



tradition.
knowledge.
responsibility.

KONČAR

Business Report 2013



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ACRONYMS

Used in the text

Group	KONČAR - Electrical Industry Inc., subsidiaries and affiliated companies
KONČAR Inc.	KONČAR - Electrical Industry Inc.
Parent Company	KONČAR - Electrical Industry Inc.
ZET	Zagreb Electrical Tram Company
THT	Croatian Telecom
INA	Croatian Oil Industry
HEP	Croatian Electricity Company
S/S	Transformer Substation
HPP	Hydro Power Plant
TPP	Thermo Power Plant
SCADA	Supervisory Control and Data Acquisition
CPF	Croatian Privatisation Fund
GAMA	Government Asset Management Agency
PBZ	Privredna banka Zagreb
HRK	Croatian Kuna
HPB	Hrvatska poštanska banka
ZSE	Zagreb Stock Exchange

FOREWORD BY THE CHAIRMAN OF THE BOARD



In 2013 the KONČAR Group achieved good business results despite demanding business environment and the crisis both in Croatia and worldwide which have had direct impact on the investments in the power and transport sectors which form the core business of the Group.

The consolidated income from the sales of products and services has increased 2.8% from the one in the previous year. With the aim of decreasing the negative impact of economic and financial crisis, ensuring stable business operations and maintaining and strengthening market position, the companies in KONČAR Group have undertaken several measures. First and foremost, the efforts in finding new markets as well as offering products and services have been intensified, measures for stronger synergy have been carried out within the system and the measures for decreasing business costs have also been taken. All these resulted in the continuation of Group's profitable operations and financial stability.

The KONČAR Group achieved positive financial results for the year 2013. The Group's consolidated profit before taxation was HRK 179.3 million which was 2.5% more than planned for 2013 and 10.3% less than the results achieved in 2012. Profit tax amounted to HRK 15.6 million and the profit after taxation was HRK 163.7 million to which HRK 28.6 million goes to the non-controlling interest and HRK 135.1 million to the shareholders of the Group's parent company or 14.7% more than planned and 10.2% less than what had been achieved in 2012. In 2013 the income from the sales of products and services amounted to HRK 2,509.1 million which is 2.8% more than what had been achieved in 2012. On the domestic market the income from the sales of products and services amounted to HRK 1,248.8 million which was 1.8% more than achieved in 2012. The income from the sales of products and services on the foreign market amounted to HRK 1,225.4 million which is on the same level as the income of the year before. The correction of income for deferred income is positive and amounts to HRK 34.9 million. As far as domestic market is concerned, the most significant project was the termination of the first phase in replacements and rehabilitation in the Hydro Power Plant Žakućac, the largest hydro power plant in Croatia with the installed power of 486 MW. The mere fact that KONČAR is the main contractor in the revitalization of the plant which was built fifty years ago with KONČAR's equipment demonstrates the continuity of business operations and the ability to execute the most complex works on the area of electrical energy. In 2013 the Wind Power Plant Pometeno brdo started with the commercial production and it is important to state that the plant is the result of Group's own development and domestic production. The income from the sales of products and services in import amounted to HRK 1,225.4 million and make up 50% of total income from the sales of product and services. A number of facilities were completed on the demanding market of the European Union and the neighbouring countries, and there was a significant level of import to the counties of Africa and Asia.

The Group has a stable balance sheet. The balance of total consolidated funds and source funds on 31 December 2013 was HRK 3,467.1 million. In the structure of source funds, registered capital, reserves, retained earnings, the profit in

current year and non-controlling interest amounted to HRK 2,175.5 million which is HRK 107.6 million higher than in relation to 31 December 2012 and makes up 62.7% of total sources.

In 2013 new projects in the total value of HRK 2,677.2 million were contracted. At the end of 2013 the contracted projects (open contracts) amounted to HRK 2,370 million which is 8% higher than at the beginning of the year.

Good business results were obtained and are based on the Group's own development of products and own production, while the research projects are KONČAR's permanent distinction and are being continued in the following period by innovations and development which should result in new products and the expansion of business activities.

As far as the development projects are concerned, in 2013 there was a significant development of power voltage transformer, the development of 123 kV circuit breakers and a number of projects on small hydro power plants. In the area of Advanced Networks in 2013 there were developments in a number of directions, e.g., the concept of digital substation, remote managements systems, systems of monitoring primary electric power equipment, advanced measuring systems etc. On the area of the electric power production, the analysis of the system with changeable rotational speed in reversible hydro power plants was initiated. Company KONČAR - Distribution and Special Transformers started manufacturing production facilities for middle power transformers and high-voltage laboratory which is indispensable for future production and sales activities. After the testing period, the Wind Power Plant farm Pometeno brdo started with regular operations which opened the possibilities of placing wind aggregate on other markets, primarily neighbouring ones.

The abovementioned good business results were primarily achieved through the efforts invested by all employees. Although due to the process of restructuring in the companies which had operational losses (KONČAR - Household Appliances, KONČAR - Tools, KONČAR - Catering Equipment) the number of employees was reduced, at the same time new, young and educated, 170 people were employed in the companies whose main activities are Group's core activities. The newly employed include one Doctor of Science, five masters of Science, three Professional Specialists, 51 Professional Masters and 25 employees with high professional qualifications.

The KONČAR Group systematically supports and encourages the system of values in which the culture of work, creation and excellence has increasingly significant importance in all of our companies. Corporate responsibility in KONČAR is a part of regular, day-to-day work processes in all operational segments and it relies on its human potential as the bearer of the company's development. Alongside the responsibility towards the environment in which it operates, KONČAR identified environmental management as one of its operating priorities whose result is visible in the satisfaction of clients as well as the increasing number of certificates proving the compliance with the most relevant norms. Therefore, besides the ISO 9001, OHSAS 18001 and many other certificates and specialized certifications, as many as seventeen KONČAR Group companies hold the ISO 14001 certificate.

Owing to relatively high number of contracts, additional efforts placed in finding new markets and the announcement of larger investments in Croatia, it is expected that the KONČAR Group companies will achieve set business plans for 2014 and continue with positive business trends.

Chairman of the Board
Darinko Bago



SUPERVISORY BOARD REPORT TO THE GENERAL MEETING OF KONČAR - ELECTRICAL INDUSTRY Inc.



In the previous year the Supervisory Board conducted its functions envisaged by law and the Company's Statute.

In the period between 1 January 2013 and 31 December 2013 the Supervisory Board consisted of:

The President of the Supervisory Board:	Nenad Filipović
The Deputy President of the Supervisory Board:	Jasminka Belačić
Members of the Supervisory Board:	Tomislav Radoš, Kristina Čelić, Petar Vlaić, Vicko Ferić, Boris Draženović, Ivan Rujnić, Dragan Marčinko.

In 2013 the Supervisory Board held ten sessions at which it discussed many issues related to the business of the Company.

Members of the Management Board participate at the sessions of the Supervisory Board and report on individual question, within the business areas for which they are in charge of and responsible for, and give the Supervisory Board all necessary additional explanations in order for the Supervisory Board to discuss all items on the agenda in details and take a point of view for all of them, that is, reach all necessary decisions.

The Supervisory Board is regularly informed by the Management Board on all important business activities, business flow, income and expenses, and generally on the state of the Company. The Management Board regularly informed the Supervisory Board in quarterly, semi-annual and annual reports on business activities, to which the Supervisory Board had no objections and it adopted them.

In that respect, the Supervisory Board considers its cooperation with the Management Board to be very successful.

The Audit Committee and the Committee for Strategic Development are two committees within the Supervisory Board which support its work and actions.

The Audit Committee consists of 4 members, all of whom are also the members of the Supervisory Board. It is presided over by the Deputy President of the Supervisory Board Jasminka Belačić and the other members are Vicko Ferić, Boris Draženović and Ivan Rujnić.

The Audit Committee held three meetings on which it discussed and decided within the framework of its authorities and responsibilities envisaged by the Audit Act.

The Committee for Strategic Development has 5 members, all of whom are also the members of the Supervisory Board. It is presided over by the President of the Supervisory Board Nenad Filipović while the other members are Tomislav Radoš, Petar Vlaić, Kristina Čelić and Dragan Marčinko.

The Committee for Strategic Development held two meetings at which it discussed within the frameworks of the Rules of Procedure of the Committee for Strategic Development.

In accordance with its obligations, the Supervisory Board carried out the supervision and reviewed Company's business books and documentation and concluded that KONČAR - Electrical Industry Inc. acted in accordance with law, the Statute and other Company's acts and decisions of the General Meeting.

The Supervisory Board reviewed financial reports for 2013 and the report of the authorized auditor Grant Thornton Ltd. from Zagreb, Koranska 16 and Reconsult Ltd. from Zagreb, Trg hrvatskih velikana 4/I both for KONČAR - Electrical Industry Inc. and KONČAR Group.

Upon reviewing Company's annual financial reports for 2013 and consolidated annual financial reports of the KONČAR Group for 2013, provided by the Company's Management Board, the Supervisory Board concluded that both annual financial reports and consolidated annual financial reports of the KONČAR Group for 2013 were made in accordance with the situation in the Company's business books and that they correctly show assets and business conditions of the company so it gave its approval, and, according to the provision in article 300d of the Companies Act, these reports are considered concluded.

The Supervisory Board approved the annual report on the state of KONČAR - Electrical Industry Inc. and dependant companies for 2013.

The Supervisory Board received the suggestion of the Management Board of KONČAR - Electrical Industry Inc. for the use of profit obtained in 2013. It has been confirmed that the net value of KONČAR - Electrical Industry Inc. was HRK 141,826,798.02. Five percent or HRK 7,091,339.90 has been allocated to legal reserves and HRK 24,535,458.12 to statutory reserves, while the reinvested profit (increase of the capital share) amounted to HRK 110,200,000.00. The share capital in the amount of HRK 69,800,000.00 will be increased from other reserves formed in previous years. The increase of the Company's share capital amounts to HRK 180,000,000.00.

The Supervisory Board suggested to the General Meeting of KONČAR - Electrical Industry Inc. to pay out the dividend from the retained profit of previous years to the shareholders in the amount of HRK 12.00 per share.

The Supervisory Board has agreed with the suggestion of the Management Board about the use of profit and it suggests the General Meeting the adoption of such decision.

The Supervisory Board submits this report to the General Meeting of KONČAR - Electrical Industry Inc. and suggests the General Meeting to adopt the suggestion of the Management Board on the usage of available profit obtained in 2013.

Zagreb, 7 April 2014

President of the Supervisory Board
Nenad Filipović



THE MOST SIGNIFICANT BUSINESS INDICATORS

For 2010 - 2013

in 000 HRK

	2010	2011	2012	plan 2013	2013	Index 5/4	Index 5/3
	1	2	3	4	5	6	7
Total revenues	2,826,292	2,762,963	2,895,319	2,933,622	2,850,979	97	98

Sales revenues

Croatia	1,119,872	1,080,298	1,226,524	1,410,732	1,248,777	89	102
Exports	1,305,220	1,289,837	1,227,910	1,301,025	1,225,380	94	100
Correction of revenues	39,636	-22,707	-12,876	18,305	34,942	191	
Total	2,464,728	2,347,428	2,441,558	2,730,062	2,509,099	92	103

Contracted works

Croatia	812,489	1,142,492	1,197,471	2,185,004	1,141,925	52	95
Exports	1,287,723	1,338,428	1,237,956	1,522,535	1,535,259	101	124
Total	2,100,212	2,480,920	2,435,427	3,707,539	2,677,184	72	110

Contracted works status at year-end

Croatia	900,027	970,154	1,004,298	1,785,305	858,993	48	86
Exports	1,198,922	1,247,513	1,201,458	1,338,114	1,511,337	113	126
Total	2,098,949	2,217,667	2,205,756	3,123,419	2,370,330	76	108

No. of employees 31 December	3,938	3,956	3,898	3,626	3,780	104	97
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Sales per employee	625.9	593.4	626.4	752.9	663.8	88	106
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Group's profit	186,036	192,238	178,352	152,232	163,696	108	92
Minority stakes	31,060	29,796	27,815	34,472	28,584	83	103
Profit belonging to Parent's shareholders	154,976	162,442	150,537	117,760	135,112	115	90

Non-current assets	1,186,101	1,343,732	1,500,271	1,506,618	1,491,729	99	99
Current assets	2,107,047	2,142,844	2,025,161	2,318,795	1,969,401	85	97
Accrued costs	3,002	9,159	5,828	2,129	6,000		
Total assets	3,296,150	3,495,735	3,531,260	3,827,542	3,467,130	91	98
Subscribed capital	1,028,848	1,028,848	1,028,848	1,028,848	1,028,848	100	100
Reserves, retained earnings, current year's profit	550,940	683,884	804,485	871,820	903,430	104	112
Total capital	1,579,788	1,712,732	1,833,333	1,900,668	1,932,278	102	105
Non-controlling interest	214,388	224,477	234,610	258,757	243,230	94	104
Long-term reservations	578,644	509,286	417,453	426,259	338,862	79	81
Long-term liabilities	81,299	120,208	246,081	230,350	206,519	90	84
Short-term liabilities	775,540	832,473	708,446	942,234	658,141	70	93
Short term accrued income	66,491	96,559	91,337	69,274	88,100	127	96
Total liabilities	3,296,150	3,495,735	3,531,260	3,827,542	3,467,130	91	98
EBIT	218,944	230,379	213,420	194,140	193,905	100	91

Parent's return of capital	9.8%	9.5%	8.2%	6.2%	7.0%	113	85
Return on sales	6.3%	6.9%	6.2%	4.3%	5.4%	125	87
Earning per share	60.25	63.15	58.53	45.78	52.52	115	90

ORGANIZATION AND MANAGEMENT

The activities of KONČAR Group consist of the following business areas:

POWER AND TRANSPORT

- designing and constructing plants and equipment for the production, transport and distribution of electrical energy, thyristor locomotives, electromotor locomotives, trams and electrical equipment for stable electric traction facilities;

INDUSTRY

- electromotor drives, medium and low voltage electric equipment and catering equipment;

TRADE

- electric household appliances, mass products and low voltage electric devices;

SPECIAL ACTIVITIES

- product research and development and infrastructural services.

The KONČAR Group consists of KONČAR - Electrical Industry Inc. as the parent company and 20 dependent companies in which the parent company exercises predominant influence (more than 50% of votes at the General Assembly). Some of the companies have preferred shares subscribed in addition to the common shares issued. In addition, the parent company exercises minority management influence (49% of votes at the General Assembly) in one (affiliated) company.

The Group's companies are legally autonomous entities, while the parent company has a supervising role; it provides strategic direction and supports them through companies' Supervisory Boards pursuant to the Companies Act, the Statute of KONČAR - Electrical Industry Inc. and the statutes of individual companies. Furthermore, the parent company manages a part of assets which is not invested in its companies but is directly and indirectly in the function of the financial support of placement, products and equipment of dependent companies as a credit /guarantee potential.

KONČAR - Electrical Industry Inc.

ENERGY AND TRANSPORT	INDUSTRY AND TRADE	SPECIAL ACTIVITIES	COMPANIES ABROAD
POWER PLANT AND EL. TRACTION ENGINEERING	HOUSEHOLD APPLIANCES	ELECTRICAL ENGINEERING INSTITUTE	SWITZERLAND
GENERATORS AND MOTORS	CATERING EQUIPMENT	INFRASTRUCTURE AND SERVICES	REPRESENTATIVE OFFICES
HIGH VOLTAGE SWITCHGEAR	TOOLS		RUSSIAN FEDERATION
MEDIUM VOLTAGE APPARATUS	SMALL ELECTRICAL MACHINES		BOSNIA AND HERZEGOVINA
SWITCHGEAR	LOW VOLTAGE SWITCH. AND CIRCUIT BREAKERS		SERBIA
DISTRIBUTION AND SPECIAL TRANSFORMERS			ASSOCIATED COMPANIES
INSTRUMENT TRANSFORMERS			POWER TRANSFORMERS
ELECTRONICS AND INFORMATICS			
METAL STRUCTURES			
ELECTRIC VEHICLES			
ENG. FOR PLANT INSTALLATION & COMMISSIONING			
RENEWABLE SOURCES			

As the parent company, KONČAR - Electrical Industry Inc. invoices the dependent companies for the following services:

- Fees for using the corporate name, brand and trade mark,
- A part of the costs incurred for the joint presentation on fairs,
- A part of the costs for the agencies abroad,
- A part of joint costs for marketing activities,
- Seminars for managers and quality and environment management systems.

An overview including basic information of dependent companies and affiliated companies is shown in the continuation.

	subscribed capital total	parent's subscribed capital	management of the parent 31 Dec 2013	ownership of the parent 31 Dec 2013
Subsidiaries	<i>HRK</i>	<i>HRK</i>	<i>%</i>	<i>%</i>
Power Plant & El. Traction Engineering	50,577,000	50,577,000	100.00	100.00
Generators and Motors	64,756,620	64,756,620	100.00	100.00
High Voltage Switchgear	30,835,140	30,060,030	98.23	97.49
Medium Voltage Apparatus	19,679,700	8,220,000	69.87	41.77
Switchgear	29,018,600	20,321,470	81.70	70.03
Distribution & Special Transformers	76,684,800	39,655,200	67.80	51.71
Instrument Transformers	18,989,100	8,747,100	72.35	46.06
Electronics and Informatics	37,126,800	27,857,700	75.03	75.03
Metal Structures	24,645,600	18,486,600	75.01	75.01
Electric Vehicles	47,026,800	35,288,700	75.04	75.04
Renewable Sources	103,379,400	103,379,400	100.00	100.00
Plant Installation And Commissioning	11,827,500	5,288,100	79.05	44.71
Small Electrical Machines	41,641,800	41,641,800	100.00	100.00
Tools	1,572,100	1,572,100	100.00	100.00
Catering Equipment	25,447,800	25,447,800	100.00	100.00
Household Appliances	63,938,900	63,938,900	100.00	100.00
LV Switches and Circuit Breakers	60,499,300	60,499,300	100.00	100.00
Electrical Engineering Institute	40,763,520	40,763,520	100.00	100.00
Infrastructure and Services	49,891,600	49,891,600	100.00	100.00
Kones AG	3,115,879	3,115,879	100.00	100.00

Affiliated Company

Power Transformers	72,764,000	35,654,400	49.00	49.00
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Management Board

The Supervisory Board appoints and recalls the Chairman of the Board and Board members. The mandate of the Chairman of the Board and Board members is five years with an option of reappointment. Pursuant to the Companies Act and the Company Statute, the Management Board runs business operations under their personal responsibility. In doing so, they are obliged and authorised to take any actions and decisions deemed necessary to manage the Company successfully. Supervisory Board's consent is required to make certain decisions defined by the Statute.

On 19 December 2013 the Supervisory Board of KONČAR - Electrical Industry Inc. held the session at which the present Management Board was re-elected. In accordance with the company's Statute which defines that the Management Board of KONČAR - Electrical Industry Inc. consists of five to seven members, alongside the existing Board members, Tomi Dužević was appointed as a new member with the mandate running from 1 January 2014.

DURING 2013, KONČAR - ELECTRICAL INDUSTRY INC. WAS MANAGED BY THE MANAGEMENT BOARD CONSISTING OF:

Darinko Bago	Chairman of the Board
Marina Kralj Miliša	Board member in charge of Legal, General and HR matters
Jozo Miloloža	Board member in charge of Finances
Davor Mladina	Board member in charge of Industry and Trade
Miroslav Poljak	Board member in charge of Corporate Development and ICT

Supervisory Board

Pursuant to the provisions of the Companies Act and the Statute of KONČAR - Electrical Industry Inc. the General Assembly reaches decision on the appointment and recall of the Supervisory Board. The Supervisory Board is responsible for appointing and recalling members of the Management Board and for supervising the Company's operations. The execution of some considerable transactions (the amount of such transactions is defined by the Regulations of the Supervisory Board) and more significant business decisions require Supervisory Board's consent.

THE SUPERVISORY BOARD CONSISTS OF 9 MEMBERS:

Nenad Filipović	Chairman of the Supervisory Board
Jasminka Belačić	Deputy Chairwoman of the Supervisory Board
Boris Draženović	Member of the Supervisory Board
Kristina Čelić	Member of the Supervisory Board
Ivan Rujnić	Member of the Supervisory Board
Vicko Ferić	Member of the Supervisory Board
Tomislav Radoš	Member of the Supervisory Board
Petar Vlaić	Member of the Supervisory Board
Dragan Marčinko	Member of the Supervisory Board

Audit Committee

Pursuant to the Audit Act (Article 28) and the Corporate Governance Code, the Supervisory Board has established the Audit Committee. In accordance with the provisions laid down in the Audit Act and the Corporate Governance Code, the Audit Committee is in charge of monitoring the financial reporting procedure, it monitors the efficiency of the system of control, supervises the conducting of annual financial statements audits, monitors auditors' independence, makes recommendations to the Supervisory Board concerning the selection and to the General Assembly concerning the appointment of an audit firm.

THE AUDIT COMMITTEE CONSISTS OF 4 MEMBERS:

Jasminka Belačić	Chairwoman of the Audit Committee
Boris Draženović	Member
Ivan Rujnić	Member
Vicko Ferić	Member

Strategic Development Committee

At its session held on 28 September 2012, the Supervisory Board established the Strategic Development Committee. The Supervisory Board confers assignments to the Strategic Development Committee for the purpose of tackling subjects and the activities falling under the remit of the Supervisory Board with a specific emphasis on the long-term viability, risk assessment, Group's strategic priorities, restructuring needs and the development of strategic human resource within the KONČAR Group.

THE STRATEGIC DEVELOPMENT COMMITTEE CONSISTS OF 4 MEMBERS:

Nenad Filipović	Chairman of the Strategic Development Committee
Kristina Čelić	Member
Tomislav Radoš	Member
Petar Vlaić	Member

CORPORATE GOVERNANCE PRINCIPLES APPLICATION

Corporate governance principles in KONČAR are based on positive regulations of the Republic of Croatia and the adopted international standards. These principles have been publicly disclosed on company's web pages (www.koncar.com) and at the official website of the Zagreb Stock-Exchange (www.zse.hr).

The questionnaire which includes the Zagreb Stock-Exchange Code provisions which the Company applies is available at the official web pages of the Zagreb Stock-Exchange.

The adopted Corporate Governance Principles are based on responsible management; they define corporate governance procedures based on the adopted recognised international standards and the supervision of the operations. The underlying purpose is to establish high corporate governance standards and the transparency of operations as the foundation for protecting the shareholders, investors and other stakeholders, as well as care for the employees, sustainable development and environmental protection.

MARKET POSITION

The production programme of the KONČAR Group companies is oriented towards the core business activity of electrical power and transport. The production capacities are being continuously upgraded through investments into modern production technologies and it is important to mention that individual products are designed to meet clients' demands ("tailor made") constituting the Group's strategic distinction.

In 2013, the Group contracted new projects worth a total of HRK 2,677.2m, of which HRK 1,141.9 million for the domestic market (43%) and HRK 1,535.3 million for export (57%). The status of contracted projects (open contracts) at the end of 2013 amounted to HRK 2,370 million which is 7% higher than at the beginning of the year.

The consolidated income from the sales of products and services amounted to HRK 2,509.1 million which is HRK 67.5 million or 2.8% higher compared to 2012. The income from sales on the domestic market amounted to HRK 1,248.8 million (50%) or 1.8% more compared to the previous year. The income from the export sales of products and services amounted to HRK 1,225.4 million (50% of total sales) which is on the same level of export as in 2012. The correction for deferred income in 2013 is positive and amounts to HRK 34.9 million. The correction of deferred income refers to the facilities on the domestic market in the amount of HRK 14.8 million and for export in the amount of HRK 20.1 million.

In the structure of the income from the sales of products and services at the domestic market, the income from the sales of products and services to the HEP amounted to HRK 550.9 million which makes 44% of all income generated on the domestic market.

Trading companies were supplied with the products in the amount of HRK 191.5 million (15% of the total income from the sales of product and services on the domestic market), whereas the companies from the sector of industry and shipbuilding were sold the goods in the amount of HRK 160.8 million or 13% of total income from the sales of products in Croatia, to INA, THT, Plinacro HRK 89.7 million, to HŽ HRK 96.5 million, to ZET HRK 71.7 million, whereas the remaining amount of HRK 87.7 million pertained to the State and local administrations and buyers from the sector of construction and others.

In the period from January to December 2013 the income from the sales of products and services on the foreign market amounted to HRK 1,225.4 million and match the amounts achieved in 2013. The most significant export was the export to Germany in the amount of HRK 128.1 million, then to Bosnia and Herzegovina in the amount of HRK 108.5 million, to Sweden in the amount HRK 89.8 million, to the Czech Republic in the amount of HRK 80.7 million, Austria HRK 66.6 million and Slovenia HRK 42.8 million.



Together with good financial results in 2013 a number of facilities in Croatia and abroad was also realized and contracted.

THE MOST SIGNIFICANT FACILITIES AND PRODUCTS

EXPORT

- After successful testing and train run, the HPP Bhavani Kattalai Barrage 3 in the Indian state Tamil Nadu started with commercial work (previously, the equipment had been delivered for HPP Bhavani Kattalai Barrage 1 and 2).
- Completed works and delivered equipment for the HPP Pahkakoski in Finland which concluded the cycle of hydro power plants renovations on the river Iijoki. Out of four plants whose generators were revitalized between 2006 and 2013 the company KONČAR - Generators and Motors won the tenders for the three of them (HPP Haapakoski, HPP Maalismaa and HPP Pahkakoski).
- HPP Toro 3 in Costa Rica put into operation. The contract was worth EUR 8.3 million and it was the third hydro power plant in Costa Rica to which KONČAR delivered the equipment.
- Delivered electrical equipment for the revitalization of the HPP Rama in Bosnia and Herzegovina and the trial run of the first aggregate.
- As part of the construction of the fourth block in the nuclear power plant in Volgodonsk, three synchronous generators of 7900 kVA and additional equipment delivered.
- The delivery of the last, fourth generator for HPP Binga on the Philippines. The contract value was over USD 13 million.
- Equipment delivered to Norway for 11 small hydro power plants, including the small hydro power plant Langdalselva which is situated within the polar circle.
- Completed construction of the small Hydro Power Plant Ratevo in Berovo, Macedonia.
- Six static excitation systems delivered to Turkish power supplier - EÜAŞ for the Thermal Power Plant Soma.
- Delivered equipment for the first two units which are part of the contract on the renovation of the excitation system and protection for HPP Kamburu in Kenya.



- Completed reconstruction of switchyards for HPP Vau I Dejes, HPP Koman and HPP Fierza in Albania. The contract was worth over EUR 9 million and the aim was to separate the transport network of the Albanian transport system operator (OST) from the production of electric energy (KESH).
- Completed projects in the area of protection and management system, primarily on the construction of dispatcher centres in Bosnia and Herzegovina.
- For the distribution network in northern Kuwait, 549 distribution transformers of 50 kVA have been delivered.
- Transformers worth HRK 20.7 million exported to the United Arab Emirates in 2013.
- 159 instrument transformers delivered to Canada, 127 to Russia and 262 to Kurdistan.
- First delivery of ATEX motors with the protection against explosions and the power range of 75 kW for the refineries in Iraq.

DOMESTIC MARKET

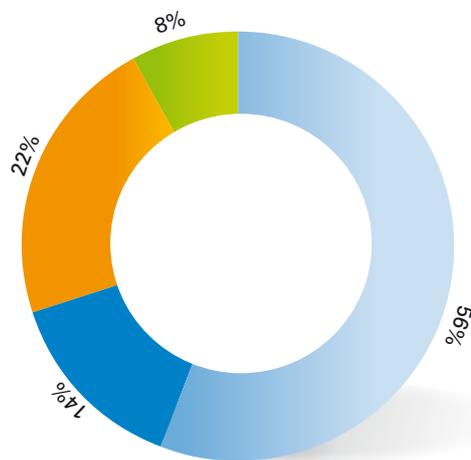
- The first phase of replacement and reconstruction completed in HPP Zakučac, the largest hydro power facility in Croatia with the installed power of 486 MW.
- Project ISEV (the replacement of electric traction system on the railway Moravice - Rijeka - Šapjane and Škr-ljevo-Bakar) completed.
- Contracted work on the HPP Ozalj 1, one of the oldest hydro power plants in Croatia, built in 1908 for the needs of street lights in Karlovac, completed.
- The project of complete automation of medium voltage network at the Airport Split tested and commissioned. The project was carried out within the electric energy network supplying the airport.
- Completed works and the commissioning of the substation 35/20 kV Čaglin, completed reconstruction of the substation 35/10(20) Brod 1.
- System for managing natural gas delivered to and implemented at Zagreb City Gasworks - Supplies.
- Small hydro power plant Pleternica built in Požeško-Slavonska County.
- In blocks K and C at the Thermo Power Plant Zagreb completed reconstruction of the direct current supply system.
- Completed revitalization of SCADA system at the dispatcher centre of HEP Distribution System Operator, Elektra Slavonski Brod.

NEW PROJECTS CONTRACTED DURING 2013:

- United Arab Emirates - signed contract for the delivery of 642 switchgear assemblies for the project of construction and upgrade of substations.
- Contracted renovation and upgrade in power of two pipe aggregates for HPP Klosterfoss (Norway). After the reconstruction the new aggregates will have the total installed power of 15.6 MVA, while another 12 transformers were contracted for the Norwegian market with the total value of 429.5 MVA for five various regional distributions and the industrial facility of a paper factory.
- 23 transformers with the total power of 634 MVA contracted in Sweden.
- The contract for the upgrade of the substation 400/110/20 kV Zemblak in Albania worth EUR 4.3 million.
- The construction of a small hydro power plant Prančevići on the river Cetina contracted with HEP Proizvodnja. The contract for the revitalization of the aggregate C at the Hydro Power Plant Varaždin signed.
- SCADA system contracted for Međimurske vode.

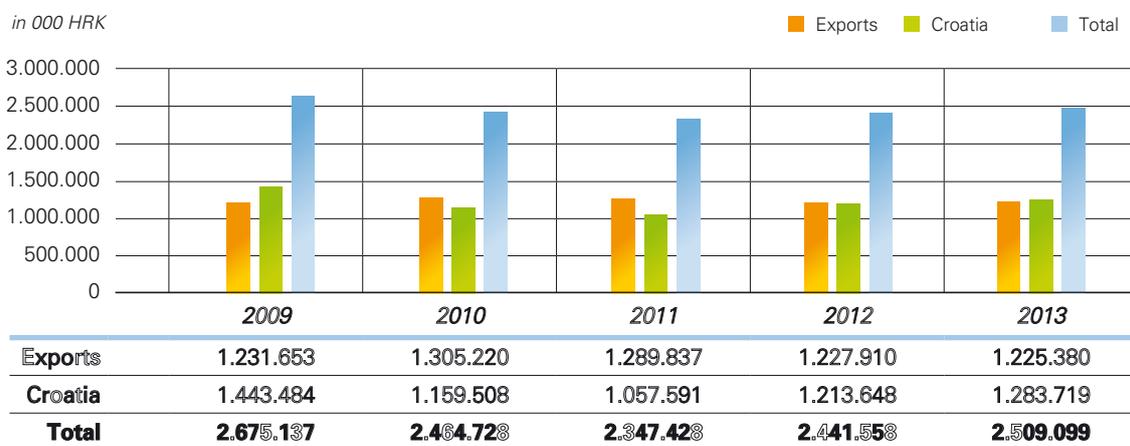
2013 EXPORTS BREAKDOWN BY REGIONS

EU Member States	56%
Neighbouring countries	14%
Africa and Asia	22%
Other	8%



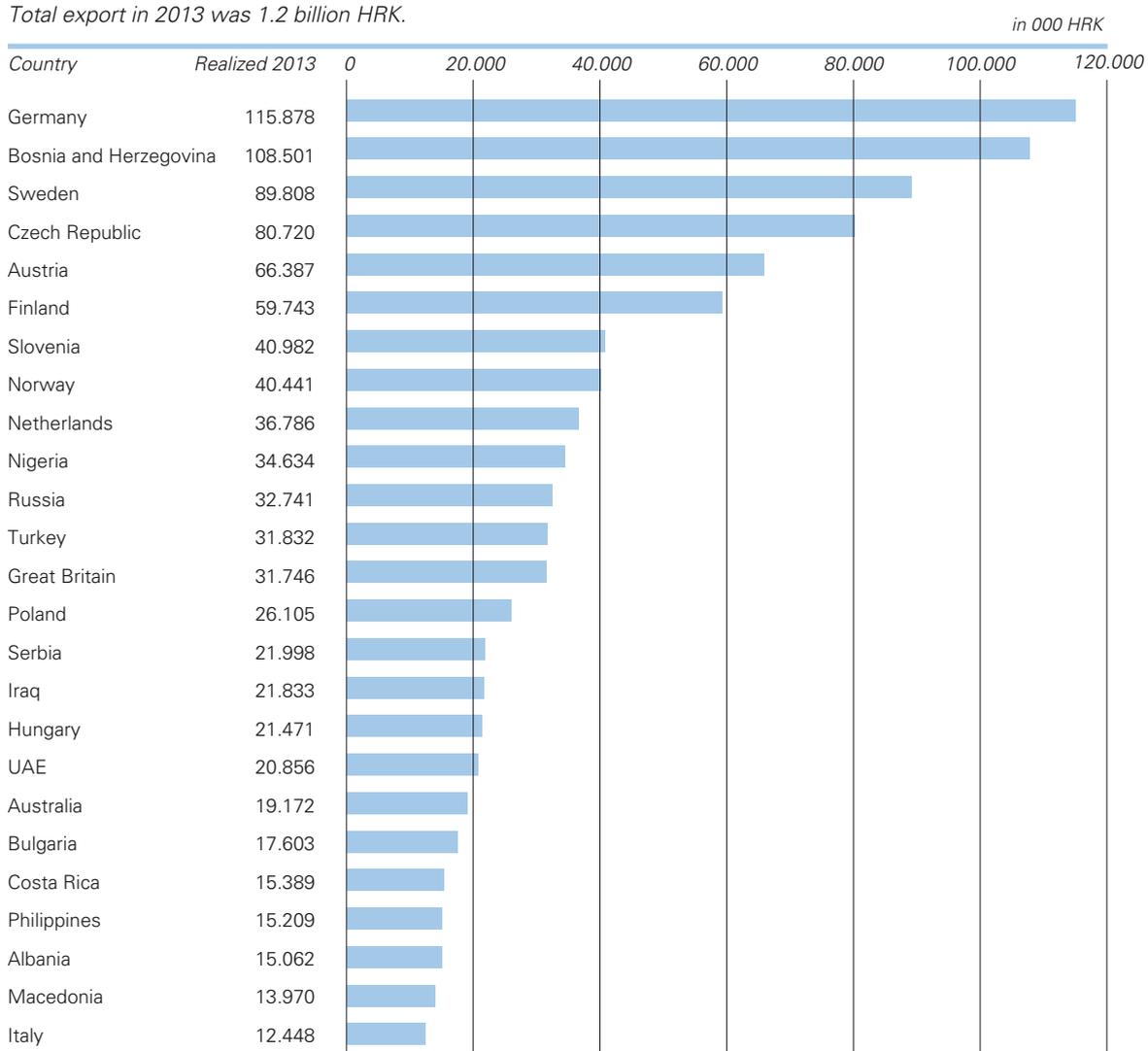
2013 TOTAL SALES AND EXPORTS REVENUES

in 000 HRK



MAIN MARKETS IN 2013

Total export in 2013 was 1.2 billion HRK.



GROUP'S BUSINESS RESULTS AND FINANCIAL POSITION (BALANCE SHEET)

For the period January - December of 2013 the KONČAR Group companies achieved the consolidated income from the sales of products and services in the amount of HRK 2,509.1 million which is 2.8% higher compared to the results in the same period of 2012.

On the domestic market the income from the sales of products and services amounted to HRK 1,248.8 million which is 1.8% higher compared to the results in 2012. The income from the sales of products and services on the foreign market amounted to HRK 1,225.4 million which is the same as the results for the previous year. The correction of income for deferred income was positive and in the amount of HRK 34.9 million. The correction of income for deferred income refers to the facilities on the domestic market in the amount of HRK 14.8 million and in export in the amount of HRK 20.1 million.

Business income amounted to HRK 2,735.7 million which matches the results for the period January - December 2012. In business income, the income from the sales of products and services amounted to HRK 2,509.1 million or 91.7% of total business income.

Income from cancelling reservations amounted to HRK 168.1 million. Other business income amounted to HRK 58.5 million.

Operating expenses amounted to HRK 2,619.5 million and 1.1% less than the results in 2012. In operating expenses the material costs amounted to HRK 1,731.8 million which is 3.2% less compared to the period January - December 2012. In the material costs the largest share are the costs of raw materials and materials which amounted to HRK 1,268 million and are lower 5.4% compared to the same period in 2012.

Total personnel costs amounted to HRK 497.2 million.

The difference between operating incomes and operating costs resulted with the profit from operating activities in the amount of HRK 116.1 million, which is 21.9% higher than the period from January - December 2012.

Share of profit from dependent companies amounted to HRK 47.5 million, a decrease of HRK 32.3 million compared to the period from January - December 2012.

The positive difference between financial income and costs amounted to HRK 15.7 million.

Total revenue in 2013 amounted to HRK 2,851 million, which is 1.5% less than in the same period of 2012. Total expenditures in the same period amounted to HRK 2,671.6 million.

Profit from operating activities amounted to HRK 116.1 million, the share of profit from dependent companies was in the amount of HRK 47.5 million, and the positive difference between the financial income and costs was in the amount of HRK 15.7 million making the consolidated profit before tax of HRK 179.3 million. Corporate income tax was HRK 15.6m, profit after taxation amounted to HRK 163.7 million in which the non-controlling interest (minority interest) was HRK 28.6 million and the shareholders of the parent company HRK 135.1 million.

Of 21 KONČAR Group companies, 16 companies had positive business results while five companies reported a loss totalling HRK 53.5 million.

The amount of total consolidated assets and resources as of 31 December 2012 was HRK 3,467.1 million compared to 31 December 2012, which is a decrease of HRK 64.2 million or 1.8%.

In the structure of assets compared to 31 December 2012 there was a decrease of non-current assets in the amount of HRK 8.5 million and current assets for HRK 55.8 million. Prepaid expenses and accrued receivables (deferred expenses) increased by HRK 0.1 million.

In the structure of non-current assets compared to 31 December 2012, intangible assets increased for the amount of HRK 2.9 million, tangible assets decreased by HRK 13.5 million, financial assets increased by HRK 2.4 million and accounts receivable decreased by HRK 5.2 million.

Significant changes regarding tangible non-current assets compared to 31 December 2012 occurred in the positions of plant and equipment which increased by HRK 178.5 million and the position of buildings which increased by the amount of HRK 38.7 million compared to the previous year. These positions changed significantly in companies KONČAR - Distribution and Special Transformers Inc. (final stage of the investment "HV laboratory" was put into operation) and the company KONČAR - Renewable Sources Ltd. (in 2013 the wind aggregates were activated on the location Pometeno brdo, which began with its commercial production).

On 31 December 2013 current assets were decreased by HRK 55.8 million compared to 31 December 2012 which caused the following changes:

- Total inventories were reduced by the amount of HRK 31.4 million,
- Total current receivables decreased by HRK 167.7 million,
- Financial assets (deposits, money and money equivalents) increased by HRK 143.3 million with the deposits increased by HRK 93.6m, and the amount money and money equivalents increased by HRK 54.3 million, while the other financial assets decreased by HRK 4.6 million.

In the fund resources on 31 December 2013 the following changes occurred:

- Capital, reserves, retained earnings and the profit for the year amounted to HRK 1,932.3 million which is by HRK 98.9 million or 5.4% more compared to 31 December 2012,
- Non-controlling (minority interest) amounted to HRK 243.2 million, an increase of HRK 8.6 million or 3.7% compared to 31 December 2012,
- Long-term reservations amounted to HRK 338.8 million and decreased by HRK 78.6 million.

The most significant part of the reduction in long-term reservations (HRK 80.8 million) relates to the dissolution of reservations of the parent company related to previously formed reservations for contingent liabilities from guarantees for contracts concluded before in 1990.

Long-term liabilities amounted to HRK 206.5 million, of which the loan liabilities amounted to HRK 206.4 million. Long-term liabilities decreased by HRK 39.5 million compared to 31 December 2012.

Current liabilities amounted to HRK 658.1 million and decreased by HRK 50.4 million or 7% compared to 31 December 2012. In the structure of short-term liabilities there were significant changes in the position of advances, that are higher by HRK 10.3 million, and borrowings, that are lower by HRK 8m, and liabilities for taxes and contributions that are lower by HRK 18.1 million.

In the structure of funding sources, the subscribed capital, reserves, retained earnings, profit for the year and the equity belonging to the non-controlling interest amounted to HRK 2,175.5 million which is HRK 107.6 million more than compared to 31 December 2012 constituting 62.7% of total resources. Long-term reservations amounted to HRK 338.8 million and are lower for HRK 78.6 million compared to 31 December 2012 making 9.8% of the total resources. Long-term and short-term liabilities amounted to HRK 865 million which was HRK 89.8 million less than at the end of 2012 and constitute 24.9% of total resources. In the short-term liabilities, accounts payables amounted to HRK 307.8 million (HRK 42.1 million less compared to the end of 2012) and make up 8.9% of total sources. Total loans (long-and short-term) amounted to HRK 300.7 million, a decrease of 47.5 million compared to 31 December 2012. They constitute 8.6% of total sources.

Long-term funding sources (equity, long-term reservations and long-term liabilities) are higher by HRK 786.5 million than non-current assets and average inventories, which indicates a good maturity structure of funding sources. Current assets compared to current liabilities increased 3 times, indicating good liquidity. The consolidated balance sheet shows the financial soundness of the KONČAR Group.

RISK EXPOSURE

The Group is exposed to various market and financial operating conditions. The business environment risk is determined by political, economic and social conditions existing in the markets of companies' operations. Financial risks are associated with foreign exchange, interest, credit and liquidity risks. The Group monitors the above stated risks and takes measures for mitigating their potential impact on financial stability.

All Group companies regularly monitor and manage their balance sheets, liquidity and capital adequacy as well as set measures focused on illiquidity causes prevention or elimination, take measures focused on companies sufficient long-term funding sources in view of the scope and type of their business activity and regularly monitor the capital adequacy achievement.

At the Group level, long-term funding sources (capital, long-term provisions and long-term liabilities) exceed its non-current assets and an average inventory balance which indicates a sound funding maturity structure. In relation to short-term liabilities, current assets are 3.3 times higher, which indicates a sound liquidity of the system. The structure of consolidated balance sheet indicates financial soundness of the KONČAR Group.

The Group manages and controls the financial risk that might impact the Group's business operations by means of internal risk reports analysing risk exposure based on its degree and significance. This risk includes market risk (including foreign exchange risk, interest rate fair value risk and price increase risk), credit risk, liquidity risk and interest rate risk.

Capital Risk Management

The Group manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt to equity balance. The Group manages capital and makes appropriate adjustments for the purpose of proper capital structure in accordance with market present economic conditions. The Group can make a decision if the retained earnings should be distributed to shareholders, if the equity needs increase or decrease, if the assets should be sold in order to decrease liabilities and similar.

Market Risk

Market risk emerges as a consequence of potential losses stemming from less-than-favourable economic conditions and a decline in market demand. The Group companies operate domestically and internationally. The Group's core activity relates to energy and transport connected equipment and products. The production scope heavily depends on such investments. Under the influence of the global crisis and recession, there is a risk of closing certain markets down and providing stimulus in order to assign works to domicile enterprises. Furthermore, competitiveness of our companies' products and services has been impacted by the Group's and our customers changed operating conditions. Management Boards of individual companies price their products independently.

The official currency of the Group is the Croatian Kuna. However, some transactions executed in foreign exchange are being converted to Croatian Kuna, applying the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are being credited or debited against Profit and Loss Account.

The companies hedge against the F/X risk by continuous planning and monitoring of its cash flow, contracting sales and procurement in the same currency where possible, adjusting the receipt and outlay dynamism, as well as term F/X purchases in accordance with the cash receipt and outlay plan. A smaller portion of the companies employ financial derivatives to hedge against the financial risk exposure.

The Group is exposed to interest risk since some loans received are agreed at variable interest rate while most assets do not bear interests. Certain companies within the Group hedge against the risk of interest rates payable in foreign currencies.

No significant changes as regards the Group's exposure to market risk occurred or any changes with regard to market risk measuring and management.

Credit Risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties thus mitigating the risk of financial loss from defaults. The Group uses data and opinions gathered from rating agencies, the Chamber of Commerce as well as other publicly available financial information on companies' financial status and uses its own data base to rate its major customers. The Group's risk exposure and the credit ratings of its counterparties are continuously monitored. As a principle, contracts are entered into only with creditworthy counterparties when appropriate payment insurance instruments are obtained.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. The Group has established a credit policy under which each new customer is analysed individually in terms of its creditworthiness before standard payment and delivery terms and conditions are set. The Group establishes an allowance for impairment as an estimation of incurred losses in respect of expected losses from receivables and investments.

Liquidity Risk

Liquidity risk is the risk of the Group not being able to meet its financial obligations as they fall due. Risk management is the responsibility of the Management Board. The Group manages this risk by continuous monitoring of estimated and actual cash flow. As a whole, there was no significant exposure of the Group to liquidity risk. Some Group companies face the liquidity issue and resolve it within the Group's potential.



SHARES

The shares of KONČAR - Electrical Industry Inc. have been quoted in the Official Market of the Zagreb Stock-Exchange. The shares are recognisable under their KOEI-R-A ticker. In keeping with the positive regulations, the Company ensures regular access to information on its operations and activities as well as information on facts and circumstances that may bear influence to the share price (price sensitive information).

The company's shareholders' equity amounts to HRK 1,028,847,600.00 and comprises a total of 2,572,119 ordinary shares with par value of HRK 400.00 each.

The Company applies the same conditions to all of its shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and other properties. The voting rights encompass all of the Company's shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession.

During the course of 2013, the KONČAR - Electrical Industry share price followed the overall market trend. The highest price was achieved in March 2013 (HRK 794.99), and the lowest one was recorded in early January (HRK 642.10) to arrive at an average of HRK 660.41 at the end of 2013.

The overall volume generated from trading KONČAR shares amounted to HRK 120.2 million, a 1.1% increase compared to the volume traded in 2012. In total, 161,810 shares constituted the traded volume in 2012 (21.8% more compared to 2012).

Compared to 2013, the ownership structure of first ten shareholders changed. The share of HYPO ALPE-ADRIA-BANK DD/PBZ CROATIA OSIGURANJE OBVEZNI MIROVINSKI FOND increased by 3.59%, while the share of LINTEUM SAVJETOVANJE Ltd. decreased by 3.88%.

The dependent companies KONČAR - Distribution and Special Transformers and KONČAR - Switchgear have been included in the Zagreb Stock-Exchange Regular Market quotation. The average price of regular shares of KONČAR - Distribution and Special Transformers ranged between HRK 970 and HRK 1,289.99. The average price of preferred shares traded during 2013 ranged between HRK 872.13 and HRK 1,155.08.

Shares of KONČAR - Switchgear were not traded in 2013. Shares of KONČAR - Instrument Transformers and KONČAR - Medium Voltage Apparatus were quoted on the Zagreb Stock-Exchange's Multilateral Trade Platform (MTP). During the course of 2013, the price of preferred shares of KONČAR - Instrument Transformers traded ranged from HRK 1,200 to HRK 1,500.

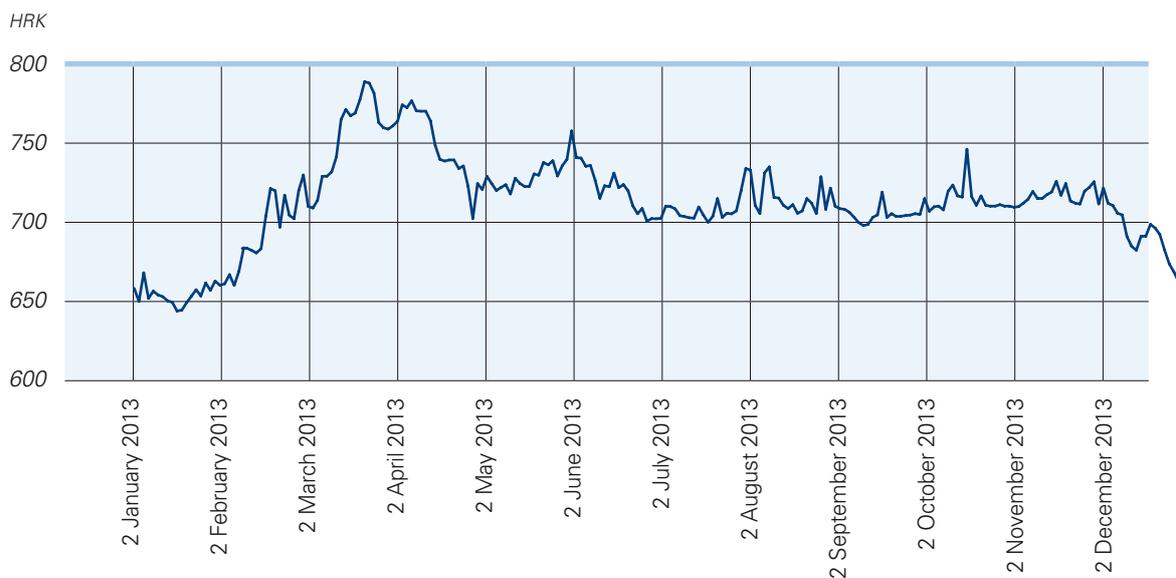
The price of regular shares of KONČAR - Medium Voltage Apparatus traded on the Zagreb Stock-Exchange's Multilateral Trade Platform ranged from HRK 911.11 to HRK 1,050.

During the course of 2013, the Company made 15,611 treasury stock worth buy-ins. During 2013, the Company issued 11,179 treasury stocks for the purpose of effecting the exercised option right to the purchase of CEO's and Board members' shares on the grounds of the Rights, Duties and Wage Contract as well as accompanying annexes, recommendations and conclusions from 4th and 5th session of the Supervisory Board of KONČAR - Electrical Industry Inc., Fallerovo šetalšte 22, Zagreb from 15 December 2009 and 29 March 2010, Zagreb.

As at 31 December 2013, the Company had 4,500 treasury stocks i.e. 0.17% of company's equity.

SHARE PRICE TREND IN 2013

ZSE - information about security KOEI-R-A



COMPANY'S OWNERSHIP STRUCTURE

Shareholder	31 December 2013		31 December 2012	
	No. of shares	Ownership stake	No. of shares	Ownership stake
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
GAMA/CPII	384,628	14.95	384,628	14.95
GAMA/Republic of Croatia	260,280	10.12	260,280	10.12
Hypo-Alpe-Adria-Bank d.d. / PBZ Croatia Osiguranje	257,117	10.00	164,777	6.41
Societe Generale - Splitska banka d.d. / Erste Plavi obvezni mirovinski fond	184,189	7.16	184,189	7.16
Societe Generale - Splitska banka d.d. / AZ Obvezni mirovinski fond	106,438	4.14	106,438	4.14
Floričić Kristijan	60,714	2.36	85,714	3.33
Linteum savjetovanje	39,791	1.55	139,791	5.43
PBZ d.d. / custodian account	69,731	2.71	32,124	1.25
Hypo-Alpe-Adria-Bank d.d./ RBA OMF	33,213	1.29	35,250	1.37
Other shareholders	447,003	17.38	453,749	17.64
KONČAR d.d. / treasury stock	4,500	0.17	664	0.03
Total	2,572,119	100.00	2,572,119	100.00

PRODUCTS AND PRODUCTION DEVELOPMENT

The most important projects completed in 2013 were the following:

- 123 kV high voltage switch,
- The feasibility study for the system of variable spinning speed in pumped-storage hydropower plants,
- Power voltage transformer, an innovative solution for ensuring home power supply i.e. substation secondary equipment power supply,
- Several Smart Grid projects (digital substation, remote control, monitoring and advanced measuring),
- 'Black Box for Electrical Machines' awarded at the ARCA 2013 International Innovation Exhibition,
- Expert systems for monitoring and failure detection in rotating machine coils,
- New photovoltaic switch adjusted to RES market requirements.



EMPLOYEES



The starting point in KONČAR's strategic thinking of business direction is that the employees constitute the company's core asset. That coupled with the fact that the entire operations depend on the involvement of each and every employee made KONČAR decide to found its competitiveness upon the experience, knowhow and innovativeness of the staff.

KONČAR closed the year of 2013 with a total of 3,780 employees, of whom 1017 with university degrees, including approximately 70% of technical professionals, 18% of bachelor degree holders in economics and law, and the remaining 10% of other professions.

In 2013, KONČAR had 25 PhD/ScDs and 62 MSc/MBA degree holders. The average age of KONČAR employees stood at 45 in 2013. The average age of the newly employed in 2013 was 30, as in 2012. Highly educated younger workers who graduated from the Faculty of Electrical Engineering and Computing have been predominantly recruited.

KONČAR has been traditionally securing its highly educated staff by providing scholarships to students enrolled in various faculties (the Faculty of Electrical Engineering and Computing, the Faculty of Mechanical Engineering and Naval Architecture). A total of 53 highly educated staff is undergoing their doctoral studies. Postgraduate studies to obtain their master's degrees are attended by 14 highly educated employees, and a total of 35 workers are undergoing university specialist studies.

Since lifelong learning stands as a guarantee of business success, permanent investment into knowledge of its employees stands as one of KONČAR's priorities. This is precisely the reason why there is a pronounced growth in the number of staff taking part in various types of training. At the same time, there is an increase in total average investments made for training purposes.

KONČAR pays special attention to the selection of its managers, i.e. to a timely recognition of their managerial potentials and investments into their development and creating space for further advancement.

The year 2013 saw the continuation in delivering training programmes following the unique 4th Educational Cycle comprising a total of 13 modules. Training programmes in KONČAR are essentially 'tailor made' ones. In addition to delivering training for acquiring professional know-how, these also cover development of general and managerial competencies, language courses, upgrade of IT skills as well as some soft skills, such as motivating the staff, leading, teamwork, communication skills and ethical values.

During 2013, KONČAR has continued its successful collaboration with a series of scientific and educational institutions. This enabled the recognition, definition and implementation of a number of projects with stakeholders taking part as equal partners by introducing their expertise and fostering cooperation between the scientific/educational and business sectors.

QUALITY AND ENVIRONMENT

An integral part of KONČAR's business policy includes reaching client satisfaction through delivery of high quality and reliable products, environmental protection and health and safety of the employees. This policy is being achieved in all of the Group's Companies via the application and certification of their management systems as per the international ISO 9001 Quality Management System requirements, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System.

A total of 17 companies have had their quality management systems ISO 9001 certified. The core purpose of the system has to do with management of key processes that affect the quality of products or services with a view to reaching client satisfaction. The ISO 9001 certificate, issued by authorised independent certification institutions, provides clients with a degree of assurance concerning the capacity of an organisation to meet their demands. More and more, and especially in prequalification process for contracting certain products, buyers audit their counterparties i.e. they carry out on-site verification of the quality of management system functions in order to be sure of the Company's capacity to deliver on their requirements and expectations.

A total of 18 companies have had their environmental management systems ISO 14001 certified. By applying this system the companies continuously monitor and analyse various aspects of the environment while performing their business activities, carrying out their processes, looking into the environmental impact of products and services they delivered, and taking adequate measures to mitigate any adverse effects. The ISO 14001 certificate is issued by authorised independent certification institutions, which renders assurance to all stakeholders, ranging from central governments to local communities, of the Company's responsible behaviour towards the environment. In June 2013 KONČAR - Power Transformers established the Information Security Management System (ISO/IEC 27001).

	ISO 9001	ISO 14001	OHSAS 18001	ISO/IEC 27001
KONČAR - Tools				
KONČAR - Distribution and Special Transformers				
KONČAR - Electric Vehicles				
KONČAR - Medium Voltage Apparatuses				
KONČAR - High Voltage Switchgears				
KONČAR - Electronics and Informatics				
KONČAR - Energy and Maintenance				
KONČAR - Generators and Motors				
KONČAR - Electrical Engineering Institute				
KONČAR - Power Plant and Electric Traction Engineering				
KONČAR - Household Appliances				
KONČAR - Small Electrical Machines				
KONČAR - Metal Structures				
KONČAR - Instrument Transformers				
KONČAR - Engineering for Plant Installation and Commissioning				
KONČAR - Low Voltage Switches and Circuit Breakers				
KONČAR - Switchgear				
KONČAR - Catering Equipment				
KONČAR - Renewable Sources				
KONČAR - Power Transformers				
KONČAR - Electrical Industry				
Total	17	18	6	1

CORPORATE SOCIAL RESPONSIBILITY



Corporate social responsibility is an integral part of the business policy and day-to-day activities in respect of all stakeholders and production activities, the position and protection of the employees, cooperation with the community and all others who are involved with the Group's operations one way or the other.

Environmental protection in production facilities and on sites where the equipment and products are installed is one of KONČAR's priorities. Given the fact that the majority of equipment is intended for power generation, transmission and distribution, industrial plants or transport of people and goods, reaching maximum safety and reducing the environmental impact constitute priorities throughout the entire production process: including quality control of input raw materials, components, production process, as well as finished goods and plants.

Knowledge, skills, experience and commitment of the employees make them the most important factor of success for company's operations. In addition to reliable regular income and other legally prescribed obligations, a series of activities has been carried out aimed at training the employees and providing them with ongoing professional improvement opportunities, improvement of work conditions (especially in production facilities as well as other areas), preventive health care and medical examinations, recreation and leisure time.

For those who have ended their professional careers, the KONČAR Pensioners' Club was established, gathering pensioners for cultural, recreational, educational, social and other events. Joint activities are organized including the Christmas Futsal Tournament which in 2013 gathered 27 teams from 17 KONČAR Group subsidiaries, alpine excursions, skiing trips and for the first time the bike marathon which managed to gather seventeen recreational cyclists despite bad weather.

Creativity, education, sports and leisure focusing primarily on children and the young, as well as socially oriented and charitable support to those who are in need of such assistance the most, constitute the cooperation core with the community. Within the framework of celebrating the KONČAR Day, KONČAR traditionally donated funds for charitable purposes - in 2013, to the Centre for Education Dubrava in Zagreb for educating and housing young disabled people from entire Croatia.

On the occasion of KONČAR Day, the best students of the Zagreb Polytechnic School are awarded. KONČAR and the School have been cooperating for a number of years. In 2013, 4 students from Electro-Technical Department, 2 students of the Computing Studies and 2 students of the IT Studies were awarded. KONČAR cooperates with the academic community as well, in particular with the Faculty of Electrical Engineering and Computing in Zagreb by, amongst others, annually awarding the best doctoral thesis with industrial application.

Sponsorship continued in the field of sport as well by donating to clubs and activities of young people in archery, canoe, handball, volleyball, skiing and chess. Various cultural events and creativity exhibitions of the young are encouraged and supported. Volunteering project involving the employed was initiated in the cooperation with the Croatian Paraplegic and Tetraplegic Association. The meeting was organized and the employees from 3 Group's companies volunteered to teach members of the Association computer programme and marketing skills.

KONČAR is a part of the Global Compact Network (UN Global Treaty), the largest world initiative in the field of corporate social responsibility. KONČAR has been producing its Corporate Social Responsibility Report following the Global Compact (GC) principles and the Global Reporting Initiative (GRI 3) guidelines. With this report, KONČAR positioned itself amongst a small group of Croatian companies producing such reports.

World reporting trends have continued including the implementation and gradual application of G4 guidelines published by GRI. The Corporate Social Responsibility Reports were published at the official websites of the Global Reporting Initiative and the Global Compact, thus confirming success of efforts the Group invests in this area of operation as well as proving KONČAR's socially responsible attitude in line with globally defined criteria.

2014 BUSINESS PLAN

According to the adopted 2014 Business Plan, the consolidated Group's profit before tax is planned to reach HRK 155.7 million; corporate profits tax is planned at HRK 18.2 million; profits after tax at HRK 137.5 million; minority stakes portion at HRK 26.2 million, while the portion of the parent company's share in Group's profits is planned at HRK 111.3 million.

Consolidated revenues from sales of products and services are planned at HRK 2.7 billion, which is a 6.9% increase compared to 2013. The plan for the domestic market sales was set at HRK 1.3 billion and at HRK 1.4 billion for exports.

The plan for 2014 is to contract new products and services in the amount of HRK 4.7 billion. This plan includes the Agreement for delivering 32 electric multiple units and 12 diesel electric trains for HŽ-Passenger Transport. The Contract value is estimated at HRK 1.6 billion.



FUTURE DEVELOPMENT STRATEGY

Companies belonging to KONČAR Group are following an ongoing orientation towards research, development and innovation of products in order to penetrate new markets with new products and be capable of resisting the very insecure and volatile market conditions. An important progress in this direction was made in recent years through development and production of the low-floor tramcar and a low-floor electric multiple unit prototype, as well as through investment in renewable energy sources.

The aim has been set and a decision made to keep operating in compliance with the rules of the profession and globally recognised standards as well as to ensure company's position in both domestic and global markets.

KONČAR - Electrical Industry Inc. Management Board made a decision on a development management concept in the strategic areas of KONČAR Group, defined the strategic areas and appointed the Strategic Development Council, as well as companies in charge of coordination activities and individual area coordinators. All adopted decisions comply with the long-term development objectives of KONČAR Group, the need for developing Group's new products, techniques and technologies and available resources.

The following strategic development areas have been identified:

- Transformer substations
- Power generation
- Renewable energy sources
- Advanced networks and computer communications
- Electric traction
- ICT

CLOSING REMARKS

At the proposal of the Company's Management Board, the Supervisory Board adopted the decision to increase Company's capital from its own funds (reinvested profit). In 2013, KONČAR - Electrical Industry Inc. recorded profit in the amount of HRK 141.8 million. Following allocations into legal reserves (HRK 7.1 million) and statutory reserves (HRK 24.5 million), the remaining profit amounted to HRK 110.2 million. Company's equity increase will be carried out from the remaining portion of the current year profit in the amount of HRK 110.2 million and from the remaining reserves formed during previous years of HRK 69.8 million, in total HRK 180 million.

At the proposal of the Company's Management Board, the Supervisory Board adopted the decision on the capital increase of KONČAR - Renewable Sources Ltd. in the amount of HRK 26.1 million for adding an additional 2.5 MW (VA17) wind turbine at Pometeno brdo. Investment justification evaluation was carried out by Energy Institute Hrvoje Požar (EIHP), which developed the 'Reconstruction of Pometeno brdo Wind Power Plant Study - Investment Study for Adding a 2.5 MW (VA 17) Wind Turbine'. The Study concluded that the project is profitable i.e. the project's material basis increases by considering the entire project life span. The capital increase was carried out in January 2014. Following its capital increase, the equity of KONČAR - Renewable Sources Ltd. amounted to HRK 129,514,400.

In January 2014, KONČAR - Electric Vehicles concluded the agreement with HŽ - Passenger Transport Ltd. on purchasing 44 electric multiple units with total value of HRK 1.63 billion. The Agreement includes delivery of 32 electric multiple units, 16 of which for city/suburban and 16 for regional transport as well as 12 diesel electric multiple units for regional transportation. Several subsidiaries of the Group will take part in Agreement execution.

Activities regarding company liquidation were conducted in KONČAR - Tools, the company which had been continuously recording operating losses. The Subsidiary's Management Board and the Management Board of KONČAR - Electric Industry Inc. have been conducting activities and taking measures focusing on preserving workplaces. There are ongoing activities with Kralj Metala Alati Ltd., the company established by the German Koenig Metall GmbH (a long-standing partner of KONČAR - Tools). At their own request, on 15 February 2014, 65 out of total 71 employees of KONČAR - Tools terminated their working relationship with KONČAR - Tools by agreement and transferred to Kralj Metala Alati Ltd. Apart from taking over these employees, the company will continue to operate on the premises of KONČAR - Tools in the following period as well as use machinery, technology and infrastructure under concluded required agreements. As KONČAR - Tools has ceased to have any staffing and technological assumptions for further operations following the above stated activities, this company liquidation procedure is planned.

Apart from the above, from the reporting date until the date of adopting financial statements, there were no events which might have significantly impacted Company's 2013 financial reports, which publication would be required as a consequence.

Zagreb, 21 March 2014

Chairman of Management Board

KONČAR - Electrical industry Inc.

Darinko Bago



ADDRESS BOOK

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