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# Sustainability Report 2022

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I am extremely proud to present for the first time the Sustainability Report of NEXE Group.

By the decision of the NEXE Management Board dated 15th November 2022, NEXE Group started with the preparation of the Sustainability Report, which involves reporting on material environmental, social, and governance aspects of sustainable business. Although NEXE d.d. is not yet legally obligated to report on sustainability under the Corporate Sustainability Reporting Directive (CSRD), we want to transparently demonstrate to our stakeholders the commitment of NEXE Group to responsible business conduct. This report has been prepared following the European Sustainability Reporting Standards (ESRS) with the intention of timely aligning with extensive sustainability reporting requirements and strategically integrating sustainability into our operations.

The year we are reporting on was particularly challenging. It underscored the importance of sustainability being embedded in all aspects of our business. Geopolitical instabilities and macroeconomic impacts further highlighted the importance of adapting quickly to new, now commonplace, business conditions. However, even in such circumstances, our business trends are positive.

Thanks to the dedication of our employees, swift decision-making, realized investment expenditures, and finally successful overcoming of challenges, especially regarding energy and $CO_2$ emissions prices, the total business revenues of NEXE Group in 2022 increased by 20.6% compared to the total business revenues generated in 2021. At the same time, total business expenses in 2022 increased by 17.7% compared to the total business expenses incurred in 2021.

In 2022, NEXE Group completed the process of developing, adopting, and implementing the Group's Strategy for the period 2022-2030. The new Group Strategy has not only succeeded in finding answers to the main question which is how to ensure sustainability of operations in a challenging environment but also creates conditions to further increase readiness for new market conditions through the operational implementation of action plans resulting from the Strategy, as well as to ensure long-term development and sustainability.

The main strategic objectives of our business are green, digital, and energy transition, which we will achieve through the modernization of facilities, the application of state-of-the-art technological solutions, further development of new low-carbon products, as well as projects aimed at increasing energy efficiency. NEXE Group has set a medium-term goal to meet more than 25% of its electricity needs from its own renewable energy sources. Thus, in 2022, projects of photovoltaic power plants at our factories in Našice, Vinkovci, Koprivnica, Sarajevo, Novi Bečej, and Sremski Karlovci were continued or completed. This is in addition to a series of projects aimed at further increasing our energy efficiency, with the implementation of these projects relying on co-financing from EU funds.

NEXE Group has committed in its strategic document to reduce $CO_2$ emissions by more than 50% by 2030. This goal will primarily be achieved through the implementation of the $CO_2$NTESSA project, which we started in 2022. The project implies the modification of the clinker production process based on second-generation Oxyfuel technology, the most economical long-term solution for completely eliminating $CO_2$ emissions. Accordingly, from 2029, we plan to produce cement without $CO_2$ emissions into the at-

mosphere. I would also highlight the contribution of NEXE Group to the circularity of our industry through the use of alternative fuels and by-products. By the end of 2022, in NEXE d.d., we achieved a share of 42% of alternative fuels in production, thereby reducing the use of fossil fuels. Our goals include a further increase in the share of alternative fuels and an increase in the use of by-products in cement production, thus increasing our efficiency and achieving decarbonization goals.

Our employees are key stakeholders in achieving the sustainability of NEXE Group. Therefore, it is our obligation to continuously work on improving and enhancing the material working conditions, health, and safety of our employees, their skills, and knowledge, ensuring equal opportunities and equality for all. Only through such an approach will we collectively create the conditions for achieving our business goals and sustainable development. At the same time, good business results are a prerequisite for creating new jobs and opportunities for stakeholders from our local communities. NEXE Group will continue to be an economic driver in the communities in which it operates and contribute to development by supporting local stakeholders.

Sustainably creating value for our customers, suppliers, employees, owners, and the community is determined by our vision, which we continue to achieve by operationalizing strategic activities and implementing ESG criteria into all aspects of our business in 2023.

**Ivan Ergović, dipl. ing.**
President of the Board

# About NEXE Group

NEXE Group is a business system of 15 companies operating in the Republic of Croatia, Serbia, and Bosnia and Herzegovina: NEXE d.d., IGMA d.o.o., EKONEX d.o.o., LUKA TRANZIT OSIJEK d.o.o., NEXE GRADNJA d.o.o. Našice, Dilj d.o.o., NEXE INVEST d.o.o., CE - MA d.o.o., Tvornica opeke d.o.o. Sarajevo, NEXE d.o.o. Sarajevo, NEXE BETON d.o.o. Sarajevo, N-INVEST d.o.o. Sarajevo, AD POLET IGK Novi Bečej, NEXE BETON d.o.o. Novi Sad, and POLET-KERAMIKA d.o.o. Novi Bečej.

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The core activity of NEXE Group is the production of construction materials: cement, concrete, aggregates, concrete elements, roofing tiles, bricks, and ceramic tiles. Within the business system of NEXE Group, there are also companies engaged in waste management and port services. NEXE products are used in almost all construction projects, from large public infrastructure projects to commercial buildings and residential properties.

# VISION

The vision of NEXE Group is to be a leading manufacturer of construction materials, recognized for socially responsible business practices and sustainable creation of new value for its customers, owners, employees, and the community.

# MISSION

The mission of NEXE Group is to build a better future responsibly. By investing in stable and growing markets, NEXE Group aims to create a portfolio that will ensure stable growth in the coming years in the markets within the region.

# VALUES

**THE STRENGTH OF NEXE Group** is the source of business optimization (quantitative synergies) and key to the strategic development of companies (qualitative synergies).

**TRUST AND EXCELLENCE** in relationships with our customers and partners. NEXE Group aims to be a key actor in the construction market, serving as a platform that eliminates information asymmetry problems and acts as a factor of trust and excellence in every phase of the investment planning, realization, and utilization process.

**PEOPLE AND KNOWLEDGE** are key to achieving excellence. NEXE Group wants to build its future based on people and their knowledge, implementing that knowledge to improve business operations.

**UNIQUE DEVELOPMENT** enables the simultaneous construction of the present and the future. It is necessary to simultaneously develop existing operations in the construction materials industry (exploiting existing resources and competencies through efficiency and excellence, as well as differentiation) and to build new business opportunities in the construction industry (exploring new possibilities by unlocking the potential of the construction industry).

**RESPONSIBILITY** is the foundation of long-term sustainable business. The focus is economic, environmental, and social responsibility.

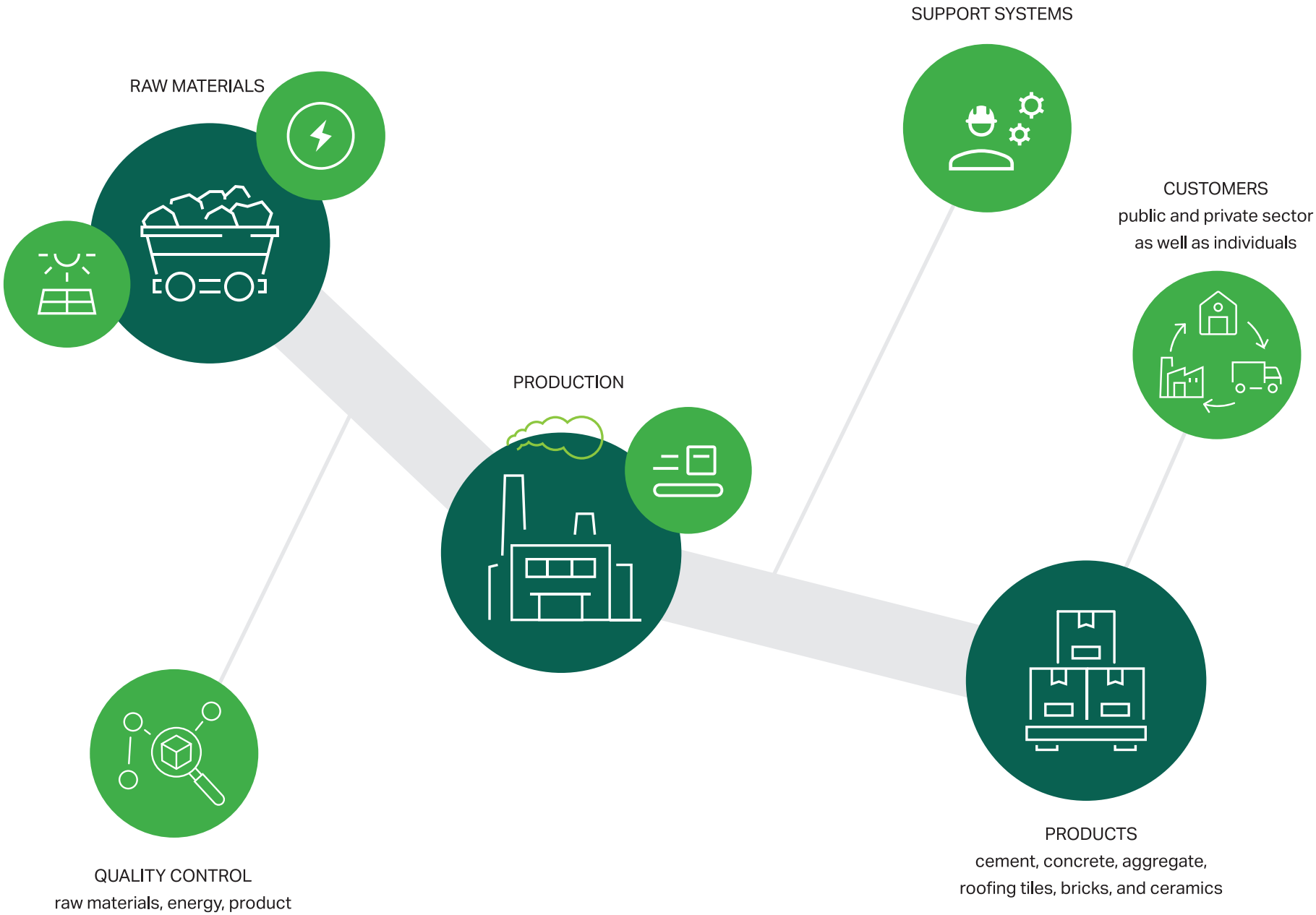
**INNOVATION** is the driver of additional value through anticipating market demands, overcoming limitations and prejudices, and implementing bold initiatives.

## 1.1

# BUSINESS MODEL AND VALUE CHAIN

The main products of NEXE Group are cement, aggregate, concrete, roofing tiles, bricks, and ceramics - basic construction materials. NEXE Group sells its products to concrete plants, distributors, construction companies, and sales warehouses. The quality and durability of construction materials are crucial to meet high construction standards and the safety of the buildings, making them a priority in business. To align with market expectations, the NEXE Group continuously monitors trends, preferences, and customer needs, adapting its products accordingly. The distribution network, including storage, transportation, and delivery, ensures product availability to customers in a timely and cost-effective manner.

The production facilities of the NEXE Group are efficient and economical, with the production process established with quality control and consistency. Cement production involves raw material and fuel preparation, clinker production, mineral additive preparation, cement grinding, and dispatch.


SUPPORT SYSTEMS
RAW MATERIALS
CUSTOMERS
public and private sector
as well as individuals
PRODUCTION
QUALITY CONTROL
raw materials, energy, product
PRODUCTS
cement, concrete, aggregate,
roofing tiles, bricks, and ceramics

Sand is used in the production of cement and limestone, while clay is used in the production of bricks and roofing tiles.

Raw materials are extracted from surface quarries located near the plants and transported to the plants by trucks, where they are prepared for production. Natural gas supply is carried out through a gas distribution system managed by a gas distributor, the supply of petroleum coke is done by trucks or by railway, and coal, waste, propane-butane, and diesel fuel are transported by trucks. In addition to raw materials and energy, NEXE Group also utilizes logistic services.

The technological process of brick and roofing tile production involves raw material preparation, product shaping and drying, preparation of color and coloring of roofing tiles, baking, sorting, and packaging. Quality control is an integral part of the process and includes strength and durability tests, and other material properties tests to ensure they are suitable for the intended use.

Creating sustainable value for stakeholders is a key goal for many companies. Sustainable value refers to the long-term creation of value for all company stakeholders, including employees, customers and partners, investors, and the local community in which the company operates. The way in which the NEXE Group creates sustainable value for stakeholders is shown in the table.

## WHY DO WE HAVE RESULTS?

### PURPOSE

Building trust together

### MISSION

Responsibly building better future

### VALUES

NEXE Group's Strength
Trust and Excellence
People and Knowledge
Unique Development
Responsibility
Innovation

## WHERE DO WE GENERATE RESULTS?

### STRATEGIC DIRECTION

- Development of people and organization
- Market orientation
- Implementation of new technologies
- Operational excellence

## HOW THE RESULT EMERGES?

### OPERATIONAL MODEL

- Matrix organization
- Support functions
- Digitalization

## TO WHOM ARE WE CREATING RESULTS?

### VALUE CHAIN

- Employees
- Customers and partners
- Investors
- Local community

## HOW DO WE CREATE RESULTS?

- Motivating working conditions that result in satisfied employees
- Development and transfer of knowledge and competencies
- Clarity of role within the organization and interrelationships
- Career path development perspective
- Flexibility of business collaboration
- Trust in the quality of materials and services
- Understanding the needs of customers and partners
- Support in achieving the goals of customers and partners
- Ensuring long-term sustainable business by simultaneously improving operational efficiency and creating additional value through innovation
- Profit growth
- Management of material risks
- Support for economic development
- Partnership with the local community
- Reduction of environmental impact
- Safe and healthy work environment

1.2

# PRODUCTS AND MARKETS

NEXE Group is a renowned Croatian manufacturer of construction materials with over 1800 employees in Croatia, Serbia, and Bosnia and Herzegovina. Their top-quality products and services are directed towards five primary markets (Croatia, Serbia, Bosnia and Herzegovina, Hungary, and Romania) and eight secondary markets. NEXE Group offers seven products in the construction materials sector on the market: cement, aggregate, roofing tiles, ceramics, concrete, concrete elements, and bricks, as well as services.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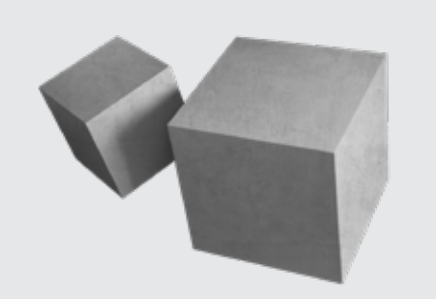
## CEMENT

- Seven types of cement are produced depending on the application
- Cement is used as a binding agent in concrete, as another binding agent (e.g., mortars), and for the production of other construction products

## CONCRETE



- Concretes ranging from strength class C8/10 to C50/60, which can be conventional, waterproof, sulfate-resistant, freeze-resistant, freeze and de-icing salt-resistant, self-compacting, abrasion-resistant, colored, etc.
- Used in infrastructure and building construction

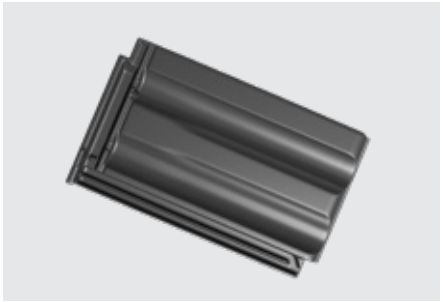
## AGGREGATE

- Natural gravel, as well as separated and ground aggregates of various fractions (0-1 mm, 0-3 mm, 0-4 mm, 0-32 mm, 0-63 mm, 4-8 mm, 8-16 mm, 16-32 mm, 32-63 mm)
- Purpose: Production of fresh concrete, drainage construction, agricultural purposes, beach landscaping, and other uses such as coatings, landscaping, sports fields, etc.

## CONCRETE ELEMENTS

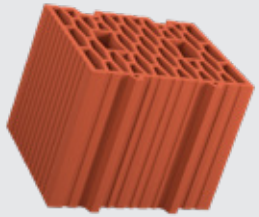
- The main products include BETEL paving blocks, concrete sewerage systems, concrete elements for watercourse landscaping, as well as reconstruction and construction of railways
- Purpose: road construction, yards, parks, bike paths, sewage systems, railway platforms, etc.

## ROOFING TILE



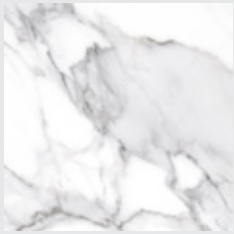
- Large and small roofing tiles, along with corresponding ridge tiles and special elements, are intended for covering roofs of various structures

## BRICK



- 4 types of bricks according to programs: classic load-bearing, thermal load-bearing, partition, and ceiling
- Classic bricks are used in wall construction, as well as thermal bricks with higher thermal insulation properties, partition bricks for interior walls (high strength, easy replacement and reconstruction, insulation and vapor permeability properties, fire resistance), while the ceiling program consists of load-bearing beams and filling made of ceiling blocks

## CERAMICS



- Floor and wall tiles of various dimensions are used for cladding walls and floors in both residential and non-residential buildings

## SERVICES

- Mediation in organizing waste recovery and disposal, waste collection and transportation, port handling services

| | |
|---|---|
| **COMPANIES** | 15 |
| **EMPLOYEES** | 1,805 |
| **ANNUAL CEMENT PRODUCTION** (1 cement plant) | >1,077,000 t |
| **ANNUAL CONCRETE PRODUCTION** (14 concrete plants) | 443,000 $m^3$ |
| **ANNUAL BRICK PRODUCTION** (3 brick plants) | 245,000,000 JNF |
| **ANNUAL ROOFING TILE PRODUCTION** (2 roofing tile plants) | 4,966,000 $m^2$ |
| **ANNUAL PRODUCTION OF AGGREGATES** (1 gravel pit) | 1,620,000 t |
| **ANNUAL PRODUCTION OF CERAMICS** (1 ceramic plant) | 1,945,000 $m^2$ |
| **REDUCTION OF $CO_2$ EMISSIONS (per t of clinker compared to 2013)** | -8% |
| **ANNUAL REVENUE 2022** | 208 mil. EUR |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## 1.3

# PRODUCT QUALITY AND CUSTOMER SATISFACTION

From the very beginning, product quality has been a priority in the operations of the NEXE Group. When it comes to the construction materials industry, the importance of the quality and durability of materials cannot be overstated. Customers rely on construction materials to build homes, offices, and other structures that are safe, durable, and energy-efficient. Poor quality materials used in construction can result in safety risks, increased maintenance costs, and even structural collapses.

At the Group level, a Quality Policy has been established by which the NEXE Group commits to comply with the requirements of its customers and strive to achieve their highest satisfaction, recognizing and reducing risks that may affect product compliance, and continuously monitoring and aligning with the requirements of laws, standards, and customer expectations. To meet these objectives, NEXE Group has implemented a quality management system certified according to the ISO 9001 standard. All stages in the value chain affect the quality of the products. This includes sourcing high-quality raw materials, using state-of-the-art production processes, and implementing rigorous quality control measures.

The Marketing and Sales sectors strive to listen to customers' needs and identify their problems promptly to maintain high levels of satisfaction. Focusing on the customers enables NEXE Group to develop innovations and encourages continuous quality improvement to exceed their expectations. During the reporting period, members of NEXE Group conducted customer satisfaction surveys. The sample consisted of a total of 343 customers (NEXE d.d. - 117; NEXE BETON d.o.o. Novi Sad - 7; NEXE BETON d.o.o. Sarajevo - 7; Dilj d.o.o. - 77; IGMA d.o.o. - 17; AD POLET IGK NOVI BEČEJ - 45; POLET-KERAMIKA DOO NOVI BEČEJ - 46; Tvornica opeke d.o.o. Sarajevo - 27). The survey was conducted using an online questionnaire method, and data were collected through the Salesforce CRM database.

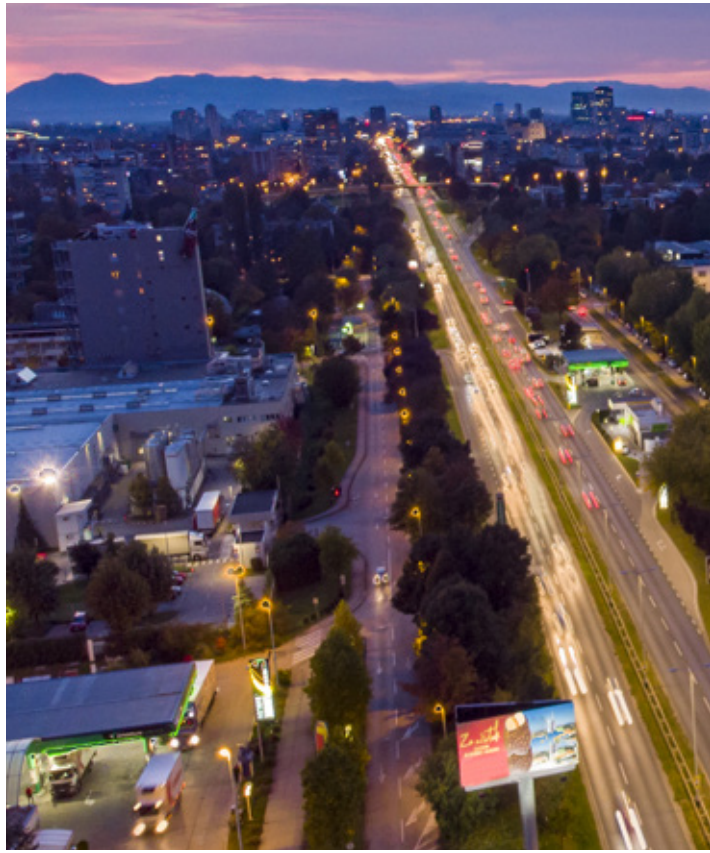
In line with the ratings of product characteristics and aspects of business cooperation, weighted according to the importance assigned by customers, Customer Satisfaction Indices for all members of the NEXE Group for the year 2022 were higher than 80%, which is considered high satisfaction.

The research showed that among the product characteristics, customers are the most satisfied with the quality, and it should be noted that the expertise and kindness of the sales staff were rated with the highest scores.

| | NEXE d.d. bagged cement | NEXE d.d. bulk cement | NEXE d.d. concrete | IGMA d.o.o. | Dilj d.o.o. roofing tile | Dilj d.o.o. brick | AD POLET IGK NOVI BEČEJ roofing tile | AD POLET IGK NOVI BEČEJ brick | POLET-KERAMIKA DOO NOVI BEČEJ | NEXE BETON d.o.o. Sarajevo | NEXE BETON DOO NOVI SAD | Tvornica opeke d.o.o. Sarajevo |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Overall satisfaction index** | 89.95 | 86.8 | 88.24 | 92.27 | 89.28 | 83.5 | 88.71 | 89.77 | 80.87 | 97.03 | 94.53 | 85.99 |
| **Product satisfaction rating** | 4.5 | 4.34 | NA | 4.29 | 4.61 | 4.22 | 4.37 | 4.47 | 3.98 | 5 | 4.86 | 4.66 |
| **Satisfaction with overall cooperation rating** | 4.51 | 4.43 | 4.41 | 4.53 | 4.52 | 4.48 | 4.67 | 4.58 | 4.40 | 4.86 | 5.00 | 4.34 |
| | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction | High satisfaction |

The research has shown that during the reporting period, customers were highly satisfied with both the quality of the products and the quality of cooperation. NEXE Group values its customers and is dedicated to providing them with the best possible experience, enabling the establishment and maintenance of long-term relationships. This approach has allowed NEXE Group to build a base of loyal customers and stand out in the market as a reliable supplier of high-quality construction materials.

# REFERENCE OBJECTS



NEXE materials are used in the most significant construction and civil engineering projects in the region. Significant projects include both simple, as well as complex visionary projects of contemporary architects. NEXE Group is proud to be a participant in building a better future.

# NEXE Group's Sustainable Development Strategy

NEXE Group is aware of the challenges posed by climate change and the European Union's strategic plan to achieve climate neutrality by the middle of the 21st century. In 2022, NEXE Group adopted a corporate strategy until 2030, which is fully focused on the digital and green transition of the business, and will be implemented through a total of 65 action plans. By 2030, NEXE Group will implement various technological solutions that enable the reduction of carbon footprint and increase in energy efficiency, complemented by intensive digitalization efforts. Data collection and timely analysis are crucial for successful business management.

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As one of the strategic projects enabling the neutralization of carbon dioxide ($CO_2$) emissions which are unavoidable due to the business model, the $CO_2$NTESSA project stands out - an innovative carbon dioxide capture and storage project that will demonstrate that net zero cement production is not only possible but also cost-competitive.

NEXE Group bases its strategic development on long-term relationships with customers and suppliers, as well as active monitoring of market trends. A proactive approach will enable the development of innovative products and position NEXE Group in the market as a partner in the decarbonization of the construction sector.

The modernization of facilities, investment in research and development of low-carbon products, and the application of best technological solutions will enable NEXE Group to achieve operational excellence and maintain a competitive advantage. However, decarbonizing business will not be possible without competent employees, which is why strengthening organizational capacities, knowledge, and excellence in all processes has been set as one of the strategic goals for the upcoming period.

The sustainable development strategy of NEXE Group is based on four strategic pillars: market orientation, implementation of new technologies, operational excellence, and human and organizational development. The realization of these strategic pillars with their corresponding strategic objectives enables the creation of added value and ensures long-term sustainable business. In the process of strategy development, the interests and expectations of stakeholders, environmental trends, and the material impacts of NEXE Group have been taken into account.

The business strategy is based on the results of external analysis, which includes information on market trends, existing and future technologies for reducing environmental impact, social changes, new regulations, and activities of other actors on the market, as well as internal analysis which focuses on corporate culture, organizational structure, management systems, raw material access, operational excellence, and stakeholder relations. All departments participate in the internal analysis, collecting information on stakeholder expectations through their daily interactions, which is used to shape strategic goals. In defining strategic guidelines, the NEXE Strategy is based on the Balanced Scorecard (BSC) methodology, while a cascading approach (linking strategic guidelines with clear implementation plans) is applied in its operationalization.

Based on results and analyses, the Management Board determines the strategic pillars and objectives. Action plans are crucial for implementing the strategy, through which the strategy is operationalized across key departments. One of the key components of action plans is planned benefits, which measure their success and enable the definition of goals and strategic key performance indicators (KPIs).

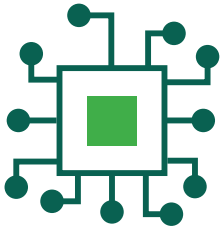
## MARKET ORIENTATION

**STRATEGIC GOAL 1:**
Proactive approach in utilizing market information to efficiently manage existing operations and identify potential opportunities for business expansion.

**STRATEGIC GOAL 2:**
Understanding the needs and supporting goals of customers and partners with the purpose of creating added value

**STRATEGIC GOAL 3:**
Optimizing the business portfolio (acquisitions and disinvestment) using market information

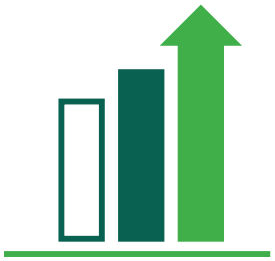
## IMPLEMENTATION OF NEW TECHNOLOGIES



**STRATEGIC GOAL 4:**
By investing in new technological solutions (modern equipment and digitalization) ensure long-term business sustainability (especially in the areas of $CO_2$ and energy)

**STRATEGIC GOAL 5:**
Utilizing the advantages of digitalization to optimize the business management system

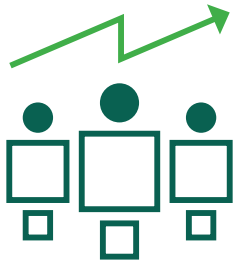
## OPERATIONAL EXCELLENCE



**STRATEGIC GOAL 6:**
Continuously optimizing the costs of existing operations (actively monitoring industry standards) to increase business competitiveness.

**STRATEGIC GOAL 7:**
Targeted allocation of resources (in line with strategic direction and benefit-to-investment ratio) to enable more efficient implementation of business objectives

## PEOPLE AND ORGANIZATIONAL DEVELOPMENT



**STRATEGIC GOAL 8:**
Improving organizational processes with the goal of adapting to the dynamic business environment and optimization of organizational activities

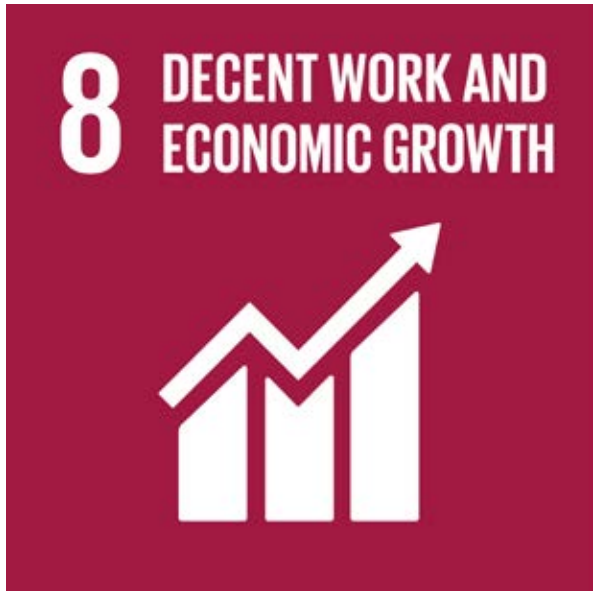
**STRATEGIC GOAL 9:**
Adjustment of management systems with the aim to increase the efficiency and quality of decision-making

**STRATEGIC GOAL 10:**
Strengthening employee knowledge and competencies to enable them to address changes in the external environment more effectively and capitalize on market opportunities

## 2.1

# CONTRIBUTION OF NEXE GROUP TO THE SUSTAINABLE DEVELOPMENT GOALS

The United Nations Sustainable Development Goals are a universal call to action to address global challenges. The business sector is called upon to contribute to achieving these goals by reducing harmful and creating positive impacts on the economy, society, and the environment. NEXE Group aims to contribute to the global sustainability agenda by identifying areas where its actions have the greatest potential to make a real and lasting difference.




## DECENT WORK AND ECONOMIC GROWTH (SDG 8)

With over 1800 employees and 208 million EUR in revenue, NEXE Group has a responsibility to create a safe and decent working place. Employees expect job security, adequate compensation in line with the cost of living, protection from health and safety risks, and equal opportunities for professional development.

### CONTRIBUTION

- We create new jobs, hire on a permanent basis, and provide competitive material working conditions.
- Health and safety in the workplace are our priority. We invest in protective equipment and new technologies that reduce the number of work-related accidents. We educate our employees about safe working practices.
- We ensure equality in the workplace and equal opportunities.
- We invest in the development of skills and knowledge of our employees through the NEXE Academy.

### STATUS 2022

**34% women in top management**

**42 work-related injuries (0.02 per employee)**

**13.28 rate of work-related injuries (injuries per million working hours)**

**0 fatalities at work**

**4.17 hours of training per employee**

### GOALS BY 2030

**0 fatalities at work**

**0 work-related injuries**


## INDUSTRY, INNOVATION, AND INFRASTRUCTURE (SDG 9)

NEXE Group is a significant stakeholder in the construction materials industry, and very often a driver of economic growth in the areas where it operates. Changes in construction standards, social expectations, and climate change call for companies to develop innovative solutions. NEXE Group takes a proactive approach to implementing new technologies and product development.

### CONTRIBUTION

- We develop the industrial ecosystem in the areas where we operate by involving small entrepreneurs in our value chain.
- We continuously improve the quality of our products.
- We develop innovative, low-carbon construction materials to reduce the negative impact of the construction industry on the environment.

### STATUS 2022

**5.07% of revenue from low-carbon products**

### GOALS BY 2030

**50% of revenue from low-carbon products**


## RESPONSIBLE CONSUMPTION AND PRODUCTION (SDG 12)

Through smart design and the use of secondary raw materials, NEXE Group increases resource efficiency and leads the transition towards circularity in the construction materials industry.

### CONTRIBUTION

- We use waste that cannot be reused or recycled as alternative fuel in production, thus reducing the amount of waste ending up in landfills.
- We employ modern technology to increase resource efficiency in production processes.
- We reduce the amount of waste from our production processes.

### STATUS 2022

**42% alternative fuels in production (energy recovery)**
**56 554 tons of waste utilized in production (energy recovery)**
**60 554 tons of waste utilized in production (material recovery)**

### GOALS BY 2030

**90% alternative fuels in production (energy recovery)**


## CLIMATE ACTION (SDG 13)

The production of construction materials is an energy-intensive activity, thus the significant share in global greenhouse gas emissions. Climate change is a global challenge that requires contribution from all stakeholders. NEXE Group's ambition is to implement innovative solutions aimed at progressing towards a net-zero future.

### CONTRIBUTION

- We invest in the energy efficiency of our buildings and facilities.
- We use electricity from renewable sources.
- We reduce the carbon footprint of our products.
- We work on reducing greenhouse gas emissions from our business processes.
- We develop innovative solutions for capturing and storing $CO_2$.

### STATUS 2022

**$CO_2e$ emissions: 656 243 t/year**
**Energy intensity: 0.0090 MWh per 1 EUR of net revenue**
**Share of energy from renewable sources in total consumption: 9.86%**
**$CO_2$ capture and storage: 0 t/year**

### GOALS BY 2030

**$CO_2e$ emissions: 0**
**Share of energy from renewable sources: 25%**
**$CO_2$ capture and storage: 750 874 t/year**


## SUSTAINABLE CITIES AND COMMUNITIES (SDG 11)

As one of the leading companies in the construction materials industry, NEXE Group embraces its responsibility in the development of sustainable cities and resilient communities. NEXE products form the core of essential urban infrastructure, indicating their significant role in urban development.

### CONTRIBUTION

- We develop solutions to help cities reduce their negative impact on climate change and increase resilience to climate risks.
- Through collaborations and support, we enhance the socio-economic value of the local communities in which we operate.
- We provide opportunities for young people entering the job market and ensure they receive mentorship.
- We transparently communicate our impacts and how we manage them.

### STATUS 2022

**Total amount of donations and sponsorships:**
**19.8 million HRK (2.62 million euros)**

**Donations and sponsorships are planned annually according to the needs of the local community.**

2.2

# MATERIAL IMPACTS, RISKS, AND OPPORTUNITIES

## CLIMATE CHANGE

The business model of NEXE Group is characterized by high energy intensity, resulting in significant greenhouse gas emissions that are considered a cause of climate change. Decarbonization of operations is recognized as a strategic goal for achieving long-term sustainability, which is why investments in new technological solutions related to energy efficiency, replacing fossil fuels with alternative sources, and eliminating $CO_2$ emissions are identified as priority projects for the period until 2030. By focusing on more efficient resource use, equipment modernization, and digitalization, NEXE Group will create opportunities for operational savings and increased productivity, which will positively impact the company's value.

The share of costs for energy, $CO_2$, and raw materials accounts for 50-70% of total operating costs. The share of raw material costs is more pronounced in concrete and aggregates, while energy and $CO_2$ are particularly important for cement, tiles, and bricks. Costs associated with $CO_2$ emissions which make up to 30% of operating costs for cement, represent a future "burden" or competitive advantage for operations due to expected changes in the ETS system. That is precisely why NEXE Group is embarking on an intensive green and digital transformation of its business.

By monitoring and analyzing the market, it has been concluded that there is a change in demand for traditional construction materials. Due to increasingly stringent building standards (share of recycled materials in the final product, requirements for low-energy buildings) and the growth of GDP per capita, there is an increasing demand for "green" products. NEXE Group is responding to such market changes by developing low-carbon products in the cement segment.

During the reporting period, an analysis of vulnerability to climate risks was conducted, and the most significant climate risk identified are more frequent periods of extreme temperatures. NEXE Group is already investing in adapting its business to climate change, and additional solutions will be implemented in the future to minimize impact on operations. One of the identified industry-level risks is the dependence of construction activities on weather conditions. NEXE construction materials are mostly used during outdoor construction activities, so unstable and extreme weather conditions (precipitation and low temperatures throughout the year, as well as lack of precipitation and above-average temperatures during winter months), which are becoming more frequent due to climate change, affect planned quantities by up to 50%.

## ENVIRONMENT

The value chain of construction materials production impacts the environment through raw material exploitation, consumption of natural resources, and emissions of pollutants into the air, water, and soil. With advancements in technology and environmental awareness, these effects have significantly decreased over the past two decades. NEXE Group invests in the best technology for purifying gases and water, increasingly replacing raw materials and fossil fuels with waste, thus minimizing the negative impact on the environment. Pollutant emissions are consistently monitored, enabling prompt responses in case of incidents that could endanger the environment or stakeholders' health.

## EMPLOYEES

NEXE Group employs over 1800 workers, providing them with stable employment, workplace safety, development opportunities, and competitive working conditions. One of the strategic priorities of NEXE Group's development is the continuous adaptation of management systems, including health and safety management systems, to minimize the negative impact on the health and safety of employees. On the other hand, NEXE Group recognizes the importance of investing in the professional development of its employees. Strengthening the knowledge and skills of employees has a positive impact on them and at the same time enables NEXE Group to more effectively seize market opportunities and successfully implement green transition initiatives.

A potential challenge for NEXE Group in terms of workforce is the shortage of qualified and skilled candidates in the market. Older employees are gradually retiring, and manufacturing and vocational activities are becoming less attractive to new generations. NEXE Group, through competitive working conditions, care for the health and safety of employees, and opportunities for knowledge and skills development maintains a positive employer image and gains an advantage in attracting a limited labor force. Additionally, it actively collaborates with local educational institutions to create a pool of potential employees with adequate knowledge and skills.

## LOCAL COMMUNITY

NEXE Group strives to make a positive impact in the communities where it operates through donations, sponsorships, and collaborative development projects while minimizing environmental impacts resulting from its extraction and production activities. The support and approval of the local community are important for the success of the business, which is why corporate social responsibility and continuous investment in improving the quality of life for local residents are integral parts of NEXE Group's business strategy.

| | ESG IMPACTS | ESG RISKS | ESG OPPORTUNITIES |
|---|---|---|---|
| **Environmental** | Energy consumption<br>Greenhouse gas emissions<br>Emissions into air and water | Increase in costs related to $CO_2$ emissions<br>Decreased availability of raw materials and increased energy prices<br>Impact of weather sensitivity of construction activities on business liquidity<br>Physical climate risks: extreme temperatures and fires | Changes in customer preferences and the need for more sustainable products<br>Implementation of technological solutions to reduce $CO_2$ emissions<br>Utilization of alternative energy sources |
| **Social** | Risk of work-related injuries<br>Favorable working conditions<br>Development of employee competences<br>Diversity and equal opportunities<br>Collective bargaining and dialogue<br>Contribution to the local community through donations and sponsorships<br>Development of the local economy through job creation and supplier opportunities<br>Product quality and sustainability | Labor shortage on the market<br>Potential for workplace injuries resulting in increased lost days<br>Employee turnover due to dissatisfaction with working conditions<br>Loss of support from the local community in case of environmental pollution | Collaboration with educational institutions can help in attracting employees more easily<br>Continuously improving working conditions and organizational culture can increase employee satisfaction and productivity<br>Workforce diversity can positively impact innovation and better decision-making |
| **Governance** | Development of long-term supplier relationships<br>Ethical business practices | Damaged reputation due to unethical behavior | |

## 2.2.1

# MANAGEMENT OF ESG IMPACTS

NEXE Group has expressed its commitment to socially responsible business through its Quality Policy and Energy, Environmental Protection, Health and Safety Policy. These management policies demonstrate the company's dedication to sustainable development and continuous improvement of its processes to reduce negative environmental impact and create a positive impact on employees and the local community. Stakeholder interests, ethical principles, and legal regulations are the foundations for decision-making.

NEXE model for managing business impacts goes beyond legally defined procedures and is based on the principles of an integrated management system aligned and certified according to ISO 9001, ISO 14001, ISO 45001, and ISO 50001 standards. The management system is centralized in terms of establishing fundamental rules of operation, strategic guidelines, decisions, and business objectives, which are the responsibility of the highest management bodies. Each Group entity has dedicated employees responsible for managing energy, environmental protection, health and safety, employee development, and product quality, i.e., the most significant business impacts. Their task is to implement measures to achieve objectives and to monitor and report to the Management Board and Supervisory Board on key performance indicators. A crucial aspect of a successful system is the ability to respond to and manage changes promptly, which is achieved through a clear and streamlined communication model among process interactions. The purpose of this model is to conduct business in an ethical, transparent, legally compliant, safe, and efficient manner.

The external and internal contexts in which NEXE Group entities operate have been highly dynamic in recent years, posing increasing challenges to operations. The main challenges include transitioning to a low-carbon economy and increasingly stringent legal requirements in the areas of environmental protection, energy efficiency, and work-related health and safety. Management systems facilitate navigating through these challenges and serve as the foundation for improvements and enhancements in these areas, which in turn bring positive effects to the business.

| | NEXE d.d. | Dilj d.o.o. | IGMA d.o.o. | AD POLET IGK NOVI BEČEJ | POLET-KERAMIKA DOO NOVI BEČEJ | Tvornica opeke d.o.o. Sarajevo |
|---|---|---|---|---|---|---|
| **ISO 9001 (QMS)** | DNV | DNV | DNV | DNV | DNV | DNV |
| **ISO 50001 (EMS)** | DNV | LRQA | SGS | NA | NA | NA |
| **ISO 14001 (EMS)** | DNV | NA | NA | NA | NA | NA |
| **ISO 45001 (H&SMS)** | LRQA | NA | NA | NA | NA | NA |

## 2.2.2

# IDENTIFICATION AND ASSESSMENT OF ESG RISKS AND OPPORTUNITIES

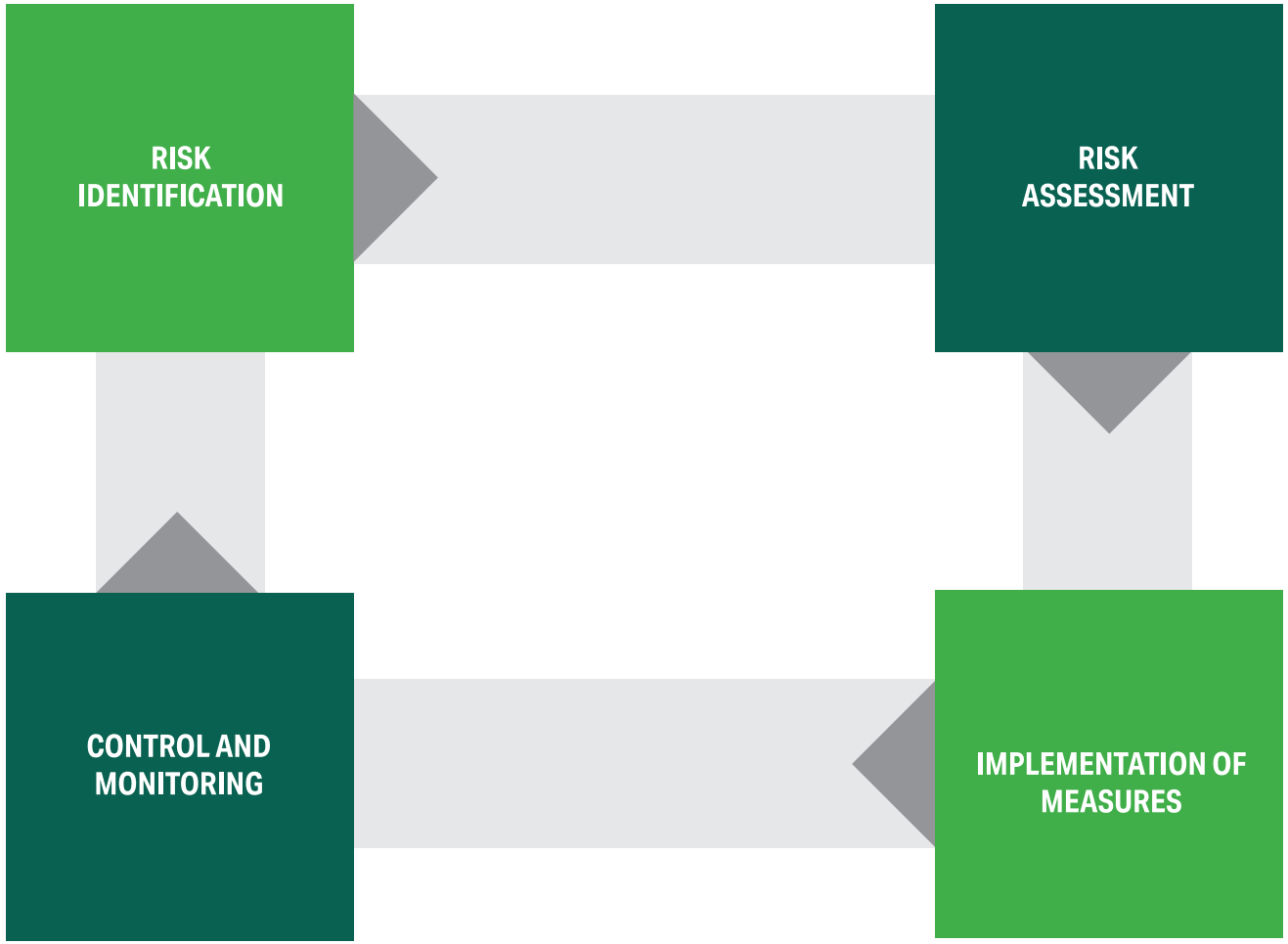
Risk management is a key element of the NEXE Group's strategy. Effective management of social, climate, and governance risks, positively influences the success of business decision-making and opens new opportunities and possibilities.

Each process owner, or responsible person for a subprocess, is required to conduct a risk assessment for their subprocess and update it as needed at least once a year. When conducting risk and opportunity assessments, the process owner or responsible person considers the results of the SWOT analysis, the needs, and expectations of stakeholders, the results of performance measurement and monitoring of impacts in their area, conducted analyses, and improvement results. In the reporting period, a climate risks vulnerability analysis (CRVA) was conducted, which is further described in the chapter "NEXE Group and Climate Change".

For the purpose of risk and opportunity assessment, a standard analysis based on likelihood and consequences is used. In the first stage, the basic risk is determined for each defined impact on the process/subprocess. Then, existing measures are identified, and the residual or remaining risk is calculated. The impact on key performance indicators is analyzed for each risk. Based on the results of the assessments, a decision about the risk is made. The methodology is described in detail in the risk assessment form itself, along with the criteria for risk assessment.

If there are any, opportunities are identified for each defined impact, followed by a description of the opportunity. If opportunities are significant or very significant, the activities undertaken are also listed. Measures identified through risk and opportunity assessment are initiated within the framework of the procedure DP.B-2.9-05 Continuous Improvement or DP.B-2.9-06 Goal Management.

The identified risks and implemented measures are reported to the Management Board and the Department for Business Strategy and Development, which consider the outcomes of risk assessment when planning development.




Visual representation of risk identification and assessment in NEXE Group

2.2.3.

# SETTING ESG GOALS

## STRATEGIC GOALS

ESG goals are set based on Action Plans derived from NEXE Group's strategy. When defining goals, considerations are given to areas of greatest impact, stakeholder interests, and business risks and opportunities. ESG goals ensure that NEXE Group remains committed to sustainable operations and responsible resource management. The set goals are specific, measurable, and time-bound, and each goal is assigned to a responsible individual.

## ANNUAL PROCESS-LEVEL GOALS

NEXE Group applies a process approach with defined process owners and responsible individuals for subprocesses and performance measurement of processes is conducted annually through established key performance indicators. Progress in achieving set goals is regularly monitored at departmental internal meetings, and progress reports are provided to the Management Board on a monthly basis. Annually, each process owner submits a report to the Management Board on implemented measures, achieved results, progress in goal attainment, and plans for the next period.

In the upcoming period, the process owner reward system will be adjusted to include the achievement of set ESG goals in performance assessment.

## 2.3.

# ASSESSMENT OF MATERIAL ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES

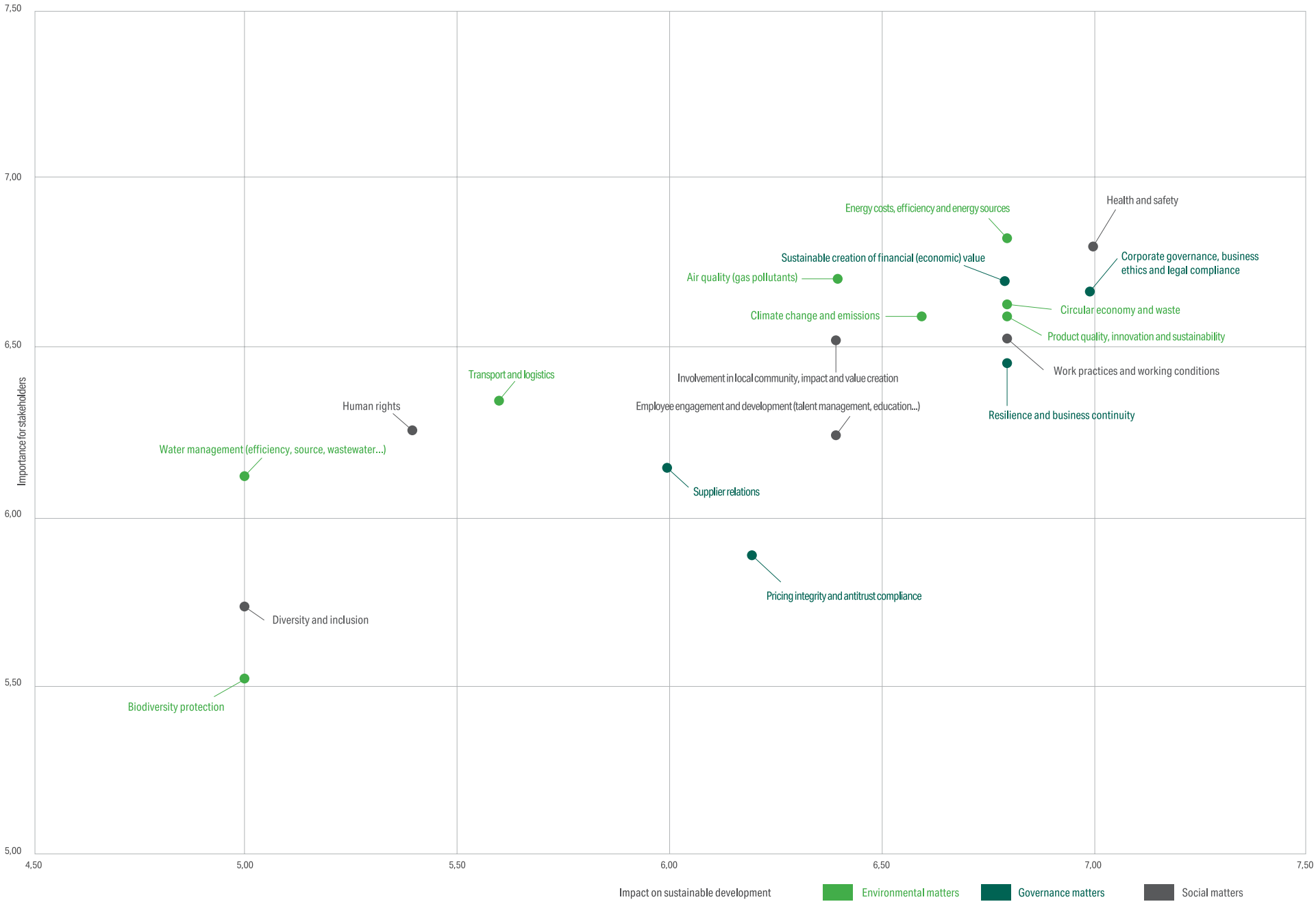
When defining material topics and preparing sustainability reports, NEXE Group adhered to the principle of double materiality as described in ESRS 1 Standard. Information on the social, environmental, and governance impacts of the company represents one aspect of materiality. The other aspect of materiality relates to information necessary for understanding the development, business results, and position of the company, focusing on risks and opportunities arising from sustainability issues that may impact the company's financial performance. ESG impacts, risks, and opportunities were defined based on SWOT and PESTLE analysis, stakeholder expectations analysis, and internal expertise in quality management, environment, human resources, and finance. ESG impacts, risks, and opportunities are presented and further described in each chapter.

The assessment of material topics involved indexing topics significant to the construction materials industry at the EU level. Sustainability reports of companies in the industry were analyzed, and a review of relevant EU research and policies significant to this industry was conducted. When indexing, it was necessary to consider the context of the countries in which NEXE Group operates.

The process of assessing material ESG topics also involved dialogue with internal and external stakeholders (management, employees, union representatives, suppliers, customers, financial institutions, and representatives of the local community) in the form of interviews or focus groups.

Stakeholders and management perceive health and safety, corporate governance and business ethics, energy management, sustainable creation of economic value, circular economy, and waste, high-quality, innovative, and sustainable products, as well as work practices and working conditions, as the most important topics.

During the conducted focus groups, stakeholders highlighted the positive and significant contribution of NEXE Group to the development of the local community, successful management of employee health and safety, and management of environmental impacts. Stakeholders generally had a positive attitude towards NEXE Group and did not have significant complaints about its operations. This is an extremely positive sign for NEXE Group that it conducts its business in line with stakeholders' expectations and has their support in achieving strategic plans. The material topics of NEXE Group are presented in the materiality matrix.


7,50
7,00
6,50
6,00
5,50
5,00
Importance for stakeholders
4,50
5,00
5,50
6,00
6,50
7,00
7,50
Impact on sustainable development
Energy costs, efficiency and energy sources
Health and safety
Sustainable creation of financial (economic) value
Corporate governance, business ethics and legal compliance
Air quality (gas pollutants)
Circular economy and waste
Climate change and emissions
Product quality, innovation and sustainability
Involvement in local community, impact and value creation
Work practices and working conditions
Transport and logistics
Human rights
Employee engagement and development (talent management, education...)
Resilience and business continuity
Water management (efficiency, source, wastewater...)
Supplier relations
Pricing integrity and antitrust compliance
Diversity and inclusion
Biodiversity protection
Environmental matters
Governance matters
Social matters

## COMMUNICATION WITH STAKEHOLDERS

Continuous communication with internal and external stakeholders is part of sustainability management at NEXE Group. Communication with stakeholders is extremely important to continually receive feedback, meet expectations, and minimize negative impacts, so NEXE Group regularly and proactively engages in dialogue with all its stakeholders.

Various formats are used for this purpose, such as individual and group meetings, financial and environmental performance reports, websites, and social media for external stakeholders, as well as intranet, employee magazine, e-mail, satisfaction surveys, participation in expert working groups, and attendance at conferences.

Constructive dialogue with stakeholders enables NEXE Group to timely identify issues related to product quality, working conditions, safety, environmental impact, or community involvement, allowing it to take necessary steps to address them. NEXE stakeholders contribute valuable feedback with their expertise and observations, which contributes to the development of better products and services and process improvement. Through two-way and transparent communication, NEXE builds trust with its stakeholders and a reputation as a reliable neighbor, employer, and partner.

| Stakeholders | Mode of communication | Important matters |
|---|---|---|
| **Employees** | Regular management-employee meetings<br>Work council meetings<br>Health and Safety Committee meetings<br>Intranet and e-mail<br>NEXE Novosti<br>Satisfaction surveys<br>Consultations<br>Teambuilding<br>Employee gatherings | Improvement of health and safety at work<br>Satisfaction with working conditions<br>Career development<br>Organizational culture<br>Corporate social responsibility |
| **Customers** | NEXE official website<br>One-on-one meetings<br>Satisfaction surveys<br>Annual "Customer Gathering" event | Product quality<br>Price<br>Service satisfaction<br>Finding solutions for construction challenges |
| **Local community** | Meetings with civil society organizations as needed<br>Environmental impact reports<br>Study visits and field trips<br>Official NEXE website<br>Social media<br>E-mail<br>Tenders for donations and sponsorships<br>Consultations | Donations and sponsorships<br>Air quality<br>Water and waste management<br>Impact on the local environment<br>Support for civil society organizations<br>Job and business opportunities for local residents<br>Collaboration with educational institutions<br>Participation in humanitarian actions - voluntary blood donation |
| **Suppliers** | Regular meetings<br>Quality audits<br>Satisfaction surveys | Stable and long-term collaboration<br>Quality of raw materials and products<br>Quality of services<br>Price<br>ESG impacts in the value chain<br>Employee safety in the supply chain |
| **Authorities** | Monitoring decision-makers' activities<br>Monitoring legislative regulations<br>Official correspondence<br>Monitoring official websites | Compliance with the law<br>Climate change |
| **Investors** | Regular meetings<br>Financial reports | Profit growth<br>Impact on the environment and human rights<br>Management of material risks<br>Business resilience to ESG risks<br>Long-term value creation |
| **Professional and economic interest associations** | Participation in working groups<br>Participation at conferences<br>Participation in research | Energy and climate transition<br>Finding innovative solutions to reduce environmental impact of production<br>Development of human resources management practices<br>Protection of health and safety at work |

# Governance

03

3.1.

# STRUCTURE AND DIVERSITY OF ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

- **Executive and non-executive members:** all members of the Management Board are executive.
- **Representation of employees:** worker interests are represented by Marijan Baričević's participation in the Supervisory Board of NEXE d.d. Marijan Baričević was elected by the Workers' Council as a representative of the employees.
- **Experience relevant to the sector, products, and geographical locations of the company:** all members of the Management Board have education in the fields of economics, finance, and engineering, as well as extensive experience in the construction materials industry, enabling them to have a good understanding and successful management of the most significant impacts, risks, and opportunities of the business. All members of the Management Board are familiar with the local conditions and peculiarities of the locations where they operate.
- **Representation of women:** in the Management Board of NEXE d.d., the share of women is 16.7%. In the Supervisory Board, the share of women is 0%.
- **Proportion of independent members of the Management Board:** 0%.

# NEXE d.d.
# MANAGEMENT BOARD

**The Management Board of NEXE d.d. consists of 6 members who oversee the entire operations of the Group.**

**Ivan Ergović** is the President of the Management Board of NEXE d.d. and coordinates the management of the whole Group. He is responsible for the processes of the Board's Office and internal audit. He began working at the Našice Cement Factory in 1983 as a mechanical engineer in the maintenance department. He became the head of the mechanical maintenance department in 1987, and in 1990, he was appointed as the CEO of the Našice Cement Factory by the then Workers' Council. Since 1995, he has been the CEO of Našicecement d.d., and since 2001, he is the President of the Management Board. Since July 2003, he has been the President of the Management Board of Nexe Group d.d. Našice, and since July 1, 2021, following the merger of Nexe Group d.d. into NEXE d.d., he has been appointed as the President of the Management Board of NEXE d.d.

**Stjepan Ergović** is the Deputy President of the Management Board of NEXE d.d. and a Board member for Production and Technology. He is responsible for production, technology, product quality, and investments. His entire career, from 2008 to the present day, he has been working at Našicecement d.d. After completing his internship, he worked as an Engineer in Maintenance (2009-2011), and from 2011 to 2014, he was the Head of the Production Department. From 2014, he held the position of Director of the Production and Technical Affairs Sector until he was appointed a member of the Management Board for Production and Technical Affairs on October 1, 2015. From November 1, 2019, until June 30, 2021, he served as the President of the Management Board of Našicecement d.d. (now NEXE d.d.). Since February 1, 2019, he has been a member of the Management Board for Production and Technology of Nexe Group d.d. Našice, and following the merger of Nexe Group d.d. into NEXE d.d. on July 1, 2021, he was appointed the Deputy President of the Management Board and a member of the Management Board of NEXE d.d.

**Josip Ergović** is a member of the Management Board of NEXE d.d. for commercial affairs, responsible for sales, marketing, CRM, procurement, and logistics processes. He graduated from the University of Zagreb - Faculty of Economics, and also completed the GMP program at IEDC Bled, Slovenia in 2010. He has been employed in the Nexe Group since 2005. From September 2008 to June 2012, he served as the Director of the Procurement Sector at Nexe Group d.d., where he was responsible for strategic and operational procurement in all Nexe Group subsidiaries in Croatia, Bosnia and Herzegovina, and Serbia. In July 2012, he transitioned to the position of Director of Commercial Affairs at Našicecement d.d. Našice (now NEXE d.d.), where his responsibilities expanded to include sales of cement and concrete, in addition to strategic procurement and logistics. On October 1, 2015, he was appointed as a member of the Management Board for Commercial Affairs at NEXE d.d. From February 1, 2019, until the merger of Nexe Group d.d. into NEXE d.d. on July 1, 2021, he also served as a member of the Management Board for Commercial Affairs at Nexe Group d.d.

**Ivan Ergović** is a member of the Management Board for Strategy and Development at NEXE d.d. His responsibilities include strategy processes and management of the investment portfolio, business development, and IT of the Group. He graduated from the Faculty of Economics at the University of Zagreb. He has attended numerous training sessions on change management, strategic management, and organizational design, and in 2017, he completed the Advanced Program in Business organized by the Institute for Innovation. His professional journey began at Nexe Group d.d. in 2012 as a treasury specialist. In 2014, he moved to Nexe beton d.o.o. Našice as the Director of the Commercial Affairs Sector, and in 2016, he was appointed as Assistant Member of the Management Board for Commercial Affairs at Našicecement d.d. Našice (now NEXE d.d.). By decision of the Supervisory Board, on February 1, 2019, he assumed the position of a member of the Management Board for Strategy and Development at Nexe Group d.d. Našice, and with the merger of Nexe Group d.d. into NEXE d.d. on July 1, 2021, he became a member of the Management Board of NEXE d.d.

**Ivana Čehulić** is a member of the Management Board for Finance at NEXE d.d. She is responsible for finance processes, controlling, treasury, accounting, and managing business risks within the Group. She graduated in Business Economics from the Faculty of Economics at the University of Zagreb in 2000, and in 2008, she completed postgraduate studies in Quality Management. She has attended numerous domestic and international training sessions in financial management. Currently, she is pursuing a doctoral study in International Relations at Libertas International University Zagreb. She began her career at Hrvatske autoceste, where she advanced to the position of Head of the independent department for economic and financial affairs, responsible for company liquidity management and cash flow management. In this role, she collaborated with banks, auditing firms, and other financial institutions. In 2014, she moved to Tokić d.o.o. as the Finance Director, where she was involved in business development and identifying new financing opportunities. Since June 2019, in addition to her role as Finance Director, she was also a member of the Management Board of Autocentar Marinići d.o.o. Since July 2019, she has been the Director of Tokić d.o.o. Slovenia. She joined Nexe Group d.d. as a member of the Management Board for Finance on February 1, 2020. With the merger of Nexe Group d.d. into NEXE d.d. on July 1, 2021, she became a member of the Management Board of NEXE d.d.

**Velimir Vilović** is a member of the Management Board of NEXE d.d., responsible for human resources, legal affairs, management systems, and occupational health and safety. Velimir Vilović graduated from the Faculty of Economics at the University of Zagreb, specializing in Foreign Trade, in 1996. He completed his postgraduate studies in Business Administration (MBA) at the IEDC business school in Bled, Slovenia, in 2006. Since 1998, he has pursued a business career in the construction materials industry, holding various managerial positions at "Dalmacijacement" (later "CEMEX Croatia"). From 1998 to 2005, he served as the regional sales director responsible for exports. From 2006 to 2007, he was the sales manager in Bosnia and Herzegovina and Montenegro. From 2008 to 2010, he served as the director of human resources, from 2010 to 2017 as the director of sales and logistics, and finally, from 2017 to March 2022, he represented the Boards as the company's director. Starting from September 1, 2022, he continues his professional journey at NEXE Group as a member of the Management Board of NEXE d.d., responsible for human resources, legal affairs, management systems, and occupational health and safety.

## SUPERVISORY BOARD

**Željko Lukač**, the President of the Supervisory Board, graduated from Mary Hardin Baylor University in Belton, Texas, in 1993, with a major in Marketing and Finance. In 1995, he completed his Master of Business Administration (MBA) at the University of Texas at Austin. In 1996, he joined Croatia Osiguranje d.d., a leading insurance company. From 1997, he worked at the European Bank for Reconstruction and Development (EBRD) in Zagreb and London, serving as Chief Banker and being responsible for various lending and equity investment projects in the construction materials, food industry, tourism, and pharmaceutical sectors. In 2003, together with partners, he founded and managed the first Croatian private equity fund - Quaestus Private Equity Capital. In 2008, he took on the role of President of the Management Board of Metronet Telecommunications d.d., a company in which the Quaestus fund held a majority stake and which faced financial difficulties. After successfully conducting operational and financial restructuring, he successfully sold the majority stake in Metronet in February 2017. Currently, he serves as the President of the Management Board at Inceptum ICT, where he is responsible for implementing the business plan and coordinating the Board members.

**Oto Ostović** was born in 1955 in Feričanci. He graduated from the Faculty of Electrical Engineering at the University of Zagreb in 1980. After working at RZ "Đuro Đaković" in Slavonski Brod and the Center for Education and Vocational Training "August Cesarec" in Našice, at the beginning of 1989, he began working at Slavonija IGM d.d. Našice, a member of the Nexe Group. He joined the cement factory in Našice in 1992 as an electrical engineer in the Research and Development Department. From 1994 to 1998, he served as the head of the electrical power service, after which he held the position of director of Slavonija IGM d.d. Našice until 2000. From May 1, 2000, to August 31, 2003, he served as the director of the production sector and technical affairs at Našicecement d.d. From September 1, 2003, he was employed at the NEXE Group as a senior advisor for technical affairs, and from September 1, 2005, until his new appointment, he was the director of the Division for Cement, Lime, Concrete, and Aggregate and the general director of Našicecement d.d. With the appointment of a three-member Management Board of Našicecement on October 1, 2015, he was appointed as the President of the Management Board of Našicecement d.d., a position he held until October 31, 2019. At the same time, from November 1, 2008, to October 31, 2019, he was a member of the Management Board of Nexe Group d.d. Našice. From November 1, 2019, to January 31, 2023, he served as an advisor to the President of the Management Board of NEXE Group. Since March 3, 2020, he has been the deputy president of the Supervisory Board of NEXE d.d., a position he holds to this day.

**Oleg Uskoković** is a member of the Supervisory Board of NEXE d.d. He graduated in 1994 from the Faculty of Law at the University of Zagreb, obtaining a law degree. Oleg Uskoković has over 20 years of professional experience. He is a partner at the Law Firm Uskoković and Partners Ltd. His experience and expertise in various branches of law are of great importance for corporate clients (e.g., corporate and commercial law, finance, arbitration and litigation, labor law, etc.), where, over the past seventeen years, he has structured, implemented, and/or provided complete legal support for numerous activities, including acquisitions, mergers, demergers, capital increases, joint ventures, investments, restructuring, public tenders, legal due diligence processes, securities issuances, and a wide range of contracts, litigation, and arbitration proceedings. Oleg Uskoković is a member of the Supervisory Boards of NEXE d.d. Našice, Medika d.d. Zagreb, Atlantska plovidba d.d. Dubrovnik, and PBZ invest d.o.o. Zagreb.

**Ivan Gerovac** is a member of the Supervisory Board of NEXE d.d. He obtained his bachelor's degree from the Faculty of Economics at the University of Zagreb (according to the curriculum of the former Faculty of Foreign Trade), and he earned a master's degree in economics from the University of Rijeka, where he was granted the title of Master of Science. He continuously participates in numerous seminars, conferences, courses, and targeted training programs. Throughout his career spanning the past thirty years, he has held various responsible managerial positions at Privredna banka Zagreb d.d. – from executive director, assistant general manager, and authorized representative for bank restructuring, to a member of the Management Board. He concluded his banking career as a member of the Management Board responsible for working with large companies, foreign exchange operations, and investment banking. In addition to his roles at Privredna banka Zagreb d.d., he has been a member of numerous supervisory boards in the fields of industry, tourism, and trade over the past thirty years. Since January 1, 2022, Ivan Gerovac has been a member of the Supervisory Board of NEXE d.d.

**Marijan Baričević** is a member of the Supervisory Board of NEXE d.d. Since 1985, he has been employed at the cement factory in Našice in the Electrical Maintenance Department, working as an electrician. By decision of the Workers' Council of the former Našicecement d.d., now NEXE d.d., Marijan Baričević was appointed as a workers' representative on the Supervisory Board on June 23, 2017.

## 3.2.

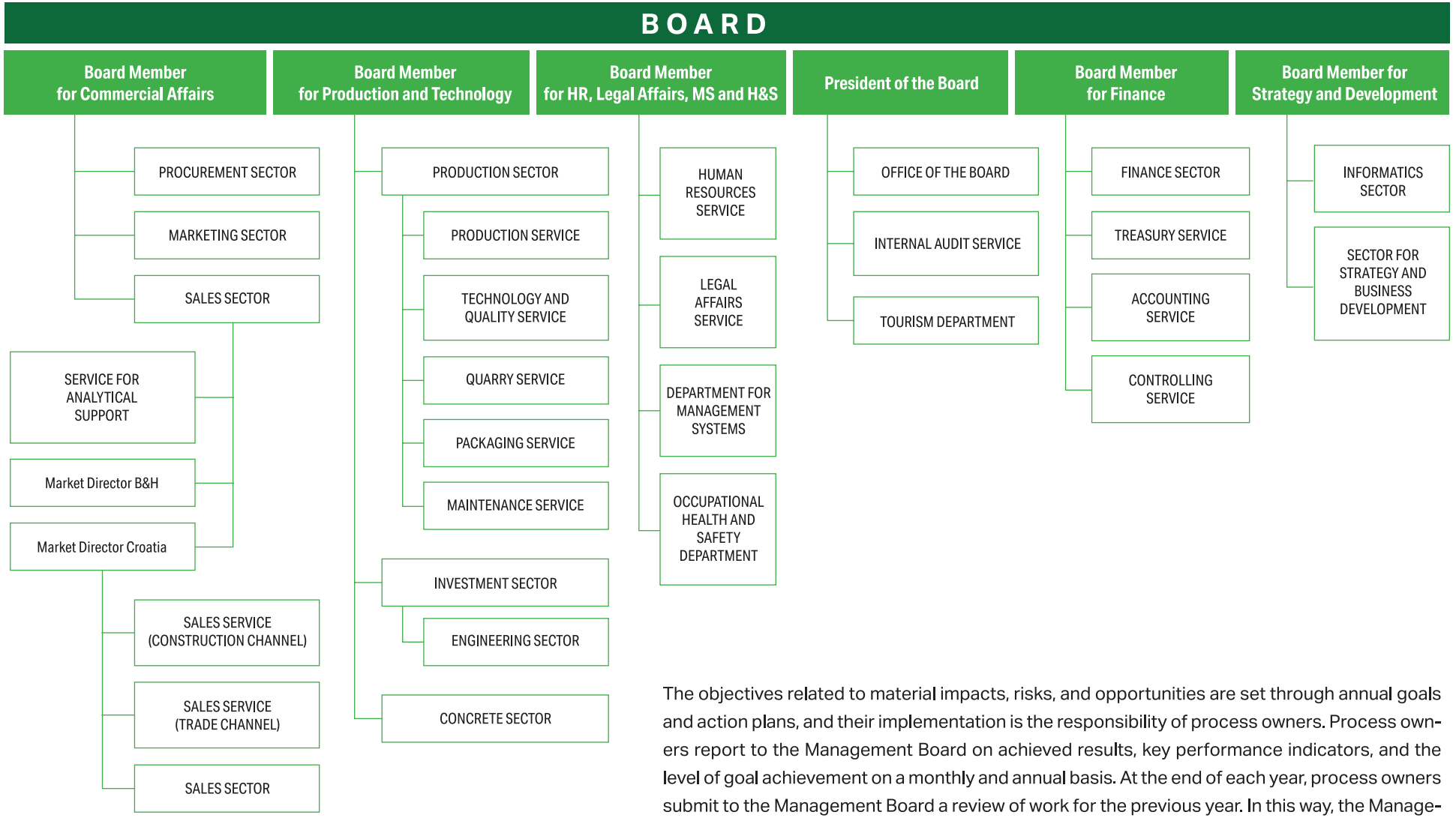
# ROLE AND RESPONSIBILITIES OF ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES IN THE MANAGEMENT OF ESG TOPICS

The Board of NEXE Group, executive directors, sector directors, heads of services, and department managers are responsible for managing the impacts, risks, and opportunities related to sustainable development. Members of the Board are responsible for setting strategic directions, adjusting the business model, and developing action plans and annual goals to minimize negative and achieve positive social and environmental impacts. To have a good overview of the impacts and risks, the management of NEXE Group has established management systems and defined responsible persons who regularly report on the achieved results. The responsibilities of the responsible persons are defined in their contracts, job descriptions, and business policies.

For key ESG areas, roles and responsibilities are defined at the level of the Board and other organizational units, as outlined in the table. Unit managers assess and manage impacts, risks, and opportunities and report the results to the relevant member of the Board. In all members of the NEXE Group, responsible persons are defined to collect data, monitor, and report ESG indicators.

| Material ESG matters | Responsible Board Member | Organizational unit | Responsible function at Group members |
|---|---|---|---|
| **Energy and emissions** | Board Member for production and technology<br><br>Board Member for human resources, legal affairs, management systems and health and safety | The production sector of the member company<br><br>Management Systems Unit | Director of Production Sector in subsidiaries and Environmental Protection Specialists |
| **Environmental protection** | Board Member for human resources, legal affairs, management systems and health and safety | Management Systems Unit<br><br>The production sector of the member company | Director of Production Sector in subsidiaries and Environmental Protection Specialists |
| **Safety at work** | Board Member for human resources, legal affairs, management systems and health and safety | Unit for Occupational Health and Safety<br><br>The production sector of the member company | Occupational Safety Specialist |
| **Human resources management** | Board Member for human resources, legal affairs, management systems and health and safety | Human Resources Service | Head of Human Resources Service and Human Resources Specialist in subsidiaries |
| **Local community support** | Management Board | Board Office<br><br>Human Resources Service<br><br>Management Systems Unit | Chief of the Management Board's Office<br>Head of Human Resources Service<br>Manager of the Management Systems Unit |

# ORGANIZATIONAL STRUCTURE DIAGRAM NEXE d.d.




The objectives related to material impacts, risks, and opportunities are set through annual goals and action plans, and their implementation is the responsibility of process owners. Process owners report to the Management Board on achieved results, key performance indicators, and the level of goal achievement on a monthly and annual basis. At the end of each year, process owners submit to the Management Board a review of work for the previous year. In this way, the Management Board is informed about progress towards achieving the goals.

## 3.3.

# INFORMING ADMINISTRATIVE, SUPERVISORY, AND MANAGEMENT BODIES ABOUT ESG MATTERS

Material impacts, risks, and opportunities, as well as the results and effectiveness of ESG policies, metrics, and targets, are continuously discussed at all levels of the NEXE Group through weekly sector and department meetings, as well as regular meetings with the Management Board. Meetings of the Management Board of NEXE d.d. and the Collegium of the NEXE Group are usually held twice a month, addressing sales, financial, and ESG indicators as needed. Emergency meetings of the Management Board are conducted by correspondence when necessary. The working methods and decision-making processes are defined by the Rules of Procedure of the Management Board.

The quarterly Extended Collegium within the Management Board includes managers responsible for environmental, social, and governance (ESG) matters. This Extended Collegium discusses how to achieve planned sales and financial indicators while respecting ESG goals. Additionally, weekly coordination meetings are held, where department and service managers inform the responsible Board Member about ESG topics.

Meetings of the Supervisory Board of NEXE d.d. are usually held quarterly (at least once every six months), following the finalization of business reports for a specific quarter or as needed electronically, in cases where the approval of the Supervisory Board is required for certain business decisions. Matters related to the work of the Supervisory Board are defined by the Rules of Procedure of the Supervisory Board of NEXE d.d.

Reporting to the Management Board on the state of the quality management system, occupational health and safety management system, and environmental and energy management systems, which include ESG indicators, is conducted annually. The report to the Management Board provides an overview of implemented measures and achieved results related to ESG topics.

The Management Board of NEXE Group, executive directors, sector directors, and department managers for their processes and activities derived from the overarching ESG strategy conduct risk assessments, identify potential opportunities, and make decisions on further activities to minimize risks and capitalize on opportunities. The list of material ESG matters arising from the overarching ESG strategy is published in the chapter "Material Impacts, Risks, and Opportunities."

## 3.4.

# INTEGRATION OF SUSTAINABILITY-RELATED PERFORMANCE INCENTIVES SCHEMES

The reward model based on ESG indicators will be shaped and implemented in the upcoming period. It is in the interest of NEXE Group that management always considers the interests of employees, local communities, and other stakeholders in their decisions and that their actions create a positive impact on society and the environment.

## 3.5.

# DUE DILIGENCE STATEMENT

NEXE Group conducts an in-depth analysis of social and environmental impacts to identify and prevent negative impacts of operations. The main elements of sustainability due diligence are linked to a series of cross-cutting disclosures and are presented in tabular form for easier navigation for information users.

| Core elements of due diligence | Pages of the report |
|---|---|
| Embedding due diligence in governance, strategy and business model | 36-39, 65, 66 |
| Engaging with affected stakeholders in all key steps of the due diligence | 65, 40-43, 45-47, 48-49, 152, 182 |
| Identifying and assessing adverse impacts | 40-43, 45-47, 72-79, 81, 108-110, 124-126 |
| Taking actions to address those adverse impacts | 89-96, 113-119, 129-131, 163-166, 192-193 |
| Tracking the effectiveness of these efforts and communicating | 98-101, 102-104, 120-121, 132-133, 137, 167 |

## 3.6.

# RISK MANAGEMENT AND INTERNAL CONTROLS OVER SUSTAINABILITY REPORTING


In the reporting period, internal controls over sustainability reporting processes were not established. However, NEXE Group conducts internal audits of management systems according to ISO 9001, ISO 14001, ISO 50001, and ISO 45001 standards. These audits include data verification, minimizing the risk of data inaccuracy and timeliness. In the upcoming reporting periods, the establishment of a system of internal controls and risk management related to sustainability reporting is planned.

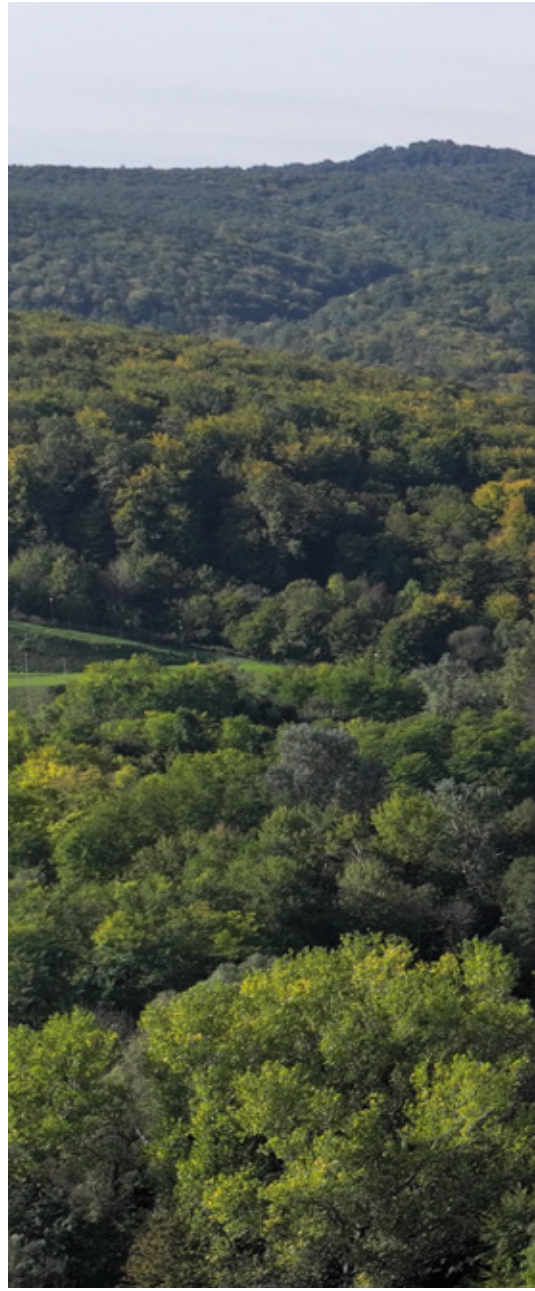

CERTIFIKAT SUSTAVA UPRAVLJANJA
MANAGEMENT SYSTEM CERTIFICATE
NEXE d.d.
ISO 9001:2015
DNV·GL
IAF

# NEXE Group and Climate Change

Climate change is one of the greatest challenges of the modern era, to which the construction materials industry has contributed with significant greenhouse gas emissions. In order to halt the negative consequences of climate change in a timely manner and achieve climate neutrality, innovative and systematic solutions are necessary. NEXE Group is dedicated to implementing solutions for reducing direct and indirect emissions of greenhouse gasses in the construction materials value chain.

04

# CLIMATE CHANGE IMPACT ASSESSMENT



NEXE Group, as a participant in the EU Emissions Trading System (EU ETS), has defined procedures for monitoring and reporting greenhouse gas emissions. Emission sources are identified and listed in the Greenhouse Gas Emission Monitoring Plan document, which is an integral part of the greenhouse gas emission permit for the facility. NEXE d.d. (clinker production), and Dilj d.o.o. (brick and tile production), are part of the EU ETS system. These companies are obliged to prepare an annual report based on the approved Greenhouse Gas Emission Monitoring Plan and have it verified by an authorized company. In addition to the annual report, the Activity Level Report is also verified, based on which companies are allocated a certain amount of free emission allowances for the following year. The verified reports on total emissions and activity levels are submitted to the Ministry of Economy and Sustainable Development, responsible for issuing expert opinion.

AD POLET IGK Novi Bečej and POLET-KERAMIKA d.o.o. Novi Bečej in Serbia, as well as Tvornica opeke d.o.o. Sarajevo in Bosnia and Herzegovina, whose core activities include tile and brick production, have established an internal monitoring system in line with the requirements of the EU ETS in preparation for the upcoming regulations. Although NEXE Group's facilities outside the Republic of Croatia are not part of the ETS system, NEXE Group, as a socially responsible company, considers $CO_2$ emission reduction activities for those locations as well.

For the purposes of the sustainability reporting according to the ESRS standard, emission sources within scope 1 and 2 have been determined, taking into account all organization activities, including direct emissions from energy use in facilities and transportation, as well as indirect emissions related to the production of energy used by the organization. Responsible individuals within NEXE Group members collect data on $CO_2$ emissions from energy consumption processes and document them in the prescribed format. Scope 1, 2, and 3 boundaries are determined following the guidelines of the GHG Protocol on greenhouse gasses. $CO_2$ emissions are calculated according to the methodology prescribed by the GHG Protocol and the rules of the EU ETS.

Scope 1 includes emissions from production processes and fuel combustion, as well as from company-owned vehicles and machinery.

Scope 2 includes emissions generated from the production of electricity from renewable and non-renewable energy sources, as well as emissions from the combustion of biomass (sawdust, wood chips), and the biogenic fraction of waste used for energy recovery in production processes.

During the reporting period, NEXE Group began identifying indirect emissions in the value chain (Scope 3). For the purposes of this report, data has been collected and emissions have been calculated regarding employee commuting to and from work, emissions from purchased clinker, inbound transportation of raw materials and energy sources, as well as shipments of finished products.

Company NEXE d.d. is legally obligated to prepare an energy audit according to the Energy Efficiency Act (OG 127/14, 116/18, 25/20, and 41/21) and is required to conduct an energy audit every four years. This obligation for large companies is stipulated by Article 19 of the Energy Efficiency Act. There is an exception for companies holding a valid ISO 50001 certificate, as they are not required to conduct an energy audit. NEXE d.d. has an implemented energy management system since 2016. The energy management system has also been implemented in NEXE Group subsidiaries that are not legally obliged: Dllj d.o.o. and IGMA d.o.o.

The energy audit includes a review of buildings and an energy audit of process plants. The first such audit was conducted in 2016 for the certification of the cement production activities for the period from 2012 to 2015 and for concrete production for the years 2016 and 2017. The energy audit of buildings at the organization's site was conducted using the standard methodology defined by the Regulation on Energy Inspection of Buildings and Energy Certification (OG 88/17), and it was carried out by a company authorized for these tasks within the NEXE Group — EKONEX d.o.o. Through this audit, it was determined that buildings accounted for less than 5% of the total energy cost and total energy consumption. The associated energy consumptions were considered negligible. A subsequent energy audit of buildings will be conducted as needed, and the decision will be made by the Energy Management Team. The energy audit of cement and concrete production processes is carried out in accordance with the Regulation on Energy Inspection for Large Enterprises (OG 123/15, OG 97/21), taking into account all the specifics of the production process. The Energy Management Team consolidates and evaluates the results of both audits.

Through the energy audit of processes, energy indicators are established, which the Organization measures and monitors to determine the success of achieving process energy indicators. These energy indicators are standard values for the industry established based on long-standing industrial practices. Through systematic monitoring of information on energy indicators, possible risks are identified, and opportunities are recognized.

# ASSESSMENT OF CLIMATE RISKS AND OPPORTUNITIES

To effectively manage risks and opportunities related to climate change, the NEXE Group conducted a Climate Risk Vulnerability Assessment (CRVA) during the reporting period.

The analysis involves identifying climate factors that could impact the conduct of economic activities during their expected duration and assessing the exposure of activities to identified risks. Based on the sensitivity of activities and the exposure of the location, vulnerability to climate risks is assessed, and the risk, which is a combination of the probability of occurrence and the extent of consequences of an event, is evaluated. In the end, specific physical or non-physical solutions ("adaptation solutions") are determined to mitigate identified climate risks for economic activities. If such solutions are not identified, adaptation measures to climate change are proposed for economic activities.

Physical climate risks can be divided into chronic and acute, as identified by Commission Delegated Regulation (EU) 2021/2139. Data on potential future climate conditions and changes are derived from climate simulation results and projections of future climate for the area of the Republic of Croatia from the document "Results of climate modeling on the HPC Velebit system for the purpose of drafting the Strategy for Climate Change Adaptation of the Republic of Croatia by 2040 and with a view to 2070". The regional atmospheric climate model RegCM (Regional Climate Model) was used for climate simulations. The significance of the impact of climate change also depends greatly on global trends such as demographic changes, economic growth, and efforts to reduce $CO_2$ concentration in the atmosphere. In the analysis of physical climate risks, the potential risks were considered taking into account two scenarios for future greenhouse gas concentration development, developed by the Intergovernmental Panel on Climate Change (IPCC). A pessimistic scenario of representative concentration pathways RCP 8.5 was considered, representing a future in which no actions are taken to reduce anthropogenic $CO_2$ emissions, resulting in an increase in the average global temperature by 2.6 to 4.8 °C by the end of the century. The other considered scenario was moderate scenario RCP 4.5 characterized by a moderate level of greenhouse gas concentration with relatively ambitious expectations for their reduction in the future, which would keep the increase in average temperature below 2 °C by the end of the century.

## PHYSICAL CLIMATE RISKS FOR THE CONSTRUCTION MATERIALS INDUSTRY

A specific risk for the construction materials industry is the dependency of construction activities on weather conditions. Harsh winters with extremely low temperatures or heavy rainfall throughout the year can have a short-term negative impact on construction activity with direct consequences on the revenues and operational performance of the NEXE Group.

Construction activities are up to two times higher during the May-October period, which strongly affects the organization of business activities and the liquidity of the company. Considering that the level of construction activity is up to 50% lower compared to planned quantities during weather extremes (low temperatures and excessive rainfall), there is a potential risk to operations if weather extremes occur during the period when construction activities are typically at their peak during the year. Weather extremes caused by climate change negatively affect construction activities, which can potentially impact business liquidity.

## PHYSICAL CLIMATE RISKS FOR NEXE GROUP

### ACTIVITY SENSITIVITY

Sensitivity is assessed for the main activity segments: assets and processes on-site; inputs (e.g., water, energy, raw materials); outputs (e.g., products); and transportation connectivity.

Through the sensitivity analysis, it has been determined that assets and processes on-site are moderately sensitive to extreme air temperatures, extreme precipitation, soil moisture, water availability, fire, and floods, since:

- Extreme air temperatures can impede human work both indoors and outdoors, which is also a part of the production process.
- Extreme precipitation and soil moisture can complicate the technological process due to excessive moisture in the raw material, requiring more resources and efforts in extraction and drying of the raw material.
- Limited water availability can hinder the technological process if the required amount of water for cooling the technological process is restricted.
- Fires and floods can damage property and disrupt business operations.

The input (raw material) is moderately sensitive to extreme precipitation and soil moisture since these variables can increase the moisture content of the input process material, requiring prolonged drying, which ultimately consumes more energy and resources. In contrast, in climatic conditions characterized by prolonged drought periods, especially in the presence of clay, the raw material requires additional watering and thus additional water consumption.

Transport connectivity is moderately sensitive to soil erosion, instability of terrain/slopes, fire, and floods since the delivery of raw materials may be restricted if access roads are damaged due to the occurrence of these climate variables.

## SENSITIVITY OF ACTIVITIES TO CLIMATE RISKS

| Climate variable | Brick production | Cement production | Roof tile production |
|---|---|---|---|
| Average air temperature | Not sensitive | Not sensitive | Not sensitive |
| Extreme air temperature | Moderate | Moderate | Moderate |
| Average precipitation | Not sensitive | Not sensitive | Not sensitive |
| Extreme precipitation | Moderate | Moderate | Moderate |
| Average wind speed | Not sensitive | Not sensitive | Not sensitive |
| Extreme wind speed | Not sensitive | Not sensitive | Not sensitive |
| Soil moisture | Moderate | Moderate | Moderate |
| Solar radiation | Not sensitive | Not sensitive | Not sensitive |
| Water availability | Moderate | Moderate | Moderate |
| Soil erosion | Moderate | Moderate | Moderate |
| Landslides/soil instability | Moderate | Moderate | Moderate |
| Fire | Moderate | Moderate | Moderate |
| Flood | Moderate | Moderate | Moderate |

Not sensitive  Moderate  High

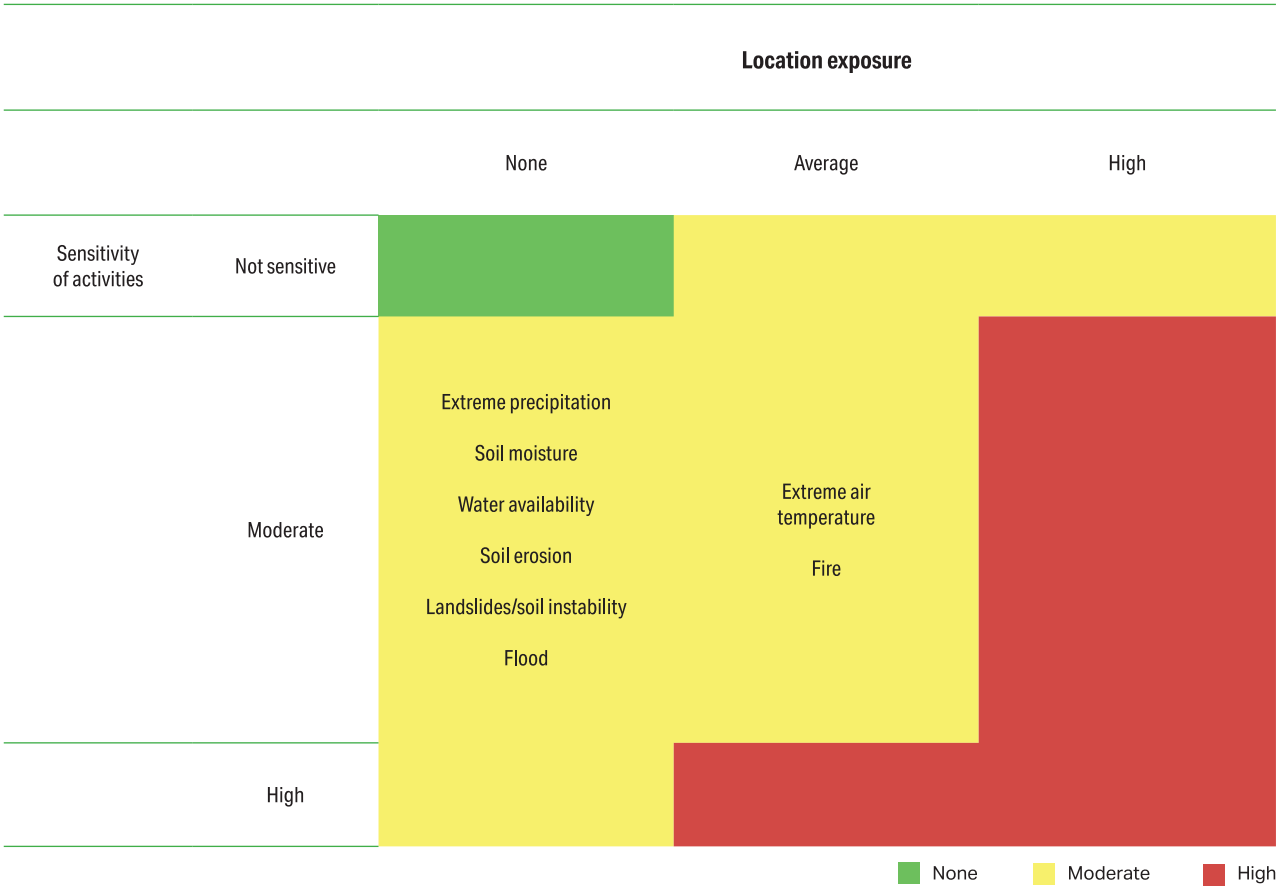
## EXPOSURE TO CLIMATE VARIABLES

By assessing the exposure of NEXE cement and brick factories located in Našice and the roofing tile factory in Vinkovci to future climate conditions based on climate variables to which activities are sensitive (extreme air temperature, extreme precipitation, soil moisture, water availability, erosion and soil instability, fire, and floods), it has been determined that, in relation to observed climate conditions, they are moderately exposed to extreme air temperatures. This is because over the past 50 years, there has been observed warming, which is reflected in all indices of temperature extremes.

In the middle of the 21st century (the period from 2041 to 2070), an increase in the number of hot days and a decrease in the number of cold days are expected.

Such changes can lead to an increased risk of fires, result in challenging working conditions, and increased energy consumption from cooling during the summer months.

## MATRIX: VULNERABILITY ANALYSIS



## VULNERABILITY OF ACTIVITIES

Through vulnerability analysis, it has been determined that cement, brick, and roofing tile production activities are moderately vulnerable to extreme air temperatures, extreme precipitation, soil moisture, water availability, erosion and soil instability, fire, and floods.

Since almost all climate variables to which the activity is moderately vulnerable to have not been recorded in observed and are not expected in future climate conditions at the locations of cement, brick, and roofing tile production plants, risk assessment was conducted for extreme air temperature and fire only.

These two risks were identified due to the recorded increase in the average maximum air temperature, with the highest frequency of increasing temperatures trends in the 0.3 - 0.4°C per 10 years, and the expected increase in the number of hot days from 16 to 20 days for Vinkovci and 20 to 25 days for Našice, as well as the possibility of a decrease in the number of cold days from -4 to -5°C in future climate conditions. Such changes in climate can affect working conditions and increase energy consumption for cooling in summer and heating in winter months.

## IDENTIFIED PHYSICAL CLIMATE RISKS FOR NEXE GROUP

| Climate Risk | Description | Impact on Operations | Risk Reduction Measures |
|---|---|---|---|
| **Extreme air temperature** | Further increase in maximum air temperatures can hinder employee work, which is also part of the production process and an important factor in economic activity. This can affect the efficiency of workers, thereby reducing the monetary profit of economic activity. | Reduction in output (products), decrease in monetary profit of economic activity | ▪ Cooling water chillers are installed in the cement factory's premises, and if necessary, employees use mobile standalone fans. This ensures comfortable microclimatic conditions for employees working in enclosed spaces.<br>▪ During extreme temperature events, outdoor workers' working hours are adjusted to early mornings and late afternoons, for instance, tasks at the quarry are performed from 4:30 PM to 7:30 PM.<br>▪ Air conditioners are installed for cooling in the administrative building and production facility, and all vehicles are equipped with air conditioning.<br>▪ The current heating and cooling system is being replaced with heat pumps, which are a renewable energy source that will reduce electricity consumption for cooling, which tends to increase during high summer temperatures.<br>▪ External cladding with improved insulation properties is being installed on buildings within the NEXE d.d. plant. This reduces heat energy loss during low temperatures and provides better insulation during extremely high air temperatures.<br>▪ To further reduce electricity consumption from conventional fossil fuel power plants for heating and cooling system operations, NEXE Group has started installing photovoltaic power plants on the roofs of its facilities. By reducing electricity costs, the risk of significant negative impacts of extreme weather temperatures on business results is minimized.<br>▪ Installation of new vagons in kiln tunnel and robots instead of outdated automation for handling reduces product breakage, as well as specific energy consumption and $CO_2$ emissions per product.<br>▪ Modernization of equipment and management of the tunnel kiln (reducing specific energy consumption and thus $CO_2$ emissions).<br>▪ Double glazed PVC windows have been installed on the administrative building, which provide better thermal coefficient to reduce heat loss from the space and ensure better insulation from high temperatures in summer.<br>▪ Thermal insulation of the ceiling in the finished product warehouse. |
| **Fire** | Further increase in maximum air temperatures, prolonged periods without rainfall, and increased influx of solar energy can increase the meteorological risk of fire occurrence, directly endangering property on-site and hindering operations. | Damage to property, reduced production, decreased financial profit of the economic activity | Due to the nature of the activity, which involves high temperatures and a variety of flammable gasses, the facility is equipped with an extensive fire protection system. The fire protection system includes:<br>▪ Internal and external hydrant networks<br>▪ Foam fire-fighting equipment to protect the facility from fires caused by burning waste oils<br>▪ Fire detection system<br>▪ Gas detection system<br>▪ Water sprinkler fire-fighting equipment (drencher)<br>▪ Fire extinguishers for initial fire suppression. |

# TRANSITION RISKS

The transition to a low-carbon economy is a global challenge, and failure to achieve the goals set in the Paris Agreement and the EU Green Deal would have a significant negative impact on the business results of NEXE Group. Transition risks have been identified and assessed during the period of global transition to a low-carbon economy in order to manage them more effectively. Transition risks and opportunities have been identified through an integrated risk management system at NEXE Group level.

## POLICY AND LEGISLATIVE RISKS

In the medium and long term, stricter regulatory frameworks, especially regarding permitted $CO_2$ emissions and the prices of emission units, have been identified as a risk. In the EU, tightening of existing and future $CO_2$ regulations is expected, particularly in connection with ambitions of the EU climate protection plan "Fit for 55". Costs associated with $CO_2$ emissions (up to 30% of operating costs in cement production) due to expected changes in the ETS system represent a risk for future operations if actions to reduce emissions are not taken in a timely manner.

High costs associated with $CO_2$ could put European companies at a disadvantage compared to companies from third countries. Hence, the importance of the Carbon Border Adjustment Mechanism (CBAM) aimed at establishing equal conditions between EU producers and importers by 2035 at the latest. Such a mechanism will surely affect prices and the competitiveness of businesses.

Considering the EU's green strategy and the increasing preference of investors for green investments, there is a risk of higher debt-related costs if the NEXE Group fails to achieve good ESG (Environmental, Social, and Governance) indicators and goals.

## TECHNOLOGICAL RISKS

New technologies available on the market impact business competitiveness.

A passive approach to investing in new technological solutions, equipment modernization, and digitalization will negatively impact market position. Therefore, it is important to proactively engage in the green transition of the business, for which significant EU funds are available for investments in energy efficiency, reducing $CO_2$ emissions, and carbon dioxide capture and storage.

The technological risk in transitioning to a low-carbon economy involves investing in technologies that may not succeed in the market. This risk exists especially in the context of innovative processes such as carbon capture and storage (CCS), which may not be sufficiently effective in the future. Decisions need to be made today, which entails significant investments that currently affect operations.

## MARKET RISKS

One of the main market risks arises from possible changes in consumer preferences that may occur during the transition to a low-carbon economy. Such a change could lead to increased substitution of concrete with other building materials believed to have a lower carbon footprint. With increasingly stringent regulatory standards for construction (such as the proportion of recycled materials in the final product, and requirements for low-energy buildings) and the growth of GDP per capita, there is a rising demand for "green" products. This could pose a risk to the business, but also an opportunity for the NEXE Group to offer new, innovative, and sustainable products to the market.

Another market risk relates to the energy and raw materials market. For several years, the prices of electricity and fossil fuels have been rising, while alternative fuels and raw materials are becoming increasingly difficult to procure due to increased demand and decreasing availability. The share of energy and raw material costs accounts for 50-70% of total operating costs. The cost of raw materials is more pronounced in concrete and aggregates, while for cement, tiles, and bricks, energy and $CO_2$ are particularly important. The increase in these costs could significantly impact the business results of the NEXE Group.

# TRANSITION OPPORTUNITIES

Managing $CO_2$ emissions, in addition to fulfilling legal obligations, enables long-term sustainability in business:

- It creates a strategic advantage over the competition.
- It allows breaking of the status quo, introducing innovations, and developing business in the area of reducing $CO_2$ emissions.
- It optimizes the company's resource utilization, bringing internal synergy.
- $CO_2$ can generate revenue for the business in the long-term.

## RESOURCE EFFICIENCY

Projects aimed at increasing energy efficiency and reducing the share of non-renewable energy in the energy mix can result in operational savings and positively impact financial results. Energy efficiency is particularly significant in terms of resilience to fluctuating energy prices. NEXE Group has already begun implementing measures related to increasing the efficiency of machinery and equipment, heating and cooling systems, and building energy efficiency. Technological advancements enable additional effects on reducing $CO_2$ through the implementation of the Industry 4.0 digitalization project and the implementation of state-of-the-art equipment.

## ENERGY SOURCES

The transition to a low-carbon economy also entails changes in energy sources. The cement industry traditionally relies on fossil fuels, and in order to reduce $CO_2$ emissions, NEXE Group has already begun investing in its own capacity to harness renewable energy.

NEXE d.d. already successfully utilizes alternative fuels as a substitute for fossil fuels, with the substitution rate exceeding 40% in the cement plant in 2022. The goal is to increase this share to 90% through additional investments, ultimately eliminating the use of fossil fuels in the cement production process by 2030. The cement industry can utilize certain types of waste because waste substances (e.g., ash) are incorporated into the product itself. Waste-derived fuel and other types of waste suitable for energy recovery in the energy generation process serve as substitutes for fossil fuels (coal and petroleum coke) in the energy generation process.

## PRODUCTS AND SERVICES

In recent years, there has been accelerated development of new generations of products with reduced $CO_2$ emissions in the market. Lower $CO_2$ emissions are possible due to changes in the raw material composition and the use of reactive substitutes. NEXE has so far developed a range of new generations of "green" products that enable a reduction in $CO_2$ emissions by more than 10% compared to the industrial standard for cement production. The development of new generations of "green" products continues, with the primary focus on developing new types of cement, which for NEXE d.d. implies the development of low-carbon cement types by 2025 with a reduction in the average clinker factor below 70% and further reduction in the clinker factor after 2025. NEXE d.d. sees the development of the green product market as an opportunity.

## 4.1
# TRANSITION PLAN

Climate change is currently one of humanity's greatest challenges. Scientifically, it has been established that the leading causes of climate change are the increased concentration of greenhouse gasses in the atmosphere, primarily resulting from emissions related to the use of fossil fuels, intensive agriculture, and deforestation. The energy-intensive cement industry is one of the significant emitters of $CO_2$, responsible for about 4% of all GHG emissions in the EU according to the Cembureau. The cement industry can, and must, achieve ambitious plans for decarbonizing its operations. This is not only necessary to mitigate climate change and halt the rise in the average global temperature but also essential for long-term financial sustainability.

NEXE Group emits on average more than 700,000 tons of $CO_2$ annually, making it one of the larger $CO_2$ emitters in the Republic of Croatia. More than 95% of $CO_2$ emissions are related to the cement production process in Našice. NEXE's direct and indirect $CO_2$ emissions are mostly associated with:

- Direct $CO_2$ emissions related to the use of fossil fuels;
- Direct $CO_2$ emissions related to the use of raw materials in the cement production process; and
- Indirect $CO_2$ emissions associated with the use of electricity.

The Paris Agreement is a global plan to combat climate change. The Republic of Croatia has been a signatory to the Paris Agreement since 2017, committing to implement measures to reduce greenhouse gas emissions in line with the European Union strategy. Through the document "A Roadmap for moving to a competitive low-carbon economy in 2050," the European Union has defined the goal of reducing greenhouse gas emissions by 80-95% by 2050.

To keep the global temperature rise below 1.5°C, according to the Paris Agreement, it is necessary to achieve carbon neutrality by 2050. NEXE Group, as a leader in the construction materials industry in the region, aims to achieve climate neutrality by 2030.

## NEXE'S PATH TOWARDS $CO_2$ NEUTRALITY

By 2030, the goal is to reduce specific **$CO_2$ emissions per ton of cement to 0 kg/t**. This will be achieved by increasing the energy efficiency of production processes and assets, increasing the share of energy from renewable sources in the overall energy mix, substituting fossil fuels with alternative fuels, using substitute raw materials, and developing new generations of existing products with reduced $CO_2$ emissions. NEXE d.d. has been actively managing $CO_2$ emissions through the EU ETS system for many years and implementing measures to reduce them. An intensification of decarbonization activities is expected until 2030.

## DEVELOPMENT OF NEW GENERATIONS OF EXISTING PRODUCTS WITH REDUCED $CO_2$ EMISSIONS

In recent years, there has been an increased emphasis on the development of new generations of products with reduced $CO_2$ emissions. Lower $CO_2$ emissions are possible due to changes in the raw material composition and the use of reactive substitutes. NEXE d.d. has so far developed a range of new generations of "green" products that enable a reduction in $CO_2$ emissions by more than 10%. The development of new generations of "green" products continues, with a primary focus on the development of new cement types. The plan includes the development of low-carbon cement types by 2025, with a reduction in the average clinker factor to 70% and further reduction in the clinker factor after 2025. The implementation of these activities requires the construction of a system that allows for the replacement of clinker in the cement production process, for which investments totaling 2 million euros will be needed. A yearly reduction of 25,000 t of $CO_2$ emissions is expected.

## ENERGY EFFICIENCY AND RENEWABLE ENERGY SOURCES

NEXE d.d. has largely leveraged the benefits brought by energy efficiency projects. However, technological advancements enable additional effects on reducing $CO_2$ through the implementation of:

- Industry 4.0 digitalization project,
- Implementation of state-of-the-art equipment,
- Photovoltaic power plants.

It is important to note that in this category of projects, there are significant indirect effects on reducing $CO_2$ emissions (e.g., renewable electricity production for internal use). The implementation of these projects is planned continuously until 2030, with planned investments amounting to 100 million euros. The direct impact on reducing $CO_2$ emissions would be even greater, but NEXE d.d. already exclusively consumes electricity generated from renewable sources. The annual potential for reducing $CO_2$ emissions amounts to 2,000 tons.

## USE OF ALTERNATIVE FUELS

Fuel derived from waste and other types of waste that can be used for energy recovery in the energy production process serve as a replacement for fossil fuels (coal and petroleum coke) in the energy production process. NEXE d.d. already successfully utilizes alternative fuels as a substitute for fossil fuels, with the substitution rate exceeding 40% in the cement factory in 2022. The goal is to increase this share to 90% through additional investments, thereby eliminating the use of fossil fuels in the cement production process by 2030. The introduction of alternative fuels is also planned for the tile and brick factories. Planned investments amount to 40 million euros, with an annual potential for reducing $CO_2$ emissions of 55,000 tons.

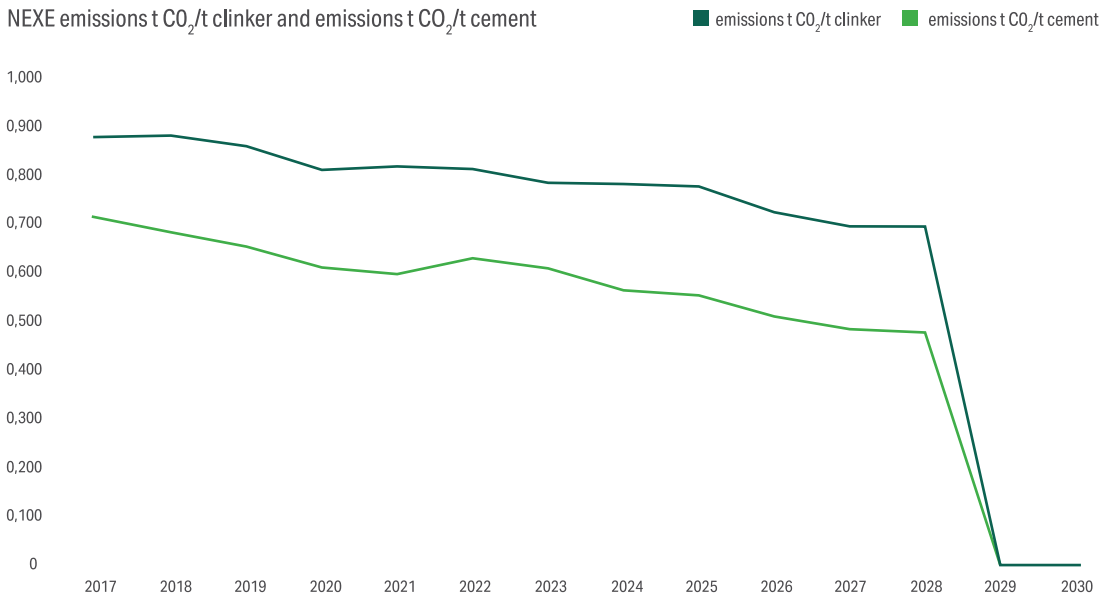
## UTILIZATION OF ALTERNATIVE RAW MATERIALS

Significant $CO_2$ emissions occur due to the use of raw materials containing carbonates, which release $CO_2$ as a byproduct during the calcination process in the production. Reduction of $CO_2$ emissions can be achieved by using construction waste as an alternative raw material since it does not produce additional $CO_2$ emissions during cement production, as the process has already occurred during its own production. Although the capital investment value in relation to the benefits of construction waste is low, significant operational activities are required to ensure adequate quantities of good quality construction waste. Planned quantities of construction waste to be used as alternative raw materials in the period up to 2030 amount to more than 10,000 tons annually.

| Decarbonization measures | Planned investments | Planned reductions of $CO_2$ emissions | Planned decarbonization implementation period |
|---|---|---|---|
| **Development of new generations of existing products with reduced $CO_2$ emissions** | 2 mil EUR | 25,000 t | 2022 - 2050 |
| **Energy efficiency and the use of renewable energy sources** | 100 mil EUR | 2,000 t | 2022 - 2030 |
| **Substitution of fossil fuels by using alternative fuels** | 40 mil EUR | 55,000 t | 2022 - 2030 |
| **Use of alternative raw materials** | 2 mil EUR | 10,000 t | 2022 - 2030 |

During the period until 2030, investments totaling more than 140 million euros are planned, enabling a reduction of over 600,000 tonnes of annual $CO_2$ emissions.

These measures will lead to a decrease in specific $CO_2$ emissions per ton of clinker and $CO_2$ per ton of cement by 2030. **It is expected that by 2030, the emission of $CO_2$ per ton of clinker will be 0. Cement production at that time will be considered environmentally sustainable according to the technical screening criteria from the EU Taxonomy.**

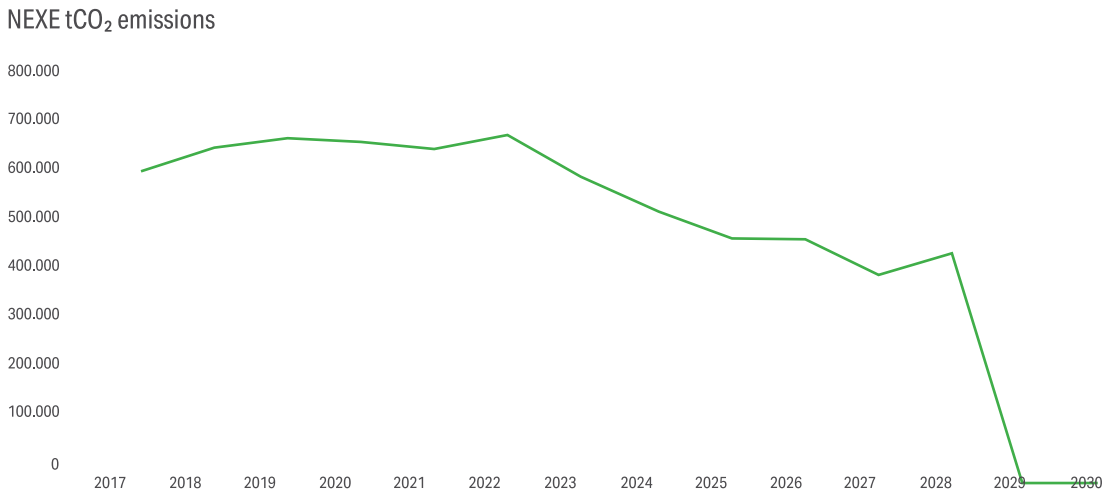


## CARBON CAPTURE AND STORAGE (CCS)

Despite all efforts to reduce $CO_2$ emissions, achieving $CO_2$ neutrality is currently only possible through the construction of an innovative system with accompanying infrastructure that enables the extraction of 100% of $CO_2$ from cement production emissions and the transformation of $CO_2$ to a raw material for industry (EOR) or its permanent disposal in underground structures. The strategic project of NEXE Group in the upcoming period is $CO_2$NTESSA, an innovative facility for capturing and storing remaining emissions that cannot be reduced by optimizing the portfolio and production processes. It is envisaged that $CO_2$NTESSA will start operating in 2029, enabling the complete elimination of $CO_2$ emissions from 2029 onwards, making NEXE d.d.'s cement production a carbon-neutral activity.

The total investment amounts to 400 million euros. In March 2023, NEXE d.d. applied for the $CO_2$NTESSA project to the large-scale Innovation Fund with the intention of implementing the project by 2029.

In 2022, the Management Board of NEXE Group adopted a new business strategy until 2030, which is based on green and digital transition with the ultimate goal of achieving net-zero operations by 2030. In the future period, dedicated financial resources will be allocated for decarbonization measures, complemented by support from financial institutions and EU funds. External support will be necessary given the size and significance of the planned investments.



## 4.2

# ENERGY AND EMISSIONS MANAGEMENT

The production of construction materials, particularly the processes related to clinker production and cement grinding, requires significant amounts of energy due to the high temperatures needed in the kiln and the natural calcination reaction that releases $CO_2$. Although the proportion of fossil fuels is decreasing, they still represent a significant percentage of the overall energy mix. Because of the energy intensity of operations, the entire construction materials industry has a significant impact on the climate through greenhouse gas emissions generated during production. NEXE Group recognizes its environmental impact and is working on implementing measures to reduce $CO_2$ emissions. About 95% of all NEXE Group emissions are associated with cement production activities in Našice. For this reason, most of this chapter will focus on measures and goals to reduce $CO_2$ emissions in cement production, but it should be noted that NEXE Group includes other activities in its policies and measures.

### POLICY

NEXE Group is aware of its contribution to climate change, as well as the impact of physical and transitional climate risks on its operations. One of the strategic directives of NEXE Group for the period up to 2030 is investment in new technological solutions to reduce energy intensity and $CO_2$ emissions, thereby ensuring long-term sustainability of its operations.

The approach to energy and $CO_2$ emission management has been established by NEXE Group through its policies: the Quality Policy at the NEXE Group level and the Energy, Environmental Protection, Health, and Safety Policy at the NEXE d.d. level. These policies are aligned with strategic objectives to reduce the impact on climate change and energy intensity and are publicly available on the website www.nexe.hr to be accessible to all interested parties. The policy is appropriate to the scope and activities of the Organization.

NEXE Group commits to continually aligning its operations with applicable legal regulations and commitments in the field of energy management. It commits to monitor, prevent, and reduce air emissions by using and procuring modern and energy-efficient organizational, technical, and technological solutions aligned with best available techniques. NEXE Group commits to rational use of non-renewable resources and improving its energy indicators to minimize the negative impact of its operations on climate change.

By 2030, NEXE d.d. aims to achieve carbon neutrality. Measures to reduce $CO_2$ emissions planned to be implemented by 2030 will include:

- Development of new generations of existing products with reduced $CO_2$ emissions
- Increasing energy efficiency and the use of renewable energy sources
- Substitution of fossil fuels with alternative fuels.
- Utilization of alternative raw materials.

Given the current of development of technological process, despite the mentioned measures, achieving production without $CO_2$ emissions is not possible. Therefore, investments in carbon capture and storage are a necessary part of the equation in transitioning to carbon-neutral operations. The start of operation for the carbon capture and storage facility is planned for 2029, which will eliminate remaining $CO_2$ emissions that cannot be reduced due to the nature of the process, thus achieving carbon neutrality at the NEXE d.d. level.

The Management Board of NEXE d.d. is responsible for achieving the goals outlined in this policy, while the implementation is assigned to the Production Sector, Investment Sector, and Business Strategy and Development Sector. Monitoring indicators and progress towards achieving goals are conducted by responsible individuals appointed by the Management Board.

An environmental management system according to ISO 14001 has been implemented and certified at NEXE d.d. since 2004. Environmental management systems have also been established in other companies within the Group, although they are not currently certified. NEXE d.d. and Dilj d.o.o., as "large enterprises" with energy-intensive production processes, have decided to implement ISO 50001 as a further step in their operations and an upgrade to existing management systems. NEXE Group commits to continually improving its environmental management systems and processes that impact the environment, as well as its energy performance.

## 4.2.1

# CLIMATE CHANGE MITIGATION

NEXE Group has been working for years on implementing measures to mitigate climate change. Projects in 2022 included the construction of solar power plants, energy renovation of facilities, and the installation of smart meters for better consumption monitoring. Additionally, in 2022, NEXE d.d. started developing the $CO_2$ capture and storage project $CO_2$NTESSA, which accelerates the transition towards climate-neutral cement and was submitted for EU funding in 2023.

## ENERGY EFFICIENCY AND RENEWABLE ENERGY SOURCES

### ENERGY RENOVATION AND RENEWABLE ENERGY SOURCES IN NEXE D.D. CEMENT FACTORY

The project includes the implementation of energy efficiency measures and renewable energy sources in the production facility and energy renovation of buildings aimed at increasing energy efficiency and reducing the share of conventional sources in energy mix by introducing renewable energy sources into the NEXE d.d. cement factory in Našice.

Measures to be implemented as part of the renovation of the production facility and auxiliary buildings include:

- Introducing more efficient electric motor drives
- Implementing technological and other measures in the production/working process resulting in reduced energy consumption and contributing to energy efficiency
- Revitalization and installation of electrical installations and efficient lighting systems
- Installation of smart meters and devices for detailed monitoring of energy consumption
- Thermal insulation of external parts of the buildings (roof, external wall, floor, buried parts of the building envelope, floors towards the external space, floors, ceilings, and walls towards the unheated space)
- Replacement or renovation of openings
- Improving the existing ventilation system or installing a more efficient one
- Installing new systems for the production of thermal and/or cooling energy, energy for heating sanitary and/or technological water, and energy for heating and cooling spaces with heat pumps using water as the heating-cooling medium in the secondary circuit.

The project involves increasing the capacity for electricity production from renewable sources.

- Solar panels will be installed on the raw material depot building, with a total installed capacity of 660 kW and an expected annual electricity production of 750 MWh.
- Solar panels with a total capacity of 25 kW will be installed on the central command building and laboratory, with an expected production of around 29 MWh annually.

By implementing the project and its measures, energy delivery savings of 1,560,336.24 kWh (64.73%) compared to the initial state will be achieved. The implementation of measures using renewable energy sources will result in an increased amount of renewable energy in the gross final consumption of the project unit by 917,130.4 kWh. It is expected that the implemented measures will reduce $CO_2$ emissions by 471.4 tons per year compared to a scenario with no interventions. The total value of the project is 24,942,402.11 HRK (3,310,425.66 EUR), while the amount of allocated non-refundable funds is 9,892,211.18 HRK (1,313,009.18 EUR), representing 40%. The project was co-financed by the European Union from the European Regional Development Fund.

Preparation of investment projects for the period until 2030 is currently underway.
In the future, plans include the construction of three additional solar power plants:

- Jalovište - a 7.5 MW solar power plant
- A 0.5 MW solar power plant in the parking lot of NEXE d.d.
- A 5.6 MW solar power plant in the industrial zone of Našice.

Additionally, investments are planned for a facility for receiving, storing, and burning wood biomass at the raw material dryer, a facility for storing and dosing dried sludge waste, a facility for storing and dosing liquid alternative fuels, a facility for preparing, storing, and dosing RDF (waste-derived fuel), and a facility for the production, storage, and distribution of green hydrogen.

## INCREASING ENERGY EFFICIENCY AT THE SLAVONKA PLANT

In 2022, a solar power plant with a capacity of 1.1 MW began operating on the roof of the Slavonka production hall in Vinkovci. The construction of the solar power plant is part of the project "Increasing Energy Efficiency at the Slavonka Plant," which includes other measures of energy efficiency besides building capacities for using energy from renewable sources. The following measures were implemented as part of the project:

- Replacement of vacuum pumps with a centralized system
- Replacement of compressors with more energy-efficient ones
- Replacement of clay purifiers with a ball mill
- Installation of a frequency converter
- Utilization of waste heat from compressors
- Introduction of a central monitoring system
- Installation of meters
- Replacement of diesel-powered forklifts with electric ones
- Energy renovation of the gatehouse, including insulation and replacement of carpentry.

The project is valued at 13.3 million HRK and is co-financed with 7.2 million HRK. It is expected to generate 1,542,351 kW of electricity annually for internal use. The total energy savings achieved through energy efficiency activities in this project amount to 700,583 kW per year. It is expected that the implemented measures will reduce $CO_2$ emissions by 713.64 tons annually compared to a scenario with no interventions.

At Dilj d.o.o., investments in increasing energy efficiency will continue. The investments include:

- Technological changes in part of the production process of drying and baking clay tiles (shutting down one kiln, extending another, transferring complete production, reconstruction of the drying room)
- Thermal insulation of baking wagons
- Implementation of comprehensive regulation through a measurement and control system - SCADA.
- Modernization of lighting
- Installation of a solar power plant
- Implementation of more efficient electric motor drives in accordance with the IEC 60034-30 standard using speed control systems
- Implementation of energy efficiency measures in the power sector through reactive power compensation.

At a time when we are facing the global challenge of rising energy prices and their availability, such a project that contributes to increased energy independence significantly impacts financial results. The project to increase energy efficiency in the production of tiles and bricks is co-financed by funds from the Modernization Fund.

## INCREASING ENERGY EFFICIENCY AND UTILIZATION OF RENEWABLE ENERGY SOURCES OPA KETER IGMA d.o.o.

In 2022, the implementation of a project to increase energy efficiency and introduce renewable energy sources began in the production facility of IGMA d.o.o. The purpose is to enhance energy usage efficiency and reduce the proportion of non-renewable energy sources. Measures to be implemented within the production facility include:

- Implementation of technological and other measures in the production/working process resulting in reduced energy consumption and contributing to energy efficiency improvement
- Installation of smart meters and devices for detailed monitoring of energy consumption
- Installation of new systems for electricity generation from solar energy.

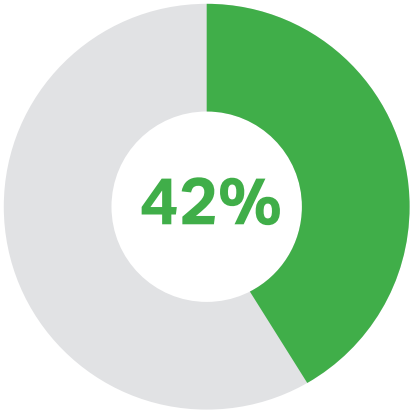
The implementation of the project and measures will result in energy savings of 547,725.74 kWh, which is 65.22% compared to the initial state. The implementation of measures using renewable energy sources will result in an increased amount of renewable energy in the gross final consumption of the project unit with 112,113.23 kWh. This will achieve the ultimate goal of reducing $CO_2$ emissions by 192.17 tons per year. The project is funded through the EU Recovery and Resilience Mechanism 2021-2026. The total value of the project is 40,201,982.42 HRK (5,336,074.12 EUR), with the amount of non-repayable funds allocated being 14,506,461.25 HRK (1,929,986.68 EUR), that is 36%.

## SUBSTITUTION OF FOSSIL FUELS USING ALTERNATIVE FUELS

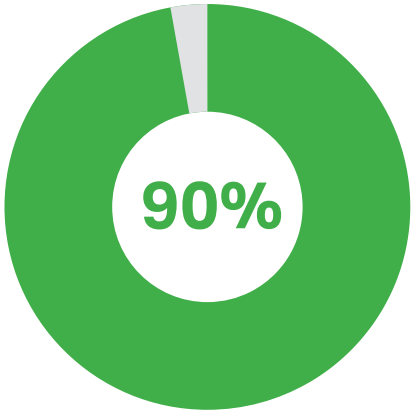
Traditionally, fossil fuels have been the primary source of energy in the construction materials industry. Considering that the combustion of fossil fuels significantly contributes to climate change, which has become a global challenge, the cement industry had to find a way to reduce the share of fossil fuels in production. The solution emerged in the form of alternative fuels, which involve burning waste materials such as sludge, waste oils, and fuel from waste to generate energy. Energy recovery from waste is carried out by incineration in a rotary kiln during the clinker production process. It's worth noting that even the ash produced from burning fossil fuels and waste is incorporated into semi-product, clinker.

Thus, waste, waste materials, and by-products from other industries serve as valuable raw materials for NEXE Group. These resources are used as substitutes for natural raw materials and fossil fuels in cement production, which helps conserve natural resources and address waste disposal issues faced by municipalities and industrial companies. For example, waste sludge generated in wastewater treatment processes is used as alternative fuel. The impact on reducing greenhouse gas emissions from this process is twofold. It reduces the amount of emissions that would occur from the use of fossil fuels, as well as decreasing $CO_2$ and methane emissions that would arise from waste decomposition processes in landfills.

In NEXE d.d., in 2022, around 42% of the energy from fossil fuels was substituted with energy from alternative fuels. **By using alternative fuels, a total of 48,912 $CO_2$ emissions were saved. A total of 117,108 tons of waste was recovered (energy and material recovery).**




Indicator: 42% of alternative fuels in the production of NEXE d.d. in 2022




Goal: 90% of alternative fuels in production by 2030

## DEVELOPMENT OF NEW GENERATIONS OF EXISTING PRODUCTS WITH REDUCED $CO_2$ EMISSIONS

Following global trends in the development of the cement industry and European guidelines related to decarbonization, experts from the technology and quality sector of the NEXE Group have developed low-carbon cement GRAND e+, using the optimal ratio of additive mixtures to achieve properties that fully meet the requirements of modern construction.

This is about the mixed Portland cement of wide applicability. The combination of the quantity and type of additives gives it a somewhat slower hydration reaction (developing less hydration heat) while ensuring the desired initial and high final strengths. During concrete production, it provides good workability, easier installation due to extended setting time, and increased resistance to chemically aggressive environments.

COMPOSITION:

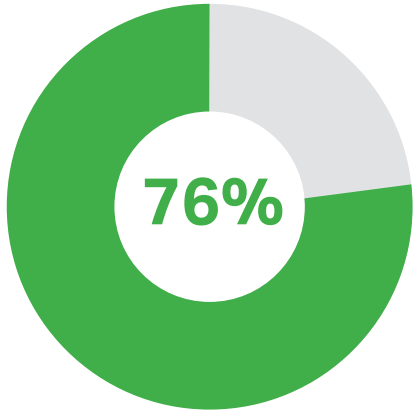
- Minimum 65% Portland cement clinker
- Up to 35% mixed additives, a combination of silica fly ash (V) and blast furnace slag (S)
- Binding regulator (natural gypsum).

A lower clinker content in cement is key to reducing $CO_2$ emissions due to the energy intensity of its production. Coal ash from power plants and slag from blast furnaces are used to replace clinker. In the future, a reduction in these sources is expected, which is why alternative materials such as calcined clay and carbonated concrete are being explored.

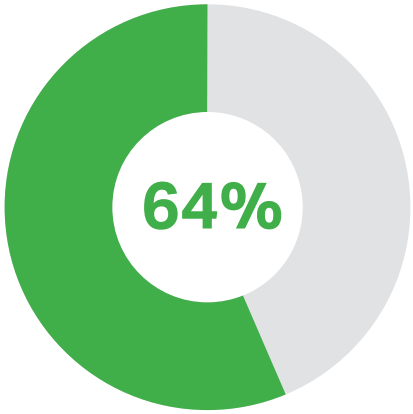
GRAND e+ can be used for:

- Construction of road structures and civil engineering works
- Production of transport and pumped concrete
- Concrete elements and large-section structures
- Manufacture of precast concrete elements
- For residential, commercial, industrial, and family buildings where it fully meets the requirements for all concrete works, subfloors, screeds, foundations, and load-bearing concrete structures.

NEXE products constitute the core of essential urban infrastructure. By developing more sustainable products, the NEXE Group, as one of the leading companies in the construction materials industry, supports the development of sustainable cities and resilient communities. NEXE Group is actively working on the development of new low-carbon products.




Indicator: The share of clinker in a ton of cement amounted to 76% in production in 2022




Goal: The share of clinker in a ton of cement amounts to 60% in production in 2030

# CARBON DIOXIDE CAPTURE AND STORAGE

## CLIMATE-NEUTRAL CEMENT PRODUCTION AT NEXE CEMENT FACTORY IN NAŠICE

The construction material industry is reaching its limits regarding the reduction of $CO_2$ emissions generated in production, making it crucial to implement new solutions to achieve climate neutrality. Carbon capture and storage (CCS) is a key technology for decarbonizing cement production because the sector faces unavoidable process emissions.

These unavoidable process emissions arise from the calcination reaction of limestone and account for 60%-65% of total $CO_2$ emissions in cement production.

Carbon capture and storage (CCS) is a process in which carbon dioxide is separated from the flue gases of large stationary industrial sources, and then compressed, transported, and injected into deep geological formations for permanent storage. This prevents $CO_2$ emissions from reaching the atmosphere. By capturing and storing $CO_2$, the concentration of $CO_2$ in the atmosphere is reduced, contributing to climate stabilization.

In 2022, NEXE d.d. began the development of the $CO_2$NTESSA project, which involves the modification of clinker production process based on the Polysius PureOxyfuel technology of the second generation developed by the Thyssenkrupp group. Currently, it is the most economical long-term solution for complete elimination of $CO_2$ emissions in cement production. The $CO_2$NTESSA project will enable the capture of more than 700,000 tons of $CO_2$ annually, thus bringing cement production closer to zero emissions. The technology to be implemented in the plant focuses on capturing $CO_2$ at the source, unlike most other technologies that act only at the end of the production process. The project's innovation enables greater cost efficiency compared to other $CO_2$ capture technologies, ensuring long-term competitiveness of cement products in Croatia and abroad. The project is a pioneer in the scale of industrial application of the mentioned technology and is one of the few in the EU with an efficient solution for disposal of captured $CO_2$ through a pipeline to the Bockovci-1 location, where $CO_2$ will be injected into a saline aquifer.

The geologically very suitable onshore storage location at Bockovci-1 is only 38 km away, allowing a cost-efficient injection of captured $CO_2$. With the $CO_2$NTESSA project, NEXE d.d. would become the first user of the infrastructure for $CO_2$ transport and storage being developed by Croatia as part of the GT CCS project. It is expected that the GT CCS project will be included in the EU list of Projects of Common Interest (PCI), with the potential to become a regional hub for $CO_2$, making the $CO_2$NTESSA project a significant milestone in the development of carbon capture and storage in Croatia and beyond. The $CO_2$NTESSA project will unlock the potential for NEXE d.d. to become the first negative $CO_2$ emitter in the EU due to the use of alternative fuels.

Technologies for capturing carbon dioxide in cement production require significant investments, making high costs the main barrier to the widespread implementation of carbon capture solutions. Therefore, public financing is crucial for achieving energy and climate goals in the cement industry. The total investment cost for the $CO_2$NTESSA project will be 400 million EUR, making it one of the largest planned investments in the industry in Croatia.

NEXE d.d. submitted the $CO_2$NTESSA project to the third call for large-scale projects under the EU Innovation Fund in March 2023 (Innovation Fund Large-Scale Projects - General Decarbonization). The $CO_2$NTESSA project has already received broad support from local to EU levels, with key stakeholders in the industry showing interest. With the $CO_2$NTESSA project, NEXE d.d. continues its green transition and ultimately creates conditions for the production of $CO_2$ neutral cement.

## 4.2.2
# CLIMATE CHANGE ADAPTATION

Given the activities of the NEXE Group and its exposure to weather variables, one of the climate risks highlighted is extreme temperatures, which could affect heating and cooling costs. In order to adapt to climate change, the NEXE Group has begun implementing certain solutions.

### THE EXTERNAL ENVELOPE OF A BUILDING

Includes installing a new envelope and ventilated facade on the buildings of the central command, laboratory, restaurant, and administrative building of NEXE d.d. This will reduce thermal energy loss during low temperatures and provide better insulation during extremely high air temperatures. The total expected savings for the central command and laboratory building will be around 67 MWh/year, and for the restaurant building around 32 MWh/year.

### HEAT PUMPS FOR HEATING AND COOLING

The existing system for cooling the rooms at NEXE d.d. consists of water chillers. In the cooling units, chilled water is heated by removing heat from the space, thereby cooling the space accordingly. The chiller re-cools the chilled water and sends it back to the cooling units in the areas that need to be cooled. The chiller requires electrical energy to operate, and its consumption increases during the summer months when high temperatures require much more electrical energy to obtain the necessary cooling energy. The replacement of the heating and cooling system with heat pumps, which are renewable energy sources, has been completed. The measure includes replacing all radiators with fan coil units and installing heat pumps on the central command, management, and restaurant buildings. The total expected savings for the central command building will be approximately 95 MWh/year, for the management building around 50 MWh/year, and for the restaurant building around 30 MWh/year.

### MODERNIZATION OF A TUNNEL KILN

The equipment and control system of the tunnel kiln are being modernized, along with the installation of new kiln wagons and robots to replace outdated automation for handling at the brick and tile production plant in Našice and Vinkovci. This will reduce product breakage, as well as energy consumption and $CO_2$ emissions per product.

These adaptation measures will mitigate the impact of extreme weather temperatures on financial results, considering that energy costs constitute a significant portion of overall expenses.

## GOALS

In order to transition to climate-neutral operations, NEXE Group aligns with EU policies and sector-specific recommendations for the production of construction materials, setting goals and defining measures to achieve them accordingly. The plan for achieving climate neutrality is based on scientific research and guidelines to stay within the 1.5°C increase limit. During the reporting period, emission reduction and energy consumption reduction targets were set at the level of the NEXE d.d. member for cement production, given that it is the most carbon-intensive production. In the next period, targets will be developed for other activities, i.e., NEXE Group members.
The most energy-intensive member of NEXE Group, NEXE d.d., has strategically committed to achieving net-zero emissions by 2030 and reducing $CO_2$ emissions by 9% by 2026 compared to 2022. This goal will be pursued by increasing the share of renewable energy sources and alternative fuels and raw materials, as well as by enhancing energy efficiency in plants and processes. By 2029, the construction of a carbon capture and storage facility is planned to eliminate the remaining emissions from Scope 1, which cannot be reduced due to the nature of the process, thus making production carbon-neutral.

The base year for all targets is 2022, and the baseline values are as follows:
Scope 1: 757,915 tons of $CO_2$
Scope 2: 56.228 tons of $CO_2$
Scope 3: 35,664 tons of $CO_2$

The objectives are to reduce $CO_2$ emissions in line with limiting the average global temperature increase to less than 1.5°C, aiming for economy-wide carbon neutrality by 2050. NEXE d.d. plans to achieve carbon-neutral operations by 2030. The goals are established considering the legal regulations and the strategy for decarbonizing the EU economy.

The starting point of the European Union's (EU) policy for transitioning to a low-carbon economy is the reduction of greenhouse gas emissions by 80-95% by 2050, as defined in the document "A Roadmap for moving to a competitive low-carbon economy in 2050".

The assumption underlying the objectives for reducing $CO_2$ emissions is the development and implementation of the $CO_2$NTESSA project, which will enable the complete elimination of emissions from Scope 1. By implementing the $CO_2$NTESSA project, NEXE aims to achieve $CO_2$ neutrality by 2029.

Targets for emissions by 2030 in Scope 1 and 2:

- Scope 1: 0 t $CO_2$e. In 2030, all emissions generated in Scope 1 will be captured and stored through the $CO_2$NTESSA system, so there will be no emissions released into the atmosphere.
- Scope 2: 0 t $CO_2$e. In 2030, there will be no emissions from electricity consumption as it will be sourced from renewable sources, for which NEXE d.d. has HEP ZelEn certificate.
- Scope 3: NEXE d.d. is currently in the process of establishing a system for monitoring emissions from Scope 3, and emission reduction targets will be established in the next reporting period.

The boundaries of Scope 1, 2, and 3 are defined according to GHG Protocol standards.

| | Base year (2022) | Potential reduction by 2030 (t/year) | Goal 2030 |
|---|---|---|---|
| **GHG emissions** | 656,243 t $CO_2$e | / | 0 |
| **Energy efficiency and use of renewable energy sources** | | - 2,000 t | |
| **Substitution of fossil fuels using alternative fuels** | | - 55,000 t | |
| **Using alternative raw material** | | - 10,000 t | |
| **Development of new generations of existing products with reduced $CO_2$ emissions** | | - 25,000 t | |
| **CCUS technology implementation** | | | Total $CO_2$ emissions elimination |

**$CO_2$ emission reduction goals for the company NEXE d.d.**

## 4.3
# ENERGY

In 2022, the total energy consumption in the NEXE Group amounted to 1,383,188 MWh, representing a 2.98% increase compared to the previous year, with energy consumption from non-renewable sources decreasing by 5.62% compared to 2021. In 2022, the share of energy from renewable sources in total consumption was 9.86%, marking an increase of 8.21 percentage points compared to 2021. The significant increase in renewable energy in 2022 was the result of transitioning to the use of electricity from renewable sources, certified by the HEP ZelEn certificate, and the start of operation of the solar power plant.

## Energy consumption

| | | 2022 | 2021 |
|---|---|---|---|
| (1) Consumption of energy from coal and coal products (MWh) | MWh | 298,018 | 292,100 |
| (2) Consumption of energy from crude oil and oil products (MWh) | MWh | 254,426 | 247,039 |
| (3) Consumption of energy from natural gas (MWh) | MWh | 392,413 | 374,775 |
| (4) Consumption of energy from other non-renewable sources (MWh) | MWh | 266,177 | 261,174 |
| (5) Consumption from nuclear sources (MWh) | MWh | 0 | 0 |
| (6) Consumption of purchased or acquired electricity, heat, steam, and cooling from non-renewable sources (MWh) | MWh | 35,722 | 145,914 |
| **(7) Total consumption of non-renewable energy (MWh)** | **MWh** | **1,246,756** | **1,321,002** |
| **Share of non-renewable sources in total energy consumption (%)** | **%** | **90.14%** | **98.35%** |
| (8) Consumption of energy from renewable sources (including biomass, biogas, non-fossil fuel waste, renewable hydrogen, etc,) (MWh) | MWh | 0 | 0 |
| (9) Consumption of purchased or acquired electricity, heat, steam, and cooling from renewable sources (MWh) | MWh | 135,329 | 22,128 |
| 1(0) Consumption of self-produced renewable energy without fuel (MWh) | MWh | 1,103 | 0 |
| **(11) Total consumption of renewable energy (MWh)** | **MWh** | **136,433** | **22,128** |
| **Share of renewable sources in total energy consumption (%)** | **%** | **9.86%** | **1.65%** |
| **Total energy consumption (MWh)** | **MWh** | **1,383,188** | **1,343,130** |

## Energy production

| | | 2022 | 2021 |
|---|---|---|---|
| Production from non-renewable sources (MWh) | MWh | 0 | 0 |
| Production from renewable sources (MWh) | MWh | 1,107 | 0 |

As regards non-renewable sources, in the energy mix of NEXE Group natural gas is the most prevalent source with a share of 31.47%, followed by coal at 23.9%. The largest energy consumer within NEXE Group in 2022 is the cement production in NEXE d.d., accounting for 67% of the total energy consumption from non-renewable sources. Followed by the production of tiles in Polet, contributing 15% to the total energy consumption from non-renewable sources, and the production of tiles and bricks in Dilj d.o.o.

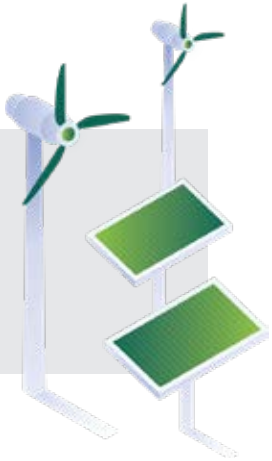
NEXE Group substitutes part of the fossil fuels with alternative fuels. In 2022, a total of 266,177 MWh of energy, or 21.35%, was produced using RDF, burning tires, and sludge. In the same period, at the cement plant, as much as 32.29% of the energy from non-renewable sources was obtained from alternative fuels.

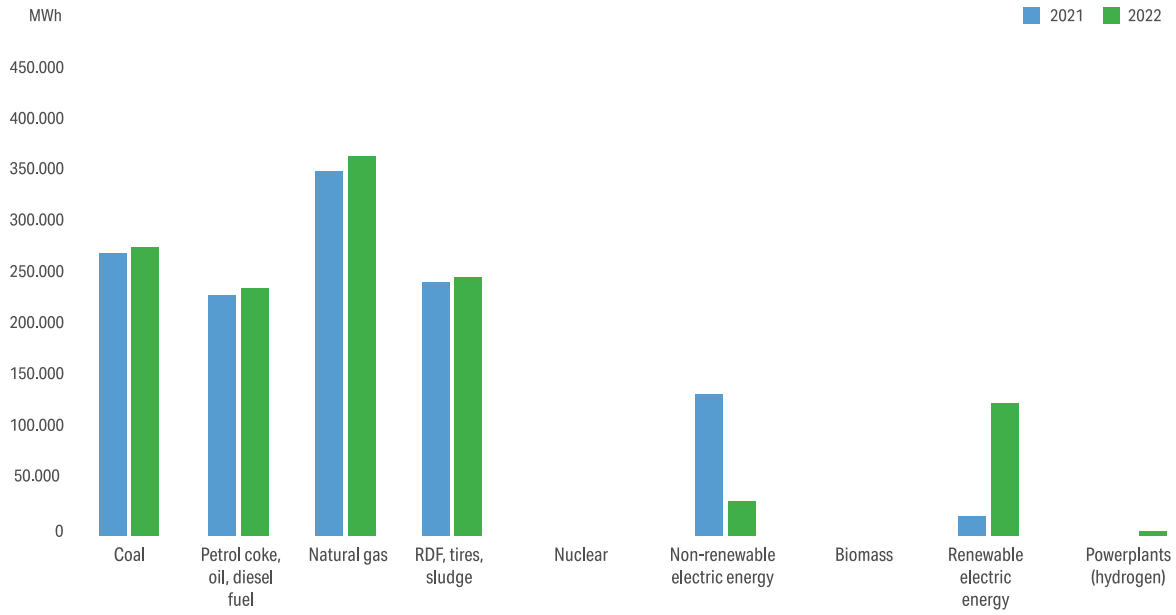
Additionally, in 2022, NEXE Group commenced the production of electrical energy from its own sources, generating a total of 1,107 MWh. This is the outcome of investments in the construction of a solar power plant at the Slavonka facility. Further growth in the production of electrical energy from renewable sources is anticipated due to investments in own capacities.

The following graph shows the representation of various energy sources in the total consumption during 2022 and 2021.

The share of renewable sources in total energy consumption in 2022 is:

**9.86%**





## HEP ZelEn

In the reporting period, some NEXE subsidiaries have begun using electricity obtained solely from renewable sources, as confirmed by the HEP ZelEn certificate. The fact that the electric energy used by NEXE subsidiaries is derived exclusively from renewable sources is demonstrated by the cancellation of a sufficient number of guarantees of origin of electricity in the register of guarantees of origin of electricity maintained by the Croatian Energy Market Operator (HROTE).

## ENERGY INTENSITY

In 2022, the energy intensity associated with activities in the sector with a significant climate impact was 0.0074 MWh per 1 EUR of net revenue. NEXE Group recorded a decrease in energy intensity compared to 2021, when the energy intensity was 0.0087 MWh per 1 EUR of net revenue. During this period, revenues increased by 22%, while energy intensity decreased by 16%. The reduction in business energy intensity is the result of investments in energy efficiency measures.

**The energy intensity based on net revenue**

| | | Report year 2022 | Base year 2021 | %N/N-1 |
|---|---|---|---|---|
| Energy intensity (total energy consumption per net revenue) associated with activities in sectors with significant climate impact | MWh/EUR | 0.0074 | 0.0087 | -16% |
| Net revenue from activities in sectors with a significant climate impact | EUR | 187,505,425 | 153,569,382 | 22% |

## 4.4.

# CARBON FOOTPRINT

Scope 1 includes emissions from production processes, fuel combustion, company vehicles, and work machinery.

Scope 1: 757,915 tons of $CO_2e$, of which 87.04% of emissions are from the EU ETS system.

Scope 2 includes emissions from the production of electricity from non-renewable energy sources.

Scope 2: 56,228 tons of $CO_2e$ are from electricity production

Scope 3 includes emissions from employee commuting, emissions from purchased clinker, emissions resulting from the delivery of raw materials and fuels, and the dispatch of finished products.

Scope 3: 35,664 tons of $CO_2e$

| Activity/Company | | total tonnes $CO_2$/year | |
|---|---|---|---|
| **Production of cement and concrete**<br>**NEXE d.d.** | | 2021 | 2022 |
| | Scope 1 | 637,262 | 658,964 |
| | Scope 2 | 61,528 | 0 |
| | Scope 3 | 18,854 | 21,826 |

| Activity/Company | | total tonnes $CO_2$/year | |
|---|---|---|---|
| **Concrete production**<br>**NEXE BETON DOO NOVI SAD** | | 2021 | 2022 |
| | Scope 1 | 556 | 639 |
| | Scope 2 | 111 | 111 |
| | Scope 3 | 1,143 | 1,560 |
| **NEXE BETON d.o.o. Sarajevo** | | | |
| | Scope 1 | 410 | 319 |
| | Scope 2 | 89 | 82 |
| | Scope 3 | 313 | 293 |

| Activity/Company | | total tonnes $CO_2$/year | |
|---|---|---|---|
| **Production of bricks, tiles, and other products made of baked clay for construction**<br>**Dilj d.o.o.** | | 2021 | 2022 |
| | Scope 1 | 24,470 | 25,573 |
| | Scope 2 | 8,831 | 0 |
| | Scope 3 | 1,472 | 1,285 |
| **Tvornica opeke do.o. Sarajevo** | | | |
| | Scope 1 | 10,657 | 11,472 |
| | Scope 2 | 3,405 | 3,764 |
| | Scope 3 | 551 | 512 |

| AD POLET IGK NOVI BEČEJ | | | |
|---|---|---|---|
| | Scope 1 | 45,808 | 45,355 |
| | Scope 2 | 46,422 | 45,933 |
| | Scope 3 | 2,485 | 1,980 |
| **POLET-KERAMIKA DOO NOVI BEČEJ** | | | |
| | Scope 1 | 13,294 | 14,127 |
| | Scope 2 | 3,645 | 3,789 |
| | Scope 3 | 1,043 | 1,287 |

| Activity/Company | | total tonnes $CO_2$/year | |
|---|---|---|---|
| **Gravel and sand extraction**<br>**IGMA d.o.o.** | | 2021 | 2022 |
| | Scope 1 | 1,462 | 1,413 |
| | Scope 2 | 2,520 | 2,549 |
| | Scope 3 | 6,829 | 6,811 |

| Activity/Company | | total tonnes $CO_2$/year | |
|---|---|---|---|
| **Port and warehouse activities**<br>**LUKA TRANZIT OSIJEK d.o.o.** | | 2021 | 2022 |
| | Scope 1 | 9 | 9 |
| | Scope 2 | 0 | 0 |
| | Scope 3 | 80 | 62 |

| Activity/Company | | total tonnes $CO_2$/year | |
|---|---|---|---|
| **Other activities**<br>**EKONEX d.o.o.** | | 2021 | 2022 |
| | Scope 1 | 33 | 28 |
| | Scope 2 | 0 | 0 |
| | Scope 3 | 3 | 10 |

| N-INVEST d.o.o. Sarajevo | | | |
|---|---|---|---|
| | Scope 1 | 0 | 0 |
| | Scope 2 | 0 | 0 |
| | Scope 3 | 0 | 0 |
| **NEXE d.o.o. Sarajevo** | | | |
| | Scope 1 | 0 | 0 |
| | Scope 2 | 0 | 0 |
| | Scope 3 | 0 | 0 |
| **NEXE INVEST d.o.o.** | | | |
| | Scope 1 | 0 | 0 |
| | Scope 2 | 0 | 0 |
| | Scope 3 | 0 | 0 |
| **CE - MA d.o.o.** | | | |
| | Scope 1 | 0 | 0 |
| | Scope 2 | 0 | 0 |
| | Scope 3 | 1 | 1 |
| **NEXE GRADNJA d.o.o. Našice** | | | |
| | Scope 1 | 16 | 15 |
| | Scope 2 | 0 | 0 |
| | Scope 3 | 33 | 36 |

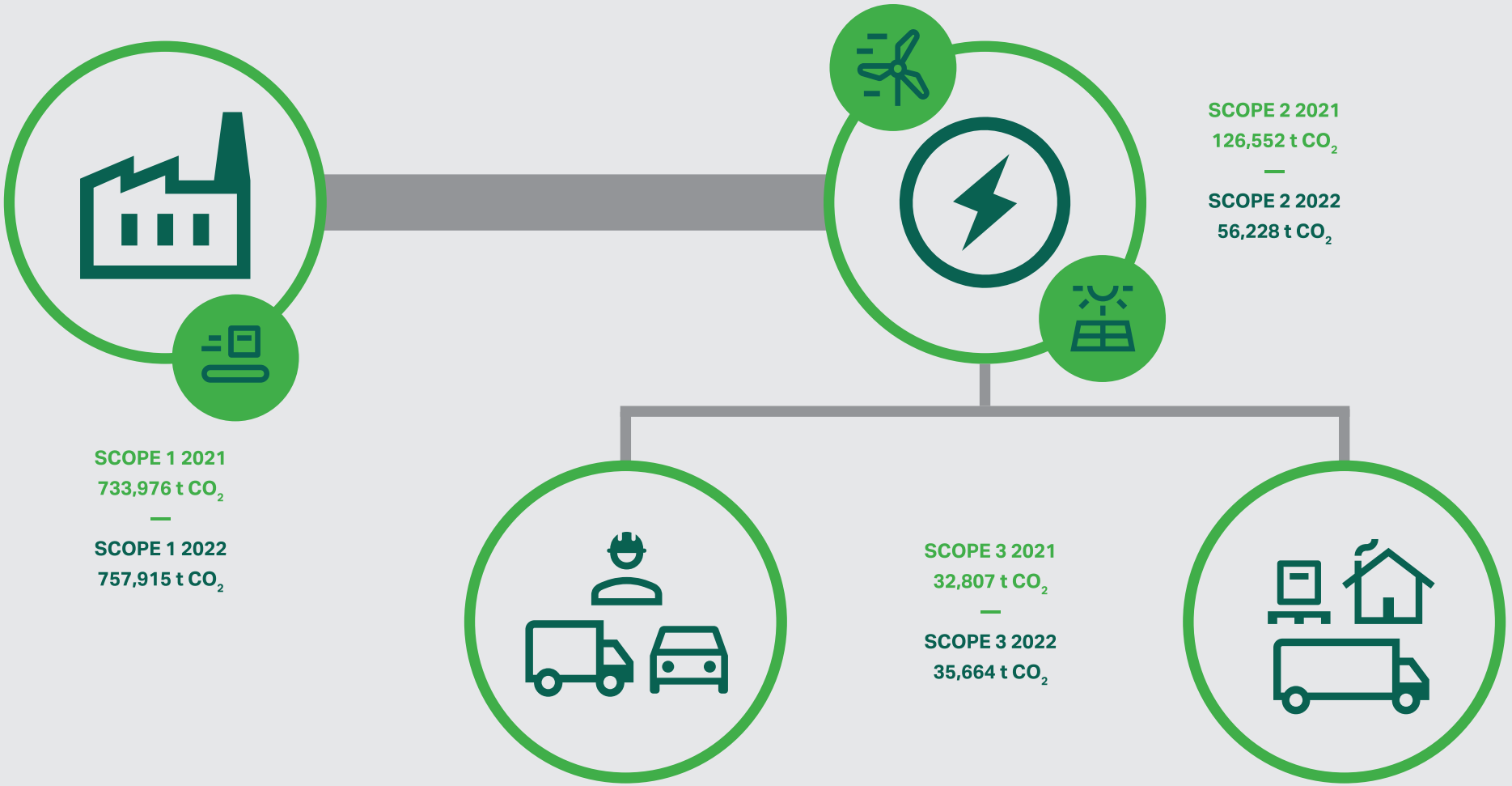
| | | | |
|---|---|---|---|
| **TOTAL** | Scope 1 | 733,976 | 757,915 |
| | Scope 2 | 126,552 | 56,228 |
| | Scope 3 | 32,807 | 35,664 |

## GHG INTENSITY

In 2022, the GHG intensity of the NEXE Group was 0.004 t $CO_2$e per 1 EUR of net revenue. NEXE Group recorded a decrease of 22.16% in GHG intensity compared to 2021, when the GHG intensity was 0.0051 t $CO_2$e per 1 EUR of net revenue. The reduction in GHG intensity is a result of increased revenue, decreased total $CO_2$ emissions, increased use of biogenic materials, and the purchase of electricity exclusively from renewable sources.

## METHODOLOGY FOR DATA COLLECTION AND INDICATOR CALCULATION

Responsible individuals within NEXE Group's subsidiaries, who are also members of the sustainability reporting team, collect data on energy consumption and document it in the prescribed format. Data and indicators on energy consumption and greenhouse gas emissions are continuously collected, calculated, and monitored in accordance with legal requirements, ISO standard 50001:2018, and the EU ETS system. Greenhouse gas emissions are calculated according to the methodology prescribed by the Greenhouse Gas Protocol and EU ETS rules.



**SCOPE 1 2021**
**733,976 t $CO_2$**

**SCOPE 1 2022**
**757,915 t $CO_2$**

**SCOPE 2 2021**
**126,552 t $CO_2$**

**SCOPE 2 2022**
**56,228 t $CO_2$**

**SCOPE 3 2021**
**32,807 t $CO_2$**

**SCOPE 3 2022**
**35,664 t $CO_2$**

# Air and Water Emissions

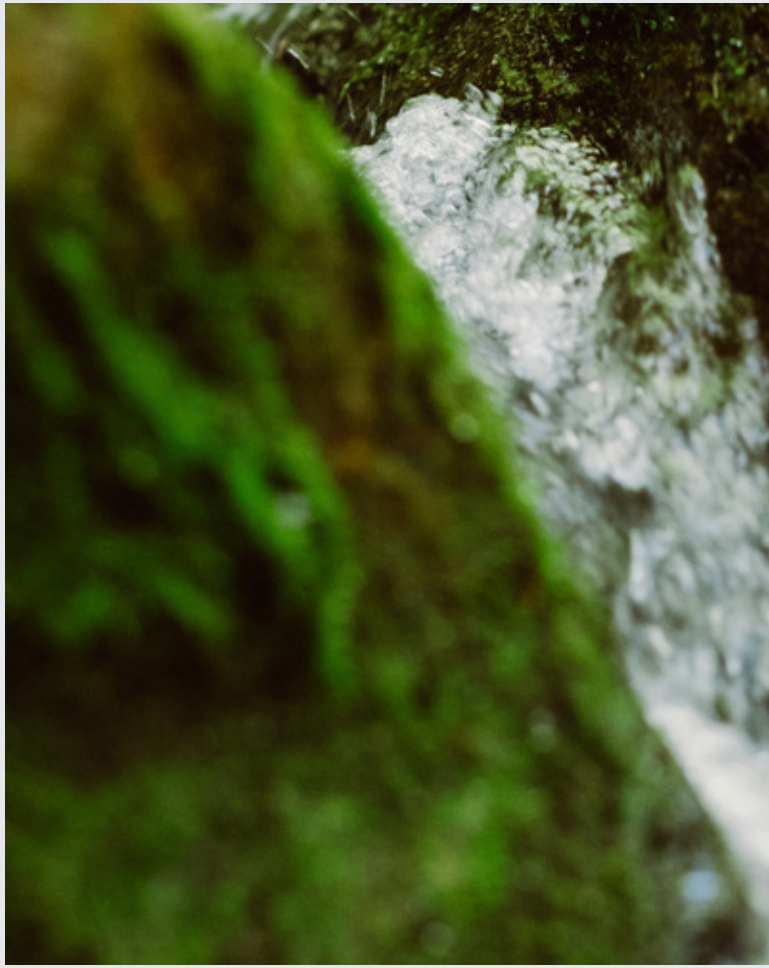
05

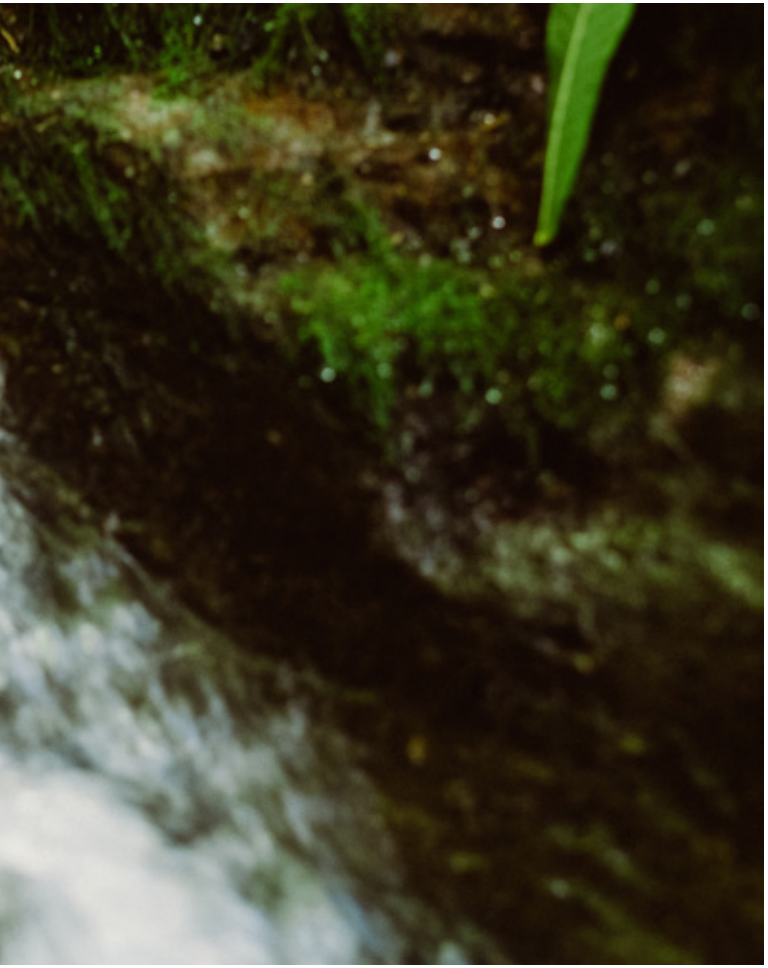
The Environmental Permit is issued to ensure comprehensive environmental protection through integrated prevention and control of pollution, ensuring a high level of environmental protection and conditions for preventing significant pollution of the environment due to industrial activities. The procedure for obtaining an Environmental Permit is regulated by the Environmental Protection Act (OG 80/13, 153/13, 78/15, 12/18, and 118/18) and the Regulation on Environmental Permit (OG 8/14 and 5/18), which encompass the provisions of Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control - IPPC). The issuance of an environmental permit includes an environmental impact assessment to identify and evaluate material dependencies on natural resources and material effects on the environment. The Directive requires that permits are based on the application of best available techniques (BAT).

In NEXE Group, the following environmental impacts are continuously monitored and analyzed:

- emissions of pollutants into the air;
- soil pollution;
- water pollution;
- generated waste;
- noise generated;
- use of energy sources and water;
- and other impacts.

Unlike other facilities where emissions monitoring and testing dynamics are mostly conducted according to legal obligations, for holders of Environmental Permits, the method and timing of individual measurements, the evaluation of results, and the obligation of their monitoring and reporting to the competent authorities are prescribed directly within the Environmental Permit itself. The measurement dynamics and emission limit values may thus differ from those prescribed in the applicable legislation.





The companies NEXE d.d. and Dilj d.o.o., due to the activities carried out in the facilities and installed capacities, are obliged to obtain an Environmental Permit. According to the List of Activities that may cause emissions polluting soil, air, water, and sea, provided in Annex I of the Regulation on Environmental Permit (OG 8/14 and 5/18), the activities falling under the obligation of an Environmental Permit include:

3. Mineral Industry
3.1 Facilities for the production of cement clinker in rotary kilns exceeding 500 tons/day.
3.5 Manufacture of ceramic products by baking, especially roofing tiles, bricks, refractory bricks, tiles, stoneware or porcelain, with a production capacity exceeding 75 tons per day and/or kiln capacity exceeding 4 $m^3$ and a hardening density exceeding 300 kg/$m^3$ per kiln.
The cement production plant is also used for the energy recovery of waste through co-incineration, as a stationary facility whose primary purpose is the production of cement or cement clinker, utilizing waste as supplementary fuel. The last modification of the Environmental Permit was conducted in 2021 due to technical changes in the RDF (Refuse-Derived Fuel) plant. At that time, new dust collectors were installed to improve working conditions, reduce negative impacts on equipment, and prevent unplanned downtime and financial costs caused by the previous solution.
Due to the nature of its activities and technical characteristics, NEXE d.d. falls under the obligations of other permits in the field of environmental protection, such as a waste management permit, as described in Chapter 6. Circular Economy.
The management of wastewater at the locations of the companies within the NEXE Group is regulated by the Environmental Permit for the obligors thereof, while at other locations, it is regulated by water management permits. These acts prescribe the adoption of Rulebooks on the operation and maintenance of facilities and devices that serve the purpose of protecting water from pollution, specifying:

1. types of wastewater generated within the organization;
2. method of wastewater drainage and treatment;
3. maintenance of drainage system facilities and wastewater treatment devices;
4. disposal method for waste generated during the maintenance of water treatment devices;
5. water pollution response protocol;
6. implementation of wastewater monitoring;
7. authorizations and responsibilities.

Considering its activities and significant environmental impact, the company NEXE d.d. has implemented and certified an Environmental Management System according to the ISO 14001:2015 standard, which includes the prescribed methodology for assessing the risks of potential environmental impacts, or aspects that arise as a result of the organization's activities.

NEXE d.d. has internally developed a methodology for assessing the risks of adverse environmental impacts of processes. The methodology for assessing environmental aspects' risks is prescribed by documented procedure DP.B-4.1-07 'Methodology for assessing the risks of environmental aspects.' The procedure describes the applied methodology for identifying risks and opportunities, as well as for risk analysis and processing.

The significance of the risk for each environmental impact is determined based on the severity of consequences for people and the environment, the likelihood of deviation from prescribed requirements, and the possibility of early detection of environmental impact. Considering the existing measures applied, residual (remaining) risk is determined. Action (initiating action or objective) is prescribed for each significant risk, and the impact of all risks on operations is assessed.

## MATERIAL IMPACTS, RISKS, AND OPPORTUNITIES

### EMISSIONS OF POLLUTANTS INTO THE AIR

The main environmental impact of the business activities of NEXE Group is the emissions of pollutants into the air, partly due to the nature of the processes and high process temperatures, and partly due to the powdery components in the production process.

For this reason, it is a priority for the members of NEXE Group to improve processes that can result in emissions of pollutants into the air by installing new and efficient devices and by implementing new technological solutions to ensure emissions are lower than the ones legally permitted.

### NOISE EMISSIONS

The exploitation of raw materials and the production of construction materials result in noise emissions into the environment.

### USE OF WATER AND DISCHARGE OF WASTEWATER

The production of construction materials can have a significant negative impact on water resources if water management is not done responsibly. Water is used in the extraction phase of raw materials (sand, gravel, stone...), cooling of the production halls, for dust suppression, and for cleaning facilities and machinery. Cement production is a dry process that uses minimal water for cooling of gasses and washing machinery. To reduce water usage in other business segments, recycled water is used in concrete production. Furthermore, to prevent pollution before discharging wastewater into water bodies or public drainage systems, wastewater is treated, and regular checks are conducted at discharge points in accordance with environmental and water management permits.

#### RISKS

**Loss of local community's support -** If NEXE Group fails to responsibly manage its environmental impacts, it could lose the support of the local community and jeopardize its reputation in the market.
**Fines -** Exceeding permitted emissions of pollutants into the environment may result in significant financial penalties, affecting the business results.
**Increased operating costs -** In the event of environmental pollution incidents, there may be increased costs associated with mitigating the negative impact.

#### OPPORTUNITIES

**Investment in state-of-the-art technologies -** Implementing new technologies that adhere to Best Available Techniques (BAT) can improve monitoring and management of emissions of pollutants into the air and water. This can help NEXE Group further reduce its emissions of pollutants and ensure stakeholder support.

# EMISSIONS OF POLLUTANTS INTO AIR AND WATER

Rotary kiln exhaust emissions and other emissions from dust collectors and boiler plants include: total particulate matter, sulfur oxides ($SO_x$), nitrogen oxides (NOx), total organic carbon (TOC), hydrogen chloride (HCl), hydrogen fluoride (HF), ammonia ($NH_3$), dioxins, furans, and heavy metals. Water is categorized as: technological (for machine washing), cooling (for cooling gases before they are directed to kiln's dust collector), and sanitary. Pollutants can enter wastewater, potentially contaminating local water resources.

## POLICY

The approach for managing negative environmental impacts has been established by NEXE Group through its policies: the Quality Policy at the NEXE Group level and the Energy, Environmental Protection, Health, and Safety Policy at the NEXE d.d. level.

NEXE Group commits to continuously align its operations with relevant regulations and other obligations in the field of environmental protection, as well as to continuously improve its management systems and processes that impact the environment. NEXE Group commits to, with the use and procurement of modern and energy-efficient organizational, technical, and technological solutions in line with best available techniques, to constantly monitor, prevent, and reduce emissions of pollutants into air, water, and soil, waste generation, and to use natural resources rationally.

NEXE Group aims to promote awareness of energy consumption and environmental protection among its employees and external suppliers of goods and services, and to be a responsible and acceptable neighbor to the local community, open in communication with stakeholders regarding its environmental impacts and environmental indicators. As part of the management system documentation, procedures are prescribed for controlling and preventing air and water pollution, the operation of exhaust gas dust removal devices and wastewater treatment, as well as monitoring emissions into air and water.

The companies NEXE d.d. and Dilj d.o.o are obliged to obtain an Environmental Permit. The Environmental Permit itself prescribes the method and frequency of individual measurements, evaluation of results, and the obligation to monitor and report to the authorities. The measurement frequency and emission limit values may therefore differ from those prescribed in the legislation. The main objectives of the policy are to prevent environmental pollution by limiting emissions of pollutants within the limits set by the environmental permit and the law, and to apply the currently best available techniques. The production sectors and responsible individuals for environmental protection processes in the member companies are responsible for implementing the policy, and Management Board is responsible for achieving the objectives.

## APPLICATION OF BEST AVAILABLE TECHNIQUES

In order for a company to obtain an Environmental Permit, given its activities, it must demonstrate that it applies the best available techniques. According to the Environmental Protection Act, the best available techniques represent the most advanced stage of development and their methods of operation, indicating the practical applicability of individual techniques as the basis for emission limit values and other permit conditions designed to prevent, and where not feasible, to reduce emissions and environmental impact as a whole.

1. "Techniques" refer to the technology used and the manner in which a plant is designed, constructed, operated, maintained, used, and decommissioned.
2. "Available techniques" refer to techniques developed to a level that allows their application in the relevant industrial sector under economically and technically viable conditions, taking into account costs and benefits, regardless of whether the techniques are used or produced in the Republic of Croatia, as long as they are available to the operator under acceptable conditions.
3. "Best" implies the most effective in achieving a high overall level of environmental protection.

## MEASURES TO REDUCE NEGATIVE IMPACT ON AIR

Over the past decades, industrial emissions (e.g., $NO_x$ and $SO_2$) in the European construction materials sector have significantly decreased. This has been achieved precisely through the application of best available techniques, such as modern dust filtration devices (bag filters), closed systems for storage, transportation, and dosing of raw materials and fuels, online emission analyzers, process management optimization, selective non-catalytic reduction (SNCR) for reducing $NO_x$ emissions, and a dry desulfurization system for reducing $SO_2$ emissions. Members of NEXE Group have implemented these solutions which enable low emissions of pollutants into the air.

## MEASURES TO REDUCE EMISSIONS OF TOTAL PARTICULATE MATTER

In the cement industry, dust control is important for the health and safety of workers as well as for environmental reasons. NEXE Group consistently implements measures to prevent air pollution from dust.

1. Dust collectors: bag filters are installed at emission points in the factories to capture dust particles, preventing their release into the atmosphere. In 2022, two new dust collectors were installed at the RDF plant in NEXE d.d.
2. Regular maintenance and cleaning: one of the simplest methods to prevent dust emissions is regular cleaning of machinery and facilities, removing accumulated dust and preventing its release into the air.
3. Proper management of storage facilities: storage of raw materials or fuels can result in dust if the storage facilities are not properly secured. Organizational procedures are in place to ensure proper securing of storage facilities to prevent dust emissions.
4. Emission monitoring: dust emissions are continuously monitored and controlled, and in case of unusually high values, operators conduct inspections and implement corrective measures.

## MEASURES TO REDUCE EMISSIONS OF POLLUTANT GASES

At NEXE d.d., various measures are implemented to reduce emissions of sulfur dioxide ($SO_2$) and nitrogen oxides ($NO_x$), which are harmful to the environment and human health.

1. Use of low-sulfur fuels: by replacing traditional high-sulfur fuels such as coal with low-sulfur fuels like alternative fuels and natural gas, emissions of $SO_2$ are reduced. Low-sulfur fuels naturally have lower sulfur content, resulting in lower $SO_2$ emissions.
2. Desulfurization of flue gases: desulfurization in the cement industry relies on adopting existing technologies from other industries. At NEXE d.d., a dry process is applied using hydrated lime as a reagent.
3. Implementation of specific primary measures to reduce $NO_x$ emissions: flame cooling, Low $NO_x$ burners, optimized automatic process control.
4. Selective non-catalytic reduction (SNCR) for $NO_x$ emissions reduction: involves injecting a 25% ammonia solution at predetermined locations within the precalciner heat exchanger. Upon injection and mixing with hot flue gases, a chemical reaction occurs between nitrogen oxides (of which nearly 95% are $NO_x$) and ammonia molecules, resulting in nitrogen and water vapor.
5. Combustion optimization: proper control of the combustion process in the kiln can reduce the formation of $NO_x$. Examples of measures include adjusting combustion parameters, optimizing air flow rates, proper fuel distribution, and utilizing air preheating systems.
6. Monitoring and process control: an automatic measuring device at the kiln exhaust continuously monitors emissions of pollutants into the air, enabling prompt response in case of elevated values at other emissions points in the facility.

## INTERNAL MONITORING OF AIR POLLUTANT EMISSIONS

The internal monitoring system enables continuous monitoring of air emissions, pollution control, and facilitates the implementation of operational measures to ensure compliance with air quality regulations.

Unlike other facilities where emissions monitoring and testing dynamics are primarily conducted according to legal obligations, for holders of Environmental Permits, the method and dynamics of individual measurements, result evaluation, monitoring obligations, and reporting to authorities are prescribed directly within the Environmental Permit itself. Consequently, the monitoring dynamics and emission limit values may differ from those specified in the applicable legislation.

In accordance with legal requirements for monitoring emissions of pollutants from stationary sources, NEXE d.d. is the only member of the NEXE Group obligated to continuously measure emissions of pollutants into the air from the smokestack of the rotary kiln. This is done using an automatic measuring system that ensures data on the concentration and emitted mass flow rate of pollutants in the waste gas during continuous operation of the stationary source, as well as data on the parameters of the waste gas (temperature, pressure, humidity, and others). The automatic measuring system for continuous measurement of emissions of pollutants includes: measuring instruments, recording and storing all measurement results, relevant values of parameters of the waste gas state, and parameters of the operating regime of the stationary source, evaluation of measurement results, namely the values of determined emission parameters and values of parameters of the waste gas state, daily, monthly, and annual reporting, and continuous transmission to the information system for monitoring emissions managed by the Ministry of Economy and Sustainable Development.

Calibration and regular annual control of the automatic measuring system for continuous measurement are conducted according to prescribed reference measurement methods in accordance with the standard HRN EN 14181. A report is prepared on the results of calibration and regular annual verification of the measurement system. Continuous measurements of total particulate matter, $SO_2$, $NO_2$, TOC, HCl, HF, and $NH_3$ are conducted at the smokestack outlet of the rotary kiln, and occasional measurements of emissions of dioxins and furans, heavy metals, and mercury are also conducted.

On other outlets and in other members of NEXE Group, occasional monitoring of emissions of particulate matter and other gases is conducted according to their respective activities. Measurements are also carried out at the outlets of the boiler rooms. Companies and locations not covered by the environmental permit monitor emissions of pollutants into the air in accordance with national legislation. All measurements are conducted in accordance with legal requirements and are carried out by authorized testing laboratories.

## AIR QUALITY MONITORING STATION IN ZOLJAN

Immissions are substances measured in a particular area, enabling the assessment of air quality. In order to enable the local community to monitor the impact of cement production on air quality in their town, NEXE d.d. established an air quality monitoring station in Zoljan in 2004. This decision was the result of an environmental impact assessment conducted for the transition from gas to coal at the NEXE d.d. clinker production plant. Since then, data from the station has been collected and verified in accordance with legal requirements and standards related to air quality monitoring, and air categorization is performed.

The exact location of the measuring station is determined by the Decision of the Ministry responsible for environmental protection, based on the Environmental Impact Assessment Study, taking into account the wind rose at the factory location. The station is located between the NEXE d.d. plant and Našice, 2200 m north of the plant at a slightly higher altitude in the direction of the predominant airflow, and 6 km southeast of the town of Našice. In regards to micro-location, the air flow is secured, as well as secure electrical and information infrastructure that enables its continuous operation. The station is positioned in a way that it provides data on the highest concentrations of pollutants to which the population is likely to be exposed, directly or indirectly, during a period significant in relation to the averaging time of the limit values.

Continuous measurements of sulfur dioxide ($SO_2$), nitrogen dioxide ($NO_2$), and concentrations of particulate matter with an aerodynamic diameter <10µm (PM10) are carried out at the automatic air quality monitoring station. Additionally, measurements are conducted to determine the quantity of total suspended particles (TSP) in the air and analyses of heavy metals in those particles. These measurements are performed according to accredited testing methods by external air quality monitoring laboratories: NZZJZ Andrija Štampar (TSP and heavy metals) and Ekonerg d.o.o. (gases and PM10). Since the establishment of the monitoring station until today, the data from the Zoljan monitoring station indicate Category I air quality in Našice.

## MEASURES TO REDUCE THE NEGATIVE IMPACT ON WATER

### DRAINAGE AND WATER TREATMENT SYSTEM

In accordance with the Environmental Permit and elaborated Rulebook on the Operation and Maintenance of Facilities and Devices in Function of Preventing Water Pollution, NEXE d.d. has developed a drainage, treatment, and water quality monitoring system for wastewater.

The drainage system of the NEXE d.d. factory consists of rainwater, contaminated rainwater, and sanitary drainage. Industrial wastewater does not originate from the technological process itself at the NEXE d.d. factory because the water intended for cooling the technological process is used in a closed recirculation system. Rainwater at the NEXE d.d. site is generated from rainfall and the melting of snow and ice from pavements, roof surfaces, surface mining areas for mineral extraction, and green areas within the factory premises and waste dumps. Contaminated rainwater, or rainwater-process water at the NEXE d.d. factory, refers to water that is collected from washing facilities, trucks, machinery, and vehicles, as well as water from contaminated surfaces (roads, handling surfaces etc.).

### WASTEWATER DRAINAGE AT NEXE D.D. IS CARRIED OUT THROUGH:

- Separate drainage system of buried pipes for sanitary water
- Separate drainage system of buried pipes for combined drainage of rainwater and process wastewater
- Separate drainage system comprising partially open earth excavations (channels) and partially buried pipes for rainwater drainage.

### WASTEWATER TREATMENT AT NEXE D.D. IS CARRIED OUT THROUGH THE FOLLOWING PROCESSES:

- Primary treatment, including the use of oil and grease separators, grease traps, sedimentation tanks, which are used to remove solid waste of larger dimensions, such as coal, sand, gravel, and similar substances, as well as the separation of fats and oils from water. It also involves the use of sand filters for removing oils and lubricants, emulsions, oil-water mixtures, greases from grease traps, and degreaser-water mixtures.
- Secondary treatment involving the biological degradation of organic matter using BIO-DISK type purifiers.

## INTERNAL MONITORING AND MAINTENANCE MEASURES OF FACILITIES AND EQUIPMENT FOR WATER POLLUTION CONTROL

Drainage systems are regularly maintained and monitored in every NEXE Group company with the aim to promptly detect any discharge of pollutants into the water. Before discharging, wastewater and rainwater are treated using appropriate physical processes. At the Tajnovac 1 site (cement production), sanitary wastewater is treated in a biological treatment plant before being discharged into waterflows. Regular inspections are conducted at discharge points to monitor emissions of pollutants in accordance with Environmental Permit and Water Permits.

During the reporting period, a leakage test was conducted on the internal sewage system, which indicated that some sections were permeable. Based on this, an investment was initiated to repair them. Due to the complexity of the intervention in the existing infrastructure, a Rehabilitation Plan for the drainage system of the NEXE d.d. cement factory was developed, detailing the sections and deadlines for repair.

## WATER RECYCLING

In order to reduce water consumption in activities, NEXE Group strives to optimize the management system in a way that prolongs the retention of water in the system. This is most evident in the cooling of facilities where the same water circulates in the system. The existing cooling system for indoor spaces consists of water chillers. In the cooling bodies, the cooling water heats up by absorbing heat from the space, thereby cooling the space accordingly. The water chiller then re-cools the cooling water and sends it back to the cooling bodies in spaces that need to be cooled. Additionally, in concrete production, water used for washing mixer trucks is purified by removing suspended solids and used again in the production process.

### PROCEDURE IN CASE OF AN EMERGENCY EVENT AT NEXE d.d.

Due to the presence of hazardous substances at the cement production site in NEXE d.d., a documented procedure for handling emergency events has been developed and implemented. In other members of NEXE Group, there are no hazardous substances, so they are not required to develop the mentioned planning documents. However, in other members of the NEXE Group, the development of an Evacuation and Rescue Plan is mandatory.

Documents PL.B-4.1-01 Operational Plan for Protection and Rescue, PL.B-4.1-02 Plan and Program of Measures in Case of Emergency Events - Ionizing Radiation Area, and DP. B-4.1-12 Management of Emergency Situations in NEXE d.d. outline the prevention measures, procedures in case of emergency situations, and methods for mitigating potential negative environmental impacts in case they occur. The adequacy of these documents and the readiness of all personnel designated to participate in such situations are periodically verified through simulated emergency events, and additional training is conducted as needed, with necessary updates or modifications to the documents.

NEXE d.d., according to the Regulation on the Prevention of Major Accidents Involving Hazardous Substances (OG 44/14, 31/17, 45/17), falls into the lower class of facilities where hazardous substances are present in small quantities and must have an established Major Accident Prevention Policy. This policy is part of an integrated management system in which all hazards related to the handling and storage of hazardous substances are recognized, identified, and analyzed. All measures are taken to prevent major accidents that could endanger the lives and health of employees and suppliers, the environment, material assets, and the company's operations.

The mentioned Regulation prescribes the information that the operator is obliged to provide to the public in case of a major accident hazard. The Major Accident Prevention Policy and Public Information on the Safety Management System in NEXE d.d. are available on the NEXE Group's website.

For entities holding environmental and water permits, the mandatory requirement includes the preparation of an operational plan of measures in the event of extraordinary and sudden water pollution.

# GOALS

## AIR POLLUTION

The emission limit values in the air are prescribed by the Environmental Permits and applicable legislation. The continuous goal of the NEXE Group is to achieve values lower than the prescribed limit values and to reduce pollutant emissions by applying the best available techniques. The aim is to maintain the highest Category I air quality classification near NEXE Group facilities.

## WATER POLLUTION

Environmental and water permits dictate the prescribed limit values and permissible concentrations of hazardous and other substances in wastewater. The continuous goal of the NEXE Group is to achieve values lower than the prescribed values.

# INDICATORS

## AIR QUALITY

At the Zoljan monitoring station during the reporting period, the number of exceedances of the hourly or daily concentration limit values for pollutants (PM10, $NO_x$, and $SO_2$) monitored was lower than allowed in the calendar year, and the average annual concentration for PM10 was lower than the limit value. Additionally, the results of measuring the total suspended particulate matter (TSP) and analyzing heavy metals in the same period showed that the detected concentrations of heavy metals (lead, cadmium, arsenic, nickel, mercury, and thallium) were below the legal limit values prescribed by law and the Environmental Permit. Data from the Zoljan monitoring station indicate Category I air quality in Našice.

Air quality monitoring based on the following indicators: Total Suspended Solids (TSS) and heavy metals is also conducted at the concrete plant location in Osijek, the Dilj facility in Našice, and at the IGMA company's exploitation sites. Based on the measurements of total suspended solids and metal concentrations, the air quality near these locations during the testing periods in 2021 and 2022 was categorized as first category.

## EMISSIONS OF POLLUTANTS INTO THE AIR IN THE REPORTING PERIOD

Emissions into the air were measured according to the frequency defined in the Environmental Permit or in accordance with legal requirements in member companies. Measurements, except for continuous monitoring, which has specific legal requirements, are conducted at other outlets by an authorized testing laboratory accredited according to ISO 17025 for the measurement methods of individual pollutants.

There were no recorded instances of pollutant emissions exceeding the limit values into the air.

**Emissions of pollutants into the air at the NEXE Group level**

| Pollutant | 2021 (tons/year) | 2022 (tons/year) |
|---|---|---|
| $SO_2$ (sulfur dioxide) | 759.92 | 794.73 |
| $NO_x$ (nitrogen dioxide) | 781.56 | 942.54 |
| NMVOC (non-methane volatile organic compounds) | 3.01 | 2.58 |
| $PM_{2.5}$ / $PM_{10}$ (particulate matter) | 40.87 | 43.94 |
| $NH_3$ (ammonia) | 42.49 | 48.23 |
| Total Heavy Metals | 0.18592 | 0.21846 |

| Emissions of pollutants into water during the reporting period | | |
|---|---|---|
| **Pollutant** | **2021 (tons/year)** | **2022 (tons/year)** |
| Total Nitrogen | 0.03094 | 0.07055 |
| Total Phosphorus | 0.00505 | 0.00667 |
| Phenols | 0 | 0.00008 |
| Nickel and Compounds | 0.00041 | 0.00136 |
| Lead and Compounds | 0.00083 | 0.00104 |
| Cadmium | 0.00001 | 0.00003 |

During the reporting period, no non-compliances with the limit values prescribed by the Environmental and Water Permits were identified.

## METHODOLOGY FOR DATA COLLECTION AND CALCULATION

Within NEXE Group, designated individuals responsible for environmental protection coordinate monitoring of pollutant emissions into water and air. Authorized testing laboratories collect samples of polluted air and wastewater at emission points and perform analyses in line with reference methods. The total pollutant emissions into the environment are calculated based on the presence of substances in the samples and the total volume of discharged water or the operational hours of air purification devices during the reporting period.

# Circular Economy

Our society's current utilization of natural resources is unsustainable.  Inefficient management of resources and waste quantities, pose a critical challenge to achieving sustainable development. Industries globally must actively engage in the circular economy and implement urgent measures to tackle the widespread waste issue affecting communities worldwide. NEXE Group recognizes its responsibility for ensuring proper waste sorting and disposal in production, prioritizing product design with circularity in mind, and leveraging technologies to improve efficiency. NEXE Group can give added value to the waste.

06

## IDENTIFICATION OF MATERIAL IMPACTS, RISKS, AND OPPORTUNITIES ASSOCIATED WITH RESOURCE USE AND WASTE

Waste management operations adhere to relevant waste management permits. Records of waste generation, storage, and processing, categorized by waste types/key numbers, are maintained in the e-ONTO web application. Updates are promptly entered to reflect any changes in status, ensuring comprehensive and current data. Each waste type is separately documented, with accompanying records and documents kept up-to-date. Waste management is carried out in accordance with the valid permits for waste management. Records on the generation and flow of waste are kept for types and quantities of waste produced, stored, and processed according to the prescribed forms of the e-ONTO web application, by waste types/key numbers. Data are entered promptly and completely after each change in status. Logbooks and accompanying documents are kept up-to-date for each type of waste separately, and data from the logbooks are used to fill in the prescribed waste reporting forms in the Environmental Pollution Register (EPR). Environmental impact studies at the level of NEXE d.d. have identified environmental impacts associated with waste management, including energy and material recovery, and it has been concluded that the interventions are acceptable with the application of environmental protection measures and the implementation of environmental monitoring programs. Five environmental impact assessment procedures have been conducted, three of which relate to the use of alternative fuels.


RASICECEMENT

For the purpose of assessing environmental impacts, the following environmental impact studies have been conducted:

1. Environmental Impact Study of the Tire and Used Oil Incineration Plant for the Našicecement Factory (SPP d.o.o., 2004).
2. Environmental Impact Study for the New Clinker Production Line - LPK II at the Location (APO d.o.o.,2011).
3. Environmental Impact Study of the Reconstruction and Expansion of Buildings for the Use of Alternative Fuels at the Nexe d.d. Factory Site, City of Našice, Osijek-Baranja County (DVOKUT-ECRO d.o.o., 2022).

The waste management and recovery procedures are covered by the Waste Management Act (OG 84/21), according to which a process of material and energy recovery is carried out within the factory complex:

**R1** Use of waste mainly as fuel or another means of energy recovery
**R3** Material recovery of waste (material reclamation) - Recycling/recovering waste organic substances not used as solvents (including composting and other biological transformation processes)
**R5** Recycling/recovering other waste inorganic materials
**R12** Exchange of waste for application of any of the procedures listed under R1-R11
**R13** Storage of waste prior to any of the recovery operations listed under R1-R12

**The mentioned procedures are described in waste management studies that are an integral part of the waste management permit held by NEXE d.d.**

**Own production waste -** NEXE Group's operations lead to the creation of own waste from production processes.

**Material and energy recovery -** at NEXE d.d., waste is utilized as alternative fuel and material in cement production process. This approach enables savings on primary fossil fuels and raw materials typically used in clinker production. By recovering energy and materials from waste, consumption of natural resources is reduced which alleviates the burden on the environment by diverting waste from landfills which contributes to global reduction of $CO_2$ emissions.

## RISKS

**Slow acceptance of green products in the market -** the construction materials industry is striving to minimize its negative environmental footprint, particularly in terms of greenhouse gas emissions. However, consumers still haven't developawareness of environmental issues and they are not under strong regulatory pressure from the EU to reduce carbon footprints. As a result, the demand for such products is not high.

**Competitiveness of green products in non-EU markets -** the increasingly stringent regulations of the European Union encourage companies to reduce the negative environmental impacts of their products throughout the value chain. This often translates to higher costs in the short and medium term, which affects the competitiveness of these products in markets that are not subject to such regulatory pressures.

## OPPORTUNITIES

**Environmental construction standards -** environmental certificates and standards can stimulate the development of low-carbon products. Standards such as LEED (Leadership in Energy and Environmental Design) or BREEAM (Building Research Establishment Environmental Assessment Method) help create a market for low-carbon products. The development of new low-carbon products that meet consumer needs will strengthen the position of NEXE Group in the market.

**Resource efficiency -** modern technologies, improved production processes, and the utilization of waste materials frequently lead to enhanced resource efficiency, which positively impacts financial result.

**Product certification -** Products with minimized environmental impact can become holders of well-known eco-certificates, which can positively influence the reputation of NEXE products among consumers.

## 6.1
# WASTE MANAGEMENT

The European Union's Action Plan for the Circular Economy promotes better waste management practices according to the waste hierarchy, encouraging waste or by-product reuse from one industrial process to create new products.

The production of construction materials is traditionally recognized as an industry that uses large quantities of natural resources. That's why a well-established waste management system and a focus on recycling are important for reducing the negative environmental impact.

By raising awareness about environmental protection and recognizing opportunities to reduce operational costs related to energy and emissions, NEXE Group has acknowledged the importance of substituting natural materials and fossil fuels with waste (alternative fuels). It has established the necessary infrastructure and obtained the required waste management permits to reduce the amount of waste ending up in landfills and enable energy and material recovery from waste.

## POLICY

From product design to responsible procurement and efficient resource management are key to the operation of the NEXE Group, which is reflected in its focus on achieving the UN SDG 12 goal: Responsible Production and Consumption.

The NEXE Group continuously strives to reduce waste generated in its own production processes and improve waste management throughout the value chain. The approach to waste management by the NEXE Group is established through its policies: the Quality Policy at the NEXE Group level and the Energy, Environmental Protection, Health, and Safety Policy at the NEXE d.d. level. The focus is on reducing, reusing, and recycling waste materials to minimize environmental impact and increase resource efficiency.

As part of the construction materials industry, all members of NEXE Group adhere to strict environmental regulations and guidelines regarding waste management. This includes proper handling, storage, delivery to authorized

collection entities, and disposal/recycling of waste materials.

A successfully established waste management system helps address the growing challenge of resource scarcity and contributes to reduction of industrial waste and emissions. This includes reducing the amount of generated waste material in production processes, especially hazardous materials, and improving process efficiency. The environmental protection policy objectives related to waste management are to use non-renewable resources rationally, reduce the total amount of waste ending up in landfills, and increase circularity in products and production. The implementation of the policy is the responsibility of the production sectors and the individuals responsible for environmental protection processes in member companies, with the Management Board being accountable for achieving the objectives.

## MEASURES

**Separation, proper sorting, and management of own waste from production -** In the NEXE Group, the main categories of waste generated as a result of production and maintenance activities include: waste steel and iron, paper, plastic, electronic waste, end-of-life tires, waste waxes and greases, packaging contaminated with hazardous substances, and bulky waste. The types and quantities of generated waste vary annually, and significant changes in quantities result from maintenance interventions.

At NEXE facilities, measures are implemented to enable the separation of different types of waste at the source. This provides better management and appropriate handling of waste materials. Materials separated in this way can be easily sorted and properly disposed of in subsequent stages.

At all locations, a system for separate collection has been established for the following types of waste: municipal waste, paper, and plastic in designated waste collection areas. Waste that cannot be reused internally or needs to be disposed of in a special way is handed over for disposal, recycling, or final processing to authorized waste collectors. In NEXE d.d. in 2022, a total of 485 tons of waste were collected and sent to recycling. In 2022, a total of 4.13% of the waste generated in cement production was recycled within the organization, as NEXE d.d. has valid waste management permits.

### REUSING WASTE MATERIALS

Mineral resources required for clinker production can be substituted with alternative raw materials that are by-products or waste from other production processes, provided that their chemical composition allows them to be incorporated into the clinker. The alternative raw materials used in production include: steel slag, pyrite cinders, waste sands, various ashes, and dusts. By materially recovering alternative raw materials, the overall efficiency of the production process is increased, the chemical composition of the clinker is improved, energy consumption is reduced, and $CO_2$ greenhouse gas emissions are minimized. This practice reduces the need for natural raw materials and provides a sustainable waste management solution. To reduce $CO_2$ emissions, NEXE plans to use construction waste as an alternative raw material. The planned quantities of construction waste to be used as alternative raw materials by 2030 amount to 100,000 tons annually.

**In 2022, 39,574 tons of alternative raw materials were used, resulting in a reduction of $CO_2$ emissions from the process by 10,329 tons.**

## WASTE-TO-ENERGY CONVERSION

NEXE d.d. obtains 42% of its thermal energy from alternative fuels for energy recovery. For instance, waste oils of category I and II have been used for years in the construction materials industry as a substitute for fossil fuels. By using alternative fuels, the company NEXE d.d. contributes to addressing the growing social issue of waste disposal and reduces the use of fossil fuels. The waste currently used as fuel for energy recovery, including hazardous waste, is temporarily stored in enclosed spaces in a manner that does not endanger the environment and human health, and it is labeled in accordance with the regulations of the Republic of Croatia and the European Union.

This way of waste utilization prevented a total of 56,554 tons of waste ending up in landfills in 2022. The use of waste containing biogenic components makes a special contribution to climate transition because, according to European legislation, it is considered climate-neutral due to the fact that $CO_2$ emissions are not considered fossil. Biomass is considered a renewable energy source because during its growth, it absorbs $CO_2$ through the process of photosynthesis. The level of $CO_2$ emissions from the plant varies depending on how much biodegradable material is in the waste-derived fuel and how it's burned. If there's a significant amount of biodegradable substances, the plant's net $CO_2$ emissions tend to be lower.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | t | % | t | % |
| **ENERGY RECOVERY (tons)** | | | | |
| Fuel from waste (RDF/SRF) | 37,637 | 32.14% | 36,843 | 34.22% |
| Waste oil of category I and II | 5,401 | 4.661% | 5,998 | 5.57% |
| Waste sludge | 11,374 | 9.71% | 8,902 | 8.27% |
| Hazardous waste | 2,012 | 1.72% | 2,472 | 2.26% |
| Tires | 130 | 0.11% | 130 | 0.12% |
| **MATERIAL RECOVERY (tons)** | | | | |
| Waste sand, ash, slag, etc. | 60,554 | 51.70% | 53,321 | 49.52% |
| Total | 117,108 | 100% | 107,666 | 100% |

## COOPERATION WITH THE LOCAL COMMUNITY

As part of NEXE Group, EKONEX d.o.o. is authorized for waste management and collects particular types of waste from local businesses. The primary focus is on gathering waste oils and contaminated packaging from nearby mechanical workshops. This collaboration brings several advantages, including tackling environmental pollution concerns and decreasing the reliance on fossil fuels in the production process.

### WHY IS WASTE UTILIZATION IN CEMENT INDUSTRY A BETTER ALTERNATIVE THAN WASTE DISPOSAL IN LANDFILLS OR CONVENTIONAL INCINERATION IN WASTE INCINERATORS?

Utilizing waste as fuel instead of disposing it in landfills reduces greenhouse gas emissions. Specifically, disposing of 1 ton of waste in landfills releases 0.27 tons of $CO_2$, while about 400 kg of fuel can be produced from 1 ton of waste. By converting waste into fuel, the volume of waste sent for disposal decreases, resulting in a global reduction in $CO_2$ emissions.

Unlike incineration in waste-to-energy plants, energy recovery from waste in the production of cement clinker does not leave residues in the form of ash or slag because all combustion by-products are incorporated into the final product - clinker.

### HOW IS IT ENSURED THAT THE ENERGY RECOVERY FROM WASTE IS SAFE FOR BOTH PEOPLE AND THE ENVIRONMENT?

Waste treatment in cement production is carried out depending on the physico-chemical properties of waste, the possibilities of waste handling, its impact on the process and product quality, environmental impact, as well as its impact on the health and safety of employees. The operator of the clinker production process is obliged to monitor all parameters of the production process and keep the process within predefined values of key process or emission parameters. In case of temperature disturbances or exceedance of emissions into the air from the smokestack of the rotary kiln, or any disruption that could lead to environmental pollution, the operator acts by discontinuing waste dosing and reducing production capacity.

## GOALS OF NEXE GROUP RELATED TO WASTE MANAGEMENT

For many years, NEXE Group has been working on developing a waste management system and successfully implementing the material and energy recovery of waste. Currently, 42% of the energy in cement production comes from alternative fuels. However, energy recovery is limited by technological capacity on one hand, and waste management permits on the other.

The goal of NEXE Group by 2030 is to increase the rate of energy substitution from fossil fuels with energy from waste to over 90%. To achieve this ambitious goal, investments are being made to increase the amount of waste that can be recovered. Three new projects are planned at facilities for the preparation, storage, and dosing of alternative fuels. Through these planned investments, the aim is to increase the substitution of fossil fuels, reduce operational costs, and avoid dependence on business results on volatile fluctuations in fossil fuel prices in the market.

## INDICATORS

### WASTE CATEGORIES

The following waste categories are generated within the NEXE Group:

**HAZARDOUS WASTE:**

1. Printer toners; 08 03 17*
2. Gas purification waste; 10 01 18*
3. Used waxes and greases; 12 01 12*
4. Waste oils and waste from liquid fuels; 13 01 10*/13 02 05*/13 02 08*/13 04 01*/13 05 08*/13 07 01*/13 07 03
5. Waste packaging/absorbents and filter materials; 15 01 10*/15 02 02*
6. Waste batteries, electronic equipment, and other unspecified waste; 16 01 07*/16 02 13*/16 06 01*/16 07 09*
7. Construction waste; 17 06 03*/17 06 05*
8. Municipal waste; 20 01 21*/20 01 23*/20 01 33*/20 01 35*

**NON-HAZARDOUS WASTE:**

9. Printer toners; 08 03 18
10. Waste from thermal processes; 10 01 02/10 12 99
11. Iron-containing turnings and filings; 12 01 01
12. Waste packaging/absorbents and filter materials; 15 01 01/15 01 02/15 01 03/15 02 03
13. Used tires and refractory waste; 16 01 03/16 11 06
14. Construction waste; 17 02 03/17 04 01/17 04 02/17 04 05/17 04 07/17 04 11/17 06 04/17 09 04
15. Plastics and rubber; 19 12 04
16. Municipal waste; 20 01 01/20 01 02/20 01 11/20 01 36/20 01 39/20 03 07

| Quantities of recovered and disposed hazardous and non-hazardous waste of the NEXE Group | | | | |
|---|---|---|---|---|
| **Category** | **2022** | | **2021** | |
| | **t** | **%** | **t** | **%** |
| Total quantity of generated waste | 1,209.88 | 100% | 768.4 | 100% |
| Non-hazardous waste | 1,131.90 | 94.37% | 721.51 | 93.97% |
| Hazardous waste | 67.57 | 5.58% | 46.32 | 6.03% |
| Recovery | 1,204.13 | 99.52% | 721.45 | 94.01% |
| Disposal | 5.79 | 0.48% | 45.94 | 5.99% |
| Total amount of radioactive waste | 0 | 0 | 0 | 0 |

## METHODOLOGY FOR DATA COLLECTION AND CALCULATION

Data on the types and quantities of generated waste, as well as the method of waste disposal, were collected based on the Records in the e-ONTO web application. Information related to waste management is promptly entered after each change in status and for each type of waste separately. The data is continuously collected and monitored by responsible individuals in the NEXE Group's subsidiaries, and calculations for the purpose of this report were prepared by the sustainability reporting working group.

## 6.2
# INNOVATIVE PRODUCT DESIGN FOR GREEN CONSTRUCTION

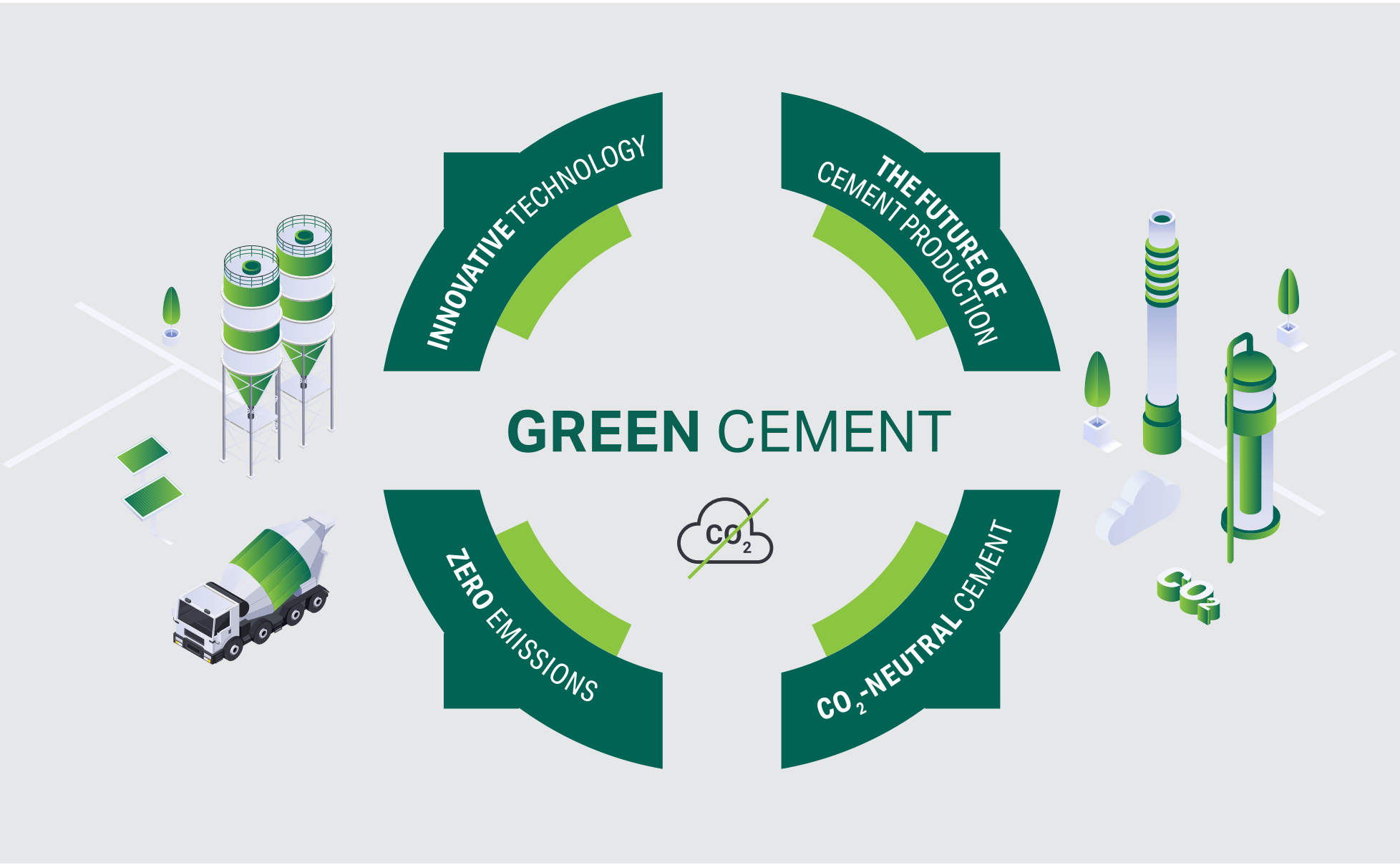
According to the European Commission, every year in Europe, around 450-500 million tons of construction and demolition waste are generated, with at least one-third being concrete. The construction sector is estimated to be responsible for more than 35% of the total waste generated in the EU annually. Greenhouse gas emissions resulting from material extraction, production of construction products, and building construction and renovation are estimated to account for 5-12% of total national greenhouse gas emissions. Due to these negative impacts, the EU Action Plan for the Circular Economy focuses on the construction materials industry and estimates that greater material efficiency could save 80% of these emissions.

The construction materials industry plays a crucial role in promoting climate resilience and transitioning to a sustainable circular economy model. As a leader in the use of alternative fuels and materials in processes and products, NEXE Group recognizes the circular economy as an opportunity for business growth.

Products designed according to the principles of the circular economy in the construction materials industry aim to reduce resource loss, minimize waste, and extend the life cycle of materials. The circular economy promotes sustainable resource use, and NEXE Group aims to contribute to environmental protection in this regard.

One of the fundamental principles of the circular economy is extending product's lifespan. NEXE d.d. utilizes high-quality materials and modern production technology, making their products durable and long-lasting. This approach to design prolongs product's lifespan, thereby reducing overall resource consumption.

There is an increasing effort to incorporate recycled materials into products instead of using new raw materials. For example, concrete can be recycled indefinitely, allowing NEXE d.d. to utilize waste concrete for manufacturing new construction elements or for repairing and renovating existing structures. The use of recycled materials reduces the need for extracting new resources and decreases waste in landfills.


INNOVATIVE TECHNOLOGY
THE FUTURE OF CEMENT PRODUCTION
GREEN CEMENT
ZERO EMISSIONS
CO2-NEUTRAL CEMENT
CO2

The development of low-carbon products according to the principles of the circular economy plays a crucial role in the EU's green transition. Namely, low-carbon products have a smaller carbon footprint throughout their life-cycle compared to conventional products, contributing to the goal of mitigating climate change. The production of low-carbon products requires changes at every step of the value chain. These products incorporate a higher proportion of recycled materials, natural resources are replaced with waste materials, fossil fuels are replaced with energy from renewable or alternative sources, and attention is also paid to their transportation.

## EXAMPLES OF PRODUCTS WITH REDUCED ENVIRONMENTAL IMPACT

### CONCRETE

Concrete is a material that possesses several properties that make it suitable for the circular economy.

1. Durability and longevity: Concrete is an extremely durable material with a long lifespan. Well-made concrete can last for decades without losing its basic properties.

2. Recycling and use of recycled aggregates: Concrete can be recycled and used as aggregate in new concrete mixtures. The concrete recycling process involves crushing waste concrete and using crushed concrete as a substitute for natural aggregates. This reduces the need for extracting new raw materials and decreases the amount of waste ending up in landfills.

3. Use of by-products: By-products from other industries can be used in concrete mixtures as substitutes for parts of standard concrete mixes.

4. Innovative formulas for extended lifespan: Development and incorporation of additives can improve the properties of concrete and enable greater resource efficiency. Applying such technologies can reduce the amount of cement needed, enhance resistance to wear, and prolong the lifespan of concrete structures.

## CEMENT

Low-carbon cement is a type of cement that has a reduced carbon footprint compared to conventional cement. The production of conventional cement generates significant greenhouse gas emissions, primarily carbon dioxide ($CO_2$), making it a significant source of emissions in the construction industry. The largest share of emissions is released during the chemical reaction of calcination in the process of clinker production, the main component of cement.

Low-carbon cements are developed with the aim of reducing $CO_2$ emissions during the production process. This is primarily achieved by reducing the proportion of clinker, the main component of cement, and by substituting fossil fuels with alternative fuels. The production of clinker requires high temperature and energy, resulting in significant $CO_2$ emissions. Low-carbon cements reduce the clinker content in the mixture by replacing it with other materials (e.g., waste from other industries), which reduces the need for energy and thus $CO_2$ emissions.

## GOALS

The goals of NEXE Group until 2030 are:

1. To work on developing innovative product designs based on circular principles to support the transition to a circular economy.

2. To increase the use of substitute raw materials in products to reduce the reliance on virgin raw materials.

3. To increase the use of substitute fuels in production to reduce the use of non-renewable fossil fuels.

4. To use more recycled materials (e.g., in concrete production).

5. To increase the revenue share from low-carbon products.

These goals are voluntary and will be quantified in the coming period.

## INDICATORS

During the reporting period, NEXE Group produced 270,887 tons of cement, with the clinker content reduced by 25-40% compared to the industry standard. In 2022, low-carbon products accounted for 5.07% of the NEXE Group's revenue.

# EU Taxonomy

07

By Regulation (EU) 2020/852, the European Union established a common, scientifically based classification system for identifying sustainable economic activities. The classification of sustainable activities is a key prerequisite for redirecting capital flows to achieve climate neutrality and environmental sustainability as defined by the European Green Deal. Article 3 of Regulation (EU) 2020/852 defines the criteria for determining environmentally sustainable economic activities. An economic activity is considered environmentally sustainable if it: substantially contributes to at least one environmental objective as set out in Article 9 of Regulation (EU) 2020/852, does not significantly harm the achievement of other environmental objectives, complies with minimum safeguards established in Article 18, and aligns with the technical screening criteria established by the Commission in delegated acts for each taxonomy-eligible activity.

Reports on taxonomy-categorized activities and key performance indicators regarding the alignment of revenue, capital, and operational expenditures with significant contribution criteria to environmental objectives are mandatory for companies required to publish annual non-financial reports pursuant to Article 19a or Article 29a of Directive 2013/34/EU. Although NEXE Group was not subject to non-financial reporting obligations during the reporting period, it voluntarily chose to showcase its contribution to EU environmental objectives. The sustainability report covers all members of NEXE Group, while the taxonomy report in the following chapter presents data solely for NEXE d.d.

## ELIGIBILITY OF ECONOMIC ACTIVITIES

Economic activity is considered taxonomy-eligible if it is included in the delegated acts of the Taxonomy Regulation, i.e. if technical screening criteria have been determined for it.

The sustainability reporting working group conducted a review of the company's economic activities' eligibility according to the Delegated Regulation on climate change mitigation and adaptation. Applying a materiality threshold, the economic activity 3.7 Manufacture of cement was identified as taxonomy eligible in 2022. Climate change mitigation is identified as the primary environmental objective to which NEXE d.d. significantly contributes to. Cement production is considered a transitional activity towards achieving the goal of climate change mitigation under Article 10 of Regulation 2020/852. It is worth noting that for the reporting year 2022, only technical screening criteria determining whether the activity contributes to the first two environmental objectives, namely climate change mitigation or adaptation, were published and adopted.

## ALIGNMENT OF TAXONOMY-ELIGIBLE ECONOMIC ACTIVITIES

If the activity is taxonomy-eligible, it is necessary to analyze taxonomy alignment based on the technical screening criteria established by delegated acts.


### CEMENT MANUFACTURING

The alignment analysis for manufacture of cement activity at NEXE d.d. was conducted by the sustainability reporting working group with the support of external experts. For the manufacture of cement to be considered environmentally sustainable, the specific greenhouse gas emissions during production must be lower than 0.722 tons of $CO_2$e per ton of gray cement clinker or lower than 0.469 tons of $CO_2$e per ton of produced cement or alternative binder. In 2022, the specific greenhouse gas emissions during production exceeded 0.722, which is why cement production activity is considered taxonomically non-aligned for the reporting period.

Criteria for avoiding significant harm to the achievement of other environmental objectives (DNSH - Do No Significant Harm) were also analyzed.

| DNSH Criteria | Explanation |
|---|---|
| DNSH 2: Climate change adaptation | During the reporting period, a climate risk vulnerability assessment was conducted for the manufacture of cement activity according to the requirements outlined in Annex A of the Delegated Regulation. The analysis revealed that the activity is vulnerable to extreme air temperatures and fire. NEXE d.d. has already implemented effective adaptation measures for these risks, thereby complying with the DNSH criterion (2) Climate Change Adaptation. |
| DNSH 3: Sustainable use and protection of water and marine resources | NEXE d.d. conducted an environmental impact assessment study for its cement production plant in accordance with Directive 2011/92/EU of the European Parliament and of the Council, which includes an assessment of water impact in compliance with Directive 2000/60/EC. The company has implemented the best available techniques to reduce water consumption and prevent pollution, and it continuously monitors and assesses risks. |
| DNSH 4: Transition to circular economy | The DNSH criterion was not established by the EU Taxonomy. NEXE d.d.'s approach to the circular economy is described in Chapter 6: Circular Economy. |
| DNSH 5: Prevention and control of pollution | The criteria for preventing pollution from Annex C of the Delegated Regulation were analyzed, and it was concluded that NEXE d.d. complies with applicable EU Regulations in performing its activities, thereby complying with the DNSH criterion. In the course of its activities, no substances listed in Annex C of the Delegated Regulation are produced, placed on the market, or used. |
| DNSH 6: Protection and restoration of biodiversity and ecosystems | NEXE d.d. conducted an environmental impact assessment study for its cement production plant in accordance with Directive 2011/92/EU of the European Parliament and of the Council. The company has implemented the best available techniques for preventing environmental pollution and protecting ecosystems, and continuously monitors and evaluates risks. |

## KEY PERFORMANCE INDICATORS AND ACCOUNTING POLICIES

The Taxonomy Regulation determines three key performance indicators that must be disclosed concerning the proportion of taxonomy-aligned activities in the company's overall activities:

- Revenue
- Capital expenditure (CapEx)
- Operating expenditure (OpEx)

The key performance indicators for the identified economic activity have been calculated and disclosed in accordance with the Delegated Regulation on Disclosures (EU) 2021/2178.

| | Economic activities | | | Substantial Contribution Criteria | | | | | | DNSH Criteria | | | | | | MSS (Y/N) | Taxonomy aligned proportion of total turnover (%) | Category (enabling activity) | Category (transitional activity) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Absolute turnover | Share | CCM (%) | CCA (%) | WTR (%) | CE (%) | PPC (%) | BIO (%) | CCM **Y/N** | CCA **Y/N** | WTR **Y/N** | CE **Y/N** | PPC **Y/N** | BIO **Y/N** | | | E | T |
| TUNROVER | **A. TAXONOMY-ELIGIBLE ACTIVITIES (A.1 + A.2)** | | | | | | | | | | | | | | | | | | |
| | A.1. Environmentally sustainable activities | | | | | | | | | | | | | | | | | | |
| | Turnover of environmentally sustainable activities A.1 | 0.00 HRK | 0 | | | | | | | | | | | | | | 0% | 0% | 0% |
| | A.2 Taxonomy-Eligible but not environmentally sustainable activities | | | | | | | | | | | | | | | | | | |
| | 3.7 Manufacture of cement | 102,819,734.00 HRK (88,023,869.00 EUR) | 100% | | | | | | | | | | | | | Y | | | |
| | **Turnover of Taxonomy-eligible but not environmentally sustainable activities A.2** | 102,819,734.00 HRK (88,023,869.00 EUR) | 100% | | | | | | | | | | | | | | | | |
| | Total (A.1+A.2) | 102,819,734.00 HRK (88,023,869.00 EUR) | 100% | | | | | | | | | | | | | | | | |
| | **B. TAXONOMY-NON-ELIGIBLE ACTIVITIES** | | | | | | | | | | | | | | | | | | |
| | Turnover of Taxonomy-non-eligible activities (B) | 0.00 HRK | 0.00% | | | | | | | | | | | | | | | | |
| | Total (A+B) | 102,819,734.00 HRK (88,023,869.00 EUR) | 100% | | | | | | | | | | | | | | | | |

Table 1. Share of turnover from products or services related to taxonomy aligned economic activities - disclosure for the year 2022. Revenue of 2,819,734.00 HRK (88,023,869.00 EUR) includes revenue from the sale of finished products - cement and lime as stated in the Annual Report of Nexe d.d. for the year 2022 on page 33.

| | Economic activities | | | Substantial Contribution Criteria | | | | | | DNSH Criteria | | | | | | MSS **(Y/N)** | Taxonomy aligned proportion of total CapEx (%) | Category (enabling activity) | Category (transitional activity) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Absolute CapEx | CapEx (%) | CCM (%) | CCA (%) | WTR (%) | CE (%) | PPC (%) | BIO (%) | CCM **Y/N** | CCA **Y/N** | WTR **Y/N** | CE **Y/N** | PPC **Y/N** | BIO **Y/N** | | | E | T |
| CAPITAL EXPENDITURES | **A. TAXONOMY-ELIGIBLE ACTIVITIES (A.1+A.2)** | | | | | | | | | | | | | | | | | | |
| | A.1. CapEx of environmentally sustainable activities | | | | | | | | | | | | | | | | | | |
| | 3.7 Manufacture of cement | 13,311,278.00 HRK (1,767,766.00 EUR) | 7.62% | 100% | | | | | | / | Y | Y | / | Y | Y | Y | 7.62% | | T |
| | CapEx of environmentally sustainable activities | 13,311,278.00 HRK (1,767,766.00 EUR) | 7.62% | 100% | | | | | | / | Y | Y | / | Y | Y | Y | 7.62% | 0% | 7.62% |
| | A.2 Taxonomy-Eligible but not environmentally sustainable activities | | | | | | | | | | | | | | | | | | |
| | 3.7 Manufacture of cement | 161,367,471.00 HRK (21,429,943 EUR) | 92.38% | | | | | | | | | | | | | Y | | | |
| | CapEx of Taxonomy-eligible but not environmentally sustainable activities A.2 | 161,367,471.00 HRK (21,429,943 EUR) | 92.38% | | | | | | | | | | | | | | | | |
| | Total (A.1+A.2) | 174,678,749.00 kn (23,197,709,00 EUR) | 100% | | | | | | | | | | | | | | | | |
| | **B. TAXONOMY-NON-ELIGIBLE ACTIVITIES** | | | | | | | | | | | | | | | | | | |
| | Capex of Taxonomy-non-eligible activities (B) | 0.00 HRK | 0.00% | | | | | | | | | | | | | | | | |
| | Total (A+B) | 174,678,749.00 kn (23,197,709.00 EUR) | 100% | | | | | | | | | | | | | | | | |

Table 2. Share of capital expenditures for products or services related to taxonomy aligned economic activities - disclosure for the year 2022.

- The denominator shall cover additions to tangible and intangible assets during the financial year considered before depreciation, amortization, and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from business combinations. Capital expenditures include costs calculated applying: IAS 16 Property, Plant and Equipment, paragraphs 73, (e), point (i) and point (iii); IAS 38 Intangible Assets, paragraph 118, (e), point (i); IAS 40 Investment Property, paragraphs 76, points (a) and (b) (for the fair value model); IAS 40 Investment Property, paragraph 79(d), points (i) and (ii) (for the cost model); IAS 41 Agriculture, paragraph 50, points (b) and (e); IFRS 16 Leases, paragraph 53, point (h) as stated in Annex I of the delegated regulation on disclosures (EU) 2021/2178.
- In 2022, the total capital expenditures of NEXE d.d. related to cement production activities amount to 174,678,749.00 HRK or 23,197,709.00 EUR (denominator), and they are considered taxonomy-eligible, of which 7.62% of capital expenditures, or 13,311,278.00 HRK or 1,767,766.00 EUR (numerator), are considered investment for achieving taxonomy alignment through greenhouse gas emissions reduction.

The numerator of the key performance indicator for cement production activity includes investments in tangible and intangible assets during the current year, as listed in the Annual Report of NEXE d.d. for the year 2022 on page 40.

| | Economic activities | | | Substantial Contribution Criteria | | | | | | DNSH Criteria | | | | | | MSS **(Y/N)** | Taxonomy aligned proportion of total OpEx. | Category (enabling activity) | Category (transitional activity) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Absolute OpEx | OpEx % | CCM (%) | CCA (%) | WTR (%) | CE (%) | PPC (%) | BIO (%) | CCM **Y/N** | CCA **Y/N** | WTR **Y/N** | CE **Y/N** | PPC **Y/N** | BIO **Y/N** | | | E | T |
| OPERATING EXPENDITURES | **A. TAXONOMY-ELIGIBLE ACTIVITIES (A.1+A.2)** | | | | | | | | | | | | | | | | | | |
| | A.1. Environmentally sustainable activities | | | | | | | | | | | | | | | | | | |
| | OpEx of environmentally sustainable activities (A.1) | 0.00 HRK | 0 | | | | | | | | | | | | | | 0% | 0% | 0% |
| | A.2 Taxonomy-Eligible but not environmentally sustainable activities | | | | | | | | | | | | | | | | | | |
| | 3.7 Manufacture of cement | 56,564,855.50 HRK (7,511,933.00 EUR) | 100% | | | | | | | | | | | | | Y | | | |
| | OpEx of Taxonomy-eligible but not environmentally sustainable activities A.2 | 56,564,855.50 HRK (7,511,933.00 EUR) | 100% | | | | | | | | | | | | | | | | |
| | Total (A.1+A.2) | 56,564,855.50 HRK (7,511,933.00 EUR) | 100% | | | | | | | | | | | | | | | | |
| | **B. TAXONOMY-NON-ELIGIBLE ACTIVITIES** | | | | | | | | | | | | | | | | | | |
| | OpEx of Taxonomy-non-eligible activities (B) | 0.00 HRK | 0.00% | | | | | | | | | | | | | | | | |
| | Total (A+B) | 56,564,855.50 HRK (7,511,933.00 EUR) | 100% | | | | | | | | | | | | | | | | |

Table 3. Share of operating expenses for products or services related to taxonomy aligned economic activities - disclosure for the year 2022.

- The denominator covers direct non-capitalized costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant, and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.
- In 2022, the total operating expenditures at NEXE d.d. related to cement production activities amounted to a total of 56,564,855.50 HRK (7,511,933.00 EUR).
- In 2022, there were no taxonomy-aligned operating expenses, resulting in a key performance indicator of 0 for this activity.

NEXE d.d. applies international financial reporting standards. During the calculation of key performance indicators for reporting purposes following the requirements of the Taxonomy Regulation, an analysis of individual elements necessary for the calculation of key performance indicators was conducted.

# Responsible Human Resources Management

In 2022, NEXE Group had 1805 employees across its subsidiaries in Croatia, Serbia, and Bosnia and Herzegovina. The employees of NEXE Group are the foundation of our success and make us one of the leading companies in our sector. Therefore, it is crucial to provide them with the best working conditions and equal opportunities. As a manufacturing company, we place particular importance on ensuring the health and safety of our employees.

08

## STAKEHOLDERS' INTERESTS

NEXE Group continuously engages in dialogue with its employees to improve the management of their expectations and needs. Discussions about employee interests and proposals for improving working conditions take place in union meetings, meetings of workers' council, and occupational health and safety committee. Employees are informed about policies, procedures, and decisions through official websites and internal channels. In case of dissatisfaction, employees can directly contact their immediate supervisor or the Human Resources Service. As part of the preparation of this report, focus groups were conducted with department managers and union representatives to determine their attitude towards NEXE Group and obtain their perception of the effectiveness of managing material impacts, risks, and opportunities. In addition to the aforementioned communication channels, an employee satisfaction survey was conducted during the reporting period to identify areas of improvement and evaluate existing initiatives for employee well-being.

NEXE Group employees expect adequate working conditions and compensation. Additionally, they expect to feel safe in the workplace and not to be exposed to health risks arising from the business model of NEXE Group. It is in their interest to have opportunities for education and training, and for their employer to care about career development and provide opportunities for advancement. Therefore, strengthening the knowledge and skills of employees is defined as a strategic goal of NEXE Group for the next period. Furthermore, employees in the workplace want to be protected from discrimination and harassment and to achieve good interpersonal relationships, which is encouraged through the development of an ethical business culture. The fundamental interests and expectations of employees are taken into account, so NEXE Group has been investing in improving the health and safety management system, modernizing facilities, and procuring state-of-the-art protective equipment for years. They work on developing development programs and internal education, foster a culture of mutual respect and inclusivity, and continuously, in collaboration with employee representatives, find solutions to improve material conditions. More information on policies, initiatives, and results, follow in the next chapters.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## MATERIAL IMPACTS, RISKS AND OPPORTUNITIES

Based on dialogue with employees and union representatives, as well as through discussions of the sustainability reporting working group, the most significant impacts on employees have been identified. Some of the negative impacts stem from the company's business model (e.g., health and safety risks), while a large number of positive impacts stem from NEXE Group's business strategy based on competent and satisfied employees.

- **Employee health and safety -** The construction materials manufacturing industry entails specific health risks associated with workplace noise, airborne dust, heavy lifting, and the potential inhalation of respirable crystalline silica (RCS), which, if not controlled, can lead to long-term health problems. It is necessary to manage safety risks to minimize the chances of accidents and injuries in the workplace. Given the nature of the industry, employees of NEXE Group may be under potential negative impact, but this effect is managed through the implementation and continuous development of occupational health and safety management systems and initiatives to enhance employee health.

- **Skill development -** Every employer has a responsibility to invest in the development of their employees and provide support for their professional and personal growth. Through career development programs, internal and external training, and opportunities for advancement within the organization, NEXE Group positively impacts its employees.

- **Working conditions -** To retain its employees and consistently maintain their satisfaction at a high level, NEXE Group consults with the workers' council and participates in negotiations with labor unions when shaping working conditions, aiming to meet employees' expectations. NEXE Group seeks to provide its employees with job security, adequate compensation and working hours, as well as additional material and non-material benefits to achieve a positive impact and satisfaction of all employees.

- **Work-life balance -** Given the manufacturing industry and strict regulations protecting health and safety in the workplace, NEXE Group is unable to provide greater flexibility regarding workplace or working hours for a large portion of its workforce. NEXE Group grants all employees family-related leave (in case of childbirth, adoption, or caring for family members with serious health conditions).

- **Collective bargaining and dialogue -** Employees of NEXE Group have the collective bargaining possibility, and the agreed-upon terms are respected and applied to all employees covered by the collective agreement.

- **Diversity and equal opportunities -** The workforce of NEXE Group is characterized by gender, age, ethnic, cultural, and religious diversity, which is highly valued and respected. All employees are sought to be protected from discrimination and harassment in the workplace and provided with equal opportunities.

- **Labor shortage -** Considering the decreasing interest in manufacturing professions and the depopulation trends, NEXE Group may potentially face a shortage of labor, which could affect the achievement of business results.

- **High rate of injuries and loss of workdays due to sick leave -** If an organization does not consistently and effectively implement a policy for occupational health and safety, there is a possibility of an increase in the number of injuries and subsequent loss of workdays due to sick leave. Poor management of hazards and risky situations would not only be harmful to the involved employees but also to the financial performance of NEXE Group, as sick leave compensation, lost workdays, and accident remediation contribute to increased costs.

- **Turnover due to dissatisfaction with working conditions -** Every employee has the right to terminate their employment contract if they are dissatisfied with working conditions, opportunities for advancement, and relationships with supervisors and colleagues. If NEXE Group does not invest in employee benefits, an organizational culture of equal opportunities, and career development, there is a risk of increasing employee dissatisfaction, resulting in employees leaving the organization. High turnover rates would also entail increased costs for attracting and training new employees and reduced productivity during the transition period.

- **Health and safety -** Investing in a workplace health and safety management system aimed at reducing the number of workplace injuries is not only crucial for employees and subcontractors but also has a positive impact on business results. Better management of safety risks and investment in initiatives to improve employee health positively affect productivity, reduce the number of lost hours due to sick leave and increase job satisfaction. This is reflected in business results through reduced costs associated with absenteeism, employee turnover, and decreased productivity due to dissatisfaction with working conditions.

- **Collaboration with educational institutions -** In a highly competitive labor market, where the attractiveness of manufacturing activities and vocational professions is decreasing, it is important to proactively collaborate with educational institutions, communicate with young people, and provide them with opportunities such as internships and apprenticeships. This can significantly increase the number of potential candidates for job positions. It will enable easier recruitment of workers, thereby minimizing the risk of labor shortages.

## WORKFORCE STRUCTURE

During the reporting period, NEXE Group had a total of 1805 employees. Considering the nature of the manufacturing industry, it is common that there are more men than women in the workforce. In 2022, within NEXE Group, men comprised 81.83% of the workforce, while women comprised 18.17%. NEXE Group offers equal employment opportunities to both men and women, however, it is a fact that a large portion of the jobs involve physical labor, which tends to attract more male applicants. Such a workforce structure is typical for companies in the construction materials industry. In 2022, there was an increase in the number of employees by 2.44%. The turnover rate for the years 2021 and 2022 stands at 12%.

In 2022, 63.32% of employees were employed in NEXE Group subsidiaries based in Croatia, 30.80% were part of subsidiaries in Serbia, while 5.88% of employees were part of NEXE Group subsidiaries in Bosnia and Herzegovina.

The workforce structure data were collected throughout the year for each subsidiary. The human resources specialist in charge of human resources management in each NEXE Group subsidiary determines the number of employees (on the last day of the month) at the beginning of each month for the previous month. The number of employees is then broken down by qualification structure, age, gender, type of employment relationship, job type, and country. Additionally, the number of newly hired employees during the reporting month and the number of employees who left NEXE Group, including reasons for departure, type of employment relationship, age, gender structure, and qualifications, are recorded. The presented data relate to the status as of December 31st, 2021, and December 31st, 2022.

During the reporting period, there were no workers employed in companies whose primary activity is defined by the NACE code N78 (agency workers) or employees who had contracts that did not fall under employment contracts (self-employed workers).

**S1-6 Workforce structure (by gender)**

| | Number of employees | | | |
|---|---|---|---|---|
| **Gender** | **2021** | | **2022** | |
| Male | 1447 | 82.12% | 1477 | 81.83% |
| Female | 315 | 17.88% | 328 | 18.17% |
| Other | 0 | 0 | 0 | 0 |
| Total | 1762 | 100% | 1805 | 100% |

**S1-6 Workforce structure (by country)**

| | Number of employees | | | |
|---|---|---|---|---|
| **Country** | **2021** | | **2022** | |
| Croatia | 1104 | 62.65% | 1143 | 63.32% |
| Serbia | 556 | 31.56% | 556 | 30.80% |
| B&H | 102 | 5.79% | 106 | 5.88% |
| Total | 1762 | 100% | 1805 | 100% |

## 8.1
# OCCUPATIONAL HEALTH AND SAFETY

The World Health Organization and the International Labour Organization estimate that approximately 2 million workers die each year worldwide due to work-related accidents, with 260 million work-related injuries and a very large number of cases of occupational diseases. The possibility of work-related injuries and the occurrence of occupational diseases represent a potential negative impact on the employees of NEXE Group. Identified health and safety risks for employees arising from the nature of the work carried out by NEXE Group include: working with heavy machinery, high levels of noise, dust, and crystalline silica particles. A safe working environment is a fundamental right of every individual, which NEXE Group seeks to ensure through the development and implementation of strict procedures and practices for workplace health protection.

### POLICY

Health and safety at work are a priority for NEXE Group and an integral part of the company's business strategy. Protecting and ensuring the safety and health at work are crucial aspects of good business management and social responsibility, with education and prevention being prerequisites for avoiding accidents at work and an important link in ensuring a healthy and safe workplace within NEXE Group companies, with a focus on continuous improvement of working conditions and the prevention of workplace accidents.

Occupational health and safety management is defined by the Energy, Environmental Protection, Health, and Safety Policy for NEXE d.d., and for other members by the Quality Policy. The fundamental provision of the policy that guides all managers and employees is the prevention of injuries and zero tolerance for risky activities that may result in accidents. The policy sets clear expectations for managers and employees to perform their activities in a safe manner and to care for the health and safety of their colleagues, contractors, and other stakeholders. These policies are elaborated through operational documents - the Manual for Safe Work, the Occupational Safety Rulebook, and the Fire Safety Rulebook - which contain descriptions of risks, rules, and procedures for working safely.

NEXE Group commits to the following through its Health and Safety and Quality policies:

- Promoting awareness of health and safety at work among its employees and external suppliers of goods and services.
- Regularly assessing the state of occupational health and safety within the company, and using modern organizational, technical, and technological solutions, as well as continuous monitoring, to implement measures aimed at preventing work-related injuries and illnesses and improving the working conditions of its employees and other individuals during their presence under the control of NEXE Group members.
- Continuously aligning its activities with applicable legal regulations and other commitments in the field of managing the health and safety of employees.

All employees of the NEXE Group are responsible for implementing the policy, while the member of the Management Board, responsible for human resources, legal affairs, management systems, occupational health and safety, is accountable for achieving the policy objectives.
To better manage health and safety risks, an occupational health and safety management system has been developed, encompassing all employees and contractors working at locations managed by the NEXE Group. The management system is aligned with the legal requirements of the countries in which the NEXE Group operates, complies with the ISO 45001 standard requirements, and incorporates best practices of the construction materials industry. The primary goal of the implemented system is to achieve a zero rate of work-related injuries.

Health and safety at work are managed by the Occupational Health and Safety Department, as well as by occupational health and safety experts within individual companies. They propose and implement activities, identify and eliminate potential hazards, conduct training and professional development, raise awareness of the importance of safe working practices, explore and introduce the safest work techniques, and continuously monitor the effectiveness of implemented solutions. Annually, goals are set to reduce workplace injuries and the number of lost days due to work-related injuries. The department collects data on accidents, investigates their causes, and monitors the achievement of set goals. Regular reports on activities, results, and improvement plans for the management system are submitted to the Board.
For the policy to be effective, it needs to be communicated to all stakeholders. The health and safety policy is always available as an official document on the intranet, new employees and contractors who are new to the NEXE Group are informed about it, and training for safe working practices is conducted based on it. Key decisions regarding the improvement of safe working practices made at the Board and Occupational Health and Safety Department's levels are communicated to all managers, who then pass them to the employees. Prevention and safety protection are fundamental values that are sought to be conveyed to employees, contractors, and other stakeholders through communication and activities.

STAKEHOLDER DIALOGUE

## OCCUPATIONAL SAFETY COMMITTEE'S MEETINGS

During the meetings of the Occupational Safety Committee, discussions revolve around analyses of workplace injuries, deficiencies identified through internal inspections, reports from the workers' representative for occupational safety, and examples of workplace injuries. In the meetings of the Occupational Safety Committee in 2022, 6 improvement proposals were reported aimed at enhancing occupational safety in NEXE d.d., while in other member companies, improvement goals are determined internally during meetings of the Occupational Safety Committee or through other forms of communication with key stakeholders.

## COMMUNICATION WITH THE WORKERS' REPRESENTATIVE FOR OCCUPATIONAL SAFETY

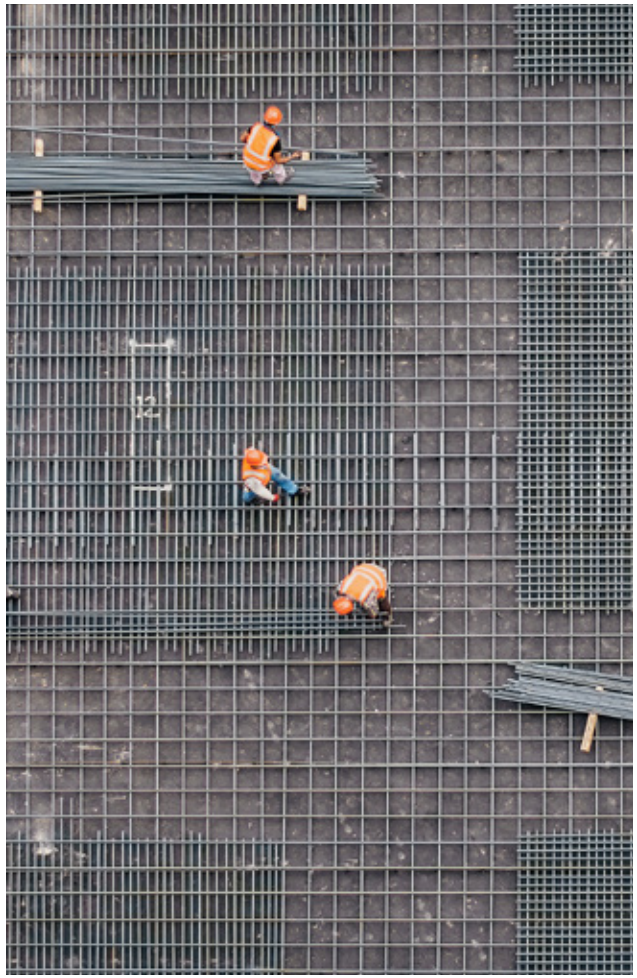
One form of dialogue in NEXE d.d. is communication with the workers' representative for occupational safety regarding the implementation of rules and measures for health and safety at work. In NEXE d.d., the workers' representative for occupational safety participates in meetings of the occupational safety committee, where they provide worker suggestions regarding the improvement of working conditions and provide feedback to workers about the actions taken. This practice is intended to be implemented in other member companies.

## MEETINGS AND COLLOQUIA

As one of the most important strategic topics, health and safety is communicated almost daily through meetings and colloquia at all levels of the Organization. The purpose of such meetings is the early identification and mitigation of risks, as well as the continuous improvement of the health and safety system.

## EMPLOYEE INFORMATION PLATFORMS

Regarding changes in the health and safety management system, initiatives to promote health, safe work practices, and other important topics, employees are informed through notice boards, internal emails, document exchanges via the Hivergen application, internal meetings, and through NEXE Novosti, the official journal of the NEXE Group.



## REPORTING OF DANGEROUS SITUATIONS AND ACCIDENT INVESTIGATION

After a workplace injury occurs, or as soon as it is reported, the authorized supervisor and the Occupational Health and Safety expert visit the scene and determine the circumstances. If there is a possibility of recurrence or if the danger has not passed, all activities in that area are suspended until the issues are resolved. During the incident investigation, an investigation team is formed consisting of individuals familiar with the process and circumstances. Facts are examined, circumstances are determined, statements from participants and witnesses are taken, conclusions are drawn, and immediate and other improvement measures are considered. All investigation results and measures are consolidated into a unified document and distributed to relevant individuals at NEXE Group level. To improve the monitoring of the occupational safety process, an internal system for tracking and reporting dangerous situations and workplace injuries has been established. The internal system is developed in the form of a digital platform through which supervisors can report all risky situations. All dangerous situations, events, and injuries, participants or witnesses report directly to the superior or the head of the occupational safety department. Investigations are conducted using a unified document and instructions for conducting investigations at the Group level. All reported dangerous situations are investigated, risks are eliminated as soon as possible, and the reporter is informed of the measures taken immediately after the event and within the specified timeframes. All workplace injury cases are thoroughly investigated to better understand their causes and to identify necessary actions to prevent future incidents. The findings of these investigations are communicated to all employees in the form of lessons learned through internal channels to prevent future accidents.

## IMPLEMENTATION OF REGULAR INSPECTION SUPERVISION

Regular inspection supervision is carried out by occupational safety inspectors and fire safety inspectors. During the inspections, compliance with legal requirements is verified. There were no non-compliances identified during the reporting period. In case of identifying non-compliances, corrective actions are initiated.

## ACTIONS

During the reporting period, professional training in the field of occupational safety was conducted, investments were made in the modernization of facilities using the best safety measures, and the safest working techniques were employed, all aimed at minimizing occupational safety risks.

## CONTINUOUS PROFESSIONAL TRAINING OF EMPLOYEES

All employees undergo training upon employment: safe work practices, fire safety training, and first aid training. Their knowledge and skills in the field of occupational safety are continuously assessed and improved through professional training. Training sessions are conducted for operating machinery and equipment, managing electrical installations, and handling hazardous chemicals, all aimed at enhancing worker safety in workplaces with specific working conditions.

Continuous improvement of training programs aims to ensure that all employees and managers possess appropriate knowledge, skills, and experience to safely perform their tasks.

## MODERNIZATION OF FACILITIES TO ENHANCE SAFETY

The modernization of facilities is carried out to reduce the number of workplace injuries. During the reconstruction of existing or construction of new facilities, the Group ensures the incorporation of modern and secure techniques and technologies, following standards and the latest trends available in the market.

## MEASUREMENTS AND TESTS

During the reporting period, following the procedures prescribed by the Management System and legal requirements, measurements/tests were organized and conducted for:

- Work equipment (machinery and devices with increased risks)
- Inspection of cranes and lifts
- Installations (emergency lighting, electrical installations, static electricity, lightning protection systems, electrical installations in Ex - safety design)
- Physical hazards at 97 locations
- Stable fire protection systems and fire extinguishing
- Portable fire extinguishers
- Fire dampers, electromagnetic gas valves
- Fire detection system
- Gas installations
- Sources of ionizing and non-ionizing radiation.

Immediately after the measurements and tests, improvement actions were initiated to resolve non-compliances on the work equipment that did not meet legal requirements. In 2022, internal equipment inspections were conducted by occupational safety experts to monitor the implementation of health and safety rules and measures. Identified deficiencies are presented at the Occupational Safety Committee or through other forms of communication with relevant individuals. The leadership of the member company makes decisions on how to address identified deficiencies (the user rectifies the deficiency themselves, initiating improvement actions).

To meet policy objectives and set targets, various activities were additionally conducted during the reporting period.

## IMPROVEMENTS IN ACCESS TO WORKPLACES

To continually improve and reduce risks during regular or extraordinary activities, NEXE d.d. recently made new accesses (platforms) to workplaces. This involved constructing a new platform and ladder at the exit head of the kiln, reducing the risk of workers falling during the installation of a temporary horizontal fall protection system on the rotating kiln, opening doors, inspecting the kiln shell, and other activities that require worker movement on the kiln. The construction of a platform on the clinker cooler increased worker safety during visual monitoring of the clinker cooler and crusher during the clinker production process (avoiding the use of portable ladders or scaffolding). Additionally, repairs during production process downtime were facilitated and expedited. The platform on the heat exchanger enabled maintenance workers to safely access it when replacing thermoelements for monitoring gasses without using fall protection equipment. Employees from the Investment Department and Maintenance Department were involved in constructing these accesses.

## 5 MINUTES FOR SAFETY

During maintenance work, there is an increased risk of injuries. Therefore, at NEXE d.d. cement factory, a prevention activity called "5 Minutes for Safety" has been introduced. "5 Minutes for Safety" refers to the time employees set aside before starting work, during which they assess risks, inspect equipment, and communicate with each other about safe working practices. An official memo was sent to the production and maintenance sectors, and employees were provided with leaflets bearing the slogan "5 Minutes for Safety."

## TRAINING FOR SAFE WORK

Short training sessions on the most common hazards encountered during maintenance activities were conducted for employees in the maintenance sector. The training covered topics such as hazards of working at heights, personal protective equipment for working at heights, dust - hazards in the work environment, personal respiratory protective equipment, hazards of electrical energy, and protective measures when working with electrical energy. The materials used for the training were funded by the European Agency for Safety and Health at Work: https://www.napofilm.net/en, featuring a charming industrial worker who learns how to work safely.

## VISION EXAMINATION AND PROTECTIVE PRESCRIPTION GLASSES

During the risk assessment in accordance with the new Occupational Health and Safety Regulations published in the Official Gazette, tasks were identified where workers are exposed to visual strain. Based on the conclusions of the risk assessment, 70 workers underwent vision examinations by occupational health specialists. As a measure to improve working conditions and enhance safety in the cement production facility, 102 workers from the Technical and Production sectors who require visual aids underwent vision examinations, following which prescription safety glasses were procured for them. These protective glasses are made with shatter-resistant and impact-resistant plastic lenses to protect the eyes from flying particles. Prescription safety glasses represent a modern eye protection solution that combines safety, functionality, and quality.

## CAMPAIGNS FOR DEVELOPING AWARENESS OF OCCUPATIONAL HEALTH AND SAFETY

Building a safety culture is a continuous and dynamic process that requires involvement at all levels within the company. Every job must also be a safe job. Awareness of risks, safe working practices, and the need for health protection are continually raised through posters and leaflets about safety rules, information on risks, and new working techniques.

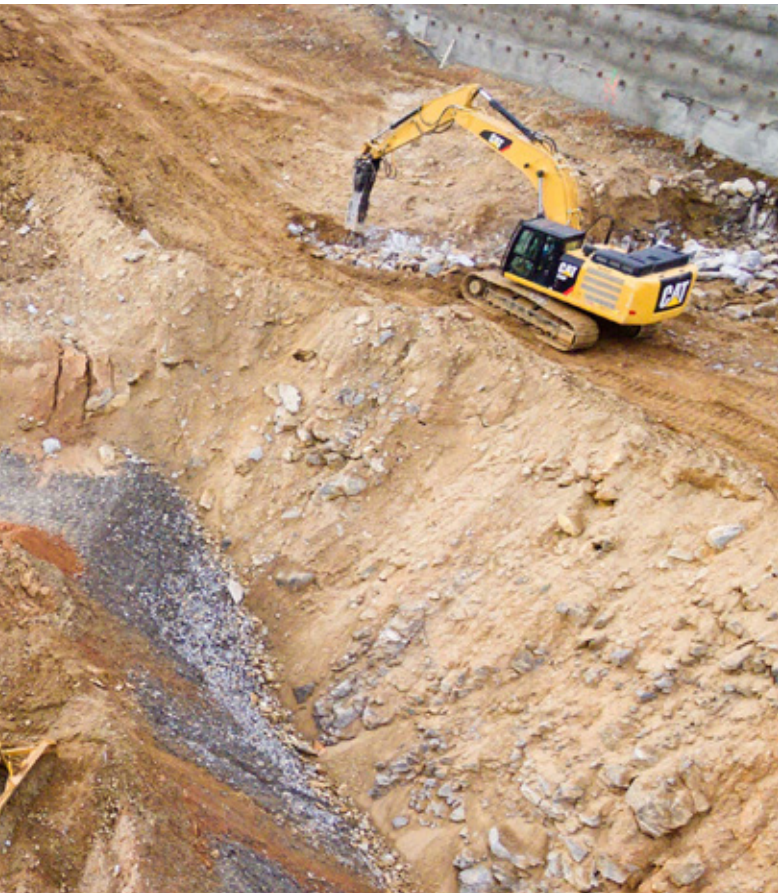
## CARE FOR EMPLOYEE HEALTH OUTSIDE OF THE WORKPLACE

During the reporting period, began the planning of the preventive health check-up program for all employees in Croatia. All employees working in high-risk positions undergo additional periodic examinations to assess their health status and ability to perform their duties. This practice is planned to be established in other member companies as well.

NEXE Group also encourages employees to engage in sports, maintain a healthy diet, and take care of their mental health by promoting, organizing, and sponsoring various sports events such as indoor football, races, and tennis.

## CERTIFICATION OF HEALTH AND SAFETY MANAGEMENT SYSTEM

In 2021, NEXE d.d. successfully completed the alignment of the integrated management system with the ISO 45001:2018 norm. In other member companies, best practices in health and safety management are being established. The goal of the standard is to improve the existing situation of employee health and safety management, reduce workplace risks, and create better working conditions. The results of the occupational health and safety management system are evident through a series of improvements resulting from meetings of the Occupational Safety Committee as well as regular inspections of facilities.



## GOALS

Health and safety at work are a priority where corporate responsibility is consistently implemented with the ultimate and continuous goal of zero workplace injuries across all Group members. Goals related to reducing workplace injuries, fatalities related to workplace injuries, and reducing sick leave days stem from the management policy and are defined annually based on the previous year's results.

## INDICATORS

100% of employees in the NEXE Group are covered by the occupational health and safety management system. During the reporting period, 2.33% of employees were injured at the workplace. A total of 42 workplace injuries were recorded, resulting in the loss of 1404 work days due to sick leave. The workplace injury rate in 2022 is 13.28 (injuries per million work hours). Additionally, 2 injuries of contractors within the facilities of the NEXE Group were recorded. There were no fatalities caused by workplace injuries during the reporting period. Although there were 43 more employees in 2022 compared to 2021, there were 11 fewer injuries (20%). In 2022, 7% fewer days were lost compared to 2021.

| | 2021 | 2022 |
|---|---|---|
| Number of employees | 1762 | 1805 |
| Injuries | 54 | 42 |
| Injuries outside the workplace (on the way) | 0 | 1 |
| Injuries of external contractors | 0 | 2 |
| Days lost due to sick leave | 1501 | 1404 |

8.2

# WORKING CONDITIONS

### COMMITMENT TO EMPLOYEE WELLBEING

To attract, motivate, and retain employees, NEXE Group strives to provide competitive working conditions that have a positive impact on employee well-being. Employee rights within all members of the Group are not limited solely to legally prescribed minimum conditions but also include additional benefits aimed at fostering a positive work experience.

Commitment to creating competitive working conditions through permanent employment, providing adequate compensation, stable working hours, and insurance in case of unforeseen circumstances is stipulated through the Employment Regulations and the Collective Agreement. The implementation of the human resources management policy, which includes working conditions, is the responsibility of the Human Resources Service, which reports directly to the Board Member responsible for human resources, legal affairs, management systems, and occupational safety.

### DIALOGUE WITH EMPLOYEES

Employees can express their concerns and needs through the Workers' Council and the Union. Worker representatives negotiate with responsible individuals to achieve better conditions and meet employee expectations.

Communication with employees about working conditions occurs daily within the team, and every employee can also contact the Human Resources Service.

### GRIEVANCE MECHANISMS

In the last 20 years, the Human Resources Service has not received any complaints regarding violations of the provisions of the Employment Contract, Employment Regulations, or Collective Agreement.

Employees who are not satisfied with their working conditions can address their concerns to their supervisor, the occupational health and safety representative, or the Human Resources Service. Upon receiving a complaint or inquiry, the case is investigated, and individual discussions are held with the person who filed the complaint, the supervisor, and other involved parties, aiming to reach an optimal solution.

## ACTIONS

### ADEQUATE WAGES

The Human Resources Service continuously monitors the labor market conditions, inflation rates, changes in tax regulations, etc., with the aim of making timely decisions regarding changes in employee wages. Additionally, average wages at the national and sectoral levels are monitored, and quarterly reports on the realization of the average wage plan compared to the national average are prepared. The wage plan is developed in accordance with guidelines provided by the Human Resources Service, based on employment policy, management directives, plans for wage increases due to inflationary effects, increases in the cost of living, and individual performance results for each employee. In collaboration with employee representatives, the adequacy of remuneration is assessed, and proposals for wage increases are developed for individual members of NEXE Group.

### WORK-LIFE BALANCE

Overtime hours and lack of rest can jeopardize workplace safety and have a negative impact on employee health, which is why efforts are made to avoid long shifts, overtime work, and working without weekly rest. Models and schedules of working hours for each company and/or organizational unit are shaped through meetings and workshops

with management. To enhance work schedule management, during the reporting period, NEXE Group began implementing software to facilitate more efficient time tracking. Workshops were conducted with timekeepers regarding the rules for maintaining records. Flexible work practices are enabled where appropriate to promote a healthy balance between work and personal life for employees. In this regard, a Decision on Equal and Unequal Duration and Distribution of Working Hours was adopted, along with the corresponding Table of Equal and Unequal Working Hours Distribution by organizational units.

## COLLECTIVE BARGAINING

NEXE Group respects its employees' rights to establish and join unions and participate in collective bargaining. During the reporting period, a new collective agreement was signed for NEXE d.d., Dilj d.o.o., IGMA d.o.o., and Luka tranzit Osijek d.o.o. In these agreements, the budget for salaries was increased, and all other material rights of employees were retained.

## ADDITIONAL BENEFITS

Work performance is monitored on a monthly basis in most members of NEXE Group through a monthly incentive model. The monthly incentive model is linked to job specifications, individual employee performance, relationships with colleagues, and desirable behaviors. A process for setting annual goals for managerial positions has been defined, through which their work performance is monitored, enabling them to qualify for an annual bonus based on their performance. Sales teams have a variable compensation model based on achieving predefined sales targets.

Additional benefits provided by NEXE Group to its employees during the reporting period include: payment of holiday bonuses and Christmas bonuses, Easter and Christmas gifts in kind, Christmas gifts for employees' children, additional days of annual leave, paid time off for employees' personal obligations, payment of service anniversary awards for years of continuous service in the company, performance-related bonuses as part of the company's financial success, full reimbursement of monthly transportation costs, and provision of free hot meals to all employees (either through meal provision or monthly lump-sum payment).

## GOALS

NEXE Group's goal is to continuously improve working conditions through the renovation of production facilities and other spaces where employees reside and work.

Employee satisfaction with working conditions is assessed through an internal survey. In the upcoming period, the objective of enhancing satisfaction with working conditions will be defined.

## METRICS

### EMPLOYMENT SECURITY

In 2022, 88.48% of employees had permanent contracts, and 99.50% of employees were employed full-time.

### COLLECTIVE BARGAINING

In 2021, a total of 97% of employees were granted rights from Collective Agreement. In 2022, the proportion of employees covered by Collective Agreements was 91%. The percentage is lower in 2022 compared to 2021 because negotiations are still ongoing in two members of NEXE Group, as agreements are concluded over different time periods. For employees not covered by collective agreements, other general acts issued by the company, such as employment regulations and other general acts and decisions regulating the rights and obligations of workers and employers, are applicable.

Each production member of NEXE Group has its union representative/employee representative advocating for the improvement of workers' rights in all organizational units. A total of 100% of employees work in units that have their employee representatives.

## ADEQUATE WAGES

All employees of NEXE Group have a contracted basic gross salary that is not lower than the prescribed legal minimum wage.

## SOCIAL PROTECTION

In the general acts at the level of its members, NEXE Group has ensured financial assistance (in case of employee sickness or death - assistance to the family), as well as assistance in the form of days off for special social needs (death of a family member, marriage, childbirth, relocation, serious illness of an immediate family member) for all employees in accordance with the conditions prescribed by law.

## WORK-LIFE BALANCE

All rights and conditions during the use of maternity, paternity, and parental leave are regulated by special legal provisions and as such are applied to all members of NEXE Group without exception. All employees had the right to maternity/paternity/parental leave in accordance with the conditions prescribed by law.
In 2022, 1.69% of employees exercised their right to maternity/paternity/parental leave (i.e., 25 employees), and 10.37% of female employees (i.e., 34 female employees).
In 2021, a total of 22 employees utilized their right to maternity/paternity/parental leave, and in 2022, this number increased to 59 employees.

| **Contract type (by gender)** | | | | |
|---|---|---|---|---|
| **Contract type** | **2021** | | **2022** | |
| **Permanent employment** | **1551** | **88.02%** | **1597** | **88.48%** |
| Male | 1281 | | 1310 | |
| Female | 270 | | 287 | |
| **Temporary contract** | **211** | **11.98%** | **208** | **11.52%** |
| Male | 165 | | 163 | |
| Female | 46 | | 45 | |
| Non-guaranteed work hours contracts | 0 | 0 | 0 | 0 |
| **Full-time employees** | **1757** | **99.72%** | **1796** | **99.50%** |
| Male | 1442 | | 1469 | |
| Female | 315 | | 327 | |
| **Part-time employees** | **5** | **0.28%** | **9** | **0.50%** |
| Male | 3 | | 8 | |
| Female | 2 | | 1 | |
| **Total number of employees** | **1762** | | **1805** | |

| Contract type (by country) | | | | |
|---|---|---|---|---|
| **Država** | **2021** | | **2022** | |
| **Croatia** | | | | |
| Permanent contract | 998 | 90.40% | 1047 | 91.60% |
| Temporary contract | 106 | 9.60% | 96 | 8.40% |
| Non-guaranteed hours contract | 0 | 0% | 0 | 0% |
| Full-time employment contract | 1102 | 99.82% | 1140 | 99.74% |
| Part-time employment contract | 2 | 0.18% | 3 | 0.26% |
| Total number of employees | 1104 | | 1143 | |
| **Serbia** | | | | |
| Permanent contract | 459 | 82.55% | 452 | 81.30% |
| Temporary contract | 97 | 17.45% | 104 | 18.70% |
| Non-guaranteed hours contract | 0 | 0% | 0 | 0% |
| Full-time employment contract | 556 | 100% | 556 | 100% |
| Part-time employment contract | 0 | 0% | 0 | 0% |
| Total number of employees | 556 | | 556 | |
| **B&H** | | | | |
| Permanent contract | 94 | 92.16% | 98 | 92.45% |
| Temporary contract | 8 | 7.84% | 8 | 7.55% |
| Non-guaranteed hours contract | 0 | 0% | 0 | 0% |
| Full-time employment contract | 99 | 97.06% | 100 | 94.33% |
| Part-time employment contract | 3 | 2.94% | 6 | 5.67% |
| Total number of employees | 102 | | 106 | |

| The percentage of entitled employees that took family-related leave | | | |
|---|---|---|---|
| **2021** | | **2022** | |
| M | F | M | F |
| 0.14% | 6.35% | 1.69% | 10.37% |

The percentage is calculated in relation to the total number of employees of a particular gender.

8.3

# EMPLOYEE DEVELOPMENT

## KNOWLEDGE AND SKILLS DEVELOPMENT

NEXE Group is aware that people are the greatest asset of the company, and therefore investing in employees, their skills, and competencies is extremely important to them. They are committed to assisting employees in achieving success and providing them with opportunities to reach their goals. Continuously, they work on attracting, retaining, and developing top talents in their industry. Competent, experienced, and motivated management at all hierarchical levels is one of the prerequisites for achieving NEXE Group's strategy and goals.

The Human Resources Service, in collaboration with direct supervisors, develops individual development plans. All employees have the opportunity for personal and professional growth, and they are encouraged to develop skills beyond what is required by their job. A Board Member for human resources, legal affairs, management systems, and occupational safety is responsible for achieving set goals.

### DIALOGUE WITH EMPLOYEES

The Human Resources Service, specifically the leader of the education and selection process, is responsible for promoting and coordinating the themes of development, education, and advancement. Every manager is responsible for planning with the employee their career development, education, and training, and communicating about it regularly.

The Human Resources Service communicates with department/unit/service representatives regarding employee career development. Based on this, managers have individual discussions with each employee about their career development. Managers engage in continuous discussions with employees on this topic, formally addressing it once a year during the planning of education for the following year. For key positions and identified talents, individual discussions are also conducted by the Human Resources Service.

During the reporting period, focus groups were held to discuss career development, education, and advancement with employees. This format has proven successful and is planned to be conducted at least once a year.

Employee interests are taken into account when developing the Education Plan for the upcoming period. Employees directly contact the Human Resources Service for the offered educational content and their attendance is coordinated with their supervisor.

## ACTIONS

## CAREER MANAGEMENT

During the reporting period, an assessment of employee potential was conducted as a comprehensive project in collaboration with an external partner. Based on the criteria from the assessment, a talent pool was identified, and individual development programs were created for all of them. All other employees received feedback with recommendations for further development. Education plans are developed every year. Managers assess the educational needs of each employee based on their knowledge and skills, as well as the future needs of the job position and the development of successors in key positions. This planning approach is aligned with the strategy of NEXE Group.

## DEVELOPMENT OF COMPETENCES

In NEXE Group, employees are provided with opportunities to participate in various forms of training, including professional seminars and workshops, specialist meetings and conferences, workshops for developing personal or managerial skills, as well as workshops that are legally required and serve as prerequisites for specific job roles.

- **NEXE Academy**

During the reporting period, NEXE Academy was established, a structured program aimed at enhancing the existing education system to enable employees to reach their full potential, develop additional job skills, and increase their work efficiency. NEXE Academy comprises four development programs:

1. NEXE Base - designed for new employees who have not undergone the specified basic training and require additional education on topics such as communication, teamwork, time management, conflict resolution, etc.
2. NEXE Specialist - specialized training for employees in specific processes related to sales, procurement, finance, etc.
3. NEXE Manager - intended for the development of managerial competencies for existing managers and the skills development of newly promoted managers.
4. NEXE Talent - education aimed at the individual development of employees with high potential for development.

Throughout 2021 and 2022, workshops targeting specific groups of employees were conducted through NEXE Academy, depending on whether they were in professional or managerial positions, their position within the organization, and their potential to take on more demanding roles in the future. In order to develop managerial skills, employees participated in communication skills development workshops tailored to their role as managers.

Employees who often find themselves in leadership roles or as project participants took part in project management education, while those regularly taking on the role as mentors had the opportunity to refresh and expand their knowledge related to mentoring skills. Some employees had the opportunity to participate in education on organizational knowledge and innovation.

- **Education and training**

Employees regularly participate in training sessions within their respective business areas, which are conducted in the form of professional seminars and workshops, as well as specialist meetings and conferences. In 2022, due to the introduction of a new currency, employees in the finance department attended external training sessions related to the adaptation and recommendations due to the introduction of the euro, as well as other topics related to financial reporting. Additionally, given the changes in reporting, employees participated in education concerning sustainable finance and ESG reporting.

Within the audit field, employees received training on visualizing audit data and on audit as a support for risk management.

Employees in the IT sector received education on network administration and security.

Regarding other business areas, employees participated in training sessions on occupational health and safety, as well as in legal affairs and labor relations. Training was also conducted to comply with regulations in the areas of production, electrical engineering, construction, sustainable finance management, and customs agent duties.

Throughout 2021 and 2022, participation in domestic and international conferences and symposiums in the fields of information security, environmental protection, waste management, quarrying, finance, human resources management, marketing, and procurement was realized.

Additionally, the Group also encourages and co-finances language learning and further formal education of employees that is relevant to the organization's operations.

## EVALUATION

The success of the conducted activities is monitored based on employee satisfaction surveys with organized in-house training, Annual Assessment of Education Quality and Effectiveness, and Annual Employee Satisfaction Reports. The Human Resources Service prepares education reports that illustrate the execution compared to the education plan. After completing the training, each employee evaluates the quality of education, and the effectiveness of education is assessed by the superior of the participant who attended the training.

## NEXE EMPLOYER PARTNER

During the reporting period, Group member NEXE d.d. was awarded the Employer Partner certificate. Employer Partners are companies that have demonstrated excellence in human resource management and have shown strong support for the long-term growth of employees and the organization. The leading Croatian human resource management group, SELECTIO, is responsible for awarding the certificate. The Employer Partner certificate confirms a commitment to investing in human resource development and success in building long-term partnerships with employees.

## GOALS

The foundation for setting goals is key performance indicators (KPIs) defined for processes, ensuring that the goals are relevant and aligned with the Group's policies and strategic and general objectives. Annual goals represent targeted values of process and subprocess KPIs. KPIs are defined by describing processes and subprocesses according to the organizational structure. Target value planning is done annually. Process owners or responsible persons for subprocesses are the holders of KPIs and goals. They are also the goal bearers and are responsible for their achievement. Quarterly, the achievement of goals is compared to the plan.

NEXE Group has identified increasing the participation rate of employees in training and skills development evaluations as one of the goals related to creating positive impacts on employees.

Goals related to education will be defined in subsequent reporting periods.

## INDICATORS

During the reporting period, there were a total of 7534 hours of education, averaging 4.17 hours per employee. On average, there were 6.7 hours of education for women and 3.6 hours for men during the reporting period. Overall, 13% of employees participated in some form of education, i.e., 18% of female and 12% of male employees. Compared to the previous period (2021), which had 6252 hours of education and 7% of employees participating in education, there is an increase.

Annual performance evaluations were conducted during the reporting period, with employees receiving feedback from their superiors as needed. A long-term plan as part of corporate governance is to establish a system for regularly monitoring career development and performance evaluation.

## AVERAGE NUMBER OF TRAINING HOURS PER EMPLOYEE (BY CATEGORY AND GENDER)

| Country | Number of employees on December 31, 2021 | Number of training attendees in 2021 | % of employees that participated in training | Number of training hours in 2021 | Training hours per employee |
|---|---|---|---|---|---|
| B&H | 102 | 12 | 12% | 366 | 3.59 |
| Croatia | 1104 | 91 | 8% | 5514 | 4.99 |
| Serbia | 556 | 13 | 2% | 372 | 0.67 |
| Total | 1762 | 116 | 7% | 6252 | 3.55 |

| Country | Number of employees on December 31, 2022 | Number of training attendees in 2022 | % of employees that participated in training | Number of training hours in 2022 | Training hours per employee |
|---|---|---|---|---|---|
| B&H | 106 | 13 | 12% | 216 | 2.04 |
| Croatia | 1143 | 195 | 17% | 6988 | 6.11 |
| Serbia | 556 | 23 | 4% | 330 | 0.59 |
| Total | 1805 | 231 | 13% | 7534 | 4.17 |

| Employee category | Number of employees on December 31, 2021 | Number of training attendees in 2021 | % of employees that participated in training | Number of training hours in 2021 | Training hours per employee |
|---|---|---|---|---|---|
| Administration | 220 | 29 | 13% | 1242 | 5.65 |
| Marketing and sales | 123 | 6 | 5% | 348 | 2.83 |
| Management | 99 | 45 | 45% | 1230 | 12.42 |
| Production and maintenance | 1320 | 36 | 3% | 3432 | 2.60 |
| Total | 1762 | 116 | 7% | 6252 | 3.55 |

| Employee category | Number of employees on December 31, 2022 | Number of training attendees in 2022 | % of employees that participated in training | Number of training hours in 2022 | Training hours per employee |
|---|---|---|---|---|---|
| Administration | 243 | 53 | 22% | 2670 | 10.99 |
| Marketing and sales | 115 | 6 | 5% | 78 | 0.68 |
| Management | 106 | 61 | 58% | 1198 | 11.30 |
| Production and maintenance | 1341 | 111 | 8% | 3588 | 2.68 |
| Total | 1805 | 231 | 13% | 7534 | 4.17 |

| Gender | Number of employees on December 31, 2021 | Number of training attendees in 2021 | % of employees that participated in training | Number of training hours in 2021 | Training hours per employee |
|---|---|---|---|---|---|
| Male | 1447 | 88 | 6% | 5268 | 3.64 |
| Female | 315 | 28 | 9% | 984 | 3.12 |
| Total | 1762 | 116 | 7% | 6252 | 3.55 |

| Gender | Number of employees on December 31, 2022 | Number of training attendees in 2022 | % of employees that participated in training | Number of training hours in 2022 | Training hours per employee |
|---|---|---|---|---|---|
| Male | 1477 | 171 | 12% | 5326 | 3.61 |
| Female | 328 | 60 | 18% | 2208 | 6.73 |
| Total | 1805 | 231 | 13% | 7534 | 4.17 |

| Gender diversity in top management | | | | |
|---|---|---|---|---|
| MNG-2022 | M | F | Total | % Female |
| Board | 5 | 1 | 6 | 17% |
| B-1 | 16 | 10 | 26 | 38% |
| Total | 21 | 11 | 32 | 34% |
| | | | | |
| MNG-2021 | M | F | Total | % Female |
| Board | 5 | 1 | 6 | 17% |
| B-1 | 15 | 12 | 28 | 43% |
| Total | 20 | 13 | 33 | 39% |

Level B-1 comprises company directors, sector directors at the Group level, and department/service heads at the Group level.

| Compensation ratio - the ratio of the highest compensation to the median compensation for all employees in the reporting period | | |
|---|---|---|
| **Group member** | **2021** | **2022** |
| **Croatia** | | |
| NEXE d.d. | 10.46 | 7.79 |
| EKONEX d.o.o. | 2.03 | 3.15 |
| IGMA d.o.o. | 4.31 | 3.79 |
| DILJ d.o.o. | 7.31 | 6.08 |
| LUKA TRANZIT OSIJEK d.o.o. | 4.79 | 4.49 |
| NEXE GRADNJA d.o.o. | 4.63 | 3.70 |
| CE - MA d.o.o. | 2.03 | 1.96 |
| **Serbia** | | |
| NEXE BETON DOO NOVI SAD | 3.38 | 3.87 |
| AD POLET IGK NOVI BEČEJ | 6.30 | 5.97 |
| POLET-KERAMIKA DOO NOVI BEČEJ | 6.67 | 6.35 |
| **B&H** | | |
| NEXE BETON d.o.o. Sarajevo | 2.50 | 2.05 |
| Tvornica opeke d.o.o. Sarajevo | 2.98 | 3.64 |

| Age diversity of the workforce | | | | |
|---|---|---|---|---|
| **Age structure** | **2022** | **2022%** | **2021** | **2021%** |
| < 30 years | 364 | 20% | 328 | 19% |
| 30-50 | 906 | 50% | 861 | 49% |
| > 50 years | 535 | 30% | 573 | 33% |
| Total | 1805 | | 1762 | |

## INCIDENTS, COMPLAINTS AND VIOLATIONS OF HUMAN RIGHTS

The Code of Ethics of NEXE Group stipulates that selection, career advancement, salary determination, and benefits are based on an individual's ability, experience, and alignment with the core values of NEXE Group. Decisions related to the professional path and work experience of anyone in NEXE Group must not be tied to the following parameters: age, nationality, religious affiliation, gender, marital status, sexual orientation, and other individual characteristics that could be grounds for discrimination. The Code of Ethics dictates that no form of harassment is acceptable in relationships between employees or with other stakeholders. It is the joint responsibility of all employees to create an inclusive work environment for everyone. During the reporting period, no reports of discrimination or harassment in the workplace were recorded. There were no reports, confirmed cases, or penalties for human rights violations.

# Our Contribution to the Local Community

09

## STAKEHOLDER INTERESTS

In NEXE Group, efforts are made to maintain regular contact with local communities, local authorities, and other stakeholders of the local community to inform them about activities and planned projects, as well as to better understand their expectations. In addition to personal communication, other channels such as media, social networks, NEXE Group website, corporate newsletters, and participation in public events are utilized.

Local communities consist of residents of settlements, towns, and municipalities where NEXE Group factories are located in three countries: Croatia, Serbia, and Bosnia and Herzegovina. Local communities expect NEXE Group members to responsibly manage production to prevent potential harmful impacts on their health or quality of life. In communication with the local community, representatives pointed out that they are most concerned about local environmental impacts, especially air quality issues due to emissions of gases and dust from NEXE activities.

On the other hand, stakeholders emphasize that the NEXE Group, by entering the local community, creates new jobs and opportunities for entrepreneurs and forms the basis of industry in those areas. The local community sees the NEXE Group as a reliable and socially responsible partner that cares about the quality of life and invests in infrastructure development, sports, education, culture, and the arts.

## MATERIAL IMPACTS, RISKS AND OPPORTUNITIES

- **Development of local economy -** NEXE Group, in the communities where it operates, strives to employ locals and provide them with job security and quality working conditions. It collaborates with local educational institutions to provide opportunities for young people and supports local entrepreneurs by involving them in its value chain, especially regarding transportation and logistics services. Additionally, it indirectly impacts the local economy through the demand for products and services (e.g., accommodation in hotels for partners and suppliers).

- **Donations and sponsorships -** NEXE Group contributes to the quality of life and the development of local communities through donations and sponsorships. It invests in sports, education, culture, arts, and infrastructure and financially supports humanitarian and other projects in local communities. Their support is crucial for local stakeholders to realize projects and meet the community's needs more easily.

- **Local environmental impacts -** The main air pollutant emissions from activities are particulate matter, nitrogen oxides (NOx), and sulfur oxides (SOx). Particulate matter can arise from quarrying activities, transportation, or open warehouses. NOx is generated from fuel combustion, while SOx results from the oxidation of sulfur in raw materials and fuel. Other elements are released in very small or negligible amounts. More information on managing these impacts can be found in the "air quality" chapter.

- **Loss of local community's support -** Neglecting the interests and expectations of the local community could result in protests, hindered operations, and difficulties in accessing the workforce. This could affect the reputation of NEXE Group members in the market and make it more challenging to sell products and services.

- **Collaboration with local educational institutions -** Proactive collaboration with local educational institutions, timely communication with young people, and providing opportunities such as internships and apprenticeships can significantly increase the number of potential job candidates. This will facilitate the easier attraction and retention of quality workers, and a skilled and quality workforce will reflect on better business results.

## 9.1

# DEVELOPMENT OF EMPLOYABILITY

Manufacturing facilities for construction materials are mostly located outside major cities in less developed areas, which can significantly contribute to the development of the local economy through job creation and involvement of small entrepreneurs in the value chain.

### POLICY

NEXE Group has adopted a local employment policy aimed at providing job opportunities primarily to residents living near the facilities. The local employment policy is implemented in the selection process, which is the responsibility of the human resources personnel in NEXE Group member companies.

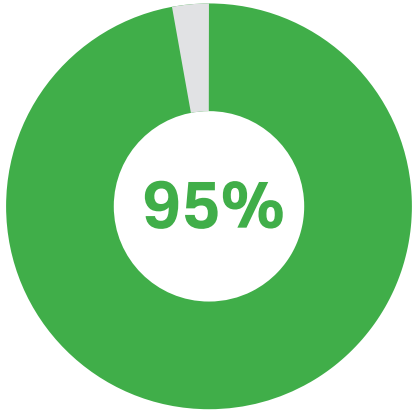
NEXE Group collaborates with local educational institutions through educational visits, internships, and career fairs. In this way, NEXE Group has the opportunity to introduce itself to potential employees and provide them with opportunities for a successful start to their careers.

In addition to involving local residents in the workforce, NEXE Group also seeks to involve small entrepreneurs in the value chain. The procurement sector is responsible for implementing the policy, engaging small suppliers from local communities if they meet quality, health, and safety criteria. These suppliers primarily provide logistics and transportation services.

### STAKEHOLDER DIALOGUE

Stakeholders are informed about open job vacancies and business collaboration opportunities through the official NEXE Group website, local media, and social media. All interested stakeholders can always submit their applications, collaboration proposals, or inquiries through official channels available on the websites or through direct contact.

NEXE Group signs partnership agreements with educational institutions to define the terms of collaboration. Communication with institution representatives is conducted as needed, and joint efforts are made to develop programs for integrating youth into the labor market.




Employees are from local communities

# COOPERATION WITH EDUCATIONAL INSTITUTIONS AND OPPORTUNITIES FOR YOUTH

## INTERNSHIPS

Every year, NEXE Group organizes internships that allow students to familiarize themselves with the processes they learn about in their studies and connect theoretical knowledge with practical application. NEXE conducts internships in collaboration with the Croatian Employers' Association, and every year during the summer months, it holds several internships lasting from 2 to 4 weeks for students of the Faculty of Economics, Faculty of Electrical Engineering, Faculty of Law, Faculty of Food Technology, and the Department of Mathematics at the Josip Juraj Strossmayer University in Osijek. In 2022, cooperation was established for conducting student internships with the Faculty of Mining, Geology, and Petroleum Engineering in Zagreb and the Faculty of Geotechnical Engineering in Varaždin. Each student during the internship has a mentor who acquaints them with the processes and methods of work and prepares them for future business challenges. The implementation of internships has proven to be extremely beneficial for both students and employers, as students develop their skills, and employers have the opportunity to present themselves to students and increase the pool of potential employees.

## PARTICIPATION IN CAREER FAIRS AND OPEN DAYS

In 2022, NEXE Group participated in the TP JOB fair in Novi Sad and the job fair organized by the Faculty of Mining, Geology, and Petroleum Engineering in Zagreb. Open Days were also organized, during which interested students visited the company. NEXE Group also gladly participates in organizing professional visits and field trips for faculties and schools. The NEXE cement factory was visited in December by physics teachers from elementary schools in Osijek-Baranja County. The visit was organized by the County Expert Council of Osijek-Baranja County as part of the program of continuous professional development of teachers. The teachers were hosted by the Executive Director of the Production Sector of NEXE d.d., Danijel Koren, who, in addition to the organized tour of the production facility, also delivered an interesting lecture on the topic of Energy Efficiency, Green and Digital Transition in the Cement Industry. Besides familiarizing them with the technological production process, he also acquainted them with the challenges related to $CO_2$ emissions, opportunities for reducing energy consumption in the cement industry, as well as concrete projects that NEXE d.d. has implemented and is still implementing in this segment.

## 9.2
# DONATIONS AND SPONSORSHIPS

NEXE Group, as a socially responsible company, aims to make an additional contribution to the development of the local community, which is evident through donations and sponsorships aimed at creating a positive impact.

### POLICY

NEXE Group, with its Quality Policy, has committed to operating in accordance with the principles of corporate social responsibility, which include voluntary care for society, particularly the local community in which the member companies of NEXE Group operate. The policy's goal is to improve the quality of life in the community, invest in sports development, preserve the cultural heritage of the local community, and protect the environment.

NEXE Group strives to build more inclusive and resilient communities through a collective approach of all NEXE Group members, taking into account the specific needs of each community. The areas that NEXE Group focuses on are aligned with the mission of creating shared value and building a better future. This voluntary commitment to society contributes to achieving long-term socio-economic added value for local communities. In this way, NEXE Group aims to further contribute to the achievement of the UN's Sustainable Development Goals. The budget for donations is defined by the annual Donation and Sponsorship Plan, during the preparation of the economic plans of the members. The budget is separately planned for donations in kind (primarily construction materials from NEXE Group's assortment) and separately for cash donations. When preparing proposals for donation plans, members are guided by the budget performance of the previous year as well as the expectations of the local community (e.g., announced projects of educational institutions, sports clubs, cultural events, etc.).

### STAKEHOLDER DIALOGUE

Stakeholders can continuously submit requests for donations or inquiries for sponsorship collaboration through official channels.
The Management Board's Office collects donation and sponsorship requests for all Group members throughout the month. Based on the Donation and Sponsorship Plan and proposals from company directors, it prepares a summary of donation and sponsorship requests, which is reviewed monthly at the Management Board meeting. The Management Board makes decisions on approving donations and sponsorships in line with the vision, mission, and Quality Policy of NEXE Group. The Management Board's Office coordinates the implementation of approved donation and sponsorship decisions by providing feedback to Group members, communicating decisions to recipients, and managing other operational activities for potential agreement on implementation. Through incoming inquiries and applications, NEXE Group monitors the needs of the local community, enabling better planning of tenders and financial support. NEXE Group communicates all relevant information through press releases, social media posts, announcements on the NEXE website, and NEXE newsletters, which are available not only to employees but also to the local community and the general public.

## NEXE IN SPORT

Popularizing sports and a healthy lifestyle is part of the values that NEXE Group aims to convey to the local community through support to sports organizations, especially to younger generations. This also represents an opportunity to improve the quality of life in the local communities where NEXE Group operates, particularly benefiting children and youth.

### FOOTBALL IN NAŠICE

NEXE Group supports projects involving youth. Last year, NEXE d.d. announced a call for donations to football clubs of the football center Našice, which lasted from May 20, 2022, to June 20, 2022. The goal was to promote sports development and work with the youngest age groups of the local community. Seventeen clubs applied for the call, and a total of HRK 306,256.14 was donated.

### NEXE HANDBALL CLUB

NEXE d.d. provides significant support to the NEXE Handball Club, which has grown from a local club in a small town to a well-known club on the European scene. In addition to sponsorship collaboration, NEXE d.d. has been a long-time donor to the NEXE Handball Club. The greatest benefit of the donated funds to the NEXE Handball Club is evident in the operation of the Handball School. Today, the Handball School, organized within the NEXE Handball Club, gathers almost 400 children. Furthermore, the NEXE Academy, consisting of six selections of the youngest age groups, operates within the NEXE Handball Club. To allow those outside Našice to play handball, the NEXE Open Mini-Handball School was launched in seven schools, attracting 200 children.

### VINKOVCI WOMEN'S VOLLEYBALL CLUB

In 2006, the Vinkovci Women's Volleyball Club began implementing the "Volleyball School" project in primary schools in the Vukovar-Srijem County, aiming to promote women's volleyball in Vinkovci and surrounding areas. Dilj d.o.o. donated sports equipment for the implementation of the Volleyball School.

### SPAČVA HANDBALL CLUB, VINKOVCI

Dilj d.o.o. supported the work of the Spačva Handball Club, operating in Vinkovci since 1950. The club also runs a handball school, gathering about 150 children in all younger age groups.

### DILJ FOOTBALL CLUB

The club was founded in 1950 under the auspices of the company Dilj, and since then, the club has operated under the same name, in the recognizable red color, and under the nickname "Crijepari". NK Dilj has achieved significant success and numerous notable results, currently participating in the inter-county football league Osijek – Vinkovci.

### FOOTBALL IN KOPRIVNICA

IGMA d.o.o. supports football clubs in the areas where it operates: NK Lipa, Hlebine; NK Tomislav, Drnje; NK Podravec, Torčec; NK Graničar, Legrad.

### JEDINSTVO HANDBALL CLUB, NOVI BEČEJ

The Jedinstvo Handball Club is the only team sports club in the municipality of Novi Bečej competing at a higher level. They have shown continuous progress in both competitive and organizational terms, currently playing in the Super B league of Serbia, which is the second-ranked league in the country. In 2021, they launched the Handball Friends handball camp in Novi Bečej, providing participants with the opportunity to train with top coaches. The handball camp initiative was also supported by a member of NEXE Group, AD Polet IGK Novi Bečej.

### JEDINSTVO FOOTBALL CLUB, NOVI BEČEJ

FK Jedinstvo was founded in 1927 under the name Sportski klub Jedinstvo. They participate in the regional league of Vojvodina, with 90 registered members. The club also organizes a football school, supported by AD Polet IGK Novi Bečej through donations.

### ĐURĐENOVAČKI MALI MARATON

In March 2022, as part of the celebration program for the feast of St. Joseph and the Day of the Đurđenovac Municipality, the iconic Đurđenovački Mali Maraton returned in full force. The eighth edition of the legendary race was held after more than 30 years. The organizer of this major international sports event was the Đurđenovac Municipality, with support from associations, clubs, and societies operating in the Đurđenovac Municipality and the City of Našice. In addition to recognizing and financially supporting this commendable initiative, NEXE d.d. had several of its employees among the competitors. Josip Ergović achieved notable results in the half-marathon race, while Loreta Savić, Marko Umiljanović, and Željko Beraković participated in the citizens' race, where younger selections of RK NEXE also successfully competed.

# SUPPORT TO STUDENTS

### STEM GAMES

During the reporting period, NEXE Group supported STEM Games for the first time, held in Rovinj from May 17th to 22nd, 2022, gathering more than 1500 participants. STEM Games is an international competition for students in STEM fields. Over the course of five days, students have the opportunity to compete in applying their knowledge, as well as in various sports and eSports disciplines to represent their faculties. By participating in the competition and other educational and entertaining activities, students can meet colleagues from similar faculties, representatives from companies, and faculty scientists, exchanging various knowledge and experiences. The goal of STEM Games is to encourage interdisciplinary collaboration, provide an opportunity for knowledge assessment, promote university sports, and encourage a healthy lifestyle. The theme of the competition was "World of Opportunities." At STEM Games, both the women's and men's volleyball teams from the Faculty of Mechanical Engineering and Naval Architecture in Zagreb participated in the sports part of the program, supported by NEXE Group with sets of uniforms for both teams.

### SYMPOSIUM OF STUDENTS OF BIOLOGICAL ORIENTATIONS (SISB)

Collaboration was established with the Biology Students Association - BIUS from Zagreb within the project "Symposium of Students of Biological Orientations (SISB)," held in Zagreb on May 21st and 22nd, 2022. SISB is an international two-day symposium of students of biological orientations, gathering more than 1000 participants, aiming to provide a platform for presenting student professional papers, many of which are awarded the Rector's Award.

### KAMPUSIJADA

NEXE Group also supported the Faculty of Transport and Traffic Sciences at the University of Zagreb in organizing Kampusijada, a sports competition of students from the University of Zagreb at the Borongaj Campus, held from June 1st to 3rd, 2022.

### SUMMER ARCHITECTURAL SCHOOL AND 1ST INTERNATIONAL CONFERENCE OF CIVIL ENGINEERING STUDENTS

Financial support was provided to the Faculty of Civil Engineering and Architecture in Osijek for the organization of the summer architectural school in Sinj, in July and August 2022, and cooperation was established with the Faculty of Civil Engineering in Rijeka as part of the 1st International Conference of Civil Engineering Students, Rijeka, July 14th to 17th, 2022, with the participation of over 100 civil engineering students from the region (Serbia, Bosnia and Herzegovina, Montenegro, Macedonia, Bulgaria, Slovenia, and Croatia).

**RESEARCH SUMMER SCHOOL PSYCHOMNIA**

Psychomnia - the umbrella organization of psychology students in Croatia - conducted the project "Research Summer School," which took place from July 11th to 15th, 2022, in Zadar. Lectures, workshops, sessions with mentors, and preparation for future careers and entry into the job market constitute the rich program of this Summer School, which was also supported by NEXE d.d.

**RETHORICS SCHOOL OF THE DEBATING CLUB**

Support was provided to the Debating Club of the Faculty of Economics in Zagreb for the organization of the Rethorics School held in Crikvenica. Sixty students attended the school in September 2022, where they listened to lectures by leading domestic communication experts for three days, gaining practical and theoretical knowledge about communication, public speaking, and speech.

**RUNNING FOR MENTAL HEALTH**

In September 2022, a donation was made to the Faculty of Humanities and Social Sciences in Osijek for the organization of the "Running for Mental Health" race to mark World Mental Health Day, held in Osijek on October 9th, 2022.

**ERASMUS+ PROJECT TRIPLEX CONFINIUM**

Polet a.d. Novi Bečej supported the Erasmus+ project Triplex Confinium - workshops for architecture students - innovative approaches to building with brick and clay, Terra museum, Kikinda. The two-week program, which included workshops for architecture students and professors from universities in Novi Sad, Budapest, Bucharest, Debrecen, Sofia, and Timișoara, was held as part of the Triplex Confinium project of the Erasmus Plus program. The result was an international architectural exhibition of works by students and professors of architecture called "Think Brick." The exhibition featured the Digital Brick exhibit, an innovative brick product developed by the Center for Digital Design, Department of Architecture, University of Novi Sad, created by combining clay modeling, parametric design, and robotic manufacturing, whose implementation was supported by a member of the NEXE Group - AD POLET IGK NOVI BEČEJ.

## COOPERATION WITH ECO-SCHOOL

For many years, NEXE d.d. has been collaborating with the Dora Pejačević Elementary School in Našice through the international Eco-School project, which this institution has been a part of since 2008. From the very beginning, NEXE Group has supported the implementation of this program, whose aim is to integrate environmental education into all aspects of the educational system and the daily lives of students and staff at the Eco-School. The goal is to educate younger generations about environmental issues and equip them to make decisions about society's future development. Systematic and stable support from NEXE Group is crucial for the successful implementation of educational activities.
In March 2023, the NEXE Cement Factory was visited by third-grade students from the Dora Pejačević Elementary School in Našice. The visit was organized as part of an open day, allowing elementary school students to become familiar with the cement production process – from quarrying to raw material baking and the final stages of production and cement dispatch.

## OTHER PROJECTS

**PEDESTRIAN-CYCLING PATH IN THE MUNICIPALITY OF DRNJE**

During 2022, a notable project was the construction of a pedestrian-cycling path in the Municipality of Drnje, which was supported by IGMA d.o.o. with a donation worth over 1.1 million HRK. The new path will significantly contribute to the safety of pedestrians and cyclists in traffic, especially schoolchildren.

**ACCESSIBILITY OF PREMISES**

The Okular Association from Ćićevac has been organizing free inclusive activities for children and youth for years. In the past year, they implemented more than 100 activities for over 1000 children and youth in 10 municipalities in Serbia. One of the happiest moments was moving into new premises in Ćićevac. In 2022, Nexe Beton d.o.o. Novi Sad donated cement to the Okular Association from Ćićevac for the refurbishment of the outdoor area of the association's facility, providing access for people with disabilities.

**MILOJE ČIPLIĆ ELEMENTARY SCHOOL, NOVI BEČEJ**

Polet - Keramika d.o.o. Novi Bečej supported the transition to single-shift operation at the Miloje Čiplić Elementary School in Novi Bečej by donating ceramic tiles from the NEXE ceramic tiles assortment, thus contributing to improving the educational conditions for young generations in Novi Bečej.

**"BEĆARAC" CITY FOLKLORE ASSOCIATION, NOVI BEČEJ**

The association was founded in 2003 and has about 80 members. Supporting the preservation of cultural tradition, Polet a.d. donated funds for the purchase of new costumes.

**SOS CHILDREN'S VILLAGES BOSNIA & HERZEGOVINA**

The humanitarian organization SOS Children's Villages Bosnia and Herzegovina takes care of children and young people who have lost parental care, providing them with a chance for a happy childhood and a better future. In 2022, with a financial donation, Tvornica Opeke Sarajevo d.o.o. supported the work of this humanitarian organization.

**PROJECTS IN VINKOVCI**

Dilj d.o.o. continuously supports a number of smaller projects throughout the year aimed at improving the quality of life in the community where it operates, such as the Historical Sports Society "Hrvatski sokol", Vinkovci, St. Anne Children's Home, Vinkovci, Sisters of Mercy of St. Cross, Vinkovci, Cultural and Artistic Society "Žute dunje", Vinkovci, Rare Film Lovers Association Vinkovci, Athletic Club for Persons with Disabilities, Vinkovci, City Theater Joza Ivakić, Vinkovci, Chess Club Vinkovci, Volleyball Club Zrinski, Nuštar, Vinkovci Boatmen Association, Vinkovci, Cultural Center Gatalinka, Vinkovci, Technical School Ruđer Bošković, Vinkovci...

### GOALS

NEXE Group strives to continuously increase investments in the local community and provide support to stakeholders in implementing projects significant for the development of sports, environmental protection, cultural heritage, and youth education. On an annual basis, support for projects in local communities is planned through a Donations and Sponsorships Plan. The plan is created based on achievements from previous years and ongoing collaboration with the local community, and its implementation is monitored throughout the year.

### INDICATORS

**Amount of donations at the NEXE Group level in 2022: 12.6 million HRK (1.67 million euros)**

**Amount of sponsorships at the NEXE Group level in 2022: 7.2 million HRK (0.96 million euros).**

## 9.3

# ENVIRONMENTAL IMPACT MANAGEMENT IN THE LOCAL COMMUNITY

### POLICY

The construction materials industry inherently generates negative environmental impacts due to resource extraction and emissions. NEXE Group operates in all local communities in accordance with all applicable environmental protection regulations and permits, striving to make voluntary contributions to creating positive environmental impacts.

At the cement and concrete production site in Croatia, an environmental management system has been established according to ISO 14001:2015 standards along with a corresponding Energy, Environmental Protection, Health, and Safety Policy. In other member entities, the Quality Policy is applicable. Through these policies, NEXE Group commits to being a responsible and acceptable neighbor to the local community, and open in communication with stakeholders regarding its environmental impacts and energy indicators. The management of environmental impacts is handled by the Management Systems Department at NEXE d.d., with those responsible for environmental protection in other member entities. Compliance with laws and minimization of impacts is the responsibility of the Board Member in charge of human resources, legal affairs, management systems, and occupational safety.

In its operations, NEXE Group seeks to minimize negative impacts on the environment and the local community, strictly adhering to legal and environmental permit emission limits, investing in facility modernization, and implementing voluntary activities to further reduce its impact. This policy aims to maximally reduce the harmful effects of operations and prevent potential negative impacts on the quality of life in local communities.

### STAKEHOLDER DIALOGUE

Interested stakeholders can obtain information about the management approach through the corporate websites of NEXE Group and the websites of the Ministry of Economy and Sustainable Development, where annual air quality reports are available. Any concerned resident in the vicinity of the facilities can always contact the Group's representatives through the official channels provided on the websites, and each inquiry is considered and responded to as promptly as possible.

Regarding environmental impacts, NEXE Group members regularly prepare all legal reports and submit them to the relevant authorities, including data for the Environmental Pollution Register (EPR), Annual reports on continuous and occasional air emissions measurements, Reports on waste collection and recovery, Reports on discharges into water, and others. In case of emergencies and incidents, stakeholders are informed through the media and stakeholder representatives, and actions are taken according to the official document - the Civil Protection Operational Plan.

## REMEDYING ENVIRONMENTAL IMPACTS AND PROCESSES FOR EXPRESSING CONCERNS

All interested parties can contact NEXE Group with any inquiries related to suspected environmental pollution through the official email address available on the official website and through official correspondence. Depending on the channel through which the inquiry, complaint, or request for information is received, a response is provided to the interested party. Responsible individuals for information review inquiries related to environmental pollution and provide the requested information to the interested party. Records of received complaints are kept.

In case of complaints, an investigation is conducted, and if the complaint is justified, corrective actions are initiated to reduce environmental pollution and its negative impact on the local community.

Table: total number of received and justified complaints in NEXE Group

| | 2022 |
|---|---|
| Received complaints | 7 |
| Justified complaints | 2 |
| Resolved complaints (correction of non-compliance) | 2 |

Considering that NEXE d.d. and Dilj d.o.o. are obliged to obtain environmental permits, in these facilities coordinated inspections, and extraordinary inspections are carried out based on received complaints from the local community or by thematic inspections of the authorities.

Table: Total number of environmental protection inspection controls conducted and number of identified non-compliances

| | 2022 |
|---|---|
| Inspections | 5 |
| Non-compliances with legal regulation | 2 |
| Resolved non-compliances | 2 |

Non-compliances were recorded in the company AD POLET IGK NOVI BEČEJ. Activities for resolving non-compliances have been completed, and a follow-up inspection determined compliance with legal requirements.

There were no reports of human rights violations during the reporting period.

# ACTIONS

## CARE FOR PROTECTED BIRD SPECIES IN KOPRIVNICA

On the exploitation field Mladje managed by IGMA d.o.o. on a small islet in Lake Šoderica, a strictly protected bird species - Common Tern (lat. *Sterna Hirundo*) has found its only safe home in the entire Drava region in Croatia. IGMA d.o.o., a member of NEXE Group from Koprivnica, has been collaborating with the Institute for Ornithology as part of the project "Land or Sea: Ecological and Genetic Aspects of Common Tern Habitat Selection," which includes research on the colony of Common Tern on the islet located within the Mladje exploitation field. In the spring of 2022, IGMA d.o.o. had the opportunity to join volunteers from the non-profit organization WWF Adria (WWF - World Wide Fund for Nature), who organized a cleaning action on the island in Lake Šoderica. The common terns have been nesting on this island for the last four or five years, but the island is gradually overgrowing, primarily with black locust trees, and they need an open area with gravel or low grass. If the island overgrows with black locust, they will no longer be able to nest there. Diligent volunteers in this action removed vegetation and prepared the island for the arrival of the common terns.

## AIR QUALITY MONITORING

NEXE d.d., as a member of NEXE Group, which due to the nature of its production processes has the most significant potential impact on air quality, has an independent air quality monitoring station managed by the EKONERG Institute for Energy and Environmental Protection. At the Zoljan station in Našice, which is 2 km away from the NEXE d.d. facility, the levels of nitrogen and sulfur dioxide, and suspended particles are monitored. According to the measurement results and regulatory standards, the air quality from 2004 to 2022 was in category I in terms of $NO_2$, $SO_2$, and suspended particles ($PM_{10}$).

The Air quality of an area is determined based on pollution levels. Considering the prescribed limit values, target values, and target values for ground-level ozone, two categories of air quality are established:

- Category I air quality where the air is clean or slightly polluted – limit values, target values, and target values for ground-level ozone are not exceeded.
- Category II air quality where the air is polluted – limit values, target values, or target values for ground-level ozone are exceeded.

The primary factor determining the air quality of an area is the emission of pollutants into the air. Emission sources can be natural (e.g., dust, pollen, volcanic eruptions, erosion) and anthropogenic (e.g., industrial processes, combustion of fossil fuels, agriculture, waste processing).

Emissions of pollutants into the air and air quality are directly linked. High emissions of pollutants lead to lower air quality. If these emissions are continuous and sufficiently high, they can reduce air quality and endanger the health of humans, vegetation, and ecosystems. The monitoring of $SO_2$, $NO_2$, and particulate matter levels at the Zoljan station is conducted continuously, and all interested stakeholders can access the current air pollution levels in Našice at the following link:
**https://iszz.azo.hr/iskzl/**

The report on air quality trends throughout the year is prepared by the independent Institute for Energy and Environmental Protection - EKONERG, and it is publicly available on the website of the Ministry of Economy and Sustainable Development. The report for the year 2022 is accessible at the following link:
**https://iszz.azo.hr/iskzl/datoteka?id=142810**

## GOALS

Maintain the air quality of Category I in Našice.

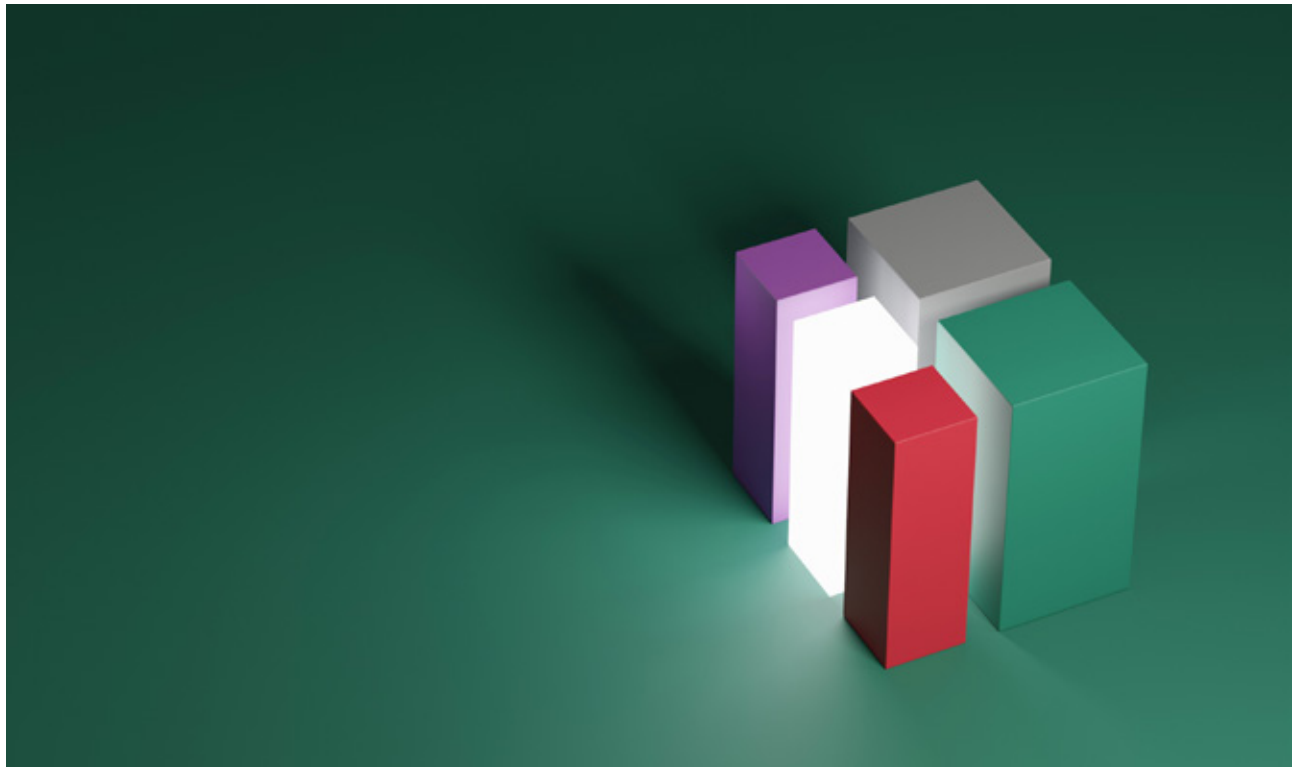
Number of non-compliance cases with Environmental Permit and legal regulations: 0

## INDICATORS

Number of non-compliance cases with restrictions related to environmental pollution based on Environmental Permit and legal regulations.

# Corporate Governance

10



The impacts, risks, and opportunities associated with corporate governance were identified through SWOT and PESTEL analysis conducted by the Strategy and Business Development Department during the definition of NEXE Group's corporate strategy. Top management participated in the assessment of impacts, risks, and opportunities, and risks were identified and assessed at all levels of activities, encompassing all the Group's operations and transactions in Croatia, Serbia, and Bosnia and Herzegovina.

The Management Board of NEXE d.d. has developed and adopted the Code of Ethics that defines values, sets ethical standards and provides guidelines to all employees on how to behave in the workplace. For the Board of NEXE d.d. and all affiliated companies, besides business results, how those results are achieved is important, which involves integrating ethical norms into operations and relationships with all stakeholders.

## IMPACTS, RISKS AND OPPORTUNITIES

- **Long-term supplier relationships -** NEXE Group, as a large and robust business system, seeks to nurture long-term relationships with suppliers in its operations to ensure stability. This can have a significant positive impact on small suppliers.

- **Business liquidity -** Delayed payments to small and medium-sized suppliers can negatively affect their liquidity. NEXE Group's members strive to adhere to contract provisions and settle their obligations to suppliers on time.

- **Business ethics -** NEXE Group's corporate culture is based on social responsibility and business ethics, guiding all decisions, activities, and stakeholder relations.

- **Corruption -** To avoid the risk of corruption, which can result in legal proceedings and a tarnished reputation, NEXE Group's operations are based on a zero-tolerance policy against actions contrary to the law and ethical code.

- **Business transparency -** Transparency about corporate governance and ESG (Environmental, Social, and Governance) business impacts can lead to increased stakeholder trust and better investor relations.

- **Awareness-raising and anti-corruption training -** NEXE Group recognizes the importance of better informing and educating its employees about the potential risk of bribery.

- **Lobbying -** Responsible engagement in discussions related to material issues for NEXE Group can positively impact its operations. Lobbying allows the company to express its views, interests and needs directly or through relevant economic associations to legislative bodies. Through reasoned advocacy, the company can attempt to influence the shaping of policies that facilitate the business environment.

## CORPORATE CULTURE AND BUSINESS CONDUCT

Ethics and responsibility should be the cornerstones of operations in a dynamic and challenging environment that requires frequent adaptations. Compliance with the law, conducting business in accordance with the highest industry standards, and social responsibility are part of the corporate culture of NEXE Group. In the pursuit of financial success, members of NEXE Group are focused on integrity and fairness in all their activities and stakeholder relationships, with strong support from the Management Board and the Supervisory Board.

The vision of NEXE Group is to be a leading manufacturer of construction materials recognized for socially responsible business practices and sustainable creation of new value for its customers, owners, employees, and the community. In 2006, as a member of the Croatian Chamber of Economy, NEXE Group adopted the Code of Ethics in Business. Signatories of the Code commit to acting in accordance with the principles of responsibility, truthfulness, effectiveness, transparency, quality, good faith, and respect for good business practices towards business partners, business and social environment, and their own employees.

At the level of NEXE Group, a Code of Ethics has been adopted. The Code of Ethics is applied in all members of NEXE Group and provides framework guidelines on behaviors that are or are not acceptable. NEXE d.d. has appointed an Ethics Committee to which internal and external stakeholders can submit reports of code violations, or seek advice for clarification of any ambiguities. The Ethics Committee has a mandate of 3 years. In case of any ethical doubts, as well as for the interpretation of the Code of Ethics, employees of NEXE Group can address their immediate or indirect superiors, representatives of support services (Human Resources Department, Legal Department), or members of the Ethics Committee.

The corporate culture is based on two-way communication, a sense of belonging and unity, promoting autonomy and responsibility, safety and trust, and satisfaction of all stakeholders. NEXE Group aims to operate in accordance with the law, sector standards, ethical principles, and stakeholder expectations, which is why it opposes any practices that would result in violations of the law, human rights, or adopted principles. Supervisors continually promote these values in their daily communication and work with employees, with support from the Management Board and the Supervisory Board.

Recognizing that employees as key stakeholders represent the key to sustainable success, NEXE Group takes responsibility for creating and developing a work environment that is comfortable and stimulating. It aims to build a work environment that respects the mental and physical health of workers and their safety at work. The work environment should be a place of professional development that recognizes individual talent, work, and results, where diversity is embraced, privacy is respected, and personal needs are considered.

Employees are encouraged to work together proactively, sincerely, and with mutual respect. Leaders at all levels play a crucial role in creating such an atmosphere, and they must personally demonstrate leadership, collaboration, transparency, and fairness, creating a positive work environment, being available to their employees, and leading by example to promote these core values.

## CODE OF ETHICS AND BUSINESS CONDUCT

The Code of Ethics consolidates all issues related to business conduct and ethical standards of NEXE Group in one place. The purpose of the Code is to establish standards of behavior for employees and regulate relationships with all stakeholders. The Code covers issues such as combating bribery and corruption, preventing conflicts of interest, political engagement, compliance with antitrust laws, and relationships with suppliers. Additionally, the Code regulates relationships with stakeholders and the environment. The Code serves as a practical guide for ethical behavior in the workplace, in business relationships, and in communities in line with the company's values and the vision of sustainable business development. The Code helps employees identify potential risky activities, avoid unethical actions, and identify situations in which they need to seek advice from their supervisors or ethics officer.

By adopting the Internal Reporting Procedure Regulation and appointing a confidential person, the process of internal reporting of irregularities is regulated, as well as the process of appointing a confidential person responsible for the reporting procedure regarding irregularities and their deputy, protection of whistleblowers, and the retention of data received about reported irregularities.

## REPORTING IRREGULARITIES

The Manual provides instructions for reporting irregularities, describes the process of investigating complaints received, and explains how those reporting irregularities or incidents are protected. Each report will be reviewed quickly and independently, and if prohibited behavior is proven, a certain disciplinary measure will be applied, in various forms, depending on the severity of the offense. To prevent irregularities and non-compliance, efforts are made to develop preventive measures and strengthen the corporate culture of zero tolerance for actions contrary to the Code of Ethics of NEXE Group.

Each employee of any member of NEXE Group is ensured the ability to anonymously report observed irregularities, and unethical, or unlawful behavior to the Ethics Committee, which operates independently of administrative, managerial, and supervisory functions. All received reports are reviewed, investigated, and evaluated, and the outcome is reported to the Management and Supervisory Board.

The responsibility for employees' actions in accordance with legal limitations, standards, and values rests with the managers and, ultimately, with each individual employee. All employees are informed about these mechanisms and the Code of Ethics through internal communication channels.

During the reporting period, NEXE Group did not conduct educational activities on the ethical code, anti-corruption policy, mechanisms for detecting and reporting irregularities, and mechanisms for protecting whistleblowers.

## ANTITRUST REGULATION

NEXE Group is fully committed to conducting business in accordance with the principles of fair trade and market competition. It is dedicated to independent operations that fully comply with the Competition Protection Act (applicable in each country where the company operates). The policy of NEXE Group is to cautiously handle situations where it holds a dominant market position to avoid jeopardizing market competition and to refrain from engaging in unlawful agreements with competitors that could disrupt market competition. NEXE Group will not comment in any way on current or future prices, costs, margins, sales strategies, discounts, and other specific elements of the sales approach, nor will it disclose information about individual customers or markets. In case of any doubts regarding specific actions, it is necessary to contact the support service – Legal Affairs Service.
During the reporting period, there were no cases of non-compliance with antitrust regulations.

## COMPLIANCE

NEXE Group always operates in accordance with the law and with respect to all levels of government in all countries where it operates. During the reporting period, there were no illegal actions or violations of legal provisions regarding environmental, social, and governance issues.

## ANTI-CORRUPTION

NEXE Group considers corruption to be a significant obstacle to sustainable development, economic growth, and free competition, and has a clear stance of zero tolerance and rejection of any form of corruption and bribery. This stance of the Management Board and Supervisory Board is internally communicated to all employees and is part of the corporate culture. The anti-corruption policy is part of the Code of Ethics that applies to all employees of NEXE Group, all transactions, and relationships with stakeholders.

NEXE Group deems it unacceptable to promise or provide any form of value (money, gifts, services, etc.) to any government official in exchange for any unlawful service, advantage, or influence on future decisions by an employee of NEXE Group, directly or through intermediaries.

To ensure transparent reporting on sustainability regarding the prevention, detection, and resolution of complaints regarding actions contrary to the policies of NEXE Group, the company has internally established a clear procedure. Reported and discovered cases of corruption are handled by the Ethics Committee, which is separated from the management chain, i.e., organizationally independent. In case of reporting irregularities, the Management Board and Supervisory Board are immediately informed.

During the reporting period, there were no confirmed cases, and in none of NEXE Group's members were there legal proceedings or fines for violations of the Law on Combating Corruption and Bribery. Efforts will be made to maintain such results in the future period. There were no training sessions on the implementation of the anti-corruption policy during the reporting period.

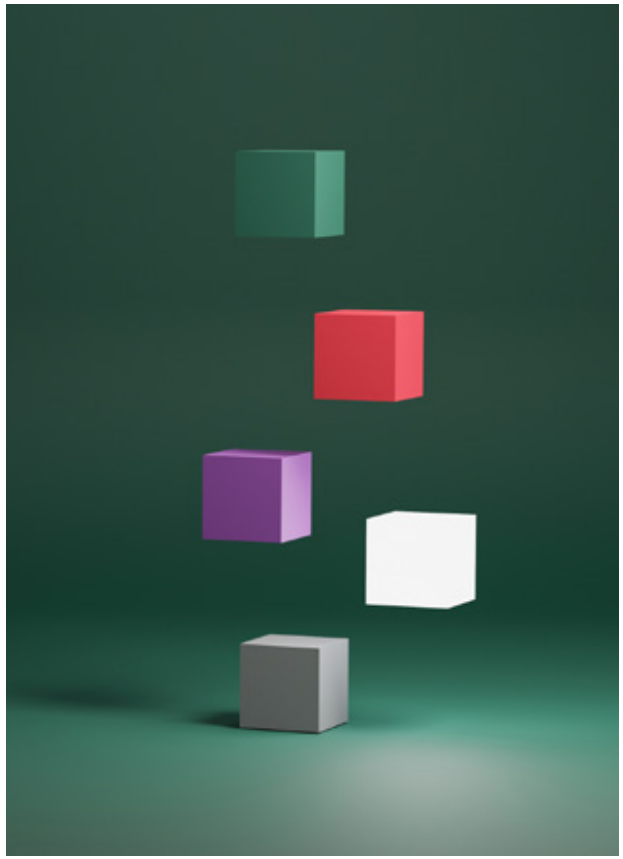
## SUPPLIER RELATIONS

Fairness is a fundamental principle in the relations between NEXE Group and its suppliers. NEXE Group aims to always treat its suppliers with fairness and respect, offering the same opportunity to all suppliers to offer their products, services, and business solutions and to have a genuine chance to be selected as the best bidder in the bidding process. When soliciting bids, equal terms are always defined for all suppliers, and the received bids are evaluated based on equal, predefined criteria related to technical specifications, delivery deadlines, and price. The procurement process should always be confidential and consistent. Criteria for selecting suppliers include competitive pricing and payment terms, quality, experience, quality of service/delivery, and the application of sustainable business practices. Selection criteria and contractual relationships are transparently and clearly communicated to all suppliers. The main goal in supplier relations is the timely delivery of goods and services on the most favorable terms.

Payment terms to suppliers are discussed with the other party and defined in the contract. Agreed payment terms are always respected. In the reporting period, the standard payment terms of NEXE Group were 15 days, while the average time required for invoice payment was 59 days from the beginning of the contractual or legal payment term calculation. There were no legal proceedings for late payments during the reporting period.

As a significant driver of economic development in the local communities where it operates, NEXE Group seeks to involve local suppliers in its supply chain for the procurement of goods and services, with a particular emphasis on sourcing logistics services. Especially highlighted is the opportunity provided to local carriers for concrete delivery services.
Relationships with local suppliers are always developed exclusively with the precondition of their quality, capability, and alignment with NEXE's core values.

NEXE Group conducts supplier assessments during or after collaboration, considering their environmental impact, energy consumption, health, and safety at work. In the upcoming period, NEXE Group will introduce in-depth supplier analysis aiming to consider their sustainability impact when making selections.



| **Payment practices** | **2021** | **2022** |
|---|---|---|
| The average time the undertaking takes to pay an invoice from the date when the contractual or statutory term of payment starts to be calculated, in number of days | 69 | 59 |
| The undertaking's standard payment terms in number of days | 30 | 15 |
| The percentage of its payments aligned with these standard terms | 100% | 100% |
| The number of legal proceedings currently outstanding for late payments | 0 | 0 |

To improve supplier relationships, employees are provided with procurement training in negotiation and communication skills, and to enhance efficiency in reviewing and evaluating bids, software for collecting and analyzing bids has been implemented.

In challenging times of significant price fluctuations and resource shortages, effective supply chain risk management is crucial. To increase the resilience of the supply chain and minimize the impacts of disruptions on operations, NEXE Group invests resources in monitoring and analyzing the most risky markets. Activities include monitoring market price trends for energy commodities on exchanges, selecting the opportune moment for their purchase, and entering into multi-year contracts with known procurement conditions.

## POLITICAL INFLUENCE AND LOBBYING

Responsible advocacy of corporate interests is a fundamental principle guiding every interaction of NEXE Group with policymakers, whether directly or indirectly through industry associations, regarding all aspects of business and sustainability issues. Engagement in discussions on significant topics such as climate change, health, and workplace safety is driven by good intentions and social responsibility, based on the expertise of employees.

The Code of Ethics allows participation in political processes, but it stipulates that conducting political activities within the premises of NEXE Group using company resources or during working hours is unacceptable. Personal political activities, including verbal and written statements to the public, must not be associated with NEXE Group or its subsidiaries.

NEXE Group is a member of CROATIA CEMENT, the Association of Croatian Cement Factories. CROATIA CEMENT is an economic interest group that represents and promotes the common goals of the cement industry in Croatia. The association was founded in 1953 and has operated under the name CROATIA CEMENT since 1996. Its key task is to cooperate with institutions in the Republic of Croatia.

CROATIA CEMENT advocates for:

- Sustainability in cement production.
- Business operations aimed at minimizing environmental impact in production and all other segments, as well as improving health and safety at work.
- Promotion of concrete and other products or solutions based on cement.
- Informing the public about the positive impact of the cement industry on the national economy.

Through participation in working groups of CROATIA CEMENT, NEXE Group actively contributes to the process of drafting and aligning regulatory documents (laws, regulations, standards, etc.) related to the cement industry.

CROATIA CEMENT is an associate member of the supreme organization of the cement industry in Europe, Cembureau, which collaborates at the European level with legislative bodies in developing a plan to transition the cement industry to low-carbon operations. NEXE Group supports initiatives related to climate change mitigation and sustainable construction, as evidenced by its own projects presented in the chapters "Climate Change" and "Circular Economy".

NEXE d.d. is a member of professional-business associations, where it contributes to the work of groups for climate, environmental protection, and waste management with its experience and knowledge, enabling proactive participation in shaping legislative regulations.

**Memberships**
Croatian Chamber of Economy (HGK)
Croatian Employers' Association (HUP)
American Chamber of Commerce in Croatia
Croatian Business Council for Sustainable Development (HRPSOR)
International Institute for Climate Action
Croatian Association for Air Protection
Croatian Association for Healthy Workplace
Red Cross Našice
Firefighting Community Našice

During the reporting period, there were no members of administrative, management, and supervisory bodies who held comparable positions in public administration (including legislative bodies) in the two years preceding their appointment.

There were no financial or in-kind political contributions during the reporting period.

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## List of datapoints in cross-cutting and topical standards that derive from other EU legislation

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| ESRS 2 GOV-1 Board's gender diversity paragraph 21 (d) | Indicator number 13 of Table #1 of Annex 1 | | Commission Delegated Regulation (EU) 2020/1816, Annex II | | 52 |
| ESRS 2 GOV-1 Percentage of board members who are independent paragraph 21 (e) | | | Delegated Regulation (EU) 2020/1816, Annex II | | 52 |
| ESRS 2 GOV-4 Statement on due diligence paragraph 30 | Indicator number 10 Table #3 of Annex 1 | | | | 67 |
| ESRS 2 SBM-1 Involvement in activities related to fossil fuel activities paragraph 40 (d) i | Indicators number 4 Table #1 of Annex 1 | Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/245328T a ble 1: Qualitative information on Environmental risk and Table 2: Qualitative information on Social risk | Delegated Regulation (EU) 2020/1816, Annex II | | NEXE Group is not involved in these activities. |
| ESRS 2 SBM-1 Involvement in activities related to chemical production paragraph 40 (d) ii | Indicator number 9 Table #2 of Annex 1 | | Delegated Regulation (EU) 2020/1816, Annex II | | |
| ESRS 2 SBM-1 Involvement in activities related to controversial weapons paragraph 40 (d) iii | Indicator number 14 Table #1 of Annex 1 | | Delegated Regulation (EU) 2020/1818, Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II | | |
| ESRS 2 SBM-1 Involvement in activities related to cultivation and production of tobacco paragraph 40 (d) iv | | | Delegated Regulation (EU) 2020/1818, Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II | | |
| ESRS E1-1Transition plan to reach climate neutrality by 2050 paragraph 14 | | | | Regulation (EU) 2021/1119, Article 2(1) | 83-86 |
| ESRS E1-1 Undertakings excluded from Paris-aligned Benchmarks paragraph 16 (g) | | Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity | Delegated Regulation (EU) 2020/1818, Article12.1 (d) to (g), and Article 12.2 | | 83-86 |
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| ESRS E1-5 Energy consumption from fossil sources disaggregated by sources (only high climate impact sectors) paragraph 38 | Indicator number 5 Table #1 and Indicator n. 5 Table #2 of Annex 1 | | | | 99 |
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| ESRS E1-6 Gross GHG emissions intensity paragraphs 53 to 55 | Indicators number 3 Table #1 of Annex 1 | Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics | Delegated Regulation (EU) 2020/1818, Article 8(1) | | 104 |
| ESRS E1-7 GHG removals and carbon credits paragraph 56 | | | | Regulation (EU) 2021/1119, Article 2(1) | NA |
| ESRS E1-9 Exposure of the benchmark portfolio to climate-related physical risks paragraph 66 | | | Delegated Regulation (EU) 2020/1818, Annex II Delegated Regulation (EU) 2020/1816, Annex II | | NA |
| ESRS E1-9 Disaggregation of monetary amounts by acute and chronic physical risk paragraph 66 (a) ESRS E1-9 Location of significant assets at material physical risk paragraph 66 (c). | | Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 paragraphs 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk. | | | NA |
| ESRS E1-9 Breakdown of the carrying value of its real estate assets by energy-efficiency classes paragraph 67 (c). | | Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 paragraph34;T emplate 2:Banking book -Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral | | | NA |
| ESRS E1-9 Degree of exposure of the portfolio to climate- related opportunities paragraph 69 | | | Delegated Regulation (EU) 2020/1818, Annex II | | NA |
| ESRS E2-4 Amount of each pollutant listed in Annex II of the E-PRTR Regulation (European Pollutant Release and Transfer Register) emitted to air, water and soil, paragraph 28 | Indicator number 8 Table #1 of Annex 1 Indicator number 2 Table #2 of Annex 1 Indicator number 1 Table #2 of Annex 1 Indicator number 3 Table #2 of Annex 1 | | | | 120-121 |
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| ESRS E3-1 Dedicated policy paragraph 13 | Indicator number 8 Table 2 of Annex 1 | | | | NM |
| ESRS E3-1 Sustainable oceans and seas paragraph 14 | Indicator number 12 Table #2 of Annex 1 | | | | NM |
| ESRS E3-4 Total water recycled and reused paragraph 28 (c) | Indicator number 6.2 Table #2 of Annex 1 | | | | NM |
| ESRS E3-4 Total water consumption in m3 per net revenue on own operations paragraph 29 | Indicator number 6.1 Table #2 of Annex 1 | | | | NM |
| ESRS 2- IRO 1 - E4 paragraph 16 (a) i | Indicator number 7 Table #1 of Annex 1 | | | | NM |
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| ESRS 2- IRO 1 - E4 paragraph 16 (c) | Indicator number 14 Table #2 of Annex 1 | | | | NM |
| ESRS E4-2 Sustainable land / agriculture practices or policies paragraph 24 (b) | Indicator number 11 Table #2 of Annex 1 | | | | NM |
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| ESRS S1-1 processes and measures for preventing trafficking in human beings paragraph 22 | Indicator number 11 Table #3 of Annex I | | | | NM |
| ESRS S1-1 workplace accident prevention policy or management system paragraph 23 | Indicator number 1 Table #3 of Annex I | | | | 159-160 |
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| ESRS S1-14 Number of fatalities and number and rate of work-related accidents paragraph 88 (b) and (c) | Indicator number 2 Table #3 of Annex I | | Delegated Regulation (EU) 2020/1816, Annex II | | 167 |
| ESRS S1-14 Number of days lost to injuries, accidents, fatalities or illness paragraph 88 (e) | Indicator number 3 Table #3 of Annex I | | | | 167 |
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| ESRS S1-17 Non- respect of UNGPs on Business and Human Rights and OECD paragraph 104 (a) | Indicator number 10 Table #1 and Indicator n. 14 Table #3 of Annex I | | Delegated Regulation (EU) 2020/1816, Annex II<br>Delegated Regulation (EU) 2020/1818 Art 12 (1) | | 179 |
| ESRS 2- SBM3 – S2 Significant risk of child labour or forced labour in the value chain paragraph 11 (b) | Indicators number 12 and n. 13 Table #3 of Annex I | | | | NM |
| ESRS S2-1 Human rights policy commitments paragraph 17 | Indicator number 9 Table #3 and Indicator n. 11 Table #1 of Annex 1 | | | | NM |

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| ESRS S2-1 Policies related to value chain workers paragraph 18 | Indicator number 11 and n. 4 Table #3 of Annex 1 | | | | NM |
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| ESRS S2-1 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8, paragraph 19 | | | Delegated Regulation (EU) 2020/1816, Annex II | | NM |
| ESRS S2-4 Human rights issues and incidents connected to its upstream and downstream value chain paragraph 36 | Indicator number 14 Table #3 of Annex 1 | | | | NM |
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| ESRS G1-1 United Nations Convention against Corruption paragraph 10 (b) | Indicator number 15 Table #3 of Annex 1 | | | | 201 |
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| ESRS G1-4 Fines for violation of anti-corruption and anti-bribery laws paragraph 24 (a) | Indicator number 17 Table #3 of Annex 1 | | Delegated Regulation (EU) 2020/1816, Annex II) | | 201 |
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NM = Not material NA = Not available

# ABOUT SUSTAINABILITY REPORT

**The Sustainability Report of NEXE Group was prepared for the reporting period from January 1, 2022, to December 31, 2022, on a consolidated basis and includes information about the companies of NEXE Group: NEXE d.d., IGMA d.o.o., EKONEX d.o.o., LUKA TRANZIT OSIJEK d.o.o., NEXE GRADNJA d.o.o. Našice, Dilj d.o.o., NEXE INVEST d.o.o., CE - MA d.o.o., Tvornica opeke d.o.o. Sarajevo, NEXE d.o.o. Sarajevo, NEXE BETON d.o.o. Sarajevo, N-INVEST d.o.o. Sarajevo, AD POLET IGK NOVI BEČEJ, NEXE BETON DOO NOVI SAD, and POLET-KERAMIKA DOO NOVI BEČEJ, unless otherwise indicated in the text.**

**Sustainability Report was prepared following the European Sustainability Reporting Standards (ESRS) to ensure that NEXE Group is adequately prepared for the upcoming obligation of sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD). Efforts will be made in the subsequent reporting periods to achieve full compliance.**

**The sustainability information was collected by NEXE Group's sustainability reporting working group, which included representatives from organizational units responsible for managing material impacts, risks, and opportunities.**

**The report was prepared in PDF and printand is available on the corporate website. NEXE Group invites stakeholders to read the report and submit their comments, suggestions, and questions to the e-mail address: josipa.hecimovic@nexe.hr.**

# IMPRESSUM

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