

CORPORATE SOCIAL RESPONSIBILITY REPORT 2007



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CORPORATE SOCIAL RESPONSIBILITY REPORT





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I. FOREWORD BY THE CHAIRMAN OF THE BOARD

MORE THAN EVER IN THE HISTORY OF THE HUMAN KIND, THE ISSUE OF PRESERVATION OF THE PLANET EARTH, AS THE PLACE OF LIVING OF PRESENT AND FUTURE GENERATIONS, HAS BECOME AN INDISPENSABLE ISSUE OF ALL THE SUBJECTS THAT CAN CONTRIBUTE TO THAT PRESERVATION IN ANY WAY



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FOREWORD BY THE CHAIRMAN OF THE BOARD

Social accountability at KONČAR is a part of everyday work processes at all the segments of operations. More than ever, the issue of preserving the planet of Earth, as a place of living for these and future generations has become unavoidable question of all who can in any way contribute to that. We have recognised it in KONČAR and taken it to be a serious task.

In 2007, the growth of production, sales and profit was achieved in accordance with the operating plans. The activities have been continued at the developmental projects, modernisation and improvement of production, new employments (of predominantly young and competent people) and at the sales at new markets. The most important export has been achieved to the markets of European Union, surrounding countries, America, Australia and Middle East.

High quality criteria in line with ISO standards, as well as other international standards, are prominent in all the segments of production and at all the products.

People employed with KONČAR at the creation of new products, services and solutions have been and remain to be the greatest value without which the continuous existence of the company during the past 87 years could not be imagined. Due to that, the activities at the improvement of all the segments connected with employees (health and safety at work posts and spaces, education and improvement, the activities at the use of free time) have been further in progress in line with the needs of people and the time.

Surroundings in which we function are unique; and KONČAR makes efforts by means of its actions to reduce the impact on natural balance, not only at its production locations, but also at the domain where the products are used. That refers to equipment for production, transfer and distribution of electricity, trams, and products to be used in households, the computer equipment and everything else.

Community in which we act has been interactively connected with KONČAR and with many activities, there is a good cooperation. KONČAR is especially interested in the education of the young and their preparation for challenges in work, sports, recreation and culture, and sensitivity to socially-humanitarian activities has been confirmed every day. It can be seen from the report that many activities from the domain of education and science have been important and were supported in order to stimulate many ideas that contribute to a better, more meaningful and contemporary educational-scientific process. That is one of a concrete and for us very important contributions to the creation of the wished for world.

This report encompasses the indicators for the most important activities of Global Compact and Global Reporting Initiative at the areas of socially responsible operations in the year of 2007. In this way, KONČAR has been included into a group of the companies that not only recognise the need of serious actions at the domain of social responsibility, but through the reporting according to the world accepted principles opens the possibility to all the business partners, collaborators, institutions and other shareholders to share with us the responsibility for further development of KONČAR at the domain of social accountability.

Darinko Bago
Chairman Of The Board
KONČAR - Electrical Industry Inc.





II. REPORT ACCORDING TO GLOBAL COMPACT



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PRINCIPLE 1

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

Collective agreement and other acts define the rights exceeding the legal ones, and the freedom of association and collective bargaining for all the employees of KONČAR Group. The bargaining process for improvement of the conditions from the Collective Agreement is continuously in progress.

KONČAR Group respects valid regulations, collective and individual contracts and protects human and civil rights, the dignity and respectability of every employee.

The priority of KONČAR are employees, as the carriers of development and success of the company, so no discrimination or upsetting of employees is permitted due to his/her sex, religion, race, religious, national or political affiliation, physical handicaps, age, family status, personal characteristics or persuasions.

PRINCIPLE 2

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

On 12 May 2005, KONČAR signed the declaration on accepting the Code of Ethics in the operations, by means of what it accepted the liability to act in line with the principles of responsibility, truthfulness, efficiency, transparency, quality, proceeding in good faith and respecting good business practices to its business partners, business and social environments and the own employees.

The rights, liabilities and responsibility of employees are prescribed by the Labour Act and Collective Agreement. Two-way communication and cooperation between the Management and employees is a component part of business management.

PRINCIPLE 3

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

Freedom of association and collective bargaining is enabled to each and every of 4,200 employees of KONČAR Group.

2,490 employees are the members of the Metal Workers Union Coordination of Croatia, and 90 employees are the members of the Electro Industry Unions of Croatia.

REPORT ACCORDING TO GLOBAL COMPACT

PRINCIPLE 4

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

KONČAR operates with the respecting of the Constitution and positive law regulations that forbid forced and compulsory labour.

A satisfied employee is the largest capital of a company and the skill and professionalism of every individual with the work, professional improvement and the evaluation of the work and progress with it are therefore fostered at the KONČAR.

PRINCIPLE 5

BUSINESSES SHOULD UPHOLD THE EFFECTIVE ABOLITION OF CHILD LABOUR

KONČAR deals with the respecting of positive law regulations that forbid child work and it does not employ children for any business activities whatsoever.

PRINCIPLE 6

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

There is no discrimination with employment with respect to sex, religion, race, national or political affiliation, age, family status, personal characteristics, persuasions and disablement.

KONČAR stands up for free development of any individual and equal rights for women and men in all the segments of its operations.

With the management of human resources and adopting relevant business decision, the principles of equal rights and respecting human dignity are respected.

PRINCIPLE 7

BUSINESSES SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

With the creation of the own sustainable future, KONČAR is aware of its wider effect on economic growth, environment and society as a whole. With a wish to contribute to better perception of the importance of environment protection, KONČAR has defined the Policy of Environment Management, which is known to all the employees as a basis of the management of all the aspects of the environment. Such investing into future is for KONČAR always a good decision, as the profit is guaranteed.

PRINCIPLE 8

BUSINESSES SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY

The environment protection policy is thought over strategically and it is realised through the established quality management systems (ISO 9001), the environment management system (ISO14001) and health protection as well as the safety at work (OHSAS 18001), with their certification and permanent improvement.

KONČAR belongs to the manufacturers whose equipment performs successful operations in various natural environments, especially when connected with the use of water resources and it continuously acts on the development of the products that reduce the impact on natural balance.

PRINCIPLE 9

BUSINESSES SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

KONČAR continuously develops the technologies that reduce harmful effects on the surroundings using the most contemporary technologies, raw-materials and knowledge at that domain.

Energy efficiency as a principle is tried to be applied everywhere where it is technologically and economically feasible. When it is the question of initiatives for creating efficient energy products, intelligent switchboard - IRP - air-conditioning boiler device, combined boilers-tanks and the concept of intelligent house, including the development of the intelligent system of energy consumption control in households, were developed and with a permanent development and improvement of the products and solutions, it has also contributed to the objective.

KONČAR invests permanently into new technologies and into the development of new products in accordance with the principle of energy efficiency and the use of renewable energy sources (wind farm power stations).

PRINCIPLE 10

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

At KONČAR, corruption is treated as unacceptable practice, independent of a motif, reason, method or consequences of a corruptive action. The statutes of the companies and founding charters declare that all the materially important contracts must be analysed and approved by the supervisory boards.

KONČAR does not give donations to political parties, nor sponsors or donates for any political activities inland or abroad.

III. REPORT ACCORDING TO GRI3



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1. THE COMPANY'S PROFILE

This report has been prepared by KONČAR Group. The KONČAR Group is consisted of KONČAR Electrical Industry Inc., as the Parent, and 19 dependent companies in which the Parent has a dominating influence (more than 50% votes at the Shareholders' Meeting). The Parent has, besides, a minority managing influence (49% votes at the Shareholders' Meeting) at one company (affiliated company).

The companies are, within the Group, legally independent companies, and the Parent Company controls them, guides them strategically and supports them through the supervisory boards of the companies; all in line with the Companies' Act, the Articles of Incorporation of KONČAR Electrical Industry Inc. and the Articles of Incorporation of the companies. The Parent also manages a part of the assets which are not invested, but directly and indirectly in the function of the financial support to the sales, products and equipment of the related companies as the credit-warranty potential.

The companies deal under the name of KONČAR with which they add their name (firm). The seat of the Parent of the Group (KONČAR Electrical Industry Inc.) is in Zagreb, Fallerovo šetalšte 22.

The activity of KONČAR Group is distributed to business areas:

- Energy and Transport - designing and construction of the plants for production, transfer and distribution of electric energy, and ancillary equipment, thyristor locomotives, trams and electric equipment for stable electro-traction plants;
- Industry - electromotor plants, electric equipment of medium and low voltage and catering equipment;
- Trading - electric household appliances, serial products and low-voltage electro-appliances;
- Especial activities - research and development of the products and infrastructural services.

Organisational Structure

KONČAR Electrical Industry Inc.			
ENERGY AND TRANSPORT	INDUSTRY AND TRADE	JOINT ACTIVITIES	COMPANIES ABROAD
Power plant and el. traction engineering	Household appliances	Institute for electrical engineering	Switzerland
Generators and motors	Catering equipment	Infrastructure and services	
High voltage switchgear	Tools		REPRESENTATIVE OFFICES
Medium voltage Apparatus	Small electrical machines		Russian Federation
Switchgear	Low voltage switch. and circuit breakers		Bosnia and Herzegovina
Distribution and special transformers			Serbia
Instrument transformers			
Electronics and informatics			ASSOCIATED COMPANIES
Metal structures			Power transformers
Electric vehicle			
Eng. for plant installation & commiss.			

Image 1: KONČAR Group's organisational structure as at 31 December 2007

Ownership structure

KONČAR Electrical Industry Inc. is a joint stock company with 4000 domestic and foreign investors (funds, banks, natural persons from Croatia and foreign countries) that influence the operations through the Shareholders' Meeting and Supervisory Board, which appoints the Management in charge of managing.

Ten largest shareholders of KONČAR are the owners of 81.5% shares. The biggest share (53.95%) belongs to the State; through three largest shareholders: Croatian Postal Bank / Capital Fund, Croatian Privatization Fund and Croatian Pension Insurance Institute. During 2007, the equity capital of the Company was increased by HRK22 million; for the value of the real estate in Belgrade, which was not evaluated in the transformation procedure. There were no major changes in the ownership relations in 2007. KONČAR Electrical Industry Inc. is in the predominant ownership of the State.

Table 1 - Ownership structure as of 31 December 2007

Shareholder / Ownership share (%)	2005	2006	2007
HPB d.d. (Kapitalni Fond d.d., close-end investment fund)	28.78	28.78	28.16
HZMO	15.28	15.28	14.95
Croatian Privatization Fund	8.89	8.89	10.84
Raiffeisenbanka Austria d.d. (joint custodian account)	7.54	7.54	8.28
Kristijan Floričić	5.39	5.39	5.30
PBZ d.d. (The Bank of New York as custodian)	4.05	4.32	4.25
PBZ d.d. (Joint custodian account)	3.40	5.14	5.14
Hrvatska Poštanska Banka d.d. (Victoria fond)	1.88	1.59	1.55
Hypo Alpe-Adria-Bank d.d.	0.89	1.86	1.65
Siemens AG	1.29	-	-
Other shareholders	20.67	18.78	18.5
KONČAR d.d. (treasury stocks)	0.46	1.41	1.38

As of 31 December 2007, the Company had 35,511 treasury stocks (1.38%)

Organisational Size Indicators

In 2007, the growth of income of 2.78% was recorded as compared with the year of 2006, whereby it is to emphasize that during that year the growth of 30.9% was achieved.

With the improvement of products and production technologies, the trend of successful operations has been continued to the satisfaction of the owners, employees and the society in which we live.

Table 2 - Basic Indicators (in 000 HRK)

	2005	2006	2007
Operating revenues	2.031.019	2.672.806	2.715.385
Sales of products and services	1.838.097	2.552.964	2.584.854
Material costs			
• Raw-material and consumables, charges of services, charges of sold goods	1.261.762	1.896.353	1.801.015
Staff costs	372.893	372.893	426.806
• Wages and salaries	214.255	223.428	239.323
• Taxes, social and pension insurance	158.638	171.508	187.483
Pre-tax profit	36.036	84.773	139.585
Corporate profits tax	9.153	16.269	23.362
Group's profit	26.883	68.504	116.223
Minority interests	14.938	20.873	32.326
Net profits	11.945	47.631	83.897
Total assets	2.438.670	2.535.827	2.843.387
Total capital and reserves	1.040.558	1.080.405	1.190.161
Current assets	1.426.651	1.531.249	1.763.845
Current liabilities	856.340	930.748	1.090.586
Sales per employee	453	604	613

These business results have been realised with the growth of the number of employees. Out of 4,062 employees at the end of 2005, the number of employees increased during 2006 to 4,224, and at the end of 2007, it amounted to 4,217 employees.

Business Activities

The production program of the companies within KONČAR Group is directed to the basic activity of energy and transport and the household program. The production capacities are continuously extended by the investments to the modern production technologies, whereby it is to mention that particular products have been adjusted to the requirements of the buyers («tailor made»), representing the strategic determinant of KONČAR.

The main activities of the Group have been divided into three business areas:

- Energy and transport
- Industry
- Trade.

The sales share of the business domain of Energy and Transport amounts, in the total sales of KONČAR to 83%, what means that the production program of the companies within KONČAR Group has been mostly directed to those activities.

The companies within the Group autonomously determine on the degree of the use of the foreign suppliers of products and services. Due to technologic complexity of the products at one side and accumulated knowledge and resources within the Group at the other side, a part of the projects is realised within the Group itself and several companies participate in it.

Most important Markets

Consolidated earnings from products and services sales in 2007 amounted to HRK 2.6 billion, what is by 1.2% more than the realised in the year of 2006.

The companies within KONČAR Group realize the most of their sales at the markets of Croatia (62%), European Union (15%) and to the surrounding countries (10%). In the surrounding countries, KONČAR has significant advantages as compared to the competitors due to the large number of the facilities and equipment delivered in the last 50 years, which are, due to their quality, the reference for contracting new transactions but also for the reconstruction of the existing facilities and equipment.

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

Business Area	2005	2006	2007
Energy and transport	1.397.134	2.054.709	2.140.194
Trade	239.682	256.153	271.419
Industry	150.495	172.769	132.211
Especial activites	50.786	69.333	79.004
Total	1.838.097	2.552.964	2.584.854

The earnings from the sales to Croatian Power Utility amount to HRK 558.1 million (38.8% of the total domestic sales), and to Zagreb Electric Tram, the goods and services were sold at the amount of HRK 267.9 million or 18.6% of the total domestic sales. To the enterprises from the domain of industry and shipbuilding, the goods and services at the amount of HRK 208.8 million were sold, and to department stores, the products were delivered at the amount of HRK 195.1 million were delivered, to Croatian Motorways, the amount of 63 million HRK, to the companies from construction industry domain HRK 40.9 million, and the remaining amount of HRK 104.8 million refers to the Croatian Railways, the State and local administration and public enterprises.

Table 4 - Sales in Croatia (in 000 HRK)

	2005	2006	2007
Zagreb Electric Tram - ZET	116,924	505,762	267,886
Croatian Electricity Company - HEP	492,066	464,096	558,101
Trade Sector	177,918	202,873	195,119
Industry and Shipbuilding Industry	150,421	197,586	208,750
Construction Industry	47,692	48,248	40,910
Croatian Motorways / Croatian Roads	47,732	45,259	63,037
Public Enterprises	38,420	43,879	13,404
State and local Administration	23,254	38,994	22,097
Croatian Railways	27,126	22,096	69,343
Total	1,121,553	1,568,793	1,438,647

REPORT ACCORDING TO GRI3

The earnings from the sales of the goods and services at the foreign markets in 2007 were realised at the amount of HRK 1,146.2 million, what is 17.2% more as compared with the year of 2006. The most important export has been achieved at the markets of European Union; it is at the amount of HRK 552.3 million, to the countries surrounding (BiH, Macedonia, Serbia) at the amount of HRK 314.4 million, to America and Australia HRK 57 million and the Middle East countries HRK 56 million.

Table 5 - Most important export markets of KONČAR Group in 2007 (in 000 HRK)

Countries	2005	2006	2007
BiH	104,929	74,189	141,395
Serbia	97,453	169,990	106,325
Germany	57,907	79,507	92,974
Slovenia	74,240	41,566	89,475
Bulgaria	25,304	10,455	79,907
Albania	25,998	28,916	53,882
Czech Republic	27,583	50,131	53,344
Hungary	16,457	21,587	48,060
Sweden	35,034	59,512	36,641
Austria	17,134	26,008	35,083
Finland	31,005	25,859	30,815
Saudi Arabia	17,953	28,008	27,783
U.A.E.	5,924	34,386	25,551
Canada	132	13,870	23,632
The Netherlands	9,198	12,267	22,557
Island	4,231	24,246	15,905
Russia	3,113	13,128	14,779
Other countries	162,745	264,673	248,099
Total	716,340	978,300	1,146,207

Major awards in 2007

During 2007, we received numerous awards and recognitions for the own research-developmental activities:

“Zlatna Kuna” - Annual recognition of Croatian Chamber of Economy

KONČAR - Institute of Electrotechnics d.d. was awarded “Zlatna Kuna” for innovation.

Annual Stock of the Year - “Golden share” of 2007, (sector “other”)

International Exhibition of Innovations, new ideas, products and technologies of “ARCA 2007”

- silver medal for KONPRO - numerical device of protection RIUX 621
- Arca Prix Award with especial recognition for the Monitoring System of the block of the generator- transformer;

56th World Exhibition of Innovations, Research and New Technologies “EUREKA”, Bruxelles

- golden medal for central computer of DIRT/TMK 220 (main controller for a tram)
- silver medal for power condensation tank and main electromotor drive
- diploma Salona Eureka for auxiliary supply converter

International Exhibition of Innovations, New Technologies and Products of INVENTIKA 2007”, Bucharest

- golden medal for the Monitoring System of the block of generator-transformer

IEEE - Institute of Engineers of Electro Technique and Electronics

- award of the Croatian Section of IEEE for exceptional engineering contribution at the project of development and adoption of the production of the converter of the main drive of a low substructure tram TMK 2200 for the Town of Zagreb

ENERGETIKA 2007 - International Fair of Energy, Electronics and Automation, JMZV, Zagreb

- crystal sculpture and recognition for design of exhibition space for a high total level of exhibiting





2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

Governance

The Group of KONČAR is consisted of KONČAR Electrical Industry Inc., as the Parent, and 19 dependent companies in which the Parent has overwhelming influence (more than 50% of votes at the Shareholders' Meeting). The parent has, besides, a minority management influence (49% of the votes at the Shareholders' Meeting) in a company (affiliated company).

Basic activity of the Parent is to manage the operations of the dependent companies through the supervisory boards of the companies according to the Companies' Act, the Memorandum of Association of KONČAR Electrical Industry Inc. and the Memorandums of the companies and to manage the part of the assets that are not invested into the companies, but, which is directly or indirectly in the function of financial support to the placement, products and equipment of affiliated companies as credit-warranty potential. Dependent companies pay to the Parent a monthly fee for the use of the firm's name, trademark and service brand and costs in joint marketing activities according to the decisions of the Shareholders' Meeting of each particular company.

The Company's Management members are Darinko Bago (the president of the Management) and the members: Marina Kralj Miliša (legal, general administrative and HR affairs), Jozo Miloloža (finances), Davor Mladina (business domains of Industry and Trade), Božidar Piller (business domain of Energy and Transport) and Vladimir Plečko (corporate development and information-communication technologies).

Based on the provisions of the Companies' Act and the Memorandum of Association of KONČAR Electrical Industry Inc., the Shareholders' Meeting adopts the decisions on the choice and recall of the members of the Supervisory Board of the Company. The Supervisory Board of the Company has nine members and it is consisted of: Ante Babić (chairman), Željko Tomšić (Deputy President) and Đuro Perica, Kristijan Floričić, Georg Eltz of Vukovar, Jasminka Belačić, Ivan Ronnie, Miroslav Kovačić and Zdenka Matković (the members). In line with the authorisations, prescribed by the Companies' Act, the Memorandum of Association of the Company and the Rules of Procedure regulating the work of the Supervisory Board of KONČAR Electrical Industry Inc., the Supervisory Board supervises the conducting of the Company's operations. The sessions of the Supervisory Board are held at least four times a year (and if required, more frequent); and at them the members of the Supervisory Board in cooperation with the Management of the Company analyse the strategy and operative plan of the Company. The Supervisory Board acts exclusively as a unique body of management and supervision; as yet, no sub-commissions have been defined with especial duties. The founding of the audit commission is under consideration, what would additionally empower the supervision function.

In 9 dependent companies (in 2006, 12 dependent companies) Electrical Industry Inc. (Parent) is the only owner, while in ten companies, the proprietary structure is mixed. At the end of 2007, according to adopted decisions of the Shareholders' Meeting and Supervisory Board, a program of employee stock ownership (ESOP) has been implemented. In three dependent companies, the employees of the KONČAR Group are enabled to buy the shares (25 per cent minus one stock).

Dependent companies are managed by the directors or managements. In each company the operations are controlled by the Supervisory Board (having three to five members) that represents the owners. KONČAR Electrical Industry Inc. is in supervisory boards represented by the members of the Management or by the Management appointed representatives. According to the Companies' Act and the Labour Act, the supervisory boards of six companies and in the Supervisory Board of KONČAR Electrical Industry Inc. the representatives of the employees are also represented.

The members of the Supervisory Board, who themselves are shareholders of their representatives, can give their suggestions by regular means, within the functioning of the Supervisory Board. The Association of Small Shareholders (with its 58 small shareholders) has also its representative in the Supervisory Board (it has been established in 2000).

According to the Labour Act, the employees have their representative in the Supervisory Board. As for general impact of the shareholders on management processes, it has been defined by the Companies' Act.

Shareholders' Meeting must be convened if requested in written by the shareholders that have together the shares amounting a twentieth part of the Company's equity capital and if the purpose and reason of convening the Meeting is stated. The proposals of the shareholders must be communicated if a shareholder within a week after having published the convening of the Shareholders' Meeting in the official Gazette of the Company and if the explained reasons are sent to the Company and a wish is expressed to oppose any proposal of the Management and Supervisory Board, and if other shareholders are won over vote for what is so proposed. The Association of Small Shareholders, at the meetings of its presidency and assembly analyses the realised business results of KONČAR Electrical Industry Inc. and gives instructions to the delegate of the Association for voting at the Shareholders' Meeting of KONČAR Electrical Industry Inc.

Economic, Environmental, and Social Charters, Principles and Standards

KONČAR Electrical Industry Inc. signed, on 12 September 2005, a declaration on accepting the Ethics Code in the operations, which was confirmed by the Assembly of the Croatian Chamber of Economy in 2005. The Code of Ethics is applied with the operations of the company of KONČAR Electrical Industry Inc., but it is necessary to additionally act towards the communicating of its provisions to the employees of KONČAR Group and the business partners.

Having in mind the realisation of wider social interests KONČAR is the member of:

- the community for Socially Responsible Operations with Croatian Chamber of Economy
- Global Compact - the world agreement within the United Nations.

As a socially sensitive company, committed for proactive approach in all the aspects of socially responsible operations, KONČAR is actively included into the initiatives, discussions, projects and activities connected with socially responsible behaviour at the level of Croatia.

A component part of the business policy of KONČAR is to achieve the satisfaction of buyers through the delivery of the qualitative and reliable products and the protection of the environment. The policy and objectives of the quality are realised with a systematic approach of the quality management according to the requirements of the norm of ISO 9001 the certificates of which is in the possession of 18 companies, while the environment protection is realised applying the system of the environment management system as per the requirements of the norm of ISO 14001 which has been established and confirmed with 16 companies. As the employees are the greatest value, the system of health protection and safety at work is established as per the requirements of the norm of OHSAS 18001, the certificates of which are in the possession of 2 companies.

REPORT ACCORDING TO GRI3

	ISO 9001	ISO 14001	OHSAS 18001
KONČAR - ELECTRICAL INDUSTRY			
KONČAR - Tools			
KONČAR - Distributive and especial transformers			
KONČAR - Electric vehicles			
KONČAR - Electric devices of medium voltage			
KONČAR - Electric high-voltage devices			
KONČAR - Electronics and informatics			
KONČAR - Energetics and services			
KONČAR - Generators and motors			
KONČAR - Institute of electronics			
KONČAR - Engineering for energetics and transport			
KONČAR - Household appliances			
KONČAR - Small electric appliances			
KONČAR - Metal structures			
KONČAR - Measuring transformers			
KONČAR - Assembly engineering			
KONČAR - Low-voltage switchgears and switches			
KONČAR - Assembly plants			
KONČAR - Catering equipment			
KONČAR - Power transformers			

Memberships in Associations and Professional Organizations

KONČAR participated in establishing as an active member of many associations, institutions and organisations, at the first place, at professional domains related to production activities of KONČAR, business activities of the group or with the covering the interests within wider social community.

KONČAR, as a group, an individual company or particular employees, are the members of the following organizations inland and abroad:

- International Council on Large Electric Systems (CIGRA)
- International Council for Distribution Systems (CIRED)
- Institute of Electrical and Electronics Engineers (IEEE)
- Academy of Technical Sciences of Croatia
- Croatian Exporters
- Croatian Chamber of Economy
- Community for Inventive Work
- Community for Renewable Sources
- Community of rail-guided vehicles
- Communities for socially-responsible operations
- Associations of the Innovators of Croatia
- Croatian Academy of Technical Sciences
- Croatian Chamber of Architects and Engineers in Construction Industry
- Society of Engineers and Technicians of Croatian Railways
- MIPRO (Croatian Association for Information and Communication Technology, Electronics and Microelectronics)
- Croatian Institute for Standards
- Electro-technical Society Zagreb
- Croatian Associations of Nature Protection and Environment Experts
- Croatian Associations of Infrared Thermography
- International Institute of Welding
- Croatian Societies for Quality
- European Company Lawyers Association
- Associations of Corporative Lawyers
- Associations of Lawyers in Economy
- Croatian Association of Auditors
- Croatian Communities of Accounting and Financial Employees



Following these memberships, the experts of KONČAR participate every year with their works at the professional conferences inland and abroad, at which they present their works, solutions and products of KONČAR. During 2007, almost 100 professional articles and works from various domains were prepared by KONČAR professionals and presented at the professional conferences inland and abroad.

Through sponsorships and active inclusion into the preparation and holding the conferences in Croatia, too, KONČAR also directly helps with the work of the professional organizations, considering them as important places of the promotion of the own knowledge and for the exchange of experiences with other experts.

Stakeholder Engagment

Production program and the business strategy of the Group conditions the orientation of the most companies to business market and/or public sector in Croatia and abroad, and less to the market of end, individual users. Similar influence makes the ownership structure, in which the public sector is overwhelming. The companies of the Group often act within the consortiums for a particular project, what can additionally reduce the directness of the Group's companies with the buyer and /or the community. Therefore, besides the buyers, the employees (including also the trade unions to which they are associated), suppliers and the public sector (in a double role of the product ordering parties and controllers of the operative conditions) can be identified as the key participants. Key participants are identified through the analysis of business processes and the opportunities and risks brought forward by particular participants. With the key stocks, a continuous communication is performed though joint meetings, and during the operations, the efforts are made to adopt their legitimate interests.

Within the activities connected with social responsibility, the communications are performed also with the wider circle of the representatives of civil society and individuals.

In case of employees and directly interested partners, the monthly periodical "Končarevac" is used as a basic medium of communication and information, which is issued in 4,300 copies and distributed to all the companies within KONČAR, as well as to business partners, social community and to everybody interested in the events at KONČAR.

There is also Intranet for the users in all the companies enabling them to be informed on all the important events, decisions and documents.

Web pages (at the address of www.koncar.hr) are recognised as an important means of communication with the partners inland and abroad, but also with the public in general. It is therefore paid a considerable attention to that type of communication with the intention to have the information at the page updated, correct and adequate to the medium used. In accordance with the market orientation and the needs, web page of KONČAR was made in three languages (Croatian, English, and Russian). During 2007, 64,783 visitors were recorded to that page; and they realised 89,772 accesses. Through web page, 287 mails were received with various questions, suggestions and comments.

Besides web page www.koncar.hr the companies have their pages that are link connected with the page of KONČAR.

Within preparation and issue of this report, the consultations were made with the representatives of the metal worker Union of Croatia, which is a part of the Independent Trade Unions of Croatia, the largest Union head office in country. It is a practice that the companies of the Group held the assemblies of employees twice a year at which all the essential information is given with reference to operations and the plans of the company. Key topics arising from the communications with shares included the future development of the company and safety of work posts, vocational development of employees, method and dynamics of the Parent privatisation or other related companies and the meeting of growing market, ecologic and regulatory standards required for appearance at the markets (especially foreign). As it would be useful to deal with the job plan and stronger interactivity of communication with key shares, the extension of the circle of participants will be considered in future as well as introduction of the communication with shares.

60 years of KONČAR information

Ten decades ago - to be more precise, on 7 November 1947, the official paper of the working staff of Rade KONČAR Factory, under the name "Svjetlost" informed for the first time the employees on the events in their working surroundings. It was one of the first factory magazines in the State, and it was issuing up to June 1950. After many-year pause, it was inherited by a monthly "Vjesnik", which was issuing during the period from January 1956 to June 1964.

From 9 November 1964, a weekly starts issuing under the name of "Končarevac". The edition of the paper was growing from year to year and achieved more than 20,000 copies. It was one of the factory papers with the largest edition in the State. Its specificity is in being printed in Croatian, but, at the decision of the Management Board of 1971, in the Macedonian language.

In December 1990, "Končarevac" is again a paper issued once a month. Information organ "Končarevac" has published thousands of texts and photos, having written about events that represent a precious history of the firm, during the whole period of 43 years.

"Končarevac" informs about the development of products and production, contracts and sales, exports and domestic market, cultural and sports events, people and activities and about everything important for KONČAR and Končar employees.

3. ECONOMIC DIMENSION

KONČAR has a traditional role of one of key economic entities in production domain in Croatia - not only due to its size, but due to its presence at foreign markets, its technologic potential and multiplicative effects on other enterprises participants and society as a whole. In spite of big changes in environment and organisation, during transition, KONČAR retained stability with its operations and during recent years strengthened its market position.

It bases its future development on investing into new technologies, development of new products and more intensive presence at foreign markets. Besides, it is necessary to permanently develop management systems to enable optimum management of resources and timely recognition and response to risks and opportunities in organisation and environment. So it creates the prerequisites for the growth of income and efficiency, but also the preparations to complete the privatisation.

Restructuring of KONČAR is carried out gradually and under conditions of growing income and cost efficiency, what makes the processes of organisation transformation easier. Further privatisation and restructuring will open new possibilities, but also empower the imperatives for the more efficient operations, for which it creates prerequisites presently. Employees' shareholding implemented in 2007 in three companies is one of the steps in the process.

Socially responsible operations related with donations and other forms of investing into community also depend on the available resources.

Indicators of Economic Effect

A direct, created and allocated economic value, including income, operating costs, remunerations to employees, donations and other investing into community, retained profit and payments to equity contributors and the fees to the State.

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

	2005	2006	2007
Revenues from sales of products and services (in 000 HRK)	1,838,097	2,552,964	2,584,854
Material costs - raw-materials / consumables, service costs, sold goods costs (in 000 HRK)	1,261,762	1,896,353	1,801,015
Gross salaries (in 000 HRK)	350,277	394,936	426,806
Interest payment (in 000 HRK)	14,159	16,405	15,217
Dividend payment (in 000 HRK)	-	-	-
Profits tax (in 000 HRK)	9,153	16,269	23,362
Donations and sponsorships (in HRK)	1,101,257	1,140,097	1,384,432.01

Consolidated income from the sales of products and services in 2007 amounted to HRK 2.6 billion, what is by 1.25% more than realised in 2006.

Raw-material, consumable and services costs in 2007 were growing in line with the increased volume of production.

The amount of paid out gross wages in 2007 amounted to HRK 426.8 million, what is the increase of 8% as compared to the year of 2006.

Charges for paid out interest for received credits in 2007, amounted to 15.2 million HRK, what is by 1.2 million HRK or 7.2% less as compared with 2006. According to the decisions of the Supervisory Board and Shareholders' Meeting, the profit of the Parent in 2007 is allocated to legal, statutory and other reserves.

All the companies of KONČAR Group deal in the Republic of Croatia, and the total amount of paid profit tax refers to the tax paid in Croatia. The tax amount considerably increased in 2007 as a consequence of the increase of gross profit realised in observed period. Although only two companies in the Group realised loss in 2007, a part of the companies had carried forward tax losses from earlier years and they were not obliged to pay profit tax.

Donations and other Community Investments

KONČAR helps many activities at the domain of culture, sports, education, science and other domains of life and activities, especially the programs for the youth.

As a socially responsible company KONČAR has been included in many actions of a wider social significance and interest at the domain of preserving natural environment, cultural heritage and other natural and historical values.

The especial interest of KONČAR is to stimulate educationally-scientific activities within regular classes and extracurricular activities. The cooperation with schools and faculties is therefore considerable, and the result of such activities is a direct contribution of KONČAR to education and improvement of the young at their way of the creation of Croatia as the Society of Knowledge.

DONATION OF COMPUTERS TO THE FACULTY OF ELECTRONIC ENGINEERING AND COMPUTING IN ZAGREB

One of the most important donations in 2007 is equipping the laboratory of EECF (Cro. FER). For the purpose, KONČAR donated personal computers IVA manufactured by KONČAR. In return, one laboratory was named after KONČAR. With this action, KONČAR continues the many-year fruitful cooperation with EECF making efforts that the young people, the future professionals on who KONČAR counts, have adequate conditions of education and acquiring knowledge. The most contemporary computers produced in KONČAR are employed for a contemporary educational process of EECF students.



REPORT ACCORDING TO GRI3

ASSOCIATIONS OF YOUNG INNOVATORS "KONČAR IDEJA"

Within the School of Electrotechnics in Zagreb the Association of Innovators "KONČAR IDEJA" has worked successfully since 1999. It realises the following program tasks:

- organises the work with talented students at the Electro-Engineering School within the Section of Innovators
- participates at innovation exhibitions in the Town, Republic of Croatia and international exhibitions
- systematically develops and applies the inventive work at teaching, with the inclusion of technologic and other improvements
- cooperates with educational institutions, related associations, firms, with the purpose of gathering secondary-school teachers at the programs of organising, stimulating and improvement of technical creativity.

Traditionally, the work of the members of Innovator Association is mainly oriented to the innovations of didactic aids to be applied at school laboratories. The talented students are included into projects, contributing with their ideas a lot to the realisation of the projects. Many works to the realisation of which the students are included found their application in the schools and which are presented to the public at many national and international exhibitions of innovations where they are verified and awarded by many prizes. The works in which talented students participate, won at reputed international exhibitions of innovations abroad, during 2007, two silver and one bronze medal, and at the national exhibitions, three silver and one golden medal. The biggest prize, however, and the value of this activity are in students' inclusion into a socially useful extracurricular activity where they can express their talents.

From the very beginning of its existence, the Association has material and technical support of KONČAR.

COOPERATION WITH POLYTECHNIC COLLEGE IN ZAGREB

"KONČAR PRIZE" has been established in April 2003 and it is awarded with a traditional motto of KONČAR: "The best investment is the investment into people", the most successful students of particular study years of the Electro-Technical and Information-Computing Department of Polytechnic College in Zagreb during a set academic year.

At the occasional celebrity of the Day of KONČAR, on 24 January, when the anniversary of 86 years of the continuous work of KONČAR was celebrated, the traditional "KONČAR" awards were granted to the best students of the Polytechnic College in Zagreb.

The winners of diplomas and pecuniary prizes for the academic year of 2005/2006 are: at the Electro-Technical Department, Denis Belinić, Marko Mrzlečki and Ivan Domladovac, and at the Informatics-Computing Department, Ivan Mihaljević, Nikola Modrušan, Silvije Mudri and Goran Jelak.

THE AWARD OF KONČAR FOR THE BEST DOCTORS' THESES

At the celebration of the Day of the Faculty of Electronic Engineering and Computing in Zagreb, the annual price of "KONČAR" is traditionally awarded for a doctor's thesis that contains prominent scientific achievements from the domain of technical sciences, and the criterion for evaluation is the greatest contribution from the point of view of application in industry.

In 2007, Antun Mikulecky, ScD, was awardee for the doctor's thesis titled "Capacity and Factor of Dielectric Losses of Transformer Bushings", with the supervisor, Prof. Josip Butorac, ScD, and dr. Mario Vašak for the doctor's thesis titled "Time Optimal Control per Parts of PWA Systems" with the supervisor Prof. Nedjeljko Perić, ScD.



SUCCESS OF YOUNG PROFESSIONALS

The employee Andrijana Čolak, during her studies, a scholarship recipient from KONČAR - INSTITUTE OF ELECTRO-TECHNIQUE, was, in 2007, among those awarded by a prize "Hrvoje Požar". The prize was awarded to her for an excellent success at the study of energy direction at the Faculty of Electronic Engineering and Computing in Zagreb, the course of Electro-Energy Systems, and during the study she was actively included into the Institute Project of Monitoring the Rotation Machines. She used her practical knowledge and the contribution to the development of the system for her graduation thesis, where she presented the systematisation of the data and knowledge in the monitoring of the air gap in generators.

Almir Sedić, an employee of the Institute of Technology at the middle of 2007, has been promoted into a bachelor of science of mechanical engineering of the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, and at the celebrity of the final study diploma awarding, Almir Sredić received the medal of the Faculty for the excellence in study and a marked graduation thesis. He is a winner of the prize "Hrvoje Požar" for an excellent success in the study of energy direction for the year of 2006. During the studies, as a scholarship recipient of the Institute, he was directed for the work at the domain of hydrogen and hydrogen technologies and the graduation thesis was a concrete contribution to the development of the equipment and applications at the domain of hydrogen technologies.

Beside the mentioned, there is also the series of young professionals, employed in KONČAR, which achieve good results and noticeable successes at their work places and with professional improvement, at the conferences and seminars.



19TH INTERNATIONAL OLYMPIC GAMES OF INFORMATICS

International Informatics Olympic Games is the most significant informatics competition in the world to gathers the teams of the best young information scientists from some 90 countries from all the continents. Those are one of eight Olympic Games established under the sponsorship of UNESCO for the young people up to the age of 19. The students individually compete in resolving the program tasks using programming languages, and the winners are considered to be the best young scientists in computer sciences in the world.

From 15 to 22 August 2007, the 19th International Olympic Games of Informatics were held in Zagreb at which 285 competitors from 77 countries participated. Under general sponsorship of KONČAR, which ceded them for the purpose the computers on which to compete? The Croatian information scientists conquered six medals: one golden, one silver and four bronze medals.

KONČAR-INEM experts designed, implemented and controlled computer network with totally 500 computers and three servers, at two locations and with several logical wholes.

Support to Specific Groups

Particular specific groups, as pensioners, war veterans, workers dealing with sports, culture and other similar activities, have permanent support of KONČAR. Stimulating the activities for the most qualitative life outside of work hours, in line with the interests of employees, their families, pensioners, business partners and collaborators, numerous activities are organised during the whole year.

KONČAR RETIRED PERSONS CLUB

The Club was established on 7 October 2000, and in 2007, it had 192 members. Its purpose and objective is to entertain and gather as much pensioners as possible for purpose of realising social and public activities interested for the members of the Club.

The Club fosters the spirit of KONČAR employees as the largest number of the members worked for all their years of service with KONČAR. The Club is open twice a week and it is regularly visited by some fifty members during work days, what is almost 4500 visits in the year of 2007.

During the stay in Club, the members have at disposal an abundant library, computer, TV and various social games. All the activities of the Club are performed through the work of 6 boards: for culture, recreation and sports, technical activity, social welfare, information and control.

During 2007, pensioners organised series of lectures and culture evenings, equipped the Club with new attractions, arranged the library that has 400 titles and visited 7 exhibitions and 6 theatrical performances. They organised 9 one-day and 2 two-day trips rich in attractions at which totally 590 participants took part.

The members of the pensioner club do not forget either the persons who cannot visit the club due to health difficulties and they visit them regularly for contacts, keeping company and providing material aid.

The activity of the Club is supported by KONČAR d.d. and the companies of KONČAR Group.

ONE MAN - HUNDRED LIVES

This year too, in cooperation with the Red Cross of the Town of Zagreb, KONČAR organised with the Institute for Transfusion Medicine of the RH three actions of blood donation at the Region of Zagreb. KONČAR is one of the strongest blood donors in the Region of Zagreb, what is the sign of a high moral value and conscience of employees.

This year, Croatian Red Cross handed the greatest recognition - a gold coin of Red Cross - to the employee, Dušan Radanović who performed blood donations for the hundredth time.

WAR VETERANS AND THEIR FAMILIES

Every year, at the beginning of December, the members of the unit for the defence of KONČAR, organised at the address of Fallerovo Šetalište at the time of aggression against Croatia, in the year of 1991, are traditionally gathered at the memorial erected to the honour of twenty two employees who were killed in the Patriotic Defence War. Except the annual gathering, various other activities are organised, as the care of children and the families of the killed war veterans.

Sports Societies Carrying the Name of KONČAR

Investing into sports and recreation is directed to the sports in which the competitors realise significant success and gather a considerable number of the young. With it, especial role belongs to the sports societies with which a long-term cooperation has been realised, and which carry the name of KONČAR.

SHOOTING CLUB "KONČAR ZAGREB 1786"

Shooting Society of "KONČAR - Zagreb 1786" was established in 1948 and it is successor of the First Civic Shooting Society registered in 1786. Since 1993, the society carries the name of KONČAR. In the past year of 2007, the Society had 135 members.

During years, the sportsmen gathered in this society participated at the most significant competitions, including European and world championships, and the Olympic Games at which they achieved significant results.

In 2007, totally twelve shooters of the Society took place in Croatian representations at international championships, and eight shooters of the Society conquered the title of the champion of Croatia.

SKI CLUB KONČAR

Ski Club KONČAR has been active for already 50 years. During that time, it gathered numerous enthusiastic skiers, being the best Club of Zagreb; they have created, by means of their results, an obvious potential for a breakthrough of the club to the very top of Croatian skiing.

At "Gorenje CROSKI Cup" in 2007, the Ski Club of KONČAR, it took second place behind the ski club of Rijeka, by means of what it defended the position of the best club of Zagreb. Nowadays it gathers the best ski-competitors of the youngest categories in Croatia.

KONČAR - A Sponsor Of The World Table Tennis Championship In Zagreb

WORLD TABLE TENNIS CHAMPIONSHIP
21 - 27 July 2007

KONČAR was a sponsor of the World Table Tennis Championship in Zagreb at which the sportsmen and delegates participated from 132 countries. There were 397 tennis players (men) and 311 lady-players and more than 200 coaches, physicians and physiotherapists, and with sports championships, the other activities were also organised.

CANOE CLUB KONČAR

Canoe Club KONČAR was established in 1951. In 2006, its members conquered a bronze medal in a team ride at the World Championship at the wild waters race, as well as five medals at the World Cup in the same discipline. The Club was included into the organisation of the three kayaking camps and schools (SRC Jarun, the Island of Obonjan, and Donja Dubrava).

CHESS CLUB KONČAR

The oldest active sports society of KONČAR name is a Chess Club KONČAR, registered in Zagreb in 1949. In 2007, the Club had 55 members, of which 17 most active ones were registered in the Chess Association of Croatia. With the Chess Club of KONČAR, the generations attended at chess, but also the life school.

Financial Consequences and other Risks connected with Climatic Changes

As KONČAR is especially engaged in energy sector, the issues of sustainability connected with energy sources, production, transmission and distribution of electricity, but also to climatic changes will be certainly reflected in the future operations of KONČAR; financial consequences connected with climatic changes have not yet been evaluated. The challenges refer especially to permanent changes in production technology, transmission and distribution of energy, due to the necessity of continuous improvement of energy efficiency of renewable energy sources, wherever possible and economically justified. For those challenges, KONČAR prepared the investing into new technologies, through the development and placeman of new products at the principles of energy efficiency and the use of renewable energy sources (e.g. a project of wind farms), products with reduced losses, savings with the use of material, care of the reduction of harmful impact on environments, as well as rendering the services to interested citizens, firms and institutions with the preparation of energy surveys and studies, designing, execution and maintenance of energy efficient systems. The latter is developed within the project of the "Stimulation of energy efficiency".

Government Financial Assistance

KONČAR Group has not received any major financial aid from the Government or central State in 2007. The contracts with public enterprises (or some other representatives of the public sector), which refer to the delivery of goods and/or rendering the services, were obtained in line with the law, at public bid invitations, and there are no elements of Government supports in them.



Ratio range of a standard starting wage compared with the local minimal wage at the major places of operations

The wages of employees in other countries are competitive, and in many cases usually larger than the local ones (especially in developing countries). With it, all the applicable law regulations are respected in any particular country and particular market. That refers to the employed in the agency offices or temporary employed at the construction sites for which KONČAR delivers equipment.

Policy, practice and the share of consumption of the products and services of domestic suppliers in the major places of operations

Business activities are predominantly performed in Croatia, and the presence at foreign markets is realised in the form of equipment export and/or participation in complex infrastructural projects at different locations. The share of domestic suppliers and labour force is therefore small, and it can be increased only by a stronger presence at key export markets, especially in neighbouring countries, which are already now represented in export.



Indirect Economic Impacts

By professional and efficient executing the projects for the public sector clients in Croatia and abroad, the KONČAR Group indirectly acts on the quality of infrastructure and rendering public services. Here prominent projects are at the domain of electro-energy (production plants, transmission and distribution of electricity) and public transport (railway and tram). The development of the project of wind parks offers its contribution to the use of renewable energy sources, which has wider significance of the community.

4. ENVIRONMENTAL DIMENSION

By means of environment impact management, especial attention is paid to the whole Group. KONČAR has a defined Policy of environment management that is available in public at the web page of www.koncar.hr and all the employees are informed on it.

KONČAR manages all the aspects of environment; reducing negative effects of its activities, it permanently improves the achieved results at the domain of environment management, respecting entirely the Croatian law and regulations and applying the international standards. Required organisational, vocational and financial resources have been provided for the purpose; the persons at the top position, with the business responsibility for the environmental aspects of the surroundings are the member of the Management in charge of legal, administrative and HR affairs and the director of the company of Energy and Services, which takes systematic care for all the infrastructural installations at the locations and realises synergic effects. The following belong to the objectives of environmental dimension of operations:



Energy

Among the products based on renewable energy, a project of wind parks is developed and also other projects at the domain of renewable energy sources.

The attempts are made to apply energy efficiency, as a principle, there, wherever technologically and economically feasible. With respect to the initiatives for creating energetically efficient products, the following have been developed: intelligent switchboard - IPR (in cooperation with the Faculty of Electronic Engineering and Computing in Zagreb), air-conditioning boiler device and combined boiler-storage tanks.

Energy Efficiency Corner

Energy Efficiency Corner was opened at the exhibition-sales showroom of KONČAR in Zagreb within the project of stimulating energy efficiency in Croatia that is implemented by the Ministry of Economy, Labour and Entrepreneurship and the United Nations Development Program (UNDP). The target of the project is to stimulate the measures for the improvement of energy efficiency at the sector of housing and servicing activities and the stimulation of the development of sustainable market for the products and services intended to the efficiency of energy. A project of so called intelligent house was also presented; a concept including the development of intelligent system of energy consumption control in household, and it has been developed by the firm KONČAR Household Appliances Ltd. in cooperation with the Faculty of Electronic Engineering and Computing in Zagreb, with the support of the UNDP's designing office for stimulating efficient energy consumption.



Biodiversity

KONČAR Group does not own any land, nor has leased it or manages it in protected areas or at their immediate vicinity, or at the areas of major biologic variety outside of the protected regions.

The construction of electro-energy structures is an activity that can contain risks at the domain of environment protection, and especially, of biologic variety. The decisions on the position and construction of the structures are made by the investors that are, with it, obliged to respect relevant regulations and environment protection standards. After that, the investors invite tenders for the acquisition of equipment, where KONČAR appears as a potential equipment supplier.

With its products, KONČAR meets the top standards of the safety of the equipment that it supplies, with the minimum influence on environment. By now, no complaints or incidents have appeared in that respect.

REPORT ACCORDING TO GRI3

Influence of products and services on environment

Within product research and development, the effects of the products on environment are tried to reduce by means of the use of contemporary technologies, which are in the sense of energy, more efficient, requesting smaller consumption of resources, emitting less waste substances and in general, of a smaller influence on the environment during the use. The range of alleviating the effects has not yet been analysed.

The most products of KONČAR Group are specific: the question is of the unique and small-series products to be built into the facilities (power equipment, plants, assemblies etc.) and/or after their development and testing, they are put into function (e.g. trams, hydro-power stations and transformer stations). The clients as a rule belong to the public or business market, and more rarely, the question is of end users (although here too, there exist exceptions - e.g. domestic appliances, computers, etc.).



Compliance with Environmental Regulations

No major fines or non-pecuniary sanctions have been registered due to non-adhering to the environment protection law or regulations. The component part of the business policy is permanent emphasising and adhering to the environment protection regulations.



5. SOCIAL DIMENSION

Social dimension of sustainability concerns to the effect of the organisation to social systems within which it acts. In this report, it is divided into the segments of labour and labour relations, human rights, cooperation with community and responsibility for the product.

Labour Practises, Dignified Work and Human Rights

The important determinant of the KONČAR's strategy is to direct the development of the Group to creating the company of knowledge founded on the quality of HR and total intellectual capital. Due to increased requirements for competitiveness, professional development of the employees and the efficient management of human resources are among the most important priorities of the organisation.

With the regulation of labour relations and internal organisation, KONČAR Group companies respect the valid regulations, collective and individual contracts and protect human and civil rights, dignity and reputation of every employee. No discrimination is permitted or disturbing the employees due to their sex, race, religious, national or political affiliation, physical defects, age, family status, personal characteristics or persuasions. KONČAR provides for safe labour conditions, what understands risks reduced to minimum at the domain of health and safety and providing for corresponding training and assurance from the consequences of such risks, where suitable. The freedom of association and collective bargaining is not restricted. The persons with permanent or temporary especial needs are treated with equal rights with employment and performing work duties, but with taking their especial needs into consideration. At the domain of labour relations, the most responsible person is the member of the Management KONČAR Electrical Industry Inc. in charges of legal, general administrative and personnel affairs.

Employment and the Employee Structure

At the end of 2007, there were 4,217 employees with KONČAR Group. Of the total number of employees, about 5% contracts (annual average) is for a temporary period of time, and the rest is employed permanently. The structure of qualifications was also improved in the year of 2007.

Among the employed, KONČAR employs eight doctors of sciences, 58 with master degree, 721 with completed college and 416, with two additional years after secondary school completed. Average age of the employees amounted 43 in 2007; the same level was recorded in the years of 2004, 2005 and 2006.

REPORT ACCORDING TO GRI3

Predominant employment with KONČAR is the one for indefinite period of time, with full work hours, while the employees for a temporary period of time, during the term of the employment contract, enjoy the same rights as the employees for the indefinite term of employment contract; according to the valid collective agreement.

Two persons are employed in each of the agencies in Belgrade (Serbia) and Mostar (Bosnia and Herzegovina). Occasionally, local labour force is employed at the construction sites in line with the needs of the execution of major projects at distant regions.

Croatia domain trends show that the inflow mainly refers to newly employed of younger and high-educated employees, and outflow represents those to be retired and the smaller interventions of restructuring in particular companies.

Based on National Classification of Professions, KONČAR Group established for its needs a standard classification of professions adopted in 2004, which is common for all the companies of KONČAR Group and which contains totally 750 professions.





Collective Agreements and Employee Rights

The first collective agreement was concluded with the Metal Worker Unions of Croatia in the year of 1996 and it is applied to all the employees. The collective agreement has been revised several times. The latest amendments were adopted in October 2004. At the end of 2007, the bargaining was started with respect to the modifications of the Collective Agreement.

The notifications referring to major changes in operations are given according to the Labour Act; dismissal periods are between 7 days and 3 months, and they are not especially stated in the Collective Agreement.

The information on major changes in operations are presented to the Workers' Council, respectively if it does not exist in a particular company, to the main Union Representative. As a rule, too, twice a year the assemblies of workers are held in the companies of KONČAR Group at which all the relevant information are given with respect to the operations and the plans of the Company.

Health and Safety at Work

The issues concerning health and security are included into Collective Agreements. According to the positive law regulations, the most of the companies have a Safety at Work Board the member of which is also a physician of industrial medicine who is engaged by means of a contract. In cooperation with the industrial medical practitioner, all the issues connected with health condition of the workers and performing the jobs to which they have been appointed are resolved, as a rule, through this Board.

According to the Safety at Work Act, in all the companies, certain number of workers has been enabled to render the first aid. At every 50 workers, one worker is enabled to render the first aid. Due to well-organised safety system and safety at work, no needs were registered for further extension of the program of counselling, prevention or control of the risk, what is confirmed by a low percent of injuries and the cases of professional disablement. In case of a major disease or death of the members of closer family, a pecuniary aid is foreseen according to the Collective Agreement and the Company's Work Regulations.

Training and Education

As per requirements, there is the increase of the number of employees that participate as various forms of education and improvement, and in parallel, total average investing into education is increased.

Table 7 - Education of employees as per the forms of education

Number of employees	2005	2006	2007
Postgraduate studies	23	33	86
Foreign languages	180	168	232
Computer knowledge	440	460	339
Seminars and lectures	1,900	1,920	1,529

Lifelong Learnings Programmes

KONČAR Group leads a systematic care for vocational development of the employees, from the moment of their employment, and further on.

The trainees, who are employed for the first time after school, are introduced by the companies to the jobs and tasks at their working places.





An especial seminar is organised by KONČAR Electrical Industry Inc. several times a year for all the trainees and newly-employed persons. In 2007, there were three seminars, attended by 123 trainees from 14 companies. Besides elementary informing on the organisation, total production program, references, market activities, promotion, social responsibility, and other activities at KONČAR, trainees visited the factories at the locations of Jankomir, Borongaj, Sestvetski Kraljevac and Fallerovo, having got informed on their production processes.

Besides, within the seminars, the visits to significant facilities were organised, which were constructed by KONČAR or to the construction sites (Transformer station of Žerjavinec and Hydro-Power Plant of Lešće under construction).

Learning and improvement of foreign language skills is organised in conformity with the needs of jobs performing so besides the learning of foreign languages, in line with the needs to perform some jobs, besides the usual world languages, one learns the languages required for KONČAR at particular markets and for the execution of the works in such countries.

Computer skills and improvement are performed mainly within KONČAR at the standard, or especially prepared methods and courses in line with the needs. For specialist knowledge, specialised seminars are used outside of KONČAR.

REPORT ACCORDING TO GRI3

At the postgraduate studies (specialist studies, postgraduate and doctors' studies) 86 highly educated employees have been included.

Cooperation with faculties is developed too, especially with the Faculty of Electronic Civil Engineering and Computing, then Polytechnic College and the Faculty of Economy, Faculty of Law, etc. Besides participating at the process of education, KONČAR employees are also recruited as the lecturers of particular subjects at the undergraduate, specialist and postgraduate studies.

Seminars are organised for the needs of professional and specialist education either in KONČAR or the professionals participate at the seminars, conferences, specialised courses inland or abroad, for the domains connected with the development and production and also for legal, sales, financial, marketing and other segments of operations.

"20 keys"

In 6 companies (Generators and Motors, Electronic and Computer Engineering, Metal Structures, Small Appliances, Electro-Vehicles and Household Appliances) a Program of Competitiveness Improving is implemented at the companies as per the methodology of "20 Keys". The Program is applied in cooperation with the Ministry of Economy and the consulting-audit firm of Deloitte&Touche. It includes 20 practical and integrated methods for the improvement of operations. The world firms that apply it realised a considerable increase in productivity through the improvement of the quality of products and services, through their prompt deliveries and lower prices. Positive results and shifts with operations are visible also at KONČAR.



Variety and Equal Possibilities of Employees

Composition of management organs and the structure of employees as per categories of sex, age group, minority affiliation and other indicators of variety

As of 31 December 2007, among the members of the Management of the Parent (KONČAR Electrical Industry Inc.), there were five men and one woman, and among the members of the managements of the companies, there were 37 men and one woman.

Free Time and Recreation of Employees

KONČAR supports the activities of employees and their guests at the companionship through sports activities. Besides regular recreation, several sports events have become tradition; they are held on regular basis and attract ever larger number of the interested. Besides joint activities organised at the level of the Group, most of the companies organises also the own recreational-sports activities for their employees.

INDOOR FOOTBALL

In the organisation of the Union Coordination of 2007, under the sponsorship of KONČAR, a seventh Christmas Indoor-Football Tournament was held for the football recreational group. The Tournament initiated more interest the previous ones. 11 teams were registered for the category of veterans, and 20 teams for the category of seniors. A big number of the registered teams and numerous onlookers this time, too, confirmed the wish of KONČAR employees for mutual companionship and sports competition. At the championship, the winners were the team of KONČAR Generators and Motors at the category of veterans and KONČAR Engineering for Energy and Transport, at the category of seniors.



TENNIS

Tennis Tournament 'KONČAR 07' was held also this year for the sixth time. This open tennis tournament of the mixed pairs attracted 32 players who competed for the best placement and attractive prizes. The competitors competed in the categories of champions, grand masters, masters and Olympic class players

Human Rights

No discrimination cases have been noticed based on sex, race, age, national affiliation, political or religious convictions or other applicable criteria. With HR management and adopting other relevant business decisions, the principles of equal rights and equalised criteria are respected.

Freedom of Association and Collective Bargaining

At all the companies of the Group and all business activities, there is freedom of association and collective bargaining. There were no cases of limitations. That goes also for business activities outside of Croatia.

Child, Compulsory and Forced work

KONČAR deals with respecting positive law regulations that prohibit child work and adhering to the Constitution and positive law regulations that prohibit forced and compulsory work.



Community

Due to the products that it develops and builds into different infrastructural systems, with its business activities KONČAR directly influences the functioning of the many aspects of the life in the community, especially the production and supply of energy and public transport (by railway and trams).

The business activities, but also the relationship with the social community are founded on the principles of social responsibility, including the reduction of risk and producing maximally positive effects, especially at the segments where there is a great responsibility for it, what is certainly the domain of energy and the transport of people.

Those influences are mutually complemented with the activities that have the objective to directly support the individuals and groups for the projects at the domains of culture, sports, education, science, humanitarian activities, etc. Due to a considerable share of the operations in the public sector, the issue of transparency of the operations, adhering to the regulations, anticorruption activity and participation in the formation of public policies are treated with especial attention.

According to the signed and adopted Code of Ethics in the operations, political effects and the influences on the judicial authorities are not permitted. Intervening on behalf of the own interests with the defining of public policies and adopting or amendments of the regulations is implemented transparently and through business associations and other institutional channels. The Management of KONČAR Group is responsible for the domain of the relationship with the community.

Corruption

The company's memorandums of association and the foundation charters of the companies regulate that all the materially important contracts must be analysed and adopted by the Supervisory Board. Within the audit, the contracts and other documents, which could point to the cases of corruption, are analysed. Besides this practice, it is considered not to be efficient to analyse the very business units as the whole, if it is connected with the risks related to corruption. At the other side, an employee, business partner or a third side, which have circumstantial evidences on a corruption in a particular situation, can report it to the Management or to competent authorities of the State.

Corruption is treated as unacceptable, irrelevantly of a motif, grounds, way or consequences of corruptive action. That is presented to all the employees, although not in the form of a separate training.

No corruption cases have been recorded in the Group so there was no need to supplement the measures directed against corruptive practice.

Public Policy

KONČAR supports investments into infrastructure, including production plants, transmission and distribution of the energy and the modernisation of the system of public urban and intercity transport. It can see in them the own business policy and as well, the contribution to the development of the social community, contributing to a better quality of life of the citizens, to the efficiency of the operations and the safety of energy supply. With it, it is in parallel insisted on the high standards of environment protection and responsible consumption of the resources from public sources. The importance of creating the stimulating conditions for the export-oriented firms is also emphasised with the objective of the increase of export competitiveness of Croatian products and firms in the foreign markets. The mentioned attitudes are taken by the representatives of KONČAR in public and within business associations and professional organisations, and especially through Croatian Chamber of Economy and the Association of Croatian Exporters (the president of which is also the president of the Management of KONČAR Electrical Industry Inc.).

KONČAR does not give donations to political parties or sponsors or donates any political activities inland or abroad. That domain is therefore not regulated by any internal enactment.

REPORT ACCORDING TO GRI3

Anti-Competitive Behaviour

No proceedings have been initiated against KONČAR Group with respect to the violation of the freedom of market competition, trust or monopolistic practice.

There were no significant fines or non-pecuniary sanctions due to non-adhering to laws and regulations.

Product Responsibility

Due to variety of KONČAR Group products, it is not possible to define and apply the unique policy of the responsibility for the product, except at a very principled level, but in all the product groups, a permanent care is taken about:

- health and safety of buyers
- correct and useful marks, and the availability of all information necessary for correct manipulation and use
- services provided in guarantee period also outside of guarantee
- provided disposal after the end of a service life in line with the legal provisions
- adhering to all other regulations and standards.



There is a trial and guarantee period for the products after which, upon the putting into circulation, equipment is adjusted with other equipment, corrected and possible defects and maladjustments are removed.

When the question is of the products intended for the building into plants, the period of development, production and tests serves for adjusting specifications and characteristics with the requests of buyers, various regulations and standards which must be satisfied by a product, including safety at the use, manipulation and maintenance.

With respect to complexity of particular products and plants, the servicing and spare parts are provided for in guarantee and outside of guarantee period..

At this market segment, marketing is based on the promotion of references for up-till-now delivered products and equipment, on the quality, price, delivery times and post sales services, on satisfying the clients' requests and building the partnership relations with the enterprises with which joint appearance in the market are organised and a direct contact with potential clients through fairs, professional conferences, presentations, economic delegations and other events.

As per the Code of Ethics in operations, the products and services must possess the declared quality and performances and to be safe and acceptable for health with the intended use.

All the companies at KONČAR that act in the market possess certificates of ISO 9001. At the domain of the responsibility for the product, the directors of particular companies are responsible. At the level of the Parent, a part of responsibility bears the member of the Management in charge of the particular business domain.

INFORMATION AND MARKS ON PRODUCTS AND SERVICES

Every product and plant has the mark of manufacturers, basic technical data usual for that product category and especial data that are characteristic or significant for that product. For the more complex products and plants, technical descriptions are prepared and the instructions for safe use of the products, which are in accordance with the needs of the client and user. There are no data on the scope in which the mentioned descriptions contain the data pointing to the influence of the product to the sustainability (e.g. used substances that can have impact on environment, disposal of a product after its service life, etc.).

CUSTOMER SATISFACTION

All the companies having certified systems of quality management examine the satisfaction of the buyers. In accordance with the categories of the products (e.g. computer, transformer, motor, cooking stove, tram), the companies have defined procedures, which define the methods and frequency of evaluating the satisfaction of the buyers. There are no consolidated data on the results of these examinations.



REPORT ACCORDING TO GRI3

MARKETING COMMUNICATIONS

The application of the Code of Ethics in Operations, which is signed by KONČAR Electrical Industry Inc. imposes the obligation also to responsible marketing communications. In the programs of marketing communication, KONČAR addresses at the first place to target groups of the users, emphasising the quality of the product and references and the possibility of production of the Group, with the maximum respecting the Law, standards and voluntary codes that refer to marketing communications. With it, the untrue or offensive facts are not used which could offend any segment or a group, including competitors. Besides the own possibilities, the general social values are also subject of promotion, which stimulate to technologic, economic and social development.





6. OVERVIEW OF GRI3 INDICATORS

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IV. GC AND GRI3 COMPARATIVE TABLE



tradition. knowledge. responsibility.

GC AND GRI3 COMPARATIVE TABLE

SOCIAL VALUES	GC PRINCIPLES		GRI3 INDICATORS
HUMAN RIGHTS	1. PRINCIPLE	Businesses should support and respect the protection of internationally proclaimed human rights.	EC5, LA4, LA8, LA9, LA13, LA14, HR4, HR5, HR6, HR7, S05
	2. PRINCIPLE	Businesses should make sure they are not complicit in human rights abuses.	HR4, HR5, HR6, HR7, S05
LABOUR	3. PRINCIPLE	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA4, LA5, HR5, S05
	4. PRINCIPLE	Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7, S05
	5. PRINCIPLE	The effective abolition of child labour.	HR6, S05
	6. PRINCIPLE	The elimination of discrimination in respect of employment and occupation.	EC7, LA2, LA13, LA14, HR4, S05
ENVIRONMENT	7. PRINCIPLE	Businesses should support a precautionary approach to environmental challenges.	EC2, EN26, S05
	8. PRINCIPLE	Undertake initiatives to promote greater environmental responsibility.	EN6, EN11, EN12, EN26, EN27, EN28, S05, PR3
ELIMINATION OF CORRUPTION	9. PRINCIPLE	Business should encourage the development and diffusion of environmentally friendly technologies.	EN6, EN26, EN27, S05
	10. PRINCIPLE	Businesses should work against corruption in all its forms, including extortion and bribery.	S02, S03, S04, S05, S06

The abbreviations used in the text

KONČAR Group	KONČAR - Electrical Industry Inc., subsidiaries and affiliated companies
KONČAR d.d.	KONČAR - Electrical Industry Inc.
Parent Company	KONČAR - Electrical Industry Inc.
KSKZ	KONČAR's standard job classification
TMK	Tramcar vehicle TMK
GRI3	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.)
HFP	Croatian Privatisation Fund
HZMO	Croatian Pension Insurance Institute
INA	Croatian Oil Industry Inc.
PBZ	Privredna Banka Zagreb d.d.,
RBA	Raiffeisen Bank Austria d.d.,
ZET	Zagreb Holding Ltd., Zagreb Electrical Tram Company

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