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Subject: Report of the KONČAR Group according to the 2023 EU Taxonomy

In the third reporting year, fiscal year 2023, the scope of activities and corresponding disclosures further broadened. The adoption of Commission Delegated Regulation (EU) 2023/2486 introduced an additional obligation for 2023 to report on the Taxonomy eligibility of economic activities contributing to other environmental objectives, including the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. In the first two years of reporting, disclosures were limited to the first two climate goals: climate change mitigation and climate change adaptation. The assessment of acceptability was carried out in all companies, and at the Group level, the denominator representing sales revenue is consolidated and does not include mutual relations between companies.

The KONČAR Group reports indicators for economic activities included in the 2023 EU Taxonomy separately for the 2023 financial year and the indicators are also integrated into the Sustainability Report for 2023 of the KONČAR Group.

KONČAR Inc.

European Union Taxonomy Regulation and KONČAR Group Key Performance Indicators Report for 2023

1. Introduction

One of the paramount challenges of our era is conducting business in an environmentally sustainable manner.

In 2023, KONČAR Group achieved outstanding results, with key performance indicators significantly surpassing those of 2022. This success was driven by the green transition, necessitating substantial investments in electrical equipment, a core focus of KONČAR's operations.

Sustainable business practices have become imperative and pose one of the most significant challenges for manufacturing companies today. The European Union has prioritized climate transition, setting ambitious targets to reduce CO₂ emissions by 55% by 2030 compared to 1990 levels and to achieve climate neutrality by 2050.

The realization of such ambitious plans requires significant investments in all segments of economic activities, and the wider community. Given that there was no uniform framework that would facilitate identification of activities and investments that contribute to sustainable development, the European Parliament and the Council of the European Union adopted the Taxonomy Regulation in 2020 and additional delegated acts that together form the EU's taxonomy system of climate-sustainable activities. By defining environmentally eligible and aligned activities, the taxonomy system enables increased transparency of sustainability information, helps identify activities that substantially contribute to environmental objectives, and establishes a framework that facilitates financing and redirects cash flows to sustainable technologies and undertakings. This allows access to new sources of financing in the global capital market and reduces unfair competition from undertakings that use sustainable development for the purpose of greenwashing.

Pursuant to the Taxonomy Regulation, for the purposes of establishing the degree to which an investment is environmentally sustainable, an economic activity shall qualify as environmentally sustainable where it meets four basic criteria:

- the activity contributes substantially to one or more of the environmental objectives set out in Article 9 of the Taxonomy Regulation,
- causes no significant harm to any of the other environmental objectives
- is carried out in compliance with the minimum safeguards laid down,
- complies with technical screening criteria that have been established, i.e., with science-based criteria of technical screening.

The Regulation defines the environmental objectives:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control;
- the protection and restoration of biodiversity and ecosystems.

In the initial year of the reporting obligation, fiscal year 2021, disclosures were confined to the shares of Taxonomy-eligible and non-eligible revenue, capital expenditures (Capex), and operational expenditures (Opex), along with qualitative information on climate change mitigation and adaptation goals.

In the second reporting year, fiscal year 2022, the disclosure requirements expanded. Beyond the previous year's disclosures, companies were also required to disclose shares of Taxonomy-aligned revenue, Capex, and Opex, along with qualitative information, still limited to the two climate goals.

In the third reporting year, fiscal year 2023, the scope of activities and corresponding disclosures further broadened. The adoption of Commission Delegated Regulation (EU) 2023/2486 introduced an additional obligation for 2023 to report on the Taxonomy eligibility of economic activities contributing to other environmental objectives, including

the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

2. The assessment of Taxonomy-eligible and Taxonomy-aligned activities of KONČAR Group

In 2023, for the first time, the Taxonomy Regulation mandates that the Taxonomy Report encompasses all environmental objectives. Beyond climate change mitigation and adaptation, definitions have now been established for the four additional environmental goals: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

KONČAR Group's report on the requirements set out by the Taxonomy Regulation and delegated acts is based primarily on activities classified in line with the NACE¹ classification.

The main business segments of KONČAR Group are manufacture of equipment for energy generation, manufacture of renewable energy technologies, energy transmission and distribution, rail solutions and infrastructure, and digital solutions and platforms.

In line with the NACE classification and for the purposes of the report prescribed by the Taxonomy Regulation ("Report"), products and services screened in order to identify Taxonomy-eligible activities are classified into 6 basic sectors:

- Sector 3 Manufacturing
- Sector 4 Energy
- Sector 5 Water supply; sewerage, waste management and remediation activities
- Sector 6 Transport
- Sector 7 Construction and real estate
- Sector 8 Information and communication
- Sector 9 Professional, scientific and technical activities

¹NACE (Nomenclature of Economic Activities) is the European statistical classification of economic activities. NACE groups organizations according to their business activities and is used to ensure comparability of statical data collected across the Union.

For the purpose of the disclosures in the Report, with the support of expert consultants, a comprehensive Group-wide screening of the business segments and manufacturing portfolio was conducted. The screening included professional functions such as manufacturing, research and development, and finance.

The Management Board of KONČAR - Electrical Industry Inc. has reviewed and adopted the Report and, in cooperation with the professional functions in charge of strategy implementation and activities in the field of sustainable development, agreed on a roadmap of activities in this area.

In order to transform to a low-carbon economy and within all business operations, KONČAR has consistently undertaken to invest in technologies that reduce the carbon footprint of both the Company and of our customers, as the end-users of our products.

In all manufacturing activities, the objective is to work towards manufacturing processes that will create quality and long-lasting products with revitalization and reuse capabilities. The methodology of manufacturing processes should be such that the optimal amount of environmentally eligible resources is used to their maximum capacity. Rational use of basic resources (water, gas, electricity) further contributes to sustainable manufacturing.

The development of new products that reduce environmental pollution and support energy savings remains a top priority, as outlined in the adopted business strategy.

2.1. Income generated from Taxonomy-eligible economic activities

The objective of the eligibility assessment is to ascertain whether KONČAR's business activities align with the economic activities specified by the EU Taxonomy. Activities that meet these criteria are classified as "eligible," while those that do not are considered "non-eligible" and fall outside the scope of EU Taxonomy reporting. Eligibility assessments were conducted across all subsidiaries, and at the Group level, the revenue denominator is consolidated and excludes intercompany transactions.

In the subsequent step of the report preparation, the Taxonomy-eligible business activities were evaluated against the technical screening criteria for substantial contribution (SC) and do no significant harm (DNSH) as outlined in the Delegated Acts.

The revenue KPI indicates the proportion of revenue from Taxonomy-eligible and/or aligned economic activities relative to the total revenue reported in the consolidated profit and loss statements for 2023.

Consolidated income that meets the requirements of the *eligible economic activities* for 2023 amounts to EUR 410,6 million, or 46% of the total revenue generated from the sales of products and services in 2023.

For the first time in 2023, the group of activities involving the Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution was designated as significantly contributing to climate change mitigation or enabling such contributions.

The most significant portion of revenue from Taxonomy-eligible economic activities pertains to the group of activities related to the manufacture of low-carbon technologies for transport (rail vehicles), activities related to the transmission and distribution of electricity and electricity generation using solar photovoltaic technology.

The list of activities from which income was generated in 2023 is given in the table below:

	Turnover
1.2 (CE) Production of electrical and electronic equipment	18,679
2.3 (CE) Collection and transportation of non-hazardous and hazardous waste	23
3.1.A Manufacture of renewable energy technologies	277
3.19 (CCM) Production of component parts of railway vehicles	63
3.20 (CCM) Production, installation and servicing of high-voltage, medium-voltage and low-voltage electrical equipment for the transmission and distribution of electricity, which contribute significantly to climate mitigation	182,707
3.3 (CCM) Manufacture of low carbon technologies for transport	75,891
4.1 Electricity generation using solar photovoltaic technology	8,534
4.10 Storage of electricity	8,534
4.15 Distribution of centralized heating/cooling	0
4.3 Electricity generation from wind power	2,589
4.31 (CCM) Production of energy for heating/cooling from gaseous fossil fuels in an efficient centralized heating and cooling system	0
4.5 Electricity generation from hydropower	22,954
4.8 Production of electricity from bioenergy	295
4.9 Transmission and distribution of electricity	56,289
5.1 (CE) Repair, restoration and remanufacturing	309
5.2 (CCM) Renovation of the water collection, purification and supply system	0
5.2 (CE) Sale of spare parts	1,768
5.4 (CE) Sale of used goods	42
5.5 Collection and transport of non-hazardous waste in source segregated fractions	1,555
6.14 Infrastructure for rail transport	2,534
6.15 Infrastructure enabling low-carbon road transport and public transport	5,986
6.15.A Infrastructure enabling low-carbon road transport and public transport	18,524
6.5 Transport by motorbikes, passenger cars and light commercial vehicles	478
6.6 Freight transport services by road	0
7.1 Construction of new buildings	3
7.2 Renovation of existing buildings	0
7.3 (CCM) Installation, maintenance and repair of equipment for energy efficiency	0
7.4 Installation, maintenance and repair of electric vehicle charging stations in buildings (and in parking lots connected to buildings)	0
7.5 (CCM) Installation, maintenance and repair of instruments and devices for measuring, regulating and controlling the energy efficiency of buildings	0
7.6 (CCA) Installation, maintenance and repair of technologies for energy from renewable sources	0
7.6 (CCM) Installation, maintenance and repair of technologies for energy production from renewable sources	0
7.6 (CCM) Installation, maintenance and repair of technologies for energy from renewable sources	34
7.7 Acquisition and ownership of buildings	3,795
8.1 Data processing, server services and related activities	0
8.2 (CCA) Data-driven solutions for GHG emissions reductions	7,238
9.1 (CCM) Acquisition and ownership of buildings	49
Total taxonomic numerator	419,150
Total	894,079
Taxonomy-eligible	46.88%

2.2. Capital expenditure (CAPEX)

Total CAPEX at the level of KONČAR Group pertains to expenses for assets acquired and includes all capitalized acquisitions related to current and non-current assets, property with the right of use, and investments in real estate.

Taxonomy-eligible capitalized investment costs for 2023 amount to EUR 30,1 million, representing 46% of the total CAPEX. The most significant portion pertains to the acquisition and ownership of buildings, as well as the installation, maintenance, and repair of equipment for energy efficiency.

The list of activities from which CAPEX was realized in 2023 is given in the table below:

000 EUR

		Capex
1.2 (CE)	Production of electrical and electronic equipment	752
2.3 (CE)	Collection and transportation of non-hazardous and hazardous waste	0
3.1.A	Manufacture of renewable energy technologies	13
3.19 (CCM)	Production of component parts of railway vehicles	52
3.20 (CCM)	Production, installation and servicing of high-voltage, medium-voltage and low-voltage electrical equipment for the transmission and distribution of electricity, which contribute significantly to climate mitigation	10,121
3.3 (CCM)	Manufacture of low carbon technologies for transport	1,017
4.1	Electricity generation using solar photovoltaic technology	29
4.10	Storage of electricity	29
4.15	Distribution of centralized heating/cooling	26
4.3	Electricity generation from wind power	5
4.31 (CCM)	Production of energy for heating/cooling from gaseous fossil fuels in an efficient centralized heating and cooling system	98
4.5	Electricity generation from hydropower	0
4.8	Production of electricity from bioenergy	0
4.9	Transmission and distribution of electricity	12
5.1 (CE)	Repair, restoration and remanufacturing	0
5.2 (CCM)	Renovation of the water collection, purification and supply system	0
5.2 (CE)	Sale of spare parts	0
5.4 (CE)	Sale of used goods	0
5.5	Collection and transport of non-hazardous waste in source segregated fractions	0
6.14	Infrastructure for rail transport	0
6.15	Infrastructure enabling low-carbon road transport and public transport	0
6.15.A	Infrastructure enabling low-carbon road transport and public transport	898
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	1,973
6.6	Freight transport services by road	1,166
7.1	Construction of new buildings	16
7.2	Renovation of existing buildings	1,493
7.3 (CCM)	Installation, maintenance and repair of equipment for energy efficiency	655
7.4	Installation, maintenance and repair of electric vehicle charging stations in buildings (and in parking lots connected to buildings)	105
7.5 (CCM)	Installation, maintenance and repair of instruments and devices for measuring, regulating and controlling the energy efficiency of buildings	0
7.6 (CCA)	Installation, maintenance and repair of technologies for energy from renewable sources	8
7.6 (CCM)	Installation, maintenance and repair of technologies for energy production from renewable sources	584
7.6 (CCM)	Installation, maintenance and repair of technologies for energy from renewable sources	570
7.7	Acquisition and ownership of buildings	7,227
8.1	Data processing, server services and related activities	2,932
8.2 (CCA)	Data-driven solutions for GHG emissions reductions	0
9.1 (CCM)	Acquisition and ownership of buildings	326
	Total taxonomic numerator	30,106
	Total	65,239
	Taxonomy-eligible	46.15%

2.3. Operating expenses (OPEX)

In line with the EU Taxonomy Regulation, indicator for operational expenditures (OPEX) includes direct non-capitalized expenses related to research and development, building refurbishment measures, short-term leases related to right-of-use assets according to IFRS 16, maintenance and repair, and all other direct expenses for day-to-day servicing of property, plant and equipment carried out by the undertaking or a third party entrusted with these tasks, necessary for the continued operating of the asset. The numerator in the operating expenses is related to the above-defined expenses, and only includes only those expenses that were incurred by Taxonomy-eligible activities.

For the year ended 31 December 2023, 43% or EUR 7 million is Taxonomy-eligible operating expenses in relation to the climate change mitigation target.

The most significant portion of Taxonomy-eligible operating expenses pertains to transport costs, i.e., primarily to the costs of short-term rental and maintenance of personal vehicles, followed by the costs of acquisition and maintenance of buildings and maintenance of installed equipment at the wind farm Pometeno brdo (electricity generated from renewable energy sources).

The list of activities from which OPEX was realized in 2023 is given in the table below:

000 EUR

		Opex
1.2 (CE)	Production of electrical and electronic equipment	204
2.3 (CE)	Collection and transportation of non-hazardous and hazardous waste	0
3.1.A	Manufacture of renewable energy technologies	3
3.19 (CCM)	Production of component parts of railway vehicles	1
3.20 (CCM)	Production, installation and servicing of high-voltage, medium-voltage and low-voltage electrical equipment for the transmission and distribution of electricity, which contribute significantly to climate mitigation	543
3.3 (CCM)	Manufacture of low carbon technologies for transport	123
4.1	Electricity generation using solar photovoltaic technology	0
4.10	Storage of electricity	0
4.15	Distribution of centralized heating/cooling	0
4.3	Electricity generation from wind power	176
4.31 (CCM)	Production of energy for heating/cooling from gaseous fossil fuels in an efficient centralized heating and cooling system	40
4.5	Electricity generation from hydropower	4
4.8	Production of electricity from bioenergy	0
4.9	Transmission and distribution of electricity	29
5.1 (CE)	Repair, restoration and remanufacturing	0
5.2 (CCM)	Renovation of the water collection, purification and supply system	22
5.2 (CE)	Sale of spare parts	0
5.4 (CE)	Sale of used goods	0
5.5	Collection and transport of non-hazardous waste in source segregated fractions	0
6.14	Infrastructure for rail transport	0
6.15	Infrastructure enabling low-carbon road transport and public transport	0
6.15.A	Infrastructure enabling low-carbon road transport and public transport	206
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	857
6.6	Freight transport services by road	743
7.1	Construction of new buildings	0
7.2	Renovation of existing buildings	0
7.3 (CCM)	Installation, maintenance and repair of equipment for energy efficiency	360
7.4	Installation, maintenance and repair of electric vehicle charging stations in buildings (and in parking lots connected to buildings)	11
7.5 (CCM)	Installation, maintenance and repair of instruments and devices for measuring, regulating and controlling the energy efficiency of buildings	7
7.6 (CCA)	Installation, maintenance and repair of technologies for energy from renewable sources	10
7.6 (CCM)	Installation, maintenance and repair of technologies for energy production from renewable sources	0
7.6 (CCM)	Installation, maintenance and repair of technologies for energy from renewable sources	13
7.7	Acquisition and ownership of buildings	2,168
8.1	Data processing, server services and related activities	0
8.2 (CCA)	Data-driven solutions for GHG emissions reductions	0
9.1 (CCM)	Acquisition and ownership of buildings	1,502
	Total taxonomic numerator	7,022
	Total	16,607
	Taxonomy-eligible	42.28%

3. Conclusion

The 2023 Taxonomy Report featured the inclusion of new activities that significantly contribute to climate change mitigation and adaptation, along with the official adoption of the Delegated Regulation on environmental protection, which addresses the remaining four environmental objectives.

For the EU Taxonomy to maximize its effectiveness in the future, it should encompass all economic activities that play a pivotal role in the green transition and the path to net-zero CO2 emissions. We are pleased that the EU Taxonomy now more extensively includes numerous critical technologies, such as electrical equipment, which are vital for enabling renewable energy systems. This is especially pertinent for KONČAR, as these technologies constitute the majority of our business activities.

By introducing the EU Taxonomy and classifying green and sustainable activities within the defined environmental objectives, a basic framework has been created to enhance the differentiation of activities with positive environmental impacts from greenwashing and make this information more transparent. This will enable investors, financial institutions and other financial market participants to identify activities, undertakings and sectors that make a substantial positive environmental impact and thus contribute to financing the transition to a more sustainable and low-carbon economy.

Climate change is a global challenge that requires a global solution and a global perspective. The ultimate objective should be a common global classification system of sustainable activities that is comprehensive, credible, and relevant worldwide. In the upcoming period, further criteria development and the inclusion of new taxonomy-eligible activities are expected.