

Sustainability Report

31 December 2021





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It gives me great pride that the expertise, knowledge and dedication of all our employees are deeply rooted in the energy transition and decarbonization of the power sector in Croatia and the world.



Sustainability Report for 2021

Foreword by the President of the Management Board

Dear readers,

The year in which we celebrated our century of excellence was marked with the realisation of all plans, the achievement of all objectives and ended with double-digit growth in all key performance indicators. KONČAR Group 2020+ Integral Strategy sets out the development direction and the strategic objectives which contribute to KONČAR Group utilising all its potentials and defining its strategic priorities for the upcoming period. The Strategy includes a compelling new four-year development and investment cycle, improvement of employee qualification and competencies structure through recruitment of a significant number of new engineers over the next four years, and a further increase in exports through winning new key markets. By 2024, through expanding the portfolio of services and offering integrated solutions that have greater added value, the Group plans to generate consolidated revenue in the amount of HRK 4 billion, in terms of organic growth.

KONČAR Group's operations in 2021 showed great resilience and stability, achieving the best results in the history of the Company. Complex macroeconomic environment is still under the profound impact of the COVID-19 pandemic, which has reflected primarily in the supply chains disruptions and in soaring prices of key raw materials and commodities. Nevertheless, timely measures and activities have mitigated the negative effects on performance. Recognising these trends in the area that is closely connected with the Group's core business activities, identifying the Group's strengths and weaknesses, and having a clear vision of future development and objectives are processes that require continuous adaptation of business models.

As the regional leader in technological development and a company where social responsibility is deeply rooted in day-to-day operations, we are constantly developing new advanced solutions and business models that benefit of the community and the environment. KONČAR is one of the leaders in the green transition, and in 2012 it was the first company to develop and build the Croatian wind farm Pometeno brdo, in the hinterland of Split, with a total installed capacity of 20 MW and annual generation of 25 million kWh. We demonstrated our commitment to sustainability by developing and delivering a unique global solution of that time - an autonomous hybrid power supply system with a variety of capabilities in power generation from renewable sources, such as wind, solar and hydrogen. We continue to advance on the same path. Earlier this year, we contracted the construction of three new solar power plants for two customers, further strengthening the role of the leading regional company in the construction and revitalization of renewable energy plants.

We are globally recognized as a manufacturer and exporter of transformers. We are also committed to green solutions in this segment, and we strive to use biodegradable liquids that do not pollute the environment and to develop transformers with reduced noise, losses and carbon footprint. We have made further advances in this over the past year. KONČAR has gained extensive references worldwide in the manufacturing of transformer substations, as key plants in power grids. Through advanced hybrid and micro grids, they are becoming part of an integral green transition in the energy sector.

The application of modern electronic technologies and advanced control algorithms, with customized embedded computer systems in electric locomotives, low-floor trams and trains, achieves significant energy savings and has a favourable impact on the environment. We are currently working on the development of electric traction vehicles (trains and trams) with battery and hybrid drive and on hydrogen solutions for power generation.

We dedicate great efforts to the reduction of our carbon footprint. Rational energy consumption, application of environmentally friendly technologies and materials suitable for recycling, use of energy generated exclusively from renewable sources, these are just some of the contributions that KONČAR has made in the field of sustainable development. The construction of three new integrated photovoltaic power plants installed on the roofs of our facilities is also underway. Own power plants will further increase energy efficiency and they will generate power to meet a part of the needs of the facilities, while reducing CO₂ emissions. This will also bring down the costs of electricity consumption, increase the degree of energy self-sufficiency and any surplus generation will be delivered to the public electricity distribution network.

In this Report, we have adapted the material topics to significant changes in regulations, primarily in terms of the EU Taxonomy and the European Green Deal, which sets out the principles for achieving economic sustainability and the obligation to publish relevant information on ESG factors.

It gives me great pride that the expertise, knowledge and dedication of all our employees are deeply rooted in the energy transition and decarbonization of the power sector in Croatia and the world.

President of the Management Board
Gordan Kolak



Organizational Profile

Name of the organization

This Corporate Social Responsibility Report (CSR Report) pertains to KONČAR Group, consisting of KONČAR – Electrical Industry (parent company), dependent companies and affiliated company.

Activities, brands, products and services

In 2021 we celebrated a century of successful operations, marked with references in the domestic market and 130 markets globally. The main business segments of KONČAR Group are power generation, power transmission and distribution, rail solutions and infrastructure, and digital solutions and platforms with a focus on propriety innovation and development, as well as laboratory testing and certification.

POWER GENERATION

- hydro power plants
- solar (photovoltaic) power plants
- wind farms
- thermal power plants
- equipment manufacturing
- turnkey projects, maintenance, overhauls, reconstruction and revitalization of plants



POWER TRANSMISSION AND DISTRIBUTION

- transformer stations
- equipment manufacturing
- customer - specific solutions
- construction, reconstruction, overhaul and revitalization of transmission and distribution plants
- turnkey projects, design, maintenance, consulting services and 24 / 7 field support



RAIL SOLUTIONS AND INFRASTRUCTURE

- low - floor electric and diesel-electric trains
- low - floor trams
- components and systems for railway vehicles
- railway infrastructure



DIGITAL SOLUTION

- dispatch centers
- remote monitoring and management of critical and urban infrastructure
- SCADA systems
- communication devices and computer networks
- uninterruptible power supply devices systems
- smart city solutions



Location of headquarters

Fallerovo šetalište 22
10000 Zagreb
Republic of Croatia

Branch offices

KONČAR Group has two Branch offices: Mostar Branch Office (Bosnia and Herzegovina) and Belgrade Branch Office (Republic of Serbia).

Ownership and legal form

Shares of KONČAR – Electrical Industry Inc. are listed in the Official Market of the Zagreb Stock Exchange. The shares are identified by the symbol "KOEI-R-A", ISIN: HRKOEIRA0009. In accordance with applicable regulations, the Company ensures regular access to information on its operations and activities and information on any facts and circumstances that may influence the share price (price sensitive information). The Company's share capital amounts to HRK 1,208,895,930.00 and consists of 2,572,119 ordinary shares in the nominal value of HRK 470.00.

The Company applies the same conditions to all shareholders and treats them equally irrespective of the number of shares in their possession, their country of origin and other properties. Voting rights encompass all 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 (one-share-one-vote rule).

In 2021, in line with the resolution of the General Assembly, net profit in the amount of HRK 681,230.68 was allocated to legal and other reserves. The remainder of the profit in the amount of HRK 6,131,076.02 and retained earnings from previous years in the amount of HRK 8,632,528.18 were distributed to the shareholders through dividends. In 2021, a dividend was paid for 2020 and stood at HRK 5.80 per share.

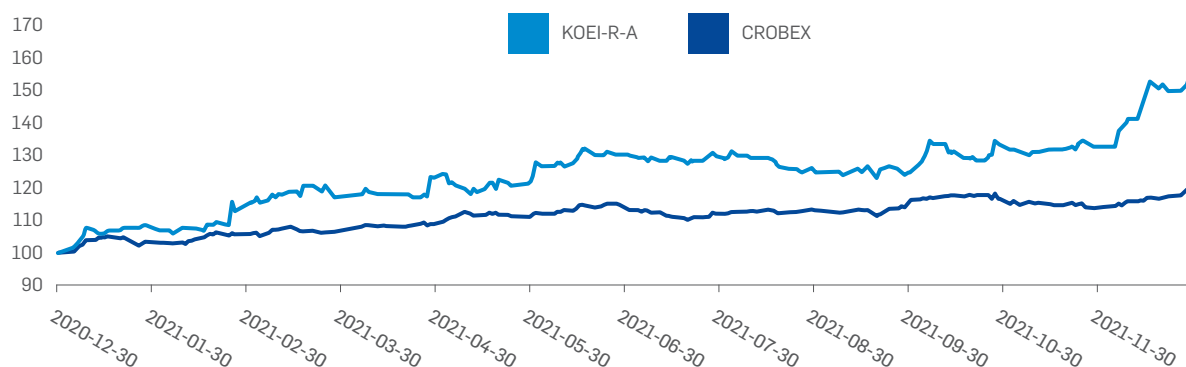
In the first half of 2021, the capital market recorded strong growth, which slowed down in the second half of the year. CROBEX10 grew by 16.0 percent and CROBEX recorded a 19.6 percent growth. At the same time, KONČAR – Electrical Industry Inc. share recorded a significant uplift of 55.2 percent (closing price).

On 10 December 2021, KONČAR – Electrical Industry Inc. and Interkapital vrijednosni papiri d.o.o. signed an Annex to the Market Making Contract. Interkapital vrijednosni papiri d.o.o. will continue to engage in market making for ordinary shares of KONČAR – Electrical Industry Inc., KOEI-R-A, ISIN: HRKOEIRA0009, included in the Official Market of the Zagreb Stock Exchange Inc. The specialist trade service includes a simultaneous display of purchase orders and orders for sale of the company shares in accordance with the Rules of the Zagreb Stock Exchange. The market maker will continue to perform the tasks under the signed Annex until 31 December 2022.

KOEI-R-A

| KOEI-R-A | 31 December 2020 | 31 December 2021 | Index |
|--|------------------|------------------|-------|
| Final price (HRK) | 580.00 | 900.00 | 155.2 |
| Highest price (HRK) | 670.00 | 900.00 | 134.3 |
| Lowest price (HRK) | 430.00 | 580.00 | 134.9 |
| Volume | 95,131 | 91,767 | 96.5 |
| Turnover (HRK) | 51,579,683 | 65,270,145.00 | 126.5 |
| Market capitalization (HRK) | 1,476,360,420 | 2,290,904,100 | 155.2 |
| Earnings per share (HRK) | 29.00 | 64.41 | 222.1 |
| (profit of the parent company owner / weighted average number of shares) | | | |

Trajectory of the KOEI-R-A share price index and the Crobex index



More information on share price changes can be found in the Management Report at www.koncar.hr/en/investors/annual-financial-reports/

KONČAR – Electrical Industry Inc. ownership structure

| | |
|--|--------|
| HPB / KAPITALNI FOND | 28.17% |
| ERSTE & STEIERMÄRKISCHE BANK d.d. / PBZ CO | 17.49% |
| OTP BANKA d.d. / ERSTE PLAVI OMF | 15.49% |
| OTP BANKA d.d. / AZ OMF | 14.39% |
| CERP / REPUBLIC OF CROATIA | 2.67% |
| PRIVREDNA BANKA ZAGREB d.d. / RAIFFEISEN OMF | 1.85% |
| ZAGREBAČKA BANKA d.d. / AZ PROFIT OMF | 1.39% |
| KONČAR d.d. | 1.04% |
| OTHER SHAREHOLDERS | 17.51% |

Markets served

Total sales income in the amount of HRK 3,477.5 million was realised in 2021, which was HRK 504.9 million increase year-on-year.

Income generated in the domestic market amounted to HRK 1,414.7 million, representing a year-on-year increase by HRK 291.7 million.

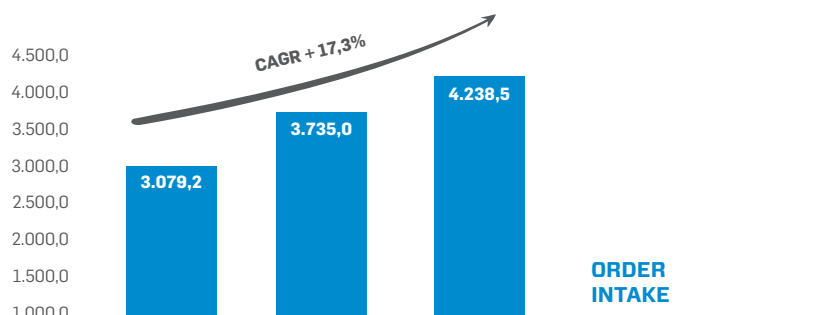
In the structure of income from sales in the domestic market, income from sales of products and services to HEP Group Companies (HEP - Generation, HEP - Distribution System Operator, and Croatian Transmission System Operator) amounted to HRK

638.5 million (18.4 percent of total revenue from sales of products and services). Income from the sales of products and services to HŽ Passenger Transport, HŽ Infrastructure and Rolling Stock Technical Services amounted to HRK 341.9 million (9.8 percent of the total income generated from the sales of products and services).

Income generated from the sales of products and services in international markets amounted to HRK 2,062.7 million, representing an increase of HRK 213.1 million or 11.5 percent year-on-year. Exports account for 59.3 percent of the total product and service sales income. By country, the most significant sales were realized in the German market, in the amount of HRK 410.9 million, accounting for 19.9 percent of the total exports (HRK 185.3 million increase year-on-year). Goods and services exported to Sweden amounted to HRK 273.5 million (13.3 percent of the total exports); to Austria HRK 148.2 million (7.2 percent of the total exports). Compared to the same period in the previous year, apart from Germany and Austria, a significant

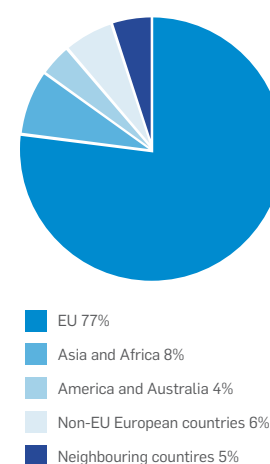
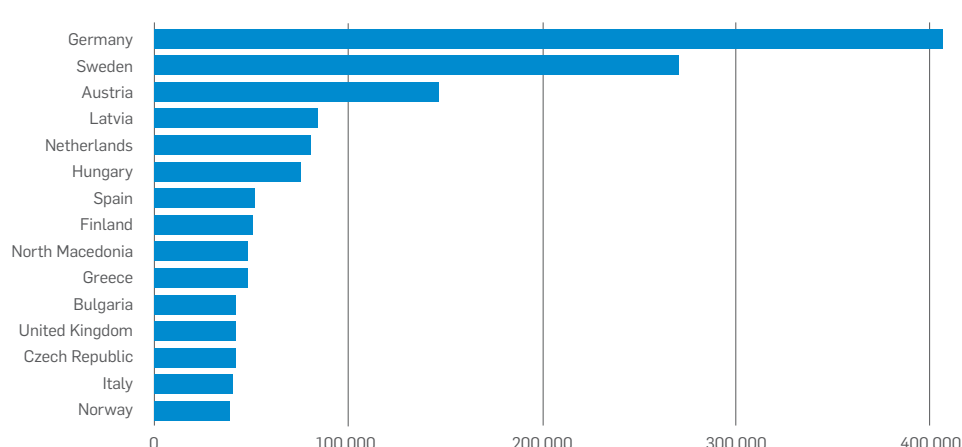
increase in revenues from export sales of products and services pertained to the following markets: Greece (an HRK 43.6 million increase); Spain (an HRK 42.1 million increase); Latvia (an HRK 39.9 million increase); and the Netherlands with HRK 39.8 million more in goods and services exported year-over-year. Exports to the European Union rose by HRK 374.3 million year-on-year and in 2021 amounted to HRK 1,593.3 million. Revenues declined across all other continents as a result of travel restrictions and restrictions of direct contacts with customers during the lockdown and travel disruptions (primarily in container shipping). Somewhat better revenues were generated in the regional markets, amounting to HRK 100.5 million or HRK 26.6 more than in 2020. Year-on-year, higher order intake was recorded across all markets. Higher order intake impacts on sales results are expected in the upcoming period.

More information on markets can be found in the Management Report at www.koncar.hr/en/investors/annual-financial-reports/



Breakdown by regions

| in 000 HRK | 2021 | % | 2020 | % |
|----------------------------|------------------|--------------|------------------|--------------|
| Croatia | 1,414,720 | 40.7 | 1,122,972 | 37.8 |
| EU countries | 1,593,342 | 45.8 | 1,243,094 | 41.8 |
| | 3,008,062 | 86.5 | 2,366,066 | 79.6 |
| Asia and Africa | 159,877 | 4.6 | 276,509 | 9.3 |
| Non-EU countries in Europe | 128,776 | 3.7 | 156,070 | 5.3 |
| Neighbouring countries | 100,502 | 2.9 | 73,846 | 2.5 |
| America and Australia | 80,236 | 2.3 | 100,070 | 3.4 |
| | 469,391 | 13.5 | 606,495 | 20.4 |
| TOTAL SALES INCOME | 3,477,453 | 100.0 | 2,972,561 | 100.0 |



Export by regions (2021)

| EU countries | EUR million | % rise/fall |
|--------------|-------------|-------------|
| Germany | 54.8 | + 82.1 |
| Sweden | 36.4 | + 5.3 |
| Austria | 19.7 | + 20.0 |

| Non-EU European countries | EUR million | % rise/fall |
|---------------------------|-------------|-------------|
| United Kingdom | 5.7 | - 42.3 |
| Norway | 5.4 | + 4.8 |
| Switzerland | 3.0 | -12.1 |

| Neighbouring countries | EUR million | % rise/fall |
|------------------------|-------------|-------------|
| North Macedonia | 6.5 | + 100.1 |
| Bosnia and Herzegovina | 5.3 | + 76.6 |
| Serbia | 1.0 | +78.9 |

| Asia and Africa | EUR million | % rise/fall |
|-----------------|-------------|-------------|
| UAE | 5.0 | -54.2 |
| Philippines | 1.6 | - 51.2 |
| Malaysia | 1.2 | n/o |

| America and Australia | EUR million | % rise/fall |
|-----------------------|-------------|-------------|
| USA | 3.0 | -55.0 |
| Australia | 3.0 | - 4.8 |
| Canada | 1.6 | + 39.4 |



Exports in total
sales revenue

60 %



Scale of the organization

| | Balance number of employees | TOTAL REVENUE | TOTAL EXPENSES | PROFIT / LOSS AFTER TAXES | SUBSCRIBED CAPITAL TOTAL | SUBSCRIBED CAPITAL PARENT COMPANY | % OWNERSHIP PARENT COMPANY |
|---|-----------------------------------|---|---|---|--------------------------------|--|----------------------------------|
| | 31 December 2021 | Realised January - December 2021 | Realised January - December 2021 | Realised January - December 2021 | | | 31 December 2021 |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| POWER PLANT AND ELECTRIC TRACTION ENGINEERING | 366 | 682,826,299 | 660,222,743 | 17,702,715 | 61,204,500 | 61,204,500 | 100.0000 |
| GENERATORS AND MOTORS | 452 | 282,587,940 | 282,229,590 | 135,678 | 107,927,700 | 107,927,700 | 100.0000 |
| SWITCHGEAR | 223 | 148,808,135 | 143,852,997 | 3,880,697 | 115,532,200 | 115,532,200 | 100.0000 |
| DISTR. AND SPEC. TRANSFORMERS | 750 | 1,470,720,106 | 1,351,070,472 | 99,342,457 | 153,369,600 | 80,878,800 | 52.7346 |
| INSTRUMENT TRANSFORMERS | 281 | 195,739,330 | 186,779,744 | 8,286,605 | 37,978,200 | 23,533,200 | 61.9650 |
| ELECTRONICS AND INFORMATICS | 248 | 187,079,084 | 173,512,197 | 11,038,605 | 47,027,280 | 45,916,540 | 97.6381 |
| METAL STRUCTURES | 364 | 211,252,569 | 202,747,584 | 8,504,985 | 119,580,000 | 119,580,000 | 100.0000 |
| ELECTRIC VEHICLES | 348 | 475,768,189 | 448,320,664 | 22,021,409 | 47,026,800 | 35,288,700 | 75.0396 |
| RENEWABLE SOURCES | 5 | 24,054,627 | 42,036,807 | 18,121,077 | 81,500,000 | 81,500,000 | 100.0000 |
| MOTORS AND ELECTRICAL SYSTEMS | 206 | 114,898,132 | 100,893,893 | 11,746,287 | 41,641,800 | 41,641,800 | 100.0000 |
| ELECTRICAL ENGINEERING INSTITUTE | 170 | 95,685,675 | 84,625,449 | 22,859,436 | 40,763,500 | 40,763,500 | 100.0000 |
| INFRASTRUCTURE AND SERVICES | 144 | 61,776,258 | 58,934,982 | 2,293,091 | 49,891,600 | 49,891,600 | 100.0000 |
| INVESTMENTS | | 334 | 41,614 | -41,280 | 20,000 | 20,000 | 100.0000 |
| ADVANCED ENERGY SOLUTIONS | | | 530,032 | -530,032 | 20,000 | 10,200 | 51.0000 |
| DIGITAL | 30 | 3,619,310 | 3,604,501 | 12,381 | 1,200,000 | 1,200,000 | 100.0000 |
| TOTAL DEPENDENT COMPANIES | 3,587 | 3,954,815,988 | 3,739,403,269 | 188,967,461 | 904,683,180 | 804,888,740 | |
| KONČAR INC. | 53 | 144,134,114 | 107,383,620 | 36,750,494 | 1,208,895,930 | | 100.00 |
| TOTAL PARENT COMPANY AND DEPENDENT COMPANIES | 3,640 | 4,098,950,102 | 3,846,786,889 | 225,717,955 | 2,113,579,110 | 804,888,740 | |

Employees

As at 31 December 2021, KONČAR employed 3,640 people. Of the total number of workers, 68% are employed in engineering / manufacturing jobs, and among them the leading occupations are in the field of electrical engineering (1,224 people) and mechanical engineering (1,148 people).

The affiliated company KONČAR - Power Transformers, a joint venture with Siemens Energy, employs 533 people. In the total headcount, 172 are highly educated, and 4 hold PhD degrees.

In 2021 KONČAR employed 41 people holding PhDs, 43 people holding master's degrees, 31 university specialists and 1,296 professional specialist graduates. The share of employees holding higher education qualifications was 39%.

In 2021, the largest age cohort was 30 to 39, accounting for 30 percent of employees. The age group of 40 to 49 includes 25% of employees, while people aged 50 to 59 make up 17.6% of the total number of employees. The smallest age cohort (5.5 percent) includes employees between the ages of 19 and 29.

In terms of gender, the majority of KONČAR's employees was male (79%), while a breakdown by employment type shows that employees with a permanent FTEs, working 40 hours / week, were dominant.

Within 5 years, 11 percent of KONČAR Group employees are to retire.

Employees by professional qualifications

31 December 2021

| | | |
|---|------|--------|
| ≤ skilled workers | 430 | 11,8 % |
| secondary school qualifications / diploma | 1700 | 46,7 % |
| high-skilled workers, two-year degree, university and professional bachelors degree | 389 | 10,7 % |
| university degree, master's degree, specialist graduates | 1008 | 27,7 % |
| university specialist | 33 | 0,9 % |
| master's degree | 44 | 1,2 % |
| PhD degree | 36 | 1 % |

Employees by job type

31 December 2021

| | | |
|---|-------------|-------------|
| administrative jobs | 849 | 23 % |
| engineering / manufacturing jobs | 2791 | 77 % |
| management (≥ two-year degree) | 387 | |
| economics, law and administration | 365 | |
| other occupations | 171 | |
| culture and PR | 6 | |
| electrical engineering | 1224 | |
| mechanical engineering and metalwork | 1148 | |
| transport and traffic sciences | 150 | |
| management (≤ skilled workers) | 110 | |
| construction | 41 | |
| chemical industry, non-metal products industry and graphic design | 38 | |

KONČAR Group

31 December 2021

| Gender | Contracts | | | | | | Total |
|--------------|------------|-------------|-------------|--------------------------------------|--|-----------|-------------|
| | Fixed-term | Permanent | Traineeship | rights, obligations and compensation | special rights, obligations and compensation | to recall | |
| M | 304 | 2329 | 25 | 100 | 87 | 19 | 2864 |
| W | 67 | 620 | 9 | 31 | 46 | 3 | 776 |
| Total | 371 | 2949 | 34 | 131 | 133 | 22 | 3640 |

In 2021, two KONČAR employees obtained their doctoral degrees upon defending their dissertations on topics related to their work.



Marko Išlić earns a PhD

Marko Išlić from KONČAR - Power Plant and Electric Traction Engineering defended, on 14 January, his doctoral dissertation Centralized Radial Feeder Protection in Electric Power Distribution Using Artificial Neural Networks, earning a PhD from the Faculty of Electrical Engineering and Computing, University of Zagreb.



Mario Jurković earns a PhD

Mario Jurković from KONČAR - Distribution and Special Transformers defended, on 29 September, his doctoral dissertation Calculation of Transformer Short-circuit Voltage Using Conformal Mappings, earning a PhD from the Faculty of Electrical Engineering and Computing, University of Zagreb.

Supply chain

Supply chain management is of strategic importance for KONČAR Group. Suppliers are segmented by their strategic importance, according to value generated for KONČAR.

In compliance with high quality standards, a segment of supply turnover is carried out with local and domestic producers, thereby contributing to the development and stability of the community. KONČAR Group has cooperated with suppliers from more than 80 countries worldwide. EU suppliers have accounted for the majority of import structure (60 percent).

In most cases, KONČAR Group companies have established multiannual relationships with suppliers and frequently enter into business cooperation agreements with them. Annual procurement value stands at about HRK 2 billion, with 50 percent of procurement activities carried out abroad.

Although individual Group members have developed their own specific range of products and services, the main groups of materials (common to several companies) include copper wires, copper sheets, steel sheets, dynamo sheets, steel structures, bearings, paints, plastic, joining materials, lubricants and other. Copper-made materials and steel sheets are regularly procured on commodity exchanges. Besides direct purchase from manufacturers, a smaller portion of materials is procured through intermediaries. The year 2021 was extremely demanding in terms of supply chain.

An upwards trend of surging prices of raw materials, particularly metals, which commenced in 2020, continued with soaring prices in the first half of 2021.

The price of copper traded on global commodity exchanges increased by 76 percent in early September compared to June 2020. The highest price of copper was recorded in May 2021, when the price soared by 91 percent.

The price of aluminium began to rise in June 2020, and it peaked in early September 2021. The increase was 78 percent.

The price of steel in early September increased by 57 percent in relation to June 2020. Steel prices peaked in May 2021, when the increase was 87 percent.

KONČAR Group members, most notably in the transformer segment, use in their manufacturing operations most raw materials and commodities that have been affected by a price surge.

The financial stability of the Group and its members enabled measures and activities to be taken in order to mitigate the impact the rising prices have on operations (timely inventory management, semi - annual and annual contracts with suppliers, multi - year contracts with customers using a sliding formula based on material prices).

Significant changes to the organization

The Management Board of KONČAR – Electrical Industry, with the consent of the Supervisory Board, continually carries out operational restructuring in order to retain KONČAR Group's market position and profitability and to enhance further development. In 2021, KONČAR continued to restructure the companies operating outside of KONČAR Group's core business activities and to establish companies based on market trends.

At the General Assemblies of KONČAR - Engineering Co. for Plant Installation and Commissioning Inc. and KONČAR - Power Plant and Electric Traction Engineering Inc. a resolution was passed to approve the Merger Agreement between KONČAR - Power Plant and Electric Traction Engineering Inc. as the acquiring company and KONČAR - Engineering Co. for Plant Installation and Commissioning Inc. as the merged company. The Resolution took effect as of 1 July 2021.

As of 1 October 2021, the spin-off of the company KONČAR - Power Plant and Electric Traction Engineering Inc. was registered with the establishment of the company KONČAR - Digital Inc. The new company will participate in the development and application of digital solutions in the power industry.

Starting from June, a series of activities related to the change of the legal form of Group members was carried out, whereby some of the companies were transformed from joint stock companies into limited liability companies with the purpose of streamlining corporate management and governance.

In 2021, in agreement with the Chinese partner, liquidation of the joint venture KONČAR - XD was carried out.

Precautionary Principle or approach

KONČAR implements the Precautionary Principle in all business operations pursuant to the Environmental Protection Act. This approach is based on avoidance of all potential risks arising from implementation of new technology until complete knowledge and understanding of its environmental and health impacts has been obtained. More information on the Precautionary Principle can be found in this Report under GRI Standard 304.

External initiatives

KONČAR accepts and applies international and local principles, charters and standards which contribute to better quality of products, work processes and production as well as to preservation and improvement of the natural and social environment.

In accordance with the Companies Act and the Corporate Governance Code adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange, the Management Board of KONČAR – Electrical Industry applies the Corporate Governance Code. In line with the Code, the Company develops and operates in accordance with corporate governance best practices. The Company leverages its corporate and business strategies, policies, internal acts and practices to contribute to transparent and efficient operations and good relationships with the business environment it operates in. The Corporate Governance Code was adopted for the purpose of:

- prudent management,
- defining procedures of corporate governance based on recognisable international standards, and
- supervision over business operations,

and all for the purpose of establishing high corporate governance standards and transparency of operations as the basis for protection of shareholders, investors and other stakeholders, employee well - being, sustainable development and environmental protection.

The Corporate Governance Code is based on legal regulations of the Republic of Croatia and adopted international standards, as well as their incorporation into the Company's business practices. The Corporate Governance Code is available to all stakeholders at www.koncar.hr/investitori/korporativno-upravljanje/

A systematic approach has generated policy and objectives of quality management, environmental protection, occupational health and safety, acknowledged by certificates obtained from accredited autonomous bodies. In line with the Sustainable Development Policy, the Group has implemented ISO 9001 Quality Management System, ISO 14001 Environment Management System, OHSAS 14001 Occupational Health and Safety Management System, ISO / IEC 18001 Information Security Management System and ISO / IEC 45001 Energy Management. A number of other standards and norms have been applied to individual products as per requirements specified by customers and users. More information on the Group companies' certificates under the standards can be found in the GRI Standard 416-2 section.

KONČAR receives a 2021 national recognition award for environmental protection

At the Conference on the Future of Europe, initiated by the European Parliament, the Council and the European Commission, KONČAR - Infrastructure and Services was awarded a national recognition award as an exceptional organization with a strategic vision and management system which allows it to continuously improve environmental performance. KONČAR - Infrastructure and Services is a company within KONČAR Group which provides services and support to other Group companies, supplying electricity, steam, hot water, drinking water and gas, and providing security services for people and property, as well as general services and property management.

New license agreement and ZelEn product

KONČAR - Infrastructure and Services signed a three - year supply agreement with HEP Opskrba and extended the license agreement for ZelEn product, purchased since 2019. The product is available to customers who are oriented towards social responsibility in their operations and dedicated to the care for the environment and the use of energy from renewable sources. By contracting ZelEn, KONČAR Group products and services are produced with reduced CO2 emissions and additional care for the environment. For the total annual consumption of KONČAR Group of 28,358 MWh, the reduction of CO2 emissions amounts to 4,497 tons, and KONČAR - Infrastructure and Services contracted the price of 1 MWh at HRK 1.50, which amounts to approximately HRK 42,500.00 per year. These funds are paid into a fund which HEP manages to finance projects in the field of renewable energy and energy efficiency for the needs of socially vulnerable groups users of public sector services, such as kindergartens, schools, care homes and similar institutions.

KONČAR's and its employees' membership in various associations

- 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)
- International Chamber of Commerce (ICC)
- American Chamber of Commerce (ACC)
- International Buyer Association
- German Croatian Chamber of Industry and Commerce
- Nordic Chamber of Commerce in Croatia
- Austrian Chamber of Commerce in Croatia
- International Institute for Climate Action
- European Committee for Electrotechnical Standards (CENELEC)
- Croatian Business Council for Sustainable Development (HRPSOR)
- Croatian Branch of the International Council on Large Electric Systems (HRO CIGRÉ)
- Croatian Exporters (HIZ)
- Croatian Chamber of Commerce (HGK)
- Croatian Academy of Engineering (HATZ)
- Croatian Association for Information and Communication Technology, Electronics and Microelectronics (MIPRO)
- Croatian Standards Institute (HZN)
- Croatian Innovators' Association (UIH)
- Croatian Chamber of Electrical Engineers (HKIE)
- Croatian Chamber of Mechanical Engineers (HKIS)
- Croatian Chamber of Architects
- Innovative Work Community
- Renewable Sources Community
- Electrical Engineering Society of Zagreb (EDZ)
- Croatian Engineering Association (HIS)
- Community of Railcars
- Society of Engineers and Technicians of Croatian Railways (HDZI)
- Croatian Association of Professionals in Nature and Environmental Protection (HUSZPO)
- Croatian Association of Infrared Thermography (HUICT)
- Croatian Society for Quality (HDK)
- American Chamber of Commerce in Croatia (AmCham)
- European Company Lawyers Association (ECLA)
- Association of Corporate Lawyers
- Association of Lawyers in Economics
- Croatian Mediation Association
- Croatian Audit Chamber
- Croatian Community of Accounting and Financial Professionals (RIF)
- Croatian Journalists' Association (HND)
- Croatian Public Relations Association (CPRA)
- Global Compact - International Agreement within the United Nations
- Association for Socially Responsible Business Operations within the Croatian Chamber of Commerce.

Hrvoje Požar Foundation Award for contribution to the development of energy industry awarded to Eduard Plavec

On 31 March 2021, Hrvoje Požar Foundation presented its annual award for contribution to the development of the energy industry. Eduard Plavec from KONČAR - Electrical Engineering Institute was awarded *Hrvoje Požar Foundation Award* for his contribution to the development of the industry. Plavec was recognised for his scientific and innovative contribution to the energy industry, which resulted in increased operational reliability and safety of power subsystems and technological progress of energy system components. His scientific contribution pertains to the mathematical - physical model of the electromagnetic trigger and the newly developed method of optimizing the magnetically conductive parts of the solenoid electromagnetic trigger developed to operate a high - voltage switch.

16th Convention of Croatian Exporters - KONČAR receives two Golden Key awards

At the 16th Convention of Croatian Exporters, held on 1 September 2021, Golden Key awards were also presented for the 14th time. KONČAR-Distribution and Special Transformers (D&ST) received an award in the category of the best large exporter in 2020. KONČAR - Distribution and Special Transformers continued to grow in 2020, selling goods and services in the amount of HRK 1.091 billion, of which export revenues amounted to HRK 937.6 billion, accounting for 86 percent of sales revenue. KONČAR - Distribution and Special Transformers has been one of the leading Croatian exporters. In 2018 and 2020, KONČAR - Distribution and Special Transformers was awarded a Golden Key award in the category of the best large exporter. In 2020, the company also received the award for the best exporter to Nigeria and in 2009 and 2011, for the best large exporter to the United Arab Emirates. In 2014, it won the Platinum Key award for export continuity and the Plaque for the best exporter among those receiving that award. In 2020, D&ST was awarded the Golden Key award in the category of the best exporter to Austria in 2019.

KONČAR - Power Transformers, a joint venture of Siemens Energy and KONČAR, won the Golden Key award as the best exporter to Qatar. KONČAR - Power Transformers generates most of its revenues, i.e. 98 percent, from exports to international markets, exporting to 91 countries across six continents, with more than 3000 transformers delivered.

KONČAR awarded the Charter of the Croatian Chamber of Economy marking the company's 100th anniversary

KONČAR was awarded the Charter of the Croatian Chamber of Economy on the occasion of the 100th anniversary of business operations, as one of the leading Croatian exporters, which has established itself as a regional electrical power industry leader. Four KONČAR Group companies were awarded, as many as 13 times, the Golden Marten plaque (in Croatian: Zlatna Kuna), by the Croatian Chamber of Economy, and the Croatian Sustainability Index Award (former CSR Index) seven times, which is awarded for corporate social responsibility by the Croatian Chamber of Economy and the Croatian Business Council for Sustainable Development. KONČAR Group companies take an active part in professional associations within the Croatian Chamber of Economy, and also participate at trade fairs and business delegations organised by the Chamber.

KONČAR - Electrical Industry awarded the Charter of the Republic of Croatia

Celebrating the Company's 100 years in business, Zoran Milanović, President of the Republic of Croatia, awarded KONČAR - Electrical Industry with the Charter of the Republic of Croatia for exceptional and longstanding contribution to Croatian economy and its promotion domestically and internationally.

Award for significant contribution to STEM field

Eduard Plavec from KONČAR - Electrical Engineering Institute received a Technical Culture Award Rudolf Perešin for significant contribution to STEM field. The annual award is presented by the Croatian Association of Technical Culture of the Zagreb County for exceptional achievements through voluntary or professional creative, pedagogical, professional, scientific and organizational participation and work in the field of technical culture.

KONČAR - Distribution and Special Transformers awarded the Golden Marten plaque

At a formal session of the Economic Council of the Zagreb Chamber of Economy, held on 14 October 2021, the Golden Marten plaque (in Croatian: Zlatna Kuna) in the category of the large company in 2020 for the City of Zagreb, was awarded to KONČAR - Distribution and Special Transformers (D&ST) for its business results and financial, technological and innovative excellence. Over the past 70 years, the company had sold transformers in more than 110 countries world wide. The company was awarded the Golden Marten plaque also in 1998, in the category of medium-sized companies and in 2006 and 2016 in the category of large companies.

Partner in a sustainable future conference

The second international conference We sustain sustainability was held at Art House Arsen in Šibenik and organised by the Croatian Chamber of Economy as part of HGK_COR AKCELERATOR platform. It was initiated by the Corporate Responsibility Association, of which KONČAR is a member. The conference brought together leaders in social corporate responsibility who serve as role models in terms of good practice and consequently, encourage other economic operators and business entities to incorporate corporate social responsibility in their business operations. By adhering to the UN Global Compact principles and incorporating Sustainable



Development Goals into its business operations, the Company seeks to ensure and promote sustainable future, striving to further improve all key elements of sustainable business.

Croatian Sustainability Index - The Institute receives an award in the Human Rights category

As part of the 13th Conference on Sustainable Development, KONČAR – Electrical Engineering Institute was awarded the Croatian Sustainability Index Award (HRIO) in the Human Rights category. The Croatian Sustainability Index Award (formerly CSR Index) is jointly awarded once a year in the category of small, medium, large and public companies by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy. Awards are also presented to companies with the best results in one of these six categories: Governance, Environment, Work Environment, Human Rights, Children's Rights, and Community.

KONČAR wins *Partnership for Sustainability Award*

KONČAR wins UN Global Compact Partnership for Sustainability Award in the Planet category. The award ceremony took place on 2 December in Kyiv, Ukraine. The Award aims to encourage businesses, employees, top management, and various levels of government to implement sustainable strategies in operational standards. KONČAR applied for the award as it is committed to rational use of energy sources, eco-friendly technologies and recyclable materials, exclusive use of electricity produced from renewable energy sources and reduction of overall carbon footprint.

Key impacts, risks, and opportunities

Risk management is an integral part of business operations and organizational management. It represents a function within the governance system aimed at ensuring the Company's internal capacity to pursue its strategy, mission and vision. Pursuant to the Corporate Governance Code, which was created jointly by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange and entered into effect on 1 January 2020, the Management Board of KONČAR – Electrical Industry Inc. at a session on 15 December 2022 adopted the Risk Management Policy, with the consent of the Supervisory Board.

The risk management system includes strategies, processes and reporting procedures necessary for identifying, measuring, monitoring and managing risks and includes continuous reporting, on an individual and group basis, about the risks to which the Company is exposed or could be exposed in its operations and about the interdependence of those risks. It is subject to regular internal reviews. The Management Board of KONČAR – Electrical Industry and management boards of dependent companies have undertaken to develop all their capabilities so that the risks that could significantly affect the Group's operations are identified and assessed, that control mechanisms are put in place to achieve the Group's strategic goals, protect the results and reputation of the Group, ensure financial stability of the Group and protect the interests of all the stakeholders. Risk appetite involves determining the intention to assume risk, as well as risk tolerance in terms of determining the risk level which is acceptable for the Company. This also includes the extent of the risks the Company is willing to assume in order to achieve its long-term strategic objectives. Pursuant to the Risk Management Policy and taking into account the business strategy and business objectives, KONČAR Group has determined that its risk appetite is moderate. The Company's Management Board is required to adopt, document and apply policies and other internal documents pertaining to managing individual risks or groups of related risks to which the Company is exposed. Risk management process in accordance with the ISO 31000 standard constitutes an integral part of the Policy. The Company's internal audit function is responsible for monitoring the implementation of the risk management system. The Audit Committee is required to review the effectiveness of the risk management and internal control system as a whole at least once a year and make recommendations to the Supervisory and Management Boards as necessary.

Ethics and Integrity

Values, principles, standards and norms of behaviour

By 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. On 12 September 2005, KONČAR - Electrical Industry signed the Declaration on the Adoption of the Code of Ethics in Business Operations, ratified by the Assembly of the Croatian Chamber of Economy. The Code has been made available to all employees of KONČAR Group and business partners.

KONČAR fully implements the adopted acts and positive regulations, which are publicly available to all stakeholders and can be found at the website <https://www.koncar.hr/investors/corporate-management/>.

In accordance with the Articles of Association, the main priorities of the Company's business operations are:

- profit generation
- development and growth of the Company and KONČAR Group members
- ensuring high quality of life and work environment

This includes the application of the Corporate Governance Code adopted by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange, and the Code of Conduct approved by the Supervisory Board.

The purpose of the Code of Conduct is

- to establish clear rules and framework for professional conduct of the Company employees
- to promote core corporate values
- to raise the awareness of the importance of prevention and avoidance of situations where employees take part in unethical acts or socially unacceptable conduct.

In organizing its business, the Company observes the following principles of business ethics:

- principle of lawfulness in business
- principle of professionalism, expertise and impartiality
- principle of integrity
- principles of equality, fairness, respect for human rights and dignity
- principle of social responsibility
- principle of business transparency.

The full Code of Conduct is available to all stakeholders at www.koncar.hr/en/investors/corporate-management/.

Mechanisms for advice and concerns about ethics

KONČAR has set up internal mechanisms for providing advice on ethical and legal behaviour and issues related to the organisational integrity. Depending on the size and organisation of a respective KONČAR Group company, advice may be requested from legal departments, persons responsible for HR, Employee dignity committee, works councils and / or trade union commissioners.

Mechanisms have been put in place for making requests not related to the organization, including regional trade union commissioners, State Inspectorate Office and labour inspectorate or relevant ministries.

In 2021, the Company continued activities pertaining to compliance with the Whistleblower Protection Act (Official Gazette 17 / 19). After the Ordinance on the procedure for internal reporting of irregularities and the appointment of a confidential person was adopted in the previous reporting period, the Management Board of KONČAR – Electrical Industry, acting upon a written proposal of at least 20 percent of the employees, decided on the appointment of a confidential person for internal reporting of irregularities, and of that person's deputy. As published in the regular report, there were no irregularities reported in 2021.

Governance

Governance structure

This Corporate Social Responsibility Report (CSR Report) pertains to KONČAR Group, consisting of KONČAR – Electrical Industry (parent company), 17 dependent companies and 2 affiliated company.

The companies operating within the Group are legally autonomous entities, while the parent company exercises a supervising role, provides strategic direction and supports them via supervisory boards and general assemblies pursuant to the Companies Act, KONČAR - Electrical Industry Inc. Articles of Association and the Articles of Association of individual companies. Furthermore, the parent company manages a portion of assets which is not invested into companies, but is directly and indirectly in function of the financial support of sales, products and the equipment of dependent companies as a credit / guarantee potential.

KONČAR – Electrical Industry and KONČAR Group have a two-tier board structure, composed of the Supervisory Board and the Management Board. Together with the General Assembly, pursuant to the Articles of Association and the Companies Act, they constitute the three governance bodies of the Company.

Composition of the highest governance body and its committees

Rules regulating the appointment and recall of the members of the Management and Supervisory Board are set forth in the Articles of Association and comply with the Companies Act. The rules do not contain any discriminatory restrictions on the basis of gender, age, education and professional qualifications or other similar restrictions. The authority and competence of the Management Board members comply with the Companies Act and are laid down in the Articles of Association and Management Board Rules of Procedure.

General Assembly

The General Assembly is a body that allows shareholders to exercise their rights in Company matters. The work of the General Assembly, its authority and competence, shareholders' rights and the manner in which they are exercised are set out in the Company's Articles of Association. The General Assembly is competent for the election and granting of discharge to Supervisory Board members, decides on the distribution of profit, grants discharges to Management and Supervisory Board members, appoints auditors and decides on amendments to the Articles of Association, increases and reductions of the share capital and other matters falling under its competence by law. All decisions adopted at General Assembly sessions have been published in accordance with legal regulations and are available on the websites of the Company (www.koncar.hr/en), Zagreb Stock Exchange and HANFA.

Supervisory Board

The Supervisory Board is responsible for supervising business management. Direct management of the Company is not performed by the Supervisory Board. Rather, the Supervisory Board directs the Management Board when it comes to adopting strategic decisions and setting a governance framework. The Supervisory Board has also been granted additional authorisations by virtue of the Articles of Association of KONČAR – Electrical Industry, stipulating that particular types of tasks can be performed only with the previous consent of the Supervisory Board.

In accordance with the Corporate Governance Code adopted by the Zagreb Stock Exchange and HANFA, applicable as of 1 January 2020, the Supervisory Board consists mostly of independent members who have no business, family or other relations to the Company, a majority shareholder or a group of majority shareholders, or a member of the Management or Supervisory Board or a majority shareholder.

The Supervisory Board has nine members. Five members are appointed and recalled by the General Assembly, one member is appointed by employees in accordance with the Labour Act and three members are appointed, in accordance with the Companies Act by the shareholder Kapitalni fond d.d. as long as it holds Company shares representing 25 percent plus one share in the Company's share capital. In the event of decrease of the number of shares held by Kapitalni fond d.d., the number of Supervisory Board members it appoints shall be reduced accordingly. The percentage of women in the Supervisory Board is 22 percent.

The President of the Supervisory Board is elected by the Members, who are elected by the General Assembly. Deputy President is elected by the appointed members of Kapitalni fond d.d., from among their own ranks. Supervisory Board members are appointed for a four-year term and may be reappointed. Members appointed by Kapitalni fond d.d. may be appointed for two consecutive terms at most.

Pursuant to the Decision of the General Assembly of KONČAR – Electrical Industry of 12 July 2016, monthly remuneration for Supervisory Board members was determined in the gross amount of 1.5 average (gross) salary paid in KONČAR Group in the month preceding the month of remuneration calculation. Every member of the Supervisory Board is entitled to a fixed monthly remuneration starting from the date of appointment to that duty until the date of the recall thereof. In order to maintain their independence and objectivity, remuneration of Supervisory Board members does not depend on the Company's performance and does not include variable remuneration.

The Supervisory Board includes the Appointments Committee, a working body in charge of preparing resolutions to be adopted by the Supervisory Board. The Appointments Committee is competent for holding discussions and submitting proposals to the Supervisory Board regarding decisions on the appointment and election of Management Board members.

Supervisory Board Members in 2021:

| | |
|-----------------|------------------|
| Joško Miliša | President |
| Darko Horvatin | Deputy President |
| Branko Lampl | Member |
| Ivan Milčić | Member |
| Maja Martinović | Member |
| Ruža Podborkić | Member |
| Mario Radaković | Member |
| Zvonimir Savić | Member |
| Danko Škare | Member |

Management Board

The Company's Management Board is the governing body solely responsible for overall business operations. It is appointed and recalled by the Supervisory Board. Duties of Management Board members have been defined in accordance with business segments, activities, processes and markets. The Management Board is responsible for proper business risk management. At its regular meetings, it reviews the Company's economic, environmental and social impact. The efficiency of the Company's Management Board and the Management Boards of dependent companies is evaluated and assessed by the Supervisory Board based on key performance indicators and maintaining and building a positive reputation of the Company.

Through their membership in the Supervisory Boards and Assemblies and based on other rules adopted, Management Board members coordinate, direct, supervise and monitor performance in KONČAR Group companies. Members of the Management Board of KONČAR – Electrical Industry do not receive remuneration for their work in the Supervisory Boards of dependent companies.

In accordance with the Articles of Association, the Management Board may consist of three to seven members. At present, the Management Board has six members. Management Board members are appointed for a five - year term and may be re-appointed without any limitations with regard to the number of terms. Every Management Board member manages the operations in their respective business segment individually, at their own responsibility, with due care and diligence of a prudent businessman, and makes all their decisions only in the best interest of the Company. When deciding on key business policy matters or matters relating to business segments of other Management Board members, a Management Board member must present such matters to the Management Board, to be decided on by the Management Board as a whole. The rights and obligations of Management Board members are defined by virtue of a Management Board Member Contract.

Members of the Management Board of KONČAR – Electrical Industry in 2021:

- Gordan Kolak, President of the Management Board in charge of the power segment (power generation, transmission and distribution)
- Ivan Bahun, Deputy President of the Management Board in charge of research, development and mobility
- Josip Ljulj, Member of the Management Board in charge of the industry segment
- Miki Huljić, Member of the Management Board in charge of real estate management
- Josip Lasić, Member of the Management Board in charge of economics and finance
- Božidar Poldrugač, Member of the Management Board in charge of digital solutions, ICT and urban infrastructure

Strategy

KONČAR Group 2020+ Integral Strategy and operating model were defined in 2021. It was coordinated directly by KONČAR - Electrical Industry while Deloitte was involved through its subsidiary in Croatia as an external expert associate. The aim of the Integral Strategy is to set the main developmental directions and improve KONČAR Group's business operations, in terms of business and production portfolio, target markets and customer segments, human resource development and important issues of modernisation and development of the technological basis of business operations.

The task is to reinforce the power engineering portfolio, strengthen the role of KONČAR Group in the segment of development and delivery of renewable energy solutions and focus on digitalization, complex products and advanced professional services. This will increase the Company's competitiveness and long - term presence in the existing markets, and consequentially enable the Company to win new markets. The core convergent solutions from the product and sales portfolio include testing, maintenance and management services for the power generation from renewable sources, transmission and distribution systems, rail solution and infrastructure, and the digitalization of critical infrastructure.

The four main strategic objectives of the Integral Strategy are to increase competencies by recruiting new experts, enhance competitiveness by investing in development and technology, strengthen exports to new markets and grow the revenues.

NEW MISSION

Inspired by challenge, we develop modern solutions for the electrical industry; we contribute to local manufacturing and energy sustainability of the society.

NEW VISION

An innovative partner for advanced solutions on the path of green energy transition and mobility.

Strategic and Business Development Committee

The Strategic and Business Development Committee operates within the Supervisory Board. It consists of five members and its task is to provide support to the Supervisory Board in the area of strategic planning. The Committee is in charge of monitoring and assessing development and changes in the environment, as well as of evaluating the Company's short - term

and long - term objectives, assisting with strategic decisions pertaining to acquisitions, joint ventures, restructuring and development of strategic human resources. The Strategic Development Committee is chaired by Ivan Milčić, and its members are Branko Lampl, Zvonimir Savić, Joško Miliša and Maja Martinović.

Effectiveness of risk management processes

The Audit Committee operates within the Supervisory Board and analyses financial statements in detail, and sets up appropriate and efficient internal controls. The Committee ensures the integrity of financial information, specifically the validity and consistency of accounting methods used in the Company and KONČAR Group, including the criteria for consolidated financial reporting of Group companies. Moreover, the Committee is tasked with monitoring the internal control and risk management system with the aim of allowing the Company to identify, publicly disclose and appropriately manage the major risks to which it is exposed.

Darko Horvatin chairs the Audit Committee, and Mario Radaković and Joško Miliša are the members.

Review of economic, environmental and social topics

Internal Audit Department

KONČAR Group's Internal Audit Department performs the independent audit and control function. It informs the managers about performed audits through comprehensive reports (providing findings and recommendations for improvements). The Internal Audit Charter was adopted in October 2018. It defines the scope of activities and main principles applied in the work of KONČAR Group's Internal Audit Department.

The Internal Audit Department is responsible for assessing the levels of risk management in business processes, auditing the effectiveness of the internal control system with the aim of improving risk management and compliance with procedures, examining and analysing the compliance of existing business systems with adopted policies, plans, procedures, laws and rules that may have a significant impact on business reports. It is tasked with recommending preventive measures in the areas of financial reporting, compliance, operations and control with the aim of eliminating risks and potential deficiencies that could lead to process inefficiencies or fraudulent practices. The Internal Audit Department informs the Management Board, the Audit Committee and the Supervisory Board about its work and the audit plan. The findings and recommendations allow the Management to improve the processes, preemptively eliminate potential risks or reduce them to acceptable levels.

In 2021, several audits were carried out in the areas of sales processes, procurement, inventory management, and due diligence processes in companies that were merged.

Remuneration policy

The Remuneration Committee operates as part of the Supervisory Board. Its task is to outline the content of Management Board member contracts and determine the structure of their remuneration. The Committee is also in charge of drawing up the Remuneration Policy for Members of the Management and Supervisory Boards.

The Committee is chaired Branko Lampl, and Maja Martinović and Ruža Podborkić are the members. In 2021, the Committee held 1 session, which was attended by all the Committee members.

Remuneration

Remuneration of the Members of the Management Boards / Directors of the Group companies has been set forth by the Resolution of the Management Board of KONČAR - Electrical Industry Inc. It is based on clearly defined business - related criteria, including operating results, plan realization, consolidated plan realization, EBITDA and order intake.

KONČAR – Electrical Industry has set out to be an employer that encourages employee engagement, growth and development. Employee performance is recognised and rewarded. KONČAR is dedicated to balancing monetary and non - monetary rewards and base and variable compensation. Monetary and non - monetary rewards are correlated with the Company's core values and strategies. Remuneration is determined as base salary and variable pay. Base salary reflects an employee's relevant professional experience, competencies and the level of organizational responsibility. Variable pay is based primarily on

the realization of the Company's plans and objectives set in advance. Variable pay schemes provide an incentive for cautious long - term risk - taking and prudent risk management.

Remuneration of the Management Board of KONČAR – Electrical Industry has been laid out in the Contract on the Rights and Obligations, which is concluded between the President and Members of the Management Board and the Supervisory Board. The remuneration is considered appropriate and aligned with the position of the Company and its results.

Information on the overall remuneration and benefits of the Members of the Management Boards and Directors is fully disclosed in annual financial statements.

Stakeholder engagement

Stakeholders and their engagement

KONČAR Group is aware of the importance of providing regular information and engaging in communication with all stakeholders, as important factors in KONČAR's operations. KONČAR has recognized this and segmented all stakeholders - individuals, communities and organizations affecting or being affected by the Group's operations. In line with market developments, the Group creates new channels of communication through which stakeholders can be involved and obtain all relevant information about the Group. Stakeholders have been involved in preparation of this Report segment.

| STAKEHOLDERS | STAKEHOLDER NEEDS AND EXPECTATIONS | TYPE AND FREQUENCY OF COMMUNICATION |
|--------------|---|--|
| Customers | <ul style="list-style-type: none"> • Quality of products and services • Compliance with lead times and contractual obligations • Customer relationship management and complaints procedures • Prudent resource management • Compliance with ethical principles • Privacy policy • Continuous product development and improvement | <ul style="list-style-type: none"> • Regular meetings, workshops, conferences • Professional training - when necessary • Resolving and analysing complaints, requests and suggestions, when necessary • Annual Customer Satisfaction Survey • Fairs, conferences, meetings, continuously • Official website, continuously • Email, continuously • Regular customer visits • Annual CSR report • Business reports • Leaflets and brochures • LinkedIn, continuously • KONČAREVAC, continuously |
| Employees | <ul style="list-style-type: none"> • Remuneration and compensation • Engaging working environment • Personal development, recognition and rewards • Stable operations • Occupational health and safety • Training and development • Non - discrimination | <ul style="list-style-type: none"> • Education and professional training, continuously • Intranet and internal services, continuously • Email, continuously • Annual CSR report • Meetings, when necessary • Business reports • LinkedIn, continuously • Official website, continuously • KONČAREVAC, continuously |

| | | |
|------------------------------------|--|---|
| Owners / Shareholders | <ul style="list-style-type: none"> • Corporate business strategy • Profitability • Value added • Business growth and sustainability | <ul style="list-style-type: none"> • General Assembly • Letters, emails, when necessary • Annual CSR report • Business reports • LinkedIn, continuously • Official website, continuously • Email, continuously • ZSE, HANFA • Croatian news agency (HINA) • KONČAREVAC |
| Suppliers | <ul style="list-style-type: none"> • Mutual benefit and long - term relationships • Management systems • Ethical behaviour • Business volume | <ul style="list-style-type: none"> • Participation in fairs and conferences • Audits, visits, meetings, when necessary • Official website, continuously • Annual CSR report • Email, continuously • Business reports • LinkedIn, continuously |
| Business partners and sales agents | <ul style="list-style-type: none"> • Mutual benefit and long - term relationships • Compliance with contractual obligations • Market competitiveness • Ethical behaviour | <ul style="list-style-type: none"> • Meetings, continuously • Participation in fairs • Official website, continuously • Email, continuously • LinkedIn, continuously • KONČAREVAC |
| Works' council / trade unions | <ul style="list-style-type: none"> • Employee involvement • Compliance with legal regulations • Freedom of association and collective bargaining | <ul style="list-style-type: none"> • Meetings, when necessary • Notice boards, continuously • Annual CSR report • Business reports • Official website, continuously • KONČAREVAC, continuously |
| Business and professional public | <ul style="list-style-type: none"> • Financial support • Enhancement of competencies | <ul style="list-style-type: none"> • Membership, continuously • Working groups, working bodies, continuously • Participation in conferences • Professional and trade publications • Topic-based meetings, when necessary • Annual CSR report • Business reports |
| Scientific and scholarly community | <ul style="list-style-type: none"> • Applied research and development • Knowledge transfer • Joint projects | <ul style="list-style-type: none"> • Scholarly and scientific papers • Seminars and workshops, when necessary • Participation in conferences and congresses • Memberships • Joint activities • Topic - based meetings • Annual CSR report • Annual financial statements • KONČAREVAC |
| State authorities | <ul style="list-style-type: none"> • Payments towards taxes, contributions and fees • Compliance with legislation • Reporting | <ul style="list-style-type: none"> • Working groups, continuously • Emails, memos, continuously • Official website, continuously • Annual CSR report • Meetings, continuously • Participation in conferences and topic - based meetings, when necessary • KONČAREVAC, continuously • Membership, continuously |
| Local community | <ul style="list-style-type: none"> • Investment in local initiatives through donations and sponsorships • Protection and prudent use of resources (economic, environmental and social) | <ul style="list-style-type: none"> • Visits, meetings and joint activities • Sponsorships and donations • Official website, continuously • Annual CSR report • Business reports • LinkedIn, continuously • Volunteers' Club • KONČAREVAC, continuously • Emails, memos, continuously |

| | | |
|------------------|---|--|
| Financial public | <ul style="list-style-type: none"> • Financial statements | <ul style="list-style-type: none"> • ZSE • HANFA • HINA • Official company website • KONČAREVAC • Business reports • CSR reports • Meetings with prospective investors |
| Media | <ul style="list-style-type: none"> • Providing information on the Group's operations | <ul style="list-style-type: none"> • Interviews, stories, releases • Regular and extraordinary press conferences • KONČAREVAC, continuously • Press releases, when necessary • Official website, continuously • LinkedIn, continuously |

Communication with stakeholders

KONČAREVAC, corporate magazine

All news related to KONČAR Group's operations, as well as topics pertaining to its numerous stakeholders, such as customers and employees, or to support to local and other communities, are published in KONČAREVAC. KONČAREVAC is published ten times a year with a circulation of 3,200. It is distributed to employees and delivered to about one thousand addresses in Croatia and abroad. In December 2021 KONČAREVAC issue no. 1472 was published.

KONČAREVAC was launched on 9 November 1964, replacing earlier factory bulletins Svjetlost (published since 1947) and Vjesnik Tvornice Rade Končar (published since 1956).



Fairs and Conferences

Fairs and conferences remain irreplaceable in integrated marketing communications and are a pivotal marketing assets in communication with the market, and therefore an integral part of KONČAR's strategic marketing concept with increasingly growing hybrid and digital organizational forms.

The Management Board of KONČAR - Electrical Industry encourages the initiative of organized participation in international conferences where KONČAR experts participate with papers. The parent company co - finances the participation costs in partnership with the Group member company where authors are employed.

Last year, KONČAR participated in three hybrid, five digital and six analog fairs or conferences

HYBRID PARTICIPATION:

1. Trebinje Energy Summit, Bosnia and Herzegovina, 21 - 21 May

KONČAR was the silver sponsor of the 2nd Trebinje Energy Summit. After the opening ceremony, KONČAR gave an expert presentation *KONČAR - Digital Solutions in the Power System*. KONČAR representative participated in the *Hybrid Energy Future* panel. Along with the standard sponsorship elements, strong media promotion of KONČAR throughout the region was achieved as part of the sponsorship package.

2. HO CIRED, Šibenik, Croatia, 24 - 25 June (The 7th Conference of the Croatian Branch of International Power Supply Conference)

KONČAR was the gold sponsors of the conference, which accepted 13 papers authored and co - authored by KONČAR employees.

3. BH K / O CIGRÉ, Neum, Bosnia and Herzegovina, 17 - 20 October (The 15th Session of CIGRÉ National Committee of Bosnia and Herzegovina)

Gordan Kolak, President of the Management Board of KONČAR, gave a speech at the opening ceremony, and KONČAR delivered an expert presentation at the Session.

DIGITAL PARTICIPATION:

1. Hannover Messe 2021, Germany, 12 - 16 April

A total of 1,800 exhibitors presented 10,500 products and innovations to 90,000 registered participants. Registered participants generated more than 3.5 million page views, with more than 700,000 search queries through the exhibitor and production search engine. The conference, which included topics on digitalization, industrial processes, Industry 4.0, hydrogen, supply chain management, e-mobility and others, was attended by 1,500 experts.

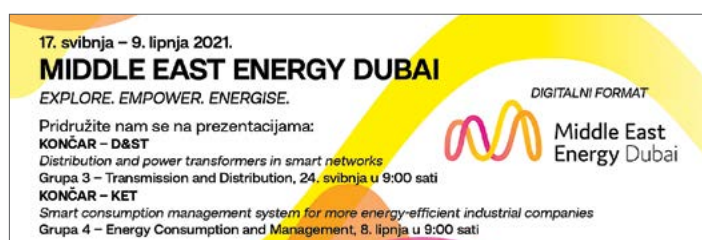


KONČAR's expanded digital package included:

- Company profile and product presentation
- Matchmaking & Business Dating
- Registration of contact persons for digital networking with all digital participants at the fair
- KONČAR digital product media library with presentations of all KONČAR products, innovations, solutions and KONČAR Group corporate video

Middle East Energy, UAE, 17 May - 9 June

KONČAR has a long-standing tradition of participation in the largest energy fair in the Middle East, which was held *online* in 2021 and was divided into 4 thematic modules with a large number of presentations and sessions: Renewable Energy, Transmission and Distribution, Critical and Backup Power and Energy Consumption and Management.



KONČAR participated with a digital corner and held two presentations: KONČAR - Distribution and Special Transformers - *Distribution and power transformers in smart networks* and KONČAR - Power Plant and Electrical Traction Engineering - *Smart consumption management system for more energy-efficient industrial companies*.

IEEE SGSMA, Split, Croatia, 25 - 27 May (International Conference on Smart Grid Synchronized Measurements and Analytics)
KONČAR was the gold sponsor of the conference and delivered a *live* presentation *KONČAR - Digital Solutions for the Smart Grid*.

CWIEME Berlin, Germany, 22 - 24 June

The organizer of the CWIEME fair provided exhibitors with a free promotion via the CWIEME website (*link* to our website with the product catalogue and corporate video), for a period of 3 days during the original fair dates.

InnoTrans Preview, Germany, 21 - 25 September

Marketing promotion with a presentation of the product portfolio of the rail solutions segment and links to the websites of all companies operating in the segment with a corporate video.

ANALOGUE PARTICIPATION:

IEEE EDPE 2021, Dubrovnik, 22 - 24 September

(The 35th International Conference on *Electrical Drives and Power Electronics*)

KONČAR was the general sponsor of the conference, and Ivan Bahun, Deputy President of the Management Board of KONČAR, gave a speech at the opening ceremony of the 35th International Conference IEEE EDPE.



MIPRO 2021, Opatija, 27 September - 1 October

(The 44th International Conference on Information and Communication Technology, Electronics and Microelectronics)

KONČAR was the gold sponsor of the conference, and Božidar Poldugač, Member of the Management Board of KONČAR, delivered a speech at the opening ceremony. KONČAR initiated and facilitated the plenary discussion *New Eco - System for Energy Networks of the Future*.

CIGRÉ Montenegro, Bečići, 28 - 30 September

(The 7th Session of CG KO CIGRÉ)

KONČAR sponsored the conference and held a company presentation customized to the prospects and segmented to the needs of the Montenegrin market. Ivan Tomšić, Member of the Management Board of KONČAR - Power Plant and Electrical Traction Engineering welcomed all participants on behalf of KONČAR Group.

CIGRÉ Serbia, Zlatibor, 3 - 10 October

(The 35th Session of CIGRÉ Serbia)

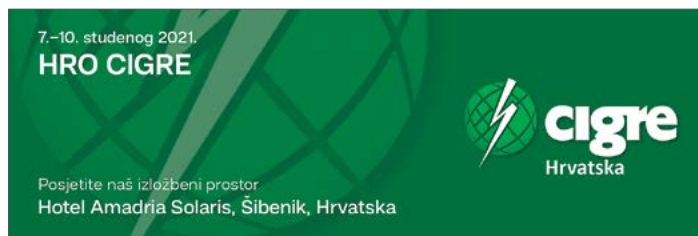
KONČAR was a sponsor of the conference and a corporate presentation was delivered covering the product portfolio with a wide range of applications of KONČAR's products and services.

ARCA 2021, Zagreb, Croatia, 14 - 16 October (The 19th International Innovation Exhibition)
KONČAR was the general sponsor of the exhibition.

HRO CIGRE, Šibenik, 7 - 10 November (The 15th HRO CIGRE Session)

KONČAR was the gold sponsor of the conference, and given that KONČAR marked its centenary in 2021, the organiser provided the opportunity to deliver a sponsorship presentation which included the premiere of a documentary, a time - travel through KONČAR's history and digital exhibition space with a large LCD screen.

While digital fairs and conferences cannot replace physical participation, it is likely that the future will bring a combination of the digital and analog world in the form of hybrid events and KONČAR will continue to boost its digital communication channels for such purposes.



KONČAR Group official website

The website www.koncar.hr/en contains the most important information about products and services, efforts to enter new markets and strengthen the presence in the existing markets, and about corporate social responsibility. The website also contains news for investors, business reports and financial statements, every issue of the corporate magazine KONČAREVAC and new on KONČAR's participation in fairs and conferences around the world. The website is available in Croatian and English. Most KONČAR Group companies operate their own websites containing details on their business operations and references.

Social media

KONČAR is present on LinkedIn with nine profiles that are managed individually by the Group companies and one profile run by KONČAR - Electrical Industry which represents the entire KONČAR Group. The corporate profile of KONČAR Group has achieved outstanding results in social media presence. All KONČAR profiles together have more than 31,000 followers, which is a growth of 10,000 year-on-year. As many as 1,031 employees indicated on their personal profiles that they work at KONČAR.

The profile is deployed to post news on order intake, contract signing, donations, sponsorships, fairs, job vacancies, recognitions and awards that KONČAR receives, financial results, export - related news, etc. A variety of formats is leveraged to increase audience engagement and grow the Group visibility. The primary objective of KONČAR Group LinkedIn profile is to create awareness about KONČAR, to engage with current and future employees, customers and business partners. KONČAR employees regularly share KONČAR news on their personal profiles. In 2021, 50 news assets were published on KONČAR Group's account and they were shared 221 times by KONČAR's employees, an average of four to five times per publication.

KONČAR Group's YouTube channel has been active since 2011 and contains 21 videos. In 2021, detailed channel analytics was carried out, the information released on the channel and videos were updated to align with the target audience, and two videos about distribution and medium power transformers and rail solutions were posted and well received.

Media

In 2021, KONČAR took a significant step towards a more transparent communication and better media relations, in order to credibly monitor activities and build an even better reputation of KONČAR among the general public. Media positioning of KONČAR Group within PR and marketing activities was carried out in cooperation with an integrated marketing communication agency. The agency team continuously provided consultancy and support in defining communication topics and appropriate communication tools and channels. Moreover, they provided operational support in the preparation of written materials for placement through paid and unpaid media channels and coordinated communication with the media. This cooperation resulted in more than 1,300 media releases and a generated PR value of HRK 24.8 million, with topics related to CSR activities of KONČAR Group achieving a high media reach. On the occasion of its 2021 centenary, KONČAR conducted a comprehensive media campaign Dobrih 100 godina, in domestic and international mainstream business media and specialized trade and niche magazines. By targeting the media, we ensured minimal audience overlaps, optimized the budget and raised the level of awareness of KONČAR Group's tradition, quality and competitiveness in domestic and international markets. Strategically positioning the statements of KONČAR Group leaders in the media enabled us to improve our communication with the key media and stakeholders, additionally strengthening the placement of key messages.

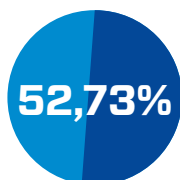
Reporting practices

Entities included in the consolidated financial statements

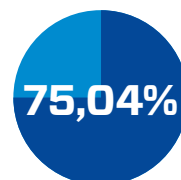
KONČAR Group with parent company share in subsidiaries (*as at 31 December 2021)



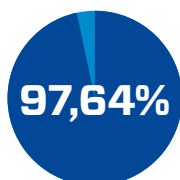
KONČAR – Switchgear Ltd.



KONČAR – Distribution and Special Transformers Inc.



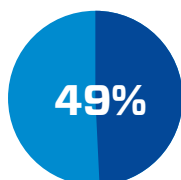
KONČAR – Electric Vehicles Inc.



KONČAR – Electronics and Informatics Inc.



KONČAR – Infrastructure and Services Ltd.



KONČAR – Power Transformers Ltd



KONČAR – Generators and Motors Ltd.



KONČAR – Electrical Engineering Institute Ltd.



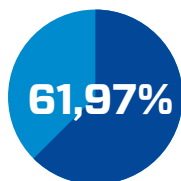
KONČAR – Investments Ltd.



KONČAR – Motors and Electrical Systems Ltd.



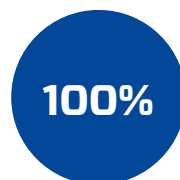
KONČAR – Metal Structures Ltd.



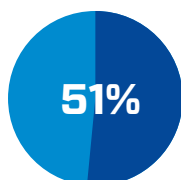
KONČAR – Instrument Transformers Inc.



KONČAR – Renewable Energy Sources Ltd.



KONČAR – Digital Ltd.



Advanced Energy Solution Ltd.



KONČAR – Power Plant and Electric Traction Engineering Ltd.
(as of 1 January 2022 registered as KONČAR - Engineering Ltd.)

Material Topics

ECONOMIC STANDARDS:

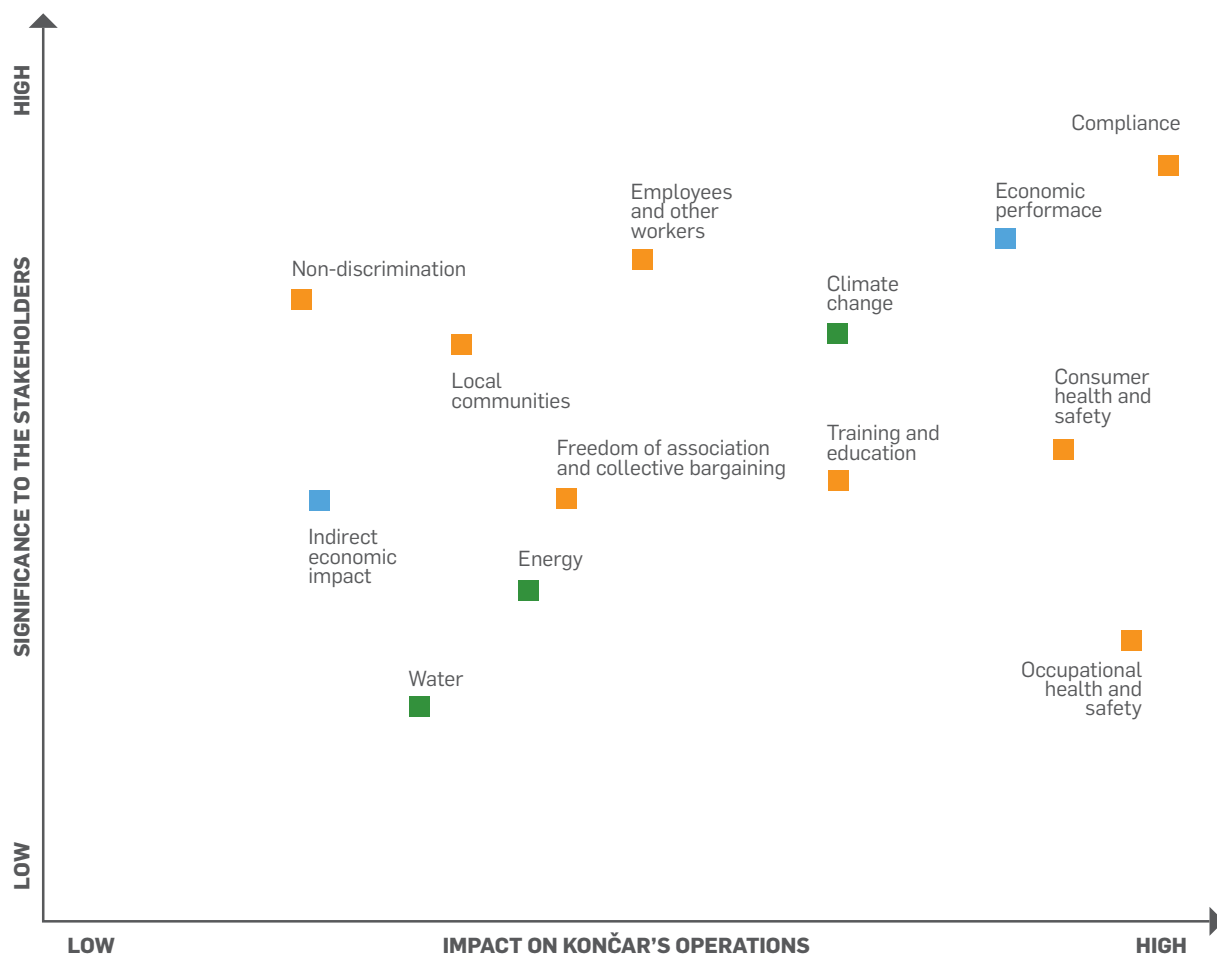
- economic performance, GRI 201
- indirect economic impacts, GRI 203

ENVIRONMENTAL STANDARDS:

- energy, GRI 302
- water and effluents, GRI 303
- climate change, GRI 305

SOCIAL STANDARDS:

- employees, GRI 401
- occupational health and safety, GRI 403
- training and education, GRI 404
- non - discrimination, GRI 406
- freedom of association and collective bargaining, GRI 407
- local communities, GRI 413
- assessment of the health and safety impacts of product and service categories, GRI 416
- compliance with regulations, GRI 417



■ economic standards

■ social standards

■ environmental standards

Restatement of information

In 2021, KONČAR continued to restructure the companies operating outside of KONČAR Group's core business activities and to establish companies based on market trends. More information on significant changes in the organization is available under GRI Standard 102 - 10.

Changes in reporting

During the reporting period, there have been no significant changes in the scope of reporting. In line with GRI standards, this year's report includes 13 material topics with appropriate qualitative and quantitative indicators. Two new material topics are covered in 2021; climate change and compliance. More detailed information on Climate change is available under GRI Standard 305, and on Compliance under GRI Standard 417.

The option of core harmonization with the GRI Standards, UN Global Compact principles and the 2030 Agenda for Sustainable Development was selected for the report. The report has not been externally assured.

Reporting cycle and reporting period

CSR reporting cycle is annual and this report has covered the period from 1 January to 31 December 2021. The preceding Report was published in June 2021.

Contact person for queries pertaining to the report

This CSR Report encompasses all KONČAR Group members. It was prepared by KONČAR – Electrical Industry. The contact person for any queries pertaining to the Report and its content is the Director of the Marketing and Corporate Communication Department.

Claims of reporting in accordance with the GRI Standards

This report has been drafted in accordance with the GRI Standards: Core Option



Topic - Specific Standards:

ECONOMIC

Economic performance

KONČAR Group's operations in 2021 showed great resilience and stability, achieving the best results in the history of the Company. Complex macroeconomic environment is still under the profound impact of the COVID - 19 pandemic, which has reflected primarily in the supply chains disruptions and in soaring prices of key raw materials and commodities. Nevertheless, timely measures and activities have mitigated the negative effects on performance. Strong financial position, great order intake, adaptability to customers and suppliers, enabled us to meet our deadlines and regularly fulfil payment obligations, contributing to growth in the number of new orders and allowing us to continue with the positive performance trend in 2022.

Total revenue generated in 2021 amounted to HRK 3,625.7 million, representing an increase of HRK 540.7 million (17.5 percent) compared to 2020. Revenues generated from product and service sales in international markets amounted to HRK 2,063.0 million, representing an increase of 11.5 percent year-on-year. The share of exports in revenues from the sales of products and services amounted to 60 percent, two thirds of which pertained to the EU countries. This is a good indicator of the fact that KONČAR Group's products and solutions are certainly competitive in the area of electrical power and rail solutions. The Company generated operating profit (EBIT) in the amount of HRK 194 million, which was double than the 2020 EBIT. EBITDA amounted to HRK 291.3 million, representing an increase of HRK 108.5 million year-on-year. EBITDA margin is 8.4 percent. New order intake amounted to HRK 4,238.5 million. Book-to-bill ratio, order intake in comparison to orders realised in 2021, stands at 1.22. Backlog at the end of 2021 amounted to HRK 5,008.1 million, which represents an HRK 760.5 million (17.9 percent) increase compared to the value at the start of the year.

Numerous contracts were performed and concluded in 2021, both in the domestic and international markets. A contract valued HRK 330 million was signed with Hrvatska elektroprivreda for the replacement of primary equipment at Senj Hydro Power Plant. KONČAR's trams were commissioned in the city of Liepāja, commencing the performance of a contract for the delivery of a total of 14 trams for this Latvian city - 10 of which were delivered by end of 2021. A contract for delivery of three generators for two small hydro power plants in Japan marked the company's further step forward in the Asian market. A project worth HRK 57.2 million was contracted for the future production and R&D facilities of Rimac Automobili. The contract includes the construction of a substation, relocation of the existing overhead power line Rakitje - Tumbri 3 and the construction of a new overhead connection line. Works also commenced in North Macedonia on the construction of a 400 / 110 kV substation in Ohrid. The substation will enable international connection with neighbouring Albania, which will further strengthen the region's power system. An HRK 63 million contract was signed with Vattenfall Eldistribution, the Swedish distribution system operator. The contract includes a very complex reconstruction of a facility at the Finnsälätten substation in Västerås. Long - standing cooperation with ZET (Zagreb Electric Tram) continued with the signing of a two - year framework agreement for the maintenance of low - floor trams. The signed framework agreement is in line with KONČAR's business strategy to build long - term relationships with its customers, important to ensure the best performance of KONČAR products during their life cycle.

More information on economic performance can be found at www.koncar.hr/en/investors/annual-financial-reports/ in the 2021 Management Report.

Direct economic value generated and distributed

| Direct economic value generated and distributed | in HRK | |
|---|----------------|----------------|
| | 2021 | 2020 |
| Direct economic value generated (income) | 3,554,258 | 3,026,268 |
| Salaries and benefits | 729,606 | 685,997 |
| Budget payments (tax) | 26,519 | -9,557 |
| Operating expense | 3,360,266 | 2,941,063 |
| Net financial expenses | 5,062 | 7,152 |
| Investments in the community (donations and sponsorships) | 1,952 | 2,342 |
| Economic value retained (net profit) | 211,391 | 127,576 |

Defined benefits plan and other retirement plans

KONČAR Group companies make regular payments towards contributions in the generation solidarity system for all employees at a 20 percent rate under the first pension pillar. The first pillar contribution rate for all those insured under both mandatory pillars is 15 percent, while a 5 percent contribution is paid towards the second pension pillar into personal accounts opened with mandatory pension funds.

Provisions for length-of-service awards and severance pay amount to HRK 39,904 thousand (2020: HRK 41,322 thousand). The amount includes an estimated amount of regular employee benefits (regular severance pay and length-of-service awards) and severance pay provided to KONČAR Group employees in line with the Collective Bargaining Agreement. The current value of the provision is calculated on the basis of the number of employees, pension amount, length of service as of the balance sheet date and discount rate of 0.6 percent (2020: 0.7 percent).

Indirect economic impact

Significant indirect economic impacts

Impacts of infrastructure investments can extend outside of the scope of the company's business operations even over an extended period of time. KONČAR's investments into business operations and the realisation of certain projects have had an indirect impact on the wider community, stakeholders and the economy. Such projects were realised even throughout 2021, and some of the most significant are listed in the following text.

Half a million kuna donated as earthquake relief to the Sisak - Moslavina County

Following the devastating earthquake that struck the Sisak - Moslavina County at the end of 2020, the consequences of which affected the Croatian capital as well, KONČAR placed its teams at the disposal of HEP and HOPS, and the teams went out in the field to help normalise the electricity supply in the earthquake - stricken areas. In addition, KONČAR Group donated HRK 500,000.00 to the State Budget through a special earthquake relief account.

Pilot - project Energy Smart Schools

The Karlovac County initiated the project, the aim of which was to equip the schools with advanced systems for measuring and remotely reading electricity and water consumption, monitoring and analysing gathered data.

The pilot project *Energy Smart Schools* was presented at the School of Natural Sciences in Karlovac. KONČAR - Electronics and Informatics and partners helped implement the project, in cooperation with The North - West Croatia Regional Energy Agency (REGEA). The goal of the project is to collect data on real - time consumption, to promptly detect failures and irregularities in the operation of energy and water supply systems, monitor indoor air quality, temperature, CO₂, and energy consumption and to check actual savings after building renovation. The end goal is to make savings in terms of energy and costs, and create a better environment for students and teachers.

KONČAR participates in the School of the Future project

KONČAR is one of the partners in *the School of the Future* project, which is the first STEM programme for artificial intelligence (AI), designed for elementary and secondary schools. The aim of the programme is to offer elementary and secondary school students a glimpse into the technological future, by acquainting them with AI world through practical work, thus encouraging them to become artificial intelligence engineers and strengthening links between IT sector and education. During the course of the programme, classrooms across Croatia will be turned into innovative laboratories where students will work in development teams and create their own solutions for UN Sustainable Development Goals by using artificial intelligence - developing chatbots. Engineers from the companies participating in the project prepared educational materials and programming tasks in order to pass on their know - how related to development of technological solutions. Under the guidance of volunteer instructors from KONČAR and in an effort to encourage children to create and not just use technology, the workshops were designed to encourage creative thinking and systematic reasoning, and to raise awareness of practical importance of mathematical and computer principles.

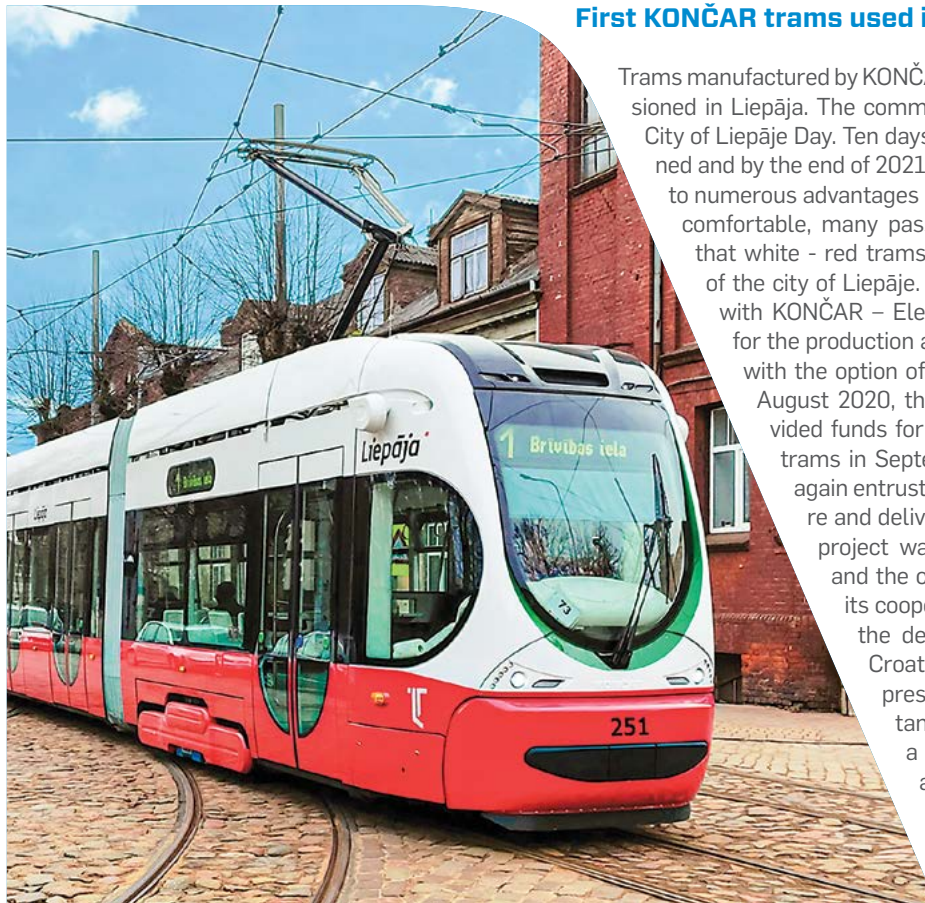
Mobile application for water cadastre

KONČAR - Electronics and informatics developed and delivered to Karlovac Waterworks and Sewerage a software for water meter read - out. The solution included an upgrade of MARS system with special modules and a mobile application enabling

manual read - out of water meters using rugged smartphones. The software system supplied as part of the *SenzoriKA* project is used not only for reading water meters but also for monitoring parking area, waste container, for measuring noise levels and air quality, and for managing heating substations. This solution was also used in advanced schools, to monitor not only air quality but also energy efficiency. The system is used for collection of read - out data but also for approval process of calculated consumption costs, complaint procedures, data processing and billing. More than 18 000 measuring locations entered in the system and several hundred remotely - read devices will enable a gradual transition from manual to remote reading, taking into account users' capabilities and needs.

KONČAR employees affected by the earthquake receive earthquake relief

KONČAR Group companies promptly fulfilled their obligations under the Collective Bargaining Agreement to provide financial assistance to employees affected by natural disaster in their place of residence and KONČAR Inc. also decided to provide additional aid to those in need after the earthquake. Humanitarian fundraising event called *KONČAR – 100 together* was organised to raise financial aid for KONČAR Group employees and their families who suffered material damage in the earthquake-stricken areas in the Sisak - Moslavina County, Karlovac County and Zagreb County. KONČAR companies and their employees proved to be charitable and compassionate, trying to help their colleagues navigate through difficult times, and they managed to raise a total of HRK 233,008.90.



First KONČAR trams used in Latvia

Trams manufactured by KONČAR - Electric Vehicles were commissioned in Liepāja. The commissioning of two trams marked the City of Liepāja Day. Ten days later, a third tram was commissioned and by the end of 2021 that number rose to ten. In addition to numerous advantages such as having low floors and being comfortable, many passengers praise their design saying that white - red trams blend wonderfully into the outline of the city of Liepāja. Liepāja Tramvajs signed a contract with KONČAR – Electrical Vehicles in November 2018 for the production and delivery of six low - floor trams, with the option of delivering additional trams. In late August 2020, the company Liepājas Tramvajs provided funds for six more trams and additional two trams in September 2021, and KONČAR was yet again entrusted with the task of their manufacture and delivery. This demanding and significant project was not disrupted by the pandemic, and the customer has nothing but praise for its cooperation with KONČAR. Breaking into the demanding European market with a Croatian high - technology product represents not only an extremely important reference for KONČAR, but also a great achievement in terms of Croatia's exports. The vehicles were co - funded by the EU as part of the *Comprehensive Reconstruction of Tram Route and Adjacent Territory* programme.

SafeLog project completed

KONČAR - Electrical Engineering Institute successfully completed the project *Safe Human - Robot Interaction in Logistic Applications for Highly Flexible Warehouses* (SafeLog) within the Horizon 2020 programme. The aim of the project was to enable safe interaction between humans and robots in flexible logistics centres. In existing systems, security is achieved either by completely separating people and robots, and cooperation is not possible or by equipping robots with security systems that significantly raise the price. The SafeLog concept is based on a safety vest that, in communication with superior logistics systems and individual robots, ensures the safety of the person who carries it and the optimum performance of the whole system. (You can find more information on the project website <http://safelog-project.eu/>) Having officially completed the project, an extensive verification of expenditure and of achievement of technical goals was carried out. In July 2021, the EC sent a final report stating that all technical objectives had been met and that financial funds had been spent for their intended

purposes. The EC fully funded the Institute's activities on the project in the amount of EUR 791,263.68. It is well worth noting that the auditors congratulated the entire consortium on outstanding results of the project and potential impact it might have on the field of robotics. They also recommended that the research be continued and results be applied in practice.

First transformer filled with the new biodegradable and sustainable insulating liquid

KONČAR - Distribution and Special Transformers (D&ST) was the first company in the world to produce and test a 45 MVA, 145 KV transformer filled with the new biodegradable and sustainable insulating liquid Nytro BIO 300X produced at Nynas, which boasts better cooling characteristics. D&ST was subsequently awarded for this achievement.



Final factory testing yielded satisfactory results and in line with the expected values. The oil temperature during the transformer heating experiment was 10°C lower than the temperature reached when the transformer was filled with synthetic ester.

The introduction of more sustainable insulation fluids is a natural course of development for KONČAR, which continues to walk the *green* path together with its business partners.

A successful outcome of this project would not have been possible without the synergy of technical and commercial teams, who collaborated closely to accomplish successful final testing results and the delivery.

Development of a multi - purpose laboratory for large electrical machines and plants

As part of KONČAR Laboratory Centre at the Institute of Electrical Engineering, the construction of a multi - purpose laboratory for large electrical machines and plants was launched.

LAVESP is exceptionally important for the continuity and development of testing of high - voltage equipment, and in terms of technical characteristics it matches world - renowned laboratories. In addition to high - voltage, other electrical, mechanical and environmental tests will be conducted in the new laboratory.

The facility will centre around a high - voltage laboratory, completely enclosed by Faraday's cage, measuring 30x35 meters in floor plan and 28 meters high. The facility will house three main newly acquired testing systems - 1200 kV AC source, 1200 kV DC source and 3.8 MV shock generator. The 1200 kV, 960 kVA transformer test equipment, constructed in one stage procedure, instead of the usual cascade design procedure, will be developed and delivered by KONČAR - Instrument Transformers, which is just one of the many special features of the new laboratory.

Delivery and commissioning of the transformer test equipment is planned for Q3, and the LAVESP commissioning for Q4 of 2022.



Cooperation with the academic community

Since establishment, KONČAR has been dedicated to education and has consistently included its leading experts in teaching or encouraged them to pursue academic and scientific careers. For decades, KONČAR Group has nurtured a tradition of academic excellence and has made exceptional efforts in the training and development of domestic experts, working closely with Croatian higher education institutions, primarily technical faculties. We have fostered a mindset that the economy and science must partner up for long-lasting success and this was also reflected in various activities and projects undertaken in partnership with educational institutions in 2021.

KONČAR - Digital co - organizer of a new course at FER

KONČAR - Digital, the newest member of KONČAR Group, will contribute to the education of future experts as a co - organizer of the course *Development of software solutions for industrial IoT systems* at the Faculty of Electrical Engineering and Computing (FER), University of Zagreb.

KONČAR Digital offers a portfolio of digital solutions and platforms of open and modular architecture for the needs of power industry, mobility, critical and urban infrastructure with advanced management and maintenance services. The company utilises modern business models as generators of digital services and solutions, such as the use of *blockchain* technology in the power industry. Industrial software developed by KONČAR - Digital primarily relates to the management, remote support and maintenance of industrial plants, energy efficient public lighting, renewable energy sources, energy storage, energy efficient buildings, hybrid energy micro - networks and energy efficient water supply and drainage systems.

The course is delivered by the lecturers from FER, while KONČAR - Digital team will give lectures and laboratory exercises for students to outline theoretical and practical knowledge. The lectures are build around the theory and tasks designed by KONČAR Group for employee onboarding and training in the field of industrial software development. Consequently, this course is an exceptional opportunity for students to gain knowledge about the professional aspect of working with the latest technologies from the leading local experts. Aside from developing knowledge and skills, the course will also provide an opportunity for students to join KONČAR - Digital team and start their professional development.



KONČAR endorses an event promoting science

The main aim of the event *Day and night at Faculty of Science*, sponsored and endorsed also by KONČAR, is to promote natural sciences, mathematics and computer science (the so - called STEM field) to the general public, in particular elementary and secondary school students, encouraging them to pursue studies and careers in these fields. The event included interesting lectures, interactive workshops and virtual tours and exhibitions. More than 20 various talks and more than 30 workshops were held for visitors of all ages. Various activities were presented at the event, aiming to promote natural sciences, which makes this the largest and most comprehensive event to be organised by one public institution in Croatia.

Entrepreneurial Mindset for Youth

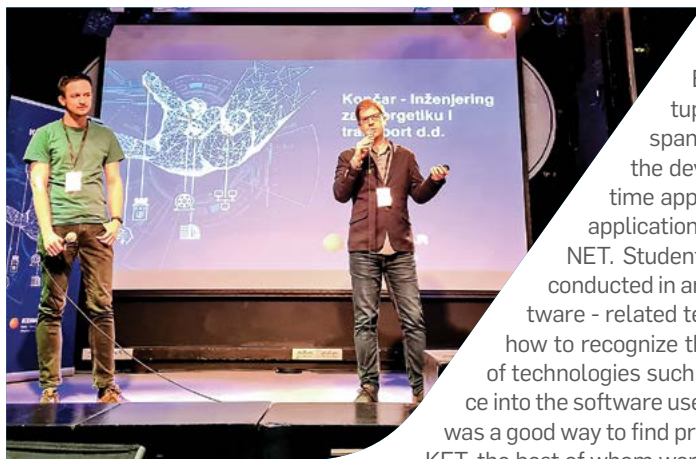
The first Entrepreneurial Mindset for Youth Conference was held in 2021 under the motto *Dare to dream big*. The programme brought together a number of leading Croatian entrepreneurs and attracted 1,300 young people. The speakers at the conference tried to encourage young people to become entrepreneurs and dream big. KONČAR was one of the sponsors and Siniša Marijan, President of the Management Board of KONČAR - Electrical Engineering Institute gave a presentation on innovations.

Awards for the best entrepreneurial ideas of high school students

Best idea of the year! competition, organised by srednja.hr web portal, was designed for secondary school students wishing to dip their toes into entrepreneurial waters. The aim of the competition is closely related to one of the goals of KONČAR's corporate social responsibility, which is to develop educational system that provides knowledge and skills necessary for current and future labour market. This was one of the reasons KONČAR decided to sponsor the event. The goal of the competition was to prepare an innovative and creative business plan and to improve presentation skills. Consequently, one of the evaluation criteria required the use of the Internet or new technologies, such as artificial intelligence, the Internet of Things, augmented reality, robots, blockchain, virtual reality, drones, 3D printing and similar. Students from Rijeka won the competition. They developed a system which uses accelerometers in smartphones to provide real time earthquake alerts. In their acceptance speech, they emphasized that the award worth HRK 10,000 would be invested in development of their platform, and that they hoped to develop an independent system, which would work without expensive seismographs, and would use smartphones to detect earthquakes and to locate people buried under the rubble, quickly assessing severity of the situation.

Cooperation between KONČAR - Electrical Engineering Institute and Zagreb University of Applied Sciences

KONČAR - Electrical Engineering Institute welcomed 47 second - year and third - year students, enrolled in the study programme in electrical energy and automation, at the Zagreb University of Applied Sciences. They were given a tour of the Noise and Vibration Laboratory, Rotating Machines Laboratory, High - Voltage Laboratory and Electromagnetic Compatibility and Safety Laboratory. The heads of these laboratories explained the purpose and work of the laboratories and described the type of electrical equipment used and tests which are carried out.



KONČAR at the Job Fair Meetupu 2021

In mid - May, KONČAR - Power Plant and Electric Traction Engineering (KET) participated in the second Job Fair Meetup. The event brought together 55 technology companies, spanning seven different industries. KET engineers presented the development of process applications (SCADA systems, real - time applications) in Python and JavaScript and augmented reality application (computer graphics, 3D models of facilities, HoloLens) in NET. Students wanted to know how research and development were conducted in an industry in which it is seemingly difficult to adopt new software - related technologies, what is the career path for developers in KET, how to recognize the main advantages and challenges posed by introduction of technologies such as computer graphics, mixed reality or artificial intelligence into the software used in the energy sector. Regular participation at the Job Fair was a good way to find promising young students for work experience programme in KET, the best of whom were employed after their graduation.

KONČAR as partner in the largest professional competition in the region

The National Competition of Vocational School Students – *WorldSkills Croatia 2021* was held at the Zagreb Fair. It is the largest professional competition in this part of Europe. 308 best students, assisted by their mentors, from as many as 126 vocational schools, demonstrated their skills and professional competences in 43 vocational disciplines. The competition is organised by the Croatian Agency for Vocational Education and Training (VET), in cooperation with its partners. KONČAR participated as a partner in CNC discipline and CAD / CAM technologies, thus contributing to a shared vision of recognizing and promoting excellence in vocational skills. The competition consisted of two parts - preparation of CNC technological documentation and practical work on the machine. At the end of the competition, participants were awarded with medals and *Faust Vrančić* statue. Best students in the category of CNC and CAD / CAM technology also won gift bags from KONČAR.

LUMEN Engineering competition finished

LUMEN Engineering is a unique educational competition in Croatia for development of practical solutions in the field of electrical engineering and computing. The competition is organised by eSTUDENT student association, presenting an excellent opportunity for students wishing to try their hand at innovations, and connecting students with companies in the fields of electrical engineering and computing. Over the course of several weeks, the teams had to develop a solution, which included implementation of an electronic device or system on given topics.

They had to submit technical documentation within specified deadline, and then proceeded to develop their own hardware, for which they received support and assistance from partner companies. At the end of the competition, best teams received valuable cash prizes and excellent references for their future careers, gaining also invaluable experience working on an actual project. KONČAR mentors also evaluated students' solutions.



KONČAR endorses international educational project Formula Student Alpe Adria 2021

Formula Student Alpe Adria (FSAA), a Varaždin - based association, organised, on the kart race track in Novi Marof, the third automotive contest called *Rimac Formula Student Alpe Adria 2021*. KONČAR - Electrical vehicles provided assistance and support organising the event. The aim of the project was to educate students, develop new technologies, expand STEM field and provide networking opportunity. Students from across Europe were able to showcase and demonstrate their knowledge in practice, learn from experts in automotive industry and connect with potential employers.

The event gathered 37 teams from 15 European countries. Young and promising teams designed, built and tested prototypes of racing cars, showing that there is a bright future for automotive industry. The event was attended by almost 800 contestants and around 40 high - rank experts from Formula 1, Aston Martin Lagonde, Porsche Engineering, Ferrari and others.

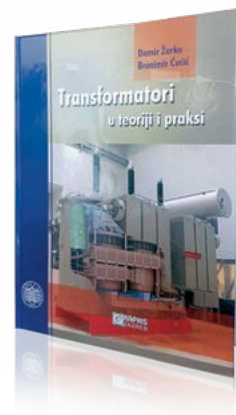
KONČAR team best at case studies

IEDC Alumni Club Croatia - Bled School of Management organized a case study competition in Zagreb, bringing together teams of young and talented employees from prominent Croatian companies, and KONČAR team participated as well. In the previous years, KONČAR was represented by teams of employees from different Group companies, however, this year, the team consisted of employees from only one company. On 1 July, KONČAR - Engineering Co. for Plant Installation & Commissioning was merged with KONČAR - Power Plant and Electrical Traction Engineering, and the competition provided a great

opportunity for the employees to get to know one another better. KONČAR team won the competition based on its solution to the case study, energetic presentation and resourcefulness and confidence in answering questions posed by the evaluation panel. The winning KONČAR team was also awarded a prize of "one - day participation at IEDC seminar" and earned the right to participate in the regional competition..

University textbook by Damir Žarko and Branimir Ćučić - Transformers in Theory and Practice

New books and university textbooks on transformers are published mostly in English language. However, in 2021, after several decades, a book on transformers in Croatian language was published by Graphis. The publication had the backing of KONČAR - Distribution and Special Transformers, KONČAR - Power Transformers (a joint venture with Siemens Energy) and KONČAR - Electrical Industry. "Transformers in Theory and Practice deals with theory, and with practical elements of production and operation of transformers", said the book authors, Damir Žarko from the Faculty of Electrical Engineering and Computing and Branimir Ćučić from KONČAR - Distribution and special transformer. On more than 550 pages, the authors shared their extensive experience, gained studying and manufacturing transformers. The book was reviewed by leading experts, Antun Mikuć and Zvonimir Valković from KONČAR - Electrical Engineering Institute, and Zlatko Maljković from the Faculty of Electrical Engineering and Computing, University of Zagreb. This book is primarily intended for technical university students whose field of study includes electromechanical engineering and energetics, but in its scope and content it is also intended for scientists and experts involved in the design, manufacture, diagnostics and application of transformers.



The Day of the Faculty of Electrical Engineering and Computing - KONČAR Annual Award presented

The Day of the Faculty of Electrical Engineering and Computing (University of Zagreb) was marked on 26 November. Best students and employees of the Faculty of Electrical Engineering and Computing were presented with awards for their work, research and projects, at the ceremony held to mark this occasion, which was attended by numerous guests, representatives of scientific and educational institutions, and business professionals. The 18th Annual KONČAR award was presented for doctoral dissertations with outstanding scientific achievements in the area of technical science application in industry. Ivan Bahun, Deputy President of KONČAR Management Board congratulated the winners and presented the awards for the academic year 2020 / 2021 to Mario Jurković for his doctoral dissertation *Calculation of Transformer Short - circuit Voltage Using Conformal Mappings* and to Juraj Peršić for dissertation *Extrinsic and Temporal Calibration of Heterogeneous Mobile Robot Exteroceptive Sensor Systems*.

As in previous years, KONČAR - Electrical Engineering Institute presented a cash award to one of the winners of the *Josip Lončar* bronze plaque for successful completion of graduate studies. Siniša Marijan, President of the Institute's Management Board, presented this year's award to Filip Katulić, a student in Electrical Engineering and Information Technology, specializing in Electrical Engineering systems and technology, with a grade point average of 4.84.

Procurement practices

KONČAR Group companies cooperate only with those suppliers whose materials and components do not cause harm to humans and the environment and can be recycled after the end of their life cycle or disposed of without endangering people or the environment. Selection of a supplier of respective materials and services is subject to meeting defined quality levels, lead times, credit term requirements, and takes into account occupational health and safety and environmental protection. Suppliers are required to provide evidence (certificates) of compliance.

Companies have created databases of the existing and potential suppliers. Apart from the general information (name, address, phone, e - mail, contact person), the database also contains other information which may affect the selection of a supplier such as their references, complaint information, quality system data, health and work safety data, environment protection data.

The adverse impact of the pandemic on the global economy was felt throughout 2021. During the year, KONČAR, like other companies, faced backlog challenges caused by the limitations in production capacities in some countries, which somewhat slowed down the delivery of certain raw materials and commodities necessary for manufacturing of KONČAR's products. We continue to face challenges including shortages and surging prices of raw materials and commodities and disruption in supply chains and transport. In addition to soaring prices, the supply of copper, aluminium, transformer sheet, steel and other raw materials and commodities, as well as individual components, was also aggravated. There was a great deal of uncertainty in the supply chain resulting in procurement challenges. These were primarily related to logistical issues, such as shortage of cargo hold, containers and limited capacity available. During the pandemic, KONČAR successfully and rapidly adapted, clearly demonstrating that it is a stable company resilient to the impacts of crisis, able to realise record - high results across all business segments. We deployed a set of tools to overcome procurement challenges related to necessary materials and make the supply chain agile and adaptable. Some of the tools include long - term planning and order indications to suppliers, process optimization and speed of adaptation to necessary material changes, and the introduction of alternative sources of supply. In addition, timely measures were taken to secure inventory, enter into annual contracts with suppliers, while multi - year contracts with customers provide for a sliding formula based on changes in material prices.

Expenditure on local suppliers

| in HRK 000 | 2021 | | 2020 | |
|-----------------|---------------------|--|---------------------|--|
| | Investment purchase | Procurement of raw materials and commodities | Investment purchase | Procurement of raw materials and commodities |
| Croatia | 54,685 | 702,578 | 230,192 | 643,838 |
| Internationally | 17,922 | 1,070,243 | 62,231 | 924,620 |
| Total | 72,607 | 1,772,821 | 292,423 | 1,568,458 |

In the period January – December 2021, procurement amounted to HRK 2,063,4 million. The amount of HRK 217.9 million relates to suppliers within the Group (dependent companies). Croatian suppliers account for 50% of the total procurement.

Anti-corruption

KONČAR develops and operates in accordance with corporate governance best practices. The Company leverages its corporate and business strategies, policies, internal acts and practices to contribute to transparent and efficient operations and good relationships with the business environment it operates in.

The core principles of KONČAR Group are as follows:

- business transparency
- clearly defined procedures for the activities of the Supervisory Board, Management Board and other bodies
- avoidance of conflict of interest
- efficient internal control
- efficient accountability system
- equal treatment of shareholders and
- safeguarding of employees' rights and interests.

Anti-corruption policies and procedures

At a meeting held on 15 December 2020, the Management Board of KONČAR – Electrical Industry adopted the Code of Conduct, which, among other things, identifies prevention of bribery and corruption as one of the standards of business conduct. KONČAR Group's Code of Conduct defines corruption as any form of abuse of power and office for the purpose of obtaining personal gain or the gain of a group to which an employee or some other individual belongs. KONČAR – Electrical Industry adheres to the policy of zero tolerance to corruption and continuously works on its prevention, exposure and sanctioning. All employees have been informed and made aware of the Company's attitude and zero tolerance towards corruption.

Corruption does not necessarily involve personal financial benefit, but may involve other forms of conduct, such as allocation of positions to ineligible persons based on nepotism, party affiliation or friendship, as well as any other selective application of regulations discriminating in favour of certain persons or organizations.

Members of management boards, employees and business partners have been informed of anti - corruption policies and procedures and have adhered to the principles of the Code of Ethics in the course of their business operations and daily activities. KONČAR enjoys the reputation of a loyal and fair business partner in the international market, and no cases of corruption have been reported at the Group level.

KONČAR - Electrical Industry Inc. has not made any financial or in - kind contribution to any political goals, directly or indirectly, to the state or a user. KONČAR has promoted and executed fair and transparent competition principles across its operation in dealing with all entities at all locations. The Group has not recorded any conduct contrary to the principle of freedom of competition and antitrust or monopolistic practices. Members of management boards, employees and business partners have been informed of anti - corruption policies and procedures and have adhered to the principles of the Code of Ethics in the course of their business operations and daily activities. KONČAR enjoys the reputation of a loyal and fair business partner in the international market, and no cases of corruption have been reported at the Group level.

Anti-competitive behaviour

KONČAR has promoted and executed fair and transparent competition principles across its operation in dealing with all entities at all locations. No anti - competitive, antitrust or monopoly practices have been recorded in KONČAR Group.

The issue of the environment is of utmost importance as the major part of the equipment is installed directly in the environ-



Topic - Specific Standards:
ENVIRONMENTAL

ment (substations, hydropower plants, other power facilities or traction vehicles). KONČAR has defined the Environmental Management Policy, which is available at www.koncar.hr/en and which has been communicated to all employees.

Energy

Efficient use of energy and renewable energy sources are essential for combating climate change and reducing the overall carbon footprint of KONČAR Group.

Energy efficiency is one of the core business objectives and continuous activities to increase the share of the use of renewable energy sources are necessary in reducing the impact of climate change and reducing the total carbon footprint of KONČAR Group.

Energy consumption within the organization

| Electricity / kWh | Fallerovo šetalište facility | Jankomir Transformers facility | Sesvetski Kraljevec facility | Borongaj facility |
|-------------------|---------------------------------|-----------------------------------|---------------------------------|-------------------|
| 2021 | 10,833,117.66 | 6,445,544.74 | 844,041.54 | 1,820,327.59 |
| 2020 | 9,823,654.57 | 6,100,486.20 | 923,207.99 | 1,771,811.38 |

| heat energy / kWh | Fallerovo šetalište facility | Jankomir Transformers facility | Sesvetski Kraljevec facility | Borongaj facility |
|-------------------|---------------------------------|-----------------------------------|---------------------------------|-------------------|
| 2021 | 16,435,277.42 | 11,811,965.00 | 1,768,107.04 | 4,856,966.01 |
| 2020 | 15,726,535.70 | 10,731,645.00 | 1,863,034.55 | 5,022,098.49 |

Energy efficiency

| | 2020 | 2021 |
|--|-----------|-----------|
| Total energy consumption / MWh | 59,470.97 | 61,730.92 |
| Income / (million HRK) | 3,223.957 | 3,831.745 |
| Energy consumption per unit of income (MWh / million HRK) | 18.5 | 16.1 |

Data pertain to the non - consolidated income.

Total energy consumption pertains to the consumption of electricity and heat and fuel consumption in vehicles.

KONČAR Group has been working continuously on reduction of electricity consumption and improvement of energy efficiency. In 2021, the Company made investments in infrastructure taking into account environmental criteria in its procurement process and investment selection so as to ensure the optimal environmental effect of selected measures. At Fallerovo šetalište facility the activities carried out include reconstruction of energy facilities - TSE2 substation, replacement of old hot water pipes and investments aimed at improving the energy performance of the facility.

In addition, the replacement of lighting and installation of LED lighting fixtures is regularly carried out at the facility, increasing the share by 52 percent compared to 2020 at the end of 2021. The measures are believed to have led to reduction in electricity consumption of 109 kWh per year, representing a decrease of approximately 17.3 tons per year in CO₂ emissions.

The photovoltaic power plant at Fallerovo šetalište facility generated 2021 MWh of electricity, which was used for self - supply of the facility. This reduced CO₂ emissions by 3.3 tons per year.

In mid - December 2021, KONČAR - Distribution and Special Transformers (D&ST) launched works on the construction of a photovoltaic power plant which is a self - funded project. The 1.1 MW photovoltaic power plant is expected to be commissio-

ned in the second quarter of 2022 and will produce about 1,456.16 MWh per year. With the realization of the photovoltaic power plant, D&ST will meet more than 30 percent of its electricity consumption, which will lead to significant financial savings in overhead costs. The project has met the conditions and criteria of the tender for the award of the EU grant, but due to the insufficient amount of funds available, D&ST is currently on the reserve list.

KONČAR - Generators and Motors (GIM) also launched the project of building an integrated photovoltaic power plant, for which it was awarded an HRK 60 million grant in December 2021 within the call *Increase of energy efficiency and use of renewable energy sources in manufacturing industries*. The project is funded by the National Recovery and Resilience Plan 2021 - 2026 and with the funds available through the Mechanism for Recovery and Resilience. Photovoltaic power plant 450 kW is installed on the roof of GIM facilities, and it is planned to be commissioned at the end of 2022. It will partially meet GIM's electricity needs, while any surplus will be delivered into the electricity distribution network.

The connection requested from HEP will also include the 350 kW photovoltaic power plant of KONČAR - Motors and Electrical Systems (MES), whose completion and commissioning is also planned for the end of 2022. There is a possibility to reimburse the investment from EU funds in the amount of up to 60 percent.

KONČAR is one of the leaders in the green transition, and in 2012 it was the first company to develop and build the Croatian wind farm Pometeno brdo, in the hinterland of Split, with a total installed capacity of 20 MW. The average annual generation of the wind farm is 25 million kWh.

Energy from renewable sources

KONČAR Group companies use ZelEn products, i.e., energy produced solely from renewable sources. KONČAR - Infrastructure and Services was awarded a certificate for 2021, confirming that the company received 28,358 MWh of electricity from renewable sources for the supply of KONČAR Group. This contributed to a total annual decrease in CO₂ emissions of 4,497 tonnes.

The share of energy from renewable sources in the total energy consumption for 2021 amounts to 31,5%.

Greenhouse gas emissions

Breakdown of greenhouse gas emissions in 2020 and 2021

| CO ₂ emissions / year | 2020 | 2021 |
|---|-----------|-----------|
| Total CO ₂ emissions / tonne | 10,242.68 | 10,355.22 |
| Direct CO ₂ emissions / tonne | 6,423.49 | 5,877.38 |
| Indirect CO ₂ emissions / tonne | 3,819.19 | 3,820.47 |
| Total CO ₂ emissions / million HRK | 3,18 | 2,70 |
| Share of energy consumption from renewable sources in the total consumption / % | 30,50 | 31,51 |

The total GHG emissions generated by KONČAR Group's operations are the result of direct and indirect energy consumption at KONČAR Group's facilities. Emissions occur in the production and consumption of heat and electricity and in the fuel consumption of vehicles.

Reduction of energy consumption

Energy efficiency can be defined as a reduction in the amount of energy, i.e., energy necessary to perform a particular job or function, which saves money, improves environmental protection, air quality and security of energy supply, resulting in reduced emissions of greenhouse gases and other pollutants. In order to determine the level of efficiency, energy audits were carried out (to determine current energy consumption and energy performance) of buildings used for non - manufacturing operations of KONČAR Group companies. All buildings were assigned an appropriate energy efficiency class and energy efficiency improvement measures were put in place.

In addition to energy audits of buildings, energy audits of large enterprises were also carried out in order to determine and improve energy efficiency (analysis of technical and energy performance of buildings, analysis of all technical and process systems, i.e., of all production, transformation and distribution systems and consumption of energy sources). Although the

energy management system according to the ISO 50001 standard has already been implemented at some KONČAR Group companies, other KONČAR Group companies, as large companies, are encouraged to introduce and certify an energy management system according to the same standard.

Employee trainings related to increasing energy efficiency are conducted regularly. One such example is the in-house training *Zeleni ured (Green Office)*, where employees are trained in practices which can, on a daily basis, contribute to the reduction of energy consumption. Furthermore, employees of KONČAR - Infrastructure and Services attended *Energy Scouts* training where they analysed the possibilities of applying specific energy efficiency measures in the organization.

Water

In 2020, the Company continued with the projects, investments and regular maintenance in this area.

| Water consumption in m ³ during 2020 | | | |
|---|--------------------------------------|------------------------------------|----------------------|
| Fallerovo šetalište facility | Jankomir Transformers facility | Sesvetski Kraljevec facility | Borongaj facility |
| 58,366.00 | 26,978.00 | 2,101.50 | 12,818.00 |

In 2021, the Company continued carrying out projects, investments and regular maintenance in this area.

| Water consumption in m ³ during 2021 | | | |
|---|--------------------------------------|------------------------------------|-------------------|
| Fallerovo šetalište facility | Jankomir Transformers facility | Sesvetski Kraljevec facility | Lokacija Borongaj |
| 57,651.00 | 29,331.00 | 2,160.00 | 16,299.00 |

Further activities are carried out aimed at better monitoring and management of water consumption by installing additional water meters.

Biodiversity

KONČAR Group companies operate from manufacturing facilities and commercial premises based at five sites in Zagreb and at two registered representative offices abroad (Mostar, Beograd). Certain business and manufacturing facilities are located near water protection areas, and the obtained water permits for wastewater discharge at these locations are a guarantee that the Group complies with high business standards in the segment of water protection. KONČAR Group companies do not operate in the vicinity of protected nor highly biodiverse areas.

Significant impacts of activities, products, and services on biodiversity

KONČAR products and equipment comply with the highest safety standards and have had minimal environmental impact as evidenced by no recorded cases of complaints or incidents to date. Investors that have decided to construct facilities using equipment delivered by KONČAR are required to comply with environmental protection regulation and standards. Aware of the environmental risk, KONČAR has implemented the Precautionary Principle. This is particularly important since products and facilities are often delivered to areas of high biodiversity (rivers, lakes, rural areas). There have been no incidents of the loss of biodiversity due to our products so far. In accordance with the Precautionary Principle, when intervening in the environment, components of the environment should be used sparingly and managed in such a way so as to take into consideration possible reuse of natural and material resources, preventing any environmental pollution, preventing waste generation and possible adverse effects on the environment to the greatest extent possible.

In addition, any intervention in the environment must be planned and carried out with the minimal possible environmental impact, taking into consideration prudent use of natural resources and energy. In order to prevent any risks and harm to the environment, when planning and implementing any project, all defined environmental protection measures should be adhered to, such as: application of best practices, use of products, equipment and devices, production processes and systems of maintaining designed parameters of the facility, which have the least adverse impact on the environment. For prevention purposes, when intervening in the environment, it is necessary to apply the best techniques available and use globally renowned facility maintenance systems.

Environmental compliance

Throughout 2021, there were no major fines or non - monetary penalties for non - compliance with environmental laws and regulations.

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



Topic - Specific Standards: **SOCIAL**

New employee hires and employee turnover

In 2021 a total of 623 new workers were employed. During the reporting period, a total of 519 employees left KONČAR and the employee turnover rate was 14.5 percent. Year-on-year, in 2021, 190 more workers were employed, while 135 more workers left KONČAR Group.

Summer work experience programme at KET

KONČAR – Power Plant and Electric Traction Engineering continued the successful cooperation with the Faculty of Electrical Engineering and Computing (FER) of the University of Zagreb following a cooperation agreement pertaining to work experience programs. Therefore, the company selected six undergraduate and graduate students from the Faculty of Electrical Engineering and Computing, one female student from the University of Applied Sciences and one student from the Faculty of Natural Sciences and Mathematics, to participate in the programme. Students showed greatest interest in development of applications in Python and JavaScript and such interest was, to a great extent, sparked by KET's participation at the Job Fair Meetup. During July, students worked as software engineers side by side with their senior colleagues, and some were given the opportunity to continue their collaboration by working on real projects or by preparing their thesis, and were provided with constant support of KET engineers.

Induction seminar for new hires and trainees

Since 2003, when the onboarding seminar was launched, until 2020, twenty - nine were held, for slightly under 1000 trainees and new employees. The participants of the seminar learn about the organization, the full product range, references, marketing activities and promotion, social responsibility and other activities at KONČAR, gain knowledge about the strength and the importance of synergy of the Group companies and labour relations.

Due to the epidemiological situation and the recommendations of Croatian Institute of Public Health the seminar was not held in 2021.

Employee benefits

All KONČAR Group employees are entitled to equal benefits proportionally to their length of service, irrespective of contract type, race, gender and age. The Collective Bargaining Agreement stipulates that all Group companies shall make payments for loyalty / service awards, 3 annual bonuses, a gift for children under the age of 15, various forms of allowances defined by the Collective Bargaining Agreement, additional allowances for family needs, work - related injury insurance policy and the like.

Employees are also entitled to reimbursement for travel / commute costs and to non - taxable severance pay prior to retirement.

KONČAR supports children's field trip to Vukovar

To mark the occasion of the Victory and Homeland Thanksgiving Day, the Association *Making Young People Smile* (in Croatian: Za osmijeh mladih), together with the Association of Homeland War Volunteers, organised, as part of the project *For a Child's Smile*, a trip to Vukovar for older children of Croatian war veterans. The trip was sponsored also by KONČAR.

The aim of the trip was to teach the children about the relevance of the Homeland War and the Battle of Vukovar in the defence of sovereignty and territorial integrity of modern day Croatia. Following a theoretical part, the students visited places of special reverence where they lit candles and laid wreaths. The aim of the trip was to preserve memories and honour the sacrifices made in Vukovar during the Homeland War, to learn more about the city's culture, art and tradition and to socialize and share experiences with their peers.



KONČAR Pensioners' Club (KUK)

At the end Y2021, the Club had 151 registered members. Throughout the year, 3 new members were admitted to the Club, and 20 members were deleted from the register. The Club organised fewer activities due to the COVID - 19 pandemic. Only one medical check - up was organised for the Club members. According to a report of the Social Care Commission, 21 ill members were visited throughout the year while those members who were not able to receive visits due to severe illness were regularly contacted by telephone. The KUK Culture Commission organised three visits to the theatre, and one entertainment afternoon. KUK keeps a library with as many as 1100 books available to all Club members. KONČAR Inc. helped KUK's Recreation and Entertainment Committee to organise two three - day excursions to Crikvenica and to Terme Jezerčica Wellness & SPA centre, and two one - day trips to Varaždinske Toplice and Ludbreg.

KONČAR Pensioners' Club (KUK) was founded in 2000 on the initiative of the Coordination of the Croatian Metalworkers Union - KONČAR Industrial Trade Union and with support of KONČAR Electrical Industry and on 17 October it celebrated its 21st anniversary.

Pensioners' Corner - „Accidental” centenarian

It is not often that an employee and his company celebrate their hundredth birthday in the same year. That was exactly the case in KONČAR. The company celebrated its 100th birthday in January and Dragutin Pušić, a member of Pensioners' Club, celebrated his in June 2021. Dragutin Pušić left an enduring mark with his well - known symbol: letters RK surrounded by three high - voltage symbols, which was chosen as a logo in a logo design contest and was used on all products and documents from 1949 until 1990. The logo is remembered to this day by many former employees of KONČAR.



Remembrance Day for all victims of the Homeland War

To mark the Remembrance Day for all victims of the Homeland War and the Croatian Statehood Day, wreaths were laid and candles were lit at the memorial site at the Fallerovo šetalište facility, erected in remembrance and commemoration of war veterans killed or those listed as missing in action in the Homeland War.

Hundreds of KONČAR employees left their jobs and went to war to defend their country. Representatives of KONČAR Homeland War Veterans Association, of KONČAR Management Board and Coordination of the Croatian Metalworkers Union - KONČAR Industry Trade Union laid wreaths in commemoration of all war veterans and KONČAR employees who were killed or listed as missing.

Workplace vaccination organised by KONČAR

Export activities usually require trips abroad, which are of crucial importance not only for the entire economy but also for KONČAR, consequently, foreign markets account for 60 percent of the company's revenues.

KONČAR requested from the Croatian Institute of Public Health and Croatian Chamber of Economy to organise vaccination against COVID - 19 for priority groups. Approximately 1,2400 employees signed up for vaccination. On 5 May, the first round of vaccination for KONČAR employees was organised by the Croatian Institute of Public Health at Fallerovo šetalište facility. The rest of the employees were vaccinated in the period from 17 May until 21 May 2021 at Borongaj, Fallerovo šetalište and Jankomir facilities. Throughout the year, four rounds of vaccination were organised for the employees, with approximately 1,500 employees vaccinated.



Parental leave

In accordance with the laws of the Republic of Croatia, all employees are entitled to parental leave and all female employees are also entitled to maternity leave.

All women employees have resumed work upon completing their maternity leaves, while men employees have resumed work following their parental leaves.

Labour / management relations

Humanitarian action KONČAR - 100 together

Devastating earthquakes that had affected the Sisak - Moslavina, Karlovac and Zagreb counties on 28 and 29 December 2020, caused significant material loss or damage to some KONČAR workers.

KONČAR Group companies promptly fulfilled their obligations under the Collective Bargaining Agreement to provide financial aid to employees affected by natural disaster in their place of residence and KONČAR's Management Board also decided to provide additional financial aid to those in need following the earthquake.

To this end, the humanitarian action *KONČAR - 100 together* was carried out in the period from 15 February to 15 May 2021, with the aim of raising funds to relieve individuals and families of KONČAR Group employees with reported material loss or damage caused by the earthquakes.

KONČAR's Management Board appointed a special Commission to establish the criteria for the distribution of the raised funds, process all received reports on the material loss or damage caused by the earthquakes and propose to KONČAR's Management Board their distribution.

KONČAR members and their employees proved to be charitable and compassionate, aiding their colleagues in navigating difficult times, and they successfully raised a total of HRK 233,008.90.

Minimum notice periods regarding operational changes

Every 12 weeks, the employer is required to inform the Works' Council on the situation, business results and organisation of work, as well as other issues relevant for employees' economic and social status. Before rendering any decisions pertinent to workers' status, the employer is required to consult the Works' Council about any such decisions. The Works' Council is required to inform trade unions of any such decisions. If the employer has not set up a Works' Council, the rights and obligations of the Works' Council are conferred on a trade union commissioner. Workers' meetings are to be held twice a year, with the aim of disclosing and discussing operational activities. Pursuant to the Labour Act, information is disclosed to trade unions and / or the Works' Council by organizing workers' meetings and through the workers' representative in the Supervisory Board.

The Collective Bargaining Agreement for KONČAR Group stipulates a procedure for collective bargaining for a new agreement following a termination of the Collective Bargaining Agreement by any of the parties, upon expiry of a three - month notice period. In addition, a provision stipulates that the Collective Bargaining Agreement may be amended.

Occupational health and safety

Operations in the context of COVID - 19 pandemic

Pursuant to the provisions of the Labour Act, the Occupational Health and Safety Act and in line with Employer's obligations, all KONČAR Group companies (employing more than 50 workers) have set up Work Safety Committees. KONČAR Group members regulate occupational health and safety systems using a variety of approaches; some companies employ occupational health and safety experts, and other companies have special agreements with authorized persons for the provision of occupational health and safety.

All KONČAR Group companies regularly monitor health protection and safety at work, assess health and safety risks and apply measures to mitigate or eliminate risks. All companies conduct training in the field of occupational health and safety of new hires, and regular training for all workers is carried out in order to comply with occupational health and safety measures.

The outbreak of COVID - 19 pandemic caused a particular set of challenges to business operations.

A variety of measures have been introduced at KONČAR Group with the purpose of protecting occupational health at safety in the workplace. In May and June 2021 two vaccination campaigns for employees were organised at KONČAR's facilities Fallerovo šetalište, Borongaj and Jankomir. About 1,500 workers from all KONČAR Group companies received vaccinations.

Throughout 2021, medical or face mask mandates were enforced at all workplaces in KONČAR Group companies, in order to protect the health and safety of employees, business partners and other persons at KONČAR facilities and premises. Employees were provided with protective masks and disinfectants.

Additionally, as part of health and safety protection measures, all entrances to KONČAR Group facilities and premises were equipped with thermometers and devices for taking body temperature.

To further protect health and safety at work, employees were granted the option of remote working wherever business processes allowed and where it was possible to ensure business continuity.

The period from January to June 2021 saw the largest number of employees working remotely from home, a total of 7,659. This comes down to 319 or 7.8 percent of employees per week. (The calculation was done using the total of 4,100 employees, including KONČAR - Power Transformers, a joint venture with Siemens Energy.) This number reduced as the national restrictions eased and lifted. By the end of 2021, there was no significant increase in the number of workers working from home.

Occupational illnesses

At KONČAR, there are no occupations characterized by a high incidence or a high risk of severe illnesses. When assigning employees to jobs involving specific work conditions, procedures are implemented in line with relevant requirements and, before being assigned to a specific job, workers undergo a medical assessment of fitness for work. In accordance with the established rules, a fit to work assessment is carried out regularly.

Health and safety topics covered in formal agreements with trade unions

Formal agreements with trade unions have promoted dual responsibility of both parties and development of a positive occupational health and safety culture. All employees (with the exception of the Members of the Management Board in the segment of managerial contracts) are covered by the Collective Bargaining Agreement.

The Collective Bargaining Agreement encompasses certain health issues such as paid leave entitlement in the event of severe illness of a near family member, unpaid leave in the event of illness, additional leave days for workers with disability and safety issues that encompass special work conditions and additional payment.

Promotion of worker health

Prevention and promotion of worker health

In 2021 activities were carried out at KONČAR Group companies in order to promote the health and prevention of disease among the Group's employees. These activities include supplementary and additional health insurance coverage and the organization of annual medical examinations for workers.

In order to encourage employees to lead a healthy and active life, some KONČAR Group members provided employees with the benefit of access to numerous sports facilities throughout Croatia as part of the MultiSport scheme.

In September 2021, KONČAR Group employees participated in the fifth *Milky way* humanitarian race organised by UNICEF. The goal of the race is to collect as many symbolic 'kilometres of opportunities' as possible for children with developmental disabilities, by walking, running or cycling. As many as 112 employees from 13 KONČAR companies actively participated in this year's race. By achieving a record - breaking 11,811 kilometres for children with disabilities, KONČAR ranked first among all teams.

Work-related injuries

The percentage of lost working hours caused by work - related injuries for KONČAR Group is 0.23%.

Training and education

In order to develop the potential of all employees, KONČAR companies have been continuously conducting education and professional training programmes in various ways: encouraging participation in the regular education system, specialized on-the-job training inside and outside the Company and foreign language courses. Moreover, particular attention is paid to developing presentation, communication and computer skills as well as gaining and upskilling other knowledge relevant for performance and professionalism.

Average hours of training per year per employee

The share of employees who participated in training and education in 2021 is 39%. KONČAR Group allocated HRK 4 million for employee training and education. Motivated employees received funding for undergraduate, postgraduate and doctoral studies, as well as seminars, courses and specializations for upskilling.

Programs for upgrading employee skills

Training in the Standardized Management System (ZPO)

In February 2021, the 22nd cycle of seminars and courses in the field of standardized management systems, related tools and techniques began, aligned with the training needs of KONČAR's employees.

In line with the expressed interests and needs, the cycle of the Training for 2021 contained ten seminars and five courses for 200 participants from 13 KONČAR Group companies.

Professional development

Employees of KONČAR are able to pursue their professional development and attend a number of professional trainings necessary to broaden their knowledge, follow trends and acquire new skills. Throughout the year, various programs have been held in most Group companies.

HR Academy - specialist training in human resource management

HR Academy, a specialized training within the KONČAR Academy, kicked off with the module called *Strategic Human Resource Management* and was attended by 28 participants from 14 KONČAR Group companies.

The training is organized for employees working in the human resource departments across Group companies, in cooperation with Mirakul training centre. The training consists of ten one - day modules, to be held once a month until April 2022. Guided by trainers, who are prominent experts in the field of employee development, the participants can improve their skills pertaining to planning and recruitment, performance management and employee motivation, HR analytics, employer branding, etc. The trainings are also valuable because participants share common experiences and exchange opinions and ideas, thus ensuring good cooperation and synergy in the future.

Support to sport clubs

KONČAR devotes great attention to supporting sports clubs, primarily with respect to "non - commercial sports", which do not attract much attention from advertisers. Sports clubs which have borne KONČAR's name for years hold a special place and some of them are among the best and most trophied clubs in Croatia.

Končar Zagreb 1786 Shooting Club

The year 2021 was quite successful for Končar Zagreb 1786 Shooting Club. At the Croatian Junior Championship, Estera Herceg, Ana Adam and Jelena Milun set a new national record in the rifle category, with a total of 1856.3 rounds. They broke the former national two - year record. They ranked high in individual category as well. Estera Herceg won the title of the Croatian Champion and Ana Adam was the vice - champion, winning also the champion title in the younger junior category. Gabriel Kužina won the title of the two - time junior champion in the pistol category.

The 2021 European Shooting Championship, held in Osijek, gathered around 1,200 contestants and 500 officials from 56 countries. The best teams competed in an attempt to win one out of the remaining sixteen quotas for various shooting disciplines for the Tokyo Olympic Games. Members of Končar Zagreb 1786 Shooting Club - Ana Adam, Estera Herceg, Borna Petanjek, Andrija Mikuljan, Vlatka Pervan and Lana Skeledžija - were also on the Croatian National Team competing at the European Shooting Championship. Borna Petanjek, Petar Gorša and Miran Maričić put up a great performance in the air rifle team category. After the qualifications, they were ranked among the top eight teams and later on managed to win the bronze medal.



KONČAR Canoe Club

To mark the 70th anniversary (since October 1951), KONČAR Canoe Club organised a photography exhibition on the premises of the Maksimir District Committee, with the aim of promoting kayaking. The club also organised the 52th traditional *Sava Marathon*, held along a shorter distance this year. Kayak and canoe marathon was held along a 20 - kilometre section, downstream the Sava River, from Samoborski Otok to Zagreb.

The Club was established by KONČAR employees keen on sports, and has survived to this day, as one of the best clubs in terms of amateur sports and in terms of the impact it has on the lives of young people. KONČAR is happy to help and support the Club and is proud of its achievements, aware of the impact the Club has on the quality of life of its members.

KONČAR Chess Club

The Croatian Cadet Championship was held in late June in Trogir, in U7, U9, U11, U13 and U15 categories. Andrej Krašnjač represented KONČAR Chess Club and put up a great performance in under 9 boys category, winning the fourth place among 25 contestants.

Zagreb open IV Memorial of GM Krunoslav Hulak, a two - day tournament, was held in mid - October. Zagreb Open is known as one of the most prestigious open chess tournaments in Croatia today, attracting strong competition this year as well. Forty - two players participated, of whom 8 grandmasters, 3 international masters, 3 FIDE masters and 16 candidate masters. Members of KONČAR Chess Club - Filip Cvitković, Lana Gašpert and Zlatan Sičanica - also took part in the tournament. Filip Cvitković won the 17th place, moving up seven places and exceeding all expectations. Lana and Zlatan attend a chess training programme for adults, held at the KONČAR Chess Club and this was their first time participating in a chess competition. Through the chess training programme for adults, fifteen new members joined KONČAR Chess Club over the last six months, and their participation in Zagreb Open reflects their initiative and interest.

KONČAR Ski Club

Members of KONČAR SKI CLUB won the first place in the overall ranking of clubs in the domestic competitions of the CHIL-DREN'S CROSKI CUP. The new season began in a post - earthquake atmosphere marked by the Covid - 19 pandemic restrictions. Measures in force prevented the planned ski and fitness practices, as all training activities was prohibited. Starting from April, every working day, children were offered the opportunity to exercise in the morning, and fitness practices were held on ZOOM three times a week. In February 2021, a giant slalom was held for cadets in Kupres. Girls and boys participated in 11 races: 9 giant slaloms and 2 slaloms.

KONČAR supports I Choose Sport humanitarian project

The 12th edition of *I Choose Sport* humanitarian event, organised by the Jarun Sports and Recreation Association, was held on the playground of Ivan Meštrović elementary school in the Jarun district of Zagreb. Around 60 teams participated in sports competitions and numerous sporting, entertainment and humanitarian events gathered more than 30,000 participants and visitors.

The organisers also prepared: a large sports and amusement park for children and adults, children's corner equipped with many entertaining and educational activities, prize giveaways, presentations, charity tombola and many other surprises. Performance of blind musicians was a special highlight of the event. The event was held for charitable purposes and the funds raised were paid to the Croatian Foundation for Education of the Blind *Marko Brkić*. The aim of the event was to assist social integration of blind people and to acquaint young people with the life and daily challenges faced by blind people. For this reason, the organisers prepared various sports and social activities intended for blind people. In addition to raising funds for education of blind and visually impaired persons, the aim of the project was also to encourage children and young people to play sports, to prevent undesirable behaviours, to integrate children and young people with disability and to educate citizens on how to help people with disability.

SUPPORT FOR LESS POPULAR SPORTS

KONČAR endorses sitting volleyball tournament

Traditional 49th international sitting volleyball tournament, Friendship 2021, was held at the Vinko Bek Centre for Education and Rehabilitation. The tournament was organised by the Sports Association for People with Disability named Brave (in Croatian: Hrabri) and was supported by KONČAR.

Zoran Stojanović from KONČAR - Distribution and Special Transformers is also the Secretary of the Association and has won numerous international medals for swimming and sitting volleyball. The Brave Association (in Croatian: Hrabri) was established in 1969, bringing together persons with all types of disabilities, with an aim of finding available psychological and physical rehabilitation options through sports and recreation, and empowering members to navigate the challenges of their daily lives. This continues to be their mission, with more than hun-



dred members for whom sports and recreational activities (sitting volleyball, bowling, archery, table tennis, futsal, swimming and darts) are more than just a pastime, as evidenced by many Olympic, international and European medals won.

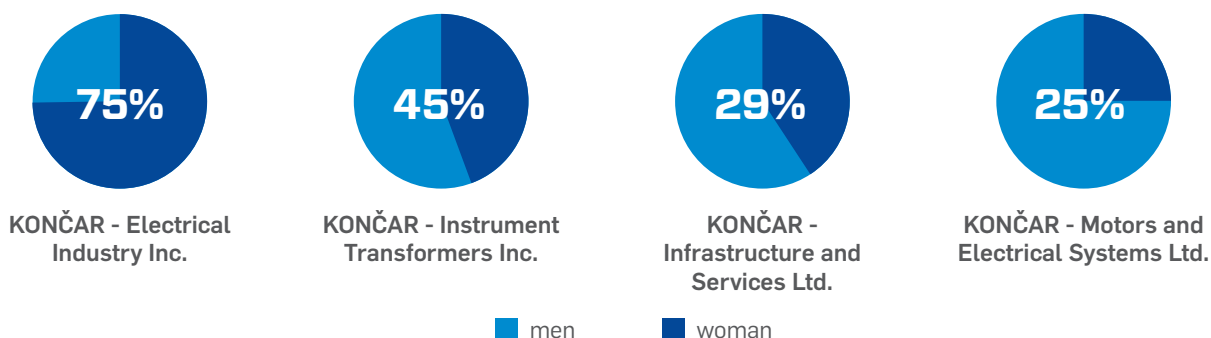
Diversity and equal opportunity

Diversity is one of the fundamental values in contemporary societies. KONČAR Group attaches great importance and emphasizes the value of its employees. By regulating labour relations and internal organization, and complying with applicable regulations, collective and individual agreements, KONČAR Group companies protect human and civil rights, dignity and reputation of every employee. Continuous education and professional training have always been an important determinant of KONČAR strategy in the creation of a learning organisation. KONČAR Group, exporter to over 130 countries worldwide, embraces and encourages diversity and continuously promotes a respectful working environment for all employees, customers and other partners.

Diversity of governance bodies and employees

Men account for 78.9 percent and women account for 21.1 percent of the total number KONČAR employees.

In relation to the total number of employees, the majority of women are employed in the following KONČAR Group companies:



In KONČAR Group companies, women hold 98 managerial positions (out of a total of 493).

Ratio of base salary and remuneration of women to men

In KONČAR Group, there is no gender - based discrimination and the basic salary and remuneration of women and men is equal.

Incidents of discrimination and corrective actions taken

No case of racial, ethnic, gender, religious, political, national or social discrimination has been recorded during the reporting period. Under the provisions of the Collective Bargaining Agreement, the Employer has undertaken to protect employee dignity in the course of their work, and to ensure working conditions in which employees will not be exposed to sexual and non - sexual harassment by the Employer, managers, colleagues, or other persons with whom employees come into regular contact in the course of their work.

Freedom of association and collective bargaining

All KONČAR employees are entitled to a freedom of association and collective bargaining. KONČAR employees may choose to join either the Croatian Metalworkers Union – Industrial Trade Union KONČAR, the Union of Electrical Industry Workers of Croatia or the New Trade Union.

Voluntary blood drive

Prompted by an appeal made by the Croatian Institute for Transfusion Medicine warning of low stocks of all blood types, KONČAR Management Board organised a blood drive at the workplace, in cooperation with the Croatian Institute for Transfusion Medicine and Red Cross. Blood drives were organised at two facilities, with 153 employees volunteering to be donors, of whom 137 were eligible following pre - donation screening. Jasminka Pirner, from KONČAR - Generators and Motors is a regular blood donor, holding the record among women at KONČAR, with this being her 85th time to donate blood. Milan Marković from KONČAR - Steel Structures donated blood 122 times.

KONČAR employees have been involved in blood donation efforts for almost seven decades. During the period of pandemic in 2021, the Croatian Red Cross organised 14 blood drives at three KONČAR facilities. At Fallerovo šetalište facility, a total of 234 doses of blood were collected, 90 doses at Electric Vehicles facility, and 381 at Transformers facility, bringing the total number of collected doses to 705. 813 employees donated blood, of whom 40 were first - time donors. The Croatian Red Cross awards jubilee donors annually to mark the National Blood Donor Day and ten KONČAR employees received the award in 2021.

Dubravko Ulama from KONČAR - Generators and Motors was awarded a small golden coin for 100 blood donations, and Zdravko Glavač, Zlatko Težak and Zvonimir Mas from KONČAR - Distribution and Special Transformers were awarded large silver coins for 75 blood donations. Robert Fabijanec, Željko Grdić and Saša Janković from KONČAR - Electric Vehicles, Željko Mesarek and Zdravko Škender from KONČAR - Distribution and Special Transformers, and Ivan Perković Bartoluzzi from KONČAR - Electronics and Informatics were awarded small silver coins for 50 blood donations.

KONČAR jubilee donors were presented with medals and Certificates of Appreciation in recognition of their humanity and commitment to helping those ill or in need, which inspired many future donors and for which the community is deeply indebted to them.

Summer camp for children of KONČAR employees

Just before the start of new school year 2021 / 2022, the Group organised fourth summer camp, on the Jarun Lake, for children of KONČAR employees. The five - day summer camp brought together 42 children of employees from seven KONČAR Group companies. The children were given kayaking lessons and accompanied by the coach of the Canoe Club Končar, they experienced their first ride in dragon boats. Beautiful weather allowed for many outdoor activities. The children enjoyed themselves playing football, basketball, table tennis, badminton, volleyball, dodgeball, board games, quizzes, archery, flying kites and skateboarding, or expressing their creativity in art workshops. They also went to Mladost public swimming pool, with the main means of transport being bicycles, scooters and roller - blades, all the while observing traffic rules. On the last day, an optional full - day bus trip was organised to Aquapark Istralandia in Istria. KONČAR children's camp proved to be a good place to gain new experience and knowledge, to have unforgettable adventures and create memories, and make new, possibly life - long friendships.

Sports activities of KONČAR employees

Končar Mountaineering Association

Members of Končar Mountaineering Association went hiking along different routes, from Ivanščica mountain to Sveta Gera summit, and along Samobor hills. During Easter, they went on a three - day trip to Skitača mountain lodge in Istria, where they were later joined by members from Pula. A four - day field trip to Sabljaci Lake near Ogulin was organised in May, where they were joined by around twenty KONČAR employees. KONČAR supports the work of the Mountaineering Association, which was established 15 years ago by employees of KONČAR and their friends. The members meet regularly on the premises of KONČAR Pensioners' Club.

KONČAR wins first place in a race for children with disabilities

The fifth Milky Way Run is a traditional humanitarian race and the central event is organised by UNICEF Croatia under the auspices of the President of the Republic of Croatia and the Government of the Republic of Croatia, in cooperation with the Ministry of Labour, Pension System, Family and Social Policy. The goal of the race is to collect as many symbolic 'kilometres of opportunities' as possible for children with developmental disabilities, by walking, running or cycling. During the ten - day race, over 6,200 registered participants, among which 124 company teams, association, school and kindergarten teams, collected 216,000 symbolic kilometres of support all over Croatia. All of them shared the same goal - to make children with disabilities children with opportunities. KONČAR is famous for having a team active in sports and recreation. When humanitarian causes call, we are always eager to put in the extra mile. As many as 112 employees from 13 KONČAR companies actively participated in this year's race. By achieving a record - breaking 11,811 kilometres for children with disabilities, KONČAR ranked first among all teams. The funds collected in this year's race through participation fees and additional donations will be invested by UNICEF in establishing and expanding group psychosocial



support and day - care services, places where children with disabilities and their families receive support from experts, such as social workers, nurses, speech therapists, psychologists, rehabilitation counselors and other therapists.

KONČAR employees take part in Zagreb marathon

After one year hiatus, and with a limited number of runners, i.e., a total of 2,500, the 29th Zagreb Marathon took place in October in the inner city area. The citizens of Zagreb and their guests were able to choose between a 10 - kilometre race, 21 - kilometre half marathon or the longest athletic discipline 42 - kilometre marathon. A total number of 386 runners decided to take part in the marathon, 1,217 opted for half - marathon and 649 for a 10 - kilometre race.

The employees of KONČAR regularly participate in the race. Eduard Toplak and Davor Horvat from KONČAR - Steel Structures ran the half marathon, and Elvir Baltić ran the 10 - kilometre race. Iva Baržić and Tomislav Račić from KONČAR - Electric Vehicles and Neno Jelić from KONČAR - Switchgear took part in the half marathon. Some of our marathon runners did not participate this time around, however, they were cheering the others on along the running route.

Business basketball league - KONČAR team wins silver medal

KONČAR team, supported by KONČAR - Electrical Industry, was one of the teams playing in the second season of Business basketball league. KONČAR team won second place following an exciting match, full of suspense. The aim of the event was to encourage recreational activities, look after one's health, have fun and strengthen interpersonal relations between our employees, as evidenced by the fact that KONČAR team consisted of colleagues from Power Plant and Electric Traction Engineering, Electrical Engineering Institute, Distribution and Special Transformers and Generators and Motors. The league brought together eleven companies which played in nine rounds and 45 regular season games, 10 playoff games, semi - finals and finals.

Andrijana Kapović runs the Berlin Marathon

The Berlin Marathon, held in late September, was the first one in a series of major marathons (Abbott league) since the pandemic outbreak. Almost 25,000 runners participated and Andrijana Kapović from KONČAR - Electrical Engineering Institute was one them. Andrijana seized this opportunity to go back to long - distance running following an injury. She excitedly pointed out that no matter how difficult the race was, crossing the real, and not virtual, finish line was priceless. It was her third marathon to date, following the ones in New York (2018) and Chicago (2019).

Child, forced and compulsory labour

As a socially responsible company which respects human rights, KONČAR does not tolerate child labour, nor does it implement compulsory or forced labour in any of its business activities or forms.

Security personnel trained in human rights policies or procedures

One of KONČAR Group companies, KONČAR - Infrastructure and Services, employs a total of 57 security officers and guards, who are deployed at all KONČAR locations. They have all received formal training in the organization's human rights policies, environmental policies and other specific procedures and their application to security within KONČAR Group.

Human rights

When making decisions pertaining to location of business operations, KONČAR has greatly considered human rights. Human are observed across all KONČAR Group business activities.

Operations with local community engagement

KONČAR has cooperated with and invested in the community through a variety of sponsorships, donation programmes and through the work of the Volunteers' Club. Unpredictable circumstances occurring during 2020 (the SARS-CoV-2 pandemic and earthquakes in Zagreb and Sisak - Moslavina County) had a great impact on the ratio of sponsorships and donations. For most of the year, numerous sporting, educational and cultural events were cancelled or postponed. The 2020 earthquakes and the pandemic further highlighted the importance of corporate social responsibility, and therefore in 2021 KONČAR channelled most of its activities on donations providing support to socially vulnerable groups.

Cooperation with humanitarian organizations

KONČAR has continuously supported institutions, organizations and associations focused on the welfare and protection of children, and in 2021 we supported approximately thirty humanitarian organizations across Croatia. Support is provided primarily through a donations scheme, mostly in cash, but often in kind. KONČAR has fostered traditional cooperation with some of them.

At the beginning of the year, the long - term cooperation with the Humanitarian Foundation for Children of Croatia and the Humanitarian Organization Dora was further intensified, and the number of beneficiaries donated by KONČAR increased. KONČAR participates in sponsorship and scholarship programmes throughout the year to provide support to children from socially disadvantaged families and create a happier and more peaceful childhood for them. The sponsorship programme of the Humanitarian Foundation for Children of Croatia includes the youngest children of single parents and children from socially vulnerable families. Since 1991, a total of 17,515 children under the age of eighteen have received support through the Foundation. The Humanitarian Organization Dora launched its scholarship programme in 1993, in order to provide scholarships to hard - working and talented, but extremely poor full - time university and high school students in the Republic of Croatia. In partnership with associations, KONČAR promotes the rights of children through a variety of activities in order to enable children throughout Croatia to grow up and live in the best possible conditions, especially encouraging young people to obtain an education and actively participate in the socio - economic life of the community.

KONČAR marks its 100th anniversary and donates HRK 100,000 to Topusko High School

To mark the Day of KONČAR, celebrated on 24 January, it is a long - standing tradition to make a special donation to an organisation in the wider community, usually for projects in the field of education, culture, science or projects having humanitarian and social purposes. Given the fact that the Sisak - Moslavina County was struck by a devastating earthquake at the end of 2020, destroying many educational establishments, a donation was made to Topusko High School. Most students are struggling financially as many families receive social welfare benefits. The school, therefore, decided to raise funds to secure necessary equipment and facilitate students' return to classrooms. KONČAR immediately decided to get involved and donated HRK 100,00, marking the company's 100th anniversary.



Books for children's homes

Children's homes housing children without proper parental care across Croatia received donations of the book *The Adventures of Tizi Enili: Experiment*, written by Damir Hoyka. KONČAR supported the publication of the book.

The book seeks to bring science closer to children and young people, with the main idea of the novel being that everyone has the necessary skills to make the world a better place, they just need to discover and develop them.

KONČAR representative participate in Tree for Belgrade challenge

The goal of the *Tree for Belgrade* action is to plant two thousand seedlings. Hidajet Biščević, Croatia's ambassador to Serbia, and officials from representative offices of Croatian companies in Serbia, KONČAR being one of them, accepted the invitation of Zoran Radojčić to participate in the event.

Assistance provided to associations to improve and furnish housing conditions

KONČAR seeks to foster a culture of helping those in need. Therefore, the 2021 donation programme was focused on improving housing conditions of socially disadvantaged families and living space of persons with (developmental) disabilities.

At the beginning of the year, KONČAR helped furnish a shelter for single mothers with children, which is run by Remar Croatia Association. At the moment, the shelter accommodates and looks after 75 adults and children. Remar Croatia Association self - finances its activities through the work of shelter residents and volunteers, and through donations from private companies and persons.

KONČAR also made a donation to The Perfect Circle NGO (in Croatian: Savršen krug) which organizes various humanitarian activities, educational programmes and workshops throughout the year, seeking to improve the quality of life for socially disadvantaged families, children and young people across Croatia. Currently, there are 64 families in the permanent assistance register and this number is increasing as are the costs for some residents who have lost their jobs and livelihood due to the pandemic and who have found their temporary accommodation with the organisation.

A donation was also made to support the work of Dandelion Association (in Croatian: Maslačak), which has been helping, for 30 years, persons with intellectual disabilities and their families, as well as foster - families of children and young people with developmental disabilities.

KONČAR employees volunteer on Earth Day

Earth Day is an annual event, celebrated for more than 50 years. In 2021, Earth Day theme was: *Restore Our Earth*. On 22 April, more than 190 countries organize a number of activities focused on the environmental issues that the world faces such as climate change, global pollution, destruction of ecosystems and endangerment of animal and plant species. To mark the occasion, KONČAR traditionally organizes volunteering activities, the aim of which is to show how little effort and time is needed to create a better environment in which we live and work and to raise awareness of the need for social responsibility. Volunteers from KONČAR - Electrical Industry joined forces this year as well, making factory grounds around the headquarters greener. In the afternoon, the volunteers rolled up their sleeves and did some gardening, planting and landscaping. Throughout the year, KONČAR seeks to minimize its adverse impact on the environment, by operating in line with corporate social responsibility, ensuring quality and safety of its products, and by implementing other daily activities, on its own or in cooperation with partners. Corporate volunteering constitutes one element of KONČAR's corporate social responsibility, further strengthening its commitment to improve the quality of life of our community.

KONČAR provides a shade canopy for the playground of Children's Special Hospital

In late May, a shade canopy was set up over the playground containing equipment for children with special needs. The playground is located in the park of Children's Special Hospital for Chronic Diseases Gornja Bistra. In December 2021, with a special Christmas donation, KONČAR decided to improve the quality of life for patients and to ease the work of medical staff. Gordan Kolak, President of the Management Board, presented the hospital with medical equipment and developmental toys, promising to set up a playground shade canopy in the spring 2021. Special Hospital for Chronic Diseases of Children in Gornja Bistra is the only Croatian health institution that takes care of more than hundred children with chronic diseases requiring long - lasting treatment. Almost all children will remain in the hospital permanently and this is the only home they know. Patients and hospital staff finally have the opportunity to spend nice and sunny days in the shade on the playground.

Continued help to humanitarian organizations

In 2021, KONČAR made donations to humanitarian organizations in order to support their work and KONČAR employees are always ready to take part in their activities throughout the year.

One of the organizations is the *We Are Not Alone* Association (in Croatian: Nismo same), which has initiated two unique projects for oncological patients: free taxi rides and in - house assistance. Over a period of four years, the association has organized numerous life - saving campaigns. Recently, the City of Zagreb granted the Association the use of city premises, which still need to be furnished, and which will serve as a safe meeting place where women can exchange experiences, and find support and understanding. As one of the donors, KONČAR is looking forward to the beginning of the works.

Dubrava Centre for Education - new practice for rehabilitation specialists working with young children

As a socially responsible partner of the community in which it operates, KONČAR focuses its help where it is most needed, through its donation and sponsorships programmes. This time around KONČAR helped equip the new rehabilitation specialists practice, which is a part of the Dubrava Centre for Education.

The Centre is a public social welfare institution, responsible for education and rehabilitation of 240 children, the only of its kind in Croatia. The number of patients in the clinic has been increasing continuously, all the more reason to invest in their living space. KONČAR's donation was used to purchase didactic equipment to be used with children with developmental disabilities. Dubrava Centre for Education was established in 1966, and the aim was to help children and young people with movement disorders and chronic diseases, ensuring they receive education through regular, adapted and special education programme. The Centre also provides housing programme for adolescents who are unable to further pursue their education, and work therapy programme for adults with multiple disabilities.



Public policy

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

Assessment of the health and safety impacts of product and service categories

Equipment and products manufactured by KONČAR Group for power generation, transmission and distribution require a high degree of two - fold responsibility – primarily in terms of operational safety and reliability (so as not to generate additional problems in electricity supply) and in terms of protection of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of trains and trams manufactured by KONČAR, along with a major environmental component. As KONČAR Group bears immense responsibility for products it offers on the market, it has been managing the entire production chain by supervising the quality of individual production processes.

KONČAR – Infrastructure and Services introduces EMAS

The EU Eco - Management and Audit Scheme (EMAS) Regulation is a voluntary environmental management instrument developed by the European Commission. The system is designed to enable organisations to evaluate, report and improve their environmental impact. KONČAR – Infrastructure and Services continues to be focused on constant improvement of the management system and to contribute to environmental protection, energy efficiency and quality of services. Consequently, in early 2020, it was the first Croatian organization, in 100% Croatian ownership, to introduce EMAS. The reasons for the introduction of the EMAS in business operations lie in the fact that excellence in environmental protection presents a strong competitive advantage these days. Organisations committed to environmental protection look for ways to reduce their environmental impact and optimize their production processes.

In February 2021, as part of EMAS reporting, KONČAR – Infrastructure and Services issued its first validated EMAS Environmental Statement. This Statement provides an overview of activities conducted in the area of sustainability and environmental protection, as well as an insight into planned improvements and future objectives. The Environmental Statement can be found at www.koncar-eu.hr/novosti/.

In November 2021 KONČAR – Infrastructure and Services received a recognition from the Ministry of the Economy and Sustainable Development as an exceptional organization with a strategic vision and management system that allows for continuous improvement of environmental properties.

Compliance

No cases of non - compliance with regulations related to the impacts of products and services on health and safety have been recorded in KONČAR Group companies. Group members have introduced recognized process management systems in accordance with the requirements of internationally accepted standards ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO / IEC 27001:2018, ISO 50001:2018. Through the interaction of management systems, companies manage their own impact on the quality of products and services, the impact on the environment, and health and safety, while providing and protecting information from misuse or loss and reduction of energy consumption and natural resources. Aware of their social and public responsibilities, and responsibilities to the environment in which they operate, the management boards strongly support compliance with all regulations and applicable stakeholder requirements.

The certified Quality Management System according to the requirements of ISO 9001:2015 has been introduced and implemented in 11 companies within KONČAR Group. The Quality Management System refers to the management of business or all business processes in the Company in order to ensure that products and services meet all applicable requirements, while measuring progress towards continuous improvement. The focus on quality enables the companies to be present in a competitive global market. Customers tend to audit their partners directly (by carrying out on - site verification of the quality of management system operations in order to ensure the company's capacity to deliver on their requirements and expectations), especially during pre - qualification process when contracting certain products.

According to the requirements of ISO 14001:2015, the Environmental Management System has been certified and implemented in 13 companies within KONČAR Group. By applying this system, the Companies continuously identify, manage and monitor the environmental aspects of their activities, products and services and their related environmental impacts, and take measures to reduce adverse impacts. The Environmental Management System Certificate affirms the Company's commitment to environmental protection and provides trust and confidence in the Company's reputation to all stakeholders: the community, customers, investors and the public.

According to the requirements of ISO 45001:2018, the Occupational Health and Safety Management System has been certified and implemented in 10 KONČAR Group companies. In accordance with the regulations of the Republic of Croatia and the application of this system, the Company continuously identifies hazards, assesses and monitors risks that impact or may impact the health and safety of employees and other stakeholders. The companies have established and have been implementing a process to determine legal and other requirements, with updates to reflect any amendments. Processes for evaluating

compliance with legal and other requirements have been established, maintained and are in place. The Certificate for the Occupational Health and Safety Management System is issued to companies by authorized independent certification institutions, and provides all interested parties with confidence that KONČAR Group companies invest in the health and safety of employees and other stakeholders, manage risks to improve the positive impacts of their operations, products and services.

| | ISO 9001 | ISO 14001 | ISO 45001 | ISO/IEC 27001 | ISO 50001 |
|--|----------|-----------|-----------|---------------|-----------|
| KONČAR - SWITCHGEAR Ltd. for manufacturing | ■ | ■ | ■ | | |
| KONČAR - Digital Ltd. for digital services | ■ | ■ | ■ | ■ | |
| KONČAR - DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. | ■ | ■ | ■ | | |
| KONČAR - Electrical Industry Inc. | | ■ | | | |
| KONČAR - ELECTRIC VEHICLES Inc. | ■ | ■ | | | |
| KONČAR - ELECTRONICS AND INFORMATICS Inc. | ■ | ■ | ■ | ■ | |
| KONČAR - INFRASTRUCTURE AND SERVICES Ltd. | ■ | ■ | | | ■ |
| KONČAR - GENERATORS AND MOTORS Ltd. for manufacturing | ■ | ■ | ■ | | |
| KONČAR - ELECTRICAL ENGINEERING INSTITUT Ltd. for research, development and services | ■ | ■ | ■ | | |
| KONČAR - POWER PLANT AND ELECTRIC TRACTION ENGINEERING Ltd. for manufacturing and services | ■ | ■ | ■ | ■ | ■ |
| KONČAR - METAL STRUCTURES Ltd. for manufacturing | ■ | ■ | ■ | | |
| KONČAR - INSTRUMENT TRANSFORMERS Inc. | ■ | ■ | ■ | | |
| KONČAR - MOTORS AND ELECTRICAL SYSTEMS Ltd. for manufacturing and services | ■ | ■ | ■ | | |

The ISO / IEC 27001:2018 Information Security Management System has been certified and implemented in 3 Group members. By applying this system, the Companies assess the risk and implement certain controls in order to preserve the confidentiality, integrity and availability of information assets. The aim is to secure and protect the Company's information from misuse or loss. Appropriate risk assessment identifies threats and vulnerabilities and allows for effective investment planning to achieve expected levels of information security. The Information Security Management System Certificate, issued by authorized independent certification bodies, provides stakeholders with confidence that their information security requirements and expectations have been met.

According to the requirements of ISO 50001:2018, Energy Management System has been certified and implemented in 2 KONČAR Group companies. Energy consumption has become one of the key factors for societies. KONČAR Group companies have continuously worked to achieve improved energy efficiency and the increase the share of renewable energy sources. The Energy Management System Certificate ensures that companies reduce energy consumption, environmental impact and increase profitability, while providing the stakeholders with confidence that energy consumption is managed systematically.

Requirements for product and service information and labelling

In line with organizational procedures, each product has been equipped with a 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 facilities, technical descriptions and instructions for safe use of products and services have been prepared. In addition, when deemed necessary, training seminars for end users of specific products or services, have been organised.

Compliance

No violation of product and service data and labelling - related regulations and voluntary codes has been recorded in the reporting period. All KONČAR Group companies have consistently applied fair and responsible practices in their customer relations. These practices have included responsible marketing and transparent communications on economic, environmental and social impacts of products and services. KONČAR Group has not recorded any instances of misleading, inaccurate and discriminatory information (including advertising, promotion and sponsorship) or abuse arising from insufficient knowledge or failure to provide choice to customers.

Customer privacy

KONČAR Group takes all measures to protect customer privacy by limiting personal data collection. KONČAR is transparent about data collection, use and storage. KONČAR does not disclose or use personal customer information for any purposes other than those agreed upon, and it communicates any changes in data protection policies or measures to customers in a timely manner. The GDPR is applied to all activities and procedures related to data collection.

Socioeconomic compliance

During the reporting period, KONČAR Group did not record any regulatory non-compliance and did not fail to comply with international declarations, conventions and treaties and there were no cases brought against the organization through the use of international dispute mechanisms or national dispute mechanisms.

Sustainable development goals

In all business operations, KONČAR devotes particular attention to the integration of seven out of the total seventeen Sustainable Development Goals, part of the global development Agenda 2030.

SDG 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

SDG 5 Achieve gender equality and empower all women and girls.

SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all.

SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

SDG 11 Make cities and human settlements inclusive, safe, resilient and sustainable.

SDG 12 Ensure sustainable consumption and production patterns.

SDG 13 Take urgent action to combat climate change and its impacts.



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The European Union Taxonomy Regulation and Taxonomy Key Performance Indicator Report of KONČAR

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.

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.

¹ 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

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.

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 % |

² NACE (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 statistical data collected across the Union.

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.

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.

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 |

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

⁴ Commission 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

| | | |
|--|---|-------------|
| 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, uncappedalized research and development costs and uncappedalized rental costs.

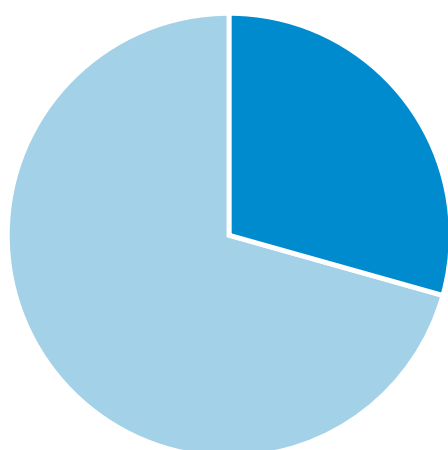
For the year ended 31 December 2021, 23 % or HRK 15.4 million are taxonomy-eligible operating expenses in relation to the climate change mitigation target.

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:

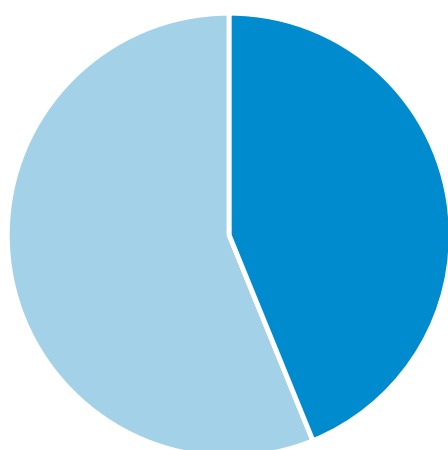
| ACTIVITIES BY SECTOR | NAME OF ACTIVITY | INCOME IN HRK THOUSAND |
|---|---|------------------------|
| 3.3 | Manufacture of low carbon technologies for transport | 33 |
| 4.3 | Electricity generation from wind power | 2,865 |
| 4.9 | Transmission and distribution of electricity | 206 |
| 5.3 | Construction, 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



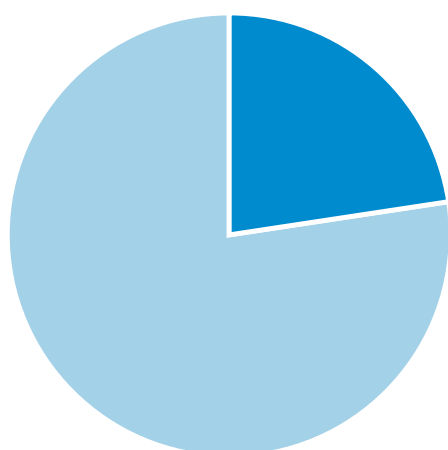
- Taxonomy-eligible economic activities 29 %
- Taxonomy-noneligible economic activities 71 %

CAPEX



- Taxonomy-eligible economic activities 44 %
- Taxonomy-noneligible economic activities 56 %

OPEX



- Taxonomy-eligible economic activities 23 %
- Taxonomy-noneligible economic activities 77 %

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.

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