

Corporate Social Responsibility Report 2015

tradition.
knowledge.
responsibility.

KONČAR



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Abbreviations

used in the Report

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

I. General Standard Disclosures

KONČAR Group





Dear readers,

In front of you is the tenth Report on corporate social responsibility of KONČAR Group. From the very beginning of its work in Croatia, we are involved in the network of the UN Global Compact agreement, the world's largest initiative in the area of corporate social responsibility, and we prepare Reports according to the principles of GC and according to the guidelines of the Global Reporting Initiative. This year, the report is fully complied with the G4 guidelines, and a recognition of our work in this area is the selection of KONČAR representative as

the President of the Governing Council of the Global Compact Croatia at the end of 2015.

Despite the challenging macroeconomic conditions that companies of KONČAR Group faced in most markets, operating results in 2015 show a continuation of stable business as a result of systematic work on developing new products and improving market positions.

In order to reduce the negative impact of the economic and financial crisis, ensuring stable business and maintaining and strengthening of market position in KONČAR a number of measures was taken. First of all, the scope of offers was increased and efforts were intensified to open new markets, the measures for greater synergy were implemented within the system and also measures to reduce operating costs. All implemented measures have resulted in the continuation of profitable business and financial stability of the Group.

Good business results were achieved and based on our own product development and production. One of the results of KONČAR development is a low-floor multiple unit, and a delivery of this technologically demanding product marked the year 2015. We are especially proud of the production of multiple units for company HŽ passenger transport as they have a great impact on the community in which they operate, as well as the overall environment, especially in an urban setting. In times of increasing pollution these infrastructure investments will greatly help unburden urban traffic and at the same time reduce CO₂ emissions.

With its everyday business and production activities KONČAR consistently adheres to the principles of corporate social responsibility. The starting point is the fact that the company must take full responsibility that goes beyond purely economic interests.

Corporate social responsibility approach puts a special emphasis on taking care of people, the environment and all aspects related to the protection and preservation of natural resources, as well as collaboration with community.

Traditional cooperation with the academic community has not only continued, but has also secured a new joint project "Knowledge management " in 2015. The agreement with the University of Zagreb, Faculty of Humanities and Social Sciences in Zagreb, and the Faculty of Electrical Engineering and Computing in Zagreb was a start of the project "Knowledge Management" that will enable the effective management of all components of the intellectual capital of an organization, which will result in increased efficiency, and thus the market competitiveness.

As an introduction we have selected only a small part of what we have done in the year 2015, so I invite you to read about numerous other activities on economic, environmental and social responsibility of business categories in the following pages of this jubilee Report.

Respectfully,
Darinko Bago
Chairman of the Management Board

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

Foreword by the Chairman of the Management Board

G4-1

We are proud of our business results, research and development, new markets and products. All of these make a successful company, but social responsibility is also considered as one of the categories contributing to these results.



Key Impacts, Risks and Opportunities

G4-2

The KONČAR Group is exposed to various market and financial operating conditions. The business environment risk results from political, economic and social conditions existing in the markets of companies' operations. All Group companies regularly monitor and manage their balance sheets, liquidity and capital adequacy as well as set measures focused on illiquidity causes prevention or elimination, take measures focused on companies' sufficient long-term funding sources in view of the scope and type of their business activity and regularly monitor the capital adequacy performance. The Group manages the risks that might impact its business operations by means of monitoring business processes and internal risk reports, identifying and analysing risk exposure based on its degree and significance.

• Market Risk

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

The Group companies operate domestically and internationally. The Group's core activity includes energy and transport-related equipment and products. The production scope heavily depends on investments. Under the influence of the global crisis and the instability of geopolitical situations in some parts of the world, there is a risk of a decrease and of closing certain markets down while providing stimulus in order to assign work to domicile enterprises. Besides volatile prices of basic raw material, there was a huge competition pressure on the power equipment market in 2015 in terms of the prices, equipment and profit margin.

• Procurement Risk

The prices of main raw and other materials (copper, tin, steel...) in the last couple of years have been affected by unpredictable changes (immense growth or fall in short time periods). In 2015, there was a disturbance on transformer tin market in Europe due to the antidumping process led by the European Commission. The disturbance caused the shortage of tin, especially high-quality one. The Group companies successfully overcame this disturbance. During 2015, the European Commission withdrew the introduction of antidumping prices and introduced minimum prices on the import of tin from Japan, China, Korea, Russia and the USA.

• Technological and Development Risks

The Group companies have been continuously investing considerable resources into key technologies and strategically important segments of production in order to decrease the risk of lagging behind the competition in technological and development areas. KONČAR is planning to invest considerable amounts into the development of new products and the innovation of existing ones in the future period too.

• Human Resources Risks

Usual turnover and changes in personnel structure do not have a significant effect on Group companies' business operations. The companies employ a hedging strategy of continually investing into education and incentivizing their key employees through income.

• Capital Risk Management

The Group manages its capital in a way to ensure its ability to continue further ongoing operations while maximising the return to shareholders through the optimisation of the debt to equity balance.

The Group manages capital and makes its appropriate adjustments in accordance with the changes of market economic conditions and the risk characteristics of its assets. The Group companies can make a decision on dividend payouts to shareholders, on the equity increase/decrease, on the sale of assets in order to decrease liabilities etc.

• **Currency Risk**

The official currency of the Group is Croatian Kuna. However, some transactions executed in foreign currencies are being converted to Croatian Kuna, applying the exchange rate in effect on the balance sheet date. The resulting exchange gains and losses are being credited or debited against the Profit and Loss Account. The companies hedge against the foreign currency exchange risk by continuous planning and monitoring their cash flow, contracting sales and procurement in the same currency where possible, adjusting the cash flow rate by term foreign currency purchases in accordance with the cash flow plan. A smaller portion of the companies employ financial derivatives to hedge against the financial risk exposure.

• **Interest Rate Risk**

The Group is exposed to interest risk since some loans are agreed at a variable interest rate while most assets do not bear interests. Some companies within the Group hedge against the interest rate risk by agreeing foreign currencies.

Apart from an increased market risk due to a reduced demand as a consequence of prolonged recession, there were no other significant changes as regards the Group's exposure to financial risk.

• **Credit Risk**

Credit risk is the risk of a counterparty defaulting on its contractual obligations resulting in the financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties thus mitigating the risk of default-caused financial loss. The Group uses data and opinions collected from rating agencies, the Croatian Chamber of Economy as well as other publicly available financial information on companies' financial status to rate its major customers. The Group's risk exposure and the credit ratings of its counterparties are continuously monitored. In principle, contracts are concluded only with creditworthy counterparties when appropriate payment insurance instruments have been obtained.

The Group's exposure to credit risk is primarily affected by individual characteristics of each customer. The Group has established a credit policy under which each new customer is analysed individually in terms of its creditworthiness before standard payment, delivery terms and conditions are set. The Group establishes an allowance for impairment as an estimate of incurred losses in respect of expected losses from receivables and investments.

• **Liquidity Risk**

Liquidity risk is the risk of the Group not being able to meet its financial obligations as they fall due. Risk management is the responsibility of the Management Boards of Group companies. The Group manages this risk by continuously monitoring the estimated cash flow, comparing and adjusting it to actual income and expenses. As a whole, there was no significant exposure of the Group to liquidity risk.

More detailed information on key impacts, risks and opportunities are available in the 2015 Business Report on www.koncar.com/Investors/Reports (Chapter 7 'Risk Exposure').





Organizational Profile

Name of Organization

G4-3

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

Business Areas

G4-4

Business activities of KONČAR Group have been divided into the following business areas:

Energy and Transport - design and engineering activities for facilities, manufacturing energy-related (electricity generation, transmission and distribution) as well as transport-related equipment (electric locomotives, electric multiple units, tramways and electric equipment for stable electric traction installations).

Industry - production of electromotor drives and low voltage electric equipment

Trade - production of household appliances, low voltage products and electrical devices

Special activities - product research and development and infrastructural services.

Headquarters

G4-5

Fallerovo šetalište 22,
10 000 Zagreb

Representative Offices

G4-6

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

Nature of Ownership and Legal Form

G4-7

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

The company's shareholders' equity amounts to HRK 1,028,895,930.00 and comprises a total of 2,572,119 common shares with a par value of HRK 470,00 each.

The Company applies the same conditions to all its shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and other properties. The voting rights encompass all of the Company's shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession.

During the course of 2015, the KONČAR - Electrical Industry share price followed the overall market trend. The highest price was achieved in January 2015 (HRK 725.99), and the lowest one was recorded in May (HRK 640.01) to arrive at an average of HRK 654.92 at the end of 2015. The overall volume generated from trading with KONČAR shares amounted to HRK 68.2 million, a 5.1% increase compared to the volume traded in 2014. In total, 100,955 shares were traded in 2014 (6.6% more compared to 2014).

In October 2015, KONČAR - Electrical Industry and InterCapital Securities Ltd. signed the Market Making Agreement under which InterCapital Securities Ltd. undertook the obligation of performing market making activities for the shares of KONČAR - Electrical Industry Inc., recognizable under their KOEI-R-A ticker, ISIN: HRKOEIRA0009, and quoted on the Official Market of the Zagreb Stock Exchange.

The market making service includes company share purchase and sale orders pursuant to the Rules of the Zagreb Stock Exchange.

The Group's dependent companies KONČAR - Distribution and Special Transformers Inc. and KONČAR - Switchgear Inc. have been included in the Zagreb Stock Exchange regular market quotation. In 2015, regular and preferred shares of KONČAR - Distribution and Special Transformers were traded, with the price of a regular share at the beginning of the year of HRK 1,129, which ended at HRK 1,250.

Shares of KONČAR - Switchgear were not traded in 2015.

Shares of KONČAR - Instrument Transformers Inc. were quoted on the Zagreb Stock Exchange's Multilateral Trade Platform (MTP). During the course of 2015, the price of preferred shares of KONČAR - Instrument Transformers traded ranged from HRK 1,253.02 to HRK 1,548.99.

On 10 December 2015, after the purchase of all shares of KONČAR - Medium Voltage Apparatus Inc. by the majority shareholder (KONČAR - Electrical Industry Inc.), the trading with the company shares on the Zagreb Stock Exchange's Multilateral Trade Platform (MTP) ceased.

In 2015, the shares of KONČAR - Electrical Vehicles Inc., KONČAR - Electronics and Informatics Inc. and KONČAR - Metal Structures Inc. were quoted on the Zagreb Stock Exchange's Multilateral Trade Platform (MTP). The said shares were not traded in 2015.

On 31 December 2015, the company had 5,861 treasury stock, i.e. 0.23% of the company's equity.

OWNERSHIP STRUCTURE IN 2015

<i>Shareholder</i>	31 December 2015.		31 December 2014	
	No. of shares	% in ownership	No. of shares	% in ownership
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
Restructuring and Sale Center/Croatian Pension Insurance Institute (HZMO)	384,628	14.95	384,628	14.95
Restructuring and Sale Center/Republic of Croatia	142,298	5.53	142,298	5.53
Hypo-Alpe-Adria-Bank d.d./PBZ Croatia Osiguranje	255,928	9.95	255,928	9.95
Societe Generale-Splitska banka d.d./Erste Plavi Compulsory Pension Fund	202,149	7.86	202,149	7.86
Societe Generate-Splitska banka d.d./AZ Compulsory Pension Fund	161,110	6.26	106,438	4.14
State Property Management Administration	117,982	4.59	117,982	4.59
Floričić Kristijan	60,714	2.36	82,684	3.21
Valamar Riviera	39,791	1.55	39,791	1.55
PBZ d.d./custodial account	30,208	1.17	27,366	1.06
Other shareholders	446,935	17.38	486,479	18.91
KONČAR Inc. (treasury stock)	5,861	0.23	1,861	0.07
Total	2,572,119	100.00	2,572,119	100.00

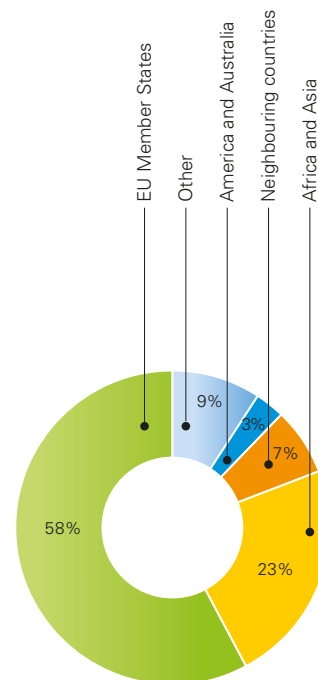
Markets

G4-8

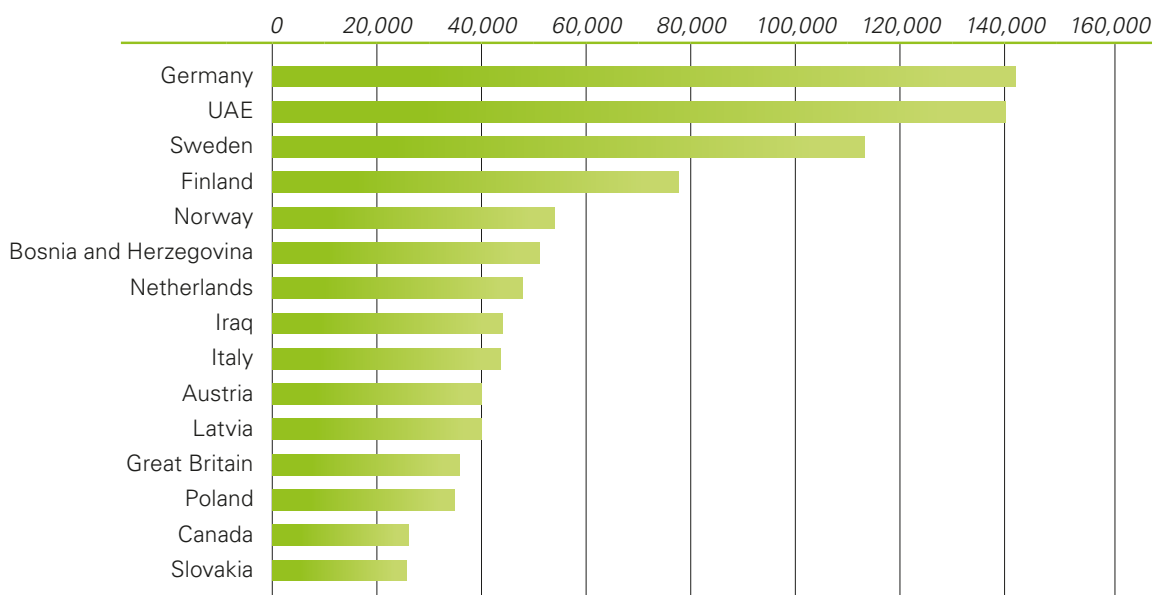
MOST IMPORTANT EXPORT MARKETS IN 2015

in 000 HRK

Countries	2014	2015
Germany	81,739	142,215
UAE	81,009	139,996
Sweden	78,091	114,049
Finland	84,780	78,834
Norway	23,977	54,890
Bosnia and Herzegovina	84,467	51,987
Netherlands	50,918	48,319
Iraq	30,685	44,453
Italy	48,459	43,964
Austria	57,496	40,777
Latvia	5,852	40,606
Great Britain	25,868	35,097
Poland	35,380	33,408
Canada	23,071	27,954
Slovakia	16,283	26,762
Total	1,298,016	1,306,642



in 000 HRK



ORGANIZATIONAL STRUCTURE

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

Scale of Organization
G4-9

There were no significant changes as to the number of employees during the reporting period. KONČAR Group ended the year 2015 with 3,666 employees, of whom 27 have Ph.D and 50 have MSc/MBA degrees. 1058 employees hold a university degree (71% technical professionals, 16% B.Sc in economics, and 13 % of other professions).

Structure of Employees
G4-10
UN GC 6

The average age of KONČAR employees stood at 44 in 2015. The average age of the newly employed in 2015 was 31. Highly educated younger workers who graduated from the Faculty of Electrical Engineering and Computing have been predominantly hired.

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

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

Freedom of Association
G4-11
UN GC 3

PhD Thesis

In 2015 KONČAR got three new PhDs who connected their subjects with the jobs they perform. Titles are acquired by:

Miroslav Macan from KONČAR - Electronics and Informatics defended his doctoral thesis entitled "Reducing the DC component of the current inverters with galvanic isolation on rail vehicles" on February 4 at the Faculty of Electrical Engineering and Computing in Zagreb.

Miljenko Cvetić from KONČAR - Power Plant and Electric Traction Engineering defended his doctoral thesis entitled "The energy model to estimate the lifetime of the shaft end of wind turbines" on June 9 at the Faculty of Mechanical Engineering in Maribor, Slovenia.

Josip Hodak from KONČAR - Distribution and Special Transformers earned his PhD on July 9 at the International University of Travnik, Faculty of Economics, in Bosnia and Herzegovina, after defending his doctoral thesis entitled "Development opportunities of business cooperation in the power sector with the countries of Africa and the Middle East."

NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT CONTRACT AND GENDER

KONČAR Group - 2015

Gender	Contracts					Total
	fixed-term	indefinite term	internship	oregarding rights, obligations and salary	regarding special rights, obligations and salary	
M	286	2399	18	128	32	2863
F	28	734	7	21	13	803
Total	314	3133	25	149	45	3666

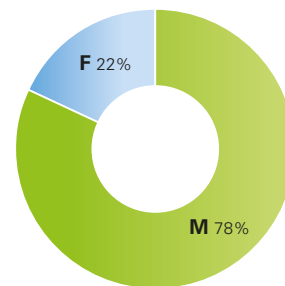
KONČAR Group - 2014

Gender	Contracts					Total
	fixed-term	indefinite term	internship	oregarding rights, obligations and salary	regarding special rights, obligations and salary	
M	268	2410	20	145	18	2861
F	28	727	11	24	10	803
Total	296	3137	31	169	28	3664

EMPLOYEES BY REGION AND GENDER

	2015			2014		
	Total	M	F	Total	M	F
Croatia	3663	2862	801	3661	2860	801
B&H	2	1	1	2	1	1
Serbia	1		1	1		1
Total	3666	2863	803	3664	2861	803

EMPLOYEES BY GENDER



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

Supply Chain
G4-12

Despite some companies’ own range of products and services, main groups of materials include copper wires, copper sheets, steel sheets, dynamo sheets, steel structures, bearings, paints, plastic, joining material, lubricants and others. Numerous semi-fabricated products and components to be mounted into finished products and facilities are also procured. KONČAR companies have established good individual business relationships with their suppliers often entering into contracts on business cooperation and procurement for the appropriate period.

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

There were no significant changes as to the company size, organization, ownership, structure or the supply chain in 2015. Pursuant to its core business activities of energy and transport, KONČAR is restructuring its portfolio. During this reporting period, the liquidation of companies KONČAR - Tools in Croatia and KONČAR Kones AG in Switzerland was completed. The liquidation of KONČAR - Catering Equipment is in its final phase and is expected to be completed in the first half of 2016.

Changes During
the Reporting
Period
G4-13

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

Precautionary
Principle
G4-14

**Economic,
Environmental and
Social Charters,
Principles and
Other Initiatives**

G4-15

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

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

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

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

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

The company's policy and objectives are being achieved by a systematic approach to quality management, environmental protection, occupational health and safety, acknowledged by certificates awarded by accredited independent institutions. In accordance with our Sustainable Development Policy, we implement ISO 9001:2000 Quality Management System, ISO14001:2004 Environmental Management System, OHSAS 18001 Occupational Health and Safety Management System, and ISO/IEC 27001 Information Security Management System. Many other sets of standards and norms are being adhered to as regards individual products keeping in line with client and user requirements.

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

Memberships in
Associations and
Organizations

G4-16

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

- Global Compact - International Agreement within the United Nations
- Association for Corporate Social Responsibility Operations within the Croatian Chamber of Economy

Awards and Recognitions in 2015

On 29 April, the Croatian diplomacy awards were presented on the premises of the Ministry of Foreign and European Affairs to selected Croatian exporters for the promotion of the excellence of the Croatian economy in the world. KONČAR - Electrical Industry was among the three most prominent companies which were the recipients of the Silver Plaque. This award, presented for the first time, is based on the results of the survey carried out among the ambassadors, consuls and economic advisers in Croatian diplomacy missions and consular offices abroad.

KONČAR - Power Plant and Electric Traction Engineering won the Gold ARCA medal for PROZA NET, its innovative system programme for automatization, local and remote control and operation, at the 13th International Exhibition of Innovations, New Ideas, Products, and Technologies held in Zagreb from 15-18 October. The silver ARCA medal was awarded to KONČAR - Electrical Engineering Institute for the development of its shaft current and voltage protection relay (SCVP) used for measuring and analysing shaft voltage and current.

During the 7th CSR Conference held on 1 December in the organization of the Croatian Business Council for Sustainable Development, the CSR Index awards were presented to companies for best achievements in the field of corporate social responsibility. The winner in the area of responsible policy and practice in the work environment was KONČAR - Power Transformers.

During the 30th annual assembly of the Croatian Academy of Engineering held on 13 May, KONČAR - Electrical Industry was selected as its supporting member. Stjepan Sučić, Ph.D. from KONČAR - Power Plant and Electric Traction Engineering was the recipient of the Vera Johanides Award for a young scientist under 35 with a defended doctoral dissertation and a noted personal scientific or professional progress or exceptional contribution to the area of his/her research achieved in the last five years.

During the Danube Business Forum held in October in Novi Sad in Serbia, KONČAR - Electrical Industry was pronounced a 'leader of competitiveness and sustainable development in the Podunavlje region.'

At its formal Faculty Council session on 27 November, the Faculty of Mechanical Engineering and Naval Architecture of Zagreb University recognized KONČAR - Metal Structures for its multi-year successful cooperation and the employment of Faculty graduate engineers.



Identified Material Aspects and Boundaries

Dependent Companies	in HRK subscribed capital total	in HRK parent's subscribed capital	% manage- ment of the parent 2015	% ownership of the parent 2015
Power Plant and Electric Traction Engineering	50.577.000	50.577.000	100,00	100,00
Generators and Motors	107.927.700	107.927.700	100,00	100,00
High Voltage Switchgear	56.335.140	55.553.340	99,03	98,61
Medium Voltage Apparatus	19.679.700	19.679.700	100,00	100,00
Switchgear	29.018.600	20.321.470	81,70	70,03
Distribution and Special Transformers	76.684.800	39.655.200	67,80	51,71
Instrument Transformers	18.989.100	11.721.900	99,77	61,73
Electronics and Informatics	42.077.040	31.572.060	75,03	75,03
Metal Structures	24.645.600	18.486.600	75,01	75,01
Electric Vehicles	47.026.800	35.288.700	75,04	75,04
Renewable Sources	130.312.400	130.312.400	100,00	100,00
Plant Installation and Commissioning	11.827.500	5.288.100	79,05	44,71
Small Electric Machines	41.641.800	41.641.800	100,00	100,00
Household Appliances	27.553.300	27.553.300	100,00	100,00
Low Voltage Switches and Circuit Breakers	60.499.300	60.499.300	100,00	100,00
Electrical Engineering Institute	40.763.520	40.763.520	100,00	100,00
Infrastructure and Services	49.891.600	49.891.600	100,00	100,00

Entities Included
in the Group's
Consolidated
Financial
Statements

G4-17

All topics which describe more significant economic, environmental and social aspects as well as those which might affect the Group stakeholders are treated as material. The identification of key material aspects has been harmonized with the characteristics of the Group production and operation. The priority has been assigned to areas in which KONČAR Group notes/has significant results, and in those in which it can enhance its execution.

Process for Defining
the Report Content
and the Aspects
Boundaries

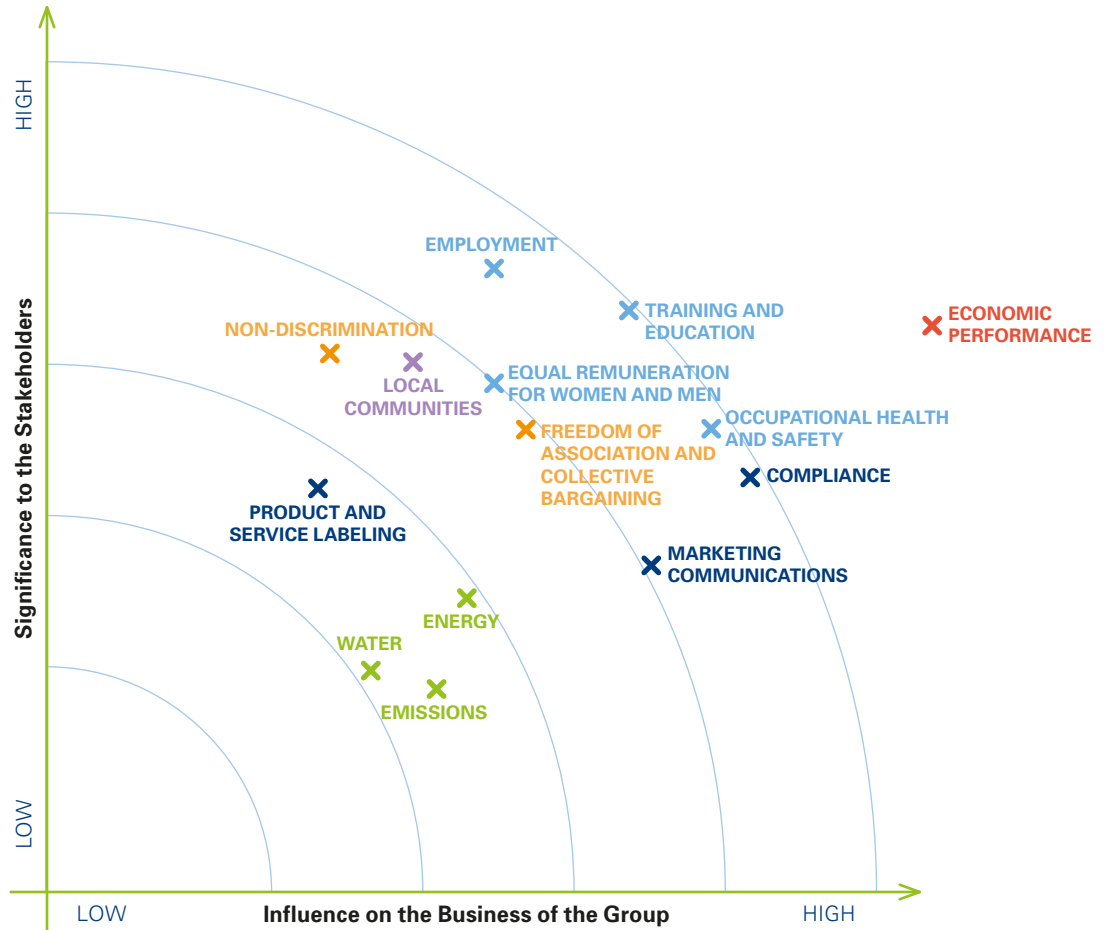
G4-18

All the above stated material aspects make an integral part of this Report. In the reporting period there were no significant changes with regard to Implementation Areas and Aspect Boundaries nor information compared to previous reporting periods. KONČAR Group undertakes to continue conducting, upgrading and sharing the analysis of material aspects in the following reporting period.

Restatement of
Information as to the
Previous Period

G4-22/23

Material Aspects
G4-19/21



ECONOMIC:

- ✘ ASPECT:
- economic performance.

ENVIRONMENTAL:

- ✘ ASPECT:
- energy,
- water,
- emissions.

SOCIAL

- ✘ LABOUR PRACTICES AND DECENT WORK:
- employment,
- occupational health and safety,
- training and education,
- equal remuneration for women and men.

- ✘ HUMAN RIGHTS:
- non-discrimination,
- freedom of association and collective bargaining.

- ✘ SOCIETY:
- local communities.

- ✘ PRODUCT RESPONSIBILITY:
- product and service labeling,
- marketing communications,
- compliance.

Toward having a more complete organization and execution of CSR activities, KONČAR has recognized and divided all stakeholders - individuals, communities and organizations affecting or being affected by the Group operations.

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

Listed below are some of the more important communication means and methods of stakeholder engagement as well as advances which had occurred during this reporting period.

**Stakeholders
Engagement**
G4-24/27

KONČAREVAC Corporate Magazine

KONČAREVAC is published ten times a year in 4200 copies, which are distributed not only to KONČAR employees but also to some thousand addresses in Croatia and abroad. The magazine publishes all what is new regarding Group's business operations as well as news and topics connected to various stakeholders such as employees and their hobbies, supports to local and other communities and alike. KONČAREVAC was first published more than 50 years ago. In December 2015 its 1412th issue was published.

Fairs and Professional Conferences

During 2015, KONČAR presented its products and services on 21 fairs and conferences. All eight fairs were organized abroad (Turkey, UAE, Bosnia and Herzegovina, Czech Republic, Russia, and three fairs in Germany). Four out of 13 professional conferences were held in Croatia, while nine were abroad. KONČAR exhibited on a total of 500 m², with the participation of 15 Group companies and a total of 250 KONČAR employees present on fairs and conferences.

Official Web Page

The web page www.koncar.com provides the most important KONČAR product and activity related information to all interested stakeholders. Almost all Group companies have their own web pages. In view of technological changes as well as design and functionality trends, the need for new visual and content-related design was expressed in late 2015. The execution of said activities will be carried out in the course of 2016, and reported in the next issue of this Report.

Social Networks

In line with the trends of increasing presence in the virtual world, KONČAR intensified its social network related activities during 2015. Apart from the already existing Youtube channel, the Group LinkedIn page was set up (as well as web pages of numerous Group dependent companies).

Media

There were a total of 1485 KONČAR-related press clippings in 2015 in printed press, radio, TV and online portals.

Clippings primarily regarded the Group's operations, new projects and products as well as sponsorship and donation related activities.

Organizational Environment Questionnaire

The KONČAR Group organizational environment was reassessed in 2015. Result analysis and the definition of needed activities will be conducted in 2016. The assessment objective is to identify the areas affecting job satisfaction as well as those which decrease organizational efficiency (and potentially cause unexpected future costs).

STAKEHOLDERS COMMUNICATION TYPE

Employees	<ul style="list-style-type: none">- organizational environment- intranet/internal services- official web page- education and professional education- KONČAREVAC- e-mail- LinkedIn- business and CSR reports
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Customers/Users	<ul style="list-style-type: none">- direct (visits, audits, meetings)- direct contact- professional training- official web page- KONČAREVAC- e-mail- LinkedIn- business and CSR reports- fairs and conferences
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Trade Unions	<ul style="list-style-type: none">- regular and extraordinary meetings- KONČAREVAC- bulletin boards
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Owners/ shareholders	<ul style="list-style-type: none">- regular and extraordinary assemblies- memos- e-mail- KONČAREVAC- official web page- business and CSR reports- stock exchange
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Suppliers	<ul style="list-style-type: none">- direct (visits, audits, meetings)- written (e-mail, memos)- official web page- fairs
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STAKEHOLDERS COMMUNICATION TYPE

Local communities	<ul style="list-style-type: none">- Volunteers Club- donations and sponsorships- official web page- LinkedIn- direct (visits, meetings)- written (e-mail, memos)- KONČAREVAC- sustainability reports
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State bodies	<ul style="list-style-type: none">- direct (visits, meetings)- written (e-mail, memos)- conferences and thematic meetings- memberships- KONČAREVAC
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Financial public	<ul style="list-style-type: none">- financial statements- business and CSR reports- stock exchange announcements- official web page- KONČAREVAC
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Media	<ul style="list-style-type: none">- press releases- regular and extraordinary press conferences- KONČAREVAC- official web page- interviews, stories, releases
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Academia	<ul style="list-style-type: none">- conferences- memberships- scientific and area-specific papers- thematic meetings
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Business and professional public	<ul style="list-style-type: none">- conferences- professional publications
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This Corporate Social Responsibility Report is the tenth report prepared by KONČAR Group, encompassing all Group companies. It includes the period from 1 January until 31 December 2015. The option of core 'In accordance' with the G4 guidelines and UN GC principles has been selected.

Report Profile

G4-28/33

The report has not been externally assured.

It is published annually. The previous Report was published in May 2014.

Contact person for any queries regarding the Report and its content is the Director of the Marketing and Information Department.

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

Governance

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

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

Management Board

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

Management and Supervisory Boards

G4-34/35

Supervisory Board

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



Nomination and Selection Processes

G4-40/41

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

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

Strategic Development Committee

G4-42/46

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

In 2015, the Strategic Development Committee Consisted of:

Nenad Filipović	Chairman
Dragan Marčinko	Member
Petar Mišura	Member
Nikola Plavec	Member
Petar Vlaić	Member

Strategic Areas

G4-47

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

The Following Strategic Development Areas Have Been Set:

- Production of electrical power
- Substations and electrical power transport
- Railway vehicles
- Renewable resources
- Advanced networks and computer communications
- Information technologies

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

Audit Committee

G4-48

In 2015, the Audit Committee Consisted of:

Jasminka Belačić	Chairwoman
Boris Draženović	Member
Ivan Rujnić	Member
Vicko Ferić	Member

Ethics and Integrity

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

Code of Ethics

G4-56

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

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

Ethical and Lawful Behaviour

G4-57

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

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

II. Specific Standard Disclosures

KONČAR Group



Economic Category

All aspects of economic dimension are recognized as material. In the reporting period, KONČAR Group recorded positive financial results explained in more detail in the revised financial statement adhering to the International Audit Standards, available on the company webpages.

In the period January - December 2015, KONČAR Group companies achieved consolidated income from the sale of products and services in the amount of HRK 3,049.1 million, which is 15.1% higher than in the same period in 2014.

Operating income of HRK 3,181.7 million was achieved, which is 12.4% more than in 2014.

Operating expenses of HRK 3,056.1 million was achieved, which is 12% more than in 2014.

The difference between operating income and expenses represents the profit earned from business activities in the amount of HRK 125.6 million, which is by HRK 21.6 million (20.9%) more than the amount earned in the period January - December 2014.

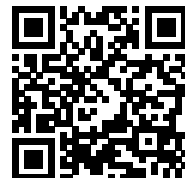
The share of profit from dependent companies was HRK 50.1 million, which is by HRK 12.5 million (20%) lower than in the same period last year.

The difference between financial income and expenses was negative, amount to HRK 6.2 million.

Total income for the period January - December 2015 amounted to HRK 3,296.5 million, which is 11.8% more than in 2014. Total expenses recorded in the same period amounted to HRK 3,126.9 million, which is 12.8% more than in the period January - December 2014.

Consolidated profit before taxes was HRK 169.5 million. Corporate tax was HRK 18.2 million, and profit after taxes HRK 151.3 million.

More detailed economic performance information is available from the 2015 Business Report on www.koncar.com/Investors (Chapter 5 'Business Results and Financial Position (Balance Sheet)').



in 000 HRK

Direct Economic Value, Generated and Distributed

G4-EC1

	2013	2014	2015
Income from sale of products and services	2,509,099	2,648,756	3,049,074
Material costs - raw and other material, cost of services, cost of sold goods	1,731,865	1,858,441	2,108,547
Gross salaries	497,178	555,186	567,220
Interest expenses	14,562	13,150	12,278
Dividend payout	30,811	30,876	30,736
Corporate tax	15,647	15,986	18,234
Donations and sponsorships	853	1,841	1,435

Financial Implications and Other Risks and Opportunities for the Organization's Activities due to Climate Changes

G4-EC2

Matters of sustainability in terms of energy resources, power generation, transmission and distribution as well as climate change are of extreme importance to KONČAR, since most of its products are used in natural environment or urban areas, thus making it responsible for regular and safe operations as well as possible repercussions. Continuous investment in new technologies, new product development and marketing based upon principles of energy efficiency and the use of renewable energy are part of permanent activities and challenges of mitigating the climate change impacts and the associated risk.

Coverage of the Organization's Defined Benefit Plan

G4-EC3

KONČAR Group made provisions for jubilee awards and severance payments in the amount of HRK 26,165,515. This includes the estimated amount of employees' regular income (regular severances and jubilee awards) as well as severance pays under the Collective Agreement to which all Group employees are entitled. The current value of provisions is calculated on the basis of the number of employees, pension, years of employment on the date of the balance sheet and a 4.85% discount rate.

Financial Assistance

G4-EC4

In 2015, KONČAR Group did not receive any significant financial assistance from the Government or the State.

Market Presence

G4-EC5

KONČAR primarily employs domestically in Croatia. Very rarely and in insignificant numbers, the Company employs workers in other countries, mainly under fixed-term contracts and in connection with works conducted on individual projects. In such cases, local workforce is treated in line with legal regulations of the country of domicile.

The production of passenger transport vehicles (tramways and trains) has a significant effect on the community in which they operate as well as the entire environment, especially urban. In times of increased environmental pollution, such infrastructural investments are assessed to largely facilitate the process of unloading city traffic and reducing CO₂ emissions.

KONČAR also produces the equipment as well as entire plants for electricity generation, including renewable resources plants (wind power plants and hydropower plants), which is the indirect effect on environmental protection.

Indirect Economic Impact

G4-EC7

KONČAR focuses its production on unique as well as products manufactured in small quantities requiring high technical and technological knowledge. KONČAR business policy facilitates a close cooperation with the accompanying Croatian industry, which is manufacturing production parts for the Group. It is estimated that about 4000 people employed by other subcontracting companies had been engaged on KONČAR projects in 2015. With that in mind, we can be considered a large driver of small and medium-size entrepreneurship in Croatia. Due to their cooperation with KONČAR, our partners' exports comply with the highest quality standards set by foreign markets.

Jobs Supported in the Supply Chain

G4-EC8

KONČAR has continued its successful collaboration with a series of scientific and educational institutions in 2015. This enabled the recognition, definition and implementation of a number of projects with stakeholders taking part as equal partners by introducing their expertise and fostering the cooperation between the scientific/educational and business sectors.

Enhanced Knowledge within Professional Community

G4-EC8

'Knowledge Management'

In March 2015, the Agreement with the University of Zagreb, the Faculty of Humanities and Social Sciences Zagreb, and the Faculty of Electrical Engineering and Computing Zagreb was signed, under which the Knowledge Management project was launched. This project will ensure the efficient management of all intellectual capital integral parts in an organization, which will result in increased efficiency as well as market competitiveness.

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

Procurement Practices

G4-EC9

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

Environmental Category

By influencing the implementation of environmentally friendly technologies and materials suitable for recycling by already existing production processes, product and production development and suppliers, the environmental protection awareness has been encouraged. The environmental dimension is of special importance in view of installing a large part of equipment directly into the environment (substations, hydropower plants...). KONČAR has a defined Environment Management Policy, which is available on www.koncar.com, and communicated to all employees.

Energy

G4-EN3

UN GC 7

Due to production specificities (different rate, annual volumes and range types) of different KONČAR Group companies, the Report used Fallerovo šetalistište location as a reference point for comparing electricity consumption.

FALLEROVO ŠETALIŠTE LOCATION	Electricity (kWh)
Total in 2014	11,529,407
Total in 2015	11,213,273

Reduction of Energy Consumption

G4-EN6

UN GC 8

The outdated heating station in KONČAR - Electronics and Informatics was replaced in 2015. The reconstruction and additional insulation of accompanying pipes was also conducted. This investment resulted in the 20% savings of annual heating costs.

KONČAR investments in facility rehabilitation and maintenance continued in 2015, particularly in energy efficiency. One must primarily highlight the example of Building C for production and business operations on the Fallerovo šetalistište location. The facility was built in 1943 as a self-supporting four-storey building. In light of a poor condition of its facade and the need to rationalize energy consumption, its facade was renovated under the decision of the investors and the proposal of measures for increasing energy efficiency published in the Report on conducted energy performance of buildings developed by KONČAR - Electrical Engineering Institute.

The facade renovation included the replacement of the existing external openings (windows and doors) by new ones made of glass, which provided the overall heat flow of the entire opening within $U_w < 1.1 \text{ W/m}^2\text{K}$ with the external sun protection and thermal facade.

It has been estimated that this renovation will result in the saving of (Qh, nd for actual climate data (Zagreb, Grič) [kWh]) 103,858.00 kWh/year, which is equal to CO₂ emission reduction of 26.69 t/year.

Water

G4-EN8

UN GC 8

As a water permit owner for KONČAR Group companies, KONČAR - Infrastructure and Services submitted the request for the issuance of the new water permit for Borongaj location in late 2015. This was preceded by the development of a comprehensive technical documentation, rulebooks as well as other documents necessary in the process of permit issuance, along with the cooperation of environmental protection representatives on the site.

Biodiversity

G4-EN11

UN GC 7

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

The construction of energy power plants is an activity which may contain environmental risks. Decisions regarding the site and construction of a facility are made by investors who must comply with relevant regulations and environmental standards. Tenders for equipment procurement are then announced with KONČAR as a potential equipment supplier. KONČAR's products meet the highest standards of equipment safety and a minimum environmental effect.

Indirect
Environmental
Impact
G4-EN12

There have been no complaints nor incidents so far. Being aware of the environmental risk resulting from equipment installation, KONČAR implements the precautionary principle. This is especially important if one takes into consideration that our products and plants are often delivered to areas of large biodiversity (rivers, lakes and rural areas). Our products have not caused any registered biodiversity disturbances.

In late 2015, KONČAR started preparations for introducing the environment management system for achieving environmental efficiency and a permanent improvement of energy consumption, use of material, waste management etc.

Emissions
G4-EN15
UN GC 9

This also marks the launch of the „CO₂ neutral KONČAR Group“ process, which plans to include energy performance and certification of buildings, the introduction of certified management systems, infrastructural and business process enhancement aimed at reducing greenhouse gas emissions and potentially the production by green energy purchases.

During 2015, the drainage system of the Borongaj location was tested for waterproofness and effluents. The results showed that KONČAR Group companies were responsible in meeting all positive regulations prescribed by the Republic of Croatia.

Effluents and
Waste
G4-EN22/26
UN GC 8



Monetary and Non-Monetary Sanctions

No major fines nor non-financial sanctions caused by the non-adherence to environmental law and regulations were registered.

G4-EN29

UN GC 9

Dispute Resolution

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

G4-EN34

UN GC 7

Workforce Transport

In line with the sustainability principles aimed at reducing CO₂ emissions and promoting a healthier lifestyle, KONČAR encourages its employees to come to work by bike. Bike racks have been continuously put up at the entrance to factory facilities. Also, various initiatives (bike riding associations and activities outside KONČAR) are used for promoting bike riding.

G4-EN30

UN GC 9

Environmental Protection Investment

In 2015, KONČAR - Infrastructure and Services set up a small 17.92 kWp photovoltaic power plant on the Fallerovo šetališče location. The plant is waiting its connection to the network. Its generation is estimated at 20,170 kWh per year, which equals the gas emission decrease by additional 6.1 t/year.

G4-EN31

UN GC 9



Social Category

A total of 216 new workers were employed in the reporting period. The youngest employed was 17 and the oldest 59, thus averaging at 31. The average age of leaving employees was 46, the youngest was 19 and the oldest 65. A total of 214 workers left the company in 2015.

Employee Turnover
G4-LA1

Seminar for Interns and New Employees

Seminars for KONČAR interns and new employees are organized every year for the purpose of getting them acquainted with the organization, production range, various operating departments of KONČAR as well as colleagues employed by other KONČAR companies. The seminar in 2015 was attended by 39 interns from 12 companies who had the opportunity to learn about sustainability operations, quality management and environment protection, work rights, as well as interesting events from KONČAR past. The visit to S/S Žerjavinec substation built by KONČAR was organized. KONČAR - Electrical Industry organized the first seminar in 2003. During the following twelve years, 23 seminars were organized in total attended by more than 800 interns and the newly-employed.

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

Employee Benefits
G4-LA2
UN GC 6

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

Maternity and Parental Leave

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

G4-LA3
UN GC 6

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

Notice Period
G4-LA4
UN GC 3

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

Occupational Health and Safety

The committee consists of the nominated Employer's representative, a work safety professional conducting work safety activities for the Employer, the elected occupational medicine professional, and the work safety commissioner.

G4-LA5
UN GC 3

The work safety committee existed in all Group companies before this reporting period, except from KONČAR - Electrical Industry. As the number of its employees exceeded 50 in 2015, the procedure was initiated and activities for the selection of the work safety commissioner and his/her deputy carried out.



Diseases Related to Occupation

G4-LA7

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

Topics Covered in Formal Agreements with Trade Unions

G4-LA8

UN GC 3

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

Training and Education

G4-LA9

Education and professional training are very important elements of KONČAR operations. They have systematically been conducted in numerous ways: by encouraging regular education system, specialized trainings within the company and engaging in special training programmes in professional and other organizations. Apart from knowledge required for specific jobs, foreign language courses have also been permanently organized as well as courses in sales, presentation and computer skills, new regulations, work safety and other areas.

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

KONČAR Academy

KONČAR pays special attention to the selection of its managers, as well as to the timely recognition of their managerial potentials and investments into their development and creating space for further advancement. This is achieved through the educational programmes within the KONČAR ACADEMY and its continuous work in the last five years.

The fourth educational series for managers introducing the basics of business management ended on 27 January 2015 (it began on 25 May 2013). Having attended 19 modules, 162 lectures, workshops and case studies, 24 attendees from various KONČAR companies graduated. This educational programme has been attended by 104 employees to date.

KONČAR Award for Best Doctoral Dissertation

On the occasion of the Day of the Faculty of Electrical Engineering and Computing of the University of Zagreb, the annual KONČAR Award for doctoral dissertations for scientific achievements in the area of technical industry-applied sciences is presented. The 2014/2015 recipients were Miroslav Macan, Ph.D for his paper on reducing direct component of exchange current by galvanic isolation on traction vehicles, and Martina Kutija, Ph.D for her non-sensory operation by cage asynchronous wind-generator based on a phase closed loop.

Award to Best Students of the Faculties of Electrical Engineering and Computing and Mechanical Engineering

On the occasion of the Day of the Faculty of Electrical Engineering and Computing, the bronze 'Josip Lončar' plaque awarded by KONČAR - Electrical Engineering Institute for successful graduation was handed out in 2015 as well.

At the formal session of the Faculty Council of the Faculty of Mechanical Engineering and Naval Architecture of the University of Zagreb, held on November 27, KONČAR companies were among those which awarded prizes for encouraging excellence and providing support to best students. Cash prizes were awarded by KONČAR - Electric Vehicles to two graduate students with 5.0 average, as well as by KONČAR - Metal Structures to an undergraduate student with a 4.33 average.

Awards to Best Students of the Zagreb University of Applied Sciences

On the occasion of the KONČAR Day held on 26 January, the KONČAR Award, established in April 2003, was awarded under the motto 'The best investment is the one made in people' to the most successful students of the Zagreb University of Applied Sciences during the academic year 2014/2015: Antonio Jambrešić, Marijo Januš, Dražen Šikec, Mariel Klačnja (Electrical Engineering Department), Antonio Fran, Vedran Vidaković (Computing), Ivan Pejak, Josip Perić, Pero Antunović (IT Department) and Ivan Žnidarec (Mechatronics Department).

KONČAR Pensioners' Club (KUK)

KONČAR Pensioners' Club (KUK) was founded on 17 October 2000 upon the initiative of the Trade Union Coordination and with a full support of KONČAR - Electrical Industry. The Group provides space and means for their activities. During last 15 years, the Club registered 356 members, of whom 181 are still active. In 2015, Club members went on 10 excursions, saw 5 theatre plays, 2 exhibitions, and enjoyed in 2 literary evenings. They also visited 38 sick members.

Transition Assistance Programs
G4-LA10



Equal Remuneration for Women and Men

G4-LA13

UN GC 6

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

KONČAR Employees' Children Visit Santa Clause

Employees' children from eleven KONČAR companies attended the Christmas and New Year's play 'Where did Santa get stuck?' Apart from the show, visitors were offered chocolate bars with their names on them, food and drinks.

Labour Practices Grievance Mechanisms

G4-LA16

Human Rights

G4-HR1

UN GC 1 i 2

In case of a dispute, alternative resolution method, by mediation (KONČAR has a list of mediators) is applied. In case of no resolution, the procedure is taken before the relevant court.

Respecting human rights in line with the highest standards is an unquestionable value which has a great significance for KONČAR. No cases of human rights violation have been recorded.

Non-Discrimination

G4-HR3

UN GC 2 i 6

Under the Collective Agreement, the Employer has an obligation to protect employee dignity in the course of work by ensuring work conditions in which said employee will not be exposed to sexual or any other harassment by the Employer, bosses, colleagues or other persons with whom he/she comes in contact during the execution of his/her work.

During 2015, as in previous years, no cases of discrimination have been recorded. Employee discrimination or harassment on account of his/her gender, religion, race, religious, national or political orientation, physical deficiencies, age, family status, personal characteristics or beliefs has been banned in the process of employment and everyday work.

Blood Donors

The first blood donor drive in KONČAR was carried out in KONČAR back in 1953. In the organization of the Red Cross, blood was donated on three KONČAR locations in 2015. Solidarity and humanity of our employees have been confirmed every year. The 2015 jubilee blood donors included eight KONČAR women and men. They were awarded on the occasion of the Blood Donor Day, the ceremony held in the Old City Hall.

Remembrance of the Employees Who Died in War

On the occasion of the Croatian Statehood Day, celebrated on June 25, KONČAR remembers with gratitude and respect those who gave their lives for their country. Twenty-two killed defenders, KONČAR employees, are remembered by laying the wreath and lighting candles on the monument raised on the factory grounds on Fallerovo šetalište. Also, the anniversary of forming a unit for defending the KONČAR Fallerovo location in 1991 is marked every year in December.

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

The trade union negotiates with the Employer in the manner set under its Statute.

Freedom of Association and Collective Bargaining

G4-HR4

UN GC 3

15th Futsal Tournament for the Title of the KONČAR Champion

KONČAR - Electrical Industry sponsored and the Coordination of the Croatian Metal Workers Union - IS KONČAR organized the 15th Futsal Tournament for the title of the KONČAR Champion in late 2015 attended by the Group's employees. The competitions were organized during two weekends and were attended by the total of 25 teams from 12 KONČAR companies. There were 15 senior and 10 veteran teams from 10 and 7 companies, respectively. 60 matches were played and 258 goals scored. Goals were scored in each match, with penalty kicks deciding on a winner in 3 of them.

Child, forced or compulsory labour are form of exploitation, which is a violation of human rights. KONČAR operations are conducted by adhering to positive legal regulations prohibiting such forms of work. It does not employ children, nor carry out any form of forced or compulsory labour in any of its business activities and forms.

Child, Forced or Compulsory Labour

G4-HR5/6

UN GC 4 i 5

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

Security Practices

G4-HR7





Local Community

G4-SO1

UN GC 1

KONČAR invests in the community and various segments of society by numerous sponsorship and donation programs as well as through the work of its Volunteers Club. KONČAR Volunteers Club is an informal club of employees, who spend their free time by volunteering. The Club was exceptionally active during 2015. More than 70 employees from 12 KONČAR companies got involved in cooperation projects with the local community.

In 2015, KONČAR Group allocated almost 1,5 million kuna to donations and sponsorships. Special attention was given to the work of sport associations by co-financing club activities of less commercial sports, such as archery, chess, canoeing...

Support is also given to numerous cultural and individual projects (publishing professional and education books), work of associations and groups engaged in cultural and artistic creation. As a socially responsible company, KONČAR contributes to the preservation of historic and cultural heritage.

KONČAR is in constant dialogue with the local community and co-finances projects aimed at improving the lives of children and young people, as well as the work of organizations that care for people with disabilities.

Volunteering

Earth Day

KONČAR Group pays attention to reducing harmful environmental impacts by acting responsibly through the quality and safety of its products as well as numerous other activities. The Earth Day was the opportunity for several volunteering activities, including 'Let's Embellish our Environment' and 'Clean Your Workspace from Redundant Papers'. The objective of the first activity was to increase green surfaces on the area surrounding the factory on Fallerovo šetalište. The second activity was organized to increase the awareness of the need to preserve environment and dispose waste.

Reading Fairy-tales to Children in SOS Children's Village in Lekenik

KONČAR Volunteers Club members supported the 7th millennium fairy tale reading held on 21 and 22 November in the SOS Children's Village in Lekenik. This drive was encouraged by the idea of affirming the reading culture in children, stimulating their imagination and creativity, expanding the culture of non-violence and tolerance, increasing children's attention and emotional intelligence, and developing abstract and creative thinking. SOS Children's Village Lekenik has provided home for over 300 children so far. It currently houses 71 children.

Sports Clubs

'Končar Zagreb 1786' Shooting Club

KONČAR has been supporting the activities of the 'Končar Zagreb 1786' Shooting Club for 22 years. Within this period, the Club won over 500 medals at the Croatian championships. In 2015, Club members took part in 46 competitions with more than 400 attempts in all categories. Individually, they won 27 first, 25 second, and 19 third places. In team categories, they won 16 first, 11 second, and 5 third places. There are currently 21 Club shooters - state record holders.

KONČAR Chess Club

One of the oldest chess clubs in Croatia has also been named after KONČAR. Having played 11 games, the Chess Club won 8, lost 2 and had one draw, which met its primary competition target for the season 2015 - to play in the 3rd Croatian Chess League Center A. It was ranked second by winning 17 match points. This success has rounded up the excellent Chess Club KONČAR's competition season, by winning the Zagreb Cup and being ranked 5th at the Cup of Croatia.

In 2015, KONČAR Chess Club opened a free-of-charge chess school for KONČAR employees' children on the Fallerovo šetalište location. Research has shown a beneficial effect of chess in the cognitive as well as social and emotional development of an individual. Chess makes children more intelligent and patient by developing various intelligence types through playing matches, which makes it its major excellence. By gathering chess players with rich competition and educational experience, conditions were created for offering chess lessons, social interaction and competitions to KONČAR employees' children.

'KONČAR' Canoe Club

The KONČAR Canoe Club is one of sport clubs continually supported by KONČAR for the purpose of encouraging young people to take on sports. Club members participated in numerous competitions in Croatia and abroad achieving significant results.

In July 2015, they participated in the 80 km long Aljmaš-Vukovar leg of the 60th Tour International Danubien (TID). The Club provided several ten person canoes for said purpose. KONČAR supported the oldest European river tourist regatta driven through ten Danube countries with stops on various locations.

As part of the traditional 45th Boxing Day-New Year's Canoe and Kayak race, the 20th Memorial Tibor Šaramo Race was held on 26 December, which was won by Tomislav Lepen, a member of KONČAR Canoe Club and a Croatian national wildwater canoeing team member.

KONČAR's Mounteneering Societies

There is a long tradition of nature walks among employees of KONČAR, which supports two mounteneering societies gathering its employees: PD KONČAR and PD KONČAR KET.

In 2015, PD KONČAR organized numerous excursions including the fifth 'With KONČAR to Nature' excursion, which set off point was in front of the Samobor Town Museum.

PD KONČAR KET has about 68 members. During the last week of July, its members went on their annual trip to Hungary, Romania and Bulgaria.



Culture, Art and Education

The International Cultural Centre of Jeunesses Musicales Croatia in Grožnjan

Ever since its establishment in 1969, the activities of the International Cultural Centre of Jeunesses Musicales Croatia in Grožnjan, traditionally supported by KONČAR, gathered more than 30,000 young people and their mentors from 100 countries. As a meeting place of musicians, dancers, architects, actors, composers, painters and other artists from all around the world, Grožnjan organized 30 workshops, seminars and symposiums as well as more than 50 concerts and international festivals as part of its 'Grožnjan Music Summer'.

Apart from its financial donations, KONČAR supported the artists in 2015 by donating household appliances installed in accommodation units used by lecturers and participants.

Sinjska Alka

Sinjska alka is a 300-year-old unique historical, cultural, ethnographic and sporting event in the Cetina River region. Its value has won it numerous awards. In 1979, it was declared a movable cultural monument. In 2010, it was listed among UNESCO's non-material cultural heritage monuments, and in 2012 it was pronounced the best cultural event in Croatia. In light of a long-lasting business connection established between KONČAR Group, Sinj and the Cetina River region, the Group was proud to accept the sponsorship of this year's event, marking its important anniversary.

Photo Exhibition 'Croatia from Above'

The photo exhibition 'Croatia from Above' by Davor Rostuhar, capturing Croatia's cultural beauties and natural heritage, and supported by KONČAR, toured Koprivnica, Čakovec and Pula, as well as Opatija, Umag, Šibenik, Novalja, Vodice, Korčula etc. during summer months. The exhibition includes more than 200 bird's eye photographs of Croatia's natural beauties, people and custom. It was also exhibited in Milan within the 'Expo in città' program, held as part of EXPO World Fair.

The Architectural Handbook for Children

The architectural handbook titled 'Space around Me', with KONČAR as a gold sponsor, was nominated for the award by the 50th Zagreb Salon of Architecture. This traditional triennial event organized by the Croatian Architects Association has become a national central visual arts event of architecture. The handbook offers a concept of children's timely education on space which surrounds them by making them aware and developing their own creation by observing and understanding. This handbook printed in 2014 won the national UIA Architecture & Children Golden Cubes awards. In the academic year 2014/2015, it was one of the selected teaching aids in the education of primary school children.

The Solar Car Race

KONČAR was one of gold sponsors of the 2015 Soela Solar Car Race organized by the Technical School Sisak. The competition was held for the third time. It was participated by ten teams of technical and vocational school pupils operating a solar car, which they devised and constructed. For the first time the exhibition of electric and hybrid vehicles was organized as part of this program. The exhibition displayed 18 vehicles available on the Croatian market. The Soela Project is financed by the EU funds within the IPA IV Program. Its goals are to develop innovative extra-curricular activities which encourage the implementation of RES and new methods in student education.

Support to Special Groups

Donation on the Occasion of the KONČAR Day

On the occasion of the 94th anniversary of KONČAR, a donation was made to Josip Kozarec Primary School in Soljani, which included IT equipment. Josip Kozarec Primary School and Strošinci Regional School are located in the Vukovar-Srijem County. They are attended by 150 pupils. A part of this municipality was flooded last year.

Humanitarian Aid to Flooded Households Continued

The cooperation with the Red Cross Sisak, which started after last year's floods in the form of various donations, continued in 2015. The Group donated two computers which were installed on the Red Cross premises. Apart from IT equipment, various supplies collected by KONČAR employees were also donated.

KONČAR donated the fridge and the stove to Davorin Trstenjak Primary School in Posavski Podgajci for preparing school meals. This school has 87 pupils whose classes are divided in two shifts. As a part of this village was flooded in May 2014, some households received a donation in the form of KONČAR household appliances.

The Visit by the Education and Rehabilitation Center Dubrava

A long-lasting friendship between KONČAR and the Education and Rehabilitation Center resulted in numerous activities including employee volunteering, workshops or donations. The cooperation with this institution which purpose is to educate and rehabilitate children and the young suffering from motor skills disorders and chronic diseases continues. The organized visit to the KONČAR - Electrical Vehicles factory provided an opportunity to see how the low-floor electric multiple units trains are made.





Anti-Corruption

G4-SO3/5

UN GC 10

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

No instances of corruption were recorded in the Group.

Political Contributions

G4-SO6

UN GC 3

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

Anti-Competitive Behaviour

G4-SO7

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

Compliance

G4-SO8

KONČAR Group adheres to all positive legal regulations with regards to its business operations. Some minor exceptions were recorded in exceptional cases, which were eliminated following the issuance of a warning.

Product Responsibility

G4-PR1

KONČAR assumes large responsibility for its products. Power generation, transmission and distribution equipment and products require a high degree of responsibility from two aspects - primarily, safety and work reliability preventing additional electricity supply problems (on which everyday activities are dependent) and preserving environment in which the equipment is installed. On the other hand, passenger transport products must also be safe and reliable having a significant environmental component. Thus, the Group tries to operate the entire production chain by monitoring the quality of each individual process.

Customer Health and Safety

G4-PR2

No violation of regulations and voluntary codes in relation to products and services affecting health and safety was recorded in 2015. The above was confirmed by ISO 9001, ISO 14001, OHSAS 18001 and ISO/IEC 27001.

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

Product and Service Information

G4-PR3

Products have their trial and warranty periods during which the equipment is put into operation, monitored and adapted to other equipment, corrections are made and any possible defects and maladjustments removed. Given the complexity of particular products and plants, servicing and spare parts are provided during and beyond the warranty period. Each product has its manufacturer's label, basic technical data typical of the product category and special data characteristic of or relevant to the given product. For more complex products and plants, technical descriptions and instructions for safe use are prepared, as well as seminars for training end users organized.

No violation of product and service data and labeling-related regulations and voluntary codes was recorded in 2015.

Compliance
G4-PR4

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

Measuring Customer Satisfaction
G4-PR5

The Code of Ethics in doing business imposes an obligation of pursuing a responsible marketing communication. The communication does not use untrue or offensive facts that may harm a group or faction, including competitors. KONČAR Group primarily addresses its target user group. In doing so, it emphasizes product quality and safety, references and production capacities.

Marketing Communications
G4-PR 6/7

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

Marketing Seminar Organized by KONČAR

Early in the year, the KONČAR's Marketing and Information Department organizes a seminar which aims at further training and improving of sales and marketing activities. In 2015, a total of 34 participants from 11 KONČAR Group companies attended. The three-day program included lectures which aim was to aid the preparations for attending fairs, professional conferences, public appearances, negotiations and other forms of business communication.





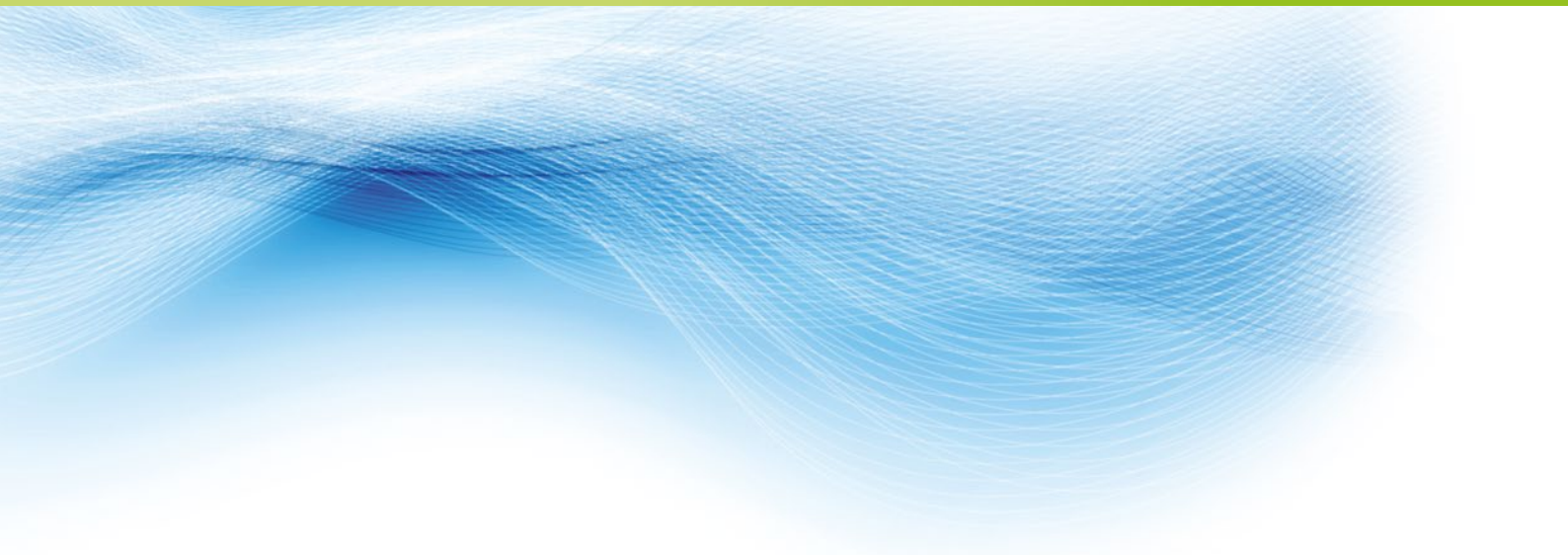
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