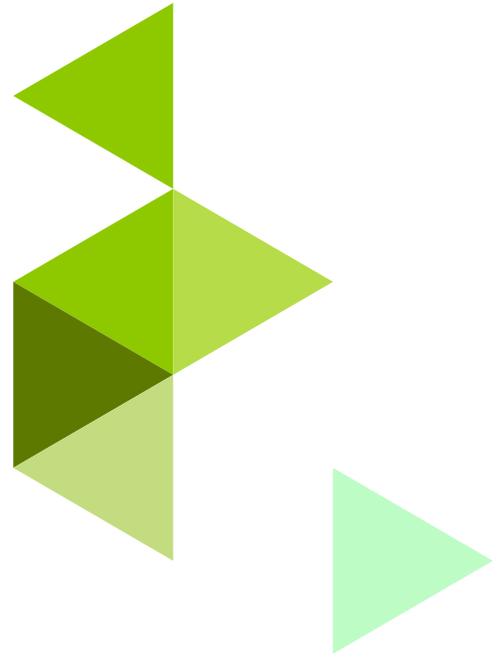


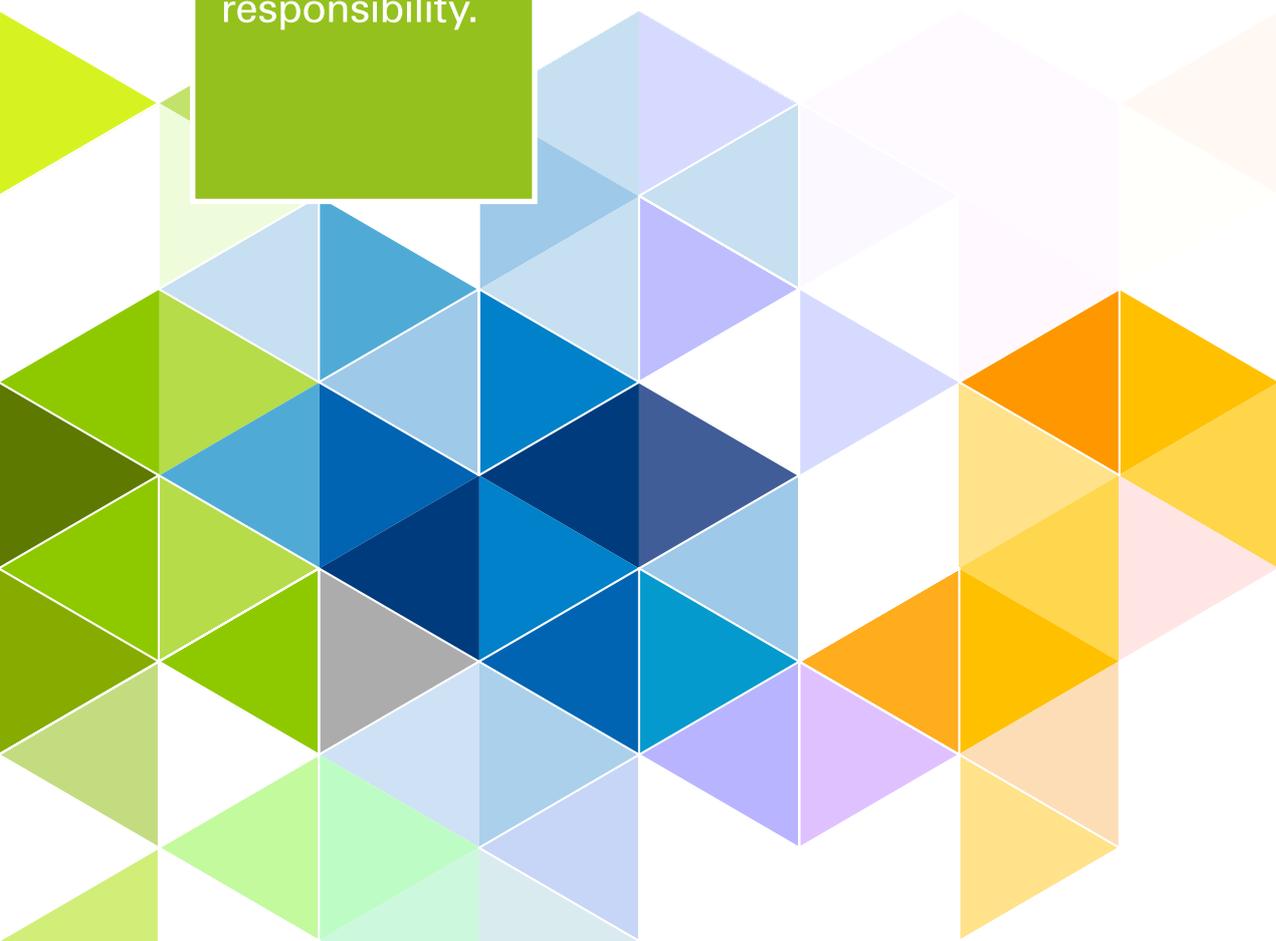


KONČAR

Corporate Social Responsibility
Report 2017



tradition.
knowledge.
responsibility.



Content

Foreword by the Chairman of the Management Board	5
Organizational profile	6
Ethics and Integrity	15
Governance	5
Stakeholders	17
Material Topics	20
Economic Standards	22
Environmental Standards	27
Social Standards	29
GRI Content Index	38
GRI Standards and UN GC Principles Comparative Table	40

Abbreviations

used in the Report

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

KONČAR Group

Corporate Social Responsibility
Report 2017

tradition.
knowledge.
responsibility.





Dear readers,

Twelve years ago KONČAR committed to a regular publishing of a structural overview of its CSR activities. Keeping in touch with the world reporting trends and development, KONČAR was one of the first companies which opted for the implementation of new Global Reporting Initiative (GRI) Standards in 2017.

In addition to complying with the GRI Standards, this Report has also been developed in line with the UN Global Compact Agreement principles, the initiative which we have joined from

the very start of operations in Croatia.

Despite challenging macroeconomic conditions faced by KONČAR Group companies on most markets, business results achieved in 2017 showed a continuation of Group's stable operations. Revenue from the sale of products and services, accounting for 91 percent of the overall revenue, amounted to HRK 2,823.4 million. Due to taking appropriate activities and measures and expanding its business operation to new foreign markets, KONČAR Group companies increased its revenue from the sale of products and services abroad by 11.2 percent compared to the 2016 results.

One of the result of the indepth organization and business analysis, ended in 2017, was merging of companies operating in switchgear, medium- and low voltage machines. The process was completed on 29 December 2017 by merging KONČAR - Medium Voltage Apparatus, KONČAR - Switchgear and KONČAR - High Voltage Switchgear and establishing a new company KONČAR - Switchgear Inc. aimed at achieving a major synergy effect by coordinating market presence, a more efficient development of new products, and reducing operating costs.

In the course of these activities we have always taken care of the responsibility as an integral part of KONČAR business processes through all the phases. Responsibility to the environment, to the community in which we operate, and primarily to our employees.

KONČAR Group systematically supports and encourages the values in which the culture of work, creativity and excellence takes a significant place, and the company development relies on human resources. This is why a major part of this Report is dedicated to the employee-related activities - education, personal advancement, sports and humanitarian activities. I am exceptionally glad to find these activities increasing in number and content, which proves that the corporate social responsibility in KONČAR Group has truly become an everyday practice.

Regards,

Darinko Bago
Chairman of KONČAR Management Board

A stylized handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the right.

**Foreword by the
Chairman of the
Management Board**

► **102-14**

Organizational profile

Name of the organization

102-1 ◀

This CSR Report was prepared by KONČAR Group consisting of KONČAR - Electrical Industry (parent company), 15 dependent companies and two affiliates. The companies within the Group operate under the KONČAR name by adding its own (company name).

Activities, brands, products, and services

102-2 ◀

KONČAR Group operates within the following business areas:

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

The production scope of KONČAR Group includes:

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

Location of headquarters

102-3 ◀

Fallerovo šetalište 22,
10000 Zagreb

Location of operations

102-4 ◀

Apart from doing business domestically, KONČAR Group also operates abroad through two of its representative offices: in Mostar (Bosnia and Herzegovina) and in Belgrade (Serbia).

Ownership and legal form

102-5 ◀

KONČAR - Electrical Industry is a joint-stock company. Its shares have been quoted in the Official Market of the Zagreb Stock-Exchange. The shares are recognisable under their KOEI-R-A ticker. According to 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 2017 price trend of KONČAR - Electrical Industry share was in line with the overall market trend. The share price was at its highest in February 2017 (HRK 870.00), and at its lowest in October (HRK 660.03) resulting in the average price share of HRK 714.95 in 2017.

As at 31 December 2017, KONČAR - Electrical Industry owned 5,861 own shares accounting for 0.23 percent of the equity.

More details on share trends are available in the Corporate Business Report on www.koncar.hr/en/investors (Chapter 8 - Shares).

Shareholder	31 December 2017		31 December 2016	
	No. of shares	Owner-ship stake %	No. of shares	Owner-ship stake %
HPB (Capital fund)	724,515	28.17	724,515	28.17
Addiko Bank /PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
Societe Generale / AZ OMF	377,429	14.67	377,429	14.67
SOCIETE GENERALE - Splitska banka / Erste Plavi mandatory pension fund	359,239	13.97	359,239	13.97
Restructuring and Sale Center / Croatia	83,610	3.25	57,982	2.25
Floričić Kristijan	50,714	1.97	50,714	1.97
Addiko Bank / RBA OMF	47,636	1.85	48,291	1.88
Zagrebačka Banka / AZ Profit Voluntary Pension Fund	32,803	1.28	28,928	1.12
PBZ / Collective Client Custodian Account	24,251	0.94	29,050	1.13
Zec Branislav	22,843	0.89	22,843	0.89
Other shareholders	422,290	16.41	446,339	17.35
KONČAR Inc. (treasury stock)	5,861	0.23	5,861	0.23
Total	2,572,119	100	2,572,119	100.00

The 2017 exports amounted to HRK 1,566.4 million, which was an increase by 11.3 percent or by HRK 158.8 million compared to 2016. Exports accounted for 55% of the overall earned revenue.

Markets served

► 102-6

The revenue from the sale of products and services on the domestic market was HRK 2,823.4 million, which was by HRK 188.5 million or 13% less compared to the 2016 results.

In the structure of revenue from the sale of products and services on the domestic market, revenue from the sales of products and services to HEP Group companies (HEP-Proizvodnja, HEP-Operator distribucijskog sustava, HOPS) amounted to HRK 492 million (39% of total revenue from the sale of products and services on the domestic market). Compared to 2016, said sale to HEP rose by 3.2%.

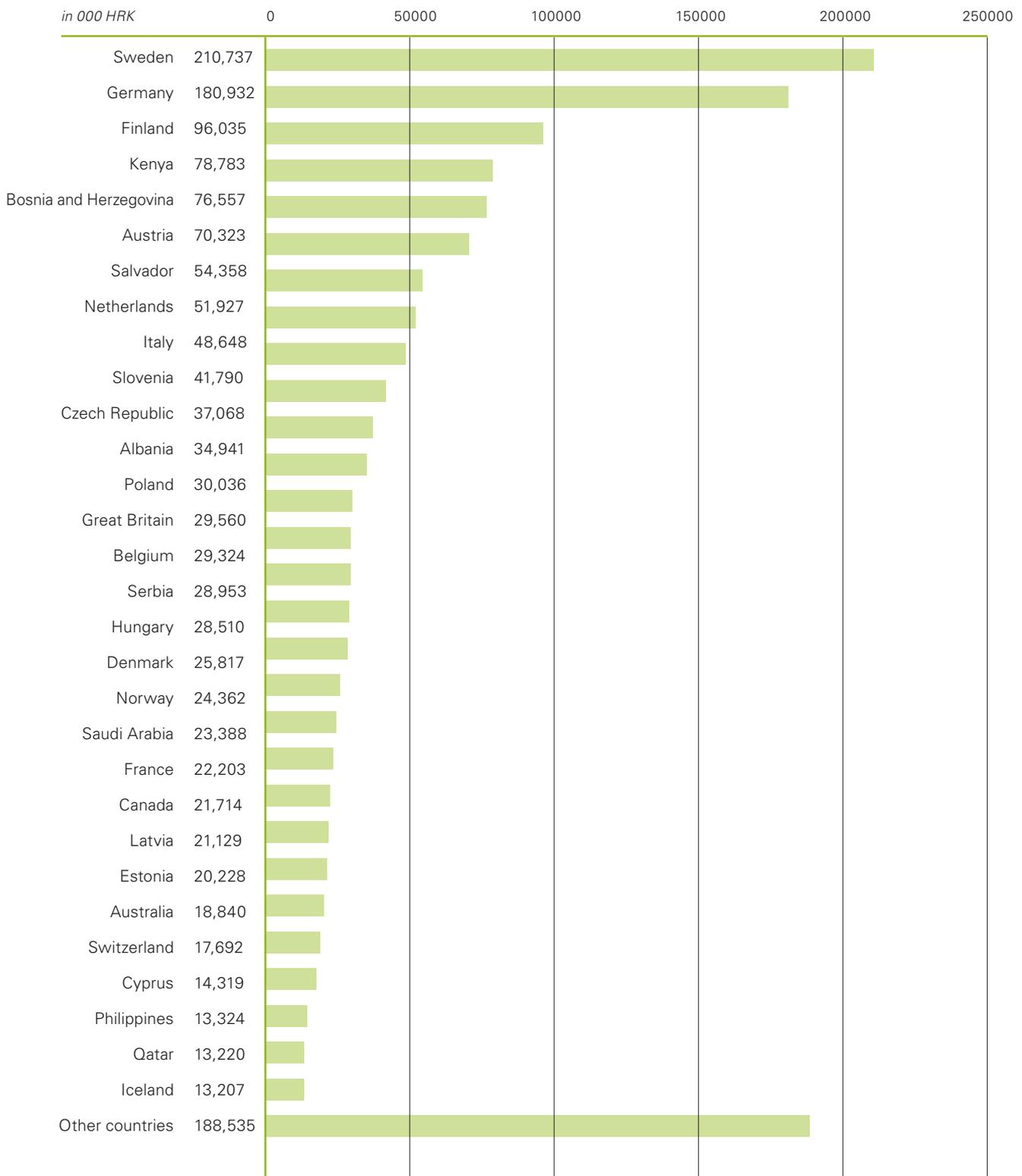
Other significant customers on the Croatian market, which accounted for revenue from the sale of products and services, include KONČAR - Power Transformers in the amount of HRK 84.8 million (7% of total domestic revenue) and Zagreb Holding - ZET in the amount of HRK 62.6 million or 5% of the overall revenue earned domestically.

The revenue from the sale of products and services abroad amounted to HRK 1,569 million, which was by 12% more than in the same period the year before.

Exports accounted for 55% of the overall revenue from the sale of products and services. The biggest export contract, accounting for 13% of the overall exports and worth HRK 210.7 million was for Sweden (KONČAR - Distribution and Special Transformers and KONČAR - Generators and Motors). German market accounted for 12% of exports with HRK 181 million (KONČAR - Distribution and Special Transformers and KONČAR - Metal Structures). The export of goods and services to Finland amounted to HRK 96 million, to Kenya HRK 78.8 million (the commencement of contract delivery for the refurbishment of three generators in Kamburu hydropower plant). Other significant exports of goods and services include Bosnia and Herzegovina (HRK 76.6 million), Austria (HRK 70 million), Salvador (HRK 54 million), and the Netherlands (HRK 52 million).

Compared to the same period 2016, a significant increase of revenue from the sale of products and services abroad was earned on the market of Kenya (increase of HRK 78 million), Salvador (increase of HRK 44 million), and Finland (increase of HRK 35 million).

Export Countries in 2017



Scale of the organization

► 102-7

	Number of employees 31 Dec 2017	TOTAL REVENUES	TOTAL EXPENSES	CORPORATE TAX	PROFIT/LOSS AFTER TAXES	SUBSCRIBED CAPITAL TOTAL	SUBSCRIBED CAPITAL PARENT COMPANY
		Achieved 2017	Achieved 2017		Achieved 2017.		
Power Plant and Electrical Traction Engineering	271	572.271.081	563.474.209	1.633.254	7.163.618	50.577.000	50.577.000
Generators and Motors	501	290.349.306	276.133.802	3.685.635	10.529.869	107.927.700	107.927.700
Switchgear *	221	155.214.165	154.541.157		673.008	105.033.440	105.033.440
Distribution and Special Transformers	539	906.640.302	863.582.209	1.550.578	41.507.515	76.684.800	40.439.400
Instrument Transformers	259	181.221.501	174.132.239	1.087.030	6.002.232	18.989.100	11.766.600
Electronics and Informatics	256	158.845.803	156.787.773		2.058.030	47.027.280	35.286.420
Metal Structures	407	219.170.735	218.656.263		514.472	24.645.600	24.645.600
Electric Vehicles	256	155.523.937	137.595.324	2.939.098	14.989.515	47.026.800	35.288.700
Renewable Sources	4	24.076.374	64.578.260		-40.501.886	130.312.400	130.312.400
Engineering Co. for Plant Installation and Commissioning	125	126.963.659	122.733.291	1.074.931	3.155.437	11.827.500	5.288.100
Small Electrical Machines	185	97.502.184	86.928.979	1.975.631	8.597.574	41.641.800	41.641.800
Household Appliances	65	182.908.095	177.389.547		5.518.548	17.834.100	17.834.100
Low Voltage Switches and Circuit Breakers	183	49.144.685	51.097.051		-1.952.366	60.499.300	60.499.300
Electrical Engineering Institute	170	84.904.780	77.460.090	1.319.267	6.125.423	40.763.520	40.763.520
Infrastructure And Services	149	61.392.473	55.407.215	1.090.640	4.894.618	49.891.600	49.891.600
Total Dependent Companies	3.591	3.266.129.080	3.180.497.409	16.356.064	69.275.607	830.681.940	757.195.680
KONČAR Inc.	48	184.850.712	115.776.268		69.074.444	1.208.895.930	
Total Parent And Dependent Companies	3.639	3.450.979.792	3.296.273.677	16.356.064	138.350.051	2.039.577.870	757.195.680

*explanation in GRI Standard 102-10

There were no major changes in the number of workers during the reporting period. On 31 December 2017, KONČAR Group had 3639 employees, of which 32 PhDs and 48 Masters of Science. Out of the total number of the employed, 1412 are highly educated.

Information on employees and other workers

The overall average age of KONČAR employees in 2017 is 44.3. The average age of new employees is 37.1. The employment of younger educated workers with a degree from the Faculty of Electrical Engineering and Computing prevailed.

► 102-8
UN GC 6

In the structure of KONČAR employees, male gender prevails. By employment type, permanently employed prevail, with a full-time employment of 40 hours per week.

KONČAR Group

Gender	Contracts				
	Fixed-term	Indefinite term	Internship	Regarding rights, obligations and salary	Regarding special rights, obligations and salary
M	307	2357	30	121	34
F	47	699	6	22	16
Total	354	3056	36	143	50

Employees by region and gender

	Total	M	F
Croatia	3636	2848	788
B&H	2	1	1
Serbia	1		1
Total	3639	2849	790

In 2017, three new KONČAR employees obtained their PhD degrees having defended their work-related thesis. These are as follows:

Mladen Marković from KONČAR - Distribution and Special Transformers got his PhD degree from the Faculty of Electrical Engineering and Computing (FER) of the Zagreb University on 19 May 2017 by defending his doctoral thesis in technical sciences titled 'Unified method for determining a breakdown voltage of insulation liquids subject to alternating voltage'.

Petar Gabrić from KONČAR - Electrical Engineering Institute got his PhD degree from FER on 18 July 2017 by successfully defending his doctoral thesis titled 'The Methodology of Experimental Research of Dielectric Strains in Oil-Barrier Insulations Transformer System'.

Andrija Barić from KONČAR - Power Plant and Electric Traction Engineering defended his doctoral thesis titled 'The Interconnection between Corporate Social Responsibility and Export Activities of Medium and Large Croatian Companies' at the Faculty of Economics in Zagreb on 20 November 2017.

Supply chain
102-9

The supplier relation management is of strategic importance for KONČAR Group. Suppliers are classified by their strategic importance i.e. according to their added value for the company.

Adhering to high quality standards, a portion of supply turnover is carried out with local and primary producers thus contributing to the development and the stability of local community.

KONČAR Group has established a business cooperation with suppliers from more than 70 countries around the world. The EU suppliers account for the majority of import structure (52%).

KONČAR Companies have established multi-year business relationship with suppliers and often enter into business cooperation agreements.

The annual procurement value is about HRK 1.3 billion, of which 48% is procured abroad, primarily in Europe.

Despite some companies' own specific range of products and services, 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, some procurement is conducted via other companies.

More detailed information on key impacts, risks and opportunities is available in the 2017 Corporate Business Report on www.koncar.hr/en/investors (Chapter 7 - Risk Exposure)

Significant changes to the organization and its supply chain
102-10

The Management Board of KONČAR - Electrical Industry, with the consent of the Supervisory Board, has been continuously involved in the process of operational restructuring in order to ensure Group's market position, profitability and its further development.

The 2016 CSR Report announced a decision to conduct a business analysis aimed at increasing the synergy effects in KONČAR Group. For the purpose of the analysis, the Boston Consulting Group was commissioned to work with the representatives of KONČAR to identify operating rationalization and optimization measures and to improve the Group's market position. Said analysis was completed in 2017 and presented to the Supervisory Board and management boards of KONČAR Group companies in the form of the document titled 'The Analysis of Business Operations aimed at Increasing the Synergy Effect in KONČAR Group'.

One of the recommendations presented by the consultants was to merge the companies operating in switchgear, medium- and low voltage machines. The process was completed on 29 December 2017. The merger of KONČAR - Medium Voltage Apparatus, KONČAR - Switchgear and KONČAR - High Voltage Switchgear was aimed at achieving a major synergy effect by coordinating market presence, a more efficient development of new products, and reducing operating costs. New formed company has been given a name KONČAR - Switchgear.

Based on the study findings conducted by the Boston Consulting Group, the activities connected with the investment in the Metal Processing Center continued in 2017 in KONČAR - Metal Structures.

The Digital Transformation Programme, consisting of a number of projects which aim is to change the method of operations in key segments and production units was launched during this reporting period. The training course for the management structures in KONČAR Group companies was organized to inform them of the importance, possibilities and objectives of said project, which will be conducted in several phases in cooperation with relevant partners for individual areas and based on the implementation of new production and business process technologies.

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 arising from the implementation of new technology until complete knowledge and understanding of its environmental and health impact has been obtained.

Precautionary principle or approach

► 102-11

KONČAR accepts and implements international and local principles, charters and standards that contribute to product quality, better work and production processes as well as the preservation and enhancement of natural and social environments.

External initiatives

► 102-12

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 Governance Principles adopted by the Management and the Supervisory Boards of KONČAR - Electrical Industry on 17 April 2008 regard:

- accountable management;
- definition of corporate governance procedures based on adopted recognised international standards; and
- operations monitoring, with the underlying purpose of establishing high corporate governance standards and transparency of operations as the groundwork for protecting shareholders, investors and other stakeholders, as well as for caring 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. In line with the Sustainable Development Policy, the Group implements ISO 9001 Quality Management System, ISO 14001 Environment Management System, OHSAS 18001 Occupational Health and Safety Management System, ISO/IEC 27001 Information Security Management System and ISO 50001 Energy Management. Many other sets of standards and norms regarding individual products are being adhered to keeping in line with client and user requirements.

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

KONČAR - Electrical Engineering Institute signs the Diversity Charter

The formal signing ceremony of the Croatian Diversity Charter was held in Zagreb on 4 October 2017 in the organization of the Croatian Business Council for Sustainable Development (HR PSOR).

The Charter was signed by 34 organizations and companies, including KONČAR - Electrical Engineering Institute by Siniša Marijan, PhD, the president of the of the Management Board.

The Diversity Charter is a document signed by business and other organizations committing to the implementation of diversity and non-discrimination policies in the work environment. The organizations Charter signatories are expected to adopt the policy of diversity compliance, implement and promote the diversity principles and to report on their activities in this area.

The Diversity Charter is an initiative launched in 16 EU countries and funded by the European Commission. The Croatian charter was implemented within a joint project of the Croatian Business Council for Sustainable Development (HR PSOR) and partners from Slovenia and Romania.

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

Membership of Associations

▶ 102-13





The Business Partner Regional Award ceremony was held in Belgrade on 7 June. Said award was accepted by Darinko Bago, the Chairman of KONČAR Management Board on behalf of the company. The motto of this award is 'In business as in life, the partner is the key'. Its objective is to promote the companies and institutions which encourage and nurture good business habits, take care of social community, respect environmental norms and achieve good business results.

In the organization of the Association of Croatian Inventors, the 15th international exhibition of innovations, new ideas, products and technologies-ARCA was held from 19 until 21 October in the National and University Library in Zagreb. The ARCA gold medal was awarded to a group of authors from KONČAR - Distribution and Special Transformers for the green distribution transformer integrating all current EU market requirements. The ARCA silver medal was awarded to a group of authors from KONČAR - Electrical Engineering Institute. The ARCA bronze metal was won by the project team from KONČAR - Power Plant and Electric Traction Engineering for the Plug-and-Play system in SCADA applications in the electric power system.



KONČAR - Distribution and Special Transformers won the 'Zlatna kuna' plaque in the category of large Zagreb-based companies. The award was presented for their business results as well as for shown financial, technological and innovative excellence.

In late November 2017, KONČAR - Electrical Engineering Institute was awarded the CSR Index for medium-sized companies, the award for the finest achievements in corporate social responsibility. The CSR Index is a joint initiative launched by the Croatian Business Council for Sustainable Development (HR PSOR) and the Croatian Chamber of Commerce (HGK). The method includes the assessment of a Croatian company's corporate social responsibility based on the ranking system which enables the practical assessment and benchmarking. KONČAR - Institute has won six CSR Index awards so far.



Ethics and integrity

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.

On 12 September 2005, KONČAR - Electrical Industry signed the Declaration on the Adoption of the Code of Ethics in Business Operations, ratified by the Assembly of the Croatian Chamber of Commerce. The 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.

Values, principles, standards and norms of behaviour

▶ 102-16

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 works' councils, trade union commissioners and/or persons in charge of staff.

Mechanisms for advice and concerns about ethics

▶ 102-17

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

Governance

KONČAR Group consists of KONČAR - Electrical Industry as a parent company and 15 dependent companies in which the parent has a controlling interest (more than 50% of votes in the General Assembly). Apart from ordinary, some companies have also listed preference shares. The Group has two affiliated companies.

Governance structure

▶ 102-18

The companies belonging to the Group's structure are legally autonomous entities, while the parent company exercises a supervising role, provides strategic direction and supports them via companies' supervisory boards and shareholders' assemblies pursuant to the Companies Act, the KONČAR - Electrical Industry Inc. Articles of Association and the Articles of Association of individual companies. Furthermore, the parent company 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.

The Supervisory Board appoints and recalls the Chairman of the Board and Board members. Their term of office is five years with an option of reappointment. Pursuant to the Companies Act and the Company's Articles of Association, the Management Board is held personally responsible for running business operations and in doing so, they are obliged and authorised to take any actions and make decisions deemed necessary for successful Company management. The Supervisory Board's consent is required to make certain decisions defined under said Articles of Association.

Composition of the highest governance body

▶ 102-22

The Management Board of KONČAR - Electrical Industry consists of the following members:

Darinko Bago	Chairman
Miki Huljić	Board member in charge of Finances
Marina Kralj Miliša	Board member in charge of Legal, General and HR Affairs
Davor Mladina	Board member in charge of Electricity Transmission and Distribution, Industry and Trade
Miroslav Poljak	Board member in charge of Electricity Generation, Corporate Development and ICT
Ivan Tomšić	Deputy Board member in charge of Corporate Development and ICT
Jozo Miloloža	Board member until 5 February 2017, deputy Board member until 5 August 2017

Supervisory Board

Pursuant to the provisions of the Companies Act and the Articles of Association of KONČAR - Electrical Industry, the General Assembly reaches decisions on the appointment and the recall of the Supervisory Board. The Supervisory Board is responsible for appointing and recalling members of the Management Board and for supervising the Company's operations. Major transactions and business decisions (the amount of such transactions is defined by the Rules of Procedure of the Supervisory Board) require the Supervisory Board's consent.

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

Petar Vlaić	Chairman
Josip Lasić	Deputy Chairman
Nikola Anić	member
Jasminka Belačić	member
Vicko Ferić	member
Branko Lampl	member
Joško Miliša	member
Vladimir Plečko	member

Members of the Supervisory Board were elected for a period of four years as of 12 July 2016.

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

The seminar for employee representatives in the Supervisory Boards

According to current practice and the expressed interest in 2017, a seminar for workers' representatives appointed as members in the supervisory boards of KONČAR companies was organized. Representatives of thirteen companies participated with interest listening to lectures on the role of a supervisory board in a joint-stock and a limited liability company, and on financial reporting to the supervisory board in both of the above-mentioned companies.

Stakeholders

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 and their engagement

► 102-40/42/43/44

Stakeholders have been involved in the production of this Report segment. The communication exists throughout the year - permanently and as the need arises.

Stakeholders	Type of Communication	Stakeholders	Type of Communication
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 sustainability reports - annual assessments 	Local communities	<ul style="list-style-type: none"> - Volunteers Club - donations and sponsorships - official web page - LinkedIn - direct (visits, meetings) - written (e-mail, memos) - KONČAREVAC - sustainability reports
Customers/ Users	<ul style="list-style-type: none"> - direct contact (visits, meetings, audits) - professional training - official web page - KONČAREVAC - e-mail - LinkedIn - business and sustainability reports - fairs and conferences 	State authorities	<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"> - stock exchange announcements - Croatian Financial Services Supervisory Agency (HANFA) - the Croatian news agency (HINA) - official web page - KONČAREVAC - business and sustainability reports
Owners/ Shareholders	<ul style="list-style-type: none"> - regular and extraordinary assemblies - memos - e-mail - KONČAREVAC - official web page - business and sustainability 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, releases
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 - topic-based meetings
		Business and professional public	<ul style="list-style-type: none"> - conferences - professional publications - topic-based meetings

Communication with stakeholders

Below listed are some of the most important means of communication and the types of engaging stakeholders during this reporting period.

KONČAREVAC Corporate Bulletin

All news related to the Group's business, as well as topics covering numerous stakeholders such as employees, the support to local and other communities are published in KONČAREVAC. KONČAREVAC is published ten times a year with a circulation of 4200. Apart from employees, it is distributed to about one thousand addresses in Croatia and abroad. KONČAREVAC is more than 50 years old, and its 1432nd issue was published in December 2017.

70th anniversary of providing public information in KONČAR

The year 2017 marked the 70th anniversary of publishing information in KONČAR. The first issue of 'Svjetlost', the factory bulletin was published on 7 November 1947 as one of the first factory newsletters in Yugoslavia. 'Svjetlost' was published for three years. From January 1956, the employees and the public were informed of company performance by means of a bimonthly issue of 'Vjesnik' for eight years. Končarevac, launched on 9 November 1964, became a weekly in January 1965. It was special because it was published in Croatian and Macedonian as KONČAR operated in Macedonia at that time. Končarevac weekly was published until 18 October 1990. Following a brief interruption caused by bankruptcies and changes in KONČAR and its environment, its monthly issue saw the light of day yet again in December 1990.



Fairs and Conferences

During 2017, KONČAR participated in a total of 20 fairs and conferences. All eight trade fairs with KONČAR participation were held abroad in five countries (UAE, Czech Republic, B&H, Sweden, and Germany). Five out of twelve professional conferences were held in Croatia, and seven abroad (Marocco, Montenegro, Slovenia, Serbia, Bosnia and Herzegovina, Macedonia, Spain). The company occupied a total of about 560 m² of exhibition space, with the participation of 15 Group companies and a total of 412 employees.

Official web site

www.koncar.hr/en provides the key business, product and other KONČAR Group related information. In addition, most of the companies have their own web pages containing details on their business activities and references. As specified in the last year's Report, due to changes in technology and design as well as functionality trends, the redesigning process of the Group's online site was completed in 2017.

Social networks

In line with keeping with the trend of major virtual world presence, KONČAR continued with its LinkedIn activities in 2017 - the world's largest business community with about 10,000 followers on 12 profiles of KONČAR companies, with more than 200 posts.

Media

In 2017, 1567 news regarding KONČAR were published in newspapers, on radio and television stations and online.

Most often these were related to business, new projects and products, as well as sponsorships and donations.

In the structure of all KONČAR - related public announcements, the annual analysis of media releases in the observed period by media and tone shows the major share of positive radio news (53%) as well as television ones (51%), with a somewhat lower share of positive press releases (47%). The share of positive posts is the lowest online (30%). Relatively, the share of negative KONČAR Group presence is low and occurs only online-less than 1%.

The Collective Agreement includes all employees (100 percent).

Collective bargaining agreements

▶ 102-41

UN GC 3

POWER PLANT AND ELECTRICAL TRACTION ENGINEERING	HOUSEHOLD APPLIANCES	ELECTRICAL ENGINEERING INSTITUTE
GENERATORS AND MOTORS	SMALL ELECTRICAL MACHINES	INFRASTRUCTURE AND SERVICES
SWITCHGEAR	LOW VOLTAGE SWITCH. AND CIRCUIT BREAKERS	
DISTRIBUTION AND SPECIAL TRANSFORMERS		
INSTRUMENT TRANSFORMERS		
ELECTRONICS AND INFORMATICS		
METAL STRUCTURES		
ELECTRIC VEHICLES		
ENGINEERING CO. FOR PLANT INSTALLATION & COMMISSIONING		
RENEWABLE SOURCES		

Entities included in the consolidated financial statements

▶ 102-45

ASSOCIATED COMPANIES

POWER TRANSFORMERS
POWER ENGINEERING TRANSFORMATORY



Material Topics

102-47 ◀

ECONOMIC STANDARDS

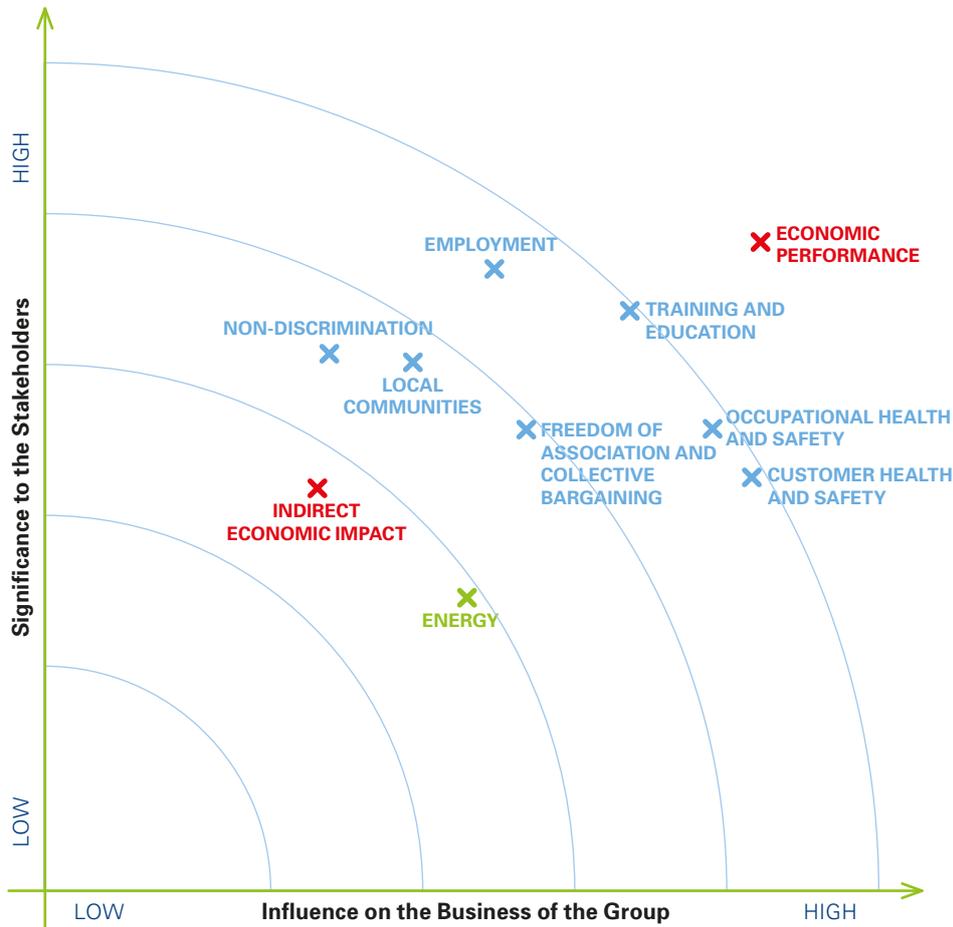
- ✗ - economic performance, GRI 201
- indirect economic impacts, GRI 203

ENVIRONMENTAL STANDARDS

- ✗ - energy, GRI 302

SOCIAL STANDARDS

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



Aimed at achieving a stronger synergy effect through market presence coordination, a more efficient development of new products and reducing operating costs, on 29 December 2017 the process of merging switchgear, medium- and low voltage machine operating companies was completed. KONČAR - Medium Voltage Apparatus was merged with KONČAR - Switchgear and KONČAR - High Voltage Switchgear. New company was given a name KONČAR - Switchgear.

Restatements of information

► 102-48

In May 2017, KONČAR - Distribution and Special Transformers (D&ST) signed the contract on the acquisition of the majority share in Power Engineering Transformatory (PET) from Czerwonaka, Poznan, Poland. The core activity of this Polish company is design, production, placement and maintenance of power transformers under 63 MVA and voltage under 145 kV. Under the agreement, D&ST acquired a 74% share, and the investment will be used for the procurement of new equipment, factory restructuring and modernization, as well as HR. In addition to its financial injection, D&ST will also invest its know-how thus supporting further development and the emergence of a modern and competitive MV power transformer factory in Poland, and expecting the mid-term return on its investment.

As this is the first KONČAR Group report published as per GRI Standards, the review of the last report (made in line with G4 guidelines) was carried out in assessing the 2017 material topics. It has been found that in view of the reporting changes, the process of defining topics' material aspects must be repeated.

Changes in reporting

► 102-49

This year's report included 10 material topics with appropriate quality and quantity indicators.

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

Report profile

► 102-50/51/52/
53/54/56

It is published annually including the period from 1 January until 31 December 2017. The previous Report was published in May 2016. The option of core harmonization with the GRI Standards 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.

'This report has been drafted in accordance with the GRI standards: Core Option.'

Claims of reporting in accordance with the GRI standards

► 102-54

Topic - Specific Standards: Economic

Economic performance

GRI 201

KONČAR Group generated HRK 3,094.1 million in revenues in 2017, retaining the level of generated revenues the year before.

Despite being faced with the challenging macroeconomic conditions on most markets, KONČAR Group companies achieved business results in 2017 which reflect a continuation of their stable operations. Revenues from the sale of products and services, accounting for 91 percent of total revenues, amounted to HRK 2,823.4 million. Due to appropriate activities and measures, KONČAR Group increased income from the sale of products and services abroad, by expanding their business operations to new foreign markets, by 11.2 percent compared to the 2016 results.

The consolidated net profit of the Group amounted to HRK 108.1 million. Said profit is lower than in 2016, primarily due to one-off cost of the adjustment of fixed assets in KONČAR - Renewable Sources of HRK 37.6 million.

KONČAR - Electrical Industry generated HRK 69.1 million in profit in 2017. Despite increased cost and risk provision amounts, costs resulting from the merger of the companies operating in the medium- and high voltage areas as well as from the value adjustment of a share in KONČAR - Renewable Sources, the parent (KONČAR - Electrical Industry) recorded 7% higher operating results compared to 2016.

The Group has a stable balance sheet. The balance of total consolidated and source funds on 31 December 2017 was HRK 3,709 million. In the structure of funds, subscribed capital, reserves, retained earnings, the profit from current year and the non-controlling (minority) interest accounted for HRK 2,484.9 million, which was by HRK 36.6 million more than on 31 December 2016 accounting for 67% of total sources.

A sound number of signed contracts at the end of 2017 as well as additional efforts invested in finding new markets are realistic grounds for KONČAR Group companies to meet their planned 2018 business plans and to continue with the positive business trend.

More detailed information on economic performance is available on www.koncar.hr/en/investors under Corporate Business Report 2017 (Chapter 5 - Business Results and Financial Balance).

in 000 HRK

Direct economic value generated and distributed

201-1

	2017	2016	2015
Direct economic value generated and distributed			
Direct economic value generated (income)	3,094,080	3,111,844	3,296,460
Salaries and wages	554,786	537,346	509,926
Budget payments (tax)	16,356	22,298	18,235
Operating costs	2,417,255	2,373,308	2,621,764
Net financial costs	-4,088	2,405	-6,221
Investment into community (donations and sponsorships)	1,667	2,699	1,435
Retained economic value (net profit)	108,104	173,788	151,321

Defined benefit plan obligations and other retirement plans

201-3

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

In the preparation of annual financial statements for the year 2017, a provision was made for the cost of jubilee awards and severance indemnities in the amount of HRK 48.7 million. It includes the estimated amount of regular employee benefits (regular severance payments and jubilee awards), severance payments in accordance with the Collective Agreement constituting the right of the Group's employees. The current value of the provision is calculated on the basis of the number of employees, the amount of the pension, the working life on the balance sheet date and the discount rate of 2%.

The reserved amount fully covers planned severances and rewards for employees who met these conditions in 2017.

Indirect economic impacts

Apart from manufacturing products, KONČAR Group has affected the economy by investing in infrastructure - and beyond the scope of business activities of the organization. There were several such investments made during 2017.

Infrastructure investments and services supported

► 203-1

Infrastructural Project in Sesevski Kraljevac

Last year, Report provided more detailed information on the Sesevski Kraljevac Infrastructural Project. Having completed the detailed design for road rehabilitation in 2016, the consent from the City of Zagreb was issued under a special project for connecting to Industrijska cesta. In July 2017, all required works for the construction of the drainage, water supply and the site hydrant were contracted as well as for the road rehabilitation project.

War Veteran Monument Erected

KONČAR - Metal Structures built a war veterans monument, which unveiling ceremony was held on 12 April 2017 in Crikvenica. The monument consists of 184 three meter vertical heights. It is made of anti-corrosive steel. It was designed by X.3.M Architectural Studio, which representatives said during the unveiling ceremony that the monument would be impossible to make without huge enthusiasm and knowledge of KONČAR professional experts - its design is easy to draw, but its making and erection exceptionally difficult.



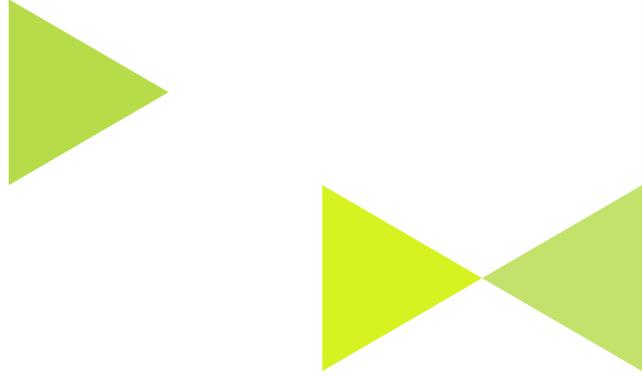
Traditional collaboration with the scientific and professional community continued in 2017. Various projects and activities with a number of scientific and educational institutions facilitate the identification, definition and implementation of various projects.

Significant indirect economic impact

► 203-2

Project STEM. Grow. Explore

KONČAR - Electrical Engineering Institute continued its cooperation with the 'Knowledge in action' Foundation which has launched a new programme cycle titled 'I am exploring the world of science and innovation' or STEM. GROW. EXPLORE. The Project has given an opportunity to teachers to connect education with practice through workshops and company visits so as to be able to recognize and direct students in developing their specific interests. On this occasion the Institute opened its doors on 12 May to a group of thirty teachers who were given an opportunity to look around Institute's laboratories following some general Group -related information and an introductory lecture given by the host.



During the reporting period, several projects were funded by the European Regional Development Fund.

SafeTRAM Project

In July 2017, KONČAR - Electrical Engineering Institute signed the contract with the Croatian Ministry of Entrepreneurship and Crafts on co-funding the SafeTRAM project - the system for increasing the security of public urban traction-based transportation. Funds were granted under the Operational Programme Competitiveness and Cohesion 2014-2020 for 'Enhancing a Development of New Products and Services Resulting from Research and Development.'

KONČAR - Electrical Engineering Institute is a leading project entity cooperating with the Faculty of Electrical Engineering and Computing in Zagreb.

The project objective is to develop electronic devices and accompanying software algorithms which will serve as an aid to tram drivers in increasing traffic security i.e. reducing the collision with other traffic participants. This three-phase project is planned to be completed until 2020.



Competency center - CEKONET

The competency center for advanced energy equipment - CEKONET is a joint platform gathering key companies, system operators and the academia involved in energy equipment and electric power systems in one place. Its main objective is to generate innovative and globally competitive products and services from the above specified areas.

KONČAR - Electrical Engineering Institute as a lead partner has gathered 12 partners: Faculty of Electrical Engineering and Computing in Zagreb, Faculty of Mechanical Engineering and Naval Architecture in Zagreb, Faculty of Chemical Engineering in Zagreb, KONČAR - Power Transformers, KONČAR - Instrument Transformers, KONČAR - Generators and Motors, HEP Generation, Croatian Transmission System Operator, Eltra-MG, MG servis and Elektroinstalacijska tehnika.

CEKONET cooperation will be carried out within three key activity groups as follows:

- research-development-innovation projects
- infrastructural activities (including building and furnishing of the new LAVESP laboratory as well as the upgrade of the existing laboratory infrastructure of the Institute)
- horizontal activities (education, marketing and testing activities, certification of off-the-shelf products)

The project funding is planned by obtaining the EU regional development grant following the invitation from the Ministry of Economy, Entrepreneurship and Crafts for the support of competency center development.



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

On the occasion of the Day of the Faculty of Electrical Engineering and Computing of the University of Zagreb, the 'Josip Lončar' prizes were awarded to best Faculty students and employees. KONČAR - Electrical Engineering Institute awarded financially one of the winners of the bronze Josip Lončar plaque for successfully graduating from the university.

During the formal session of the Faculty Council of the Faculty of Mechanical Engineering and Naval Architecture of the University of Zagreb, the best students, teachers and employees were awarded. KONČAR Companies take part in awarding students in order to encourage excellence and provide support to students. To this end, KONČAR - Electric Vehicles awarded the graduate students of mechanical engineering.

Cooperation with the academic community

Awards to best students of the Polytechnic of Zagreb

On the occasion of the KONČAR Day and the 96th anniversary of KONČAR Group, the traditional KONČAR Award was presented to the best graduate students of the Polytechnic of Zagreb on 24 January 2017. Under "The best investment is the one made in people" motto, established in April 2003, the award was presented to the best students of specialist studies in Electrical Engineering, Computing, Informatics and Mechatronics during the last academic year.

Elektrijada

The International Competition of Electrical Engineering Faculties - 'Elektrijada' - was held for the 57th time in Budva - Bečići in Montenegro from 20-25 May. This competition featuring a long standing tradition was participated by the students and employees of the Faculty of Electrical Engineering and Computing in Zagreb. KONČAR was its platinum sponsor.

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 industry-applied sciences was presented. The 2016/2017 recipients were Marinko Kovačić, PhD for his thesis on 'The Method of Optimizing the Three-Level Converter for Auxiliary Feeds of Traction Vehicles' and Petar Gabrić, PhD for 'The Methodology of Experimental Research of Dielectric Strains in Oil-Barrier Transformer Insulation'.

Procurement practices
GRI 204 ◀

KONČAR Group cooperates with 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. 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 the environment. Suppliers are requested to provide proofs (certificates) of compliance as well as meet other requirements. All existing and future suppliers are entered into the database. 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.

Proportion of spending on local suppliers
204-1 ◀

in 000 HRK

	2017		2016	
	Investment purchase	Procurement of raw and other material	Investment purchase	Procurement of raw and other material
Croatia	52,494	694,425	77,040	696,672
Abroad	18,465	632,448	23,487	703,329
Total	70,959	1,326,873	100,527	1,400,002

In the period January - December 2017, import of HRK 651 million was recorded. Raw and other materials were imported in the amount of HRK 632 million. Investment purchase accounted for HRK 19 million. In the same period 2017, income from the sale of products and services abroad amounted to HRK 1,569 million. The export coverage coefficient was 2.4.

Anti-Corruption
GRI 205 ◀
UN GC 10

KONČAR as a whole, as well as its individuals, adhere to the principles of the Code of Ethics and do not recognize corruption as a method of work in their operation and everyday activities. While operating on worldwide markets applying various business customs, criteria and conditions, the Group has managed to ensure its reputation of a loyal and correct business partner.

Anti-Corruption Policies and Procedures
205-2/3 ◀

Members of management bodies, employees and business partners are acquainted with anti-corruption policies and procedures and adhere to the principles of the Code of Ethics in their operations and everyday activities. KONČAR enjoys an international reputation of a loyal and correct business partner. No instances of corruption were recorded in the Group.

Anti-Competitive Behaviour
GRI 206 ◀

KONČAR supports correct and transparent market competition relations in all business activities, with all the entities and on all locations. No instances of anti-competitive, anti-trust or monopolistic behaviour have been recorded in the Group.

Topic - Specific Standards: Environmental

The environment is of particular importance as a large part of the equipment is installed directly into the environment (transformer stations, hydroelectric power plants and other energy facilities or rail vehicles). KONČAR has a defined Environmental Management Policy which is available on www.koncar.hr/en and communicated to all employees. In the process of the implementation of the revised ISO 14001:2015 - Quality Management System, which was presented in more detail in the last year's report, the Environment Management Policy has been revised complying with new standard requirements as well as new trends in environment protection.



The efficient use of energy and the use of RES represents a key in fighting against climate changes and in reducing the overall eco footprint of KONČAR Group. Systematic approach to management is also acknowledged by the fact that, during 2017, two KONČAR Group companies (KONČAR - Power Plant and Electric Traction Engineering & KONČAR - Energy and Services) were awarded ISO 50001 Energy Management Certificate.

Energy
▶ **GRI 302**
UN GC 7

In light of specific production and the production range of KONČAR Group companies, electricity annual consumption varies across company locations. Infrastructural investments continued during 2017 introducing upgraded technological processes resulting in an ongoing reduction of electricity consumption.

	Unit	Fallerovo site	Jankomir site	Borongaj site	S. Kraljevec site
Electricity	MWh	13,213.67	11,608.92	1,605.49	320.46

Energy consumption within the organization
▶ **302-1**

Photovoltaic power plant at Fallerovo šetalistište site

KONČAR - Energy and Services put the 17.90 kW photovoltaic power plant in operation on 11 September 2017 on the roof of Building C at Fallerovo šetalistište (northern part of the site housing the operational center). The purpose of said erection is to increase energy efficiency i.e. the production of electricity sufficient for covering a portion of consumption used by the building on the top of which said plant has been installed.

As per calculations made, the annual production of said plant has been estimated at 20,170 kWh, while the CO₂ reduction was 6.091 tonnes. This project was applied for funds by EIU under the public tender announced by the Environmental Protection and Energy Efficiency Fund. Having been accepted, the project was granted a 40% subsidy towards its overall value.



Reduction of energy consumption
▶ **302-4**
UN GC 8

Reduction of energy requirements of products and services

302-5 ◀
UN GC 9

Distribution transformer in line with environmental requirements

KONČAR Group companies have been active in monitoring new product energy-related requirements. A distribution transformer with characteristics integrating all current eco requirements set by EU market was presented at the largest industrial fair in the world - the Hannover Fair.

The transformer is equipped with the on-load voltage regulation switch, has very low losses as per the requirements set by the EU Regulation no. 548/2014 - level 2 (AkAA0), set to enter into force on 1 July 2021, has very low noise level, reduced magnetic field, and runs on environmentally friendly ester.



Water
GRI 303 ◀
UN GC 8

Projects and investments as well as regular maintenance regarding this material aspect continued in 2017. Major ones include the works on the construction of the system of drainage, internal water supply and the hydrant grid on the Sesevski Kraljevec site, contracted in July 2017, as well as the organization of sanitary facilities on the same location.

On the Fallerovo šetalište site, the critical hot water pipeline route was repaired in 2017 and the works on the reconstruction of the site water supply connection commenced.

Biodiversity
GRI 304 ◀
UN GC 7

KONČAR Group operates on six locations in Zagreb and has 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.

Significant impacts of activities, products, and services on biodiversity

304-2 ◀

KONČAR products and equipment meet the highest standards of equipment safety and produce a minimum environmental effect as proven by zero complaints and zero incidents so far. Decisions regarding the site and the construction of a facility are made by investors who must comply with relevant regulations and environmental standards after tenders for equipment procurement are announced with KONČAR as an equipment supplier. 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) as well as to rural areas. Our products have not caused any registered biodiversity disturbances.

Environmental compliance

307-1 ◀
UN GC 8

No major fines or non-financial sanctions caused by non-adherence to environmental law and regulations were registered in 2017.

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

Topic - Specific Standards: Social

In 2017, a total of 465 new workers were employed, averaging at 37.1 years. The youngest newcomer was 18.1 years old and the oldest 63. The average age of workers who left was 46.8 with the youngest being 19.3 and the oldest 65. Total of 486 workers left KONČAR during the reporting period.

A somewhat higher figure compared to the previous years is the result of the synergy activities and company mergers, which were specified in more details in the previous report chapters. From the overall number of workers who left KONČAR, 145 of them were the result of the Status changes such as the aforementioned merger.

New employee hires and employee turnover

► 401-1

The seminar for interns and new employees

Every year a seminar is organized for interns and new employees of KONČAR Group. The first seminar was organized in 2003. Twenty-five followed in the next 13 years attended by over 850 interns and the newly employed. The purpose of these seminars is to get the new interns and employees acquainted with the organization, production range, various operating departments of KONČAR as well as colleagues from other KONČAR Group companies.

Regardless of the contract type, race, gender and age, all KONČAR Group employees are entitled to equal benefits in line with the time spent at work. The Collective Agreement has stipulated that all Group companies shall make additional payments towards a holiday, Christmas and Easter bonus, a gift for children under 15, various forms of aid defined under the Collective Agreement, additional payments for family needs, etc. All KONČAR Group employees are entitled to equal benefits such as the annual medical check-up and the accident insurance policy.

Employees are also entitled to the reimbursement of commuting costs as well as to the severance pay prior to their retirement.

Employee benefits

► 401-2
UN GC 6

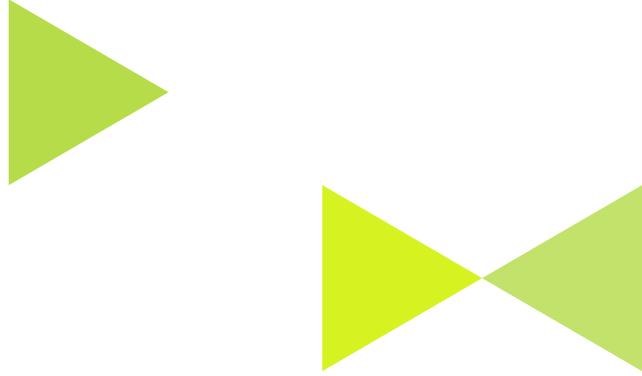
Remembrance of the Killed War Veterans

On the occasion of the Croatian Statehood Day 25 June, KONČAR remembers with gratitude and respect all those who laid their lives for their country including twenty-two killed KONČAR employees by laying the wreath and lighting candles on the monument erected on the factory grounds on Fallerovo šetalište. Also, the anniversary of forming a unit for defending the KONČAR Fallerovo site in 1991 is marked every year in December.

KONČAR Homeland War Veterans Association Established

On 15 November 2017, the Founding Assembly of the KONČAR Homeland War Veterans Association was held. The main objective of the Association is to gather more than 700 KONČAR war veterans, to protect and promote their interests, to state the truth about the Homeland War in Croatia and abroad, and to protect the honour and dignity of those who were killed.





Blood Donors

During 2017, blood drives were organized by the Red Cross on three locations in KONČAR. The highest number of blood doses was collected from donors at the Fallerovo šetalište site - a total of 228. This humane activity which can save the lives of so many was joined by twenty new blood donors in 2017.

Every year in the organization of the Croatian Red Cross and on the occasion of the National Blood Donor Day on 25 October, awards are presented to jubilee donors. Some of the awarded in 2017 were KONČAR employees. One of them was also presented with the Certificate of Appreciation and a gold medal for the 100th blood donation. The same Certificate and a bronze medal was awarded to four KONČAR employees for their 50th donation.



KONČAR Pensioners' Club (KUK)

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

At the end 2017, the Club had 155 registered members. Five new members joined during the year. Medical check-ups as well as two lectures on the quality of life for older people were organized.

KUK's Culture Committee organized eight theatre visits, one exhibition visit as well as two music afternoons. KUK's Recreation and Entertainment Committee organized 10 excursions: seven one-day and two two-day trips as well as a spa trip to Banja Vrućica for a total of 438 members. The Welfare Committee reported to visit 52 of their members in 2017, who continued with Club activities after getting better. 12 members were called by phone as the nature of their illness did not allow personal visits. KUK has a library with as many as 900 books available to all Club members.



Parental Leave

401-3 ◀

UN GC 6

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

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

Minimum notice periods regarding operational changes

402-1 ◀

UN GC 3

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. Information is submitted pursuant to the Labour Act to the trade union or the Works' Council, by organizing workers' meetings, and through the workers' representative in the Supervisory Board.

The Collective Agreement for KONČAR Group stipulates the negotiation procedure for entering into the new Collective Agreement after its termination by any of the parties after the expiry of the three month period.

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

Recognition for the promotion of safety and health at work

On the occasion of the World and National Day for the Safety and Health at Work organized in April 2017, the Croatian Ministry of Labour and Pension System awarded recognitions and awards to individuals who made significant contributions. One of the awarded for his significant results and achievements in work health and safety and for the advancements made in said field was Željko Krmelić from KONČAR - Generators and Motors.

Formal Joint Committees

► **403-1**
UN GC 3

There are no jobs in KONČAR characterized by a high frequency or a high risk of specific illnesses. When allocating workers to jobs requiring specific work conditions, procedures are taken in line with said requirements.

Workers with high incidence or high risk of diseases related to their occupation

► **403-3**

Formal agreements with trade unions promote the acceptance of the responsibility by both parties as well as the development of a positive health and safety culture. The Collective Agreement regulates the rights and obligations of all KONČAR employees.

Health and safety topics covered in formal agreements with trade unions

► **403-4**

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 that encompass special work conditions and extra payment.

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 developing generic skills such as presentation and communication, computer skills, upgrading other knowledge relevant for operational efficiency and professionalism.

Training and Education

► **GRI 404**

Welding is your chance

KONČAR - Metal Structures participated under the Erasmus+ programme in the 'Welding is your chance' project aimed at generally increasing the quality of vocational education and training throughout Europe. The objective of the project is to develop the standard i.e. the curriculum for the profession of a welder in five welding procedures (MIG, MAG, MAG-PPŽ, REL and TIG) closely connected with the European education and training policy i.e. with two European initiatives - the European Qualification Programme (EQP) and the European Skill Competencies and Occupations (ESCO).

Programs for upgrading employee skills

► **404-2**



Welding School in KONČAR

As finding key production staff is getting ever more difficult in the world of today, KONČAR - Metal Structures decided to start its own welding school in cooperation with the Uljanik Institution for Adult Education Pula. Lectures began on 29 May. Having completed 350 hours of theory and practice, students took exams and successfully graduated as the first generation of the welding programme.

Support to Sports Club

'Končar Zagreb 1786' Shooting Club

The 25th anniversary of a successful cooperation with KONČAR - Electrical Industry was marked on the premises of the Končar Zagreb 1789 Shooting Club in Dom Sportova sports hall in late 2017. In 2017, the Club members took part in 56 competitions in Croatia and abroad in all categories. Individually, they won 36 gold, 18 silver, and 15 bronze medals. In team categories, they won 13 gold, 4 silver, and 6 bronze medals.



'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. The year 2017 was exceptionally successful for this club, which has given the biggest number of Croatian national representatives. Among others, as part of the Tibor Šaramo traditional kayak and canoe race, held on Boxing Day and the New Year's Eve on the Sava river in Zagreb, a member of KONČAR Canoe Club Tomislav Lepen, who is also the member of the Croatian wild water national team, won. Our female team representative Alba Zoe Gržin also won this year the first Croatian medal for women at the world championships in the category of solo canoeing.



'KONČAR' Chess Club

KONČAR Chess Club members competed in 2017 in Croatian chess leagues. The first team of KONČAR Chess Club seniors competed for the first time ever in the 2nd League Center, and was ranked 7th winning 11 out of 22 possible match points. Its primary competition goal was thus achieved - they have retained their second league status. The second team of KONČAR Chess Club seniors competed in the 5th League Center and was ranked 5th with 10 out of 18 possible match points. During March and April 2017, the students of the chess school competed as a team for the first time at the II-A Cadet Chess League Center (under 15 years of age). They came in 20 among 27 clubs, a commendable result in view of the young age of our competitors (9-11).



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.

Incidents of discrimination and corrective actions taken

► 406-1

UN GC 2 & 6

Each KONČAR employee may enjoy 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

► GRI 407

UN GC 3

A female KONČAR employee wins the 'Metal Worker of the Year' award

During the meeting of the Main Committee of the Croatian Union of Metalworkers - Industry Trade Union (SMH-IS) and on the occasion of its 123rd anniversary and 27 years of its operation in the Republic of Croatia, awards were presented to its members. Ljiljana Perić, the shop steward in KONČAR - Generators and Motors was one of the winners of the Metal Worker of the Year award for her exceptional contribution to trade union activities.

17th Futsal Tournament for the Title of the KONČAR Champion



During two weekends in December 2017, the sports hall of the Faculty of Electrical Engineering and Computing in Martinovka was the venue of the 17th Futsal Tournament for the Title of the KONČAR Champion in the organization of the Coordination of the Croatian Metalworkers Union - KONČAR Industry Trade Union. The competitions were organized in two categories with the participation of a total of 26 teams from 10 companies. There were also 10 veteran teams from 8 companies. 72 matches were played and 207 goals scored. Only two veteran and one senior match scored zero.



KONČAR’s Mountaineering Association

KONČAR Group supports two mountaineering associations: KONČAR and KONČAR KET. They gather KONČAR employees and their friends, nature lovers who mostly organize excursions climbing the Croatian mountains, and once a year a longer excursion climbing the mountain chains of Europe.

Child, Forced or Compulsory Labour

GRI 408 & 409 ◀

UN GC 4 & 5

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.

Human Rights

412-1 ◀

UN GC 1 & 2

When making decisions pertaining to business locations, KONČAR primarily considers human rights. Human rights were observed across company business activities.

Local Community Engagement

413-1 ◀

UN GC 1

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 2017, KONČAR Group allocated almost 1.7 million kuna to donations and sponsorships of sports competitions, cultural events, individual projects and/or other activities.

Sinjska alka

The unique historical, cultural, ethnographic and sporting event, Sinjska alka, was supported by KONČAR this year as well. This noble event is held annually celebrating a knightly victory over Turkish invaders in 1715. The race can be participated only by the members of the Alka Knights Society consisting solely of ‘honest inhabitants of Sinj and the Cetina Region if born here and if their parents live here’. In 2007, it was listed in the Register of Croatia’s Cultural Goods, and in 2020 among UNESCO’s non-material cultural heritage monuments.

Nikola Tesla Exhibition - ‘Mind from the Future’

KONČAR sponsored the ‘Nikola Tesla-Mind from the Future’ multimedia exhibition in 2017.

The author of this experience-based, futuristic performance in honour of Nikola Tesla is Helena Bulaja Madunić together with a group of international artists who are engaged with science and art synergy by intertwining film, animation, video and technical innovations. The exhibition was held in the Meštrović Pavillion of the Croatian Association of Visual Artists in Zagreb. It won the ATTEND award for the best event in 2017 and for the best regional event in culture.



Milky Way Race

The Milky Way humanitarian race 2017 was organized on 10 September by UNICEF. Almost 2000 runners and volunteers supported the founding of the first human milk bank in Croatia for providing the best possible care to premature born children. There are more than 2000 premature born babies born annually in Croatia, 400 of whom require intensive care in their early days. The project was participated by some 40 KONČAR employees from ten KONČAR companies running 5K and 10K races.



KidsTakeOver Day



On the occasion of the International Children's Day celebrated on 20 November, UNICEF invited companies and institutions in Croatia to participate in the first KidsTakeOver programme. Children were given an opportunity to take over an important and visible role in media, politics, sport, schools, entertainment industry and companies. They were also provided with an opportunity to speak their mind about the world in which they live. KONČAR became a part of the KidsTakeOver Day by inviting some twenty children from Tin Ujević Primary School to visit KONČAR - Power Plant and Electric Traction Engineering as well as some ten children from Electrical Engineering Vocational School to KONČAR - Electrical Engineering Institute.

Support to Zagreb Computing Association

Educational, cultural, scientific and social purpose projects are granted donations on the occasion of the KONČAR Day. On 24 January 2017 as part of the celebration of the 96th anniversary of KONČAR, the grant was awarded to the Zagreb Computing Association, a non-profit organization primarily focused on working with school children and youth.

International competition in robotics in Japan

The RoboCop Junior is the international competition in robotics held in Japan ended on 31 July 2017. This competition was attended by the pupils and students of Croatian primary and secondary schools. The city of Nagoy was the host to 23 pupils and seven mentors divided into nine teams supported by KONČAR. During this strong four-day competition, Croatian competitors won as many as four first places.



The solar car race

Soela 2017 was organized by Technical School Sisak supported by KONČAR. This competition, held this year for the fifth time, was participated by technical and vocational school pupils who were operating a solar car, devised and constructed on their own. Twenty teams participated this year. According to the criteria of functionality, aerodynamics, accessories, aesthetics and general impression, the car design committee awarded the first prize to the car designed by the Secondary School of Crafts Ogulin. In the class of Soel with prescribed technical characteristics, the team from Slovenia won, while the freestyle race was won by students from the School for Electrical Engineering and Economics Nova Gradiška.

Sirius Open Tournament

In year 2017, KONČAR supported Sirius Open, an international tennis tournament for the disabled. It has been organized by the Sirius Tennis Club for the eight consecutive year.

Sirius Open is part of the UNIQLO Wheelchair Tennis Tour. It puts Croatia among 40 countries in the world with a total of 160 international tournaments. This year it gathered 37 male and female competitors from 12 countries around the world.



The biggest taekwondo competition in the region

Taekwondo Club 'Čigra' from Zagreb organized on 26 March 2017 the 8th Čigra Limač Cup and the 5th Čigra Open in Dom Sportova sports hall in Zagreb. 745 competitors from 63 clubs in Croatia and abroad participated. The peculiarity of this sport event supported by KONČAR was in providing children with any form of physical or mental disability an opportunity to experience the magic of competition.



Earth Day

Aimed at raising environmental awareness of the need to be actively involved in the fight to save the Earth, the 'Let's make our environment nicer' project was organized again this year on the Earth Day at Fallerovo šetalište. The event was organized by the KONČAR Volunteers Club aiming at making the factory area greener. 25 volunteers from 11 companies participated by weeding, planting herbs and flowers and landscaping the existing greenery.

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

Public policy

▶ 415-1

UN GC 3

KONČAR assumes large responsibility for its products. Power generation, transmission and distribution equipment and products 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. On the other hand, passenger transport products must also be safe and reliable having a significant environmental component. Thus, the Group tries to operate the entire production chain by monitoring the quality of each individual process.

Assessment of the health and safety impacts of product and service categories

▶ 416-1

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, ISO/IEC 27001 and ISO 50001.

Details as to which KONČAR Group companies are awarded certificates for said standards are provided in this Report under GRI Standard 102-12.

Compliance concerning the health and safety impacts of products and services

▶ 416-2

Training in the Area of Standardized Management System (ZPO)

In line with the requirements of KONČAR Group companies, the training programme in the area of standardized management system is carried out covering standardized management systems, applied norms and technical regulations as well as similar areas. Identifying the training needs in 13 KONČAR companies, four seminars and four courses were organized for 160 participants.

This programme has been running for 18 years taking various forms (courses, seminars, workshops, topic-related forums...). They were held by authorized external experts and KONČAR company professionals.

Each product has its manufacturer's label, basic technical data typical of the product category and special data characteristic of or relevant to the given product. For more complex products and plants, technical descriptions and instructions for safe use are prepared, as well as seminars for training end users organized.

Requirements for product and service information and labeling

▶ 417-1

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

Compliance

▶ 417-2

All KONČAR Group companies use fair and responsible practices in their customer relations. This includes responsible marketing as well as transparent communication on economic, environmental and social impacts of products and services. KONČAR Group has not recorded any instances of misleading, inaccurate and discriminatory information (including advertising, promotion and sponsorship) nor the abuse of insufficient knowledge or the inability of customer's choice.

Incidents of non-compliance concerning marketing communications

▶ 417-3



GRI Content Index

102-55 ◀

	page
Organizational Profile	
102-14 Foreword by the Chairman of the Board	5
102-1 Name of the organization	6
102-2 Activities, brands, products, and services	6
102-3 Location of headquarters	6
102-4 Location of operations	6
102-5 Ownership and legal form	6
102-6 Markets served	7
102-7 Scale of the organization	9
102-8 Information on employees and other workers	9
102-9 Supply chain	10
102-10 Significant changes to the organization and its supply chain	10
102-11 Precautionary principle or approach	11
102-12 External initiatives	11
102-13 Membership of Associations	13
102-16 Values, principles, standards and norms of behaviour	15
102-17 Mechanisms for advice and concerns about ethics	15
102-18 Governance structure	15
102-22 Composition of the highest governance body	15
102-40/42/43/44 Stakeholders and their engagement	17
102-41 Collective bargaining agreements	19
102-45 Entities included in the consolidated financial statements	19
102-47 Material Topics	20
102-48 Restatements of information	21
102-49 Changes in reporting	21
102-50/51/52/53/54/56 Report profile	21
102-54 Claims of reporting in accordance with the GRI standards	21

	page
Topic - Specific Standards: Economic	
GRI 201 Economic performance	22
201-1 Direct economic value generated and distributed	22
201-3 Defined benefit plan obligations and other retirement plans	22
203-1 Infrastructure investments and services supported	23
203-2 Significant indirect economic impact	23
GRI 204 Procurement practices	26
204-1 Proportion of spending on local suppliers	26
GRI 205 Anti-Corruption	26
205-2/3 Anti-Corruption Policies and Procedures	26
GRI 206 Anti-Competitive Behaviour	26
Topic - Specific Standards: Environmental	
GRI 302 Energy	27
302-1 Energy consumption within the organization	27
302-4 Reduction of energy consumption	27
302-5 Reduction of energy requirements of products and services	28
GRI 303 Water	28
GRI 304 Biodiversity	28
304-2 Significant impacts of activities, products, and services on biodiversity	28
307-1 Environmental compliance	28
Topic - Specific Standards: Social	
401-1 New employee hires and employee turnover	29
401-2 Employee benefits	29
401-3 Parental Leave	30
402-1 Minimum notice periods regarding operational changes	30
403-1 Formal Joint Committees	31
403-3 Workers with high incidence or high risk of diseases related to their occupation	31
403-4 Health and safety topics covered in formal agreements with trade unions	31
GRI 404 Training and Education	31
404-2 Programs for upgrading employee skills	31
406-1 Incidents of discrimination and corrective actions taken	33
GRI 407 Freedom of Association and Collective Bargaining	33
GRI 408 Child Labour	34
GRI 409 Forced or Compulsory Labour	34
412-1 Human rights	34
413-1 Local Community Engagement	35
415-1 Public policy	37
416-1 Assessment of the health and safety impacts of product and service categories	37
416-2 Compliance concerning the health and safety impacts of products and services	37
417-1 Requirements for product and service information and labeling	37
417-2 Compliance	37
417-3 Incidents of non-compliance concerning marketing communications	37

GRI Standards and UN GC Principles Comparative Table

AREAS OF SOCIAL VALUES	GC PRINCIPLES	GRI STANDARDS	page
HUMAN RIGHTS	PRINCIPLE 1: Business should support and respect the protection of internationally proclaimed human rights	412-1, 413-1	34
	PRINCIPLE 2: Businesses should make sure they are not complicit in human rights abuses	406-1, 412-1	33, 34
LABOUR RIGHTS	PRINCIPLE 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	102-41, 402-1, 403-1, 407, 415-1	19,30,31,33,37
	PRINCIPLE 4: Eliminate all forms of forced and compulsory labour	409	34
	PRINCIPLE 5: Abolish child labour	408	34
	PRINCIPLE 6: Eliminate discrimination in respect of employment and occupation	102-8, 401-2, 401-3, 406-1	9, 29, 30, 33
ENVIRONMENT	PRINCIPLE 7: Businesses should support a precautionary approach to environmental challenges	302, 304	27, 28
	PRINCIPLE 8: Undertake initiatives to promote greater environmental responsibility	302-4, 303, 307-1	27, 28
	PRINCIPLE 9: Encourage the development and diffusion of environmentally friendly technologies	302-5	28
ANTI-CORRUPTION	PRINCIPLE 10: Businesses should work against corruption in all its forms, including extortion and bribery	205	26



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