

tradition.  
knowledge.  
responsibility.

**KONČAR**

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Corporate Social Responsibility  
Report 2018





## Content



Foreword by the Chairman of the Management Board	3
GENERAL DISCLOSURES	
Organizational Profile	4
Strategy	13
Ethics and Integrity	15
Governance	16
Stakeholder Engagement	20
Reporting Practice	22
TOPIC - SPECIFIC STANDARDS	
Economic Standards	25
Environmental Standards	30
Social Standards	32
Sustainable Development Goals	42
GRI Content Index	43
GRI Standards and UN GC Principles Comparative Table	45

## Abbreviations

used in the Report

Group	KONČAR - Electrical Industry Inc. and dependent companies
Parent	KONČAR - Electrical Industry Inc.
GRI	Global Reporting Initiative
UN GC	United Nation Global Compact



**KONČAR** Group

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Corporate Social Responsibility  
Report 2018



## Foreword by the Chairman of the Management Board



Dear readers,

I am delighted to present the 13th Corporate Social Responsibility Report of KONČAR Group, prepared in line with the Global Reporting Initiative GRI Standards and the UN Global Compact Principles. Following global trends, this Report has also focused on the Agenda 2030 Sustainable Development Goals outlining those, which have been integrated with special attention in all our business activities.

The Report deals with all three pillars of sustainable development - economic, environmental and social dimensions. It provides an overview of activities undertaken in 2018, which further uphold

that social responsibility has become a daily practice in all segments of our business.

Despite the fact that 2018 was an exceedingly challenging year, KONČAR Group companies have generated total revenue of HRK 2,956 million. Net profit stands at HRK 128,7 million, which is 19% increase year-on-year. The Group has had HRK 3,026 million in new contracts, which is 18% increase in comparison with 2017. All key indicators point to continued stability in Group operations.

Good business results are a direct result of the Group's proprietary R&D projects in product and production development, which rely greatly on human resources. Our employees are conduits of KONČAR Group development and we are committed to continuous education and professional training, boosting the quality of work and encouraging out-of-work activities.

Successful cooperation with scientific and educational institutions has continued. KONČAR has supported faculties and schools in infrastructure modernization; we have awarded student excellence at undergraduate, graduate and postgraduate level, and we have worked closely to facilitate identification, definition and implementation of a number of projects in which all parties participate as equal partners in order to further strengthen collaboration with the business sector. At the end of 2018, we launched a new project with the University of Zagreb and the University of Mostar.

In order to explore mutual interest, a tripartite Cooperation Agreement was signed, allowing the Group's employees holding PhD degrees to participate in teaching courses at the University of Mostar to transfer their knowledge and experience.

The aim of the Agreement is to strengthen cooperation between the academic community and business, recognizing science, technology and innovation as drivers of the country's economic development. Active participation of business in the work of the academic community will create conditions for quality education aligned with labour market needs. The Agreement touches on the "Knowledge Management" project initiated in 2015 in cooperation with the University of Zagreb, the Faculty of Humanities and Social Sciences of the University of Zagreb and the Faculty of Electrical Engineering and Computing of the University of Zagreb. This project is a part of KONČAR's Digital transformation programme, which permeates all aspects of our business.

Yours faithfully,  
Darinko Bago  
Chairman of the Management Board

**FOREWORD BY THE  
CHAIRMAN OF THE  
MANAGEMENT BOARD**

► 102-14

## Organizational Profile



### NAME OF THE ORGANIZATION

102-1 ◀

This report on corporate social responsibility pertains to KONČAR Group consisting of KONČAR - Electrical Industry (parent company) and 15 dependent companies, one affiliated company and a joint venture with a partner from the People's Republic of China. Group companies operate under KONČAR name and add their own name (company name).

### ACTIVITIES, BRANDS, PRODUCTS, AND SERVICES

102-2 ◀

#### KONČAR Group business areas are as follows:

- Energy: design and construction of electricity generation, transmission and distribution facilities and equipment, renewables
- Transportation: electric locomotives, electric multiple units, diesel-electric multiple units, tramcars, electrical equipment for railway infrastructure
- Industry: electric motor drives, low voltage electrical equipment
- Special activities: product research and development, infrastructure services.

### LOCATION OF HEADQUARTERS

102-3 ◀

Fallerovo šetalište 22,  
10000 Zagreb,  
Republic of Croatia

### LOCATION OF OPERATIONS

102-4 ◀

KONČAR Group operates domestically and internationally through two international representative offices: in Mostar (Bosnia and Herzegovina) and in Belgrade (Serbia).

### OWNERSHIP AND LEGAL FORM

102-5 ◀

KONČAR - Electrical Industry is a joint-stock company. The shares are quoted in the Official Market of the Zagreb Stock-Exchange. The shares are recognisable under the KOEI-R-A ticker. In keeping with the positive regulations, the Company ensures regular access to information on operations and activities and information on any facts and circumstances that may influence the share price (price sensitive information).

Share capital amounts to HRK 1,208,895,930.00 and consists of 2,572,119 ordinary shares with a nominal value of HRK 470.00.

The Company applies the same conditions to all shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and other properties. Voting rights encompass all shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession.

In 2018, following the decisions of the General Assembly based on the results realised in 2017, shareholders were paid out a dividend in the amount of HRK 35,9 million, which amounts to 14 HRK per share.

In 2018, share price of KONČAR - Electrical Industry at the Zagreb Stock Exchange peaked at 725.00 HRK per share (on 7 and 12 February), while the lowest share price was recorded at HRK 535.00 (on 28 December), and the average share price was HRK 536.75 per share.

Market capitalization is HRK 1,372.6 million, which is HRK 462.1 million decrease year-on-year.

In 2018 buyback, the Company has acquired 9,000 their own shares (KOEI-R-A), which constitute 0.35% of total share capital. The shares were bought on the regulated market of the Zagreb Stock Exchange at a price ranging from HRK 650.00 to HRK 662.30 per share. As of 31 December 2018, the Company owned 14,861 shares, accounting for 0.578% of the equity.

For more details, please refer to the Business Report, available at [www.koncar.hr/en/investors/annual-financial-reports/](http://www.koncar.hr/en/investors/annual-financial-reports/) (Chapter 8: Shares)



## Ownership Structure:

Shareholder	31 Dec 2018		31 Dec 2017	
	No. of shares	Ownership stake %	No. of shares	Ownership stake %
HPB d.d. / Kapitalni fond d.d	724,515	28.17	724,515	28.17
Addiko BANK d.d. / PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
OTP Bank d.d. / AZ OMF	377,429	14.67	377,429	14.67
OTP Bank d.d / Erste Plavi mandatory pension fund	359,239	13.97	359,239	13.97
Restructuring and Sale Center / Republic of Croatia	81,610	3.17	83,610	3.25
Floričić Kristijan	50,714	1.97	50,714	1.97
Addiko Bank / RBA OMF	47,636	1.85	47,636	1.85
Zagrebačka banka d.d. / AZ Profit Voluntary Pension Fund	32,803	1.28	32,803	1.28
PBZ d.d. / collective client custodian account	23,114	0.90	24,251	0.94
Zec Branislav	22,843	0.89	22,843	0.89
Other shareholders	416,427	16.19	422,290	16.42
KONČAR d.d. / treasury stock /	5,861	0.23	5,861	0.23
<b>TOTAL</b>	<b>2,572,119</b>	<b>100.00</b>	<b>2,572,119</b>	<b>100.00</b>

In 2018, consolidated product and service sales revenue amounted to HRK 2,703 million, a decrease of 4.3% compared to 2017. Exports amounted to HRK 1,484 million, accounting for 55 percent of total product and service sales. Revenue from domestic market sales, decreased by 3% and amounted to HRK 1,219 million year-on-year.

In the structure of product and service sales revenue in the domestic market, revenue from sales of products and services to HEP - Generation, HEP - Distribution System Operator and Croatian Transmission System Operator has amounted to HRK 416 million (34 percent of total revenue from domestic market sales).

Key customers in Croatia have also been HŽ Passenger Transport, HŽ Infrastructure, HŽ Cargo and Rolling Stock Technical Services, which brought in HRK 96 million worth of business, which accounts for 8% of the total revenue generated in the home market.

HRK 1,484 million was generated from sales of products and services in international markets, specifically the EU market (65%), European countries/non-EU members (9%), neighbouring/regional countries (7%), Asia (7%), Africa (5%), and America and Australia (5%).

There has been a significant year-on-year increase in the products and services revenue generated in the following markets: Norway (31.4 million increase), Sweden (26.7 million increase), United Arab Emirates (25.6 million increase) and the Czech Republic (19.4 million increase).

In 2018, KONČAR Group companies contracted new projects in the amount of HRK 3,026 million. That is an increase of HRK 466 million in new contracts, year-on-year. Out of the total amount contracted in 2018, 40% (HRK 1,198 million) are domestic market contracts, whereas 60% (HRK 1,828 million) are export contracts.

HEP - Production, HEP - Distribution System Operator and Croatian Transmission System Operator companies account for the largest share of contracted projects on the domestic market (HRK 410 million or 34 percent of all contracts on the Croatian market).

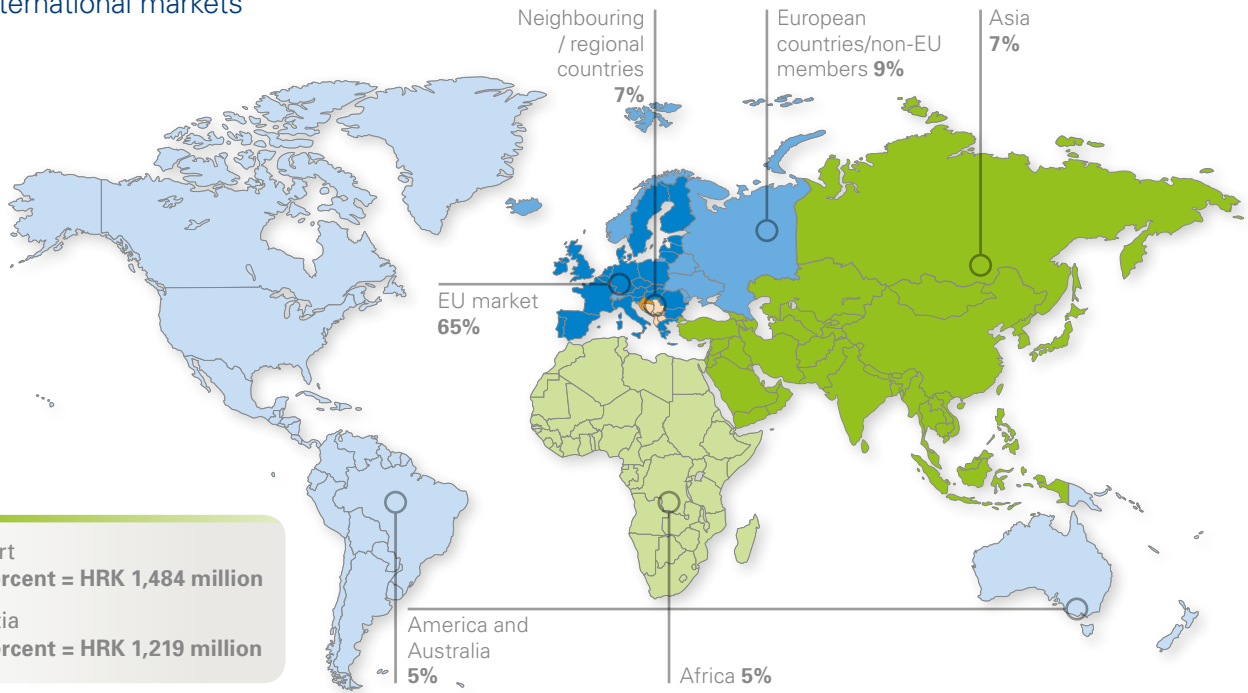
In international markets, the majority of contracted projects have been in the German market amounting to HRK 254 million or 14 percent (mostly for delivery of distribution and special transformers and metal structures). There have been HRK 189 million worth of contracts signed in Sweden, HRK 128 million in Bulgaria, and HRK 115 million in Guinea.

For further details on markets, realised and contracted business please refer to the Business Report, available at [www.koncar.hr/en/investors/annual-financial-reports/](http://www.koncar.hr/en/investors/annual-financial-reports/) (Chapter 4: Market Position)

## MARKETS SERVED

► 102-6

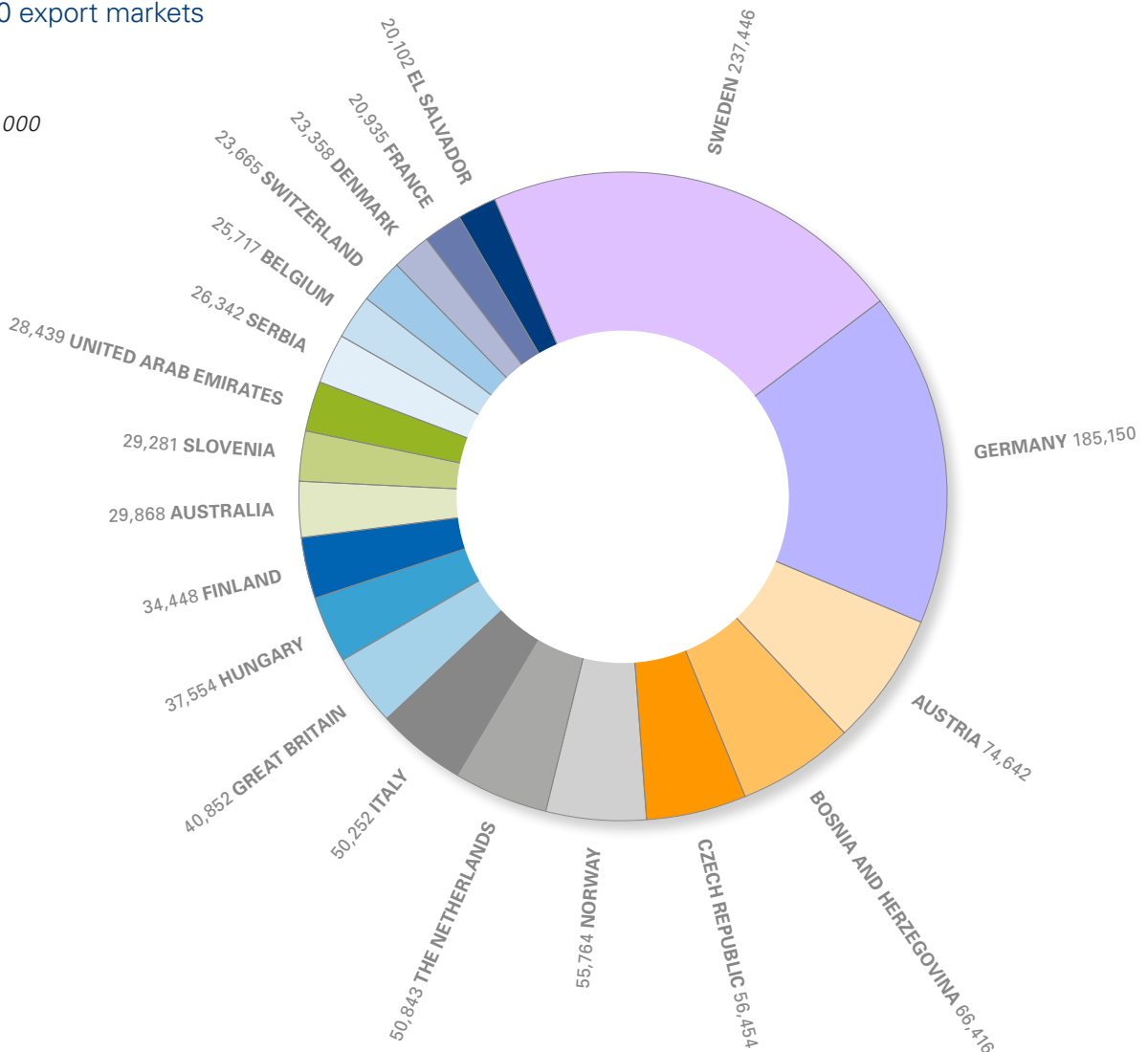
Sales of products and services  
in international markets



Export  
55 percent = HRK 1,484 million  
Croatia  
45 percent = HRK 1,219 million

Top 20 export markets

in HRK 000







## SCALE OF THE ORGANIZATION

### ► 102-7

	<b>Number of employees 2018</b>	<b>TOTAL REVENUE</b> Realised 2018	<b>TOTAL EXPENSES</b> Realised 2018	<b>INCOME TAX</b>	<b>PROFIT / LOSS AFTER TAXES</b> Realised 2018	<b>SUBSCRIBED CAPITAL TOTAL</b>	<b>SUBSCRIBED CAPITAL PARENT COMPANY</b>
POWER PLANT AND ELECTRIC TRACTION ENGINEERING	253	524,057,494	517,787,900	1.556.338	4.713.256	50.577.000	50.577.000
GENERATORS AND MOTORS	452	213,671,392	207,616,232	86.887	5.968.273	107.927.700	107.927.700
SWITCHGEAR	183	134,311,638	130,514,028		3.797.610	105.033.000	105.033.000
DISTR. AND SPEC. TRANSFORMERS	586	955,423,298	905,300,968	1.499.222	48.623.108	153.369.600	80.878.800
INSTRUMENT TRANSFORMERS	258	182,559,142	177,549,663	274.326	4.735.153	37.978.200	23.533.200
ELECTRONICS AND INFORMATICS	250	150,954,136	147,722,179	452,720	2.779.237	47.027.280	41.842.180
METAL STRUCTURES	365	214,413,633	213,456,637		956.996	77.600.400	77.600.400
ELECTRIC VEHICLES	250	170,591,683	141,211,214	4.667.910	24.712.559	47.026.800	35.288.700
RENEWABLE SOURCES	4	25,005,425	24,421,057		584.368	104.670.400	104.670.400
ENGINEERING CO. FOR PLANT INSTALLATION & COMMISSIONING	125	102,667,802	99,091,913	872.958	2.702.931	11.827.500	5.288.100
SMALL ELECTRICAL MACHINES	192	96,525,707	86,182,371	2.185.708	8.157.628	41.641.800	41.641.800
HOUSEHOLD APPLIANCES	63	186,893,175	182,802,391		4.090.784	17.834.100	17.834.100
LOW VOLTAGE SWITCHES AND CIRCUIT BREAKERS	160	45,266,350	46,737,702		-1.471.352	60.499.300	60.499.300
ELECTRICAL ENGINEERING INSTITUTE	171	88,302,102	80,505,064	1.193.223	6.603.815	40.763.520	40.763.520
INFRASTRUCTURE AND SERVICES	145	62,007,928	58,054,967	707,988	3.244.973	49.891.600	49.891.600
<b>TOTAL DEPENDENT COMPANIES</b>	<b>3.457</b>	<b>3,152,650,905</b>	<b>3,018,954,286</b>	<b>13.497.280</b>	<b>120.199.339</b>	<b>953.668.200</b>	<b>843.269.800</b>
KONČAR Electrical Industry Inc. (PARENT COMPANY)	51	174,203,728	98,700,623		75.503.105	1.208.895.930	
<b>TOTAL PARENT COMPANY AND DEPENDENT COMPANIES</b>	<b>3.508</b>	<b>3,326,854,633</b>	<b>3,117,654,909</b>	<b>13.497.280</b>	<b>195.702.444</b>	<b>2.162.564.130</b>	<b>843.269.800</b>

As of 31 December 2018, KONČAR employed 3,508 employees, including 1,397 university graduates with 68 graduates in technical sciences (46 percent electrical engineers and 22 percent mechanical engineers), 16 percent in economics and 16 percent in other fields.

In 2018 KONČAR had 35 employees with PhDs, 47 with master's degrees, 30 university specialists and 107 specialist graduates.

The average age of KONČAR's employees for the reporting period was 43. Employment of young, highly educated workers with university degrees in electrical engineering, mechanical engineering, and information technology has dominated.

Outflow rates in 2018 have been most pronounced in machinist and welder jobs. Although there have been difficulties in recruitment and retention of quality employees in Croatian labour market, KONČAR has been successfully recruiting and retaining sufficient numbers of highly qualified and experienced workers.

Male gender has prevailed in the employee structure. By employment type, permanent full-time employment of 40 hours per week has dominated.

Gender	Contracts				
	Fixed-term	Permanent	Traineeship	rights, obligations and compensation	special rights, obligations and compensation
M	294	2259	27	117	37
F	58	664	12	24	16
<b>Total</b>	<b>352</b>	<b>2923</b>	<b>39</b>	<b>141</b>	<b>53</b>

## INFORMATION ON EMPLOYEES AND OTHER WORKERS

### ► 102-8

### ► UN GC 6



**In 2018, three KONČAR employees obtained their PhD degrees upon defending dissertations on topics directly related to their work. These are as follows:**

**Eduard Plavec** from **KONČAR - Electrical Engineering Institute** defended his doctoral dissertation "Electromagnetic actuator optimization for high-voltage circuit breaker" from the Faculty of Electrical Engineering and Computing, University of Zagreb, on 27 April 2018.

**Igor Žiger** from **KONČAR - Instrument Transformers** successfully defended his doctoral dissertation "Method for calculation of losses in open-core power voltage transformers" from the Faculty of Electrical Engineering and Computing, University of Zagreb, on 2 October 2018.

**Miro Antonijević** from **KONČAR - Power Plant and Electric Traction Engineering** defended his doctoral dissertation in English "Supervision, control and maintenance of automated power grid substations by utilizing augmented and mixed reality technologies" from the Faculty of Electrical Engineering and Computing, University of Zagreb, on 30 November 2018.

**SUPPLY CHAIN**

102-9 ◀

Supply chain management is of strategic importance for KONČAR Group. Suppliers have been segmented by their strategic importance i.e. according to value added to the Company.

In compliance with high quality standards, a portion of supply turnover has been carried out with local and primary producers, thereby contributing to development and stability of local communities.

KONČAR Group has cooperated with suppliers from more than 80 countries worldwide. EU suppliers have accounted for the majority of the import structure (54%).

KONČAR Companies have established multi-year business relationships with suppliers and have frequently entered into business cooperation agreements.

Annual procurement value has stood at about HRK 1.3 billion, with 49% procured internationally, primarily in Europe.

Certain companies have developed their own specific range of products and services, however, main groups of materials have remained standard and include copper wires, copper sheets, steel sheets, dynamo sheets, steel structures, bearings, paints, plastic, joining material, lubricants and other.

Copper materials and steel sheets have been regularly procured on commodity exchanges. Apart from procuring directly from manufacturers, a portion has been procured through intermediaries.

**SIGNIFICANT CHANGES TO THE ORGANIZATION AND ITS SUPPLY CHAIN**

102-10 ◀

The Management Board of KONČAR - Electrical Industry, with consent of the Supervisory Board has been continuously carrying out operational restructuring in order to retain the Group's market position, profitability and enhance further development.

In 2018, the Board has initiated restructuring of two companies (KONČAR - Household Appliances Ltd. and KONČAR - Low Voltage Switches and Circuit Breakers Ltd.) which had not operated in the Group's core area of business. KONČAR - Household Appliances is to be sold through MEBO, whereas KONČAR - Low Voltage Switches and Circuit Breakers is to spin off parts of their production programme and sell them off to a long-term partner. Those transactions are expected to positively affect the Group's profitability in the ensuing period.



KONČAR has been implementing the precautionary principle in all business operations pursuant to the Environment Protection Act. This approach is based on avoidance of all potential risks arising from the implementation of new technology until complete knowledge and understanding of environmental and health impacts has been obtained.

#### PRECAUTIONARY PRINCIPLE OR APPROACH

► 102-11

KONČAR accepts and applies international and local principles, charters and standards, which contribute to better quality of products, work processes and production as well as to preservation and improvement of the natural and social environment.

#### EXTERNAL INITIATIVES

► 102-12

KONČAR's business policy is based on:

- customer, supplier and stakeholder satisfaction,
- environmental, health and safety protection,
- continuous improvement in products and processes
- employee participation and motivation.

The Management and Supervisory Boards of KONČAR - Electrical Industry have adopted principles of corporate governance on 17 April 2008. The corporate governance principles are defined and refer to:

- prudent management,
- definition of corporate governance procedures based on adopted recognized international standards
- supervision of business operations, all for the purpose of establishing high corporate governance standards and transparency of operations as the basis for protection of shareholders, investors and other stakeholders, employee well-being, sustainable development and environmental protection

A systematic approach has generated policy and objectives of quality management, environmental protection, occupational health and safety, acknowledged by certificates obtained from accredited autonomous bodies. In line with the Sustainable Development Policy, the Group has implemented ISO 9001 Quality Management System, ISO 14001 Environment Management System, OHSAS 18001 Occupational Health and Safety Management System, ISO/IEC 27001 Information Security Management System and ISO/IEC 50001 Energy Management. A number of other standards and norms have been applied to individual products as per requirements specified by customers and users.

For further details on certificates, please refer to GRI Standard 416-2 section.

### Chairman of KONČAR presented the Presidential medal

On 18 June 2018, on the occasion of the Croatian Statehood Day, outstanding individuals from various areas of public life were awarded presidential medals and honours by the President of Croatia, Kolinda Grabar Kitarović. Mr Darinko Bago, the Chairman of the Management Board of KONČAR Group was presented with the Order of Danica Hrvatska (lit. "Order of the Croatian Morning Star") with the Blaž Lorković face, for contributions to business, and for outstanding contribution to the development of economic relations between Croatia and foreign countries.





**MEMBERSHIP OF ASSOCIATIONS**

102-13 ◀

- International Council on Large Electric Systems (CIGRÉ)
- International Council for Distribution Systems (CIRED)
- IEEE - Institute of Electrical and Electronics Engineers
- IEC - International Electrotechnical Commission
- IIW - International Institute of Welding
- ECLA - European Company Lawyers Association
- European Committee for Electrotechnical Standards (CENELEC)
- Croatian Branch of the International Council on Large Electric Systems (HRO CIGRÉ)
- Croatian Exporters (HIZ)
- Croatian Chamber of Commerce (HGK)
- Croatian Academy of Engineering (HATZ)
- Croatian Association for Information and Communication Technology, Electronics and Microelectronics (MIPRO)
- Croatian Standards Institute (HZN)
- Croatian Innovators' Association (UIH)
- Croatian Chamber of Electrical Engineers (HKIE)
- Croatian Chamber of Mechanical Engineers (HKIS)
- Croatian Chamber of Architects and Engineers in Construction Industry
- Innovative Work Community
- Renewable Sources Community
- Electrical Engineering Society of Zagreb (EDZ)
- Croatian Engineering Association
- Community of Railcars
- Society of Engineers and Technicians of Croatian Railways
- Croatian Association of Railway Engineers (HDŽI)
- Croatian Association of Professionals in Nature and Environmental Protection
- Croatian Association of Infrared Thermography
- Croatian Society for Quality
- Association of Corporate Lawyers
- Association of Lawyers in Economics
- Croatian Mediation Association
- Croatian Association of Auditors
- Croatian Community of Accounting and Financial Professionals
- Croatian Journalists' Association (HND)
- Croatian Public Relations Association (CPRA)
- Global Compact-International Agreement within the United Nations
- Association for Socially Responsible Business Operations within the Croatian Chamber of Commerce.



### Darinko Bago - member of the Croatian Academy of Engineering from business

On 21 May 2018, marking the 25th anniversary of the foundation and operation of the Academy of Engineering (Croatian Abbreviation: HATZ), diplomas were awarded to new emeriti, to regular and supporting members, and for the first time, members of the Academy from business.

As a business person who indebted our economy with his persistent, innovative work, Mr Darinko Bago, Chairman of the Management Board of KONČAR was awarded a diploma as a newly elected member of the Croatian Academy of Engineering from business.

HATZ is a non-profit scientific organization which brings together distinguished engineering and bioengineering scientists from Croatia and internationally. Its mission is to promote, gather and encourage cooperation in support of efficient scientific and economic development of Croatia.



### "Hrvoje Požar" Foundation Award for contribution to the development of the energy industry

On 5 July 2018, Hrvoje Požar Foundation presented its 24th annual award for contribution to the development of the energy industry. Mr Ante Elez, Member of the Management Board of KONČAR - Generators and Motors was awarded for innovation in the field of energy for 2018.

### Golden Key Award for best exporters

Golden Key awards were presented at the 13th Convention of Croatian Exporters held in Zagreb on 15 June 2018.

KONČAR - Power Transformers, nominated in 2 categories (Best Large Exporter and Best Exporter to the market of Egypt) received the award for the best exporter to the Czech market in 2017.

KONČAR - Instrument Transformers was awarded Best Exporter for North, Central, and South America markets.





### Four ARCA medals for KONČAR



The 16<sup>th</sup> International Innovation Exhibition ARCA 2018 was held in Zagreb on 18-20 October. The “Series of synchronous reluctance motors IEC 80-160 0.75-18.5 kW, IE4 efficiency rating”, developed by KONČAR - Small Electrical Appliances, was awarded the IFIA Medal for the best innovation of the International Federation of Inventors’ Associations and the Gold Medal at the ARCA International Innovation Exhibition.

Belgrade Association of Inventors presented the Gold Medal with the image of Nikola Tesla to the innovation “Visualization system for

drivers of rail vehicles - KonHMI (Končar Human Machine Interface)” designed by an expert team at KONČAR - Electrical Engineering Institute.

The silver ARCA medal was awarded to the “Visualization system for safety critical applications - SAFEHMI (Safe Human Machine Interface)” developed by KONČAR - Electrical Engineering Institute and KONČAR - Power Plant and Electric Traction Engineering.

### KONČAR receives the Silver Mind Award

To mark the 25<sup>th</sup> anniversary of the “Effective Manager” book, the Croatian Good in Action Conference was held in Zagreb on 13 November 2018.

The conference was organised by M.E.P., a publishing company, and Good Croatia Business Initiative for affirmation of CSR. At the ceremony, Silver Mind awards were presented. KONČAR - Electrical Industry was awarded for 25 years of business cooperation and promotion of CSR.

### CSR Index to KONČAR - Electrical Engineering Institute

In November 2018, KONČAR - Electrical Engineering Institute received a recognition for ten years of commitment and continuous participation in the CSR Index. The CSR Index is a joint initiative of the Croatian Business Council for Sustainable Development (HR PSOR) and the Croatian Chamber of Commerce (HGK). The method includes assessment of a company’s corporate social responsibility based on a ranking system which enables practical assessment and benchmarking.

## Strategy



KONČAR Group is exposed to various market and financial operating conditions. The business environment risk is affected by political, economic and social conditions existing in operating markets. The Group monitors all the risks and takes measures to mitigate their potential impact on the financial stability.

All Group companies regularly monitor and manage their balance sheets, liquidity and capital adequacies, set measures focused on illiquidity cause, prevention or elimination, take measures focusing on companies' sufficient long-term sources of funding in view of scope and type of their business activity, and regularly monitor capital adequacy level.

At Group level, long-term sources of funding (capital, long-term provisions and long-term liabilities) exceed non-current assets and average inventory balance, which indicates a sound funding maturity structure. In relation to short-term liabilities, current assets are 2.5 times higher, which indicates sound liquidity of the system. The structure of consolidated balance sheet indicates financial soundness of the Group.

The companies within the Group manage risks that might affect the Group's operations by monitoring business processes and internal reports on the risks to identify and analyse the exposure by degree and magnitude of risks.

### Market risk

Market risk emerges as a result of potential losses stemming from less-than-favourable economic conditions and decline in market demand.

The Group operates domestically and internationally. The Group's core activity is energy and transportation-related equipment and products. The production programme heavily depends on such investments. Due to the impacts of global recession and geopolitical insecurity, some markets favour awarding contracts to domestic enterprises. In addition to volatile prices of key raw materials in 2018, there has also been a strong competitive pressure on the price of equipment and profit margins.

Competitiveness of our products and services is also impacted by changes of operating conditions for both the Group and our customers. Management Boards of individual companies price their products autonomously.

### Risk in the procurement market

Prices of major raw materials and commodities (copper, sheet metal, steel...) have been subject to unpredictable changes in recent years (vast growth or decline over a short period of time).

Within the transformer program, the Group companies have been protected from the risk of sudden price changes of strategic raw materials in several ways. In case of copper, given that it is a London Metal Exchange listed raw material, forward contracts are used to negotiate with copper suppliers on the quantities and prices for future periods according to stock and estimates of signed contracts. In case of steel, transformer sheet and some of the most crucial supply parts, risk is mitigated by employing semi-annual or annual contracts with suppliers. Certain long-term customer contracts employ a sliding formula based on material price changes.

### Technological and development risks

Group companies have continuously invested significant assets in key technologies and strategically important segments of production to mitigate risks of falling behind the competition in technology and development. In the forthcoming period, Group companies are planning to invest significant resources in new product development and upgrade of existing product portfolio.

### KEY IMPACTS, RISKS, AND OPPORTUNITIES

► 102-15

**Human resources risks**

Usual turnover and changes in the HR structure have not significantly affected the Group's operations. Sudden or bigger turnover of employees with specialist knowledge (e.g. EU labour markets deregulating for workers from Croatia) might affect business operations. Continuous investments in training and financial incentives offered to key company employees tend to hedge against HR risks.

**Capital management risk**

The Group has managed the capital to ensure operating as a going concern while maximising shareholder returns through optimisation of debt-to-equity ratio. The Group has managed capital and made appropriate adjustments in line with changes of economic conditions on the market and risk characteristics of the assets. The Group can decide if retained earnings should be distributed to shareholders, if equity needs increasing or decreasing, if assets should be sold in order to decrease liabilities and similar.

**Currency risk**

The official currency of the Group is Croatian Kuna. However, some transactions executed in foreign currency are converted to Croatian Kuna, by applying exchange rate in effect at balance sheet date. Resulting exchange rate gains and losses are being credited or debited against profit and loss account. The companies hedge against F/X risk by continuously planning and monitoring their cash flow, contracting sales and procurement in the same currency where possible, adjusting inflow and outflow dynamics, as well as term F/X purchases in accordance with cash inflows and outflows plan. Companies with a higher share of exports in the total revenue employ financial derivatives to hedge against financial risk exposure.

**Interest rate risk**

Group companies have been most exposed to interest rate risk on loans contracted at floating interest rates, while a materially insignificant part of assets is exposed to interest rate risk. Individual companies within the Group have contracted hedge exposure to interest rate risk in contractual relations with foreign currency payments.

**Credit risk**

Credit risk is risk of a counter party defaulting on contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing exclusively with creditworthy counterparties thus mitigating risks of financial loss from defaults. The Group uses data and opinions gathered from rating agencies, the Chamber of Commerce and other publicly available financial information on companies' financial status and uses its own data base to rate major customers. The Group's risk exposure and the credit ratings of its counterparties are continuously being monitored. As a principle, contracts are entered into only with creditworthy counterparties when appropriate payment insurance instruments are obtained. (L/C, guarantee, etc.)

Exposure to credit risk is affected mainly by individual characteristics of each customer. The Group has established impairment loss allowance as an estimation of incurred losses in respect of expected losses from receivables and investments.

**Liquidity risk**

Liquidity risk reflects the Group's inability to meet financial obligations as they mature. Risk management is a responsibility of the Management Boards of the Group companies. The Group has managed this risk by continuously monitoring estimated cash flow, comparing and adjusting it to the actual revenue and expenses. Overall, there has been no significant exposure of the Group to liquidity risk.





## Ethics and Integrity

By taking part in initiatives, discussions and projects on national level, KONČAR has opted for a proactive approach in all aspects of corporate social responsibility.

On 12 September 2005, KONČAR Group companies signed the Declaration on the Adoption of the Code of Ethics in Business Operations, ratified by the Assembly of the Croatian Chamber of Commerce. The Code of Ethics is available to the employees of KONČAR Group and business partners.

Throughout 2018 all necessary activities and employee trainings pertaining to the implementation of the EU General Data Protection Regulation (GDPR) 2016/679, were carried out.

**VALUES,  
PRINCIPLES,  
STANDARDS  
AND NORMS OF  
BEHAVIOUR**

► 102-16

KONČAR has set up in-house mechanisms for providing advice on ethical and legal behaviour and issues related to the organisational integrity. Depending on the size of respective KONČAR Group company, advice may be requested from legal departments, persons responsible for HR, Committee for employee dignity, works councils or trade union commissioners.

**MECHANISMS  
FOR ADVICE AND  
CONCERNS ABOUT  
ETHICS**

► 102-17

Mechanisms have been put in place for making requests not related to the organization including regional trade union commissioners, State Inspectorate Office and labour inspectorate or relevant ministries.



## Governance



### GOVERNANCE STRUCTURE

102-18 ◀

KONČAR Group consists of KONČAR - Electrical Industry Inc. as the parent company and 15 dependent companies, in which the parent company exercises predominant control (more than 50 percent of votes at the General Assembly). Some of the companies have preferred shares subscribed in addition to the common shares issued. The Group has one associate company and a joint venture with China XD Electric Co. from the People's Republic of China.

The companies belonging to the Group's structure are legally autonomous entities, while the parent company exercises a supervising role, provides strategic direction and supports them via companies' supervisory boards and shareholders' assemblies pursuant to the Companies Act, the KONČAR - Electrical Industry Inc. Articles of Association and the Articles of Association of individual companies. Furthermore, the parent company manages a portion of assets, which is not invested into companies, but is directly and indirectly in function of the financial support of sales, products and the equipment of dependent companies as a credit/guarantee potential.

### COMPOSITION OF THE HIGHEST GOVERNANCE BODY

102-22 ◀

The Chairman of the Management Board and Members of the Management Boards are appointed and recalled by the Supervisory Board. Pursuant to the Companies Act and the Articles of Association, the Management Board is personally responsible for business operations and in doing so, they are obliged and authorised to take any actions and make decisions deemed necessary for successful management. Supervisory Board consent is required when making certain decisions as defined by the Articles of Association and Supervisory Board Regulations.





### In 2018, the Management Board of KONČAR - Electrical Industry included the following members:

Darinko Bago	Chairman of the Management Board
Miki Huljić	Member of the Management Board in charge of finance
Marina Kralj Miliša	Member of the Management Board in charge of legal, general and HR affairs
Davor Mladina	Member of the Management Board in charge of electricity transmission and distribution, industry and trade
Miroslav Poljak	Member of the Management Board in charge of electricity generation, corporate development and ICT
Ivan Tomšić	Deputy Member of the Management Board in charge of complex export project coordination and digital transformation

#### Notes:

The annual General Assembly was held on 15 January 2019, where the majority of shareholders voted to adopt the amendments to Article 44(3) of the Articles of Association of KONČAR - Electrical Industry, which stipulates that Members of the Management Boards are appointed for a period of up to 5 years.

On 18 January 2019, the Supervisory Board decided on the following appointments for a 1 year-term: Mr Darinko Bago as Chairman of the Management Board, Mr Gordan Kolak as Deputy Chairman and Member of the Management Board, Ms Marina Kralj Miliša, Mr Miki Huljić, and Mr Miroslav Poljak as Members of the Management Board, and Mr Ivan Tomšić as Deputy Member of the Management Board.

### Supervisory Board

Pursuant to the provisions of the Companies Act and the Articles of Association of KONČAR - Electrical Industry, the General Assembly appoints and recalls the Supervisory Board. The Supervisory Board is responsible for appointing and recalling members of the Management Board and supervises the Company's operations. Major transactions and business decisions (the amount of which is defined by the Supervisory Board Regulations) require the Supervisory Board's consent.

The General Assembly held on 12 July 2016 adopted a decision on the appointment of the Members of the Supervisory Board. Supervisory Board members as follows:

Petar Vlaić	Chairman of the Supervisory Board
Josip Lasić	Deputy Chairman of the Supervisory Board
Nikola Anić	Member
Jasminka Belačić	Member
Vicko Ferić	Member
Branko Lampl	Member
Joško Miliša	Member
Vladimir Plečko	Member

The members of the Supervisory Board were appointed for a period of four years as of 12 July 2016.

Members of the Supervisory Board accepted the proposal for appointing Petar Vlaić as the Chairman, and Josip Lasić as the Deputy Chairman of the Supervisory Board.



**THE ROLE OF  
THE HIGHEST  
GOVERNANCE  
BODY**

102-26 ◀  
UN GC 9 ◀

A Resolution of the Management Board of KONČAR - Electrical Industry determined that a five-year strategic plan for the Group is made annually. The foundation of the Strategy includes the following business objectives:

• **Sustainable development** - stronger participation of digital transformation in new product and service development in core business (energy and transportation)

• **Production** - highly complex products with high added value, based on Industry 4.0 principles

• **Product development** - proprietary development in cooperation with scientific institutions and partners

• **Export** - increasing export/domestic market ratio (up to 60% in export)

• **HR policy** - scholarships, specialist training, scientific education, HR development

• **Synergy** - encouraging and optimizing Group's joint business processes

• **Social responsibility** - stronger participation in all areas of the society

• **Investments** - expanding production capacity of strategic products, optimization of existing resources



On 27 July 2018, the Supervisory Board issued a resolution establishing Appointments and Remuneration Committee, consisting of:

Vladimir Plečko	Chairman of the Appointments and Remuneration Committee
Nikola Anić	Member
Vicko Ferić	Member
Branko Lampl	Member

## REMUNERATION POLICIES

► 102-35

Remuneration of the Group Members of the Management Boards/Directors has been set forth by the Resolution of the Management Board of KONČAR - Electrical Industry. It is based on clearly defined business-related criteria including achieved performance, plan realization, consolidated plan realization, EBITDA, signed contracts.

## PROCESSES FOR DETERMINING REMUNERATION

► 102-36

Remuneration of the Management Board of KONČAR - Electrical Industry has been laid out in the Contract on the Rights and Obligations between the Chairman, the Members and the Chairman of the Supervisory Board. The remuneration is considered more appropriate and aligned with the position of the Company and its results. Information on the overall compensation and premiums of the Members of the Management Boards and directors is disclosed in annual reports.



## Stakeholders



### STAKEHOLDERS AND THEIR ENGAGEMENT

102-40/42/43/44 ◀

One of the essential prerequisites for comprehensive implementation of CSR is identification of stakeholders. KONČAR has recognized this and segmented all stakeholders - individuals, communities and organizations affecting or being affected by the Group operations.

Stakeholders have been involved in preparation of this Report segment. Communication with stakeholders has been maintained throughout the year, permanently and as the need arises.

Stakeholders Type of Communication

**Employees**

- intranet/internal services
- official website
- education and professional training
- KONČAREVAC
- LinkedIn
- e-mail
- business reports
- CSR reports

**Customers / Users**

- direct contact (visits, meetings, audits)
- professional training
- official website
- KONČAREVAC
- e-mail
- LinkedIn
- business reports
- CSR reports
- fairs and conferences

**Trade Unions**

- regular and extraordinary meetings
- KONČAREVAC
- bulletin boards

**Owners / Shareholders**

- regular and extraordinary assemblies
- ZSE, HANFA
- Croatian news agency (HINA)
- official website
- KONČAREVAC
- business reports
- CSR reports

**Suppliers**

- direct contact (visits, meetings, audits)
- written (e-mail, memos)
- official website
- fairs

Stakeholders Type of Communication

**Local communities**

- Volunteers Club
- donations and sponsorships
- official website
- LinkedIn
- direct (visits, meetings)
- KONČAREVAC
- CSR reports
- written (e-mail, memos)

**State authorities**

- direct (visits, meetings)
- conferences and topic-based meetings
- written (e-mail, memos)
- memberships
- KONČAREVAC

**Financial public**

- ZSE
- Croatian Financial Services Supervisory Agency (HANFA)
- Croatian news agency (HINA)
- official website
- KONČAREVAC
- business reports
- CSR reports
- meetings with prospective investors

**Media**

- interviews, stories, releases
- regular and extraordinary press conferences
- KONČAREVAC
- press releases
- official website

**Academia**

- conferences
- memberships
- scholarly and scientific papers
- topic-based meetings

**Business and professional public**

- conferences
- professional publications
- topic-based meetings



## Communication with stakeholders

Some of the most important means of communication and means of engaging stakeholders during this reporting period have been listed below.

### KONČAREVAC corporate magazine

All news related to the Group's business and topics pertaining to numerous stakeholders such as employees, support to local and other communities have been published in KONČAREVAC. KONČAREVAC is published ten times a year with a circulation of 3,850. It is distributed to employees and delivered to about one thousand addresses in Croatia and internationally. KONČAR has had a 70-year tradition of internal communications and KONČAREVAC magazine has been published for over 50 years. In December 2018, the 1442<sup>nd</sup> issue was published.

### Fairs and Conferences

In 2018, KONČAR participated in 18 trade fairs and conferences in nine countries, with exhibition space totaling almost 600 m<sup>2</sup>. All nine fairs were held internationally, in four countries (United Arab Emirates, Bosnia and Herzegovina, Czech Republic and Germany).

Five out of nine expert conferences were held in Croatia, and four were held abroad (France, Russia, Kenya and Poland). KONČAR's experts presented 13 papers and gave three technical presentations at international conferences.

### KONČAR Group official website

[www.koncar.hr/en](http://www.koncar.hr/en) provides key business, product and other KONČAR Group related information. In addition, most of dependent companies have their own web sites containing details on their business activities and references. As specified in the last year's Report, due to changes in technology, design and functionality trends, redesigning process of the Group online site had been completed in 2017 and redesign of web sites of individual companies has continued in 2018.

### Social networks

In line with trends of major virtual world presence, KONČAR has continued with LinkedIn activities in 2018 - the world's largest business community. At the end of 2018, profiles of KONČAR Group companies had over thirteen thousand followers and more than 300 posts.

### Media

In 2018, 1,495 pieces of news pertaining to KONČAR were published in newspapers, on radio, television and online.

Most frequently, topics in such releases were related to business - new projects, products, contracts, and share trajectory in the market.

In the structure of all KONČAR - related media coverage, annual analysis of media releases in the observed period by media and tone has indicated that the major share of positive coverage occurred in radio (86%) and television news (77%), with a somewhat lower share of positive press releases (58%) and online (51%). In relative numbers, the proportion of negative incidence of KONČAR Group is extremely small - less than 1 percent.

The Collective Agreement includes all employees (100 percent).

**COLLECTIVE  
BARGAINING  
AGREEMENTS**

▶ 102-41

▶ UN GC 3

## Reporting Practices



**ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS**  
102-45 ◀

### ENERGY AND TRANSPORT

Power Plant and Electric Traction Engineering

Generators and Motors

Switchgear

Distribution and Special Transformers

Instrument Transformers

Electronics and Informatics

Metal Structures

Electric Vehicles

Engineering Co. for Plant Installation & Commissioning

Renewable Sources

### INDUSTRY AND TRADE

Household Appliances

Small Electrical Machines

Low Voltage Switch and Circuit Breakers

### DEVELOPMENT AND SERVICES

Electrical Engineering Institute

Infrastructure and Services

### AFFILIATED COMPANY

Power Transformers

### JOINT VENTURE

KONČAR-XD High Voltage Switchgear







**Economic standards**

- economic performance, GRI 201
- indirect economic impacts, GRI 203

**Environmental standards**

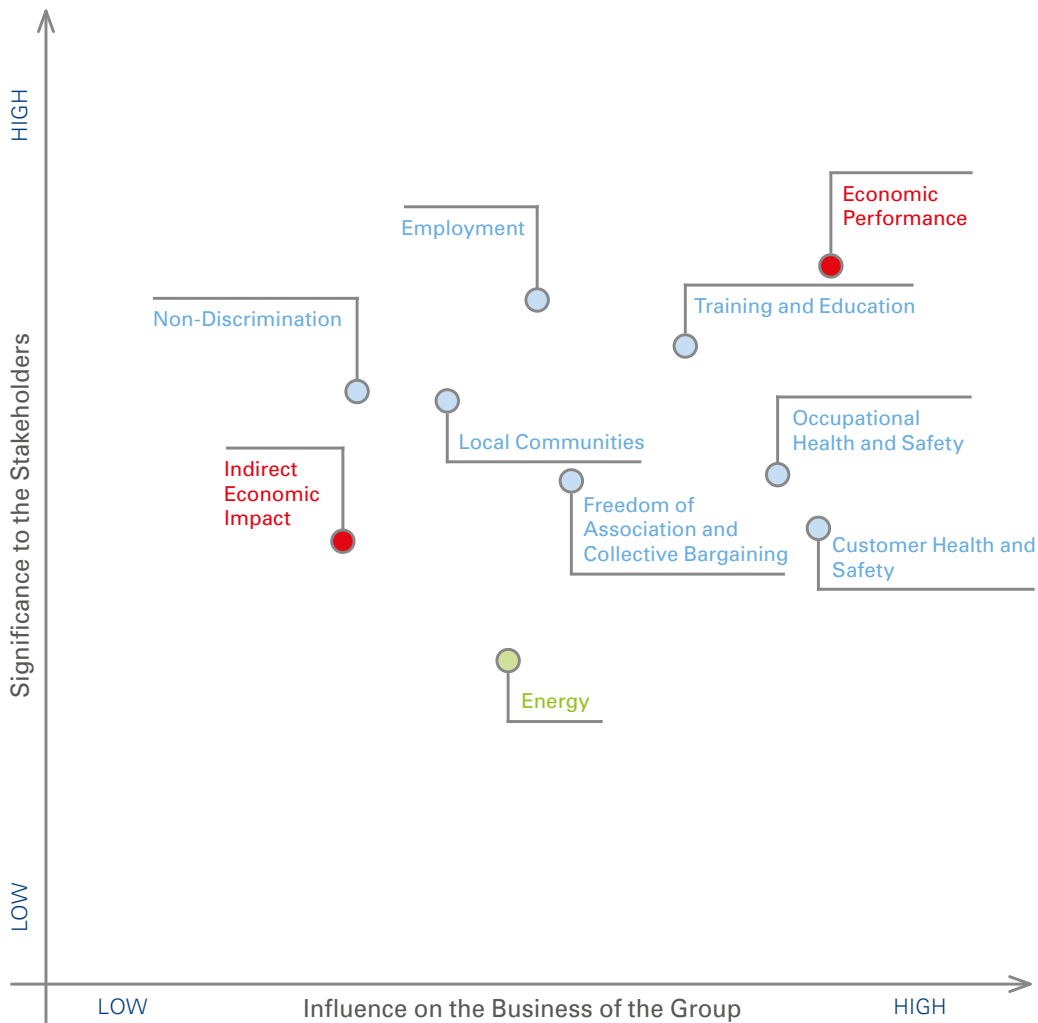
- energy, GRI 302

**Social standards**

- employees, GRI 401
- occupational health and safety, GRI 403
- training and education, GRI 404
- non-discrimination, GRI 406
- freedom of association and collective bargaining, GRI 407
- local communities, GRI 413
- customer health and safety, GRI 416

**LIST OF MATERIAL TOPICS**

► 102-47





**RESTATEMENTS OF INFORMATION**

**102-48 ◀**

As of 1 January 2018, a new company KONČAR - Switchgear has been operating in order to realise synergies in coordinated market performance, more efficient product development and operational cost reduction. This is a direct result of a merger between switchgear, medium and high voltage apparatus companies, reported in the previous CSR Report.

On 5 December 2018, KONČAR - Electrical Industry and China XD Electric Group from the People's Republic of China, set up a joint venture company KONČAR-XD High-voltage Switchgear Ltd. for production of high-voltage SF<sub>6</sub> gas-insulated systems (GIS), with nominal voltage ranging from 170 kV to 420 kV. Each partner holds a 50% share in this new company.

**CHANGES IN REPORTING**

**102-49 ◀**

During the reporting period there have been no significant changes in the scope of reporting. In line with GRI standards, this year's report has included 10 material topics with appropriate quality and quantity indicators.

The option of core harmonization with the GRI Standards and UN GC principles has been selected for the report. The report has not been externally assured.

**REPORTING CYCLE AND REPORTING PERIOD**

**102-50/51/52 ◀**

CSR reporting cycle is annual and this report has covered the period from 1 January to 31 December 2018. The preceding Report was published in May 2018.

**CONTACT PERSON FOR QUERIES REGARDING THE REPORT**

**102-53 ◀**

This CSR Report encompasses all KONČAR Group companies. It was prepared by KONČAR - Electrical Industry. The contact person for any queries regarding the Report and its content is the Director of the Corporate Marketing and Information Department.

**CLAIMS OF REPORTING IN ACCORDANCE WITH THE GRI STANDARDS**

**102-54 ◀**

This report has been prepared in accordance with the GRI Standards: Core option

**GRI CONTENT INDEX**

**102-55 ◀**

For GRI content index please refer to page 43.

## Topic - Specific Standards: Economic



As per revised data, KONČAR Group companies have generated total revenue of HRK 2,963 million. Net profit stands at HRK 128.7 million, which is 19% increase year-on-year. The Group has had HRK 3,026 million in new contracts, which is 18% increase in comparison with 2017. All key indicators point to continued stability in Group operations.

Product and service sales revenue amounts to HRK 2,703 million, which is 4.3% decrease year-on-year. This decline in revenue has been caused primarily by stop-work orders, delays in contract performance and status developments of several projects. In 2018 KONČAR Group has generated HRK 1,484 million in revenue product and service sales in international markets, which is a direct result of appropriate activities and market expansion measures. Exports have accounted for 55 percent of the total revenue.

The Group has a stable balance sheet. The balance of total consolidated and source funds on 31 December 2018 was HRK 3,727 million. In the structure of sources of funds, subscribed capital, reserves, retained earnings, current year profits and non-controlling (minority) interest amounted to HRK 2,537 million, which was HRK 53 million more than on 31 December 2017 and accounted for 67 percent of total sources.

For more detailed information on economic performance, please refer to the Business Report 2018 on [www.koncar.hr/en/investors](http://www.koncar.hr/en/investors) (Chapter 5 - Business Results and Financial Balance).

### ECONOMIC PERFORMANCE

#### ► GRI 201

*in HRK 000*

Direct economic value generated and distributed	2018	2017	2016
Direct economic value generated (income)	2,962,698	3,094,080	3,111,844
Salaries and wages	551,694	554,786	537,346
Budget payments (tax)	13,497	16,356	22,298
Operating costs	2,390,614	2,517,183	2,547,096
Net financial costs	5,534	4,088	2,405
Investments in the community (donations and sponsorships)	1,359	1,667	2,699
<b>Retained economic value (net profit)</b>	<b>128,708</b>	<b>108,104</b>	<b>173,788</b>

### DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

#### ► 201-1

KONČAR Group companies make regular payments towards contributions in the generation solidarity system for all employees at 20% rate under the 1<sup>st</sup> pension pillar. The 1<sup>st</sup> pillar contribution rate for all those insured under both mandatory pillars is 15 percent, while 5% contribution is paid towards the 2<sup>nd</sup> pension pillar into personal accounts opened in mandatory pension funds.

In the preparation of annual financial statements for 2018, a provision was made for the cost of jubilee awards and severance indemnities in the amount of HRK 49.3 million. The amount includes an estimated amount of regular employee benefits (regular severance payments and jubilee awards), severance payments in accordance with the Collective Agreement constituting the right of the Group employees. The current value of the provision is calculated on the basis of the number of employees, pension amount, length of service as of the balance sheet date and discount rate of 2%.

The reserved amount fully meets planned severances and rewards for employees who had met these conditions in 2018.

### DEFINED BENEFIT PLAN OBLIGATIONS AND OTHER RETIREMENT PLANS

#### ► 201-3



**SIGNIFICANT  
INDIRECT  
ECONOMIC  
IMPACTS**  
**203-2** ◀

The Management Board of KONČAR - Electrical Industry manages development in line with the adopted concept of the Strategic Development Areas in KONČAR Group. All adopted decisions are in accordance with long-term development goals of the Group, new product development needs, development of techniques, technologies and available resources. Based on these commitments, a number of projects and programmes have been nominated as projects of special importance to the Group, aiming at increasing synergy effects. The most important among them have had a significant indirect economic impact. These include the following:

#### **Digital transformation programme**

Three key elements have been defined within the programme scope: product digitalization, manufacturing processes digitalization, and digitalization of business operations. This primarily relates to improvements of these elements by using modern technologies. The main objectives of the programmes include optimization of processes to increase efficiency and reduce costs, using modern technologies for development of products and services, meeting customer needs, increasing data availability, reliability, protection and acquisition of competencies and knowledge that will enable continuous digital transformation of the Group.

#### **Metal processing center**

Based on the findings of a feasibility study, it has been decided to reorganize KONČAR - Metal Structures and establish it as the Metal Processing Centre at Group level. The establishment of the centre is expected to increase productivity and thus reduce costs in this area of activity.

#### **Center of Excellence for advanced materials and sensors**

KONČAR - Electrical Engineering Institute has been one of the partners (together with the Institute of Physics, Faculty of Natural Sciences and Mathematics and Faculty of Medicine of the University of Zagreb, and University of Rijeka) in the project "Support for top-level scientific research at the Center of Excellence for advanced materials and sensing devices (CEMS)". The project was launched on 1 February 2018 under the leadership of the Ruder Bošković Institute. It had received a grant from the European Regional Development Fund.

The project will employ 14 new experts and provide funds for tuition fees and further professional training both in Croatia and abroad. It is a step towards more competitive products and strengthening cooperation between science and economy.

#### **A joint venture with a partner from the People's Republic of China**

On 5 December 2018, KONČAR - Electrical Industry Inc. and China XD Electric Co. from China, set up a joint venture company KONČAR-XD High-voltage Switchgear Ltd. for production of high-voltage SF<sub>6</sub> gas-insulated systems (GIS), with nominal voltage ranging from 170 kV to 420 kV. A new 5,000 m<sup>2</sup> production plant will be constructed in Sesevski Kraljevac.



## Cooperation with the academic community

Throughout 2018 successful cooperation continued with a number of scientific and educational institutions, facilitating identification, definition and implementation of a number of projects in which the parties participate as equal partners by bringing their own expertise and encouraging collaboration between science/education base and business sectors.

### Cooperation Agreement between the University of Zagreb, University of Mostar and KONČAR Group

On 28 December 2018, the University of Zagreb, the University of Mostar and KONČAR entered into a cooperation agreement allowing the Group's employees holding PhD degrees to contribute to teaching courses at the University and transfer their knowledge and experience.

On behalf of the institutions, the Agreement was signed by the rector of the University of Zagreb Damir Boras, the rector of the University of Mostar Zoran Tomić, and Darinko Bago, Chairman of the Management Board of KONČAR. The aim of this Agreement is to strengthen the cooperation between the academic community and business, as science, technology and innovation are considered to be drivers of economic development of the country. Furthermore, active involvement of entrepreneurs in the academic community will contribute to ensuring conditions for high-quality education in line with the labour market requirements.



### Working together with "Knowledge in Action" Foundation

In cooperation with Knowledge in Action Foundation and Ruđer Bošković Institute, on 18 May 2018, KONČAR - Electronics and Informatics opened its doors to secondary-school students participating in "STEM. Grow. Explore." programme. The programme aims to introduce young people to STEM area and experts working in these professions.



### Support to STEM Games

The first STEM Games, an international competition for university students from STEM faculties, were held in 2018. The project arose from a joint initiative of the students at the Faculty of Electrical Engineering and Computing (FER) and the Faculty of Natural Sciences and Mathematics, University of Zagreb, and aims to increase interdisciplinarity, knowledge sharing through joint competitive and innovative problem-solving activities, and promotion of sports and healthy living. The event was attended by more than 1,300 students from 14 faculties, and participation of the FER team (which numbered more than 200 people) was supported by KONČAR Group.

### KONČAR - partner of "Elektroboj"

In mid-June 2018, the finals of "Elektroboj" ("electric battle") - competition in developing practical and innovative solutions to the given topic - took place.

This competition has been designed for students of all faculties and encourages collaboration and creativity. It also encourages students to realize their own ideas while at the same time confronting them with all challenges of managing a serious project. The mission of this project is popularization of electrical engineering and encouraging students to communicate their ideas and knowledge, applying them in practical work. Students compete in teams (2 to 4 members), each team working on their own ideas.

This year, the assigned themes were e-agriculture and security, and entry prerequisite for the finals was to display a working device.

*Elektroboj* is organised by the members of eSTUDENT, a non-profit student organization, which works with partners from the business sector, including KONČAR - Electrical Engineering Institute, whose representative was one of the jury members.



### The KONPRO 2 Project

In May 2018, KONČAR - Electronics and Informatics and the Ministry of Economy, Entrepreneurship and Crafts signed the Grant Agreement for “KONPRO 2 - development of new-generation numerical protection devices” project.

This project will be funded by the European Regional Development Fund, to “increase new product and service development from R&D activities”. KONČAR has partnered up with the Faculty of Electrical Engineering and Computing, University of Zagreb.

Relay protection systems are part of the secondary power generation and supply system equipment and their basic function is to turn off defective parts. In this way, they protect the primary equipment from damage or from long-term disruption in the electricity supply, and they protect people in the vicinity of the defect, allowing uninterrupted power supply in the rest of the network.

The aim of the project is development and production of a new system of protection, measurement, and management that will be used in power generation and supply facilities.

### KONČAR Award for Best Doctoral Dissertation

Marking the Day of the Faculty of Electrical Engineering and Computing (FER) of the University of Zagreb, the annual KONČAR Prize for doctoral dissertations for outstanding scientific achievements in the area of technical industry-applied sciences have been presented. Prizes for the 2017/2018 academic year were have been awarded to Eduard Plavec for the “Electromagnetic actuator optimization for high-voltage circuit breakers” dissertation and to Nikola Hure for the “Set-theoretic control of a wind turbine” dissertation.



### Award to best students of the Faculties of Electrical Engineering and Computing and the Faculty of Mechanical Engineering

As part of the anniversary celebration of the Faculty of Electrical Engineering and Computing (FER) at the University of Zagreb, KONČAR - Electrical Engineering Institute gives a cash prize award to one of the winners of “Josip Lončar” bronze plaque for the successful completion of graduate studies.

As an incentive for excellence and support to successful students, at a formal session of the Faculty Council of the Faculty of Mechanical Engineering and Naval Architecture, University of Zagreb, KONČAR - Metal Structures has awarded a prize to the best student of the graduate study of Mechanical Engineering, specializing in production engineering, welded structures.

### Best Graduate Thesis Prize at FER (Faculty of Electrical Engineering and Computing)

As part of the Economic Council of the Institute for Electronic Systems and Information Processing (ZESOI), the Faculty of Electrical Engineering and Computing at the University of Zagreb have organised this year’s competition of graduate students - DIRA 2018.



DIRA is an annual event bringing together professors, graduates whose mentors are from ZESOI, and the Economic Council, which consists of experienced professionals, managers, board members, development leaders and engineers from companies that employ FER graduates. The purpose of the workshop is to give students an opportunity to present the results of their graduate thesis, and to interact with prominent businesspeople.

Following presentations of thesis, members of the Economic Council have decided on the winners and KONČAR has sponsored the prize for the best thesis in 2017/2018 academic year.

### Awards to best students at the Polytechnic of Zagreb

To mark KONČAR Day and 97<sup>th</sup> anniversary of KONČAR Group, the traditional KONČAR Award was awarded to the best graduate students at the Polytechnic of Zagreb on 24 January 2018. Under the motto "Best investments are made in people", established in April 2003, the best students of specialist studies in electrical engineering, computing, ICT and mechatronics have been presented with awards.

KONČAR Group companies cooperate only with those suppliers whose materials and components do not bear harm to humans and the environment and can be recycled after the end of their life cycle or disposed of without endangering people or the environment. Selection of a supplier of respective materials and services is subject to meeting defined quality levels, lead times, credit term requirements, considering occupational health and safety and environmental protection. Suppliers are required to provide evidence (certificates) of compliance.

#### PROCUREMENT PRACTICES

► GRI 204

*in HRK 000*

	2018		2017	
	Investment purchase	Procurement of raw and other material	Investment purchase	Procurement of raw and other material
Croatia	109,336	679,789	51,821	686,411
Internationally	16,723	650,655	18,465	629,835
<b>Total</b>	<b>126,059</b>	<b>1,330,444</b>	<b>70,286</b>	<b>1,316,246</b>

#### PROPORTION OF SPENDING ON LOCAL SUPPLIERS

► 204-1

In the period January - December 2018, imports amounted to HRK 667.3 million. Raw and other materials were imported in the amount of HRK 650.6 million and investment purchase amounted to HRK 16.7 million. Product and service export revenue amounted to HRK 1,569 million year-on-year. Export coverage coefficient stands at 2.4.

KONČAR Group and its employees comply with the principles of the Code of Ethics and do not endorse corruption in operations and activities. The Group operates on international markets with diverse business practices, requirements and conditions, and it has enjoyed international reputation of a loyal and fair business partner.

#### ANTI-CORRUPTION

► GRI 205

► UN GC 10

Members of Management Boards, employees and business partners have been informed of anti-corruption policies and procedures and have complied with the principles of the Code of Ethics in the course of their business operations and daily activities. KONČAR has enjoyed international reputation of a loyal and fair business partner. No cases of corruption have been recorded at Group level.

#### ANTI-CORRUPTION POLICIES AND PROCEDURES

► 205-2/3

► UN GC 10

KONČAR has promoted and executed fair and transparent competition principles across its businesses in dealing with all entities at all locations.

#### ANTI-COMPETITIVE BEHAVIOUR

Anti-competitive, antitrust or monopoly-related practices have not been recorded in the Group.

► GRI 206

## Topic - Specific Standards: Environmental



**ENERGY**  
**GRI 302** ◀  
**UN GC 7** ◀

The issue of the environment is of utmost importance as the major part of the equipment is installed directly in the environment (substations, hydropower plants, other power facilities or traction vehicles). KONČAR has defined an Environmental Management Policy, which is available on [www.koncar.hr/en](http://www.koncar.hr/en) and which has been communicated to all employees.

Efficient use of energy and renewable energy sources have been essential in combating climate changes and reducing the overall ecological footprint of KONČAR Group.

**ENERGY CONSUMPTION WITHIN THE ORGANIZATION**  
**302-1** ◀

electricity / kWh	Fallerovo šetalište facility	Jankomir Transformers facility	Sesvetski Kraljevec facility	Borongaj facility
2018	11,861,118,00	13,047,498,60	1,312,547,00	1,950,875,00
2017	13,213,683,00	11,608,924,00	1,405,712,00	1,605,492,00

heat energy / kWh	Fallerovo šetalište facility	Jankomir Transformers facility	Sesvetski Kraljevec facility	Borongaj facility
2018	13,239,000.00	24,157,910.36	2,527,484.60	5,434,021.15
2017	12,275,038.00	22,976,898.00	2,948,794.36	5,928,197.65

KONČAR Group has continuously carried out activities to reduce electricity consumption and investments to increase energy efficiency. In 2018 an increase of consumption at some of the facilities was recorded (compared to the previous reporting period).

Electricity consumption at Jankomir production facilities has increased due to increased production volume in KONČAR plants at the site.

Increase in electricity consumption at Borongaj facilities has been attributed to synergy activities related to switchgear, medium-voltage and high-voltage apparatus (comprehensive overview provided in the previous report and the GRI Standard 102-48 of 2018 report).

With reference to heat energy in KONČAR facilities, an increase in consumption in 2018 has resulted from occasional shift work, necessitated by increased production volume.

**REDUCTION OF ENERGY CONSUMPTION**  
**302-4** ◀  
**UN GC 8** ◀

In 2018, investments in infrastructure have continued, expected to result in continuous reduction of electricity consumption.

At Jankomir production facilities, a system for automatic continuous regulation of boiler water has been installed, in order to equip boilers with safety and measuring equipment and with automated regulation of the boiler plant.

As part of regular maintenance at Borongaj facilities, carried out in this reporting period, outdoor lighting has been replaced and LED lighting has been installed.

The measures are believed to have led to reduction in electricity consumption of 19,000 kWh per year, representing a decrease of approximately 6.3 tons per year in CO<sub>2</sub> emissions.





In 2018, continuous projects, investments and regular maintenance have been carried out in this area.

An overview of contracting works at facilities in Sesvetski Kraljevec was provided in the proceeding report. Throughout 2018, 90 percent of the contracts have been realized for plumbing, drainage systems, hydrant network, construction of a bio wastewater treatment plant, and overall construction of main and side roads with outdoor LED lighting.

At Fallerovo šetalište facilities, a new water connection DN 150 mm has been constructed and impulse combined water meter DN 150 mm has been fitted for overall sanitary and hydrant water consumption and anti-return valve (back flow protection).

## WATER

▶ GRI 303

▶ UN GC 8

KONČAR Group companies operate at six locations in Zagreb and two registered foreign representative offices (Mostar, Belgrade). Factories and all other KONČAR facilities are not located in the vicinity of protected nor highly biodiverse areas.

## BIODIVERSITY

▶ GRI 304

▶ UN GC 7

KONČAR products and equipment meet the highest safety standards and have minimal environmental impact as evidenced by no recorded cases of complaints or incidents to date.

Investors that have decided to construct plants using equipment supplied by KONČAR are required to comply with environmental protection regulation and standards. Aware of the environmental risk, KONČAR has implemented the precautionary principle. This is especially important as equipment and product are often delivered to areas of high biodiversity (rivers, lakes, rural areas). There have been no incidents of the loss of biodiversity due to our products thus far.

## SIGNIFICANT IMPACTS OF ACTIVITIES, PRODUCTS, AND SERVICES ON BIODIVERSITY

▶ 304-2

Throughout 2018 there have been no fines or non-financial sanctions caused by non-compliance with environmental laws and regulations.

There have been no environmental impact disputes settled via formal grievance mechanisms during this reporting period.

## NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS

▶ 307-1

▶ UN GC 8



## Topic - Specific Standards: Social

**NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER**  
401-1 ◀

In 2018, a total of 312 new workers have been employed, averaging at 30 years. The youngest new employee was 19 years old. The average age of workers who have left was 47, with the youngest being 19 and the oldest 65. Total of 444 workers have left KONČAR during the reporting period.

### Induction seminar for new hires and trainees

Induction seminar has been organised for new hires and trainees annually. The purpose of these seminars is to onboard and introduce trainees and new employees to the organization, production range, various operating departments of KONČAR and colleagues from other KONČAR Group companies. The first seminar for trainees at KONČAR - Electrical Industry was organised in 2003. During the years, twenty-six have been held, attended by nearly 900 trainees and new hires.



### Student work experience programme within the Erasmus+



Since 2016, KONČAR - Electrical Engineering Institute and KONČAR - Electronics and Informatics have participated in Erasmus+ project, hosting students from Berlin Higher School Center for Technical IT, Industrial Electronics and Management in Energy (OSZ-TIEM). The co-operation has come about through the Electro-engineering school in Zagreb, which has organised work experience for students Berlin. At the end of 2018, Joshua Mengawake completed his work experience programme, during which he had been introduced to production processes at the Institute and INEM for six weeks.

Erasmus+ is the EU education and training programme, aimed at strengthening knowledge and skills in cooperation with business. One of the key activities has been Mobility for Individuals.

**EMPLOYEE BENEFITS**

401-2 ◀  
UN GC 6 ◀

Regardless of contract type, race, gender and age, all KONČAR Group employees are entitled to equal benefits corresponding to length of service. The Collective Agreement stipulates that all Group companies shall make additional payments towards jubilee awards, Christmas and Easter bonus, a gift for children under the age of 15, various forms of allowances defined by the Collective Agreement, additional allowances for family needs, etc. All KONČAR Group employees are entitled to equal benefits such as medical examinations and work-related injury insurance policy.

Employees are also entitled to reimbursement for travel/commute costs and to severance pay prior to retirement.



### Remembrance of Homeland War Veterans

To mark the Croatian Statehood Day on 25 June, KONČAR remembers those who had laid their lives for their country including twenty-two KONČAR employees killed in the Homeland war. A wreath is laid and candles are lit at a monument erected on the factory grounds at Fallerovo šetalište, in remembrance and respect. KONČAR annually marks an anniversary of the formation of a military unit which had been recruited at Fallerovo šetalište in 1991.

### Blood drives

During 2018, the Croatian Red Cross has organised thirteen blood drives at three KONČAR locations. At Fallerovo šetalište, a total of 223 doses of blood have been collected, 66 at Electric Vehicles facility, and 383 at Transformers factories at Jankomir facilities. In 2018, a total of 763 volunteer blood donors have participated in the charitable initiative that has saved the lives of many people, including 18 donors who have given blood for the first time.

The Croatian Red Cross awards jubilee donors annually to mark the National Blood Donor Day on 25 October. Two KONČAR employees have received the award in 2018. They have been presented with Certificates of Appreciation and a gold and a bronze medal (for 100 and 50 blood donations, respectively).

### KONČAR Pensioners' Club (KUK)

KONČAR Pensioners' Club (KUK) was founded on 17 October 2000 on the initiative of the Coordination of the Croatian Metalworkers Union - KONČAR Industry Trade Union and with support of KONČAR Electrical Industry.

At the end 2018, the Club had 159 registered members. Throughout the year, 13 new members have been admitted to the Club, and four members have been deleted from the register. Medical examinations and two lectures on the quality of life for older people have been organised.

The KUK Culture Commission has organised six theater trips, one trip to an exhibition, and one fun afternoon. KUK's Recreation and Entertainment Committee has organised seven one-day excursions, 2 two-day trips and a spa trip to Banja Vrućica. According to a report of the Social Care Commission, 36 ill members have been visited throughout the year while 14 members have been contacted by telephone as they could not have received visits due to severe illness. KUK has kept a library with as many as 920 books available to all Club members.

Pursuant to a decision of the Croatian Health Insurance Institute (HZZO), all female employees are entitled to maternity and parental leave and all male employees are entitled to parental leave.

All female employees have resumed work upon completing their maternity leaves, while male employees have resumed work following their parental leaves.

### PARENTAL LEAVE

▶ 401-3

▶ UN GC 6



**MINIMUM NOTICE PERIODS REGARDING OPERATIONAL CHANGES**

**402-1** ◀  
UN GC 3 ◀

Every 12 weeks the employer is obligated to inform employees and their elected representatives, before implementation of significant operating changes which might affect them. Information is submitted pursuant to the Labour Act to either trade unions or Works' Council, by organizing workers' meetings, and through the workers' representative on the Supervisory Board.

The Collective Agreement for KONČAR Group has stipulated a procedure for collective bargaining following a termination by any of the parties upon the expiry of a three month period.

**OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM**

**403-1** ◀  
UN GC 3 ◀

Pursuant to the provisions of the Labour Act, the Occupational Health and Safety Act and in line with Employer's obligations, all KONČAR Group companies (employing more than 50 workers) have set up Work Safety Committees.

**OCCUPATIONAL HEALTH SERVICES**

**403-3**

At KONČAR there have not been any occupations characterized by a high incidence or a high risk of severe illnesses. When assigning employees to jobs requiring specific work conditions, procedures are taken in line with legal requirements and health ability is determined.

Medical examinations to determine health ability for such jobs have been regularly carried out, in line with established procedures.

**WORKER PARTICIPATION, CONSULTATION, AND COMMUNICATION ON OCCUPATIONAL HEALTH AND SAFETY**

**403-4** ◀  
UN GC 3 ◀

Formal agreements with trade unions have promoted dual responsibility of both parties and development of a positive occupational health and safety culture. The Collective Agreement has regulated the rights and obligations of all KONČAR employees.

The Collective Agreement has included certain health issues such as paid leave entitlement in case of severe illness of a near family member, unpaid leave in case of illness, and additional leave days for workers with disability and safety issues that encompass special work conditions and additional payment.



In order to develop the potential of all employees, KONČAR companies have systematically been conducting education and professional training in various ways: encouraging participation in regular education system, specialized on-the-job trainings as foreign language courses, presentation and communication skills, computer skills, upgrading other knowledge relevant for operational efficiency and professionalism.

KONČAR has given special attention to management selection and to timely recognition of talent by investing into development and creating space for further advancement through training programmes at KONČAR Academy, which has been continuously operating for the last 8 years.

In 2018, all necessary activities were carried out in order to, by means of psychological assessment, select participants of the next professional training cycles at KONČAR - Academy from a pool of candidates proposed by Management Boards of KONČAR - Group companies. The training cycles are set to start in January and March 2019, respectively.

Analysis has indicated that more than 50 percent of employees who had graduated from KONČAR - Academy, or had completed a training cycle, were promoted.

## TRAINING AND EDUCATION

### ► GRI 404

### Welding is your chance

KONČAR - Metal Structures had participated in a two-year project "Welding is your chance" within the Erasmus+ Programme which was completed in July 2018. The overall objective of the programme was to improve the quality of vocational education and training across Europe. The aim of the project was development of a standard, i.e., a curriculum for the occupation of a welder in five welding procedures (MIG, MAG, MAG-PPŽ, REL and TIG) closely connected with the European education and training policy i.e. with two European initiatives - the European Qualification Programme (EQP) and the European Skills, Competences, Qualifications and Occupations (ESCO).



## PROGRAMMES FOR UPGRADING EMPLOYEE SKILLS AND TRANSITION ASSISTANCE PROGRAMMES

### ► 404-2

### The first Master Craftsman's Exam taken at a factory

KONČAR - Low Voltage Switches and Circuit Breakers has entered the annals of the Croatian Chamber of Trades and Crafts as the first factory in which a Master Craftsman's Exam was held. The candidate Dario Vrtarić, a KONČAR employee, has defended his thesis on the "Rotary cam switches", by giving a presentation and a practical demonstration. With this step, KONČAR has once again demonstrated its focus on the promotion of lifelong education for all employees.

## Support to Sports Clubs



### Končar Zagreb 1786 Shooting Club

KONČAR has traditionally supported one of the most popular sports clubs in Croatia, SC "Končar Zagreb 1786". In 2018, club members have continued winning medals at numerous competitions - including Zagreb Championship (in junior and senior category), Croatian Championship and an international tournament in Ruše, Slovenia, qualifying competition for the European Championships in 2019.

For the first time in history, two members of SC "Končar Zagreb 1786" have been given an opportunity to compete in the German Bundesliga, one of the strongest and most popular shooting leagues.

### Končar Canoe Club

KONČAR Group has continuously supported activities of the Končar Canoe Club. The year has been exceptionally successful for this club, which has given the biggest number of Croatian national representatives. The club has also organised the 49<sup>th</sup> kayak and canoe marathon held along a 35-kilometer section - from Brežice near Terme Čatež to the left bank of Sava near Zagreb. Emil Milihram, a member of Končar Canoe Club has won men's single canoe category. Youth Club members have taken part in the National Championship in Slovenia in canoe sprint category for cadets and younger cadets.



### Končar Chess Club

KONČAR has traditionally supported one of the oldest chess clubs in Croatia. In 2018, Končar Chess Club Team 1 had competed in 2<sup>nd</sup> Croatian Chess League (HŠL) and won the 11<sup>th</sup> place.

Končar Chess Club Team 2 had competed in 5<sup>th</sup> Croatian Chess League (HŠL), won second place and thereby qualified for 4<sup>th</sup> Croatian Chess League. Members of Končar Chess Club competed at 2018 Zagreb Cup and came fourth.



Throughout 2018 chess promotional activities among children and youth have continued.

Končar Chess School, attended by ten children at the average age of 11, has operated regularly. Some of those children attended their first chess competitions in 2018.



No case of racial, ethnic, gender, religious, political, national or social discrimination has been recorded during the reporting period. Under the provisions of the Collective Agreement, the employer has undertaken to protect employee dignity in the course of their work, and to ensure working conditions in which employees will not be exposed to sexual and non-sexual harassment by the employer, managers, colleagues, or other persons with whom employees come into regular contact in the course of their work.

#### INCIDENTS OF DISCRIMINATION AND CORRECTIVE ACTIONS TAKEN

► 406-1

► UN GC 2 i 6

All KONČAR employees are entitled to a freedom of association and collective bargaining. KONČAR employees may choose to join either the Croatian Metalworkers Union - Industry Trade Union KONČAR, the Union of Electrical Industry Workers of Croatia or the New Trade Union.

#### FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

► GRI 407

► UN GC 3

### Open Days



Many KONČAR companies have traditionally organised annual Open Days events, when families of employees have been invited to visit production plants and office premises.

In 2018 KONČAR - Electrical Engineering Institute has joined the Group companies that connect in this way by organising their first Open Day. Approximately one hundred family members of the employees have gathered, and the fun and pleasure of both adult and young visitors served as a confirmation that such an event should become a tradition at KONČAR - Electrical Engineering Institute.

The Open Day initiative has been a great opportunity for families of employees to learn more about KONČAR - Generators and Motors. More than a hundred visitors, half of whom were children, have visited the production plant. A workshop was organised for children where they could role-play production related jobs.

### 18<sup>th</sup> KONČAR Champion Futsal Tournament

During two weekends in December 2018, the Coordination of the Croatian Metalworkers Union - Industry Trade Union KONČAR, has organised the 18<sup>th</sup> KONČAR Champion Futsal Tournament. The competition was organised in two categories with participation of 23 teams from 13 companies. In the senior category, 13 teams from 10 companies participated, and veterans played in 10 teams from 9 companies. There were 61 matches played and 1,877 goals scored.





### KONČAR's Hiking Associations

KONČAR Group supports two hiking associations: Hiking Club KONČAR and Hiking Club KONČAR KET. They have gathered KONČAR employees and their friends, nature lovers.



### KONČAR team at the B2B Run

The largest business race B2B Run Croatia was held in Zagreb on 13 September 2018 for the fourth time. KONČAR has taken part for the first time as one team.

KONČAR team consisted of 206 employees from 14 Group companies. In the overall team ranking, we came 12<sup>th</sup> (out of a total of 373 companies) and in the large company category we finished 8<sup>th</sup> (out of 89).

Individually, 11 KONČAR employees have ended the race in the first 100.

#### CHILD, FORCED OR MANDATORY LABOUR

GRI 408 i GRI 409 ◀

UN GC 4 i 5 ◀

As a socially responsible company, which respects human rights, KONČAR does not tolerate child labour, nor does it implement mandatory or forced labour in any of its business activities or forms.

#### HUMAN RIGHTS

412-1 ◀

UN GC 1 i 2 ◀

When making decisions pertaining to business locations, KONČAR has greatly considered human rights. Human rights have been observed across company business activities.

#### LOCAL COMMUNITY ENGAGEMENT

413-1 ◀

UN GC 1 ◀

KONČAR has cooperated with and invested in the community through a variety of sponsorships, donation programmes and through the work of the Volunteers' Club. In 2018, KONČAR Group has allocated almost HRK 1.36 million to donations and sponsorships of sports competitions, cultural events, individual projects and/or other activities.

### You are not alone - come with us

KONČAR has supported "You are not alone - come with us" project which provides support to women suffering from malignant diseases - primarily by accompanying and organizing transportation to and from chemotherapy.





## Support to Matrix Croatica

Once a year, to mark KONČAR's anniversary, a donation is made to educational, cultural, scientific and charitable causes. In 2018 funds have been assigned to Matica Hrvatska (Matrix Croatica), to endorse and assist their project of publishing a seven-volume edition of "History of the Croats". The project is based on modern cognitive, conceptual, and methodological achievements of Croatian historiography and it is at the same level with similar historiography projects of other European nations.

## STEM education "Programerko"

KONČAR has recognized the need to promote STEM to children from the youngest age, in order to acquire confidence and skills, develop their interest in these areas and raise awareness of the importance of digital skills, regardless of their career choices. Therefore, KONČAR - Power Plant and Electric Traction Engineering, in cooperation with the Programerko Association, has organised a coding workshop for children of employees aged 7-12. With coaching provided by expert volunteer lecturers, the children have had the opportunity to learn how to create interactive stories, animations, games or music in a fun and creative way using the Scratch tool that was created at MIT.

## Earth Day

In order to raise ecological awareness and to actively engage in preservation of the planet Earth, an Earth Day action "Make Our Environment More Beautiful" has been traditionally held at KONČAR facility at Fallerovo šetalište in Zagreb. The event has been organised by the KONČAR Volunteers' Club aiming at making the factory grounds greener. In 2018, 38 volunteers from 9 companies have participated in weeding, planting herbs and flowers and landscaping the existing greenery.



## KONČAR employees cleaning up the patio of Voltino Library in Zagreb

In June 2018, a volunteer action "Let's Revitalize the Patio of Voltino Library" was organised, and 11 employees from five KONČAR Group companies have participated. They have worked to clean up and repair the patio of the public library in Voltino, turning a once neglected space into a place equipped for various activities that the library organizes for its members, particularly children.



**PUBLIC POLICY**

**415-1** ◀

UN GC 3 ◀

KONČAR Group has not made any financial or non-monetary contribution to political objectives, directly or indirectly, nor to the state or any user.

**ASSESSMENT OF THE HEALTH AND SAFETY IMPACTS OF PRODUCT AND SERVICE CATEGORIES**

**416-1** ◀

Equipment and products manufactured by KONČAR Group for electricity generation, transmission and distribution require a high degree of two-fold responsibility - primarily operational safety and reliability (not to generate additional problems in electricity supply) and protection of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of tramcars and low-floor multiple units manufactured by KONČAR along with a major environmental components. As KONČAR Group bears immense responsibility for products it offers on the market, it has been managing the entire production chain by supervising the quality of individual production processes.

**COMPLIANCE CONCERNING THE HEALTH AND SAFETY IMPACTS OF PRODUCTS AND SERVICES**

**416-2** ◀

Violations of regulations and voluntary codes in relation to products and services affecting health and safety have not been recorded in the reporting period, which is further confirmed by ISO 9001, ISO 14001, OHSAS 18001, and ISO/IEC 27001 standards.

ISO 9001 Quality Management System has been certified in 13 Group companies. The core purpose of the system has to do with the management of key processes that affect the quality of products or services aimed at reaching customer satisfaction. ISO 9001 Certificate, issued by authorised independent certification institutions, provides customers with a degree of assurance concerning the capacity of an organisation to meet their demands. Buyers have been increasingly auditing their counterparts (i.e. carrying out on-site verification of the quality of management system operation in order to make sure of the Company's capacity to deliver on their requirements and expectations), especially during prequalification process when contracting certain products.

ISO 14001 Quality Management System has been certified in 15 companies. By applying this system, companies have continuously monitored and analysed various aspects of the environment while performing their business activities, carrying out their processes, looking into environmental impact of products and services they deliver, and take adequate measures to mitigate any adverse effects. ISO 14001 Certificate is issued by authorised independent certification institutions, assuring all stakeholders, ranging from central governments to local communities, of the company's responsible behaviour towards the environment.

OHSAS 18001 Occupational Health and Safety Management System has been certified in 9 Companies. By applying this system, companies have been continuously monitoring and analysing workplace hazards and have carried out measure for prevention and mitigation of accidents which might lead to the loss of health, life and material goods. OHSAS 18001 certificate issued by authorized independent certification institutions provides assurance to all stakeholders of the company's conduct of legal and other measures aimed at the provision of safe working environment and work-related injury protection.

ISO/IEC 27001 Information Security Management System has been certified in 4 companies. By applying this system, companies have achieved information system, property, and business information protection. ISO 27001 Certificate issued by certified independent certification institutes proves that information security management system provides data protection under the principles of secrecy, integrity and controlled availability, enables information security implementation and reduces fraud risk, loss of information or unauthorized disclosure of information, improves organization's credibility and opens up business opportunities for cooperation with customers aware of security needs.

ISO 50001 Energy Management System has been certified in 2 companies. By applying this system, companies have achieved ongoing improvement of energy management, better resource and infrastructure utilization, and lower energy consumption i.e. lower costs while limiting and controlling environmental impacts.



	ISO 9001	ISO 14001	OHSAS 18001	ISO/IEC 27001	ISO 50001
KONČAR - Power Plant and Electric Traction Engineering	■	■	■	■	■
KONČAR - Power Transformers	■	■	■	■	
KONČAR - Engineering Co. for Plant Installation and Commissioning	■	■	■	■	
KONČAR - Electronics and Informatics	■	■	■	■	
KONČAR - Instrument Transformers	■	■	■	■	
KONČAR - Metal Structures	■	■	■	■	
KONČAR - Distribution and Special Transformers	■	■	■	■	
KONČAR - Electrical Engineering Institute	■	■	■	■	
KONČAR - Switchgear	■	■	■	■	
KONČAR - Electric Vehicles	■	■	■	■	
KONČAR - Generators and Motors	■	■	■	■	
KONČAR - Small Electrical Machines	■	■	■	■	
KONČAR - Low Voltage Switches and Circuit Breakers	■	■	■	■	
KONČAR - Infrastructure and Services		■			■
KONČAR - Household Appliances					
KONČAR - Renewable Sources					
KONČAR - Electrical Industry (parent company)		■			

### Training in the Area of Standardized Management System (ZPO)

In line with the requirements of KONČAR Group companies, a training programme in the area of standardized management system has been carried out covering standardized management systems, applied norms and technical regulations. Identifying the training needs in 11 KONČAR companies, eleven seminars and one course have been organised for 161 participants throughout 2018.

This programme has been running for 19 years taking various forms (courses, seminars, workshops, topic-related forums...). They have been held by authorized external experts and KONČAR company professionals.

In line with organisational procedures, each product has been equipped with a manufacturer's label, basic technical data typical of the product category and special data characteristic of or relevant to the given product. For more complex products and plants, technical descriptions and instructions for safe use have been prepared. In addition, when deemed necessary, training seminars for end users of specific products or services, have been organised.

### REQUIREMENTS FOR PRODUCT AND SERVICE INFORMATION AND LABELING

► 417-1

Violation of product and service data and labeling-related regulations and voluntary codes has not been recorded in the reporting period.

### COMPLIANCE

► 417-2

All KONČAR Group companies have consistently applied fair and responsible practices in their customer relations. Practices have included responsible marketing and transparent communications on economic, environmental and social impacts of products and services. KONČAR Group has not recorded any instances of misleading, inaccurate and discriminatory information (including advertising, promotion and sponsorship) or abuse arising from insufficient knowledge or failure to provide choice to customers.

### COMPLIANCE CONCERNING MARKETING COMMUNICATIONS

► 417-3

## Sustainable Development Goals



In all its business activities, KONČAR devotes special attention to the integration of seven Sustainable Development Goals, part of the Global Development Agenda 2030.

 <p>GLOBALNI CILJEVI za održivi razvoj</p>	<p>1 NO POVERTY</p> 	<p>2 ZERO HUNGER</p> 	
<p>3 GOOD HEALTH AND WELL-BEING</p> 	<p>4 QUALITY EDUCATION</p> 	<p>5 GENDER EQUALITY</p> 	 <p><b>SDG 4</b> Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</p>
<p>6 CLEAN WATER AND SANITATION</p> 	<p>7 AFFORDABLE AND CLEAN ENERGY</p> 	<p>8 DECENT WORK AND ECONOMIC GROWTH</p> 	 <p><b>SDG 5</b> Achieve gender equality and empower all women and girls</p>  <p><b>SDG 7</b> Ensure access to affordable, reliable, sustainable and modern energy for all</p>
<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<p>10 REDUCED INEQUALITIES</p> 	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	 <p><b>SDG 8</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p>
<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<p>13 CLIMATE ACTION</p> 	<p>14 LIFE BELOW WATER</p> 	 <p><b>SDG 9</b> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>
<p>15 LIFE ON LAND</p> 	<p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p> 	<p>17 PARTNERSHIPS FOR THE GOALS</p> 	 <p><b>SDG 11</b> Make cities and human settlements inclusive, safe, resilient and sustainable</p>
			 <p><b>SDG 12</b> Ensure sustainable consumption and production patterns</p>



## GRI CONTENT INDEX

▶ 102-55

	page
<b>General Disclosures</b>	
102-14 Foreword by the Chairman of the Board	3
102-1 Name of the organization	4
102-2 Activities, brands, products, and services	4
102-3 Location of headquarters	4
102-4 Location of operations	4
102-5 Ownership and legal form	4
102-6 Markets served	5
102-7 Scale of the organization	7
102-8 Information on employees and other workers	7
102-9 Supply chain	8
102-10 Significant changes to the organization and its supply chain	8
102-11 Precautionary Principle or approach	9
102-12 External initiatives	9
102-13 Membership of associations	10
102-15 Key impacts, risks, and opportunities	13
102-16 Values, principles, standards and norms of behaviour	15
102-17 Mechanisms for advice and concerns about ethics	15
102-18 Governance structure	16
102-22 Composition of the highest governance body	16
102-26 Role of highest governance body	18
102-35 Remuneration policies	19
102-36 Process for determining remuneration	19
102-40/42/43/44 Stakeholders and their engagement	20
102-41 Collective bargaining agreements	21
102-45 Entities included in the consolidated financial statements	22
102-47 List of material topics	23
102-48 Restatements of information	24
102-49 Changes in reporting	24
102-50/51/52 Report period and cycle	24
102-53 Contact person for questions regarding the report	24
102-54 Claims of reporting in accordance with the GRI Standards	24



	page
<b>Topic - Specific Standards: Economic</b>	
GRI 201 Economic performance	25
201-1 Direct economic value generated and distributed	25
201-3 Defined benefit plan obligations and other retirement plans	25
203-2 Significant indirect economic impacts	26
GRI 204 Procurement practices	29
204-1 Proportion of spending on local suppliers	29
GRI 205 Anti-Corruption	29
205-2/3 Anti-Corruption Policies and Procedures	29
GRI 206 Anti-Competitive Behaviour, anti-trust, and monopoly practices	29
<b>Topic - Specific Standards: Environmental</b>	
GRI 302 Energy	30
302-1 Energy consumption within the organization	30
302-4 Reduction of energy consumption	30
GRI 303 Water	31
GRI 304 Biodiversity	31
304-2 Significant impacts of activities, products, and services on biodiversity	31
307-1 Environmental compliance	31
<b>Topic - Specific Standards: Social</b>	
401-1 New employee hires and employee turnover	32
401-2 Employee benefits	32
401-3 Parental Leavet	33
402-1 Minimum notice periods regarding operational changes	34
403-1 Occupational health and safety management system	34
403-3 Occupational health services	34
403-4 Worker participation, consultation, and communication on occupational health and safety	34
GRI 404 Training and Education	35
404-2 Programs for upgrading employee skills	35
406-1 Incidents of discrimination and corrective actions taken	37
GRI 407 Freedom of Association and Collective Bargaining	37
GRI 408 Child Labour	38
GRI 409 Forced or Compulsory Labour	38
412-1 Human rights	38
413-1 Local Community Engagement	38
415-1 Public policy	40
416-1 Assessment of the health and safety impacts of product and service categories	40
416-2 Compliance concerning the health and safety impacts of products and services	40
417-1 Requirements for product and service information and labeling	41
417-2 Compliance	41
417-3 Compliance concerning marketing communications	41

## GRI Standards and UN GC Principles Comparative Table



AREAS OF SOCIAL VALUES	GC PRINCIPLES	GRI STANDARDS	page
HUMAN RIGHTS	PRINCIPLE 1: Businesses should support and respect the protection of internationally proclaimed human rights.	412-1, 413-1	38, 38
	PRINCIPLE 2: Businesses should make sure they are not complicit in human rights abuses.	406-1, 412-1	37, 38
LABOUR RIGHTS	PRINCIPLE 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	102-41, 402-1, 403-1, 403-4, 407, 415-1	21, 34, 34, 34, 37, 40
	PRINCIPLE 4: Businesses should eliminate all forms of forced and compulsory labour.	409	38
	PRINCIPLE 5: Businesses should abolish child labour.	408	38
	PRINCIPLE 6: Businesses should eliminate discrimination in respect of employment and occupation.	102-8, 401-2, 401-3, 406-1	7, 32, 33, 37
ENVIRONMENT	PRINCIPLE 7: Businesses should support a precautionary approach to environmental challenges.	302, 304	30, 31
	PRINCIPLE 8: Businesses should undertake initiatives to promote greater environmental responsibility.	302-4, 303, 307-1	30, 31, 31
	PRINCIPLE 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.	102-26	18
ANTI-CORRUPTION	PRINCIPLE 10: Businesses should work against corruption in all its forms, including extortion and bribery.	205, 205-2/3	29









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