

corporate social responsibility

report

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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)

A close-up photograph of a vibrant green leaf, showing a network of veins that branch out from a central midrib. The veins are a lighter shade of green, creating a rhythmic pattern across the darker green leaf surface. The lighting is soft, highlighting the texture and structure of the leaf's vascular system.

I. foreword by the chairman of the board

Responsibility at work

In the KONČAR Group, responsibility is no mere word or concept, rather an inherent part of the strategy and of the everyday activities that are carried out in all segments of operations.

Responsibility to the product starts with development and design, in which the most exacting world standards and engineering requirements are met. It continues in choice of raw and processed materials, production processes and technologies, the conditions in which production goes on, all the way to final testing. A reliable and safe product, numbers of commendations and prizes and, most crucial of all, customer satisfaction in more than a hundred countries all tell of responsibility.

Responsibility to the employees, the most important value in KONČAR, is shown daily in the constant improvements in working conditions, raising standards of working and living, vocational training and personal professional development, the organisation of additional activities and in everything else that makes the Končar workforce more satisfied and successful.

Responsibility to the environment encompasses concern for the preservation of the natural environment, both in the setting in which the production takes place and at sites where equipment produced by KONČAR is implemented.

KONČAR is also responsible to the social environment in which it works; constant interactive collaboration with the social community has an impact on events related to and activities by not only the employees and their families but also other members of the social community, particularly the young.

For the fourth year now, KONČAR is reporting on that part of its activities in the domain of social responsibility according to the world-acknowledged GR13 standards and the Global Compact, the principles of which the group accepted by signing its charter in 2007.

Not all the activities in this area are presented in the report, but the content shows that social responsibility really is built into the business philosophy and strategy of KONČAR and that it is implemented in the everyday activities of employees at all levels.

Chairman of the Board
Darinko Bago

II. report according to global compact



Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights

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.

The Collective Agreement and other acts define extra-legal rights, including freedom of association and collective bargaining powers for all employees. KONČAR's representatives encourage the protection of human rights in all spheres of activity.

Principle 2

Businesses should make sure 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, by their own choice, are members of the Metal Workers Union Coordination of Croatia, as well as the Electrical Industry Unions of Croatia.

Principle 4

Businesses should uphold the elimination of all forms of forced and compulsory labour

KONČAR operates with respect to the Constitution and positive legal requirements that forbid forced labor.

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

Principle 5

Businesses should uphold the effective abolition of child labor

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

Principle 6

Businesses should uphold the elimination of discrimination in respect of employment and occupation.

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 precautionary approach to environmental challenges

KONČAR has outlined the Environmental Management Policy, which is familiar to all employees. In its daily activities, KONČAR contributes to the achievement of environmental preservation goals in every respect - in its surroundings, through the use and creation of products and facilities that utilize natural resources and may have an impact on the environment, as well as deferring to the highest international standards.

Principle 8

Businesses should undertake initiatives to promote greater environmental responsibility

Constant promotion of greater environmental responsibility serves as an example to others of how respectful behavior and activity may reduce the harmful impacts of industry on the environment to a minimum. To uphold 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's 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).

Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies

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

Principle 10

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

In KONČAR corruption is treated as unacceptable, regardless of any underlying motives, rationale, means or consequences of the corrupt 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.) is located in Zagreb, Fallerovo šetalište 22.

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

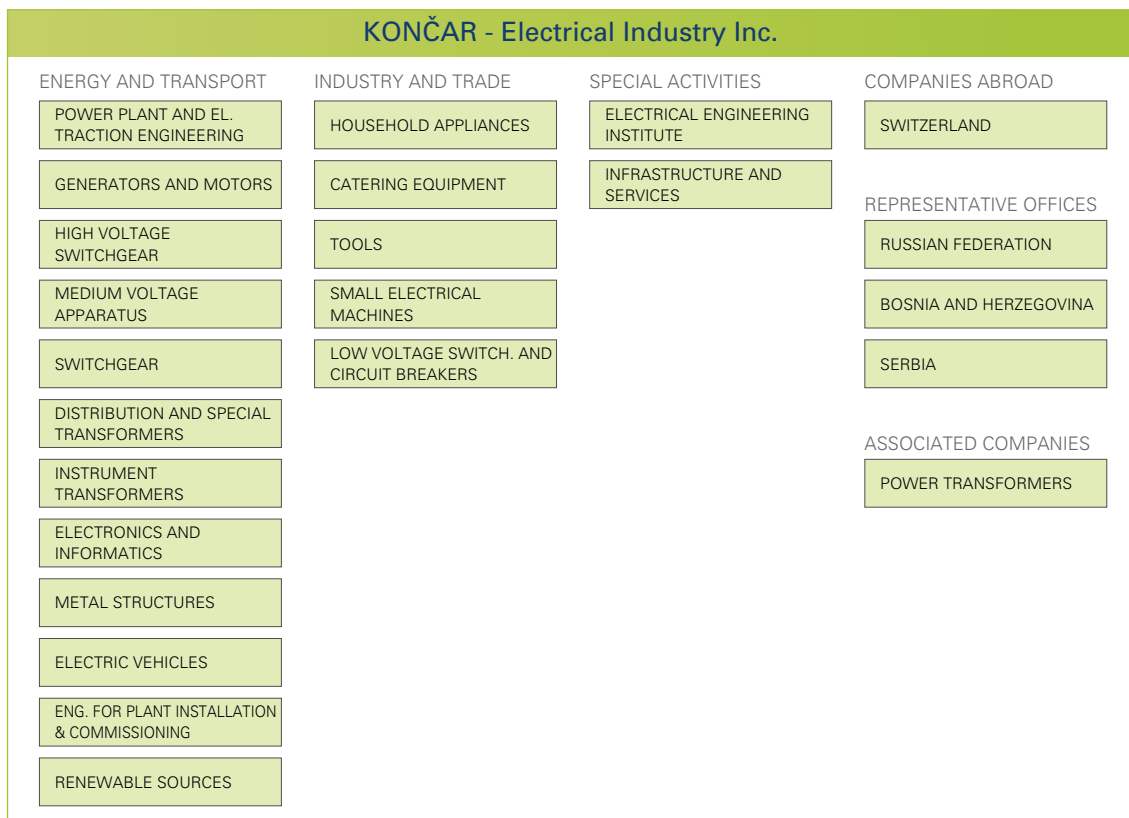
Energy and Transport - design and construction of plants for the production, transfer and distribution of electric energy and ancillary equipment, thyristor locomotives, trams and electric equipment for lineside electric traction facilities

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

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

Special activities - research and development of products and infrastructural services.

ORGANISATIONAL STRUCTURE



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

The five biggest shareholders of KONČAR own 67.04% of its shares. The largest share (53.94%) belongs to the State via three main shareholders: Hrvatska Poštanska Banka - HPB (in eng. Croatian Postal Bank) / Capital Fund, the Croatian Privatization Fund and the Croatian Pension Insurance Institute. There were no major changes in ownership relations in 2009. KONČAR Electrical Industry Inc. is predominantly State-owned.

TABLE 1: OWNERSHIP STRUCTURE ON DECEMBER 31, 2009

	2007	2008	2009
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	10.85	10.82
Raiffeisenbanka Austria d.d. (joint custodian account)	8.23	7.97	7.39
Societe Generale-Splitska banka d.d. / Erste Plavi obvezni mirovinski fond (in eng. Erste Blue Compulsory Pension Fund)	-	3.94	5.71
Kristijan Floričić	5.28	4.31	3.33
PBZ d.d. (The Bank of New York as custodian)	4.25	4.06	3.00
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
Hypo-Alpe-Adria-Bank d.d. / Raiffeisen mirovinsko društvo (in eng. Raiffeisen Pension Association)	0.89	1.46	1.44
Other shareholders	19.31	18.36	21.46
Končar d.d. (treasury stocks)	1.38	1.38	0.95
TOTAL	100.00	100.00	100.00

On December 31, 2009 the Company had 24,460 treasury stocks.

BUSINESS INDICATORS

Even though business conditions in 2009 were rendered more difficult by the current global economic situation, KONČAR Group showed good business results. The profitability and financial stability of the Group were maintained, with the share of export in total revenues from sales of products and services amounting to 46 % and is expected to increase to 54 % in 2010. Research projects were successfully continued on innovations and prototypes that will result in new products and expansion of business activities.

In 2009, KONČAR Group's revenues from the sale of products and services amounted to 2,675.1 million kuna. On the domestic market, the Group has sold its products and services in the amount of 1,443.5. In exports, the Group's consolidated profit before tax amounts to 158.4 million kuna. Income profit was 13.3 million kuna, so the actual profit is 145.1 million kuna. Minority inter-

ests received 32.3 million kuna of this, so the Group's net profit comes to 112.8 million kuna.

In 2009, 2,061.5 million kuna worth of new jobs were contracted for. The global economic crisis has influenced the lower level of investment in the energy sector, which resulted in fewer contracts.

Even though business conditions were weighed down by multiple problems (significantly lower investment levels, difficulties in collecting outstanding debts, lower credit activity, et cetera), many important jobs on domestic and foreign markets were contracted for and carried out. A number of objects were exported to the demanding European Union market as well as surrounding and Middle Eastern countries. A prototype of the low-floor electric multiple unit for the Bosnia and Herzegovina Federal Railway was produced. On the domestic market, the contract for production of low-floor trams for the city of Zagreb was continued.

TABLE 2: BASIC BUSINESS INDICATORS (IN 000 HRK)

	2007	2008	2009
Operating revenues	2,715,385	3,053,562	2,795,680
Products and services sales	2,584,854	2,874,571	2,675,138
Material costs			
- Raw materials and consumables, costs of services, costs of goods sold	1,879,627	2,125,810	1,875,946
Personnel costs (total)	426,806	475,876	475,014
- Wages and salaries	239,323	265,599	263,720
- Taxes, social and pension insurance	187,483	210,277	211,294
Pre-tax profit	139,585	146,165	158,377
Profit tax	23,362	16,595	13,264
Group profit	116,223	129,570	145,113
Minority interests	32,326	25,738	32,290
Net profit	83,897	103,832	112,823
Total assets	2,843,387	3,297,340	3,270,754
Total capital and reserves	1,367,687	1,477,074	1,617,663
Current assets	1,759,860	2,181,881	2,094,425
Current liabilities	980,570	1,192,194	933,728
Sales per employee	613	673	651

These business results have been achieved by approximately the same number of employees over the last three years. At the end of 2007 there were 4,217 employees; in 2008, 4,274 employees; at the end of 2009, 4,110 employees worked for KONČAR.

BASIC BUSINESS ACTIVITIES

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

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

- Energy and transport
- Industry
- Trade

The sales share of the Energy and Transport sector expressed in terms of KONČAR's total sales amounts to 83%, 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 product and service 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 conjunction with several Group companies.

MOST IMPORTANT MARKETS

Consolidated earnings from product and service sales amounted to 2,874.6 million kunas.

On the domestic market, sales revenue amounted to 1,586 million kunas (55 %) and export sales to 1,288.6 million kunas (45 % of total sales).

TABLE 3: REVENUES FROM SALES OF PRODUCTS AND SERVICES BY BUSINESS AREAS (IN 000 HRK)

	2007	2008	2009
Business area			
Energy and transport	2,140,194	2,391,103	2,299,612
Trade	271,419	271,221	180,311
Industry	132,211	134,959	93,120
Special activities	79,004	77,288	102,095
Total	2,584,854	2,874,571	2,675,138

Within the sales structure, earnings from sales to HEP (Croatian Power Authority) amount to 26.7 % (actual sales valued at 384.8 million kunas). Goods and services were sold to Zagreb Electric Tram in the amount of 457.3 million kuna, or 31.7 % of total domestic sales. Goods and services worth 249.3 million kunas were sold to industrial and shipbuilding enterprises. Products

valued at 148.9 million were delivered to wholesalers and retailers; to Croatian Railways went products valued at 57.5 million kunas; to civil engineering companies, products in the amount of 72.6 million kunas. The remaining amount of 64.1 million kunas relates to Croatian Motorways, State and Local Administration and public enterprises.

TABLE 4: SALES IN CROATIA (IN 000 HRK)

	2007	2008	2009
ZET (Zagreb Electric Tram)	267,886	457,307	457,281
HEP (Croatian Power Authority)	558,101	470,739	384,826
Industry and shipbuilding	208,750	255,030	249,288
Trade Sector	195,119	200,060	148,945
Civil Engineering Industry	40,910	64,590	72,638
Croatian Railways	69,343	78,000	57,524
Public companies (INA)	13,404	26,914	48,750
State and Local Administration	22,097	27,714	15,423
Croatian Motorways and Croatian Roads	63,037	5,599	8,809
Total	1,438,647	1,585,953	1,443,484

Earnings from the sales of goods and services on foreign markets in 2009 were achieved in the amount of 1,231.7 million kuna. The most significant exports have been to European Union markets, with a value of 591.2 million

kuna; to neighboring countries (Bosnia and Herzegovina, Macedonia, Serbia, and Montenegro) in the amount of 197.1 million; exports to America and Australia valued at 46.6 million; to the Middle East, 147.8 million kunas.

TABLE 5: MOST SIGNIFICANT EXPORT MARKETS OF KONČAR GROUP IN 2009 (IN 000 HRK)

	2007	2008	2009
Countries			
Bosnia and Herzegovina	141,395	178,296	149,019
Czech Republic	53,344	50,493	111,226
United Arab Emirates	25,551	42,415	89,621
India	383	162	87,629
Germany	92,974	114,120	82,837
Slovenia	89,475	105,866	54,483
Netherlands	22,557	32,559	48,812
Finland	30,815	33,639	48,222
Sweden	36,641	55,270	40,759
Saudi Arabia	27,783	20,205	38,885
Cyprus	2,307	4,983	38,803
Austria	35,083	31,508	38,272
Hungary	48,060	40,531	37,942
Poland	7,639	28,498	31,989
Australia	17,141	26,946	28,425
Serbia	106,325	66,697	30,151
Other countries	408,734	456,430	274,579
Total	1,146,207	1,288,618	1,231,654

**PICTURE 1: POWER TRANSFORMER FOR FEWA - UAE**

MOST IMPORTANT AWARDS AND RECOGNITIONS IN 2009

Most important awards and recognitions

Golden Key - Croatian Exporters' Award

KONČAR - Distribution and Special Transformers in the category Big Exporters

The City of Zagreb Award

KONČAR - ELECTRICAL INDUSTRY (together with the Gredelj Rolling Stock Factory) for introduction of five hundred low-floor trams designed and produced as part of the Consortium CROTRAM.

Zlatna kuna

The most successful mid-to-large-sized company in Zagreb, from the Croatian Chamber of Commerce, Zagreb Chamber to the company KONČAR - Instrument Transformers.

Recognition from the Siemens Group as Supplier of the Year in the category of Supply

KONČAR - Metal Structures as the long time successful business partner of Siemens (the first company producer of transformer tanks that received this recognition).

DOP Index (in English: Index of socially responsible business operations)

For the second time in a row, KONČAR - Electrical Engineering Institute received this award presented by the Croatian Chamber of Commerce and the Croatian Business Council for Sustainable Development.

Expression of thanks on the occasion of the 90th anniversary of the Faculty of Chemical Engineering and Technology of the University of Zagreb

KONČAR - Electrical Engineering Institute received public thanks for its successful collaboration in the area of doctoral studies, scientific-research and development projects and professional improvement.

Manager of the Year

The award of the Croatian Association of Managers and Entrepreneurs CROMA in the category of Large Companies was awarded to Ivan Milčić, president of the Management Board of KONČAR - Power Transformers.

International Order of Merit for Invention

Prof. Stjepan Car, PhD was awarded the title of Innovation Knight and Officer for lending the most essential support to the realization of innovation activities and achievements.

Awards and recognitions at various fairs and exhibitions around the world and in Croatia

Grand Prix ARCA

At the "ARCA 2009" International Exhibition of Innovations, New Ideas, Products and Technologies, the team from KONČAR - Electric Vehicles won the great ARCA award for the "Low-floor Electric Train" project.

Special recognition and the crystal sculpture at the Fair of Energetics

KONČAR received the award for the best overall presentation at the 7th International Specialized Fair of Energetics, Electronics and Automation "Energetics" held within the Zagreb International Autumn Fair.

Special award of the Management Agency for Scientific Research, Innovation and Technological Transfers of the Republic of Romania at the INVENTIKA 2009 Fair

The low-floor electric tram, as a complete project with the most innovative technical and technological solutions, was awarded the special, second most important, award of the Fair.

Golden medal at the INVENTIKA 2009 Fair

KONČAR was granted this award for the low-floor tram.



PICTURE 3: AWARD GOLDEN KEY



PICTURE 2: DOP INDEX

2. Governance, commitments and engagement

GOVERNANCE

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

panies. 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: PARENT COMPANY'S MANAGEMENT RIGHTS IN GROUP'S COMPANIES

	in HRK	in HRK	%	%
<i>Parent company and subsidiaries</i>	<i>Total subscribed capital</i>	<i>Parent Company's subscribed capital</i>	<i>Parent Company's management influence</i>	<i>Parent Company's ownership share</i>
Power Plant and Electric Traction Engineering Inc.	2.682.600	2.682.600	100,00	100,00
Generators and Motors Inc.	107.927.700	107.927.700	100,00	100,00
High Voltage Switchgear Inc.	41.201.400	33.363.300	85,19	80,98
Medium Voltage Apparatus Inc.	19.679.700	8.220.000	69,87	41,77
Switchgear Inc.	36.966.000	16.899.000	66,85	45,71
Distribution and Special Transformers Inc.	38.342.400	19.827.600	67,80	51,71
Instrument Transformers Inc.	18.989.100	8.241.600	72,35	43,40
Electronics and Informatics Inc.	37.126.800	27.857.700	75,03	75,03
Metal Structures Inc.	24.645.600	18.486.600	75,01	75,01
Electric Vehicles Inc.	47.026.800	35.288.700	75,04	75,04
Renewable Sources Ltd.	900.000	900.000	100,00	100,00
Engineering for Plant Installation and Commissioning Inc.	11.827.500	4.552.800	76,51	38,49
Small Electrical Machines Inc.	41.641.800	41.641.800	100,00	100,00
Tools Inc.	49.166.400	49.166.400	100,00	100,00
Catering Equipment Inc.	25.447.800	25.447.800	100,00	100,00
Household Appliances Ltd.	127.877.500	127.877.500	100,00	100,00
Low Voltage Switches and Circuit Breakers Ltd.	81.466.900	81.466.900	100,00	100,00
Electrical Engineering Institute Inc.	40.763.520	40.763.520	100,00	100,00
Infrastructure and Services Ltd.	49.891.600	49.891.600	100,00	100,00
KONES AG	2.454.711	1.571.014	77,50	64,00
<i>Associated Companies</i>				
Power Transformers Ltd.	72.764.000	35.654.400	49,00	49,00

MANAGEMENT

The positions of the President and members of the Management Board are appointed and relieved by the Supervisory Board. The term-length of the president and board members mandate is 5 years, after which they can be reappointed. According to the Company Act and the Statutes of KONČAR Electrical Industry Inc., the Management Board is accountable for the 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 2009, KONČAR Electrical Industry Inc. was directed by the Management Board consisting of:

Darinko Bago	Chairman of Management Board
Marina Kralj Miliša	Member of Management Board in Legal Affairs and HR
Jozo Miloloža	Member of Management Board in the Financial Affairs
Davor Mladina	Member of Management Board for Business Area Power Transmission and Distribution, Industry and Trade
Božidar Piller	Member of Management Board in charge of Energy and Transport Business Area until 23 December 2009, when he was relieved of duty due to retirement
Vladimir Plečko	Member of Management Board for Business Area Power Generation, Corporate Development and ICT

SUPERVISORY BOARD

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

The Supervisory Board has 9 members:

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

From December 15, 2009, the Supervisory Board consists of:

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

In 2009, the Supervisory Board decided to establish an Auditing Committee. According to the provisions laid down by the Law of Audition (article 28 of the Law), the Auditing Committee oversees the procedures of financial reporting, the efficiency of the control system, keeps an eye on audits of yearly financial reports, monitors the independence of auditors and gives recommendations to the General Meeting on the selection of the Auditing Committee. The Auditing Committee consists of three members who are also members of the Supervisory Board:

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

KONČAR Electrical Industry Inc. (Parent Company) is the sole owner of the ten dependent companies, while within the ten subsidiaries the proprietary structure is mixed. General Managers or management boards administer the subsidiaries. The Supervisory Board (consisting of three to five members), which represents the owners, supervises the operations of each company. Within the Supervisory Boards, KONČAR Electrical Industry Inc. is represented by members of the Management Board or by representatives appointed by the Management Board. According to the Company Act and the Labor Act, representatives of employees also serve on the supervisory boards of six companies and on the Supervisory Board of KONČAR Electrical Industry Inc.

Members of the Supervisory Board, who are themselves shareholders or representatives of shareholders, give their suggestions by ordinary means within the functioning of the Supervisory Board. The Association of Small Shareholders (founded in 2000), with its 58 small shareholders, also has its representative on the Supervisory Board. In accordance with 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 Company Gazette, a shareholder sends the Company a disputed proposal, and if he expresses the wish to oppose any proposal of the Management and Supervisory Board to win over other shareholders to vote for his proposal at the AGM/EGM. At meetings of its presidency and general body, the Association of Small Shareholders analyzes the achieved business results of KONČAR Electrical Industry Inc. and gives voting instructions to the delegate of the Association at the Annual / Extraordinary General Meeting of KONČAR Electrical Industry Inc.

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

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

- Responsible management,
 - Defining procedures of corporate management based on recognizable adopted international standards as well as
 - Oversight of business management,
- all with a view to establishing high standards of corporate 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.



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

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

The long term goal is to ensure the delivery of quality products and services in keeping with customer and

market expectations, produce products and services in accordance with environmental and health protection demands and ensuring the safety of the end-users of products as well as the employees who produce them.

Policies and goals of the Company are achieved by systematic approaches to quality management, environmental and occupational health, and safety, which are borne out by certificates awarded by accredited independent bodies.

TABLE 7: ISO 9001, 14001 AND OHSAS 18001 CERTIFICATES

	ISO 9001	ISO 14001	OHSAS 18001
KONČAR - Tools			
KONČAR - Distributive and Special Transformers			
KONČAR - Electric Vehicles			
KONČAR - Medium Voltage Apparatuses			
KONČAR - High Voltage Switchgears			
KONČAR - Electronics and Informatics			
KONČAR - Energy and Maintenance			
KONČAR - Generators and Motors			
KONČAR - Electrical Engineering Institute			
KONČAR - Power Plant and Electric Traction Engineering			
KONČAR - Household Appliances			
KONČAR - Small Electrical Machines			
KONČAR - Metal Structures			
KONČAR - Instrument Transformers			
KONČAR - Engineering for Plant Installation and Commissioning			
KONČAR - Low-Voltage Switches and Circuit Breakers			
KONČAR - Switchgear			
KONČAR - Catering Equipment			
KONČAR - Renewable Resources			
KONČAR - Power Transformers			
KONČAR - Electrical Industry			
TOTAL	18	19	4

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 in mind of nurturing broader social interests, 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 Society 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

Consistent 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.



PICTURE 4

PARTAKER ENGAGEMENT

KONČAR's shareholders are an important element of business policies and daily activities of KONČAR. Given the size of the concern, the variety of activities, different operating locations and specific markets with different customers and users, proactive relationships with stakeholders take place in different ways in order to continuously improve at all levels.

KONČAR's products and services determine the approach companies take toward business markets and/or the public sector in Croatia and abroad, and, to a lesser degree, the individual end-consumer market. The Group's companies often act within consortiums organized around particular projects, which may additionally reduce the companies' direct contact with buyers and/or communities.

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

Extensive collaboration with a wide circle of representatives of civil society and individuals constitutes an important element of our activities relating to social responsibility.

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

Web site (www.koncar.hr) represent important means of communication with domestic and international partners, and also with the public at large. 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 2009, there were

90,151 visitors to the site who visited 131,009 pages. 350 e-mails with various questions, suggestions and comments have been received through the web site.

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

1350 issues of KONČAREVAC

The 1350th issue of the company gazette KONČAREVAC was published in 2009. As an ardent chronicle of all activities within KONČAR, the magazine remains a link between employees, as well as others who are in any way connected with the company's activities - business partners, clients, social communities and others.

Since without quality communication it is simply not possible to accomplish key business functions, set goals, make plans, organize people and other necessary resources, choose employees and monitor them in their development, lead and motivate people, create a positive atmosphere and set objective standards for the evaluation of individuals and the company in general, KONČAREVAC is an important link in the information system. The continuity of its publication bears witness to its usefulness amidst all of the changes that KONČAR and its environment have experienced.

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

3. Economic dimension

For many years KONČAR Group has been the leading economic entity in Croatia's production sector - not only due to its size, but also because of its presence on foreign markets, its technological acumen and its multiplicity of effects on other enterprises, partakers and society as a whole.

In complex economic conditions, burdened by the global financial crisis and a serious decline in the amount of economic activity at home and abroad, in 2009, KONČAR Group managed to keep its business at a satisfactory level and its exports at last year's level while simultaneously focusing on its own further development.

Besides its business activities, its financial and business responsibilities towards employees, clients, suppliers, and users of its products and services, KONČAR Group maintains a high awareness of the wider community and sustainable development. Social responsibility in KONČAR is a part of daily work processes in all business sectors. High levels of quality are achieved in accordance with international standards and are

important in all segments of production and with all products. Constant care for its employees, social security and employees' professional development are part of KONČAR'S year-round tradition. Additionally, KONČAR is very keen on collaborating with the education of young people.

Conducting a socially responsible business helps KONČAR build its reputation and motivate employees to work toward the company's long-term business development.

The ultimate goal and commitment is to do business by the rules of the profession and internationally recognized standards as well as to ensure its position on domestic and international markets.

In the near future, KONČAR Group plans to achieve stable financial performance and long-term positive financial results while continually increasing the number and quality of contracts, shares of exports in sales revenue, developing new products and services, rejuvenating the workforce and continuously training personnel.

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 2009 amounted to 2.7 billion kuna, which is 6.9% less than in 2008.

Raw material, materials and service costs in 2009 were down as a result of the decline in production.

The value of paid gross salaries in 2009 amounted to 475 million kuna, representing a decrease of 0.2% compared to the year 2008.

Expenses for interest paid for received loans in 2009 amounted to 18.3 million kuna, an increase of 0.3 mil-

lion kuna or 1.9% more than in the year 2008. In accordance with the decisions of the Supervisory Board and Annual General Meeting, the Parent Company's profit in 2009 has been allocated to legal, statutory and other reserves as well as retained earnings.

All companies within the KONČAR Group operate in the Republic of Croatia, thus the total amount of paid profit tax refers to taxes paid in Croatia. The amount of taxes paid in 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 other companies had carried forward tax losses from earlier years and thus were not obliged to pay profit tax.

TABLE 8: GENERATED AND DISTRIBUTED ECONOMIC VALUE

	2007	2008	2009
Revenues from sales of products and services (in 000 HRK)	2,584,854	2,874,571	2,675,138
Material costs - Raw materials and consumables, costs of services, costs of goods sold (in 000 HRK)	1,879,627	2,125,810	1,875,946
Gross salaries (in 000 HRK)	426,806	475,876	475,014
Interest payment (in 000 HRK)	15,217	17,988	18,337
Dividends paid (in 000 HRK)	-	-	-
Profit tax (in 000 HRK)	23,362	16,596	13,264
Donations and sponsorships (in HRK)	1,384,432	1,689,000	1,100,599

DONATIONS AND INVESTMENTS IN THE COMMUNITY

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

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

Encouragement of Scientific and Educational Activities

KONČAR takes a special interest in stimulating scientific-educational activities for both regular school 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.

Annual Awards to Students of the Polytechnic College

Based on KONČAR's traditional motto "The best investment is in human potential", annual awards are given to the most successful students from the Polytechnic College in Zagreb, departments of Electrical Engineering and Informatics. Again this year, on KONČAR Day, January 24, "KONČAR Awards" were

presented to the best students of the Polytechnic College in Zagreb, and donations were made to the Children's Hospital Zagreb.

The "KONČAR Award" was founded in April 2003 and is based on KONČAR's traditional motto "The best investment is in human potential". It is awarded to the most successful students from the Polytechnic College in Zagreb, departments of Electrical Engineering and Informatics.

Winners of diplomas and financial awards for the academic year 2008/2009 from the department of Electrical Engineering are Igor Matijević, Damir Megla and Rade Buinac, and from the Informatics department Ivan Čurić, Zoran Tintor, Hrvoje Kusulja, Goran Forgač, Matija Paunović and Franjo Stipanović.

**PICTURE 5:** WINNERS OF KONČAR'S AWARD

KONČAR Award for Best Doctoral Thesis

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

The 2009 award was given to Dr. Mate Jelavić for his

doctoral thesis "Wind turbine control to reduce the dynamic loads of the structure", and Dr. Milutin Pavlica for his doctoral thesis "The influence of magnetic stray fields in the frontal region of hydro-generators on limiting work in the sub-excited state". KONČAR's Management Board President Darinko Bago presented the awards to the winners. Dr. Jelavić from KONČAR - Electrical Engineering Institute was also awarded the "Josip Lončar" Silver Plaque for an especially successful doctoral thesis in the 2008/2009 academic year.

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 throughout year to stimulate activities, which promote 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 since then it has had 296 registered members, of which 185 are currently active. Its main 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.

Some fifty members regularly visit the Club, which is open twice a week. At the Club, members have an abundant library, a computer, a TV and various social games at their disposal. All activities of the Club are performed through the work of six boards: for culture, recreation and sports, technical activity, social welfare, information and oversight.

During 2008, there was a series of lectures and cultural evenings, and the members organized visits to exhibitions and theatre plays as well as field trips. The cultural activities of Club members are especially interesting, as are members' lectures about their travels to faraway countries.

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. Some members of the Club are over eighty years old. In their honor, the Club organized a special gathering titled "80+".



PICTURE 6: RETIRED PERSONS

War Veterans and Their Families

The traditional gathering of KONČAR employees who were drafted in 1991 into a unit for the protection of facilities and equipment was held on December 3, 2008. In addition to the 18th anniversary of the unit's formation, the 11th anniversary of the erection of a memorial to honor twenty-two employees who were killed in the Croatian War of Independence was observed. On that occasion, gratitude was expressed and recognition given to all those who joined in the defense of KONČAR and the entire country.

"For the Youth's Smile" Association

"For the Youth's Smile" association together with the "Association of Volunteer War Veterans - Industrial Sector" from Osijek organized a humanitarian event titled "For the Children's Smile", which was, among others, financially supported by KONČAR. The proceeds were given as Easter presents for children who are treated at the department of Children's Surgery at the Osijek Hospital, children with financial difficulties and children of the Associations' members. Some

of the proceeds also paid for the completion of the project documentation for the construction of the multimedia center "For the Children's Smile", which is to be built in Osijek.

In addition, KONČAR has also financially aided another humanitarian event by the same "For the Youth's Smile" association, the proceeds of which went to Osijek's "Kosjenka" kindergarten that cares for disabled children.

Center for Innovative Education and Civil Activism

In this time of growing awareness about the need for involving the greater community in the development of cities and municipalities of special state concern, KONČAR has donated financial aid to the GPECT International Summer School project in Vukovar. The GPECT program has been successfully carried out in Croatia since 2004. Its main goal is to educate the public on methods of active participation in their communities. PushLAB, Center for Innovative Education and Civil Activism, organized the summer school to create projects that will enrich life in Vukovar.



PICTURE 7: INTERNATIONAL SUMMER SCHOOL IN VUKOVAR

SPORTS ACTIVITIES

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

Sports Encounters of Metal Workers' Trade Union of Croatia

The Metal Workers' Trade Union of Croatia's member gathering and sporting competition was first organized in 2005. Every year, new branches of the Trade Union join the event. In the first years, there were 170 competitors, in 2008 there were 450, and in 2009 648. KONČAR was represented by union members from the Group's six companies and they competed in bowling, darts, table tennis, bocci, belot, tug-of-war and indoor soccer - in other words, everything except the card game briscola. The KONČAR team left the competition richer by two golds and one silver medal.

"KONČAR Shooting Club Zagreb 1786"

"KONČAR Shooting Society - Zagreb 1786" was established in 1948 as the successor of the First Civic Shooting Society registered in 1786. Since 1993, the society has proudly borne the name of KONČAR. This year the

15th anniversary of the successful collaboration between KONČAR and the Club was celebrated.

In 2009, there were two European shooting championships. Two KONČAR Club members participated in the most important competitions, held at the Mediterranean Games in Pescara, Italy.

At the Croatian championships, the Club won six first, five second and four third prizes in the individual category and in team competition, they won golden medals in five, silver in three and bronze in one category.

In 2009, the sportsmen from this Club, of which 131 were cadets, made 1109 appearances at shooting competitions. Today, "KONČAR Zagreb 1786" is the most awarded shooting club in Croatia.

"Sesvete" Handball Club

In 2009, the "Sesvete" handball club had more than 200 active members and 5 teams that competed at the national level. For younger players, there was the traditional Christmas tournament in which 24 Croatian teams took part. The Club also participated at the Easter tournament in Sinj and the St. Nicholas Day tournament in Varaždin.

Besides training teams that compete, the Club also works with six handball schools in Sesvete.



PICTURE 8: KONČAR SHOOTING CLUB ZAGREB 1786



PICTURE 9: SUPPORT OF COLLECTIVE SPORTS

SUPPORT OF CULTURAL ACTIVITIES

During 2009, as part of KONČAR's support for cultural activities, donations were given to young painters, writers, actors and many associations and groups in order to help realize their activities.

Zagreb Soloists

During its 55 years, the Zagreb Soloists' ensemble has left an undeniable mark on Croatian cultural heritage. It was founded within Radio Television Zagreb in 1953. Today, it continues to be present on numerous prestigious world stages. As of now, they have held more than 3000 concerts on all continents and are a frequent guest at famous international music festivals. KONČAR has supported the ensemble in the past and it financed the entire 2009 season.

Plays of the Prozor Theatre

For many years, KONČAR has financially supported the productions of the Prozor Theatre. This group of several famous Croatian actors previously worked under the name Lectirum. Every year, thirty thousand people attend their plays. Since they are a traveling group, they have performed on stages throughout the country and abroad.



PICTURE 10: ENSEMBLE ZAGREB SOLOISTS

International Cultural Center in Grožnjan

In 2009, the International Cultural Center of Croatian Musical Youth in Grožnjan celebrated its 40th birthday. Over the last forty years, more than twenty thousand young musicians and their mentors have participated in the Center's activities. Thank-you notes were awarded to deserving individuals and institutions that have helped develop the Grožnjan Center. KONČAR was among their recipients, since for many years now it has included this institution in its social responsibility program, giving financial aid to this important cultural project that fosters creativity in children and youth.

This year the monograph "International Cultural Center of Croatian Musical Youth in Grožnjan 1969 - 2009", by the author Marijana Pintar, whose publication was also partly financed by KONČAR, was presented at the celebration.



PICTURE 11: INTERNATIONAL CULTURAL CENTER OF CROATIAN MUSICAL YOUTH IN GROŽNJAN

Financial Consequences and Other Risks connected to Climate Change

Issues of sustainability connected with energy sources, production, transmission and distribution of electricity, as well as climate change, will be certainly reflected in the future operations of KONČAR. The financial implications of climate change have not yet been fully evaluated. Since KONČAR is especially engaged in the energy sector, the challenges particularly involve permanent changes in generation technologies, the transmission and distribution of energy. 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.

Financial Assistance from the Government

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

The salaries of employees in Croatia and other countries where KONČAR operates are competitive with and in many cases often larger than local ones (especially in developing countries). This refers to those employed in agency offices or temporarily employed at construction sites to which KONČAR delivers equipment. At the same time, all applicable legal regulations are respected in each individual country and market. This refers to those employed in agency offices or temporarily employed at construction sites to which KONČAR delivers

equipment. The basic salary is defined according to the position i.e it is identical for all sexes, ages and similar.

Policy, Practice and Domestic Suppliers' Share of Consumption of Products and Services in Major Areas of Operation

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

Even though domestic suppliers are preferred, under the condition that they satisfy the quality and competitiveness conditions, the share of domestic suppliers and labor force is relatively small and can be increased only through a stronger presence on key export markets, especially in neighboring countries that are significantly represented in export.

Indirect Economic Impacts

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

Projects in the fields of electric power supply (plants for generation, transmission and distribution of electricity) and public transport (railway and tram) raise the average quality of life and have a broad significance to the community as a whole.



PICTURE 12: LOW-FLOOR TRAMCAR

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 and permanently improving upon results attained in the environmental management domain, 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 infrastructure installations at different locations and actualizes synergistic effects.

Features of the objectives of the environmental aspect of operations are:

- **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 pro-

tection 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.

The products KONČAR supplies meet 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.

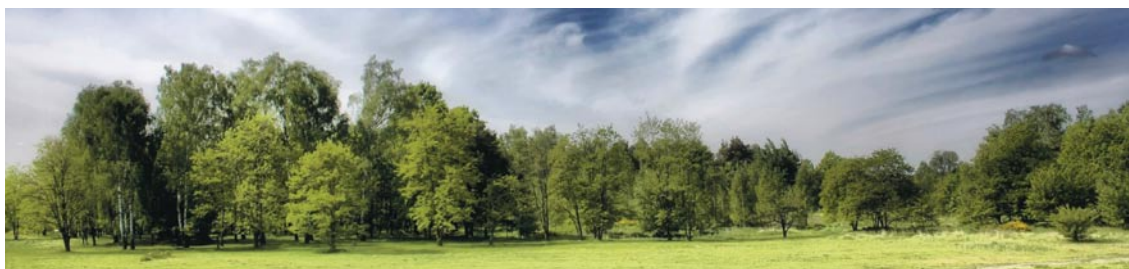
- **Impact of Products and Services on the Environment**

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 impact 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 goods 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 environmental protection laws or regulations. An integral part of the company's business policy is vigilant emphasis on and compliance with environmental protection regulations.



PICTURE 13

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 overall 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 respect or their rights at the time of employment and during the performance of their work duties, and with special consideration for 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 2009, there were 4110 employees working in KONČAR Group. Of the total number of

employees, about 5 % of contracts (annual average) are for temporary positions, while all others are employed permanently. In 2009, there was a decrease in the total number of employees due to the global economic crisis.

Among its total number of employees, in 2009 KONČAR employed 14 doctors of science, 63 employees with master's degrees, 773 with a university degree and 428 who completed two year associate's degrees following secondary school. The average age of employees in 2009 was 44.

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

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

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



PICTURE 14: TECHNICAL OFFICE IN KONČAR - ELECTRIC VEHICLES

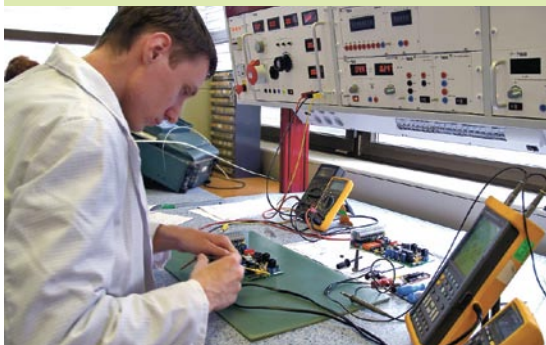
Collective Agreements and Employee Rights

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 April 2009.

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.

During 2009, a survey on the organizational atmosphere was begun in all the Group's companies. The goal was to establish the state of the atmosphere in all KONČAR's companies in order to get a complete picture of it within the Group. The atmosphere directly or indirectly influences the efficiency and productivity of the organization, its inventiveness and work satisfaction. It influences processes such as communication, problem solving, decision-making, conflict management, training and motivation.



PICTURE 15: KONČAR - ELECTRONICS AND INFORMATICS

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.



PICTURE 16: WINDTURBINE UNDER CONSTRUCTION

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

	2007	2008	2009
Number of Employees			
Postgraduate studies	86	88	77
Foreign languages	232	240	238
Computer skills	339	273	253
Seminars and lectures	1529	1240	1120

Life-long Learning Programs

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

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

In 2009, there were two seminars organized for 69 trainees from 10 companies. Besides providing elementary information on the organization, entire production program, references, market activities, promotion, social responsibility and other activities at KONČAR, trainees visited factories at several locations, as well as objects worked on by KONČAR.

Learning and improvement of foreign language skills is organized according to job performance needs, so besides learning the most common foreign languages, some employees learn languages required for particular markets and for the execution of duties in such countries.

Learning and improvement of computer skills are primarily carried out in KONČAR via standardized or specially prepared training methods and courses as needed. For specialized knowledge, explicitly focused seminars are attended outside of KONČAR.

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

In addition, cooperation with universities and colleges is fostered, especially with the College of Electrical Engineering and Computing, the Polytechnic College, the College of Economics, the College of Law, and others. In addition to participating in the educational process, KONČAR's employees are also recruited as lecturers on various subjects at undergraduate, specialist and postgraduate classes. KONČAR also participates in presentations of its companies to students of particular colleges.



PICTURE 17: SEMINAR FOR TRAINEES

Doctoral Thesis

During 2009, new doctoral theses were defended at the Faculty of Electrical Engineering and Computing in Zagreb, and thus KONČAR got five more doctors of science who wrote about topics that are in close connection with their work.

New doctors of science in 2009 were:

Mr. Branimir Ćucić from KONČAR - Distributive and Special Transformers defended his doctoral thesis "Magnetic field in the vicinity of distribution transformers" on May 29, 2009 at the Faculty of Electrical Engineering and Computing in Zagreb.

Javor Škare from KONČAR - Electronics and Informatics defended his doctoral thesis "The dynamics of the DC power supply in power plants" on June 10, 2009 at the Faculty of Electrical Engineering and Computing in Zagreb.

Krešimir Vrdoljak from KONČAR - Power Plant and Electric Traction Engineering defended his doctoral thesis "Application of sliding mode control in the secondary regulation of frequency and active power exchange power system" on July 10, 2009.

Marko Bago from KONČAR - Electrical Engineering Institute defended his doctoral thesis "Analysis and synthesis of embedded collecting communication systems using colored Petri nets" on July 9, 2009.

Mate Jelavić from KONČAR - Electrical Engineering Institute, defended his doctoral thesis "Wind turbine control to reduce the dynamic loads of the structure" on May 29, 2009 at the Faculty of Electrical Engineering and Computing.

Center for Excellence of Transformers - Joint project of KONČAR and Faculty of Electrical Engineering and Computing

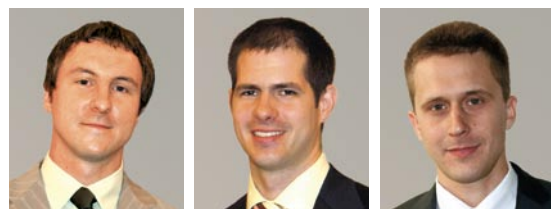
As a continuation of joint activities on economic and university projects, KONČAR - ELECTRICAL INDUS-

TRY together with KONČAR - Power Transformers, KONČAR - Distributive and Special Transformers, KONČAR - Instrument Transformers and KONČAR - Electrical Engineering Institute, and in collaboration with the College of Electrical Engineering and Computing from Zagreb, has initiated the establishment of the Center for Excellence of Transformers. The Center consolidates and coordinates the knowledge necessary for development, production and placement of transformers to the international market.

The scientific Center for Excellence of Transformers acts in three main areas:

- Scientific program "Transformers and the Environment" that consists of five science projects co-financed by the Ministry of Science, Education and Sports of the Republic of Croatia,
- Postgraduate specialist studies in English, attended by the second generation of students from five states, and
- International colloquium "Research and Management of Transformers"

PICTURE 18:
NEW DOCTORS
OF SCIENCE IN
2009



Postgraduate Specialist Course of Transformers

The main reason for establishing of this course is to educate professionals on the production and use of transformers who will be able to improve the research, development, design, production and maintenance of transformers through use of the latest discoveries in diverse areas concerning transformers. This is the first specialist course in the area of transformers in Europe. Its character immediately caught the interest of students outside of Croatia and so among the students of the second generation there are people from five foreign countries. The course lasts five semesters and is available in both English and Croatian. Upon completing the course, students earn the title "Specialist of Electrical Engineering - Transformers"

Education for Young Managers

Especially for the education of working and potential production managers in all companies within the Group, a special program was organized for young managers.

The educational program, which began in 2008 and continued in 2009, was held in English and lasted 21 days. It was divided into seven modules, each lasting three days, and covered 20 topics that were taught by 14 international and 2 domestic professors. Topics included the essentials of project management, pro-



PICTURE 19: EDUCATION OF YOUNG MANAGERS

duction organization, quality and supply systems, team building and management, communication and conflict management, ideas of corporate culture and its significance, change management and social aspects of such projects.

The attendants of the course were young engineers from 12 KONČAR Companies, ranging from production directors and managers, quality control managers, project managers, development, project and construction teams, supply managers to technologists and designers.

Training in the Area of Standardized Management Systems

The joint program of training in the area of standardized management systems and other similar topics was determined at the beginning of 2009 based on the express need for training 96 employees from KONČAR's 15 Companies.

The seminars and courses were held from March to June and were attended by 84 employees from 14 Companies.

Education for Arbitrators

Amendments to KONČAR's Collective Agreement from 2008 introduced obligatory arbitration in individual labor disputes as an alternative way to solve disputes. An arbitrator, whose main task is to find a solution for a dispute that might fit both sides' interests, does the arbitration. So that the arbitration procedures could be more successful, in mid-July there was a workshop for arbitrators that lasted 40 hours i.e. for several days. This basic training course for arbitrators was attended by 13 employees.

Seminar about Public Tenders

Public tenders are extremely important for the providers, as well as for the supplier of certain goods – most commonly investment equipment with high values.

A two day seminar, specifically adapted to KONČAR's needs, was attended by employees who usually work in this area, in total 41 attendees from 16 Companies.

Workshop on Internal Communication

Communication is a complex process, especially when it concerns internal communication. In large corporations, this practice is constantly revised by expert teams. In KONČAR, 24 representatives from 15 Companies gathered at this workshop to work on the topic.

Starting from the idea that “information is valid only if it is available”, which was the main message of the workshop, there was a discussion about communication channels and tools, implementation of communication processes and reasons for possible misunderstandings in communication. Special attention was given to the increasingly more important role of business intelligence in the relationship between internal and external communication.

Employees’ Free Time and Recreation

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

KONČAR’s 9th Indoor Soccer Championship tournament 2009

The biggest social and sporting event of the year was



PICTURE 20: WORKSHOP ON INTERNAL COMMUNICATION

the indoor soccer tournament. In the senior category, those who had competed for the ninth time, there were 19 teams competing. In the category of veterans, who had gathered for the fourth time, there were 11 teams competing. The tournament had more than 300 participants, with 67 matches played.

Tennis Tournament “KONČAR 2009”

The 8th open tennis tournament for mixed couples was held in 2009 under KONČAR’s sponsorship and organized by the Metal Workers Union Coordination of Croatia.

After the qualifications in matches of five games, four groups consisting of eight female and male players made it to the finals. Unlike the introductory division, in the finals the matches had seven games and resulted in the top two athletes from each of the four groups entering the champion, grand master, master and Olympic groups. 36 players from KONČAR participated in the tournament.

Human Rights

In 2009, as in previous years, no discrimination cases based on gender, race, age, national affiliation, political or religious convictions or other applicable criteria were noted in KONČAR. In HR management and the adoption of other relevant business decisions, principles of equal rights and standardized criteria are consistently respected.



PICTURE 21: INDOOR SOCCER TOURNAMENT

Freedom of Association and Collective Bargaining

All companies within the Group embrace freedom of association and collective bargaining throughout their business activities. No exceptions to this rule have been noted. This applies also to business activities outside of Croatia.

Child, Compulsory and Forced work

In its operations, KONČAR respects positive legal regulations that prohibit child labor, and also respects the Constitution and positive legal directives that prohibit forced or compulsory labor.

Community

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

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

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

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

Corruption

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

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

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

Public Policy

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

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

Anti-Competitive Behavior

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

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

Product Responsibility

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

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

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

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

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

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

Consistent with the Code of Ethics in business operations, products and services must be of confirmed quality and performance and be safe and acceptable to health during their intended period of use.

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



PICTURE 22: SHPP STEINSVIK, NORWAY

Information and Labels on Products and Services

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

Customer Satisfaction

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

cedures 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.



PICTURE 23: KONČAR'S EXHIBIT AREA AT A FAIR

6. Overview of GRI3 indicators

Profile	Description	Location in text
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.	40
4.	GOVERNANCE, COMMITMENTS AND ENGAGEMENT	
	4.1., 4.4., 4.8., 4.12., 4.13., 4.14., 4.15., 4.16., 4.17.	18 - 22

TABLE 10: GRI3 INDICATOR

GRI3 INDICATOR		Location in text
ECONOMIC PERFORMANCE INDICATORS		
Aspect: Economic Performance	EC1, EC2, EC4	23, 29
Aspect: Market Presence	EC5, EC6	29
Aspect: Indirect Economic Impacts	EC8	29
ENVIRONMENTAL PERFORMANCE INDICATORS		
Aspect: Energy	EN6	30
Aspect: Biodiversity	EN11, EN12, EN14	30
Aspect: Products and Services	EN26	30
LABOR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS		
Aspect: Employment	LA1, LA3	31
Aspect: Labor-Management Relations	LA4, LA5	32
Aspect: Occupational Health and Safety	LA7, LA8	32
Aspect: Training and Education	LA11	33
HUMAN RIGHTS PERFORMANCE INDICATORS		
Aspect: Nondiscrimination	HR4	36
Aspect: Freedom of Association and Collective Bargaining	HR5	37
Aspect: Child Labor	HR6	37
Aspect: Forced and Compulsory Labor	HR7	37
SOCIETY PERFORMANCE INDICATORS		
Aspect: Community	SO1	37
Aspect: Corruption	SO4	37
Aspect: Public Policy	SO5, SO6	37
Aspect: Anti-Competitive Behavior	SO7	38
Aspect: Compliance	SO8	38
PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS		
Aspect: Product and Service Labeling	PR3, PR5	39
Aspect: Marketing Communication	PR6	39

TABLE 11: GRI3 INDICATOR

IV. GC and GRI3 comparative table



AREAS OF SOCIAL VALUES	GC PRINCIPLES	GRI3 INDICATORS
HUMAN RIGHTS	1. PRINCIPLE: Businesses should support and respect the protection of internationally proclaimed human rights.	EC5, LA4, LA8, HR4, HR5, HR6, HR7, S05
	2. PRINCIPLE: Businesses should make sure they are not complicit in human rights abuses.	HR4, HR5, HR6, HR7, S05
LABOR RIGHTS	3. PRINCIPLE: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA4, LA5, HR5, S05
	4. PRINCIPLE: Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7, S05
	5. PRINCIPLE: Businesses should uphold the effective abolition of child labor.	HR6, S05
	6. PRINCIPLE: Businesses should uphold the elimination of discrimination in respect of employment and occupation.	HR4, S01, S05
ENVIRONMENT	7. PRINCIPLE: Businesses should support a precautionary approach to environmental challenges.	EC2, S05, EN27
	8. PRINCIPLE: Businesses should undertake initiatives to promote greater environmental responsibility.	EN6, EN11, EN12, EN26, S05, PR3
	9. PRINCIPLE: Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN6, EN14, EN26, S05, PR5
ELIMINATION OF CORRUPTION	10. PRINCIPLE: Businesses should work against corruption in all its forms, including extortion and bribery.	S04, S05, S06, S07, S08

TABLE 12: GC AND GRI3 COMPARATIVE TABLE

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