



tradition.
knowledge.
responsibility.



KONČAR

Corporate Social Responsibility Report

2011



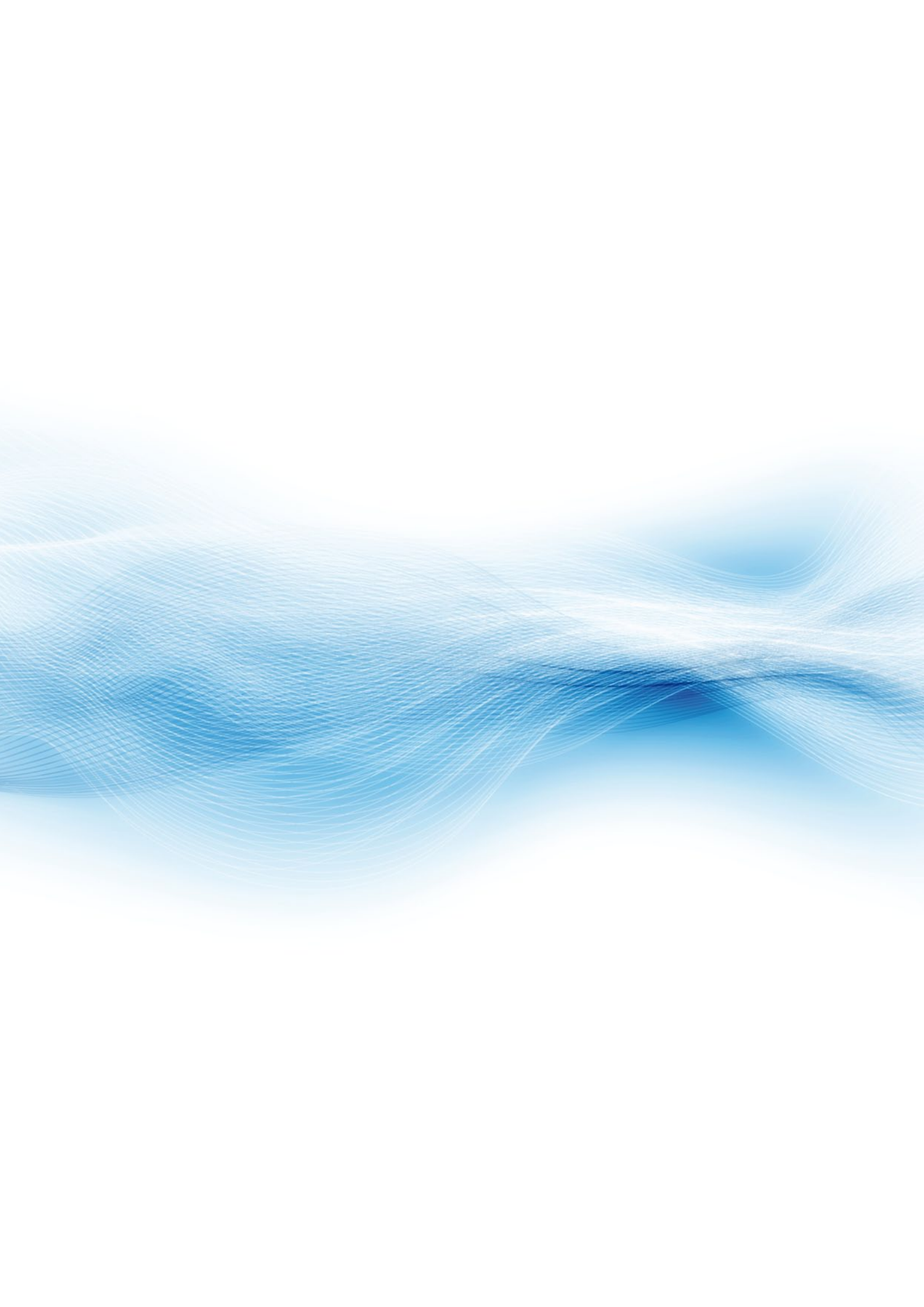


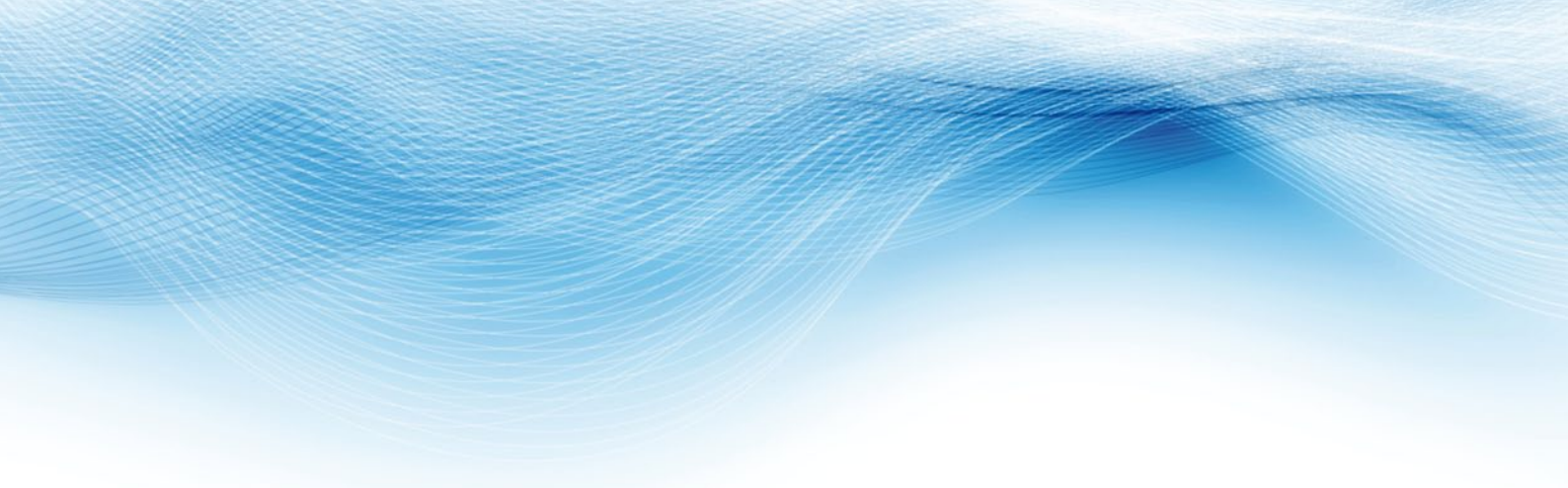
Table of Contents

Foreword by the Chairman of the Board	5
Report According to GRI3 and Global Compact	6
1. COMPANY PROFILE	7
2. REPORT PARAMETERS	12
3. GOVERNANCE, COMMITMENTS AND ENGAGEMENT	13
<i>Governance</i>	13
<i>Commitments to External Initiatives</i>	15
<i>Partakers' Engagement</i>	18
ECONOMIC DIMENSION	19
<i>Economic Effect</i>	19
ENVIRONMENTAL DIMENSION	21
<i>Energy</i>	21
<i>Bio Diversity</i>	21
<i>Impact of Products and Services on the Environment</i>	22
<i>Compliance with Environmental Regulations</i>	22
SOCIAL DIMENSION	23
<i>Labor Practices, the Dignified Workplace</i>	23
<i>Human rights</i>	26
<i>Society</i>	26
<i>Product compliance</i>	33
GRI3 and Global Compact Comparative Table	34
Table of GRI3 determinants	35

Abbreviations

used in the text

Group	KONČAR - Electrical Industry Inc., subsidiaries and affiliated companies
KONČAR Inc.	KONČAR - Electrical Industry Inc.
Parent Company	KONČAR - Electrical Industry Inc.
BA	Business Area
ZET	Zagreb Electrical Tram Company
INA	Croatian Oil Industry
HAC	Croatian Motorways
S/S	Transformer Substation
HPP	Hydropower Plant
TPP	Thermo Power Plant
CPF	Croatian Privatisation Fund
GAMA	Government Asset Management Agency
PBZ	Privredna banka Zagreb
ZSE	Zagreb Stock Exchange
HRK	Croatian Kuna



Foreword by the Chairman of the Board

Foreword by the Chairman of the Board

Under the motto "Tradition. Knowledge. Responsibility." another successful year came to an end in KONČAR. It was characterized by positive operating results, expansion into new markets, product development and the safe way of life of its staff.

The principles of social responsibility were, as in previous years, built into all processes within the KONČAR Group, as well as in relationships with stakeholders and everyone KONČAR cooperates with. Despite the numerous challenges with which we were faced, it is with great pleasure that we find ourselves able to emphasize positive results. The Group's consolidated profits before tax amounted to 210.8 million kuna, which is 4.6 percent higher than in 2010.

Good business results were achieved based on our own product development and manufacturing, which contributed strength and encouragement for further progress and the strengthening of our market position in the country and around the world. KONČAR's products are found in more than 100 countries on all continents, and we can rightly say that the KONČAR name is recognized on the energy map of the world.

Besides achieving good financial results, 2011 was characterized by significant investment of funds and human resources toward improving the technical and technological level of the whole Group. Continually, and rightly so, KONČAR singles out its employees as the greatest value creators of the Group, and their experience, knowledge and skills have been indispensable in the ongoing process of development. It is therefore logical that attention is given to a healthy working environment, professional education and training, adequate income and everything else that contributes to the overall safety, satisfaction and commitment of employees.

KONČAR has defined environmental management as one of its business priorities, and the results of that are visible in high levels of customer satisfaction, as well as a growing number of certificates that prove compliance with key standards. Thus, besides ISO 9001 and OHSAS 18001 certificates, along with many other special licenses, eighteen KONČAR companies hold the ISO 14001 certificate. With regard to manufacturing in natural and populated environments, the safety and reliability of products is always in accordance with the highest international standards.

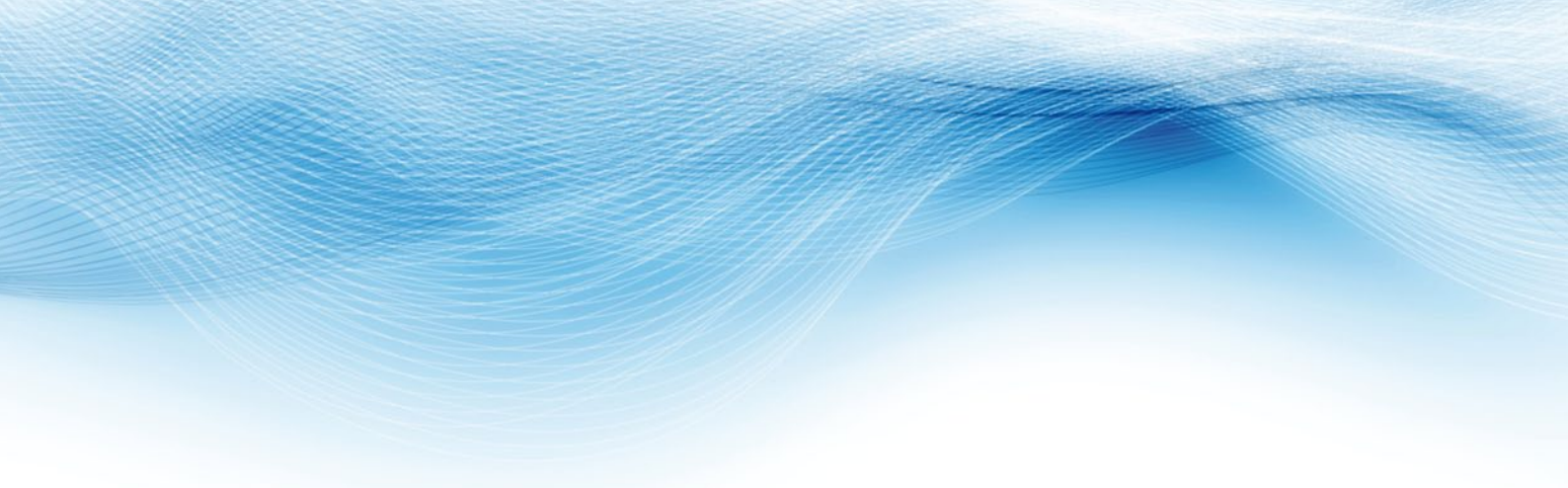
Collaboration with the community is based on continuously proactive relationships in all areas where a mutual interest exists. Sponsorships and donations for youth activities that contribute to character building and value systems are just one form of cooperation. Attention is given to scholarships and rewarding students, and to other forms of specialized education, as well as the promotion of positive use of leisure time through sports, recreation, culture and every other form of creativity. Social sensitivity is of course an integral part of the sponsorship and donation strategy when relevant.

In accordance with our commitment to the ideal that social responsibility is not something that should be regarded as special and isolated, but rather something that becomes a permanent way of working, living and carrying out all business processes, KONČAR remains a socially responsible company that operates on principles of social responsibility on a daily basis in all of its sectors.

This report is a testimony of our behavior in accordance with the guidelines of the Global Reporting Initiative and Global Compact principles, so that all of our business partners around the world may recognize our activities through globally accepted reporting principles.

*Chairman of the Board
Darinko Bago*





Report According to GRI3 and Global Compact

1. Company Profile

This report has been prepared by KONČAR Group, which consists of KONČAR Electrical Industry Inc., as the Parent company, and 20 dependent companies in which the Parent has a controlling interest (more than 50 percent of votes at Annual General Meetings). Over and above common stocks, part of the company also holds preferred stocks. Additionally, the Parent has a minority interest (49 percent votes at AGM) in one affiliated company.

Subsidiaries act under the name KONČAR, to which they add their firm's name. The headquarters of the Parent of the Group (KONČAR Electrical Industry Inc.) are located in Zagreb, Fallerovo šetalište 22.

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

Energy and Transport

- design and construction of plants for the production, transfer and distribution of electric energy and ancillary equipment, thyristor locomotives, trams and electric equipment for line-side electric traction facilities;

Industry

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

Trade

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

Special activities

- research and development of products and infrastructural services.

Organizational Structure

KONČAR - Electrical Industry Inc.



Ownership structure

KONČAR - Electrical Industry Inc. is a joint stock company with 4,000 domestic and foreign investors (funds, banks, natural persons from Croatia and abroad) that influence the operations through Annual General Meetings and the Supervisory Board, which appoints the Managing Board in charge of administration. Share capital of the company amounts to 1,028,847,600.00 kuna and consists of 2,572,119 common stocks with a nominal value of 400.00 kuna apiece.

The company acts in the same manner and under the same terms to all shareholders regardless of the number of shares they hold, their country of origin, and their other properties. The right to vote includes all shareholders of the Company in a manner that the number of their votes in the General Assembly is equal to the number of their shares.

Five biggest shareholders of KONČAR are owners of 67.34 percent of its shares. There were no major changes in ownership relations in 2011.

Table 1
Ownership Structure on December 31, 2010

Shareholder / Ownership percentage (%)	2009	2010	2011
HPB Ltd. (Capital fund Ltd.)	28.17	28.17	28.17
Government Asset Management Agency (GAMA) / Croatian Institute for Pension Insurance (HZMO)	14.95	14.95	14.95
Government Asset Management Agency (GAMA) /Republic of Croatia	10.82	10.12	10.12
LINTEUM SAVJETOVANJE d.o.o.	7.39	7.38	7.41
Societe Generale-Splitska banka Ltd. / Erste Blue Obligatory Pension Fund	5.71	6.52	6.69
Hypo Alpe Adria Bank / PBZ Croatia Insurance OMF	-	2.94	4.17
Societe Generale / AZ Obligatory Pension Fund	2.78	2.71	4.07
Kristijan Floričić	3.33	3.33	3.33
Hypo-Alpe-Adria-Bank d.d. / RBA OMF	1.44	1.44	1.37
PBZ d.d. (Custodian account)		1.43	1.29
Other shareholders	24.46	21.01	18.06
Končar d.d. (Treasury stocks)	0.95	-	0.37
Total	100.00	100.00	100.00

During 2011, the Company gained 27,046 of its own shares. During September and November of 2011, the Company released 17,432 of its own shares realizing order to achieve the carried out option right for buying shares owned by the president and Management members based on the Contract on rights, duties and salaries for the period from 2005 to 2006. One Board member, due to his retirement, used his option right for buying shares for the period between 2005 and 2010.

On December 31, 2011 the Company has 9,614 of its own treasury stocks, which represents 0,37 percent of the Company's capital.

In 2011. year stock price movement of KONČAR - Electrical Industry followed the trend of the total market. The highest share price was achieved in June 2011 (699.48 kuna), the lowest in the end of November (480 kuna). In the end if 2011, the price was 514.00 kuna.

The total trading turnover of KONČAR's shares amounted to 118.9 million kuna, which is 8 percent more than the turnover in 2010. The quantity of shares traded was 213,445 shares.

1. Company Profile

Business indicators

In 2011, KONČAR Group achieved sales of products and services in the amount of 2,362.2 million kuna. In the domestic market total sales revenue of products and services amounted to 1,095.6 million kuna. Revenues from sales of products and services to foreign markets amounted to 1,289.8 million kuna or 55 percent of total income. A diverse range of projects were carried out in Croatia and in the demanding market of the European Union, as well as neighboring countries. Significant export was achieved in the countries of Africa and Asia. Group's consolidated profit before tax was 210.8 million kuna. Profit tax amounted to 18.6 million kuna so profit after taxes amounted to 192.2 million kuna, while

the minority interest holds 29.8 million kuna and the net profit of the Group amounted to 162.4 million kuna.

In 2011, 2,480.9 million kuna worth of new jobs were contracted. The status of fixed contracts at the end of 2011 is 2,217.7 million kuna, which is 6 percent more compared to the beginning of the year.

Due to the relatively great number of contracts, additional efforts which are invested in finding new markets and the announcement of major investments in the country, it is expected that the companies within the KONČAR Group will realize its plans of operations for 2012 and continue the positive trend of business.

Table 2
Basic Business Indicators (in 000 HRK)

	2009	2010	2011
Operating revenues	2,795,680	2,637,560	2,545,016
Products and services sales	2,675,138	2,464,817	2,362,202
Material costs			
• Raw materials and consumables, costs of services, costs of goods sold	1,814,661	1,542,321	1,545,612
Personnel costs (total)	475,014	485,168	474,923
• Wages and salaries	263,720	263,732	262,980
• Taxes, social and pension insurance	211,294	221,437	211,942
Pre-tax profit	158,377	201,645	210,820
Profit tax	13,264	15,609	18,582
Group profit	145,113	186,036	192,238
Minority interests	32,290	31,060	29,796
Net profit	112,823	154,976	162,442
Total assets	3,270,754	3,296,150	3,495,735
Total capital and reserves	1,617,663	1,794,177	1,937,209
Current assets	2,094,426	2,106,501	2,142,292
Current liabilities	933,728	775,539	832,473
Sales per employee	651	626	597

These business results were achieved with 0,5 percent more employees than in the previous year. At the end of 2009 there were 4,110 employees; in 2010,

3,938 employees; and at the end of 2011 3,956 employees worked for KONČAR.

Basic Business Activities

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

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

- Energy and transport
- Industry
- Trade
- Special activities

The sales share of the Energy and Transport sector expressed in terms of KONČAR total sales, amounts to 84 percent, which means that the production programs of companies within the KONČAR Group have mostly been directed at these activities.

Companies within the Group autonomously determine the degree of products and services outsourcing. Due to the technological complexity of products on one hand, and accumulated knowledge and resources within the Group on the other, some projects are fully completed within the Group itself in participation with several Group companies.

Most Important Markets

Consolidated earnings from sales of products and services amounted to 2,362.2 million kuna.

Besides the Republic of Croatia as the domicile market, products and services of the KONČAR Group are

exported to more than 60 countries worldwide.

On the domestic market, sales revenue amounted to 1,095.6 million kuna (45 percent) and export sales to 1,289.8 million kuna (55 percent of total sales).

Table 3

Revenues From Sales of Products and Services by Business Areas (in 000 HRK)

Business area	2009	2010	2011
Energy and transport	2,299,612	2,096,439	1,994,556
Trade	180,311	173,427	181,774
Industry	93,120	104,511	110,318
Special activities	102,095	90,441	75,554
Total	2,675,138	2,464,818	2,362,202

Within the sales structure, earnings from domestic sales of goods and services to HEP (Croatian Power Authority) amount to 470.9 million kuna or 44 percent of total domestic sales; earnings from enterprises in the industrial and shipbuilding domains amount to 209 million kuna or 19.5 percent of total domestic sales; products valued at 150.8 million kuna were delivered to

wholesalers and retailers; to civil engineering companies, products in the amount of 88.4 million kuna; earnings from Zagreb Electric Tram amounted to of 59.5 million kuna, to Croatian Railways went products valued at 49.5 million kuna; while the remaining amount of 44.2 million kuna refers to Croatian Motorways, State and Local Administration and public enterprises.

1. Company Profile

Table 4
Sales in Croatia (in 000 HRK)

	2009	2010	2011
HEP (Croatian Power Authority)	384,826	263,355	470,910
Industry and shipbuilding	249,288	276,907	209,037
Trade Sector	148,945	130,868	150,835
Civil Engineering Industry	72,638	97,939	88,438
ZET (Zagreb Electric Tram)	457,281	216,186	59,479
Croatian Railways	57,524	96,914	49,487
INA, T-HT, Plinacro	48,750	42,980	23,715
State and Local Administration	15,423	19,038	13,573
Croatian Motorways and Croatian Roads	8,809	15,411	6,891
Total	1,443,484	1,159,598	1,072,365

Earnings from the sales of goods and services on foreign markets in 2011, were achieved in the amount of 1,289.8 million kuna. The most significant exports were to European Union markets, with a value of 637.4

million kuna; to neighboring countries in the amount of 244.3 million; exports to countries in Asia and Africa worth 209.9 million; and other countries 198.2 million kuna.

Table 5
Most Significant Export Markets of KONČAR Group in 2011 (in 000 HRK)

Countries	2009	2010	2011
Germany	82,837	165,608	161,060
Bosnia and Herzegovina	149,019	83,000	95,231
Nigeria	25,787	73,307	81,080
Sweden	40,759	96,660	79,853
Albania	1,483	84,067	63,116
Cyprus	38,803	46,505	56,894
Finland	48,222	64,773	56,210
Slovenia	54,483	23,937	43,933
Serbia	30,151	42,602	41,366
Netherlands	48,812	58,269	40,727
Costa Rica	8,535	1,808	40,154
Russia	4,789	8,146	37,237
Austria	38,272	29,263	34,569
India	100,143	98,329	34,226
Poland	31,989	13,991	29,983
United Arab Emirates	89,621	63,045	28,928
Czech Republic	111,226	60,569	26,625
Macedonia	14,065	25,100	26,029
Other countries	312,658	266,241	312,616
Total	1,231,654	1,305,220	1,289,837

Awards and Recognition we received in 2011

In 2011, individual employees of the KONČAR - Electrical Industry received awards and high social recognitions:

On May 16, 2011, at the 6th Convention of the Croatian Exporters, KONČAR - Distribution and special transformers received the highest award - "Golden Key" as the best large exporter in the Croatian market in 2010, and Power transformers received the "Golden Key" as the best large exporter to the UK market.

At the FINA forum the "Golden Balance Sheet" awards of 2011 were presented and the company Infrastructure and services won the third place in the category of most successful entrepreneurs in the electricity supply, gas, steam and air conditioning.

At the International Exhibition of Innovations, New Products and Technologies "ARCA 2011" the award "ARCA" was awarded to KONČAR - Electrical engineering institute. The same innovation received a Grand Prix from the Russian Association for International Scientific and Technological Cooperation as well as the "Award for the high level of scientific and technological innovation" from the Ministry of Science of Romania.



2. Report Parameters

The seventh report on social responsibility, which the Group KONČAR issues annually, is written for the reporting period from January 1, 2011 to December 31, 2011. It was prepared by the KONČAR Group and it applies to all companies within the Group in which the parent has a dominant influence. The last report was issued for the year 2011 (for calendar year 2010). The contact person for all inquiries regarding this report

and its contents is the Director of Marketing and Communication.

KONČAR Group undertakes that until the next report is issued, it will continually work to improve current practices and monitor progress of all companies within the Group as well as relationships with stakeholders and report about it all inform in the next report.

3. Governance, Commitments and Engagement

Governance

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

the statutes of companies. The Parent also manages some assets which are not invested in the companies, but that directly or indirectly function as financial support to marketing and sales of products and equipment of affiliated companies in the form of potential collateral.

Table 6
Management Rights of The Parent Company Within The Group's Companies

	Subscribed capital Total in HRK	Subscribed capital Parent company in HRK	Management Parent company 31.12.2010. %	Assets Parent company 31.12.2010. %
SUBSIDIARIES				
POWER PLANT AND ELECTRIC TRACTION ENGINEERING	36,000,000	36,000,000	100.00	100.00
GENERATORS AND MOTORS	107,927,700	107,927,700	100.00	100.00
HIGH VOLTAGE SWITCHGEAR	49,751,400	42,000,300	88.02	84.42
MEDIUM VOLTAGE APPARATUS	19,679,700	8,220,000	69.87	41.77
SWITCHGEAR	36,966,000	16,899,000	66.85	45.71
DISTRIBUTION AND SPECIAL TRANSFORMERS	76,684,800	39,655,200	67.80	51.71
INSTRUMENT TRANSFORMERS	18,989,100	8,265,600	72.35	43.53
ELECTRONICS AND INFORMATICS	37,126,800	27,857,700	75.03	75.03
METAL STRUCTURES	24,645,600	18,486,600	75.01	75.01
ELECTRIC VEHICLES	47,026,800	35,288,700	75.04	75.04
RENEWABLE SOURCES	87,681,700	87,681,700	100.00	100.00
ENGINEERING CO. FOR PLANT INSTALLATION AND COMMISSIONING	11,827,500	4,552,800	76.51	38.49
SMALL ELECTRICAL MACHINES	41,641,800	41,641,800	100.00	100.00
TOOLS	49,166,400	49,166,400	100.00	100.00
CATERING EQUIPMENT	25,447,800	25,447,800	100.00	100.00
HOUSEHOLD APPLIANCES	127,877,500	127,877,500	100.00	100.00
LOW-VOLTAGE SWITCHES AND CIRCUIT BREAKERS	81,466,900	81,466,900	100.00	100.00
ELECTRICAL ENGINEERING INSTITUTE	40,763,520	40,763,520	100.00	100.00
INFRASTRUCTURE AND SERVICES	49,891,600	49,891,600	100.00	100.00
KONES AG	3,097,414	3,097,414	100.00	100.00
SUBSIDIARY				
POWER TRANSFORMERS	72,764,000	35,654,400	49.00	49.00

Management

The positions of the President and members of the Management Board are appointed and relieved by the Supervisory Board. The term-length of the president and board members mandate is 5 years, after which they can be reappointed. According to the Company Act and the Statutes of KONČAR Electrical Industry Inc., the Management Board is accountable for administration of business activities on its own, while it is obliged and empowered to act on behalf of and to make decisions for the benefit of the Company. For final approval on certain decisions, as prescribed by the Statutes, it is necessary to have the consent of the Supervisory Board.

During 2011, KONČAR - Electrical Industry Inc. was directed by the Management Board consisting of:

Darinko Bago	CEO
Marina Kralj Miliša	Member of the Management board
Jozo Miloloža	Member of the Management board
Davor Mladina	Member of the Management board
Vladimir Plečko	Member of the Management board until March 21, 2011
Miroslav Poljak	Member of the Management board since April 1, 2011

Supervisory Board

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

The Supervisory Board has 9 members and from July 28, 2011 it consisted of:

Božidar Piller	President of the Supervisory Board
Jasminka Belačić	Vice-President
Đuro Perica	Member
Elvis Kovačević	Member
Kristijan Floričić	Member
Vicko Ferić	Member
Nenad Matić	Member
Ivan Rujnić	Member
Ratko Žabčić	Member

Until July 28, 2011 members of the Supervisory Board were:

Igor Lučić	President of the Supervisory Board
Jasminka Belačić	Vice-President
Ante Babić	Member
Kristijan Floričić	Member
Ruđer Friganović	Member
Zdenka Matković	Member
Nenad Matić	Member
Đuro Perica	Member
Ivan Rujnić	Member

The Supervisory Board has reached the decision to establish an Auditory Committee. According to the provisions laid down by the Law of Audition (article 28 of the Law), the Auditory Committee follows the procedures of the financial reporting, the efficiency of the control system, overviews the audition of yearly financial reports, monitors the independency of auditors and gives recommendations to the General Meeting on the selection of the Auditory Committee.

The Auditory Committee consists of three members:

Jasminka Belačić	President of the Auditory Committee
Vladimir Plečko	Member
Ivan Rujnić	Member

3. Governance, Commitments and Engagement

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

Members of the Supervisory Board, who are themselves shareholders or representatives of shareholders, give their suggestions by ordinary means within the functioning of the Supervisory Board. The Association of Small Shareholders (founded in 2000), with its 58 small shareholders, also has its representative on the Supervisory Board. According to the Labor Act,

employees have a representative on the Supervisory Board. As for the general impact of shareholders on management processes, it has been defined by the Company Act. An Extraordinary General Meeting (EGM) must be convened if it is requested in writing by shareholders who collectively own shares amounting to no less than a twentieth part of the Company's equity capital, provided that the purpose for convening the EGM is stated. The proposals of shareholders must be communicated if, within a week of having published the convening of the Annual / Extraordinary General Meeting in the official Gazette of the Company, a shareholder sends the Company a disputed proposal, and if he expresses the wish to oppose any proposal of the Management and Supervisory Board to win over other shareholders to vote for his proposal at the AGM/EGM. At meetings of its presidency and general body, the Association of Small Shareholders analyzes the achieved business results of KONČAR - Electrical Industry Inc. and gives voting instructions to the delegate of the Association at the Annual / Extraordinary General Meeting of KONČAR - Electrical Industry Inc.

Commitments to external initiatives

Economic charters, social charters and the charter relating to the environment, principles and standards that KONČAR supports.

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

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

Generally accepted principles and rules, as well as business policies, suggest the need to meet the requirements of all stakeholders in accordance with the capabilities of the company and its continuous development. In accordance with that, rules and policies in various fields of action are defined, and their implementation in everyday activities guarantees the quality of achievement of objectives.

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

KONČAR takes an active role in initiatives, discussions, projects and activities connected to socially responsible behavior at the State level.

On September 12, 2005, KONČAR - Electrical Industry Inc. signed a declaration whereby it accepted the Ethics Code in business operations. This was ratified by the Assembly of the Croatian Chamber of Economics in May 2005. It is necessary to additionally communicate provisions of the Code of Ethics to the employees of KONČAR Group and its business partners.

3. Governance, Commitments and Engagement

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

- Responsible management,
 - Defining procedures of corporative management based on recognizable adopted international standards, as well as
 - Oversight of business management,
- all with a view to establishing high standards of corporative management and business transparency as foundations for the protection of shareholders, investors and

other interested parties, as well as care of employees, sustainable development and environmental protection.

Policies and goals of the Company are achieved by a systematic approach to the quality management, environmental and occupational health and safety, which is confirmed by certificates awarded by accredited independent bodies. In accordance with the Policy of Sustainable Development we use ISO 9001:2000 Quality Management System, ISO14001:2004 Environmental Management System and OHSAS 18001 Health Prevention and Safety at Work Management System. For some products, other norms and standards are respected in accordance with the requirements of customers and users.

Table 7
Certificates ISO 9001, ISO 14001, OHSAS 18001

	ISO 9001	ISO 14001	OHSAS 18001
KONČAR - Tools	1	1	0
KONČAR - Distribution and Special Transformers	1	1	1
KONČAR - Electric Vehicles	1	1	0
KONČAR - Medium Voltage Apparatus	1	1	0
KONČAR - High Voltage Switchgear	1	1	0
KONČAR - Electronics and Informatics	1	1	0
KONČAR - Infrastructure and Services	1	1	0
KONČAR - Generators and Motors	1	1	0
KONČAR - Electrical Engineering Institute	1	1	1
KONČAR - Power Plant and Electric Traction Engineering	1	1	0
KONČAR - Household Appliances	1	1	0
KONČAR - Small Electrical Machines	1	1	0
KONČAR - Metal Structures	1	1	1
KONČAR - Instrument Transformers	1	1	1
KONČAR - Engineering for Plant Installation and Commissioning	1	1	0
KONČAR - Low-Voltage Switches and Circuit Breakers	1	1	0
KONČAR - Switchgear	1	1	0
KONČAR - Catering Equipment	1	1	0
KONČAR - Renewable Sources	1	1	0
KONČAR - Power Transformers	1	1	1
KONČAR - Electrical Industry	1	1	1
Total	17	18	5

3. Governance, Commitments and Engagement

Memberships in Associations and Professional Organizations

KONČAR is an active member as well as a founder and initiator of many associations, institutions and organizations, primarily in professional areas related to KONČAR's production activities, business activities of the Group or involving the interests of the wider social community.

With the goal of attaining broader social interests in mind, KONČAR is a member of:

- Global Compact - International Agreement with the United Nations
- Association for Socially responsible business operations within the Croatian Chamber of Commerce

KONČAR as a group, its individual companies or specific employees are members of the following organizations inland and abroad:

- CIGRE (International Council on Large Electric Systems)
- International Council for Distribution Systems (CIRED)
- IEEE (Institute of Electrical and Electronics Engineers)
- Academy of Technical Sciences of Croatia
- Croatian Exporters
- Croatian Chamber of Economy
- Community for Inventive Work
- Community for Renewable Sources
- Community of Railcars
- Associations of the Innovators of Croatia
- Croatian Academy of Technical Sciences
- Croatian Chamber of Architects and Engineers in Construction Industry
- Society of Engineers and Technicians of Croatian Railways
- International Electro-Technical Commission
- MIPRO (Croatian Association for Information and Communication Technology, Electronics and Microelectronics)
- Croatian Institute for Standards
- Electrical Engineering Society of Zagreb
- Croatian Association of Professionals in Nature and Environment Protection
- Croatian Associations of Infrared Thermography
- International Institute of Welding
- Croatian Societies for Quality
- European Company Lawyers Association
- Associations of Corporate Lawyers
- Associations of Lawyers in Economics
- Croatian Association of Auditors
- Croatian Community of Accounting and Financial Experts

In keeping with these memberships, every year KONČAR's experts participate at professional conferences inland and abroad, at which they present KONČAR's efforts, solutions and products.

Through sponsoring and actively participating in the preparation and organization of conferences in Croatia, KONČAR directly facilitates the activities of professional organizations, considering them to be important places for advancing its own knowledge base while exchanging experiences with other domestic and international experts.

Partaker Engagement

Collaboration with stakeholders i.e. groups of stakeholders covered by this report can be divided into those who are directly involved in the organizations' business processes and those outside of them. Besides customers as key stakeholders, others include employees, suppliers and the public sector (in the dual role of client and regulator of operating conditions). Production and business strategy of the Group is mainly focused on the business market and / or public sector in Croatia and abroad, and only in a small part on the market of individual end users.

As a part of the activities connected to social responsibility, there is extensive collaboration with a wide circle of representatives of associations of socially responsible businesses, organizations of civil society and individuals primarily in its sphere of activity, at a national level and abroad.

Approaches to partakers' engagement

Continuous communication is maintained with key partakers through joint meetings, contacts and appointments. Throughout business operations, efforts are made to satisfy their legitimate interests and needs. Two-way communication and cooperation between management and employees are an integral part of business management.

The main means of communication with the partakers,

including employees and directly interested partners is the monthly periodical "Končarevac". It is published in runs of 4,200 copies and distributed to all the companies within KONČAR, as well as to business partners, the community at large and everybody else who is interested in news about KONČAR.

In 2011, the complete redesign of the KONČAR Group's website and other companies was finished. The new site is based on the greater Internet capabilities, new content and design. In line with market requirements and needs, it is available in three languages (Croatian, English and Russian). It is also planned to redesign the web site of other group companies.

Web sites (www.koncar.hr) represent important means of communication with domestic and international partners, and also with the public in general. Therefore, great consideration has been devoted to this type of communication for the purpose of disseminating accurate and up-to-date information appropriate to the medium. In 2011, there were 59,735 visitors to the site who visited 79,308 pages and accessed the website more than 352,000 times. Through the web site, more than 400 e-mails with various questions, suggestions and comments were received.

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



Economic Dimension

KONČAR Group companies are significant players on the market of manufacturers of machinery and equipment for generation, transmission and distribution of electricity and transportation. Continuous improvement of business, investments in product development and quality creates and increases value for all stakeholders and the wider community.

In 2011, the Group achieved good business results. Extremely good results were achieved in exports, in the area of manufacture and sale of transformers.

On the domestic market and in neighboring area, the business conditions in 2011 were unfavorable. The decline in business activity in the energy sector and transport and a further deterioration in the field of home appliances and switching equipment continued further.

In order to reduce the negative impacts of the global economic - financial crisis, and to ensure KONČAR group undertook several measures. First of all, efforts to seek out new markets and increase offerings were increased, measures for greater synergy within the system and measures to reduce operating costs were carried out. All these activities have resulted in the continuation of profitable operations and the financial stability of the Group. Good business results are achieved and based on companies' own product development and manufacturing, while research projects are and ongoing determinant of the company and will continue in the next period through innovation and development, which should lead to new products and expansion of business activities.

Economic Effect Indicators

Direct, created and allocated economic value, including income, operating costs, remunerations to employees, donations and other community investments, retained profit, payments to equity contributors and fees to the State.

Consolidated income from sales of products and services in 2011 amounted to 2.36 billion kuna, which is 4 percent less than in 2010.

Raw materials, materials and service costs in 2011, increased by 2 percent, mainly due to the increase in price of main raw materials on the international market (copper, transformer tin, transformer oil, steel, etc.)

The value of paid gross salaries in 2011 amounted to 531.5 million kuna, representing a decrease of 2 percent compared to the year 2010.

Expenses for interest paid for received loans in 2011 amounted to 19.6 million kuna, an increase of 2.3 million kuna in comparison to 2010. In accordance with the decisions of the Supervisory Board and Annual General Meeting, the Parent Company's profit in 2011 has been allocated in the amount of 39.9 million kuna to legal, statutory and other reserves as well as retained earnings, while 30.7 million kuna is allocated for payment of dividends to shareholders, which amounts to 12 kuna per share.

Apart from its representative office in Switzerland, all the companies within the KONČAR Group operate in the Republic of Croatia, thus the total amount of paid profit tax refers to taxes paid in Croatia. The amount of taxes paid in 2011 amounted to 18.6 million kuna and it is 2.9 million kuna higher than the taxes paid in 2010.

Table 8
Generated and Distributed Economic Value

in 000 HRK

	2009	2010	2011
Revenues from sales of products and services	2,675,138	2,464,818	2,362,202
Material costs - Raw materials and consumables, costs of services, costs of goods sold	1,814,661	1,542,321	1,545,612
Gross salaries	532,690	541,901	531,486
Interest payment	18,337	17,299	19,599
Dividends paid	-	30,865	30,750
Profit tax	13,264	15,609	18,582
Donations and sponsorships	1,100	1,020	1,118

Financial Consequences and Other Risks connected to Climate Change

Continuous investment in new technologies, developing and marketing new products according to the principles of energy efficiency and renewable energy are part of the preparation for an ever growing challenge - climate change.

Matters of sustainability in the areas of energy resources, production, transfer and distribution of electricity, as well as climate change, are of extreme importance to KONČAR, since most of its products are aimed at usage in the natural environment or urban

areas. Therefore, the responsibility for their normal operation and possible repercussions is great. Production of transportation vehicles, (trams and trains), have a significant impact on the environment, especially in urban settings. Great care is taken throughout every step of the production process in accordance to the highest international standards and requirements.



Financial Assistance from the Government

In 2011, KONČAR Group has not received significant financial assistance from the Government or the State. Contracts with public enterprises (or other representatives of the public sector), relating to the delivery of

goods and/or provision of services, were obtained at public tenders in accordance with the law, and do not contain any elements of Government support.

Environmental Dimension

The entire Group pays special attention to environmental management. KONČAR has a well defined Environmental Management Policy, which is available to the public on the web site www.koncar.hr. All employees are acquainted with it.

Energy

During the 2011, the project of base stations with autonomous power supply system, called KONČAR Hybrid Power Supply, was completed. It is an innovative product that is powered by renewable energy, producing electricity that provides a continuous and uninterrupted supply of base stations of telecommunications operators. Besides sun and wind, fuel cells were used

for the first time. The system has a built-in communications system with remote users and provides insight into the operating parameters, alarms and warnings.

In 2011, the first phase of construction of a real wind farm on Pometeno brdo was completed. Six individual wind turbines with individual rated power of one megawatt were activated.

GLOBAL
COMPACT
PRINCIPLE 9



Biodiversity

The construction of electric power facilities is an activity that may involve risks to environmental protection and to biodiversity in particular. Investors who are obliged to respect relevant regulations and environmental protection standards make decisions about the position and construction of these facilities. After that, investors invite tenders for acquisition of equipment, whereupon KONČAR appears as a potential equipment supplier.

With products that it supplies, KONČAR meets top equipment safety standards, with a minimum of influence on the environment. To the present date, no complaints or incidents have arisen in that respect.

KONČAR Group does not own any land, nor does it lease or manage land in protected areas or in their immediate vicinity, nor in areas of major biological diversity outside of protected regions.

Impact of Products and Services on the Environment

GLOBAL
COMPACT
PRINCIPLE 8

Most products of KONČAR Group are specific: they are unique products produced in small numbers, intended for being specially built into facilities (power equipment, plants, assemblies etc.) and/or are, after the development and testing phase, put to use (e.g. trams, hydro power plants and transformer substations). As a rule, typical clients are members of the public or business markets, and more rarely individual end users (even though there are exceptions to this -

e.g. domestic appliances, computers, etc.).

In product research and development, the environmental impact of products is reduced as much as possible by using contemporary technologies, which are more efficient, consume fewer resources, emit reduced levels of waste substances and in general have a smaller influence on the environment during their use. The precise scale of the alleviation of negative effects has not yet been analyzed.

Compliance with Environmental Regulations

GLOBAL
COMPACT
PRINCIPLE 7

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

No major fines or non-financial sanctions have been registered against KONČAR due to non-compliance with environment protection laws or regulations.

KONČAR manages all aspects of its environmental impact by reducing the negative effects of its activities, permanently improves upon results attained in the domain of environmental management, while completely

respecting Croatian laws and regulations, and adjusts its operations to new demands. Necessary organizational, vocational and financial resources have been provided to that end. The people in top positions who are most responsible for environmental affairs are the member of the Management Board in charge of legal, administrative and HR affairs and the General Manager of the company of Energy and Maintenance, which takes systematic care of all infrastructural installations at different locations and actualizes synergistic effects.

Social Dimension

The social dimension of sustainability is based on the fact that equality and understanding of the interdependence of people within the community is the basic prerequisite for an acceptable quality of life, which is the first goal of development.

In this report, the social dimension of sustainability concerns the organization's impact on the social systems within which it operates and it is divided into the categories of labor and labor relations, human rights, cooperation with the community at large and product responsibility.

Labor Practices, the Dignified Workplace

Employment

KONČAR devotes special attention to employment of young, highly educated, ambitious and innovative people.

At the end of 2011, KONČAR employed a total of 3,956 workers, 21 more employees than in 2010. As in the past two years the number of employees has decreased as the result of the global economic crisis, this figure represents a positive shift of 0.53 percent. Of the total number of employees 6.5 percent of workers are employed for a certain period, while others are employed for an indefinite time.

In 2011, the average age of the total employees was 44 years, while the average age of newly hired was reduced from 30 years in 2010 to 29 years in 2011.

In 2011, a total of 204 workers were employed, of which 87 with higher education (4 university graduates, 35 with a professional MA degree, 33 with a professional BA degree, 8 with only higher education, 2 employees who are expecting a professional BA degree).

Training and Education

In 2011, KONČAR employed 19 employees with PhDs, 66 masters of science and 842 employees with higher education (in 2006, there were 7 PhDs, 58 masters of science and 693 workers with university degrees). More than 80 employees with higher education are currently attending some postgraduate study (specialist studies, postgraduate and doctoral studies).

KONČAR traditionally ensures to have highly educated staff by giving out scholarships to students at various faculties (Faculty of Electrical Engineering and Computer Science, Faculty of Mechanical Engineering, Polytechnic, etc.).

Out of all highly educated employees in 2011, most of them were from the mechanical and electrical engineering profession. Most of the newly hired employees work as electromechanics, electrical engineers and mechanical technicians, followed by locksmiths, lathe operator and the processing sheet metal workers.

For many years KONČAR has been following trends in domestic and foreign markets and in accordance with them, enables its employees to further develop their education in various forms. Table 9 shows the trend in the number of employees in KONČAR who have attended different forms of education. In 2011, year there was an increase in the number of employees in all four forms of training.

Table 9
Education of Employees According to Forms of Education

Number of Employees	2008	2009	2010	2011
Postgraduate studies	88	77	65	81
Foreign languages	240	238	220	252
Computer skills	273	253	232	304
Seminars and lectures	1240	1120	1024	1186

Doctoral dissertations

Several new doctoral dissertations were defended at the Faculty of Electrical Engineering and Computing in Zagreb in 2011 and KONČAR got two more doctors of science who wrote about topics that are in close connection with their work.

In 2011, titles of doctor of technical sciences were acquired:



Siniša Marijan from KONČAR - Electrical Engineering Institute who defended his thesis on May 6, 2011. The doctoral dissertation is titled "Sustainability of the built-in computer control systems for rail vehicles and production electrical aggregates".



Ivan Janeš from KONČAR - Power Plant and Electric Traction Engineering who defended his thesis on December 7, 2011. The doctoral dissertation is titled "Development of methods for information systems based on service-oriented architecture in the energy sector."



Life-long Learning Programs

KONČAR values people above all as the success of every society depends precisely on the commitment and skills of each employee. Accordingly KONČAR provides lifelong learning opportunities for all employees, regardless of hierarchical position in the organizational structure of each of the KONČAR companies.

With regard to the average employee age group, already in 2009 the need for selecting and training a new generation of managers was recognized and in 2011, the third group of students attended the Educational program for potential managers of KONČAR. Education is fully adapted to the needs of companies within KONČAR and is organized in 14 modules lasting for 2 days.

In addition to training managers, great attention is paid to learning of foreign languages, with respect to markets where KONČAR is doing business. Education in the field of IT skills, training and knowledge in handling modern machinery in KONČAR's plants is also of great importance.

All education programs in KONČAR are adapted to the needs of companies and are intended to be professional training of employees, in order to increase employee satisfaction and competitiveness of the workers in the labor market. KONČAR's goal is to provide an incentive to every employee and show them that their actions contribute to achieving the objectives KONČAR as a whole. By investing in its employees, the company has the ability to react quickly to the competition on the market, and not just with its products, but also by the ability to attract ambitious, highly educated and innovative potential employees.

In 2011, KONČAR continued its successful collaboration with many scientific and educational institutions, which enables the Company to identify, define and implement a series of projects in which both sides act as partners. Thus, KONČAR carries out scientific and educational projects with the Faculty of Electrical Engineering and Computing, the Ruđer Bošković Institute, the Hrvoje Požar Energy Institute, Zagreb Polytechnic, and the University of Applied Sciences in Varaždin.

In order to ensure competitiveness and sustained development of KONČAR it is necessary to continue to educate employees and continually strive to ensure job satisfaction and a quality working environment.

Social Dimension

Health and Safety at Work

Great attention is given to occupational health and safety at work. Activities to improve working conditions, health prevention and inspection as well as recreation workers are carried out regularly, thereby contributing to motivation, satisfaction and better work performance of employees.

In accordance with applicable legislations, KONČAR organizes and conducts occupational safety in all parts of the organization's work and all of its processes. Most companies employ professionals and safety specialists, as well as organized services for safety at work and safety committees and safety at work which are made up from the employer or its agent, an expert in occupational safety, occupational health professional and trustee or their co-coordinator (if there are more). The committee plans and supervises the implementation of safety rules, information and training in occupational safety, and leads the policy of preventing workplace injuries and occupational diseases as well as encourages continuous improvement of care. All workers in the workplace for whom the risk assessment showed that there are certain hazards, are trained to work safely and according to the hazards and protective measures for each job or activity that the workers perform at any time. All the companies provide fire protection and have prepared plans for evacuation and rescue in case of unexpected events, while the workers are trained for fire protection.

According to the Safety at Work Act, a certain number of workers in all companies have been trained to offer first aid. For every 50 workers, one worker is trained to provide first aid. Due to this well-organized safety system and safety at work, confirmed by a low percentage of injuries and cases of professional disablement, no needs were registered for further extension of the counseling, prevention or risk control program. In case of a major disease or the death of a close family member, financial aid for employees is anticipated according to the Collective Agreement and the Company's Work Regulations.

In order to protect the employees' health, protection of non-smokers from tobacco smoke is carried out by banning smoking during meetings and in all working spaces. Consumption of alcohol and other drugs before and during working hours and their intake in the working premises are prohibited.

Collective Agreements and Employee Rights

Collective agreements on the rights and obligations of employers and workers for companies in the KONČAR Group determine the procedures and mechanisms that regulate labor relations on the basis of the consent of the parties, the Croatian Metal Workers Union, Trade Union Coordination of KONČAR - ELECTRICAL INDUSTRY - ZAGREB and the Management Board of KONČAR - ELECTRICAL INDUSTRY Inc. The collective agreement aims to promote social and economic security of workers in KONČAR's companies, particularly in the area of rights and obligations such as protection of dignity of workers, working hours, holidays and leave, salaries, wages and other tangible benefits for workers. There is no discrimination in employment in relation to gender, religion, race, nationality or political affiliation, age, family status, personal characteristics, belief and disability. In human resource management and decision-relevant business decisions, the principles of equality and respect for human dignity are followed and respected.

Protection of rights in connection to or from a particular employment contract, the employees may resolve in a peaceful manner and according to the procedure prescribed by the Regulations on mediation in individual labor disputes, to which the parties agreed in the Collective Agreement.

The Collective agreement was concluded for an indefinite period and applies to all employees of the KONČAR Group regardless of their union membership.

Different work councils operate within individual KONČAR companies, whom, in accordance with the Labour Law and Collective Agreement, the employer shall notify, consult and seek its prior approval when making important decisions.



Human Rights

GLOBAL
COMPACT
PRINCIPLE 1

In human resource management, the principles of equality, respect for human dignity and uniform criteria are followed. Employees are drivers of development and success of the company, and hence the priority of KONČAR.

By adopting the Code of Ethics in Business on May 12, 2005, KONČAR pledged to act in accordance with the principles of responsibility, efficiency, transparency, quality, acting in good faith and in compliance with good business practices with business partners, business and social environment and its own employees.

Nondiscrimination

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COMPACT
PRINCIPLE 2

In 2009, as in previous years, no discrimination cases based on gender, race, age, national affiliation, political or religious convictions or other applicable criteria have been noted in KONČAR. Discrimination or harassment of employees because of sex, religion, race, religion, nationality or political affiliation, physical disability, age, family status, personal characteristics or beliefs is prohibited during employment processes as well as in everyday work.

Freedom of Association and Collective Bargaining

GLOBAL
COMPACT
PRINCIPLE 3

Each employee is granted freedom of association and collective bargaining. Employees are, by their own choice, members of the Croatian Union of Metalworkers' Union and the Croatian Electrical Workers Union. KONČAR promotes professional development of individuals, values work and talent and aims to provide equal opportunities for promotion as well as other activities that may contribute to satisfaction, because motivated employees are a company's biggest capital.

Child, Compulsory and Forced work

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PRINCIPLE
4 and 5

Child labor is a form of exploitation which violates human rights. KONČAR operates in compliance with applicable legal provisions that prohibit child labor and there is no child labor in any business activities and forms.

Society

Community

Business activities, accompanied by relationships with local communities, is founded on principles of social accountability, including reduction of risk and the maximization of positive impacts. Due to the products it develops and builds into different infrastructural systems, through its business activities KONČAR directly influences the function of many aspects of community life, especially in terms of the generation and supply of energy and public transport.

These influences are complimentary to activities that have as their objective the direct support of individuals and groups devoted to cultural projects, sports, education, science, humanitarian activities, etc. Due to a considerable share of operations in the public sector, the issues of transparency of operations, adherence to regulations, anti-corruption activity and participation in the formation of public policies are treated with special attention. Intervening on behalf of its own interests when defining public policies and adopting or amending regulations is implemented transparently through business associations and other institutional channels.

In accordance with the signed and adopted Code of Ethics in business operations, political influence or influence on judicial authorities is not permitted.

Social Dimension

KONČAR Award

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



"KONČAR Award" was established in April 2003 and is awarded each year to mark the Day KONČAR. On the same day each year, KONČAR delivers its donation, and this year it was awarded to the residential community of the orphanage Zagreb and intended for furnishing of apartments for young adolescents who become independent after leaving children's homes.

Awards to Best Electrical Technicians

The Railway Technical School in Zagreb held a National Competition in Basic Electrical Engineering and electrical measurements. The participants were 22 best electrical engineers in high schools all over Croatia. The main sponsor of the competition was KONČAR who awarded the first prize and third prize and special prize for the students of the Catholic School Centre Don Bosco from Žepče who competed outside of the main competition.

Case Study Competition

A competition to solve business cases - Case Study Competition (CSC), organized by the association eSTUDENT, was held at the Zagreb Faculty of Economics. The goal of the contest is to connect proactive and ambitious students with prestigious companies operating in Croatia and providing students with opportunities to test their previously acquired knowledge on practical assignments.

CSC began six years ago, and every year grows into a more significant student competition. In 2011, 935 teams applied to the competition, there were 480 solutions turned in and in total there were more than 2,700

students from six universities and 44 faculties who participated in CSC.

The competition featured thirteen well-known companies, among them KONČAR - Infrastructures and Services with its business case "Alternative fuel for the location Jankomir". Thirty teams applied to solve



this case and KONČAR awarded the best students who presented the best solutions.

Education of Managers

The first cycle of training of selected personnel in the field of management at the level of the KONČAR Group was completed in order to create a database of potential managers from the ranks of younger workers. FBA managerial training program, Fundamentals of Business Administration, has been successfully completed with 36 participants from 16 KONČAR companies.

KONČAR Award for Best Thesis

For the eighth consecutive year, at the occasion of the celebration of the Day of Faculty of Electrical Engineering and Computer Science, "KONČAR" awards for best doctoral thesis containing prominent scientific achievements in the engineering sciences with applications in industry were awarded. The award winners for the academic year 2010/2011 were the Ph.D. Siniša Marijan for his doctoral dissertation titled "Sustainability of the built-in computer control systems for rail vehicles and production electric aggregates" and Ph.D. Dalibor Filipović Grčić for his doctoral dissertation titled "Optimization of isolation condenser type of oil impregnated paper." The winner of the cash prize traditionally awarded by KONČAR - Electrical Engineering Institute for 2011, as well as the bronze plaque "Josip Lončar" as an award for remarkable success during his studies, was Nikola Hure who achieved an average score of 4.96 at the Automatics department.

Support to Specific Groups

Certain specific groups, such as retired people, war veterans, and employees who participate in sports, culture and other similar activities, enjoy the permanent support of KONČAR. Numerous activities are organized during the whole year to stimulate activities, which further a better quality life during free time, in conjunction with the interests of employees, their families, retired persons, business partners and collaborators.



KONČAR Retired Persons' Club

The Retired Persons Club KONČAR (popularly called KUK) was established on October 7, 2000, and in 2011 in 183 days it was visited by 7,900 members. The club's activities is monitored by the committees for culture, social care, recreation and entertainment, means, information and supervision.

Its purpose and objective is to entertain and bring together as many retired people as possible in order to set up social and public activities interesting to Club members. The Club nurtures the specific KONČAR spirit since most of its members have spent most if not all of their professional lives in the company. The Club's premises are open twice a week and the members have an abundant library, a computer, TV and various social games at their disposal. During 2011, the Club's members organized 22 field trips, visited 13 theatre plays and 12 exhibitions. Members of the Retired Persons Club do not forget people who cannot visit the club due to health problems. They visit them regularly to socialize and provide material aid. KONČAR Inc. and the companies within the KONČAR Group financially support the activities of the Club.

Veterans and Their Families

In honor of the twenty-two KONČAR employees who were killed in the Croatian War of Independence, every year KONČAR organizes a traditional gathering of those who were recruited in 1991 into a unit for the protection of facilities and equipment. Its purpose is to express gratitude and give recognition to all those who joined in the defense of KONČAR and the entire country.

Besides this yearly gathering, other activities, such as care for veterans' children, are organized throughout the year.

Social Dimension

Sports Activities

Sport and recreation, as an important part of KONČAR's employees' free time, plays an important part in activities organized by the Company.

Investment in sport and recreation is focused on sports in which competitors are performing well and which include a significant number of young people. Different sports clubs, with which KONČAR has a long-term cooperation, play a significant role in the company and carry the name of the company. In 2011, KONČAR sponsored activities in the following sports: archery, kayaking and canoeing, handball, chess, skiing, soccer, basketball and mountain-climbing.

Canoe Club "Končar"

This is one of the oldest sports clubs that carries the name KONČAR, established in 1951. In spite of being an amateur club, it managed to achieve results at international competitions that place it in the very top tier of international canoeing. It was founded in the early 1950s by KONČAR employees eager to take part in sports and recreation.

In 2011, Canoe Club "Končar" year celebrated its 60th anniversary. On that occasion, at the City Library in Zagreb there was an exhibition of photographs - a sort of a walk through the history of the club.

This great anniversary was the occasion for publishing the book "Golden Book of Croatian kayaking on Wild Waters". It is a monograph of 400 pages with more than 300 previously unpublished photographs showing the historical development, greatest successes and most important individuals of this sport.

KONČAR helps the Club and is proud of the results it has achieved. The company is aware that with this support it contributes to the quality of life of all those who spent part of their life in this club.

In 2011, athletes from the Canoe Club "Končar" achieved outstanding results at the European Senior Championships in downhill kayaking on wild waters, and won the 44th Kayaking Marathon Samoborski otok - Zagreb.

Shooting Club "Končar Zagreb 1786"

Shooting Club "Končar Zagreb 1786" was established in 1948 and it is a successor of the First Civic Shooting Society registered in 1786. Since 1993, the society has borne the name of KONČAR.

Over the years, sportsmen in this club have taken part at most important competitions, including European and international championships, as well as the Olympics where they achieved enviable results.

In 2011, the club members have achieved many significant results - successes at the Croatian Cup for Air Guns, first place in the Croatian Championship and the European Championship finals. We are especially proud of the fact that Bojan Đurković, athlete from the SC "Končar Zagreb 1786" will compete at the Olympic Games in London in three disciplines.



Culture

In 2011, KONČAR was actively involved in sponsoring cultural activities, bands, projects, groups and organizations in the field of music, theater and publishing, thereby stimulating the expression of the diversity and quality of content and execution. The emphasis this time was on visual art - especially exhibitions of design and architecture.

Exhibition in The Museum of Contemporary Art

KONČAR supported the exhibition "Socialism and Modernity: Art, culture, politics 1950 - 1974", which was held at the Museum of Contemporary Art in Zagreb. The exhibition was organized in collaboration with the Institute for Art History, with financial support from the City Department of Education, Culture and Sports and the Croatian Ministry of Culture, under the auspices of the Croatian President.

The idea of the exhibition was to present and remind us of the cosmopolitan tradition of the local environment, which, in particular in 1960's made Zagreb and Croatia into one of the most interesting centers of modern art and culture in Central and Southeastern Europe. The exhibition included KONČAR, namely the original plan that shows the main hall at the company's premises located on Fallerovo šetalište and a few pages from the album with photos of KONČAR's apartment building view at the factory from the air, detail of interior decoration, etc.

Exhibit of KONČAR's Department of Design

In 2011, the exhibition "Hidden Design - KONČAR's Design Department 1971 - 1990", by the curator Koraljka Vlajo was held at the Croatian Designers Society gallery in Zagreb. With its methodology of work, and even its very existence, KONČAR's design department was an aberration in the Yugoslav production policy. In the 1970's and 1980's, when most manufacturing companies of the former state produced articles with foreign licenses, KONČAR's department of design designed a wide range of products - from household appliances to the ubiquitous transformers and electric motors hidden from the public eye. The exhibition presents many designers who are extremely important for history of the Croatian product design.

The exhibition was adapted and also presented in the company's main lobby. At the occasion of its opening at the company's premises ten of KONČAR's most important employees from that time were invited.



Social Dimension

Humanitarian and Social Donations

Sensitivity to social issues comes into play each year in the allocation of funds intended for donations and sponsorships. During 2011, helpful donations were given to associations, institutions, organizations and projects that to assist those who need help to improve their health or social status.

Funds are continually allocated to the humanitarian foundation "Dora" and "Save the Croatian Children." In 2011, KONČAR has provided support to the "Blue Phone" and "For the smile of youth," and endorsed the benefit concert "A big heart in a small heart" to purchase medical equipment for Reference Center of the Pediatric Cardiology department at the Hospital Centre Zagreb - Rebro.

Blood Donors

The tradition of organized KONČAR blood collection is almost 60 years old, so every year there are many KONČAR employees among voluntary blood donors. Every year, in cooperation with the Red Cross, three or four times we carry out an organized campaign to collect blood in the locations of KONČAR companies and factories. In 2011, the ceremony was held for those who voluntarily participated in this noble project.

During the ceremony, awards were presented to six employees who have donated blood 50 times in 2011 and to three employees who did it 75 times. Special mention was made to five employees who were given blood 100 times or more, an employee with the greatest number of donations, and, as the ceremony was held on the occasion of the 90th KONČAR anniversary, there were three works mentioned who made 90 blood donations.

Employees' Free Time and Recreation

KONČAR employees are members of many sports clubs. Besides the usual recreational activities, several sporting events have become traditional. They are held on a regular basis and always attract a large number of participants. Besides joint events organized at the level of the Group, most of the companies organize recreational and sports activities for their own employees.

Tennis Tournament "KONČAR 2011"

Open mixed doubles tennis tournament was held for the tenth time and it was attended by 32 competitors. The qualifications were held during the morning, and then four groups played their matches. In the end, three players were awarded from each group. Besides a full day of competition, an important aspect of this event is the interaction of employees from different

companies within the Group. The main sponsor of the tournament was KONČAR - Electrical Industry and the organizer Coordination of the Union of Metal Workers - IS KONČAR.

Futsal Championship tournaments

Same as last year, the tournament for the Champion of KONČAR 2011th was held in two parts. It was attended by more than 300 sports enthusiasts from 16 KONČAR companies gathered in 29 futsal teams. 11 players applied in the category of veterans, and 18 in the category of seniors. In four days of competition there were 63 games played in which (not counting penalties) the players scored the total of 299 goals. These figures indicate that the futsal tournament, the 11th so far, is the largest sporting and social event organized by the Coordination of Croatian Metal Workers Union - IS KONČAR and sponsored KONČAR - Electrical Industry.

On the occasion of the 90th KONČAR anniversary, 2nd Futsal tournament championship was held, which was sponsored by KONČAR - Electrical Industry and attended by all previous winners of annual tournaments.



Corruption

Corruption is treated as unacceptable, regardless of the motives, justification, means or consequences of corruptive action. This principle is communicated to all employees, although not in the form of separate training. None of the employees have the right to engage in any activities that could be connected to corruption and could harm the company's reputation.

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

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

Public Policy

Investments in infrastructure, including production plants, the transmission and distribution of energy and upgrading of municipal and inter-city transport systems are part of KONČAR's business opportunities, as well as its contribution to the development of the civic community. At the same time, KONČAR insists on high standards of environmental protection and responsible consumption of resources from public sources. With its infrastructure projects, KONČAR Group has improved the citizens' quality of life, business' efficiency and the security of energy distribution. Moreover, it emphasizes the importance of creating stimulating conditions for export-oriented companies with the objective of increasing the export competitiveness of Croatian products and companies in foreign markets. KONČAR's representatives express the aforementioned attitudes in public and within business associations, professional organizations, especially through the Croatian Chamber of Economics, and the Association of Croatian Exporters (whose president is also the president of the Management Board of KONČAR - Electrical Industry Inc.).

Social Dimension

Anti-Competitive Behavior

All business activities within KONČAR Group are carried out in compliance with the laws and regulations of the Republic of Croatia. No proceedings have been initiated against KONČAR Group in regards to violations of free market competition, trust or monopolistic practice. There have been no significant fines or non-financial sanctions due to non-adherence to laws and regulations.

Product Responsibility

Consistent with the Code of Ethics in business operations, products and services must be of confirmed quality and performance and be safe and acceptable to health during their intended period of use. Directors of Companies within KONČAR take care of the area of product responsibility.

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

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

There is a trial and guarantee period for some products during which, upon being placed into circulation, equipment is adjusted to function with other equipment, corrections are made and possible defects and maladjustments resolved. As regards the complexity of particular products and plants, servicing and spare parts are provided during the guarantee period and following it.

Information and Labels on Products and Services

Every product and plant has a manufacturer's label, basic technical data typical for its product category and special data characteristic of or pertinent to it. For more complex products and plants, technical descriptions and instructions for safe use are prepared in keeping with the needs of the client and operator.

There were no reported violations within the KONČAR Group in the area of disrespect of regulations or voluntary codes of information about products as well as codes for customers' health and safety.

Based on product categories, companies have outlined procedures which define the appropriate methods and frequency for evaluating customer satisfaction. There is no consolidated data on the results of these examinations in the KONČAR Group.

Marketing Communication

Regarding programs of marketing communication, KONČAR firstly addresses its targeted user groups by emphasizing the quality of products. It also makes reference to the Group's production possibilities, with absolute respect for legislation, standards and voluntary codes relating to marketing communication. Above and beyond that, untrue or offensive facts which have the potential to upset any group or faction, including competitors, are not used.



Customer Privacy and Compliance with Regulations

In the reporting period, as in the previous years, there were no complaints regarding breaches of customer privacy and loss of personal data, as well as fines for non-compliance with laws and regulations concerning the provision and use of products and services.

Table 10
GC and GRI3 comparative table

AREAS OF SOCIAL VALUES	GC PRINCIPLES	GRI3 INDICATORS	Location in text
HUMAN RIGHTS	PRINCIPLE 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.	EC5, LA3, LA4, LA7, LA8, HR4, HR5, HR6, HR7, SO5	26
	PRINCIPLE 2: Businesses should make sure they are not complicit in human rights abuses.	HR4, HR5, HR6, HR7, SO5	26
LABOR RIGHTS	PRINCIPLE 3: Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining.	LA4, LA5, LA11, HR5, SO5	26
	PRINCIPLE 4: Businesses should eliminate all forms of forced and compulsory labor.	HR7, SO5	26
	PRINCIPLE 5: Businesses should uphold the effective abolition of child labor.	HR6, SO5	26
	PRINCIPLE 6: Businesses should uphold the elimination of discrimination in regards to employment and choice of profession.	LA1, HR4, SO5	25
ENVIRONMENT	PRINCIPLE 7: Businesses should carefully and respectfully treat the matter of environmental protection.	EC2, SO5	22
	PRINCIPLE 8: Businesses should undertake initiatives to promote greater environmental responsibility.	EN6, EN11, EN12, SO5, PR3	22
	PRINCIPLE 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN6, EN14, EN26, SO5	21
ELIMINATION OF CORRUPTION	PRINCIPLE 10: Businesses should work against corruption in all forms, including extortion and bribery.	SO4, SO5, SO6, SO7, SO8	32

GRI3 and Global Compact

Table 11
GRI3 determinants

Profile	Description	Location in text
1.	STRATEGY AND ANALYSIS 1.1.	4
2.	ORGANIZATIONAL PROFILE 2.1., 2.2., 2.3., 2.4., 2.6., 2.7., 2.8., 2.9, 2.10.	7
3.	REPORT PARAMETERS 3.1, 3.2, 3.3, 3.4, 3.12.	12
4.	GOVERNANCE, COMMITMENTS AND ENGAGEMENT 4.1., 4.4., 4.8., 4.12., 4.13., 4.14., 4.15., 4.16., 4.17.	13

ECONOMIC PERFORMANCE INDICATORS		
Aspect: Economic Performance	EC1, EC2, EC4	19, 20
Aspect: Market Presence	EC5, EC6	10
Aspect: Indirect Economic Impacts	EC8	21

ENVIRONMENTAL PERFORMANCE INDICATORS		
Aspect: Energy	EN6, EN7	21
Aspect: Biodiversity	EN11, EN12, EN14	21
Aspect: Products and Services	EN26	22
Aspect: Adhering to regulations	EN28	22

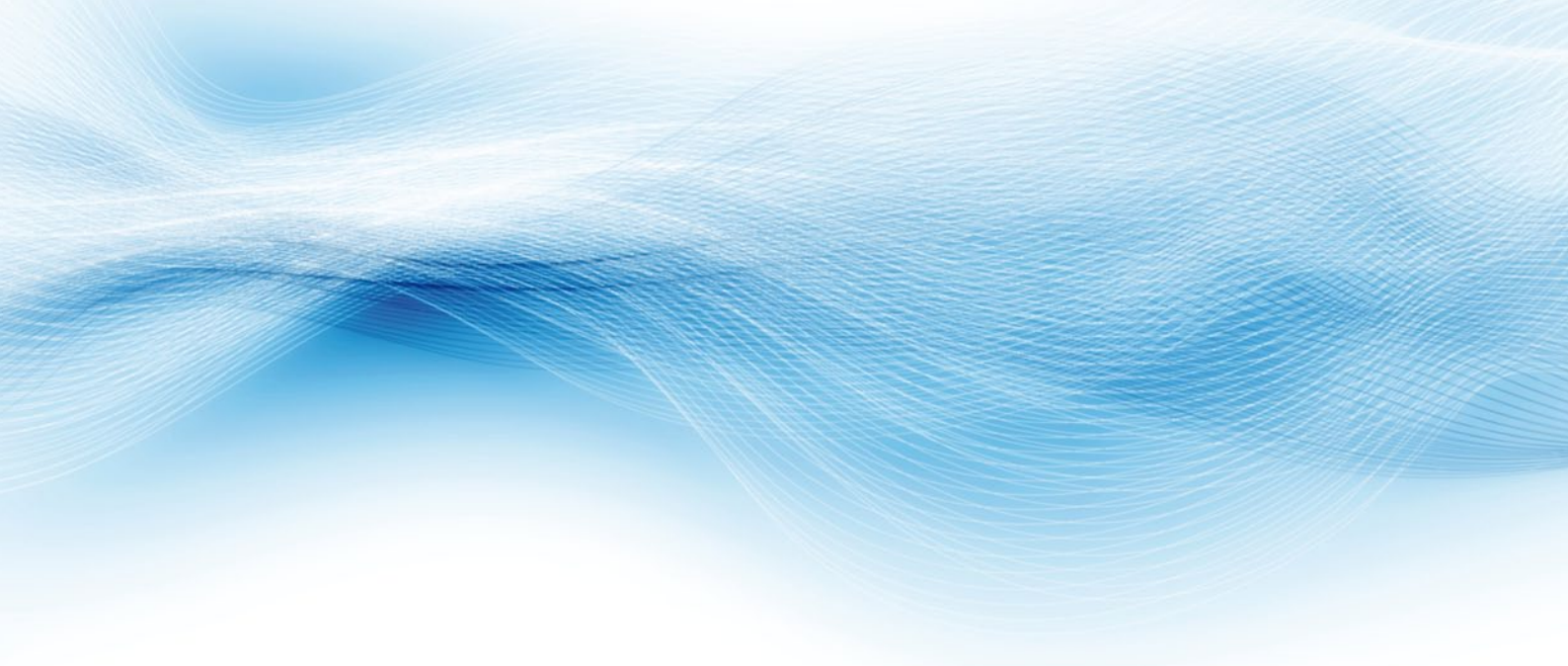
LABOR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS		
Aspect: Employment	LA1, LA3	23
Aspect: Labor-Management Relations	LA4, LA5	23
Aspect: Occupational Health and Safety	LA7, LA8	25
Aspect: Training and Education	LA11, LA10	23, 24

HUMAN RIGHTS PERFORMANCE INDICATORS		
Aspect: Nondiscrimination	HR4	26
Aspect: Freedom of Association and Collective Bargaining	HR5	26
Aspect: Child Labor	HR6	26
Aspect: Forced and Compulsory Labor	HR7	26

SOCIETY PERFORMANCE INDICATORS		
Aspect: Community	SO1	26
Aspect: Corruption	SO4	32
Aspect: Public Policy	SO5, SO6	32
Aspect: Anti-Competitive Behavior	SO7	32
Aspect: Compliance	SO8	33

PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS		
Aspect: Product and Service Labeling	PR3, PR5	33
Aspect: Marketing Communications	PR6	33
Aspect: Conformity	PR 8	33
Aspect: Compliance	PR 9	33

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