51,337</b>
<b>Financing activities</b>		
Loans extended	(10,094)	(14,444)
Cash received from loans and time deposits - long-term	16,655	24,203
- short-term	108,895	101,321
Cash received on repayment of loan	9,301	25,874
Cash received on sale of shares	5,301	2,278
Cash paid for purchase of shares	-	(101)
Cash disbursements for dividends	(16,118)	(18,575)
Cash paid for repayment of borrowings - long-term	(24,094)	(24,681)
- short-term	(93,733)	(107,134)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(3,887)</b>	<b>(11,259)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>33,709</b>	<b>47,193</b>
Cash and cash equivalents at beginning of year	178,932	131,739
Net increase in cash and cash equivalents	33,709	47,193
<b>Cash and cash equivalents at end of year</b>	<b>212,641</b>	<b>178,932</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 1 ACTIVITIES OF KONČAR-ELEKTROINDUSTRIJA GROUP, ZAGREB

The Group Končar-Elektroindustrija, Zagreb ("the Group") primarily deals with the manufacturing of electrical machines and appliances, transportation vehicles, machinery construction, metal processing and management of Group companies.

The principal Group activities are divided into three core segments:

- Manufacturing: electric motors, medium and low voltage electric equipment, elevators and hospitality equipment;
- Power generation and supply: design and construction of manufacturing plants, transmission and distribution of electricity and corresponding equipment, locomotives, trams and electric equipment
- Trade: electric household appliances, serial products and low-voltage electric appliances.

The Group includes two companies specialised in product research and development, and business IT and infrastructure investments, as well as four entities registered abroad (two operating and one dormant), acting as representative offices or distributors of Group products, suppliers of raw materials, or financial intermediaries.

The Group has 7 associated companies (2001: 8). Two of them are registered abroad, of which one is dormant.

The parent company of the Group is Končar-Elektroindustrija d.d. ("the Company"), incorporated in the Republic of Croatia. The headquarters of the Company are in Zagreb, Fallerovo šetalište 22. The Company deals with management of its subsidiaries.

At 31 December 2002, the Group had 3,989 employees (2001: 4,018).

### :: 2 ACCOUNTING POLICIES

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below:

##### :: 1.1. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Accounting Standards and are expressed in Croatian Kuna in compliance with accounting and reporting requirements contained in the Standards issued by the International Accounting Standards Committee. The consolidated financial statements have been prepared using the historical cost convention, as modified by revaluation of certain property, plant and equipment.

##### :: 1.2. Basis of consolidation

The consolidated financial statements incorporate all subsidiary undertakings of the Company, which are those in which the Group, directly or indirectly, possesses more than a half of voting rights, or has control over their operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intragroup transactions have been eliminated. Minority interests are separately disclosed.

##### :: 1.3. Associates

Investments in associates are accounted for by the equity method of accounting. These are undertakings over which the Group has between 20% and 50% of the voting rights, and over which the Company has significant influence, but which it does not control.

Under the equity method, investments in associates are initially recorded at cost, and their carrying amounts increase or decrease to the extent of the Company's share in the profit or losses of associates.

##### :: 1.4. Foreign currency translation

Foreign currency transactions included in the financial statements of certain Group companies and segments are translated into domestic currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into domestic currency on the mean Croatian National Bank exchange rate at year end. All resulting foreign exchange gains and losses are included in the income statement.

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 1.5. Financial instruments

Financial instruments disclosed in the balance sheet include cash and balances on bank accounts, investments, receivables, trade payables, leases and loans. Specific methods of recognition applied are disclosed separately for each item.

### :: 1.6. Investments

Investments in Croatian Government Bonds and shares of companies outside the Group are disclosed at cost. Any reclassification or impairment of these investments is recognised as an expense when impairment is identified.

Gains or losses on disposal of investments are included in the income statement to the extent of the difference between the net proceeds on disposal and the carrying amount of an investment.

### :: 1.7. Property, plant and equipment

Property, plant and equipment are initially recorded at cost.

Land and buildings are subsequently remeasured at fair value, based on the valuation of independent appraisers, less accumulated depreciation for buildings.

Machinery and equipment are recorded at cost less accumulated depreciation.

Additions during the year are recorded at cost. Cost comprises invoice value of purchased assets increased for all expenses relating to putting those assets into use.

Additional investments, which increase the capacity, improve the quality or change the use of tangible assets, are recorded as an increase in cost.

Depreciation is recorded beginning on the first day of the following month the assets were put into use, based on cost.

Depreciation is calculated individually using the straight-line method to write down the cost or revalued amount of each asset to its residual value over its expected useful life as follows:

Buildings 15 - 83 years

Machinery and equipment 7 - 15 years

Equipment and motor vehicles 4 - 19 years

Land is not depreciated since it is assumed it has an unlimited useful life.

Construction in progress is not depreciated.

Where the carrying amount of an asset exceeds its recoverable amount, it is immediately written down to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined on the net book value and are recorded as extraordinary income.

Maintenance and repairs are charged to the income statement when incurred.

### :: 1.8. Assets held for sale

Assets held for sale is treated as long-term investments. It is comprised of property, plant and equipment out of use and is disclosed at net book value which does not significantly differ from market value. Investments in assets held for sale are not depreciated.

Gains or losses arising on sales of assets held for sale are recorded in the income statement.

On disposal of investment properties, the difference between net proceeds and the carrying amount is credited or charged to the income statement.

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 1.9. Intangible assets

Intangible assets are recorded at cost less accumulated amortisation. Intangible assets consist of patents, trademarks, concessions and licences for the use of assets, software, development costs, and are amortised using the straight-line method over 5 years.

### :: 1.10. Accounting for leases

Assets leased through financial leases are included in the balance sheet as property, plant and equipment and are depreciated over expected useful lives of similar categories of assets. Lease income is recognized on the straight-line basis over the lease term.

### :: 1.11. Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of work in progress and finished goods includes all costs directly attributable to production and a corresponding portion of overhead costs. Where the value of inventories is to be reduced to the net realisable value, any such adjustment is charged to the income statement.

Small inventories and tires are written-off when put in use.

### :: 1.12. Trade receivables and prepayments

Trade receivables are shown at nominal amounts. An allowance for bad and doubtful accounts is made based on the review of balances outstanding at each year end. A provision for doubtful accounts is made in the year in which they are identified as such.

### :: 1.13. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash, investments in currency funds and callable deposits with banks.

### :: 1.14. Long-term provisions

A provision is recognised only when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### :: 1.15. Deferred taxes

Deferred income tax is the tax expected to be payable or recoverable in future periods as a result of taxable temporary differences or unused tax losses carried forward. Deferred tax balances are offset when there is a legal possibility of offsetting those balances. Deferred taxes are disclosed when such legal possibility arises.

### :: 1.16. Treasury shares

Treasury shares are own shares held by the Group at the balance sheet date and are initially recognised at cost of acquisition and eliminated at average price on disposal. These shares are treated as a deduction from the shareholders' equity. Gains and losses on sales of own shares are included in equity as capital gains or losses.

### :: 1.17. Revenue recognition

Sales revenues are recognised on delivery of goods to, and acceptance by the customer, or on completion of services, net of value added tax and discounts.

Other income earned by the Group is recorded on the following bases:

Interest income - as accrued (taking into account the actual yield), unless collection is doubtful;

Dividend income - when the shareholders' rights to receive payment have been established.

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 2. SUMMARY OF SIGNIFICANT CONSOLIDATION POLICIES

#### :: 2.1. Consolidated companies

The Company applies International Accounting Standards for the preparation of the consolidated financial statements as well as Articles 24 and 25 of the Croatian Accounting Law.

The following subsidiaries are included in the consolidation:

Company	Holding in % 2002	Control in % 2002	Holding in % 2001	Control in % 2001
<b>Croatian subsidiaries</b>				
Končar-Kučanski aparati d.o.o. Zagreb	100.00	100.00	100.00	100.00
Končar-Mali električni strojevi d.d., Zagreb	100.00	100.00	100.00	100.00
Končar-Električne lokomotive d.d. Zagreb	100.00	100.00	100.00	100.00
Končar-Metalne konstrukcije d.d. Zagreb	100.00	100.00	100.00	100.00
Končar-Inženjering za energetiku i transport d.d. Zagreb	100.00	100.00	100.00	100.00
Končar-Energetika i usluge d.o.o. Zagreb	100.00	100.00	100.00	100.00
Končar-Dizala i servis d.o.o. Zagreb	100.00	100.00	100.00	100.00
Končar-Institut za elektrotehniku d.d. Zagreb	100.00	100.00	100.00	100.00
Končar-Elektronika i informatika d.d. Zagreb	100.00	100.00	100.00	100.00
Končar - Magnetske jezgre d.o.o Ivanec	100.00	100.00	50.00	50.00
Končar-Niskonaponski aparati d.d. Zlatar	99.92	100.00	99.92	100.00
Končar-Servis i prodaja d.d. Zagreb	98.77	100.00	98.77	100.00
Končar-Niskonaponske sklopke i prekidači d.d. Zagreb	98.85	100.00	98.85	100.00
Končar-Alati d.d. Zagreb	97.21	100.00	97.21	100.00
Končar-Ugostiteljska oprema d.d. Zagreb	94.67	99.92	94.67	99.92
Končar-Generatori i motori d.d. Zagreb	94.63	94.63	94.63	94.63
Končar-Protueksplozivni zaštićeni uređaji i sistemi d.d. Zagreb	90.30	99.87	90.30	99.87
Končar-Trgovina i zastupstva d.d. Zagreb	44.55	89.09	44.55	89.09
Končar-Električni aparati srednjeg napona d.d. Zagreb	41.77	69.87	41.77	69.87
Končar-Sklopna postrojenja d.d. Sesvetski Kraljevec	42.03	65.59	41.62	65.59
Končar-Mjerni transformatori d.d. Zagreb	41.58	72.35	41.51	72.35
Končar-Električni visokonaponski aparati d.d. Zagreb	40.26	50.70	40.26	50.70
Končar-Distributivni i specijalni transformatori d.d. Zagreb	41.44	62.30	39.05	57.49
Končar-Montažni inženjering d.d. Zagreb	38.27	76.51	38.27	76.51
<b>Foreign subsidiaries</b>				
Kones AG, Zurich, Switzerland	64.00	64.00	64.00	64.00

Note: Foreign subsidiary Končar - Intertrade sdn, Bhd, Malaysia (with a 58.41% holding) is not included in the consolidation due to its immaterial impact on the consolidated financial statements.

The foreign subsidiary Končar Sarajevo d.o.o., BH is dormant. As a result, as well as because of its immateriality (a 40% holding), it is not consolidated.



## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

The following companies are accounted for using the equity method as associated companies:

Company	Holding in % 2002	Holding in % 2002
Končar-Električni rotacioni strojevi d.d., Rijeka	49.00	100.00
Končar-Energertski transformatori d.d., Zagreb	49.00	49.00
Končar-Električni uređaji d.d., Split	33.73	33.73
Končar-HEW Elektromotorske komponente d.o.o., Ivanec	29.76	29.76
Končar-Termotehnika d.o.o., Sesevetski Kraljevec	26.00	26.00

### :: 2.2. Equity consolidation

#### Subsidiaries

The value of investment of Končar-Elektroindustrija d.d. in subsidiaries and its equity share are eliminated. Minority interests in the net profit of consolidated subsidiaries is determined and separately disclosed in the consolidated financial statements of the Group.

Business results of subsidiaries accounted for using the equity method are recorded as financial income or financial expense of the Company in the year they arose.

#### Associated companies

Investments in associated companies, are accounted for using the equity method in the consolidated financial statements in the year they were realized.

Under the equity method, investments in associated companies are initially recorded at cost and subsequently adjusted to the extent of recognised share of the Company in the profits or losses of associates in the year when they have arisen.

### :: 2.3. Elimination of assets and liabilities

As the consolidated statements of the Company and its subsidiaries are prepared as a single entity's financial statements, all material transactions between group companies are eliminated in the consolidated balance sheet.

### :: 2.4. Elimination of income and expenses

All material transactions between group companies are eliminated in the consolidated income statements.

### :: 2.5. Translation of foreign subsidiary financial statements

All monetary assets and liabilities of foreign subsidiaries are translated into domestic currency on the exchange rate at year end while income and expenses are translated using the average exchange rate for the year.

Foreign exchange differences arising upon recalculation of the net investment in foreign subsidiaries and associated companies are included as reserves in the shareholders' equity. In case of liquidation or write-off of the investment in a foreign subsidiary, foreign exchange differences are recorded within retained earnings /(accumulated losses).

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 1 Property, plant and equipment

	Land & Buildings	Machinery & Equipment	Construction in progress	Total
<b>Year ended 31 December 2001</b>				
Opening net book value	617,406	135,477	16,318	769,201
Additions	(19)	1	(2)	(20)
Transfers (from)/to	703	(703)	-	-
Acquisitions	417	4,831	29,739	34,987
Transfer to assets in use	6,209	25,076	(32,066)	(781)
Disposals and retirements	(4,241)	(1,848)	-	(6,089)
Depreciation	(18,268)	(29,859)	-	(48,127)
Return of assets (contract cancellation)	1,225	-	-	1,225
Closing net book value	603,432	132,975	13,989	750,396
<b>Balance at 31 December 2001</b>				
Cost or valuation	956,378	811,293	13,989	1,781,660
Accumulated depreciation	(352,946)	(678,318)	-	(1,031,264)
<b>Net book value</b>	<b>603,432</b>	<b>132,975</b>	<b>13,989</b>	<b>750,396</b>
<b>Year ended 31 December 2002</b>				
Opening net book value	603,432	132,975	13,989	750,396
Correction of opening net book value	2	-	-	2
Transfer from associates	-	475	483	958
Transfers to associates, sub-associates, liquidations	(16,597)	(2,386)	(129)	(19,112)
Transfers (from)/to	(263)	263	-	-
Acquisitions	754	5,259	39,301	45,314
Assets put in use	1,545	36,097	(41,066)	(3,424)
Disposals and retirements	(4,516)	(1,268)	(211)	(5,995)
Depreciation	(17,707)	(30,384)	-	(48,091)
Closing net book value	566,650	141,031	12,367	720,048
<b>Balance at 31 December 2002</b>				
Cost or valuation	924,386	776,990	12,367	1,713,743
Accumulated depreciation	357,736	635,959	-	993,695
<b>Net book value</b>	<b>566,650</b>	<b>141,031</b>	<b>12,367</b>	<b>720,048</b>

Loans and guarantees from banks relating to the Group are secured by lien on properties.

### :: 2 Assets held for sale or capital appreciation

	31 December 2002	31 December 2001
Opening net book value	109,680	131,362
Purchase of investment property for capital appreciation	2,547	-
Disposals	(245)	21,682
<b>TOTAL</b>	<b>111,982</b>	<b>109,680</b>

Property held for sale is stated at carrying amounts, which do not differ significantly from fair values.

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 3 Intangible fixed assets

	31 December 2002	31 December 2001
Opening net book value	17,897	14,704
Correction of opening net book value	(2)	-
Transfers to associates	(16)	-
Transfers from associates	7	-
Additions	5,476	8,478
Amortisation	(5,678)	(5,285)
Disposals and retirements	(35)	-
Closing net book value	17,649	17,897
<b>Balance at 31 December</b>		
Cost	43,444	40,411
Accumulated amortisation	25,795	(22,514)
Net book value	17,649	17,897

### :: 4 Long-term financial assets

#### :: 4.1. INVESTMENTS IN ASSOCIATES

	31 December 2002	31 December 2001
Opening net book value	60,763	55,216
Transfers to subsidiaries	65	-
Transfers from subsidiaries	23,552	-
Current year profit share	5,474	5,893
Current year share in losses	(1,494)	(341)
Share in profits from previous years	-	3
Share in losses from previous years	-	6
Share capital decrease	(13,294)	-
Elimination of losses	1,282	-
Transfer to dividend receivable	(18)	(14)
Other	133	-
<b>TOTAL</b>	<b>76,463</b>	<b>60,763</b>

#### :: 4.2. INVESTMENTS IN FOREIGN SUBSIDIARIES

	31 December 2002	31 December 2001
Opening net book value	681	615
Share capital increase	-	48
Current year profit share	-	58
Prior year profit share	-	55
Transfer to dividend receivable	-	(144)
Exchange differences	147	3
Inclusion of Kones AG, Zurich in consolidation	-	46
<b>TOTAL</b>	<b>828</b>	<b>681</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

The following are Group entities registered abroad:

	Country of incorporation	Holding in %
Kones AG, Zurich	Switzerland	64.00
Končar-Intertrade Sdn, Bhd, Kuala Lumpur	Malaysia	58.41
Končar-BiH, Sarajevo (dormant)	Bosnia&Herzegovina	40.00
Končar-MORAVIA, spol.s.r.o. Brno	Czech Republic	45.00
KONEL GmbH (dormant)	Germany	100.00

### :: 4.3. OTHER LONG-TERM FINANCIAL ASSETS

	31 December 2002	31 December 2001
Loans to associated companies	-	3,365
Croatian Government Bonds	24,965	38,845
Transfer of investment from associated companies to non-affiliated	(907)	-
Shares and investments in other enterprises and banks	1,568	988
Housing loans	3,230	2,372
Deposits	925	823
Other	947	1,489
<b>TOTAL</b>	<b>30,728</b>	<b>47,882</b>

Investments in Croatian Government Bonds represent a right of the company based on sold apartments which were included in state capital since the privatization. A portion of these apartments was sold for convertible foreign currencies paid into the Government budget. Simultaneously, the sellers of those apartments were entitled to Croatian Government Bonds equal to 35 % of paid convertible foreign currencies receivable through bonds in the period of five years with an interest rate of 5%. Subsequent changes in the legislation increased the rights of the Company for the higher value of bonds and reduced interest rate. Based on the above-mentioned changes the Company is entitled to receive bonds in the amount of 100 % of paid foreign currencies while the interest rate is reduced to 1 % per annum.

The Company has, according to changes in the legislation and a written opinion from the Ministry of finance interpreting the legislation and confirming the balance of paid in convertible foreign currency, increased the total value of bonds it holds. Also, the Company recorded interest income in 2002 and 2001, by applying the 1% interest rate on the principal.

During 2002, the Company decreased its investments in Croatian Government Bonds by HRK 14,191 thousand, by offsetting them against its liabilities for apartments sold.

### :: 5 Long-term receivables

	31 December 2002	31 December 2001
Receivable from associates	266	372
Receivable for sold assets	4,442	6,377
Receivable for apartments sold	36,210	39,091
Receivables for sales abroad (KfW)	6,882	6,815
Receivables for sold shares and equities	5,279	8,285
Receivables under bank guarantees	17,785	22,305
Other loans extended	1,186	2,415
Other	139	115
<b>TOTAL</b>	<b>72,189</b>	<b>85,773</b>
Advances for property, plant & equipment	2,726	982
<b>GRAND TOTAL</b>	<b>74,915</b>	<b>86,757</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

Sales of shares and equity interests was performed on one of the following alternative ways:

1. Group ordinary shares were sold under the following terms and conditions:

- at nominal value;
- repayment period: 30 days from contract signing up to 5 years thereafter;
- interest rate: discount rate + 2 % over the repayment period;
- on signing the contract, the purchaser is granted the shareholder status and the right to participate in management and share of profits.

b) Group preferred shares were sold to citizens under the following terms and conditions:

- at a discount of 50% of the nominal value and a 5% cash payment upon signing the contract;
- payment in installments in the period of 10 years;
- interest rate in the amount of discount rate during the repayment period;
- dividends are paid so that the annual repayment for shares is deducted from dividends;
- participation in management is not granted.

c) Equity interests in Group companies were sold under the following terms and conditions:

- contracted price is equal to the value in the privatisation valuation report
- 10 - 20% of the contracted price is paid post contract signing;
- the remaining balance is repayable in 8 - 10 semi-annual installments;
- interest rate of 11% or the discount rate of the Croatian National Bank.

Receivables from sales of assets relate to sales of property. These receivables are secured by blank bills of exchange and the customer cannot claim ownership of assets until full repayment.

### :: 6 Inventories

	31 December 2002	31 December 2001
Raw materials and supplies	134,009	114,964
Work in progress	88,282	97,162
Merchandise	22,279	23,984
Finished goods	48,397	43,366
<b>TOTAL</b>	<b>292,967</b>	<b>279,476</b>

### :: 7 Trade receivables

	31 December 2002	31 December 2001
Trade accounts receivable	430,037	370,084
Advances	46,740	13,031
Receivable from associates	8,127	9,737
Prepayments	1,546	3,316
Receivable from government institutions	13,899	12,889
Receivable from employees	783	871
Other	3,401	1,147
<b>TOTAL</b>	<b>504,533</b>	<b>411,075</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 8 Short-term financial assets

	31 December 2002	31 December 2001
Deposits	151,629	113,786
Loans	15,254	25,882
Securities	2,503	1,186
Other	3,360	3,486
<b>TOTAL</b>	<b>172,746</b>	<b>144,340</b>

### :: 9 Cash and balances with banks

	31 December 2002	31 December 2001
Giro accounts	44,889	31,714
Cash on hand	4,565	273
Foreign currency accounts	34,068	46,020
Other	1,650	317
<b>TOTAL</b>	<b>85,172</b>	<b>78,324</b>

### :: 10 Ordinary shares, share premium and treasury shares

	Issued shares	Ordinary shares	Share premium	Treasury shares	Total
<b>At 31 December 2000</b>	<b>2,517,053</b>	<b>1,006,821</b>	<b>(1,966)</b>	<b>(2,172)</b>	<b>1,002,683</b>
Treasury shares	(14,227)	-	-	-	-
Share swap for shares of Končar Elektronika and informatika d.d.	(2,095)	-	573	295	868
<b>At 31 December 2001</b>	<b>2,517,053</b>	<b>1,006,821</b>	<b>(1,393)</b>	<b>(1,877)</b>	<b>1,003,551</b>
Treasury shares	(12,132)	-	-	-	-
<b>At 31 December 2002</b>	<b>2,517,053</b>	<b>1,006,821</b>	<b>(1,393)</b>	<b>(1,877)</b>	<b>1,003,551</b>
Treasury shares	(12,132)	-	-	-	-

Shareholders with a shareholding of more than 5% are as follows:

	December 2002	31 December 2001
Croatian Privatization Fund	21.58%	21.52%
Privredna banka Zagreb d.d. (Kapitalni fond d.d., closed and investment fund)	18.51%	10.00%
HMO d.o.o.	10.23%	10.23%
Nova banka d.d. (Istarska banka d.d), Pula	8.70%	8.70%
Dom-Fond obiteljskog i poslovnog ulaganja	7.54%	7.54%
HVB Bank Croatia d.d (Expandia Fond ZIF d.d.)	5.95%	5.95%
Croatian Pension Insurance Institute	5.04%	13.79%

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 11 Reserves

	Statutory reserves	Other reserves	Translation reserve	Total
<b>At 31 December 2000</b>	<b>2,959</b>	<b>2,951</b>	<b>(191)</b>	<b>5,719</b>
2000 profit distribution	163	-	-	163
Exchange difference from foreign subsidiaries	-	-	(295)	(295)
Change in shareholding structure	-	806	-	806
Transfer of reserves to treasury shares	-	(296)	-	(296)
<b>At 31 December 2001</b>	<b>3,122</b>	<b>3,461</b>	<b>(486)</b>	<b>6,097</b>
2001 profit distribution	221	4,204	-	4,425
Exchange difference from foreign subsidiaries	-	-	9	9
Change in shareholding structure	-	318	-	318
Reserves on one-off write-off of tangible fixed assets	-	2,536	-	2,536
<b>At 31 December 2002</b>	<b>3,343</b>	<b>10,519</b>	<b>(477)</b>	<b>13,385</b>

### :: 12 Minority interest

	31 December 2002	31 December 2001
Opening balance	134,674	133,091
Change in minority interest	(13,983)	(14,394)
Minority interest in current year profit	17,629	15,977
<b>TOTAL</b>	<b>138,320</b>	<b>134,674</b>

### :: 13 Non-current borrowings and other liabilities

	31 December 2002	31 December 2001
Domestic borrowings	16,777	15,693
Foreign borrowings	92,682	115,577
Other liabilities	2,878	2,736
<b>TOTAL</b>	<b>112,337</b>	<b>134,006</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 14 Provisions for liabilities and charges

	Guarantees	Debt co-Signing	Other	Total
<b>At 31 December 2000</b>	<b>161,363</b>	<b>31,617</b>	<b>46,639</b>	<b>239,619</b>
Acceptance of the Income Statement	(1,665)	-	(22,506)	(24,171)
Recorded in the Income Statement	-	-	30,358	30,358
Amounts utilised	-	-	(20,817)	(20,817)
<b>At 31 December 2001</b>	<b>159,698</b>	<b>31,617</b>	<b>33,674</b>	<b>224,989</b>
Acceptance of the Income Statement	-	-	(17,599)	(17,599)
Recorded in the Income Statement	2,265	-	32,795	35,060
Amounts utilised	-	-	(13,457)	(13,457)
<b>At 31 December 2002</b>	<b>161,963</b>	<b>31,617</b>	<b>35,413</b>	<b>228,993</b>

#### :: 14.1. Guarantees

Provisions for guarantees in the amount of HRK 161,963 thousand (2001: HRK 159,698 thousand) relate to guarantees of Zagrebačka Banka issued prior to 1990 for the activities of the Group in Iraq and Syria.

#### :: 14.2. Debt co-signing

Provisions for co-signing in the amount of HRK 31,617 thousand (2002: HRK 31,617 thousand) relate to the Company's co-signing for debt based on the Agreement for guarantees for foreign currency loans of former Končar Group companies seated outside Croatia on the territory of the former Yugoslavia.

### :: 15 Trade payables

	31 December 2002	31 December 2001
Due to suppliers	271,663	230,613
Due to associates	15,569	12,524
Accrued expenses and deferred income	51,559	44,263
Advances received	108,026	69,182
Liabilities for taxes and contributions	18,702	20,864
Due to employees	18,060	17,205
Dividends payable	763	398
Interest payable	7,827	7,626
Liabilities for apartments sold	296	10,880
Other liabilities	15,256	10,955
<b>TOTAL</b>	<b>507,721</b>	<b>424,510</b>

### :: 16 Borrowings

	31 December 2002	31 December 2001
Domestic borrowings	60,822	37,010
Foreign borrowings	17,492	19,009
<b>TOTAL</b>	<b>78,314</b>	<b>56,019</b>



## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 17 Sales

	31 December 2002	31 December 2001
Domestic sales	900,842	699,130
Foreign sales	593,259	615,680
Sales to associates	18,094	34,755
<b>TOTAL</b>	<b>1,512,195</b>	<b>1,349,565</b>

### :: 18 Other operating income

	31 December 2002	31 December 2001
Reversal of provisions	17,599	24,171
Other income	31,377	36,866
<b>TOTAL</b>	<b>48,976</b>	<b>61,037</b>

### :: 19 Cost of materijals

	31 December 2002	31 December 2001
Raw materials	527,296	495,688
Cost of sales	302,268	256,169
Service expenses	104,557	105,018
<b>TOTAL</b>	<b>934,121</b>	<b>856,875</b>

### :: 20 Personnel expenses

	31 December 2002	31 December 2001
Net salaries	201,410	192,836
Contributions, taxes, surtaxes	153,392	143,600
<b>TOTAL</b>	<b>354,802</b>	<b>336,436</b>

### :: 21 Value adjustments of current assets

	31 December 2002	31 December 2001
Value adjustment of inventories	3,086	2,080
Provision for bad and doubtful debts	3,527	6,944
Other	9,528	1,189
<b>TOTAL</b>	<b>16,141</b>	<b>10,213</b>

### :: 22 Other operating expenses

	31 December 2002	31 December 2001
Employee cost reimbursement	44,797	45,381
Non-production expenses	36,706	36,383
Other	68,064	63,638
<b>TOTAL</b>	<b>149,567</b>	<b>145,402</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 23 Financial income

	31 December 2002	31 December 2001
Income from relationship with associates	8,385	9,300
Foreign exchange gains	33,667	33,815
Interest and other	24,659	22,182
<b>TOTAL</b>	<b>66,711</b>	<b>65,297</b>

### :: 24 Financial expenses

	31 December 2002	31 December 2001
Expenses from relationship with associates	4,056	2,954
Subsidiary losses from prior years	-	2,391
Foreign exchange losses	27,460	39,085
Interest and other	25,406	25,826
<b>TOTAL</b>	<b>56,932</b>	<b>70,256</b>

### :: 25 Extraordinary income

	31 December 2002	31 December 2001
Damage reimbursements	3,672	4,887
Liability write-off	6,567	4,421
Income from sale of assets	6,635	15,839
Surpluses	2,245	2,618
Collected provisioned debts	3,129	2,952
Income from prior years	1,756	1,493
Other	3,496	10,748
<b>TOTAL</b>	<b>27,500</b>	<b>42,958</b>

### :: 26 Extraordinary expenses

	31 December 2002	31 December 2001
Shortages	764	1,550
Expenses from prior years	872	2,850
Net book value of disposed assets	5,004	1,780
Cost of sold raw materials	514	1,158
Penalties, damages	1,876	3,350
Other	4,913	7,738
<b>TOTAL</b>	<b>13,943</b>	<b>18,426</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 27 Income tax

	31 December 2002	31 December 2001
Tax liability		
- Company	-	-
- Subsidiaries	10,085	8,870
Correction for non-reconciled intercompany transactions	-	(250)
<b>TOTAL</b>	<b>10,085</b>	<b>8,620</b>

The Company and its subsidiaries are subject to taxation according to the regulations applicable in their respective countries of incorporation.

According to Croatian law, income tax base is determined as the difference between income and expenses, increased or decreased according to the Corporate Income Tax Law.

Deferred income tax based on tax losses carried forward is not disclosed in these financial statements.

Certain Group companies ended the year with a profit and the cumulative tax liability amounts to HRK 10,085 thousand.

### :: 28 Earnings per share

Basic earnings per share are calculated by dividing net profit with an average number of ordinary shares.

	31 December 2001	31 December 2001
Net profit	6,410	4,167
Weighted average number of shares	2,517,053	2,517,053
Earnings per share (in HRK per share)	2.55	1.66

### :: 29 Dividends payable

Dividends payable are not disclosed until dividend payment is approved by the General Assembly of each of the Group companies.

### :: 30 Contingent liabilities

The company has provided an amount of HRK 193,580 thousand for extended guarantees in the total amount of HRK 592,576 thousand, mostly comprising performance bonds.

In addition, the Company has a potential liability in the amount of HRK 7,856 thousand as a result of the inspection report of the Tax Authorities of 16 December 1999, according to which the Company is to pay corporate income tax for the years 1996 and 1997, together with the corresponding penalty interest. The Company filed an appeal within the legal term and obtained postponement for the payment until the final decision is reached by the Administrative Court of the Republic of Croatia. No provision has been made by the Company for this potential liability.

The Company is defendant in several various legal proceedings. In the opinion of the management, based on the legal advice, no significant liabilities will eventuate on the final outcome of these proceedings.

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### :: 31 Segment reporting

2002	Energy and Industry transportation	Trade	Special activities	Končar Elektroin- dustrija d.d.	Elimination	Group
External revenue	133,270	1,105,134	218,461	30,534	-	1,487,399
Income from associates	21,426	139,779	26,963	75,787	34,619	24,796
Other income	399	20,778	8,145	16,436	3,218	48,976
Total operating income	155,095	1,265,691	253,569	122,757	37,837	1,561,171
Total operating expenses	156,398	1,225,411	254,306	120,381	67,645	1,550,383
Profit/(loss) from operating activities	(1,303)	40,280	(737)	2,376	(29,808)	10,788
Difference between financial and extraordinary income/(expenses)	1,219	(2,592)	11,425	2,341	35,239	23,336
Profit/(loss) before tax	(84)	37,688	10,688	4,717	5,431	34,124
Income tax	-	8,256	1,829	-	-	10,085
Profit after tax	(84)	29,432	8,859	4,717	5,431	24,039
Minority interest	-	-	-	-	-	17,629
Profit of the Company	-	-	-	-	-	6,410
Non-current assets	<b>62,654</b>	<b>318,032</b>	<b>137,209</b>	<b>45,644</b>	<b>1,086,234</b>	<b>1,032,614</b>
Current assets	<b>84,275</b>	<b>724,816</b>	<b>171,080</b>	<b>99,625</b>	<b>194,975</b>	<b>1,055,417</b>
Total assets	<b>146,929</b>	<b>1,042,848</b>	<b>308,289</b>	<b>145,269</b>	<b>1,281,209</b>	<b>2,088,031</b>
Total liabilities	<b>64,578</b>	<b>709,693</b>	<b>90,097</b>	<b>28,135</b>	<b>70,399</b>	<b>698,372</b>

2001	Energy and Industry transportation	Trade	Special activities	Končar Elektroin- dustrija d.d.	Elimination	Group
External revenue	177,557	898,941	199,404	38,908	-	1,314,819
Income from associates	20,592	107,762	29,943	78,253	32,935	34,755
Other income	1,207	19,562	16,227	15,213	8,827	61,037
Total operating income	199,356	1,026,266	245,574	132,374	41,762	1,410,602
Total operating expenses	215,719	993,497	241,489	129,909	55,923	1,401,412
Profit/(loss) from operating activities	(16,363)	32,769	4,085	2,465	(14,161)	9,190
Difference between financial and extraordinary income/(expenses)	(3,189)	(4,298)	7,681	2,604	18,586	19,574
Profit/(loss) before tax	(19,552)	28,471	11,766	5,069	4,425	28,764
Income tax	-	6,639	2,225	5	-	8,620
Profit after tax	(19,552)	21,832	9,541	5,064	4,425	20,144
Minority interest	-	-	-	-	-	15,977
Profit of the Company	-	-	-	-	-	4,167
Non-current assets	<b>84,024</b>	<b>313,435</b>	<b>142,131</b>	<b>48,057</b>	<b>1,080,215</b>	<b>1,075,932</b>
Current assets	<b>104,487</b>	<b>583,381</b>	<b>159,859</b>	<b>100,506</b>	<b>211,807</b>	<b>913,216</b>
Loss above capital	<b>10,491</b>	-	-	-	-	<b>98</b>
Total assets	<b>199,002</b>	<b>896,816</b>	<b>301,990</b>	<b>148,563</b>	<b>1,292,022</b>	<b>1,989,246</b>
Total liabilities	<b>95,568</b>	<b>584,871</b>	<b>85,070</b>	<b>34,173</b>	<b>85,136</b>	<b>614,536</b>

## Notes to the Financial Statements

For the year ended 31 December  
All amounts in thousand kuna

### Geographical analysis of sales

	2002	%	2001	%
Croatia	918,936	60.8	733,886	54.4
EU member countries	153,094	10.1	161,497	12.0
CEFTA member countries	120,198	7.9	87,703	6.5
Other European countries	211,121	14.0	211,567	15.7
Africa	72,809	4.8	69,774	5.2
Asia	7,146	0.5	44,773	3.3
North and South America	9,099	0.6	15,561	1.2
Other countries	19,792	1.3	24,805	1.8
<b>Total exports</b>	<b>593,259</b>	<b>39.2</b>	<b>615,680</b>	<b>45.6</b>
<b>TOTAL</b>	<b>1,512,195</b>	<b>100.0</b>	<b>1,349,566</b>	<b>100.0</b>

The consolidated financial statements, set out on pages 4 to 28, were approved by Management on 24 March 2003.

Chief Executive Officer:

Darinko Bago

## Audited Financial Reports for KONČAR - ELECTRICAL INDUSTRIES Inc.

### Independent Auditors' Report

#### To the Shareholders

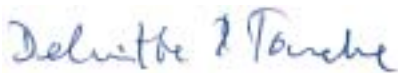
1. We have audited the accompanying financial statements of Končar - Elektroindustrija d.d., Zagreb for the years ended 31 December 2002 and 2001, set out on pages 4 to 32, prepared in accordance with International Accounting Standards as published by International Accounting Standards Committee. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements present fairly, in all material respects, the financial position of Končar - Elektroindustrija d.d. as at 31 December 2002 and 2001, and the and the results of its operations, cash flows and changes in shareholder's equity, for the year then ended in accordance with International Accounting Standards.

Deloitte & Touche

Zagreb, 19 March 2003



## Balance sheet

As at 31 december

( All amounts in thousands of Croatian kuna)

	Notes	2002	2001
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		80	-
Property, plant and equipment	6	185.228	190.527
Assets held for sale	7	111.982	109.680
Investments in subsidiaries	8.1	568.469	564.238
Investments in associates	8.3	76.463	60.763
Investments in foreign companies	8.4	4.074	3.901
Loans to associates	9	42.375	22.320
Other investments	10	24.367	39.259
Long-term receivables	11	73.453	87.906
		<b>1.086.491</b>	<b>1.078.594</b>
<b>Current assets</b>			
Inventories and prepayments	12	63	197
Short-term receivables	13	36.477	50.628
Financial assets	14	50.850	84.716
Cash and cash equivalents	15	107.584	76.311
		<b>194.974</b>	<b>211.852</b>
<b>TOTAL ASSETS</b>		<b>1.281.465</b>	<b>1.290.446</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Ordinary shares	17	1.006.821	1.006.821
Share premium		(1.393)	(1.393)
Treasury shares		(1.621)	(1.621)
Reserves		10.849	6.097
Profit		5.431	4.425
		<b>1.020.087</b>	<b>1.014.329</b>
<b>Long-term provisions for risks and charges</b>	16	<b>190.980</b>	<b>190.980</b>
<b>Non-current liabilities</b>			
Long-term borrowings	18	<b>39.994</b>	<b>50.356</b>
<b>Current liabilities</b>			
Trade and other payables	19	30.404	34.781
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1.281.465</b>	<b>1.290.446</b>

## Income statement

For the year ended 31 december

( All amounts in thousands of Croatian kuna)

	Notes	2002	2001
Sales revenue	20	34.054	32.935
Other operating income	20	3.783	8.827
<b>TOTAL OPERATING INCOME</b>		<b>37.837</b>	<b>41.762</b>
Cost of materials	21	(18.866)	(21.791)
Staff costs	22	(13.849)	(12.981)
Depreciation	23	(5.645)	(5.878)
Value adjustment of current assets	24	(4.719)	(5)
Other operating expenses	24	(12.044)	(12.278)
Provision for risks and charges	24	(12.522)	(2.990)
<b>TOTAL OPERATING EXPENSES</b>		<b>(67.645)</b>	<b>(55.923)</b>
<b>LOSS FROM OPERATIONS</b>		<b>(29.808)</b>	<b>(14.161)</b>
Investment income	25	34.230	26.967
Financial income	26	34.994	27.905
<b>TOTAL FINANCIAL INCOME</b>		<b>69.224</b>	<b>54.872</b>
Investment expenses	25	(5.253)	(22.843)
Financial expenses	26	(26.215)	(29.502)
<b>TOTAL FINANCIAL EXPENSES</b>		<b>(31.468)</b>	<b>(52.345)</b>
<b>FINANCIAL INCOME</b>		<b>37.756</b>	<b>2.527</b>
Extraordinary income	27	622	21.627
Extraordinary expenses	28	(3.139)	(5.568)
<b>RESULT FROM OTHER ACTIVITIES</b>		<b>(2.517)</b>	<b>16.059</b>
TOTAL INCOME		107.683	118.261
TOTAL EXPENSES		(102.252)	(113.836)
<b>PROFIT BEFORE TAX</b>		<b>5.431</b>	<b>4.425</b>
Income tax	5	-	-
<b>NET PROFIT</b>		<b>5.431</b>	<b>4.425</b>
Earnings per share	29	2,16	1,76
Dividends per share	30	-	-



## Cash flow statement

For the year ended 31 december

( All amounts in thousands of Croatian kuna)

	2002	2001
<b>Operating activities</b>		
Cash received from customers	51.381	45.615
Interest received	15.140	12.787
Paid interest	(1.977)	(12.754)
Payments to suppliers	(32.035)	(60.956)
Prepayments	(3.705)	(4.423)
Salaries paid	(13.900)	(13.111)
Other receipts/(disbursements)	(14.146)	(12.726)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>758</b>	<b>(45.568)</b>
<b>Investing activities</b>		
Proceeds from sale of equity and debt instruments	8.879	2.633
Proceeds from sale of fixed assets	19.056	76.068
Purchases of property, plant, equipment and intangible assets	(7.630)	(1.600)
Dividends received	12.244	11.800
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>32.549</b>	<b>88.901</b>
<b>Financing activities</b>		
Loans extended	(69.066)	(58.697)
Cash receipts from loans and deposits	75.151	49.645
Cash paid for purchase of shares	(2.467)	(101)
Cash disbursements for dividends	(5)	(2.966)
Repayment of borrowings	(5.647)	(5.706)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(2.034)</b>	<b>(17.825)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>31.273</b>	<b>25.508</b>
Cash and cash equivalents at beginning of year	76.311	50.803
<b>Cash and cash equivalents at end of year</b>	<b>107.584</b>	<b>76.311</b>

## Contact Details

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