

2021

REPORT ON
CORPORATE SOCIAL
RESPONSIBILITY
AND
SUSTAINABILITY



A person is rappelling down a large, reddish-brown rock overhang. The person is wearing a helmet, a backpack, and climbing gear. They are holding onto a rope and are positioned near the bottom of the overhang. The sky is overcast with grey clouds. A dashed white line outlines a large rectangular area on the left side of the image, and a solid white box contains the word 'CONTENTS' in the center of the image.

CONTENTS

I

STATEMENT OF THE
MANAGEMENT BOARD ---- 2

II

KEY BUSINESS
INDICATORS ----- 4

III

ABOUT
KONČAR - D&ST ----- 6

IV

REPORTING (INDICATORS)
IN LINE WITH
THE TAXONOMY
REGULATION ----- 14

V

INCLUSION IN ACHIEVING
THE GLOBAL
SUSTAINABLE
DEVELOPMENT GOALS -- 18

VI

CORPORATE
GOVERNANCE ----- 36

VII

SOCIAL RESPONSIBILITY
AND HUMAN
RESOURCES ----- 46

VIII

BUSINESS ETHICS ----- 64

IX

COOPERATION WITH
SHAREHOLDERS,
SUPPLIERS AND THE
COMMUNITY ----- 68

X

MATERIALITY ANALYSIS
AND REPORTING
PRACTICES ----- 82

XI

GRI INDEX ----- 86



STATEMENT OF THE
MANAGEMENT BOARD



Dear readers,

After 2020, the first year of the COVID-19 pandemic and adapting to new conditions and ways of doing business, 2021 brought with it a new suite of challenges.

In addition to the ongoing COVID-19 pandemic, 2021 was marked by further disturbances in supply chains, with a significant and unexpected growth in the price of raw materials and production materials at the beginning of the year, limited capacities of certain suppliers, and hindered logistics activities. Despite this, in 2021, KONČAR - D&ST continued its series of successful business years. All business indicators – sales revenues, profit and new contracts – recorded significant growth in comparison to 2020.

The business year was marked by a significant growth in the demand for transformers on nearly all markets that KONČAR - D&ST operates. The increased demand was primarily generated by the commitment of European Union Member States to decarbonise the energy sector, and invest in green transition and electromobility.

An important turning point for more ecologically acceptable and energy efficient products is the Commission Regulation EU No. 548/2014 (Tier 2) which as of 1 July 2021 requires the production and delivery of transformers with lower losses. This ECO Directive aims to reduce CO₂ emissions through the entire lifecycle of transformers. In its products, KONČAR - D&ST supports an increasing number of green electrical energy generation projects from renewable sources (wind, sun). Our products also use ecological and biodegradable insulation fluids that are less harmful to the environment.

Through environmental protection and securing safe working conditions for our employees, we aim to be a partner to the local community and a desirable employer. In following the guidelines and requirements for a sustainable and circular economy, KONČAR - D&ST will continue to actively contribute to and participate in energy transition and the decarbonisation of the global economy.

Vanja Burul,
CEO, KONČAR - D&ST

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STATEMENT
OF THE
MANAGEMENT
BOARD



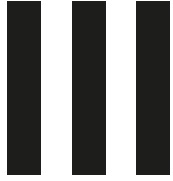
KEY BUSINESS INDICATORS

	HRK ('000)		EUR ('000)		INDEX
	2021.	2020.	2021.	2020.	21/20
Sale of goods and services					
Croatia	180,008	153,149	23,924	20,330	117.5
Export	1,197,068	937,612	159,096	124,466	127.7
Total*	1,377,077	1,090,761	183,020	144,796	126.2
Order book at the end of the year					
Croatia	73,435	23,604	9,760	3,133	311.1
Export	1,233,068	825,146	163,880	109,536	149.4
Total	1,306,503	848,750	173,640	112,669	153.9
Net profit	88,437	92,091	11,754	12,225	96.0

Number of employees					
Average	663	639			103.8
On 31 Dec	678	651			104.1

Environment indicators	2021	2020
Waste generated (t)	2165	1965
Electricity consumption (MWh)	4,717.10	4,445.46
"Green" electricity consumption (% of total)	87.5	87.4
Heat energy consumption (MWh)	6,713.58	7,802.58
Water consumption (m3)	10,206.67	8,887.93





ABOUT KONČAR - D&ST

III 1.

ORGANISATIONAL PROFILE

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ORGANISATIONAL
PROFILE

KONČAR – DISTRIBUTIVNI I SPECIJALNI TRANSFORMATORI d.d. is a company located at Josipa Mokrovića 8, 10090 Zagreb.

Following reorganization, the company was registered on 6 February 1991 in accordance with market principles and operates as an independent joint stock company within the KONČAR Group. KONČAR - ELEKTROINDUSTRIJA d.d. (KONČAR Electrical Industry Inc.) holds a majority share of KONČAR D&ST of 52.73%. The companies within the KONČAR Group are independent companies, and KONČAR - ELEKTROINDUSTRIJA, as the parent company, supervises them through the company's bodies - the Supervisory Board and the General Assembly, in accordance with the Companies Act and the Articles of Association of KONČAR D&ST. The Company's share capital is divided into 511,232 shares, of which 388,376 ordinary registered shares with a nominal value of HRK 300.00 each and the code KODT-R-A, and 122,856 preferred non-voting registered shares, with a nominal value of HRK 300.00 each and code KODT-P-A in the depository of book-entry securities kept by the Central Depository Agency. Ordinary and preferred shares are listed on the regular market of the Zagreb Stock Exchange, www.zse.hr.

In 2020, the Company operated at a single location in the Republic of Croatia at the address: Josipa Mokrovića 8, 10090, Zagreb.

PET Sp. z o.o., the company in which Končar D&ST d.d. acquired the majority share on 8 May 2017 and increased its share to 100% in May 2020, operates in Czerwonak, Gdinijska 83, Poland.

In order to monitor the transport and assembly of medium power transformers in Morocco, a branch office was operational from 15 March 2012 to 25 May 2021 in Casablanca, Morocco, operating under the name Koncar D&ST Succursale Maroc.



OUR MISSION AND VISION

The mission of KONČAR - D&ST is to create value for its shareholders, customers, employees, suppliers and the community in which it operates through the sale, development, production and maintenance of distribution, medium power transformers, and special transformers with power up to 160 MVA and 170 kV.

The vision of KONČAR - D&ST is to achieve and constantly improve its position among the top 10 European transformer producers up to 160 MVA and 170 kV for the electrical distribution companies, railways and industry.

In our operations, the following values are particularly emphasised: quality, environmental protection, occupational health and safety, fairness, responsibility for commitments, abidance by the law, standards and best practices in operations, creating above average business results, caring for our employees and constantly investing in their professional development, thereby creating an environment in which employees can achieve their full potential, respect for diversity among employees through openness, trust and inclusion in team work, good business relations with buyers and suppliers, and ongoing initiatives to make positive change.

III 2.

PRODUCTS AND SERVICES

- Medium power transformers**
- Oil immersed distribution transformers**
- Special transformers**
- Dry type distribution transformers**

7 AFFORDABLE AND CLEAN ENERGY



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION AND PRODUCTION





The core business of the company KONČAR D&ST is the development, production and sale of transformers; namely medium power transformers, oil immersed distribution transformers, special transformers and dry type distribution transformers. These transformers are designed and manufactured according to the highest quality standards, using the most advanced methods of calculation and design, production and technological processes and final control.

102-2

PRODUCTS AND SERVICES

Medium power transformers

KONČAR D&ST medium power transformers are a very important component in many electricity transmission and distribution systems across the world.

KONČAR D&ST offers medium power transformers and autotransformers up to 160 MVA with a maximum voltage of 170 kV, intended for outdoor and indoor use. KONČAR D&ST offers complete service: design, production, transport, installation, field testing and commissioning. The materials, equipment and technology we use in the production and testing of transformers include the latest global development trends. Voltage regulation is performed by regulation tappings with on-load tap changer and off-load tap changer or by switching below tank cover in off-circuit condition. Transformers are manufactured and tested in accordance with the IEC 60076 standard, and designs according to other international standards are also possible.

Oil distribution transformers

These transformers are dimensioned for rated power from 50 to 8000 kVA and voltage up to 36 kV. These are three-phase transformers, immersed in liquid (mineral oil, synthetic or natural ester), naturally cooled (ONAN, KNAN), suitable for indoor and outdoor use. Transformers comply with the standards IEC 60076, EN 50588-1 (Commission Regulation (EU) No. 548/2014 and 2019/1783), and, if necessary, other national standards and specific customer requirements.

Special transformers

Special transformers and medium voltage reactors have a long tradition in KONČAR D&ST and are known throughout the world. The production of special transformers and reactors is organised in a separate production hall, where each production process is specially designed for the production of special transformers and reactors – coiling machines, drying plants, oil and ester purification devices, testing station etc.

Dry type distribution transformers

The transformers are dimensioned for rated power from 50 to 5000 kVA and voltage up to 24 kV. These are three-phase, dry type, naturally cooled (AN) transformers, suitable for indoor use. Transformers comply with the standards IEC 60076, EN 50588-1 (Commission Regulation (EU) no. 548/2014 and 2019/1783), and, if necessary, other national standards and specific customer requirements.



III 3.

RESULTS OF OPERATIONS AND MARKETS

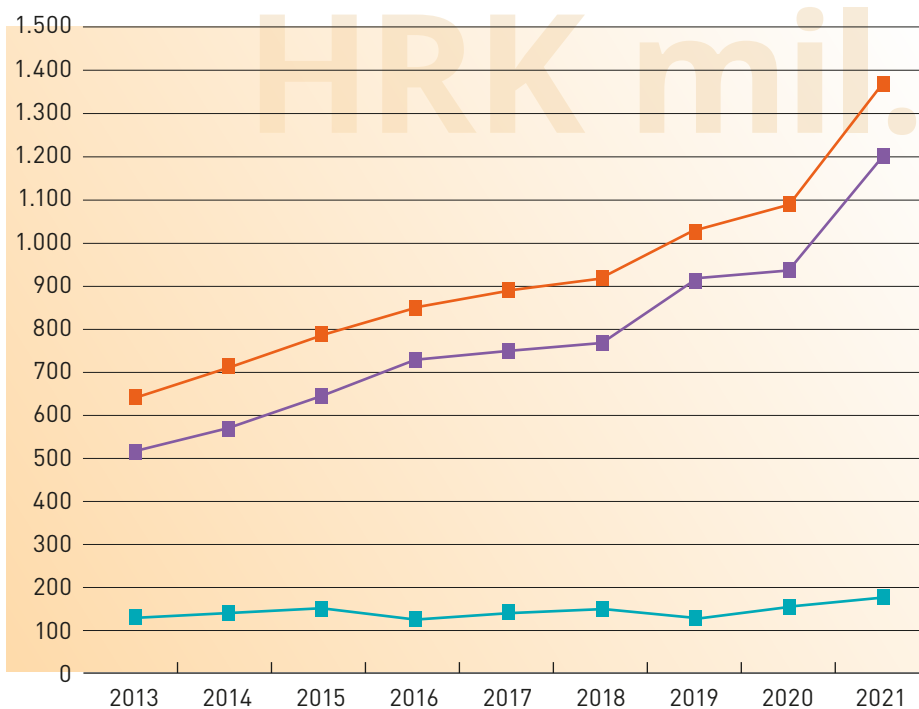
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RESULTS OF OPERATIONS AND MARKETS

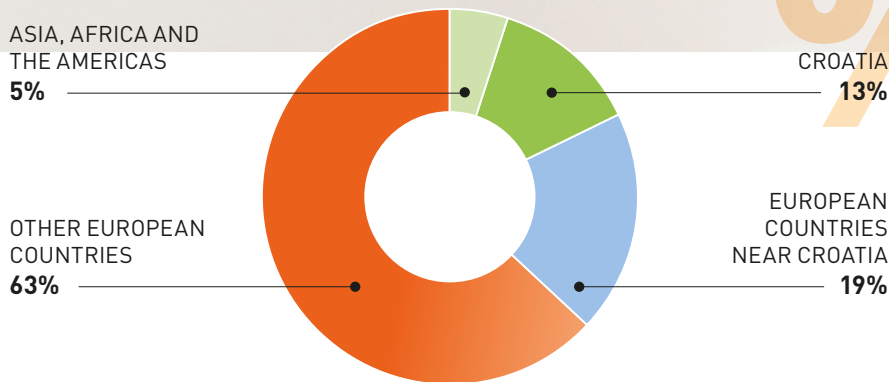
Sales revenues trends 2013 - 2021

- Total
- Exports
- Croatia

In 2021, the sales of goods and services increased by 26.2% in comparison to 2020 to HRK 1377 million.



Sales by market groups in 2021



Sales by main markets

Croatia: in 2021, sales reached HRK 180.4 million which, compared to HRK 156.8 million in 2020, was growth of 15.1%.

Neighbouring European countries: Bosnia and Herzegovina, Slovenia, North Macedonia, Montenegro, Austria, Italy, Czechia, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania, Albania - in 2021, sales reached HRK 262.2 million and, compared to HRK 271.3.6 million in 2020, was a decline of 3.3%.

Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, United Kingdom, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta, Netherlands, Belgium, Greece - sales in 2021 reached HRK 858.9 million which, compared to HRK 568.6 million in 2020, marked an increase of 51.1%.

Other Asian, African, and American countries: 2021 sales were recorded at HRK 77.4 million which, compared to HRK 94.1 million in 2020, was a decline of 17.7%.

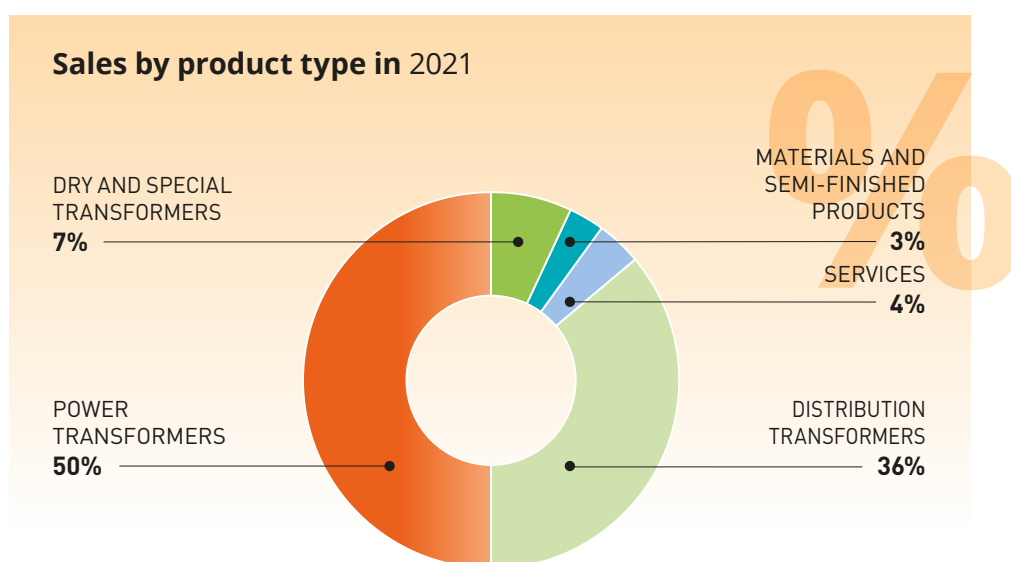
Sales activities in 2021 saw new contracts in the amount of HRK 1833 million, up 48.4% over 2020.

The standing of the order book at the end of the year was HRK 1360 million, up 60% over the end of 2020.



**Quantity of product in 2021
by product type, pieces and total kVA**

Group	Pieces	Total kVA
DISTRIBUTION	9,197	4,447,005
POWER	225	9,426,440
DRY AND SPECIAL	338	730,130
D&ST TOTAL	9,760	14,603,575



Sectors with which KONČAR - D&ST does business

The customers of KONČAR D&ST are from both the private and public sectors, with a special focus on the private sector. KONČAR D&ST delivers its products and services to customers and partners in the sectors of production, transmission and distribution of electricity, project engineering and solutions companies, and to a lesser extent to various industrial customers.

In line with market demands and the development of new technologies, there is an increasing share of customers engaged in the production of electricity from renewables and battery energy storage.

In this way, the business activities of Končar D&ST indirectly contribute to reducing the carbon footprint.

Končar D&ST also participates in projects for the modernisation of ongoing projects and railway infrastructure, with an emphasis on sustainable development, loss optimisation and environmental progress of society.





With its products and services, KONČAR D&ST contributes to the development of infrastructure in some 40 countries worldwide every year.



IV

REPORTING (INDICATORS) ACCORDING TO THE TAXONOMY REGULATION

The Paris Agreement was signed in 2015 as the first global climate agreement to bind all its signatory states. The main goal of the agreement is to limit global warming to temperatures “significantly less than” 2°C, to secure food supply, and to strengthen the capacities of countries to tackle the consequences of climate change through the development of new “green technologies” and assisting less developed signatory states to achieve their national emission reduction plans.

Following from the Paris Agreement, the European Commission published the European Green Plan, which gives concrete, defined principles to achieve a sustainable economy in the European Union, by transforming climate and ecological challenges into opportunities, to set standards that will make this possible in a uniform and just manner. The Green Plan has defined the target of reducing CO₂ emissions by 55% to 2030, and achieving a climate neutral European Union by 2050.

For the purpose of achieving the set climate goals, the European Union adopted the Regulation on the establishment of a framework to facilitate sustainable investments (Taxonomy Regulation). The aim of the Taxonomy Regulation is to create a classification system for investors and societies when investing in projects and economic activities that have a significant, positive impact on climate and the environment, and that contribute to the achievement of climate neutrality.

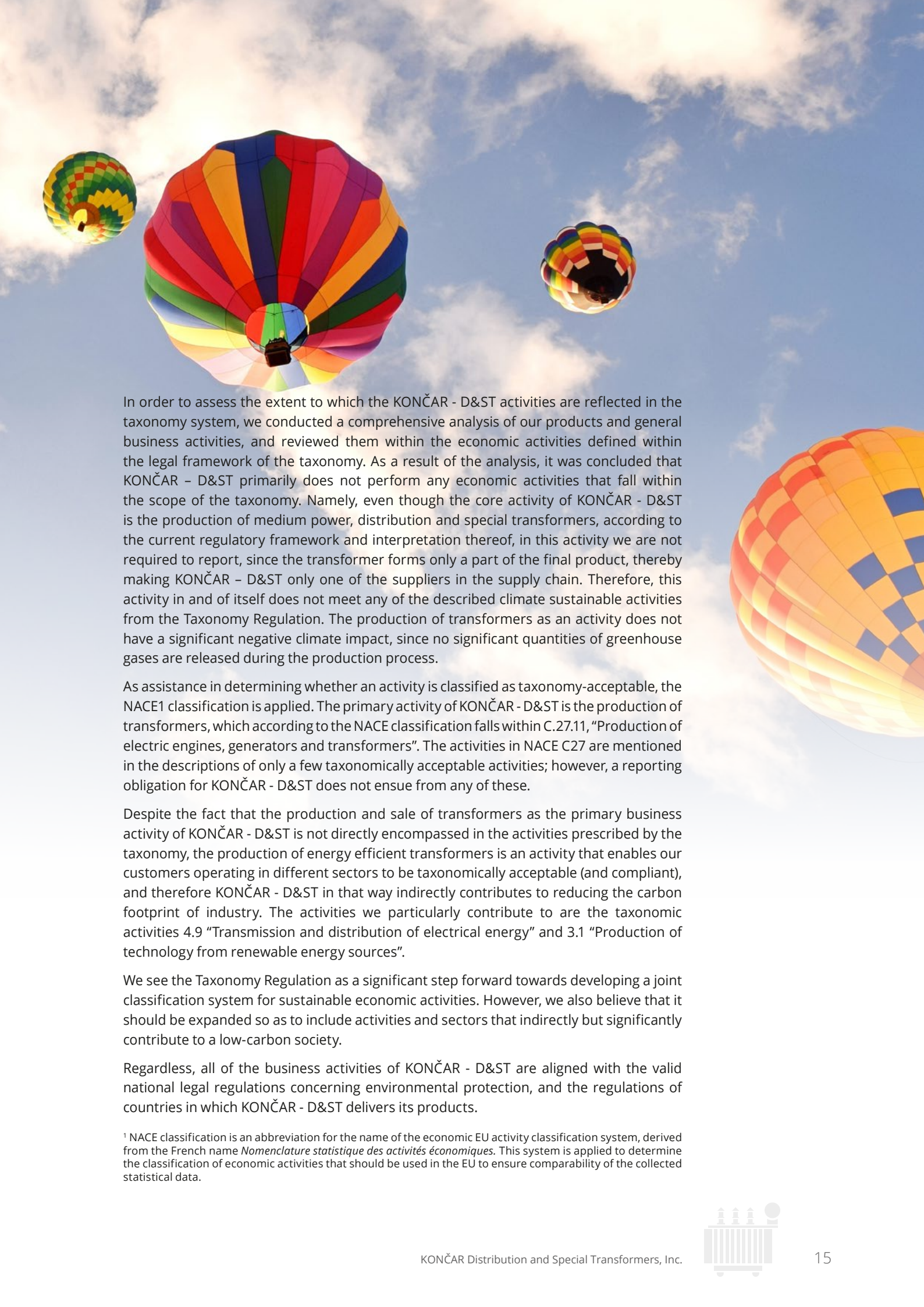
The Taxonomy Regulation defines six environment goals:

1. Mitigating climate change
2. Adapting to climate change
3. Sustainable use and protection of aquatic and marine resources
4. Transition to a circular economy
5. Preventing and controlling pollution
6. Protection and restoration of biodiversity and ecosystems.

The Report on requirements prescribed by the Taxonomy is being compiled for the first time at the level of the European Union, and in the first year of reporting covers the first two environmental goals: mitigating climate change and adapting to climate change. That means that the reporting focus is placed on the emissions of greenhouse gases, primarily CO₂.

Article 8 of the Taxonomy Regulation prescribes that non-financial entities report information on the share of revenues and capital and operating expenditures (“key performance indicators” or KPIs) achieved by performance of the activities that pertain to assets or procedures associated with environmentally sustainable economic activities.





In order to assess the extent to which the KONČAR - D&ST activities are reflected in the taxonomy system, we conducted a comprehensive analysis of our products and general business activities, and reviewed them within the economic activities defined within the legal framework of the taxonomy. As a result of the analysis, it was concluded that KONČAR - D&ST primarily does not perform any economic activities that fall within the scope of the taxonomy. Namely, even though the core activity of KONČAR - D&ST is the production of medium power, distribution and special transformers, according to the current regulatory framework and interpretation thereof, in this activity we are not required to report, since the transformer forms only a part of the final product, thereby making KONČAR - D&ST only one of the suppliers in the supply chain. Therefore, this activity in and of itself does not meet any of the described climate sustainable activities from the Taxonomy Regulation. The production of transformers as an activity does not have a significant negative climate impact, since no significant quantities of greenhouse gases are released during the production process.

As assistance in determining whether an activity is classified as taxonomy-acceptable, the NACE1 classification is applied. The primary activity of KONČAR - D&ST is the production of transformers, which according to the NACE classification falls within C.27.11, "Production of electric engines, generators and transformers". The activities in NACE C27 are mentioned in the descriptions of only a few taxonomically acceptable activities; however, a reporting obligation for KONČAR - D&ST does not ensue from any of these.

Despite the fact that the production and sale of transformers as the primary business activity of KONČAR - D&ST is not directly encompassed in the activities prescribed by the taxonomy, the production of energy efficient transformers is an activity that enables our customers operating in different sectors to be taxonomically acceptable (and compliant), and therefore KONČAR - D&ST in that way indirectly contributes to reducing the carbon footprint of industry. The activities we particularly contribute to are the taxonomic activities 4.9 "Transmission and distribution of electrical energy" and 3.1 "Production of technology from renewable energy sources".

We see the Taxonomy Regulation as a significant step forward towards developing a joint classification system for sustainable economic activities. However, we also believe that it should be expanded so as to include activities and sectors that indirectly but significantly contribute to a low-carbon society.

Regardless, all of the business activities of KONČAR - D&ST are aligned with the valid national legal regulations concerning environmental protection, and the regulations of countries in which KONČAR - D&ST delivers its products.

¹ NACE classification is an abbreviation for the name of the economic EU activity classification system, derived from the French name *Nomenclature statistique des activités économiques*. This system is applied to determine the classification of economic activities that should be used in the EU to ensure comparability of the collected statistical data.



IV 1.

KEY PERFORMANCE INDICATORS (KPI) REVENUES

During 2021, KONČAR - D&ST achieved sales revenues in several taxonomically-acceptable activities, though these revenues were not materially significant in relation to the total sales generated from the production and sale of transformers.

Below is an overview of the taxonomically-acceptable activities in which the company generated revenues in 2021:

Branch	Section	Activity	Achieved revenues, in HRK thousands
5. Water supply, removal of wastewater, waste management, reclamation	5.5.	Collection and transport of non-hazardous waste in fractions separated at the source.	6857
7. Construction activities and trade in real estate	7.7.	Purchase and ownership of buildings	208
TOTAL NUMERATOR			7,066
TOTAL DENOMINATOR			1,425,248
% Taxonomically-acceptable revenue			0.5%
% Taxonomically-unacceptable revenue			99.5%

In line with expectations, the largest share of revenues of KONČAR - D&ST comes from the production of transformers – an activity that is not taxonomically acceptable, which means that in its activity, it cannot significantly contribute to the reduction of CO₂ emissions, and in this way largely contribute to achieving the first two environment goals: mitigating climate change and adapting to climate change. The largest share of taxonomically acceptable revenues of the company are generated from the sale of non-hazardous waste, and less from revenues of property leases.

IV 2. KEY PERFORMANCE INDICATOR CAPEX (KPI CAPEX)

Capex includes all capitalised procurement concerning tangible and intangible assets, assets with the right of use, investments in properties, etc.

Branch	Section	Activity	Achieved revenues, in HRK thousands
4. Energy	4.1	Production of electrical energy using solar photovoltaic technology	40
6. Transport	6.5	Transport by motorcycle, personal vehicles and light commercial vehicles	819
	6.6	Service of road transport of goods	161
7. Construction activities and trade in real estate	7.2	Refurbishing existing buildings	727
	7.7	Purchase and ownership of buildings	2256
TOTAL NUMERATOR			4.002
TOTAL DENOMINATOR			22.373
% Taxonomically-acceptable Capex			18%
% Taxonomically-unacceptable Capex			82%



The highest share of taxonomically-acceptable capitalised costs of KONČAR – D&ST was generated from the purchase and ownership of buildings. Given that the official translation of the activity 7.2. “Refurbishing existing buildings” includes small-scale construction in its definition, the entire Capex pertaining to construction works that does not pertain to small-scale construction was placed in the activity 7.7. “Purchase and ownership of buildings”. In addition to construction works, the company procured a new fleet of personal vehicles during 2021, and this was placed in activity 6.5.

IV 3.

KEY PERFORMANCE INDICATOR – OPERATIONAL EXPENDITURES (KPI OPEX)

Opex includes: maintenance costs for long-term assets, non-capitalised costs of research and development, and non-capitalised costs of leases.

Branch	Section	Activity	Achieved revenues, in HRK thousands
6. Transport	6.5.	Transport by motorcycle, personal vehicles and light commercial vehicles	827
7. Construction activities and trade in real estate	7.3.	Installation, maintenance and repair of equipment for energy efficiency	104
	7.3.1.	Installation, maintenance and repair of equipment for energy efficiency	35
	7.5.	Installation, maintenance and repair of instruments and devices for the measurement, regulation and control of energy efficiency of buildings	12
	7.5.1.	Installation, maintenance and repair of instruments and devices for the measurement, regulation and control of energy efficiency of buildings	171
	7.7.	Purchase and ownership of buildings	236
TOTAL NUMERATOR			1.384
TOTAL DENOMINATOR			30.363
% Taxonomically-acceptable Opex			5%
% Taxonomically-unacceptable Opex			95%

The most significant part of the taxonomically-acceptable Opex pertains to transport, which is largely due to the costs of short-term lease of personal vehicles and the maintenance of personal vehicles. The remainder pertains to construction activities and trade in real estate.




V

INCLUSION IN ACHIEVING THE GLOBAL SUSTAINABLE DEVELOPMENT GOALS



Global sustainable development goals to 2030. The UN has set the 2030 global sustainable development goals for the purpose of combating global poverty, improving education and health conditions, creating better jobs and addressing key environmental challenges. We have identified six goals closely related to the company's business activities that can be used to monitor our contribution towards their achievement.





With the aim of improving environmental, social and economic goals, KONČAR - D&ST recognises the risks and opportunities of sustainability, and acts in accordance with them in multiple directions: in the area of development and product improvement, technological processes, employee development, communication with customers, suppliers and business partners, and improving investor relations.

KONČAR - D&ST abides by all national regulations and international standards, while also developing internal procedures and policies on the most important issues for our stakeholders, while taking global sustainability trends into account.

KONČAR D&ST believes that access to energy is a fundamental personal need and our goal is to improve the quality of life by developing sustainable and environmentally friendly solutions for our customers. Faced with growing market demands for sustainable and reliable sources of electrical energy that enable development and social stability, KONČAR D&ST offers reliable and technologically advanced products in cooperation with its customers.

The materials, equipment and technology we use in the production and testing of transformers include state-of-the-art global development trends that contribute to modernising electricity distribution networks.

Končar D&ST also participates in projects to modernise ongoing projects and upgrade railway infrastructure, with an emphasis on sustainable development, loss optimization and environmental progress of society.

Through rational energy consumption and investing in product development, production processes and infrastructure, we can minimise adverse effects.

We encourage personal development and training of our employees through vocational education, foreign language learning, IT training and education and training in the quality, environmental protection, and occupational health and safety management systems. The company has a well-established orientation system for new employees through special mentoring and onboarding schemes, as well as developed internal education and knowledge exchange programmes.

Through constant development and joint efforts to conquer new markets and find new customers, the company is continually growing according to all key indicators, thereby establishing the preconditions for recruitment and creation of new desirable jobs.

Our goal is to provide all employees with a safe and healthy work environment.



V 1.

DEVELOPMENT OF **ECOLOGICALLY SUSTAINABLE PRODUCTS**



At a time in which KONČAR - D&ST is facing more complex challenges and market demands, technical development is one of the key requirements for success in the context of being able to respond adequately to these challenges. The technical development departments (Product Development and Production Development) employ more than 20 highly educated experts of multidisciplinary profiles (electrical engineering, mechanical engineering and computer science). Of these, two employees hold doctoral degrees, and several experts are undergoing specialist studies and doctoral studies at various faculties of the University of Zagreb.

One of the most significant changes in 2021 was the implementation of Commission Regulation (EU) No 548/2014 (Tier 2), which significantly reduces transformer losses. This implies the need to evaluate and apply materials with lower losses and noise levels. Ongoing improvements are being made to reduce noise levels, construction solutions have been designed for medium power transformers with directed cooling, and the system of measuring and calculating heating has been improved. In terms of insulation, the calculation of overcharge and insulation spacing. The production process for the assembly of distribution transformers and medium power transformers has been improved.

The experts from technical development and other departments participated actively in expert symposia on transformers (HO CIRED in Šibenik, HRO CIGRE in Šibenik, CIGRE SLO in Slovenia, CIGRE CG in Montenegro), in the work of the study panels SO A2 Transformers and SO D1 Electrotechnical materials and upcoming technologies. They also participated in the work of technical boards HZN/TO E15 Solid electro-technical insulation materials, HZN/TO E36 Insulators, HZN/TO E55 Threading wires, HZN/TO E112 Assessments and properties of electrical insulation materials and systems and HZN/TO E10 Fluids for use in electrical engineering. Due to the COVID-19 pandemic, most other expert symposia, seminars and fairs were postponed, or were held online.

Cooperation with institutes and faculties also continued (KONČAR – Electrical Engineering Institute; Faculty of Electrical Engineering and Computer Science, University of Zagreb; Faculty of Mechanical Engineering and Naval Architecture, University of Zagreb; and the Technical Faculty, University of Rijeka).





V 2.

MOST SIGNIFICANT CHALLENGES IN DEVELOPING AN ECOLOGICALLY SUSTAINABLE PRODUCT

Transformers are key structures in creating electricity grids of various voltage levels. On its path towards the end customer, electrical energy passes through an average of four to five transformers. This is why together with our end customers and partners, we are working to develop new technologies and to continuously reduce transformer losses, in support of energy transition towards a carbon-neutral future.



Losses

The electrical losses of transformers have been significantly reduced in the last few years in line with the requirements of European legislation and the EN50588-1 standard. Without improved materials, this leads to larger dimensions and masses of conductors, cores and the transformers themselves. Since copper and aluminium as materials have not improved in terms of their electrical conductivity, in order to reduce losses, the emphasis was placed on the transformer sheet metal. These days, KONČAR D&ST mostly uses the highest quality laser sheets in its transformers, and the 3D finite element method (FEM) is commonly used in the production of cores for electrical loss prevention.



Noise

Noise, along with losses, is one of the aspects to which great efforts have been devoted in recent years to be able to meet even the most demanding customer requirements, which are often even stricter than the requirements of EN50588-1 standard. Such low noise values cannot be measured under normal conditions at a testing station and for this purpose an anechoic chamber was built at KONČAR D&ST, which largely eliminates environmental influences on measuring results. When designing transformers, special attention is devoted to noise and the highest quality transformer sheet metal, and measures are applied to reduce noise levels.



Magnetic field surrounding transformers

When designing a transformer, it is necessary to take into account the magnetic field around the transformer. This is especially important for distribution transformers that are located “closer to end users” as a part of the electricity system. In this regard, all transformers are designed to meet the international recommendations for the protection against non-ionizing radiation (ICNIRP) as well as Croatian regulations (Act on Protection from Non-Ionizing Radiation, Ordinance on protection against electromagnetic fields) which prescribe significantly more stringent requirements than the international guidelines. Transformers manufactured by KONČAR D&ST can meet even the most stringent requirements, where the magnetic field around the transformer must not exceed 1 microTesla, which is two hundred times more stringent than international recommendations.



Transformer design with reduced magnetic field





Insulating fluids

KONČAR D&ST follows the current trends of using environmentally friendly insulating fluids. Environmentally friendly insulating fluids are esters (natural and synthetic) that have been in use for years. Ester insulating fluids have high fire and flash points and are biodegradable, which gives them an advantage over mineral insulating oils.

Also, mineral ecologically friendly (biodegradable) insulating fluids have recently appeared. We were the first in the region to produce a transformer with a nominal power of 40 MVA, filled with mineral biodegradable oil produced from biowaste. This transformer was successfully tested and delivery to a Swedish customer in early 2021.

Through the development task "Development of distribution and power transformers filled with biodegradable insulating fluids", we are actively working to monitor the insulating oils market and implement new ecologically acceptable solutions.

During 2021, another biodegradable insulating fluid produced from liquefied natural methane gas was tested and approved for use (gas to liquid technology).



Anti-corrosion

In recent decades, organic and inorganic coatings have been widely used to protect metals from corrosion. However, today new ways of achieving more environmentally and economically acceptable protection are being explored. Therefore, current trends in the field of corrosion protection are aimed at reducing the use of solvent-based paints in order to minimise emissions of volatile organic compounds (VOCs) and search for environmentally and economically acceptable alternatives. The latest trends in corrosion protection in the transformer industry are Cathodic E-dip coating for radiators with a VOC content of less than 1%, as well as powder coating systems for corrugated tanks and equipment. Powder coatings contain 100% dry matter, i.e., are completely free of organic solvents, which is in line with the legislation on reducing the VOC content. As the application of these systems is limited by the dimensions of the tub and chambers for the powder coating process, their use is currently limited to certain type of equipment and smaller tanks. However, a number of advantages of these coatings have been recognized, such as: more environmentally friendly coating, lower material consumption, uniform coating thickness and better mechanical resistance.





V 3.

ENVIRONMENT TOPICS

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



V 3.1.

WASTE (306, 103)

- 103-1
- 103-2
- 103-3

WASTE MANAGEMENT

Responsible management of all material flows is one of the key topics in the company KONČAR - D&ST. In production, the emphasis from the very start is placed on the optimisation of all processes, with the aim of reducing quantities of waste materials to the minimum possible levels. Since the trend to grow a sustainable economic is increasing both locally and globally, this topic is becoming more and more important every year, and this was expressed by company employees, shareholders, customers and suppliers.

KONČAR - D&ST applies a computer guided system to monitor total quantities of waste generated. At least once per year, at the thematic Environment Board meetings, through points of the ISO 14001 standard – Supervision and measurement, the management is informed of the total quantities of waste generated in the previous year, total costs for and manner of its disposal, and all novelties in this area. The persons responsible for the environment and waste communicates regularly with the authorised waste management companies and handles the proper key numbers of waste and costs of disposal and buyoffs. Through the environment goals that are set at the start of each new business year, all important segments in this area are monitored: procurement of new waste containers, ongoing investments in employee education, regular updating of management system documentation, opening new waste key numbers as needed, and regular updating of contracts with waste companies; all with the aim of making management trends greener.

Since introducing the Environmental Management System under standard ISO 14001:2015, KONČAR - D&ST has not received any reports or complaints by any government or non-government body (green societies), and has been successfully recertified for years, indicating the companies effective overall waste management strategy. More and more customers are also noticing and recognising our aims to operate in line with sustainable development principles, and this sets us apart from the competition. This is seen in the increasing number of invitations to tender, increasing number of points in the field of environment accomplishments in pre-qualification and qualification audits, and ultimately, more concluded contracts and increased production overall.



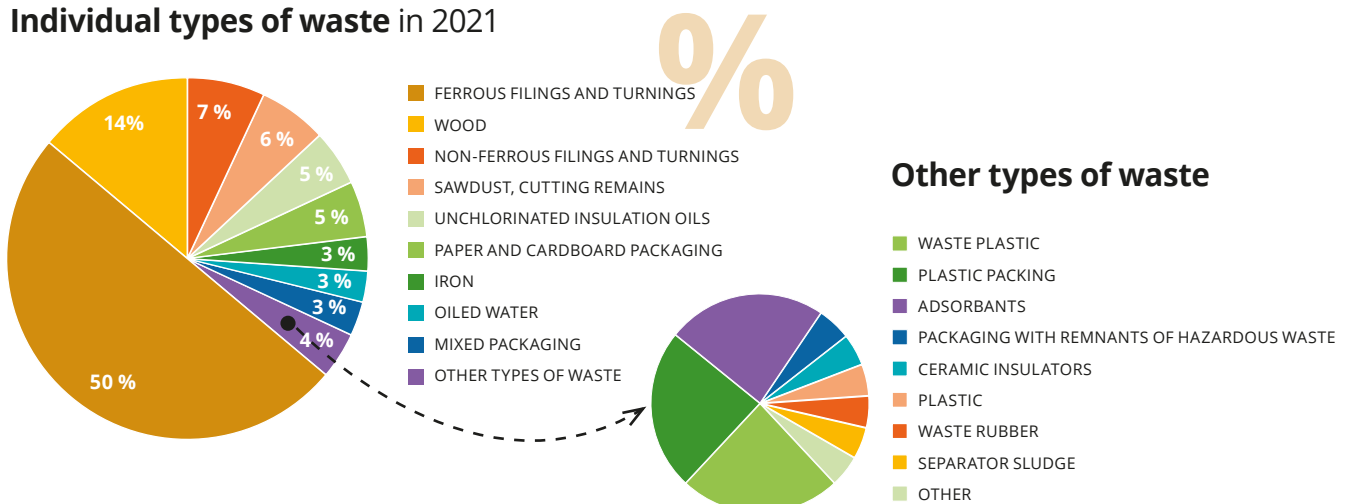


At KONČAR - D&ST, we divide waste into two main categories: production waste and municipal waste. Production waste is further divided into non-hazardous waste and hazardous waste, while municipal waste is generated after the adequate and possible sorting of all previous waste. In 2021, a total of 2165 tonnes of production waste was generated, of which 1977 t was non-hazardous waste, and 188 tonnes was hazardous waste. From the pie charts below of the different types of waste, it can be seen that more than 50% of waste is metal waste (ferrous filings and turnings, and non-ferrous filings and turnings), about 20% wooden waste, 5% paper and cardboard packaging, and all other types of waste. From the chart below, it can be concluded that the majority of waste originates from production itself and from the packaging processes (packaging) and dispatch.

306-1

WASTE GENERATION AND SIGNIFICANT IMPACTS ON ITS GENERATION

Individual types of waste in 2021



306-2

MANAGING SIGNIFICANT INFLUENCES ON WASTE

Process engineers are responsible for managing production parameters that can influence reduced waste generation. A key optimisation process is to reduce the potential surpluses, using higher shares of recycled materials in production, and multiple use of packaging that enters into the process. The Procurement Department participates in the successful application of a circular economy, through the selection of suppliers, to always give precedence both to high quality raw materials and to suppliers that also apply the principles of sustainable development in their industries. On site, generated waste is sorted into the appropriate containers and is taken to an external, temporary disposal site where it awaits pickup by authorised waste handling companies. For the purpose of better management of the significant influences on waste, the company regularly invests resources into employee education, infrastructure, ensuring appropriate waste containers, all with the aim of ensuring alignment with the legal regulations and sustainable development principles.

306-3

GENERATED WASTE

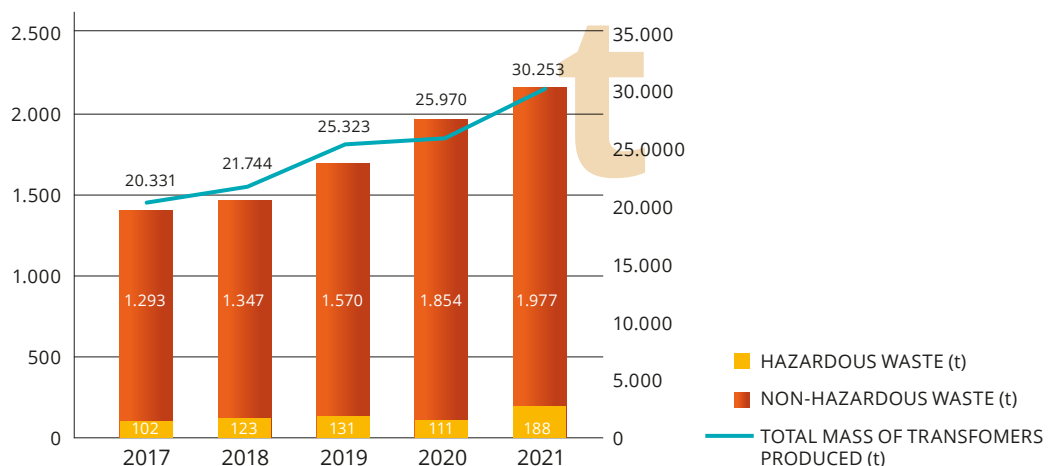
The table below provides the data on total waste generation in tonnes for the period from 2017 to 2021.

Types of waste generated by year (t)	2021	2020	2019	2018	2017
Hazardous waste generated	188	111	131	123	102
Non-hazardous waste generated	1977	1854	1570	1347	1293
TOTAL WASTE GENERATED	2165	1965	1701	1470	1395

The increase in waste generated is directly tied to the ongoing increase in production. Total mass of transformers produced (distribution, species and medium power transformers) was used as an indicator of the growth of production through this period, and not their number, for the easier comparison of data shown on waste generated.

Quantities of waste generated

in relation to the total mass of transformers produced



The management of handling waste generated at KONČAR - D&ST is divided into two categories: use and disposal. In 2021, a total of 24 different types of waste were generated, of which 15 types were non-hazardous waste and 9 types were hazardous waste. In the year before, 22 types of non-hazardous waste were generated, and this number has increased for two reasons. The first is that in 2021, a new waste key number was introduced for plastic, and in that year, the transition was made from one key number to another. The second reason is that on site a certain amount of municipal glass waste was generated, and which is removed from the site on average once every two years – that disposal took place in 2021, unlike in the year before when it did not. About 80% of the produced waste is recycled, while the remaining types of waste are handled through disposal.

306-4

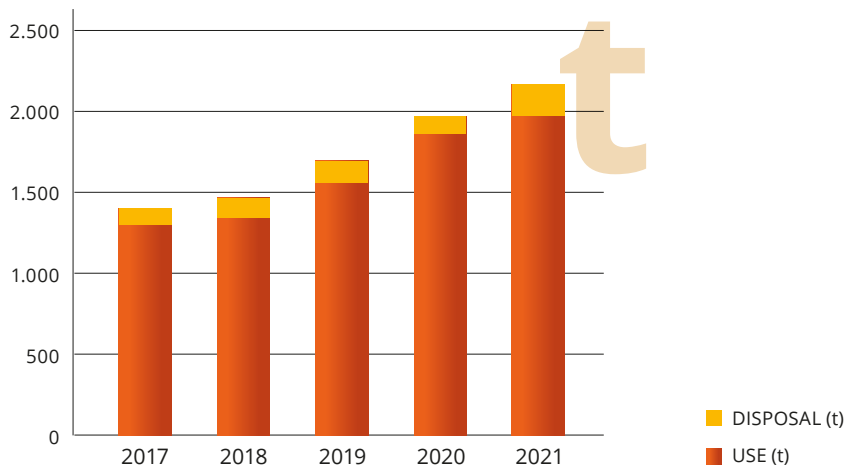
WASTE THAT IS HANDLED BY ALL METHODS EXCEPT DISPOSAL

In the five-year overview of waste generated in the company KONČAR - D&ST, it is evident that just 6–10% of waste is handled through disposal, which further gives importance to the complete process of waste management at KONČAR - D&ST.

306-5

WASTE HANDLED BY DISPOSAL

Methods of handling generated waste



V 3.2.

ENERGIJA (302, 103)



In the past decade, there is an evident and visible growth trend in the efficient management of energy. The rational use of natural resources is one of the main topics of every responsible industry that has implemented the environment management system ISO 14001:2015, and also in KONČAR - D&ST. The shareholders of organisations are placing increasing emphasis on this topic, both at the local and the global level. By setting environmental protection goals in the company KONČAR - D&ST at the start of each year, it is visible just how much attention is given to this material topic. An example is the drafting of the large company energy report, educating employees for implementing the energy management system – ISO 50001 – and the installation of a 1.1 MW photo voltaic plant on the roof of the production hall.

103-1

103-2

103-3

ENERGY
MANAGEMENT



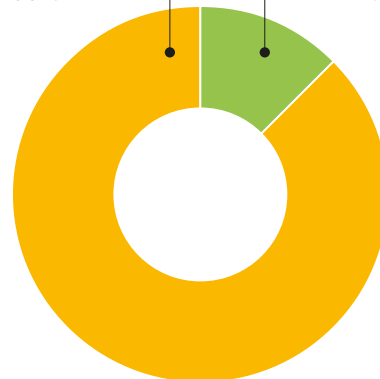
Supervision of energy source consumption is a key factor in efficient energy management. At KONČAR - D&ST the following energy sources are used: heat energy, electrical energy, water, and compressed air. Since the location is divided into four main production halls, for part of the production process the northern calculation measurement site is used, and part with the southern site.

The company site that is supplied with electrical energy from the northern measurement site is proud to have received the stamp ZelEn, which confirms that all electricity used was produced from renewable sources. The origin of electrical energy at the southern location is from mixed sources. The total ratio of sources of electrical energy used at the location is shown in the chart.

Share of electrical energy by source

ENERGY FROM
100% RENEWABLE
SOURCES 88%

MIXED
SOURCES 12%



Through the environmental protection management system ISO 14001:2015, at the thematic board meetings, the management is regularly informed of the quantity of consumed energy sources and the financial balance of the same. In this way, the system performance becomes measurable, and as such can be evaluated by different criteria and can then be managed. A part of this system of resource management leads to setting specific goals for energy management. Examples at KONČAR - D&ST is the following: the drafting of the Energy report, installation and replacement of energy efficient lighting sources, replacement of machines in the production halls with those having a higher energy class, educating employees for the implementation of the energy management system, and more.

302-1

ENERGY CONSUMPTION
WITHIN THE
ORGANISATION

Key data that are collected on site are: consumption of electrical and heat energy in MWh, and water in m³ by month. Of the total consumed energy in 2021, a total of 4126.68 MWh originated from renewable sources, while 590.42 MWh originated from mixed sources, including renewable sources.





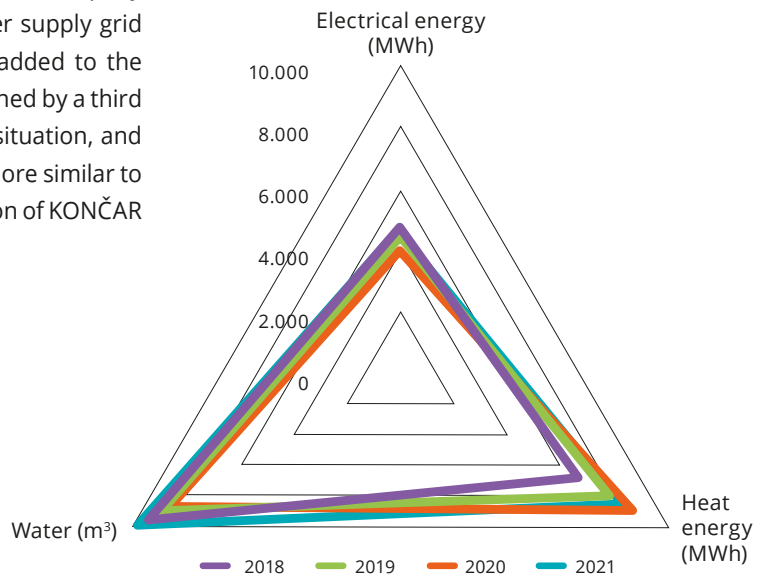
Energy consumption

	2018	2019	2020	2021
Electrical energy (MWh)	4363.00	4237.54	4445.46	4717.10
Heat energy (MWh)	8481.43	8715.67	7802.58	6713.58
Water (m ³)	9752.67	8634.66	8887.93	10,206.67

From year to year, insignificant differences have been observed in the total quantities of energy sources consumed, indicating that despite the increase in production, there has been no significant differences in the efficient management of resources. The successive replacement of lighting fixtures and installation of machinery with a higher energy class also contribute to maintaining small differences in consumption between years. The difference in the increased consumption of water in comparison with the two preceding years was due to the fact that the water consumed by the company through a direct connection to the public water supply grid (connection owned by KONČAR - D&ST) was added to the total consumption of water via a connection owned by a third company. In previous years, this was not the situation, and therefore in reality, the water spent in 2021 is more similar to the consumption in 2018, as the direct connection of KONČAR - D&ST recorded consumption of 586 m³ water.

302-4

REDUCING ENERGY CONSUMPTION



KONČAR D&ST systematically invests considerable efforts in project design and development of transformers with increased efficiency so as to adequately keep up with market trends and respond to all demands. In meeting the requirements of our consumers, we aim to keep at the very top of a strong competition pool. Taking into account all environmental aspects, KONČAR D&ST has harmonised its operations with the Commission Regulation (EU) No. 548/125/EC relating to eco-design requirements aimed at improving energy efficiency and environmental compliance in general. Through the approximation with this Regulation, we have focused on reducing electrical losses of transformers and on clearer and more visible technical labelling of power transformers.

302-5

REDUCING ENERGY REQUIREMENTS OF PRODUCTS AND SERVICES





V 3.3.

MATERIALS (301, 103)

103-1

INFLUENCE ON THE ENVIRONMENT

During the production of products at KONČAR - D&ST, care is taken during all phases of the transformer life cycle that all environment protection requirements are considered. The selection of materials is exceptionally important, particularly in the process of development and design of products, and in the procurement of materials, parts and services, and also during production itself, dispatching and transport.

Access to all these phases in the production process is based on the principles of a reduced impact on the environment at the very start of production, giving a broader overview of the flow of materials and energy, and ultimately, in preventing environmental pollution.

A detailed consideration of the entire life cycle of the product, and selection of the ecologically most acceptable materials and components, brings us closer to our ultimate goal of reducing the use of natural resources and emissions in the environment system, and to improve our social performance. In this way, the company achieves cleaner products and processes, a competitive edge on the market, and faster adaptation to a changing business climate.

103-2

PRODUCT ECO DESIGN

Ecological product design, as the principle upon which KONČAR - D&ST is guided during development and design, is an approach to product design that considers the environmental impact during its entire lifecycle (which reduces the consumption of resources, reduces emissions to the air, water or soil, impacts on human communities, etc.).

Procurement of materials and components is based on specific rules, always taking into account the best procurement practices, ethics and professional conduct.

During the procurement process, special consideration is given to all potential environmental requirements for suppliers of materials and components, and this is specifically emphasised at the very start of the procurement process.

103-3

SUSTAINABLE PROCUREMENT CHAIN

When obtaining materials and components that require special treatment or procedures in the social circle, suppliers are familiarised with all the relevant environmental protection requirements of KONČAR - D&ST.

In the procurement procedures for materials and components, KONČAR - D&ST is guided by the rules of the best procurement practices. For the purpose of qualifying and approving new suppliers, regular and extraordinary supplier audits (assessments) are conducted, and existing suppliers are re-examined as a rule once a year on the basis of the completed tenders. This encourages the exchange of information and communication, forecasts future development for products and materials used, and developed a mutually beneficial relationship with suppliers. Initiating procurement processes on time is an important step in successful management, and in envisaging future procurement needs and researching the procurement market.

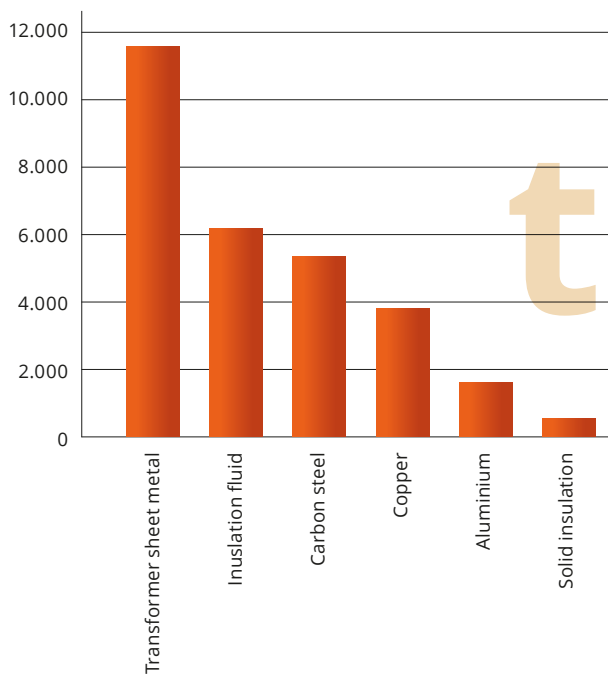


In 2021, a total of 29,012 t of strategic materials were procured, including transformer sheet metal, insulation fluid, steel (transformer tanks, lids, conservers, coolants and other auxiliary equipment), copper, aluminium and solid insulation material. With the materials listed in the chart, other non-strategic materials were also procured, such as different equipment, lockers, etc. Which when added to the strategic materials sum up to a mass of approximately 30,250 t of produced products at KONČAR - D&ST in 2021.

301-1

STRATEGIC MATERIALS

Strategic materials in 2021.



Handling packaging at KONČAR - D&ST pertains to two types of packaging – waste and reusable. The procedures and responsibilities involving the production and placement of packaging on the market, and for recording, collecting, sorting and the safe disposal of packaging waste is performed in an economically justified way that is harmless to humans and the environment.

301-3

PACKAGING MATERIALS

As part of the comprehensive overall concern for waste management (both hazardous and non-hazardous), the company implements systematic activities in handling packaging waste. It abides by all regulations of the Republic of Croatia (laws and bylaws) and the company's operating procedures are defined based on the specific product and production process.

A total of 47,839 pieces of reusable packaging were received in 2021 at KONČAR - D&ST, primarily plastic and wooden wrapping materials, metal palettes and stands, and wooden boxes and palettes. After the goods are delivered in reusable packaging are spent, the packaging is returned to the manufacturer for reuse.



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



11 SUSTAINABLE CITIES AND COMMUNITIES



V 3.2.

EMISSIONS (305, 103)



103-1

GREENHOUSE GASES

In recent decades, climate change and global warming have become important environmental issues. The cause of global warming is an increase in the greenhouse gas (GHG) emissions. Several greenhouse gases are responsible for global warming: water vapour, carbon dioxide (CO₂), methane, nitrous oxides, chlorofluorocarbons (CFCs) and others. The gas most responsible for the majority of global warming is carbon dioxide. Increases in greenhouse gas emissions have increased the interest of customers, management and stakeholders in the influence of their activities, products and services on the environment.

KONČAR - D&ST has recognised that calculating the carbon footprint of its transformers is an opportunity to better understand the company's impact on the environment, making it easier to identify opportunities to improve its operations.

103-1

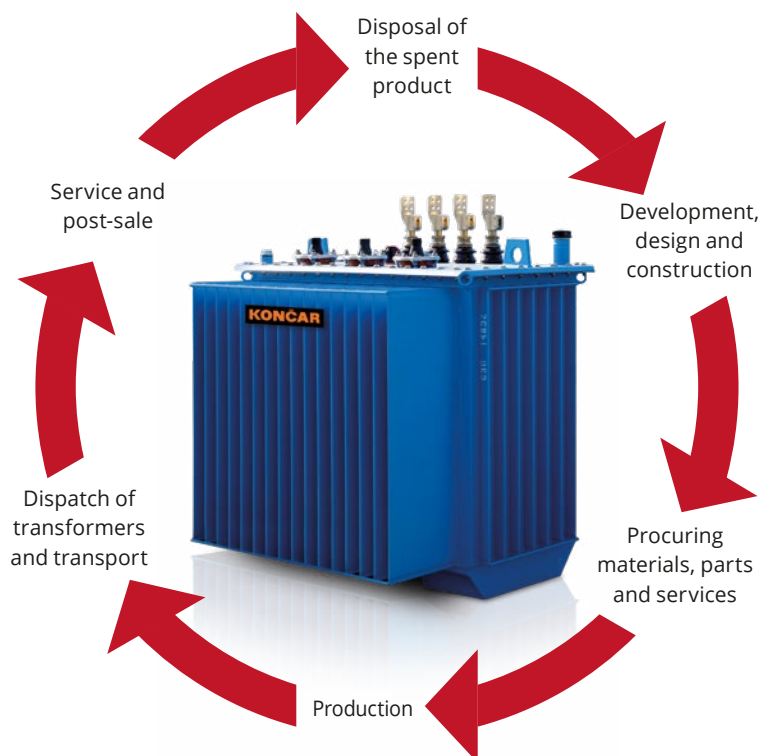
CARBON FOOTPRINT OF PRODUCT

The Carbon Footprint of Product (CFP) is a relatively new concept that is closely tied to greenhouse gas emissions. CFP is considered to be the total emission of greenhouse gases that are generated during the life cycle of a product – from its production and/or procurement of raw materials from natural resources to the final disposal of the product at the end of its lifetime. The carbon footprint of the product is described within the standard ISO 14067:2018, and the result of the calculation is expressed as the equivalent of the carbon footprint (CO₂eq). The equivalent of the carbon footprint is calculated using global warming potentials (GWP). This is a scale that is assigned to each greenhouse gas and describes its influence on climate change in relation to the same quantity of carbon dioxide. CO₂ is set as the reference gas, and its GWP value is 1.





The Life Cycle Assessment (LCA), like the carbon footprint of product and together with the product's environmental impact, is outlined in the standard ISO 14067:2018. The LCA method used at KONČAR -D&ST is a method to quantify the influence of certain products on the environment. It takes into account the complete life cycle, starting from the production of raw materials to the final product disposal or recycling of materials. The LCA scope used in calculations at KONČAR - D&ST was from "cradle to grave", meaning that it covers the CFP from the procurement of raw materials (cradle) to the end of the transformer lifecycle (grave).



Life cycle of a transformer at KONČAR - D&ST



103-3

LIFE CYCLE OF A TRANSFORMER

The aims of considering the life cycle of product at KONČAR - D&ST are to reduce the use of natural resources and environment emissions, and to improve the environmental impacts in different phases of the product life cycle.

By connecting the economic and ecological dimensions of production, the company achieves a cleaner product and processes, a better competitive edge on the market, and an improved platform that will satisfy the needs of a changing business climate.

Thinking about the life cycle is based on the principles of reducing the environmental impact from the very start of product production. This requires a broader picture of the flow of materials and energy that ultimately leads to preventing environmental pollution. In addition to the start of production, the principle of considering the entire product life cycle at KONČAR - D&ST is also applied in the planning and implementation of cleaner production processes (replacing materials with those with a smaller environmental impact), replacing machinery with those in a higher energy class and eco-design (in line with Commission Regulation (EC) No 548/125/EC, the Eco Directive).

The inclusion of ISO 14067:2018 in company operations has been recognised as an opportunity for more transparent communication with interested parties, and the inclusion of CO₂eq emissions in the annual report as basic information is a first step towards managing carbon emissions.

305-1

GREENHOUSE GASES

In its operations, KONČAR - D&ST has no plants or technological processes that use energy sources whose combustion generates emissions into the atmosphere (CO₂, CH₄, N₂O, NO₂, SO₂ and CO), and which are an integral part of greenhouse gases.

Accordingly, KONČAR - D&ST has no immobile sources of emissions in its production process and therefore is not subject to the legal regulations on regular monitoring of emissions into the atmosphere.

305-2

CALCULATION OF THE CARBON FOOTPRINT OF PRODUCT

KONČAR - D&ST first faced the requirement to calculate the CFP in 2018, which the next year the first project was developed for four distribution transformers. In 2021, two products were carried out associated with the carbon footprint calculation. One CFP calculation pertained to four distribution oil transformers (400 and 250 kVA), which were successfully verified. The second project for a 80 MVA medium power transformer began in 2021 with an expected issuance of the verification in early 2022.

Overview of total quantity of kg CO₂ eq for the entire lifecycle of distribution transformers (35 years)

Object	Total kg CO ₂ eq
DT 1, 400 kVA	275222,8
DT 2, 400 kVA	296580,7
DT 3, 400 kVA	296572,1
DT 4, 250 kVA	215979,7



As one of the contractual obligations to customers for which the CFP project was calculated for distribution transformers, KONČAR - D&ST will be required to draft a proposal to reduce the carbon footprint in all its production processes by 2023.

305-5

REDUCING
GREENHOUSE GAS
EMISSIONS

In accordance with Regulation EC 1005/2009 of the European Parliament and of the Council on substances that deplete the ozone layer (chlorine, fluorine, bromine, carbon and hydrogen), and Regulation 517/2014 of the European Parliament and of the Council on fluorinated greenhouse gases, KONČAR - D&ST is required to keep records of all cooling devices and types of working substances they use. All relevant data are entered into the PNOS database, available on the website of the Ministry of Economy and Sustainable Development.

305-6

EMISSIONS OF
SUBSTANCES THAT
DEplete THE
OZONE LAYER

Multiplying the quantity of working substances with the global warming potential gives the total quantity of CO₂ equivalents. Based on the obtained values (all devices with a GWP > 5t CO₂eq) are subject to a legal requirement to be checked for leakage every six months, and this is regularly performed at KONČAR - D&ST. All remaining cooling devices are serviced once per year, as seen in the service records.

At KONČAR - D&ST, there are 25 cooling devices in use that are subject to the Regulation on substances that deplete the ozone layer and on fluorinated greenhouse gases due to the working substances they contain. Concerning the calculation of total quantity of CO₂eq, are testing for leaking every 6 months on four devices, while the remaining 21 devices are serviced once per year.



VI

CORPORATE GOVERNANCE

(102-18 to 24)

VI 1.

STRATEGY

102-15

STRATEGY

In addition to the difficulties caused in 2021 by the ongoing COVID-19 pandemic, the year was also marked by disturbances in the supply chain and the sudden and significant increase in prices of raw materials and production materials during the year, the limited capacity of certain suppliers, and simultaneous hindrances in logistics activity. Despite this, the company continued its series of successful business years in 2021.

The good business results in 2021 and the years preceding further financially strengthened the company which has adequate financial stability and a strong foundation for the further business development.


The ongoing adaptation of the company to new external and internal conditions – both in the product line of distribution transformers and in the line of medium power transformers, the company has succeeded in increasing its competitive edge on the market, despite these trying times.

The main business activities of KONČAR - D&ST will continue to be the development, sale and production of distribution oil transformers to 8 MVA and 36 kV, special transformers and medium power transformers to 160 MVA and 170 kV.

At the current location at Jankomir, the company plans to increase its warehouse space with the aim of normalising the current level of production, which would enable the optimisation of certain business processes and more appropriate flow of materials, raw materials, equipment and finished products. By placing the priority on sales and development activities, recruitment and the systematic introduction of young experts into the business, by motivating employees, investing in information technology, development of products and modernizing production, the company is prepared for the demands of the complex market conditions that can be expected in the future.

In following the guidelines and requirements for a sustainable economy and circular economy, the company will continue to actively contribute and participate in energy transition and reducing the carbon footprint, and the digitalisation of internal processes and business operations.





KONČAR – D&ST will secure a high standing among the top European producers of distribution, special and medium power transformed by recognising and meeting the needs of key customers, nurturing partnership relations with suppliers, through its commitment to quality and sustainable development, technical and organisational development, and well-trained and motivated employees that work together to achieve business excellence.



VI 2. RISK MANAGEMENT

102-11 RISK MANAGEMENT

In 2021, KONČAR D&ST revised its Risk Management Rules and the Risk Management Policy, which are compliant with ISO 31000:2018 (Risk Management - Guidelines), and with ERM (Enterprise Risk Management) principles. In accordance with the Policy, risk management in the company is:

- Integrated into all business processes and decision-making processes in the company. It is structured and comprehensive, takes into account both the external and internal context of the company, and the best available information,
- Inclusive and includes a wide circle of people, starting from the Management and Supervisory Board, to the sector and area directors, managers and department heads and workshop managers, to all employees, and also external stakeholders,
- Dynamic, as new risks can arise, change or disappear in line with changes to the external and internal context,
- Based on ongoing improvements to management, and based on learned and acquired experience.

In examining the business strategy and business goals, the Company confirms it has a moderate (average) tendency to risk.

The lowest tendency to risk is in the area of security goals and compliance, including employee health and safety. An insignificantly higher tendency to risk is in the area of strategic and operational goals. That means that reducing risks ensuing from our systems, equipment, products and work environment to reasonable and feasible level, and abiding by our legal requirements takes precedence over other business goals.

In line with the defined risk management methodology, a Catalogue of Risks was drawn up and was revised in late 2021. The Catalogue identifies, analyses, and evaluates the main strategic, operating, and financial risks, and measures were defined to reduce the risks, and designating the persons responsible for managing those risks (risk owners). Risks were identified in all company organisational units.



VI 3.

KEY INFLUENCES, RISKS AND OPPORTUNITIES

The good business results in 2021 and the series of previous years further financially strengthened the company, which has adequate financial stability and a good foundation for further development of operations.

Through ongoing adaptations of the organisation to the new external and internal conditions – both in the product line of distribution transformers and in the line of medium power transformers – the company has raised its competitive edge on the market, despite these difficult times.

By placing the priority on sales and development activities, recruitment and the systematic introduction of young experts into the business, by motivating employees, investing in information technology, development of products and modernisation of production, the company is prepared for the demands of the complex market conditions that can be expected in the future.

In following the guidelines and requirements for a sustainable economy and circular economy, the company will continue to actively contribute to and participate in energy transition and the decarbonisation of the economy, and digitalisation of internal processes and its business processes.

By investing in the company Power Engineering Transformatory Sp. z o.o. (PET) Poland, a new opportunity to access new markets was opened.

From the first quarter of 2021, prices of the main raw materials and production materials began to grow significantly (copper, aluminium, transformer sheet metal, transformer oil, steel).

The 2021 business year was marked by the ongoing COVID-19 pandemic, which generated numerous risks, of which the most prominent were risks associated with employee health, the organisation of work, production and business processes, logistics risks in the procurement of raw materials and production materials, and the delivery of finished products, risks associated with changing customer behaviour in ordering products, and similar risks. The company adequately responded to these risks, mitigating them with the available measures and actions, and the 2021 business year was completed without any significant negative impacts on the company's business results.

Demand for transformers on the target markets was one of the main risk factors for company operations. The 2021 business year was characterised by an increased demand for transformers for a series of reasons, the most important being the entry into force of Commission Regulation (EU) No 548/2014 (Tier 2) of 1 July 2021, the forecast of further growth in prices of raw materials and production materials, and uncertainty due to disturbances on the supply chain due to increased investments in renewable energy sources.

The supply of transformers by other producers (competitive pressure) is the next very important risk factor for company operations. The behaviour of current competitors and the entry of new competitors on the target markets of KONČAR - D&ST create a very strong competitive pressure on most target markets. The entire transformer industry has experienced substantial change in recent years, with numerous restructurings, separations and/or sales of energy sections of business in large corporations, closures or liquidation of existing factories, opening new factories, takeovers and mergers (consolidation), and these trends are expected to continue.

102-15

KEY INFLUENCES,
RISKS AND
OPPORTUNITIES



Procurement market risks were also prominent in the 2021 business year. The price of the main raw materials and other materials used in the production of transformers (copper, aluminium, transformer sheet metal, transformer oil, insulation, steel, etc) are volatile, with significant growth over a relatively short period of time. The risks associated with availability of the required quantities, and the costs and possibilities of transporting raw materials and production materials, were also high in the conditions of the COVID-19 pandemic. Considering the possibilities at its disposal, the company is protected from the risks of sudden changes in the price of strategic raw materials in several ways. For copper, the risk mitigation policy is such that since this is a raw material that is traded on the commodities market (London Metal Exchange), prices and quantities are agreed with suppliers with FORWARD contracts for the future period, based on the situation and assessments of contracts. For transformer sheet metal and other important procurement parts, half-year contracts with suppliers aim to reduce this risk and secure the required quantities. Also, in some multi-year contracts with customers, sliding formulas are contracted and the price of materials are based on these. Changes in the price of materials includes the calculations when developing new offers for products.

Technological-developmen risks. At this time, the company possesses contemporary technology for the production of transformers and the appropriate technical solutions for the majority of the products from its programme, and it is able to keep up with technical and technological development at an impressive level. In the future, the company is not expected to lag behind the main competitors in terms of technical and technological level.

Risks of strategic investments and acquisitions. In 2021, the strategic investment to increasing capacities in the production of distribution transformers at the Jankomir location became fully functional, and intensive support was continued to the development of the company PET in Poland. This group of risks is mitigated through appropriate analyses and evaluations of potential risks, taking adequate measures to mitigate risk, and through active inclusion of the Management Board and key managers and employees in managing processes.

Of **the financial risks**, the most important are foreign currency exchange risks, credit risk and liquidity risk.

The foreign currency risk is quite prominent in company operations, since there is a large portion of exports and imports in revenues, and since a part of the monetary items in the claim and liability sides are expressed in foreign currencies.

The company is protected from foreign currency risk through forward contracts with banks and with internal techniques of aligning the foreign currency inflows and outflows, and aligning the state of the monetary items in foreign currencies in the balances.

The credit risk appears as a threat that a given debtor of the company (i.e., customer to whom a delivery has been made without sufficient payment insurance) will not be able to or want to execute payment to the company in line with the contracted terms, and that the company will then faces losses on the write-off or reduced claims.

The company is protected from credit risk by payment insurance instruments (L/C, guarantees, promissory bills, etc.) and an assessment of customer financial standing in cooperation with external agencies for the assessment of financial standing and credit standing. Also, claims for individual customers are also insured with specialised institutions.

The liquidity risk arises as a threat that the company will not be able to execute its liabilities towards creditors in the contracted schedules.

The company has contracted relations with corporate banks on framework credit, which enables it to quickly and with known conditions to bridge a current need for liquid funds. Also, claims with relatively long maturity periods are occasionally collected by selling them to financial institutions (factoring, forfeiting).



Management and personnel risks. The usual fluctuations and changes in management, leading experts, and employees does significantly influence company operations, while sudden and larger fluctuations of management, key and other employees could influence the company's business results. The company actively manages these risks.

In addition to the above risks, there is also, to a certain extent, information risks, design and construction risks, production risks, political risks and other groups of risks.

Investments in and modernising technology

The company has contemporary technology, and also continuously invests in improving and modernising the existing processes, with the aim of constant improvements. In 2021, an investment in a 1.1 MW photovoltaic plant was contracted and initiated, and is expected to be completed and become operational in Q2 2022. In the area of infrastructure upgrades, the dispatch workshop was reconstructed to increase the technological possibilities for the dispatch of special transformers.

In 2021, different specialised machines in production were procured or modernised, in line with the adopted annual plan.

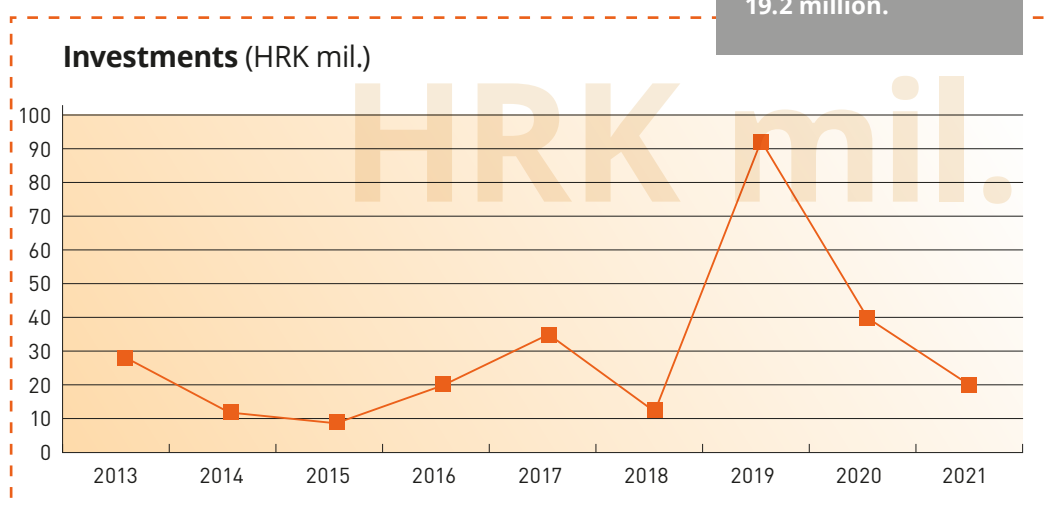
As an upgrade of the product line of energy transformers, a hydraulic device for stacking cores with a maximum load of 60t was put into operation, which expanded the technological capacities in the area of offering, designing, and producing special transformers. Also, an autonomous mobile decide for processing transformer oil was fully equipped, enabling the preparation of transformers for their operation in field conditions.

Upgrades were made to operational systems, comprehensive annual servicing, and installations of acoustic noise production were also performed in the processing of transformer sheet metal, thereby further improving the working conditions.

In order for the company to be able to keep in line with the expanded market demand and retain the high level of quality in the production of power transformers, at the end of 2021, negotiations were started on a project to purchase and make just over 4000 m2 of new space operational. This space will be used to unburden the current production and to ensure high quality work. The project is currently in preparation and the first activities are being planned.

In parallel with investments in production equipment, investments were also made in upgrading computer equipment, thereby increasing access to virtual servers.

Total investments
in 2021 totalled HRK
19.2 million.





VI 4.

MANAGEMENT STRUCTURE AND DELEGATING RESPONSIBILITY

102 -
18 to 24

MANAGEMENT
STRUCTURE
AND DELEGATING
RESPONSIBILITY

KONČAR – D&ST is a joint stock company within the KONČAR Group, in which KONČAR – ELEKTROINDUSTRIJA d.d. holds the majority share (52.73%). The companies within the KONČAR Group are independent trading companies.

In 2021, the business processes in the company KONČAR – D&ST were organised through the profit centres PC Distribution transformers and PC Medium power transformers, with the support of the shared services at the company level. The profit centres are managed by a board of directors composed of: director of the profit centre (also a member of the company Management Board), and the sales, technical and production directors.



Management board

The Management Board consists of five members: the Board Chairperson (CEO), Board Member for the Profit Centre Distribution Transformers, Board Member for the Profit Centre Medium Energy Transformers, Board Member for the business development, product development, production development, marketing, investments and maintenance, and Board Member for finance, accounting, purchasing, human resources management, legal and general affairs. All members of the Management Board are equal in position and status, and the President of the Management Board coordinates the work of the entire Management Board. The KONČAR D&ST Management Board is responsible for the conduct of business, and it is obliged and authorised to take actions and make decisions that it deems necessary for the successful management of the Company. Certain decisions prescribed by the Articles of Association are subject to the prior consent of the Supervisory Board.

Until 31 March 2021, the company KONČAR - D&ST was managed by the management board in the composition:

- Ivan Klapan, President of the Management Board
- Petar Bobek, Member of the management Board, director of business development
- Vanja Burul, Member of the management Board, director of the Profit Centre MPT
- Martina Mikulić, Member of the management Board, director of the Profit Centre DT
- Petar Vlaić, Member of the management Board, financial director, procurement director, director of human resources, legal and general affairs



Upon the retirement of Mr. Ivan Klapan, the company KONČAR - D&ST d.d. received new management as of 1 April 2021 in the composition:

- Vanja Burul, President of the Management Board
- Petar Bobek, Member of the management Board, director of the Profit Centre MPT
- Martina Mikulić, Member of the management Board, director of the Profit Centre DT
- Dominik Trstoglavac, Member of the management Board, director of technical development and business development
- Petar Vlaić, Member of the management Board, financial director, procurement director, director of human resources, legal and general affairs

The Supervisory Board appoints and dismisses the Management Board, and in accordance with the Statute decides on the number of members in the management board and the length of the mandate. The Appointments Committee also participates in the appointment of the Management Board proposing candidates for members of the Management Board to the Supervisory Board.

The Management Board has evaluated its overall effectiveness, as well as the profiles and competencies of its members in 2021. The evaluation was led by the President of the Management Board. The Management Board has established that its activities are effective, that it has a well-balanced system, and that its members possess the required knowledge, capacities, experience and expertise corresponding to the Company management requirements. The evaluation results have been reported by the Management Board to the Supervisory Board.



Supervisory board

The company Supervisory Board consists of five members, four of whom are elected by shareholders at the General Assembly, and one is an employee representative.

In 2021, the Supervisory Board members were:

- Gordan Kolak, President
- Ivan Bahun, member
- Josip Ljulj, member
- Miki Huljić, member
- Ana Marija Markoč, member - employees' representative

In 2021, the Supervisory Board held 27 meetings, including 3 regular meetings and 24 telephone meetings, in which all the Supervisory Board members took part.

The Supervisory Board has evaluated its overall effectiveness, as well as the profiles and competencies of its members in 2021. The evaluation was led by the Supervisory Board President. No external evaluators took part in the evaluation process.

The Supervisory Board has established that its activities are effective, that it has a well-balanced system, and that its members possess the required knowledge, capacities, experience and expertise corresponding to the company supervision requirements.

The Supervisory Board has set the target minimum share of 20% women among its members and among Management Board members, which is an adequate share corresponding to the share of women in the total number of company employees. In 2021, the percentage of women in the Management Board and the Supervisory Board was 20%.

There are three committees within the Supervisory Board: Audit Committee, Remuneration Committee, and Appointments Committee. Each committee has three members.



General Assembly

Shareholders exercise their rights in the company at the General Assembly. During 2021, one regular general meeting of shareholders was held on 20 May 2021.

Company shares were listed in the regular market quotation of the Zagreb Stock Exchange, www.zse.hr. The company implements most of the provisions of the Code of Corporate Governance, prepared by Zagreb Stock Exchange and HANFA and released on the Zagreb Stock Exchange official website (www.zse.hr).

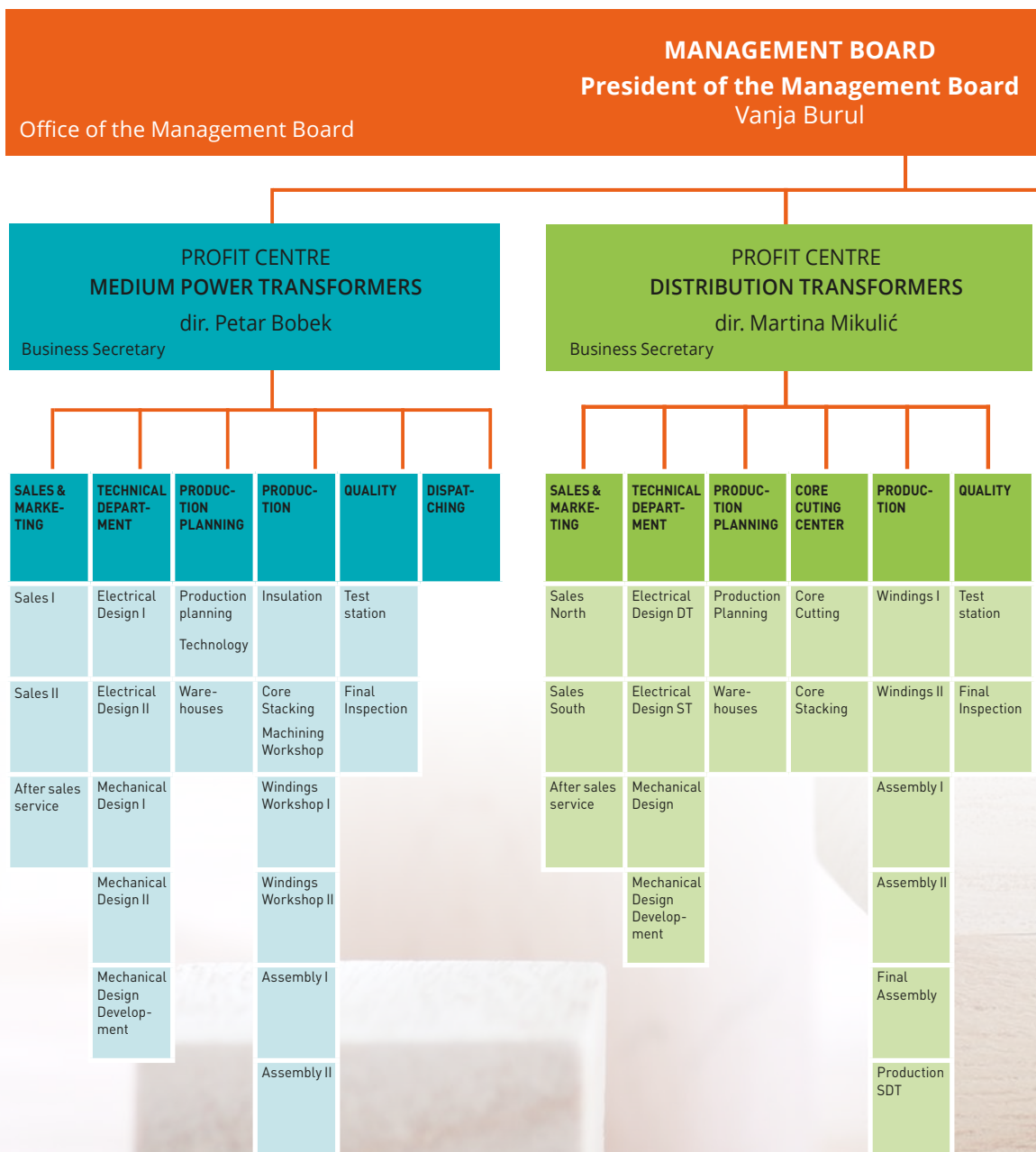


Organisational chart

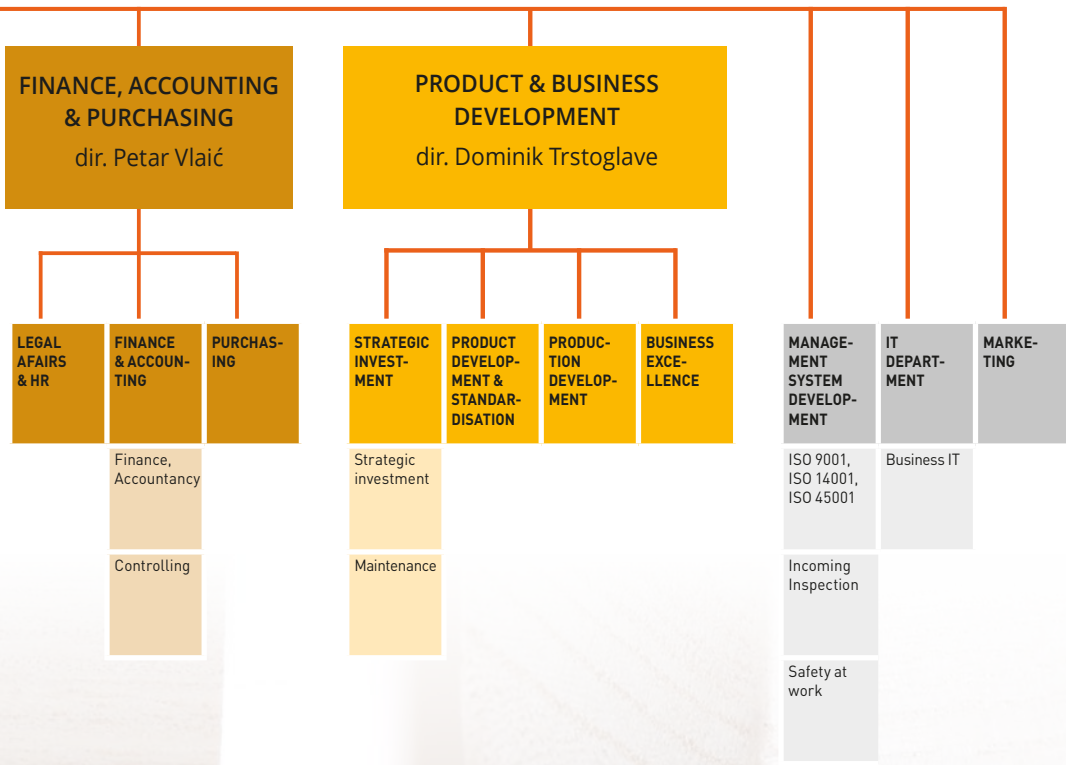
The basic organization structure of the company is determined by the Management Board of the Company in agreement with the Supervisory Board.

Organisational chart of KONČAR - D&ST d.d.

General Assembly
Supervisory Board



Auditors



VII

SOCIAL RESPONSIBILITY AND HUMAN RESOURCES

The development of human resources at KONČAR – D&ST and raising work performance is achieved by providing equal opportunities for education, training and professional development, transparent system of rewards, equal conditions in salaries and promotions, regardless of gender, age, nationality, ethnicity, race, creed, language, social or economic status, sexual orientation and affiliation with any political or other organisations.

KONČAR – D&ST pays special attention to achieving a balance between work and private life.

KONČAR – D&ST stimulates its employees to continue their development and mastery of different types of knowledge and skills, and encourages them to engage in life-long learning.

VII 1.1.

EMPLOYEE DATA

102-8

EMPLOYEE DATA

At the start of 2021, KONČAR – D&ST had 645 employees. By the end of the year, another 46 new recruits joined the company while 13 people left, thus ending the year with 678 employees.

We recruit people of a diverse age structure. The youngest newly employed person in 2021 was 20 years old, while the oldest was 45 years old. The average age of employees at KONČAR - D&ST is 39 years.

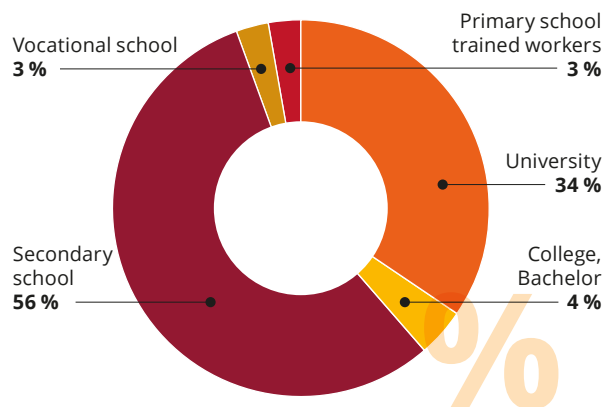
Employee structure by qualifications

	2021
UNIVERSITY (16+ years schooling)	234
COLLEGE, BACHELOR (14-15 years schooling)	29
SECONDARY (12 years schooling)	378
VOCATIONAL SCHOOL (11-13 years schooling)	19
PRIMARY, TRAINED WORKERS (8 years schooling)	18
TOTAL	678

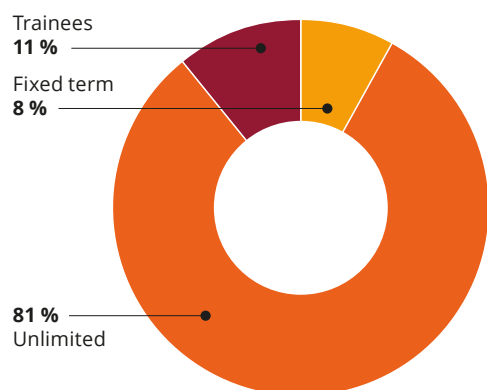




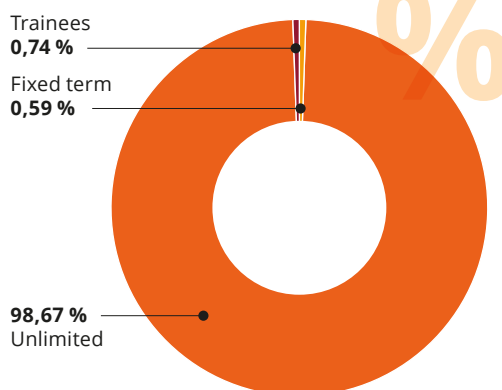
Employees by qualifications in 2021



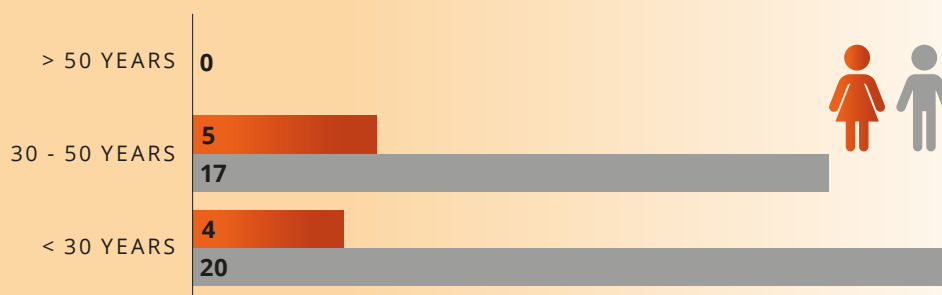
New employees by contract type in 2021



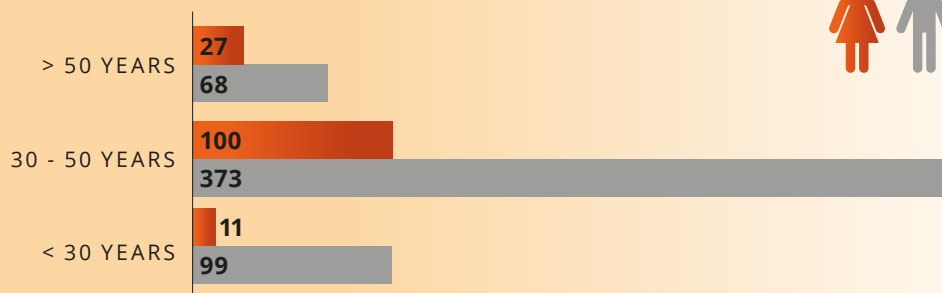
Overview of all employees by contract type in 2021



Overview of structure of new employees by gender and age in 2021



Overview of structure of all employees by gender and age in 2021



Fluctuation rate in 2021

The Company continues to record a low rate of early turnover (as in previous years, only one case of early departure of an employee and that was due to their inability to meet the requirements during the trial period) and a generally low rate of total desired and undesired fluctuation.

Year	Total annual fluctuation rate	Annual rate of undesired fluctuation	Annual rate of desired fluctuation
2021	2.6%	0.8%	1.8%



Employee benefits

KONČAR-D&ST cares for its employees and through a number of monetary and non-monetary benefits, aims to create conditions for their professional growth and development, a pleasant work environment, fair compensation for their work, and a healthy work/home balance:



ADDITIONAL PAYMENTS – CHRISTMAS, VACATION AND EASTER BONUS



JUBILEE REWARDS



PAYMENTS INTO THE 3RD PENSION SYSTEM PILLAR



CO-FINANCED HOT MEAL AND TRANSPORT



OPPORTUNITIES FOR FURTHER EDUCATION, TRAINING AND ADVANCEMENTS



FLEXIBLE WORK HOURS FOR OFFICE WORKERS



MULTISPORT CARD FOR PARTICIPATION IN SPORTS AND RECREATION ACTIVITIES



ADDITIONAL HEALTH INSURANCE – ANNUAL PHYSICAL EXAM



NEWBORN SUPPORT, PARENTAL LEAVE AND A GIFT FOR CHILDREN ON ST. NICHOLAS DAY



RETIREMENT BONUS

Parental leave

All employees, regardless of gender, are entitled to take parental leave. During 2021, more men than women took advantage of the right to take parent leave, proving that the company also encourages fathers to use this benefit.

Parental leave 2021

W	M	RETURN RATE TO WORK AFTER PARENTAL LEAVE	RETENTION RATE AT WORK (12 MONTHS) AFTER RETURNING FROM PARENTAL LEAVE
8	10	100%	100%





The importance of our employees' opinions – SURVEY 2021

Aware of the importance of our greatest strength – our current employees without whom it would not be possible to achieve the company goals and our economic growth and progress, we make ongoing efforts to hear the needs and opinions of our employees and to keep them satisfied and motivated.

At the KONČAR Group level, an online survey was conducted during 2021, and KONČAR - D&ST also took part. The survey aimed to measure employee satisfaction, management perceptions and the organisational culture.

In terms of **employee satisfaction**, measurements showed that the employee satisfaction index at KONČAR - D&ST was above the average for the KONČAR Group. In certain aspects of work, the employees of KONČAR - D&ST were most satisfied with their working conditions, colleagues and status in the organisation; followed by the work itself, the aspect of organisational leadership, and opportunities for education. According to the survey, employees were somewhat less satisfied with their salaries and recognitions and opportunities for advancement. The company took the survey results into consideration and approved an action plan aimed at improving results in the forthcoming period, especially taking into account measure intended to ensure fair rewards and compensation for the work and effort of our employees.

The survey also measured employee readiness to recommend their company to others as a good place to work, which shows that the majority of KONČAR - D&ST employees would recommend their company to others, and that this index is the highest for KONČAR - D&ST in the entire KONČAR Group.

In surveying **organisational culture**, which usually supports the successful functioning of the company and is highly correlated with all key business success indicators, it was necessary to assess how the employees view the current culture and which is the desired culture. The measurements showed that the difference between the current and desired organisational culture was not significant.

Employees assessed the current cultural as hierarchical (marked by the structured work environment, defined procedures, security, predictability, stability and control) and market-oriented (focused on results with challenging goals, competitive spirit, and emphasis on profitability and market penetration). For the assessment of the desired culture, employees stated that they would prefer to see a greater focus on innovations, taking risks, entrepreneurship, and greater attention will be focused on this in the coming period.





Cooperation with universities

KONČAR - D&ST is open to different forms of cooperation and support for the academic community. In this way, we support the work of universities and are building ties with future experts who are also our potential future employees.

At the end of 2021, we participated in the Career Speed Dating event organised by the FER (Faculty of Electrical Engineering and Computing, University of Zagreb) Career Centre and the eStudent student association. During this unique combination of speed dating and job interviews, our representatives from the technical office and Human Resources Department spoke with 36 students of the faculty, as young, perspective experts and potential future colleagues, to share with them more information about the opportunities for student traineeships, scholarships and employment at KONČAR - D&ST.



Also, during 2021, the competition “Become a stipenD&ST” was held, and KONČAR - D&ST awarded stipends to excellent students at the Faculty of Electrical Engineering and Computing (FER) and Faculty of Mechanical Engineering and Naval Architecture (FSB) of the University of Zagreb.

Two FER students from the study programme of Electrical Engineering and Information Technology (profiles: Electrical machines and automation, and Electrical engineering) and five FSB students from the study programmes Production engineering, Engineering materials and Constructions were selected as the KONČAR - D&ST stipend winners.

In addition to financial support during the remainder of their schooling, the stipend recipients also receive the opportunity to prepare their graduate thesis on topics associated with the transformer industry, and opportunities to receive an internship at KONČAR - D&ST after completing their studies.



Cooperation with the association for professional rehabilitation and employment of persons with disabilities - Uriho

During 2021, good cooperation was continued with URIHO, an association for the professional rehabilitation and employment of persons with disabilities. Through the business cooperation agreement with the protection workshop, KONČAR - D&ST orders products made by the URIHO association, and in that way meets the alternate quota for employing persons with disabilities and, more importantly, supports the professional rehabilitation and socialisation of persons with disabilities into the community.

For 2021, the company, as subject to quote employment, met the alternate quota, which replaced the employment of 73 persons with disabilities.





VII 1.2.

TRAINING AND EDUCATION

103-
1 to 3

TRAINING AND
EDUCATION

Education, training and personal development of employees are of key importance for KONČAR - D&ST operations, as the application of acquired knowledge and skills during business activities contributes to results. Investments in the acquisition and development of employee competencies enables them to master specialist knowledge, to continuously monitor trends and new technologies, and increase their innovativeness, which contributes to increasing the quality of work creating market advantages and improving existing and developing new products and services.

This is of significant interest for all included stakeholders – employees and customers, as employee personal development contributes to their motivation and abilities to respond to customer demands.

KONČAR - D&ST systematically and continually implements activities for the training, development and education of employees, with the aim of acquiring expert knowledge, technical knowledge, knowledge of foreign languages, information knowledge, managerial knowledge, development of personal competencies, and knowledge in the field of occupational health and safety, environmental protection and quality systems. Employees are encouraged and financially supported to enrol in graduate and post-graduate specialist and doctoral studies, to actively and passively participate in seminars and congresses in Croatia and abroad, to take foreign language courses and learn new computer skills, to participate in workshops on leadership skills and managerial development, to participate in workshops on soft skills and personal development, to train as auditors in managing quality systems and other types of training programmes.

Training is performed in line with the internal procedure and associated work instructions, and in line with the Annual training plan that is drafted at the company level. The Human Resources Department is responsible for developing the training plan, while management, the management board member responsible for quality assurance systems, environmental protection, occupational health and safety, and occupational safety service representative participate in developing the plan.

Ongoing training activities are regularly monitored, and employee satisfaction with these activities surveyed. At the start of the year, the Human Resources department created the annual report on training for the previous year. Evaluation of all completed activities, assessments of the state of employee training is performed once per year at the expanded collegium meeting of KONČAR - D&ST and the final grade with proposals for improvements is given by the Management Board. KONČAR - D&ST continually works to improve processes involving training and education, and to develop the system of managing competencies, internal training programmes, availability and selection of external training programmes, and monitoring the implementation and effects of educational activities.



E-learning platform

Since knowledge is one of our greatest values as a company, and what gives us the best competitive edge in our business, KONČAR - D&ST has made it possible for just under half of its employees to access a contemporary education method – the e-learning platform.

The platform provides employees unlimited access to more than 100 programmes in areas of business skills, soft skills, foreign languages and personal development. Employees can access the platform 24/7 from any digital device, to learn when and how much they want.

Every employee has received their own education plan, including between 9 and 11 programmes for key competencies. The programmes include topics such as Communication skills, Effectiveness, Corporate etiquette, Delegating and time management, and the internally developed programme for new employees – Welcome to KONČAR - D&ST.



During 2021, 56% of employees participated in some form of training or education. The average number of training hours per employee was 45 hours.

404-1

AVERAGE NUMBER OF TRAINING HOURS PER YEAR PER EMPLOYEE

During 2021, training of KONČAR - D&ST employees was conducted through internal and external expert education based on the demands of the job, training for management systems, training pertaining to occupational safety and management training.

• Foreign language courses

In 2021, KONČAR - D&ST financed or co-financed foreign language courses for 15 employees. Most courses were for German or Spanish, followed by English and Russian.

• IT courses

A group course for basic use of MS Excel was organised exclusively for employees of KONČAR - D&ST, and was successfully completed by 14 employees. A group course for the use of MS Protect was also organised exclusively for KONČAR - D&ST employees, which was completed by 20 employees.

• Acquiring expert and scientific qualifications

Two employees completed an adult pre-qualification programme for the profession of electrical technician, two employees attended graduate studies at higher education institutions, 16 employees attended specialist post-graduate studies at the Faculty of Electrical Engineering and Computing or Faculty of Mechanical Engineering and Naval Architecture of the University of Zagreb. Two employees attended doctoral studies at FER and one of them, Mario Jurković, successfully defended his doctoral dissertation. President of the Management Board, Vanja Burul, successfully completed the EMBA programme at the Cotrugli Business School in Zagreb.

• Expert training for managing internal transport

During 2021, a total of 69 training sessions for employees in positions in production were held for handling the bridge crane, forklift, electric cart, hydraulic platform and signalisation.

• Training for quality systems, environmental protection, and occupational health and safety

Basic internal training for management systems was held for 48 new employees during 2021. Training or updating of knowledge of auditors in line with the standards ISO 9001, ISO 14001 and ISO 45001 was carried out.

A total of 73 employees were trained for safe work and fire protection.

• Onboarding for new employees

During 2021, 46 new employees joined the company, and an onboarding programme was prepared and mentors assigned to each new hire. The mentor system is in place for employees in all positions, both in production and in the offices. Within the onboarding programme, employees are acquainted with the organisation and internal rules of the organisation, work organisation, work of departments, and their own role, colleagues and associates, and other organisational units. The mentors offer support and guidance to new hires while learning their work tasks, in accordance with the set goals.

404-2

PROGRAMMES FOR ACQUIRING SKILLS AND PROGRAMMES THAT SUPPORT CONSTANT EMPLOYMENT OPPORTUNITIES

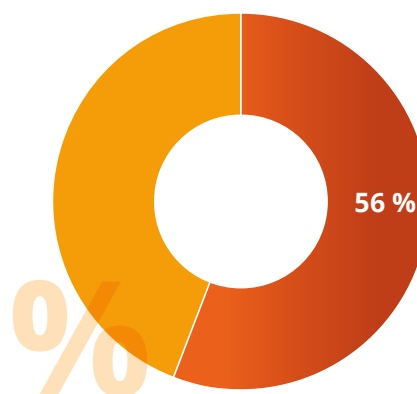


INTERNALLY DEVELOPED EDUCATION PROGRAMMES

Welcome to KONČAR - D&ST - presentation for new employees

To help new employees find their way around their new work environment, an education programme has been developed to familiarise them with KONČAR - D&ST. The programme is available within the e-learning platform, so all new employees can access it at anytime and anywhere via computer or mobile phone. The programme encompasses the basic information about the company and its products, expectations from employees, how work is organised, financial and other benefits, organisational culture, and more.

Share of employees who received education in 2021



Selection process - education for recruitment committee members

In 2021, an internal education programme was launched for management employees who take part in recruitment selection procedures. The education familiarises managers with the course of the selection process at KONČAR - D&ST, how to properly run a selection interview, the rules of handing psychological assessment reports, protection of candidate data and ensuring equal opportunities for all candidates. The test at the end of the education was successfully passed by all nine attendees, and by the end of 2022, plans are in place for the rest of the management who participate in selection to undergo this education. Attendees recognised the value of this education and gave it a mark of excellent.



Corporate culture and communications – workshop for managers

KONČAR - D&ST published a handbook in 2021 entitled “Corporate culture and communications”. The handbook is intended to familiarise all employees with the fundamental values that are in place in daily work, and it also offers practical guidelines for different forms of communication. Following from the topics addressed in the handbook, a workshop was organised for management staff, given their key role in creating corporate culture. The workshop was attended by 58 employees, including members of the management board and managers at all levels. The participants highlighted the contribution of the workshop to developing interpersonal communications, thereby fulfilling its role.

Skills for self-management and managing others

In 2020, an educational programme was launched for the management staff of KONČAR - D&ST entitled “Skills for self-management and managing others”, intended to develop managerial competencies. Within the framework of the two-day workshop, managers are educated on tools and techniques for increasing personal and team efficacy and motivation. To date, 17 employees have taken part in the programme. During 2021, two new series of workshops were held for a total of 14 managers. The education programme was assessed as exceptionally positive, and it is planned to be held regularly in the future.

Electrical principles and transformers

KONČAR - D&ST has developed an educational programme entitled “Electrical principles and transformers” with a duration of 8 school hours. Through lectures and demonstrations in the production plant, employees are able to learn the purpose, manner of functioning and production of transformers in a simple way. The educational programme includes familiarisation with the basic concepts in electrical engineering, how transformers work, types of transformers, basic parts of transformers, technical and economic evaluation of transformers, and also includes a tour of the workshop and transformer testing lab. The education is mandatory for all new hires in jobs with a higher complexity level, and is held in two versions – basic (for non-engineering employees) and advanced (for engineers). From 2015 to 2020, 20 series of this education programme were held for a total of 296 employees. In 2021, 19 employees completed the programme. Regular surveys of employee satisfaction are conducted after each series, and show the ongoing high quality of the programme.

At KONČAR - D&ST, the project to introduce competency management systems at the level of the entire organisation continued in 2021, and within the project, behaviours and expert competencies were defined for all employees. An assessment of the competencies of all employees was performed, and compared with the desired level of competency, so as to identify the development goals. As a continuation of the project to implement competency models, education is planned for managers to conduct yearly performance reviews with employees, with the aim of monitoring the work performance and individual development of each employee. The basic principle is to give feedback to employees and to plan development activities for the forthcoming period. Currently, employees receive feedback about their work performance indirectly, based on the percentage of the stimulatory part of the salary, which the immediate supervisory allocates to all employees on a quarterly basis.



404-3

PERCENTAGE OF EMPLOYEES RECEIVING A REGULAR ASSESSMENT OF THEIR WORK PERFORMANCE AND INDIVIDUAL DEVELOPMENT





VII 1.3.

OCCUPATIONAL HEALTH AND SAFETY

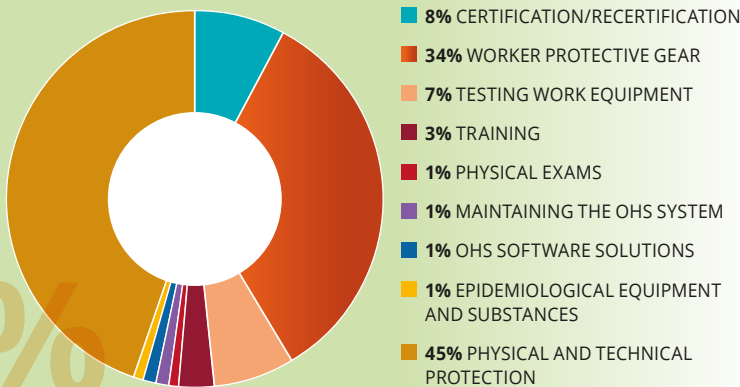
403, 103-1 to 3

OCCUPATIONAL HEALTH AND SAFETY

KONČAR – D&ST aims to ensure the unhindered application of the legal and system regulations in the protection of occupational health and safety, and is continuously working to improve and direct the work climate and culture to a higher level. Meanwhile, it is focused on improving quality and replacing work equipment, and the company has secured the required funds for that purpose. In that area, in cooperation with company employees, the company performs testing of all existing parameters so as to be aligned with the development of knowledge, technology and materials and their practical application. The company also considers employee initiatives.

Investments in health and safety

u 2021



KONČAR D&ST manages all occupational health and safety processes in accordance with the legal requirements, systematic procedures and examples of good practice. This implies the process of participation of all company employees as interested parties, and also the participation of interested third parties. This area is managed at multiple levels of the organisation, where each level participates in line with its responsibilities and with mutual coordination. The organisational approach is achieved via the Workplace Safety Board (WS) and the Occupational Health & Safety Board (OH&S) as the bodies responsible for the direct alignment and information of all interested parties, and for specific and set course and schedule for resolving topics.

This manner of management enables a rapid response to incompliances and positively affects an improvement of the state of affairs.

The policies of the company Management Board, like all other effects on occupational health and safety, as listed in the policy, are required to abide by all legal regulations and requirements of the standard ISO 45001:2018. The policy is applied to the complete scope of company operations, and is an integral part of the Handbook for environmental protection and occupational health and safety. The company applies and implements the adopted policies in their full scope.

Goals implemented at the annual level are part of the tools used to document the way improvements are implemented, enabling a proactive approach to the topics of occupational health and safety.

The company publishes its policy and goals via the announcement board, interactive monitors in the company, and in the company information system, and they are available to everyone.

KONČAR D&ST regularly conducts assessments of the efficiency of the occupational health and safety management system. Assessments are conducted through reports of the WS Board and OH&S Board, through internal and external audits, and at meetings in which the company Management Board assesses the efficacy based on all defined parameters of the system and in compliance with the requirements of the standard ISO 45001:2018. The assessment of the Management Board of efficacy of the management system, and the internal and external audits by certified auditors are conducted on a six-month cycle. Interested parties conduct audits based on their needs, and these are usually part of prequalification processes.



VII 1.3.1.

MANAGEMENT SYSTEM FOR OCCUPATIONAL HEALTH AND SAFETY

KONČAR - D&ST continuously emphasises the importance of a safe work culture, both in its production processes, and in contacts with contractors and customers. The health and safety of our employees is one of our top business priorities. Through the OH&S management system, we continually introduce changes that are adapted to meet employee needs and address the challenges of urgent and emergency situations. One of the important elements in the proactive management of OH&S is system digitalisation. This enables quick and uniform communication throughout the hierarchy levels. In this way, recognising, connecting and monitoring risks and their mutual relations is available to all participants in one place.

In the scope of its operations, KONČAR D&ST is committed to abiding by the legal regulations of the Republic of Croatia ensuing from acceptance of the requirements of standard ISO 45001:2018, and the application of requirements of interested parties.

The company continually supports the development of occupational health and safety, with the aim of successfully executing the strategy and goals, and ongoing improvement of results in the area of the management system and that affect occupational health and safety by:

- ensuring safe and healthy working conditions for the prevention of work-related injuries and ill health, to eliminate hazards,
- acting on the awareness of all employees and contractual partners, and using administrative measures including training
- replacing existing processes with less dangerous processes, operations, materials or equipment
- including employees in consultations and participating for the purpose of eliminating hazards and reducing OH&S risks while using the appropriate personal protection equipment.
- at KONČAR - D&ST all work participants who are involved directly or indirectly are familiar with how the processes they are engaged in function, as are all those with whom they could be in contact. This familiarisation is performed through contacts made prior to physical arrival at the location via requests or already confirmed control and information forms, i.e., meeting safety and health protection requirements through pre-qualification or contracts.
- The rules of conduct on site are implemented and systematically monitored through the legislation and systematic regulation, and in line with assessed risks.
- The processes whose competence includes equipment or substances are required to abide by all parameters of legal and normative health and safety requirements within the Croatian and EU legislation.
- On the other hand, company employees who perform various activities towards the customers of our products and services are educated and meet all health and safety requirements in effect in their home countries.

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MANAGEMENT
SYSTEM FOR
OCCUPATIONAL
HEALTH AND SAFETY

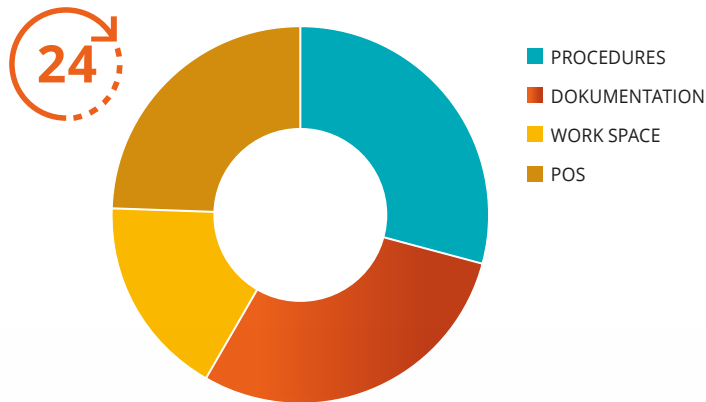


All employees, visitors and service providers at KONČAR - D&ST are required to abide by health and safety protection measures as prescribed by the legal regulations and system procedures. In that sense, supervisory and control parameters have been set for entry into the process, means of movement and rules of conduct. In order to ensure documentation of these requirements, every external process participant is required to sign a statement that they are familiar with the occupational health and safety measures in effect.

Incompliance – every occurrence of incompliance is classified into categories that are systematically examined. The usual methodology is applied to investigate the source of incompliance, actions taken and verification of implemented actions. The traceability system is fully applicable.

Recognised incompliances

u 2021



VII 1.3.2.

IDENTIFICATION OF HAZARDS, RISK ASSESSMENT AND INCIDENT INVESTIGATION

Work processes in the company and the hazards associated with them and assessed risks are encompassed by the legal regulations and management system according to standard ISO 45001:2018. All assessed risks are primarily considered through the Risk assessment, as the fundamental risk management document. The tools to control and recognise risks are dispersed throughout the system, such that all process participants, regardless of whether they are directly or indirectly associated with the activity, follow the established procedures and protocols. In cases of extraordinary or hazardous occurrences, they have the possibility of influence, traceability and controls. A hierarchical structure of responsibility has been established to the occupational health and safety system, with defined responsibilities and authorities, and accordingly this ensures the implementation of the management policies and prescribed internal acts and procedures. All company employees are educated on the content and importance of risk management, and are encouraged to give their input to contribute to the development of health and safety as one of the most important factors of a safe working environment and climate. Reported incompliances or initiatives in the company are approached in line with the prescribed procedures, are processed, the source of the incompliance is determined, and corrective or preventative activities are carried out, for the purpose of development and improvement of the Company pertaining to occupational health and safety issues. All employees are familiar with the legal and systematic measures of occupational health and safety. Workers may not expose themselves to hazards or risks at any time unless the prescribed protection measures are in place and good practices are used, and further, their actions may not in any way jeopardize the health and safety of anyone else in the work process.

Through constant monitoring of the parameters of the established occupational health and safety management system, conclusions on the efficacy of adopted measures are made and used to set goals for the forthcoming period, which may include new investments or employee education.

Company employees participate in all risk management processes directly, in line with the legal and systematic regulations. In that sense, employees are able to influence processes via:

- risk assessments available at all work posts
- employee commissioner and deputy commissioner
- hierarchical structure
- employee initiatives
- OH&S and WS Boards.

**403-2,
403-4,
403-5**

IDENTIFICATION
OF HAZARDS,
RISK ASSESSMENT
AND INCIDENT
INVESTIGATION



The company places great attention on thematic meetings that are dedicated to occupational health and safety, and in that sense, two boards have been formed: Environmental Protection and Workplace Safety Board (EPWS, meets quarterly) and the Occupational Health and Safety Board (OH&S, meets twice annually, every six months). Through the work of these boards, the most important decisions concerning the management of occupational health and safety are made.

KONČAR - D&ST also encourages all interested parties to apply the principles that are directed at environmental protection and the protection of occupational health and safety.

The occupational health and safety management system is run by the Department of Management Systems Development, in close cooperation with the WS Service, which is responsible for monitoring and implementing the legal requirements in this area, and for drafting the necessary incident reports, potentially dangerous situations, and workplace injuries. The experts in the WS Service are continuously educated through various training programmes.

Upon employment, company employees are trained in accordance with the legal regulations and requirements of the implemented standard ISO 45001:2018. As part of the basic training, every company employee must be trained for:

- Training for work in a safe manner and basic fire extinguishing
- Training for the management system for environmental protection and occupational health and safety.

Based on the work they perform, and in line with risk assessments, every employee is required to be additionally or professionally trained for:

- Employer representatives
- Employee commissioner
- Work equipment handler
- Dangerous chemical handler
- Specific professional education pertaining to the specific work.

Within the implemented occupational health and safety management system, and based on the need to regularly examine and assess the system internally, thereby ensuring its progressive development, the company educates its employees as internal auditors in the system ISO 45001.

Depending on the topic, education and training is organised either by the company itself or by authorised institutions/persons. All education consists of specific ways to assess success.

The costs of education are borne by the company, and they are organised in such a way that the employee is educated during their working hours.

As a tool to improve the state and awareness of employees towards safer and healthier work, the Workplace Safety service organises workshops or education associated with observing problems in the form of incidents or non-compliances, or based on the proposals and conclusions of the OH&S and WS Boards.

Employee training is ongoing, with the aim of ensuring a better turnout and readiness for any possible extraordinary situations.



VII 1.3.3.

ENSURING AND PROMOTING HEALTH

All employees are sent for the first physical exam with the occupational health specialist with whom the company KONČAR D&ST has signed a cooperation agreement. According to the dynamics of the legally prescribed requirements, employees working in work post with special conditions, and those working on a computer are sent for periodical exams, and in certain cases for extraordinary exams. Further, the occupational health specialist conducts inspections of the workplace to ensure that the necessary measures are met from the medical standpoint in adapting the working conditions to better suit employees. The occupational health specialist makes systematic annual reports to the WS Board and the company Management Board on the established condition of examined employees with regard to professional illnesses, or any work-related ill health or illnesses.

**403-3,
403-6**

ENSURING AND
PROMOTING HEALTH

As an additional measure to ensure high quality health care, the company KONČAR D&ST has enabled all its employees to have supplementary health insurance through one of the offered medical institutions. The company also stimulates employees to engage in sporting activities, and participations in programmes oriented towards the provision of diverse sports services..



VII 1.3.4.

WORK-RELATED ILL HEALTH

403-10

WORK-RELATED ILL HEALTH

2021 was a year in which all spheres of operations were heavily affected by the COVID-19 pandemic. The measures taken were in compliance with the decisions of the civil protection staff and company decisions, and were directed at preventing the spread of infection among employees. Such situations in certain segments of work indicated the advantages of the online communication system and this good practice was continued in the daily system of work.

For the observed period, there were no recorded cases of professional ill health or work-related ill health. During the calendar year, the occupational medicine specialist informs the WS Board and company Management Board of the state of physical exams and medical cases and potential illnesses that could be work-related.

Information on workplace injuries

2021	2020	2019		
1,419,428	1,374,766	1,312,143	Number of worked hours	
680	651	628	Employees	
12	12	6	Workplace injuries	
10	8	6	Injuries requiring medical treatment (MT)	
0	0	0	Prohibited work cases (RW)	
10	8	6	Lost time due to injuries (LT)	
0	0	0	Fatalities (FA)	
7.04	5.81	4.56	Lost time injury rate (LTIR)	-1
14.09	11.63	9.14	Total recordable injury rate (TRIR)	-2
582	241	181	Total lost work days (TLD)	
0.41	0.17	0.13	Severity coefficient (Rs)	-3
0	0	0	Prohibitions by the labour WS inspector	

$$\text{-1 LTIR} = \frac{(LT+FA) \times 1.000.000}{\text{Number of worked hours}}$$

$$\text{-2 TRIR} = \frac{(MT+RW+LT+FA) \times 1.000.000}{\text{Number of worked hours}}$$

$$\text{-3 Rs} = \frac{\text{TLD} \times 1,000}{\text{Number of total hours performed}}$$

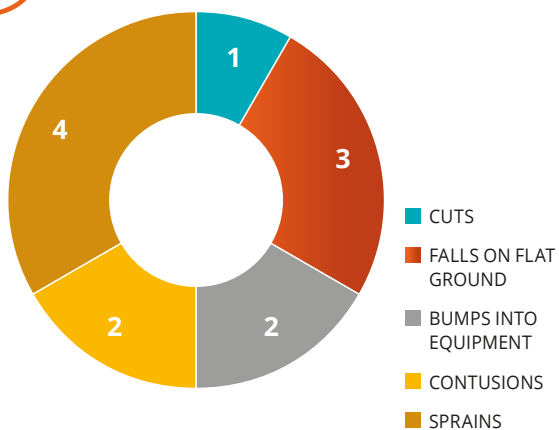


In 2021, with the increase in the number of employees in relation to the previous year, there was also an increase in the number of occupational injuries requiring medical treatment and the number of lost days. None of those injuries were severe. The majority of injuries were due to bumping into equipment, sprains, cuts, contusions and falls on a level plane.

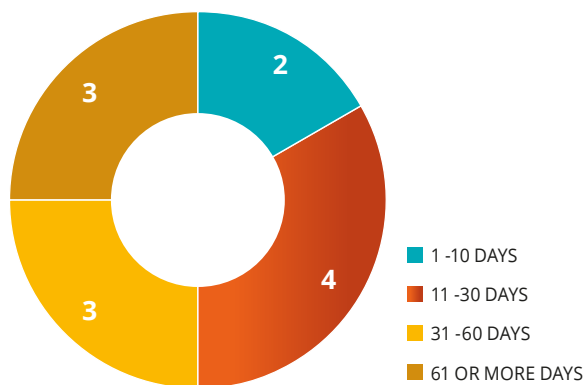
One of the objectives of OH&S for 2022 is to raise employee awareness through education, especially to pay attention to the causes of injuries, i.e., by analysing the issue to positively affect work processes so as to ultimately reduce the number of injuries. For all injuries, incident reports are drawn up, and all participants in the occupational health and safety system through the company hierarchy are included in findings active and proactive solutions to the causes of injuries.



Causes of injuries in 2021

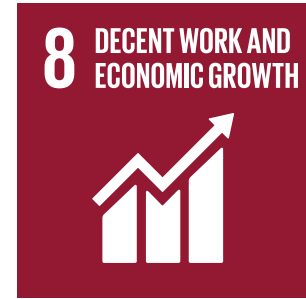


Duration of sick days in 2021



VIII

ETHICAL BUSINESS



VIII 1.

VALUES, PRINCIPLES, STANDARDS AND NORMS OF BEHAVIOUR

KONČAR D&ST, as a part of the KONČAR Group, participates in the United Nations Global Compact corporate social responsibility initiative. KONČAR D&ST implements active measures for improving human rights, labour relations, organizational management, environment and fair business practices.

Code of Business Ethics

KONČAR D&ST is a signatory to the Code of Ethics in Business of the Croatian Chamber of Economy. Signatories of the Code accept the commitment to act in accordance with the principles of responsibility, truthfulness, efficiency, transparency, quality, acting in good faith and respect for good business practices towards business partners, the business and social environment, and company employees.

Code of Business Conduct

In 2017, KONČAR D&ST adopted its own Code of Business Conduct for its employees, which reflects the positive approach of KONČAR D&ST regarding socially responsible and ethical business practices, which we consider an essential element of all our relations with our employees, persons working in KONČAR D&ST, and our suppliers, partners and other persons with whom the Company establishes business cooperation.

The purpose of the Code is to:

- Promote the fundamental organisational values
- establish clear rules and frameworks for professional conduct of KONČAR D&ST employees
- raise awareness of the importance of preventing and avoiding situations in which KONČAR D&ST employees could engage in unethical practices and socially unacceptable conduct
- establish a framework for the business conduct suppliers, partners and all interested parties can expect from KONČAR D&ST.

Behaving in accordance with the principles and standards of the Code is a personal and professional obligation and responsibility of all KONČAR D&ST employees. The Management Board and managers of KONČAR D&ST are obliged to constantly emphasise the importance of business ethics and compliance with regulations and rules, and to apply and promote them in their daily activities through personal guidance and education of employees.





Ethics principles

All employees and other stakeholders involved in business activities with KONČAR D&ST are obliged to respect the following ethical principles and basic principles of business conduct:

- principles of legality of work and business
- principles of professionalism, competence and impartiality
- principle of integrity
- principles of equality, justice, respect for human rights and human dignity
- principle of social responsibility
- principle of corporate transparency
- care for employees.

VIII 2.

BRIBES AND CORRUPTION

Corruption is the abuse of authority and position for personal gain or benefit of a group to whom an employee or other person belongs. To understand the concepts of bribes and corruption, it is necessary to stress that it includes practices such as informal payments, fraud, extortion, secret agreements, money laundering, offering or accepting bribes, loans, fees, rewards or other benefits as an impetus to do something that is unfair, illegal or represents a violation of trust, embezzlement, trade of influence, abuse of position, illegal gains in wealth, concealment, and obstruction of justice. Corruption does not need to include personal financial gain, but can include other forms of conduct, such as designation of positions to persons who do not meet the set criteria by family, party or friend lines, and all other forms of selective application of the law to favour certain persons or organisations.

Corruption is broadly associated with negative influences such as poverty in transition economies, environmental detriment, violations of human rights, violations of democracy, irregular distribution of investments, and avoidance of the rule of law.

KONČAR - D&ST has a zero-tolerance policy for corruption, and is working continuously on combatting, revealing and sanctioning all such practices.

All employees of KONČAR - D&ST are familiar with this stance and the zero-tolerance policy, and this is updated regularly through periodic employee education.

All employees of KONČAR - D&ST are expected in the execution of their work tasks in their positions to act in a professional and unbiased manner. It is particularly prohibited to offer inappropriate gifts or benefits in monies or other form (travel, etc.) to gain any advantage or benefit that is inappropriate, inadequate, unethical or unproportional to the services provided, or is against the law.

It is not allowed to offer, promise or give presents, fees or other forms of benefits to business partners and other persons with the intention of gaining an unfair advantage or influencing an official procedure in any inappropriate manner.

If an employee finds themselves in a situation where they are being offered gifts or other benefits or situations in which they are expected to offer inappropriate gifts or benefits, they are required to notify their immediate supervisor, who will if required request the opinion of the legal service.

An employee of KONČAR D&ST is obliged to inform their manager and/or the KONČAR D&ST Management Board of any knowledge or suspicion that other employees have been involved in corrupt activities.



VIII 3.

MECHANISMS FOR ADVICE AND CONCERNS ABOUT **ETHICS**

Since the company wants to ensure its employees the right to fair, responsible, transparent and ethical work, and a work environment that respects the fundamental principles of the rules of conduct, in 2019, KONČAR D&ST adopted the Rules on the procedure for internal irregularity reporting and appointment of an confidential person. These Rules prescribe in detail the procedure for internal irregularity reporting, the procedure and manner of appointing an confidential person and mechanisms for protecting whistle-blowers and ensuring their rights.

According to the Rules on the internal reporting procedure, it is not allowed to offer, promise or give presents, fees or other forms of benefits to business partners and other persons with the intention of gaining an unfair advantage or influencing an official procedure in any inappropriate manner.

An employee of KONČAR D&ST is obliged to inform their manager and/or the KONČAR D&ST Management Board of any knowledge or suspicion that other employees have been involved in corrupt activities. In case of reasonable doubt regarding corruption, the KONČAR D&ST Management Board will inform the competent national authorities.

KONČAR D&ST has no recorded cases of irregularities during 2021.

102-17

MECHANISMS
FOR ADVICE AND
CONCERNS ABOUT
ETHICS



IX

COOPERATION WITH SHAREHOLDERS, SUPPLIERS

IX 1.

STAKEHOLDERS, THEIR NEEDS AND EXPECTATIONS

**102-
40 to 44**

STAKEHOLDERS,
THEIR NEEDS AND
EXPECTATIONS

As an export-oriented company, we have an influence on the decisions of a large number of stakeholder categories, both internal and external. We consider stakeholders to be all those entities who take certain direct or indirect risks in their relations with KONČAR - D&ST.

The management board is responsible for transparent and good quality stakeholder relations, and is required to ensure that the company respects all stakeholder rights and takes their interests into consideration, in line with the law and good business practices. Responsible conduct for us means participating in constant dialogue, both at the local and international level, so as to understand the different motives and concerns of our main stakeholders, and to view the global trends they consider important.

Eight key categories of KONČAR D&ST stakeholders have been identified. Stakeholders, their needs and expectations, and the type and frequency of communication are presented in the table Stakeholders, needs and expectations on page 69.

KONČAR D&ST has established internal procedures for identifying stakeholders with whom profit centres, joint services, employees and company bodies most frequently interact during their daily activities, stakeholder requirements, frequency of interaction, modes of communication, and the importance of individual stakeholders for the sustainable development of KONČAR D&ST.

The process of determining stakeholder involvement consisted of three steps:

1. Identification of key stakeholders
2. Mapping stakeholders according to their business impact
3. Determining stakeholder expectations and modes of communication.

The Management Board is responsible for ensuring the transparent and good quality relationship of KONČAR - D&ST with its stakeholders, and is responsible for ensuring that the company abides by all stakeholder rights and takes their interests into consideration, while abiding by all laws and good business practices.





Stakeholders	Needs and expectations of stakeholders	Types and frequency of communication
Customers	<ul style="list-style-type: none"> Quality of products and associated services Compliance with deadlines and contractual obligations Customer relationship management and complaint resolution methods Continuous product development and improvement Observance of ethical principles Privacy protection 	<ul style="list-style-type: none"> Regular meetings Resolving and analysing complaints Annual satisfaction survey Survey on the importance of individual topics in sustainability and CSR Fairs and conventions Official website, continuous E-mail, continuous Regular customer visits Annual financial report Report on CSR and Sustainability Flyers and brochures LinkedIn
Employees	<ul style="list-style-type: none"> Salaries and allowances Positive work environment Personal development, respect and rewards Stable business Occupational health and safety Training and professional development Non-discrimination and equal opportunities 	<ul style="list-style-type: none"> Employee satisfaction survey, every two years Opinion polls for employees on specific issues of interest to them, as appropriate Education and training, continuous Intranet, e-bulletin boards, continuous email, continuous Monthly meetings with all managers, quarterly with leading employees Annual financial report Report on CSR and Sustainability Manuals LinkedIn
Stakeholders	<ul style="list-style-type: none"> Business strategy Profitability Increased stock value Dividend payouts Business growth and sustainability 	<ul style="list-style-type: none"> General Assembly Publications on the website, continuous Annual financial report Report on CSR and Sustainability e-mail, regular mail LinkedIn
Suppliers	<ul style="list-style-type: none"> Mutual benefit and long-term relationships Management systems Business ethics Business volume 	<ul style="list-style-type: none"> Regular audits Surveys on the importance of individual topics in the field of sustainability and CSR Official websites, continuous e-mail, continuous Participation in fairs and conferences LinkedIn
Business partners and commercial agents	<ul style="list-style-type: none"> Mutual benefit and partnership Compliance with contractual obligations Competitiveness in the market Business ethics 	<ul style="list-style-type: none"> Regular meetings Participation in fairs Official website, continuous E-mail, continuous LinkedIn
State institutions	<ul style="list-style-type: none"> Payment of taxes, contributions and fees Compliance with legislation Reporting 	<ul style="list-style-type: none"> Correspondence, email, continuous Official website, continuous Annual financial reports LinkedIn
Local community	<ul style="list-style-type: none"> Investing in local initiatives Protection and rational use of resources (economic, environmental and social) 	<ul style="list-style-type: none"> Regular visits and joint activities Donations and sponsorships Official website, continuous Annual financial statement Report on CSR and Sustainability LinkedIn
Financial institutions	<ul style="list-style-type: none"> Compliance with contractual obligations Mutual benefit and long-term relationships Ethical business 	<ul style="list-style-type: none"> Official websites, continuously Annual financial statement Report on CSR and Sustainability email, continuous Meetings Participation in conferences LinkedIn





Communications with stakeholders

During 2021, due to the restrictions imposed by the COVID-19 pandemic, communications via direct contact continued to be limited. Communication via digital channels again proved to be an adequate replacement and equally effective in contributing to the successful continuation of business, despite the physical barriers.

The website was redesigned and launched on a new platform in Q1 2021. The company actively posted on its website to regularly inform the public of its financial results, news, activities and accomplishments.

The company is also active on the LinkedIn business network, and by the end of the year had about 2000 followers.

During 2021, the company also launched its own Youtube channel, where it occasionally posts material in line with events and activities that are adequate for this channel.



Fairs and conferences

KONČAR - D&ST participated in a larger number of activities in 2021 in comparison to 2020, as the health restrictions were eased. However, the dynamics were still reduced and form adapted to the situation.

The company participated at the Hannover Messe, in Hannover, Germany from 12 to 16 April (online) and at the Middle East Electricity 2020, Dubai, UAE (online).

In analogue form, the company participated in several expert conferences, where it presented numerous scientific papers and articles:

CIREC, Croatian branch, Šibenik, Croatia from 24–27 June 2021

CIGRE, Bečići, Montenegro from 28–30 September 2021

CIGRE, Neum, Bosnia and Herzegovina from 17–20 October 2021

CIGRE, Ljubljana, Slovenia from 21–24 November 2021

HRO CIGRE, Šibenik, Croatia from 7–10 November 2021



Media

Two official corporate promotional videos were filmed during 2021.

The first video was filmed to market the retirement of long-term CEO of KONČAR - D&ST-a, Ivan Klapan. Without the opportunity to have a proper farewell party due to the limitations imposed by the pandemic, in this way, Ivan Klapan was able to greet all employees, partners and associates on his career path in which he spent more than 30 years as the CEO of KONČAR - D&ST.

The second video is a corporate video filmed for the purposes of promotion and presentation of KONČAR - D&ST.





As part of the KONČAR Group, KONČAR - D&ST participated in the Group marketing and PR activities. In early 2021, the image media campaign KONČAR 100 was launched to mark 100 successful years of Končar. Offline and online campaigns achieved significant visibility in the most read daily, weekly, monthly and professional Croatian and foreign media. Together with the intensive national campaign, marketing activities encompassed the specialised niche journals and online media in the region and on the EMEA market.

All these activities were to mark this important anniversary and to pass on the key messages of successful operations of the KONČAR Group, its endurance and values.

In addition to celebrating this anniversary, other activities to improve the KONČAR image were held, focusing on participation at expert conferences for the professional and general public.



IX 2.

SUPPLIERS

102-9

SUPPLIERS

The business activities of KONČAR D&ST involve a large number of domestic and foreign suppliers and business partners.

KONČAR D&ST, in cooperation with its suppliers, strives to build strong partnerships, and when selecting suppliers, preference is given to those who share similar business principles as KONČAR D&ST. On a daily basis, KONČAR D&ST cooperates with more than a hundred domestic and as many foreign suppliers, and its database contains over a thousand registered suppliers with whom it has occasional business relations. The company purchases supplies and raw materials ranging in value from HRK 800 to 900 million per year.

Decisions on the selection of suppliers are made in accordance with professional criteria and competencies, and the process of procurement and selection of suppliers is carried out in an objective and transparent manner. In order to ensure the highest level of product and service quality while respecting price criteria and payment terms, commercial and technical committees for strategic materials are established for specific product and service groups to discuss all important elements of procurement policy. Efforts are made to forecast needs as far ahead as possible to ensure sufficient quantities of supplies and raw materials at known prices. Raw materials listed on commodity exchange markets (e.g., copper) are reserved 15 months in advance.

KONČAR D&ST is a signatory of the Code of Business Ethics of the Croatian Chamber of Economy. As a signatory, the company accepts the obligation to act in accordance with the principles of accountability, truthfulness, efficiency, transparency, quality, acting in good faith and respecting good business practices towards business partners, business and social environment and its own employees.

The employees of the Procurement Department of KONČAR D&ST continually develop and maintain their professional competencies in the sense of technical knowledge, understanding trade and the law, while also developing their communication skills.

For many years KONČAR D&ST has implemented its own Code of Business Conduct for suppliers, which reflects its positive approach regarding socially responsible and ethical corporate practices required in its relations with suppliers and which is an integral part of the contract between KONČAR D&ST and its suppliers.

KONČAR D&ST expects its suppliers to respect good business practices and ethical principles as well as the norms of social responsibility, environmental protection and corporate governance. The company is willing to cooperate and support its suppliers so that they can improve and respect the stated standards. In this regard, the implementation of compliance with the above-stated norms is monitored through:

- self-assessments
- periodic audits.

KONČAR D&ST expects its suppliers to conduct all activities in accordance with the applicable legislation. Each employee of the supplier is expected to comply with the laws and regulations relating to their job and economic activity of the supplier.



In making the decision to work with a supplier, KONČAR - D&ST also takes social and environmental factors into consideration. Procurement tasks must be performed so as to respect all social, ethical, cultural, sexual and racial diversity and business decisions or granting precedence.

The risks on the procurement market were also prominent in 2021, and such trends will continue into 2022. The current situation in the supply chain is both complex and unstable and it is difficult to predict the complete influence of all circumstances that affect the accessibility of materials and price movements. The prices of major raw materials and supplies for the production of transformers (copper, aluminium, transformer metal sheets, transformer oil, insulation, steel, etc.) are volatile, with pronounced and significant growth in a relatively short time period. Risks related to the availability of appropriate quantities, and with raw materials and supplies transport costs and options are also additionally expressed in the conditions of the COVID-19 pandemic. New factors have also since emerged that have had a further significant influence on these supply chain disturbances and have drastically extended delivery periods, thereby increasing the uncertainty and insecurity on markets in all procurement categories. These are linked with the growing price of energy and labour force deficiencies.



IX 3.

EXTERNAL INITIATIVES AND MEMBERSHIPS IN ASSOCIATIONS

102-
12,13

EXTERNAL
INITIATIVES AND
MEMBERSHIPS IN
ASSOCIATIONS

Principles of corporate governance

The Company implements most of the provisions of the Code of Corporate Governance, prepared by Zagreb Stock Exchange and HANFA and released on the Zagreb Stock Exchange official website (www.zse.hr).

A questionnaire on compliance contains precise answers regarding the implemented and non-implemented provisions of the Corporate Governance Code. The questionnaire is publicly available on the Zagreb Stock Exchange official website (www.zse.hr) and the Company's website (www.koncar-dst.hr).

KONČAR – D&ST d. d. undertook commitments under the following external initiatives:

- Code of Business Ethics of the Croatian Chamber of Economy (HGK)
- Internationally recognised standards – ISO 9001 (Quality Management System), ISO 14001 (Environment Management System) and ISO 45001 (Occupational Health and Safety Management System).

The compliance audits of all three management systems are performed twice a year (at six-month intervals) by the international certification house Bureau Veritas.

The management systems in place ensure continuous improvement and improvement of established processes and interrelationships, adaptation to market requirements, training and motivating employees, preservation of organizational knowledge and the establishment of partnerships with suppliers.

In 2021, supervisory audits of all three management certification systems were performed, and no non-compliances were found.





Aware of the need to preserve the environment and maintain health and safety at work, we are committed to continuous management of our own impact, both on the environment and on occupational health and safety.



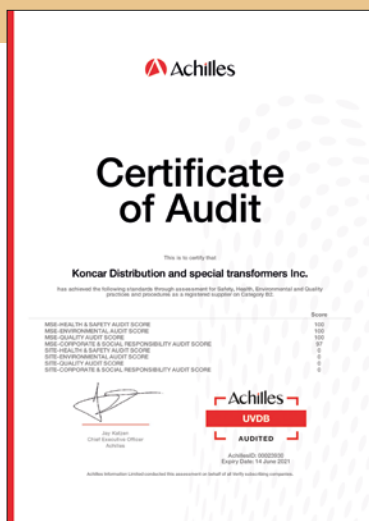
ISO 9001
QUALITY MANAGEMENT SYSTEM



ISO 14001
ENVIRONMENTAL PROTECTION MANAGEMENT SYSTEM



ISO 45001
OCCUPATIONAL HEALTH & SAFETY MANAGEMENT SYSTEM



Every year, the Achilles audit is performed, for the purpose of proving that all requirements of the UVDB verified protocol, category B2 are met, pertaining to the management system and accompanying elements. This includes the business continuity plan, human rights, competencies, work hours, workplace safety, carbon footprint of product, the use of work equipment, and machinery.



102-13

MEMBERSHIP IN ASSOCIATIONS

Membership in associations 102- 13

Croatian Chamber of Economy (HGK)
Croatian Chamber of Electrical Engineers (HKIE)
Croatian Chamber of Mechanical Engineers (HKIS)
Croatian exporters (HIZ)
Croatian branch of the International Council for Large Electric-Power Systems (HRO CIGRÉ)
Croatian Standards Institute (HZN)
International Conference on Electricity Distribution (CIRED)
International Council for Large Electric Systems (CIGRÉ)
Association of Corporate Lawyers
Institute for Material Protection
Croatian Association of Corporate Treasurers (HUKR)



KONČAR-D&ST - GOLDEN KEY AWARD

At the 16th Convention of Croatian Exporters, KONČAR – Distributivni i specijalni transformatori was awarded the GOLDEN KEY award for the best large exporter in 2020.

In successfully overcoming all barriers it faced in 2020, the company continued its growth trend in a very difficult year overall.

This award, like every other award received, is the joint success of all of our customers, business partners, and employees.

Considering that this award was granted in 2021, it has been included in the Report on Corporate Social Responsibility and Sustainability for 2021.



KONČAR - D&ST winner of the plaque GOLDEN KUNA HGK – Zagreb Chamber as the best large company in 2021

The plaque Golden Kuna of the Croatian Chamber of Economy – Zagreb Chamber is an award given to the best large company in 2021 in the City of Zagreb.

This is the third time the company has won the HGK – Zagreb Chamber award; the first time was long ago in 1998, the second in 2006, and the third now in 2021 for the past year.

CHARTER for improving quality in the Croatian economy in 2021

As part of the 20th Croatian Quality Conference, under the motto “Effective change management – the path to quality” and the 11st scientific conference of the Croatian Quality Society, held from 5–7 May 2022 in Primošten, KONČAR – D&ST received the valuable recognition “Charter for improving quality in the Croatian economy in 2021”. The Charter was presented to CEO of KONČAR - D&ST, Vanja Burul, by the president of the Croatian Quality Society, Tihomir Babić.

This recognition for our contribution to improving quality relates to 2021, which gives further value to this received charter, as it is for a year in which society was faced with a series of crises: corporate, health, local and global. Through the application and constant improvements to management systems and the quality assurance system, the company succeeded in managing change and overcoming all crises and challenges in this difficult year, 2021.



Nomination for the GOLDEN KUNA AWARD OF THE CROATIAN CHAMBER OF ECONOMY in the category of corporate responsibility and sustainability

In the year in which it published its first formal Report on Corporate Social Responsibility and Sustainability, in 2021, KONČAR – D&ST was nominated for the Golden Kuna award for socially responsible and sustainable business of the Croatian Chamber of Economy. To be among the three best companies is certainly stimulus to continue working even harder in the future and to increase our dedication to socially responsible topics.



IX 4.1.

COOPERATION WITH THE **ACADEMIC COMMUNITY**

103-1

COOPERATION WITH THE ACADEMIC COMMUNITY

Cooperation between the company KONČAR D&ST and the academic community has always been nurtured and further developed, as this is essential for technological development and innovation with the aim of creating applicable product improvements that are used by both KONČAR D&ST and the broader community. Through cooperation with science and the economy, the academic community is guided towards applicable research areas intended to generate high tech improvements.

Joint activities between KONČAR D&ST and the academic community:

- partnership in joint scientific research projects
- participation in teaching
- mentorship, membership in expert committees, boards, commissions
- education (graduate, postgraduate, doctoral, specialist studies)
- expert visits, professional pupil and student training (co-operative education)
- articles, conferences and expert meetings.

The contribution of the company KONČAR D&ST to the sustainable development of the academic community:

- applicability of scientific research
- innovations
- inclusion of the scientific community in the development of the economy
- contribution to education institutions.

The topic is material due to the significant interest of all engaged stakeholders – employees, the academic community and KONČAR D&ST.

The inclusion of the scientific community in the business activities of the company KONČAR D&ST has led to applicable and measurable improvements: in the area of medium power transformers in cooperation with the Technical Faculty, University of Rijeka; Faculty of Mechanical Engineering and Naval Architecture, University of Zagreb, and Končar - Institute for Electrical Engineering, wide-reaching research has been conducted with the objective of reducing noise levels of transformers. Together with Končar – Institute for Electrical Engineering, improvements were made to the base for sizing the internal isolation of coils, i.e., the cooperation with Končar – Institute for Electrical Engineering is constant and comprehensive, and pertains to a wide spectrum of technical areas. Cooperation in the area of electromagnetic budgets is ongoing with the Faculty of Electrical Engineering and Computer Science, University of Zagreb, and in the area of materials with the Faculty of Chemical Engineering and Technology, University of Zagreb.

	2017	2018	2019	2020	2021
Number of published articles and papers	16	14	21	9	13
Number of those enrolled in doctoral studies	3	3	3	3	2
Number of defended doctoral dissertations	1			1	1
Number of associates in higher education	3	2	2	2	2



A visible and measurable effect is seen in the number of published articles and papers, supported conferences and expert meetings, postgraduate studies and defended doctoral dissertations, and supported professional pupil and student visits, and the effect is also visible through the number of professional associates in higher education institutions.

Within the regular annual expert meetings, the Croatian branch of CIGRE organised the 15th Consultations held from 7–10 November 2021 in Šibenik. This is the largest corporate expert conference on electrical energy in Croatia, and KONČAR - D&ST is a regular and active participant.

In addition to the usual working section that includes the presentation of and discussion on 235 peer-reviewed papers, this year Consultations also had historical significance. Exactly 100 years ago, the international CIGRE was established in Paris, and the first international electrical energy conference. In 2021, CIGRE in Croatia celebrated its 70th anniversary, and the 30th anniversary of the independent operations of HRO CIGRE. This was also the year to celebrate the 165th anniversary of the birth of Nikola Tesla, and 100 years of the operations of KONČAR – Elektroindustrije d.d.

The 15th Consultations were particularly dynamic for KONČAR - D&ST. Within the framework of the programme, the book *Transformatori u teoriji i praksi [Transformers in Theory and Practice]* was presented. The authors are Professor Damir Žarko of the Faculty of Electrical Engineering and Computing, and Dr. Branimir Ćučić, director of product development at KONČAR - D&ST. This is the first book on transformers to be published in Croatia since the book by Professor Dolenac in 1961. The book is above all intended for students of technical faculties in the fields of electric machines and electrical energy, though its scope and content are also interesting for scientists and experts involved in the design, production, diagnostics and application of transformers. The book was presented by the authors (Prof. Žarko and Dr. Ćučić) and reviewers (Prof. Maljković and Dr. Mikulecky).

In the presentation of papers, two papers were presented:

- Analysis of Transformer tank stiffeners in regard to noise, by Nikola Škreb, Mislav Ilijašević and Branimir Ćučić.
- Introduction of new material in the production of fluid-immersed transformers, by Marijana Majić Renjo, Ivanka Radić and Branka Jakopović

At the conference, engineers Ivanka Radić and Branka Jakopović from the Entry Control Department, received a Recognition for successful work in the HRO CIGRE thanks to their active participation in the work of HRO CIGRE since 2008. They are authors and co-authors of numerous scientific papers in the field of insulation oils and materials published at various conferences: HRO CIGRE, HRO CIGRE, International Colloquium Transformer Research and Asset Management, CIGRE Kosovo, CIGRE Slovenia. Through their published papers, they share knowledge, solutions and experiences from the aspect of experts who resolve problems and challenges that the transformer industry faces, regarding the issues of materials, technologies, environmental protection and testing techniques.



Recognition for successful work and contributions to HRO CIGRE was also granted to long-time employee now in retirement, Ivan Sitar, MSc, for his contributions to the work of HRO CIGRÉ for his special efforts and success in the organisation and in the work of the expert conferences of HRO CIGRÉ, and for his special contribution for promoting the values of HRO CIGRÉ.

A good example of how science and the economy can work together is the example of Mario Jurković, special transformer designer at KONČAR - D&ST who in 2021 defended his doctoral dissertation and received the KONČAR Annual Award for doctoral dissertations defended for his prominent scientific accomplishments in the field of the technical sciences with industrial applications.

The title of his dissertation was: *Izračun napona kratkoga spoja transformatora primjenom konformnih preslikavanja [Calculation of transformer short-circuit voltage using conformal mappings]*.

During his long-time work as a special transformer architect, Dr. Jurković observed that the foundation and programmes for typical geometry gave sufficiently good solutions, but that for more complex geometries, it was necessary to refer to experience and comparisons with measurements of similar transformers. The solution of problems could be in the use of programs that are based on the finite elements method, though the primary motivation was to conceive a method that would be simple to use and also simple to implement in the existing programs. Accordingly, the method presented in the doctoral dissertation is a good alternative to the use of the finite elements method.

In addition to this being an excellent example of outstanding personal engagement and investment, this is a sound example of how the scientific community can work in synergy with the practical experience gained in the economy to develop successful, applicable and improved industrial solutions.

The inclusion of the scientific community in the economy, and the economy in the scientific community are essential drivers of change to improve our society: in the sense of more efficient and improved industrial solutions, in the sense of more focused education and later recruitment, in the sense of support to the educational system through practical experience, mentorships and professional site visits.



IX 4.2.

INCLUSION IN THE LOCAL COMMUNITY

As an example and continuation of the company's now traditional ecological initiatives, we would like to highlight the campaign to clean up the forest near the Jankomir embankment in cooperation with the volunteer organisation Čisteći medvjedići, where the employees of KONČAR - D&ST volunteered their time to help out. The Čisteći medvjedići are volunteer enthusiasts, nearly professionals, that have over 1500 clean-up actions throughout Croatia, some large, some small.

A total of 110 bags of garbage and about 4 tonnes of bulk waste were collected, and taken away by the municipal services that same day. This was the first of several planned clean-up actions with the society Čisteći medvjedići.

During 2021, KONČAR - D&ST supported a series of responsible initiatives and projects. Many of these were just a continuation of long-standing practices, such as support through donations to the SOS Children's Village Croatia and Caritas, then different rehabilitation associations and organisations that assist and support children with special needs and children with developmental disabilities. Considering the sensitivity towards the needs of children, we would also highlight the first cooperation with the MALI ZMAJ society to improve the quality of life of impoverished children and children without adequate parental care. The society operates throughout Croatia.

The company also made donations to support a large number of diverse associations and organisations, such as sports clubs, retiree societies, veterans' societies and student organisations. KONČAR - D&ST participated in the joint charity campaign of the KONČAR Group entitled "KONČAR - 100 Together", organised to additionally assist the employees of the KONČAR Group who live in the counties most affected by the earthquake.

As a company that aims to nurture and stimulate values such as solidarity, empathy and helping one another, the now traditional participation in the UNICEF "Milky Way" charity run sees more and more employees of KONČAR - D&ST participating every year. The employees of all Končar companies together ran a total of 11,811 km, to take first place in the total team standings among the 6200 participants. The funds collected through the Milky Way 2021 will be invested in establishing and improving the day care services for children with difficulties, to introduce group psychosocial support for children with difficulties, to introduce quality support programmes for parents of children with difficulties (Rastimo zajedno Plus / Growing Together Plus).

In 2021, the company participated in the voluntary blood drive, organised at the production location at Jankomir where three Končar factories operate. The blood drives are held three times a year and a large number of employees turn out.

413-1

INCLUSION IN THE LOCAL COMMUNITY



It should also be stated that KONČAR - D&ST in cooperation with two other companies at the location, KONČAR - Energetskim transformatorima d.d. and KONČAR - Mjernim transformatorima d.d., together with the restaurant that organises the daily meal for employees (about 800 meals per day) found a way to reduce the use of plastic in the daily work of the restaurant. Due to the pandemic working conditions, the restaurant meals had to be packaged in plastic bags and transported out of the restaurant. Due to these specific and long-lasting condition, this meant the daily creation of large quantities of plastic packaging for meals and cutlery. In agreement with all beneficiaries and food service providers, a way to significantly reduce plastic waste was found, and a greener solution of packaging meals in paper bags was started, with the use of reusable personal cutlery instead of plastic.



X

MATERIALITY ANALYSIS AND REPORTING PRACTICES

(102-43,45,48, 102-49 to 54, 102-56)

Inquiries, requests for data and stakeholder suggestions are carefully recorded so as to focus on the most important sustainability issues, and to apply the GRI principle of materiality. In the reporting period, data obtained through the procedure to determine the most important material topics for sustainability were analysed, taking into account the identification, determination of priority topics, inclusion of stakeholders and analysis of importance for the reporting period.

In order to establish the relevant priority of the topics analysed, a combination of external and internal factors was used – based on previously defined criteria to evaluate the interests and expectations of stakeholders, to assess the consequences for the organisation, the severity of the influence of these consequences, and which are tied to the company's influence on the economy, environment and society, the laws, regulations and other voluntary agreements that are of strategic significance for the organisation.

The methodology used to build the materiality matrix of importance topics is recommended by the GRI standard. All identified topics are significant within the organisation, and topics 14 – 20 were defined as materially significant.

- | | | |
|---|--|------------------------------------|
| 1. Freedom of association and collective bargaining | 9. Assessment of suppliers from the aspect of environmental protection | 15. Procurement practices |
| 2. Combatting corruption | 10. Employment | 16. Energy |
| 3. Non-discrimination | 11. Local community | 17. Wastewater and waste |
| 4. Employee and management relations | 12. Assessment of suppliers in view of human rights | 18. Materials |
| 5. Child and forced labour | 13. Biological diversity | 19. Occupational health and safety |
| 6. Economic impacts | 14. Training and education | 20. Emissions |
| 7. Diversity and equal opportunities | | |
| 8. Indirect economic effects | | |





Materiality matrix of topics
Importance of topics

			<ul style="list-style-type: none"> • Procurement practices 	<ul style="list-style-type: none"> • Occupational health and safety
			<ul style="list-style-type: none"> • Energy • Training and education 	<ul style="list-style-type: none"> • Materials and waste • Emissions
		<ul style="list-style-type: none"> • Supplier assessment from the aspect of environmental protection 		
	<ul style="list-style-type: none"> • Child and forced labour 		<ul style="list-style-type: none"> • Supplier assessment concerning human rights 	
<ul style="list-style-type: none"> • Combatting corruption • Employee and management relations 			<ul style="list-style-type: none"> • Local community 	
<ul style="list-style-type: none"> • Freedom of association and collective bargaining 	<ul style="list-style-type: none"> • Economic effects • Indirect economic effects • Non-discrimination • Diversity and equal opportunity 		<ul style="list-style-type: none"> • Biological diversity 	



102-47

MATERIAL TOPICS

- GRI 301 Materials
- GRI 302: Energy
- GRI 305: Emissions
- GRI 306: Waste
- GRI 403: Occupational health and safety
- GRI 404: Training and education
- GRI 413: Local community

Our sustainability programme is fully integrated into our organisational strategy. We focus on the relevant topics that enable us to achieve our ambitions and to achieve excellence and social responsibility.

In establishing our sustainability and corporate social responsibility programme, we conducted an analysis of materiality in order to identify the topics that are relevant to business and society, and we including selected internal and external interested parties in the analysis. The key sustainability issues also serve the company as a basis for reporting.

102-44

KEY TOPICS AND OUTSTANDING ISSUES

In the reporting period, the requests and interests of stakeholders initiated the following topics as key, or material:

- Key economic indicators (employees, customers, stakeholders) - GRI 201 Economic effects
- Investments in development and entry into force of Commission Regulation (EU) No 548/2014 – Tier 2 as of 1 July 2021 (customers, business partners, state institutions) GRI Economic effects
- Interest of customers and partners for the KONČAR - D&ST approach to the environment (customers, partners, state institutions) stimulated the materiality environment topics - GRI 301 Materials, GRI 302 Energy, GRI 306 Effluents and waste and GRI 305 Emissions

102-48

RESTATEMENTS OF INFORMATION

There were no restatements to information, however after the end of the 2021 business year, and until the drafting of this report, the COVID-19 pandemic is still not fully under control, and there is a likelihood that in the case of negative trends, the pandemic could have negative implications on the future of our operations. Also, negative implications are possible due to disturbances in the supply chain and the high price and inaccessibility of certain key materials on the global market. Other than this, there were no other unusual or more importance business events that would significantly alter the overall view of operations and the state of the company as portrayed in this report.





In relation to the previous report, the 2021 Report includes a new topic – GRI 305 Emissions, while the topic Economic effects was not outlined in detail since the company issues a separate Annual Financial Report that contains all key economic indicators of interest to stakeholders. Also, in this report, unlike the previous one, the topic GRI 207 Abidance with environmental protection regulations was not covered.

All requests and requirements of stakeholders in the reporting period were in the framework of those contained within these contents.

The planned reporting cycle is one year, and it has been anticipated to cover the results of the previous calendar year. The next report is planned for June 2023

The contact person responsible for report and its contents is: Martina Barbarić Baričević, Manager of Human Resources, Legal and General Affairs, martina.barbaric@koncar-dst.hr.

The 2021 Corporate Social Responsibility Report of the company KONČAR D&ST has been drafted in accordance with GRI standards: Core Option. The use of the internationally recognized methodology, i.e., Global Reporting Initiative (GRI), in drafting of the report assures a balanced and transparent overview of the company's sustainability impacts. No external verification of the Report was performed.

**102-
48 to 54,
56**



XI

GRI INDEX

GRI standard	Disclosure	Page
1. ORGANISATIONAL PROFILE		
Name of the organisation	102-1	6
Activities, products and services	102-2	9
Location of headquarters	102-3	6
Ownership and legal form	102-5	6
Markets service	102-6	10-12
Scale of the organisation	102-7	6
Information on employees	102-8	46
Supply chain	102-9	72-73
Significant changes during the reporting period	102-10	84
Precautionary principle	102-11	38
External initiatives	102-12	74-75
Membership of associations	102-13	76-77
2. STRATEGY		
Statement from the Management Board	102-14	3
Key impacts, risks and opportunities	102-15	36-37, 39-41
3. ETHICS AND INTEGRITY		
Values, principles, standards and norms of behaviour	102-16	64-66
4. GOVERNANCE		
Governance structure	102-18	42-43
5. STAKEHOLDER ENGAGEMENT		
List of stakeholder groups	102-40	69
Collective bargaining agreements	102-41	68
Identifying and selecting stakeholders	102-42	68
Approach to stakeholder engagement	102-43	68
Key topics and concerns raised	102-44	84
6. REPORTING PRACTICES		
Defining report content and topic Boundaries	102-46	82
List of material topics	102-47	84
Restatements of information	102-48	84
Changes in reporting	102-49	85
Reporting period	102-50	85
Date of most recent report	102-51	85
Reporting cycle	102-52	85
Contact point for questions regarding the report	102-53	85
Claims of reporting in accordance with the GRI	102-54	85
GRI content index	102-55	86-87
External assurance	102-56	85





GRI standard	Disclosure	Page
THEMATIC SPECIFIC DISCLOSURES		
GRI 300: ENVIRONMENTAL TOPICS		
GRI 301: Materials (2016)		30-31
GRI 103: Management approach	103-1; 103-2; 103-3	30
GRI 302: Energy (2016)		28-29
GRI 103: Management approach	103-1; 103-2; 103-3	28
GRI 305: Emissions (2016)		32-35
GRI 306: Effluents and waste (2018)		24-27
GRI 103: Management approach	103-1; 103-2; 103-3	24
GRI 103: Management approach	103-1; 103-2; 103-3	32-34
GRI 400: SOCIAL TOPICS		
GRI 403: Occupational health and safety (2018)	403-1 – 403-10	56-63
GRI 103: Management approach	103-1; 103-2; 103-3	56
GRI 404: Training and education (2016)	404-1; 404-2	52-55
GRI 103: Management approach	103-1; 103-2; 103-3	52
GRI 413: Local communities (2016)	413-1	81



XI 1.

ABBREVIATIONS USED IN THE REPORT

Group, KONČAR Group	KONČAR – Elektroindustrija d.d. and affiliated companies
KONČAR – D&ST	KONČAR – DISTRIBUTIVNI I SPECIJALNI TRANSFORMATORI d.d.
CSR	Corporate Social Responsibility
GRI	Global Reporting Initiative
GRI standards	GRI Standards for sustainability reporting
SDG	Sustainable Development Goals
PC MPT	Profit Centre Medium Power Transformers
PC DT	Profit Centre Distribution and Special Transformers
OHS	Occupational Health and Safety
WS	Workplace safety
LFH	Low frequency transformer drying plant
EU	European Union
CFP	Carbon footprint of product
CFC	Chlorofluorocarbons
GHG	Greenhouse gases
LCA	Life Cycle Assessment
GWP	Global Warming Potential



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