Annual Report
LIVAR d.d.
Ivančna Gorica

2011

TABLE OF CONTENTS

BUSINESS REPORT OF THE LIVAR D.D. COMPANY FOR 2011 1

COMPANY PROFILE 1

THE EXPECTED DEVELOPMENT OF THE COMPANY 2

SUBSIDIARIES AND AFFILIATED COMPANIES 3

SUPERVISORY BOARD 4

MANAGEMENT BOARD 5

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD 6

REPORT OF THE SUPERVISORY BOARD 8

HIGHLIGHTS OF BUSINESS OPERATIONS – LIVAR d.d. 11

MAJOR EVENTS AFTER 2011 12

SALES 13

PRODUCTION 15

INVESTMENTS 16

DEVELOPMENT ACTIVITY 17

EMPLOYEES 18

QUALITY 20

SHAREHOLDERS 21

RISK MANAGEMENT 23

ENVIRONMENTAL CARE 26

ANALYSIS OF BUSINESS OPERATIONS OF LIVAR D.D. 28

STATEMENT OF MANAGEMENT RESPONSIBILITY 34

STATEMENT ON MANAGEMENT 35

SUBSIDIARIES 35

FINANCIAL STATEMENTS THE LIVAR D.D. COMPANY
FOR 2011.....36

INDEPENDENT AUDITOR'S REPORT.....37
BALANCE SHEET AS AT 31.12.2011.....41
PROFIT OR LOSS STATEMENT.....43
STATEMENT OF OTHER COMPREHENSIVE INCOME.....44
CASH FLOW STATEMENT.....45
STATEMENT OF CHANGES IN CAPITAL.....47
NOTES TO FINANCIAL STATEMENTS.....49
EXPLANATORY NOTES TO THE BALANCE SHEET.....62
EXPLANATORY NOTES TO PROFIT AND LOSS STATEMENT.....79
TRANSACTIONS WITH RELATED PARTIES.....90
RISK MANAGEMENT.....92
UNCERTAINTY REGARDING THE GOING CONCERN ASSUMPTION.....94
POTENTIAL LIABILITIES.....95
EVENTS AFTER THE BALANCE SHEET DATE.....95

BUSINESS REPORT OF THE LIVAR D.D. COMPANY FOR 2011

COMPANY PROFILE

LIVAR d.d.

Name:	Livar, proizvodnja in obdelava ulitkov, d.d.
Address:	Ljubljanska cesta 43, 1295 Ivančna Gorica
Phone:	(01) 786-99-00
Fax:	(01) 787-73-81
E – mail:	info@livar.si
Website:	http://www.livar.si
Registration number:	5504813
Tax ID number:	58984771
Current accounts:	Ljubljanska banka: 0292 2002 0211 206
	Unicredit Banka: 2900 0005 5242 036
	Hypo Alpe-Adria: 3300 0000 0493 527
	Gorenjska Banka: 0700 0000 1018 784
Activity:	(24.510) iron casting

Livar, proizvodnja in obdelava ulitkov, d.d. is registered in the registry of companies at the District Court of Ljubljana under the entry number 1/13026/00.

Capital as at 31 December 2011, in EUR:	-583,510
Share capital as at 31 December 2011, in EUR:	6,331,660
Number of shares issued as at 31 December 2011:	1,517,319
Number of employees as at 31 December 2011:	29

THE EXPECTED DEVELOPMENT OF THE COMPANY

COMPANY VISION

Livar aims to become one of the most successful and environmentally friendly companies in the European Union in the field of integrated foundry services by 2015.

COMPANY MISSION

Livar produces mechanically processed grey and nodular iron castings and assembled products. With our knowledge and experience, we support our customers in developing and optimizing their products. We are a reliable partner.

MAIN OBJECTIVES OF THE COMPANY

- To produce high added value products.
- To move closer to customers in the industry value chain.
- To take partnerships with customers to the next level.
- To engage in strategic development of special cast irons.
- To spread sales across multiple markets.
- To focus on specific customer segments.
- To improve the quality of delivery.

SUBSIDIARIES AND AFFILIATED COMPANIES

Five subsidiaries and one associated company operate under Livar d.d., namely:

Company	Registered office		Share of Livar d.d.
Livar LNL d.o.o.	Slovenia	Subsidiary	100.00 %
Livar Belt d.o.o.	Slovenia	Subsidiary	100.00 %
Livar FMO d.o.o.	Slovenia	Subsidiary	100.00 %
Livar Storitve d.o.o.	Slovenia	Subsidiary	100.00 %
Topola Livar MO d.o.o.	Serbia	Subsidiary	97.95 %
Jelšingrad Livar a.d.	Bosnia and Herzegovina	Associated company	43.03 %

Topola Livar MO d.o.o. is currently inactive. Preparations and interviews were carried out in 2011 to organize the process of reactivation.

Livar d.d. owns a 43.03% share in Jelšingrad Livar a.d.; the latter is considered an associated company.

Due to the insignificant scope of assets, costs and income of the subsidiaries, the Livar d.d. company did not prepare consolidated financial statements for the Livar Group for 2011.

SUPERVISORY BOARD

Livar's Supervisory Board operated in three compositions in 2011. Tomaž Švigelj joined the Supervisory Board in June, and Jože Strmole replaced Drago Jerman as employee representative in December due to retirement.

Supervisory Board from 1 January 2011 to 20 June 2011:

Chairman: Ivo JUDNIČ

Deputy chairman: Mitja ŠKRBEC

Members: Adriano CORSI
Janko ČEVKA
Drago JERMAN

Supervisory Board from 20 June 2011 to 12 December 2011:

Chairman: Ivo JUDNIČ

Deputy chairman: Mitja ŠKRBEC

Members: Adriano CORSI
Janko ČEVKA
Drago JERMAN
Tomaž ŠVIGELJ

Supervisory Board from 12 December 2011 to 31 December 2011:

Chairman: Ivo JUDNIČ

Deputy chairman: Mitja ŠKRBEC

Members: Adriano CORSI
Janko ČEVKA
Tomaž ŠVIGELJ
Jože STRMOLE

MANAGEMENT BOARD

Livar d.d. was managed by one-member Management Board in the first half of 2011, and the Board consisted of two members in the second half of the year.

Management Board from 1 January 2011 to 4 July 2011:

Chairman of the Management Board: Damjan DEBELJAK

Management Board from 4 July 2011 to 31 December 2011:

Chairman of the Management Board: Damjan DEBELJAK

Member of the Management Board: Izidor DERGANC

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders and business partners!

The past three years have brought significant difficulties that the company had not encountered before. The market situation changed radically in this period, which requires us to act wisely and carefully.

Business results depend primarily on two factors, i.e. a sufficient level of orders and optimization of operating expenses of the entire company. Especially the latter, i.e. cost-effectiveness of all our business activities, is our responsibility, and we can ultimately influence it. For this reason the Management Board of the company decided in 2011 to start a project of renewal of all business processes in the company. The main purpose of the project was to reduce fixed costs and thereby increase efficiency in terms of improving productivity and profitability of operations.

Livar received enough orders during the first nine months, and sales results exceeded the expected value by up to 10 percent. At the same time, operating expenses decreased, thus the company's nine-month operating profit was encouraging, as it showed satisfactory positive results after several years of operating losses. However, Livar experienced a decline in orders from its customers in the last quarter of 2011, and the period ended with negative results, which reflected in the overall operating result in 2011.

Livar did not achieve the planned results in 2011, since the fiscal year ended with operating loss in the amount of EUR -1,0 million. As mentioned, the entire loss was generated in the last quarter of the year due to lower sales and significant impairments of trade receivables.

As part of the aforementioned project of strategic renewal of the company, which has been in implementation since 2011, Livar has set its strategic direction, which focuses primarily on the improvement of the company's market position. This strategic direction focuses primarily on the sale of high added value products, i.e. mechanically processed castings and special alloy castings. Furthermore, the strategic direction is aimed at taking Livar's relationships with customers to the next level by facilitating partnerships and ensuring high-quality and timely deliveries. Livar will focus its sales on selected customer segments and spread them across several markets, while giving special attention to increasing its sales in German speaking countries.

By adjusting the company's costs to its volume of operations and managing particularly its fixed costs as well as by following its strategic direction, Livar can achieve positive results in the future. We are aware that the company still has significant reserves, especially as regards the amount of waste materials and customer complaints, reduction of material costs and labour costs or, in other words, adjustment of operating costs to the volume of operations. Positive operating results will enable us to cover our expenses and pay back old loans that paralyze our business operations.

We consider it a great achievement that we managed to eliminate all negative effects of the Euro-Swiss Franc exchange rate volatility in 2011, both on derivative financial instruments and on our Swiss Franc credit. We repaid all currency options – derivatives, both those that are due and those not yet due. Furthermore, we completed the conversion of credit in the amount of CHF 11.5 million to Euro credit. We also carried out activities relating to Livar's guarantee for Topola Livar's loan; ongoing discussions with Serbian representatives are being held to decide on the realization of the provisions of the agreement on Topola Livar share transfer, and to address the subject of the assumption of Topola Livar's loan obligations to banks.

Livar's liquidity position was unfavourable in 2011. On the one hand, our customers' payment discipline deteriorated, and on the other hand, our suppliers imposed stricter payment terms on the company; nevertheless, we successfully financed the company's operations by coordinating both of the above. We rescheduled all credit obligations by the end of 2011 or the beginning or 2012, which means that we deferred principal payments for this period. The company only paid interests on credit obligations and commitment fees under all leasing contracts. However, Livar will not be able to cover all subsequent financial obligations in 2012. Therefore it plans to reschedule a part of financial obligations again to adjust them to Livar's solvency.

Chairman of the Livar d.d. Management Board
Damjan Debeljak

REPORT OF THE SUPERVISORY BOARD

Dear shareholders and employees of Livar d.d. !

Being aware of increasingly stringent economic conditions in the global market and striving to reduce costs, i.e. meeting allowances, Livar's Management Board held less ordinary meetings in 2011 than in 2010. Members of the Management Board met five times at their regular meetings. In addition, three correspondence sessions were held in 2011.

In accordance with the existing commercial practice, the Supervisory Board monitored the work of the Management board and the company's operations through examining regular monthly reports on operations and through weekly meetings between the Chairman of the Management Board, its member responsible for the technical sector, and the Chairman of the Supervisory Board.

Unlike previous years, the year 2011 started on a positive note for Livar d.d., as the number of orders from our »old« customers increased and exceeded the planned sales volume by 10%.

In March Livar started implementing the Company Strategic Renewal project and the renewal of company's information system in cooperation with the consulting firm Aggregata d.o.o.. The aim was to reshape the production-sales strategy, optimize operations and create an organization that uses effective processes. In addition to the renewal of the strategy and business processes, there is a need for a renewal of the existing information system, which needs to be upgraded or replaced with a new and more effective one.

At the end of 2010 Livar started the project of nodular iron casting at Črnomelj after the prior approval of the Supervisory Board. The project was successfully completed in March 2011, which is also when the Črnomelj foundry started producing nodular iron castings.

The Management Board regularly reported to the Supervisory Board on the company's financial situation and liquidity. Thus, in the first quarter of 2011, negotiations on the rescheduling of long-term financial obligations were held with two major creditors – Hypo Group (Hypo Bank and Hypo Leasing) and Unicredit Bank, in which the company obtained a moratorium on repayment of principal of loans and leasing.

In the second quarter, on the basis of regular reports on operating results, the company's Management Board addressed the need to raise prices of those products

that proved to be generating negative results, and the results of the price increase became visible in June and July 2011.

Company's sales activities were focused on acquiring orders or contracts with higher added value, which resulted in an increase in the share of mechanically processed products in the revenue structure, and in an increase in the number of orders for nodular iron castings.

In accordance with the strategic renewal project and the strategic guidelines set for the next period, reorganization of the company was carried out in July 2011. It included the merging and optimization of logistic processes and sales activities, which became proactively oriented towards customers.
Thus, the company achieved greater efficiency, compatibility of functions, a faster flow of information and clearly defined responsibilities in carrying out processes.

According to reports from the Management Board, Livar experienced liquidity problems also in the first half of 2011, because the company could not cover all its financial liabilities despite the positive trends in business transactions and positive cash flows.

In the third quarter of the fiscal year, the Management Board made a step forward by reaching an agreement with banks and eliminated negative effects of derivative financial instruments and foreign exchange losses on the company's income statements and on its liquidity. To this end, the Unicredit Bank granted Livar a long-term loan for the termination of derivative transactions, and carried out the conversion of CHF credit into EUR.

In the last quarter of 2011, the Supervisory Board noted at its regular meetings that the number of orders from customers was decreasing. The decline in orders had a negative impact on the generated revenue and operating results, and thus the company generated loss in November and December 2011.

According to reports from the Management Board, we can expect that the number of orders from existing customers will stagnate due to economic and financial global crisis. Therefore, in accordance with the adopted strategic guidelines, the Management Board started carrying out marketing-sales activities on other EU markets, especially in Germany, in addition to Italy.

In accordance with the agreed renewal of business processes and associated measures to improve company's liquidity, the Supervisory Board instructed the Management Board to optimize operating results in the future. To this end, the Management Board adopted measures to:

1. reduce the amount of waste materials,
2. reduce customer complaints,
3. increase the manufacturing productivity,
4. reduce material costs,
5. adjust the number of employees to the actual needs.

The Supervisory Board and Management Board have a task to manage and supervise a company with more than 700 permanent employees and contract workers, and this task is not easy. We consider the aligning of individual employee's objectives with the company's objectives one of the main priorities, because the misguided idea that personal well-being and personal privilege come before responsibilities is all too present these days.

All employees should be well aware that their work primarily contributes to the society's welfare and benefit, since a successful company with good operating results can guarantee the future existence and development of an individual.

Chairman of the Supervisory Board:
Ivo Judnič

HIGHLIGHTS OF BUSINESS OPERATIONS – LIVAR d.d.

Year	2011	2010	2009	2008
Production in tonnes	40,629	37,168	19,029	46,312
Average number of employees (Livar Group Slovenia)	570	543	594	735
Productivity (in kg per effective work-hour)	30.26	32.10	27.12	32.12
Investments (in million EUR)	0.62	0.82	0.96	2.01
Net sales revenues (in million EUR)	55.5	43.4	22.5	64.09
Profit or loss (in million EUR)	-1.0	-2.9	-3.6	-16.2
EBITDA (in million EUR)	3.8	4.4	-2.4	-4.5
EBIT (in million EUR)	1.9	2.3	-5.6	-10.2
Capital (in million EUR)	-0.6	1.5	4.4	5.4
Balance sheet total (in million EUR)	44.8	47.5	42.3	53.7

MAJOR EVENTS AFTER 2011

In 2011 Livar started implementing the Strategic Company Renewal project, which is divided into the following areas:

- reshaping of the company strategy and drawing up of strategic objectives,
- renewal and restructuring of the company's business macro-model,
- analysis and remodelling of business processes,
- development of a system for process cost calculation,
- drawing up of proposals for changes in the company's organization, processes and work methods,
- renewal of the salary system.

The first phase of the strategic renewal project was completed in early July 2011. Further activities included the implementation of the described organization changes and measures to ensure that the new working methods are used in the company. All approved changes were implemented by June 2012.

In 2012, Livar d.d. asked commercial banks to reschedule all loan obligations. The commercial bank that has the largest credit exposure to Livar agreed to give the company a partial moratorium, postponing principal payments to the end of 2012. Negotiations with the other commercial bank on a partial moratorium on principal payments of loans and leasing are still underway, but the moratorium has not been approved yet.

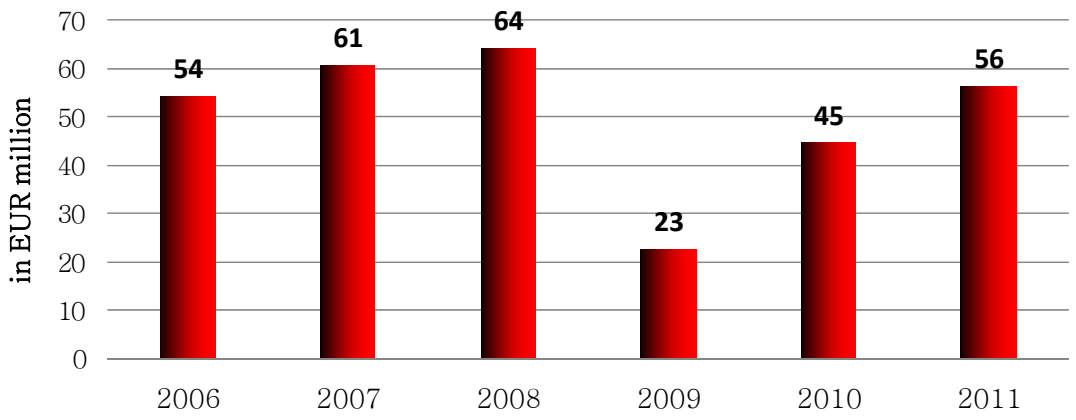
Due to effects of the global crisis, Livar is still experiencing a shortage of orders in 2012. The number of orders decreased by 30% in the first half of 2012. The sales department is cooperating with existing customers and searching for new customers in accordance with strategic guidelines, mostly in German-speaking countries. It especially focuses on consumers of high added value products. We expect that the number of orders will increase again in autumn 2012, mostly for new products that Livar will start manufacturing after customers have confirmed sample products.

SALES

Total sales generated in 2011 exceeded the planned results both in terms of quality and value. The first three quarters of the year were marked by larger sales volumes than planned, but in the last quarter the market followed the trend of previous years, therefore sales decreased at the end of the year. This trend was even more obvious in 2011 due to bad economic forecasts, as a result of which customers started to optimize the supply chain, reduce inventory and accumulate cash flows. Due to high sales volumes in the first half of the year, many of them overestimated the market and relied too much on optimistic prognoses. Consequently, their inventories were too large in the last quarter, and had to be substantially reduced by the end of the year. Due to the above facts, order volumes decreased towards the end of the year in all branches, except agriculture.

The sales revenue generated in 2011 amounted to EUR 55.5 million, exceeding the 2010 sales revenue by 28%. Livar exceeded the planned value realization (which was EUR 51.7 million) by 9%. Measured in kilograms, the actual sales exceeded the sales planned for 2011 by 2%, as it amounted to 36 thousand tonnes of sold castings and assembled products, which exceeded the 2010 sales by 13%.

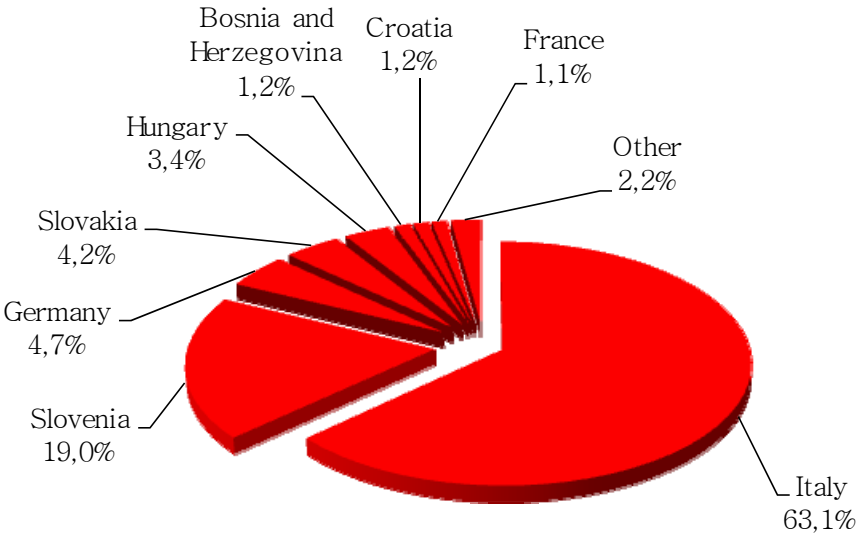
Product and service sales dynamics of the Livar d.d. company (in million EUR)



The sales of raw castings represented 82.5% of the overall sales quantity, and the sales of processed casts and shaft cover products represented 11.8% and 5.7%, respectively.

Livar's sales on the Slovenian market amounted to 19.0% of the total sales of products and services. The company sold 81.0% of products and services on foreign markets. The majority of sales are still made to the Italian market; in 2011, 63.1% of all our products were sold to customers in Italy.

Sales structure by country in 2011
Livar d.d.:



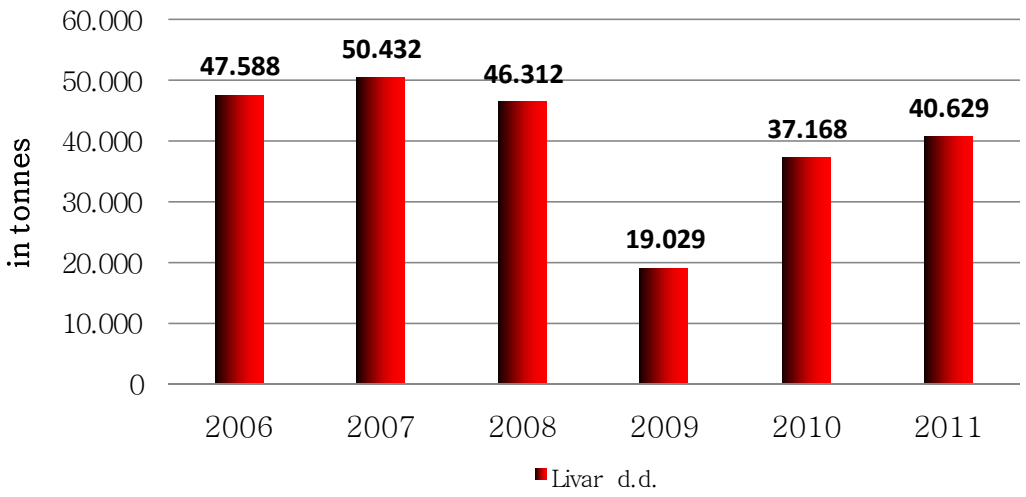
The planned sales volume, specified in the approved plan for 2012, is the same as the sales volume planned for 2011, i.e. 36 thousand tonnes of products, or EUR 56 million. It is quite likely that, due to the decline in orders in the first months of 2012, it will not be realized in full in 2012. In addition to the strategic renewal of business processes, we also drew up strategic objectives to be taken into account in the field of sales in the coming period. These strategic objectives refer to the solicitation of orders for more complex and profitable products that bring higher added value and better sales results. By seeking customers who might order assembled products and mechanically processed products, Livar will move its sale of products up the value chain of the foundry industry; indeed, the results of an analysis show that the parts of the chain which are closest to customers generate highest profits. By promoting its sales in the existing and new markets, especially in Germany, Livar will try to reduce its dependence on the Italian market. Livar will focus on a smaller number of industries and thus transform itself from an order-based foundry to a serial production foundry, which will enable it to generate savings primarily in the production process. To ensure stable transactions, Livar will give its key customers a special status in the company.

PRODUCTION

Last year, Livar's total production volume was 40,629 tonnes of castings, which exceeded the planned volume by 3%. Compared to the year before, the total production volume increased by 9%. The foundry in Ivančna Gorica produced 18,178 tonnes, and the foundry in Črnomelj 22,451 tonnes of castings.

51 percent of all castings were made from grey cast iron and 49 percent were made from nodular cast iron.

Production dynamics of Livar d.d. (in tonnes)



The Črnomelj foundry, which had previously only manufactured grey iron castings, started to produce nodular castings as well in 2011. The investment into nodular iron casting at Črnomelj was completed in March, which is when the foundry started producing nodular castings.

The planned production volume for 2012 is 38,959 tonnes of castings. The production department aims to increase productivity, reduce the amount of waste material and complaints, and optimize material and energy consumption.

INVESTMENTS

Livar did not make large investments in 2011, but limited them to those necessary to enable smooth running of production and productivity growth.

The company mainly carried out renovation work at Ivančna Gorica. One of the most important projects there was the replacement of the smelter on the cupola furnace, because it was worn out due to high thermal loads. The frames on the BMD moulding line were also replaced due to wear and tear; otherwise they could cause defects on castings. Two sanding machines used to clean castings were renovated, and the cooling tower which cools down water in the electronics cooling system was replaced. A computerized Atas system represents an important acquisition of the foundry in Ivančna Gorica in 2011. It is used to control the quality of the melt and to reduce deviations from the desired parameters.

A modern computerized tensile testing machine was purchased for the foundry in Črnomelj. A pouring machine was installed on the BMD line. This proved to be necessary to enable nodular iron casting on the line. A new wire nodulizer was purchased to allow the preparation of nodular iron. Two sanding machines and a cupola cyclone cooler underwent major renovation.

Other investments were smaller in scope, but necessary for the smooth running of the production process.

DEVELOPMENT ACTIVITY

In 2011, the development activities were not only oriented towards producing and adopting new products, but also towards reducing complaints and waste materials, optimizing business and technological processes, reducing material costs and bringing production records into line with the actual state.

As regards development, we received 987 enquiries about 1389 products. We also received orders for 255 new products.

The Atas system is a new acquisition which was installed at the production plant at the end of the year and will greatly facilitate the work of our developers. The system determines cooling curves which enable us to calculate parameters and determine the characteristics of a melt, thus allowing us to change them.

We are aware that Livar has to maintain its competitive advantage in the long run. However, we can increase the company's long-term competitive advantage by focusing on the production of products from more complex, specialty alloys. The development of new alloys was a high-priority task of the development department in the past year. In the first phase the developers identified potential new alloys, which mostly included variants of grey or nodular cast iron. They mostly focused on alloys that are suitable in terms of Livar's existing mechanical equipment.

EMPLOYEES

In 2010, Livar d.d. underwent restructuring, so that the company could keep performing all promising activities which have market prospects. Thus, the majority of employees were transferred to four subsidiaries, namely Livar LNL d.o.o., Livar Belt d.o.o., Livar FMO d.o.o. and Livar Storitve d.o.o.. Because we consider this change relevant, we present the information for Livar Group in Slovenia in the table below.

Number of employees by company:

Company	As at 31 December 2011	Average in 2011
Livar d.d.	29	24
Livar LNL d.o.o.	133	127
Livar Belt d.o.o.	126	121
Livar FMO d.o.o.	162	146
Livar Storitve d.o.o.	120	115
Total	**570**	**579**

At the end of 2010, the Livar Group, Slovenia, had 570 employees; the average number of employees in 2011 was 579. The number of employees increased by 27 in 2011, mostly in the mechanical processing department, due to the increase in the sales of mechanically processed castings.

Number of employees of the Livar Group in Slovenia by level of education, as of 31 December 2011:

Level of education	Number of employees	%
I	128	22.5
II	45	7.9
III	26	4.6
IV	184	32.3
V	124	21.8
VI	18	3.2
VII	38	6.7
VIII	7	1.2
Total	**570**	**100**

Number of employees of Livar d.d. by level of education, as of 31 December 2011:

Level of education	Number of employees	%
I	1	3.4
II	0	0.0
III	0	0.0
IV	1	3.4
V	7	24.1
VI	1	3.4
VII	16	55.2
VIII	3	10.3
Total	29	100

There were 24 scholarship holders in Livar in 2011. Ten of them did not receive scholarships due to deferred contractual obligations. Two scholarship holders receive full scholarships from Livar, and Livar acquired funds to cover 50% of scholarship costs for ten holders. Seven employees were studying while working, and three of them successfully completed their studies in 2011. Three of them are still studying. There was also one claim filed for refund of already paid tuition fees.

Due to limited education funds, the company focused primarily on internal training, which accounted for 68% of all educational activities in 2011. Training was mainly focused on areas of expertise such as foreign language courses, training of leaders in the field of management, safety at work in the field of ecology, and five pillars of quality.

The company implemented 368 educational projects, accounting for 6,848 hours of training, which is 46% more hours than in 2010, when 4,688 hours of training were carried out. In average, there were 11.83 hours of training per employee in 2011, which is 36% more than in 2010 (8.71 hours). EUR 28,729 was allocated for external training in 2011.

In the field of personnel, Livar mostly strived to optimize the number of employees, train the company's employees to increase the number of universal workers, gradually increase the level of knowledge, improve employee satisfaction and enable horizontal and vertical promotions in the company.

QUALITY

From the Quality Policy of the Livar d.d. company:

In Livar d.d., quality and environmental care represent the most important and fundamental values of our business operations.

ISO 9001:2000

The ISO 9001 standard provides a framework for Livar's quality management system and focuses on customers and a process approach. Its requirements are supplemented by the ISO/TS 16949 technical specification.

ISO/TS 16949

As Livar also supplies castings for the automobile industry, its quality management system includes the requirements for the suppliers in the automobile industry according to the ISO/TS 16949 technical specification.

ISO 14001

By acquiring the ISO 14001 international certification, the Livar d.d. company confirmed the efficiency of its environmental impact management and has thus committed itself to pollution prevention, care for a clean environment, wise use of natural resources, recycling, waste management and to taking into account and complying with environmental laws.

Evaluations of quality and environmental management systems

In 2011, the Bureau Veritas Certification company from Ljubljana conducted one evaluation of quality management systems according to the ISO/TS 16949 (ISO 9001) international standard pertaining to both locations and company management.

In addition, two assessments of the company's environmental management system were carried out in accordance with the ISO 14001 standard.

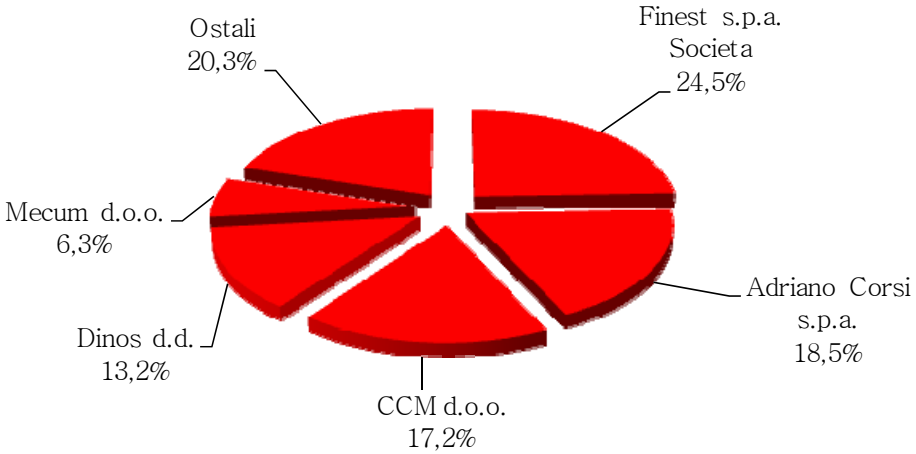
The Slovenian National Building and Civil Engineering Institute awarded Livar d.d. the Slovenian Technical Approval for its drainage products (shaft covers). At each production site, two control evaluations of production were carried out in accordance with the EN 124 standard requirements.

In 2011, our customer Knorr Bremse (Austria) assessed our production process at the beginning of our cooperation.

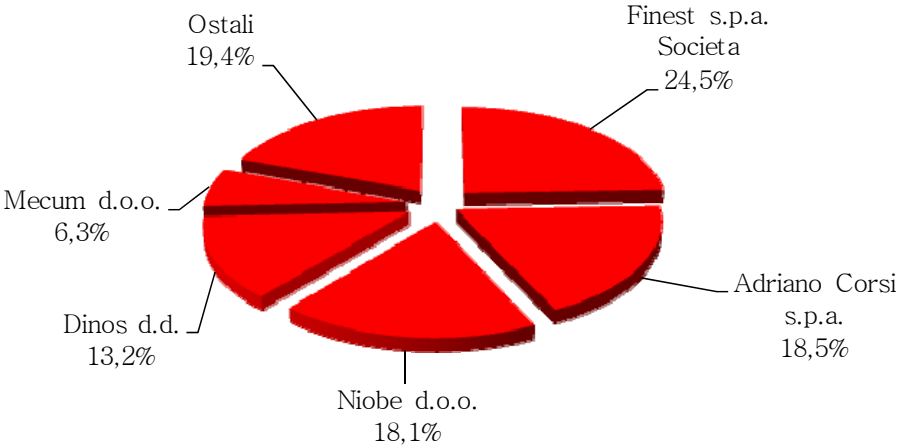
SHAREHOLDERS

In 2011, the share capital of Livar d.d. comprised 1,517,319 ordinary registered no-par value shares. The share capital amounted to EUR 6,331,660. All of the company's shares were paid up in full and ensured equal rights to all shareholders.

Ownership structure as at 31 December 2011



Ownership structure after the balance sheet date (on 30 June 2012)



Calls for Annual General Meetings, including the proposed decisions and the place of the meeting, are released publicly. The right to participate and to make decisions at the Annual General Meeting is reserved for shareholders who are registered in the share register at the Central Securities Clearing Corporation on ex-dividend date which is published upon convening the meeting, or their representatives and agents.

Important information for shareholders:

	31.12.2011	31.12.2010	Index
Net profit or loss of the company, in EUR	-1,019,062	-2,884,721	35
Book value per share, in EUR	-0.38	1.01	...

Shareholders' Meeting of the Livar d.d. company was convened once last year. The 17th Annual General Meeting was held on 20 June 2011. 62.05% of capital was recorded at the meeting.

RISK MANAGEMENT

The exposure to various business and financial risks constitutes a part of every-day operations in the business world. The acknowledgment and diligent monitoring of these risks are thus of key importance for company's existence.

Liquidity risks

These are risks related to ensuring solvency and are managed by planning all expected and known outflows and by planning and ensuring sufficient cash inflows to cover them.

Livar's liquidity position was unfavourable in 2011. On the one hand, its customers' payment discipline deteriorated, and on the other hand, its suppliers imposed stricter payment terms on the company.

Livar successfully solved most of these problems by regularly evaluating the creditworthiness of individual customers, and by keeping in mind the limits and thus maintaining manageable levels of outstanding debts. When necessary, we required advance payments. As was already mentioned, our suppliers also imposed stricter payment terms, which were hard to fulfil. Especially in the first half of the year, we had to make advance payments for most of raw materials. In order to loosen the stringent payment terms of certain suppliers, we managed to persuade a credit insurance company to insure our supplier's claims on Livar, which ensured more stable supply and guaranteed greater security to Livar's suppliers.

In 2011, all credit obligations were rescheduled to the end of 2011 or the beginning of 2012, which means that principle repayments to be made in this period were deferred. The company only paid interests on credit obligations and commitment fees under all leasing contracts. However, Livar will not be able to cover all subsequent financial obligations in 2012. Therefore it plans to reschedule a part of financial obligations again to adjust them to Livar's solvency.

Credit risks

These are the risks of customers not fulfilling their obligations, i.e. not repaying our claims toward them. We manage credit risks by evaluating the creditworthiness of our customers, especially new ones, and by carrying out the process of recovering claims.

Even though we successfully managed credit risks in 2011, we recorded losses due to impairment of receivables from a major customer in the past few years.

Interest-rate risks

We manage these risks by constantly monitoring developments on the monetary market and by maintaining partner relationships with deposit money banks. Long-term and short-term financial liabilities to banks and lessors are tied to EURIBOR, which affects the exposure to risks related to interest rate changes.

Currency risk

There were no significant currency risks such as changes in exchange rates related to import and export, since Livar carries out most of its sale and purchase activities in the European Union. Furthermore, Livar does not have any short-term trade receivables or short-term operating liabilities denominated in foreign currencies.
We also managed to eliminate all negative effects of the Euro-Swiss Franc exchange rate volatility in 2011, both on derivative financial instruments and on our CHF credit. We repaid all currency options – derivatives, both those that are due and those not yet due. Furthermore, we completed the conversion of credit in the amount of CHF 11.5 million to Euro credit in October 2011.

Fair value risk

The company owns real-estate and financial investments which are evaluated according to their fair value and regularly monitored by the company.

Market risks

We manage these by spreading sales across several industries, monitoring sales shares by individual industries and by individual markets. Sales risk management encompasses appropriate market strategies (price competitiveness of products). We need to significantly reduce market risks by constantly developing new products and services that are attractive, useful and affordable.

Purchase risks

Purchase risks are related to changes in the prices of raw materials and materials, and also depend on the quality of products and delivery deadlines. We manage these risks by regulating contractual relationships with suppliers, which ensures more stable and, above all, more predictable operations. Despite this, we cannot influence the changes in prices of the main manufacturing materials such as steel, pig iron and energy products. The changes in prices of the aforementioned materials are included in the sales prices of our products via a formula.

Product risks

In the field of product risks we are exposed to the potential of improper functioning of our products on the market. We manage product risks by ensuring quality in the production processes and by complying with all standards. We strive to maintain quality, as only high-quality processes and original, technologically perfected products, made with attention to every detail, will enable us to strengthen our position as one of the leading manufacturers of castings.

Personnel risks

Personnel risks include risks related to the consequences of social dialogue with the employees, loss of key personnel and shortage of qualified personnel. We try to limit these risks by offering various trainings, rewarding individual performance, etc. We

strive to fulfil future needs for qualified staff by granting scholarships and by constantly searching the labour market for key personnel.

Investment risks

We manage investment risks by acquiring and successfully activating investments, as well as introducing new technologies which will prove vital in the near future.

Major **property risks** such as fire, machinery breakdown and production failure are transferred to the insurance company.

ENVIRONMENTAL CARE

NATURAL ENVIRONMENT

Environmental care represents an integral part of Livar's operations, as the company has an impact on the environment in which it operates. Business operations of the company comply with the current environmental legislation; the company also strives to improve the production process to reduce environmental burdens and operating costs.

The main guidelines regarding Livar's relationship with the environment are laid out in company's environmental policy. With the environmental policy, the company commits itself to protect the living and working environment at all times, to reduce the impact of its operations on the environment as much as possible and to keep the environmental burdens within all statutory and other limits.

Bureau Veritas carried out two evaluations in 2011, and our company successfully passed them. The Bureau recommended us to improve the environmental management system. It should be pointed out that the implemented environmental management system helped us to speed up the process of obtaining an environmental permit, since it enables us to ensure constant compliance with statutory and other requirements and provides us with prescribed procedures to use in case of deviations. This has been confirmed during visits made by inspectors and representatives of the Environmental Agency of the Republic of Slovenia.

The system is continuously monitored by internal evaluations and site inspections, which allows us to constantly monitor the compliance of our operations. All identified cases of non-compliance help us to make improvements and diminish the environmental burdens of our operations.

In 2011 we started measuring air quality at both manufacturing locations in order to determine our environmental impact due to PM10 and benzene emissions. Measurements are carried out in all four seasons by ZVD Ljubljana (Institute of Occupational Health). After the measurements have been completed, we will carry out an analysis and design a model.

We had four complaints by stakeholders in 2011 regarding the transport of sand at Črnomelj and odours at Ivančna Gorica. We resolved all complaints and took appropriate action. We are aware that we have become more »annoying« in the eyes of people living near our premises, because our production increased significantly in comparison with the past two years.

Of course we will keep striving and ensuring that our operations will stay in compliance with the environmental permit as well as statutory and other requirements.

SOCIAL ENVIRONMENT

We use our best efforts to make our operations more friendly to the environment in which we operate and the people who live in it. We strive to make life in local communities more dynamic, we act as a sponsor of cultural, social and sports events. However, we allocated fewer resources to sponsorships in 2011 than in the past.

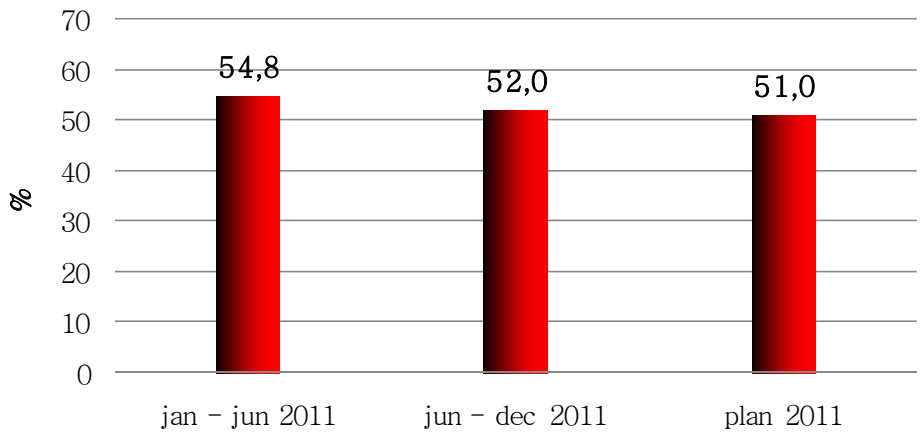
ANALYSIS OF BUSINESS OPERATIONS OF LIVAR D.D.

PROFIT OR LOSS STATEMENT

In 2011, Livar continued its activities in the field of optimizing operating costs, which were primarily aimed at finding internal reserves.

During 2011, Livar addressed the issue of reducing material costs. The company set itself the goal of reducing these costs before the end of 2011, so that they would account for less than 51% in the sales revenue structure. We were very close to achieving this goal in the second half of the year, as shown in the graph below:

Material costs as a percentage of sales revenue



The reduction of waste materials generated during production was also an important step forward in terms of reducing operating expenses in 2011. The company's purchase of a computerized Atas system contributed to such reduction, as the system enables us to assess the quality of a melt and reduces deviations from desired parameters.

However, labour costs are still too high, since they account for 23-25 percent (depending on the month) in the revenue structure together with the costs of hiring workers. We will have to reduce these costs to 20 percent or less in the revenue structure as soon as possible. Unfortunately, to lower operating expenses, we had to reduce the number of employees. We started implementing measures to optimize

labour costs and reduce the number of employees in the last quarter of 2011, and the process was completed at the beginning of 2012.

In comparison with the previous year, there was a clear change in revenues in 2011, as sales increased by 28% compared to 2010 sales, which were significantly affected by the global economic crisis. The higher revenue is therefore due to larger sales volumes. By September 2011, the sales volume exceeded the planned one, while in the last quarter – mainly in the last two months of the year – we did not achieve the planned results due to a substantial decline in orders.

Livar's fiscal year 2011 ended with a total loss of EUR -1.019.062. Livar received enough orders until September, therefore it recorded positive results. However, the last quarter of the year ended with negative results due to a decline in orders. These negative results reflect in overall results achieved in 2011. In addition, the impairment of our customer's receivables in the amount of EUR 600,000 had further negative effects on results.

The 2011 result includes a deferred part of employment subsidies received in 2010. They decrease the costs of services of subsidies and thus increase the result by EUR 1,428,000. In addition, Livar was exposed to the Euro-Swiss Franc exchange rate fluctuations due to a long-term loan in the amount of 11.5 million Swiss Francs, a part of lease liabilities and especially the derivatives purchased in 2007 and the first half of 2008. For these reasons, Livar's result decreased by EUR 1,402,036 in 2011.

On the positive side, we eliminated all negative effects of the Euro-Swiss Franc exchange rate volatility in 2011, both on derivative financial instruments and on our leased Swiss Franc credit. In September, we repaid all currency options – derivatives, both those that are due and those not yet due. Furthermore, we completed the conversion of credit in the amount of CHF 11,536,000 to Euro credit in October 2011.

In 2010, Livar generated **revenues from sale of products and services** amounting to EUR 55.5 million. Compared to the year before, the net sales revenues increased by 28% and exceeded the planned value by 9%. **Other revenues** amounted to EUR 61,000 and **financial revenues** amounted to EUR 113,000.

In 2011, a **decrease in the value of inventory and work in progress** amounting to EUR 848,000 was recorded.

For 2010, the **operating costs** amounted to EUR 1.2 million, which means that they have decreased by 84% in comparison with 2010. The reason for the decrease in labour costs recorded in the profit or loss statement is the change in accounting due

to the restructuring of Livar d.d. in October 2010. That is when the majority of employees were transferred to four subsidiaries, therefore labour costs related to these employees were recorded as costs of merchandise, material and services in 2011. The actual labour costs related to Livar's and its subsidiaries' employees amounted to EUR 11.8 million in total, and exceeded the planned costs by 5%.

Depreciation and amortization expenses also include operating expenses from revaluation. Revaluation operating expenses associated with working capital comprise the loss from impairment of our customer's receivables in the amount of EUR 600,000, which further decreased our operating result.

Financial expenses for 2011 amounted to EUR 2.9 million, from which EUR 1.4 million represents the effects of Livar's exposure to Euro-Swiss Franc exchange rate volatility due to negative exchange differences on the loan and a part of the leasing, as well as the negative value of derivatives. As already mentioned, these effects were eliminated in 2011, and will not affect Livar's operations anymore. **Other expenses** in 2011 amounted to EUR 25,000.

Profit or loss statement for the period from 01.01.2011 to 31.12.2011

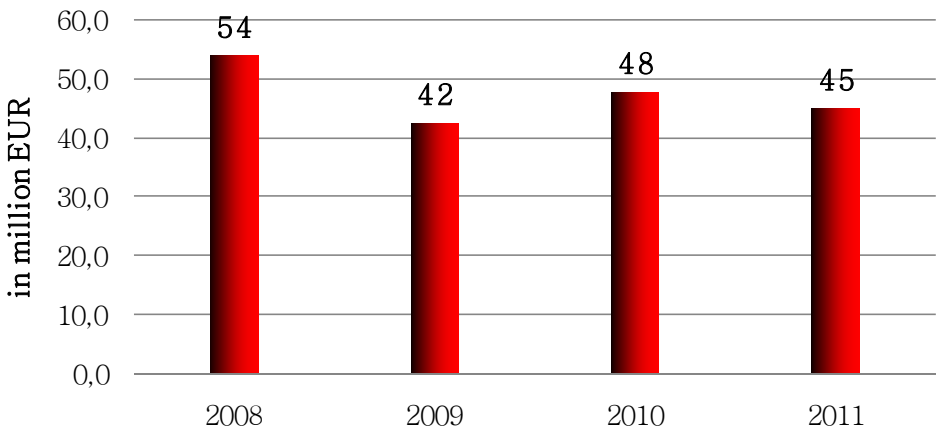
in EUR

		2011	2010	INDEX
1.	Net sales revenues	55,500,464	43,435,154	128
2.	Change in inventories of finished goods and work in progress	-848,470	515,450	-165
3.	Capitalized own products and services	111,312	0	0
4.	Other operating revenues (including operating revenues for revaluation)	542,997	1,552,714	35
5.	Costs of goods, materials and services	48,952,511	32,784,221	149
6.	Labour costs	1,240,240	7,598,342	16
7.	Depreciation and amortization	2,616,048	2,198,027	119
8.	Other operating expenses	635,024	648,744	98
9.	Financial revenues from shares	0	0	0
10.	Financial revenues from loans given	32,422	92,793	35
11.	Financial revenues from operating receivables	80,689	33,252	243
12.	Financial expenses from impairment and write-offs of financial investments	0	15,000	0
13.	Financial expenses for financial liabilities	2,614,341	4,757,055	55
14.	Financial expenses for operating liabilities	314,157	616,195	51
15.	Other revenues	61,495	123,538	50
16.	Other expenses	24,755	20,038	124
18.	Deferred taxes	102,894	0	0
19.	**Net profit or loss for the accounting period**	**-1,019,062**	**-2,884,721**	35

BALANCE SHEET

Balance sheet total of the Livar d.d. company amounted to EUR 44.8 million at the end of 2011. In comparison with 2010, the value of the balance sheet total decreased by 6%, or by EUR 2.7 million. The decrease in assets can be attributed to the decrease in the value of the financial investment in the associated company Jelšingrad. This investment was revalued at lower fair value on the basis of an expert assessment report. Due to depreciation and low investments, the value of tangible fixed assets also decreased. Liabilities to resources decreased on the account of the decrease in revaluation surplus due to the decrease in the value of the financial investment in the associated company Jelšingrad, and the loss generated in 2011.

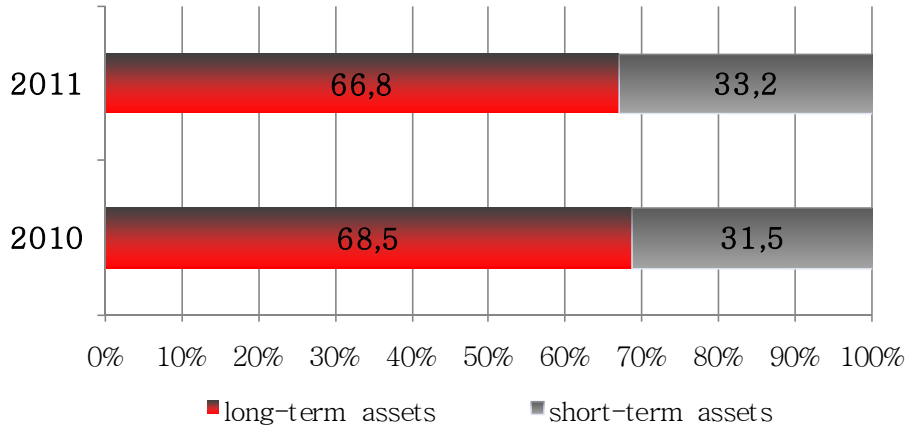
Balance sheet total as at 31 December 2011.



As regards **assets**, long-term assets decreased by 8% or EUR 2.6 million in 2011, and amounted to EUR 29.9 million. Due to depreciation and low investments, tangible fixed assets decreased, amounting to EUR 1.0 million. As was mentioned, long-term financial investments also decreased, amounting to EUR 1.4 million, mostly due to the revaluation of the value of the investment in the associated company Jelšingrad to the new fair value.

Short-term assets amounted to EUR 14.9 million; in 2011, their value decreased by 1% or by EUR 82,000. Within short-term assets, inventories decreased by 21% in comparison with their values at the beginning of 2011, and short-term operating receivables increased by 9%. Cash and cash equivalents also decreased.

Asset structure as at 31 December

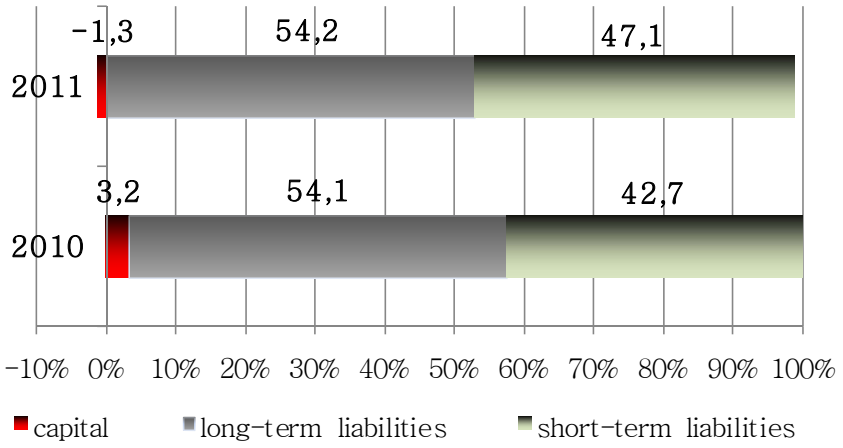


As regards **liabilities to resources**, the capital decreased by EUR 2.1 million in comparison with its value at the beginning of 2011, thus it is negative and amounts to EUR -584,000. The value of capital decreased in 2011 due to the loss generated during the fiscal year and the decrease in revaluation surplus, which occurred as a result of the revaluation of the investment in the Jelšingrad associated company to the fair value.

Provisions and long-term accrued expenses and deferred revenues decreased by EUR 1 million or 30% in 2011, and amounted to EUR 2.6 million. The decrease in provisions is mainly due to the transfer of the short-term part of provisions to short-term financial liabilities, and the transfer of provisions for Livar's employees who were transferred to Livar Storitve d.o.o. to the latter company.

Long-term liabilities decreased by 1% in 2011; they account for 48.4% of all liabilities to resources and amount to EUR 21.7 million. Short-term liabilities increased by 3% in 2011; they account for 47.1% of all liabilities to resources and amount to EUR 20.5 million.

Structure of liabilities to resources as at 31 December



Balance sheet of Livar d.d. as at 31 December 2011

in EUR

	ASSETS	31.12.2011	31.12.2010	INDEX
	ASSETS	44,847,219	47,551,775	94
A.	LONG-TERM ASSETS	29,942,604	32,571,009	92
I.	Intangible assets and long-term prepayments and accrued revenues	256,088	339,828	75
II.	Tangible fixed assets	18,507,440	19,563,602	95
IV.	Long-term financial investments	3,436,876	4,822,485	71
V.	Long-term operating receivables	5,946,524	5,946,524	100
VI.	Deferred tax receivables	1,795,676	1,898,570	95
B.	SHORT-TERM ASSETS	14,893,033	14,975,473	99
I.	Assets (disposal groups) for sale	0	4,692	0
II.	Inventory	2,892,277	3,651,042	79
III.	Short-term financial investments	298,000	298,000	100
IV.	Short-term operating receivables	11,652,017	10,677,347	109
V.	Cash	50,739	344,392	15
C.	SHORT-TERM PREPAYMENTS AND ACCURED REVENUES	11,582	5,293	219

	LIABILITIES TO RESOURCES	31.12.2011	31.12.2010	INDEKS
	LIABILITIES TO RESOURCES	44,847,219	47,551,775	94
A.	CAPITAL	-583,510	1,539,932	-38
I.	Called-in capital	6,331,660	6,331,660	100
II.	Capital reserves	7,156	7,156	100
IV.	Revaluation surplus	7,926,651	9,031,032	88
VI.	Net loss brought forward	-13,829,915	-10,945,195	126
VIII.	Net profit or loss statement for the financial year – net loss	-1,019,062	-2,884,721	35
B.	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	2,599,622	3,688,485	70
C.	LONG-TERM LIABLITIES	21,712,453	22,039,925	99
I.	Long-term financial liabilities	19,916,777	20,141,355	99
III.	Deferred tax liabilities	1,795,676	1,898,570	95
Č.	SHORT-TERM LIABILITIES	20,477,483	19,953,729	103
II.	Short-term financial liabilities	8,388,464	6,984,861	120
III.	Short-term operating liabilities	12,089,019	12,968,868	93
D.	SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	641,171	329,704	194

STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board of Livar, d.d., is responsible for the preparation of the 2011 Annual Report and financial statements accompanied with explanatory notes so that they give a true and fair view of the financial situation and the operating results in accordance with the Slovenian Accounting Standards and the Companies Act (ZGD-1).

The Management Board confirms the compliance of the Annual Report and the financial statements and notes thereto for the year ended 31 December 2011, and declares that:

-the financial statements have been prepared on a going concern basis,
-it has applied the selected accounting policies consistently and disclosed any changes in accounting policies,
-accounting estimates have been made in a fair and reasonable manner and in accordance with the principles of prudence and diligence,
-the financial statements have been prepared in accordance with the applicable laws and the Slovenian Accounting Standards.

The Management Board is also responsible for appropriate record-keeping, and for the establishment, operation and maintenance of the internal control system connected with the preparation and fair representation of financial statements that are free of material misstatement due to fraud or error, and for adopting appropriate measures to protect all company's assets, and implementing measures to maintain the value of company's assets.

Management Board:

Damjan Debeljak
Chairman of the Management Board

Izidor Derganc
Member of the Management Board

Ivančna Gorica, 13 July 2012

STATEMENT ON MANAGEMENT

The company does not have a code of conduct.

SUBSIDIARIES

The company has no subsidiaries.

Ivančna Gorica, 13 July 2012

Damjan Debeljak
Chairman of the Management Board

FINANCIAL STATEMENTS OF LIVAR D.D.
FOR 2011

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

to the shareholders of Livar, d.d., Ivančna Gorica

Report on financial statements

We have audited the accompanying accounting statements of **Livar, d.d.**, which comprise the balance sheet as of 31 December 2011, profit or loss statement, statement of other comprehensive income, statement of changes in capital and statement of cash flows for the year then ended, as well as a summary of the basic accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with Slovenian Accounting Standards. The management is also responsible for such internal control as the management deems is necessary to enable the preparation of financial statements that are free of material misstatements, whether caused by fraud or error.

Auditor's responsibility

Our responsibility is to express our opinion on these financial statements on the basis of our audit. The audit was conducted in accordance with the International Standards on Auditing. These standards require that we comply with ethical requirements and to plan and conduct the audit to obtain acceptable assurance about whether financial statements are free of material misstatements.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement and include the assessment of the risks of material misstatements in the financial statements, whether caused by fraud or mistake. When assessing this risk, the auditor considers the internal control relevant to the company's preparation and fair presentation of the financial statements in order to choose auditing procedures that are appropriate in the circumstances, but not to express his or her opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of accounting estimates made by the management, as well as evaluating the whole presentation of the financial statements.

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

Basis for qualified opinion

The company has a financial investment in 43.03% share in the associated company Jelšingrad Livar, a.d., recorded as financial assets available for sale and disclosed at fair value through capital. In order to measure and disclose fair value, the company carries out evaluations of the market value of this property on an annual basis. On the basis of the market value of the 43.03% share in the equity of the associated company Jelšingrad Livar, a.d., as calculated on 31 December 2011 using the present value method, the fair value amounts to EUR 1,714,000. In the final decision on the value estimate, the appraiser specified the range of possible market value estimates in addition to providing information on the market value. For financial reporting purposes, the management used the highest of the possible value estimates and thus

disclosed the fair value of the financial investment in the associated company Jelšingrad Livar, a.d., in the amount of EUR 2,500,000. If the management had disclosed the financial investment at the market value identified in the appraisal report as the most probable market value, the company's revaluation surplus as recorded on 31 December 2011 would have been EUR 707,000 lower, the value of net loss EUR 79,000 lower and the value of capital EUR 786,000 lower than the values actually disclosed.

Qualified opinion

Putting aside the issues described in the "Basis for qualified opinion" paragraph, it is our opinion that the financial statements present fairly, in all material respects, the financial position of Livar, d.d., as at 31st December 2011, as well as the company's profit or loss and cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the explanation in the business report section entitled "Uncertainty regarding the going concern assumption", which indicates that Livar, d.d., generated net loss in the amount of EUR 1,019,000 in the year ended 31 December 2011, that the company's short-term liabilities as at 31 December 2011 exceeded its short-term assets by EUR 6,214,000, and that the company suffers from capital inadequacy, since its total loss amounted to EUR 14,849,000 on 31 December 2011. The total loss exceeds half of the share capital and cannot be covered by retained earnings or reserves. The total capital of the company was negative on 31 December 2011 and amounted to EUR -584,000 – that is without taking into account the issue described in the "Basis for qualified opinion" paragraph. Furthermore, Livar d.d. is unable to meet its financial obligations, amounting to EUR 28,305,000 at the end of 2011 (and to EUR 27,126,000 at the end of 2010), before they fall due. The company had been negotiating on further rescheduling of debts with two main financial creditors, but the rescheduling was still not approved by the creditors on the date of this Auditor's report. The company's future solvency thus depends on its success in rescheduling its debts, in seeking alternative funding and in implementing measures to improve its business operations. Together with other issues presented in the aforementioned explanation, these circumstances indicate that a material uncertainty exists and may cast significant doubt about the company's ability to continue as a going concern.

Other matters

The Financial Statements of the Livar, d.d., Ivančna Gorica company for the year ended 31 December 2010 were audited by Constantia plus, d.o.o., Ljubljana, which expressed an unmodified opinion on the statements on 6 May 2011, including an Emphasis of matter paragraph referring to going-concern uncertainty.

Report on requirements of other legislation

In accordance with the requirements of the Companies Act, we confirm that the information disclosed in the Annual Report is consistent with the accompanying Financial Statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj, univ. dipl. ekon. (BSc Econ)
Certified Auditor

Marjan Mahnič, univ. dipl. ekon.
Certified Auditor
Partner

Ljubljana, 13 July 2012

KPMG

Poročilo neodvisnega revizorja

Delničarjem družbe Livar, d.d., Ivančna Gorica

Poročilo o računovodskih izkazih

Revidirali smo priložene računovodske izkaze gospodarske družbe Livar, d.d., Ivančna Gorica, ki vključujejo bilanco stanja na dan 31. decembra 2011, izkaz poslovnega izida, izkaz vseobsegajočega donosa, izkaz gibanja kapitala in izkaz denarnih tokov za tedaj končano leto ter povzetek bistvenih računovodskih usmeritev in druge pojasnjevalne opombe.

Odgovornost poslovodstva za računovodske izkaze

Poslovodstvo je odgovorno za pripravo in pošteno predstavitev teh računovodskih izkazov v skladu s slovenskimi računovodskimi standardi in za tako notranje kontroliranje, kot je v skladu z odločitvijo poslovodstva potrebno, da omogoči pripravo računovodskih izkazov, ki ne vsebujejo pomembno napačne navedbe zaradi prevare ali napake.

Revizorjeva odgovornost

Naša naloga je izraziti mnenje o teh računovodskih izkazih na podlagi revizije. Revizijo smo opravili v skladu z mednarodnimi standardi revidiranja. Ti standardi zahtevajo od nas izpolnjevanje etičnih zahtev ter načrtovanje in izvedbo revizije za pridobitev sprejemljivega zagotovila, da računovodski izkazi ne vsebujejo pomembno napačne navedbe.

Revizija vključuje izvajanje postopkov za pridobitev revizijskih dokazov o zneskih in razkritjih v računovodskih izkazih. Izbrani postopki so odvisni od revizorjeve presoje in vključujejo tudi ocenjevanje tveganj napačne navedbe v računovodskih izkazih zaradi prevare ali napake. Pri ocenjevanju teh tveganj prouči revizor notranje kontroliranje, povezano s pripravljanjem in poštenim predstavljanjem računovodskih izkazov družbe, da bi določil okoliščinam ustrezne revizijske postopke, ne pa, da bi izrazil mnenje o uspešnosti notranjega kontroliranja družbe. Revizija vključuje tudi ovrednotenje ustreznosti uporabljenih računovodskih usmeritev in utemeljenosti računovodskih ocen poslovodstva kot tudi ovrednotenje celotne predstavitve računovodskih izkazov.

Verjamemo, da so pridobljeni revizijski dokazi zadostna in ustrezna podlaga za naše revizijsko mnenje.

Osnova za mnenje s pridržki

Družba ima finančno naložbo v 43,03% lastniški delež v pridruženi družbi Livar Jelšingrad, a.d., razporejeno v kategorijo za prodajo razpoložljivih finančnih sredstev in jo izkazuje po pošteni vrednosti skozi kapital. Za potrebe izkazovanja poštene vrednosti družba na letni ravni izvaja ocene tržne vrednosti tega premoženja. Na podlagi pridobljene ocene tržne vrednosti 43,03% deleža lastniškega kapitala pridružene družbe Livar Jelšingrad, a.d., na dan 31.12.2011, ugotovljene z metodo sedanje vrednosti pričakovanih prostih denarnih tokov, znaša poštena vrednost 1.714 tisoč EUR. Ocenjevalec vrednosti je v končnem sklepu o oceni vrednosti ob podajanju informacije o tržni vrednosti izpostavil tudi razpon možne ocene tržne vrednosti. Poslovodstvo je za potrebe računovodskega poročanja uporabilo tržno vrednost s skrajne zgornje meje razpona možne ocene vrednosti in s tem izkazalo pošteno vrednost finančne naložbe v pridruženo podjetje Livar Jelšingrad, a.d., v višini 2.500 tisoč EUR. Če bi poslovodstvo družbe vrednost finančne naložbe izkazalo po v cenitvi ugotovljeni tržni vrednosti, kot najbolj verjetni pošteni vrednosti, in ne po vrednosti z zgornje meje v cenitvi opredeljenega razpona možnih tržnih vrednosti, bi družba na dan 31.12.2011 izkazovala za 707 tisoč EUR nižjo vrednost presežka iz prevrednotenja, za 79 tisoč EUR višjo čisto izgubo in za 786 tisoč EUR nižjo vrednost kapitala.

KPMG

Mnenje s pridržki

Razen glede učinkov zadeve, opisane v odstavku Osnova za mnenje s pridržki, so po našem mnenju računovodski izkazi v vseh pomembnih pogledih poštena predstavitev finančnega položaja družbe Livar, d.d., Ivančna Gorica na dan 31. decembra 2011 ter njenega poslovnega izida in denarnih tokov za tedaj končano leto v skladu s slovenskimi računovodskimi standardi.

Poudarjanje zadeve

Ne da bi izrazili mnenje s pridržki, opozarjamo na pojasnilo v poglavju računovodskega poročila z naslovom »Negotovost glede predpostavke delujočega podjetja«, ki kaže, da je imela družba v letu, ki se je končalo 31. decembra 2011, čisto izgubo v višini 1.019 tisoč EUR, da so na ta dan kratkoročne obveznosti presegale kratkoročna sredstva za 6.214 tisoč EUR ter da je družba kapitalsko neustrezna, saj na dan 31. decembra 2011 izkazuje bilančno izgubo v višini 14.849 tisoč EUR, ki presega polovico osnovnega kapitala, ni pa je mogoče pokriti v breme prenesenega dobička ali rezerv. Celotni kapital družbe je na dan 31. decembra 2011 negativen in brez upoštevanja zadeve, opisane v odstavku Osnova za mnenje s pridržkom, znaša -584 tisoč EUR. Družba Livar, d.d., tudi ni sposobna ob rokih zapadlosti poravnavati svojih finančnih obveznosti, ki konec leta 2011 znašajo 28.305 tisoč EUR (ob koncu preteklega leta 27.126 tisoč EUR), z najpomembnejšima finančnima upnikoma pa dogovori glede prenovljenih ponovnih reprogramih dolgov sicer potekajo, a do datuma revizorjevega poročila pri obeh še niso dokončno dogovorjeni in odobreni. Njena bodoča solventnost je tako odvisna od uspešnosti doseženih reprogramov dolgov s strani finančnih upnikov, od uspešnosti aktivnosti pridobivanja nadomestnega financiranja ter od uspešnosti izvajanja ukrepov izboljšanja poslovanja. Te okoliščine skupaj z drugimi zadevami, predstavljenimi v omenjenem pojasnilu, nakazujejo pomembno negotovost, ki lahko vzbudi bistven dvom v sposobnost družbe, da nadaljuje kot delujoče podjetje.

Druga zadeva

Računovodske izkaze družbe Livar, d.d., Ivančna Gorica za leto, ki se je končalo 31.12.2010, je revidirala revizijska družba Constantia plus, d.o.o., Ljubljana, ki je dne 6. maja 2011 o teh izkazih izrazila neprilagojeno mnenje z odstavkom o poudarjanju zadeve v zvezi z zaznano negotovostjo glede predpostavke delujočega podjetja.

Poročilo o zahtevah druge zakonodaje

V skladu z zahtevo Zakona o gospodarskih družbah potrjujemo, da so informacije v poslovnem poročilu skladne s priloženimi računovodskimi izkazi.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj, univ. dipl. ekon.
pooblaščeni revizor

Marjan Mahnič, univ. dipl. ekon.
pooblaščeni revizor
partner

Ljubljana, 13. julij 2012

KPMG Slovenija, d.o.o.
1

BALANCE SHEET AS AT 31.12.2011

ASSETS

in EUR

		Note	31.12.2011	31.12.2010	Index
	ASSETS		44,847,219	47,551,775	94
A.	LONG-TERM ASSETS		29,942,604	32,571,009	91
I.	Intangible assets and long-term prepayments and accrued revenues	1	256,088	339,828	75
1.	Long-term property rights		147,991	255,437	57
2.	Other long-term prepayments and accrued revenues		108,097	84,391	128
II.	Tangible fixed assets	2	18,507,440	19,563,602	94
1.	Land and buildings		12,323,628	12,317,299	100
	a) Land		6,851,664	6,673,331	102
	b) Buildings		5,471,964	5,643,968	96
2.	Plants and machinery		5,942,697	7,141,181	83
3.	Tangible fixed assets in acquisition		241,115	105,122	229
	a) Tangible fixed assets under construction		241,115	105,122	229
	b) Advance payments for tangible fixed assets		0	0	-
IV.	Long-term financial investments	3	3,436,876	4,822,485	71
1.	Long-term financial investments, excl. loans		2,532,876	3,918,485	64
	a) Stocks and shares in companies in the Group		30,000	30,000	100
	b) Stocks and shares in affiliated companies		2,500,000	3,885,609	64
	c) Other long-term financial investments		2,876	2,876	100
2.	Long-term loans		904,000	904,000	100
	a) Long-term loans to affiliated companies		404,000	404,000	100
	b) Long-term loans to others		500,000	500,000	100
V.	Long-term operating receivables	4	5,946,524	5,946,524	100
VI.	Deferred tax liabilities	31	1,795,676	1,898,570	94
B.	SHORT-TERM ASSETS		14,893,033	14,975,473	99
I.	Assets (disposal groups) for sale		0	4,692	0
II.	Inventories	5	2,892,277	3,651,042	79
1.	Material		1,505,001	1,415,297	106
2.	Work in progress		187,725	650,905	28
3.	Products and merchandise		1,199,550	1,584,840	75
4.	Advance payments for inventories		0	0	-
III.	Short-term financial investments	6	298,000	298,000	100
1.	Short-term loans		298,000	298,000	100
	a) Short-term loans to affiliated companies		296,000	296,000	100
	b) Short-term loans to others		2,000	2,000	100
IV.	Short-term operating receivables	7	11,652,017	10,677,347	109
1.	Short-term op. receivables from in-Group companies		40,000	0	0
2.	Short-term op. receivables from customers		10,070,190	9,584,280	105
3.	Short-term op. receivables from others		1,541,827	1,093,067	141
V.	Cash	8	50,739	344,392	14
C.	SHORT-TERM PREPAYMENTS AND ACCURED REVENUES	9	11,582	5,293	218
	Off-balance sheet records		223,612	2,746,844	8

LIABILITIES

in EUR

		Note	31.12.2011	31.12.2010	Index
	LIABLITIES TO RESOURCES		44,847,219	47,551,775	94
A.	CAPITAL	10	-583,510	1,539,932	-37
I.	Called-in capital		6,331,660	6,331,660	100
	1. Share capital		6,331,660	6,331,660	100
II.	Capital reserves		7,156	7,156	100
IV.	Revaluation surplus		7,926,651	9,031,032	87
VI.	Net loss brought forward		-13,829,916	-10,945,195	126
VIII.	Net profit or loss statement for the financial year – net loss		-1,019,062	-2,884,721	35
B.	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	11	2,599,622	3,688,485	70
	1. Provisions for pensions and similar obligations		329,868	420,182	78
	2. Other provisions		2,269,755	3,268,303	69
C.	LONG-TERM LIABLITIES	12	21,712,453	22,039,925	98
I.	Long-term financial liabilities		19,916,777	20,141,355	98
	1. Long-term financial liabilities to banks		14,860,775	14,795,320	100
	2. Long-term fin. liab. on the basis of bonds		1,320,000	1,500,000	88
	3. Other long-term financial liabilities		3,736,002	3,846,035	97
III.	Deferred tax liabilities	31	1,795,676	1,898,570	94
Č.	SHORT-TERM LIABILITIES	13	20,477,483	19,953,729	102
II.	Short-term financial liabilities		8,388,464	6,984,861	120
	1. Short-term financial liabilities to banks		6,883,233	4,367,280	157
	2. Other short-term financial liabilities		1,505,231	2,617,581	57
III.	Short-term operating liabilities		12,089,019	12,968,868	93
	1. Short-term operating liabilities to in-Group companies		1,910,605	2,224,493	85
	2. Short-term operating liabilities to suppliers		9,163,671	9,814,248	93
	3. Short-term notes payable		0	0	-
	4. Short-term oper. liabilities from advances		8,021	7,753	103
	5. Other short-term operating liabilities		1,006,722	922,374	109
D.	SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	14	641,171	329,704	194
	Off-balance sheet records	15	223,612	2,746,844	8

PROFIT OR LOSS STATEMENT FOR THE PERIOD FROM 01.01.2011 TO 31.12.2011

in EUR

		Note	2011	2010	Index
1.	Net sales revenues	16	55,500,464	43,435,154	127
2.	Change in inventories of finished goods and work in progress	17	-848,470	515,450	-164
3.	Capitalized own products and services	18	111,312	0	-
4.	Other operating revenues (including operating revenues for revaluation)	19	542,997	1,552,714	34
5.	Costs of goods, material and services	20	48,952,511	32,784,221	149
	a) Cost of sold goods and material and costs of material used		32,729,636	26,029,936	125
	b) Costs of services		16,222,875	6,754,285	240
6.	Labour costs	21	1,240,240	7,598,342	16
	a) Salaries		752,788	5,316,778	14
	b) Pension insurance costs		78,691	552,108	14
	c) Social insurance costs		185,629	392,751	47
	č) Other labour costs		223,132	1,336,705	16
7.	Depreciation and amortization	22	2,616,048	2,198,027	119
	a) Depreciation		1,977,497	2,114,146	93
	b) Operating expenses from revaluation of intangible assets and tangible fixed assets		13,387	11,711	114
	c) Operating expenses from revaluation of working capital		625,164	72,170	866
8.	Other operating expenses	23	635,024	648,744	97
9.	Financial revenues from shares		0	0	-
	a) Financial revenues from shares in Group companies		0	0	-
	b) Financial revenues from other investments		0	0	-
10.	Financial revenues from loans given	24	32,422	92,793	34
	a) Financial revenues from loans given to in-Group companies		0	43	0
	b) Financial revenues from loans to others		32,422	92,750	34
11.	Financial revenues from operating receivables	25	80,689	33,252	242
	b) Fin. revenues from oper. receivables from others		80,689	33,252	242
12.	Financial expenses from impairments and financial investment write-offs	26	0	15,000	0
13.	Financial expenses from financial liabilities	27	2,586,338	4,757,055	57
	a) Financial expenses from loans given by banks		2,239,364	2,157,148	104
	b) Financial expenses from other financial liabilities		346,974	2,599,907	13
14.	Financial expenses from operating liabilities	28	342,160	616,195	56
	a) Financial expenses from operating liabilities to suppliers and notes payable		119,606	235,678	51
	b) Financial expenses from other operating liabilities		222,554	380,517	58
15.	Other revenues	29	61,495	123,538	49
16.	Other expenses	30	24,755	20,038	123
17.	Corporate income tax	32	0	0	-
18.	Deferred taxes		102,894	0	-
19.	Net profit/loss for the accounting period	33	-1,019,062	-2,884,721	35

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 01.01.2011 TO 31.12.2011

in EUR

			2011	2010	Index
19.	Net profit/loss for the accounting period		-1,019,062	-2,884,721	35
20.	Changes in surplus from revaluation of intangible assets and tangible fixed assets		142,666	0	-
21.	Changes in surplus from revaluation of available-for-sale investments		-1,247,047	0	-
21.	Gains and losses arising from the translation of financial statements of foreign companies		0	0	-
22.	Other components of comprehensive income		0	0	-
23.	Total comprehensive income for the period		-2,123,443	-2,884,721	74

CASH FLOW STATEMENT FOR 2011

in EUR

	2011	2010
Cash flows from operating activities		
Income statement items		
Operating revenues (except those for revaluation) and financial revenues from operating liabilities	56,163,961	45,138,776
Operating expenses excluding depreciation (except those for revaluation) and financial expenses from operating liabilities	-52,517,233	-41,224,260
Income taxes and other taxes not included in operating expenses	-102,894	0
	3,543,834	3,914,516
Changes in working capital (including accruals, reserves and deferred receivables and tax liabilities) of operating balance sheet items		
Opening less closing operating receivables	-974,670	-4,462,604
Opening less closing short-term deferred costs and accrued revenues	-6,290	78,933
Opening less closing deferred tax assets	102,894	0
Opening less closing assets for sale	4,962	0
Opening less closing inventories	758,765	-993,370
Closing less opening operating debts	-1,143,983	3,986,616
Closing less opening accrued costs and deferred revenues and provisions	-388,506	-1,275,507
	-1,647,098	-2,665,932
Net cash flows from operating activities (a + b)	1,896,736	1,248,584
Cash flows from investment activities		
Cash receipts from investment activities		
Receipts form acquired interests and shares in profit from investment activities	32,422	92,793
Receipts from disposal of intangible and tangible assets and fixed assets	82,710	112,295
Receipts from disposal of long-term financial investments	0	0
Receipts from disposal of short-term financial investments	0	885
	115,132	205,973
Expenses from investment activities		
Expenses from acquisition of intangible fixed assets	-40,612	0
Expenses from acquisition of tangible fixed assets	-704,840	-831,481
Expenses from acquisition of long-term financial investments	0	-1,030,000
Expenses from acquisition of short-term financial investments	0	-17,000
	-745,452	-1,878,481
Net cash flows from investment activities (a + b)	-630,320	-1,672,508
Cash flows from financing activities		
Cash receipts from financing activities		
Receipts from paid-up capital	0	0
Receipts from increase of long-term financial liabilities	12,359,335	4,007,797
Receipts from increase of short-term financial liabilities	314,000	0
	12,673,335	4,007,797

in EUR

	2011	2010
Expenses from financing activities		
Expenses from interest paid, relating to financing activities	-2,347,028	-2,627,572
Expenses from repayment of long-term financial liabilities	-9,957,264	0
Expenses from repayment of short-term financial liabilities	-1,929,112	-762,654
	-14,233,404	-3,390,226
Net cash flows from financing activities (a + b)	-1,560,069	617,571
Cash and cash equivalents at end of year	50,739	344,392
Cash flow for the period	-293,653	193,647
Cash and cash equivalents at beginning of year	344,392	150,745

STATEMENT OF CHANGES IN CAPITAL

YEAR 2010

in EUR

		Share capital	Capital reserves	Revaluation surplus	Net loss brought forward	Net loss for the financial year	Total
A..1.	Balance as at 31.12.2009	6,331,660	7,156	9,031,032	-7,392,114	-3,558,081	4,424,653
A.2.	Balance as at 01.01.2010	6,331,660	7,156	9,031,032	-7,392,114	-3,558,081	4,424,653
B.1.	Changes in equity – transactions with owners	0	0	0	0	0	0
B.2.	Total comprehensive income for the period	0	0	0	0	-2,884,721	-2,884,721
a)	Entry of net profit or loss for the period	0	0	0	0	-2,884,721	-2,884,721
B.3.	Changes in capital	0	0	0	-3,558,081	3,558,081	0
a)	Allocation of the remaining net loss of comparative period to other components of capital	0	0	0	-3,558,081	3,558,081	0
C.	Balance as at 31.12.2010	6,331,660	7,156	9,031,032	-10,945,195	-2,884,721	1,539,932

YEAR 2011

in EUR

		Share capital	Capital reserves	Revaluation surplus	Net loss brought forward	Net loss for the financial year	Total
A..1.	Balance as at 31.12.2010	6,331,660	7,156	9,031,032	-10,945,195	-2,884,721	1,539,932
A.2.	Balance as at 01.01.2011	6,331,660	7,156	9,031,032	-10,945,195	-2,884,721	1,539,932
B.1.	Changes in equity – transactions with owners	0	0	0	0	0	0
B.2.	Total comprehensive income for the period	0	0	-1,104,382	0	-1,019,062	-2,123,444
a)	Entry of net profit or loss for the period	0	0	0	0	-1,019,062	-1,019,062
b)	Change in surplus from revaluation of property	0	0	142,665	0	0	142,665
c)	Change in surplus from revaluation of investments	0	0	-1,247,047	0	0	-1,247,047
B.3.	Changes in capital	0	0	0	-2,884,721	2,884,721	0
a)	Distribution of the remaining net loss of comparative period to other components of capital	0	0	0	-2,884,721	2,884,721	0
C.	Balance as at 31.12.2011	6,331,660	7,156	7,926,651	-13,829,916	-1,019,062	-583,510

ANNEX 1 TO THE STATEMENT OF CHANGES IN CAPITAL

BALANCE SHEET PROFIT/(LOSS) FOR 2011

in EUR

	2011	2010
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	-1,019,062	-2,884,721
NET PROFIT (LOSS) BROUGHT FORWARD	-13,829,916	-10,945,195
DECREASE (REVERSAL) OF CAPITAL RESERVES	0	0
DECREASE (REVERSAL) OF PROFIT RESERVES	0	0
a) legal reserves	0	0
b) reserves for own shares	0	0
c) other profit reserves	0	0
INCREASE IN PROFIT RESERVES BASED ON A DECISION OF THE MANAGEMENT BOARD	0	0
a) legal reserves	0	0
b) reserves for own shares	0	0
c) statutory reserves	0	0
INCREASE OF PROFIT RESERVES BASED ON A DECISION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD	0	0
a) other profit reserves	0	0
BALANCE SHEET PROFIT (LOSS) AND ITS DISTRIBUTION	-14,848,978	-13,829,916
a) to shareholders	0	0
b) to other reserves	0	0
c) brought forward to the next year	-14,848,978	-13,829,916
č) other intentions(increase of share capital)	0	0

NOTES TO FINANCIAL STATEMENTS FOR 2011

The explanatory notes to the financial statements of LIVAR d.d. (hereinafter Livar) have been prepared in accordance with Slovenian Accounting Standards.

GENERAL DISCLOSURES

General disclosures (the Company and its registered office, activity, employees, names of the members of the Management Board and the Supervisory Board), post balance sheet events and all management risks are represented in this Annual Report.

ACCOUNTING POLICIES

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements and explanatory notes in this report have been prepared in compliance with the Slovenian Accounting Standards, which entered into force on 1 January 2006; except for the evaluation of items, for which standards give the possibility of choice among different methods of evaluation. The company used the guidelines described below to evaluate those items. In addition, all changes and amendments to Accounting Standards that came into effect in 2010 have been taken into consideration when preparing the Annual Report.

Financial statements have been prepared in accordance with the general rules for the classification of categories in the balance sheet, profit and loss statement, statement of other comprehensive profit, and evaluation of financial statements, content of annexes to statements and requirements regarding the financial report. Financial statements are therefore a true and honest presentation of the company's operations in the Annual Report. Two basic accounting assumptions have also been considered: accrual and going concern assumptions.

The quality of financial statements and of the whole accounting system lies in their comprehensibility, adequacy, reliability and comparability.

Accounting statements are drawn up in Euros without cents.

The balance sheet includes only those assets and liabilities which refer to the company's operations.

INDIVIDUAL ACCOUNTING POLICIES

LONG-TERM ASSETS

Intangible assets and long-term prepayments and accrued revenues

An intangible asset is an identifiable non-monetary asset which normally has no physical substance and occurs as an intangible long-term asset. Intangible assets can be classified as either definite or indefinite assets. The Company does not dispose of indefinite assets, which are as follows:

- long-term prepayments and accrued revenues, deferred costs of development,
- investments in acquired long-term property rights (patents, trademarks, licenses and other rights, goodwill),
- advance payments made for intangible assets which are presented in the balance sheet in connection with intangible assets and are presented as receivables in accounting records.

At initial recognition, intangible assets are disclosed at their acquisition value. The acquisition value includes import fees and non-refundable purchase taxes less trade and other discounts, and all directly attributable costs regarding the preparation of the asset for the intended use.

Depreciation rates used for depreciation of program licenses amount to 10-20% annually and are depreciated during the useful life period. Adjustments of values are added to the corresponding operation costs.

Revaluation of intangible assets changes their book value. Intangible assets are not revaluated due to appreciation. Their book value can be depreciated only on the basis of their impairment. Loss due to impairment is presented as a revaluated operating expense in connection with intangible assets.

Tangible fixed assets

Tangible fixed assets (hereinafter TFA) are recognized in the accounts or in the balance sheet if it is probable that future economic benefits attributable to the asset will flow into the company, and if their purchase value can be measured reliably.

TFA are land, buildings, plant and equipment. They also include leased equipment which is depreciated at the same rates as other similar company's equipment. At the end of the lease period the ownership is transferred to the lessee.

- Land and buildings

The Company uses the **asset revaluation model** for evaluating land and buildings. Revaluation is a change in the initially estimated value of an accounting category and is every revaluation which has been conducted on the basis of appraisal reports.

The surplus from the revaluation of land and buildings, which is a constituent part of capital, is transferred to a net profit or loss result, when the recognition of land or building is completed. The whole surplus is transferred, when the asset is out of use or disposed of.

- Plant and equipment

The Company uses the purchase value model and thus measures plant and equipment according to their purchase values, less depreciation and accumulated loss due to impairment. Tangible fixed assets are depreciated according to their defined period of useful life. The adjustments of value are added to the corresponding operating expenses.

The purchase value of tangible fixed assets includes total costs incurred in the acquisition of the asset plus all expenses that are directly attributable to the asset. Later expenses, which enable bigger future benefits than those initially evaluated, increase the purchase value. The costs which enable the extension of the period of usefulness decrease the initial adjustment value.

Tangible fixed assets purchased in a foreign currency are translated to home currency at the official exchange rate of the Bank of Slovenia published on the date of the business event. Later exchange rate differences are recognized as profit or loss.

Advance payments for tangible fixed assets are evaluated at their nominal value.

Tangible fixed assets are no longer the subject of an accounting statement, if they are disposed of or nullified, since they no longer have any benefits for the company.

Depreciation

The residual value of tangible fixed assets and intangible assets is decreased by depreciation. Depreciation begins on the first day of the next month, when the asset is ready for use. Land and advance payments for tangible fixed assets and assets in construction and production are not depreciated.

Depreciation is calculated at rates which are determined individually considering the expected useful life of each asset and using the straight line depreciation method.

With the transition to a new model for evaluation of buildings and land, the Company has recalculated depreciation rates according to the remaining useful life of each asset.

In 2010, we conducted an assessment of buildings' useful lives with the help of a certified real estate appraiser. We established that the buildings have a longer useful life than had been originally expected, therefore the cost of depreciation on buildings was re-evaluated in 2010. The assessment of the management showed that the useful lives determined in 2010 did not change in 2011.

The company uses the following annual depreciation rates for calculating depreciation:

	in %
Intangible assets	10-20%
Investments in fixed assets owned by third parties	10-20%
Buildings	2.36-5%
Equipment for basic activities	2-33%
Other equipment	7-25%
Computer hardware and software	33-50%
Transport equipment	12.5%

Financial investments

Financial investments are an integral part of the company's financial instruments and represent financial assets owned by the investment company and used to increase the company's financial revenues with profits arising from investments. Financial revenues differ from operating revenues which are generated by sale of products and services in the course of regular operation.

Financial investments are mostly investments into capital of subsidiary and associated companies, as well as financial debts of other companies (financial investments into loans) and other financial investments.

Financial investments into capital of subsidiaries, associated companies and other financial investments are classified under the category of financial resources available for sale, and are recognized at their fair value. Their fair value is calculated on the basis of an appraisal report of a certified appraiser who is registered in the Register of certified business appraisers at the Slovenian Institute of Auditors. The fair value of an investment is calculated as the present value of future returns using the Discounted Cash Flow method.

The received shares in profit increase financial revenues.

Revaluation of financial investments changes their book value. It occurs especially during revaluation of financial investments according to their fair value, revaluation of financial investments due to their impairment or revaluation of financial investments due to elimination of their impairment. At each balance sheet date the company estimates whether there is an objective evidence of impairment of a financial investment. If such evidence exists, the financial investment is revalued due to impairment.

Long-term and short-term financial investments are presented separately.

A part of long-term financial investments into loans that are due in one year after the balance sheet date is presented as a short-term financial investment.

Long-term and short-term financial investments denominated in a foreign currency are translated into local currency at the official exchange rate on the reporting date. Exchange rate differences that occur after the balance sheet date are defined as financial revenue or expense in connection with long-term and short-term financial investments.

SHORT-TERM ASSETS

Inventory

The company keeps a record of the inventory in subsidiary ledgers and in the main ledger. Their state is adjusted monthly, after the cost of materials and goods is calculated. The evaluation is performed in accordance with the Slovenian Accounting Standard 4.

The inventories recorded are inventories of raw materials, materials and auxiliary materials, reserve parts for maintenance and small tools with a useful life of maximum one year. The Group also keeps records of inventory of work in progress, semi-finished products, finished products and merchandise.

Inventories of material and goods are estimated at acquisition price consisting of purchase price, non-refundable purchase taxes and costs directly attributable to preparing products for their intended use. The Company uses standard prices with variance. The consumption of inventory is estimated according to the Weighted Average Cost method.

The inventory of work in progress, semi-finished products and finished goods is estimated at production costs, which means that the product or semi-finished product item is estimated according to direct material costs, direct labour costs, direct depreciation costs and direct service costs. The part of costs, which belong to production cost centres and are indirect production costs, are added to the product or semi-finished product.
The company uses standard prices with variance to estimate inventory of work in progress, semi-finished products and finished goods.

The inventory is revaluated if its book value exceeds its net realizable value. The amount of book value impairment is recognized as an increase in revaluated operating expenses in connection with working capital. The estimation must also consider the saleability or non-saleability of products.

A decrease in inventories of raw material, material and small tools is recognized as an increase in material costs. A decrease in inventory value of products and merchandise is recognized as an increase in operating expenses.

Normal and excess wastage and deficits are recognized as a decrease in inventory values and an increase in operating expenses.

The normal level of wastage is prescribed by a decree from the Management Board, and in accordance with regulations published in the Official Gazette of the Republic of Slovenia 101/1999.

Receivables

Most of the receivables from customers consist of receivables for sold products, merchandise, materials and services. On initial recognition, receivables of any kind are measured at the values recorded in relevant documents, assuming that they will be paid. Initial receivables may increase in time or decrease by any amount stipulated in a contract, regardless of received payments or other settlements.

They include long-term and short-term operating receivables. Receivables from foreign legal entities are converted into local currency using the exchange rates of the Bank of Slovenia. Such conversion affects the increase in income or expenditure. The interest rate is calculated on the basis of contracts and increases financial income.

If there is a supposition that the receivables will not be settled in full or in due time, those receivables shall be disclosed as bad and doubtful.

While making value adjustments for receivables, we took into consideration individual assessments of collectability of each receivable and maturity dates of individual receivables.

We approached the value adjustment process mainly from substantive examination of receivables recovery. We mainly took into account concluded commercial contracts. Especially expert evaluation and opinion of the commercial department served as the basis for making justifiable adjustments.

Write-offs and value adjustments for receivables represent revaluation operating expenses.

Cash assets

Cash assets include cash, book money and cash in transit. Cash is cash on hand in the form of banknotes, coins and received checks or readily cashable securities. Book money is money in bank accounts or accounts at other financial institutions that can be used for payment. Cash in transit is money that is transferred from the company to an appropriate bank account or account at some other financial institution, and is recorded as credit the same day.

Cash assets are initially recognized at amounts recorded in relevant documents, after verifying that they are of such nature.

Assets denominated in foreign currencies are translated into Euros at the official exchange rate of the Bank of Slovenia on the balance sheet date. Exchange rate differences are recognized as income or expenditure.

Capital

Capital reflects owners' financing of the company and is the company's liability to owners. It represents not only the amounts invested into the company by the owners, but also the amounts arising from the company's operations.

Total capital consists of called-up capital, capital reserves, profit reserves, revaluation surplus, net profit/loss brought forward and undistributed net profit for the financial year. Equity capital is recorded in the local currency.

Revaluation of capital is a change in its book value as a result of revaluation of assets. Revaluation does not include new payments or amounts arising from the current net profit or net loss. It is performed during or at the end of the financial year.

Revaluation surplus occurs due to an increase in the book value of tangible fixed assets, intangible assets, long- and short-term investments under the revaluation model, and is disclosed separately. It enables us to cover subsequent decreases in book value or impairments of the same economic categories.

Long-term provisions

The value of long-term provisions represents the value of expenditure required to settle the long-term obligations recorded on the balance sheet date, taking into account risks and uncertainties.

Long-term provisions for accrued costs or expenses are directly reduced by the amount of costs or expenses for which they were created.

Long-term provisions are transferred into the operating income of the financial year in which the costs or expenses occurred, as a result of which deferred profit decreases.

The purpose of provisions is to accumulate amounts in the form of accrued costs or expenses that will be available in the future to cover incurred costs or expenses. These provisions also include provisions for anniversary bonuses and retirement severance payments. The company reviews the amount of established provisions annually and corrects it in accordance with calculations.

The book value of provisions is equal to their initial value less the amounts used, until there is a need for an increase or decrease in their amount.

Provisions are not revalued and are corrected at the end of each accounting period in such a way as to correspond to the present value of expenses which may be required to settle the obligation.

Provisions are made only if the obligation can be reliably estimated. At the end of the financial year, they may not be disclosed as an amount which could represent an unfounded hidden reserve.
In accordance with the laws, collective agreements and internal regulations, the company is required to pay out anniversary bonuses and retirement severance payments. Long-term provisions are designed for this purpose. Other pension obligations do not exist. Provisions are determined at estimated future amounts of termination payments and anniversary bonuses, discounted at the balance sheet date. Calculation was made for each employee in such a way as to take into account the cost of retirement severance payments and all expected anniversary bonuses prior retirement. The calculation was performed by an appointed actuary by using the projection system. The value of a long-term provision represents the present value of the expenditure required to settle the obligation determined at the balance sheet date, taking into account any risks and uncertainties.

LIABILITIES

Financial and operating liabilities

Upon initial recognition, all liabilities are evaluated at the amounts from the relevant documents that include information on their occurrence and prove the receipt of financial assets or repayment of any operating debt; as regards long-term operating liabilities, these documents prove the receipt of generally tangible fixed assets, and as regards short-term operating liabilities, they prove the receipt of a product or service, completed work or rather accrued cost, expense or share in the profit or loss statement.

Short-term and long-term liabilities

There are two types of liabilities: financial liabilities and operating liabilities.

Short-term financial liabilities are received short-term loans, which are based on loan agreements and divided into those which the company receives from banks or other financial institutions and those which are financed by natural and legal persons. Liabilities are also divided according to whether they are liabilities to affiliated companies or not.

Short-term operating liabilities are short-term credits to suppliers for purchased goods or purchased services, short-term liabilities to employees for their completed work, short-term liabilities to financial supporters relating to interest and other similar items, short-term liabilities to the country relating to taxes, including value added tax. A special type of liabilities are liabilities to purchasers for received advance payments as well as received short-term security deposits.

Long-term financial liabilities are long-term loans received under loan agreements, and issued long-term debt securities. A subdivision of received long-term loans are also liabilities to lessors, which occur in case of a financial lease.

Long-term operating liabilities are long-term credits to suppliers for purchased goods or purchased services. A subdivision of long-term operating liabilities are liabilities to purchasers from received long-term security deposits.

Liabilities are later increased by added return (interest, other reimbursements), for which there is an agreement with a creditor, and are reduced by paid-up amounts and other possible settlements in agreement with the creditor. Long-term liabilities that are already due, and those that will become due within a year are partly transferred into short-term liabilities on the balance sheet.

Short-term and long-term liabilities denominated in foreign currencies are translated into the local currency at the official exchange rate of the Bank of Slovenia on the balance sheet date. The increase of short-term liabilities increases regular financial expenses and decreases regular financial income.

Short-term accruals

Short-term accruals are receivables and other assets and liabilities that are expected to arise within one year. Their occurrence is plausible and their amount can be reliably measured.
Short-term accruals include:

DEFERRED COSTS AND ACCRUED REVENUES - these are considered as receivables in the broad sense of the word, because they differ from financial assets as they do from objects, and they include short-term deferred expenses, which are defined as amounts paid in advance, which upon payment were not yet considered as costs and did not yet burden the operating results.

ACCRUED COSTS AND DEFERRED REVENUES - these are considered as liabilities in the broad sense of the word and differ from equity as they do from liabilities to owners. They include short-term deferred income or short-term expenses accrued in advance, and they occur on the basis of the equal burdening of the activity or operating results as well as of inventories with expected costs, which have not yet occurred.

Short-term accruals are not revaluated. The reality and eligibility of their existence is examined during the year and when drawing up financial statements.

RECOGNITION OF REVENUES

Revenues

These are increases in economic benefits in an accounting period in the form of increases in assets (for example, money or receivables due to the sale of goods) or decreases in debts (for example, due to the omission of their settlement). Through profit or loss, revenues affect equity. They are divided into operating, financial and other revenues. Operating and financial revenues are considered as regular revenues.

Sales revenues consist of sales values of products, merchandise, services and material sold in the accounting period on the home and international markets. Sales revenues are recognised when goods leave the warehouse and when this is recorded in appropriate documents.

Sales revenues are measured on the basis of sales prices, which are stated in accounts or other documents, less discounts approved upon the sale or later, also due to early payments. Cash discounts, which may be approved, reduce the sales revenues and are not recognised as financial expenses. Normally, revenues are recorded using the principle of the cash-basis accounting. The above mentioned revenues are recognised under the following conditions:

- the company transfers to the purchaser all important risks and benefits that arise from ownership,
- the company does not take part in the management not even as much as is usual due to the ownership, and it also does not decide upon the sold products,
- it is possible that the economic benefits associated with the transaction shall flow into the company,
- the amount of revenue can be reliably estimated,
- the costs which have occurred or shall occur in connection with the transaction can be measured reliably.

If there is any uncertainty, revenues are temporarily put aside and recognised when there is no more doubt. In case of consignment sale, where the consignor undertakes to sell the goods on behalf of the seller, revenues are recognised when the goods are sold.

Revenues from completed services are measured at the selling prices of completed services or the selling prices of uncompleted services, depending on the level of task completion (of course, there must be no doubt about whether the task is or will be completed, and no doubt about whether the service will be paid for or not).

Revenues from completed services, with the exception of those completed services that lead to financial revenues, are measured on the basis of selling prices of completed services or selling prices of uncompleted services according to the level of their completion.

Operating revenues also include other operating revenues together with the revaluation revenues. These revenues are also connected with operating effects. They mostly include subsidies, grants, reimbursements, compensations, bonuses and similar revenues, which are presented in the account. Income from cancellation of provisions and income from business combinations are also included in operating revenues.

Revaluated operating revenues include revenues from the sale of tangible fixed assets and revenues from the reduction of operating receivable value adjustments due to the elimination of their impairment, as well as write-offs of operating liabilities.

The following revenues are recorded as financial revenues:

- financial revenues from shares of companies in the group and other companies, and financial revenues from other investments. Within revaluation financial revenues, particularly positive differences are demonstrated, which occur when

shares are sold, when the sales value exceeds the book value. The differences are reduced by the amount of revaluation surplus, if revaluation was recognised in equity,

- financial revenues from loans given to companies in the group or other companies. Loans are financial investments in liabilities of other companies. In the balance sheet, long-term and short-term loans are recorded separately, while in the profit or loss statement, financial revenues from both types of loans are recorded together. Interest is accrued on the basis of the contractual interest rate,
- financial revenues from operating receivables from companies in the group and other companies. These receivables consist of accrued interest and of foreign currency gain, which result from long-term operating receivables. Interest is accrued on the basis of the agreed interest rate, and the company usually also charges default interest if receivables are not paid on time.

Other revenues comprise unusual items, which have nothing in common with the ordinary course of business in the financial year. They include: financial income from valuation of investment property at fair value, grants, subsidies, which are not associated with sold amounts or defined costs, received reimbursements and compensations, and other revenues. During the financial year, they increase the company's operating profit.

RECOGNITION OF EXPENSES

Expenses

These are decreases in economic benefits in an accounting period in the form of decreases in assets (for example, inventory decreases due to selling) or increases in debts (for example, due to accrued interest); through profit or loss, they affect the company's equity.
They are divided into operating, financial and other expenses. Operating and financial expenses are regular expenses.

Operating expenses are equal to accrued expenses in an accounting period, which are increased by the expenses retained in the initial inventories of products and unfinished production, and decreased by the expenses retained in the final inventories of products and unfinished production. They also include the cost of sold merchandise and materials.
Regarding their content, these operating expenses are divided by their purpose (function) into production costs of amounts sold, and by commercial units into the cost of amounts sold and into direct expenses of purchasing and selling, indirect expenses of selling, direct administrative expenses.

Revaluation operating expenses comprise the negative difference between the net cost and book value of a sold tangible or intangible fixed asset, as well as loss due to impairment of a tangible or intangible fixed asset and impairment of inventories of raw

materials, materials, small tools and devices, products and unfinished products. Impairment of receivables is also recorded as part of the mentioned expenses.

The following are recorded as financial expenses:

- financial expenses from financial liabilities, which arise from loans given by the companies in the group, by banks and other companies. They include interest expenses and foreign currency losses, resulting from short-term and long-term financial liabilities. Liabilities bear interest at the contractual interest rates and do not differ greatly from effective interest rates; they are measured on the basis of the initially recognised value reduced by payments. Foreign currency loss in connection with liabilities denominated in foreign currencies is established on the balance sheet date on the basis of the official exchange rate published on that date,
- financial expenses from operating liabilities to the companies in the group and other companies, and financial expenses from other operating liabilities. Here, interest expenses and foreign currency losses, resulting from short-term and long-term operating liabilities, are recorded. These include interest charges arising from operating liabilities to suppliers not paid by due date.

Other expenses especially include expenses which are associated with investment property, including depreciation of investment property and also impairment of investment property. Other expenses also include fines and damages, and other unusual items.

Foreign currency operations

In the balance sheet, financial assets and sources denominated in foreign currencies are translated into the functional currency using the official exchange rates of the Bank of Slovenia on 31.12.2009. Foreign currency losses or gains are recognised in the profit or loss statement.

Corporate income tax

Corporate income tax is calculated on the basis of income and expenses which are recorded in the profit or loss statement and are in accordance with applicable tax laws.

Deferred tax liabilities

Deferred tax liabilities are recognised for income tax amounts, which the company will have to pay extra in the future tax periods and which result from taxable temporary differences; they are the amounts which are added when assessing taxable profit (tax losses) in the future periods when the book value of an asset is recovered or when liabilities are recovered through the book value. Deferred tax liabilities are not discounted.

Deferred tax receivables

Deferred tax receivables are recognised for income tax amounts, which will be recovered in the following periods and which result from deductible temporary differences, the transfer of unused tax losses and unused tax credit notes to the next periods; they are the amounts which are deducted when assessing taxable profit (tax losses) in the future periods when the book value of an asset is recovered or when liabilities are recovered through the book value. Deferred tax receivables are

recognised only if it is possible that future taxable profits will be available against which the deductible temporary difference, unused tax losses and tax credit notes can be utilised. Deferred tax receivables are not discounted.

In 2011 the company did not recognize deferred tax receivables, because, due to high operating loss and the current economic crisis, we cannot say with certainty that significant amounts of positive income tax base will occur in the following years which could be reduced by deductible temporary differences, unused tax losses and unused tax credits.

Segment reporting

A segment is a distinguishable part of the company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and is subject to risks and returns that are different from those of other segments. When drawing up and presenting financial statements, the company does not reveal business segments because it is engaged in one activity only. The company also does not report on its geographical segments because it does not keep appropriate records to allow it.

STATEMENT OF CHANGES IN CASH FLOWS

This statement is drawn up using the indirect method on the basis of balance sheet data as at 31.12.2009, balance sheet data as at 31.12.2008, profit or loss statement data from 2009 and additional data which are needed for the adjustment of income and expenses, and for appropriate subdivision of important items.

EXPLANATORY NOTES TO THE BALANCE SHEET

..... NOTE 1

INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUES

in EUR

	31.12.2011	31.12.2010
Long-term property rights	147,991	255,437
Other long-term deferred costs and accrued revenues	108,097	84,391
Total	256,088	339,828

The movements in intangible assets in 2011 were as follows:

in EUR

	Long-term property rights	Capitalized costs of investments in foreign fixed assets	Long-term deferred expenses	Long-term property rights in acquisition	Total
PURCHASE VALUE					
As at 31.12.2010	386,779	36,320	62,599	68,000	553,698
Acquisitions	0	0	0	40,612	40,612
Disposals	0	0	0	0	0
Transfer to expenditure of the current period	0	0	0	-515	-515
Transfer to tangible fixed assets	0	-36,320	-62,599	0	98,919
As at 31.12.2011	386,779	0	0	108,097	494,876
VALUE ADJUSTMENT					
As at 31.12.2010	199,342	14,528	0	0	213,870
Disposals	0	0	0	0	0
Depreciation	39,446	0	0	0	39,446
Transfer to tangible fixed assets	0	-14,528	0	0	-14,528
As at 31.12.2011	238,788	0	0	0	238,788
Carrying value as at 31.12.2010	187,437	21,792	62,599	68,000	339,828
Carrying value as at 31.12.2011	147,991	0	0	108,097	256,088

Compared to 2010, intangible assets decreased by 25% in 2011, partly due to the fact that they were recorded differently in 2011 than in the previous year. Namely, investments in foreign fixed assets were recorded as intangible long-term assets on 31 December 2010, while, on 31 December 2011, they were recorded as tangible fixed assets.

Long-term property rights (EUR 147,911) and assets in acquisition or construction (EUR 108,097) are related to computer programs.

..... NOTE 2

TANGIBLE FIXED ASSETS

in EUR

	31.12.2011	31.12.2010
Land and buildings	12,323,628	12,317,299
a) Land	6,851,664	6,673,331
b) Buildings	5,471,964	5,643,968
Plant and machinery	5,942,697	7,141,181
Tangible fixed assets in acquisition	241,115	105,122
a) Tangible fixed assets under construction	241,115	105,122
b) Advance payments for tangible fixed assets	0	0
Total	**18,507,440**	**19,563,602**

The movements in tangible assets in 2011 were as follows:

in EUR

	Land	Buildings	Equipment and spare parts	Investments in foreign fixed assets	Advance payments for tangible assets	Tangible fixed assets under construction	Total
PURCHASE VALUE							
As at 31.12.2010	6,673,331	6,304,760	26,561,638	0	0	105,122	39,644,851
New purchases	0	3,041	35,517	90,000	0	576,282	704,840
Transfer from intangible long-term assets	0	0	0	98,919	0	0	98,919
Value increase	178,333	0	0	0	0	0	178,333
Transfer from on-going investments	0	0	397,245	0	0	-397,245	0
Disposals/decreases	0	0	-95,046	-20,866	0	-43,044	-158,956
As at 31.12.2011	6,851,664	6,307,801	26,899,354	168,053	0	241,115	40,467,987
VALUE ADJUSTMENT							
As at 31.12.2010	0	660,792	19,420,457	0	0	0	20,081,249
Disposals	0	0	-73,279	0	0	0	-73,279
Transfer from intangible short-term assets	0	0	0	14,528	0	0	14,528
Depreciation	0	175,045	1,759,372	3,632	0	0	1,938,048
As at 31.12.2011	0	835,837	21,106,550	18,160	0	0	21,960,547
Carrying value as at 31.12.2010	6,673,331	5,643,968	7,141,181	0	0	105,122	19,563,602
Carrying value as at 31.12.2011	6,851,664	5,471,964	5,792,804	149,893	0	241,115	18,507,440

As in previous years, land was revaluated to its fair value on 31 December 2011 on the basis of an appraisal report from a licensed real estate appraiser. The fair value of buildings was the same as at the end of 2010, therefore it was not revaluated on 31 December 2011.

The book value recognized on 31 December 2011 would be EUR 1,205,417 for land and EUR 2,883,774 for buildings, if the revaluated property was measured using the cost model.

Compared to 2010, the value of tangible fixed assets decreased by 6% in 2011, mainly due to depreciation. In contrast to the previous year, investments in foreign fixed assets were recorded as fixed assets in 2011, whereas on 31 December 2010 they were recorded as intangible long-term assets.

Nevertheless, we activated new equipment in 2011, whose book value amounted to EUR 432,762.

We should mention the activation of equipment which is of great value:

- BMD pouring device at Ivančna Gorica worth EUR 101,110;
- Sanding machines worth EUR 83,083;
- Company vehicles worth EUR 50,750;
- BMD transport unit worth EUR 40,002;
- Nodulizer worth EUR 30,500;
- Cleaning machine worth EUR 27,611;
- Compensation device worth EUR 25,191;
- and other equipment of lesser value.

The carrying value of fixed assets acquired under finance lease contracts amounted to EUR 1,353,222 on 31 December 2011. On 31 December 2011, the value of finance lease obligations was EUR 4,029,661.

Land with a carrying value of EUR 6,851,664 and buildings with a carrying value of EUR 5,471,964 were pledged as security for the repayment of long-term loans from banks.

Long-term deferred costs represent costs paid in advance for the construction of foundry waste landfill at Črnomelj for four years. The cost of landfill construction was disclosed at EUR 59,893 on 31 December 2011. Investments in foreign fixed assets include the investment in the reconstruction of the Suhi most landfill, amounting to EUR 90,000. On 31 December 2011, the company had no obligations regarding the acquisition of tangible fixed assets.

.... NOTE 3

LONG-TERM FINANCIAL INVESTMENTS

in EUR

	31.12.2011	31.12.2010
1. Long-term financial investments, excluding loans	2,532,876	3,918,485
a) Stocks and shares in in-Group companies	30,000	30,000
b) Stocks and shares in associated companies	2,500,000	3,885,609
c) Other long-term financial investments	2,876	2,876
2. Long-term loans	904,000	904,000
a) Long-term loans to associated companies	404,000	404,000
b) Long-term loans to other companies	500,000	500,000
Total	**3,436,876**	**4,822,485**

The movements in long-term financial investments in 2011 were as follows:

EUR

	Shares in companies in the group	Shares in associated companies at fair value	Other long-term financial investments	Long-term loans given	Total
PURCHASE OR FAIR VALUE					
As at 31.12.2010	722,217	3,885,609	332,971	904,000	5,844,797
Increase	0	0	0	0	0
Decrease - recovery	0	0	0	0	0
Revaluation	0	-1,385,609	0	0	-1,385,609
As at 31.12.2011	722,217	2,500,000	332,971	904,000	4,459,188
VALUE ADJUSTMENT					
As at 31.12.2010	-692,217	0	-330,095	0	-1,022,312
Increase	0	0	0	0	0
Decrease - sale	0	0	0	0	0
As at 31.12.2011	-692,217	0	-330,095	0	-1,022,312
As at 31.12.2010	30,000	3,885,609	2,876	904,000	4,822,485
As at 31.12.2011	30,000	2,500,000	2,876	904,000	3,436,876

The total value of long-term investments is EUR 3,436,876; compared to 2010, it decreased by 29%.

The reason for the decrease in the value of long-term financial investments is the decrease in the value of the investment in the associated company Jelšingrad Livar. Livar's 43.03% share in the company was estimated at EUR 2.5 million on 31 December 2011.

Shares in the companies in the group include investments in 100% shares of four companies in Slovenia, and a 97.95% share in the Topola Livar MO a.d. company, amounting to EUR 692.217. The latter investment is completely impaired.

in EUR

Subsidiary	Registered office	Country	Ownership share 31.12.2011	Capital of the subsidiary 31.12.2011	Operating profit/loss in 2011
Livar Belt d.o.o.	Ulica Heroja Stariha 17, 8340 Črnomelj	Slovenia	100%	3,525	-3,940
Livar FMO d.o.o.	Ulica Heroja Stariha 17, 8340 Črnomelj	Slovenia	100%	7,477	0
Livar LNL d.o.o.	Ljubljanska cesta 43, 1295 Ivančna Gorica	Slovenia	100%	8,603	0
Livar STORITVE d.o.o.	Ljubljanska cesta 43, 1295 Ivančna Gorica	Slovenia	100%	-190,828	-203,972
Topola Livar MO d.o.o.	Ul. Milana Blagojevića 9, Topola	Serbia	97.95%	-308,644 (31.12.2010)	-223,095 (31.12.2010)

Shares in associated companies comprise the investment in 43.03% share in the share capital of the Jelšingrad Livar a.d. company, amounting to EUR 2,500,000 (hereinafter: Jelšingrad), valued at fair value through equity. This investment is pledged for a received loan (Note 12). Valuation at fair value is performed on the basis of the used valuation model, which is based on an income based valuation approach. When we perform such valuation, we use the information on operations and assets of the company being evaluated, and results of macroeconomic environment and industry analyses. We also use the environment- and activity-specific factors of the required level of return on equity and debt capital and residual free cash flow growth.

in EUR

Associated company	Registered office	Country	Ownership share 31.12.2011	Capital of the associated company 31.12.2011	Operating profit/loss 2011
Jelšingrad Livar a.d.	Ul.Brače Podgornika 8, Banja Luka	Serbia, Bosnia and Herzegovina	43.03 %	13,485,686	-540,512

Long-term loans given in 2011 include:

- a loan of EUR 404,000 given to Jelšingrad Livar a.d., bearing a 6% annual interest rate and payable in 2014 (the short-term part of the loan amounting to EUR 96,000 is recorded as a short-term financial investment). The loan is unsecured.
- a loan of EUR 500,000, given to a company in Slovenia – an associated company of an owner of 1.2% share in Livar. The loan was granted on 31 December 2011 and bears a 6% annual interest rate. It is payable in 2014 and is not secured.

.... NOTE 4

LONG-TERM OPERATING RECEIVABLES

in EUR

	31.12.2011	31.12.2010
Long-term operating receivables	5,946,524	5,946,524
Total	**5,946,524**	**5,946,524**

Long-term operating receivables are receivables from the associated company Jelšingrad Livar a.d., which amount to EUR 5,946,524 and result from investments in fixed assets and working capital. The receivables, which are unsecured, are to be repaid in 40 instalments and bear a 5% annual interest rate. The payments of the first and last instalment are due in 2014 and 2024 respectively. The receivables can be converted into subsidiary equity, provided that suitable legal conditions are created before final repayment.

..... NOTE 5

INVENTORIES

in EUR

	31.12.2011	31.12.2010
Material	1,507,567	1,419,885
Materials inventory value adjustment	-20,094	-20,094
Small tools	17,528	15,506
Work in progress	187,725	673,442
Products	1,303,873	1,666,626
Products inventory value adjustment	-104,702	-104,702
Merchandise	379	379
Merchandise inventory value adjustment	0	0
Advanced payments for inventories	0	0
Total	**2,892,276**	**3,651,042**

Raw and other materials represent 52% of inventories. Work in progress represents 6% and products and merchandise 42% of inventories.

Compared to the end of 2010, inventories decreased by 21% in 2011.

Annual inventory reviews revealed no inventory deficit or inventory surplus.
A saleability assessment showed that all inventories are saleable, which means that they can be sold or used in the production process. Inventories have not been pledged as securities for loans or other guarantees.

..... NOTE 6

SHORT-TERM FINANCIAL INVESTMENTS

- Short-term loans

in EUR

	31.12.2011	31.12.2010
Short-term loans	298,000	298,000
Total	**298,000**	**298,000**

Short-term financial investments did not change in 2011 compared to 2010.

Short-term financial investments consist of a short-term part of a long-term loan to the associated company Jelšingrad Livar a.d. (EUR 96,000) (Note 3), a short-term loan to the associated company Jelšingrad Livar a.d. (EUR 200,000) and a short-term deposit to the Customs Directorate in the amount of EUR 2,000.

The two loans to Jelšingrad bear a 6% fixed annual interest rate and are unsecured.

..... NOTE 7

SHORT-TERM OPERATING RECEIVABLES

in EUR

	31.12.2011	31.12.2010
Short-term operating receivables from subsidiary and associated companies	40,000	58,379
Short-term operating receivables from customers	10,070,190	9,525,901
Short-term operating receivables from others	1,541,827	1,093,067
Total	**11,652,017**	**10,677,347**

Compared to 2010, short-term operating receivables increased by 9% in 2011.

- Short-term operating receivables from subsidiaries and associated companies

in EUR

	Gross value	Value adjustment	Net value as at 31.12.2011	Net value as at 31.12.2010
Topola Livar MO – subsidiary	745,604	745,604	0	0
Jelšingrad Livar a.d. – associated company	40,000	0	40,000	58,379
Total	**785,604**	**745,604**	**40,000**	**58,379**

In 2011, we made no further value adjustments of receivables from associated and subsidiary companies. The approach to making value adjustments is described in the accounting policies, as it has to do with the individual assessment of collectability of each receivable.

All the value adjustments made are charged to the revaluation of operating expenses from working capital.

- Short-term operating receivables from customers

in EUR

	Gross value	Value adjustment	Net value as at 31.12.2011	Net value as at 31.12.2010
Customers in Slovenia	1,813,711	114,043	1,699,668	1,490,583
Foreign customers	9,324,046	953,524	8,370,524	8,035,318
Total	**11,137,757**	**1,067,567**	**10,070,190**	**9,525,901**

The company made value adjustments of receivables from other customers, in which individual assessments of collectability were mainly taken into account. It should be noted that the company started judicial recovery procedures to recover those claims whose value was adjusted.

Receivables from customers, as well as subsidiary and associated companies are unsecured; the age structure on 31 December 2011 is as follows:

in EUR

Maturity	Customers in Slovenia	Foreign customers	Companies in the Group	Total
Non-maturity	1,417,679	6,740,627	24,000	8,182,306
Up to 30 days	177,759	853,246	8,000	1,039,005
Up to 60 days	97,184	180,141	8,000	285,325
Up to 90 days	517	74,679	0	75,196
Over 90 days	6,529	521,831	0	528,360
Total	**1,699,668**	**8,370,524**	**40,000**	**10,110,192**

The movements in the adjustment value for receivables in 2011 were as follows:

in EUR

	Associated and subsidiary companies	Other customers	Total
As at 01.01.2011	745,604	588,356	1,333,960
Increase	0	600,000	600,000
Decrease	0	-120,789	-120,789
As at 31.12.2011	**745,604**	**1,067,567**	**1,813,171**

On the basis of an estimate of partial recoverability of a customer's debt, we adjusted the value of these operating receivables in 2011. These value adjustments amounted to EUR 600,000. Furthermore, we decreased the value adjustments from previous years by EUR 120,789 due to repayments and write-offs of overdue receivables (more than 3 years).

Short-term operating receivables from customers in the amount of EUR 2,898,863 are pledged as security for repayment of acquired loans.

- Short-term operating receivables from others

Short-term operating receivables from other customers in the amount of EUR 1,541,827 represent:

- receivables from the state and state institutions in the amount of EUR 394,518 (mostly in the form of repayment of VAT),
- receivables from the advance payments in the amount of EUR 476,319 made for the purchase of additional 24.94% share in Jelšingrad Livar a.d.,
- receivables from sold receivables in the amount of EUR 336,546,
- receivables from consignment sales in the amount of EUR 103,790,
- receivables from Topola Livar a.d. from payments under the guarantee in the amount of 151,148 EUR,
- other receivables in the amount of EUR 79,506.

The gross value of receivables from Topola Livar a.d. was impaired. The impairment level was 90%, and the impairment was made on the basis of given guarantees and as payment of principle and interests in the amount of EUR 1,511,488.

The company does not disclose operating receivables from board members, the supervisory board and internal owners who are natural persons.

..... NOTE 8

CASH

in EUR

	31.12.2011	31.12.2010
Cash in hand	728	124
Cash at bank	50,011	344,268
Total	**50,739**	**344,392**

Cash in current accounts held with domestic and foreign banks amounted to EUR 45,433 and EUR 4,578, respectively.

..... NOTE 9

DEFERRED EXPENSES AND ACCRUED REVENUES

Deferred expenses and accrued revenues refer to short-term deferred expenses or costs.

in EUR

	31.12.2011	31.12.2010
Deferred expenses and accrued revenues	11,582	5,293
Total	**11,582**	**5,293**

..... NOTE 10

CAPITAL

The share capital is divided into 1,517,319 ordinary shares. Each share gives its owner the right to:

- take part in company management
- participate in profits
- receive a fair share of the remaining assets after liquidation or bankruptcy

Share capital is specified nominally in the articles of association and registered with the court.

in EUR

	31.12.2011	31.12.2010
Called-in capital	6,331,660	6,331,660
• Share capital	6,331,660	6,331,660
Capital reserves	7,156	7,156
Revaluation surplus	7,926,650	9,031,032
Net profit or loss brought forward	-13,829,916	-10,945,195
Net profit or loss for the financial year	-1,019,062	-2,884,721
Total	**-583,510**	**1,539,932**

On 31 December 2011 the company had a negative capital of EUR -583,510.

Total capital reserves represent the paid-in capital surplus.

Changes in revaluation surplus in 2011 were as follows:

in EUR

	Real estate	Long-term financial investment into Jelšingrad	Deferred taxes	Total
Opening balance as at 01.01.2011	8,056,105	2,873,497	-1,898,570	9,031,032
Revaluation	178,333	-1,385,608	102,893	-1,104,382
Sales	0	0	0	0
Change in tax rate	0	0	0	0
Closing balance as at 31.12.2011	**8,234,438**	**1,487,889**	**-1,795,677**	**7,926,650**

If capital was revaluated on the basis on a conversion using consumer price index for 2011 (2.0%), net loss would amount to EUR -1,049,861.

..... NOTE 11

PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFFERED REVENUES

in EUR

	31.12.2011	31.12.2010
Provisions for onerous contracts	429,751	456,079
Provisions for anniversary bonuses and severance payments	329,868	420,182
Provisions for given guarantees	1,750,003	2,722,224
Other provisions for expenses calculated in advance	90,000	90,000
Total	**2,599,622**	**3,688,485**

Provisions in detail:

in EUR

	31.12.2011	31.12.2010
Provisions for onerous contracts	**429,751**	**456,079**
• Open actions	429,751	456,079
Provisions for pensions, anniversary bonuses and severance payments	**329,868**	**420,182**
• Provisions for anniversary bonuses	94,753	117,375
• Provisions for retirement severance payments	235,115	302,807
Provisions for guarantees given	**1,750,003**	**2,722,224**
• Guarantee given to a subsidiary for a loan received by a foreign bank	1,750,003	2,722,224
Other provisions for accrued expenses	**90,000**	**90,000**
• Provisions for setting up Suhi Most landfill for foundry waste	90,000	90,000
• Provisions for claims	0	0
Total	**2,599,622**	**3,688,485**

Provisions and long-term accrued costs and deferred revenues decreased by 30% in 2011, mainly due to:

- the »transfer« of a part of provisions for employee benefits and retirement severance payments to the subsidiary Livar Storitve, which has had around 200 employees since 1 January 2012 (EUR 153,467),
- the change in recording of the short-term parts of liabilities from guarantees given, which were recorded on 31 December 2011 as short-term liabilities from financing (EUR 388,888),
- the repayment of a loan on behalf of Topola Livar a.d. under a guarantee (EUR 388,888),
- the elimination of excess provisions for the given guarantee in the amount of EUR 196.445 or, including the short-term part, EUR 223,612.

Provisions for onerous contracts due to open lawsuits in the amount of EUR 429,751 represent expenses resulting from actions brought by suppliers, former employees and others. We used EUR 26,328 worth of provisions in 2011; we did not create additional provisions.

On 31 December 2011 we harmonized the state of provisions for retirement severance payments and reservations for anniversary bonuses on the basis of the new actuarial calculations, using the projected unit credit method (PUCM method), where all profits, losses and expenses from the previous service are recognized immediately. In calculations, the following actuarial assumptions were applied:

- demographic assumptions (mortality, level of employee fluctuation),
- financial assumptions; inflation, interest rate curve and bond profitability, discount rate and future salary level in the company and in the Republic of Slovenia.

Current value of provisions for employees corresponds to the number of employees who are still permanently employed at Livar d.d. on the basis of organizational changes.

Provisions amounting to EUR 153,467 for employees who are to be employed at Livar Storitve d.o.o. were transferred to Livar Storitve d.o.o. on 31 December 2011 for consideration.

During the year, due to regular retirements and anniversary bonus payments, we eliminated provisions in the amount of EUR 62,475.

On the basis of the aforementioned actuarial calculations, we created additional provisions for anniversary awards in the amount of EUR 44,742, and provisions for severance payments in the amount of EUR 80,886, which together amounted to EUR 125,528 EUR.

Long-term provisions for complaints were not recognized in 2011, as we estimated that we can resolve all complaints in a few days or weeks after delivery.

..... NOTE 12

LONG-TERM FINANCIAL LIABILITIES

in EUR

	31.12.2011	31.12.2010
Long-term financial liabilities to banks	14,860,775	14,795,320
Long-term financial liabilities on the basis of bonds	1,320,000	1,500,000
Other long-term financial liabilities	3,736,002	3,846,035
Total	**19,916,777**	**20,141,355**

- Long-term financial liabilities to banks

in EUR

	31.12.2011	31.12.2010
Banks in Slovenia	14,540,459	14,475,004
Foreign banks	320,316	320,316
Total	**14,860,775**	**14,795,320**

The value of long-term liabilities to banks, as recorded on 31 December 2011, was the same as in the year before, since banks agreed to grant the company moratoria on principal payments.

The short-term part of long-term loans received from banks in the amount of EUR 6,133,233 is disclosed as short-term liabilities to banks. The (partial) moratoria on principal payments in 2012 agreed upon in 2012 were not taken into account in transferring these loans to short-term financial liabilities.

All long-term loans granted by banks are denominated in EUR (loans denominated in CHF were converted to EUR in 2011) and are mainly remunerated on the basis of variable annual interest rate. Different reference rates are used: one-month EURIBOR,

three-month EURIBOR and six-month EURIBOR. Margins range from 1.25 to 6 percentage points to be added to the reference rate.

Liabilities with a maturity of over 5 years amount to EUR 5,698,372.

Loans are due in 2020 and are secured by a mortgage and pledged receivables from customers.

It should be noted that, in 2012, the company asked commercial banks to reschedule all credit obligations. The commercial bank that has the largest credit exposure to Livar agreed to give the company a partial moratorium, postponing principal payments to the end of 2012. Negotiations with the other commercial bank and the leasing company on at least a partial moratorium on principal payments of loans and leasing are still underway, but the moratorium has not been approved yet.

- Long-term financial liabilities on the basis of bonds

In 2009 Livar's Management Board adopted a decision on issuing 340 subordinate nominal bonds, each with the nominal value of EUR 10,000, with maturity of 31 December 2014. The interest rate is 6% per year.

Before 31 December 2009 the company's owner issued a statement on taking over 100 nominal subordinate shares in a total nominal value of EUR 1,000,000. The owner settled the associated obligations by ceding claims against the issuer, which the said owner has on the basis of the loan contract and its annex. Liabilities from bonds were partly settled in 2011, therefore they amounted to EUR 820,000 on 31 December 2011.

In 2010, another company issued a statement on the subscription of 50 subordinate nominal shares amounting to 500,000 EUR in total, with obligations having been paid to the bank account of the issuer.

- Other long-term financial liabilities

Other long-term financial liabilities include:

- company's liabilities on the basis of financial leases, which, according to currently valid annuity plans, will become due by 2018 and amount to EUR 2,995,261. Short-term maturity of leasing contracts amounts to EUR 1,034,400 and is recorded among short-term financial liabilities.
- liabilities arising from the loans received by other business partners, amounting to EUR 740,741. The loan bears an annual interest rate of the six-month EURIBOR + 4.95%. The final instalment will be due in 2015. The company pledged the shares of the associated company as security for the loan received (Note 3).

..... NOTE 13

SHORT-TERM LIABILITIES

- Short-term liabilities

in EUR

	31.12.2011	31.12.2010
Short-term financial liabilities	8,388,464	6,984,861
Short-term operating liabilities	12,089,019	12,968,868
Total	**20,477,483**	**19,953,729**

- Short-term financial liabilities

in EUR

	31.12.2011	31.12.2010
Short-term financial liabilities to banks	6,883,233	4,367,280
Other short-term financial liabilities	1,505,231	2,617,581
Total	**8,388,464**	**6,984,861**

Compared to 2010, short-term financial liabilities increased by 20% in 2011, mainly because of the part of long-term loans which will become due in 2012 (if we do not take into account the agreements with banks on possible moratoria of repayment of principal in 2012).

- Short-term financial liabilities to banks

in EUR

	31.12.2011	31.12.2010
Banks in Slovenia	6,652,375	4,059,470
Foreign banks	230,858	307,810
Total	**6,883,233**	**4,367,280**

Short-term financial liabilities to banks include:

- the short-term part of the long-term loans given by banks, amounting to EUR 6,133,233,
- short-term loans received from banks, amounting to EUR 750,000 and bearing a fixed annual interest rate of 6%.

A received long-term loan in the amount of EUR 750.000 is secured by pledged short-term operating receivables from customers.

- Other short-term financial liabilities

Other short-term financial liabilities disclosed by the company include:

- liabilities arising from short-term loans from other lenders in the amount of EUR 111,111;
- short-term liabilities arising from finance leases in the amount of EUR 1,034,400;
- short-term liabilities to banks under guarantees in the amount of EUR 359,721;

- Short-term operating liabilities

in EUR

	31.12.2011	31.12.2010
Short-term operating liabilities to subsidiaries	1,910,605	2,224,493
Short-term operating liabilities to associated companies	0	85,496
Short-term operating liabilities to suppliers	9,163,671	9,728,752
Short-term operating liabilities on the basis of advance payments	8,021	7,753
Other short-term operating liabilities	1,006,722	922,374
Total	**12,089,019**	**12,968,868**

Short-term liabilities to subsidiary companies in the amount of EUR 1,910,605 mainly represent liabilities from service costs charged by subsidiaries to the parent company. They refer to costs of hiring workers who were transferred to subsidiaries due to the restructuring of the company at the end of 2010.
The said amount (EUR 1,910,605) also includes a liability arising from the transfer of a part of provisions for retirement severance payments and anniversary bonuses amounting to EUR 153,467, which was transferred against payment and is intended for workers who became employees of Livar Storitve on 1 January 2012.

Short-term operating liabilities decreased by 7% in 2011 in comparison with 2010.

Liabilities to Slovenian suppliers amounted to EUR 6,907,746, whereas those to suppliers abroad amounted to EUR 2,255,925.

Unpaid, mature liabilities to suppliers amounted to EUR 4.4 million on 31 December 2011.

Other operating liabilities (amounting to 1,006,722 EUR) include liabilities to employees for salaries in the amount of EUR 126,250, liabilities to state institutions in the amount of EUR 142.708, interest payable on loans from banks and others in the amount of EUR 533,210, liabilities from interest changed by suppliers in the amount of EUR 200,040, and other liabilities amounting to EUR 4,514.

..... NOTE 14

ACCRUED COSTS AND DEFERRED REVENUES

- Short-term accrued costs and expenses

in EUR

	31.12.2011	31.12.2010
Accrued interest payable to banks	0	20,036
Accrued costs of unpaid gross salaries	301,518	301,518
Other accrued expenses	339,361	0
Other accrued costs and deferred revenues	292	8,150
Total	**641,171**	**329,704**

Accrued costs and deferred revenues amounting to EUR 641,171 refer entirely to short-term accrued costs and expenses and have increased by 94% compared to 2010. The reason for this increase is the charging of service costs in the amount of EUR 339,361; these refer to services received in 2011, but subsidiaries have not issued the associated invoices yet.

The included costs of unpaid gross salaries comprise gross salaries amounting to EUR 301,518 and relating to the difference between the 50% temporary lay-off allowance and the 100% temporary lay-off allowance, to which employees are entitled according to the Employment Relationship Act. In 2010, 50% were cancelled, based on a legal opinion.

..... NOTE 15

OFF-BALANCE SHEET ASSETS AND LIABILITIES

in EUR

	31.12.2011	31.12.2010
Unused credit lines with banks	0	0
Guarantees	0	0
Guarantees given	223,612	2,746,844
Total	**223,612**	**2,746,844**

90% of the value of liabilities arising from guarantees given to a former subsidiary for a bank loan is disclosed as long-term provisions and short-term financial liabilities, and the remaining 10%, amounting to EUR 223.612, are disclosed in the off-balance-sheet records as a potential liability.

100% value of the given guarantee was disclosed in the off-balance-sheet records as well as in the long-term provisions category on 31 December 2010.

EXPLANATORY NOTES TO PROFIT AND LOSS STATEMENT

PROFIT AND LOSS STATEMENT

In compliance with the accounting standard No. 25, the company decided to draw up a level form of the profit and loss statement according to version I. On the basis of cost accounting, a presentation of costs by functional groups was also made.

in EUR

	2011	2010
Purchase value of the goods sold	45,464	122,971
Production costs of the products sold	47,402,972	38,157,628
Selling expenses	1,998,366	1,049,645
General and administrative costs	4,206,940	3,299,759
Revaluated operating expenses	638,551	83,881
Total	**54,292,293**	**42,713,884**

..... NOTE 16

NET REVENUES FROM SALES

in EUR

	2011	2010
Revenues from sales of products	54,181,594	42,971,507
Revenues from sales of services	1,239,057	313,502
Revenues from sales of goods	19,781	51,620
Revenues from sales of material	60,032	98,525
Total	**55,500,464**	**43,435,154**

in EUR

	2011	2010
Revenues from sales in the domestic market	11,131,730	10,309,949
• Revenues from sales of products and services	11,071,698	10,211,424
• Revenues from sales of goods and material	60,032	98,525
Revenues from sales in foreign markets	44,368,734	33,125,205
• Revenues from sales of products and services	44,348,953	33,073,585
• Revenues from sales of goods and material	19,781	51,620
Total	**55,500,464**	**43,435,154**

Net revenues from sales increased by 28% in comparison with the previous year. The majority, i.e. 80% of net revenues from sales, was generated with sales in foreign markets.

..... NOTE 17

INCREASE IN THE VALUE OF INVENTORIES AND WORK IN PROGRESS

in EUR

	2011	2010
Increase in the value of inventories and work in progress	-848,470	515,450
Total	**-848,470**	**515,450**

In 2011 we recorded a decrease in the value of inventories in the amount of EUR 848,470, which decreases the company's operating result according to the rules of presenting the profit and loss account.

..... NOTE 18

VALUE OF CAPITALIZED OWN PRODUCTS

in EUR

	2011	2010
Capitalized own products	111,312	0
Total	**111,312**	**0**

Capitalized own products in the amount of EUR 111,312 refer to the value of own products and services used for the company's needs, and especially the value of own investments implemented through work and the use of company's assets.

..... NOTE 19

OTHER OPERATING REVENUES
(WITH REVALUATION OPERATING REVENUES)

in EUR

	2011	2010
Revenues from consumption and cancellation of long-term provisions	225,197	469,659
Revenues related to part-time job subsidies	0	566,240
Revenues related to subsidies for disabled workers	0	21,154
Revenues related to subsidies for the electrical grid	0	34,722
Other revaluation operating revenues	317,800	460,939
Total	**542,997**	**1,552,714**

Other revaluation operating revenues in the amount of EUR 317,800 include revenues arising from:

- reclassification of future costs of remedying environmental damage into long-term deferred costs in the amount of EUR 90,000,
- elimination of excess value adjustments on receivables in the amount of EUR 151,148,
- revenues from the sale of tangible fixed assets in the amount of EUR 21,683,
- recovered written-off receivables in the amount of EUR 8,955,
- and other revenues amounting to EUR 46,014 in total.

Revenues from consumption and cancellation of long-term provisions in the amount of EUR 225,197 also include revenues arising from the elimination of the overestimated provision for potential liabilities from the guarantee given to a former subsidy for a loan, which amount to EUR 223,612 and thus represent a major share of the said revenues.

..... NOTE 20

COSTS OF GOODS, MATERIAL AND SERVICES

in EUR

	2011	2010
Purchase value of material and goods sold	45,464	122,972
Costs of material	32,684,172	25,906,964
Costs of services	16,222,875	6,754,285
Total	**48,952,511**	**32,784,221**

In 2011 we recorded increases in almost all types of costs, as the volume of production and sales was larger than in 2010.

The costs of material increased by 26% in comparison with the previous year. The main reason for the increase in costs in the period under review is a larger scope of production and sales.

The costs of services increased by 240% in comparison with 2010. This was due to the restructuring of Livar d.d. at the end of 2010, when the majority of employees were transferred to four of Livar's subsidiaries, which charged the costs associated with employees to the parent company.

A breakdown of individual types of costs of material and services is demonstrated in detail below.

- Costs of material

in EUR

	2011	2010
Costs of material	28,776,087	21,100,390
Costs of ancillary material	237,632	702,061
Energy costs	2,893,012	2,700,752
Costs of spare parts for fixed assets and material for maintenance of fixed assets	90,777	797,920
Small tools and packaging write-off	645,883	573,646
Bringing into line the costs of material and small tools due to established inventory differences	6,735	0
Costs of stationery and professional literature	34,046	32,197
Total	**32,684,172**	**25,906,964**

- Costs of services

in EUR

	2011	2010
Costs of services incurred in the manufacture of products and provision of services	12,234,710	3,674,747
Costs of transport services	827,731	714,133
Costs of services relating to maintenance of tangible fixed assets	394,915	314,663
Rents	233,057	218,060
Reimbursements to employees in connection with work	70,552	54,122
Costs of payment transactions, bank services and insurance premiums	311,826	245,413
Costs of intellectual and personal services	1,522,395	1,091,747
Costs of fairs, advertisements and representations	40,944	38,275
Cost of services by natural persons not engaged in activities, together with fees charged to the company	10,470	0
Costs of other services	576,275	403,122
Total	**16,222,875**	**6,754,285**

Compared to 2010, the costs of services incurred in the manufacture of products and provision of services increased by 333% due to the transfer of Livar's employees to subsidiaries. These employees carried out services at Livar under the operating contract between the two companies, thus the costs of these services were charged to Livar and recognized as costs of services incurred in the manufacture of products and provision of services, which amounted to EUR 9,493,709 in 2011. Costs of hiring foreign labour amounted to EUR 2,184,002.

The costs of other services (EUR 576,275) represent the cost of removal and disposal of all types of waste (EUR 294,891), student service costs (EUR 29,940), costs of documentation for the development of a municipal landfill (EUR 20,866 EUR) and other costs (EUR 230,578).

The company KPMG SLOVENIJA d.o.o. from Ljubljana was appointed as the auditor to revise the 2011 Annual Report. The auditing firm and Livar concluded an audit

agreement in the amount of EUR 17,500 (excl. VAT). The company did not have any other transactions or costs relating to auditors.

..... NOTE 21

LABOUR COSTS

in EUR

	2011	2010
Salary costs	752,788	5,316,778
Social insurance costs	185,629	392,751
Pension insurance costs	78,691	552,108
Other labour costs	223,132	1,336,705
Total	**1,240,240**	**7,598,342**

Other labour costs include holiday allowances in the amount of EUR 19,674, the cost of transport to and from work in the amount of EUR 46,631, costs relating to meal allowances in the amount of EUR 148,384, and other costs in the amount of EUR 8,443.

Compared to 2010, labour costs decreased by 84% in 2011. This is due to the transfer of the majority of Livar's employees to subsidiary companies on 1.10.2010, which resulted in a reduction in company's labour costs (see also Note 20).

The total amount of gross payments received by the Management Board, the personnel employed under contracts to whom the tariff schedule of the collective agreement does not apply, and members of the Supervisory Board for functions or tasks performed in the company in 2011 is as follows:

in EUR

	In EUR
Chairman of the Management Board	87,138
Member of the Management Board	86,910
Personnel employed under contracts to which the tariff schedule of the collective agreement does not apply	733,285
Members of the Supervisory Board	9,877
Total	**917,210**

The remunerations of the Management Board and the personnel employed under contracts to whom the tariff schedule of the collective agreement does not apply include gross salaries, bonuses, holiday allowances and potential other remunerations.

Remunerations of the company's Supervisory Board include remunerations for performance of functions within the Supervisory Board.

The company does not disclose any operating receivables, receivables from loans or advance payments relating to the above-mentioned groups of persons. The company

also did not issue any guarantees for liabilities of the members of the Supervisory and the Management Boards.

..... NOTE 22

WRITE-DOWNS

in EUR

	2011	2010
Depreciation and amortization	1,977,497	2,114,146
Revaluation operating expenses from fixed tangible and intangible assets	13,387	11,711
Operating expenses from revaluation of working capital	625,164	72,170
Total	**2,616,048**	**2,198,027**

- Depreciation and amortization

in EUR

	2011	2010
Amortization of intangible assets	39,446	44,697
Amortization of buildings	175,046	174,946
Amortization of equipment and spare parts	1,763,005	1,894,503
Total	**1,977,497**	**2,114,146**

- Operating expenses from revaluation

in EUR

	2011	2010
Operating expenses from revaluation of intangible assets and tangible fixed assets	13,387	11,711
Operating expenses from revaluation of working capital	625,164	72,170
Total	**638,551**	**83,881**

Operating expenses from revaluation of intangible assets and tangible fixed assets are due to losses on sales or write-off of fixed assets.

Operating expenses from revaluation of working capital comprise the impairment of receivables in the amount of EUR 625,164. Value adjustments of receivables refer to those receivables from customers that are considered to be partially recoverable or irrecoverable, and are subject to on-going recovery proceedings.

.... NOTE 23

OTHER OPERATING EXPENSES

in EUR

	2011	2010
Provisions	125,627	222,106
Other costs	509,397	426,638
Total	**635,024**	**648,744**

- Provisions

in EUR

	2011	2010
Provisions for guarantees given	0	0
Provisions for onerous contracts	0	167,752
Provisions for anniversary bonuses and severance payments	125,627	54,354
Total	**125,627**	**222,106**

- Other expenses or costs

in EUR

	2011	2010
Duties that do not relate to labour costs or other types of costs	49,268	35,365
Environmental protection expenditure	431,426	341,811
Awards given to secondary school and university students during internship, together with duties	1,805	1,713
Scholarships to secondary school and university students	24,922	45,913
Other costs	1,976	1,836
Total	**509,397**	**426,638**

..... NOTE 24

FINANCIAL REVENUES FROM LOANS GRANTED

in EUR

	2011	2010
Financial revenues from loans granted to in-Group	0	43
Financial revenues from loans given to associated companies	2,611	20,585
Financial revenues from loans granted to others	29,811	72,165
Total	**32,422**	**92,793**

Financial revenues in the amount of EUR 29,811 include: interest on loans given to others in the amount of EUR 1,126 and revenues arising from mature derivatives in the amount of EUR 28,685.

..... NOTE 25

FINANCIAL REVENUES FROM OPERATING RECEIVABLES

in EUR

	2011	2010
Financial revenues from operating receivables from others	80,689	33,252
Total	80,689	33,252

Financial revenues from operating receivables in the amount of EUR 80,689 include subsequently recognised early payment discounts amounting to EUR 14,917, as well as revenues arising from operating receivables amounting to EUR 64,135 and other revenues amounting to EUR 1,637.

..... NOTE 26

FINANCIAL EXPENSES FROM FINANCIAL INVESTMENT WRITE-OFFS AND IMPAIRMENT

in EUR

	2011	2010
Expenses from financial investment impairment – Topola Livar a.d.	0	0
Expenses from financial investment impairment – Topola Livar MO d.o.o.	0	15,000
Total	0	15,000

..... NOTE 27

FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES

in EUR

	2011	2010
Financial expenses from loans received from banks	2,239,364	2,157,148
Financial expenses from other financial liabilities	346,974	2,599,907
Total	2,586,338	4,757,055

Financial expenses arising from loans received from banks include interest on loans received from banks in the amount of EUR 1,009,803 and expenses resulting from negative exchange differences in the amount of EUR 1,229,561.

Financial expenses from other financial liabilities include interest on financial leases (EUR 160,599), and leasing-related negative exchange differences (EUR 186,375).

..... NOTE 28

FINANCIAL EXPENSES FROM OPERATING LIABILITIES

in EUR

	2011	2010
Financial expenses from liabilities to suppliers and bills of exchange payable	119,606	235,679
Financial expenses from interest-interest payments made on behalf of Topola	108,414	150,594
Expenses from late payment interests paid to Tax Administration of the RS	26,448	22,114
Other financial expenses related to financing	87,692	207,808
Total	**342,160**	**616,195**

In 2011 the company's operating result was also burdened with payments of interest for the loan granted to Topola Livar a.d. by NLB Continental bank in the amount of EUR 108,414, for which Livar gave its guarantee. As Topola Livar is not able to repay the loan, it is being repaid by our company in accordance with the annual plan.

..... NOTE 29

OTHER REVENUE

in EUR

	2011	2010
Compensation received	38,625	25,814
Other revenue	22,870	97,724
Total	**61,495**	**123,538**

A major part of compensation received relates to compensation received by the insurance agency due to machinery defects and one claim.
Other revenue includes reimbursement of student grants and paid tuition fees.

..... NOTE 30

OTHER EXPENSES

in EUR

	2011	2010
Compensation and financial penalties	9,730	3,659
Other expenses	15,025	16,379
Total	**24,755**	**20,038**

..... NOTE 31

DEFERRED TAXES

DEFERRED TAX LIABILITIES

Deferred tax liabilities arise from disclosed real estate owned by the company and evaluated using the revaluation model under a tax rate of 20%, and from strengthening the long-term investment in the Jelšingrad associated company at its fair value, using a tax rate of 10%.

The movement of deferred tax liabilities in 2011 was as follows:

in EUR

	Real estate	Long-term financial investments	Total
As at 31.12.2010	1,611,220	287,350	1,898,570
Charged /(credited) to the profit and loss account	0	0	0
Charged / (credited) to the capital	0	0	0
• recognized deferred tax liabilities	35,666	0	35,666
• cancelled deferred tax liabilities	0	-138,560	-138,560
• difference due to a change in the tax rate	0	0	0
As at 31.12.2011	**1,646,886**	**148,790**	**1,795,676**

DEFERRED TAX RECEIVABLES

Deferred tax receivables were recognized as 20% of unused tax losses amounting to EUR 8,978,375. They were recognized only to the amount of recognized deferred tax liabilities.

In 2011, the movement of deferred tax receivables was as follows:

in EUR

	Unused tax loss	Total
As at 31.12.2010	1,898,570	1,898,570
Charged /(credited) to the capital	0	0
(Charged)/credited to the profit and loss account	-102,895	-102,895
• recognized deferred tax receivables	35,666	35,666
• cancelled deferred tax receivables	-138,560	-138,560
• difference due to a change in the tax rate	0	0
As at 31.12.2011	**1,795,676**	**1,795,676**

..... NOTE 32

INCOME TAX

In 2011 the company recorded a tax loss in the amount of EUR 584,225, and its complete tax loss amounted to EUR 17,646,602.

On 31 December 2011 deductible temporary differences, unused tax loss and unused tax credit notes for which the deferred tax receivables have not been set up were as follows:

- unused tax loss in the amount of EUR 8,664,222,
- long-term provisions in the amount of EUR 1,658,006,
- operating receivables value adjustment in the amount of EUR 3,127,013, and
- depreciation in excess of the fiscally recognized depreciation in the amount of EUR 319,552.

..... NOTE 33

LOSS

in EUR

	2011	2010
Operating profit / loss based on regular activity	-952,907	-2,988,221
• Operating profit	1,862,480	2,273,984
• Profit / loss from financing	-2,815,387	-5,262,205
Operating profit/loss outside regular activity	36,740	103,500
Total profit / loss	-916,167	-2,884,721
Deferred taxes	-102,895	0
Net profit or loss for the accounting period	**-1,019,062**	**-2,884,721**
Accumulated loss	**-14,848,978**	**-13,829,916**

TRANSACTIONS WITH RELATED PARTIES

As at 31 December 2011:

in EUR

Company		Short-term operating receivables	Long-term operating receivables	Long-term loans given	Short-term loans given
Livar LNL d.o.o.	subsidiary	87,910	0	0	0
Livar Belt d.o.o.	subsidiary	87,604	0	0	0
Livar FMO d.o.o.	subsidiary	106,215	0	0	0
Livar storitve d.o.o.	subsidiary	84,248	0	0	0
Topola Livar MO d.o.o.	subsidiary	0	0	0	0
Jelšingrad Livar a.d.	Affiliated company	40,000	5,946,524	404,000	296,000
Mecum d.o.o.	Major owner	9,034	0	0	0
Adriano Corsi S.p.A.	Company of a major owner	430,160	0	0	0
Total		**845,171**	**5,946,524**	**404,000**	**296,000**

in EUR

Company		Short-term operating liabilities	Long-term financial liabilities
Livar LNL d.o.o.	subsidiary	531,705	0
Livar Belt d.o.o.	subsidiary	482,114	0
Livar FMO d.o.o.	subsidiary	489,588	0
Livar storitve d.o.o.	subsidiary	414,634	0
Topola Livar MO d.o.o.	subsidiary	0	0
Jelšingrad Livar a.d.	Affiliated company	0	0
Mecum d.o.o.	Major owner	0	820,000
Adriano Corsi S.p.A.	Company of a major owner	0	0
Total			**820,000**

Related-party turnover in 2011 (in EUR):

in EUR

Company		Cumulative operating receivables turnover	Cumulative operating liability turnover	Cumulative turnover of interest on loans received	Cumulative turnover of interest on loans granted
Livar LNL d.o.o.	subsidiary	87,910	2,629,946	0	0
Livar Belt d.o.o.	subsidiary	87,604	2,887,563	0	0
Livar FMO d.o.o.	subsidiary	106,215	3,246,936	0	0
Livar storitve d.o.o.	subsidiary	84,248	3,019,207	0	0
Topola Livar MO d.o.o.	subsidiary	0	0	0	974
Jelšingrad Livar a.d.	Associated company	127,000	4,417	0	54,909
Mecum d.o.o.	Major owner	188,772	2,026,163	54,483	8,548
Adriano Corsi S.p.A.	Company of a major owner	1,799,322	253,739	0	0
Total		**2,481,071**	**14,067,971**	**54,483**	**64,431**

RISK MANAGEMENT

Liquidity risks

Liquidity risk exposure as at 31 December 2011:

in EUR

Item	Book value	Maturity of up to 1 year	Maturity of up to 5 years	Maturity over 5 years
Bank loans received	21,744,008	6,883,233	9,162,403	5,698,372
Liabilities arising from bonds	1,320,000	0	1,320,000	0
Loans received from others	851,852	111,111	740,741	0
Liabilities arising from financial leases	4,029,661	1,034,400	2,995,261	0
Other short-term financial liabilities	359,721	359,721	0	0
Short-term operating liabilities	12,089,019	12,089,019	0	0
Total	**40,394,261**	**20,477,484**	**14,218,405**	**5,698,372**

Credit risk

Credit risk exposure as at 31 December 2011:

in EUR

Item	Book value
Long-term operating receivables	5,946,524
Long-term loans granted to others	904,000
Short-term loans granted to others	298,000
Receivables from in-Group companies	40,000
Receivables from customers	10,070,190
Other short-term operating receivables	1,541,827
TOTAL	**18,800,541**

The long-term operating receivable from the Jelšingrad associated company is not specially insured and is to be converted into capital.
Short-term loans are not exposed to high credit risks.

Most of the receivables from customers are not yet due. Value adjustments were made for all doubtful receivables, and are presented in detail in Note 7. Short-term operating receivables are not specifically insured.

Interest rate risk

Short-term financial liabilities to banks and lessors are bound to EURIBOR, which affects the exposure to the interest rate change risk. On 31 December 2011, the exposure to interest rate risk was as follows:

in EUR

Financial instruments based on fixed interest rate	
Financial assets	1,202,000
Financial liabilities	750,000
Financial instruments based on variable interest rate	
Financial assets	0
Financial liabilities	28,305,242

Fair value risk

The table below shows the influence of a change in fair value on 31 December 2011 on the capital due to revaluation surplus, or on the operating result (the amounts in the table include deferred taxes in case of evaluation at fair value based on capital).

in EUR

Item	Book value 31.12.2011	Change in fair value		
		1%	5%	10%
Company's real estate	12,323,628	98,589	492,945	985,890
Long-term financial investments	2,500,000	22,500	112,500	225,000
Total on capital	**14,823,628**	**121,089**	**605,445**	**1,210,890**

UNCERTAINTY REGARDING THE GOING CONCERN ASSUMPTION

These financial statements have been prepared on the basis of the going concern assumption. Having generated net loss in the amount of EUR 1.0 million, the company disclosed total loss amounting to EUR 14.8 million on 31 December 2011, and its short-term liabilities exceeded short-term assets by EUR 6.2 million. The total loss exceeds one half of the company's share capital, and cannot be covered by profit brought forward or reserves. The company is unable to meet its financial obligations, which amounted to EUR 28.3 million at the end of 2011, before they fall due, therefore its solvency depends on its success in obtaining approval from its financial creditors for rescheduling the company's debts.

Already in the years 2009 – 2011, the company started implementing measures to restructure operations and improve the company's liquidity, and continues to do so even more actively in 2012. These measures are described in other sections of this Annual Report. The company's ability to continue as a going concern depends on, inter alia, the realization of these measures. According to the management's estimates, the going-concern assumption is appropriate also for the following reasons:

- In 2012, the negotiations on the rescheduling of long-term and short-term financial liabilities were partly successfully concluded, namely the negotiations with the main creditor Unicredit Bank; the oral agreement on the rescheduling of contracts with Hypo Alpe Adria Bank and Hypoleasing is still being decided upon. Both the approved and the orally agreed rescheduling are based on partial and gradual repayment of initial contractual principal amount under credit and leasing contracts. Rescheduling of financial liabilities represents a good basis for a gradual normalization of liquidity in 2012.
- Financial results of the first five months of 2012 show that the company can achieve positive results by maintaining strict cost control and full control over the manufacturing process, even if monthly turnover is low and fixed costs incurred by the foundry are high. All our activities are currently aimed at gaining new markets (especially in Western Europe and Russia) and increasing orders from the existing customers.
- The company is looking for a strategic partner to provide it with a suitable capital injection in the form of cash injection, which is necessary according to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act.

POTENTIAL LIABILITIES

The company has no potential liabilities other than those included and adequately disclosed in the financial statements on 31 December 2011.

EVENTS AFTER THE BALANCE SHEET DATE

No events that could have affected the accuracy and fairness of these 2011 financial statements occurred between the day of drawing-up the financial statements and the day of completion of this report.

All workers who were employees of subsidiary companies Livar Belt d.o.o., Livar FMO d.o.o. and Livar LNL d.o.o. until 31 December 2011 were transferred to LIVAR d.d. and Livar Storitve d.o.o. on 1 January 2012.

It should be noted that, in 2012, the company again asked commercial banks to reschedule all its credit obligations. The commercial bank that has the largest credit exposure to Livar agreed to give the company a partial moratorium, postponing principal payments to the end of 2012. Negotiations with the other commercial bank on a partial moratorium on principal payments of loans and leasing are still underway, but the moratorium has not been approved yet.
Rescheduling of these financial obligations represents the basis for gradual normalization of liquidity in 2012.

Ivančna Gorica, 13 July 2012

Damjan Debeljak
Chairman of the Livar d.d.
Management Board