

KONČAR

Corporate Social Responsibility
Report 2016



tradition.
knowledge.
responsibility.



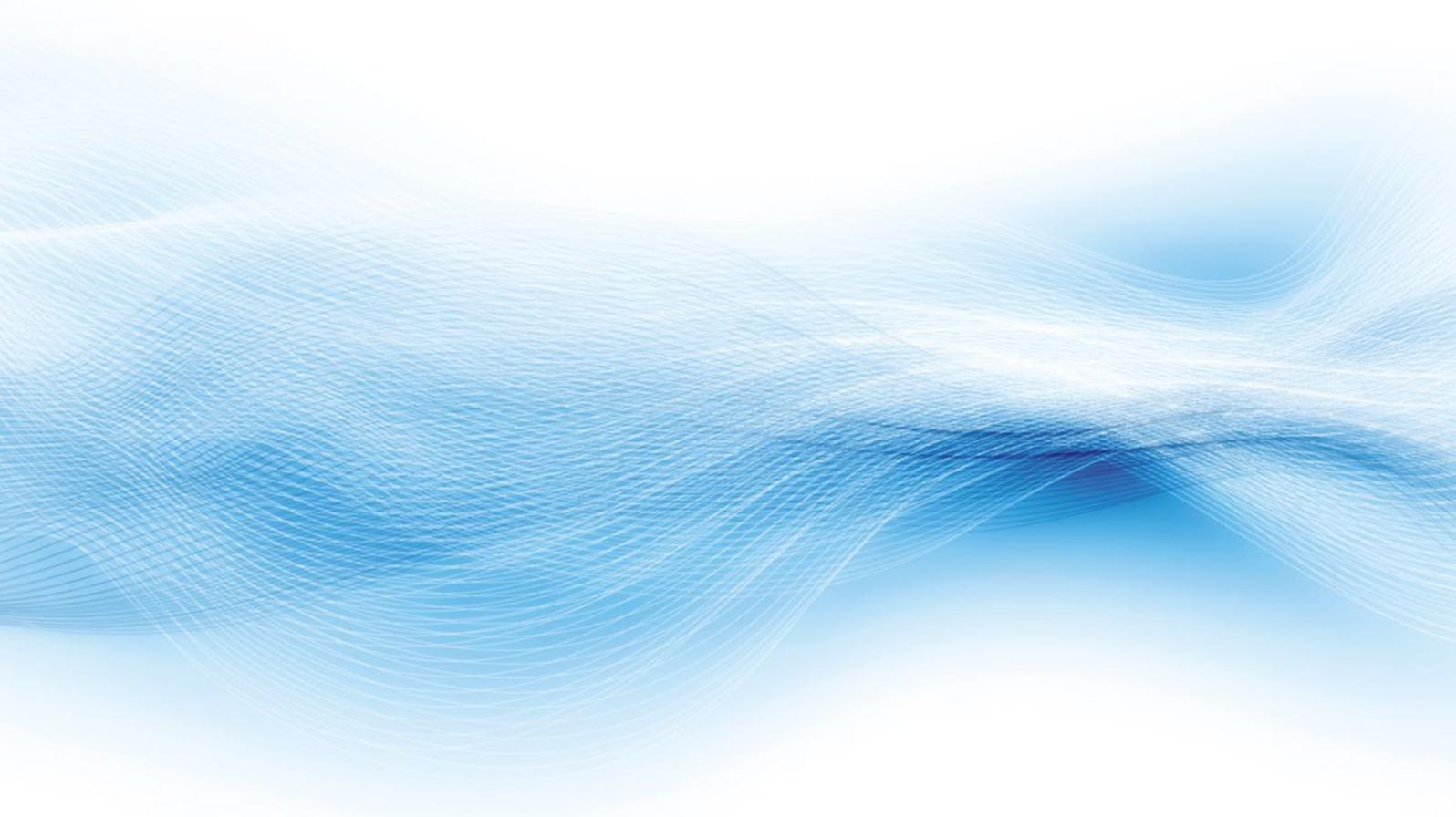
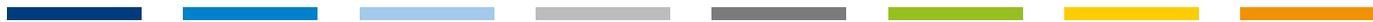
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Abbreviations

used in the Report

Group	KONČAR - Electrical Industry Inc. and dependent companies
Parent	KONČAR - Electrical Industry Inc.
GRI	Global Reporting Initiative
G4	Fourth generation of Global Reporting Initiative Sustainability Reporting Guidelines
UN GC	United Nation Global Compact
HRK	Croatian currency Kuna



KONČAR Group

I. General Standard Disclosures





Dear readers,

The 2016 business results demonstrate a continuation of stability in challenging macroeconomic conditions faced by KONČAR companies in most markets. Consolidated net profit at the end of the year was HRK 173.8 million, an increase of 15.6 percent compared to the previous year.



FOREWORD BY
THE CHAIRMAN
OF THE
MANAGEMENT
BOARD

G4-1

Due to adequate activities and measures, despite the decrease of planned income on the domestic market (delivery of low-floor Multiple Units for HŽ Passenger Transport), KONČAR Group increased its income from sales of products and services on export markets by 7.7 percent.

Apart from the dynamics of day-to-day business, the year 2016 was also marked by major changes in the ownership structure, as shown in more detail in the Report. During 2016, the Management Board, with the consent of the Supervisory Board, decided to conduct a business analysis with the aim of increasing the synergy effects of KONČAR Group and establishing measures for the rationalization and the optimization of operations and the improvement of the Group's market position.

In conducting all these activities, the responsibility as an integral part of business processes across the stages, was always taken into account. Responsibility towards the environment, our employees and the community where we work are the three pillars of corporate social responsibility that has traditionally been incorporated into KONČAR's everyday business.

The successful cooperation with numerous scientific and educational institutions continued in 2016, which enabled identification, definition and implementation of a number of projects, encouraging the collaboration between the scientific and economic sectors.

A number of our activities was aimed at improving the quality of work. As a responsible employer, we consider our employees the basis of success. Recruiting young and skilled people as well as continuously educating and training all others have contributed to good business results.

KONČAR manufactures equipment that is installed in the environment and used in urban and regional transport. Therefore, an essential element of our business is the responsibility for the product, its safety and quality. Compliance with the highest world standards is confirmed not only through the certificates, but also in the satisfaction of customers and users of our products and services. In their business activities many of our companies have integrated management systems in accordance with the requirements of the international ISO 9001 for quality management, ISO 14001 for environmental management, OHSAS 18001 for occupational health and safety assessment and ISO 27001 information security management standards for years.

As KONČAR follows the latest trends in this segment as well, in 2016 several KONČAR companies completed the transition to new quality and environmental management systems issued in 2015, while others are launching activities which will lead up to new standards.

Behind us is a decade of reporting on social responsibility. The eleventh CSR Report is in front of you, bringing you detailed information about 2016 activities. The Report is prepared according to the UN Global Compact Principles and the Global Reporting Initiative Sustainability Reporting Guidelines. This year's Report is also aligned with the GRI G4, following the development of reporting and routing according to GRI Standards.

In conducting all activities, the responsibility as an integral part of business processes across the stages, was always taken into account.

Respectfully,
Darinko Bago
Chairman of the Management Board

**KEY IMPACTS,
RISKS AND
OPPORTUNITIES**

G4-2

The Group is exposed to various market and financial operating conditions. The business environment risk results from political, economic and social conditions existing in the markets of companies' operations.

All Group companies regularly monitor and manage their balance sheets, liquidity and capital adequacy as well as set of measures focused on prevention or elimination of illiquidity causes. Also, they take measures focused on companies' sufficient long-term funding sources in view of the scope and type of their business activity and regularly monitor the capital adequacy performance. The Group manages the risks that might impact its business operations by means of monitoring business processes and internal risk reports, identifying and analysing risk exposure based on its degree and significance.

• Market Risk

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

KONČAR annually exports to seventy countries on all continents, resulting in increased market risks caused by various influences. First of all, it refers to global political relations, internal instability, armed conflicts and riots, and all the impacts that may arise as a result of such events. Apart from geopolitical disturbances, national, regional or global economics can also have an important impact on investment cycles. Market regulation is particularly present in the field of energy and transport, purchases being of higher value and of strategic importance, so the economic policy of certain countries often depends on the beginning or continuation of major projects. The regulation of market relations sometimes changes during the execution of the contract, which may further complicate the delivery, installation and payment for equipment.

• Procurement Risk

Raw materials and materials that are most used in the production process such as copper, tin, oil, wire and steel are subject to price changes on the world market thus affecting the final price of the product. In 2016 there was a significant drop in the price of transformer sheet (about 25 percent) and the growth of price of copper (about 20 percent). The Group companies are protected against these risks in many ways, primarily by contracting annual or perennial quantities and prices, and by incorporating these risks into final product prices with longer delivery deadlines.

• Technological and Development Risks

KONČAR products are based on our own research and development in accordance with customer requirements and market needs. Permanent investment in new products, the application of modern technologies and compliance with the requirements of the technical standards are the usual part of the business activities that are approached with the utmost care. All these activities, with the investment and application of modern manufacturing technologies, high quality materials and expert knowledge, enable high quality products, customer satisfaction and reduced risk of lagging behind competition.



• Human Resources Risks

Although there is a significant outflow of experts into other countries, KONČAR does not have such occurrences on an enlarged scale. By investing in lifelong workplace education, co-operation with educational institutions and employee incentives, human resources risks do not affect the stability of the business.

• Capital Risk Management

KONČAR manages its capital in accordance with changes in economic conditions in the market, ensuring continuous and stable operations and enabling the payment of dividends to shareholders. In accordance with the laws of the Republic of Croatia, the Group companies shall make decisions on the management of its own capital, taking all stakeholders into account.

• Currency Risk

Due to operations in various markets, currency risk is constantly present in business, primarily through exchange rate differences and changes in the monetary systems of the countries to which the products are delivered. There are several activities to protect against currency risks in companies, primarily by continuous monitoring cash flow, contracting sales and procurement in the same currency where possible, adjusting the cash flow rate and other measures both in the company and in co-operation with banks and financial institutions.

• Interest Rate Risk

Due to continuous operations, production with longer delivery times, investments in the modernization of production and business processes, the Group borrows under the most favourable conditions. In their business and borrowing, they are exposed to interest rate risk, especially when part of the loan is agreed at variable interest rate, so various methods are used to reduce or avoid such risks in accordance with financial market conditions.

• Credit Risk

In terms of the credit relations of the company, the data of the competent institutions and opinions collected from rating agencies, the Croatian Chamber of Economy, publicly disclosed information on companies' financial status and other sources are used to rate major customers. The impact of credit risk on the Group, as well as the changes in partner's credit rating, is being constantly monitored. In principle, contracts are concluded with creditworthy counterparties when appropriate payment insurance instruments have been obtained.

• Liquidity Risk

The Group manages liquidity risk by constantly monitoring the estimated cash flow, comparing and adjusting it to actual income and expenses. There was no significant exposure of the Group to liquidity risk.

More detailed information on key impacts, risks and opportunities are available in the 2016 Business Report, available on www.koncar.com/Investors (Chapter 8, "Risk Exposure").

Organizational Profile

NAME OF ORGANIZATION

G4-3

Corporate Social Responsibility Report was prepared by KONČAR Group consisting of KONČAR - Electrical Industry Inc. (the parent), 17 dependent companies and one associated company. Companies within the Group operate under the KONČAR name by adding its own (company name).

BUSINESS AREAS

G4-4

Implementation Areas of KONČAR Group:

- power generation
- power transmission and distribution
- electric traction
- other

Production Program of KONČAR Group includes:

- electric power plants
- rotating machines
- transformers
- switchgear
- electric vehicles and traction equipment
- information and communication technology

HEADQUARTERS

G4-5

Fallerovo šetalište 22,
10 000 Zagreb

REPRESENTATIVE OFFICES

G4-6

Apart from doing business domestically, KONČAR Group also operates abroad through its three representative offices: Moscow (Russian Federation), Mostar (Bosnia and Herzegovina) and Belgrade (Serbia). The representative office in Moscow ceased operations in May 2016.

NATURE OF OWNERSHIP AND LEGAL FORM

G4-7

KONČAR - Electrical Industry is a joint-stock company. Its shares have been quoted in the Official Market of the Zagreb Stock Exchange. The shares are recognisable under their KOEI-R-A ticker. In terms with positive regulations, the Company ensures a regular access to information regarding its operations and activities as well as facts and circumstances which might affect the price of shares (price-sensitive information).

The company's shareholders' equity amounts to HRK 1,028,895,930.00 and comprises a total of 2,572,119 ordinary shares with a par value of HRK 470.00 each.

The Company applies the same conditions to all its shareholders and treats them equally regardless of the number of shares in their possession, 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.

The lowest shares of KONČAR - Electrical Industry share was in January (HRK 613.21) and the highest share price was achieved in October 2016 (HRK 701.99). At the end of 2016 the average price of the share was HRK 690.00. The total turnover achieved through the trading of shares amounted to HRK 442.2 million, which is significantly higher than the turnover realized in 2015 (HRK 68.2 million). The volume of shares traded was 650.107 shares (22 percent more than 2015).



The higher turnover was achieved in early June when the Mandatory Pension Funds of the Republic of Croatia purchased 526,926 shares worth HRK 360 million from the Restructuring and Sale Center (more detailed in G4 - 13).

In 2016, KONČAR - Electrical Industry continued Market Making Agreement with InterCapital Securities Ltd. signed in October 2015. Under this contract, the company InterCapital Securities Ltd. undertook the obligation of performing market making activities for the shares of KONČAR - Electrical Industry, recognisable under their KOEI-R-A ticker, ISIN: HRKOEIRA0009, and quoted in the Official Market of the Zagreb Stock Exchange.

In 2016, there were trades with ordinary and preference shares of KONČAR - Distribution and Special Transformers, listed in the Zagreb Stock Exchange Regular Market quotation with the price of HRK 1,250.00 at the beginning of the year and HRK 1,530.00 at the end of the year for regular share.

The shares of KONČAR - Instrument Transformers were quoted on the Zagreb Stock Exchange Multilateral Trading Platform (MTP). In 2016, the price of preferential shares of KONČAR - Instrument Transformers traded ranged from HRK 1,248.50 to HRK 1,420.00.

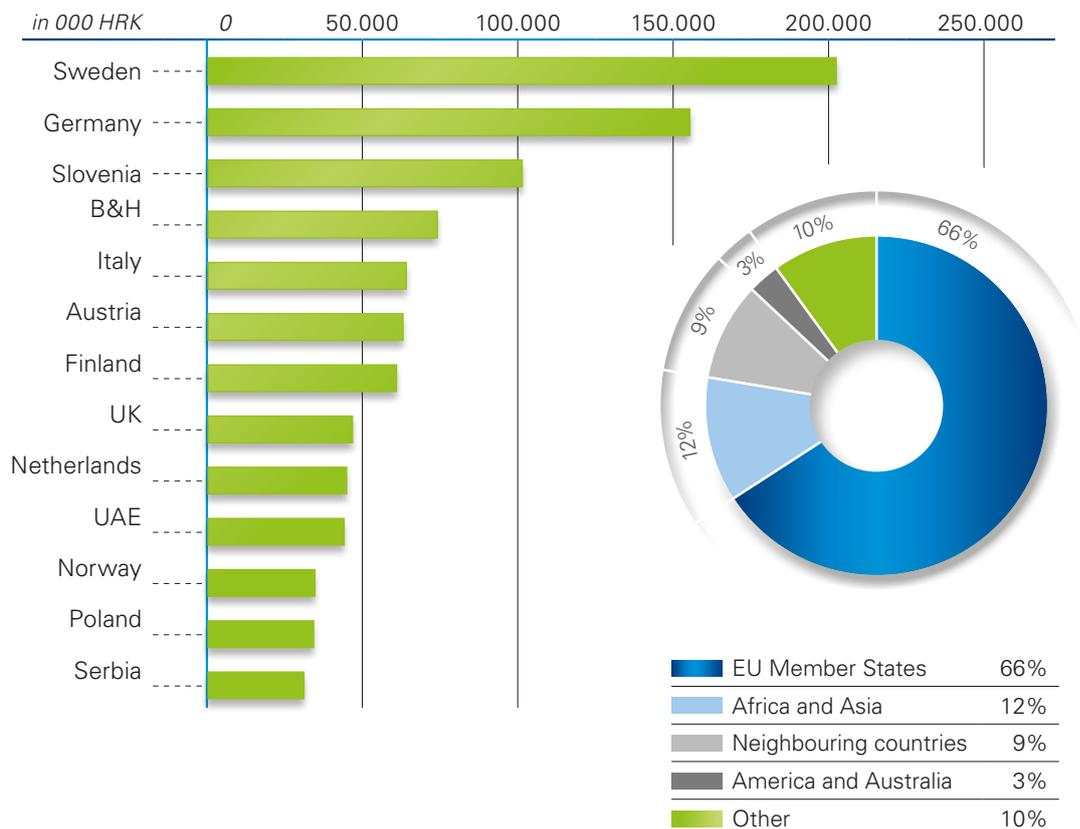
As at 31 December 2016, KONČAR - Electrical Industry owned 5,861 treasury stock, i.e. 0.23 percent of the company's equity.

MARKETS Most Important Export Markets in 2016
G4-8

in 000 HRK

<i>Countries</i>	2016.	2015.
Sweden	202.180	114.049
Germany	155.590	142.215
Slovenia	101.024	18.246
Bosnia and Herzegovina	74.156	51.987
Italy	63.644	43.964
Austria	62.586	40.777
Finland	60.581	78.834
United Kingdom	46.630	35.097
Netherlands	44.708	48.319
United Arab Emirates	43.569	139.996
Other countries	552.963	593.158
Total	1.407.632	1.306.642

Export Countries in 2016





Organizational Structure

KONČAR - Electrical Industry Inc.

SCALE OF ORGANIZATION

G4-9

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

* Representative Office in Moscow ceased operations in May 2016.

There were no significant changes in the number of employees during the reporting period. On 31 December 2016 KONČAR had 3,644 employees, of which 28 PhDs and 49 MSc/MBAs. Within KONČAR, 1057 employees hold an university degree (70 percent technical, 15 percent economics, and 14 percent of other professions).

In 2016 the average age of KONČAR employee was 44. The average age of newly employed in 2016 was 32. Within highly educated younger workers, employment of Graduates from Faculty of Electrical Engineering and Computing prevailed.

KONČAR employees are predominantly male. According to employment type, full-time employees (40 hours a week) prevail.

STRUCTURE OF EMPLOYEES

G4-10

UN GC 6

PhD Thesis

During 2016, KONČAR got a new PhD graduate. The title was acquired by Robert Sitar from KONČAR - Electrical Engineering Institute, who defended his doctoral thesis entitled "Determining Local Heating of Construction Components of Energy Transformers" on June 17 at the Faculty of Electrical Engineering and Computing in Zagreb.

FREEDOM OF ASSOCIATION

G4-11

UN GC 3

All employees (100 percent) are encompassed by the Collective Agreement.

Number of Employees by Type of Employment Contract and Gender

31 December 2016

Gender	Contracts					Total
	Fixed-term	Indefinite term	Internship	Regarding rights, obligations and salary	Regarding special rights, obligations and salary	
M	330	2340	28	120	30	2848
F	40	712	8	24	12	796
Total	370	3052	36	144	42	3644

31 December 2015

Gender	Contracts					Total
	Fixed-term	Indefinite term	Internship	Regarding rights, obligations and salary	Regarding special rights, obligations and salary	
M	286	2399	18	128	32	2863
F	28	734	7	21	13	803
Total	314	3133	25	149	45	3666

Employees by Region and Gender

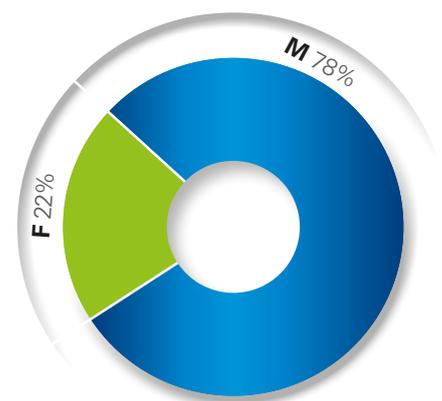
2016

	Total	M	F
Croatia	3641	2848	793
B&H	2	1	1
Serbia	1		1
Total	3644	2849	795

2015

	Total	M	F
Croatia	3663	2862	801
B&H	2	1	1
Serbia	1		1
Total	3666	2863	803

Employees by Gender



SUPPLY CHAIN

G4-12

Numerous suppliers of various materials, components and services are involved in the process of creating products and services in KONČAR. Out of the annual procurement value of about HRK 1.4 billion, more than 50 percent is procured abroad, primarily in Europe. KONČAR's suppliers come from 30 countries worldwide.



Despite some companies' own range of products and services (as in G4-2), main groups of materials include copper wires, copper sheets, steel sheets, dynamo sheets, steel structures, bearings, paints, plastic, joining material, lubricants and others.

Copper materials and steel sheets are regularly procured on commodity exchanges as well. Apart from procuring goods from a manufacturer directly, a minor procurement portion is also conducted via wholesalers.

In May 2016, Restructuring and Sales Center announced Public Invitation for the expression of interest for purchasing business interests and delivering binding offers for purchase of 526,926 shares of KONČAR - Electrical Industry owned by the Republic of Croatia and the Croatian Pension Insurance Institute. The relevant shares account for 20.49 percent of the Company's equity.

Following the sale of the shares, significant changes occurred in the ownership structure of the Company. Ownership of Adikko Bank Inc. (Formerly Hypo Alpe Adria Bank) / PBZ CO Compulsory Pension Fund - category B increased from 9.95 percent to 16.37 percent. The share of Societe Generale - Splitska Banka Inc. / AZ Compulsory Pension Fund category B increased from 6.84 percent to 14.50 percent. The share of Societe Generale - Splitska Banka Inc. / Erste Plavi Compulsory Pension Fund category B rose from 7.86 percent to 13.97 percent.

Valamar Riviera left the group of ten largest shareholders, while Addiko Bank Inc. / Raiffeisen Compulsory Pension Fund - B category (1.88 percent) and Zagrebačka banka Inc. / AZ Profit voluntary pension fund (1.12 percent) entered.

The share of ownership of the State Property Management Administration / Republic of Croatia decreased from 4.58 to 2.33 percent.

CHANGES DURING THE REPORTING PERIOD

G4-13

Ownership Structure in 2016

Stakeholder	31 Dec 2016		31 Dec 2015	
	Number of shares	Ownership stake %	Number of shares	Ownership stake %
HPB Inc. (Capital Fund)	724,515	28.17	724,515	28.17
Addiko Bank Inc. / PBZ Croatia Osiguranje OMF	420,928	16.37	255,928	9.95
Societe Generale - Splitska banka Inc. / AZ Compulsory Pension Fund	377,429	14.67	161,110	6.26
Societe Generale - Splitska banka Inc. / Erste Plavi Compulsory Pension Fund	359,239	13.97	202,149	7.86
State Property Ministry / Republic of Croatia	60,000	2.33	117,982	4.59
Restructuring and Sale Centre / Republic of Croatia	57,982	2.25	527,556	20.51
Floričić Kristijan	50,714	1.97	60,714	2.36
Addiko Bank Inc. / RBA Compulsory Pension Fund	48,291	1.88	28,491	1.11
PBZ Inc. / custodial account	29,050	1.13	30,208	1.17
Other stakeholders	439,110	17.03	457,605	17.79
KONČAR Inc. / treasury stock /	5,861	0.23	5,861	0.23
Ukupno	2,572,119	100.00	2,572,119	100.00

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

PRECAUTIONARY PRINCIPLE

G4-14

**ECONOMIC,
ENVIRONMENTAL
AND SOCIAL
CHARTERS,
PRINCIPLES AND
OTHER**

G4-15

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

KONČAR's business policy is based on the following business principles:

- satisfaction of customers, suppliers and other stakeholders;
- environmental protection, health and safety;
- permanent improvement of products and processes;
- engagement and motivation of all employees.

The Corporate Management Principles adopted by the Management and the Supervisory Boards of KONČAR - Electrical Industry Inc. on 17 April 2008 regard:

- responsible management;
- defining corporate management procedures based on recognisable adopted international standards, and
- business procedure management supervision, all of them having the purpose of establishing high standards of corporate management and transparent business operations as a base for protection of shareholders, investors and other stakeholders, as well as for care for employees, sustainable development and the environment.

The company's policy and objectives are being achieved by a systematic approach to quality management, environmental protection, occupational health and safety, acknowledged by certificates awarded by accredited independent institutions. Many other sets of standards and norms are being adhered to as regards individual products keeping in line with client and user requirements.

ISO 9001, ISO 14001, OHSAS 18001, ISO/IEC 27001 Certificates

GROUP COMPANIES	ISO 9001	ISO 14001	OHSAS 18001	ISO/IEC 27001
KONČAR - Power Plant and Electric Traction Engineering				
KONČAR - Power Transformers				
KONČAR - High Voltage Switchgear				
KONČAR - Metal Structures				
KONČAR - Instrument Transformers				
KONČAR - Engineering for Plant Installation and Commissioning				
KONČAR - Distribution and Special Transformers				
KONČAR - Electrical Engineering Institute				
KONČAR - Electric Vehicles				
KONČAR - Medium Voltage Apparatuses				
KONČAR - Electronics and Informatics				
KONČAR - Generators and Motors				
KONČAR - Small Electrical Machines				
KONČAR - Low Voltage Switches and Circuit Breakers				
KONČAR - Switchgear				
KONČAR - Infrastructure and Services				
KONČAR - Household Appliances				
KONČAR - Renewable Sources				



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

MEMBERSHIPS IN ASSOCIATIONS AND ORGANIZATIONS

G4-16

AWARDS AND RECOGNITIONS IN 2016

The second Business Conference on Corporate Governance in Croatia was held in Zagreb on September 16, with Lider's Corporate Governance Excellence Award presented for the first time, according to the methodology developed within the international research project initiated and conducted by the members of the Academic Network of Corporate Governance in SEE (SEE CGAN). In the category "Excellence in Corporate Governance" one of the winners was KONČAR - Electrical Industry.

At the 14th International Exhibition of Innovation, New Ideas, Products and Technologies, held from 20 to 22 October in Zagreb, the ARCA Gold Medal was awarded to the development team of KONČAR - Electrical Engineering Institute for the "Central Centrifugal Converter Transformer KonSol-200". The silver medal was awarded to the development team of KONČAR - Instrument Transformers for the innovation "High-voltage inductor with open core".

Ivan Klapan, President of the Management Board of KONČAR - Distribution and Special Transformers, was awarded the "Manager of the Year" award in the category of large companies and a professional acknowledgment for personal contribution to the development of the Croatian economy in the area of export-oriented industry of the Croatian Association of Managers and Entrepreneurs (CROMA).





Identified Material Aspects and Boundaries

	in HRK Subscribed Capital Total	in HRK Subscribed Capital Total	% Management of the Parent 31 Dec 2016	% Ownership of the Parent 31 Dec 2016
Dependent Companies				
Power Plant and Electric Traction Engineering	50,577,000	50,577,000	100.00	100.00
Generators and Motors	107,927,700	107,927,700	100.00	100.00
High Voltage Switchgear	56,335,140	55,553,340	99.03	98.61
Medium Voltage Apparatus	19,679,700	19,679,700	100.00	100.00
Switchgear	29,018,600	20,321,470	81.70	70.03
Distribution and Special Transformers	76,684,800	40,439,400	67.90	52.73
Instrument Transformers	18,989,100	11,721,900	99.77	61.73
Electronics and Informatics	42,027,280	35,286,420	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	130,312,400	111,120,000	85.27	85.27
Engineering for Plant Installation and Commissioning	11,827,500	5,288,100	79.05	44.71
Small Electric Machines	41,641,800	41,641,800	100.00	100.00
Household Appliances	17,834,100	17,834,100	100.00	100.00
Low Voltage Switches and Circuit Breakers	60,499,300	60,499,300	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
Associated Company				
Power Transformers	72,764,000	35,654,400	49.00	49.00

ENTITIES
INCLUDED IN
THE GROUP'S
CONSOLIDATED
FINANCIAL
STATEMENTS

G4-17

The identification of key material aspects has been harmonized with the characteristics of the Group production and operation. The priority has been assigned to areas in which KONČAR Group records significant results, and in those in which it can enhance its execution.

PROCESS FOR
DEFINING THE
REPORT CONTENT
AND THE ASPECTS
BOUNDARIES

G4-18

MATERIAL ASPECTS

The Report covers 12 material aspects with appropriate indicators of quality and quantity.

G4-19/21

ECONOMIC:

✗ - economic performance

ENVIRONMENTAL:

✗ - energy,
- water.

SOCIAL:

✗ **LABOUR PRACTICES AND DECENT WORK:**

- employment,
- occupational health and safety,
- training and education,
- equal remuneration for women and men.

✗ **HUMAN RIGHTS:**

- non-discrimination,
- freedom of association and collective bargaining

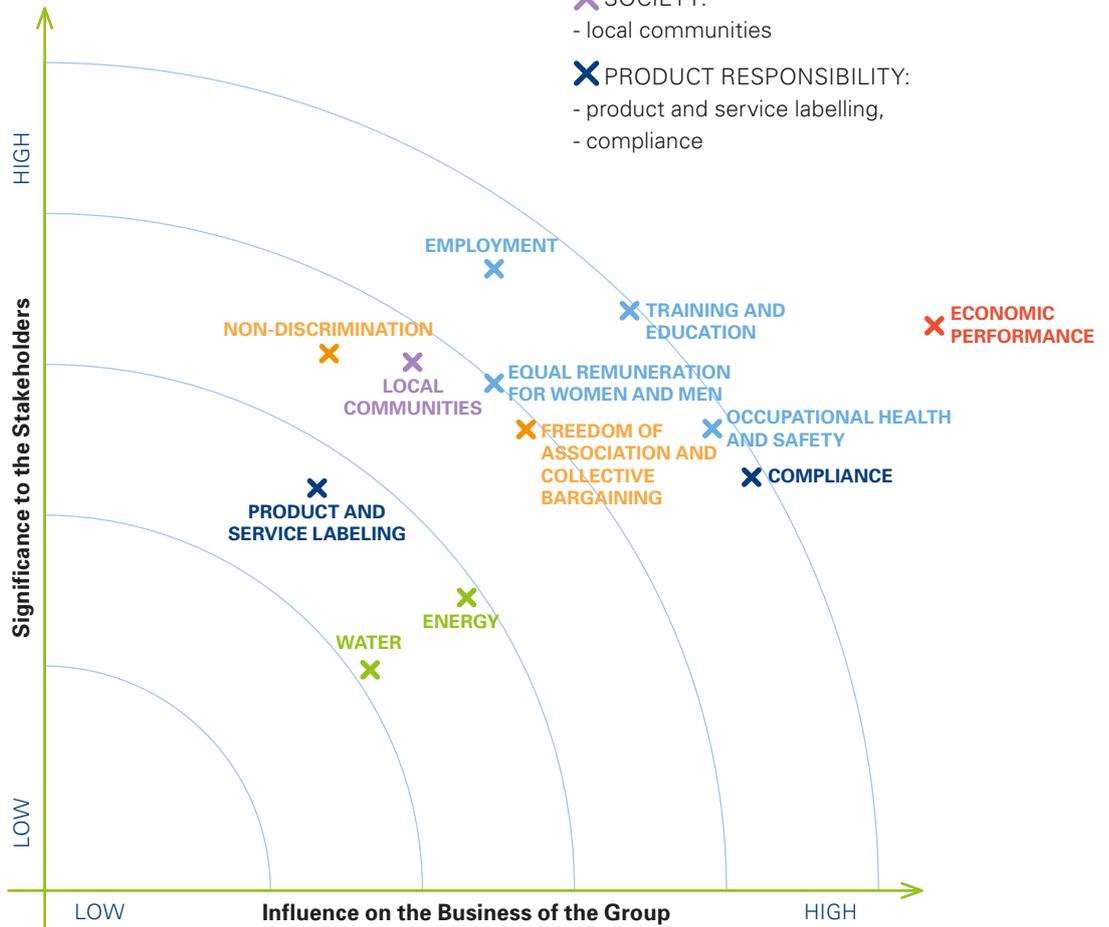
✗ **SOCIETY:**

- local communities

✗ **PRODUCT RESPONSIBILITY:**

- product and service labelling,
- compliance

Representation of material aspects:



RESTATEMENT OF INFORMATION AS TO THE PREVIOUS PERIOD

G4-22/23

In 2016, there were no significant changes in the implementation area, Aspects Boundaries nor information compared to the previous reporting period. The KONČAR Group undertakes to continue conducting, upgrading and sharing the analysis of material aspects in the following reporting period. All of the above stated material aspects make an integral part of the Report.



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

Stakeholders have been involved in the preparation of some segments of this Report. The communication exists throughout the year - permanently and as required.

STAKEHOLDERS ENGAGEMENT

G4-24/27

STAKE-HOLDERS	COMMUNICATION TYPE	STAKE-HOLDERS	COMMUNICATION TYPE
Employees	<ul style="list-style-type: none"> - organizational environment - intranet/internal services - official web page - education and professional advancement - KONČAREVAC - e-mail - LinkedIn - Business and CSR Reports - annual conversations 	Local communities	<ul style="list-style-type: none"> - Volunteer's Club - donations and sponsorships - official web page - LinkedIn - direct (visits, meetings) - written (e-mail, memos) - KONČAREVAC - CSR Reports
Customers/Users	<ul style="list-style-type: none"> - direct (visits, audits, meetings) - professional training - official web page - KONČAREVAC - e-mail - LinkedIn - Business and CSR Reports - fairs and conferences 	State bodies	<ul style="list-style-type: none"> - direct (visits, meetings) - written (e-mail, memos) - conferences and topic-based meetings - memberships - KONČAREVAC
Trade Unions	<ul style="list-style-type: none"> - regular and extraordinary meetings - KONČAREVAC - bulletin boards 	Financial public	<ul style="list-style-type: none"> - financial statements - Business and CSR Reports - stock exchange announcements - HANFA - official web page - KONČAREVAC
Owners/shareholders	<ul style="list-style-type: none"> - regular and extraordinary assemblies - memos - e-mail - KONČAREVAC - official web page - Business and CSR Reports - stock exchange, Croatian Financial Services Supervisory Agency (HANFA) - The Croatian News Agency (HINA) 	Media	<ul style="list-style-type: none"> - press releases - regular and extraordinary press conferences - KONČAREVAC - official web page - interviews, stories, coverages
Suppliers	<ul style="list-style-type: none"> - direct (visits, audits, meetings) - written (e-mail, memos) - official web page - fairs 	Academia	<ul style="list-style-type: none"> - conferences - memberships - scientific and area-specific papers - thematic meetings
		Business and professional public	<ul style="list-style-type: none"> - conferences - professional publications - topic-based

Listed below are some of the most important means of communication and involvement of stakeholders during this reporting period.

- Corporate Magazine KONČAREVAC

All news related to the Group's business, as well as topics related to numerous stakeholders such as employees, support to local and other communities are published in KONČAREVAC. KONČAREVAC is published ten times a year in 4200 copies. Apart from employees, it is delivered to about one thousand addresses in Croatia and abroad. KONČAREVAC is more than 50 years old, and in December 2016 its 1424th issue was published.

- Fairs and Professional Conferences

During 2016, KONČAR participated in a total of 20 fairs and conferences. All eleven trade fairs in which KONČAR participated were held abroad (Turkey, United Arab Emirates, Czechia, Tanzania, Bosnia and Herzegovina, Serbia, Russian Federation and four in Germany). Five out of nine professional conferences were held in Croatia, and four were held abroad. KONČAR presented itself on a total of 500m² of exhibition space, with the participation of 14 Group companies and a total of 260 employees.

- Official Web Page

On www.koncar.com you can find the most important KONČAR business, product and activity related information. Most of Group companies have their own web pages that publish details about their business activities and references. As we wrote in the previous Report, due to changes in technology and design, as well as functionality trends, during 2016 the Group's web page was being redesigned, which is expected to finish in 2017.

- Social Networks

In line with the trends of increasing presence in virtual world, along with the existing channel on YouTube, KONČAR intensified its activities on LinkedIn - the world's largest business community. In 2016, 13 profiles of KONČAR companies had about 8250 followers, with a total of around 80 announcements.

- Media

In 2016, 2875 KONČAR-related press clippings were published in newspapers and on the internet portals, as well as broadcasted on radio and TV stations, which is twice as much than in 2015.

The most common topics of publication were related to business, new projects and products, and sponsorships and donations.

The annual analysis of media releases shows the continuation of the dominant trend of publishes in newsprint and on web portals, and observed in relative numbers, the largest share of them are positive. The share of negative impact of the KONČAR Group is equally small in all media types, and is not more than 2 percent of the total number of media releases in 2016.

- Organizational Environment Questionnaire

In early 2016, a reassessment of the organizational environment was conducted in some companies of the KONČAR Group.

Based on the analysis of obtained results, at the company level, activities aimed at targeting those aspects of the organizational climate in which there is room for improvements were proposed, and equal attention was devoted to the planning of further development of a particular KONČAR company.



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

REPORT PROFILE

G4-28/33

It is published annually, including the period from 1 January until 31 December 2016. The previous Report was published in May 2015. The option of core "In accordance" with the G4 guidelines and UN GC principles has been selected.

The Report has not been externally assured.

KONČAR Group commits to the continuous improvement of its to-date practices and to monitoring the progress of all the companies within the Group as well as stakeholder relationship, of which it will inform the public in its next report and consider the possibility of external assurance.

Governance

KONČAR Group consists of KONČAR - Electrical Industry Inc. as a parent company and 17 dependent companies in which the parent has a controlling interest (more than 50 percent of votes in the General Assembly). The parent company also has a minority share (49 percent of votes in the General Assembly) in one associated company.

The companies belonging to the Group's structure are legally autonomous entities, while the parent company exercises a supervising role, provides strategic direction and supports them via companies' supervisory boards and shareholders' assemblies pursuant to the Companies Act, the KONČAR - Electrical Industry Charter and Charters of individual companies. Furthermore, the parent company also manages a portion of assets invested into companies and acts as a direct or indirect financial support to sales, products and equipment of dependent companies as a credit/guarantee potential.

Management Board

Darinko Bago	Chairman of the Management Board
Marina Kralj Miliša	Board Member in charge of Legal, General and HR Affairs
Jozo Miloloža	Board Member in charge of Finances
Davor Mladina	Board Member in charge of Industry and Trade
Miroslav Poljak	Board Member in charge of Corporate Development and ICT
Miki Huljić *	Board Member in charge of Integration and Optimization

MANAGEMENT AND SUPERVISORY BOARDS

G4-34/35

At the session of the Supervisory Board KONČAR - Electrical Industry, held on 20 July, 2016, the former Assistant to the member of the Management Board Miki Huljić was appointed member of the KONČAR - Electrical Industry Management Board.

Until the term of office of the Supervisory Board on 3 July 2016, the Supervisory Board consisted of Vicko Ferić, Nenad Filipović, Petar Mišura, Dragan Marčinko, Nikola Plavec and Ivan Rujnić.

Supervisory Board

Nenad Filipović	Chairman of the Supervisory Board
Jasminka Belačić	Deputy Chairwoman of the Supervisory Board
Boris Draženović	Member
Vicko Ferić	Member
Dragan Marčinko	Member
Nikola Plavec	Member
Petar Mišura	Member
Ivan Rujnić	Member
Petar Vlaić	Member

The General Assembly of the Company, held on 12 July 2016, made a decision on the election of new members of the Supervisory Board.

In the Supervisory Board were elected:

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

NOMINATION AND SELECTION PROCESSES

G4-40/41

The Supervisory Board appoints and relieves the Chairman of the Board and Board members. The Chairman of the Board and its members are appointed for the term of five years with an option of reappointment. Pursuant to the Companies Act and the Company Charter, the Management Board runs operations on their own personal responsibility whereas being obliged and authorized to take any and all actions and decision deemed necessary for managing the Company successfully. The Supervisory Board consent is required for adopting certain decisions prescribed under the Charter.

Pursuant to provisions of the Companies Act and the Charter of KONČAR - Electrical Industry Inc., the General Assembly passes decisions on appointing and relieving the Supervisory Board. The Supervisory Board is responsible for appointing and relieving members of the Management Board and for supervising the Company operations. The execution of some sizable transactions (the amount of such transactions is set by the Supervisory Board Rules) and some important business decisions require the consent of the Supervisory Board.

STRATEGIC DEVELOPMENT COMMITTEE

G4-42/46

In 2016, the Strategic Development Committee consisted of:

Joško Miliša	Chairman
Branko Lampl	Member
Vladimir Plečko	Member
Petar Vlaić	Member



At its meeting held on 28 September 2012, the Supervisory Board set up the Strategic Development Committee. This Committee carries out the tasks entrusted to it by the Supervisory Board regarding topics and activities from the scope of work of the Supervisory Board, particularly emphasizing KONČAR Group's long-term viability, risk assessment, Group's strategic priorities, restructuring needs and development of the strategic HR potential within KONČAR Group.

The Management Board of KONČAR - Electrical Industry manages its development based on the adopted concept of the Strategic Development Areas in KONČAR Group. All adopted decisions are in accordance with the long-term development goals of the Group, the needs for developing new products of the Group, the development of techniques and technologies as well as available resources.

STRATEGIC AREAS

G4-47

The following strategic development areas have been set:

- Production of electrical power
- Substations and transmission of electrical power
- Railway vehicles
- Renewable sources
- Smart grids and computer communications
- Information technologies

Pursuant to the Audit Act (Article 28) and the Corporate Governance Code, the Supervisory Board founded the Audit Committee. Pursuant to provisions set by the Audit Act and the Corporate Governance Code, the Audit Committee is in charge of monitoring the financial reporting procedure, the efficiency of the control system, conduct of annual financial statements audit, auditors' independence, making recommendations to the Supervisory Board regarding the selection and to the General Assembly regarding the auditor's appointment.

AUDIT COMMITTEE

G4-48

In 2016, the Audit Committee consisted of:

Vicko Ferić	Chairman
Nikola Anić	Member
Jasmina Belačić	Member
Josip Lasić	Member

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

ETHICS AND INTEGRITY

G4-56

On 12 September 2005, KONČAR - Electrical Industry Inc. signed the Declaration on the Acceptance of the Code of Ethics in Business Operations. It was ratified by the Assembly of the Croatian Chamber of Economy in May 2005. The provisions contained in the Code of Ethics must be communicated to the employees of KONČAR Group and its business partners on an ongoing basis.

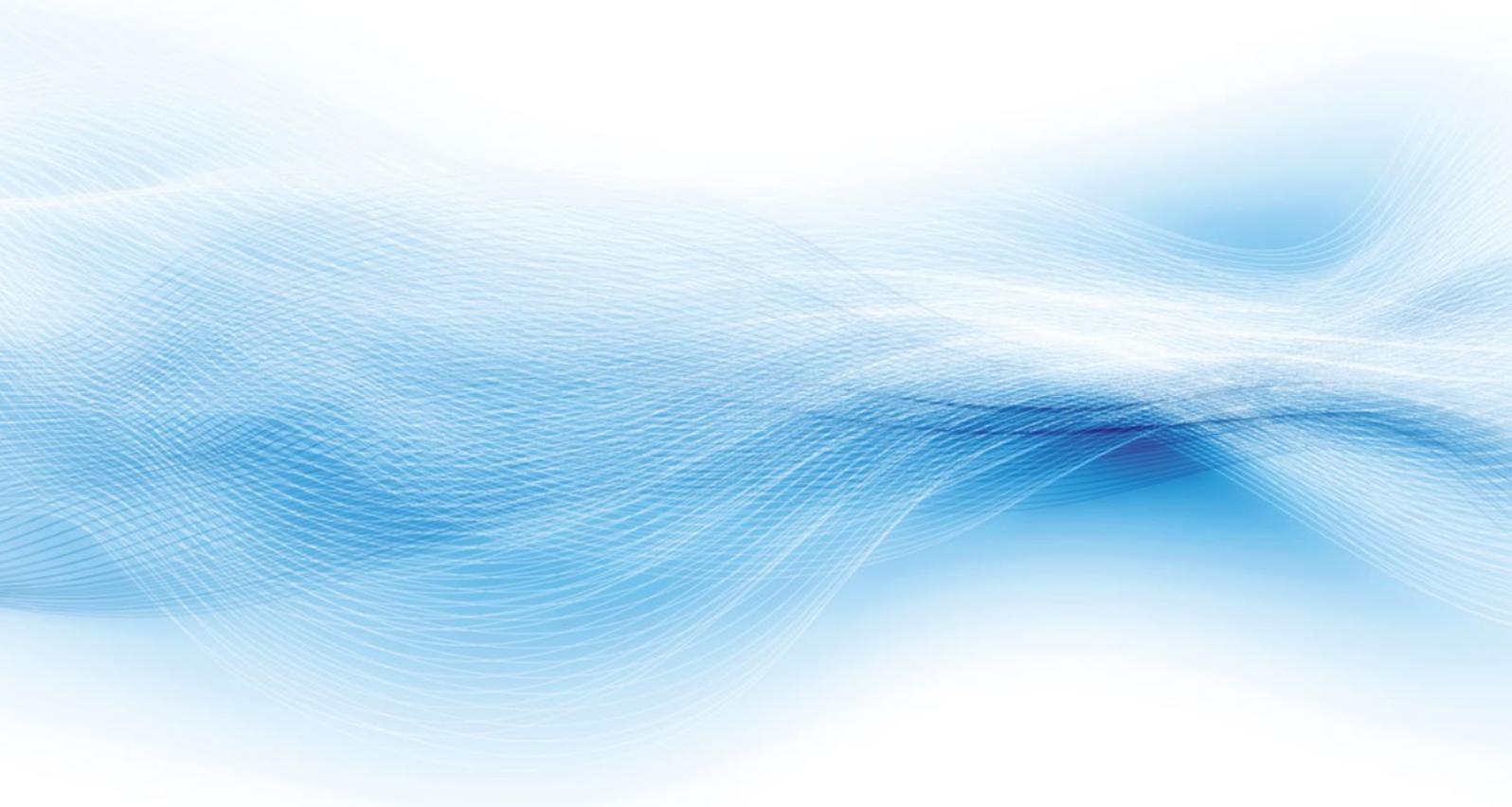
The request for seeking advice is available to all stakeholders. In line with the applicant wishes, the request can be confidential and anonymous.

ETHICAL AND LAWFUL BEHAVIOUR

G4-57

KONČAR has set up an in-house mechanism for seeking advice on ethical and legal behaviour as well as issues regarding the organizational integrity. General responsibility lies with the Board member in charge of Legal, General and HR Affairs, and (depending on the size of individual KONČAR Group company) with workers' councils, trade union commissioners and/or persons in charge of staff.

There are advice seeking mechanisms autonomous from the organization. These include trade union regional commissioners, the State Inspector's Office and workplace inspections.



KONČAR Group

II. Specific Standard Disclosures

The Guidelines organize Specific Standard Disclosures into three categories - Economic, Environmental and Social





Economic Category

All aspects of economic dimensions are recognized as material. In the reporting period, KONČAR Group recorded sound financial results explained in more detail in the revised financial statement adhering to the International Audit Standards, available on www.koncar.com/Investors.

Economic Performance

In 2016 KONČAR Group continued with its successful business operations. Consolidated net profit for 2016 amounts to HRK 173.8 million, an increase of 15.6 percent compared to the previous year.

Due to the appropriate activities and measures on the foreign market, despite the lack of planned domestic market revenues (delivery of low-floor Multiple Units for HŽ Passenger Transport) KONČAR Group achieved a good financial result, increased revenues from sales of goods and services on export markets by 7.7 percent and contracted new jobs in the amount of HRK 2.7 billion, of which 50 percent in exports.

In KONČAR Group, more measures were taken to ensure stable operation and maintenance and strengthening of its market position. First of all, the scope of supply was increased and efforts were made to new markets opening, measures were taken to increase synergies within the system and to reduce operating costs. All the measures taken resulted in continued profitability and financial stability of the Group.

The Group has a stable balance sheet. The balance of total consolidated assets and liabilities as of 31 December 2016 amounts to HRK 3,799.3 million. In the structure of sources of funds, registered capital, reserves, retained earnings, current year's profit and non-controlling (minority) interest amount to HRK 2,448.3 million, which is HRK 126.8 million more than the balance on 31 December 2015 and is 64.4 percent of total sources.

Detailed economic performance information is available on the web page www.koncar.com/Investors in the 2016 Business Report (Chapter 6 "Business Results and Financial Position")

in 000 HRK

	2013	2014	2015	2016
Direct economic value generated				
Revenues	2,850,979	2,947,488	3,296,460	3,111,844
Economic value distributed	2,671,636	2,771,406	3,126,905	2,915,758
Operating costs	1,731,866	1,931,859	2,183,711	2,025,194
Employee wages and benefits	497,178	492,283	537,346	509,926
Payments to providers of capital	47,437	45,287	49,352	47,170
Payments to government (tax)	15,647	15,985	18,234	22,298
Community investments (donations and sponsorships)	853	1,841	1,435	2,699
Economic value retained	179,343	176,082	169,555	196,086

**DIRECT
ECONOMIC VALUE,
GENERATED AND
DISTRIBUTED**

G4-EC1

Risks and opportunities caused by climate change that may potentially lead to significant changes in the business, income or expenses of the KONČAR Group do not exist.

A detailed description of the risks and opportunities significant to the business is provided on this Report, under G4-2.

**FINANCIAL IMPLICA-
TIONS AND OTHER
RISKS AND OPPOR-
TUNITIES FOR THE
ORGANIZATION'S
ACTIVITIES DUE TO
CLIMATE CHANGES**

G4-EC2

COVERAGE OF THE ORGANIZATION'S DEFINED BENEFIT PLAN

G4-EC3

KONČAR Group made provisions for jubilee awards and severance payments in the amount of HRK 37.5 million. This includes the estimated amount of employees' regular income (regular severances and jubilee awards) as well as severance pays under the Collective Agreement to which all Group employees are entitled. The current value of the provision is calculated on the basis of the number of employees, the amount of the pension, years of employment on the balance sheet date and the discount rate of 3.50 percent.

The reserved amount fully covers the anticipated severances and rewards for employees who have acquired these conditions in 2016.

FINANCIAL ASSISTANCE

G4-EC4

KONČAR Group did not receive any significant financial assistance from the Government or the State in 2016.

During 2016, there was a change in the ownership structure (more details in G4-13). As of 31 December, the Government of the Republic of Croatia is present with 32.75 percent through the Capital Fund, CERP and Ministry of State Property is in the equity structure present.

MARKET PRESENCE

G4-EC5

KONČAR primarily employs domestically in Croatia. Very rarely and in insignificant numbers, the Company employs workers in other countries, mainly under fixed-term contracts and in connection with work conducted on individual projects. In such cases, local workforce is treated in line with legal regulations of the country of domicile. The average net salary in the KONČAR Group in 2016 was 7,848.00 HRK, while in the same period the average net salary in Croatia, in the same period, was 5,895.00 HRK.

INDIRECT ECONOMIC IMPACT

G4-EC7

Apart from creating such products, the KONČAR Group has influenced the economy by investing in infrastructure - and beyond the scope of business activities of the organization. During 2016 there were several significant investments.

Infrastructure projects in Sesevetski Kraljevec

A few years ago, the preparation of documentation for infrastructure projects in Sesevetski Kraljevec has begun. After the completion of the construction permit in 2015 for the drainage system, the internal water supply and hydrant network, the Construction Documentation of the drainage, water supply and hydrants system was completed and this was done by mid-2016. The Road Renovation Project was completed as well, and the City of Zagreb approved it on the basis of a special project for connection to the Industrial Road. In the forthcoming period, the contracting and execution are planned.

Reconstruction of the Vukovar Water Tower

In July, the General Assembly of KONČAR - Electrical Industry, unanimously made a decision on donation for the project "Vukovar Water Tower- A Symbol of Croatian Unity", on the proposal of the Management Board and with the support of the Supervisory Board. In this way, support was given to the project aimed at preserving symbols such as the Vukovar Water Tower in order to familiarize future generations with the events of the 90s of the last century.

Donation on the occasion of the KONČAR Day

On the occasion of the 95th anniversary of KONČAR, a donation was given to the Children's hospital Zagreb. It is the central and the only independent hospital for children and adolescents in the Republic of Croatia, and donated funds have been used for a new lift for people with disabilities and mobility concerns.



KONČAR's business policy encourages close cooperation with the supporting Croatian industry, which produces parts for the Group's products. It is estimated that about four thousand people employed in other companies worked on KONČAR projects in 2016. Therefore, KONČAR is an engine for small and medium-sized entrepreneurship in Croatia with more than 1,200 domestic suppliers. KONČAR's production is focused on small-scale products requiring high technical knowledge. By cooperating with KONČAR, our partners export complies with the highest quality standards set by foreign markets.

JOBS SUPPORTED IN THE SUPPLY CHAIN

G4-EC8

Traditional collaboration with the scientific and professional community continued in 2016. Various projects and actions with a number of scientific and educational institutions enable the identification, definition and implementation of various projects.

ENHANCED KNOWLEDGE WITHIN PROFESSIONAL COMMUNITY

G4-EC8

The project "Advanced Technologies in Power Plants and Rail Vehicles"

At the Faculty of Electrical Engineering and Computing (FER) in February 2016, the final dissemination workshop of the "Advanced Technology in Power Plants and Rail Vehicles" project was presented in February last year. The project was jointly implemented by FER, as the project holder, and KONČAR - Electrical Engineering Institute. In addition to strengthening the capacity for research, development and innovation, the main goal of the call was the transfer of technology and knowledge from faculties to the economy, which aims to stimulate the advancement of existing and development of new high technology products and services.

When selecting a supplier of individual groups of materials and services, care must be taken of meeting set quality requirements, delivery dates, payment terms as well as the protection of occupational health and safety and environment. Only those suppliers whose materials and components are safe for people and the environment and can be recycled or safely disposed after the end of their life term are selected. Suppliers are requested proofs (certificates) of compliance as well as other requirements.

PROCUREMENT PRACTICES

G4-EC9

All existing and future suppliers are entered into the database which is permanently updated and confidential. Apart from basic information regarding suppliers (name, address, phone number, fax number, e-mail, contact person), the database also contains other information which might affect the supplier selection such as supplier's references, complaint data, quality system data, occupational health and safety data and the environmental data.

in 000 HRK

	2015		2016	
	Investment procurement	Procurement of materials	Investment procurement	Procurement of materials
Suppliers in Croatia	52,040	936,385	77,040	696,672
Suppliers abroad	12,750	782,057	23,487	703,329
Total	64,790	1,718,443	100,527	1,400,002

For the period January - December 2016, imports amounted to HRK 726.7 million. Imports of raw and other materials amounted to HRK 703.3 million, while investment purchases amount to HRK 23.4 million. In the same period, revenue from sales of goods and services in export was achieved in the amount of HRK 1,407.6 million. Export Coverage Coefficient is 1.94.

Environmental Category

The environmental dimension is of special importance in view of installing a large part of the equipment directly into the environment (transformer substations, hydro power plants and other energy facilities or traction vehicles). KONČAR has a defined Environment Management Policy which is available on the www.koncar.com and is communicated to all employees.

In accordance with our Sustainable Development Policy, we implement ISO 9001 Quality Management System, ISO 14001 Environmental Management System, OHSAS 18001 Occupational Health and Safety Management System and ISO / IEC 27001 Information Security Management System. Many other sets of standards and norms are being adhered to as regards individual products keeping in line with client and user requirements.

Official revised standards have been issued for the ISO 9001: 2015 and ISO 14001: 2015. All quality and environmental management systems in organizations need to be aligned with new standards until 15th September 2018.

During 2016, KONČAR - Generators and Motors, KONČAR - Low Voltage Switches and Circuit Breakers, KONČAR - High Voltage Switchgear and KONČAR - Electric Vehicles, have finished the transition to new standards ISO 9001: 2015 and/or ISO 14001: 2015.

Concerning energy management, KONČAR - Infrastructure and Services is in the final stage of preparation for certification in accordance with HRN EN ISO 50 001 Energy Management System, and education for internal system auditors has been completed.

ENERGY

G4-EN3

UN GC 7

Due to the specificity of the production and production program of the KONČAR Group companies, we have taken the location of Fallerovo šetalistište as a reference when it comes to the aspect energy. The data shows a significant reduction of electricity consumption in 2016 compared to previous years, which is the result of continuous investment in infrastructure and advancement in technological processes.

Fallerovo šetalistište Location	Electricity (kWh)
Total in 2014	11,529,407
Total in 2015	11,213,273
Total in 2016	9,251,545

REDUCTION OF ENERGY CONSUMPTION

G4-EN6

UN GC 8

Regarding energy-related concerns KONČAR - Infrastructure and Services continued with regular rehabilitation of hot-water system and installation of calorimeters to reduce losses, ensure secure heat supply and increase energy efficiency during 2016.

In 2016, KONČAR continued to invest in facility rehabilitation and maintenance, particularly in energy efficiency. Old carpentry on Building C, Hall A and part of Hall C on the Fallerovo šetalistište location was replaced to rationalize the heat flow. Only energy efficient materials and LED lighting were used in all facility rehabilitation and maintenance to ensure less energy consumption.



Energy efficient vehicle that shows reduction of energy consumption is Electric Multiple Unit, a product from KONČAR - Electric Vehicles. Contemporary passenger transport Diesel-Electric Multiple Unit meets the latest requirements of the Euro emission standards for exhaust emissions and is powered by IIIb type energy saving motor.



REDUCTIONS IN ENERGY REQUIREMENTS OF PRODUCTS AND SERVICE

UN GC 9

Following the market trends and meeting the demands of its customers in recent years, KONČAR - Distribution and Special Transformers invested in the design and development of increased efficiency transformers. The use of new materials and technologies provides the possibility to meet all environmental design requirements that require improved energy efficiency and compliance with environmental requirements, reducing CO₂ emissions, as well as reducing transformer electrical losses. All ecological designs transformers have a highlighted CE mark, as proof of conformity, as well as a Declaration of Conformity with Ecological Design Requirements.

High-voltage transformers of high power produced by KONČAR - Instrument Transformers are intended for power transmission directly from high to low voltage. Each energy conversion inevitably follow a certain amount of losses, however, as these units eliminate the use of distributive voltage levels, which completely overcomes one energy conversion and the losses that follow, only their use is more energy efficient. Continuous development of materials, production technology and calculation methods KONČAR - Instrument Transformers is actively working to reduce losses in this type of transformers. As a result, standard design transformers delivered during 2016 had losses reduced by 15-25 percent depending on the model, compared to the transformers produced in the previous years.



WATER

G4-EN8

UN GC 8

As a water permit owner for KONČAR Group companies, KONČAR - Infrastructure and Services submitted the request for the issuance of the new water permit for Fallerovo and Borongaj locations. This was preceded by the development of a comprehensive technical documentation, necessary in the process of permit issuance. The drainage systems of all locations were tested for waterproofness and conducted where necessary.

BIODIVERSITY

G4-EN11

UN GC 7

KONČAR Group operates on six locations in Zagreb and two registered representative offices abroad (Mostar, Belgrade). KONČAR Group companies do not operate in the vicinity of protected nor highly biodiverse areas outside protected zones.

INDIRECT ENVIRONMENTAL IMPACT

G4-EN12

KONČAR's products meet the highest standards of equipment safety and produce a minimum environmental effect. There have been no complaints or incidents so far. Investors who make decisions regarding the site and construction of facilities, where KONČAR is an equipment supplier, must comply with relevant regulations and the environmental standards. Being aware of the environmental risk resulting from equipment installation, KONČAR implements the precautionary principle. This is especially important if one takes into consideration that our products and plants are often delivered to areas of large biodiversity (rivers, lakes and rural areas). Our products have not caused any registered biodiversity disturbances.

EFFLUENTS AND WASTE

G4-EN22/26

UN GC 7

During the reporting period, waste water system was tested and analysed. The results confirmed that KONČAR Group companies were responsible in meeting all positive regulations prescribed by Republic of Croatia, and the company KONČAR - Infrastructure and Services provides a good support in those activities. It directs them and is responsible for water protection measures and maintenance of common drainage facilities and the rational energy consumption. All Group companies have responsible approach to waste disposal.

MONETARY AND NON-MONETARY SANCTIONS

G4-EN29

UN GC 9

No major fines nor non-financial sanctions caused by the non-adherence to environmental law and regulations were registered in 2016. All Group companies have responsible approach to waste disposal.

DISPUTE RESOLUTION

G4-EN34

UN GC 7

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

WORKFORCE TRANSPORT

G4-EN30

UN GC 9

In line with the sustainability principles aimed at reducing CO₂ emissions and promoting a healthier lifestyle, KONČAR encourages its employees to come to work by bike or public transport. Bike racks have been continuously put up at the entrance to factory facilities to promote this means of transport.

ENVIRONMENTAL PROTECTION INVESTMENT

G4-EN31

UN GC 7 and 8

During the year 2016 there were some major changes related to natural gas as an energy source. Locations Jankomir, Borongaj and Sesevetski Kraljevec are already connected to natural gas. Consequently, the KONČAR Group decided to use more energy efficient sources of energy replace home heating oil with heating on natural gas.



Social Category

In 2016, a total of 305 new workers were employed, averaging at 32 years. The youngest employed was 18 years old and the oldest 62. The average age of employees who left the Group was 45, the youngest was 18 and the oldest 65. Total of 332 workers left KONČAR during the reporting period.

**EMPLOYEE
TURNOVER**
G4-LA1

The fluctuation rate in the reporting period was 0.1 percent.

Seminar for Interns and New Employees

Seminars for interns and new employees are organized every year in KONČAR Group. The seminar in 2016 was attended by 70 interns from 15 companies. KONČAR - Electrical Industry organized the first seminar in 2003. During the following 13 years, 25 seminars were organized in total attended by more than 850 interns and the newly-employed. The purpose is to get them acquainted with the organization, production range, various operating departments of KONČAR as well as colleagues employed by other KONČAR companies.

Regardless of the contract type, race, gender and age, all KONČAR Group employees are entitled to equal benefits such as the annual medical check-up and the accident insurance policy.

EMPLOYEE BENEFITS
G4-LA2
UN GC 6

All employees are entitled to maternity and parental leave. All male employees are entitled to parental leave under the decision of the Croatian Health Insurance Fund (HZZO).

**MATERNITY AND
PARENTAL LEAVE**
G4-LA3
UN GC 6

All female employees resumed work having ended their maternity leaves, as well as all male employees following the end of their parental leaves.

The shortest notice period usually provided to employees and their elected representatives before the implementation of significant operating changes which might affect them is one month. Pertinent information is submitted to the Trade Union or the Worker's Council through the Workers' representative in the Supervisory Board. Detailed information regarding employer's obligation and manners of Workers' Council operation in the protection of workers' collective rights are regulated under the KONČAR's Collective Agreement.

NOTICE PERIOD
G4-LA4
UN GC 3

According to the Work Safety Act and the Employer's obligations, all KONČAR Group companies (with more than 50 employees) have set up a Work Safety Committee as an advisory body for analysing work safety conditions and for proposing work safety improvement measures.

**FORMAL JOINT
COMMITTEES**
G4-LA5
UN GC 3

**DISEASES
RELATED TO
OCCUPATION**

G4-LA7

There are no occupational diseases on the level of KONČAR Group. In case of workplaces with special work conditions, there is a separate rulebook in place under which such workplaces are regulated.

**TOPICS COVERED IN
FORMAL AGREEMENTS
WITH TRADE UNIONS**

G4-LA8

UN GC 3

The Collective Agreement includes some health issues such as paid leave in case of serious illness of a near family member, unpaid leave in case of illness, extra vacation days for workers with proven disability and safety issues encompass special work conditions and extra payment.

The Collective Agreement regulates the rights and obligations of all employees (100 percent).

**TRAINING AND
EDUCATION**

G4-LA9

In order to develop the potential of its employees, KONČAR companies have systematically been conducting education and professional training in numerous ways: encouraging regular education system, specialized trainings within the company such as foreign language courses as well as courses in sales, presentation and computer skills, new regulations and also engaging in special training programmes in professional and other organizations.

KONČAR Academy

Within the KONČAR Academy, which has been active since 2009, educational programs have been created and implemented for the training of potential managers.

In 2016, the first cycle of Advanced Training for Managers has started for those who had completed the Basic Training and had formal professional progress within the organization.

A total of 31 attendees attended education, covering a total of 96 hours of active attending of lectures, workshops and group discussions.

The completion of the first cycle for Advanced Training for Managers is scheduled for January 2017.

Apart from a systematic conduct of education and professional training, KONČAR also applies incentives and awards for special results achieved in the process of one's education.





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KONČAR Award for Best Doctoral Dissertation

On the occasion of the Day of the Faculty of Electrical Engineering and Computing of the University of Zagreb, the annual KONČAR Award for doctoral dissertations for scientific achievements in the area of technical sciences applicable in industry is presented. The 2015/2016 recipient was Robert Sitar, Ph.D for his paper on "Improvement of thermal performance of generator step-up transformers".

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

On the occasion of the Day of the Faculty of Electrical Engineering and Computing, the bronze "Josip Lončar" plaque awarded by KONČAR - Electrical Engineering Institute for successful graduation was handed out.

At the formal session of the Faculty Council of the Faculty of Mechanical Engineering and Naval Architecture of the University of Zagreb, held on 18 November KONČAR companies were among those which awarded prizes for encouraging excellence and providing support to best students. President of the Management Board of KONČAR - Electric Vehicles handed out the prizes to graduate students.

Awards to best students of the Zagreb University of Applied Sciences

On the occasion of the KONČAR Day held on 25 January 2016, the KONČAR Award, was presented to the graduate students of the Zagreb University of Applied Sciences. Under the motto "The best investment is the one made in people", KONČAR award was established in April 2003, and the winners for the academic year 2015/2016 were: Matej Nogić, Marco Ricci, Marijo Januš, Antonijo Jambrešić (Electrical Engineering Department), Ana Dedić, Nikola Šaban (Computing), Andrej Grgić, Tomislav Čukelj (IT Department) and Ivan Varjačić and Petar Vejić (Mechatronics Department).

Elektrijada

The International Competition of electrical engineering faculties Elektrijada has a long tradition and in 2016 was held in Italy from 12-17 May for the 56th time. In the competition with 1800 contestants from 20 European electrical engineering faculties, students of the Faculty of Electrical Engineering and Computing (FER) in Zagreb competed in all 14 scientific and eight sports disciplines and took the second place in overall placement. The KONČAR Group was a platinum sponsor of the FER students' team, contributing to the activities and advancement of young engineers, both in the scientific and sport fields.



TRANSITION
ASSISTANCE
PROGRAMS

G4-LA10

KONČAR Pensioners' Club (KUK)

KONČAR Pensioners' Club (KUK) was founded on 17 October 2000 upon the initiative of the Trade Union Coordination and with a full support of KONČAR - Electrical Industry. The Group provides space and means for their activities. During last 16 years, the Club registered 363 members, of whom 162 are active. During the reporting period, KUK members were on nine one-day and two two-day trips and organized health tourism in Banja Vrućica for 47 members. They looked at five theatre plays and one exhibition, organized four dinner parties, two literary evenings and visited 36 sick members.

REGULAR PERFORMANCE
AND CAREER
DEVELOPMENT REVIEWS

G4-LA11

At the end of 2016, the project "Annual Employee Evaluation" project was presented in KONČAR Group. Since it is important mechanisms and tools in managing work efficiency of the organization, some KONČAR is one of the companies encourage and plan its implementation in regular human resources management.

EQUAL
REMUNERATION
FOR WOMEN AND
MEN

G4-LA13

UN GC 6

Awards agreed under the Collective Agreement include innovation and technical advancement awards, prizes awarded for business results and anniversaries, and a present for employees' children. There are no recorded cases of gender related unequal remuneration, job title, incentives, promotion or any other workplace status in KONČAR.

KONČAR employees' children visit Santa Clause

Employees' children from ten KONČAR companies attended the Christmas and New Year's play "Sweet fairy tale". The children also enjoyed drawing workshops, factory-run train, and chocolates with their name printed.



LABOUR
PRACTICES
GRIEVANCE
MECHANISMS

G4-LA16

During the reporting period, three labor practices grievance were dealt with and three were resolved. Prior to the reporting period, there was one labor practices grievance that was solved during the reporting period.

An alternative way to resolve the dispute is defined by the Rulebook on Settlement for individual labor practices grievance. The list of mediators who have completed the education of the facilitators and obtained a certificate of approval for mediation is defined at the Group level by the Employer's decision with the prior consent of the Trade Union. In the event of failure to reach an agreement, the proceedings are conducted before the competent court.



Respecting human rights has a great significance for KONČAR, thus no cases of human rights violation have been recorded.

HUMAN RIGHTS

G4-HR1

UN GC 1 and 2

During the reporting period no cases of discrimination have been recorded on account of gender, religion, race, religious, national or political orientation or family status. Under the Collective Agreement, the Employer has an obligation to protect employee dignity in the course of work by ensuring work conditions in which said employee will not be exposed to sexual or any other harassment by the Employer, bosses, colleagues or other persons with whom he/she comes in contact during the execution of his/her work.

NON-DISCRIMINATION

G4-HR3

UN GC 2 and 6

Blood Drives

During 2016, blood was donated at three locations in KONČAR organized by the Red Cross. Most KONČAR workers, 94 of them, donated blood at the Fallerovo šetalište location one, two or three times during the year. At the same location, majority of new blood donors were introduced during three actions. At location of the Jankomir transformer factory the highest blood dose was collected - 87 donors gave blood 283 times.

On the occasion of the Blood Donor Day, organized by the Croatian Red Cross, the awards are given to jubilee donors every year in the Old City Hall. Among the jubilees in 2016, there were seven KONČAR workers. President of the Republic of Croatia, Kolinda Grabar Kitarović, presented the award on 28 October. Among the jubilees who received the award were three KONČAR men and one KONČAR woman.

Remembrance of the Employees who Died in War

On the occasion of the Croatian Statehood Day, KONČAR remembers with gratitude and respect twenty-two killed defenders, KONČAR employees, by laying the wreath and lighting candles on the monument raised on the factory grounds on Fallerovo šetalište. Also, the anniversary of forming a unit for defending the location KONČAR Fallerovo šetalište in 1991 is marked every year in December.

Each KONČAR employee enjoys freedom of association and collective bargaining. Employees choose to be members of the Croatian Union of Metalworkers and the Croatian Electrical Workers Union.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

G4-HR4

UN GC 3

Futsal Tournament for the Title of the KONČAR Champion

The Coordination of the Croatian Metal Workers Union organized the 16th Futsal Tournament for the title of the KONČAR Champion in December 2016. The competitions were organized during two weekends and were attended by the total of 26 teams with 290 KONČAR employees from 17 KONČAR companies. There were 17 senior teams from 12 companies and 9 veteran teams from 9 companies. 188 goals were scored in 70 matches and only three veterans and four senior players matches ended with no goals. Penalty kicks decided on the results of five veterans and two senior matches.

As a socially responsible company that respects human rights, KONČAR does not employ children, nor carry out any form of forced or compulsory labour in any of its business activities and forms.

CHILD, FORCED OR COMPULSORY LABOUR

G4-HR5/6

UN GC 4 and 5

SECURITY PRACTICES
G4-HR7

Continuous activity regarding the IT system security and protection has been encouraged in the last few years. People and asset security in KONČAR is conducted pursuant to legal regulations of the Republic of Croatia and other norms defining this area.

LOCAL COMMUNITY
G4-S01
UN GC1

KONČAR invests in the community and various segments of society by numerous sponsorship and donation programmes as well as through the work of its Volunteering Club. In 2016, KONČAR Group allocated almost 2.7 million kuna to donations and sponsorships of sports competitions, cultural events, individual projects (publishing professional and educational books), and/or other activities and, compared to the previous reporting period, the overall amount of donations and sponsorships increased. One of the reasons for the significant increase in 2016 was the support given to the project for the reconstruction of Vukovar Water Tower.

KONČAR VOLUNTEER'S CLUB

KONČAR Volunteer's Club was formed in order to provide employees opportunity to contribute personally to the community. It is an informal club of KONČAR Group employees, who spend their free time by volunteering. The Club was exceptionally active during 2016. More than 30 employees from 12 KONČAR companies got involved in cooperation projects with the local community.

Earth Day

Apart from the work process that encompasses the development, design, production and delivery of products, KONČAR pays attention to reducing harmful impacts on environment numerous other activities. Due to this, the Earth Day was an opportunity to organize volunteer action "Let's Embellish our Environment", which was attended by 20 volunteers from 10 companies. The objective of the action was to make the location Fallerovo šetalište nicer and greener. In a pleasant atmosphere, volunteers planted plants and flowers and redecorated existing ones.



Croatia Volunteers

The national "Croatia Volunteers" event was held in May 2016 and KONČAR participated as part of the project "Expanding the area of cooperation - corporate volunteering as an innovative form of philanthropy and resource for civil society development", aimed at volunteering in the business sector and strengthening links with organizations of civil society. KONČAR supported the action of the Foundation "Mutual Path" for senior citizens. Ten KONČAR workers from six companies helped the elderly with using smartphones, Internet browsers, tablets, and computers.



KONČAR Group has been paying attention to the work of sport associations for years by co-financing club activities of less commercial sports. **SPORTS CLUBS**

'KONČAR' Chess Club

'KONČAR' Chess Club is one of the oldest chess clubs in Croatia that has played 11 games in the 3rd Croatian Chess League Center League, won 8, and 3 draw, which met its primarily competition target - to win the 1st place and play in the 2nd Croatian Chess League Center A. This success has rounded up the excellent competition season, by winning the Zagreb Cup.

A free-of-charge KONČAR chess school for KONČAR employees' children successfully completed its first year in 2016. The school was attended by ten participants, some of whom performed at the official competitions of the Zagreb and Croatian Chess Federation and from the series "Kasparov Chess Foundation Adriatic". For better organization of the school and organization of competitions for children, as well as for keeping the chess league and tournaments, KONČAR has arranged a club room. Through constant work, the club seeks to bring the chess game closer to the students and familiarize them with its rules and principles. By studying the foundations of chess games, analyse them, and playing with other children or even adults at tournaments, students refine their education and training by acquiring patience and logical thinking, all through play and fun.



'Končar Zagreb 1786' Shooting Club

For 23 years KONČAR has been supporting the activities of the 'KONČAR Zagreb 1786' Shooting Club. In 2016, Club members took part in 46 competitions in Croatia and abroad with more than 400 attempts in all categories. Individually, they won 54 first, 38 second, and 41 third places. In team categories, they won 28 first, 9 second, and 8 third places.

'KONČAR' Canoe Club

The KONČAR Canoe Club is one of sport clubs continually supported by KONČAR for the purpose of encouraging young people to take on sports. Club members participated in numerous competitions in Croatia and abroad achieving significant results. As a part of traditional 46th Boxing Day-New Year's Canoe and Kayak race, the 21st Memorial "Tibor Šaramo" Race was held on 26 December, where the member of KONČAR Canoe Club and the former Croatian national wild water canoeing team member Tomislav Hohnjec won.

KONČAR's Mountaineering Associations

There is a long tradition of nature walks among employees of KONČAR, which supports two mountaineering societies gathering its employees: PD KONČAR and PD KONČAR KET. KONČAR mountaineering societies KET gathers around 69 members who mostly organize their excursions on the Croatian mountains, and once a year a longer excursion on the mountain chains of Europe. In 2016, they organized 15 mountain excursions, and in the last week of July, members of the company were on an annual trip to the Italian provinces of Lombardy and Piedmont.

CULTURE, ART AND EDUCATION

In the field of culture, the creation of young people is promoted and supported by numerous cultural projects; the work of associations and groups contributes to the preservation of historical and cultural heritage.

Sinjska alka

KONČAR supported the 301st anniversary of Sinjska alka, the unique historical, cultural, ethnographic and sporting event in the Cetina River region celebrating knightly victory over Turkish invaders. Its value has won it numerous awards. In 1979, it was declared a movable cultural monument. In 2010, it was listed among UNESCO's non-material cultural heritage monuments, and in 2012 it was pronounced the best cultural event in Croatia.



“Ivo Vuljević” Jeunesse Musicales Award

Since 1988, the Jeunesses Musicales Croatia has awarded the “Ivo Vuljević” prize to the most prominent young musician in the past year. This places the attention of the public on their talents, efforts and abilities. The prize has traditionally been supported by KONČAR, and for special achievements in 2016 violinist Katarina Kutnar was awarded. Experience has shown that young artists rewarded with this acknowledgment gain internationally successful soloist careers and were motivated and supported at the right time.



“Croatia from Above” Photo Exhibition

The photo exhibition “Croatia from Above” by Davor Rostuhar, capturing Croatia's cultural beauties and natural heritage, and supported by KONČAR, was shown through educational posters in 260 high schools in 17 counties all over Croatia. This is more than 200 bird's eye photographs of natural beauty, people and customs of our country. The author has opened an exhibition in 110 schools. The aim of the project is to bring students closer to the cultural and

natural diversity of Croatia as well as material and non-material heritage and to point out the importance of their preservation. The project received a recommendation from the Education Agency, supported by the Ministry of Science, Education and Sports and the Ministry of Culture.

SOELA - The Solar Car Race

KONČAR was one of gold sponsors of the fourth Soela Solar Car Race organized by the Technical School Sisak. Participants were technical and vocational school pupils who were operating a solar car, which they devised and constructed. The race is gathering more and more competitors every year, and this year 17 teams were divided into two categories. In the class of Soela with the given technical characteristics, the team from Slovenia won, while the freestyle race was won by French school pupils. As part of the program, first conference on solar and electric cars and second exhibition of electric and hybrid cars were held. Everyone interested could watch and drive 20 cars.



Governance body members, employees and business partners are aware of anti-corruption policies and procedures adhere to the principles of the Code of Ethics work in their operation and everyday activities. Operating on worldwide markets, the Group has managed to ensure its reputation of a loyal and correct business partner.

No instances of corruption were recorded in the Group.

ANTI-CORRUPTION

G4-SO3/5

UN GC 10

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

POLITICAL CONTRIBUTIONS

G4-SO6

UN GC 3

KONČAR supports correct and transparent market competition relations in all business activities and in all locations. No instances of anti-competitive behaviour have been recorded in the Group.

ANTI-COMPETITIVE BEHAVIOUR

G4-SO7

KONČAR Group adheres to all positive legal regulations with regards to its business operations. Some minor exceptions were recorded in exceptional cases, which were eliminated following the issuance of a warning. Every year, however, funds foreseen for dispute resolution mechanisms are reserved.

COMPLIANCE

G4-SO8

Product and equipment of KONČAR Group for power generation, distribution and transmission of electrical energy require a high degree of responsibility from two aspects - primarily, safety and work reliability preventing additional electricity supply problems (on which everyday activities are dependent) and preserving environment in which the equipment is installed. Passenger transport products must also be safe having a significant environmental component what is the main characteristic of KONČAR low-floor tramcars, electric and diesel-electric multiple units. KONČAR Group assumes large responsibility for its products on the market and tries to operate the entire production chain by monitoring the quality of each individual process.

PRODUCT RESPONSIBILITY

G4-PR1

No violation of regulations and voluntary codes in relation to products and services affecting health and safety was recorded in the reporting period and the above was confirmed by ISO 9001, ISO 14001, OHSAS 18001 and ISO/IEC 27001.

CUSTOMER HEALTH AND SAFETY

G4-PR2

Details as to which KONČAR Group companies are awarded certificates for said standards are provided on page 14 of this Report.

According to organization's procedures for product and services information and labelling, each product has its manufacturer's label, basic technical data typical of the product category and special data characteristic or relevant to the given product. Technical descriptions and instructions for safe use are prepared for more complex products and plants. If it is required, seminars for training end-users are organized.

PRODUCT AND SERVICE INFORMATION

G4-PR3

No violation of product and service data and labelling-related regulations and voluntary codes was recorded in the reporting period.

COMPLIANCE

G4-PR4

KONČAR Group does not possess the overall results of measuring customer satisfaction process at this moment. Depending on the product category, companies have developed defined procedures for setting methods and the frequency of measuring customer satisfaction.

MEASURING CUSTOMER SATISFACTION

G4-PR5

KONČAR Group does not sell products which have been banned on specific markets. All generation and transmission equipment is sold upon the issuance of all licences and the completion of public consultation.

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G4-PR6

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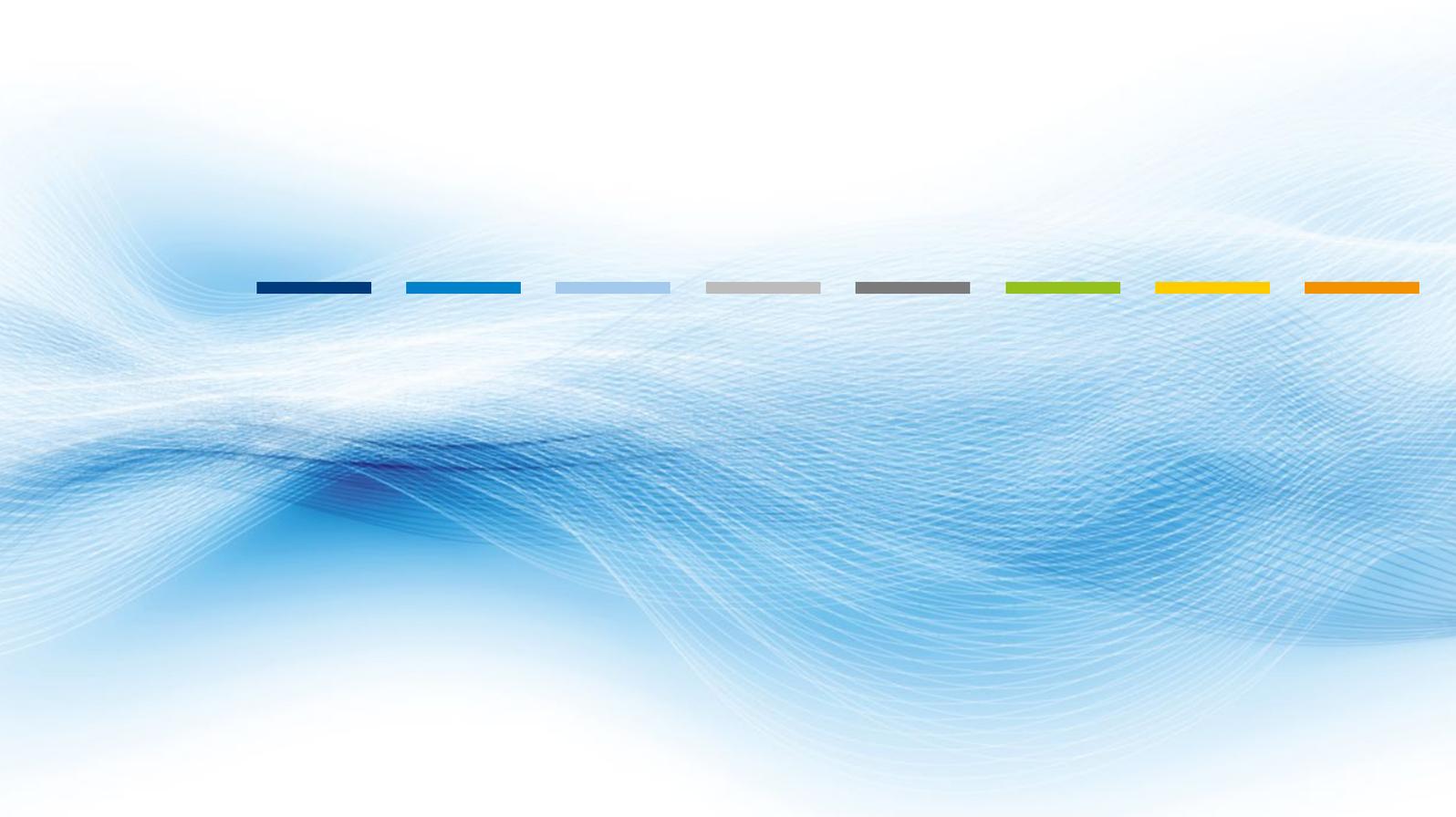
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