

KONČAR

Corporate Social Responsibility Report

2010

tradition. knowledge. responsibility.



CONTENTS

I. FOREWORD BY THE CHAIRMAN OF THE BOARD	4
II. REPORT ACCORDING TO GLOBAL COMPACT	6
III. REPORT ACCORDING TO GRI3	10
1. COMPANY PROFILE	11
2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT	17
3. ECONOMIC DIMENSION	23
4. ENVIRONMENTAL DIMENSION	29
5. SOCIAL DIMENSION	30
6. OVERVIEW OF GRI3 INDICATORS	38
IV. GC AND GRI3 COMPARATIVE TABLE	41

Abbreviations used in the text

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

I. FOREWORD BY THE CHAIRMAN OF THE BOARD

I. FOREWORD BY THE CHAIRMAN OF THE BOARD

For the fifth year in a row KONČAR is reporting about corporate social responsibility in accordance with the Global Reporting Initiative indicators and Global Compact principles, thus proving its commitment to respecting the internationally accepted standards for corporate social responsibility in business.

In a year when a recession has had an impact on the entire world, KONČAR managed to justify its commitment to corporate social responsibility in all segments of its business. In times of crisis and increased business difficulties, we did not accept the idea that profit is the exclusive goal of a business, and we did not forget the importance of maintaining a quality relationship with our employees, our community, the environment, customers, suppliers and other partakers.

In KONČAR, we strongly believe that employees are an integral part of the company and we prove it by our fulfilling our obligations to them and respecting their rights in compliance with laws and regulations. Additionally, we improve the quality of life in the work place as well as in employees' free time by investing in education and professional development, quality work processes and places, sports, recreation, health protection and more. There are many activities which demonstrate as much, although we pointed out only a few in this report.

As a producer of equipment that is used in the environment, in cities and for the inter-city transport of people and goods, industrial facilities, public buildings and households, one of the main necessities included the development and production process is product responsibility. Certificates as well as customer satisfaction with purchased equipment and products prove we hold ourselves up to the highest international standards. One of the main requirements that we incorporate into all phases of our business processes is a responsibility towards buyers and customers as well as the environment in which our products are used.

Our active involvement in society and other outside activities is founded on the desire to invest in the young, enhancing their education and free time. During a recession, our social sensitivity is even more noticeable through aiding and inspiring activities that help those who need it most.

In KONČAR, responsibility is an integral part of business processes in all phases, while the constant development of those activities is our mission.

Even as we are proud of our business results, research and development, entry into new markets, newly developed products and everything else that makes our company successful, we regard social responsibility as one of the most important factors bringing about ever better outcomes.

*Chairman of the Board
Darinko Bago*



II. REPORT ACCORDING TO GLOBAL COMPACT

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Principle 1

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

Employees, as custodians of the development and success of the company, are KONČAR's greatest asset. Discrimination against employees due to gender, religion, race, national or political affiliation, physical disabilities, age, family status, personal characteristics or persuasions is not permitted.

While arranging working relationships and internal organization, KONČAR respects all valid regulations, collective and individual contracts and defends the human and civil rights, dignity and reputation of each employee.

Principle 2

Businesses should ensure they are not complicit in human rights abuses

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

The Labor Act and Collective Agreement prescribe the rights, liabilities and responsibilities of employees. Two-way communication and cooperation between the Management and employees are integral parts of business management.

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Freedom of association and collective bargaining are made possible for each and every one of KONČAR Group's 4,200 employees. KONČAR employees are members of the Metal Workers Union Coordination of Croatia, as well as the Electrical Industry Unions of Croatia.

Principle 4

Businesses should eliminate all forms of forced and compulsory labor

KONČAR operates with respect to the Constitution and positive legal requirements that forbid forced and compulsory labor, which not only violates basic human rights, but also denies the community the opportunity to develop skills and human resources. KONČAR, within its companies, promotes the professional development of individuals, values work and competence, offers equal opportunities for advancement and organizes other activities that maximize satisfaction, because motivated employees are the biggest asset of a company.

II. REPORT ACCORDING TO GLOBAL COMPACT

Principle 5

Businesses should uphold the effective abolition of child labor

Child labor is a form of exploitation that violates human rights. KONČAR operates with respect to positive legal requirements, which forbid the use of child labor, and does not employ children for any business activities whatsoever.

Principle 6

Businesses should uphold the elimination of discrimination in regards to employment and choice of profession

Respect is paid to principles of equal rights and respect for human dignity throughout the process of managing human resources and implementing pertinent business decisions. There is no employment discrimination in KONČAR in regard to gender, religion, race, national or political affiliation, age, family status, personal characteristics or persuasions, or disability.

Principle 7

Businesses should support a cautious approach to challenges faced in the area of environmental protection

Rational and efficient use of energy sources is not only mandatory in KONČAR, but is treated as a business opportunity. Primarily, this means that in KONČAR priority is given to the usage of more efficient and advanced technologies as well as research and development of more efficient products. KONČAR has outlined its Environmental Management Policy, which is familiar to all employees, whose constant motivation and education helps to further environmental protection awareness.

Principle 8

Businesses should undertake initiatives to promote greater environmental responsibility

Constant promotion of greater environmental responsibility serves as an example to others how respectful behavior and activity may reduce the harmful impacts on the environment to a minimum. Upholding the values of environmental responsibility is the duty of every KONČAR employee in his sphere of activity.

KONČAR products operate in many diverse natural environments, especially impacting on the use of natural resources. It is thus important to continuously develop and apply solutions that minimize potentially harmful effects on nature equilibrium.

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

II. REPORT ACCORDING TO GLOBAL COMPACT

Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies

KONČAR continuously invests in development of existing and new products and technologies complying with the principles of energetic efficiency and use of renewable energy resources. Energy efficiency as the basic operating principle is applied in every area where it is technologically and economically feasible.

Principle 10

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

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

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

III. REPORT ACCORDING TO GRI3

1. COMPANY PROFILE

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

Subsidiaries act under the name KONČAR, to which they add their firm's name. The headquarters of the Parent of the Group (KONČAR - Electrical Industry Inc.) are located in Zagreb, Fallerovo šetalište 22.

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

Energy and Transport

- design and construction of plants for the production, transfer and distribution of electric energy and ancillary equipment, thyristor locomotives, tramcars, electric multiple units and electric equipment for lineside electric traction facilities

Industry

- electric motor plants, medium and low voltage electric equipment, and catering equipment

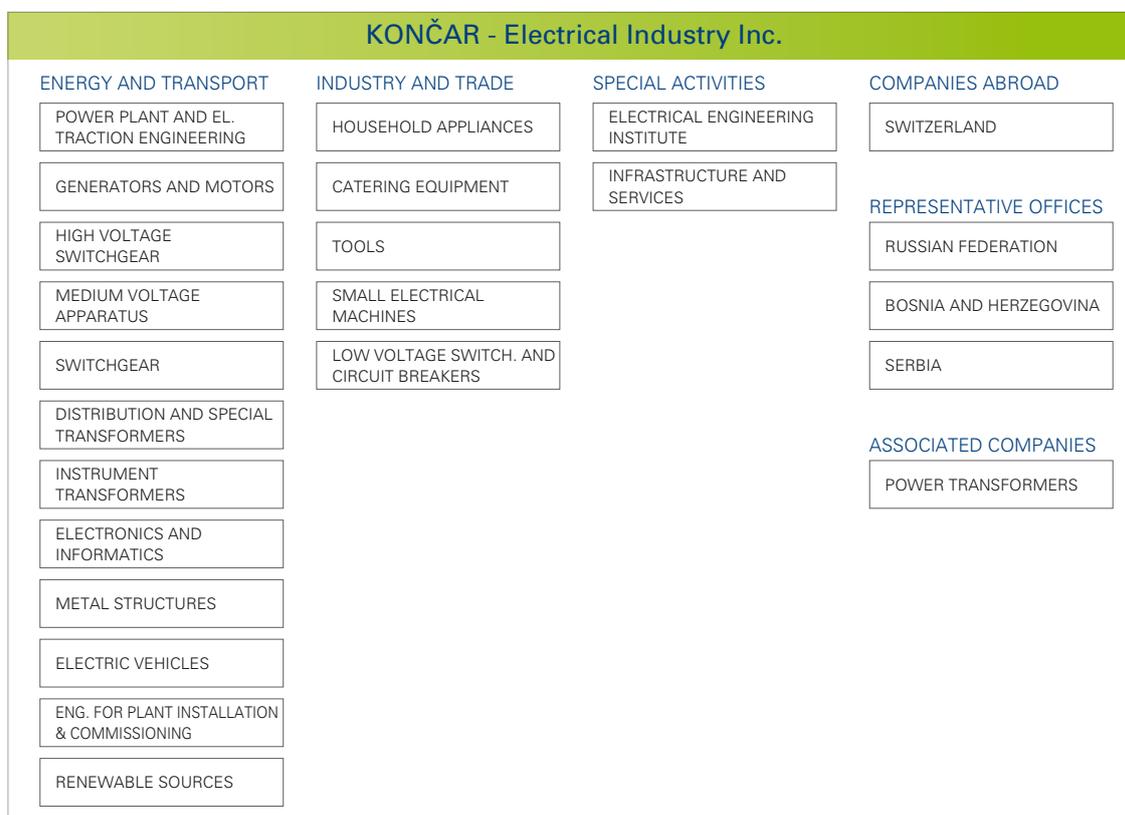
Trading

- electric household appliances, serial products and low-voltage electrical appliances

Special activities

- research and development of products and infrastructural services.

ORGANIZATIONAL STRUCTURE



1. COMPANY PROFILE

OWNERSHIP STRUCTURE

KONČAR - Electrical Industry Inc. is a joint stock company with 4,000 domestic and foreign investors (funds, banks, natural persons from Croatia and abroad) that influence the operations through Annual General Meetings and the Supervisory Board, which appoints the Managing Board in charge of administration. Share

capital of the company amounts to 1,028,847,600.00 kunas and consists of 2,572,119 common stocks with a nominal value of 400.00 kuna apiece.

Five biggest shareholders of KONČAR are owners of 67.04 % of its shares. There were no major changes in ownership relations in 2010.

Table 1 - Ownership structure on December 31, 2010

	2008	2009	2010
Shareholder / Ownership share (%)			
HPB d.d. (Capital Fund)	28,17	28,17	28,17
Croatian Privatization Fund / HZMO	14,95	14,95	14,95
Croatian Privatization Fund	10,85	10,82	10,12
Raiffeisenbanka Austria d.d. (joint custodian account)	7,97	7,39	7,38
Societe Generale-Splitska banka d.d./ Erste Plavi obvezni mirovinski fond (in eng. Erste Blue Obligatory Pension Fund)	3,94	5,71	6,52
Kristijan Floričić	4,31	3,33	3,33
PBZ d.d. (The Bank of New York as custodian)	4,06	3,00	-
Hypo Alpe Adria Bank/PBZ/Croatia osiguranje OMF (in eng. Croatia Insurance OMF)	-	-	2,94
Societe Generale-Splitska banka d.d./ Allianz ZB d.o.o. for AZ obvezni mirovinski fond (in eng. AZ Obligatory Pension Fund)	2,78	2,78	2,71
Hypo-Alpe-Adria-Bank d.d./ Raiffeisen mirovinsko društvo (in eng. Raiffeisen Pension Association)	1,46	1,44	1,44
Other shareholders	18,36	21,46	22,44
Končar d.d. (treasury stocks)	1,38	0,95	-
TOTAL	100,00	100,00	100,00

During 2010, the Company gained 3,123 of its own shares. During August and September of 2010, the Company released 27,583 of its own shares realizing order to achieve the carried out option right for buying shares owned by the president and Management members based on the Contract on rights, duties and salaries for the period from 2011 to 2004.

On December 31, 2010 the Company had none of its own treasury stocks.

1. COMPANY PROFILE

BUSINESS INDICATORS

In 2010, KONČAR Group's revenues from sales of products and services amounted to 2,464.8 million kuna. On the domestic market the Group sold its products and services in the amount of 1,159.6 million kuna and on foreign markets in the amount of 1,305.2. A whole series of facilities was finished in Croatia as well as the demanding EU market, neighboring and Middle Eastern countries. The Group's consolidated profit before tax amounts to 201.6 million kuna. Income profit was 15.6 million kuna so the actual profit was 185 million kuna. Minority interests are 31.1 million kuna and the Group's net profit is 154.9 million kuna.

In 2010, 2,100.2 million kuna worth of new jobs were contracted. The status of fixed contracts at the end of 2010 is 2,133.2 million kuna (13% less than at the beginning of the year). The most important contracts agreed upon in 2010 include: on the domestic market construction of Dugopolje S/S, on international markets the furnishing of Torro 3 HPP (Costa Rica), reconstruction of Fierza, Koman and Vau and Dejes S/Ss (Albania), reconstruction of Prizren 2 S/S (Kosovo) along with a series of other facilities and equipment in Croatia and abroad.

Table 2 - **Basic Business indicators (in 000 HRK)**

	2008	2009	2010
Operating revenues	3.053.562	2.795.680	2.637.560
Products and services sales	2.874.571	2.675.138	2.464.818
Material costs			
- Raw materials and consumables, costs of services, costs of goods sold	2.125.810	1.814.661	1.542.321
Personnel costs (total)	475.876	475.014	472.685
- Wages and salaries	265.599	263.720	263.732
- Taxes, social and pension insurance	210.277	211.294	208.953
Pre-tax profit	146.165	158.377	201.645
Profit tax	16.595	13.264	15.609
Group profit	129.570	145.113	186.036
Minority interests	25.738	32.290	31.060
Net profit	103.832	112.823	154.976
Total assets	3.297.340	3.270.754	3.296.150
Total capital and reserves	1.477.074	1.617.663	1.794.177
Current assets	2.181.881	2.094.425	2.106.501
Current liabilities	1.192.194	933.728	775.539
Sales per employee	673	651	626

These business results were achieved with 4% fewer employees than in 2009. At the end of 2007 there were 4,217 employees; in 2008 there were 4,274 employees; in 2009, 4,110 and at the end of 2010, 3,938 employees worked for KONČAR.

1. COMPANY PROFILE

BASIC BUSINESS ACTIVITIES

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

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

- Energy and transport
- Industry
- Trade
- Special activities

The sales share of the Energy and Transport sector expressed in terms of KONČAR total sales, amounts to 85%, which means that the production programs of companies within the KONČAR Group have mostly been directed at these activities. Companies within the Group autonomously determine the degree of products and services outsourcing. Due to the technological complexity of products on one hand, and accumulated knowledge and resources within the Group on the other, some projects are fully completed within the Group itself in participation with several Group companies.

MOST IMPORTANT MARKETS

Consolidated earnings from sales of products and services amounted to 2,464,8.6 million kunas. On the domestic market, sales revenue amounted to 1,159,6

million kunas (47 %) and export sales to 1,305,2 million kunas (53 % of total sales).

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

	2008	2009	2010
Business area			
Energy and transport	2.391.103	2.299.612	2.096.439
Trade	271.221	180.311	173.427
Industry	134.959	93.120	104.511
Special activities	77.288	102.095	90.441
Total	2.874.571	2.675.138	2.464.818

Within the sales structure, earnings from domestic sales of goods and services to HEP (Croatian Power Authority) amount to 263.4 million kuna or 23.5% of total domestic sales; earnings from enterprises in the industrial and shipbuilding domains amount to 237.2 million kuna or 21.2% of total domestic sales; earnings from Zagreb Electric Tram amount to of 216.2 million kuna, or 19.3 % of total domestic sa-

les. Products valued at 130.9 million were delivered to wholesalers and retailers; to Croatian Railways went products valued at 96.9 million kunas; to civil engineering companies, products in the amount of 97.9 million kunas; while the remaining amount of 77.4 million kunas refers to Croatian Motorways, State and Local Administration and public enterprises.

1. COMPANY PROFILE

Table 4 - **Sales in Croatia (in 000 KN)**

	2008	2009	2010
HEP (Croatian Power Authority)	470.739	384.826	263.355
Industry and shipbuilding	255.030	249.288	276.907
ZET (Zagreb Electric Tram)	457.307	457.281	216.186
Croatian Railways	200.060	148.945	130.868
Trade Sector	78.000	57.524	96.914
Civil Engineering Industry	64.590	72.638	97.939
INA, T-HT, Plinacro	26.914	48.750	42.980
State and Local Administration	27.714	15.423	19.038
Croatian Motorways and Croatian Roads	5.599	8.809	15.411
TOTAL	1.585.953	1.443.484	1.159.598

Earnings from the sales of goods and services on foreign markets in 2010 were achieved in the amount of 1,305.2 million kunas. The most significant exports were to European Union markets, with a value of

654.9 million kunas; to neighboring countries in the amount of 238.2 million; exports to countries in Asia worth 123.4 million; to the Middle East, 11.6 million kunas.

Table 5 - **Most Significant Export Markets of KONČAR Group in 2010 (in 000 HRK)**

	2008	2009	2010
Countries			
Germany	114.120	82.837	165.608
India	162	100.143	98.329
Sweden	55.270	40.759	96.660
Albania	11.977	1.483	84.067
Bosnia and Herzegovina	178.296	149.019	83.000
Nigeria	2.640	25.787	73.307
Finland	33.639	48.222	64.773
United Arab Emirates	42.415	89.621	63.045
Netherlands	32.559	48.812	58.269
Czech Republic	50.493	111.226	60.569
Cyprus	4.983	38.803	46.505
Serbia	66.697	30.151	42.602
Austria	31.508	38.272	29.263
Iraq	0	4.343	28.627
Macedonia	83.281	14.065	25.100
Slovenia	105.866	54.483	23.937
Hungary	40.531	37.942	19.794
Philippines	17	7.481	19.496
Other countries	434.164	308.205	222.269
TOTAL	1.288.618	1.231.654	1.305.220

1. COMPANY PROFILE

AWARDS AND RECOGNITION IN 2010

In 2010, KONČAR - Elektroindustrija, companies within the Group and individual employees received awards and recognition:

On March 1, 2010, Croatian Chamber of Commerce awarded KONČAR - Instrument Transformers with the **"Zlatna kuna"** for business excellence and contribution to economy in 2009 in the category of Big Sized Companies.

At the 5th Convention of Croatian Exporters on May 11, KONČAR-Power Transformers was awarded as the best big exporter, as well as the best exporter to Serbia. The **"Golden Key"** in the category of the best exporter to UAE was awarded to KONČAR - Distributive and Special Transformers.

The winner of the award from the **"Hrvoje Požar"** Foundation for innovation in the area of energy was KONČAR-KONČAR Electrical Industry. The award was given in July 2010 for the successful development of wind turbines.

At the International Exhibition of Innovations, New Products and Technologies "ARCA 2010" the award **"ARCA"** and the award from the International Federation of National Associations of Innovators for the best innovation in the area of environmental protection **"IFIA ECO CUP"** were awarded to KONvert - wind turbine liquid cooled static converter, developed by two of KONČAR's companies Electronics and Informatics and Institute for Electrical Engineering. The same product won **golden medals** at the INVENTIKA 2010 Fair in Romania and IWIS 2010 in Poland where it also received a special recognition from the jury.

Within the honorary committee of the Croatian Chamber of Commerce's Economy Council that took place on December 13, 2010, **"Golden kuna"** plaques were given to the most successful companies for their business results and proven excellence in technological development, export and socially responsi-

ble business in 2009. Big companies from Zagreb that received this award included KONČAR-Power Transformers.

On December 17, 2010, at the 13th Selection for **Golden Share** for 2009, the organizers Croatian Chamber of Commerce, Zagrebačka burza, HTV Poslovni klub, Kapital klub, magazine Lider and the Association of Investment Funds presented the Best Industry Share award to KONČAR - Electrical Industry.



2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

GOVERNANCE

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

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

Table 6 - **Management Rights of the Parent Company Within the Group's Companies**

	<i>in kn</i> <i>Subscribed capital Total</i>	<i>in kn</i> <i>Subscribed capital parent company</i>	<i>%</i> <i>Management parent company 31.12.2010.</i>	<i>%</i> <i>Assets parent company 31.12.2010.</i>
Dependent companies				
POWER PLANT AND ELECTRIC TRACTION ENGINEERING	2.682.600	2.682.600	100,00	100,00
GENERATORS AND MOTORS	107.927.700	107.927.700	100,00	100,00
HIGH VOLTAGE SWITCHGEARS	41.201.400	33.450.300	85,19	81,19
MEDIUM VOLTAGE APPARATUSES	19.679.700	8.220.000	69,87	41,77
SWITCHGEAR	36.966.000	16.899.000	66,85	45,71
DISTRIBUTIVE AND SPECIAL TRANSFORMERS	76.684.800	39.655.200	67,80	51,71
INSTRUMENT TRANSFORMERS	18.989.100	8.241.600	72,35	43,40
ELECTRONICS AND INFORMATICS	37.126.800	27.857.700	75,03	75,03
METAL STRUCTURES	24.645.600	18.486.600	75,01	75,01
ELECTRIC VEHICLES	47.026.800	35.288.700	75,04	75,04
RENEWABLE SOURCES	68.489.300	68.489.300	100,00	100,00
ENGINEERING CO. FOR PLANT INSTALLATION AND COMMISSIONING	11.827.500	4.552.800	76,51	38,49
SMALL ELECTRICAL MACHINES	41.641.800	41.641.800	100,00	100,00
TOOLS	49.166.400	49.166.400	100,00	100,00
CATERING EQUIPMENT	25.447.800	25.447.800	100,00	100,00
HOUSEHOLD APPLIANCES	127.877.500	127.877.500	100,00	100,00
LOW-VOLTAGE SWITCHES AND CIRCUIT BREAKERS	81.466.900	81.466.900	100,00	100,00
INSTITUTE FOR ELECTRICAL ENGINEERING	40.763.520	40.763.520	100,00	100,00
ENERGY AND MAINTENANCE	49.891.600	49.891.600	100,00	100,00
KONES AG	2.964.984	1.897.588	77,50	64,00
Subsidiary				
POWER TRANSFORMERS	72.764.000	35.654.400	49,00	49,00

2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

MANAGEMENT

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

certain decisions, as prescribed by the Statutes, it is necessary to have the consent of the Supervisory Board.

During 2010, KONČAR - Electrical Industry Inc. was directed by the Management Board consisting of:

Darinko Bago	CEO
Marina Kralj Miliša	Member of the Management board
Jozo Miloloža	Member of the Management board
Davor Mladina	Member of the Management board
Vladimir Plečko	Member of the Management board

SUPERVISORY BOARD

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

The Supervisory Board has 9 members:

Igor Lučić	President of the Supervisory Board
Jasminka Belačić	Vice-President
Ante Babić	Member
Kristijan Floričić	Member
Ruđer Friganović	Member
Zdenka Matković	Member
Nenad Matić	Member
Đuro Perica	Member
Ivan Rujnić	Member

The Supervisory Board has reached the decision to establish an Auditory Committee. According to the provisions laid down by the Law of Audition (article 28 of the Law), the Auditory Committee follows the procedures of the financial reporting, the efficiency of the control system, overviews the audition of yearly financial reports, monitors the independency of auditors and gives recommendations to the General Meeting on the selection of the Auditory Committee.

The Auditory Committee consists of three members who are also members of the Supervisory Board:

Jasminka Belačić	President of the Auditory Committee
Zdenka Matković	Member
Ivan Rujnić	Member

2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

KONČAR - Electrical Industry Inc. (Parent Company) is the sole owner of the ten dependent companies, while within the ten subsidiaries the proprietary structure is mixed. General managers or management boards administer the subsidiaries. The Supervisory Board (consisting of three to five members), which represents the owners, supervises the operations of each company. Within the Supervisory Boards, KONČAR - Electrical Industry Inc. is represented by members of the Management Board or by representatives appointed by the Management Board. According to the Company Act and the Labor Act, representatives of employees also serve on the supervisory boards of six companies and on the Supervisory Board of KONČAR - Electrical Industry Inc. Members of the Supervisory Board, who are themselves shareholders or representatives of shareholders, give their suggestions by ordinary means within the functioning of the Supervisory Board. The Association of Small Shareholders (founded in 2000), with its 58 small shareholders, also has its representative on the Supervisory Board. According to the Labor Act, employees have

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

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

Economic, Environmental, and Social Charters, Principles and Standards Supported by KONČAR.

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

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

The principles are based on positive regulations of the Republic of Croatia and adopted international standards. On September 12, 2005, KONČAR - Electrical Industry Inc. signed a declaration whereby it accepted the Ethics Code in business operations. This was ratified by the Assembly of the Croatian Chamber of Economics in May 2005. The Code of Ethics is regularly applied in KONČAR - Electrical Industry Inc. business operations, but it is necessary to additionally communicate its provisions to the employees of KONČAR Group and its business partners.

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

2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

KONČAR's business policies rest on the following business principles:

- Customers' satisfaction
- Protection of the environment, health and provision of safety
- Continuous improvement of products and processes
- Involvement and motivation of all employees

Policies and goals of the Company are achieved by a systematic approach to the quality management, environmental and occupational health and safety, which is confirmed by certificates awarded by accredited independent bodies. In accordance with the Policy of Sustainable Development we use ISO 9001:2000 Quality Management System, ISO14001:2004 Environmental Management System and OHSAS 18001 Health Prevention and Safety at Work Management System.

Table 7 - **ISO 9001, 14001, OHSAS 18001 Certificates**

	ISO 9001	ISO 14001	OHSAS 18001
KONČAR - Tools	1	1	0
KONČAR - Distributive and Special Transformers	1	1	1
KONČAR - Electric Vehicles	1	1	0
KONČAR - Medium Voltage Apparatuses	1	1	0
KONČAR - High Voltage Switchgears	1	1	0
KONČAR - Electronics and Informatics	1	1	0
KONČAR - Energy and Maintenance	1	1	0
KONČAR - Generators and Motors	1	1	0
KONČAR - Electrical Engineering Institute	1	1	1
KONČAR - Power Plant and Electric Traction Engineering	1	1	0
KONČAR - Household Appliances	1	1	0
KONČAR - Small Electrical Machines	1	1	0
KONČAR - Metal Structures	1	1	1
KONČAR - Instrument Transformers	1	1	1
KONČAR - Engineering for Plant Installation and Commissioning	1	1	0
KONČAR - Low-Voltage Switches and Circuit Breakers	1	1	0
KONČAR - Switchgear	1	1	0
KONČAR - Catering Equipment	1	1	0
KONČAR - Renewable Sources	1	1	0
KONČAR - Power Transformers	1	1	1
KONČAR - Electrical Industry	1	1	0
TOTAL	17	17	5

2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

MEMBERSHIPS IN ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS

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

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

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

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

- CIGRE (International Council on Large Electric Systems)
- International Council for Distribution Systems (CIRED)
- IEEE (Institute of Electrical and Electronics Engineers)
- Academy of Technical Sciences of Croatia
- Croatian Exporters
- Croatian Chamber of Economy
- Community for Inventive Work
- Community for Renewable Sources
- Community of Railcars
- Community for Socially Responsible Operations
- Associations of the Innovators of Croatia
- Croatian Academy of Technical Sciences
- Croatian Chamber of Architects and Engineers in Construction Industry
- Society of Engineers and Technicians of Croatian Railways
- MIPRO (Croatian Association for Information and Communication Technology, Electronics and Microelectronics)

- Croatian Institute for Standards
- Electrical Engineering Society of Zagreb
- Croatian Associations of Infrared Thermography
- International Institute of Welding
- Croatian Societies for Quality
- European Company Lawyers Association
- Associations of Corporate Lawyers
- Associations of Lawyers in Economics
- Croatian Association of Auditors
- Croatian Community of Accounting and Financial Experts

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

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



2. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

PARTAKER ENGAGEMENT

KONČAR encourages and develops continuous engagement of partakers in production and other processes in KONČAR, so that joint activities would bring even better results. Collaboration with partakers increases the quality of business and in regards to the wide array of the production program it requires different means of communication, depending on the partakers' involvement.

KONČAR's products and business strategy are mostly directed to business markets and/or the public sector in Croatia and abroad, and, to a lesser degree, the individual end consumer market. Due to the complexity of structures and facilities, the Group's companies often act within consortiums organized around particular projects, which may additionally reduce the companies' direct contact with buyers and/or communities.

Therefore, besides buyers, employees (including the trade unions to which they belong), suppliers and the public sector (which takes on the dual role of a product consumer and an operating conditions regulator), and all others connected to KONČAR business operations can be identified as key partakers. Continuous communication is maintained with key partakers through joint meetings, contacts and appointments. Throughout business operations, efforts are made to satisfy their legitimate interests and needs.

As a part of the activities connected to social responsibility, there is extensive collaboration with a wide circle

of representatives of associations of socially responsible businesses, organizations of civil society and individuals primarily in its sphere of activity, at a national level and abroad.

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

Web sites (www.koncar.hr) represent important means of communication with domestic and international partners, and also with the public in general. Therefore, great consideration has been devoted to this type of communication for the purpose of disseminating accurate and up-to-date information appropriate to the medium. In accordance with its market orientation and needs, KONČAR's web site is available in three languages (Croatian, English and Russian). In 2010, there were 98,224 visitors to the site who visited 578,252 pages. Through the web site, 350 e-mails with various questions, suggestions and comments were received.

Besides the web site www.koncar.hr, each subsidiary has its own web site linked to the main KONČAR site.

3. ECONOMIC DIMENSION

In 2010, KONČAR's business activities took place in very unfavorable conditions. Unlike globally important economies, the Croatian economy and those of many neighboring countries have not yet recovered from the economic and financial crisis. Thus business continued to be carried out in conditions of prolonged stagnation, which significantly influenced the business results of the KONČAR Group.

A lack and slowing down of investment activities in our country reflected on the level of agreed projects for 13 % in comparison to the end of 2009. In addition, this influenced a decrease in sales of products and services on the domestic market. This was partly compensated for by an increase in export activities, and so in 2010

revenue from international projects exceeded that from domestic ones. Exports were increased by 6% in comparison to the previous year and represented 53% of total income from sales of products and services.

In spite of complex business conditions and increased competition, in 2010, KONČAR Group operated with good business results. Through better management of market-financial risks, constant control and rationalization of operational expenses and satisfactory agreement with social partners, KONČAR kept its profitability and financial stability. Good business results were achieved through product and production development, which remains the main determinant of KONČAR's business in the future.

ECONOMIC EFFECT INDICATORS

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

Consolidated income from sales of products and services in 2010 amounted to 2.5 billion kuna, which is 7 % less than in 2009.

Raw materials, materials and service costs in 2010 were down because of the decline in production.

The value of paid gross salaries in 2010 amounted to 541.9 million kunas, representing a decrease of 0.2 % compared to the year 2008.

Expenses for interest paid for received loans in 2010 amounted to 17.3 million kuna, a decrease of 1 million kuna or 6 % less than in the year 2009. In accordance with the decisions of the Supervisory Board and Annual General Meeting, the Parent Company's profit in 2010 has been allocated in the amount of 30.6 million

kunas to legal, statutory and other reserves as well as retained earnings, while 30.8 million kunas is allocated for payment of dividends to shareholders, which amounts to 12 kuna per share.

All companies within the KONČAR Group operate in the Republic of Croatia, thus the total amount of paid profit tax refers to taxes paid in Croatia. The amount of taxes paid in 2009 is smaller in comparison to that of 2008, partly due to a lowering of the tax base in some subsidiaries due to the amount of investments in research and development. Although only four companies in the Group showed a loss in 2009, some of the companies had carried forward tax losses from earlier years and thus were not obliged to pay profit tax.

Apart from the representative office in Switzerland all companies within the KONČAR Group operate in the Republic of Croatia, thus the total amount of paid profit tax refers to taxes paid in Croatia. The amount of taxes paid in 2010 is higher for 2,3 million kuna in comparison to the taxes paid in 2009.

Table 8 - **Generated and Distributed Economic Value (in 000 HRK)**

	2008	2009	2010
Revenues from sales of products and services	2.874.571	2.675.138	2.464.818
Material costs - Raw materials and consumables, costs of services, costs of goods sold	2.125.810	1.814.661	1.542.321
Gross salaries	475.876	532.690	541.901
Interest payment	17.988	18.337	17.299
Dividends paid	-	-	30.865
Profit tax	16.596	13.264	15.609
Donations and sponsorships	1.689	1.100	1.020

3. ECONOMIC DIMENSION

DONATIONS AND INVESTMENTS IN THE COMMUNITY

As a socially responsible company, KONČAR fosters different activities in its community through financial and other investments. KONČAR regards investments in the education and development of young people as important and supports programs that help that cause. In addition, social and humanitarian sensitivity is one of the permanent determinates of KONČAR's support.

KONČAR joined other activities with a wider social importance and interest in the areas of environmental protection, cultural heritage and other natural and historical values.

Encouragement of Scientific and Educational Activities

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

For many years, KONČAR has supported organizations and associations of students, such as AIESEC, IDEJA, IEEE, and helped them take part in different competitions.

Annual Awards to Students of the Polytechnic College

Based on KONČAR's traditional motto "The best investment is in human potential", annual KONČAR's awards are given to the most successful students from the Polytechnic College in Zagreb, departments of Electrical Engineering and Informatics.

At the honorary awards ceremony for the academic year 2008/2009, diplomas and financial awards were given to Željko Rod, Ivica Haban, Igor Matijević and Ivan Torić from the department of Electrical Engineering and Domagoj Krišković, Denis Jajčević, Goran Forgač, Danijel Popić, Barbara Komočar, Kristina Janko i Hrvoje Kusulja from the Informatics department.

KONČAR Award for Best Doctoral Thesis

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

In 2010, the awards were given to Dr. Ante Elez for his doctoral dissertation titled "za doktorsku disertaciju pod naslovom „System for detection of intercoil short circuits in synchronous machine windings" and Dr. Darko Vasić for his doctoral dissertation titled "Measurement of rock resistivity using inductive method in a cased well".



3. ECONOMIC DIMENSION

SUPPORT TO SPECIFIC GROUPS

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

KONČAR Retired Persons' Club

The Club was established on October 7, 2000, and in 2010 it numbered 305 registered members, from which 186 are currently active. Its purpose and objective is to entertain and bring together as many retired people as possible in order to set up social and public activities interesting to Club members.

The Club nurtures the specific KONČAR spirit since most of its members have spent most if not all of their professional lives in the company. Some fifty members regularly visit the Club, which is open twice a week. At the Club, members have an abundant library, a computer, TV and various social games at their

disposal. During 2010, the Club's members organized eleven field trips, visited eight theatre plays, three exhibitions and visited 19 sick members.

Members of the Retired Persons Club do not forget people who cannot visit the club due to health problems. They visit them regularly to socialize and provide material aid. KONČAR Inc. and the companies within the KONČAR Group financially support the activities of the Club.

Veterans and their families

In honor of the twenty-two KONČAR employees who were killed in the Croatian War of Independence, every year KONČAR organizes a traditional gathering of those who were recruited in 1991 into a unit for the protection of facilities and equipment. Its purpose is to express gratitude and give recognition to all those who joined in the defense of KONČAR and the entire country.

Besides this yearly gathering, other activities, such as care for veterans' children, are organized throughout the year.



3. ECONOMIC DIMENSION

SPORTS ACTIVITIES

Sport and recreation, as an important part of KONČAR's employees' free time, plays an important part in activities organized by the Company.

Besides, KONČAR financially supports the regular activities of less popular sporting clubs, which carry the name KONČAR in their title, and helps organize sporting competitions and other activities.

In 2010, KONČAR sponsored activities in the following sports: archery, canoeing, handball, chess, skiing, soccer, basketball and table tennis.

Canoe club KONČAR

This is one of the oldest sports clubs that carries the name Končar, established in 1951. In spite of being an amateur club, it managed to achieve results at international competitions that place it in the very top tier of international canoeing. It was founded in the early 1950s by KONČAR employees eager to take part in sports and recreation. They had no idea that in 60 years their enthusiasm would be celebrated at the top of the amateur sports ladder. Therefore, KONČAR supports the club's work and is proud of the achieved results, improved of quality of life and personal growth of all of

those who spent part of their lives in this club. In 2010, the KONČAR Canoe Club won the special recognition of the Zagreb Sports Association for its exceptional achievement when it won five silver medals as part of the Croatian representation at the World Championship in Wild Water Canoeing.

KONČAR Shooting Club Zagreb 1786

Over the years, sportsmen in this club have taken part at most important competitions, including European and international championships, as well as the Olympics where they achieved enviable results.

"KONČAR Shooting Society - Zagreb 1786" was established in 1948 and it is a successor of the First Civic Shooting Society registered in 1786. Since 1993, the society has borne the name of KONČAR.

During 2010, members of the club had 1,118 matches and achieved important results, such as the 1st place at the Croatian Championship in air gun shooting and the 12th place at the Youth Olympics.

Members of the Club represented Croatia at many international competitions in 2010.



3. ECONOMIC DIMENSION

CULTURE

During 2010, KONČAR actively financially supported cultural activities, ensembles, group projects in the area of music, publishing and theatre, with the goal of stimulation diversity of artistic expression.

In 2010, donations were given to ensembles and groups (Zagreb soloists, Harmonica orchestra KUD Ivan Goran Kovačić and others), manifestations that foster cultural creativity (Paško ljeto, Primoštenske užance, Šokadija and others), awards for youth's creativity (award "Ivo Vuljević" to young musicians), projects (Cultural center of musical youth Grožnjan), young painters, writers, actors, groups and ensembles, and many others.

Dina Merhav, Israeli artists who decided to combine heavy industry and art and whose statue is in the Olympics park in Peking, makes her works from iron that is provided by KONČAR. In KONČAR Đ Metal Structures she made two sculptures: a monolith and a sculpture titled "Enchanted forest", and her works are displayed on the premises.



HUMANITARIAN-SOCIAL DONATIONS

Sensitivity to humanitarian and social issues is reflected every year in the make-up of the financial aid given in form of KONČAR's donations and sponsorships. During the year, the Group has supported diverse associations, organizations and actions in order to help those who need to improve their health or social condition.

KONČAR continuously supports the Humanitarian organization "Dora" and "Save the Children". On the occasion of KONČAR's Day, a significant donation was given to them. In 2010, a donation was given to the Zagreb Children's Hospital for surgery equipment.

3. ECONOMIC DIMENSION

FINANCIAL CONSEQUENCES AND OTHER RISKS CONNECTED TO CLIMATE CHANGE

Matters of sustainability in the areas of energy resources, production, transfer and distribution of electricity, as well as climate change, are of extreme importance to KONČAR, since most of its products are aimed at usage in the natural environment or urban areas. Therefore, the responsibility for their normal operation and possible repercussions is great.

Challenges arise from the constant change and application of new technologies in the production, transfer and distribution of electric energy, due to the necessity for continuous improvement of energetic efficiency and usage of renewable energy sources. KONČAR has prepared itself for these challenges on many fronts: by investing in new technologies, through the development

and placement of new products according to principles of energy efficiency, and the use of renewable energy sources (e.g. projects like wind power plants), products with reduced losses, savings on material usage, and attending to the reduction of harmful impacts on the environment, as well as providing services to interested citizens, companies and institutions for preparing energy surveys and studies and the design, execution and maintenance of energy efficient systems.

Production of transportation vehicles, (trams and trains), have a significant impact on the environment, especially in urban settings. Great care is taken throughout every step of the production process in accordance to the highest international standards and requirements.

FINANCIAL ASSISTANCE FROM THE GOVERNMENT

In 2010, KONČAR Group has not received significant financial assistance from the Government or the State. Contracts with public enterprises (or other representatives of the public sector), relating to

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

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

In other countries KONČAR operates through representative offices or construction sites during the building of facilities, deliveries and putting into operation of delivered equipment. The salaries of those employees are competitive with and in many cases often larger than local ones

(especially in developing countries). At the same time, all applicable legal regulations are respected in each individual country and market. Joint investments and other forms of activity of KONČAR outside of its domicile country and abide by the legal regulations of those countries.

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

Business activities are predominantly carried out in Croatia, while a presence on foreign markets is ensured through the export of equipment and/or collaboration in complex infrastructural projects in many locations. Therefore,

the share of domestic suppliers and workforce is small, and can only be increased through a stronger presence in key export markets, especially in neighboring countries, that are already the main destinations for export.

INDIRECT ECONOMIC IMPACTS

KONČAR Group indirectly influences the quality of infrastructure and supply of public services, by its professional and efficient project management for its clients from the public sector in Croatia and abroad. Projects in the fields of electric power supply (plants for generation, transmission

and distribution of electricity) and public transport (railway and tram) stand out. Development of projects in the area of renewable resources, especially wind turbines, raise the quality of life, promote socially responsible business and have a broader significance to the community as a whole.

4. ENVIRONMENTAL DIMENSION

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

KONČAR manages all aspects of its environmental impact by reducing the negative effects of its activities, permanently improves upon results attained in the domain of environmental management, while completely respecting Croatian laws and regulations, and adjusts its operations to new demands. Necessary organizational, vocational and financial resources have been provided to that end. The people in top positions who are most responsible for environmental affairs are the member of the Management Board in charge of legal, administrative and HR affairs and the General Manager of the company of Energy and Maintenance, which takes systematic care of all infrastructural installations at different locations and actualizes synergistic effects.

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

Energy

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

Biodiversity

KONČAR Group does not own any land, nor does it lease or manage land in protected areas or in their immediate vicinity, nor in areas of major biological diversity outside of protected regions. The construction of electric power facilities is an activity that may involve risks to environmental protection and to biodiversity in particular.

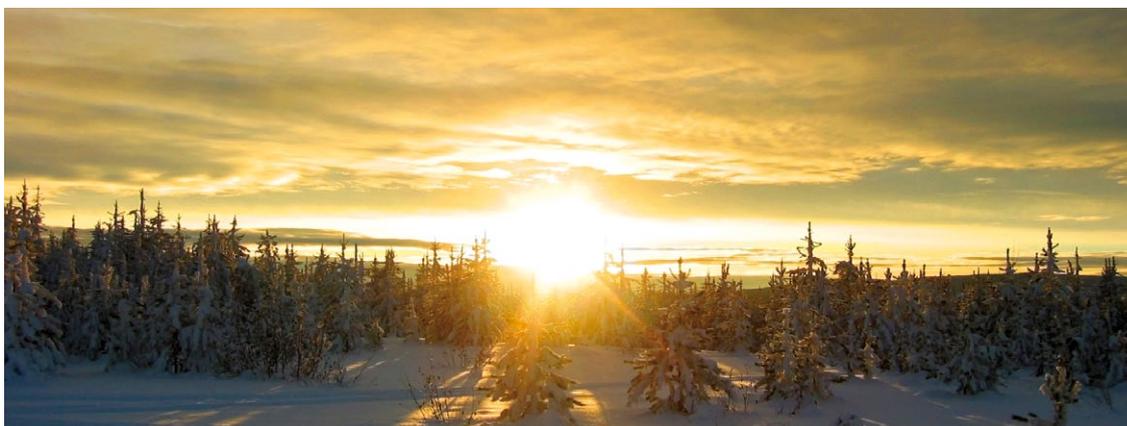
Investors who are obliged to respect relevant regulations and environmental protection standards make decisions about the position and construction of these facilities. After that, investors invite tenders for acquisition of equipment, whereupon KONČAR appears as a potential equipment supplier. With products that it supplies, KONČAR meets top equipment safety standards, with a minimum of influence on the environment. To the present date, no complaints or incidents have arisen in that respect.

Impact of Products and Services on the Environment

In product research and development, the environmental impact of products is reduced as much as possible by using contemporary technologies, which are more efficient, consume fewer resources, emit reduced levels of waste substances and in general have a smaller influence on the environment during their use. The precise scale of the alleviation of negative effects has not yet been analyzed. Most products of KONČAR Group are specific: they are unique products produced in small numbers, intended for being specially built into facilities (power equipment, plants, assemblies etc.) and/or are, after the development and testing phase, put to use (e.g. trams, hydro power plants and transformer substations). As a rule, typical clients are members of the public or business markets, and more rarely individual end users (even though there are exceptions to this - e.g. domestic appliances, computers, etc.).

Compliance with Environmental Regulations

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



5. SOCIAL DIMENSION

The social dimension of sustainability concerns the organization's impact on the social systems within which it operates. In this report, it is divided into the categories of labor and labor relations, human rights, cooperation with the community at large and product responsibility.

LABOR PRACTICES, THE DIGNIFIED WORKPLACE AND HUMAN RIGHTS

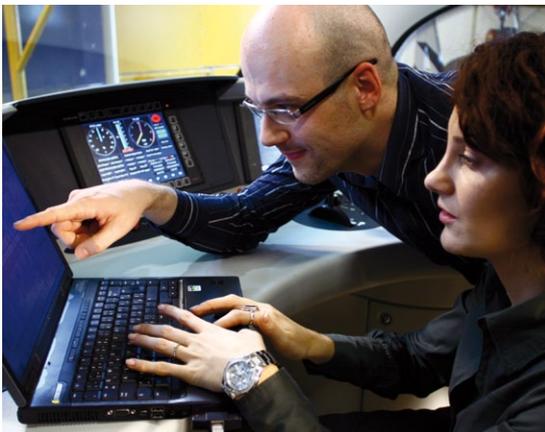
An important determinant of KONČAR's strategy involves directing the Group's development toward creating a company of knowledge founded on quality HR and total intellectual capital. Due to increased requirements for competitiveness, the professional development of employees and the efficient management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

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

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

EMPLOYMENT AND THE EMPLOYEE STRUCTURE

At the end of 2010, there were 3,938 employees working in KONČAR Group. Compared to 2009 (when the number of employees was 4,110), there was a decrease in the total number of employees. In comparison to 2008, there was a decrease of 7.8% due to the global economic crisis.



These numbers are a reflection of economic movements in Croatia (at the end of 2009, unemployment in Croatia rose by 21.2% in comparison to the end of 2008 and it continued to rise).

The decrease in the total number of employees affected the average age of employees. The average age of all employees in KONČAR has increased since 2008 (it was 38 then), in 2009 it was 43, and in 2010 - 46. The average age of newly employed workers in 2010 was 30.

KONČAR predominantly employs highly educated workers who graduated from the Faculty of Electrical Engineering and Computing.

When analyzing the changes in the number of employees in production professions in KONČAR in the period of five years, in 2010 there was an increase in the total number of engine fitters, machinists for power plants, fitters, electrical technicians, electricians, locksmiths, electrical fitters, electrical winder, milling machine operator and technicians.

5. SOCIAL DIMENSION

KONČAR traditionally ensures that its future employees are highly educated by offering scholarships to different faculties (Faculty of Electrical Engineering and Computing, Faculty of Mechanical Engineering and Naval Architecture, Faculty of Economy and Business, Faculty of Law, Faculty of Chemical Engineering and Technology, Polytechnic of Zagreb and similar).

Among its total number of employees, in 2010 KONČAR employed 19 doctors of science, 65 employees with master's degrees. While in 2005 the shortest years of service of an employee with the doctoral dissertation, were 14, in 2010 they were 5 years.

COLLECTIVE AGREEMENTS AND EMPLOYEE RIGHTS

The first collective agreement was signed with the Metal Worker Unions of Croatia in 1996 and applies to all employees. The collective agreement has been revised several times since. The latest amendments were adopted in September 2010.

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

Information about major changes in business operations is

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

KONČAR's management decided in 2009 to carry out a survey on the organizational atmosphere. The results of the survey, which ended in 2010, confirmed previously known information and helped define future activities.

HEALTH AND SAFETY AT WORK

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

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

disease or the death of a close family member, financial aid for employees is anticipated according to the Collective Agreement and the Company's Work Regulations.



5. SOCIAL DIMENSION

TRAINING AND EDUCATION

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

Table 9 - Education of Employees According to Forms of Education

	2008.	2009.	2010.
Number of Employees			
Postgraduate studies	88	77	65
Foreign languages	240	238	220
Computer skills	273	253	232
Seminars and lectures	1240	1120	1024



LIFE-LONG LEARNING PROGRAMS

KONČAR pays special care to the selection of its managers, timely identification of its managerial potential for development and creation of areas for advancement.

In 2010 training within a unique Educational program consisting of 13 modules was continued. Educational programs in KONČAR are in general adapted to the company's needs. Besides the development of professional skills they focus on general managerial competencies, foreign languages, IT and skills such as

employees' motivation, leadership, team work, communication skills and ethical values.

As a rule, participants in this educational program were highly educated younger employees.

The additional education in the area of marketing and sales activities was continued in 2010 and two seminars were held that attracted 50 participants from all companies within the Group who in some way communicate with the market.

5. SOCIAL DIMENSION

KONČAR's goal is to enable the stimulation of each employee to help fulfill KONČAR's goals as a whole because only a technologically developed company can be competitive on the market. This means that the company has to attract young, highly educated and innovative employees.

In addition, KONČAR offers support to its employees during their postgraduate studies. In 2010 KONČAR continued its successful collaboration with many scientific and educational institutions, which enables the Company to identify, define and implement a series of projects in which both sides act as partners in the way that they offer their expertise and stimulate collabo-

ration between the science, education and economic sectors. Thus, KONČAR carries out scientific and educational projects with the Faculty of Electrical Engineering and Computing, the Ruđer Bošković Institute, the Hrvoje Požar Energy Institute, Zagreb Polytechnic, and the University of Applied Sciences in Varaždin.

With the goal of ensuring competitiveness and continuous development, KONČAR previously offered ongoing education and development of skills to its employees in order to maximize their efficiency and professionalism at work. In addition, work satisfaction and a quality work environment has been and always will be an important issue.

DOCTORAL DISSERTATIONS

KONČAR got five more doctors of science who wrote about topics that are in close connection with their work.

In 2010, at the Faculty of Electrical Engineering and Computing in Zagreb new doctors of science were:



M.S. Branko Tomičić from KONČAR - Generators and Motors defended his doctoral dissertation on March 12, 2010, titled "Three Dimensional Calculation of Synchronous Generator Reactances for Wind Power Plants".



Zlatka Tečec Ribarić from KONČAR - Institute for Electrical Engineering defended her doctoral dissertation on May 10, 2010, titled "Auto-tuning power system stabilizer based on fuzzy model".



M.S. Ante Elez from KONČAR - Institute for Electrical Engineering defended his doctoral dissertation on June 14, 2010, titled "System for detection of intercoil short circuits in synchronous machine windings".



Dalibor Filipović Grčić from KONČAR - Institute for Electrical Engineering defended his doctoral dissertation on October 15, 2010, titled "Optimization of condenser insulation made of oil impregnated paper".



Leonardo Štrac from KONČAR - Power Transformers defended his doctoral dissertation on November 3, 2010, titled "Modeling of Electromagnetic Properties of Steel for Calculation of Stray Losses in Power Transformers".

5. SOCIAL DIMENSION

EMPLOYEES' FREE TIME AND RECREATION

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

Tennis Tournament „KONČAR 2010“

In 2010 the 9th open tennis tournament of mixed couples was held. Twenty tennis players took part in it and there were three groups of players, while the top three from each group were awarded. Besides a full day of competition, an important aspect of this event is the interaction of employees from different companies within the Group. The main sponsor of the to-



HUMAN RIGHTS

By abiding by its legal obligations, KONČAR Group supports and respects human rights of its employees and partakers. In HR management and the adoption of other relevant business decisions, principles of equal rights and standardized criteria are consistently respected.

urnament was KONČAR - Electrical Industry and the organizer Coordination of the Union of Metal Workers - IS KONČAR.

KONČAR's 10th Indoor Soccer Championship tournament 2009

This year the championship was held in two parts and it included 31 teams from 17 of the Group's companies. In the veteran category there were 11 teams and for the senior category 20. In four days there were 71 matches played with more than 300 players, which makes this the biggest sporting event organized by the Coordination of the Union of Metal Workers - IS KONČAR and sponsored by KONČAR - Electrical Industry. Once again, its importance was confirmed to all in KONČAR.



5. SOCIAL DIMENSION

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

According to the Collective agreement and the Labor Law it is forbidden to limit the employees' rights to join

the union. KONČAR Group respects this and it is applicable in both domestic and international business activities.

CHILD, COMPULSORY AND FORCED WORK

Child, compulsory and forced work are strictly forbidden in any form.

KONČAR Group follows the Constitution and positive regulations of the Republic of Croatia.

COMMUNITY

Business activities, accompanied by relationships with local communities, is founded on principles of social accountability, including reduction of risk and the maximization of positive impacts. Due to the products it develops and builds into different infrastructural systems, through its business activities KONČAR directly influences the function of many aspects of community life, especially in terms of the generation and supply of energy and public transport (by railway and trams). These influences are complimentary to activities that have as their objective the direct support of individuals and groups devoted to cultural projects, sports, edu-

cation, science, humanitarian activities, etc. Due to a considerable share of operations in the public sector, the issues of transparency of operations, adherence to regulations, anti-corruption activity and participation in the formation of public policies are treated with special attention. Intervening on behalf of its own interests when defining public policies and adopting or amending regulations is implemented transparently through business associations and other institutional channels. In accordance with the signed and adopted Code of Ethics in business operations, political influence or influence on judicial authorities is not permitted.

CORRUPTION

Corruption is treated as unacceptable, regardless of the motives, justification, means or consequences of corruptive action. This principle is communicated to all employees, although not in the form of separate training. None of the employees have the right to engage in any activities that could be connected to corruption and could harm the company's reputation.

The companies' Statutes and Foundation Charters dictate that all materially important contracts must be analyzed and adopted by the Supervisory Board. Wi-

thin ordinary audits, contracts and other documents which could be susceptible to cases of corruption are analyzed. On the other hand, if an employee, business partner or a third party have circumstantial evidence about corruption in a particular situation, he or she can report it to the Management or to the competent authorities of the State.

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

5. SOCIAL DIMENSION

PUBLIC POLICY

Investments in infrastructure, including production plants, the transmission and distribution of energy and upgrading of municipal and inter-city transport systems are part of KONČAR's business opportunities, as well as its contribution to the development of the civic community. At the same time, KONČAR insists on high standards of environmental protection and responsible consumption of resources from public sources. With its infrastructure projects, KONČAR Group has improved the citizens' quality of life, business' efficiency and the security of energy distribution. Moreover, it emphasizes the importance of creating stimulating conditions for export-oriented companies with the

objective of increasing the export competitiveness of Croatian products and companies in foreign markets. KONČAR's representatives express the aforementioned attitudes in public and within business associations, professional organizations, especially through the Croatian Chamber of Economics, and the Association of Croatian Exporters (whose president is also the president of the Management Board of KONČAR Electrical Industry Inc.).

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

ANTI-COMPETITIVE BEHAVIOR

All business activities within KONČAR Group are carried out in compliance with the laws and regulations of the Republic of Croatia. No proceedings have been initiated against KONČAR Group in regards to violati-

ons of free market competition, trust or monopolistic practice. There have been no significant fines or non-financial sanctions due to non-adherence to laws and regulations.

PRODUCT RESPONSIBILITY

Consistent with the Code of Ethics in business operations, products and services must be of confirmed quality and performance and be safe and acceptable to health during their intended period of use. Directors of Companies within KONČAR take care of the area of product responsibility.

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

For products intended for installation in plants, the development, production and testing period serves for the adjustment of its specifications and characteristics, taking into consideration clients' requests, as well

as various regulations and standards that the product must satisfy, including safety of usage, handling and maintenance.



5. SOCIAL DIMENSION

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

- Consumers' health and safety;
- Correct and useful labels and the availability of all information necessary for correct handling and use;
- Provisions of servicing / preventive maintenance within and outside of the guarantee period;
- Provisions of disposal after expiration of the product

- use period consistent with legal provisions;
- Adherence to all other regulations and standards.

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

INFORMATION AND LABELS ON PRODUCTS AND SERVICES

Every product and plant has a manufacturer's label, basic technical data typical for its product category and special data characteristic of or pertinent to it. For more complex products and plants, technical descriptions and instructions for safe use are prepared in keeping with the needs of the client and operator. There is no information about the degree

to which the aforementioned descriptions contain data that point to the influence of the product on sustainability.

There were no reported violations within the KONČAR Group in the area of disrespect of regulations or voluntary codes of information about products as well as codes for customers' health and safety.

CUSTOMER SATISFACTION

All the companies that have certified quality management systems evaluate their customers' satisfaction. Based on product categories (e.g. computer, transformer, motor, cooking stove, tram),

companies have outlined procedures which define the appropriate methods and frequency for evaluating customer satisfaction. There is no consolidated data on the results of these examinations.

MARKETING COMMUNICATION

The application of the Code of Ethics in Business Operations, signed by KONČAR Electrical Industry Inc., calls for responsible marketing communication. Regarding programs of marketing communication, KONČAR first addresses its targeted user groups, emphasizing the quality of products. It also makes reference to the Group's production possibilities, with absolute respect

for legislation, standards and voluntary codes relating to marketing communication. Above and beyond that, untrue or offensive facts which have the potential to upset any group or faction, including competitors, are not used. In addition to its own potential, KONČAR promotes general social values which stimulate technological, economic and social advances.

6. GRI3 INDICATORS

Table 10 - Overview of GRI3 indicators

<i>Profile</i>	<i>Description</i>	<i>Location in text</i>
Profile		
1.	STRATEGY AND ANALYSIS	
	1.1.	5
2.	ORGANIZATIONAL PROFILE	
	2.1., 2.2., 2.3., 2.4., 2.6., 2.7., 2.8., 2.10.	11 - 16
3.	REPORT PARAMETERS	
	3.12.	38
4.	GOVERNANCE, COMMITMENTS AND ENGAGEMENT	
	4.1., 4.4., 4.8., 4.12., 4.13., 4.14., 4.15., 4.16., 4.17.	17 - 22

6. GRI3 INDICATORS

Table 11 - GRI3 indicators

		<i>Location in text</i>
Economic performance indicators		
Aspect: Economic Performance	EC1, EC2, EC4	23, 28
Aspect: Market Presence	EC5, EC6	28
Aspect: Indirect Economic Impacts	EC8	28
Environmental performance indicators		
Aspect: Energy	EN6	29
Aspect: Biodiversity	EN11, EN12, EN14	29
Aspect: Products and Services	EN26, EN27	29
Labor practices and decent work performance indicators		
Aspect: Employment	LA1, LA3	30
Aspect: Labor-Management Relations	LA4, LA5	31
Aspect: Occupational Health and Safety	LA7, LA8	31
Aspect: Training and Education	LA11	32
Human rights performance indicators		
Aspect: Nondiscrimination	HR4	34
Aspect: Freedom of Association and Collective Bargaining	HR5	35
Aspect: Child Labor	HR6	35
Aspect: Forced and Compulsory Labor	HR7	35
Society performance indicators		
Aspect: Community	SO1	35
Aspect: Corruption	SO4	35
Aspect: Public Policy	SO5, SO6	36
Aspect: Anti-Competitive Behavior	SO7	36
Aspect: Compliance	SO8	36
Product responsibility performance indicators		
Aspect: Product and Service Labeling	PR3, PR5	37
Aspect: Marketing Communication	PR6	37

IV. GC AND GRI3 COMPARATIVE TABLE

GC and GRI3 COMPARATIVE TABLE

Table 12 - GC and GRI3 comparative table

<i>Areas of social values</i>		<i>GC principles</i>	<i>GRI3 indicators</i>
HUMAN RIGHTS	Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.	EC5, LA4, LA8, HR4, HR5, HR6, HR7, S05
	Principle 2:	Businesses should make sure they are not complicit in human rights abuses.	HR4, HR5, HR6, HR7, S05
LABOR RIGHTS	Principle 3:	Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining.	LA4, LA5, HR5, S05
	Principle 4:	Businesses should eliminate all forms of forced and compulsory labor.	HR7, S05
	Principle 5:	Businesses should uphold the effective abolition of child labor.	HR6, S05
	Principle 6:	Businesses should uphold the elimination of discrimination in regards to employment and choice of profession.	HR4, S01, S05
ENVIRONMENT	Principle 7:	Businesses should carefully and respectfully treat the matter of environmental protection	EC2, S05, EN27
	Principle 8:	Businesses should undertake initiatives to promote greater environmental responsibility.	EN6, EN11, EN12, EN26, S05, PR3
	Principle 9:	Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN6, EN14, EN26, S05, PR5
ELIMINATION OF CORRUPTION	Principle 10:	Businesses should work against corruption in all forms, including extortion and bribery.	S04, S05, S06, S07, S08

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KONČAR

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