Končar – Elektroindustrija d.d.
Zagreb, Fallerovo šetalište 22

Pursuant to provisions of the Corporate Governance Code of the Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange, which entered into force on 1 January 2020, at its 44th meeting, held on 15 December 2020, the Management Board of Končar – Elektroindustrija d.d. adopted the Risk Management Policy. At its 8th meeting, held on 22 December 2020, the Company's Supervisory Board approved the Risk Management Policy adopted by the Company's Management Board, as presented below.

Risk Management Policy

Introduction

Organizations of all types and sizes face external and internal factors and influences that make the achievement of their business objectives uncertain.
Risk management means reducing the extent of uncertainty by anticipating adverse events that could prevent the achievement of business objectives and pose a threat to the Company's business success.
Risk management is an integral part of business and of organization's governance, and represents a function, within the management system, whose task is to safeguard the internal ability of the Company to achieve the set strategy, mission and vision of the Company.
The risk management system includes strategies, processes and reporting procedures necessary for identifying, measuring, monitoring and managing risks and includes continuous reporting on an individual and group basis, about the risks to which the company is exposed or could be exposed in its operations and about the interdependence of those risks. It is subject to regular internal reviews.
Through this process, the risk is monitored and critically assessed and actions are taken to mitigate the possible consequences of the risk.

I Objective and Definition

The Company aims to formulate a risk management policy to adequately deal with risks that arise during business operations and improve the likelihood of achieving its strategic and operational objectives.

Prior to making a major decision, it is necessary to identify and assess the risk posed by that decision. That way, it can be decided whether the profit potentially brought by such a decision is large enough and achievable to cover possible losses.
The purpose of risk identification is to recognize, determine, and describe the risks that may help the organization or prevent it from achieving its goals. Relevant, appropriate and up-to-date data are important in risk identification.
For the purposes of this Risk Management Policy, risk is defined as the effect of uncertainty on the objectives of the organization. Such uncertainty may result in a deviation (positive and / or negative) from the expected results.
Risk is often expressed in terms of a combination of possible events (occurrence or change of a particular set of circumstances) and the consequences of such events (outcome of an event affecting objectives), or a combination of these.

II Basic principles

To achieve efficient risk management, the Company and the Group need to act in accordance with the following basic principles:

- Risk management should be integrated into the organization's overall governance
- Risk management should be integral part of the organization's decision-making process
- Risk management involves all the activities in which any “uncertainties” need to be addressed
- Risk management must be systematic, structured and timely
- Risk management system must be based on precise and best available information
- Risk management must be tailorable
- Risk management must take human and cultural factors into account
- Risk management must be transparent and inclusive
- Risk management is dynamic and responsive to change.
- Risk management supports measures and procedures taken for improvement and development.

III Defining the scope

The Company and companies operating within the Group should define the scope of their risk management activities.

The Management Board of Končar – Elektroindustrija d.d. and management boards of its affiliated companies have undertaken to develop all their capabilities so that the risks that could significantly affect the Group's operations are identified and assessed, that control mechanisms are put in place to achieve the Company's and Group's strategic goals, to protect the results and reputation of the Group, ensure financial stability of the Company and the Group and to defend the interests of all the stakeholders involved in the operations of the Company and the Group.

Risk appetite represents the nature and extent of the risks the Company and Group need and are willing to take in order to achieve their long-term strategic objectives. Risk appetite includes determining the intention to assume the risk, as well as risk tolerance in terms of determining the risk level which is acceptable for the Company.

Determining the risk appetite arises from the nature of the Company's and Group's operations, key business processes/activities, prevailing and projected economic and market conditions, and their impact on the Company's and Group's key processes/activities.

In accordance with the Risk Management Policy, and taking into account the business strategy and business objectives, the Company and the Group determine a moderate (average) risk appetite.

The Group companies manage the risks that could affect the Group's operations by monitoring business processes and internal risk reports that identify and analyse risk exposure based on the degree and significance of the risk. The main risks in the operations of the Company and the Končar Group are contained in Annex 1 to this Policy, which forms an integral part thereof.

IV Risk Management

The Company's Management Board and management boards of Končar Group companies are competent and responsible for risk management.

The risk management process can be applied at various levels, through strategic, operational, program, project and other activities relevant for business operations and set goals.

The Company's Management Board must adopt, document and apply policies and other internal acts on managing of individual risks or group of related risks to which the Company is or may be exposed. These internal acts should, as a minimum, contain a description of each business process of the Company, description of the process of managing individual risks, methods of risk identifying, assessing and measuring, specific measures of risk monitoring and controlling, as well as risk reporting, operational responsibility for said activities, and the effect of the risk on the Company's performance.

Risk management process in accordance with the ISO 31000 standard is contained in the Annex 2 to this Policy and forms its integral part.

V MONITORING THE IMPLEMENTATION OF POLICIES

The Company has an internal audit function responsible for controlling the effectiveness of internal control system, including the management of risks.
At least once a year, the Audit Committee must review the effectiveness of the risk management and internal control systems as a whole, and make recommendations to the Supervisory and Management Boards as necessary.
The Management Board will report to the Supervisory Board on the status of the major risks in the Company.

VI FINAL PROVISIONS

This Risk Management Policy has been adopted by the Management Board and approved by the Supervisory Board. It may be amended in the same manner.
This Policy enters into force the day after is approved by the Company's Supervisory Board.

President of Management Board:	President of Supervisory Board:
Gordan Kolak, MScEng	Joško Miliša

Member of Management Board

Josip Lasić, BScEcon

Appendix 1 to the Risk Management Policy

Major risks in the operations of the Company and Končar Group

Market risk

Market risk arises from possible losses resulting from adverse economic conditions and a decrease in market demand. Končar Group companies operate in the Croatian and international markets. The Group's core business is related to the production of energy and transport equipment and products. The volume of production depends to a large extent on investments in the particular segment. The periods of high demand are periods of easier contracting of new projects. On the other hand, periods of general recession and economic crisis bring more difficult contracting, often accompanied by falling profit margins.

Influenced by the crisis and the volatility of the geopolitical situation in some parts of the world, there is also the risk of shrinking and closing of some markets and of encouraging the contracting of local manufacturers and vendors.

Procurement market risk

The prices of the main raw material and other materials (copper, transformer sheet, steel and alike) are subject to unpredictable changes (enormous increase or decrease in a short period of time).

Within their production program, there are several strategies with which the Group production companies hedge against the risk of sudden changes in the price of strategic raw material. For commodities listed on the commodities exchange (London Metal Exchange), one such strategy is concluding forward contracts with suppliers, which are used to contract quantities and prices for a future period, in accordance with the status and estimates of the existing contracts.

Another strategy is using semi-annual or annual contracts with suppliers. In some multi-year contracts with customers, a sliding formula is sometimes negotiated based on changes in the prices of materials.

Technological - developmental risks

Group companies continuously invest significant resources in key technologies and strategically important production segments in order to reduce the risk of technological-developmental lag behind the competition. In the forthcoming period, the Group companies plan to invest significant funds in developing new products and innovating the existing ones.

Personnel risks

The Company, as well as the Group companies seek to protect themselves against personnel risks through continuous investment in education and through employing key employees. Employee incentive policy is an important segment and stimulation for key personnel retention. Sudden or major fluctuations of employees with specialist knowledge could affect the business, so our objective is to plan for and prevent such occurrences.

Capital management risk

Capital management is carried out in such a way as to ensure business continuity and at the same time increase the return for shareholders through optimization of the debt-capital ratio. The Group and Group companies manage capital and make the necessary adjustments to it in accordance with the changes in economic conditions in the market and risk characteristics of their assets.

The Company manages the capital and reduces such risks through an active corporate governance policy relating to Group companies.

Currency risk

The Company and Group companies all have head offices in the Republic of Croatia, where Croatian Kuna is the official currency. Certain foreign currency transactions are translated into Croatian Kuna using the exchange rates in effect on the date of the balance sheet. Foreign exchange differences that arise are credited or charged to the profit and loss statement. The Companies' currency risks are hedged by continuous planning and monitoring of inflows and outflows and, where warranted, by contracting sales and purchases in the same currency and adjusting the inflow and outflow dynamics by forward purchase of currencies, in accordance with the cash inflow and outflow plan. Companies with a higher share of exports in total revenue should use derivative financial instruments to hedge their exposure to financial risks

Interest rate risk

The Group's companies are exposed to interest rate risk as some of the loans are contracted at variable interest rates, while most of the assets are non-interest bearing. Where necessary, Group’s individual companies contract hedges against interest rate risk in contractual relationships involving foreign currency.

Credit risk

Credit risk is the risk that one contracting party will fail to discharge its obligations and thus cause a financial loss to the other party. The Group has adopted a policy of conducting business mainly with creditworthy companies, with appropriate payment security instruments

(LCs, guarantees and alike), thereby reducing the possibility of incurring financial losses due to default.
Credit risk exposure is mainly influenced by individual characteristics of a specific customer. The Group companies should use the data and opinions obtained from specialized credit rating agencies, Croatian Chamber of Commerce, as well as publicly released information on the financial position of companies and use their database to rank important customers. The impact of credit risk on the Group, as well as changes in partners' credit ranking should constantly be monitored.
Group companies determine the adjusted value of receivables as an estimate of expected losses on receivables and investments.

Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations on time. Liquidity risk management is the responsibility of the management boards of the Group companies. The Group manages liquidity risk by constantly monitoring its projected cash flow by comparing and adjusting it to the actual cash inflow and outflow.
In all Group companies, it is necessary to regularly monitor and manage liquidity and capital adequacy, and to determine the measures to prevent or eliminate the causes of illiquidity. Any necessary measures should be taken so that the companies have sufficient long-term sources of financing given the scope and type of their business activity.

Information security risk

Information risks represent the likelihood of occurrence of an adverse event (threat) which may, in the given circumstances, cause damage, downtime or reduced operational intensity of the information system or cause damage to the information stored therein.
The basic task of information risk management is to meet the security requirements stipulated by a specific standard, while determining the acceptable ratio of investment in security controls and costs in the event of a security-related incident.
To best protect the information system, all the steps of the risk management process must be included, from understanding the information system itself and identifying possible threats to taking appropriate controls (countermeasures). Physical and logical security of the information system is also important.
Risk management procedures relating to the information system are aimed at ensuring information system availability, its protection against external or internal attacks and against unauthorized access to information, ensuring business continuity in the event of emergencies and preventing information loss.

Appendix 2 to the Risk Management Policy

Risk management process in accordance with ISO 31000 standard