

CORPORATE SOCIAL RESPONSIBILITY REPORT



tradition.
knowledge.
responsibility.



KONČAR

tradition. knowledge. responsibility.



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Zagreb, 2007

tradition. knowledge. responsibility.





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Foreword

by the Chairman of the Board

We wish that our current and future business partners and broader community would value us by what we do and what we strive to.

For that reason we want to openly and objectively inform you of our achievements and challenges we are faced with.





The KONČAR's business results continue to maintain an upward trend year after year. The constant improvement of our products has been valued by the global market of products and services through increased demand, while in the capital market, the value and prospects of KONČAR have been confirmed through a significant growth of share price. Good performance stems from a constant effort made by all KONČAR employees towards improving products and production technologies for the benefit of our owners, employees and society in which we live.

Our concern for the owners is shown through the Company's increased sales and profit, and by laying grounds for good business prospects of the Company. In 2006, KONČAR achieved growth in sales by 39 per cent and in profit by 150 per cent. The conditions for faster development of the Company have been created by a HRK 140 million worth of investment in the equipment and facilities for improving production capacity and technology. Focus on core business and building up a knowledge-based society, as well as focus on ownership restructuring of subsidiaries, has lead KONČAR to improve its competitiveness.

The well-being of our employees is being taken care of through a transparent system of rewarding them for their work, the application of the collective agreement, companies' restaurant facilities, additional training opportunities and support to social activities in employees' free time. Social security, fairness in rewarding and concern for professional development of employees have always been integral parts of KONČAR's tradition.

We are aware that the environment in which we live and work is the only one we have. The concern aimed at minimising the impacts of our activities on the environment is an essential element of our product development and production technologies. Our success in implementing environmental concerns is proven by ISO 14001 certificates and by monitoring the state of the environment.

KONČAR's strategic orientation is to develop into a highly competitive and export oriented company, based on its own knowledge and responsibility for the community in which it operates. A strong company can contribute most to the community - not only through providing jobs, exports and taxes, but also through providing leadership to small and medium-size businesses with which KONČAR cooperates, as well as through direct community investments. In addition, we help the community in which our families live by providing, among other things, financial support to a number of actions aiming at making living conditions of those particularly gifted and those in need easier.

By accepting to operate on the world's market in accordance with universal principles recommended by the UN, such as upholding human and labour rights, protection of children, environmental protection, anti-corruption practices, we take part in creating a better and fairer future for all people in the world.

Our task is complex, KONČAR is our primary concern. However, by governing KONČAR we also seek to contribute to the well-being of all other elements of the society.

Every day we undertake actions for the benefit of our owners, society and environment in which we live. We wish that our current and future business partners and broader community would value us by what we do and what we strive to. For that reason we want to openly and objectively inform you of our achievements and challenges we are faced with.

Thus, we have decided also to report systematically on this segment of our activities, and we present you our first integrated report on economic, environmental and social dimensions of the KONČAR Group activities in Croatia and worldwide, according to UN (Global Compact) and GRI (Global Reporting Initiative) standards. Our Report begins with Statements on the alignment between KONČAR and Global Compact principles, which are followed by the GRI-based report and by the comparative table cross-referencing the Global Compact and GRI based reports.

We embraced a challenge of reporting on corporate social responsibility, being aware that it is a process which calls for constant improvements and yields real results only in a medium and long run perspective. Therefore, we invite all the interested parties to provide us with their feedback and become active partners in developing the best possible business activities and practices, and high quality and comprehensive reporting.

Darinko Bago
Chairman of the Board
KONČAR - Electrical Industry, Inc.



Report according to the
Global Compact





PRINCIPLE 1

BUSINESSES SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS WITHIN THEIR SPHERE OF INFLUENCE.

- The Collective Agreement and other Company's enactments specify the rights beyond those prescribed by law. The indicated enactments also provide for the freedom of association and collective bargaining for all employees of KONČAR Concern.
- KONČAR Concern adheres to all currently valid regulations, collective agreements and individual contracts, and it protects human and civil rights, dignity and reputation of all employees.
- In KONČAR Concern all our employees are treated as members of a big family, and we do not allow discrimination or harassment of employees in any respect, based on gender, race, religion, national origin or political affiliation, physical disability, age, family status, personal characteristics or convictions.
- The principle of equal pay for the work of equal value is applied across the organisation.
- KONČAR Concern gives an additional dimension to its relationship with local community, supporting community development through the programme of socially responsible conduct and through investments in various projects.

Some of the activities undertaken in the reporting period are as follows:

- 1) Donation of PCs to the Educational Centre Dubrava.
- 2) Sponsoring of Young Innovators' Organisation 'KONČAR - Idea'
- 3) Sponsoring of SKI CLUB, CHESS CLUB, RIFLE-SHOOTING CLUB and CANOEING CLUB.
- 4) Sponsoring of the Olympics in Informatics.
- 5) Donation of PCs to the Faculty of Electrical Engineering and Computing, and many others.

PRINCIPLE 2

BUSINESSES SHOULD MAKE SURE THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES.

- On 12 May 2005 KONČAR Concern signed the statement on the acceptance of the Code of Business Ethics, thus accepting the obligation to act in compliance with the principles of responsibility, truthfulness, efficiency, transparency, quality, good faith and observance of fair business practices towards business partners, business and social environment and its employees.
- KONČAR conducts its business activities in compliance with the Constitution and legislation prohibiting forced or compulsory labour.

PRINCIPLE 3

BUSINESSES SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING.

- The freedom of association and collective bargaining is accessible to each and every of 4,200 employees of KONČAR Concern.
- 2, 490 employees are members of the Coordination of Metalworkers' Trade Union of Croatia, while 90 employees are members of the Electrical Industries Trade Union of Croatia.

PRINCIPLE 4

BUSINESSES SHOULD UPHOLD THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR.

- KONČAR conducts its business in compliance with the Constitution and positive legal regulations prohibiting forced and compulsory labour.
- We believe that SATISFIED employees are the best ambassadors of their company; therefore, we promote occupational competence and expertise of each employee, professional development, performance evaluation and promotion at work. KONČAR employees have independently chosen their employment and they are free to leave the company in case they want to face additional challenges.

PRINCIPLE 5

BUSINESSES SHOULD UPHOLD THE EFFECTIVE ABOLITION OF CHILD LABOUR.

- KONČAR conducts its business in compliance with positive legal regulations which prohibit child labour, and does not employ children in any business activity whatsoever.

PRINCIPLE 6

BUSINESSES SHOULD UPHOLD THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION.

- KONČAR Concern promotes a fair relationship towards everybody in respect of employment and occupation, regardless of gender, religion, race, national or ethnic origin, political affiliation, age, family status, personal characteristics, convictions and disability.
- Basic salaries of men and women throughout the categories of employees are identical.
- In managing human resources and making other relevant business decisions the principles of equality and standardised criteria are adhered to.





PRINCIPLE 7

BUSINESSES SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES.

- As an economically successful and socially responsible company, KONČAR pays particular attention to the protection of natural resources. KONČAR has the Environmental Management Policy in place and all employees are familiar with it. KONČAR manages all environmental aspects, reducing negative impacts of its operations and permanently improving the results achieved in environmental management.

PRINCIPLE 8

BUSINESSES SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY.

- Environmental protection policies and goals are being carried out through environmental management systems in place, their certification and permanent improvement of standards according to quality management system (ISO 9001), environmental management system (ISO 14001) and occupational health and safety management system (OHSAS 18001).
- KONČAR belongs to a group of manufacturers whose equipment successfully operates in diverse climate and natural environments, without adverse consequences on the environment, and it continuously works on developing products contributing to that end.

PRINCIPLE 9

BUSINESSES SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES.

- KONČAR seeks to apply the principle of energy efficiency wherever it is technologically and economically feasible. The initiatives to develop energy-efficient products include intelligent switchboard (ISB), air-conditioning - boiler device, combined boiler-containers and the concept of an intelligent house which includes the development of intelligent household energy consumption control system.
- We continuously invest in new technologies and develop new products in line with the principles of energy efficiency and use of renewable energy sources (wind power plants).

PRINCIPLE 10

BUSINESSES SHOULD WORK AGAINST CORRUPTION IN ALL FORMS, INCLUDING EXTORTION AND BRIBERY.

- KONČAR Concern treats corruption as an unacceptable practice, regardless of motivation, reason, method or the consequences of corruptive activities.
- All materially relevant contracts must be examined and approved by supervisory boards as stated in the companies' charters and articles of association.
- KONČAR neither makes any donations to political parties nor does it sponsor or make donations to any political activities in Croatia or abroad.



Report
according to **GRI 3**



› Summary of Key Impacts, Risks and Opportunities

Looking at the long-term, KONČAR Group strives towards building a high level of competitiveness and social responsibility in parallel. Key challenges facing the Company are also related to these processes. On one hand, KONČAR is going through necessary restructuring and adjustment to ever more demanding market conditions in order to achieve sustainable competitive advantage in high value added markets, on the basis of its own knowledge and technology. Complementary to this is the company's tradition which is based on high standards of investment in employees and developed relations with a broad range of community stakeholders. Building up and partial redefining of the stakeholders' relations is essential for the implementation of the Company's strategy. It requires pro active approach and investments in diverse segments and relations with various stakeholders, regularly exceeding minimum standards as defined by laws or Croatian practice. Knowledge-based companies depend on quality, permanent professional development and motivation of their employees, on stimulating organisational culture and the development of organisational competences for complex and innovative projects. High standards of environmental protection and management of processes related to environmental protection are prerequisites for market performance. Relations with the public sector in Croatia and abroad are characterised by transparency and legality, but also by advocating investments in energy and traffic infrastructure, with responsible spending of public funds. Finally, community investments confirm KONČAR's role as a 'corporate citizen' and reflect on the company's reputation. KONČAR has impacts and sees opportunities to meet stakeholders' legitimate expectations and to contribute to its own organisational development and competitiveness in each of the indicated areas. KONČAR has systems in place to monitor key economic, environmental and social processes and performances, which are also intended to minimise risks. The complex structure and distribution of responsibilities within the Group requires systematic monitoring of processes which take place at various levels and in various companies within the Group.

The current upward trend in terms of electric power equipment in the global market is also related to energy demand growth. KONČAR uses favourable market opportunities for restructuring the Concern and for strengthening its market position in electric power activities. However, one should bear in mind that these trends may have substantial ecological and economic limitations in the medium- and long-term. On the other hand, technological advancement creates new opportunities to save resources and develop new products. Therefore, KONČAR invests in new technologies, develops energy-efficient and renewable energy-based products, continuously strives to reduce adverse impacts on the environment and takes an active role in energy efficiency public outreach.

In line with that, the KONČAR's 2006-2010 Medium-term Development Plan has been defined; based on an evaluation of past experiences, market position, available resources and development possibilities. The plan provides for the continuation of KONČAR business policy of relying on internally developed products. The development of several significant products is either planned or underway, and will involve several companies in development and production (wind power plants, suburban and urban train, 1,435 mm tram, asynchronous induction-drive locomotive). It also includes development of other products with synergetic effects within the Group and a series of products of a particular importance for a specific company. There will be fewer investments in capacity expansion, and by investing in production, the product quality will increase and production time will be reduced. It is also planned to achieve sales growth in domestic market and exports by 10 per cent a year, as well as a slight increase in the number of employees.

1 The Company's profile

This report was prepared by the KONČAR Group. KONČAR - ELECTRICAL INDUSTRY Inc. is a parent company of the KONČAR Group consisting of 19 companies, in which the parent company exercises a prevalent management influence (more than 50 per cent of votes at General Assembly), and the parent company. The companies are divided in three business areas (Energy and Transport, Industry, and Trade) and there are two companies involved in development and services (the Institute for Electrical Engineering Inc. and Infrastructure and Services Ltd.). Apart from companies within the Concern, KONČAR Group also comprises one affiliated company, in which the parent company does not have majority management influence, and representative offices and companies abroad. The companies within the Group are legally independent entities, which are controlled, strategically guided and supported by the parent company through their supervisory boards. The companies operate under the name KONČAR to which they add their own (corporate) name. The head office of the Group's parent company (KONČAR - ELECTRICAL INDUSTRY Inc.) is in Zagreb, Fallerovo šetalište 22.



Figure 1 / KONČAR Organisational Structure

KONČAR Electrical industry

ENERGY AND TRANSPORT	INDUSTRY AND TRADE	DEVELOPMENT AND SERVICES
POWER PLANT AND ELECTRIC TRACTION ENGINEERING Inc.	SMALL ELECTRICAL MACHINES Inc.	INSTITUTE FOR ELECTRICAL ENGINEERING Inc.
GENERATORS AND MOTORS Inc.	CATERING EQUIPMENT Inc.	INFRASTRUCTURE AND SERVICES Ltd.
HIGH VOLTAGE SWITCHGEAR Inc.	TOOLS Inc.	
MEDIUM VOLTAGE APPARATUS Inc.	ELEVATORS AND SERVICES LTD.*	
SWITCHGEAR Inc.	HOUSEHOLD APPLIANCES Ltd.	
DISTRIBUTION AND SPECIAL TRANSFORMERS Inc.	LOW VOLTAGE SWITCHES AND CIRCUIT BREAKERS Ltd.	
INSTRUMENT TRANSFORMERS Inc.		ABROAD
ELECTRONICS AND INFORMATICS Inc.		SWITZERLAND
METAL STRUCTURES Inc.		CZECH REPUBLIC
ELECTRIC VEHICLES Inc.		GREECE
ENGINEERING FOR PLANT INSTALLATION & COMMISSIONING Inc.		BULGARIA
		REPRESENTATIVE OFFICES
		RUSSIAN FEDERATION
		BOSNIA AND HERZEGOVINA
		SERBIA

* Note: At the beginning of 2007 KONČAR Group sold 100% of its share in the company to ThyssenKrupp Elevator Cene and the Company has not been operating within the KONČAR Group since then.



› Ownership Structure

KONČAR - ELECTRICAL INDUSTRY Inc. is a joint-stock company with more than 3,000 domestic and foreign investors (funds, banks, natural persons from Croatia and abroad) who influence the Company's activities through the General Assembly and the Supervisory Board, which appoints the Management Board responsible for day-to-day management of the company.

Ten biggest KONČAR's shareholders own 80.56 per cent of shares. The largest stake (52.95 percent) belongs to the state, through three largest shareholders: Capital Fund (the custodian bank has been changed recently - Privredna Banka Zagreb (PBZ) has been replaced by Croatian Postal Bank), the Croatian Pension Insurance Institute and the Croatian Privatisation Fund. The year 2006 did not see any changes in the Company's share capital or any more substantial changes in the KONČAR - ELECTRICAL INDUSTRY Inc. ownership structure. The majority owner of KONČAR - ELECTRICAL INDUSTRY is the Government of the Republic of Croatia.

Table 1 / **Ownership Structure as at 31 December 2006**

Shareholder / Ownership share in %	2004	2005	2006
PBZ d.d. (Capital Fund Inc., closed-end investment fund)	17.38	28.78	28.78
CPII	15.28	15.28	15.28
Croatian Privatisation Fund	22.66	8.89	8.89
Dom Holding d.d.	9.72	7.54	7.54
Kristijan Floričić	5.39	5.39	5.39
PBZ d.d. (The Bank of New York as custodian)	-	4.05	4.32
PBZ d.d. (Collective Custodian Account)	-	3.40	5.14
Croatian Postal Bank (Victoria Fund)	-	1.88	1.59
Hypo-Alpe-Adria-Bank d.d.	n.a.	0.89	1.86
RBA d.d.	-	1.48	1.02
Siemens AG	1.29	1.29	-
Other Shareholders	n.a.	20.67	18.78
KONČAR Inc. (treasury shares)	0.46	0.46	1.41

At 31 December 2006 the Company held 35,511 treasury shares (1.41 per cent).

› Organisational Size Indicators

The year 2006 has seen the culmination of many years of positive business trends, which was reflected on the substantial growth of the KONČAR Group against all organisational size indicators - from total revenues, profit and assets to the number of employees.

Table 2 / **Basic Operating Indicators (in HRK 000)**

	2004	2005	2006
Operating revenues	1,705,542	2,031,019	2,672,806
Sales of products and services	1,613,423	1,838,097	2,552,964
Material costs - raw materials, services, goods	1,106,848	1,261,762	1,896,353
Staff costs	324,406	372,893	394,936
- wages and salaries	185,850	214,255	223,428
- taxes, social security and pension insurance	138,556	158,638	171,508
Profit before tax	23,804	36,036	84,773
Corporate profits tax	7,630	9,153	16,269
Profit	16,174	26,883	68,504
Minority interest	8,743	14,938	20,873
Net profits	7,431	11,945	47,631
Total assets	2,281,797	2,438,670	2,535,827
Total capital and reserves	1,045,485	1,040,558	1,080,405
Current assets	1,264,504	1,426,651	1,531,249
Current liabilities	740,939	856,340	930,748
Sales per employee	404	453	604

These results were achieved along with a growing number of employees. From the level of 3,992 employees in end-2004, the number of employees increased to 4,062 during 2005, and stood at 4,224 in end-2006.

› Core Business Activities

The core activities of the companies belonging to the Group include production of electrical equipment and plants for power generation, transmission and distribution; turnkey projects and equipment; designing solutions; manufacture and modernisation of electric vehicles (locomotives, trains and trams); solutions and equipment in information technology and communications; equipment and plants for industrial complexes and public facilities as well as the manufacture of household appliances.

The portion of Energy and Transport Business Area in the overall KONČAR's sales structure amounts to 80 per cent, indicating that the production programme of the KONČAR Group companies is for the most part oriented towards these activities. The production capacities of this key business segment are continuously expanded through investments in modern production technologies. It should be also mentioned that individual tailor-made products constitute the Concern's strategic orientation.

Companies belonging to the Group autonomously determine to what degree they will use outsourcing. Due to technological complexity of the products, on one hand, and accumulated knowledge and resources within the Group, on the other, a certain number of projects are realised within the Group itself and they involve more companies.

Main activities of the Group have been divided in three core areas:

- Energy and Transport
- Industry
- Trade



› Major Markets

In 2006 consolidated revenues from sales of products and services amounted to HRK 2.6 billion, which is a 38.9 per cent greater accumulation as compared to 2005. The largest sales growth (47 per cent) was generated in companies operating within Energy and Transport Business Area. The companies within the KONČAR Group generate the largest portion of their sales in the markets of Croatia (62 per cent), the European Union (15 per cent) and in the markets of the former Yugoslavia (10 per cent). In the surrounding countries, KONČAR has significant advantages over its competition due to a great number of facilities and equipment that have been delivered over the last 50 years and which, for their quality, represent the best reference both for getting new contracts and for reconstructing the existing facilities and equipment.

Table 3 / **Products and Services Sales Revenues by Business Area (in HRK 000)**

Business Area	2004	2005	2006
Energy and Transport	1,245,632	1,397,134	2,054,709
Trade	183,423	239,682	256,153
Industry	136,813	150,495	172,769
Special activities	47,555	50,786	69,333
Total	1,613,423	1,838,097	2,552,964

In the structure of total sales revenues, 61.7 per cent were generated in Croatia. In absolute figures it amounts to HRK 1.575 billion, as compared to HRK 1.122 billion in 2005. The single largest customer taking the greatest share in the overall domestic sales was ZET - Zagreb Electric Tram company (execution of the low-floor tramcar contract), which participated in the overall domestic sales with a 31 per cent stake (sales totalling HRK 505.8 million). HEP - Croatian Electricity Company was provided with a HRK 470 million worth of goods and services, the companies from the industry and shipbuilding industry fields with an amount of HRK 197.6 million, trading companies were delivered with HRK 202.8 million worth of products, the Croatian Motorways with HRK 45.3 million, the construction industry companies with HRK 48.2 million, whereas the remainder worth HRK 105 million pertains to the Croatian Railways, the state administration, local self-government units and public enterprises.

Table 4 / **Sales in Croatia (in HRK 000)**

	2004	2005	2006
ZET	56	116,924	505,762
HEP	431,566	492,066	469,967
Trade sector	162,815	177,918	202,873
Industry and Shipbuilding Industry	134,150	150,421	197,586
Construction Industry	18,705	47,692	48,248
Croatian motorways and roads companies (HAC and HC)	97,242	47,732	45,259
Other Public Enterprises	6,253	38,420	43,879
State administration and local self-government units	27,920	23,254	38,994
Croatian Railways	77,407	27,126	22,096
Total	956,114	1,121,553	1,574,664

During 2006, a total of HRK 978.3 million worth of goods and services were sold in the foreign markets, which accounts for 38.3 per cent of total revenues and shows a substantial growth as compared to the previous year (36.5 per cent). The exporting activities took place in about fifty countries all over the world. Since a large portion of contracts are project-based and depend both on customers' investment programmes and on public tender results, there are substantial variations in results achieved in individual markets in a particular year. Nevertheless, there is a noticeable general upward trend in export activities. As to regional breakdown of export countries, the EU countries are represented with 40 per cent, the surrounding countries (Bosnia and Herzegovina, Serbia, Montenegro, Slovenia and Macedonia) participate in exports with 30 per cent, Middle East with 7 per cent, and other countries with 23 per cent. Observed in total revenue terms, 18.4 per cent of revenues were generated in the EU countries, 11.6 per cent in the region, 3.6 per cent in other European countries, 2.1 per cent in Africa, 1.0 per cent in the USA and Australia, 0.3 per cent in Asia, and 2 per cent in the rest of the world.

Table 5 KONČAR's most significant export markets in 2006 (in HRK 000)

Export Market	2004	2005	2006
Serbia	66,004	97,571	169,990
Germany	44,699	57,907	79,507
Bosnia & Herzegovina	129,966	105,980	74,189
Sweden	19,881	35,034	59,512
Czech Republic	21,222	27,583	50,131
Slovenia	42,237	74,291	41,566
U.A.E.	13,804	5,924	34,386
Costa Rica	n.a.	7,583	30,913
Albania	8,041	25,998	28,916
Saudi Arabia	37,367	17,953	28,008
Austria	13,773	17,134	26,008
Finland	11,620	31,005	25,859
Iceland	2,394	4,231	24,246
Hungary	20,690	16,457	21,587
Poland	3,150	9,949	18,080
Other countries	222,461	181,944	265,402
TOTAL	657,309	716,544	978,300



› Awards

During 2006 KONČAR received several awards for innovative products based on its own research and development activities, which provide new technological solutions.

CERN - The CMS Gold Award of the Year 2006

- KONČAR - Engineering for Plant Installation & Commissioning Inc. for manufacture and installation of a 20kA busbar system for power supply of supra-conducting magnet

Hrvoje Požar Foundation Award for Innovation in the area of power generation, transmission and distribution

- The award for innovation in the area of power generation, transmission and distribution went to the system called 'KONČAR TMS – Transformer Monitoring System'.

International Exhibition of Innovations, New Ideas, Products and Technologies 'ARCA 2006'

- The Great Award for four segments of the low-floor tram: capacitor bank, main electric motor drive, central DIRT/TMK 2200 computer and auxiliary power supply converter

55th EUREKA - World Exhibition of Innovations, Researches and New Technologies, Brussels

- The Golden Medal for the central DIRT/TMK 220 computer (the tramcar main control device)
- Silver medals for the capacitor bank and the main electric motor drive
- Diploma for auxiliary power supply converter
- The low-floor tramcar or particularly its central DIRT/TMK 2200 computer also received one of the special awards - The Cup of the Ministry of Economy, Science, Innovations and Exports of the Flemish Government in the Kingdom of Belgium.

'INVENTIKA 2006', Bucharest

- The Golden Medal with special jury's acknowledgment for the main electric motor drive of the low-floor tramcar
- Silver medals for the capacitor bank, central DIRT/TMK 2200 computer and auxiliary power supply converter



2 Governance, commitments, and engagement

› Governance

KONČAR - ELECTRICAL INDUSTRY Inc. is a parent company of the KONČAR Group which comprises 19 companies in which the parent company exercises a dominant management influence (more than 50 per cent of votes at the General Assembly). It also comprises one affiliated company, in which the parent company does not have dominant management influence, and representative offices abroad. The parent company's core activity is to manage the work of subsidiary companies through their respective supervisory boards in compliance with the Companies Act, the Charter of KONČAR - ELECTRICAL INDUSTRY Inc. and subsidiary companies' Charters. In addition, the parent company manages a portion of assets which have not been invested in the companies, but serves, directly or indirectly, as financial support for the marketing of related companies' products and equipment as a credit guarantee potential. A monthly fee is paid to the parent company for using the company's name, trademark and expenses in joint marketing activities, according to the decisions made by the assemblies of each individual company within the Concern.

The Company's Management Board consists of Darinko Bago (Chairman of the Management Board) and the Board members, including Marina Kralj (Legal Affairs and HR), Jozo Miloloža (Financial Affairs), Davor Mladina (Business Area Industry and Trade), Božidar Piller (Business Area Energy and Transport) and Vladimir Plečko (Corporate Development and ICT).

Pursuant to the Companies Act and the Charter of KONČAR - ELECTRICAL INDUSTRY Inc., the General Assembly makes decisions on election and recall of the members of the Company's Supervisory Board. The Supervisory Board consists of nine members and is composed as follows: Ante Babić (Chairman), Željko Tomšić (Deputy Chairman), and Đuro Perica, Kristijan Floričić, Georg Eltz Vukovarski, Jasminka Belačić, Ivan Rujnić, Miroslav Kovačić and Zdenka Matković (members). Pursuant to legal powers as defined by the Companies Act, the Company Charter and the Procedural Rules of the Supervisory Board of KONČAR - ELECTRICAL INDUSTRY Inc., the Supervisory Board oversees the Company's activities. The Supervisory Board sessions are held at least four times a year (and more often as the need arises) in which the Supervisory Board members, in cooperation with the Company's Management Board, discuss the Company's business strategy and plan. The Supervisory Board acts exclusively as a unitary governance and oversight body. So far no subcommittees (commissions) with special responsibilities have been defined. The establishment of the Audit Subcommittee, which would additionally strengthen the oversight function, is currently under consideration.

KONČAR - ELECTRICAL INDUSTRY Inc. (parent company) is the sole owner of 12 subsidiaries, whereas in seven of the companies there are mixed ownership structures. The subsidiary companies are managed by their respective directors or Management Boards.



Each company has its own Supervisory Board (comprised of three to five members) which oversees the company's business activities and represents the owners. KONČAR - ELECTRICAL INDUSTRY Inc. is represented in those Supervisory Boards by members of the Management Board or by representatives appointed by the Management Board. Pursuant to the Companies Act and the Labour Act, representatives of employees are also included in the work of Supervisory Boards in six companies and in the Supervisory Board of KONČAR - ELECTRICAL INDUSTRY Inc.

The Supervisory Board members, who are either shareholders in their own right or shareholders' representatives, can provide their recommendation in a regular way, within the Supervisory Board regular work. The representative of the Minority Shareholders' Organisation (founded in 2000), which brings together 58 minority shareholders, is also included in the work of the Supervisory Board. According to the Labour Act, employees also have their representative in the Supervisory Board. Shareholders' general influence on governance processes has been defined by the Companies Act. The General Assembly must be convened if required so in writing by shareholders who hold stakes amounting to one twentieth of Company's registered capital and if the purpose and reason for convening the Assembly are stated. Proposals of shareholders must be communicated should a shareholder, within a week after the publication of an announcement on convening the General Assembly in Company's newsletter, refer to the Company a well substantiated proposal and announce that he/she wishes to appear during the General Assembly session to challenge a proposal put forward by Management Board and the Supervisory Board and to win other shareholders over to vote for his/her proposal. During the sessions of their their presidency and the general shareholders' meeting, the Minority Shareholders' Organisation analyse achieved KONČAR's business results and provide guidelines to the Organisation's authorised representative on how to vote at the General Assembly of KONČAR - ELECTRICAL INDUSTRY Inc.

Compensations for the Supervisory Board members are fixed and do not depend on their attendance at the sessions.

The Supervisory Board members and members of their immediate families are not in any business relationship with the KONČAR Group or with any of the companies within the Group. The only exception refers to the Supervisory Board members who are also KONČAR employees.

The qualifications and expertise of the Supervisory Board members for guiding the organisation's strategy on economic, environmental and social topics are not assessed in any special way. However, the Supervisory Board members are expected to demonstrate the knowledge and competences required to identify the risks and opportunities arising from KONČAR's business activities and its surrounding (including the issues associated with corporate social responsibility). For that purpose, additional professional development of the Supervisory Board members is provided. It is necessary to further improve the Supervisory Board procedures for overseeing the organisation's management of economic, environmental and social performance, including relevant risks and opportunities, and adherence to or compliance with internationally agreed standards, codes of conduct, and principles.

› Economic, environmental, and social charters, principles, and standards to which the organization subscribes or endorses

On 12 September 2005 KONČAR - ELECTRICAL INDUSTRY Inc. signed the Statement on the Acceptance of the Code of Business Ethics, which was confirmed by the Assembly of the Croatian Chamber of Commerce in May 2005. KONČAR - ELECTRICAL INDUSTRY Inc. applies the Code of Business Ethics in all business activities. However, it is necessary to work more on communicating the Code's provisions to the KONČAR Group employees and business partners. Most of the companies within the KONČAR Group have certified management systems in place to manage quality, environment, occupational health and safety: 19 ISO 9001 certificates, 16 ISO 14001 certificates, and 2 OHSAS 18001 certificates.



	ISO 9001	ISO 14001	OHSAS 18001
KONČAR - ELECTRICAL INDUSTRY			
KONČAR - Tools			
KONČAR - Distribution and Special Transformers			
KONČAR - Elevators and Services			
KONČAR - Electric Vehicles			
KONČAR - Medium Voltage Apparatus			
KONČAR - High Voltage Switchgear			
KONČAR - Electronics and Informatics			
KONČAR - Infrastructure and Services			
KONČAR - Generators and Motors			
KONČAR - Institute for Electrical Engineering			
KONČAR - Power Plant and Electric Traction Engineering			
KONČAR - Household Appliances			
KONČAR - Small Electrical Machines			
KONČAR - Metal Structures			
KONČAR - Instrument Transformers			
KONČAR - Engineering for Plant Installation & Commissioning			
KONČAR - Low Voltage Switches and Circuit Breakers			
KONČAR - Switchgear			
KONČAR - Catering Equipment			
KONČAR - Power Transformers			

Figure 2 / Certificates in the KONČAR Group



› Membership in associations and industry organisations

KONČAR - ELECTRICAL INDUSTRY Inc. is one of the founders of the Croatian Exporters Association, an organisation which promotes and advocates the interests of Croatian exports. The Chairman of the Management Board of KONČAR - ELECTRICAL INDUSTRY Inc. Darinko Bago is the chairman of the above mentioned organisation. Due to growing importance of export markets for the KONČAR Group, the membership in the organisation is seen in a strategic way - it is primarily seen as a contribution towards improving conditions and competitiveness of Croatian companies in foreign markets, and thereby as an incentive to KONČAR's export strategy. KONČAR - ELECTRICAL INDUSTRY Inc. also actively takes part in the work of the Croatian Chamber of Commerce.

As a group, an individual company or an individual, KONČAR is a member of the following organisations in Croatia and abroad: CIGRE (International Council on Large Electric Systems), IEEE (Institute of Electrical and Electronics Engineers), the Croatian Union of Innovators, the Croatian Academy of Engineering (HATZ), MIPRO (Croatian Association for Information and Communication Technology, Electronics and Microelectronics), the Croatian Institute for Norms, the Nature and Environmental Experts Association, the Croatian Association of Infra-red Thermography, the International Institute of Welding, and the Croatian Society for Quality.



As a result of these memberships, every year KONČAR experts participate at industry conferences held in Croatia and abroad, where they present their work, solutions and KONČAR products. Also, through sponsorships and active involvement in preparation and organisation of conferences taking place in Croatia, KONČAR directly contributes to the work of industry organisations, perceiving them as relevant venues for promoting its own know-how and for exchanging experiences with other experts.



› Stakeholder Engagement

Given the Group's production programme and business strategy, most companies are oriented to business market and/or public sector in Croatia and abroad, and to a smaller extent to the market of individual end users. Predominated by the public sector, similar influence is also reflected in the ownership structure. In addition, the Group companies often operate within the framework of project specific consortiums, which can additionally reduce the directness of an individual company's contact with a customer and/or community. Thus, apart from customers, the following groups can be identified as key stakeholders: employees (including trade unions in which they are organised); suppliers and the public sector (in its dual role as a product buyer and as a regulator of terms of business). Key stakeholders have been identified through analyses of business processes as well as opportunities and risks arising from relationships with each stakeholder group. There is a continuous communication with key stakeholders through joint meetings, and efforts are made to acknowledge their legitimate interests in our business activities. In addition, we also engage with a broader circle of civil society organisations and individuals in the context of activities related to corporate social responsibility. In case of employees and directly interested partners, there is a monthly newsletter 'Končarevac', as the main communication and information tool, printed in 4300 copies and distributed in all the KONČAR companies, to business partners, community members and all those interested in KONČAR's events. There is also the Intranet for users in all companies, which provides information on all relevant events, decisions and documents. Web pages (at <http://www.koncar.hr/>) have been recognized as an important tool for communication with partners in Croatia and abroad, but also with the general public. Therefore, this type of communication has been given particular attention in order to provide information that is timely, accurate, and adequate to the medium used. Keeping in line with market orientation and needs, the web page is accessible in three languages (Croatian, English and Russian). In 2006, a total of 60,563 visitors to the web page were registered, with 80,028 visits. We also received 269 Internet-based emails with various questions, suggestions and comments.



Apart from the web site <http://www.koncar.hr/>, other companies have their own web pages which contain links to KONČAR web page.

As a part of the report preparation process, we have had extensive consultations with the representatives of the Metalworkers' Trade Union of Croatia, which is a part of the Union of Autonomous Trade Unions of Croatia, the largest trade union confederation in the country. Besides, there is a regular practice to organise workers' meetings in Group's companies twice a year, in order to provide employees with all relevant information concerning the company's

business activities and plans. Key topics that were raised through stakeholder communication include future development of the company and job security, employee professional development, method and dynamics of privatisation of the parent company and subsidiaries or affiliated companies, and how to meet growing market, ecological and regulatory standards required for ensuring the market performance (especially on foreign markets). As it would be useful to take a more systematic and more interactive approach to key stakeholders' engagement, the Company will consider expanding the range of stakeholders to consult with, as well as introducing certain formalised methods of stakeholder communication, such as surveys on organisational climate and employee satisfaction.



3 Management approach and performance indicators

› Economic Dimension

Traditionally, KONČAR has had a role of one of the key business entities in Croatia's production sector. It is not just because of its size, but also because of its presence in foreign markets, technological potential and multiplying effects on other enterprises, stakeholders and society at large. Despite major changes that had occurred in its surroundings and organisation, KONČAR managed to maintain its stability during the transitioning period and strengthen its market position in recent years. The Company's future development is based on investments in new technologies, development of new products and the most intensive possible presence in foreign markets. In addition, a permanent development of management systems is needed to ensure optimal management of resources and timely identification and response to risks and opportunities in the organisation and its surroundings. This will create preconditions for growth in revenues and profitability, and will also prepare the Concern to bring privatisation to its completion. Restructuring of KONČAR is being implemented gradually, under conditions of growing revenues and profitability, which helps facilitate the processes of organisational transformation. Further privatisation and restructuring will open new possibilities, but, at the same time, it will make the imperatives to conduct the most effective possible business activities even stronger, for which the prerequisites are now being created. Corporate social responsibility is associated with donations and other forms of community investments which also depend on resources available. In the future, the Company will consider systematising the process of allocation of donations in order to strengthen transparency and linkages with the business strategy wherever possible.

› Economic Performance Indicators

Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and dues to the government.

Table 6 / **Economic Value Generated and Distributed (EVG&D)**

	2004	2005	2006
Revenues from sales of products and services (in HRK 000)	1,613,423	1,838,097	2,552,964
Material costs - raw materials, service expenses, cost of sales (in HRK 000)	1,106,848	1,261,762	1,896,353
Gross salaries (in HRK 000)	324,406	350,277	394,936
Interest payments (in HRK 000)	11,261	14,159	16,405
Dividend payment (in HRK 000)	5,011	-	-
Corporate profits tax (in HRK 000)	7,630	9,153	16,269
Donations and sponsorships (in HRK)	1,075,801	1,101,257	1,140,097

The consolidated revenues from sales of products and services in 2006 amounted to HRK 2.6 billion, a 38.9 per cent increase as compared to 2005. The largest sales growth (47 per cent) was achieved in companies operating within Energy and Transport Business Area.

The costs of raw materials and services in 2006 grew in line with the increased production volume, but also as a result of a significant increase in the price of basic raw materials used in production (especially copper and sheet metal).

Gross salaries paid in 2006 amounted to HRK 394.9 million, which represents a 13 per cent increase as compared to 2005, resulting from an increase in the number of employees (162 workers or 4 per cent more than in 2005), change of qualification structure, and the increased number of overtime hours due to a larger production volume.



Interest payments on loans received in 2006 amounted to HRK 16.4 million, which is by HRK 2.2 million or 15.8 per cent more as compared to 2005. Pursuant to the General Assembly decision of 18 May 2007, the parent company's profit for 2006 is distributed in legal, statutory and other reserves.

All KONČAR Group companies operate in the Republic of Croatia and the total amount of corporate profits tax paid refers to the tax paid in Croatia. In 2006 there was a substantial rise in tax due as a result of the increase in gross profits generated in the reporting period. Although only one company within the Group generated loss in 2006, some companies had tax losses that were carried forward from previous years and did not have to pay any corporate profits tax.

› Donations and other Community Investments

In 2006, a total of HRK 1,140,097 was allocated to donations and sponsorships, out of which HRK 229,401.99 was allocated into culture, heritage and art; HRK 412,123 into sports and recreation; HRK 161,500 into social-humanitarian activities; and HRK 199,666.50 into sponsorships of various industry gatherings and conferences. Apart from that, a total of HRK 152,490.63 worth of Company's products was donated (mostly computers and household appliances).



Financially and through other forms of assistance and cooperation, KONČAR supports many activities related to culture, sports, education, science and other segments of societal life. In particular, it supports activities and programmes designed for young people in education, sports and leisure time. Humanitarian assistance, as a form of solidarity with and support to the really needy ones, also has an important place. In culture, donations are primarily intended for young artists and authors from all fields, amateur groups and events as well as for professional ensembles and groups for certain programmes which are partially funded from sponsorships. Allocation of funds to sport and recreational activities aims at supporting less commercialised sports, smaller sport clubs, clubs bearing KONČAR's name, and especially children and youth organisations and competitions. As a socially responsible company, KONČAR has also been involved in many actions of a broader community significance and interest in the field of conservation of natural and cultural heritage and other natural and historical values.

One of the most significant donations was made at the occasion of celebrating the 85th anniversary of KONČAR. Internally produced Beti PCs were donated to the Centre for Education Dubrava, for their IT classroom, as a contribution to IT education of children and young people with special needs. The Centre was founded in 1966, and it is still the only institution in Croatia where children and young people with serious physical disabilities and multiple impairments can enjoy adequate conditions to acquire their secondary education based on regular and special curricula, and to be included in a whole range of rehabilitation programmes at the same time. Every year about 190 students attend the Centre's school, whereas about 40 beneficiaries are included in occupational activities.

For many years KONČAR has been sponsoring the Young Innovators' Organisation 'KONČAR - Idea', which was founded at Zagreb Technical School in Konavoska 2. Students attending this school are enabled to come into working visits to shop-floors, and many of them are recruited to study for professions which are, to a large extent, employed by the KONČAR Group. Young innovators successfully participate at national and international exhibitions of innovations and are often awarded for their innovations.



› Support to Specific Groups

Some specific groups, such as retired people, war veterans, workers active sports or are engaged in cultural or other similar activities, have enjoyed a special support from KONČAR. All through the year numerous activities were supported and organised in order to create the highest possible quality of life outside working hours, according to the interests of employees, their families, retired employees, business partners and associates.

› KONČAR Retired Persons Club

The Club was founded on 7 October 2000, and currently has 268 members. In addition to regular gatherings for companionship on the club premises (supplied with the library and reading-room, a computer, a TV, party games, etc.), various special activities are organised such as recreational and sport activities, excursions, and cultural and social programmes. The members of the Commission for Social Welfare Issues pay regular visits to sick members, whereas material support is provided to the families of deceased Club members. The Club provides space for blood donations and for other meetings of KONČAR people and trade union members. There is a special interest in excursions which are organised about ten times a year. Funds for programmes are mostly secured from donations by KONČAR - ELECTRICAL INDUSTRY Inc., and to a lesser extent from donations by other KONČAR Concern companies.



› War veterans and their families

In every year's early December, there is a traditional gathering of the members of the KONČAR defence unit. The unit was organised in Fallerovo šetalište at the time of aggression on Croatia in 1991. The unit members gather at the memorial monument erected in the memory of twenty-two workers killed in Homeland War. Apart from the annual gathering, various other activities are also organised such as taking care of the children and families of the killed defenders.

› Sports clubs bearing the name KONČAR

Investments in sports and recreation focus on activities and sports in which contestants achieve significant results, but which are not commercialized i.e. have lesser chance to attract sponsors who are exclusively guided by market criteria. Sport clubs with which long-term cooperation has been achieved and which bear the name KONČAR play a special role.

› Shooting Club KONČAR Zagreb 1786

Shooting club 'KONČAR Zagreb 1786' is a club that has received most trophies in Croatia. It has been active since 1948, and it has had its current name since 1993, as a result of many years of successful cooperation with KONČAR. Since then, its members have won about 20 per cent of all medals in Croatian championships, 67 medals in world and European championships, Mediterranean and military games. The central shooting event of 2006 was the 49th World Shooting Championship that was held in Zagreb. In the largest competition ever held in Croatia, there were more than 3000 participants from 107 federations from around the world. The participation of six contestants from the Shooting Club 'KONČAR Zagreb 1789' also marked the 220th anniversary of organised shooting sport.





› Ski Club KONČAR

Ski Club KONČAR has been active for 50 years and has brought together a larger number of excellent skiers, ski coaches and enthusiasts. The season 2006/2007 saw again the winning of the second place in the Gorenje Cup, thus maintaining the position of the best Zagreb club. The club has had four champions and three vice-champions of Croatia. Today, the Ski Club brings together numerous skiing enthusiasts and best Croatian ski competitors in the youngest age categories. Their efforts build the future of Croatian skiing and lead the club to the position of the second best in Croatia.

› Canoe Club KONČAR

Canoe Club KONČAR was founded in 1951. Last year, its members won the team-canoeing bronze medal in the White Water World Championship, as well as five medals in the same discipline at the World Cup. The club was involved in the organisation of the European Junior Championship in Bihać, and three kayak camps and schools (SRC Jarun, the island of Obonjan, Donja Dubrava). At the Executive Committee Meeting of the International Kayak Federation, Tomislav Crnković, the coach of the Croatian national team was elected a member of the White Water Committee. Crnković was a two-time senior world champion, and now he is one of world's best white water coaches.



› Chess Club KONČAR

The Chess Club KONČAR was registered in Zagreb in 1949. It is the oldest sports club which bears KONČAR name and it still takes an active part in sporting life. Active chess competitors play within the 4th Chess League 'Centre A', but they also participate in other chess tournaments. The club has some fifty members, including 17 chess players registered with the Croatian Chess Federation, whereas other members are chess enthusiasts who frequent the club to play friendly matches.

› Financial implications and other risks due to climate change.

Since the Concern is particularly engaged in the sector of energy infrastructure, sustainability issues associated with energy sources, electrical power generation, transmission and distribution, as well as climate change, will surely reflect on the future KONČAR activities. So far the financial implications due to climate change have not been estimated. The challenges particularly refer to continuous changes in the technology of energy generation, transmission and distribution, due to the



necessity of continuous improvement in energy efficiency and use of renewable energy sources wherever possible and economically justified. KONČAR addresses these challenges by investing in new technologies, developing and marketing new energy-efficient and renewable energy based products (for example, wind power plant project) and products with reduced energy losses. It also includes savings through material use, constant efforts to minimise harmful environmental impacts, as well as providing services to interested citizens, companies and institutions concerning energy infrastructure surveys and studies; design, execution and maintenance of more energy efficient systems. The latter is carried out as a part of the Energy Efficiency Stimulation Project.

› Government financial assistance.

In 2006 the KONČAR Group did not receive any significant financial assistance from the Government or any central government institution. The contracts with public enterprises (or other representatives of the public sector), concerning the delivery of goods and/or services, were obtained in compliance with law, through public tenders, without any elements of government grants or subsidies.

› Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.

In export markets, salaries are competitive, and in case of the developing countries, they are usually higher than local salaries. In each individual country and market, all applicable legislation and regulations are complied with.



› Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.

Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.

Business activities are predominantly conducted in Croatia, whereas the presence in foreign markets is realised in the form of export of equipment and/or engagement in complex infrastructure projects at different locations. As a result, the proportion of locally-based suppliers and workforce is small, and can be increased only through more intensive presence in key export markets, especially in neighbouring countries, which are already considerably represented in the structure of exports.

4 Indirect economic impacts

With its professional and efficient implementation of projects for the public sector clients in Croatia and abroad, the KONČAR Group indirectly influences the quality of infrastructure and public services. Worth highlighting here are the projects related to power plant engineering (power generation, transmission and distribution plants) and public transportation (railway and trams). The development of the wind power plant project contributes to the use of renewable energy sources, which has broader community significance.

› Environmental Dimension

Environmental management is given particular attention across the Concern. KONČAR has defined its Environmental Management Policy which is publicly available at web page <http://www.koncar.hr/> (under 'Social responsibility' and 'Sustainable development'), and all the employees are familiar with it. KONČAR manages all environmental aspects, minimising negative impacts of its activities. Additionally, KONČAR works constantly towards improving the environmental management results, fully complying with the Croatian legislation and regulations and applying the internationally agreed standards. To that end, all the necessary organisational and financial resources, including expertise have been provided. Two most senior positions with operational responsibility for environmental aspects include the member of Management Board in charge of legal affairs and human resources, and the manager of Infrastructure and Services Ltd., a company that systematically caters for all infrastructure installations on the locations and creates synergetic effects.



GENERAL ENVIRONMENTAL MANAGEMENT GOALS INCLUDE:

ENVIRONMENTAL PERFORMANCE INDICATORS

Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.

The renewable energy based products include the development of wind power plant project. Efforts are made to apply the principle of energy efficiency wherever technologically and economically feasible. Within the initiatives concerning energy-efficient products, the following products were developed: the intelligent switchboard - IRP (in collaboration with the Faculty of Electrical Engineering and Computing), the air-conditioning - boiler device, and combined boilers-containers.

› Energy Efficiency Corner

Following the current trends in natural resources conservation and energy-efficiency, in September 2006 KONČAR opened an energy counselling centre called 'Energy Efficiency Corner' in KONČAR showroom in Zagreb. It was opened as a part of the project which promotes energy efficiency in Croatia and is implemented by the Ministry of Economy, Labour and Entrepreneurship and the UN Development Programme (UNDP). The goal of the project is to promote measures aimed at improving energy efficiency in housing and service sectors, and to stimulate the development of a viable market for the products and services intended for energy efficiency. The



opening of the Corner also launched a broader promotional campaign aimed at informing and educating Croatian citizens. At a single location, the Corner enables the citizens to find out how to save energy by installing and using energy-efficient systems, products and materials while living a more comfortable life. The aim of the EE Corner is to make a first hand presentation for the benefit of the citizens of the most recent energy-efficient systems, products and materials available in Croatia. The purpose is to inform them of the energy efficiency basics to help them pay attention to those systems, products and materials meeting the criteria while making a purchase. It was also an opportunity to present the project of the so called intelligent house. It is a concept which includes the development of an intelligent household energy spending control system, developed by KONČAR - Household Appliances Ltd. in collaboration with the Faculty of Electrical Engineering and Computing in Zagreb, supported by the UNDP energy efficiency promotion project office.



BIODIVERSITY

None of the land owned, leased or managed by the KONČAR Group is located in, or adjacent to, protected areas and areas of high biodiversity outside the protected areas.

The construction of power facilities is an activity that might contain risks associated with environmental protection and, particularly, with biodiversity. Decisions concerning the position and construction of facilities are made by investors who are obligated to comply with the relevant environmental protection regulations and standards. When an investor invites tenders for the purchase of equipment, KONČAR appears as a potential supplier of equipment. The products and equipment delivered by KONČAR meet the highest safety standards, with minimum impact on the environment. So far, no complaints have been made and no incidents have occurred in that area.

PRODUCTS AND SERVICES

Efforts to reduce environmental impacts of products are made as a part of KONČAR's research and product development activities, by using more advanced technologies that are energy efficient, require lower consumption of resources, have lower emissions of harmful substances and generally have a lesser impact on the environment when in use. The extent of impact mitigation has not been analysed so far.

Most of the KONČAR Group's products are specific: they are either unique or small series products installed in facilities (power equipment, plants, switchgear, and similar) and/or put into operation after having been developed and tested (for example, trams, hydropower plants and substations). As a rule, clients belong to public or business markets, and rarely involve end consumers (although there are exceptions here, too - for example, household appliances, computers and similar). Due to the products specificities, this indicator cannot be monitored in this way. Most of the products run in trial and warranty periods. After putting the equipment into operation, it is being monitored, made compatible with other equipment and potentially corrected, coupled with the elimination of potential faults or incompatibilities.



COMPLIANCE WITH ENVIRONMENTAL REGULATIONS

No significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations have been recorded.

5 General indicators

The social dimension of sustainability concerns the impacts an organisation has on the social systems within which it operates. In this report, it has been divided in the following segments: labour practices, decent work and human rights; society; and product responsibility.

› Labour Practices, Decent Work and Human Rights

An important determinant of KONČAR's strategy is the orientation of the Group's development towards building a knowledge-based company based on knowledge, excellence of human resources and the overall intellectual capital. Due to increasing demands for competitiveness, employees' professional development and efficient management of human resources are among the organisation's top priorities. In defining labour practices and internal organisation, the KONČAR Group's companies adhere to the effective legal provisions, collective agreements and individual contracts and protect human and civil rights, dignity and reputation of each employee. Discrimination or harassment of employees on grounds of gender, race, religion, national extraction or ethnic origin, political affiliation, disabilities, age, family status, personal characteristics or convictions is not allowed. KONČAR provides safe working conditions, which implies minimising the risks related to occupational safety and health and providing adequate training and insurance against the consequences of such risks as appropriate. The freedom of association and collective bargaining is not limited, and the rights as defined in the Collective Agreement



extend beyond the rights provided for by law and the industry's average. In case of violation of legal or contractual rights, an employee or an associate are entitled to demand the resolution of the problem and protection of their rights. At hiring or in the course of performing their tasks, people with special needs, permanent or temporary, are treated equally, whereas their special needs are acknowledged. The person most responsible for labour practices is the member of the KONČAR - ELECTRICAL INDUSTRY Inc. Management Board in charge of legal affairs and human resources.

› Employment and Employee Structure

On the basis of the National Classification of Occupation, the KONČAR Concern has set its standard classification of occupation to fit KONČAR's needs. Adopted in 2004, the classification equally applies to all companies of the KONČAR Concern and totals 750 occupational profiles.



In late 2006, the KONČAR Group had a total of 4,224 workers, a number by 162 workers or 4 per cent more as compared to 2005. Out of the total number of employees, about 5 per cent of contracts (on average per year) are fixed term or temporary contracts, whereas the rest refers to indefinite or permanent contracts. In 2006 the employee qualification structure also improved. Out of the total number of KONČAR employees, seven employees hold PhD/ScD, 53 employees hold MBA/MSc, 652 employees have a university degree (BSc and other), and 364 employees have a college degree. An average employee age in 2006 was 43 years, which is the same age average as recorded in 2004 and 2005.

Representative offices in Belgrade (Serbia) and Mostar (Bosnia & Herzegovina) employ two permanent staff each. Local workforce is also employed on temporary basis on construction sites according to the needs imposed by larger-scale projects in distant areas.

There are no precise data on employee turnover rate. However, the recent trends in workforce have indicated that labour influx mostly concerns a new employment of younger workers with university education background, whereas workers terminate employment mostly due to retirement or smaller-scale restructuring interventions in certain companies.

The prevalent type of employment in KONČAR is a full-time employment for an indeterminate period. While under contract, employees with fixed term or temporary contracts enjoy the same rights as those with indefinite employment contracts, in line with the effective collective agreement.

› Collective Agreements and Employee Rights

The first collective agreement was stipulated in 1996 with the Metalworkers' Trade Union of Croatia and it has been applied to all employees. The Collective Agreement has undergone several revisions. The last amendments to the Collective Agreement were adopted in October 2004.

Information regarding significant operational changes is provided in compliance with the Labour Act; notice periods range between 7 days and 3 months and are not specifically spelled out in the Collective Agreement. Information regarding significant operational changes is provided to the workers' council and, in case the workers' council has not been established in a company, information is provided to the trade union commissioner. Also, workers' meetings are usually held twice a year in the Concern's companies, where all relevant information concerning company's operations and plans is provided.

› Occupational Health and Safety

Pursuant to the Law on Occupational Safety, all companies have a number of employees qualified to administer first aid. Every 50th employee is qualified to administer first aid. Given a well organised occupational safety and protection system in place, which is also shown by a low rate of injuries and cases of professional incapacity, no need to further extend counselling, prevention and risk-control programmes has been recorded. In addition, the Collective Agreement and subsidiaries' regulations provide for financial assistance in case of serious disease and death of an immediate family member.



Health and safety issues are not covered by the Collective Agreement. In line with the positive legal regulations, most subsidiaries have an occupational safety committee which also includes a contracted occupational physician. As a rule, all the issues related to workers' health and their ability to perform assigned tasks are addressed through this committee in cooperation with the occupational physician.

› Training and Education

As circumstances require, there is an upward trend in the number of employees who take part in various forms of education and training. Simultaneously, the overall and average investments in education are also stepping up. The current monitoring system does not allow for calculation of the average number of hours of training per employee by employee category.

Table 7 / **Employee education by type**

Number of employees	2004	2005	2006
Postgraduate studies	53	23	33
Foreign languages	167	180	168
IT skills	434	440	460
Seminars and lectures	1,907	1,900	1,920

There is an upward trend in the overall and average investments in employee education.

› Lifelong Learning Programmes

The KONČAR Concern systematically cares for the professional development of its employees, from the day when they start their employment onwards. Companies employing trainees starting their first job after having graduated from school gradually introduce them into their work assignments through on-the-job assistance. Several times a year KONČAR - ELECTRICAL INDUSTRY Inc. organises special orientation seminars for all KONČAR trainees. In 2006 two seminars were held including 70 trainees from 14 subsidiaries. In addition to basic orientation to the organisation, overall production programme, references, market activities and promotion, social responsibility and other activities taking place in KONČAR, the trainees visited factories located in Jankomir, Borongaj, Sesvetski Kraljevac and Fallerovo and became acquainted with their production processes.

Foreign language courses are organised according to the needs arising from specific job requirements. Because of that, it is not rare that in addition to usual world languages, other languages are also learned to cater for KONČAR's needs in particular markets and projects executed in those countries.

IT training and skill development is mainly organised internally within KONČAR using both standard and customised methods and courses, as necessary. Specialized seminars organised externally mainly serve as vehicles for acquiring specialist knowledge.



About 60 workers with higher educational background are currently undergoing their postgraduate studies to obtain their master's or doctoral degrees.

There is a developed cooperation with universities, especially with the Faculty of Electrical Engineering and Computing, the Technical College, the Faculty of Economics & Business, the Law School, etc. Apart from KONČAR's employees who take part in educational process, lecturers for particular undergraduate, specialist and postgraduate courses are also recruited from KONČAR.



In cooperation with the faculties and business schools, special professional development programmes are also organised. "The Basics of Business Management" programme was organised in cooperation with the Faculty of Economics and Business in Zagreb for younger experts from subsidiaries. The programme consists of ten modules covering topics related with economic and political environments, companies' business activities, international law, specific characteristics of business dealings with the EU, business organisation, and others.

The needs for expert and specialist education are addressed either by organising seminars internally in KONČAR or by sending KONČAR experts to attend seminars, conferences, specialisation programmes and training events in Croatia and abroad.

› Percentage of employees undergoing regular performance and career development reviews

Performance and career development of 90 per cent of KONČAR staff is regularly monitored.

› Diversity and Equal Opportunity

Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.

As at 31st December 2006 the Management Board of the parent company (KONČAR - ELECTRICAL INDUSTRY Inc.) was comprised of five men and one woman, whereas in Management Boards of the Concern's companies there were 36 men and no women.

› Basic men-to-women salary ratio by employee category

Basic salaries of men and women in all employee categories are identical.

› Social events and recreation

KONČAR supports the activities of its employees and their guests to meet socially through sports activities. In addition to regular recreational activities, several sports events have become traditional - they take place regularly and attract an increasing number of participants.

Indoor Football

The 2006 Christmas Indoor Football Tournament was the sixth tournament of the kind. The tournament became so popular that it brought together more participants from the KONČAR Group than any other event in the Company's recent sport history. In addition to the category of seniors, the 2006 tournament also included the veterans. 26 teams signed up - 10 in the veteran category and 16 in the senior category.

Tennis

The Fifth Tennis Tournament 'KONČAR 06', organised by the KONČAR Coordination of Metalworkers' Trade Union of Croatia, was held in early September 2006. This open tennis tournament of mixed doubles provided a whole day entertainment for the KONČAR employees and their guests.

The contestants competed in four categories: champions, grand masters, masters and olympians.



Human Rights

No incidents of discrimination on grounds of gender, race, age, national extraction or ethnic origin, political or religious beliefs or other applicable criteria have been recorded. In managing human resources and making other relevant business decisions, the principles of equality and standardised criteria are adhered to.

Freedom of Association and Collective Bargaining

The right of exercising freedom of association and collective bargaining exists within all companies of the Concern and in all business activities. No incidents related to the limitation of this right have been recorded. This is also true of business activities abroad.



› Child Labour, Forced and Compulsory Labour

KONČAR operates in compliance with all positive legal provisions prohibiting child labour.

KONČAR operates in compliance with the Constitution and positive legal provisions prohibiting forced or compulsory labour.



6 Society

KONČAR's activities are based on the principles of social responsibility, including minimising the risks and maximising the positive impacts. It refers both to core business activities and to the relations with the community in which it operates. Due to the products which are developed for and installed into various infrastructural systems, KONČAR's activities have a direct impact on many aspects of community life - particularly energy production and supply and public transportation (by railway and tram). These impacts are complemented with activities aimed at providing direct support to individuals and groups for their projects related to culture, sports, education, science, humanitarian work, etc. Given the significant share of business activities conducted with the public sector, the issues of transparency, compliance, anti-corruption and participation in public policy making are being treated with particular attention. Pursuant to the Code of Business Ethics signed and adopted in 2005, the exercising political influence or influencing the judiciary is not permitted. Our interests in public policy making and legislative process are advocated and lobbied for in a transparent manner through business associations and other institutional channels. The Concern's Management Board has overall responsibility for community relations.

› Community

The scale of activities with which the Concern's members are present on specific locations or in specific communities does not suffice to systematically monitor the impact of activities on these communities. Moreover, a significant percentage of the activities are project-based so their broader impact on the surrounding in which they are conducted, as well as the related social and environmental risks, are taken into consideration only within the project evaluation.

› Corruption

The companies' charters and articles of association regulate that all the contracts material to the company must be reviewed and approved by the Supervisory Board. Contracts and documents drawing attention to potential incidents of corruption are also analysed during audits. Apart from such a practice, full analyses of individual business units against risk of corruption is deemed inefficient. On the other hand, an employee, a business partner or a third party who has any indication that a certain situation might involve corruption can report it to Management Board or competent state authorities.

Corruption is treated as an unacceptable practice, regardless of the motivation, reason, method or the consequences of corruptive activities. This message is communicated to all KONČAR's employees, although not in the form of a separate structured training.

No incidents of corruption have been reported in the Concern; therefore, there were no grounds to impose sanctions or to improve anti-corruption measures.

› Public Policy

KONČAR supports investments in infrastructure, including plants for energy generation, transmission and distribution and modernisation of city and intercity public transportation system. In them, KONČAR sees its own business opportunity, as well as its contribution to the community development by improving the quality of citizens' life, business efficiency and safety of energy supply. At the same time, KONČAR insists on high environmental protection standards and responsible public spending. The importance of creating stimulating conditions for export oriented firms is being specifically emphasised, with the view of increasing export competitiveness of the Croatian products and firms in foreign markets. The KONČAR representatives support the above mentioned views both in general public and within business associations and industry organisations, especially through the Croatian Chamber of Commerce and the Croatian Exporters organisations (chaired by the chairman of the KONČAR - ELECTRICAL INDUSTRY Inc.



Management Board).

KONČAR neither makes donations to political parties nor does it sponsor or financially support any political activities in the country or abroad. For this reason, this aspect is not regulated by internal acts in any special way.

› Anti-Competitive Behaviour

No legal actions have been taken against the members of the Concern for anti-competitive behaviour, anti-trust, and monopoly practices. No significant fines or non-monetary sanctions for non-compliance with laws and regulations have been recorded.



7 Product responsibility

Given the diversity of KONČAR Group's products, a uniform product responsibility policy may be stated only in principle rather than in terms of a specific definition and application. In case of products intended for public or business sectors, the periods of development, manufacture and testing serve to align specifications and performances with demands of customers and various regulations and standards which a product has to meet (including safety). In this market segment, the marketing is based on promoting references of products and equipment delivered so far, as well as on quality, price, delivery terms and after sale services. It is also based on satisfying customers' demands and building partner relationships with companies with which we jointly appear in the market and on establishing a direct contact with possible customers at fairs, industry conferences, through presentations, economic delegations and other events. As there is a fair relationship with our partners, suppliers and contactors, as well as with our competition, the standard issues related to product responsibility (information and product labelling, media-promotional methods of marketing campaigns and respect for customers' privacy) rarely emerge.

On the other hand, the products intended for consumer goods market demand a different, although complementary approach. Since these products are, in principle, durable consumer goods (for example, computers or household appliances), the potential customers will expectedly take a more meticulous approach to product evaluation (for example, comparison of performances) and use (the importance of maintenance costs and servicing possibilities). It also requires adjustments in marketing approach which is for the most part designed for the known and defined segment of customers and users of equipment. Pursuant to the Code of Business Ethics, both products and services must have declared quality and performances, and they have to be designed for usage that is safe and acceptable in terms of health protection. All KONČAR companies operating in the market are certified according to ISO 9001 (Figure 2). Directors of individual companies have the responsibility for the product responsibility related segment. At the parent company's level, a share of the responsibility also rests with the Management Board members in charge for particular business areas.

› Product and Service Labelling

Each product and plant has a label containing the manufacturer's name, basic technical characteristics usual for the given product category, and special information characteristic to or significant for the particular product. For more complex products and plants, technical descriptions and instructions for safe use of the product are designed, according to the customers and users' needs. There is no data available as to the extent to which the above-mentioned descriptions also contain information indicating at the products' sustainability impact (for example, use of substances which might impact the environment, disposal of products at the end of their useful life, and similar).

› Customer Satisfaction

All the companies which have certified quality management systems in place conduct customer satisfaction assessments. In accordance with the product categories (for example, a computer, a transformer, a motor, a cooker, a tram), the subsidiaries have defined procedures to determine the methods and frequency of customer satisfaction assessments. There is no aggregated data as to the results of the assessments conducted.

› Marketing communications

One of the commitments resulting from the application of the Code of Business Ethics, to which KONČAR - ELECTRICAL INDUSTRY Inc. is a signatory, has to do with a responsible marketing communication. In its marketing communication programmes, KONČAR primarily addresses its target users' groups, emphasising the product quality, and the Concern's references and production possibilities, along with maximal compliance with laws, standards and voluntary codes pertinent to marketing communications, avoiding the use of any untrue and offensive information that might hurt any segment or group, including the competition. In addition to promoting its own potentials, KONČAR is also committed to promoting general social values that encourage technological, economic and social development.





8 Overview of GRI indicators

GRI INDICATOR		LOCATION IN THE TEXT
Strategy and Analysis	1.1. - 1.2.	11
Organizational Profile	2.1 - 2.10	12-17
Governance, Commitments, and Engagement	4.1. - 4.17	18-22
ECONOMIC PERFORMANCE INDICATORS		
Economic Performance	EC1, EC2, EC4, EC5	23-28
Market Presence	EC6 - EC7	29
Indirect Economic Impacts	EC8	29
ENVIRONMENTAL PERFORMANCE INDICATORS		
Energy	EN6	30
Biodiversity	EN11 - EN12	31
Products and Services	EN26 - EN27	31
Compliance	EN28	31
LABOUR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS		
Employment	LA1 - LA3	32-33
Labour/Management Relations	LA4 - LA5	33
Occupational Health and Safety	LA8 - LA9	33-34
Training and Education	LA10 - LA12	34-35
Diversity and Equal Opportunity	LA 13 - LA14	35
HUMAN RIGHTS PERFORMANCE INDICATORS		
Non-discrimination	HR4	36
Freedom of Association and Collective Bargaining	HR5	36
Child Labour	HR6	37
Forced and Compulsory Labour	HR7	37
SOCIETY PERFORMANCE INDICATORS		
Community	S01	37
Corruption	S02 - S04	38
Public Policy	S05 - S06	38
Anti-Competitive Behaviour	S07	38
Compliance	S08	38
PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS		
Product and Service Labelling	PR3, PR5	39-40
Marketing Communications	PR6	40

An aerial photograph of a sandy beach with waves crashing onto the shore. The sand is a warm, golden-brown color, and the water is a mix of light blue and white foam. The waves are breaking in a rhythmic pattern along the coastline.

IV

GC AND GRI3

comparative table



SOCIAL VALUES	GC PRINCIPLES		GRI INDICATORS
HUMAN RIGHTS	PRINCIPLE 1	Businesses should support and respect the protection of internationally proclaimed human rights.	EC5, LA4, LA8, LA9, LA13, LA14, HR4, HR5, HR6, HR7, SO5
	PRINCIPLE 2	Businesses should make sure they are not complicit in human rights abuses.	HR4, HR5, HR6, HR7, SO5
LABOUR	PRINCIPLE 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA4, LA5, HR5, SO5
	PRINCIPLE 4	Businesses should uphold the elimination of all forms of forced and compulsory labour;	HR7, SO5
	PRINCIPLE 5	the effective abolition of child labour; and	HR6, SO5
	PRINCIPLE 6	the elimination of discrimination in respect of employment and occupation.	EC7, LA2, LA13, LA14, HR4, SO5
ENVIRONMENT	PRINCIPLE 7	Businesses should support a precautionary approach to environmental challenges;	EC2, EN26, SO5
	PRINCIPLE 8	undertake initiatives to promote greater environmental responsibility;	EN6, EN11, EN12, EN26, EN27, EN28, SO5, PR3
	PRINCIPLE 9	should encourage the development and diffusion of environmentally friendly technologies.	EN6, EN26, EN27, SO5
ELIMINATION OF CORRUPTION	PRINCIPLE 10	Businesses should work against corruption in all its forms, including extortion and bribery.	SO2, SO3, SO4, SO5, SO6

Abbreviations used in the text:

The KONČAR Group	KONČAR - Electrical Industry Inc., subsidiaries and affiliated companies
KONČAR Concern	KONČAR - Electrical Industry Inc. and subsidiaries
KONČAR Inc.	KONČAR - Electrical Industry Inc.
Parent Company	KONČAR - Electrical Industry Inc.
KSCO	KONČAR Standard Classification of Occupation
TMK	Tramcar vehicle TMK
GRI	Global Reporting Initiative
HAC	Croatian Motorways Ltd.
HC	Hrvatske ceste d.o.o. (Croatian Roads Ltd.)
HEP	Hrvatska elektroprivreda d.d. (Croatian Electricity Company Inc.)
CPF	Croatian Privatisation Fund
CPPI	Croatian Pension Insurance Institute
INA	INA - Croatian Oil Industry Inc.
PBZ	Privredna banka Zagreb d.d.
RBA	Raiffeisen Bank Austria d.d.
ZET	Zagreb Electric Tram Ltd. (until 2006) / Zagreb Holding Ltd., Zagreb Electric Tram Branch (since 2006)

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