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Zagreb, 29 June 2022

Subjects: Report of the KONČAR Group according to the 2021 EU Taxonomy

In accordance with Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereinafter: the Taxonomy Regulation) and enclosures thereto, Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing the Taxonomy Regulation, KONČAR Group, hereby publishes key performance indicators of the KONČAR Group for 2021 in connection with services linked to economic activities that are deemed sustainable.

The KONČAR Group reports indicators for economic activities included in the 2021 EU Taxonomy separately for the 2021 financial year and the indicators are also integrated into the Sustainability Report for 2021 of the KONČAR Group.

Končar – Electrical Industry Inc.

THE EUROPEAN UNION TAXONOMY REGULATION AND TAXONOMY KEY PERFORMANCE INDICATOR REPORT OF KONČAR GROUP

1. Introduction

With the 2030 Climate Target Plan, the European Union proposes to raise the EU's ambition on reducing greenhouse gas emissions to at least 55% below 1990 levels by 2030, with the goal of becoming climate-neutral by 2050.

In order to deliver the 2030 Climate Target Plan, the European Commission has put forward a number of proposals to reduce net greenhouse gas emissions through climate, energy, transport and tax policies.

The realization of such ambitious plans requires significant investments in all segments of economic activities, and the wider community. Given that there was no uniform framework that would facilitate identification of activities and investments that contribute to sustainable development, the European Parliament and the Council of the European Union adopted the Taxonomy Regulation in 2020¹ and additional delegated acts that together form the EU's taxonomy system of climate-sustainable activities. By defining environmentally eligible and aligned activities, the taxonomy system enables increased transparency of sustainability information, helps identify activities that significantly contribute to environmental objectives, and establishes a framework that facilitates financing and redirects cash flows to sustainable technologies and undertakings. This allows access to new sources of financing in the global capital market and reduces unfair competition from undertakings that use sustainable development for the purpose greenwashing.

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

- the activity contributes substantially to one or more of the environmental objectives set out in Article 9 of the Taxonomy Regulation,
- does not significantly harm any of the environmental objectives,
- is carried out in compliance with the minimum safeguards laid down,
- complies with technical screening criteria that have been established, i.e. with science-based criteria of technical screening.

¹Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

The Regulation defines the environmental objectives:

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

In the first year of application and pursuant to Article 8 of the Taxonomy Regulation, any undertaking which is subject to an obligation to publish non-financial information shall include in its non-financial statement or consolidated non-financial statement information on three indicators associated with environmental objectives climate change mitigation and climate change adaptation.

The reported key performance indicators pertain to:

- the proportion of turnover derived from products or services associated with economic activities that qualify as environmentally sustainable under the provisions of the Taxonomy,
- the proportion of capital expenditure related to assets or operations associated with economic activities that qualify as environmentally sustainable under the provisions of the Taxonomy,
- and the proportion of operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under the provisions of the Taxonomy.

2. The assessment of taxonomy-eligible activities for KONČAR Group

KONČAR Group's report on the requirements set out by the Taxonomy Regulation and delegated acts is based primarily on activities classified in line with the NACE² classification.

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

²NACE (Nomenclature of Economic Activities) is the European statistical classification of economic activities. NACE groups organizations according to their business activities and is used to ensure comparability of statical data collected across the Union.

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

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

For the purposes of the Report, with the support of expert consultants, a detailed analysis of the production portfolio was conducted in all Group companies, with participation of professional functions in manufacturing, research and development, and finance.

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

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

New product development that advances the reduction of environmental pollution and supports energy savings remains one of the most important objectives, which are outlined by the adopted business strategy.

2.1. Taxonomy-eligible economic activities

Consolidated income that meets the requirements of the *eligible economic activities* for 2021 amounts to HRK 1,008.9 million, or 29% of the total income generated from the sales of products and services in 2021. The most significant part of income from taxonomy-eligible economic activities pertains to the group of activities related to the manufacture of low-carbon technologies for transport (rail vehicles), activities related to the transmission and distribution of electricity and activities in the development of digital solutions and platforms.

The list of activities from which sales income was generated in 2021 is given in the table below:

Activities by sector	Name of activity	Income in HRK thousand
3.1	Manufacture of renewable energy technologies	5,555
3.3	Manufacture of low carbon technologies for transport	443,646
4.3	Electricity generation from wind power	17,971
4.5	Electricity generation from hydropower	75,378
4.8	Electricity generation from bioenergy	2,278
4.9	Transmission and distribution of electricity	296,626
5.5	Collection and transport of non-hazardous waste in source segregated fractions	9,850
6.14	Infrastructure for rail transport	47,691
7.6	Installation, maintenance and repair of energy efficiency equipment	246
7.7	Acquisition and ownership of buildings	24,957
8.1	Data processing, hosting and related activities	351
8.2	Data-driven solutions for GHG emissions reductions	1,786
8.4	Computer programming, consultancy and related activities	82,578
	Total numerator	1,008,913
	Total denominator	3,477,453
	Proportion of taxonomy-eligible economic activities	29%

KONČAR Group generates a significant part of income from an activity classified under C27.11 NACE group - Manufacture of electric motors, generators and transformers, which does not meet any of taxonomy-eligible criteria of environmentally sustainable economic activities³. Manufactured transformers, generators and electric motors do not have a significant adverse environmental impact, particularly if they are installed in devices for the generation of energy from renewable sources (the percentage of such installation is currently not monitored at KONČAR Group level). However, as they form part of the finished product, they do not in themselves fall within the scope of the taxonomy reporting, therefore this activity is not a taxonomy-eligible activity for KONČAR Group.

On the other hand, these devices enable our end-customers operating in other sectors to make their activities taxonomy-eligible and ultimately aligned with the Taxonomy Regulation.

³ Commission delegated regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

2.1.1. Voluntary disclosure - income

Pursuant to the Delegated Sustainable Finance Disclosure Regulations⁴, non-financial undertakings can publish information on key performance indicators on a voluntary basis. Accordingly, a portion of the income generated by KONČAR Group also pertains to the manufacture of renewable energy technologies. However, the activity does not pertain to the manufacture of finished technologies, but rather to transformers, generators and motors that are installed in technologies or finished products and devices for the generation of energy from renewable sources.

Given that there are currently no exact methods of tracking such products, it is thus not possible to present all income generated in 2021 in this regard. Nonetheless, the table below gives the calculation of the portion of the taxonomy-eligible economic activities, including the relevant income where it was possible to compute:

Activities by sector	Name of activity	Income in HRK thousand
	Total numerator in accordance with 2.1.	1,008,913
3.1	Manufacture of renewable energy technologies	201,592
	Total numerator including voluntary disclosure	1,210,506
	Total denominator	3,477,453
	Proportion of taxonomy-eligible economic activities	35%

2.2. Capital expenditure (CAPEX)

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

Eligible capitalized investment costs in accordance with the taxonomy for 2021 amount to HRK 47.2 million, which represents 44% of the total CAPEX. The most significant part pertains to the construction of new and renovation of the existing buildings, installation, maintenance and repair of equipment for energy efficiency of buildings and the acquisition and ownership of buildings and equipment.

⁴Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

The list of activities from which CAPEX was realized in 2021 is given in the table below:

Activities by sector	Name of activity	Income in HRK thousand
3.3	Manufacture of low carbon technologies for transport	1,934
4.1	Electricity generation using solar photovoltaic technology	40
4.3	Electricity generation from wind power	20
4.9	Transmission and distribution of electricity	2,603
6.14	Infrastructure for rail transport	4,343
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	2,080
6.6	Freight transport services by road	784
7.1	Construction of new buildings	14,920
7.2	Renovation of existing buildings	1,550
7.3	Installation, maintenance and repair of energy efficiency equipment	8,858
7.3.1	Installation, maintenance and repair of energy efficiency equipment	474
7.7	Acquisition and ownership of buildings	7,572
9.1.A	Close to market research, development and innovation (for the purpose of climate change mitigation)	2,032
	Total numerator	47,210
	Total denominator	107,759
	Proportion of taxonomy-eligible CAPEX	44%

2.3. Operating expenses (OPEX)

OPEX includes: maintenance costs of fixed assets, uncapitalized research and development costs and uncapitalized rental costs.

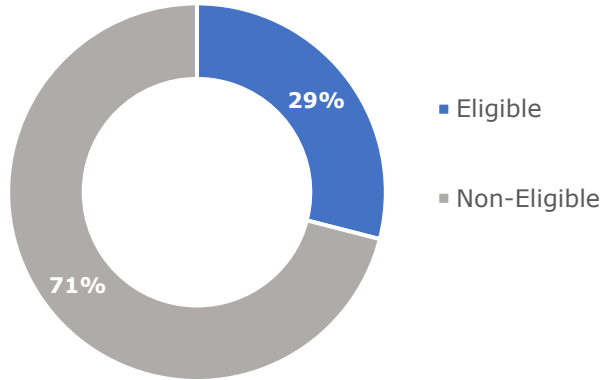
For the year ended 31 December 2021, 23% or HRK 15.4 million are taxonomy-eligible operating expenses in relation to the climate change mitigation target.

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

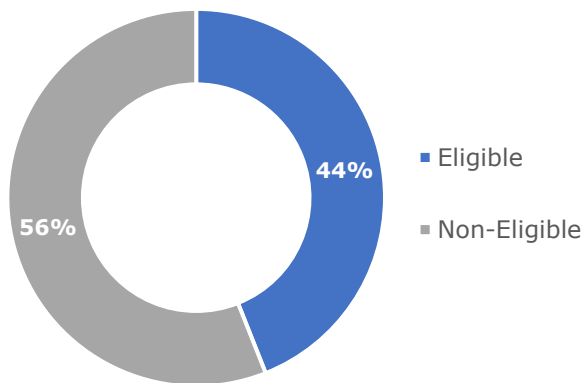
The list of activities from which OPEX was realized in 2021 is given in the table below:

Activities by sector	Name of activity	Income in HRK thousand
3.3	Manufacture of low carbon technologies for transport	33
4.3	Electricity generation from wind power	2,865
4.9	Transmission and distribution of electricity	206
5.3	Construction, extension and operation of water collection, treatment and supply systems	2
5.6	Anaerobic digestion of sewage sludge	120
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	3,591
6.6	Freight transport services by road	378
7.2	Renovation of existing buildings	242
7.3	Installation, maintenance and repair of energy efficiency equipment	2,297
7.3.1	Installation, maintenance and repair of energy efficiency equipment	35
7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	12
7.5.1	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	171
7.6	Installation, maintenance and repair of energy efficiency equipment	128
7.7	Acquisition and ownership of buildings	3,619
9.4	Engineering activities and related technical consultancy dedicated to adaptation to climate change	1,682
	Total numerator	15,380
	Total denominator	67,959
	Proportion of taxonomy-eligible OPEX	23%

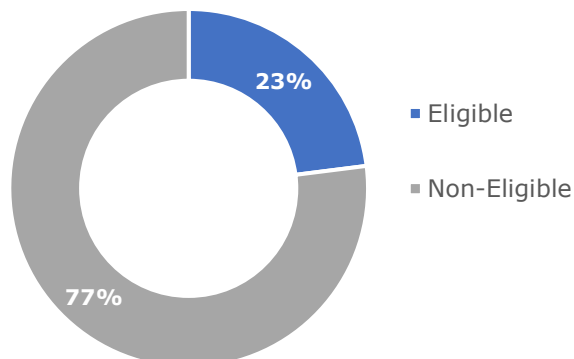
Income



CAPEX



OPEX



3. Conclusion

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

Despite the good direction in the development of the Regulation and practices, the taxonomy currently focuses on the sectors directly responsible for greenhouse gas emissions and does not take into account many technologies, and this primarily pertains to the manufacturers of electrical equipment necessary for a renewable energy system. Moreover, both equipment and solutions for industrial process automation and power management systems can realise significant savings and contribute to the common objective of reducing carbon emissions and decarbonization of the energy system.

In other words, the existing reporting system does not highlight those undertakings which manufacture technologies and products that are installed in finished products or systems that are environmentally sustainable. Such undertakings potentially risk losing the sustainable label or positive environmental impact and contribution to the outlined environmental objectives, i.e., their contribution is not clearly visible to interested stakeholders. At KONČAR Group we therefore hope that future regulatory revision will recognize and remove this limitation.