

# Corporate Social Responsibility Report 2012

tradition.  
knowledge.  
responsibility.

**KONČAR**





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## Acronyms

used in the text

Group	KONČAR - Electrical Industry Inc., subsidiaries and affiliated companies
KONČAR Inc.	KONČAR - Electrical Industry Inc.
Parent Company	KONČAR - Electrical Industry Inc.
ZET	Zagreb Electrical Tram Company
INA	Croatian Oil Industry
HEP	Croatian Electricity Company
CPF	Croatian Privatisation Fund
GAMA	Government Asset Management Agency
PBZ	Privredna banka Zagreb
HRK	Croatian Kuna

## Foreword by the Chairman of the Board

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## Foreword by the Chairman of the Board



The principles of running the company with corporate social responsibility have been an integral part of all business processes throughout the 2012 business year, a year in which KONČAR achieved good business results. This has become a usual practice, which we accepted as our obligation and the responsibility that we have before all stakeholders.

KONČAR Group achieved a positive 2012 financial result. The consolidated Group's profits before tax accounted for HRK 200 million, i.e. 8.7 per cent in excess of the 2012 plan. In addition to the financial results achieved in 2012, we have invested towards improving the technical and technological level of the entire Group. The amount included HRK 240.9 million (50 per cent were own resources) and the greatest portion was allocated for the development and manufacture of the first domestically made wind power plant and the development of the High-Voltage Laboratory for testing medium-sized power transformers. In addition to the said projects, the Group implemented a series of others with a view to improving our technological processes, modernising production and improving quality of work, especially production premises, as described later in the report.

KONČAR Group has been systematically encouraging and supporting a value system in which the culture of work, creation and excellence is taking greater and greater prominence in our companies. Corporate social responsibility relies on human resource as the pillar of the company development. Numerous activities we take are oriented towards improving the quality and operating results. As a responsible employer, the Group makes the employees a priority even in the most difficult conditions for doing business. Hiring young professionals, ongoing training and professional improvement in knowledge and

skill sets required, as well as other activities focusing on meeting the need for the improvement of business processes have contributed to the sound business results, satisfied employees and strengthened corporate culture. Corporate social responsibility in doing business helps KONČAR build its reputation and motivate the employees to contribute to the business development of the company towards the achievement of the set and adopted development and operating plans.

The areas of common interest that KONČAR shares with the community in which it operates have been areas of permanent involvement through a series of activities. This included stimulus for acquiring knowledge and education and all forms of creativity. We are particularly sensitive towards those who are in need the most, and thus we never neglect the socially oriented and charitable activities and help in anyway we can. We decided that investment in young people is useful not only for KONČAR but also for the broader community. We have been pursuing this notion through the provision of scholarships to pupils and students, promotion of research and professional work of the young, encouraging cultural, sports and other types of creativity and spending quality leisure time.

Along with being responsible for the environment in which it operates, KONČAR has identified environmental management as one of its operating priorities. The results stemming from such a course of action may be seen in customer satisfaction and in an increased number of certificates in testimony of companies' compliance against the most relevant standards. Quality, safety and functionality of the products without any major environmental impact and distorting natural balance, references from around the globe and customer satisfaction - these are the foundations of all of our production activities. Corporate social responsibility is an integral part of all of these processes and gives them additional quality in reaching the set plans.

As in earlier years, this report presented the activities we have been pursuing last year following the Global Reporting Initiative guidelines and the Global Compact principles, thereby enabling our customers, partners and everyone else to recognise our activities through globally accepted reporting principles.

Chairman of the Board  
Darinko Bago

# Report According to GRI3 and Global Compact

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## 1. Company Profile

KONČAR Group has been encouraging and supporting a value system in which the culture of work, creation and excellence is taking greater and greater prominence in our companies. Corporate social responsibility in KONČAR constitutes an integral part of the day-to-day work processes in all areas of operation and relies on its human resource for the company development. This report presents a brief overview of efforts that served as a vehicle for KONČAR Group towards securing sustainability in all elements of its operations. The Group consists of companies operating under KONČAR's name, with their respective (corporate names) added.

This 2012 Corporate Social Responsibility Report has been prepared by KONČAR Group, which consists of KONČAR Electrical Industry Inc., as the Parent company and 20 subsidiaries in which the Parent has a controlling interest (more than 50 per cent of votes at the General Assembly). Some of the companies have preferred shares subscribed in addition to the common shares issued. In addition, the parent company exercises minority management influence (49 per cent of votes at the General Assembly) in an (affiliated) company. The Group's Parent company (KONČAR - Electrical Industry Inc.) seat is in Zagreb, Fallerovo šetalíšte 22.

### Organizational Structure

#### KONČAR - Electrical Industry Inc.

ENERGY AND TRANSPORT	INDUSTRY AND TRADE	SPECIAL ACTIVITIES	COMPANIES ABROAD
POWER PLANT AND EL. TRACTION ENGINEERING	HOUSEHOLD APPLIANCES	ELECTRICAL ENGINEERING INSTITUTE	SWITZERLAND
GENERATORS AND MOTORS	CATERING EQUIPMENT	INFRASTRUCTURE AND SERVICES	<b>REPRESENTATIVE OFFICES</b>
HIGH VOLTAGE SWITCHGEAR	TOOLS		RUSSIAN FEDERATION
MEDIUM VOLTAGE APPARATUS	SMALL ELECTRICAL MACHINES		BOSNIA AND HERZEGOVINA
SWITCHGEAR	LOW VOLTAGE SWITCH. AND CIRCUIT BREAKERS		SERBIA
DISTRIBUTION AND SPECIAL TRANSFORMERS			<b>ASSOCIATED COMPANIES</b>
INSTRUMENT TRANSFORMERS			POWER TRANSFORMERS
ELECTRONICS AND INFORMATICS			
METAL STRUCTURES			
ELECTRIC VEHICLES			
ENG. FOR PLANT INSTALLATION & COMMISSIONING			
RENEWABLE SOURCES			

## 1. Company Profile

### Ownership structure

During the course of 2012, the Company made 5,610 treasury stock worth buy-in. During December 2012, The Company has issued a total of 14,560 treasury stocks for the purpose of effecting the exercised option right to the purchase of CEO's and Board members' shares on the grounds of the Rights, Duties and Wage Contract for 2006. As at 31 December 2012, the Company has had a total of 664 treasury stocks, i.e. 0.03 per cent of company's equity.

During the course of 2012, the KONČAR Electrical Industry share price followed the overall market trend. The highest price was achieved in December 2012 (HRK 650), and the lowest one was recorded in late January (HRK 475) to arrive at an average of HRK 638.63 at the end of 2012.



**Table 1**  
Ownership structure as at 31 December 2012

Shareholder / ownership stake (%)	2010	2011	2012
HPB d.d. (Kapitalni fond d.d.)	28.17	28.17	28.17
GAMA / CPII	14.95	14.95	14.95
GAMA / Republic of Croatia	10.12	10.12	10.12
Societe Generale-Splitska banka d.d. / Erste Plavi obvezni mirovinski fond (compulsory pension fund, CPF)	6.52	6.69	7.16
Hypo Alpe Adria Bank / PBZ Croatia osiguranje CPF	2.94	4.17	6.41
LINTEUM SAVJETOVANJE ltd.	7.38	7.41	5.43
Société Générale / AZ CPF	2.71	4.07	4.14
Kristijan Floričić	3.33	3.33	3.33
Hypo-Alpe-Adria-Bank d.d. / RBA CPF	1.44	1.37	1.37
PBZ d.d. (collective client custodian account)	1.43	1.29	1.25
Other shareholders	21.01	18.06	17.64
KONČAR d.d. (treasury stocks)	-	0.37	0.03
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

The overall volume generated from trading KONČAR shares accounted for HRK 118.9 million, a 35.5 per cent decline as compared with the volume traded in 2011. In total, 132,819 shares constituted the traded volume (43 per cent decline vs. 2011).

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 the General Assembly and the Supervisory Board, which appoints Management Board in charge of running the company. The company's shareholders' equity amounts to HRK 1,028,847,600.00 and consists of a total of 2,572,119 common shares with par value of HRK 400.00 a share.

The Company applies the same conditions to all of its shareholders and treats them equally regardless of the number of shares in their hands, their country of origin and other properties. The voting rights encompass all of the Company's 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.

Five biggest shareholders of KONČAR own 66.81 per cent of shares. There were no major changes in the ownership structure in 2012. As at 31 December 2012, the Company has had a total of 664 treasury stocks, i.e. 0.03 per cent of company's equity.



## 1. Company Profile

### Business Indicators

The 2012 sales of goods and services revenue generation totalled HRK 2,441.6 million. This amount matched the plan and was by 3.4 per cent greater than the 2011 accumulation. The domestic market saw the sales of goods and services revenue generation worth HRK 1,226.5 million, a figure exceeding the 2011 actual and 2012 plan by 12 and 3.8 per cent, respectively. Products and services export sales accounted for HRK 1,227.9 million, an amount by 4.8 per cent lower than the 2011 generation and 5 per cent short of plan.

There has been a drop in demand in the export markets in which KONČAR sells the greatest portion of its products. This consequently resulted in a drop of business activities in energy and transport area, and further worsening of the household appliances and switchgear programmes. The KONČAR Group companies undertook a number of measures with a view to mitigating adverse effects brought about by the economic and financial crisis, ensuring stable operations and maintaining and strengthening their respective market positions. Firstly, greater effort has been invested in exploring new mar-

kets and offering products. Measures have been taken to achieve a greater degree of synergy within the system, as were the operating cost cutting ones. All of the measures taken combined resulted in a continued profitability and financial stability of the Group. The sound business results achieved are founded upon Company's own product and production development, while research projects stand as a permanent determinant of KONČAR's. They will continue in the upcoming period through innovation and development, and should result in new products and expanded business activities.

In 2012, a total of HRK 2,435.4 9 million worth of new works were contracted. The status of contracted works (active liabilities) at the end of 2012 totalled HRK 2,234.7, a figure matching that at year's beginning. Owing to a relatively sound level of contracted works, and given the additional efforts invested into finding new markets and the announced intensified investment operations in the country, one may expect that the companies belonging to the KONČAR Group will achieve their set 2013 performance plans and continue to follow a positive operating trend.

**Table 2**

Basic business indicators (in HRK '000)

	2010	2011	2012
Operating revenues	2,637,560	2,545,016	2,743,938
Sales of products and services	2,464,817	2,362,202	2,441,558
Material costs			
• raw materials and consumables, costs of services, costs of goods sold	1,542,321	1,545,612	1,714,979
Personnel costs (total)	485,168	474,923	473,602
• wages and salaries	263,732	262,980	266,156
• taxes, social and pension insurance	221,437	211,942	207,446
Profit before tax	201,645	210,820	200,019
Corporate profit tax	15,609	18,582	21,667
Group's profit	186,036	192,238	178,352
Minority interests	31,060	29,796	27,815
Net profit	154,976	162,442	150,537
Total assets	3,296,150	3,495,735	3,531,260
Total capital and reserves	1,794,177	1,937,209	2,067,943
Current assets	2,106,501	2,142,292	2,032,776
Current liabilities	775,539	832,473	708,446
Sales per employee	626	597	626

## 1. Company Profile

### Basic Business Activities

The production programme of the companies belonging to KONČAR Group is oriented towards the core business activity of energy and transport. The production capacities are being constantly upgraded via investing in modern production technologies. Importantly, individual products specifically designed to match clients' requirements (tailor made) constitute the Group's strategic milestone.

The business activity of the KONČAR Group has been broken down into business areas:

#### Energy and Transport

- Designing and developing power generation, transmission and distribution plants and the manufacture of the accompanying equipment, thyristor locomotives, electric motor trains, tramcars and electric equipment for stable electric traction plants;

#### Industry

- electromotor drives, medium- and low-voltage electric equipment and catering equipment;

#### Trade

- Electric household appliances, off-the-shelf products and low-voltage devices;

#### Special activities

- Product research and development and infrastructure services.

### Most Important Markets

The consolidated goods and service sales revenues were generated in an amount of HRK 2,441.5 million. This structure included the domestic market sales revenues accounting for HRK 1,226.5 million (50 per cent) or a 12 per cent increase compared to a year earlier.

**Table 3**

Products and services sales revenues by business areas (in HRK '000)

Business area	2010	2011	2012
Energy and Transport	2,096,439	1,994,556	2,079,388
Trade	173,427	181,774	161,426
Industry	104,511	110,318	109,702
Special activities	90,441	75,554	91,042
<b>Total</b>	<b>2,464,818</b>	<b>2,362,202</b>	<b>2,441,558</b>

In the structure of the domestic market product and service sales, the sales to the Croatian Electricity Company (HEP) accounted for HRK 655.3 million, i.e. 53.4 per cent of the total domestic market generation, while sales to companies falling under the industry and shipbuilding accounted for HRK 167.8 million, i.e. 13.7 per cent of the total product sales in Croatia. Trading com-

panies were supplied with HRK 182.8 million, Zagreb Electric Tram Company (ZET) with HRK 74.6 million, the Croatian Railways Company with HRK 43.6 million, whereas the remainder worth 102.4 million pertained to the Croatian Motorways Company, the state and local administrations and other public enterprises (Plinacro, INA, etc.).

## 1. Company Profile

**Table 4**

Sales in Croatia (in HRK '000)

	2010	2011	2012
Croatian Electricity Company	263,355	470,910	655,324
Trade	130,868	150,835	182,810
Industry and shipbuilding	276,907	209,037	167,848
ZET	216,186	59,479	74,590
Croatian Railways	96,914	49,487	43,551
INA, T-HT, Plinacro	42,980	23,715	41,541
State and local administration	19,038	13,573	14,263
Croatian Motorway and Croatian Roads Companies	15,411	6,891	11,646
Construction industry	97,939	88,438	3,916
<b>Total</b>	<b>1,159,598</b>	<b>1,072,365</b>	<b>1,195,489</b>

The export sales of goods and services stood at HRK 1,227.9 million (50 per cent of total sales) or 4.8 per cent less than the 2011 exports result. Looking from the angle of export markets, the greatest export operations have been carried out with the European Union member-states, totalling HRK 713.8 million (58.1 per cent of total

exports), followed by the neighbouring countries (Bosnia and Herzegovina, Serbia, Macedonia, Kosovo, Albania) with a total of HRK 222.1 million (18.1 per cent) worth of goods and services exported, Africa and Asia with a total of HRK 84.5 million, and HRK 207.5 million worth of goods and services exported to other countries.

**Table 5**

Most important KONČAR Group's export markets in 2012 (in HRK '000)

Country	2010	2011	2012
Germany	165,608	161,060	135,916
Sweden	96,660	79,853	107,158
Czech Republic	60,569	26,625	100,395
Bosnia and Herzegovina	83,000	95,231	75,874
Finland	64,773	56,210	65,294
Turkey	1,207	5,875	51,630
Serbia	42,602	41,366	51,086
Austria	29,263	34,569	46,348
Slovenia	23,937	43,933	40,472
Kosovo	3,398	18,514	40,007
Russia	8,146	37,237	39,845
Poland	13,991	29,983	30,029
Albania	84,067	63,116	24,007
Estonia	30	14,173	25,613
Cyprus	46,505	56,894	25,232
Other countries	266,241	312,616	393,011
<b>Total</b>	<b>1,305,220</b>	<b>1,289,837</b>	<b>1,227,910</b>

## 1. Company Profile

### Awards and Recognitions we received in 2012

The "Golden Key" awards have been delivered for the fifth time at the 7th Convention of the Croatian Exporters held in Zagreb on 21 May. KONČAR - Power Transformers company was awarded the best 2011 large exporter, KONČAR - Instrument Transformers the best medium-sized exporter, whereas KONČAR - Distribution and Special Transformers company was awarded the best exporter to United Arab Emirates.

The autonomous base station power supply system designed by KONČAR - Electrical Engineering Institute was awarded gold medal with a special commendation at the INVENTIONS 2012 exhibition in Geneva.



KONČAR - Electrical Engineering Institute and Vipnet stepped into the prestigious group of receivers of two different global awards for their contribution to the implementation of environmentally friendly technologies. On 13 November, global World Communication Award 2012 has been awarded in London, and KONČAR Hybrid Box, an

autonomous hybrid base station power supply system, has been awarded the best "green" product in "The Green Award" category. At the ceremony of the Global Telecom Business Awards 2012 held on 13 June in London, the Institute and Vipnet received an award for the same product for the green technologies implementation project under the Wireless Network Structure Innovation category. (photo)

At the 10th exhibition of innovations ARCA 2012, the "ARCA" awards have been delivered to the "Single spring operating mechanism for two-position switching devices" to an author from KONČAR - Medium Voltage Apparatus and to the "Method for Inter-Coil Short Circuit Detection of Induction and Synchronous Machines Armature Winding" to an author from KONČAR - Electrical Engineering Institute, who also received the best innovation award from the International Federation of National Innovators' Associations on the occasion of the 5th International Innovators' Day. Bronze medal

was awarded to the "Wind Turbine Control System for Strong and Turbulent Wind Areas" to an author from KONČAR - Electrical Engineering Institute.

At the 61st international fair of innovations INNOVA 2012 held in Brussels in November, the panel of judges awarded the gold medal to the "Method for Inter-Coil Short Circuit Detection of Induction and Synchronous Machines Armature Winding" to an author from KONČAR - Electrical Engineering Institute.

At the 15th international specialised exhibition "Electrical networks of Russia 2012" held in Moscow in November, KONČAR - Instrument Transformers was awarded under the competition in the fair, i.e. the second place in the category of innovative solutions in the area of primary power equipment for their high-voltage transformer of high rated powers VPT-362 and the VAU combined transformer.

On 23 March, the Croatian business council for sustainable development has handed out "Index DOP" awards. KONČAR - Electrical Engineering Institute received this valuable recognition for the third consecutive time and was highlighted as an example of a role model company.

Professor Stjepan Car, Sc.D., the CEO of KONČAR - Electrical Engineering Institute received two important awards during the course of 2012: the President of the Republic of Croatia, professor Ivo Josipović, Ph.D. has awarded him for special contribution to innovation and the promotion of technical culture in Croatia and abroad and "Faust Vrančić" Lifetime Achievement Award for an exceptional contribution to the development and enhancement of technical culture in Croatia.

Mate Jelavić, Sc.D., an employee of KONČAR - Electrical Engineering Institute and the Coordinator of renewable sources strategic area at the level of KONČAR Group, has received the "Vera Johanides" award for 2011 by the Croatian Academy of Engineering. The award is being handed to a young Sc.D. of up to 35 years of age who has achieved a noticeable scientific or professional advancement or gave special contribution in his/her area of research over the past five years.

## 2. Report Parameters

The Corporate Social Responsibility Report, which the KONČAR Group has been issuing annually, was produced for the reporting period 1 January - 31 December 2012. It was prepared by KONČAR Group and it applies to all companies within the Group in which the Parent has dominant influence. The last report was issued in 2012 (for 2011 calendar year). Contact person for all inquiries regarding this report and its contents is the Director of Marketing and Communication.

KONČAR Group undertakes to work continually towards improving current practices and to monitor progress of all companies within the Group as well as the relationships with stakeholders until the next report is issued, and adequately report it in the next report.

### 3. Governance, Commitments and Engagement

#### Governance

The companies belonging to Group's structure are autonomous, while the parent company exercises supervising role, it provides strategic direction and supports them through companies' supervisory boards. These activities are being performed in pursuance of the Companies Act, the KONČAR - Electrical Industry Inc.

Charter and the Charters of individual companies. Furthermore, the Parent Company exercises governance over a portion of assets which weren't invested into companies but are a direct or an indirect function of financial support of sales, products and the equipment of the subsidiaries as a credit/guarantee potential.

**Tablica 6**

Management rights of the Parent company within the Group's companies

	subscribed capital total in HRK	subscribed capital total in HRK	By Parent 31.12.2012 %	By Parent 31.12.2012 %
<b>SUBSIDIARIES</b>				
POWER PLANT AND ELECTRIC TRACTION ENGINEERING	36,000,000	36,000,000	100.00	100.00
GENERATORS AND MOTORS	107,927,700	107,927,700	100.00	100.00
HIGH VOLTAGE SWITCHGEAR	49,751,400	42,000,300	88.02	84.42
MEDIUM VOLTAGE APPARATUS	19,679,700	8,220,000	69.87	41.77
SWITCHGEAR	36,966,000	16,899,000	66.85	45.71
DISTRIBUTION AND SPECIAL TRANSFORMERS	76,684,800	39,655,200	67.80	51.71
INSTRUMENT TRANSFORMERS	18,989,100	8,265,600	72.35	43.53
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	98,516,100	98,516,100	100.00	100.00
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
ELECTRICAL ENGINEERING INSTITUTE	40,763,520	40,763,520	100.00	100.00
INFRASTRUCTURE AND SERVICES	49,891,600	49,891,600	100.00	100.00
KONES AG	3,122,678	3,122,678	100.00	100.00
<b>AFFILIATED COMPANY</b>				
POWER TRANSFORMERS	72,764,000	35,654,400	49.00	49.00

### 3. Governance, Commitments and Engagement

#### Management Board

The Supervisory Board appoints and relieves the Chairman of the Board and Board members. The mandates of Chairman of the Board and Board members last for five years, with an option of reappointment. Pursuant to the Companies Act and the Company Charter, Management Board runs the operations under their personal responsibility. In doing so, they are obliged and authorised to take any actions and decisions deemed necessary to manage the Company successfully. Supervisory Board's consent is required to make certain decisions prescribed by the Charter.

**During 2012, the KONČAR - Electrical Industry Inc. company was managed by a Management Board consisted of:**

Darinko Bago	Chairman of the Board
Marina Kralj Miliša	Board member in charge of Legal, General and HR matters
Jozo Miloloža	Board member in charge of Finance
Davor Mladina	Board member in charge of Industry and Trade business areas
Miroslav Poljak	Board member in charge of Corporate Development and ICT

#### Supervisory Board

Pursuant to the provisions contained in the Companies Act and the Charter of KONČAR - Electrical Industry Inc., the General Assembly makes decisions on appointing and relieving the Supervisory Board. The Supervisory Board is responsible for appointing and relieving the members of Management Board and for supervising the operations of the Company. Execution of some sizable transactions (the amount of such transactions is provided for by Company's Charter) and more significant business decisions require Supervisory Board's consent.

**The Supervisory Board consists of nine members and operated with the following composition:**

**Supervisory Board members since 3 July 2012:**

Nenad Filipović	Supervisory Board Chairman
Jasminka Belačić	Supervisory Board Deputy Chairperson
Boris Draženović	Member
Kristina Čelić	Member
Ivan Rujnić	Member
Vicko Ferić	Member
Tomislav Radoš	Member
Petar Vlaić	Member
Dragan Marčinko	Member (as of 13 December 2012)

**Supervisory Board members until 3 July 2012:**

Božidar Piller	Supervisory Board Chairman
Jasminka Belačić	Supervisory Board Deputy Chairperson
Duro Perica	Member
Elvis Kovačević	Member
Kristijan Floričić	Member
Vicko Ferić	Member
Nenad Matić	Member
Ivan Rujnić	Member
Ratko Žabčić	Member

#### Audit Committee

Pursuant to the Audit Act (Article 28) and the Corporate Governance Code, the Supervisory Board has put an Audit Committee in place. In accordance with the provisions laid down in the Audit Act and the Corporate Governance Code, the Audit Committee is in charge of monitoring the financial reporting procedure, it monitors the efficiency of the system of control, supervises the conducting of annual financial statements audits, monitors auditors' independence, makes recommendations to the Supervisory Board concerning the selection and to the General Assembly concerning the appointment of an audit firm.

**The Audit Committee comprises four members, including:**

Jasminka Belačić	Audit Committee Chairperson
Boris Draženović	Member
Ivan Rujnić	Member
Vicko Ferić	Member

#### Strategic Development Committee

In its session held on 28 September 2012, the Supervisory Board has established the Strategic Development Committee. The Supervisory Board confers assignments to the Strategic Development Committee for the purpose of tackling subjects and the activities falling under the remit of the Supervisory Board, with a specific emphasis on the long-term viability, risk assessment, Group's strategic priorities, restructuring needs and the development of strategic human resource within the KONČAR Group.

**The Strategic Development Committee comprises four members, including:**

Nenad Filipović	Strategic Development Committee Chairman
Kristina Čelić	Member
Tomislav Radoš	Member
Petar Vlaić	Member

### 3. Governance, Commitments and Engagement

Being shareholders or shareholders' representatives, the Supervisory Board members may make their recommendations using regular channels of the Supervisory Board work. The Small Shareholders Association (founded in 2000) brings together 58 small shareholders, and they have their representative in the Supervisory Board. Pursuant to the Labour Act, employees are also entitled to have a Supervisory Board representative. The General Assembly must be convened if required so in writing by shareholders jointly holding a stake of 20 per cent of the Company shareholders' equity, and if the purpose and reasons for convening the General Assembly are indicated. The General Assembly must be convened if required so in writing by shareholders who hold stakes amounting to one twentieth of Company's registered capital and if the purpose and reasons for convening the Assembly are stated. Proposals of shareholders must be communicated should a shareholder, within a week after the publication of an announcement on convening the General Assembly in Company's newsletter, refer a well substantiated proposal to the Company and announce that he/she wishes to appear during the General

Assembly session to challenge a proposal put forward by Management Board and the Supervisory Board and to win other shareholders over to vote for his/her proposal. During the sessions of their presidency and the general shareholders' meeting, the Small Shareholders Association analyse the achieved KONČAR's business results and provide guidelines to the Organisation's authorised representative on how to vote at the General Assembly of KONČAR - Electrical Industry Inc. is represented in companies' Supervisory Boards by members of Management Board or by representatives appointed by Management Board. Pursuant to the Companies Act and the Labour Act, representatives of employees are also included in the work of Supervisory Boards in six companies and in the Supervisory Board of KONČAR - Electrical Industry Inc.

KONČAR - Electrical Industry Inc. (parent company) is the sole owner of eleven subsidiaries, whereas in ten of the companies there are mixed ownership structures. Each company has its own Supervisory Board (comprised of three to five members) which represents the owners.

#### Commitments to external initiatives

**By getting actively involved in initiatives, discussions and projects Croatia-wide, KONČAR made a decision to adopt a proactive approach in all aspects of doing business in a socially responsible manner.**

On 12 September 2005, KONČAR - Electrical Industry Inc. signed a declaration whereby it accepted the Code of Ethics in business operations. The Assembly of the Croatian Chamber of Commerce ratified it in May 2005. It is necessary to communicate the provisions contained in the Code of Ethics to the employees of KONČAR group and its business partners on an ongoing basis.

Economic, social and environmental charters; principle and standards that KONČAR supports

KONČAR's business policy rests upon the following business principles:

- Satisfaction of customers, suppliers and other stakeholders;
- Environmental protection, health and safety;
- Continuous improvement of products and processes;
- Involvement and motivation of all employees.

The principles are based on positive regulations of the Republic of Croatia and the adopted international standards. KONČAR accepts and implements international and local principles, charters and standards that contribute to product quality, better work and production processes and preservation and enhancement of natural and social environments.



### 3. Governance, Commitments and Engagement

**The Corporate Governance Principles adopted by Management Board and the Supervisory Board of KONČAR - Electrical Industry Inc. on 17 April 2008 refer to:**

- accountable management;
- definition of corporate governance procedures based on the adopted recognised international standards and
- supervision of the operations, with the underlying purpose of establishing high corporate governance standards and transparency of operations as the groundwork for protecting the shareholders, investors and other stakeholders, as well as for caring for the employees, the sustainable development and environmental protection.

The company's policy and objectives are being achieved through a systematic approach to quality management, environmental protection, health and safety at work, elements confirmed by certificates received from accredited independent institutions. In accordance with our Sustainable Development Policy, we are applying ISO 9001:2000 Quality Management System, ISO14001:2004 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System. Many other sets of standards and norms are being adhered to for individual products, in keeping with client and beneficiary requirements.

**Table 7**  
ISO 9001, ISO 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	1
KONČAR - Electronics and Informatics	1	1	0
KONČAR - Energy and Maintenance	1	1	0
KONČAR - Generators and Motors	1	1	1
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	1
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
<b>Total</b>	<b>17</b>	<b>18</b>	<b>6</b>

### 3. Governance, Commitments and Engagement

#### Membership in Associations and Professional Organisations

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

- Global Compact - International Agreement with the United Nations;
- Association for Socially Responsible Business Operations within the Croatian Chamber of Commerce.

**KONČAR as a group, its individual companies or specific employees are members of the following organisations in the country and abroad:**

- CIGRÉ (International Council on Large Electric Systems);
- International Council for Distribution Systems (CIRED);
- IEEE (Institute of Electrical and Electronics Engineers);
- Croatian Academy of Engineering;
- Croatian Exporters;
- Croatian Chamber of Commerce;
- Innovative Work Community;
- Renewable Sources Community;
- Community of Railcars;
- Croatian Innovators' Association;
- Croatian Chamber of Architects and Engineers in Construction Industry;
- Society of Engineers and Technicians of Croatian Railways;
- International Electrotechnical Commission (IEC);
- MIPRO (Croatian Association for Information and Communication Technology, Electronics and Micro-electronics);
- Croatian Institute for Standards;
- Electrical Engineering Society of Zagreb;
- Croatian Association of Professionals in Nature and Environmental Protection;
- Croatian Association of Infrared Thermography;
- International Institute of Welding;
- Croatian Society for Quality;
- European Company Lawyers Association;
- Association of Corporate Lawyers;
- Association of Lawyers in Economics;
- Croatian Association of Auditors;
- Croatian Community of Accounting and Financial Experts.

KONČAR is an active member, but also the founder and initiator of many associations, institutions and organisations, chiefly in the areas associated with KONČAR's production and business activities or with a view to cover broader community interests. Every year, KONČAR's experts participate at professional conferences domestically and abroad, at which they present KONČAR's

works, solutions and products. Through sponsoring and active participation in the preparation and organization of conferences in Croatia, KONČAR directly facilitates the activities of professional organizations, considering them an important venue for advancing its own knowledge base while exchanging experiences with other domestic and international experts.

### 3. Governance, Commitments and Engagement

#### Stakeholder engagement

The Group's production programme and business strategy mostly focus on business market and/or public sector in Croatia and abroad, and only to a small extent on the individual end user market. Worth mentioning from among the stakeholder groups outside the organisation is the collaboration with a broader set of associations dealing with socially responsible operations, civil society organisations and individuals primarily in the environments of their respective activity, both nationally and internationally.

Collaboration with stakeholders i.e. groups of stakeholders covered by this report can be divided into those who are directly involved in the organizations' business processes and those outside them. Besides customers as key stakeholders, others include employees, suppliers and the public sector (in its dual role of a client and the regulator of operating conditions).

#### **Stakeholder communication and approaches to stakeholder engagement**

The main means of communication with a substantial number of stakeholders, including the employees and

the directly interested partners, is the monthly periodical "Končarevac", which is being distributed to all KONČAR companies, business partners, the community at large, and everybody else who is interested in news about KONČAR. Current circulation stands at 4,500 copies.

Web sites ([www.koncar.hr](http://www.koncar.hr)) represent important means of communication with the domestic and international partners, and also with the public in general. In 2012, there were a total of 102,986 visitors to the website, who made a total of 134,915 hits and more than 564,138 website loadings. More than 450 e-mails have been received via the website including various questions, suggestions and comments. In addition to [www.koncar.hr](http://www.koncar.hr) site, subsidiaries have their own websites linked to the main KONČAR site.

Continuous communication is maintained with key stakeholders through joint meetings, contacts and appointments. Throughout business operations, efforts are made to satisfy their legitimate interests and needs. Two-way communication and cooperation between management and employees are an integral part of business management.

## Economic Dimension

In 2012, KONČAR Group achieved sound business results in spite of a demanding business environment in which it operated. Consolidated sales revenues generated from products and services picked up by 3.4 per cent against the last year's generation and stood at the planned 2012 level. In 2012, a total of HRK 2,435.4 million worth of new works were contracted. The status of contracted works (active liabilities) at the end of 2012 totalled HRK 2,234.7, a figure matching that at year's beginning. Owing to a relatively sound level of contracted works, and given the additional efforts invested into finding new markets and the announced intensified investment operations in the country, one may expect that the companies belonging to the KONČAR Group will achieve their set 2013 performance plans and continue to follow a positive operating trend.

KONČAR Group companies are significant players on the market of manufacturers of power generation, transmission and distribution as well as transport machinery and equipment. Continuous improvement of business, investments in product development and quality creates and increases value for all stakeholders and the wider community.

The sound business results achieved are founded upon Company's own product and production development, while research projects stand as a permanent determinant of KONČAR's. They will continue in the upcoming period through innovation and development, and should result in new products and expanded business activities.

## Economic Effect Indicators

The consolidated goods and service sales revenues were generated in an amount of HRK 2,441.5 million, an amount by HRK 79.3 million (i.e. 3.4 per cent) greater than the 2011 accumulation.

The 2012 gross wages and salaries stood at HRK 473.6 million, an amount by 0.3 per cent lower than in 2011.

In 2012, interest paid by way of loans granted totalled HRK 12.8 million, i.e. HRK 5.2 million less than in 2011. Pursuant to the decisions taken by the Supervisory Board and the General Assembly, the Parent Compa-

ny's 2012 disposable profits of HRK 78.3 million is distributed to legal, statutory and other reserves, and HRK 30.8 million was allocated for the purpose of dividend disbursement in an amount of HRK 12.00 per share.

Apart from its representative office in Switzerland (Kones AG), all the companies within the KONČAR group operated in the Republic of Croatia. Thus, the total amount of corporate profits tax refers to taxes paid in Croatia. The amount of taxes paid in 2012 accounted for HRK 21.7 million, and was by HRK 2.8 million greater than the taxes paid in 2011.

**Table 8**  
Generated and distributed economic value (in HRK '000)

	2010	2011	2012
Products and services sales revenue	2,464,818	2,362,202	2,441,558
Material costs - Raw materials and consumables, cost of services, cost of goods sold	1,542,321	1,545,612	1,714,979
Gross salaries	485,168	474,923	473,602
Interest payment	17,299	17,962	12,785
Dividends paid	30,865	30,750	30,857
Profit tax	15,609	18,582	21,667
Donations and sponsorships	1,020	1,118	901

## Economic Dimension

### More Substantial Government Financial Assistance

In 2012, KONČAR Group has not received any 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 state aid.

### Financial Consequences and Other Risks Associated with Climate Change

Matters of sustainability in terms of energy resources, power generation, transmission and distribution, as well as climate change, are of extreme importance to KONČAR, since most of its products are intended for use in the natural environment or urban areas, which entails its responsibility for a regular and safe operations, and possible reper-

cussions as well. Continuous investment in new technologies, development and marketing new products based upon the principles of energy efficiency and the use of renewable energy are part of permanent activities towards and challenges related with the mitigation of climate change and the associated risk.



## Environmental Dimension

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

### Materials

Permanent technological improvements are being carried out through the introduction of new environmentally friendly materials and processes aligned with the highest global standards and customer requirements with a view to protecting the environment. KONČAR group systematically caters for the reduction of waste created in the production processes and its reuse for production and other purposes.

### Biodiversity

KONČAR's products meet the highest standards of safety of equipment it delivers, with minimal environmental impact. To the present date, no complaints or incidents have arisen in that respect. This is especially important

Low Voltage Switches and Circuit Breakers featured technical improvements to its production process to achieve up to 10 per cent savings in materials used, and ensured the production of parts without creating any waste. A novelty in the production plant are the conveyer belts for transporting moulds and the additional devices for separating (waste) intake, which have been integrated in the system for manufacturing plastic parts by thermoplastic injection moulding.

When compared to the technological solutions prior to the installation of such equipment, in addition to the environmental aspect, materials are being saved, which in turn influences product unit price. The Company currently has three such systems, with a plan to procure additional two.

when one considers that our products and plants are frequently being delivered in areas of great biodiversity (rivers, lakes, rural areas). So far, there has been no record of our products causing any disruption of biodiversity.

### Compliance with Environmental Regulations

KONČAR manages all aspects of its environmental impact by reducing the negative effects of its activities, permanently improving results attained in the domain of environmental protection, monitoring legislation and aligning its operations against new demands. Necessary organisational, professional 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 Energy and Maintenance company, which takes systematic care of all infrastructural installations at different locations.

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

### Impact of Products and Services on the Environment

Special attention is being paid to sustainable development and environmental impact management Group-wide. KONČAR has defined its Environmental Management Policy, which is available at [www.koncar.hr](http://www.koncar.hr) and was made known to its entire staff.

The company works on reducing environmental impact of its products by using more modern and energy efficient technologies, which require fewer resources to operate and disseminate smaller amounts of noxious substances. While the scope of such impact mitigation has not been officially analysed yet, some

indicators point to positive changes.

Most products of KONČAR Group are specific: they are unique or small series products, intended for installation into facilities (power equipment, plants, assemblies, etc.) and/or for putting into operation after the development and testing stages (e.g. tramcars, hydropower plants and substations). As a rule, typical clients come from the public or business markets, and more rarely individual end users (even though there are exceptions to this - e.g. household appliances, computers, etc.).

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PRINCIPLE 7

GLOBAL COMPACT  
PRINCIPLE 8

## Environmental Dimension

### Energy and water

Because of a high rate of energy consumption in industry, along with great potential for making savings, energy efficiency is nowadays extremely important when using energy in industrial plants.

In 2012, the Pometeno brdo wind farm construction project has completed. A total of 15 wind generators with 1 MW in rated power each and one wind generator with 2.5 MW in rated power were put into operation. The share of domestic components in the production process exceeded 70 per cent. If field operations are taken into account, the share of the domestic industry exceeds 80 per cent of a wind power plant value. The project included participation of 14 companies of KONČAR Group and 15 subcontractors from Croatia.

During the course of 2012, the first stage of infrastructural refurbishment of deteriorated and energy inefficient production halls was completed, as were other infrastructure projects that ensured an uninterrupted and better quality energy supply, coupled with a reduction in consumption.

A deteriorated roof made of reinforced glass and fibre cement was refurbished on Hall 1 at Sesvetski Kraljevec, using materials that provide better thermal insulation of the hall. In order to further reduce the cost of heating at the location, insulation of heating line between the boiler room and the facilities owned by KONČAR - Switchgear was also refurbished.

At Fallerovo šetalište location, certain modification have been made to save process water; the flow-through cooling system was replaced and a closed cooling system installed, and water cooling of the cooling resin tank compressor was replaced with an air heating system. Consumption of drinking water was reduced by 11 per cent vs. 2011.

GLOBAL COMPACT  
PRINCIPLE 9

In 2012, the Energy Efficiency Department was put in place in the EMC, Safety and Calibration Institute of KONČAR - Electrical Engineering Institute. The Department started review and certification processes for buildings owned by KONČAR - Electrical Industry in adherence with the Ordinance on Building Energy Review and Building Energy Certification.



## Social Dimension

In this report, the social sustainability dimension concerns the impact organisation has on the social systems in which it operates and it is divided into the categories of labour and labour relations, human rights, cooperation with the community at large and product responsibility.



During the course of 2012, two seminars have been delivered with the attendance of 72 trainees and the newly employed staff to make them familiar with KONČAR's work. These three-day seminars consisted of numerous lectures and presentations covering different fields of Concern's operations, site visits to production facilities and a study visit to Zakučac hydropower plant and Pometeno brdo wind farm.

## Labour Practices, the Dignified Workplace

### Employment

KONČAR devotes special attention to employment of young, highly educated, ambitious and innovative people.

At the end of 2012, KONČAR has been hiring a total of 3,898 workers, i.e. 61 less than in 2011. From the total number, 7.1 per cent of workers have been hired on fixed-term contracts, while other employees have their open-ended contracts signed.

In 2012, the average age of all employees was 44, while average age of the newly employed stood at 30.

In 2012, a total of 168 workers have been hired, of which 68 with high education (1 Sc.D., 4 M.Sc.'s, 1 university specialist, 37 professional MAs, 1 bachelor, 23 with university degrees).

### Training and Education

In 2012, KONČAR has been hiring 23 Sc.D.'s, 63 M.Sc.'s and 903 workers with university degrees. Many highly educated workers are currently attending their postgraduate studies (specialist, postgraduate and doctoral studies).

KONČAR has been traditionally securing its highly educated staff by providing scholarships to students enrolled in various faculties (the Faculty of Electrical Engineering and Computing, the Faculty of Mechanical Engineering and Naval Architecture, Polytechnic, etc.).

Out of all highly educated employees in 2012, most of them were mechanical and electrical engineering professionals. From among the production-related professions, the newly hired mostly included electro-mechanics, electrical and mechanical technicians, followed by machinists, lathe operators and the sheet metal processing workers.

KONČAR has been following trends in the domestic and foreign markets for many years, and has enabled its employees to improve professionally in various forms accordingly. Table 9 shows the trend in the number of employees in KONČAR who have attended different forms of education. In 2012, an increase in the number of employees in all four types of training was recorded.



## Social Dimension

**Table 9**

Education of employees by forms of education

Number of employees	2008	2009	2010	2011	2012
Postgraduate studies	88	77	65	81	119
Language courses	240	238	220	252	250
IT skills	273	253	232	304	300
Seminars and lectures	1,240	1,120	1,024	1,186	1,020

### Doctoral Dissertations

During the course of 2012, several new doctoral dissertations were defended at the Faculty of Electrical Engineering and Computing, the Faculty of Mechanical Engineering and Naval Architecture and the Faculty of Philosophy in Zagreb. KONČAR thus got four more doctors of science who wrote about topics closely related with their work. In 2012, doctoral titles were obtained by:



Predrag Čanžar from KONČAR - Electrical Engineering Institute successfully defended his doctoral dissertation on 3 April 2012 at the Faculty of Mechanical Engineering and Naval Architecture entitled "Experimental and Numerical Modelling of Fatigue Behaviour of Nodular Cast Iron".



Ivan Goran Kuliš, M.Sc. from KONČAR - Power Plant and Electric Traction Engineering presented and successfully defended his doctoral dissertation on 6 July 2012 in Zagreb at the Faculty of Electrical Engineering and Computing entitled "Earth Fault Protection in Resonant Grounded Distribution Power Networks".



Neven Čobanov from KONČAR - Electrical Engineering Institute successfully defended his doctoral dissertation on 16 July 2012 in Zagreb at the Faculty of Electrical Engineering and Computing entitled "Mass Reduction of Auxiliary Power Supply Converters for Railway Applications by Soft-Switching".



Vladimir Špišić from KONČAR - Electronics and Informatics defended his doctoral dissertation on 28 September 2012 in Zagreb at the Faculty of Philosophy entitled "Unsupervised Document Classification by Language" falling under information and communication sciences.

### Lifelong Learning Programmes

KONČAR values its people above all as the success of every company depends precisely on the commitment and skills of each employee. Accordingly, KONČAR provides lifelong learning opportunities for all employees, regardless of their hierarchical position in the organisational structure of each of the KONČAR companies.

## Social Dimension

### Managers' Training

With regard to the average employee age group, the need for selecting and training a new generation of managers was recognized as early as in 2009.

On 25 January, the second round of training courses was completed in KONČAR. The title of the course was "Managerial Education Programme, FBA Fundamentals of Business Administration", and the course closed with presentations of final papers of the attendance. After a total of 13 modules attended, i.e. 144 hours of lectures, workshops and case studies, which have been delivered once a month on a Friday and a Saturday, a total of 29 attendees of the second round of training courses for prospective managers from 14 KONČAR's companies presented their papers before their respective Management Boards.

Training for prospective managers has continued throughout 2012 within the framework of the 3rd Training Cycle at the level of KONČAR. Attended by 22 trainees from 11 companies, training courses have been fully adapted to the needs of KONČAR companies. Training is organised in 14 modules lasting 2 days a month each.

In addition to training managers, great attention is being paid to foreign language courses, given the markets where KONČAR is doing business. Training in the area of IT skills and improving know-how in handling modern machinery in KONČAR's plants is also of great importance.

All training programmes in KONČAR are adapted to the needs of companies and they focus on both professional training of employees and on increasing employee satisfaction and competitiveness of the workers in the labour market. KONČAR's goal is to incentivise every employee towards taking such a course of action that would contribute to the achievement of the objectives of KONČAR as a whole. Investment in its employees allows the company to compete in the market not just with its products, but also by the ability to attract ambitious, highly educated and innovative potential employees.

During 2012, KONČAR has continued its successful collaboration with a series of scientific and educational institutions to enable the recognition, definition and implementation of scores of projects where the stakeholders take part as equal partners. Thus, KONČAR carries out scientific and educational projects in collaboration with the Faculty of Electrical Engineering and Computing, the Ruđer Bošković Institute, Hrvoje Požar Energy Institute, the Polytechnic of Zagreb, and the University of Applied Sciences of Varaždin.

In order to ensure competitiveness and sustained development of KONČAR, it is necessary to continue educating employees and continually strive towards ensuring job satisfaction and a good quality work environment.

## Social Dimension

### Collective Agreements and Employee Rights

The Collective Agreement on the rights and duties of employers and workers for companies in the KONČAR Group determines the procedures and mechanisms that regulate employment on the basis of the consent of the contractual parties, including the Croatian Metal Workers Union, the Trade Union Coordination of KONČAR - Electrical Industry - Zagreb and Management Board of KONČAR - Electrical Industry Inc. The collective agreement aims at promoting social and economic security of workers in KONČAR's companies, particularly concerning the rights and duties such as protection of dignity of workers, working hours, holidays and leaves, salaries, remuneration and other tangible benefits for workers.

The employees may resolve issues in respect of the protection of rights associated with or arising from a particular employment contract amicably and following the procedure prescribed by the Ordinance on Mediation in Individual Labour Disputes, to which the parties to the Collective Agreement subscribed.

The Collective agreement was entered into for an indefinite period and applies to all employees of the KONČAR Group regardless of their union membership.

Workers' Councils operate within some of the KONČAR companies. In accordance with the Labour Act and the Collective Agreement, the employer shall notify, consult and seek their prior consent when making important decisions.

### Health and Safety at Work

Great attention is being paid to occupational health and safety at work. Various activities are being carried out towards improving working conditions, preventive health care and examinations, and organising recreational activities for the workers, thus contributing to their motivation, satisfaction and better performance.

All workers in positions designated hazardous as per relevant risk assessments have been trained to work safely in respect of hazards and the protective measures defined for each job or activity that the workers may perform at any time. All the companies provide fire protection and have prepared evacuation and rescue plans in case of unexpected events, and the workers have been trained in fire protection.

In accordance with the applicable legal regulations, KONČAR organizes and conducts occupational safety in all parts of the organisation's work and all of its processes. Most companies employ safety at work professionals and specialists, as well as organised safety at work services and safety at work committees consisted of the employer or its agent, an expert in occupational safety, occupational health professional and trustee or their co-coordinator (if there are more).

According to the Safety at Work Act, a number of workers in all companies have been trained to administer first aid in case of an injury or a case of sudden occupational disease. For every 50 workers, one has been trained in administering first aid. Due to this well-organized safety system and safety at work, a statement confirmed by a low rate of injuries and cases of professional incapacity, there has not been any need to extend counselling, prevention and risk control programme further.

## Social Dimension

### Human Rights

Human resource management follows the principles of equality, respect for human dignity and the application of uniform criteria. Employees are drivers of the development and success of the company, and hence the priority of KONČAR.

By adopting the Code of Ethics in Business on 12 May 2005, KONČAR undertook to act in accordance with the principles of responsibility, truthfulness, efficiency, transparency, quality, acting in good faith and in compliance with good business practices with business partners, business and social environment and its own employees.

The Labour Act and the Collective Agreement prescribed the rights, duties and the responsibilities of employees.

#### Non-discrimination

As in previous years, there were no cases of discrimination recorded in 2012. Discrimination or harassment of employees due to their sex, creed, race, denominational, national or political affiliation, physical disability, age, family status, personal characteristics or beliefs is prohibited during the recruitment processes as well as in everyday work.

#### Freedom of Association and Collective Bargaining

Each employee may enjoy freedom of association and collective bargaining. By their own choice, employees are members of the Croatian Union of Metalworkers and the Croatian Electrical Workers Union. KONČAR promotes professional development of individuals, values work and talent and aims to provide equal opportunities for promotion as well as other activities that may contribute to satisfaction, because motivated employees are a company's biggest capital.

#### Child, Compulsory and Forced Work

Child labour is a form of exploitation that violates human rights. KONČAR operates in compliance with the applicable legal regulations that prohibit child labour, and children are not being hired in any business activity or form.

### Society

#### Community

Business activities and the relationship with the local community alike are founded upon the principles of social responsibility, including the mitigation of risk and adverse impacts and the maximization of positive impacts. Due to the products it develops and installs into different infrastructural systems, KONČAR's business activities directly influence the functioning of many aspects of community life, especially in terms of power generation and supply and public transport.

These influences are complimentary to the activities that directly aim at supporting individuals and groups devoted to projects in culture, sports, education, science, charitable activities, etc. Due to a considerable share of operations in the public sector, the issues of transparency of operations, compliance, anti-corruption and participation in policy-making are treated with special attention. Advocating its own interests in policy-making and adopting or amending regulations is done 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.

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PRINCIPLE 1

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PRINCIPLE 2

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PRINCIPLE 3

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PRINCIPLE 4 and 5

## Social Dimension

### Awards to Best Students on KONČAR Day

Established in April 2003, the "KONČAR Award" was traditionally handed out on 24 January on the occasion of celebrating the KONČAR Day under the motto "The best investment is the one made in people". The award is being granted to the most successful students of the Electrical Engineering and Informatics Department of the Polytechnic of Zagreb during the final academic year.

A donation is being delivered on the same day - this time, it was a donation to the Caritas of the Archdiocese of Zagreb.

After the awards, an exhibition presenting the history of KONČAR's design was open. The chronological presentation is located at the ground floor of the Fallerovo šetalište business tower, and it is an adapted portion of an exhibition titled "The Hidden Design, 1971-1990 KONČAR Design Department" presented in the Croatian Designers Society.



### KONČAR Award for the Best Doctoral Industry-applied Dissertation

The annual "KONČAR" award for a doctoral dissertation defended in 2011/2012 academic year for exceptional scientific achievements in the area of technical industry-applied sciences, which is being awarded for the ninth consecutive year belonged to Neven Čobanov, Sc.D. from KONČAR - Electrical Engineering Institute for his doctoral dissertation entitled "Mass Reduction of Auxiliary Power Supply Converters for Railway Applications by Soft-Switching".

For a number of years, KONČAR - Electrical Engineering Institute has been handing out cash prize along with the bronze "Josip Lončar" plaque. This year's laureate is Tomislav Haus.

### Second International Transformer Colloquium

The Second International Colloquium was held in Dubrovnik in the period 16-18 May 2012, covering the subject of "Transformer Research and Asset Management". The colloquium was organised by the Centre of Excellence for Transformers, the Faculty of Electrical Engineering and Computing and HRO CIGRÉ and with the support of A2 Committee - Transformers CIGRÉ - the International Council on Large Electric Systems, with KONČAR as the Golden Sponsor of the event.

The Colloquium Technical Committee has adopted a total of 47 papers produced by 139 authors and co-authors from 23 countries. The papers adopted included 14 of those from Croatia, i.e. by 37 authors and co-authors from KONČAR Companies. This proves the importance of KONČAR in transformer manufacture, both theoretically and scientifically, and in terms of production.

## Social Dimension

### Support to Specific Groups

Certain specific groups, such as the retired, war veterans, and employees who participate in sports, culture and other similar activities, enjoy permanent KONČAR's support.

#### **KONČAR Pensioners' Club**

The club had a total of 322 and 176 members registered and active in 2012, respectively. The Management Board was in session every first Tuesday of every month (save for August). The work of the Club has been organised in respective Commissions. The Social Welfare Commission visited 17 sick members and contacted 22 members who have not attended the Club activities for a longer period. The Culture Commission organised visits to three exhibitions and seven theatrical plays (with a total of 244 members participating). Aside from its Club-related activities, the Recreation and Amusement Commission organised nine one-day and two two-day excursions for a total of 512 members. The Information Commission caters for the Pensioners' Corner in Končarevac, the Resource Commission secures the necessary means, while the Supervision Commission controls procurement and spending. The Club organised several health examinations and lectures devoted to health issues.

#### **Gratitude to and Remembrance of the Killed War Veterans**

On the Republic of Croatia Independence Day, which is celebrated in early December, KONČAR has been traditionally paying its respects to the killed war veterans who gave their lives for the creation of the independent state. Once again, coronal was laid and candles lit this year on the monument raised in remembrance of the killed war veterans.

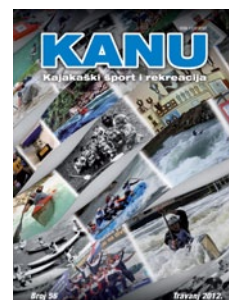
#### **Santa Clause Brought Gifts to KONČAR People's Children**

In 2012, KONČAR once again has drawn smiles on the faces of the youngest with a play "Kraš' Sweet Fairytale". For the benefit of the children of people working in ten of KONČAR's companies, a hall was booked so that the children could enjoy the holiday story together with their parents. In addition to the play, creative drawing workshops, game shows and a kid's train ride were organised.



#### **Relaunch of the Canoe Magazine**

After a ten year's long pause, the new, 56th edition of the CANOE magazine was presented at the KONČAR Canoe Club premises at Jarun Lake on 10 May 2012. The magazine was relaunched thanks to the support provided by KONČAR - Electrical Industry, Inc. Club members took part in the creation of the magazine by providing their articles.



## Social Dimension

### Sports Activities

Within the framework of its corporate social responsibility, KONČAR has been promoting sports and recreational activities on an ongoing basis. Sponsorships to more than 100 athletes in various sports and of different ages serve as a vehicle to support the activities from the earliest age. Primarily, this helps children and youth to regularly practice and compete at various levels - from school and local competitions, all the way to the best athletes that take part in the Olympics. Sports societies play an important role in the company. KONČAR cooperates with them on a long-term basis and these clubs bear KONČAR's name. In U 2012, KONČAR sponsored activities in the following sports: shooting, kayaking, canoeing, handball, chess, skiing, mountain climbing, table tennis and diving.

#### Diving

In the period 29 June-1 July 2012, Rijeka hosted a cadet and junior diving championship of Croatia. KONČAR supported the "Medveščak" Diving Club, thus enabling them to compete together with seven other clubs and guests from Poland and Serbia.



#### Kayaking

In the Wildwater World Championship in La Plagne (France), the Croatian national team consisted of Igor Gojić and Tomislav Lepan (members of the KONČAR Canoe Club) won as many as five medals. They won two gold medals in the classical sprint, whereas the three-member team consisted of Emil Milihram (KKK Varaždin), Gojić and Lepan was the quickest in team race. Igor Gojić won silver medal in the sprint, as did the Milihram, Gojić and Lepan team.

#### Table Tennis

In addition to sports club bearing our name, KONČAR has supported talented and successful individuals as well. Andrej Gaćina is one of such individuals. In the summer 2012 Olympics in London (27 July-12 August), he entered the eight-finals in the individuals of the Olympics tournament. KONČAR also supports his sports activities.

#### "KONČAR Zagreb 1786" Shooting Club

KONČAR has been supporting the activities of the "KONČAR ZAGREB 1786" shooting club for many years. In 2012, the Club members achieved significant results in various competitions in the country and abroad and set new national records in individual and team competitions.

KONČAR presented awards for the best shooters in the annual assembly of the „KONČAR Zagreb 1786“ Shooting Club.

## Social Dimension

### Culture

#### **Grožnjan - a Young Musicians' Meeting Point**

KONČAR sponsors the activities of the International Cultural Centre of Jeunesses Musicales Croatia in Grožnjan. During the course of 2012, 50 educational projects were carried out, mostly from the areas of music, dancing, architecture, civil society, cultural heritage, literature, dramatic and film arts. A total of 81 musical and performance productions have been delivered, including concerts by young musicians, the guest ensembles and final concerts of workshops delivered. Within the "Grožnjan outside Grožnjan" cycle, a series of concerts were performed in other settlements. These activities saw participation of approximately 500 young artists from around the world.



#### **Satire Days**

During the period 1-16 June 2012, the Kerempuh Satirical Theatre organised the oldest Croatian competitive theatrical festival called the "Satire Days". The official competition saw 10 theatrical plays, which presented the best of last year's satire and comedy from Croatia and abroad. The festival brings together approximately 280 Croatian and foreign artists and about 12,000 people in audience. KONČAR was one of the sponsors.

#### **Croatian Cultural Association**

SKONČAR supported the central national event of the amateur cultural and artistic creativity titled "Croatian Cultural Association Postcard", held on 28 October 2012 at the Croatian National Theatre. The event gathered the representatives of 893 cultural and artistic NGOs from all nine national events of the Croatian Cultural Association.

The Croatian Cultural Association was founded upon centennial tradition and continuity of amateur cultural and artistic activity, whose beginning started in mid-19th century. The need for the amateur cultural and artistic organisations to associate in order to cooperate and coordinate their activities was expressed as early as in 1875.

#### **Lectirum Theatre Group**

A theatre group of eight gathered under the name of Lectirum has had a premiere of Neil Simon's comedy The Apartment. The work of the travelling theatre band, which plays in many towns and settlements throughout the Republic of Croatia and the neighbouring countries, is presented to approximately 20,000 audience per annum. KONČAR recognised their work.

#### **PagArtFestival**

The fourteenth edition of PagArtFestival, the summer festival in the renaissance town of Pag at the island of Pag, was held 1-14 August 2012. Guests from France, Russia, Portugal, and Macedonia together with the domestic musicians have played eight concerts and gave the audience a pleasure of enjoying the sounds of piano, horn, violin, flute, bandoneon, guitar, electric guitar, cello and double bass. In the final evening of music and poetry, the festival hosted the renowned poet Luko Paljetak and a young cellist Zita Varga. KONČAR was one of the sponsors.



## Social Dimension

### Humanitarian and Social Donations

During 2012, helpful donations were given to associations, institutions, organisations and projects to assist those who need help to improve their health or social status. Funds are being continually allocated to the humanitarian foundation "Dora" and "Save the Croatian Children." In 2012, KONČAR supported a humanitarian campaign "A Little Gift for Big Heroes" intended for the purchase of a new laparoscopic device for the Children's Hospital in Klaićeva and a humanitarian concert "For a Child's Smile". Assistance was provided to Cenacolo foundation and Dubrava Education and Rehabilitation Centre.

#### Croatian Paraplegic and Tetraplegic Association - HUPT

During the course of 2012, the Croatian Paraplegic and Tetraplegic Association (HUPT) organised a series of projects, workshops and preventative and educational lectures with a view to pointing to day-to-day problems faced by paraplegic and tetraplegic people, as well as to prevention of spinal cord injuries. KONČAR recognised the importance of "Network for Hills and Islands" and "Yes, I can do it" projects, the Persons with Spinal Cord Injuries Awareness Week and Personal Assistance Programme and donated personal computers to support the work of this active association.



#### Zvečevo is Useful for the Community Again

During 2011, KONČAR awarded a concession for its former resort of Zvečevo to the Disabled War Veterans Sport Fishing Association of the Požega-Slavonia County. They now have the possibility to use the facilities, and KONČAR financially supported the refurbishment of two rooms and the lavatories. In re-

turn, the beneficiaries maintain the environment. The members of the Association may engage in activities outdoors, and the then KONČAR resort revived once again and became useful to the broader community.

### Employees' Leisure Time and Recreation

#### KONČAR 2012 - Tennis Tournament

Organised by SMH - IS KONČAR Coordination and sponsored by KONČAR, Inc., the 11th open mixed doubles tennis tournament "KONČAR 2012" was held in the period 8-11 September. The tournament gathered 24 tennis players who competed in doubles in several categories.

#### KONČAR-KET Mountaineering Society

The Swiss and the French Alps were this year's destination for an excursion of 33 members of KONČAR-KET Mountaineering Society.

KONČAR-KET Mountaineering Society was established in 1994 at the initiative of several employees. The society is a member of the Croatian Mountaineering Association. Nowadays, it has more than 130 members, mostly people from KET and their family members, as well as from other companies of KONČAR Group. In addition to regular Sunday mountaineering activities, they also periodically organise two-day excursions. The most attractive ones for the members are those to abroad.

#### KONČAR 2012 - Futsal Tournament

The 12th Christmas Futsal tournament was held in December, with more than 300 sports fans gathered in 11 veteran and 17 senior teams from 16 KONČAR's Companies. The KONČAR crew competed in two categories. The veterans' category saw participation of 11 teams from 13 Companies, while the seniors played in 17 teams from 14 Companies.



## Social Dimension

### Corruption

KONČAR Group has not recorded any cases of corruption. Therefore, there was no need to fine-tune the anti-corruption measures further. Corruption is treated as unacceptable, regardless of the motives, reasons, means or consequences of corruptive action. All employees have been familiarised with the issue, albeit not in the form of a separate structured training.

The companies' Statutes and Articles of Association dictate that all materially important contracts must be analyzed and adopted by the Supervisory Board. If an employee, business partner or a third party have circumstantial evidence of corruption in a particular situation, he or she can report it to the Management or to the competent authorities of the State.

### Public Policy

Investments in infrastructure, including power generation, transmission and distribution plants and the modernisation of municipal and inter-city transport systems are a part of KONČAR's business opportunities, as well as its contribution to the development of the civic community. In doing so, KONČAR insists on meeting the high standards of environmental protection and responsible consumption of resources.

KONČAR does not provide any donations to political campaigns or political parties and it does not sponsor or provide donations to any political activities in the country or abroad. Therefore, this area has not been regulated by any internal rules.

## Social Dimension

### Anti-Competitive Behaviour

All business activities within KONČAR Group are carried out in compliance with laws and regulations of the Republic of Croatia. No proceedings have been instigated against KONČAR Group in respect of violations of free market competition, trust or monopolistic practices. 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. Product responsibility falls under the remit of directors of companies within KONČAR. 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 meaningful labels and the availability of all information necessary for adequate handling and use;
- Provision of servicing within and beyond the warranty period;
- Ensured disposal after the expiration of the product use period consistent with legal provisions;
- Adherence to all other regulations and standards.

Products have their trial and warranty periods. During such periods and after the equipment is put into operation, it needs to be monitored and adapted to operate compatibly with other equipment, corrections need to be made and any possible defects and maladjustments removed. Given the complexity of particular products and plants, servicing and spare parts are provided during and beyond the warranty period.

### Information and Labels on Products and Services

Every product and plant has its manufacturer's label, basic technical data typical of the product category and special data characteristic of or relevant for the given product. For more complex products and plants, technical descriptions and instructions for safe use are prepared.

KONČAR Group has not had any reported cases of violation in terms of incompliance or non-adherence to voluntary codes of product information or codes relative to consumer health and safety.

Based on product categories, companies have outlined procedures defining the adequate methods and frequency for evaluating customer satisfaction. There is no consolidated data on the results of these examinations in the KONČAR Group.

### Marketing Communications

KONČAR Group firstly addresses its target user groups. In doing to, it emphasizes quality of products, product safety, references and production capacities. Code of Ethics in doing business imposes an obligation of pursuing a responsible marketing communication. To that end, untrue or offensive facts that may be hurtful to any group or faction, including competitors, are not used.



### Customer Privacy and Compliance with Regulations

In the reporting period, as in the previous years, there were no complaints regarding breaches of customer privacy or loss of personal data, as well as fines for non-compliance with laws and regulations concerning the provision and use of products and services.

## GRI3 and Global Compact

**Table 10**

GC and GRI3 comparative table

AREAS OF SOCIAL VALUES	GC PRINCIPLES	GRI3 INDICATORS	Location in text
HUMAN RIGHTS	PRINCIPLE 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.	EC5, LA3, LA4, LA8, HR4, HR5, HR6, HR7, SO5	28
	PRINCIPLE 2: Businesses should make sure they are not complicit in human rights abuses.	HR4, HR5, HR6, HR7, SO5	28
LABOR RIGHTS	PRINCIPLE 3: Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining.	LA4, LA5, LA11, HR5, SO5	28
	PRINCIPLE 4: Businesses should eliminate all forms of forced and compulsory labor.	HR7, SO5	28
	PRINCIPLE 5: Businesses should uphold the effective abolition of child labor.	HR6, SO5	28
	PRINCIPLE 6: Businesses should uphold the elimination of discrimination in regards to employment and choice of profession.	LA1, HR4, SO5	27
ENVIRONMENT	PRINCIPLE 7: Businesses should carefully and respectfully treat the matter of environmental protection.	EC2, SO5	22
	PRINCIPLE 8: Businesses should undertake initiatives to promote greater environmental responsibility.	EN6, EN11, EN12, SO5, PR3	22
	PRINCIPLE 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN6, EN14, EN26, SO5	23
ELIMINATION OF CORRUPTION	PRINCIPLE 10: Businesses should work against corruption in all forms, including extortion and bribery.	SO4, SO5, SO6, SO7, SO8	34

## GRI3 and Global Compact

**Table 11**

GRI3 determinants

Profile	Description	Location in text
1.	STRATEGY AND ANALYSIS 1.1.	4
2.	ORGANIZATIONAL PROFILE 2.1., 2.2., 2.3., 2.4., 2.6., 2.7., 2.8., 2.9, 2.10.	7
3.	REPORT PARAMETERS 3.1, 3.2, 3.3, 3.4, 3.12.	13
4.	GOVERNANCE, COMMITMENTS AND ENGAGEMENT 4.1., 4.4., 4.8., 4.12., 4.13., 4.14., 4.15., 4.16., 4.17.	14

### ECONOMIC PERFORMANCE INDICATORS

Aspect: Economic Performance	EC1, EC2, EC4	20
Aspect: Market Presence	EC6	11
Aspect: Indirect Economic Impacts	EC8	23

### ENVIRONMENTAL PERFORMANCE INDICATORS

Aspect: Energy	EN6	23
Aspect: Water	EN10	23
Aspect: Biodiversity	EN11, EN12, EN14	22
Aspect: Products and Services	EN26	35
Aspect: Adhering to regulations	EN28	22

### LABOR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS

Aspect: Employment	LA1, LA3	24
Aspect: Labor-Management Relations	LA4, LA5	27
Aspect: Occupational Health and Safety	LA8	27
Aspect: Training and Education	LA11	24

### HUMAN RIGHTS PERFORMANCE INDICATORS

Aspect: Nondiscrimination	HR4	28
Aspect: Freedom of Association and Collective Bargaining	HR5	28
Aspect: Child Labor	HR6	28
Aspect: Forced and Compulsory Labor	HR7	28

### SOCIETY PERFORMANCE INDICATORS

Aspect: Community	SO1	28
Aspect: Corruption	SO4	34
Aspect: Public Policy	SO5, SO6	34
Aspect: Anti-Competitive Behavior	SO7	35
Aspect: Compliance	SO8	22

### PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS

Aspect: Product and Service Labeling	PR3, PR5	35
Aspect: Marketing Communications	PR6	35

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# KONČAR

KONČAR - Electrical Industry Inc.  
Fallerovo šetalište 22, 10000 Zagreb, Croatia

[www.koncar.com](http://www.koncar.com)

