

# Corporate Social Responsibility Report 2008



tradition. knowledge. responsibility.



**KONČAR**

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Corporate  
Social Responsibility  
Report 2008



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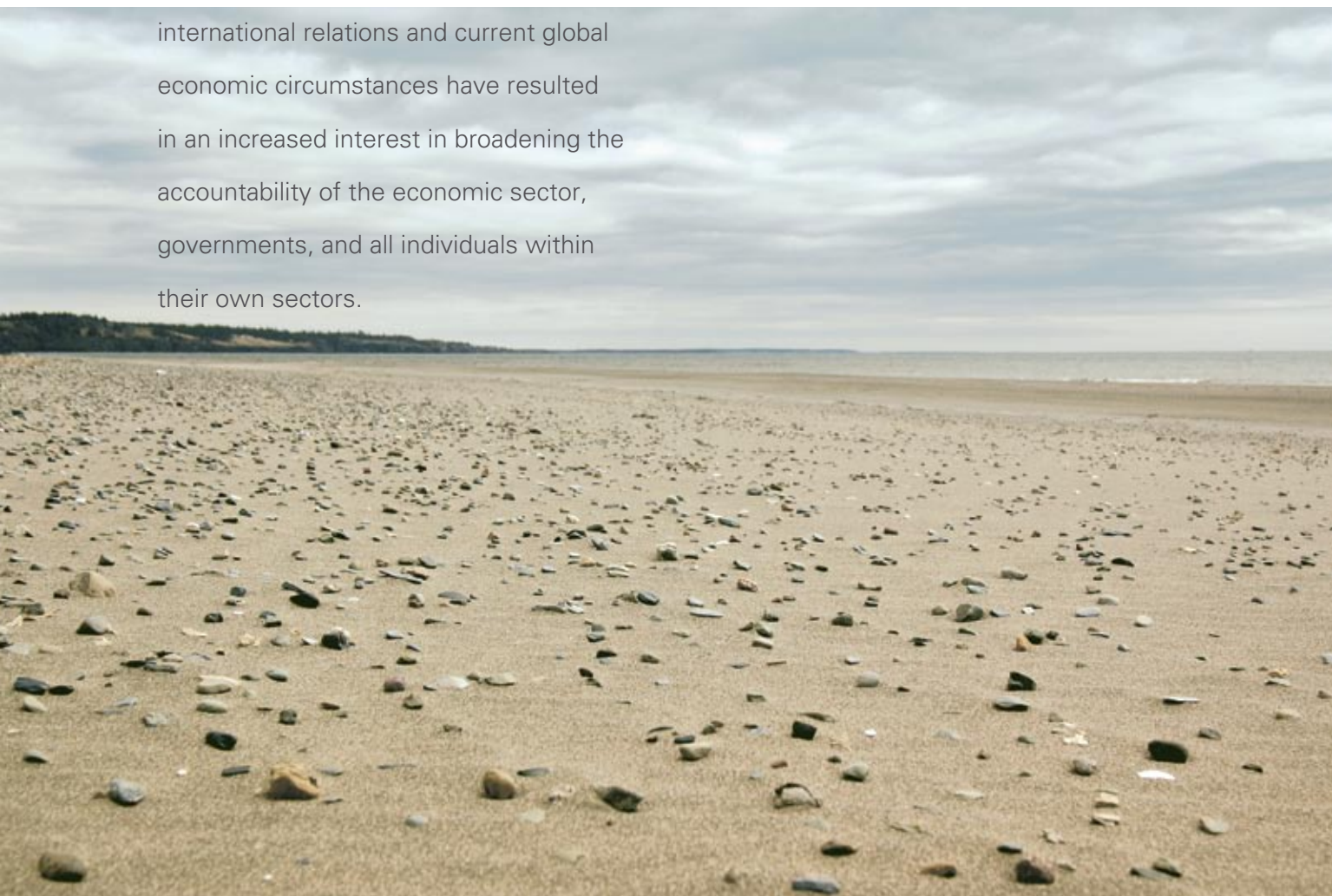
### THE ABBREVIATIONS USED IN THE TEXT

KONČAR Group	KONČAR - Electrical Industry Inc. and dependent companies
KONČAR Inc.	KONČAR - Electrical Industry Inc.
Parent company	KONČAR - Electrical Industry Inc.
KCCP	KONČAR standard classification of professions
TMK	Tramcar
GRI3	Global reporting initiative
HAC	Croatian Motorways Ltd.
HC	Croatian Roads Ltd.
HEP	Hrvatska elektroprivreda d.d. (Croatian Power Authority Inc.)
HFP	Croatian Privatization Fund
HZMO	Croatian Pension Insurance Institute
INA	INA - Industrija nafte Inc. (Oil industry Inc.)
PBZ	Privredna banka Zagreb Ltd.
RBA	Raiffeisen Bank Austria Ltd.
ZET	Zagreb Electric Tram Ltd. (until 2006) / Zagrebački holding, subsidiary Zagreb Electric Tram (since 2006)



## I. FOREWORD BY THE CHAIRMAN OF THE BOARD

The great challenges stemming from such processes as significant changes in international relations and current global economic circumstances have resulted in an increased interest in broadening the accountability of the economic sector, governments, and all individuals within their own sectors.



For the third year in row KONČAR is reporting on its activities in the area of social responsibility. That is itself an indicator of the high priority given to social responsibility in the company's strategy as well as daily business practice and communication with its shareholders. The reports have been adjusted to match the internationally accepted guidelines of the Global Reporting Initiative. KONČAR's 2007 report has been published on the Global Reporting Initiative and Global Compact's official web pages.

The great challenges stemming from such processes as significant changes in international relations and current global economic circumstances have resulted in an increased interest in broadening the accountability of the economic sector, governments, and all individuals within their own sectors. Previously recognized difficulties that have arisen throughout the world compel manufacturing companies first and foremost, as well as everyone else, to act in a way that promotes social values.

Concurrent to international developments and trends, KONČAR has signaled its agreement with and commitment to acceptance of the UN's Global Compact initiative, pledging to do business in keeping with those principles. Its first report in compliance with the Global Compact's principles was published for 2007.

KONČAR gives great consideration to furthering its employees' wellbeing. A high premium is placed on insuring secure work areas, excellent security standards, a good environment, health protection, continuing education and training, and quality free time and recreation, as well as anything else that may improve employees' lives. Throughout its operations, the management bears in mind that employees are KONČAR's greatest asset.

The environment, whether in the immediate workplace or outside areas where products are delivered, is one of the key concerns that the company takes an interest in at every phase of the planning, production and installation of its wares. Reduction of harmful influences, materials used and technologies applied, multiple controls and a high consideration for employees guarantee the safe and efficient use of KONČAR's

products and equipment. This is further evidenced by the fact that KONČAR exports its products and equipment to many countries which require respect for the maximum ecological standards.

KONČAR's collaboration with society at large and its environs is widespread and diverse. Based on generally accepted principles, The Company continuously promotes positive values, human dignity and satisfaction. Through very concrete activities, it joins in with the life of the community. It shows particular sensitivity to the needs of children and young adults by investing in their education, training and sports activities. Another group the company focuses its support on is the differently abled and in doing so KONČAR takes part in many humanitarian actions.

In its relationships with business partners and shareholders, KONČAR is recognized as a trustworthy and desirable partner. The delivery of goods to many countries on every continent demonstrates that even in the most exigent market conditions KONČAR's products and equipment reliably find their way to customers.

Considering its positions on responsibility towards employees, their families, the environment, business partners and all shareholders, in 2008 KONČAR clearly behaved as a socially responsible company whose goals and awareness go far beyond financial incentives. This report gives an overview of some of the most significant activities which reveal the breadth of interest and scale of activities of KONČAR as it aims to incorporate the principles of social responsibility into its daily business operations and life in the Company at all levels.

Darinko Bago  
Chairman of the Board  
KONČAR - Electrical industry Inc.



## II. REPORT ACCORDING TO GLOBAL COMPACT





**PRINCIPLE 1****Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence**

KONČAR Group protects human and civil rights, the dignity and respectability of every employee and its shareholders, as well as all other people within KONČAR's sphere of activity.

Employees, as custodians of the development, production and growth of KONČAR, are the company's greatest asset; therefore no maltreatment of or discrimination against employees is permitted due to gender, religion, race, national or political affiliation, physical disabilities, age, family status, personal characteristics or persuasions.

The Collective Agreement and other acts define extra-legal rights, including freedom of association and collective bargaining powers for all employees of KONČAR Group. The bargaining process aimed at improving conditions as prescribed by the Collective Agreement is continuously in progress.

**PRINCIPLE 2****Businesses should ensure they are not complicit in human rights abuses**

The Code of Business Ethics (signed by KONČAR on May 12, 2005) obliges the company to act in keeping with the principles of responsibility, truthfulness, efficiency, transparency, quality, proceeding in good faith and respecting fair business practices toward its business partners, business and social environments and its own employees.

The Labor Act and Collective Agreement prescribe the rights, liabilities and responsibilities of employees. Two-way communication and cooperation between the Management and employees are integral parts 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 are made possible for each and every one of KONČAR Group's 4,200 employees.

KONČAR employees are members of the Metal Workers Union Coordination of Croatia, as well as the Electrical Industry Unions of Croatia.

#### **PRINCIPLE 4**

Businesses should eliminate all forms of forced and compulsory labor

Satisfied and motivated employees are a company's most valuable asset. Therefore, each individual's skills and professionalism at work, his or her professional improvement and the fair evaluation of work, progress and all other activities that may contribute to one's overall satisfaction are fostered within KONČAR.

KONČAR operates with respect to the Constitution and positive legal requirements which forbid forced and/or compulsory labor and does not have any record of utilizing such labor.

#### **PRINCIPLE 5**

Businesses should uphold the effective abolition of child labor

KONČAR operates with respect to positive legal requirements which forbid the use of child labor and does not employ children for any business activities whatsoever.

#### **PRINCIPLE 6**

Businesses should uphold the elimination of discrimination during employment and at work

There is no employment discrimination in KONČAR in regard to gender, religion, race, national or political affiliation, age, family status, personal characteristics or persuasions, or disability.

Respect is paid to principles of equal rights and respect for human dignity throughout the process of managing human resources and implementing pertinent business decisions.

#### **PRINCIPLE 7**

Businesses should support a preventive approach to environmental challenges

KONČAR has designated the Environmental Management Policy as one of its fundamental documents, which is familiar to all employees. In its daily activities, KONČAR and its subsidiaries contribute to the achievement of environmental preservation goals throughout their personal surroundings, as well as through the use and creation of products and facilities that use natural resources and may have an impact on the environment.

**PRINCIPLE 8****Businesses should undertake initiatives to promote greater environmental responsibility**

KONČAR products operate in many diverse natural environments, especially impacting on the use of natural resources as well as inhabited areas. It is thus important to continuously develop and apply solutions that minimize potentially harmful effects on nature equilibrium. Upholding the values of environmental responsibility is the duty of every KONČAR employee.

The environmental protection policy is thought through strategically and achieved through established Quality Management Systems (ISO 9001) and Health Protection and Safety at Work (OHSAS 18001).

**PRINCIPLE 9****Businesses should encourage the development and diffusion of environmentally friendly technologies**

KONČAR continuously develops technologies that reduce the harmful effects of human industry on the environment, using state-of-the-art technologies, raw materials and domain-specific knowledge.

Energy efficiency as a basic operating principle is applied in every area where it is technologically and economically feasible.

KONČAR invests in the development of new and existing products, especially in the arena of renewable energy sources.

**PRINCIPLE 10****Businesses should work against corruption in all forms, including extortion and bribery**

In KONČAR corruption is treated as unacceptable, regardless of any underlying motives, rationale, means or consequences of the corruptive action. The statutes and founding charters of each KONČAR company declare that all significantly important contracts must be analyzed and approved by the supervisory boards.

KONČAR does not give donations to any political parties, nor does it sponsor or contribute to any political activities in Croatia or abroad.

### III. REPORT ACCORDING TO GRI3



## 1. Company profile

This report has been prepared by KONČAR Group, which consists of KONČAR Electrical Industry Inc., as the Parent company, and 20 dependent companies in which the Parent has a controlling interest (more than 50% of votes at Annual General Meetings). Over and above common stocks, part of the company also holds preferred stocks. Additionally, the Parent has a minority interest (49% votes at AGM) in one affiliated company.

Subsidiaries act under the name KONČAR, to which they add their firm's name.

The headquarters of the Parent of the Group (KONČAR Electrical Industry Inc.) are located in Zagreb, Fallerovo šetalište 22.

KONČAR Group's business activities are divided into the following areas:

**Energy and Transport:** design and construction of plants for the production, transfer and distribution of electric energy and ancillary equipment, thyristor locomotives, trams and electric equipment for lineside electric traction facilities;

**Industry:** electric motor plants, medium and low voltage electric equipment, and catering equipment;

**Trading:** electric household appliances, serial products and low-voltage electrical appliances;

**Special activities:** research and development of products and infrastructural services.

### ORGANIZATIONAL STRUCTURE

KONČAR - Electrical Industry Inc.			
<b>ENERGY AND TRANSPORT</b>	<b>INDUSTRY AND TRADE</b>	<b>SPECIAL ACTIVITIES</b>	<b>COMPANIES ABROAD</b>
Power Plant and El. Traction Engineering	Household Appliances	Electrical Engineering Institute	Switzerland
Generators and Motors	Catering Equipment	Infrastructure and Services	
High Voltage Switchgear	Tools		<b>REPRESENTATIVE OFFICES</b>
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			<b>ASSOCIATED COMPANIES</b>
Metal Structures			Power Transformers
Electric Vehicles			
Eng. for Plant Installation & Commissioning			
Renewable Sources			

## OWNERSHIP STRUCTURE

KONČAR Electrical Industry Inc. is a joint stock company with 4,000 domestic and foreign investors (funds, banks, natural persons from Croatia and abroad) that influence the operations through Annual General Meetings and the Supervisory Board, which appoints the Managing Board in charge of administration. Share capital of the company amounts to 1,028,847,600.00 kunas and consists of 2,572,119 common stocks with a nominal value of 400.00 kuna apiece.

The company treats all of its shareholders in the same way and under the same terms regardless of the number of stocks they hold, their country of

origin or any other characteristics. The right to vote encompasses all shareholders to the degree that the number of votes they are entitled to at General Meetings is equal to the number of their shares.

The ten biggest shareholders of KONČAR own 80.26 % of its shares. The largest share (53.97%) belongs to the State via three main shareholders: Hrvatska Poštanska Banka - HPB (in eng. Croatian Postal Bank) / Capital Fund, Croatian Privatization Fund and Croatian Pension Insurance Institute. There were no major changes in ownership relations in 2008. KONČAR Electrical Industry Inc. is predominantly State-owned.

Table 1 - Ownership structure on December 31, 2008

Shareholder / Ownership share (%)	2006	2007	2008
Croatian Privatization Fund / HZMO	15.28	14.95	14.95
Croatian Privatization Fund	8.89	10.85	10.85
Raiffeisenbanka Austria d.d. (joint custodian account)	7.54	8.23	7.97
Kristijan Floričić	5.39	5.28	4.31
PBZ d.d. (The Bank of New York as custodian)	4.32	4.25	4.06
Societe Generale-Splitska banka d.d./ Erste Plavi obvezni mirovinski fond (in eng. Erste Blue Obligatory Pension Fund)	-	-	3.94
Societe Generale-Splitska banka d.d./Allianz ZB d.o.o. for AZ obvezni mirovinski fond (in eng. AZ Obligatory Pension Fund)	-	-	2.78
PBZ d.d. (Client joint custodian account)	5.14	5.14	1.77
Hypo-Alpe-Adria-Bank d.d./Raiffeisen mirovinsko društvo (in eng. Raiffeisen Pension Association)	1.86	0.89	1.46
Hrvatska poštanska banka d.d. (Victoria fond)	1.59	1.55	-
Other shareholders	19.80	19.31	18.36
Končar d.d. (treasury stocks)	1.41	1.38	1.38
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

On December 31, 2008 the Company had 35,511 treasury stocks (1.38 %).

## BUSINESS INDICATORS

The 2008 business year was burdened by global financial crisis, the significant slowdown of economic growth and the beginning of a recession in the real sector of developed countries. In the second half of the year, economic growth in Croatia also slowed down. Solvency worsened, in a trend that threatened to create even worse business conditions for 2009.

In 2008, KONČAR Group showed good business results. Sales income and profit rose along with the export of goods and services. Growth and development were mostly based on the Group's internal solutions and resources. The financial stability of the Group has been maintained.

Table 2 - Basic Business indicators (in 000 HRK)

	2006	2007	2008
Operating revenues	2,672,806	2,715,385	3,053,562
Products and services sales	2,552,964	2,584,854	2,874,571
Material costs			
- Raw materials and consumables, costs of services, costs of goods sold	1,896,353	1,879,627	2,125,810
Personnel costs (total)	372,893	426,806	475,876
- Wages and salaries	223,428	239,323	265,599
- Taxes, social and pension insurance	171,508	187,483	210,277
Pre-tax profit	84,773	139,585	146,165
Profit tax	16,269	23,362	16,595
Group profit	68,504	116,223	129,570
Minority interests	20,873	32,326	25,738
Net profit	47,631	83,897	103,832
Total assets	2,535,827	2,843,387	3,297,340
Total capital and reserves	1,080,405	1,367,687	1,477,074
Current assets	1,531,249	1,759,860	2,181,881
Current liabilities	930,748	980,570	1,192,194
Sales per employee	604	613	673

These business results have been achieved by approximately the same number of employees over the last three years. At the end of 2006 there were 4,224

employees; in 2007, 4,217 employees; at the end of 2008, 4,274 employees worked for KONČAR.

## BASIC BUSINESS ACTIVITIES

The production program of the companies within KONČAR Group is directed to the basic activities of energy and transport as well as household appliances. Production capacities are continuously extended by investments in modern production technologies. Thus, it is important to mention that some particular products have been adjusted to buyers' requirements, (i.e. "tailor made"), which represents KONČAR's strategic determinant.

The main activities of the Group are divided into three sectors of commerce:

- Energy and transport
- Industry
- Trade.

The sales share of the Energy and Transport sector expressed in terms of KONČAR total sales, amounts to 83%, which explains quite well why the production programs of companies within the KONČAR Group have mostly been directed at these activities.

Companies within the Group autonomously determine the degree of products and services outsourcing. Due to the technological complexity of products on one hand, and accumulated knowledge and resources within the Group on the other, some projects are fully completed within the Group itself in participation with several Group companies.

## MOST IMPORTANT MARKETS

Consolidated earnings from sales of products and services amounted to 2,874.6 million kunas. On the domestic market, sales revenue amounted to 1,586

million kunas (55%) and export sales to 1,288.6 million kunas (45% of total sales).

*Table 3 - Revenues from Sales of Products and Services by Business Areas (in 000 HRK)*

<i>Business area</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Energy and transport	2,054,709	2,140,194	2,391,103
Trade	256,153	271,419	271,221
Industry	172,769	132,211	134,959
Special activities	69,333	79,004	77,288
<b>Total</b>	<b>2,552,964</b>	<b>2,584,854</b>	<b>2,874,571</b>

Within the sales structure, earnings from sales to HEP (Croatian Power Authority) amount to 30% (actual sales valued at 470.7 million kunas). Goods and services were sold to Zagreb Electric Tram in the amount of 457.3 million kuna, or 29% of total domestic sales. Goods and services worth 255.1 million kunas were sold to enterprises in the industrial and shipbuilding doma-

ins. Products valued at 200.1 million were delivered to wholesalers and retailers; to Croatian Railways went products valued at 78 million kunas; to civil engineering companies, products in the amount of 65 million kunas; while the remaining amount of 59.8 million kunas refers to Croatian Motorways, State and Local Administration and public enterprises.



Table 4 - Sales in Croatia (in 000 HRK)

	2006	2007	2008
HEP (Croatian Power Authority)	469,967	558,101	470,739
ZET (Zagreb Electric Tram)	505,762	267,886	457,307
Industry and shipbuilding	197,586	208,750	255,030
Trade Sector	202,873	195,119	200,060
Croatian Railways	22,096	69,343	78,000
Civil Engineering Industry	48,248	40,910	64,590
State and Local Administration	38,994	22,097	27,714
Public companies (INA, etc.)	43,879	13,404	26,914
Croatian Motorways and Croatian Roads	45,259	63,037	5,599
<b>Total</b>	<b>1,574,664</b>	<b>1,438,647</b>	<b>1,585,953</b>

Earnings from the sales of goods and services on foreign markets in 2008 were achieved in the amount of 1,288.6 million kunas, which is 12.4% higher than in 2007. The most significant exports have been to European Union markets, with a value of 622.8 mil-

lion kunas; to neighboring countries (Bosnia and Herzegovina, Macedonia, Serbia, Montenegro) in the amount of 336.4 million; exports to America and Australia worth 85.9 million; to the Middle East, 65 million kunas.

Table 5 - Most Significant Export Markets of KONČAR Group in 2008 (in 000 HRK)

Countries	2006	2007	2008
Bosnia and Herzegovina	74,189	141,395	178,296
Germany	79,507	92,974	114,120
Slovenia	41,566	89,475	105,866
Macedonia	11,394	12,791	83,281
Serbia	169,990	106,325	66,697
Sweden	59,512	36,641	55,270
Canada	13,870	23,632	53,575
Czech Republic	50,131	53,344	50,493
United Arab Emirates	34,386	25,551	42,415
Hungary	21,587	48,060	40,531
Bulgaria	10,455	79,907	30,835
Finland	25,859	30,815	33,639
Netherlands	12,267	22,557	32,559
Austria	26,008	35,083	31,508
Italy	16,476	14,243	29,448
Poland	79,507	7,639	28,498
Other countries	251,596	325,775	311,587
<b>Total</b>	<b>978,300</b>	<b>1,146,207</b>	<b>1,288,618</b>

## MOST IMPORTANT AWARDS IN 2008

During 2008, we received numerous awards and much recognition for our research and development activities:

**“Zlatna kuna” - Annual Award of Croatian Chamber of Economy**

KONČAR - Distributive and Special Transformers.

**Croatian Exporters - “Golden Key” for the best exporter to Hungary**

KONČAR - Instrument transformers, INSTRUMENT TRANSFORMERS was voted Best Croatian Exporter to Hungary for 2007.

**International Exhibition of Innovations, New Ideas, Products and Technologies “ARCA 2008”**

The Great ARCA was awarded to the expert research and development teams for applied research and development of wind turbines from four KONČAR companies: Institute for Electrical Engineering, Power Plant and Electric Traction Engineering, Generators and Motors and Electronics and Informatics.

**Inventor Festival Suzhou, China**

A Gold Medal was awarded from the International organization IFIA (International Federation of Inventors' Association) for innovation “Generator and Transformer Block Monitoring System”, to a group of authors from KONČAR Institute for Electrical Engineering;

A Silver Medal went to the team of experts from KONČAR for their own project of wind turbines.

**Croatian Chamber of Commerce and Croatian Business Council for Sustainable Development**

KONČAR - Electrical Engineering Institute received the index of socially responsible business operations.

**Croatian section of the Institute of Electric and Electronic Engineers IEEE**

Award “Friend of the Croatian Section of IEEE” for special contribution was awarded to KONČAR Power Plant and Electric Traction Engineering.



In 2008, the first Croatian awards for companies which best apply socially responsible business practices were granted. The awards were established by the Croatian Chamber of Commerce and the Croatian Business Council for Sustainable Development. KONČAR - Electrical Engineering Institute was recognized as being among seven companies that have shown an exceptional level of application of practical socially responsible business procedures. Points were given based on 119 criteria in 6 separate categories: economic sustainability, involvement of socially responsible business procedures in business strategy, working environment, environmental protection, market relations, and community relations.

## 2. Governance, Commitments and Engagement

### GOVERNANCE

Companies within the Group are legally autonomous, while the Parent Company oversees their business activities, strategically directs and supports them through supervisory boards, all in line with the Company Act, the Statutes of KONČAR Electrical Industry Inc. and the

statutes of companies. The Parent also manages some assets which are not invested in the companies, but that directly or indirectly function as financial support to marketing and sales of products and equipment of affiliated companies in the form of potential collateral.

	in HRK	in HRK	%	%
<i>PARENT COMPANY AND SUBSIDIARIES</i>	<i>Total subscribed capital</i>	<i>Parent Company's subscribed capital</i>	<i>Parent Company's management influence</i>	<i>Parent Company's ownership share</i>
1	2	3	4	5
POWER PLANT AND ELECTRIC TRACTION ENGINEERING INC.	2.682.600	2.682.600	100,00	100,00
GENERATORS AND MOTORS INC.	107.927.700	107.927.700	100,00	100,00
HIGH VOLTAGE SWITCHGEAR INC.	19.600.800	12.011.700	65,09	61,28
MEDIUM VOLTAGE APPARATUS INC.	19.679.700	8.220.000	69,87	41,77
SWITCHGEAR INC.	36.966.000	16.899.000	75,04	45,71
DISTRIBUTION AND SPECIAL TRANSFORMERS INC.	38.342.400	19.827.600	67,80	51,71
INSTRUMENT TRANSFORMERS INC.	18.989.100	8.241.600	72,35	43,40
ELECTRONICS AND INFORMATICS INC.	37.126.800	27.857.700	75,03	75,03
METAL STRUCTURES INC.	24.645.600	18.486.600	75,01	75,00
ELECTRIC VEHICLES INC.	47.026.800	35.288.700	75,04	75,04
RENEWABLE SOURCES LTD.	300.000	300.000	100,00	100,00
ENGINEERING FOR PLANT INSTALLATION & COMMISSIONING INC.	11.827.500	4.552.800	76,51	38,49
SMALL ELECTRICAL MACHINES INC.	41.641.800	41.641.800	100,00	100,00
TOOLS INC.	49.166.400	49.166.400	100,00	100,00
CATERING EQUIPMENT INC.	25.447.800	25.447.800	100,00	100,00
HOUSEHOLD APPLIANCES LTD.	112.231.100	112.231.100	100,00	100,00
LOW VOLTAGE SWITCHES AND CIRCUIT BREAKERS LTD.	78.966.900	78.966.900	100,00	100,00
ELECTRICAL ENGINEERING INSTITUTE INC.	40.763.520	40.763.520	100,00	100,00
INFRASTRUCTURE AND SERVICES LTD.	49.891.600	49.891.600	100,00	100,00
KONES AG	2.455.554	1.571.554	77,50	64,00
Associated companies				
POWER TRANSFORMERS LTD.	72.764.000	35.654.400	49,00	49,00

## MANAGEMENT

The positions of the President and members of the Management Board are appointed and relieved by the Supervisory Board. The term-length of the president and board members mandate is 5 years, after which they can be reappointed. According to the Company Act and the Statutes of KONČAR Electrical Industry Inc., the Management Board is accountable for administration of business activities on its own, while it is obliged and empowered to act on behalf of and to make decisions for the benefit of the Company. For final approval on certain decisions, as prescribed by the Statutes, it is necessary to have the consent of the Supervisory Board.

During 2008, KONČAR Electrical Industry Inc. was directed by the Management Board consisting of:

Darinko Bago	CEO
Marina Kralj Miliša	Board member with responsibility for legal, general and HR matters
Jozo Miloloža	Board member with responsibility for finance
Davor Mladina	Board member with responsibility for industry and trade business areas
Božidar Piller	Board member with responsibility for energy and transport business area
Vladimir Plečko	Board member with responsibility for corporate development and ICT

## SUPERVISORY BOARD

Based on the provisions of the Company Act and the Statutes of KONČAR Electrical Industry Inc., the Annual General Meeting adopts resolutions based on the appointment and recall of the members of the Supervisory Board of the Company. The Supervisory Board is responsible for the appointment and relief of members of the Management Board, as well as oversight of KONČAR business management. For certain larger transactions (the size of which is determined in the Statutes), as well as for final approval of more significant business decisions, consent of the Supervisory board is necessary.

The Supervisory Board has 9 members:

Leo Begović	Supervisory Board Chairman
Igor Lučić	Deputy Chairman
Ante Babić	Member
Jasminka Belačić	Member
Kristijan Floričić	Member
Zdenka Matković	Member
Nenad Matić	Member
Đuro Perica	Member
Ivan Rujnić	Member

KONČAR Electrical Industry Inc. (Parent Company) is the sole owner of the ten dependent companies, while within the ten subsidiaries the proprietary structure is mixed. General managers or management boards administer the subsidiaries. The Supervisory Board (consisting of three to five members), which represents the owners, supervises the operations of each company.



Within the Supervisory Boards, KONČAR Electrical Industry Inc. is represented by members of the Management Board or by representatives appointed by the Management Board. According to the Company Act and the Labor Act, representatives of employees also serve on the supervisory boards of six companies and on the Supervisory Board of KONČAR Electrical Industry Inc. Members of the Supervisory Board, who are themselves shareholders or representatives of shareholders, give their suggestions by ordinary means within the functioning of the Supervisory Board. The Association of Small Shareholders (founded in 2000), with its 58 small shareholders, also has its representative on the Supervisory Board. According to the Labor Act, employees have a representative on the Supervisory Board. As for the general impact of shareholders on management processes, it has been defined by the Company Act. An Extraordinary General Meeting must

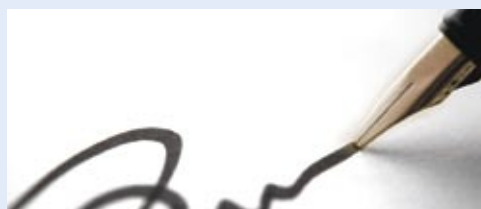
be convened if it is requested in writing by shareholders who collectively own shares amounting to no less than a twentieth part of the Company's equity capital, provided that the purpose for convening the EGM is stated. The proposals of shareholders must be communicated if, within a week of having published the convening of the AGM/EGM in the official Gazette of the Company, a shareholder sends the Company a disputed proposal, and if he expresses the wish to oppose any proposal of the Management and Supervisory Board to win over other shareholders to vote for his proposal at the AGM/EGM. At meetings of its presidency and general body, the Association of Small Shareholders analyzes the achieved business results of KONČAR Electrical Industry Inc. and gives voting instructions to the delegate of the Association at the Annual / Extraordinary General Meeting of KONČAR Electrical Industry Inc.

### **ECONOMIC, ENVIRONMENTAL, AND SOCIAL CHARTERS, PRINCIPLES AND STANDARDS SUPPORTED BY KONČAR**

*On April 17, 2008, the Management and Supervisory boards of KONČAR Electrical Industry Inc. adopted the Principles of Corporative Management. The Principles of Corporative Management are rules for:*

- *Responsible management,*
- *Defining procedures of corporative management based on recognizable adopted international standards as well as*
- *Oversight of business management, all with a view to establishing high standards of corporative management and business transparency as foundations for the protection of shareholders, investors and other interested parties, as well as care of employees, sustainable development and environmental protection.*

*Načela se temelje na pozitivnim propisima Republike Hrvatske i usvojenim međunarodnim standardima.*



On September 12, 2005, KONČAR Electrical Industry Inc. signed a declaration whereby it accepted the Ethics Code in business operations. This was ratified by the Assembly of the Croatian Chamber of Economics in May 2005. The Code of Ethics is regularly applied in KONČAR Electrical Industry Inc. business operations, but it is necessary to additionally communicate its provisions to the employees of KONČAR Group and its business partners.

As a socially sensitive company committed to a proactive approach toward every aspect of socially responsible operations, KONČAR takes an active role in initiatives, discussions, projects and activities connected to socially responsible behavior at the State level.

Achieving customer satisfaction through the delivery of reliable high quality products while striving to protect the environment is an integral aspect of KONČAR's business policy. Quality Assurance policy and objectives are accomplished by means of a systematic approach to quality management, according to the requirements of the ISO 9001 Standards whose certificates are held by 18 companies. Environmental protection is carried out through the application of the Environmental Management System consistent with the requirements of ISO 14001 Standards, which has been established and validated in 16 companies. As employees are a com-

pany's greatest asset, a system of health and safety protection at work has been established in accordance with the requirements of the OHSAS 18001 Standards, whose certificates are held by 4 companies.



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

## MEMBERSHIPS IN ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS

KONČAR is an active member as well as a founder and initiator of many associations, institutions and organizations, primarily in professional areas related to KONČAR's production activities, business activities of the Group or involving the interests of the wider social community.

With the goal of attaining broader social interests in mind, KONČAR is a member of:

- Association for Socially responsible business operations within the Croatian Chamber of Commerce
- Global Compact - International Agreement with the United Nations.

KONČAR as a group, its individual companies or specific employees are members of the following organizations inland and abroad:

- International Council on Large Electric Systems (CIGRÉ)
- 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 Railcars
- Communities for Socially Responsible Operations
- Associations of the Innovators of Croatia
- 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
- Electrical Engineering Society of 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 Corporate Lawyers
- Associations of Lawyers in Economics
- Croatian Association of Auditors
- Croatian Community of Accounting and Financial Experts.

In keeping with these memberships, every year KONČAR's experts participate at professional conferences inland and abroad, at which they present KONČAR's efforts, solutions and products.

Through sponsoring and actively participating in the preparation and organization of conferences in Croatia, KONČAR directly facilitates the activities of professional organizations, considering them to be important places for advancing its own knowledge base while exchanging experiences with other domestic and international experts.



## PARTAKER ENGAGEMENT

The Group's production program and business strategy determine the orientation of most of its companies to business markets and/or the public sector in Croatia and abroad, and, to a lesser degree, the individual end consumer market. The Group's companies often act within consortiums organized around particular projects, which may additionally reduce the companies' direct contact with buyers and/or communities. Therefore, besides buyers, employees (including the trade unions to which they belong), suppliers and the public sector (which takes on the dual role of a product consumer and an operating conditions regulator), all others connected to KONČAR business operations can be identified as key partakers. Continuous communication is maintained with key partakers through joint meetings, contacts and appointments. Throughout business operations, efforts are made to satisfy their legitimate interests and needs.

As a part of activities connected to social responsibility, there is extensive collaboration with a wide circle of representatives of civil society and individuals.

In the case of employees and directly interested partners, the monthly periodical "Končarevac" is used as a basic means of communication and information broadcasting. It is published in runs of 4,200 copies and distributed to all the companies within KONČAR, as well as to business partners, the community at large and everybody else who is interested in news about KONČAR.

Web sites ([www.koncar.hr](http://www.koncar.hr)) represent important means of communication with domestic and international partners, and also with the public in general. Therefore, great consideration has been devoted to this type of communication for the purpose of disseminating accurate and up-to-date information appropriate to the medium. In accordance with its market orientation and needs, KONČAR's web site is available in three languages (Croatian, English and Russian). In 2008, there were 78,356 visitors to the



site who visited 116,697 pages. Through the web site, 300 e-mails with various questions, suggestions and comments were received.

Besides the web site [www.koncar.hr](http://www.koncar.hr), each subsidiary has its own web site linked to the main KONČAR site.

During the preparation of this report, consultation was done with representatives of the Metalworkers' Union of Croatia, a member of the Independent Trade Unions of Croatia, the largest Union headquarters in Croatia. It is a common practice for Group companies to organize employee gatherings twice a year, at which all essential information regarding business operations and plans are communicated. Key topics arising from communications with partakers include future development of the company and stability of employment contracts, employees' vocational development, methods and dynamics of the Parent Company and related companies privatization process, as well as satisfaction of the growing needs of market, ecological and regulatory standards required for maintaining presence in various (especially foreign) markets. As it would be useful to work further on the systematization and stronger interactivity of communication with key partakers, extension of the partakers circle will be considered in the future, along with the introduction of certain formalized methods of communication with them.



### 3. Economic dimension

KONČAR has traditionally been a key economic entity in Croatia production sector - not only due to its size, but also because of its presence in foreign markets, its technological potential and its multiplicity of effects on other enterprises, partakers and society as a whole. In spite of great changes in the environment and organization during the market transition, KONČAR has maintained the stability of its operations and in recent years has strengthened its market position.

KONČAR's future development plans are based on investment in new technologies, development of new products and a heightened presence in foreign markets. It is necessary to permanently develop administrative systems that enable optimal management of resources and timely recognition of and response to risks and opportunities in the organization and envi-

ronment. Thus, conditions for greater income growth and efficiency have been created, as well as preparations made for completing the privatization process.

The restructuring of KONČAR has been carried out gradually and under conditions of growing income and profitability, which has made the processes of organizational transformation easier. Through further privatization and restructuring, new possibilities will arise, but also imperatives for more efficient operation will come into play, for which protocols are presently being created. Employee shareholding implemented in three companies in 2007 is one step in this process.

Socially responsible business operations aim at making donations and other forms of community investment, depending on available resources.

#### ECONOMIC EFFECT INDICATORS

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

Consolidated income from sales of products and services in 2008 amounted to 2.9 billion kunas, which is 11.2% more than in 2007.

Raw material, materials and service costs in 2008 grew in line with the increased volume of production.

The value of paid gross salaries in 2008 amounted to 475.9 million kunas, representing an increase of 11.5% compared to the year 2007.

Expenses for interest paid for received loans in 2008 amounted to 18 million kuna, an increase of

2.8 million kuna or 18.4 % more than in the year 2007. In accordance with the decisions of the Supervisory Board and Annual General Meeting, the Parent Company's profit in 2008 has been allocated to legal, statutory and other reserves as well as retained earnings.

All companies within the KONČAR Group operate in the Republic of Croatia, thus the total amount of paid profit tax refers to taxes paid in Croatia. The amount of taxes paid in 2008 is smaller in comparison to that of 2007, partly due to a lowering of the tax base in some subsidiaries due to the amount of investments in research and development. Although only three companies in the Group showed a loss in 2008, some of the companies had carried forward tax losses from earlier years and thus were not obliged to pay profit tax.

Table 6 - Generated and Distributed Economic Value

	2006	2007	2008
Revenues from sales of products and services (in 000 HRK)	2,552,964	2,584,854	2,874,571
Material costs - Raw materials and consumables, costs of services, costs of goods sold (in 000 HRK)	1,896,353	1,879,627	2,125,810
Gross salaries (in 000 HRK)	394,936	426,806	475,876
Interest payment (in 000 HRK)	16,405	15,217	17,988
Dividends paid (in 000 HRK)	-	-	-
Profit tax (in 000 HRK)	16,269	23,362	16,596
Donations and sponsorship (in HRK)	1,140	1,384	1,689

## DONATIONS AND INVESTMENTS IN THE COMMUNITY

KONČAR assists many cultural, sports, educational and science programs, as well as projects in other domains of life, especially youth programs.

As a socially responsible company, KONČAR has long been engaged in activities of broad social significance and has taken an interest in preserving the natural environment, cultural heritage and other matters of natural and historical import.



### Scientific and Educational Activities

KONČAR takes a special interest in stimulating scientific-educational activities for both regular classes and extracurricular activities. Its cooperation with schools and universities is therefore considerable. As a result of such activities, KONČAR's direct contribution to the education and development of young people has furthered the aim of helping Croatia become a society of knowledge.

### Agreement on Cooperation in the Area of Renewable Energy Sources

KONČAR and the College of Electrical Engineering and Computing in Zagreb have signed an agreement for cooperation in the areas of renewable energy sources, personnel education, scientific research, application of the results of scientific research for product development, creation of centers for excellence in renewable energy sources and other activities that contribute to the development of new knowledge and solutions in those areas. According to the agreement, the Faculty will build and equip a lab for renewable energy sources, conduct research and organize postgraduate and doctoral studies, as well as offer specialization programs in that sector. Within its own laboratory infrastructure, KONČAR will use the applied research and development of equipment and facilities in the area of construction and application of renewable energy sources.



#### **Annual Awards to Students of the Polytechnic College**

Based on KONČAR's traditional motto "The best investment is in human potential", annual awards are given to the most successful students from the Polytechnic College in Zagreb, departments of Electrical Engineering and Informatics. At a special awards ceremony, held on KONČAR Day, January 24, in celebration of 87 years of the Company's existence, the awards were given to:

- Students from the Electrical engineering department: Rade Buinac, Dejan Galoić and Marko Mrzlečki
- Students from the Informatics and Computing department: Matija Paunović, Mihael Burlić, Ivan Mihaljević, Nikola Modrušan and Silvije Mudri.

#### **National Foundation for the Support of Students' Living Standards**

The basic role of this foundation is to collect and allocate financial aid in the form of state scholarships, awards for gifted students for the purposes of transportation, housing, food and other aspects of students' living standards. KONČAR has been an active member of this foundation since its inception.

#### **KONČAR Award for Best Doctoral Thesis**

At the celebration of the Day of the Faculty of Electri-

cal Engineering and Computing in Zagreb, the fourth annual "KONČAR" prize was awarded for the best doctoral thesis. The honored work contains outstanding scientific achievements in the technical sciences field. The main criteria for evaluation are based on the greatest applicability to industry.

The 2008 award was given to Dr. Žarko Janić for his doctoral thesis "Improvement of construction of power transformers aimed at minimizing losses" and to Dr. Bojan Trkulja for his doctoral thesis "Calculation of electromagnetic fields of complex electric power facilities".

#### **Collaboration between KONČAR and the University of Applied Sciences in Varaždin**

In March 2008, KONČAR - Electrical Engineering Institute signed an agreement with the University of Applied Sciences in Varaždin for R&D of a voltage and frequency rectifier having the power of 1250 kW for wind mills. Voltage and frequency converters represent one of the main components of a wind turbine. Students and experts from the University will form a team with KONČAR experts and work on applied research in this area.



## SUPPORT TO SPECIFIC GROUPS

*Certain specific groups, such as retired people, war veterans, and employees who participate in sports, culture and other similar activities, enjoy the permanent support of KONČAR. Numerous activities are organized during the whole year to stimulate activities which further a better quality life during free time, in conjunction with the interests of employees, their families, retired persons, business partners and collaborators.*

### KONČAR Retired Persons' Club

The Club was established on October 7, 2000, and as of 2008 it had 192 members. Its purpose and objective is to entertain and bring together as many retired people as possible in order to set up social and public activities interesting to Club members.

The Club fosters the spirit of KONČAR employees, as the majority of members spent their professional life at KONČAR. The Club is open twice a week and is regularly visited by some fifty members who stopped by nearly 4,500 times in the year 2007.

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

During 2008, pensioners organized a series of lectures and cultural evenings, equipped the Club with new attractions, refurbished the library and visited many exhibitions and theatre performances. The cultural activities of Club members are especially interesting.

Members of the Retired Persons Club do not forget people who cannot visit the club due to health problems. They visit them regularly to socialize and provide material aid.

KONČAR Inc. and the companies within the KONČAR Group financially support the activities of the Club.

### Red Cross

2008 in Croatia was the "Year of the Red Cross" in celebration of the 130th anniversary of Red Cross in Croatia. It was also the 55th anniversary of organised voluntary blood donations and 15th anniversary of the international recognition of Red Cross of Croatia. On that occasion, KONČAR was granted special recognition from the Croatian Red Cross for its activities over many years. KONČAR's employees gave a blood donation for the first time in a humanitarian action on Falterovo šetalište in 1953. Since then many of them have donated blood 50, 75 and even a 100 times, for which they have been recognized. For 75 blood donations, a great silver coin was awarded to Raif Degirmendžić and silver coins were awarded to Dražen Bernardić, Zdravko Glavač, Stjepan Habazin, Marijan Maričić and Zvonimir Mas for 50 blood donations.

KONČAR has participated in other Red Cross activities as well.



### War Veterans and Their Families

The traditional gathering of KONČAR employees who were drafted in 1991 into a unit for the protection of facilities and equipment was held on December 4, 2008. In addition to the 17th anniversary of the unit's formation, the 10th anniversary of the erection of a memorial to honor twenty-two employees who were killed in the Croatian War of Independence was observed. On that occasion, gratitude was expressed and recognition given to all those who joined in the defense of KONČAR and the entire country.

Besides the annual gathering, various other initiatives have been organized, such as the care of children and families of the killed war veterans.

### Maltese Association of Croatia

The Maltese Association has organized an annual international summer camp for handicapped youths since 1984, when it numbered 40 participants. Since its founding, the number of participants has grown to 450 young people who come from all over Europe. KONČAR has given a donation that enabled Croatian participants to travel to a camp in Austria.

### Center for Upbringing and Education of Children in Karlovac

KONČAR donated 4 PCs and a 2 printers to the Center for Upbringing and Education of Children in Karlovac. Children with developmental difficulties who attend the Center will use this equipment for their school projects and extracurricular activities and thus better prepare themselves for future employment.



## SPORTS ACTIVITIES

*Investment in sports and recreation is directed toward sports in which competitors may achieve significant success and those that involve a considerable number of young people. A significant role in the life of the company is played by sports societies with which KONČAR has long cooperated, and which carry the name of the company.*

### “KONČAR Shooting Club Zagreb 1786”

“KONČAR Shooting Society - Zagreb 1786” was established in 1948 and it is a successor of the First Civic Shooting Society registered in 1786. Since 1993, the

society has borne the name of KONČAR and in 2008, its 15th anniversary was celebrated. As of 2008, the Society had 167 members.

Over the years, athletes of this society have participated in some of the most important competitions, including the European and world championships, and the Olympic Games, at which they achieved significant results.

In 2008, twenty marksmen from the Society participated as Croatian representatives at international championships.

### „With the Kayak Towards the Sun“

In June 2008, members of the KONČAR Canoe Club rowed a distance of 625 km along the length of the entire Croatian Adriatic coast, sailing from Prevlaka to Svaudrija. This direction and route had never been rowed across before and they dubbed their endeavor “With the Kayak Towards the Sun”. The rowers who participated were Dragan Krajcer, Stipe Radelić and Domagoj Tonković.

KONČAR Canoe Club was established in 1951 and is one of the first clubs to have received KONČAR’s support.



## CULTURE

*During 2008, as part of KONČAR’s support for cultural activities, donations were given to ensembles and groups (Zagreb Soloists, Croatian Singing Choir “Ivan pl. Zajc”, Cultural and Artists’ Societies in Zagreb and Fužine), events that nurture cultural creativity (Days of Satire, Vinkovci Autumns, Pag Summer, Mljet Cultural Summer), young painters, writers, actors and many others who needed help in realizing their dreams.*

### Awards to Young Musicians

Once a year, Croatian Musical Youth grants awards to the best young musicians. The award bears the name of “Ivo Vuljević” who was the founder and long-time honorary president of Croatian Musical Youth. In 2008, young pianist Daniel Detoni won the award and KONČAR continued its tradition of sponsoring the winners.

## FINANCIAL CONSEQUENCES AND OTHER RISKS CONNECTED TO CLIMATE CHANGE

Since KONČAR is especially engaged in the energy sector, issues of sustainability connected with energy sources, production, transmission and distribution of electricity, as well as climate change, will be certainly reflected in the future operations of KONČAR. The financial implications of climate change have not yet been fully evaluated. The challenges particularly involve permanent changes in generation technologies, the transmission and distribution of energy, due to the necessity of continuous improvement of energy efficiency of renewable energy sources wherever possible and economically justified. KONČAR has prepared itself for these chal-

lenges on many fronts: by investing in new technologies, through the development and placement of new products according to principles of energy efficiency, and the use of renewable energy sources (e.g. projects like wind power plants), products with reduced losses, savings on material usage, and attending to the reduction of harmful impacts on the environment, as well as providing services to interested citizens, companies and institutions for preparing energy surveys and studies and the design, execution and maintenance of energy efficient systems. The latter is developed within the “Stimulation of Energy Efficiency” project.

## FINANCIAL ASSISTANCE FROM THE GOVERNMENT

In 2008, KONČAR Group did not receive any major financial aid from the Government or central State. Contracts with public enterprises (or other representatives of the public sector), relating to the de-

livery of goods and/or provision of services, were obtained at public tenders in accordance with the law, and do not contain any elements of Government support.

## RATIO OF THE STANDARD STARTING SALARY COMPARED TO THE LOCAL MINIMUM SALARY IN MAJOR AREAS OF OPERATION

The salaries of employees in other countries are competitive with and in many cases often larger than local ones (especially in developing countries). That aside, all applicable legal regulations are respected

in each individual country and market. This refers to those employed in agency offices or temporarily employed at construction sites to which KONČAR delivers equipment.

## POLICY, PRACTICE AND DOMESTIC SUPPLIERS' SHARE OF CONSUMPTION OF PRODUCTS AND SERVICES IN MAJOR AREAS OF OPERATION

KONČAR's business activities predominantly take place in Croatia. Its presence in foreign markets is primarily in the form of equipment export and/or participation in complex infrastructural projects at different locations. Thus,

the share of domestic suppliers and labor force is relatively small. It can only be increased by a stronger presence in key export markets, especially in neighboring countries, which are even now recipients of its exports.

## INDIRECT ECONOMIC IMPACTS

Through professional and efficient execution of projects for clients from the public sector in Croatia and abroad, KONČAR Group indirectly influences the overall quality of infrastructure and provision of public services. Prominent projects are in the fields of electric power

(plants for generation, transmission and distribution of electricity) and public transport (railway and tram). The development of wind mills contributes to the use of renewable energy sources, which is of broad significance to the community as a whole.

## 4. Environmental dimension

The entire Group pays special attention to environmental management. KONČAR has a well defined Environmental Management Policy, which is available to the public on the web site [www.koncar.hr](http://www.koncar.hr). All employees are acquainted with it.

KONČAR manages all aspects of its environmental impact. By reducing the negative effects of its activities, it permanently improves upon results attained in the domain of environmental management, while completely respecting Croatian laws and regulations, and applying international standards. Necessary organizational, vocational and financial resources have been provided to that end. The people in top positions who are most responsible for environmental affairs

are the member of the Management Board in charge of legal, administrative and HR affairs and the General Manager of the company of Energy and Maintenance, which takes systematic care of all infrastructural installations at different locations and actualizes synergistic effects.

The following are aspects of the objectives of environmental dimension of operations:

### Energy

Among other products based on renewable energy, wind mill projects are being developed, as well as other projects in the field of renewable energy sources.





### Biodiversity

KONČAR Group does not own any land, nor does it lease or manage land in protected areas or in their immediate vicinity, nor in areas of major biological diversity outside of protected regions.

The construction of electric power facilities is an activity that may involve risks to environmental protection and to biodiversity in particular. Investors who are obliged to respect relevant regulations and environmental protection standards make decisions about the position and construction of these facilities. After that, investors invite tenders for acquisition of equipment, whereupon KONČAR appears as a potential equipment supplier.

With products that it supplies, KONČAR meets top equipment safety standards, with a minimum of influence on the environment. To the present date, no complaints or incidents have arisen in that respect.

### Impact of Products and Services on the Environment

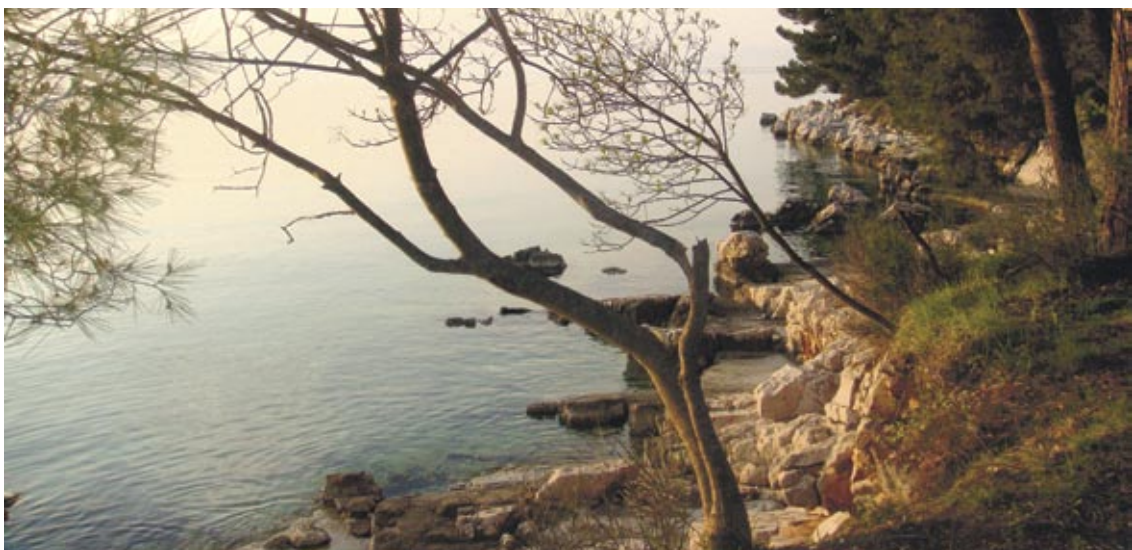
In product research and development, the environmental impact of products is reduced as much as

possible by using contemporary technologies which are more efficient, consume fewer resources, emit reduced levels of waste substances and in general have a smaller influence on the environment during their use. The precise scale of the alleviation of negative effects has not yet been analyzed.

Most products of KONČAR Group are specific: they are unique products produced in small numbers, intended for being specially built into facilities (power equipment, plants, assemblies etc.) and/or are, after the development and testing phase, put to use (e.g. trams, hydro power plants and transformer substations). As a rule, typical clients are members of the public or business markets, and more rarely individual end users (even though there are exceptions to this - e.g. domestic appliances, computers, etc.).

### Compliance with Environmental Regulations

No major fines or non-financial sanctions have been registered against KONČAR due to non-compliance with environment protection laws or regulations. An integral part of the company's business policy is vigilant emphasis on and compliance with environmental protection regulations.



## 5. Social dimension

The social dimension of sustainability concerns the organization's impact on the social systems within which it operates. In this report, it is divided into the

categories of labor and labor relations, human rights, cooperation with the community at large and product responsibility.



### LABOR PRACTICES, THE DIGNIFIED WORKPLACE AND HUMAN RIGHTS

An important determinant of KONČAR's strategy involves directing the Group's development toward creating a company of knowledge founded on quality HR and total intellectual capital. Due to increased requirements for competitiveness, the professional development of employees and the efficient management of human resources are among the most important organizational priorities.

In regards to the regulation of labor relations and internal organization, companies within the KONČAR Group respect valid regulations, collective and individual employment contracts and protect the human and civil rights, dignity and reputation of every employee. No discrimination or offending of employees due to their gender, race, religion, national or political affili-

ation, physical defects, age, family status, personal characteristics or persuasions is permitted. KONČAR provides safe labor conditions, which involves minimizing risks to health and safety and the provision of corresponding training and insurance against the consequences of such risks, when appropriate. Freedom of association and collective bargaining are not restricted. Persons with permanent or temporary special needs are treated with equal rights at the time of employment and during performance of their work duties, but with special consideration of their needs. The person most accountable for labor relations is the member of the Management Board of KONČAR Electrical Industry Inc. in charge of legal, general administrative and personnel affairs.

## EMPLOYMENT AND THE EMPLOYEE STRUCTURE

At the end of 2008, there were 4,274 employees working in KONČAR Group. Of the total number of employees, about 5 % of contracts (annual average) are for temporary positions, while all others are employed permanently. The structure of qualifications was further improved in 2008.

Among its employees, KONČAR employs 10 doctors of science, 60 people with master's degrees, 731 with a university degree and 411 who completed two year associate's degrees following secondary school. The average age of employees in 2008 was 43; the same average age-level was recorded in 2006 and 2007.

Employment in KONČAR is predominantly for an indefinite period of time, with fulltime jobs, while temporary employees, during their employment contract duration, enjoy the same rights as employees with an indefinite term of employment contract, according to the valid collective agreement.

Two people are employed in each of the agencies in Belgrade (Serbia) and Mostar (Bosnia and Herzegovina). Occasionally, local labor forces are employed at construction sites corresponding to the needs of major projects in distant regions.

Employment trends show that the inflow of new hires mainly relates to recently employed younger, highly educated employees, and outflow correlates with those who retire and small restructuring interventions in particular companies.

### OPEN HOUSE DAYS

Two companies traditionally organize Open House Days: Electric Vehicles and Power Transformers. The goal of this event is to acquaint employees' families with the work areas, production processes and products of these companies. Also, it is an opportunity for the families of employees to meet each other and engage in different recreational activities.

Based on the National Classification of Professions, to meet its own needs KONČAR Group established a standard classification of professions, adopted in 2004, which is standard for all companies within the KONČAR Group and includes 750 professions.

### PRESENTATION OF KONČAR TO STUDENTS

KONČAR took part in the JobFair 2008 at the College of Electrical Engineering and Computing in Zagreb in order to present students and recent graduates with employment possibilities in KONČAR and to acquaint them with available job positions. Besides giving a presentation, young experts from KONČAR had conversations with interested students and talked about their jobs, possibilities for professional growth, advancement and other issues.

KONČAR also took part in Career Day, at which potential employers meet students and recent college graduates from the University of Zagreb as well as other universities in Croatia and surrounding countries. On this occasion young experts showed great interest in pursuing employment in KONČAR.

The 24 best students from the College of Electrical Engineering and Computing visited KONČAR and learned about employment and production possibilities within the company.



## COLLECTIVE AGREEMENTS AND EMPLOYEE RIGHTS

The first collective agreement was signed with the Metal Worker Unions of Croatia in 1996 and applies to all employees. The collective agreement has been revised several times since. The latest amendments were adopted in June 2008.

Notifications referring to major changes in business operations are communicated according to the Labor Act; dismissal periods vary between 7 days and 3 months and are not specifically stated in the Collective Agreement.

Information about major changes in business operations is presented at the Workers' Council, or, if such a body does not exist in a particular company, to the main Union representative. Also, as a rule, bi-annual gatherings of workers are held in all companies within KONČAR Group at which all relevant information with respect to the Company's business operations and plans is communicated.

### KONČAR - ELECTRONICS AND INFORMATICS INC. - PARTNER EMPLOYER

KONČAR - Electronics and Informatics Inc. was granted the status of Partner Employer for its excellence in human resource management. The certificate is given based on points for quality in certain areas and processes, evaluation of the company's strategy, its recruitment and selection of employees, relationships with employees, and incentives and rewards. The certificate was awarded by Selectio, a company which specializes in strategic consulting for human resources.

## HEALTH AND SAFETY AT WORK

Health and safety issues are not included in the Collective Agreements. Congruent with positive legal requirements, most of the companies have a Safety-at-Work Committee that includes a physician of occupational medicine working under contract. In cooperation with the occupational medical physician, all issues connected to the health conditions of workers and their job performance are, as a rule, resolved through this Committee.

According to the Safety at Work Act, a certain number of workers in all companies have been trained to offer first aid. For every 50 workers, one worker is trained to provide first aid. Due to this well-organized safety system and safety at work, confirmed by a low percentage of injuries and cases of professional disablement, no needs were registered for further extension of the counseling, prevention or risk control program. In case of a major disease or the death of a close family mem-

ber, financial aid for employees is anticipated according to the Collective Agreement and the Company's Work Regulations.



## TRAINING AND EDUCATION



In line with requirements, there has been an increase in the number of employees who participate in specific forms of education and training.

*Table 7 - Education of Employees According to Forms of Education*

<i>Number of Employees</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Postgraduate studies	33	86	88
Foreign languages	168	232	240
Computer skills	460	339	273
Seminars and lectures	1.920	1.529	1.240

## LIFE-LONG LEARNING PROGRAMS

KONČAR Group takes systematic care of the professional development of its employees, from the moment of their employment onward.

Each company orients trainees who are employed for the first time after graduation to the jobs and tasks specific to their workplaces.

KONČAR Electrical Industry Inc. organizes special seminars for all trainees and new employees several times a year. In 2008, there were three seminars attended by 123 trainees from 14 companies. Besides providing elementary information on the organization, entire production program, references, market activities, promotion, social responsibility and other activities at KONČAR, trainees visited factories at locations in Jankomir, Borongaj, Sesevetski Kraljevac and Fallerovo and acquainted themselves with their production processes.

In addition to seminars, visits were organized to more important facilities that had been constructed by KONČAR or to construction sites (Žerjavinec Transformer Substation and Lešće Hydro Power Plant, then under construction).

Learning and improvement of foreign language skills is organized according to job performance needs, so besides learning the most common foreign languages, some em-

ployees learn languages required for particular markets and for the execution of duties in such countries.

Earning and improvement of computer skills are mainly carried out in KONČAR via standardized or specially prepared training methods and courses, depending on the need for them. For specialist knowledge, explicitly focused seminars are attended outside of KONČAR.

There are currently 86 highly educated employees attending postgraduate studies (specialist studies, postgraduate and doctoral studies) within the company.

### NINE KONČAR EMPLOYEES RECEIVED THE TITLE OF EURO ENGINEERS

The Union of European Railway Engineer Associations from Frankfurt awarded the title of "European Railway Engineer" to nine KONČAR employees who work on railway projects: Vladimir Siladi, Josip Ungarov, Nenad Težak, Siniša Marijan, Željko Tukša, Dušan Horvat, Branimir Vabić, Ivica Gršković and Ivan Križanović. This certificate is proof of qualification for engineers and companies that deal with railway engineering throughout Europe.

#### NEW DOCTORS OF SCIENCE

In 2008, KONČAR got some new doctors of science:

Željko Janić from KONČAR Electrical Engineering Institute successfully defended his dissertation "Improvement of Construction of Power Transformers with the Goal of Lowering Additional Losses" at the College of Electrical Engineering and Computing.

Davor Pavlič from KONČAR Instrument Transformers successfully defended his doctoral thesis "Criteria for Identification of Common Components of Product Families" at the College of Mechanical Engineering and Naval Architecture.

Krešimir Meštrović from KONČAR Electrical Engineering Institute successfully defended his doctoral dissertation "Procedures for Defining the Reliability of Indicators of High-Voltage SF<sub>6</sub> Circuit Breakers".

In addition, cooperation with universities and colleges is fostered, especially with the College of Electrical Engineering and Computing, the Polytechnic College, the



College of Economics, the College of Law, and others. In addition to participating in the educational process, KONČAR's employees are also recruited as lecturers on particular subjects at undergraduate, specialist and postgraduate classes.

#### SPECIALIST STUDY OF TRANSFORMERS

There are seminars organized within KONČAR for the purposes of professional and specialist education. Also, its experts attend different seminars, conferences, and specialized domestic and international training in the fields of research and production, law, sales, finance, marketing and other business sectors.

#### "20 Keys"

In 6 companies (Generators and Motors, Electronics and Computer Engineering, Metal Structures, Small Electrical Machines, Electrical Vehicles and Household Appliances) the Program for Improvement of Competitiveness has been implemented based upon the "20 Keys" methodology. The Program is applied in cooperation with the consulting firm Deloitte&Touche and encompasses 20 practical and integrated methods for the improvement of business operations. Positive results of this method's application are observable in all companies within KONČAR, especially in:

1. Easier achievement of business goals through the spread and recognition of goals throughout the entire organization - from the business goals of the Management, to the goals of organizational units at every level
2. Motivation and participation of employees in the company's life and business operations
3. Positive financial effects that were accomplished by the achievement of "minor" improvements proposed by employees themselves (for example: thanks to just 15 improvements completed, almost half a million kunas was saved).

## EMPLOYEES' FREE TIME AND RECREATION

KONČAR supports social interaction between employees and their guests through sports activities. Besides the usual recreational activities, several sporting events have become traditional. They are held on a regular basis and always attract a large number of participants. Besides joint events organized at the level of the Group, most of the companies organize recreational and sports activities for their own employees.

### Christmas Soccer Tournament "KONČAR 2008"

Organized by the Union Coordination and sponsored by KONČAR, the 8th Christmas Soccer Tournament was held. It is intended for recreational soccer players and attracts more and more teams each year.

There were 12 teams that registered in the 2008 veteran category. In the senior category, there were 24 teams. The large number of teams and the sizeable audience once again confirmed the wish of Končar's employees to spend more time together socializing and competing in sports events. Some companies registered more teams than previously, thus including even more of their employees in the tournament. Al-

most 500 players in 36 teams spent time together in recreation and socializing.

### 7th Tennis Tournament "KONČAR 2008"

"KONČAR 2008" open tennis tournament of mixed couples was held for the 7th time, attracting 38 players who competed for the first place and tempting prizes. The players competed in the categories of champions, grand masters, masters and Olympic class players.



## HUMAN RIGHTS

No discrimination cases based on gender, race, age, national affiliation, political or religious convictions or other applicable criteria have been noted. In HR man-

agement and the adoption of other relevant business decisions, principles of equal rights and standardized criteria are consistently respected.

## FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

Freedom of association and collective bargaining is embraced by all companies within the Group throughout their business activities. No exceptions to this

rule have been noted. This applies also to business activities outside of Croatia.

## CHILD, COMPULSORY AND FORCED WORK

In its operations, KONČAR respects positive legal regulations that prohibit child labor, and also respects the

Constitution and positive legal directives that prohibit forced or compulsory labor.

## COMMUNITY

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

Business activities, accompanied by relationships with local communities, must be founded on principles of social accountability. This includes reduction of risk and the maximization of positive impacts, especially in areas where one bears a great direct responsibility, which is certainly the case for energy and the transport of people.

These influences are complimentary to activities that have as their objective the direct support of individuals and groups devoted to cultural projects, sports, education, science, humanitarian activities, etc. Due to a considerable share of operations in the public sector, the issues of transparency of operations, adherence to regulations, anti-corruption activity and participation in the formation of public policies are treated with special attention.

In accordance with the signed and adopted Code of Ethics in business operations, political influence or influence on judicial authorities is not permitted. Intervening on behalf of its own interests when defining public policies and adopting or amending regulations is implemented transparently through business associations and other institutional channels. KONČAR Group's management is responsible for community relations.

### Corruption

The companies' Statutes and Foundation Charters dictate that all materially important contracts must be analyzed and adopted by the Supervisory Board. Within ordinary audits, contracts and other documents which could be susceptible to cases of corruption are analyzed. On the other hand, if an employee, business partner or a third party have circumstantial evidence about corruption in a particular situation, he or she can report it to the Management or to the competent authorities of the State.

Corruption is treated as unacceptable, regardless of the

motives, justification, means or consequences of corruptive action. This principle is communicated to all employees, although not in the form of separate training.

No corruption cases have been recorded against the Group, thus there has been no need to supplement the measures directed against corruptive practice.

### Public Policy

KONČAR supports infrastructure investments, including production plants, the transmission and distribution of energy and upgrading of municipal and inter-city transport systems. In these areas, KONČAR sees both a business opportunity and a possibility to contribute to the development of the civic community, improved quality of life for citizens, efficiency of business operations and the continued safety of energy supplies. At the same time, KONČAR insists on high standards of environmental protection and responsible consumption of resources from public sources. Moreover, it emphasizes the importance of creating stimulating conditions for export-oriented companies with the objective of increasing the export competitiveness of Croatian products and companies in foreign markets. KONČAR's representatives express the aforementioned attitudes in public and within business associations, professional organizations, especially through the Croatian Chamber of Economics, and the Association of Croatian Exporters (whose president is also the president of the Management Board of KONČAR Electrical Industry Inc.).

KONČAR does not give donations to any political parties, nor does it sponsor or contribute to any political activities in Croatia or abroad. Therefore, this domain is not specially regulated by any internal acts.

### Anti-Competitive Behavior

No proceedings have been initiated against KONČAR Group in regards to violations of free market competition, trust or monopolistic practice.

There have been no significant fines or non-financial sanctions due to non-adherence to laws and regulations.



## PRODUCT RESPONSIBILITY

Due to the variety of KONČAR Group products, it is not possible to define and apply an all-inclusive policy of responsibility for its goods, except at a very general level. However, in all product groups, attentive concern is dedicated to:

- Consumers' health and safety;
- Correct and useful labels and the availability of all information necessary for correct handling and use;
- Provisions of servicing / preventive maintenance within and outside of the guarantee period;
- Provisions of disposal after expiration of the product use period consistent with legal provisions;
- Adherence to all other regulations and standards.

There is a trial and guarantee period for some products during which, upon being placed into circulation, equipment is adjusted to function with other equipment, corrections are made and possible defects and maladjustments resolved.

For products intended for installation in plants, the development, production and testing period serves for the adjustment of its specifications and characteristics, taking into consideration clients' requests, as well as various regulations and standards that the product must satisfy, including safety of usage, handling and maintenance.

As regards the complexity of particular products and plants, servicing and spare parts are provided during the guarantee period and following it.

In this market sector, marketing is based on the promotion of references for previously delivered products and equipment, quality, price, delivery periods and post-sales services. This also applies to satisfying clients' requests and building partnerships with companies that KONČAR appears in the market with, as well as direct contact with potential clients through fairs, professional conferences, presentations, economic delegations and other events.

Consistent with the Code of Ethics in business operations, products and services must be of confirmed

quality and performance and be safe and acceptable to health during their intended period of use.

All companies within KONČAR that operate on the market possess certificates of ISO 9001. General Managers of particular companies are responsible for product accountability. At the Parent's level, part of the responsibility rests on those members of the Management Board who are in charge of specific business areas.

### Information and Labels on Products and Services

Every product and plant has a manufacturer's label, basic technical data typical for its product category and special data characteristic of or pertinent to it. For more complex products and plants, technical descriptions and instructions for safe use are prepared in keeping with the needs of the client and operator. There is no information about the degree to which the aforementioned descriptions contain data that point to the influence of the product on sustainability (e.g. substances used that may have an impact on the environment, disposal of a product after its service life, etc.).



### Customer Satisfaction

All the companies that have certified quality management systems evaluate their customers' satisfaction. Based on product categories (e.g. computer, transformer, motor, cooking stove, tram), companies have outlined procedures which define the appropriate methods and frequency for evaluating customer satisfaction. There is no consolidated data on the results of these examinations.

### Marketing Communication

The application of the Code of Ethics in Business Oper-

ations, signed by KONČAR Electrical Industry Inc., calls for responsible marketing communication. Regarding programs of marketing communication, KONČAR first addresses its targeted user groups, emphasizing the quality of products. It also makes reference to the Group's production possibilities, with absolute respect for legislation, standards and voluntary codes relating to marketing communication. Above and beyond that, untrue or offensive facts which have the potential to upset any group or faction, including competitors, are not used. In addition to its own potential, KONČAR promotes general social values which stimulate technological, economic and social advances.



## 6. Overview of GRI3 indicators

Table 8 - Overview of GRI3 indicators

<i>GRI3 pokazatelj</i>		<i>location in text</i>
Organizational Profile		11
Governance, Commitments and Engagement		17
<b><i>ECONOMIC PERFORMANCE INDICATORS</i></b>		
Economic Performance	EC1, EC2, EC4, EC5	23
Market Presence	EC6 - EC7	14
Indirect Economic Impacts	EC8	29
<b><i>ENVIRONMENTAL PERFORMANCE INDICATORS</i></b>		
Energy	EN6	30
Biodiversity	EN11 - EN12	31
Products and Services	EN26 - EN27	31
Compliance	EN28	31
<b><i>LABOUR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS</i></b>		
Employment	LA1 - LA3	33
Labor-Management Relations	LA4 - LA5	34
Occupational health and Safety	LA8 - LA9	34
Training and Education	LA10 - LA12	35
Diversity and Equal Opportunity	LA 13 - LA14	32
<b><i>HUMAN RIGHTS PERFORMANCE INDICATORS</i></b>		
Nondiscrimination	HR4	37
Freedom of Association and Collective Bargaining	HR5	37
Child Labor	HR6	37
Forced and Compulsory Labor	HR7	37
<b><i>SOCIETY PERFORMANCE INDICATORS</i></b>		
Community	S01	38
Corruption	S02 - S04	38
Public Policy	S05 - S06	38
Anti-Competitive Behavior	S07	38
Compliance	S08	38
<b><i>PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS</i></b>		
Product and Service Labeling	PR3, PR5	39
Marketing Communication	PR6	40



## IV. GC AND GRI3 COMPARATIVE TABLE



Table 9 - GC and GRI3 Comparative Table

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

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