



SUSTAINABLE DEVELOPMENT REPORT

2017
ANNUAL
REPORT



PODRAVKA GROUP

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I GENERAL DISCLOSURES

MESSAGE FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Podravka Group stakeholders,

We can say that 2017 was an exceptionally demanding business year, with many challenges that affected the operations of the Podravka Group too. But, even under such challenging market conditions, thanks to the quality of our business process management and the hard work of the Group's employees, Podravka has succeeded in achieving good business results, as well as preserving and strengthening its market positions on key markets. Sales revenues exceeding HRK 4 billion, continued revenue growth in many foreign markets, and revenue growth in the Pharmaceuticals segment - it is for all these reasons that we can be satisfied with our performance and optimistic about the forthcoming period.

Among the most significant business events and developments in 2017, it is important to underscore the opening of the new Belupo factory, an investment of over HRK 530 million; the finalisation of the investment cycle at Mirna d.d. Rovinj worth about HRK 50 million; continued internalization of operations; continued activities in the field of digital transformation and the strategic partnership with Microsoft, as well as innovations and new products of Podravka, Belupo and Žito, adapted to food industry trends and to the needs of our consumers.

In 2017, we celebrated a big jubilee, the 70th business anniversary of Podravka. The message "We know where we are going because we know where we come from" highlights Podravka's values: tradition, traceability, contribution to the Croatian economy and society, as well as our connection with consumers around the world. At the same time, we put special emphasis on our support for domestic agriculture and strengthening the connections with our agricultural producers as our goal for the future period.

In addition to its commitment to exceptional business performance and development of high-quality brands and products, as a responsible employer, Podravka is also committed to caring for the community where it operates and its employees.

We consider the trust of our consumers to be our greatest success. Together, we have been building that trust for decades, and it has made us the leading food brand in the region, a position we intend to keep in the future.

President of the Management Board

Marin Pucar

1.1. ORGANISATIONAL PROFILE

1.1.1. COMPANY NAME AND SEAT

Podravka prehrambena industrija d.d., Koprivnica ("the Company") is incorporated in the Republic of Croatia. The Podravka Group consists of the parent company Podravka d.d. and all company subsidiaries. The seat of the company is located in Koprivnica, Croatia, Ante Starčevića 32.

1.1.2. ACTIVITIES, BRANDS, PRODUCTS AND SERVICES

1.1.2.1. Activities

A description of the most important activities of the Podravka Group in the year 2017 can be found in the Podravka Grup Annual Report for 2017, under Important Events, pp. 4 – 10, available on Podravka's website at:

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.1.2.2. Podravka brands and products

Thanks to the trust of our consumers, Podravka has become the food brand no. 1 not only in Croatia but also throughout the region. On the Croatian and foreign markets, our brands are recognizable and loved. Their high quality is guaranteed by excellent raw materials, modern technological processes, and know-how. In addition to quality, all our products are known for their practicality and safety.

Podravka's products are quick and easy to prepare, while also leaving room for culinary creativity. With our continuously expanding product lines, we adapt to the needs of the market and our consumers. Combining tradition with cutting-edge creative methods and technological advances, we set high standards and create the latest trends.

The Podravka product line consists of the following brands:

Vegeta

Vegeta is Podravka's best-known brand, and it has followed every step that the consumers make in the kitchen for 59 years, giving them the freedom to prepare the most delicious meals for themselves, their family and friends. The Vegeta brand has grown from a universal food seasoning launched in 1959 to become synonymous with this product category in the Adria region markets. The Vegeta product line has expanded significantly; today, Vegeta is a culinary brand which offers only top quality products, including all-purpose seasonings, special seasonings, cooking mixes, soups, bouillons, and spices. Vegeta is present on more than 60 international markets, where it has raised generations of professional chefs and amateur cooks, bringing creativity into the kitchens around the world. Vegeta makes cooking simple, carefree,

and creative, helping consumers around the world to bring out the best flavours of every meal.

Podravka soups

Home-style flavour is the key value of Podravka soups. Favourite soups are simple to prepare, and yet they leave room for creativity in the kitchen. Adding fresh ingredients to Podravka soups creates a home-style soup that is quicker and more affordable to prepare. Podravka soups continuously follow the latest trends in nutrition, and all those who like cream soups or clear soups will surely find their own favourite flavour within this wide and diverse range of products.

Talianetta

Talianetta is the most playful brand in the Podravka portfolio, and the secret of its youthfulness and energy lies in simple, light products – semi-prepared meals based on pasta. The Talianetta products are excellent, quick-to-prepare meals, in line with the personality of its consumers – simple, practical and on trend.

Lino

With Lino products, every task becomes easier and children games more cheerful because these products are exceptionally rich in vitamins and minerals. Lino children's food provides all the ingredients necessary for a child's growth and development while being a beloved treat at the same time. Due to their gentle, diverse flavours and smooth pureed texture, these products are appropriate and delicious meals for babies, easy to swallow and perfect for introducing self-feeding with a spoon. The Lino children's food line has been expanded with Lino fruit purees. These purees contain a high ratio of fruit and vitamin C and are gluten-free.

Dolcela

The Dolcela product line offers high-quality products that make it possible to prepare quick and easy desserts starting from simple, small treats we offer our families during the week to the challenging cakes that are the crown of any grand celebration. The Dolcela products make dough lighter and creams creamier and longer-lasting.

Eva and Mirna

Eva and Mirna encompass the widest range of fish products prepared from top quality cuts of fish, rich in whole proteins with essential amino acids and minerals. Tasty, healthy and natural meals based on Mediterranean cuisine contribute to the health of consumers, and facilitate creativity in preparing meals and enjoyment in the very best fruits of nature and the sea.

Fant

A wide range of Fant seasonings will surely enrich all culinary skills and significantly reduce preparation time, leaving enough free time for other activities. The ideas presented by Fant will inspire consumers to prepare various dishes they thought required much more time and skill.

Podravka tomato products

Tomatoes are a staple in every kitchen, especially Mediterranean cuisine, and go well with various cooking ingredients. Processed tomatoes are a better source of lycopene

than fresh tomatoes, because lycopene from processed tomato products is better absorbed by the body. Made from 100% Istrian tomato, with no added salt and without additives, Podravka Passata, the category leader on the Croatian market, is truly unique.

Podravka fruit products

Podravka fruit products have been made by processing the highest quality fruits of controlled origin, with no added flavours, artificial colours or sweeteners, for 70 years now. With their distinctive and familiar taste, these products are favoured by generations of numerous consumers as a blend of tradition and modern nutrition. Owing to its high fruit content, Podravka's smooth plum jam is a recognised and valued traditional Croatian product, and it bears the Croatian Creation label awarded by the Croatian Chamber of Economy.

Podravka vegetable products

Podravka's pickled and canned vegetables are grown with care, picked at peak ripeness, and carefully prepared using original recipes, without preservatives and artificial colours. These much-loved products perfectly preserve and enrich the original flavour of vegetables, bringing them to the tables of our consumers throughout the year.

Podravka condiments

A perfect texture and great taste make Podravka condiments – chutney, mustard, ketchup and horseradish – an ideal complement to a wide variety of dishes. These products owe their popularity to their high quality and, in case of chutney, Podravka's own pepper variety grown in Croatian fields. Their truly remarkable versatility – from accompaniments to roast meat, spreads, sauces, and salad dressings, to the inevitable grill – is reflected in a wide consumer base on many markets around the world using Podravka condiments to prepare their meals.

Podravka tea

Podravka teas are produced from carefully selected ingredients, with strong and recognisable herbal and fruit flavours.

Podravka meat products and ready-made meals

With a wide range of traditional and modern flavours - pâtés, ready-made meals, meat sauces and cold cuts – these products are delicious meals for any time of day. Special spice blends give each product a characteristic and familiar aroma for the greatest enjoyment in truly gourmet flavours.

Kviki

The Kviki product line is produced exclusively from ingredients of plant origin; all products are baked and not fried to ensure the fullness of flavour and recognizable high quality. Podravka's tradition of producing salty snacks goes back to 1975, and carefully selected ingredients and frequent controls of finished products are a guarantee of quality.

1001 CVET

1001 CVET has been a beloved regional brand for half a century. Only the best quality, natural ingredients are used to prepare a range of tea blends that can be enjoyed all day long.

Gorenjka

The Gorenjka chocolate products have been delighting chocolate lovers since 1922. The wide range of products is sure to satisfy all chocolate lovers since the Gorenjka product line includes milk and dark chocolate, mini rolls and cubes, chocolate with puffed rice and cooking chocolate.

Žito – fresh bakery products

The Žito fresh bakery products include partially baked bread (par-baked), fresh bread and bread rolls segments. All bakery products are prepared with a lot of love, quality, passion and more than 70 years of tradition. The secret of our products lies in a combination of tradition and innovation applied to our use of top quality raw materials (trendy & traditional), a prolonged fermentation process, special ovens for a rustic home-made appearance, manual production for an "artisan look", long-lasting freshness, and the best natural taste of each product.

Zlato polje

Rice, pasta, purees, oat flakes, grits, breakfast cereals... Zlato polje is synonymous with modern cooking. The Zlato polje rice line offers a wide range of products to fit all tastes and all types of dishes. The Zlato polje pastas are produced from natural, proven and tested ingredients – from the best durum wheat semolina, with higher protein, mineral and vitamin content than traditional wheat. Mill products are truly versatile since the Zlato polje product line includes a variety of carefully selected grits, groats and flakes, making it easier for our consumers to prepare meals tailored to their own personal taste.

Šumi

Toffees, jelly candies, gummies, hard filled candies – both children and adults will enjoy Šumi sweets. These candies are distinguished by their high content of natural fruit juice, vitamins and minerals. They contain no artificial colours or flavours.

Maestro

The world of Maestro spices is an aromatic oasis where the consumers can boldly go to search and find the flavours and aromas that will turn their meals into true culinary works of art. Whichever spice they choose, it will surely spice up every moment near the stove and inspire creativity in the kitchen. In addition to spices, Maestro also includes spice blends, seasonings and seasoning mixtures for food preparation, to create a harmony of flavours in the tasty meals that you serve to your family and friends at your table.

Natura

The Natura brand is synonymous with ecologically grown products, and BioNatura products are carefully selected organic products. With Natura, the consumers are making a long-term investment in their own wellbeing and a healthy environment since organic food production reduces soil contamination, which is one of the priorities for human health.

Information about new food products of the Podravka Group in the year 2017 can be found in the Podravka Grup Annual Report for 2017, pp. 15 – 16, available on Podravka's website at:

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.1.2.3. Belupo brands and products

Belupo is the leading manufacturer of cardiovascular and dermatological drugs in the Republic of Croatia, with medicinal products from 12 groups according to the Anatomical Therapeutic Chemical classification. Medications for hypertension and cardiovascular disease prevention are Belupo's bestselling products. In the market segment of the corticosteroid, dermatological preparations (D07), Belupo has maintained its leadership position in the domestic market for a long time, and is a major manufacturing partner in this segment in its export markets.

Until 2017, Belupo manufactured about 40 million packages of medicinal products per year. By opening a new factory for solid, semi-solid and liquid drugs, the company has increased its annual production capacity to 100 million packages of medicinal products.

In addition to prescription drugs, Belupo's over-the-counter (OTC) portfolio also includes herbal medicines, nutrition supplements, cosmetics, OTC medicines, and excipients. The OTC portfolio is an important segment in Belupo as we constantly keep track of market requirements and raise awareness on the importance of preserving health and preventing diseases.

Belupo is definitely the leader in the sales of OTC products in Croatia. Belupo's Neofen and Lupocet occupy the top two positions on the list of top ten bestselling OTC drugs.

Belupo's OTC portfolio also includes well-known brands such as Herplex, Aska pro, Rinil, Ginkgo Belupo, Maxi Omega 3, Silymarin, Urosal, Belodin A, Hederan, and many others.

Information about new pharmaceutical products of the Podravka Group in the year 2017 can be found in the Podravka Grup Annual Report for 2017, pp. 17-19, available on Podravka's website at:

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.1.3. LOCATION OF OPERATIONS

Podravka Group is a multinational group operating in more than 25 countries worldwide on 5 continents (Europe, North America, Asia, Africa and Australia) through its offices and subsidiaries, with significant operations in Croatia, Slovenia, Bosnia and Herzegovina, Russia and Poland.

1.1.4. OWNERSHIP AND LEGAL FORM

Podravka d.d. is a joint stock company registered as such in 1993, following its transition from the former form of a social enterprise.

The stocks of Podravka d.d. were first listed on Quotation I of the Zagreb Stock Exchange on 7 December 1998, and have been traded via the Zagreb Stock Exchange since 8 December 1998.

The ownership structure of Podravka d.d. as of 31 December 2017 was as follows:

SHAREHOLDERS	NO. OF SHARES	PERCENTAGE SHARE
ADDIKO BANK D.D./ PBZ CO OMF - CATEGORY B (1/1)	925.602	13,00
SPLITSKA BANKA D.D./ AZ OMF CATEGORY B (1/1)	902.874	12,68
CERP (0/1) / CROATIAN PENSION INSURANCE FUND (1/1)	727.703	10,22
SPLITSKA BANKA D.D./ ERSTE PLAVI OMF CATEGORY B (1/1)	665.166	9,34
ADDIKO BANK D.D./ RAIFFEISEN OMF CATEGORY B (1/1)	625.298	8,78
HPB D.D./ KAPITALNI FOND D.D. (1/1)	406.842	5,71
CERP (0/1) / REPUBLIC OF CROATIA (1/1)	387.257	5,44
HPB D.D./ REPUBLIC OF CROATIA (1/1)	286.588	4,03
ZAGREBAČKA BANKA D.D./ AZ PROFIT VOLUNTARY PENSION FUND (1/1)	113.728	1,60
ADDIKO BANK D.D./RAIFFEISEN DMF (1/1)	99.965	1,40
ZAGREBAČKA BANKA D.D./STATE STREET BANK AND TRUST COMPANY, BOSTON	70.163	0,99
Treasury Account	162.559	2,28
Other Shareholders	1.746.258	24,53
TOTAL	7.120.003	100,00



- New Markets, includes African countries (East Africa, West Africa, Central Africa), MENA countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Iraq, Iran, the Levant nations and the countries of Northern Africa) and Asian countries (India, China and other Asian countries).

The SBA Pharmaceuticals operates in Croatia and on international markets divided into the following regions:

- Southeast Europe, including Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Kosovo, Albania,
- Eastern Europe, including Russia, Ukraine and Kazakhstan,
- Central Europe, including the Czech Republic, Slovakia, Slovenia and Poland,
- New Markets, including Turkey, Iraq and Libya.
- Belupo – outlicencing, including Denmark and Germany.

The users of Podravka products are divided into buyers and consumers. Buyers are distributors, retail chains (wholesale and retail), drug wholesalers, drug stores, pharmacies, hotels, restaurants and catering (HoReCa channel) and institutional buyers. Consumers are persons of various age groups, gender, religion and preferences from around the world, i.e. end users of the above-mentioned sales channels.

1.1.5. MARKETS WHERE THE COMPANY OPERATES

The operations of the Podravka Group take place in two industrial sectors, i.e. two strategic business areas (SBA): Food and Pharmaceuticals.

The SBA Food operates on the domestic and international markets divided into the following regions:

- The Adria region, including Croatia and the countries of Southeast Europe (Slovenia, Serbia, Macedonia, Montenegro, Kosovo, Albania, Greece), and
- International Markets including
 - Central Europe, including Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria,
 - Western Europe and Overseas, including Germany, Austria, Switzerland, France, Great Britain, Italy, Scandinavia, Benelux and other countries in Europe, North America, Australia and New Zealand,
 - Eastern Europe, including Russia, Ukraine, Kazakhstan, the Baltic states and other East European countries,



1.1.6. COMPANY SIZE

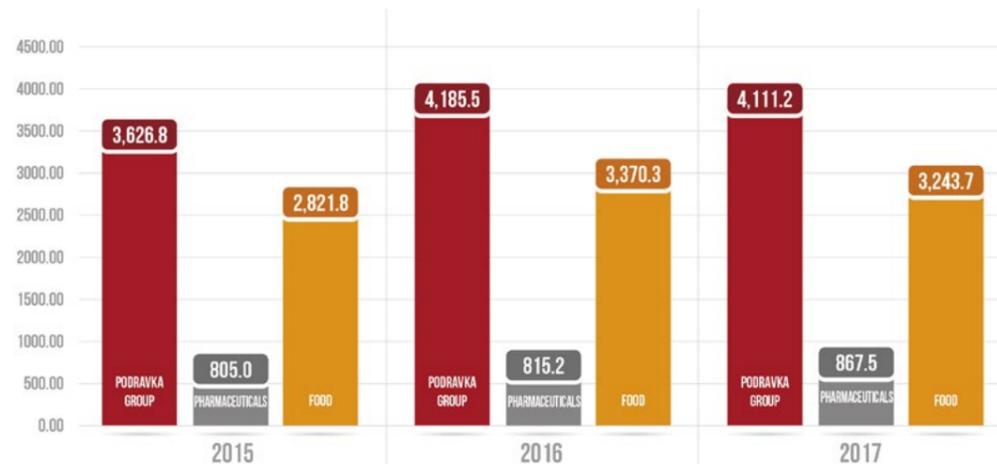
1.1.6.1. Total number of business activities and employees

During 2017, the Podravka Group was registered for the performance of 62 business activities (according to the excerpt from the court register of the Varaždin Commercial Court) and, as of 31 December 2017, the Group had a total of 6.305 employees.

1.1.6.2. Net sales revenues

The net sales revenues of the Podravka Group in 2017 amounted to HRK 4,111.2 million. The revenue trends and the absolute values over the past three-year period are shown in the following chart:

FIGURE 1: NET SALES REVENUES OF THE PODRAVKA GROUP



At the end of 2016, Podravka d.d. sold its Beverages business, that recorded sales of HRK 82.2 million in 2016. Also, in February 2016, an extraordinary delivery of buffer stock in the amount of HRK 12.0 million was made to the Ministry of Economy, related to the migration of population from war-torn areas through the territory of Croatia. During 2017, identified inconsistencies in the treatment of recording revenue in the Food segment on the Russian market, largely resulting from a different trade marketing activities classification, have been adjusted. Due to these developments, full comparability of revenue movements between the current and the previous year is impossible. The financial reports with more detailed information about sales revenue movements are available on Podravka's website at:

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.1.6.3. Total capitalization

The total capitalization of the Podravka Group in 2017 and in the two preceding years, broken down in terms of debt and equity, i.e. own capital and funding sources, shows that the company has a high and growing share of its own capital in total funding sources, with the aim of retaining low indebtedness, as follows:

FIGURE 2: TOTAL CAPITALISATION OF THE PODRAVKA GROUP BY DEBT-TO-EQUITY RATIO (IN THOUSAND HRK)



1.1.6.4. Quantity of produced food and pharmaceutical products

In the SBA Food, a total of 235,229 tonnes of food products were produced in 2017. The sale of the Beverages business and the Studenac beverage factory in Lipik at the end of 2016 resulted in a decrease in food production. The SBA Pharmaceuticals produced a total of 36,063,603 boxes of pharmaceutical products, representing a 1.7% increase in production in comparison to 2016.

An overview of the quantities of food and pharmaceutical products produced by the Podravka Group in the period 2015 - 2017 is shown in the following figure:

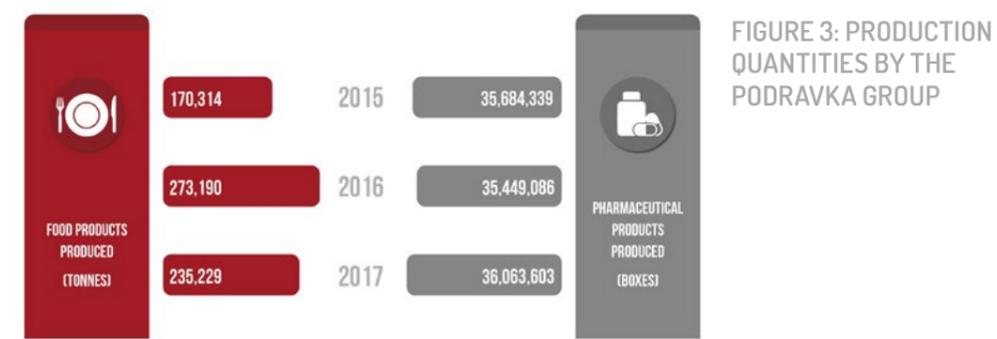


FIGURE 3: PRODUCTION QUANTITIES BY THE PODRAVKA GROUP

1.1.7. INFORMATION ON EMPLOYEES AND OTHER WORKERS

1.1.7.1. Total number of workers by employment contract and gender

All workers of the Podravka Group, a total of 6.305, have concluded employment contracts and are considered employees in accordance with the labour laws of the country in which their labour relations were established.

In terms of the type of employment contract, the Podravka Group employs workers on temporary employment contracts or permanent employment contracts. At the end of 2017, there were 5,643 workers (89.5%) employed on permanent employment contracts and 662 workers (10.5%) employed on temporary employment contracts. In terms of gender, women were slightly better represented, with 3,206 women (50.9%) and 3,099 men (49.1%) employed.

Following from the above, the total number of workers in the Podravka Group by employment contract and gender as of 31 December 2017 is shown in the following table:

Company name	PERMANENT EMPLOYMENT CONTRACT			TEMPORARY EMPLOYMENT CONTRACT			TOTAL NUMBER OF WORKERS		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Belupo Int. Bratislava	2	10	12	1	4	5	3	14	17
Belupo d.d.	309	473	782	76	74	150	385	547	932
Belupo d.o.o. Ljubljana	3	7	10				3	7	10
Belupo d.o.o.e.l. Skopje			0	1	1	2	1	1	2
Farmavita d.o.o. Vogošća	54	69	123	19	18	37	73	87	160
Intes Storitve d.o.o.	60	47	107				60	47	107
Konar GmbH Geretsried	1	3	4				1	3	4
Lagris a.s	68	45	113	21	30	51	89	75	164
Ljekarne Deltis pharm	3	40	43	1	5	6	4	45	49
Mirna d.d. Rovinj	53	76	129	9	19	28	62	95	157
Podravka d.d.	1.561	1.294	2.855	78	57	135	1.639	1.351	2.990
Podravka d.o.o Sarajevo – B&H	51	33	84	10	9	19	61	42	103
Podravka d.o.o. Beograd - SR	28	14	42	13	10	23	41	24	65
Podravka d.o.o. Ljubljana	44	76	120				44	76	120
Podravka d.o.o. Podgorica - MG	12	8	20	1	1	2	13	9	22
Podravka d.o.o.e.l. Skopje	16	6	22	13	8	21	29	14	43
Podravka Gulf- FZE	5	2	7	1	1	2	5	3	8

Company name	PERMANENT EMPLOYMENT CONTRACT			TEMPORARY EMPLOYMENT CONTRACT			TOTAL NUMBER OF WORKERS		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Podravka Int. Kft., Budimpešta	14	5	19				14	5	19
Podravka Int. Sydney	3	3	6				3	3	6
Podravka Int.s.r.o. Bratislava	10	20	30	8	8	16	10	28	38
Podravka Internat. USA	1	1	2				1	1	2
Podravka Polska sp.oz.o.	28	20	48	26	18	44	54	38	92
Podravka Russia			0	10	16	26	10	16	26
Branch offices of Belupo	43	161	204	12	21	33	55	182	237
Branch offices of Podravka	11	11	22	7	4	11	18	15	33
Šumi d.o.o.	26	77	103	6	3	9	32	80	112
Vegeta Podr. limited Tanzan.			0	8	1	9	8	1	9
Žito d.o.o. Ljubljana	361	294	655	10	17	27	371	311	682
Žito retail	9	72	81	1	14	15	10	86	96
TOTAL PODRAVKA GROUP	2.776	2.867	5.643	323	339	662	3.099	3.206	6.305

* **Note:** The number of workers of Podravka d.d. does not include 1 worker posted to Podravka Beograd d.d., who has been included in the total number of workers of that company.

1.1.7.2. Total number of workers by employment contract and region

The workers of the Podravka Group are distributed into five regions. At the end of 2017, there were 5,690 workers (90.25%) in the Adria region, 367 workers (5.82%) in the Central Europe region, 211 workers (3.35%) in the Eastern Europe region, 12 workers (0.19%) in the Western Europe and Overseas region, and 25 workers (0.40%) in the New Markets region.

Following from the above, the total number of workers in the Podravka Group by employment contract and region as of 31 December 2017 is shown in the following figures:

FIGURE 4: NUMBER OF WORKERS EMPLOYED ON PERMANENT EMPLOYMENT CONTRACTS IN THE PODRAVKA GROUP AS OF 31 DECEMBER 2017 BY REGIONS

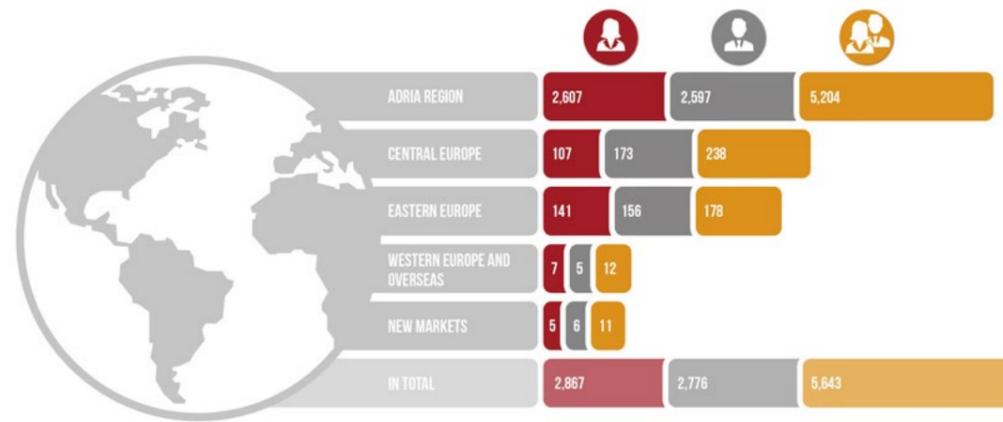


FIGURE 5: NUMBER OF WORKERS EMPLOYED ON TEMPORARY EMPLOYMENT CONTRACTS IN THE PODRAVKA GROUP AS OF 31 DECEMBER 2017 BY REGIONS

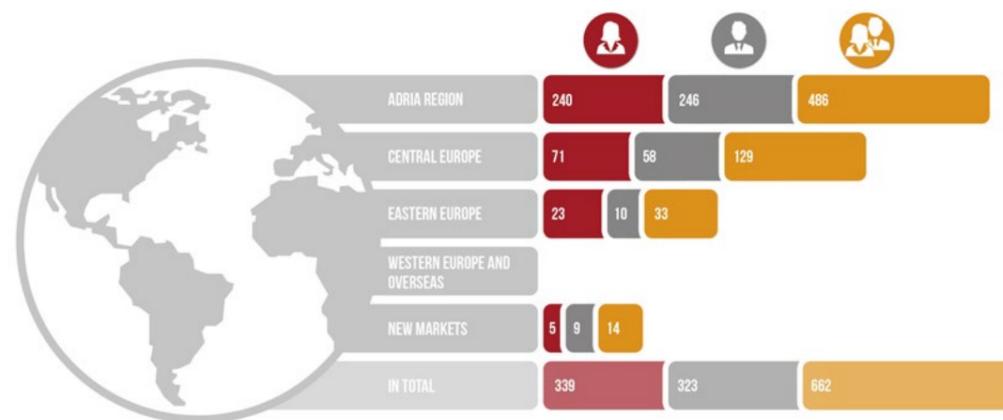
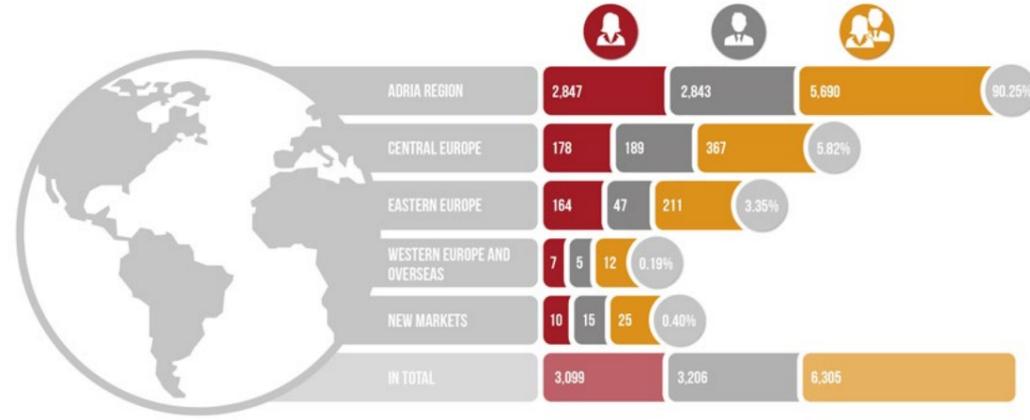


FIGURE 6: TOTAL NUMBER OF WORKERS IN THE PODRAVKA GROUP AS OF 31 DECEMBER 2017 BY REGIONS



1.1.7.3. Total number of workers by employment type and gender

According to the type of employment, the workers of the Podravka Group can be divided into full-time and part-time employees. At the end of 2017, there were 6,298 (99.9%) full-time employees, and only 7 (0.1%) part-time employees in the Podravka Group. Specifically, there were only 1 male and 6 female employees working on part-time contracts (Farmativa d.o.o., Predstavništva Belupa, Lagris a.s., Žito d.o.o. and Žito retail).

1.1.7.4. Workers who are not employees

The portion of the company's activities performed by workers who are not employees (service contracts, royalties) in relation to the total Podravka Group workforce is not significant. Their share in the workforce of Podravka d.d. amounts to about 1.6%; there were no service contracts or royalty contracts concluded in other parts of the Podravka Group in the Republic of Croatia in the period 2015 -2017. In Belupo d.d., due to the specific nature of the pharmaceutical sector, the percentage of such workers amounted to 18% of the total number of employees in the year 2017.

1.1.7.5. Variations in the number of employees

There were no significant variations (oscillations) in the number of employees in the course of the year. The effect of seasonal employment on the total number of employees is insignificant; typically, seasonal workers are hired mid-year to perform various tasks of a seasonal character, mostly in the Production sector, and, as needed, for logistical and sales operations tasks. Seasonal workers were mostly hired by factories, to process seasonal vegetables.

1.1.7.6. Data compilation method

Information on employees and other workers was collected using the SAP business information system and, when needed, by contacting the persons responsible for keeping staff records for employees of foreign companies and branch offices.

1.1.8. SUPPLY CHAIN

1.1.8.1. Supply chain characteristics

The supply chain of the Podravka Group is organized according to the principles of Supply Category Management. For all supply categories, tendering is used as a procurement method or, in a more targeted way, i.e. on the basis of market research and competitor monitoring, potential partners – regional or global, depending on the type of goods – are invited to submit their offers. The Ensolva application (ex eNabava), an important platform for tendering and e-auctions, is used for procurement as it improves the negotiation process and helps obtain more favourable prices of materials and services.

Supplier Relationship Management is strategically important for the Podravka Group given that the suppliers are also segmented according to their strategic importance, i.e. added value for the company. Creating strong partnerships with the suppliers is one of the main goals of the supply chain. This ensures timely product delivery, in agreed quantities and quality, as well as competitive and sustainable prices.

ISO audits are regularly performed to evaluate the suppliers on the basis of various criteria, providing the company with the most comprehensive picture of its suppliers. It is exceptionally important that the suppliers have all necessary certificates (IFS, BRC, GLOBALGAP, FSSC 22000, ISO 9001, ISO 14001, HACCP, OHSAS 18001 and other).

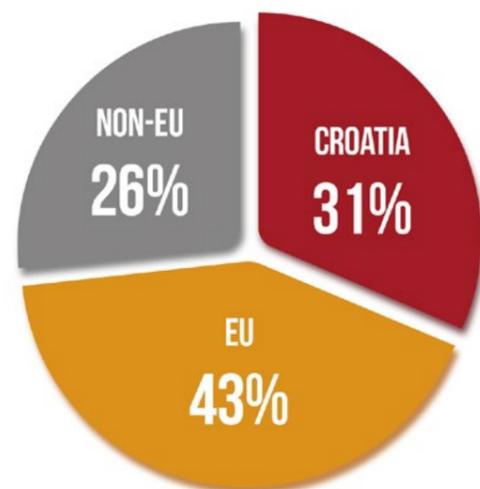
1.1.8.2. Types of suppliers engaged

As to the type of suppliers, the Podravka Group works with direct manufacturers, primary manufacturers, small enterprises (crafts), family farms, subcontractors, distributors, wholesalers, and big international companies.

1.1.8.3. Total number of suppliers engaged by the company and their geographical location

In 2017, at Podravka Group level, supplier trade activities involved 10,023 suppliers, with as many as 3,122 from Croatia (31%), as shown in the following figure:

FIGURE 6: STRUCTURE OF SUPPLIERS OF THE PODRAVKA GROUP IN THE SUPPLY CHAIN BY COMPANY SEAT



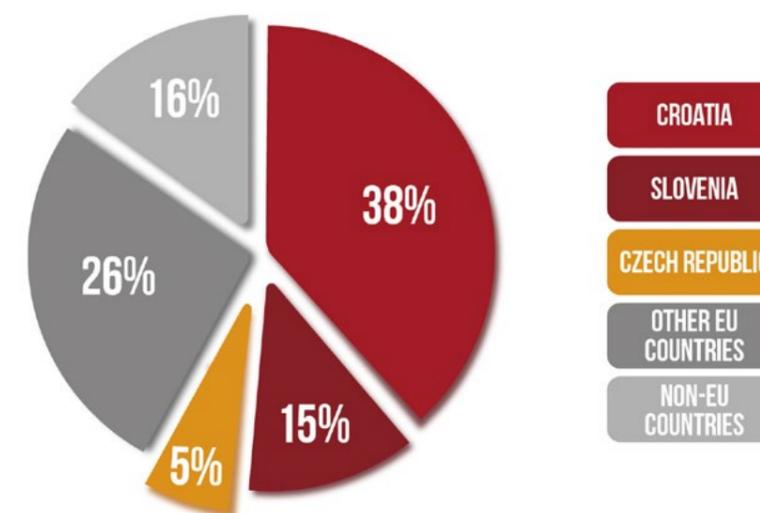
The Podravka Group engages suppliers from over 65 countries around the world, with foreign markets accounting for the major part of its procurement activities. In the import structure, the majority of the suppliers are from the EU, while most of the trading activity with non-EU countries involves manufacturers from the region (Bosnia and Herzegovina, Serbia and Macedonia), Switzerland and the Russian Federation.

Abiding by its high-quality standards for incoming raw materials, the sufficient quantities aspect, as well as technical and technological equipment requirements for packaging and raw material manufacturers, the company carries out a significant portion of its supplier-related trading activities with local producers and primary manufacturers, thus contributing to the development and stability of local communities. According to this criterion, local suppliers accounted for as much as 63% of the total trading activities with suppliers.

1.1.8.4. Total monetary value of payments to suppliers

The total monetary value of payments to external suppliers in the year 2017 amounted to HRK 3.4 billion, with payments to Croatian suppliers and to foreign suppliers accounting for 38% and 62% respectively. The structure of the payments to suppliers, by supplier seat, is shown in the following figure and table.

FIGURE 8 – STRUCTURE OF PAYMENTS TO SUPPLIERS BY COMPANY SEAT



Country	Number of suppliers	%	Payments in HRK million	%
Croatia	3,122	31%	1,288	38%
Slovenia	1,736	17%	488	14%
Czech Republic	686	7%	161	5%
Poland	738	7%	150	4%
B&H	876	9%	145	4%
Serbia	549	5%	133	4%
Germany	249	2%	120	4%
Austria	91	1%	115	3%
Italy	128	1%	115	3%
Spain	52	1%	86	3%
Other countries	1,796	18%	568	17%
Total	10,023	100%	3,369	100%

1.1.9. SIGNIFICANT CHANGES TO THE COMPANY AND IN ITS SUPPLY CHAIN

1.1.9.1. Changes in the location of, or changes in, operations

In the year 2017, the company ŽITO STORITVE d.o.o. has ceased operations (it was removed from the court register on 1 February 2017), and the liquidation processes for the companies ŽITO DOO BEOGRAD – in liquidation, Belgrade (removed from the court register on 17 August 2017), and ŽITO PI d.o.o.e.l. – in liquidation, Macedonia (removed from the court register on 1 November 2017), as well as the bankruptcy process for the company SANA d.o.o. – in bankruptcy (removed from the court register on 26 October 2017), have been completed.

1.1.9.2. Changes in the share capital structure

In 2017, there were no significant changes in the share capital structure, as can be seen in the following table:

Changes in the share capital structure of Podravka d.d.			
Shareholder	31/12/2015	31/12/2016	31/12/2017
PBZ CO OMF Category B	10.7%	13.0%	13.0%
AZ OMF Category B	12.6%	12.7%	12.7%
CERP (Croatian Pension Insurance Fund)	10.2%	10.2%	10.2%
Erste Plavi OMF Category B	9.3%	9.3%	9.3%
Raiffeisen Mandatory Pension Fund Category B	5.3%	8.8%	8.8%
Kapitalni fond d.d.	5.7%	5.7%	5.7%
CERP (Republic of Croatia)	9.5%	9.5%	5.4%
Republic of Croatia	-	-	4.0%
UniCredit Bank Austria - clients account	7.7%	0.4%	0.2%
Other shareholders	29.0%	30.4%	30.6%

1.1.9.3. Changes in the supply chain

Due to the fact that the Podravka Group cooperates with a large number of suppliers, changes in the supply chain occur almost every day. The supplier consolidation trend continues, with large multinational companies purchasing smaller ones, thus altering the situation on the market. However, during 2017, there were no significant changes concerning the location of suppliers, the supply chain structure, or supplier relationships.

1.1.10. PRECAUTIONARY APPROACH

The Podravka Group applies a precautionary approach with the aim of avoiding and reducing negative impacts on the environment in the following manner:

- Utilization of processing by-products;
- Investing in new, "green" food production technologies (reduction of harmful emissions, waste minimisation, water consumption reduction, efficient use of resources);
- Increasing the capacity of its own technological resources by developing innovative products.

1.1.11. EXTERNAL INITIATIVES

The Podravka Group is committed to the following external initiatives:

- Corporate Management Code of the Croatian Agency for the Supervision of Financial Services (HANFA);
- Code of Business Ethics of the Croatian Chamber of Economy (CCE);
- Biotechnical Foundation of the Faculty of Food Science and Biotechnology;
- Foundation of the Croatian Chamber of Economy, Koprivnica County Chamber, for financial support for pupils and students, and
- Diversity Charter Croatia.

Furthermore, through its operations, the Podravka Group also supports the following voluntary external initiatives:

- OECD Guidelines for corporate management;
- The United Nations Global Compact, as the largest global initiative for socially responsible operations;
- GMO-free food policy;
- Strategic plan to reduce excessive salt intake in the Republic of Croatia 2015–2019.

1.1.12. MEMBERSHIP IN ASSOCIATIONS

An overview of the main memberships of the Podravka Group in major associations is provided in the following table:

Membership in associations (in alphabetical order)	Manner of participation
Centre for food innovation – INNOTECH d.o.o.	Position in the mgmt body
Koprivnica Chemical Technologists' Society (DKTK)	Position in the mgmt body
Eko-Ozra d.o.o.	Position in the mgmt body
GAMMA CHEF d.o.o.	Position in the mgmt body
Economic Interest Association of Vegetable Producers and Processors of Croatia	Position in the mgmt body
Economic Interest Association for Packaging and Environmental Protection (GIUPAK)	Position in the mgmt body
Croatian Chamber of Economy	Position in the mgmt body, membership deemed as strategic

Membership in associations (in alphabetical order)	Manner of participation
Croatian Chamber of Economy, Koprivnica County Chamber, Group for Safety at Work	Position in the mgmt body
Croatian Employers' Association (HUP)	Position in the mgmt body, membership deemed as strategic
HUP, Food and Beverages Association	Position in the mgmt body
HUP, Pharmaceutical Industry Association, Technical Working Group for Serialisation	Participates in projects or boards
Croatian Culinary Federation	Position in the mgmt body
Croatian Business Council for Sustainable Development (HR PSOR)	Participates in projects or boards
Croatian Agrometeorological Society (HAgMD)	Participates in projects or boards
Croatian Plant Protection Society (HDBZ)	Participates in projects or boards
Croatian Society of Agronomists	Position in the mgmt body
Croatian Society of Chemical Engineers (HDKI)	Position in the mgmt body
Croatian Society of Food Technologists, Biotechnologists and Nutritionists (HDPBN)	Position in the mgmt body
Croatian Pharmaceutical Society	Participates in projects or boards
Croatian Meteorological Society (HMD)	Participates in projects or boards
Croatian Microbiological Society (HMD)	Participates in projects or boards
ISEKI Food Association	Position in the mgmt body
Association of Croatian Laboratories (CROLAB)	Participates in projects or boards
Croatian Exporters' Association (HIZ)	Position in the mgmt body
Society for environmental protection in the economy, before the Croatian Chamber of Economy	Position in the mgmt body
Always with a Heart Foundation	Manager and members of the Foundation Board

1.2. ETHICS AND INTEGRITY

1.2.1. VALUES, PRINCIPLES, STANDARDS, AND NORMS OF BEHAVIOUR

1.2.1.1. Company value system and ethical principles

The Podravka Group, in its corporate value system, abides by the principles of modern corporate governance and applies the provisions of the Corporate Management Code of the Croatian Agency for the Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange, as well as the Rules of the Zagreb Stock Exchange.

In line with the above, with regard to ethics and integrity, the company accepted the fundamental ethical principles and ethical conduct guidelines of the Code of Business Ethics in the form and content as defined and approved by the Assembly of the Croatian Chamber of Economy (HGK). Pursuant to the recommendations from the accepted HGK Code of Business Ethics, the Company also adopted its own Code of Business Ethics at the level of the Podravka Group and, on that basis, Podravka d.d. and all its associated companies in Croatia and abroad developed their own ethical principles – based on the principles of modern corporate governance.

The Code of Ethics of the Podravka Group includes the company's traditional good business practices and promotes new standards in line with the best business practices, with the aim of retaining a strong reputation in all areas of operation. The Code is based on the principles of diligent and conscientious business conduct, and a corporate system of values applied by the Management Board, management and all employees of the Podravka Group – for the purpose of creating and maintaining a recognisable company identity in comparison to the competition, building consumer loyalty and trust among investors, business partners and the public as a whole.

1.2.1.2. Principles of operation of the Podravka Group

The fundamental principles of business applied by the Podravka Group in its operations are: legality and transparency of operations; work professionalism and objectivity; the importance of public relations; the importance of positions on the environment and the community; clearly defined procedures for the work of the Supervisory Board, Management Board and General Assembly; avoiding conflicts of interest; effective internal control, and a responsibility system.

As regards the environment, the company pays particular attention to its own and the wider community's sustainable development, with continuous investments in the area of environmental protection. Therefore, all employees are required to adhere to ecological standards and comply with applicable regulations in their work, and to properly and responsibly deal with all types of waste and ensure rational use of all raw materials.

Furthermore, with regard to community relations, in its development and growth, the company has traditionally aligned its interests with those of the local community,

always taking into account the interests of the community and significantly supporting the development of numerous charity associations, sports clubs, scientific institutions and similar organisations. Additionally, the company regularly participates in and supports community projects aimed at improving education, the environment, health, and social standards in the area where it operates, with significant incentives for the participation of the Podravka Group and its employees in all charity organisations, sports clubs and similar.

With regard to conflicts of interest, all employees, especially managers, are expected to be completely loyal to the Podravka Group; thus, participating in any activity, particularly of a commercial or financial nature, that could cause a conflict of interest of an employee with the interests of the company, is not permitted. Employees are also not permitted to perform any activities that compete with the company operations.

Dual position holding in the Podravka Group is also not acceptable, and all employees holding managerial positions should avoid serving as members of the Supervisory Board of Podravka d.d. In case of a potential conflict of interest, the employees have to immediately inform their immediate superior and/or the Management Board thereof in writing. Employees who, in addition to their work at the Podravka Group, hold positions in other organisations, civil society institutions and similar, may not exploit their position by extorting or demanding donations or sponsorships.

Every employee of the Podravka Group is entitled to inform the competent sector director (authorized person) in writing of any potential or committed violations of these values – and no sanctions or discrimination in their future work may be imposed against them.

The provisions of the Code of Ethics of the Podravka Group set out the procedure following the submitted report in detail, with a list of sanctions to be imposed by authorized persons against the persons who do not comply with or who violate the provisions of the Code.

1.3. GOVERNANCE

1.3.1. GOVERNING STRUCTURE

The Company organs of Podravka d.d. – pursuant to the provisions of the then valid Statute of Podravka d.d. (hereinafter: the Company) – are:

- General Assembly
- Supervisory Board, and
- Management Board.

1.3.1.1. General Assembly

Shareholders – those holding shares with the right to vote – exercise their right to vote and adopt decisions in the General Assembly within the framework of their competencies as stipulated by law. Shareholders exercise their right to vote at the General Assembly in person or via a representative or a proxy.

Shareholders, their representatives and proxies, who have been entered into the computer system of the Central Depository and Clearing Company (CDCC) and who have applied for participation in the General Assembly no later than six days prior to the General Assembly meeting, have the right to participate and vote in the General Assembly.

1.3.1.2. Supervisory board

The Supervisory Board has nine members, eight of whom are elected by the shareholders at the General Assembly meeting by a three-quarter majority of votes, while one member of the Supervisory Board is appointed by the Worker's Council of the Company in the manner and following the procedure described by the provisions of the Labour Act.

Members of the Supervisory Board are appointed, i.e. elected, to a four-year term. The term of office of each member of the Supervisory Board commences on the date of their election, unless otherwise determined by an election resolution.

The Supervisory Board supervises business operations of Podravka d.d., and makes decisions on issues in their domain in accordance with the law, the Statute, i.e. the Articles of Association, of Podravka d.d., and the Rules of Procedure of the Supervisory Board.

More detailed information about the Supervisory Board and its members in the year 2017 can be found in the Podravka Grup Annual Report for 2017, under Important Events, pp. 76-78, available on Podravka's website at

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.3.1.3. Management Board

The Management Board consists of three to six members appointed by the Supervisory Board. The president and members of the Management Board must have university qualifications and a minimum of five (5) years of work experience in management. The Management Board is appointed for a term as established by the Supervisory Board, to a maximum of five years, with the possibility of reappointment.

If the president and individual members of the Management Board are appointed in the course of the duration of the mandate of the existing Management Board, their mandate shall last until the expiry of the mandate of the Management Board as a whole. The mandate commences on the date of appointment of the Management Board, unless otherwise stipulated in a decision of the Supervisory Board.

The president and members of the Management Board are appointed by the Supervisory Board. Each member of the Management Board is authorised to represent the Company individually and independently. All other Company affairs are managed by the president and members of the Management Board individually and independently on the basis of the division of tasks among members of the Management Board for specific areas of operation or scope of work. The manner of work and the division of tasks among Management Board members are determined by the Rules of Procedure of the Management Board, adopted by the Management Board. The Management Board, as the highest governing body, has no separately formed committees responsible for decision-making concerning the economic, environmental and social impacts.

More detailed information about the Management Board and its members in the year 2017 can be found in the Podravka Grup Annual Report for 2017, under Important Events, pp. 79-80, available on Podravka's website at

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.4. STAKEHOLDER ENGAGEMENT

1.4.1. LIST OF INCLUDED STAKEHOLDER GROUPS

For corporate reporting purposes, the Company has included the following stakeholder groups:

LIST OF INCLUDED STAKEHOLDER GROUPS (in alphabetical order)	NAME OF INCLUDED STAKEHOLDER BY GROUP (in alphabetical order per group)
ACADEMIC, EDUCATIONAL, AND SCIENTIFIC INSTITUTIONS	Antun Nemčić Gostovinski Primary School Koprivnica, Braća Radić Primary School Koprivnica, College of Agriculture in Križevci, Đuro Ester Primary School Koprivnica, Faculty of Agriculture Osijek, Faculty of Agriculture Zagreb, Faculty of Economics Osijek, Faculty of Economics and Business Zagreb, Faculty of Food Technology and Biotechnology Zagreb, Faculty of Food Technology Osijek, Faculty of Organization and Informatics Varaždin, Faculty of Pharmacy and Biochemistry Zagreb, J.J. Strossmayer University of Osijek, Ruđer Bošković Institute, Secondary School Koprivnica, Smiješak Preschool Koprivnica, Sv. Josip Preschool Koprivnica, Tratinčica Preschool Koprivnica, Vocational School Đurđevac, Vrapčić Preschool Drnje, Trade School Koprivnica, University North
BUYERS	City Pharmacy Zagreb, IKEA Hrvatska, Ljekarne Farmacia – Atlantik, Ljekarne Prima Pharme – Medika d.d., Phoenix Farmacija d.o.o.
CIVIL SOCIETY ORGANISATIONS	Association of Persons with Disabilities Bolje sutra from Koprivnica, Podravka Association for Culture and Art, PULS Association, Red Cross branch in Koprivnica, Slaven Belupo Football Club
CONSUMERS	Potrošač - Croatian Consumer Protection Society
EMPLOYEES	Workers' Council of Belupo d.d., Workers' Council of Podravka d.d.
FINANCIAL COMMUNITY	Erste Group, European Bank for Reconstruction and Development (EBRD), Intesa Group, Privredna banka Zagreb d.d., Raiffeisen Group, Societe Generale Group, Unicredit Group
LOCAL COMMUNITY AND AUTHORITIES	City of Koprivnica, Koprivnica-Križevci County, Public Fire Brigade of the City of Koprivnica, Regional Energy Agency North

LIST OF INCLUDED STAKEHOLDER GROUPS (in alphabetical order)	NAME OF INCLUDED STAKEHOLDER BY GROUP (in alphabetical order per group)
MANAGEMENT	Management Board of Belupo d.d., Management Board of Podravka d.d.
MEDIA	24 sata, ePodravina.hr, Glas Podravine i Prigorja, the magazine Hoteli, restorani, barovi (HRB), Jutarnji list, klikaj.hr, Podravski list, Poslovni dnevnik, Progressive magazin, Radio Koprivnica, Sportske novosti, Večernji list
OWNERS AND SHAREHOLDERS	General Assembly of Podravka d.d.
PROFESSIONAL ORGANISATIONS	Association of Croatian Laboratories (CROLAB), Croatian Business Council for Sustainable Development (HR PSOR), Croatian Chamber of Economy (HGK), Croatian Chamber of Economy – Association for Corporate Social Responsibility (DOP), Croatian Chamber of Economy – Koprivnica County Chamber, Croatian Chamber of Pharmacists, Croatian Culinary Federation, Croatian Employers' Association (HUP), Croatian Employers' Association –Pharmaceutical Industry Association (HUP-UPL), Croatian Exporters' Association, Croatian Medical Chamber, Croatian Pharmaceutical Society, Croatian Society of Nutritionists, Podravka Handball Club s.d.d.
STATE ADMINISTRATION	Agency for Medicinal Products and Medical Devices (HALMED), Central Clearing Depository Company Inc., Croatian Financial Services Supervisory Agency (HANFA), Croatian Ministry of Agriculture, Croatian Ministry of Health, Zagreb Stock Exchange Inc.
SUPPLIERS	Benussi d.o.o. Fažana, Croatia osiguranje d.d., DS Smith Unijapapir Croatia d.o.o., Dukat d.d. Zagreb, GKP Komunalac d.o.o., HEP ODS d.o.o., Hrvatski Telekom d.d., Ing inspekt d.o.o., IPROM d.o.o., Koprivnica plin d.o.o., Koprivničke vode d.o.o., La Log d.o.o. Sesvete, Ligo grupa d.o.o., Microsoft Hrvatska d.o.o., Mikulić d.o.o. Matulji, Oprema Strojevi d.d., Piškornica d.o.o., Prehrambeno industrijski kombinat d.d. Rijeka, sole proprietorship for transport services Transport Budiša Split, Radnik d.d., Ricardo d.o.o. Darda, SAP d.o.o., SGS Adriatica d.o.o., Siemens d.d. Zagreb, Silgan kovinska embalaža Ljubljana d.o.o., Tehnika d.d., Tetra pak d.o.o. Zagreb, TPZ d.o.o. Zagreb, Vetropack Straža d.d. Hum na Sutli, WEB burza, Zagrebinspekt d.o.o.
TRADE UNIONS	Podravka Concern Workers Union (SINPOD), Podravka Independent Trade Union (HUS), Trade union of the employed in agriculture, food and tobacco industry and water resources management of Croatia (PPDIV Podravka)

1.4.2. COLLECTIVE AGREEMENTS

The Collective Agreement of the Podravka Group applies to all employees of Podravka d.d. and Belupo d.d. in the Republic of Croatia, including the Management Board and the management, and it has been concluded between the employer on one side and all three trade unions active in the Podravka Group on the other side: Trade union of the employed in agriculture, food and tobacco industry and water resources management (PPDIV), the Podravka Independent Trade Union (HUS), and the Podravka Concern Workers Union (SINPOD).

The company Mirna d.d. Rovinj has a separate collective agreement, which applies to all employees, the Management Board and the management of the company as well, concluded with the Trade union of the employed in agriculture, food and tobacco industry and water resources management (PPDIV).

1.4.3. IDENTIFYING AND SELECTING STAKEHOLDERS TO BE ENGAGED

With the purpose of identifying and selecting stakeholders with whom to engage, the process of determining report contents and topic boundaries started with two workshops of the Sustainable Development Report Drafting Team, focused on the following topics: stakeholder identification, and prioritization of identified stakeholders of the Podravka Group.

The stakeholders of the Podravka Group are identified based on mutual influences. On that basis, from the standpoint of their respective organisational units, all members of the team carried out a dual qualitative stakeholder identification process:

- Identification of the persons, groups or organisations that could have an effect on the operations of the Podravka Group, and
- Identification of the persons, groups or organisations affected by the operations of the Podravka Group.

On that basis, the members of the team identified a total of 843 different persons, groups and organisations that can have an effect on, or are affected by, the operations of the Podravka Group. The members of the team then prioritized the identified stakeholders of the Podravka Group, using the following two criteria to assess their relevance:

- The interest of identified stakeholders – the level of engagement and consistent activities carried out by the identified stakeholders to realize their interests in, and fulfil their expectations of, the Podravka Group, and
- The influence of identified stakeholders – the ability of the identified stakeholders to realize their interests in, and fulfil their expectations of, the Podravka Group.

In conclusion, in the course of the process described above, a total of 115 stakeholders of the Podravka Group have been selected and then included in the process of determining report contents and topic boundaries.

1.4.4. APPROACH TO STAKEHOLDER ENGAGEMENT

The Podravka Group included all stakeholder groups in the drafting of the Sustainable Development Report from the very beginning of the report preparation process. With the aim of collecting, examining and taking into account the stakeholders' legitimate expectations and interests, in the process of determining the contents of the report, the following steps were taken:

1. First, representatives of a total of 115 stakeholders of the Podravka Group were invited to a meeting held at the company's headquarters; the meeting was attended by 52 of the 115 invited representatives. This initiated a dialogue between the company and the stakeholders, with the stakeholders having the opportunity to express their expectations and interest in non-financial information
2. A presentation from the meeting, with a special excel table intended for the stakeholders to express their additional expectations and interests for non-financial information in writing, was then e-mailed to all 115 stakeholder representatives invited to attend the Podravka Group stakeholder meeting
3. In about ten following days, two more reminders were sent by e-mail to all 115 stakeholder representatives invited to attend the Podravka Group stakeholder meeting, with the aim of further encouraging them to put forward their expectations and interests for non-financial information
4. Subsequently, all 115 stakeholder representatives who were invited to attend the Podravka Group stakeholder meeting were included in the process of selecting and prioritizing the topics for the company's report on sustainable development
5. Finally, two more reminders were sent by e-mail to all 115 stakeholder representatives who were invited to attend the Podravka Group stakeholders meeting, with the aim of further encouraging them to submit the completed form with a list of selected and prioritized topics

1.4.5. KEY TOPICS AND CONCERNS RAISED

The following key topics and concerns have been raised through stakeholder engagement, as listed in the following table:

SUPPLIERS
<p>Encouraging the use of recyclable packaging or packaging with procurement costs exceeding the costs of recycling; Reducing the use of single-use packaging that cannot be reused after consumption/use of the product; Reducing the use of multi-layer packaging that is more difficult to recycle; Placing emphasis on packaging optimisation for certain products, with the aim of reducing excess packaging; Mid-term plans to increase the presence in the existing markets and to expand into new markets so that the logistics staff would be able to prepare the capacities to meet the new needs; Maintaining or improving power supply reliability; Reconstructing some power plants owned by the company with the aim of maintaining power supply reliability; Continued use of natural gas as the primary energy source for the company's power plants, and maintaining or increasing natural gas consumption; Continuing with good business cooperation based on mutual understanding and cooperativeness; Using natural gas in the safest and most sustainable way; Timely performance of obligations by all sides; Supporting local manufacturing equipment vendors and ordering their goods; How much did the company invest in manufacturing equipment per year, and what is the percentage of locally procured manufacturing equipment? Possibilities for joint development of manufacturing equipment for the company; Corporate security (relating to IT infrastructure management, primarily user identities); Preparing for potential questions from regulators, partners or users relating to GDPR as an area of special importance for the company; Market presence; Buyers' health and safety; Environmental protection; Occupational health and safety; Fight against corruption; Materials; Economic impact; Exchange of knowledge acquired in the framework of occupational safety, fire safety and environmental protection units; Exchange of knowledge acquired during maintenance activities and application of new technologies (LED vs. traditional lighting, end-user workplace satisfaction after improvement implementation, and similar); Conducting employee surveys when implementing changes in the workplace, and feedback on employee satisfaction; Is the company considering the possibility of using renewable sources to generate power for its own needs with the aim of reducing its power consumption and to identify as an eco-friendly manufacturer?</p>
FINANCIAL COMMUNITY
<p>The economic impact of the company on the local and the wider community, with special emphasis on the development of the Croatian component, i.e. domestic suppliers.</p>
BUYERS
<p>Description of the company's relationship with its buyers (pharmaceutical wholesalers or other distributors) functioning as intermediaries between the company and end buyers (consumers, patients); Publishing additional information about Belupo relating to the topics covered in the report; Publishing information about the most important projects carried out in cooperation with the colleagues from the Faculty of Food Technology and Biotechnology, and their impacts (especially quantifiable impacts).</p>

LOCAL COMMUNITIES AND AUTHORITIES

What are the measures for fire prevention taken by the company, and are the prescribed measures applied in practice? Is fire prevention sufficiently funded in terms of investments?; What is the company's position with regard to the firefighters from the public fire brigades on duty in charge of facility entrances, and are investments being made to improve their working conditions?; Maintaining the highest environmental standards in the areas where production capacities are located (clean air, water, soil); The company's relationship with the environment; The manner in which the company intends to organize small farmers with the aim of producing raw materials required in its production cycle; The amount of thermal energy delivered to residential buildings in the local community of the company's headquarters in 2016 and 2017; Thermal and electric energy consumption at all company locations in the Koprivnica area; Details on the wood biomass power plant installed at Danica (capacity: thermal / electrical; generated energy).

MEDIA

Informing the expert community on achievements, news, and plans; Contents that promote product quality policy, positive impact on consumer health, and safety at work; Achieving customer satisfaction by delivering quality products; Taking into account, considering and balancing customer needs and expectations on one side and the needs and expectations of suppliers and workers; Efforts to ensure the satisfaction of all interested parties; Continuously reducing negative environmental impacts through preventive activities; Continuously introducing materials/ raw materials that generate less waste and thus reduce energy consumption during processing; Ensuring adequate working conditions for all employees in terms of health and safety; Engaging the employees and using their knowledge and experience in organisation development to the greatest possible extent; Creating an environment that motivates the employees to put forth their best effort; Continuous employee training; Social responsibility; Reporting on the cooperation between Podravka and family farms in the Podravina and Prigorje area and on the quantities of acquired raw materials produced on local fields.

ACADEMIC, EDUCATIONAL AND SCIENTIFIC INSTITUTIONS

Continued donations for children in the local community; Does new product development include products with more health benefits, products that contribute to environmental preservation, products that improve consumer safety?; Does the company have any programmes aimed at promoting the employment of young engineers?; What about cooperation aimed at improving the level of expertise in the food industry?; Does the company have any programmes aimed at promoting life-long learning for workers and, if it does, what new knowledge would the workers like to acquire through life-long learning?; Are there any possibilities for promoting scientific research aimed at improving production efficiency, product development, eco-friendly production and similar, to be co-funded by the company?; Increasing the involvement of scientific institutions in the work through projects, donations, joint workshops and life-long learning programmes; A more concrete and formalized co-operation with scientific institutions, which will not depend only on a few involved individuals; In addition to the listed activities in the past year, an overview of the goals for the following year; Including the following sustainability elements in the report: excellence, social impact and trustworthiness; Availability of requested products and information about marketed products; Maximising the use of "domestic products" in production; Operating without negative environmental

impacts; Compliance with all environment-related laws and regulations; Willingness for and openness to dialogue; Informing and advising; Implemented measures necessary for ensuring safe working conditions for employees; Hiring needs of the company in the following period, and the possibilities of developing highly qualified workforce through the existing study programmes; Adapting the existing and developing new study programmes to meet the company's needs; Does the company intend to develop an organic (eco) product line?; Review of the menu for the Healthy Recess project.

CIVIL SOCIETY ORGANISATIONS

Continuing co-operation in organising on-premises blood donation campaigns and blood donor incentives for employees to reward their humanity and selflessness; Donating Podravka products near the expiration date or with damaged packaging to the social grocery store or public kitchens, to help persons in need and to avoid destroying food; Promoting volunteer work and including Podravka employees in the volunteer campaigns of the Koprivnica Red Cross with the possibility of organising corporate volunteering programmes; Corporate support for the activities of Podravka's Association of Volunteers PULS; Reporting on the activities carried out by the PULS Association in corporate electronic media; A section dedicated to the PULS Association on the company's website; Occasional use of the mascots Lino, Kviki and Šime in the activities of the PULS Association; Permission for the employees engaged as volunteers in the PULS Association to leave the premises during working hours, when needed; Incentives for employee volunteers, e.g. best volunteer award programmes and rewarding employees with time off for a certain number of activities performed.

PROFESSIONAL ASSOCIATIONS

Continuing and expanding cooperation with local suppliers and agricultural producers; Expanding production and creating new jobs in the local community; Continuing cooperation with regard to the scholarships for shortage occupations provided through the Foundation of the Croatian Chamber of Economy, Koprivnica County Chamber, for financial support for pupils and students; Company programmes and activities relating to the EU Circular Economy Package (the whole cycle from procurement and production to consumption and waste management – covering all activities aimed at reducing food waste); Company programmes and activities relating to the EU 2030 Climate and Energy Policy Framework (energy efficiency, increasing the share of renewable energy); Investments in the area of education and development of dual-education; Supply characteristics with an emphasis on expanding the domestic supplier base for raw materials aimed at strengthening domestic primary production and creating higher value products that reduce the environmental burden (shorter transport time, less packaging materials); Freedom of association and collective bargaining.

The Podravka Group responded to key topics and concerns raised by stakeholders in the course of the stakeholder engagement process in the following manner:

1. First, the team leader of the Sustainability Development Report Drafting Team examined all key topics and concerns raised, followed by research and consultation with all team members and their colleagues by e-mail
2. Key topics and concerns raised were examined and discussed in a special workshop of the Sustainability Development Report Drafting Team
3. Proposals for improving Podravka Group's business have been prepared for upper management

1.5. REPORTING PRACTICE

1.5.1. ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The Podravka Group consists of the Company (Podravka d.d.) and the subsidiaries in which the Company has an ownership interest above 50% and control.

The list of entities included in the consolidated financial statements can be found in the Podravka Grup Annual Report for 2017, p. 148, available on Podravka's website at

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.5.2. DEFINING REPORT CONTENT AND TOPIC BOUNDARIES

1.5.2.1. Identifying relevant topics

After collecting stakeholders' expectations and interests, the team held a special workshop to examine and assess the topics raised in the wider context of sustainability and completeness with regard to:

- The significance of economic, environmental and social impacts; and
- The significance of the impact on stakeholders' assessments and decisions.

On the basis of the team's considerations and assessments, a list of topic-specific GRI standards, presented in the following table, was used as a wider list of relevant topics:

Economic Series	200
201	Economic performance
202	Market presence
203	Indirect Economic Impacts
204	Procurement practices
205	Anti-corruption
206	Anti-competitive behaviour
Environmental series	300
301	Materials
302	Energy

303	Water
304	Biodiversity
305	Emissions
306	Effluents and waste
307	Environmental compliance
308	Supplier Environmental Assessment
Social series	400
401	Employment
402	Labour/management relations
403	Occupational health and safety
404	Training and education
405	Diversity and equal opportunity
406	Non-discrimination
407	Freedom of association and collective bargaining
408	Child labour
409	Forced or compulsory labour
410	Security practices
411	Rights of indigenous peoples
412	Human rights assessment
413	Local communities
414	Supplier social assessment
415	Public policy
416	Customer health and safety
417	Marketing and labelling
418	Customer privacy
419	Socioeconomic compliance

1.5.2.2. Selecting and determining the relative priority of material topics

With the aim of selecting material topics and determining their relative priority, after the team’s workshop focused on determining the priority of material topics for the Podravka Group, the team leader sent the prepared form for the selection and evaluation of the priority of material topics to the stakeholders and team members. The assessment of the priority of material topics was based on the following:

- The significance of economic, environmental and social impacts; and
- The significance of the impact on stakeholders’ assessments and decisions.

Using the form with a list of topic-specific GRI standards, the process of selecting material topics and assessing the priority level of the 10 selected material topics by awarding points on a scale of 1 to 10 was carried out by:

- 38 representatives of stakeholders from 32 different organisations from the business, public and civil sectors, and
- 34 members of the Team from 34 different organisational units of the Podravka Group.

The team leader then calculated the relative priority of material topics for the stakeholders (average assessment score awarded by the stakeholders) and the relative priority of material topics for the Podravka Group (average assessment score awarded by Podravka’s representatives), and created a ranking list of all material topics, from the material topic with the highest to the material topic with the lowest relative priority.

During the next workshop held by the team, the team leader presented the ranking list according to the determined relative priority of material topics to the team members, and proposed the threshold for topic materiality. The team then analysed, assessed and discussed the proposed threshold, setting the lower materiality threshold at 2.00 points awarded for the relative priority of the material topic for the stakeholders.

After selecting material topics, a ranking list of selected material topics to be included in the 2017 Podravka Group Sustainable Development Report was created:

Ranking	Relative priority of material topics to the Podravka Group Sustainable Development Report for 2017	Relative priority for the stakeholders (average assessment score awarded by the stakeholders)	Relative priority for the Podravka Group (average assessment score awarded by Podravka’s representatives)
1.	Customer health and safety	5.55	6.38
2.	Economic performance	5.11	6.44

Ranking	Relative priority of material topics to the Podravka Group Sustainable Development Report for 2017	Relative priority for the stakeholders (average assessment score awarded by the stakeholders)	Relative priority for the Podravka Group (average assessment score awarded by Podravka's representatives)
3.	Occupational health and safety	4.37	4.47
4.	Environmental compliance	4.03	1.35
5.	Effluents and waste	3.13	3.68
6.	Training and education	2.89	4.03
7.	Indirect economic impacts	2.71	0,50
8.	Employment	2.58	4.71

In conclusion, the team members defined the boundaries of material topics by describing the areas where significant impacts of each material topic occur within and/or outside the Podravka Group, resulting from their own activities or as a result of business relations with other bodies.

1.5.3. LIST OF MATERIAL TOPICS

In the process of determining the content of the report, the following material topics for the 2017 Sustainability Development Report of the Podravka Group have been selected:

SUSTAINABILITY SERIES (DIMENSIONS)	SELECTED MATERIAL ASPECTS
ECONOMIC	Economic performance
	Market presence
	Indirect economic impacts
ENVIRONMENTAL	Materials
	Effluents and waste
	Environmental compliance
SOCIAL	Employment
	Occupational health and safety
	Training and education
	Customer health and safety

1.5.4. RESTATEMENTS OF INFORMATION

In this report, the effect of restatements of information provided in previous reports is primarily attributable to the completion of Žito's full integration into the Podravka Group and the introduction of the SAP information system. The new information system has improved the interconnections between Žito and the parent company, and facilitated greater transparency and easier reporting.

1.5.5. CHANGES IN REPORTING

The changes in reporting are due to the fact that the 2017 Sustainability Development Report of the Podravka Group is the first report prepared in accordance with the new GRI Standards. The higher relative priority of Indirect Economic Impacts for the stakeholders is a significant change in the list of material aspects and, as regards changes in aspect boundaries, the description of the area where the impact of material aspects occur now includes Žito as well.

1.5.6. REPORTING PERIOD

The reporting period for the information provided in the Sustainable Development Report of the Podravka Group for 2017 is the 2017 calendar year.

1.5.7. DATE OF THE LAST PUBLISHED REPORT

The most recent previous Sustainable Development Report of the Podravka Group was published on 17 November 2017, and it has been prepared in accordance with the G4 Guidelines of the Global Reporting Initiative (GRI) on sustainability.

1.5.8. REPORTING CYCLE

The reporting cycle for reporting on the sustainable development of the Podravka Group is annual.

1.5.9. CONTACT POINT FOR QUESTIONS REGARDING THE REPORT

For any questions regarding the report or its content, please contact:

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 PODRAVKA d.d.
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1.5.10. CLAIMS OF REPORTING IN ACCORDANCE WITH GRI STANDARDS

This Sustainable Development Report of the Podravka Group has been prepared in accordance with the GRI Standards: Core Option.

1.5.11. GRI CONTENT INDEX

The GRI Content Index for this Report, which has been prepared in accordance with the GRI Standards: Core Option, is presented below.

GRI Standard	Disclosure	Page number and/or URL
GRI 101: Foundation 2016		
GRI 102: General Disclosures 2016	102-1 Name of the organization	Page 10
	102-2 Activities, brands, products, and services	Pages 10-14
	102-3 Location of headquarters	Page 10
	102-4 Location of operations	Page 15
	102-5 Ownership and legal form	Page 15
	102-6 Markets served	Pages 16-17
	102-7 Scale of the organization	Pages 18-19
	102-8 Information on employees and other workers	Pages 20-23
	102-9 Supply chain	Pages 23-26
	102-10 Significant changes to the organization and its supply chain	Pages 26-27
	102-11 Precautionary approach	Page 27
	102-12 External initiatives	Page 28
	102-13 Membership in associations	Pages 28-29
	102-14 Statement from senior decision-maker	Page 9
102-16 Values, principles, standards, and norms of behaviour	Pages 30-31	
102-18 Governance structure	Pages 32-33	
102-40 List of stakeholder groups	Pages 34-35	
102-41 Collective bargaining agreements	Page 36	

GRI Standard	Disclosure	Page number and/or URL
	102-42 Identifying and selecting stakeholders	Page 36
	102-43 Approach to stakeholder engagement	Page 37
	102-44 Key topics and concerns raised	Pages 38-40
	102-45 Entities included in the consolidated financial statements	Page 41
	102-46 Defining report content and topic boundaries	Pages 41-44
	102-47 List of material topics	Page 44
	102-48 Restatements of information	Page 45
	102-49 Changes in reporting	Page 45
	102-50 Reporting period	Page 45
	102-51 Date of most recent report	Page 45
	102-52 Reporting cycle	Page 45
	102-53 Contact point for questions regarding the report	Page 45
	102-54 Claims of reporting in accordance with the GRI Standards	Page 46
	102-55 GRI content index	Pages 46-52
	102-56 External verification	Pages 53, 93-94
Economic performance		
GRI 103: Management Approach 2014	103-1 Explanation of the material topic and its Boundary	Page 54
	103-2 The management approach and its components	Pages 54-55

GRI Standard	Disclosure	Page number and/or URL
	103-3 Evaluation of the management approach	Page 55
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	Pages 55-56
Market presence		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 56
	103-2 The management approach and its components	Page 56
	103-3 Evaluation of the management approach	Page 56
GRI 202: Market presence 2016	202-2 Proportion of senior management hired from the local community	Pages 56-57
Indirect economic impacts		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 57
	103-2 The management approach and its components	Page 58
	103-3 Evaluation of the management approach	Pages 58-59
GRI 203: Indirect economic impacts 2016	203-2 Significant indirect economic impacts	Pages 59-63
Materials		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Pages 63-64
	103-2 The management approach and its components	Page 64
	103-3 Evaluation of the management approach	Page 65

GRI Standard	Disclosure	Page number and/or URL
GRI 301: Materials 2016	301-1 Materials used by weight or volume	Page 65
	301-2 Recycled input materials used	Page 66
Effluents and waste		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Pages 66-67
	103-2 The management approach and its components	Pages 67-68
	103-3 Evaluation of the management approach	Page 68
GRI 306: Effluents and waste 2016	306-1 Water discharge by quality and destination	Pages 68-69
	306-2 Waste by type and disposal method	Pages 69-71
Environmental compliance		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Pages 71-72
	103-2 The management approach and its components	Page 72
	103-3 Evaluation of the management approach	Page 72
GRI 307: Environmental compliance 2017	307-1 Non-compliance with environmental laws and regulations	Page 72
Employment		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 73
	103-2 The management approach and its components	Pages 73-74
	103-3 Evaluation of the management approach	Page 74

GRI Standard	Disclosure	Page number and/or URL
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Page 74
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page 75
	401-3 Parental leave	Page 76
Occupational health and safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Pages 76-77
	103-2 The management approach and its components	Pages 77-78
	103-3 Evaluation of the management approach	Page 78
GRI 403: Occupational health and safety 2016	403-1 Workers representation in formal joint management–worker health and safety committees	Page 78
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Pages 78-80
Education and training		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 81
	103-2 The management approach and its components	Pages 81-83
	103-3 Evaluation of the management approach	Stranica 83

GRI Standard	Disclosure	Page number and/or URL
GRI 404: Education and training 2016	404-1 Average hours of training per year per employee	Page 83
	404-2 Programs for upgrading employee skills and transition assistance programs	Page 84
Customer health and safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 85
	103-2 The management approach and its components	Page 86
	103-3 Evaluation of the management approach	Pages 86-87
GRI 416: Customer health and safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Pages 87-88

1.5.12. EXTERNAL VERIFICATION

1.5.12.1. Current practice with regard to seeking external verification for the report

The Podravka Group submits the request for external assurance, i.e. verification of its sustainability report, to the Croatian Business Council for Sustainable Development (HR PSOR). HR PSOR is a non-profit, private sector organization. It consists of 40 members who are representatives of the Croatian economy, bringing together knowledge, innovation and responsibility in seeking development paths that balance business success, social welfare and environmental protection.

1.5.12.2. Scope of obtained external verification

The external verification obtained from HR PSOR encompasses a written opinion of the verification body. The opinion constitutes an integral part of the sustainable development report, and contains conclusions on the quality of the report, the information contained within, and the report preparation procedures applied.

1.5.12.3. Relationship between the organization and the verification provider

The parent company Podravka d.d. is a regular member of HR PSOR, but does not have a representative in its governing body, i.e. the Executive Council. The verification body is a three-member committee of HR PSOR, formed separately for each sustainable development report. The committee consists of regular members of the Executive Council, who are independent of the company and therefore able to get objective and unbiased opinions and conclusions concerning the report and to publish their findings.

1.5.12.4. Involvement of senior management in seeking external verification of the report

Senior management was involved in seeking external verification of the Sustainable Development Report of the Podravka Group for 2017 through the participation of the director of Corporate Quality and Sustainable Development.

II TOPIC-SPECIFIC DISCLOSURES

2.1. ECONOMIC TOPICS

The economic dimension of sustainability concerns the impact of the Podravka Group on the economic conditions of its stakeholders at the local, regional, national and global levels.

2.1.1. MATERIAL TOPIC: ECONOMIC PERFORMANCE

2.1.1.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant economic impacts on the shareholders and on the local, regional and national economic systems. The materiality of the topic is also reflected in the stakeholders' reasonable expectations and interests that put the focus of the company's operations on its economic performance on both the local and the wider community.

With the aim of determining significant impacts related to its economic performance, the Podravka Group systematically monitors, analyses and presents its economic performance in order to communicate the significance of its impact on and contribution in the relevant industrial and geographical contexts (by sector, local, regional, national).

Significant impacts of this material topic occur in the entire Podravka Group, as well as beyond the organization, in local communities and countries where the Group operates, including its business partners.

The management approach and its components

The purpose of the management approach to the economic performance of the Podravka Group is to ensure the realization of economic performance plans.

The Podravka Group manages its economic performance with the aim of increasing its stakeholders' economic value. In doing so, according to the Capital Market Act and the Rules of the Zagreb Exchange, the Group is required to inform the public about its financial results on a quarterly basis and to publish audited annual reports once a year. Its financial statements are prepared in accordance with International Accounting Standards.

The company does not communicate its economic goals publicly. They are considered as a trade secret and confidential material information. Consequently, the company does not publish details pertaining to its economic goals, e.g. internal goal-planning policies.

Responsibility for managing the economic performance is assigned to the Management Boards of the companies from the Podravka Group.

As the parent company of the Podravka Group, Podravka d.d. has a dedicated Investor Relations department, that communicates with the investors on an ongoing basis, while the Management Board Office is in charge of communicating with all regulatory authorities. If any grievances are received, the above-mentioned units communicate with other relevant units in the Company in an effort to respond to the grievances as soon as possible.

With regard to its Investor Relations, the Podravka Group regularly participates in conferences and other meetings with the investors, where it presents its business model and financial results. During such meetings, answers to the investors' questions are provided, but within the limits of legal restrictions prohibiting the disclosure of privileged and price-sensitive information.

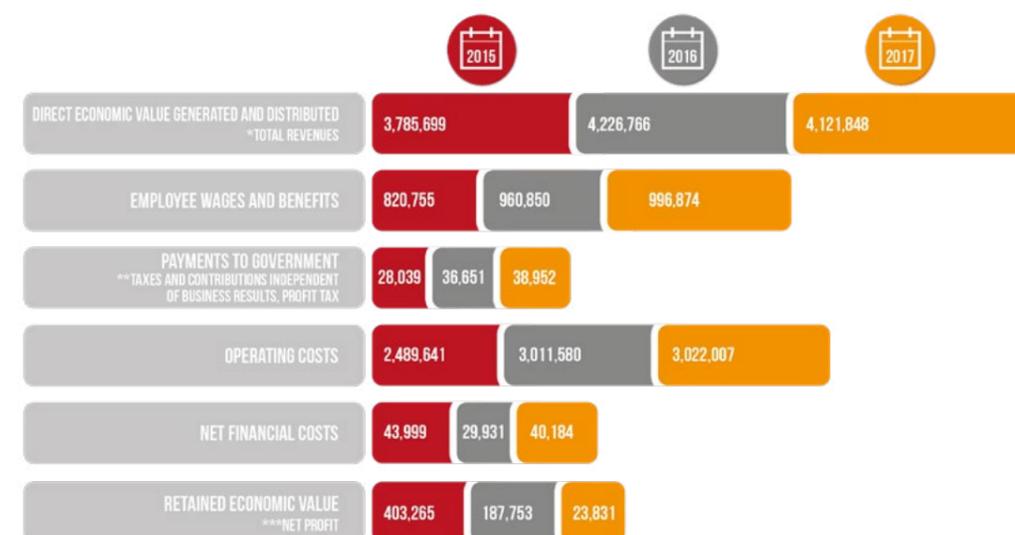
Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to the economic performance include both internal and external mechanisms. Internal mechanisms include monthly business analyses, as well as comparisons of the planned economic performance with that achieved. External mechanisms involve collecting feedback from stakeholders, who communicate their positions and views through official and unofficial channels.

2.1.1.2. Disclosure: Direct economic value generated and distributed

The following table shows the direct economic value generated and distributed by the Podravka Group in the 2015-2017 period.

FIGURE 9: PODRAVKA GROUP'S DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED



*Total taxes, ** Taxes and contributions independent of business results, profit tax ***Net profit

The financial reports with more detailed information on economic impact movements and Podravka Group's direct economic value generated and distributed are available on Podravka's website at:

www.podravka.hr/kompanija/investitori/financijska-izvjesca.

2.1.2. MATERIAL TOPIC: MARKET PRESENCE

2.1.2.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to its significant impacts on the economic situation of its employees, on the economic systems at the local level, and on the assessments and decisions of stakeholders.

With the aim of determining significant impacts related to market position, the Podravka Group systematically includes members of the local communities in its upper management and monitors the effect of their involvement in its management teams.

Significant impacts relating to market presence occur in the entire Podravka Group as well as beyond the organization, in local communities and all markets where it operates.

The management approach and its components

The purpose of the management approach to market presence is to avoid negative and enhance positive impacts by employing high-quality senior management tasked with managing the company and the teams within the company. A high proportion of senior management hired from the local community enhances the trust of employees and potential buyers.

Senior managers are appointed pursuant to the legal provisions of the Republic of Croatia and the countries in which the subsidiaries and/or branch offices of the Podravka Group are located, the Statute of the Company, and the Rules of Procedure of the Management Board of Podravka d.d. of 27 July 2017.

The goals and purposes of the management approach include selecting and appointing expert senior managers with appropriate qualifications, work experience and managerial skills, who can achieve an appropriate balance between the internal factors like strategy, human resources and technology, and the external environment (economic, technological, legal, environmental, etc.).

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach for market presence concern senior management's success in adapting to local and national requirements and diverse legal frameworks.

The results of the evaluation of the management approach to market presence include reports on the performance of the senior management with respect to targets.

2.1.2.2. Disclosure: Proportion of senior management hired from the local community

For the purposes of this report, "senior management" includes the individuals who hold the following positions: President and the members the Management Board, Senior Deputy President, Deputy President, Sector Director, Category Manager, Company Director, Deputy Company Director, Branch Office Manager, and Directors of Sales, Marketing, Finance and Logistics at the subsidiaries/branch offices located outside the Republic of Croatia.

"Senior management hired from the local community" includes those individuals who hold managerial positions and are citizens of their country of employment.

"Significant locations of operation" include all countries in which Podravka Group's companies and/or branches are incorporated.

The proportion of senior management hired from the local community in the Podravka Group in the 2015-2017 period is shown in the following table:

Podravka Group	Proportion of senior management hired from the local community		
	2017	2016	2015
Podravka Group in Croatia	100%	100 %	100%
Podravka Group outside Croatia	72%	76%	73%

All individuals holding managerial positions in the Podravka Group in the Republic of Croatia have been hired from the local community. In the subsidiaries and branch offices outside Croatia, on average, the management hired from the local community accounts for about 70% and the management from Croatia accounts for than 30% of the managerial staff.

2.1.3. MATERIAL TOPIC: INDIRECT ECONOMIC IMPACTS

2.1.3.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant economic impacts on the stakeholders and the economy, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Continuing and expanding cooperation with the local suppliers and agricultural producers;

- Expanding production and creating new jobs in the local community;
- Supporting local manufacturing equipment vendors and ordering their goods;
- Reporting on the cooperation between Podravka and family farms in the Podravina and Prigorje area and on the quantities of acquired raw materials produced on local fields;
- Exchange of knowledge and insights acquired in the framework of occupational safety, fire safety and environmental protection units (LED vs. traditional lighting, end-user workplace satisfaction after improvement implementation, and similar);
- Supply characteristics with an emphasis on expanding the domestic supplier base for raw materials aimed at strengthening domestic primary production and creating higher value products that reduce the environmental burden (shorter transport time, less packaging materials); and
- Continuing co-operation in organising on-premises blood donation campaigns and blood donor incentives for employees to reward their humanity and selflessness.

With the aim of determining significant impacts related to indirect economic impacts, the Podravka Group tracks and measures the range of its indirect economic impacts.

Significant indirect economic impacts occur in the entire Podravka Group, as well as beyond the organization, in the local communities and the countries in which it operates, through its own business activities and as a result of its business relationships with other entities (primarily suppliers and consumers).

The management approach and its components

The management approach includes the Food Safety and Quality System Policy and the GMO Policy. The policies apply to the entire company, and are approved by the President of the Management Board.

The policies make reference to international standards ISO 9001, FSSC 22000, IFS, and BRC. The last revised versions of the Food Safety and Quality System Policy and the GMO Policy were published on 7 October 2016 and 21 December 2015, respectively.

Podravka primarily focuses on producing and procuring high-quality and safe agricultural products (mainly raw materials) in compliance with good manufacturing practice.

The goals and purposes of the management approach to indirect economic impacts include maintaining and improving the quality of primary raw materials and the communication with agricultural producers, facilitating continuous training of primary raw material producers, and applying the principles of sustainable development.

The expected result include the production of high-quality agricultural products (vegetables, fruit, field crops); meeting the needs and using the capacities of the company relating to such raw materials; ensuring employee satisfaction, and maintaining good communication with the producers.

The responsibility for managing this material topic is assigned to the Agriculture sector and the Agriculture Development department in line with the Agricultural Production Strategy of the Podravka Group.

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to indirect economic impacts include monitoring the subcontractors' raw material production efficiency. All production parameters are monitored: soil preparation, sowing, protection, harvest, and all phenological stages of crop development. All crops undergo maximum pesticide residue level analyses. Based on the results, the subcontractors are informed about the safety of their crops, i.e. the purchase thereof, if safe.

The results of the evaluation of the management approach for indirect economic impacts include the reports prepared by Podravka's technologists with regard to the quality, quantity and price of agricultural products. These reports identified possible areas for improvements in the monitoring system, to be achieved by including more expert technologists into the monitoring of growth and development of primary agricultural raw materials supplied by the subcontractors.

The adjustments to the management approach as a result of the evaluation include an even more frequent and comprehensive education of subcontractors during the vegetation period, as well as in the winter period.

2.1.3.1. Disclosure: Significant indirect economic impacts

Strategic Business Area: Food

The company aims to secure the greatest possible amount of raw materials through contracted production from its partners from the areas near the processing facilities (in the vicinity of the Koprivnica, Varaždin and Umag factories), which has a significant impact on the economic development of the local rural areas. In terms of value and quantity, organized production of vegetables, grains and fruit is very important for the local community, with several hundred family farms engaged as contracted farmers of the Podravka Group; their engagement significantly contributes to raising the living standard of the population involved in contract agricultural production for the Podravka Group. In this way, the Podravka Group makes a significant indirect economic impact on the employment of a population generally characterized by lower employability (women of 50 years of age and over, non-skilled workers).

Based on their research findings, the experts from the Podravka Group provide education for its subcontractors in the area of agricultural production. Producer education includes regular annual meetings prior to the start of the production season, contracted production tours during the vegetation season, and organisation of Field Days, where the economic and scientific developments in the agricultural industry are presented. The education includes the following topics: application of modern technology; introduction of adequate varieties based on contracted

production monitoring during the entire vegetation period; expert consultations on crops; co-funding production and providing seed, fertilizers, and necessary plant protection products; and keeping the environment clean and avoiding pollution with plant protection products. This contributes to improving the know-how of the rural population oriented toward agricultural production in the wider local community.

Wheat procured from local communities in Croatia and Slovenia

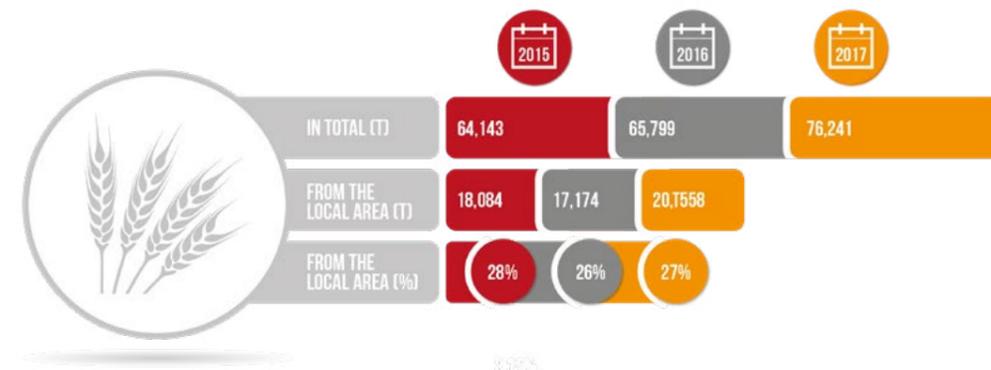
In 2017, out of the total 27,600 tonnes of wheat purchased in the Republic of Croatia, Podravka purchased 23,900 tonnes of wheat harvested in the local Koprivnica area, worth HRK 23.6 million in total. The major part of the purchased wheat comes from contract producers. This represents a significant increase (twofold) compared to 2016, as shown in the following figure:

FIGURE 10: WHEAT SUPPLIED BY THE LOCAL COMMUNITY IN CROATIA



In addition to the purchased quantities of wheat supplied by the local community in Croatia, the Podravka Group has a significant impact as regards the purchase of wheat in the local community in Slovenia, as shown in the following figure:

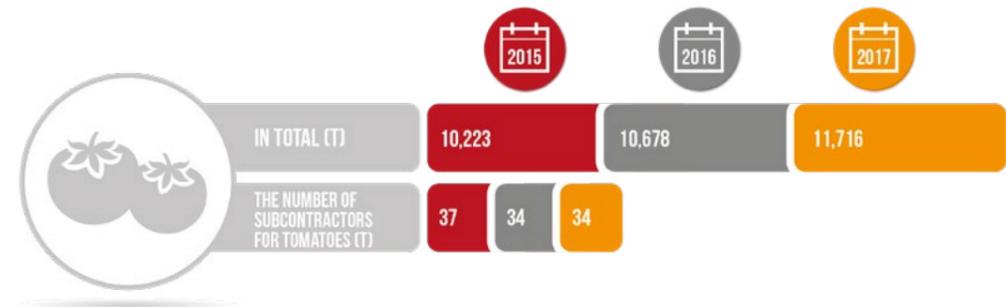
FIGURE 11: WHEAT SUPPLIED BY THE LOCAL COMMUNITY IN SLOVENIA



Tomato procured from the local community in Croatia

The overall production of 11,716 tonnes of tomatoes processed in 2017 at the Podravka plant in Umag originates from contracted production in the Istria region. The value of tomato production in 2017 amounted to about HRK 9.4 million. Even though the number of Istrian subcontractors in 2017 remained the same as in 2016, they produced 1,036 tonnes of tomato more than in 2016 and as much as 1,493 tonnes more than in 2015, when 37 subcontractors had participated in contract farming. This positive trend is shown in the following figure:

FIGURE 12: TOMATO SUPPLIED BY THE LOCAL COMMUNITY IN CROATIA



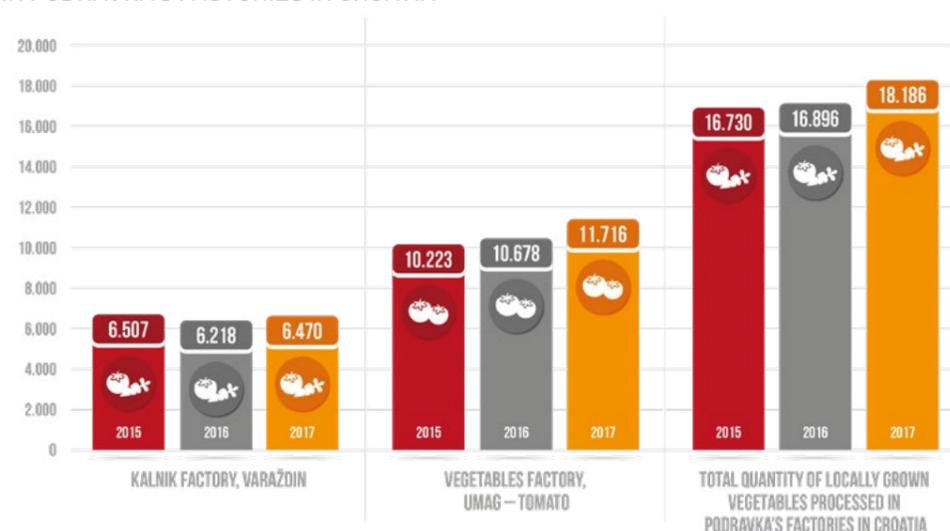
For the purpose of improving production and use of processed tomatoes in Umag, the site of the majority of production and the only Croatian tomato processing plant, for the past 19 years, prior to the start of the processing season, Podravka has been organizing the Tomato Days, an educational, promotional and charity event.

Locally grown vegetables processed in Podravka's factories in Croatia

In 2017, the Kalnik Factory in Varaždin purchased 6,470 tonnes of locally grown vegetables. The total quantity of locally grown vegetables processed in Podravka's factories in 2017 amounted to 18,186 tonnes, worth HRK 72,744 million, which represents an increase of 1,290 tonnes and HRK 5,160 million compared to 2016. This is a significant indirect economic increase for agricultural producers under contract with the Podravka Group as the buyer of their products. It has been assumed that the agricultural producers expanded the production on their farms and engaged seasonal employees from the local population to assist in agricultural production.

An overview of locally grown vegetables processed in Podravka's factories in Croatia in the period of 2015-2017 is shown in the following figure:

FIGURE 13: LOCALLY GROWN VEGETABLES PROCESSED IN PODRAVKA'S FACTORIES IN CROATIA



Strategic Business Area: Pharmaceuticals

For the past eleven years, Belupo has traditionally organized a public health measurement event on the main square in Koprivnica, taking place in April. The primary objective is to promote a healthy lifestyle and to show the importance of prevention and timely treatment. In this way, Belupo directly contributes to a culture of health, focused on maintaining good health of the citizens in the community where they live and work.

During the 3-hour public health event, the citizens of Koprivnica can visit Belupo's mini doctor's offices, Belupo's pharmacy, counselling service, and the Zdravljak eatery. During the event, tests are performed to measure eye and blood pressure, as well as blood sugar and triglycerides, to assess the risk of osteoporosis and detect early changes to the skin, while the visitors can also get nutrition advice and try various tasty snacks prepared by Podravka's culinary promoters. Depending on the test results, if needed, the visitors are instructed to contact their doctor.

Various new and additional activities are included in the public health initiative every year, and the number of visitors is on the rise as well. The number of tests also increases every year, as shown in the following table:

	Number of visitors	Increase	Number of tests	Increase
2014	150	—	450	—
2015	200	33%	600	33%
2016	250	25%	750	25%
2017	300	20%	900	20%

Nurses, physicians, pharmacists and nutritionists agree that the interest in the health measurement initiative grows every year and, thanks to Belupo's public health initiative, the citizens of Koprivnica are becoming healthier and more satisfied with the services provided during the event. Moreover, the interest of younger citizens of Koprivnica, who are aware of the importance of prevention, is constantly growing too. It should also be noted that the importance and the benefits of physical activity and movement are also promoted during the 180 minutes of the health measurement programme.

Namely, Belupo and the entire Podravka Group support the work of numerous local health institutions. By donating the funds for the procurement of medical equipment, Belupo has confirmed its commitment to the mission to invest in health and help those who need it most.

The employees of Belupo participate in voluntary blood donation programmes regularly organised by the Koprivnica Red Cross. The Association of Voluntary Blood Donors has been active since 1960; it cooperates with the Koprivnica Red Cross and the Tomislav Bardek Primary School in Koprivnica. Therefore, availability of life-saving blood for the citizens of Koprivnica has never been put into question, and the city of Koprivnica holds the third position on the list of the highest total amount of blood donated in Croatia, with the Koprivnica-Križevci County occupying the leading position. These positive advances and accomplished goals testify to the success of Belupo's activities in the local community.

It has already been mentioned that the number of visitors at the public health measurement event keeps growing. This shows that the initiative has had a positive influence: in terms of citizen awareness of the importance of preventive health check-ups, their care about their own health, interest in receiving information about how to maintain good health and various treatment possibilities. Belupo's public health programme also puts emphasis on family and intergenerational social interactions.

As a special indicator, the investment in promotion and advertising related to the public health initiative can also be mentioned. With the aim of informing all interested parties about its health measurement activities, Belupo engages and thus indirectly supports the local media and other entrepreneurs as service providers. In this manner, Belupo improves the efficiency of its investment in the public health initiative and the well-being of the local community: increasing the number of citizens who are notified about the event and who attend the health measurement programme organized by Belupo reduces the costs per visitor and per measurement. The costs in 2017 declined by 20% compared to 2016, while the costs in 2016 declined by 12% compared to 2015.

The number and types of media and other promotional services provided by the local media and entrepreneurs are also being adapted and increased as Belupo's health measurement programme develops and grows. The connections established with the local media and entrepreneurs and the growing number of visitors help increase the interest in the coverage of Belupo's health measurement programmes in print and internet media. This raises awareness of the importance of health protection for the wider social community in the course of, as well as after, the public health initiative programme. It benefits the media, Belupo, and the local community as a whole.

2.2. ENVIRONMENTAL TOPICS

The environmental dimension of sustainability of the Podravka Group concerns its impacts on living and non-living natural systems, including land, air, water, and ecosystems.

2.2.1. MATERIAL TOPIC: MATERIALS

2.2.1.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant environmental and economic impacts associated with materials, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Encouraging the use of recyclable packaging or packaging with procurement costs exceeding the costs of recycling (especially when it comes to plastic packaging);
- Reducing the use of single-use packaging that cannot be reused after consumption/ use of the product;
- Reducing the use of multi-layer packaging that is more difficult to recycle (e.g. foil over paper);
- Packaging optimisation for certain products, with the aim of reducing excess packaging (additional packaging on the product);
- Continuously introducing materials and raw materials that generate less waste;
- Developing new products that contribute to environmental preservation (packed in biodegradable packaging, with reduced packaging weight);
- Use of recyclable and/or biodegradable packaging materials, and
- Characteristics of the supply chain with an emphasis on expanding the domestic supplier base for raw materials aimed at strengthening domestic primary production and creating higher value products that reduce the environmental burden (shorter transport time, less packaging materials).

With the aim of determining significant impacts related to materials, the Podravka Group carries out regular quality controls for all materials; continuous assessments and evaluations of supplier relationships; master data management and material specification management; analyses of price trend and achieved cost savings.

Significant impacts of materials, through the company's own activities or as a result of its business relationships with other entities, occur at all production sites within the Podravka Group (Podravka d.d., Belupo d.d., Farmavita d.o.o., Mirna d.d.,

Lagris a.s., Žito d.o.o., Intes Storitve d.o.o., Šumi Bonboni d.o.o.), as well as beyond the Group, in the local communities where the company's factories are located, at the locations of its major suppliers' seats and the related local communities.

The management approach and its components

The purpose of the management approach to materials is to avoid and reduce the negative impacts and enhance the positive impacts of the Podravka Group.

The management approach includes the Procurement Policy for Materials that applies to the entire company; the director of Procurement is responsible for approving this Policy. The Policy makes reference to international standards ISO 9001, FSSC 22000, IFS, BRC, ISO 14001, HACCP, OHSAS 18001, and GLOBALGAP.

The Podravka Group is oriented towards the procurement of high-quality materials, and the commitment to manage the materials is based on regulatory compliance. The goals and purposes of materials management are: use of materials with beneficial effects on the human body and the environment; care for customer health; development of functional products; optimization of production processes, and systematic reduction of resource consumption in production.

The expected results of materials management include procurement of high-quality materials; reduction in the share and weight of packaging materials in the production of finished products; good communication with suppliers, and active cooperation with other organisational units in the company (Research & Development, Packaging Development, Marketing, Production).

Responsibility for managing this material topic is assigned to the Procurement sector.

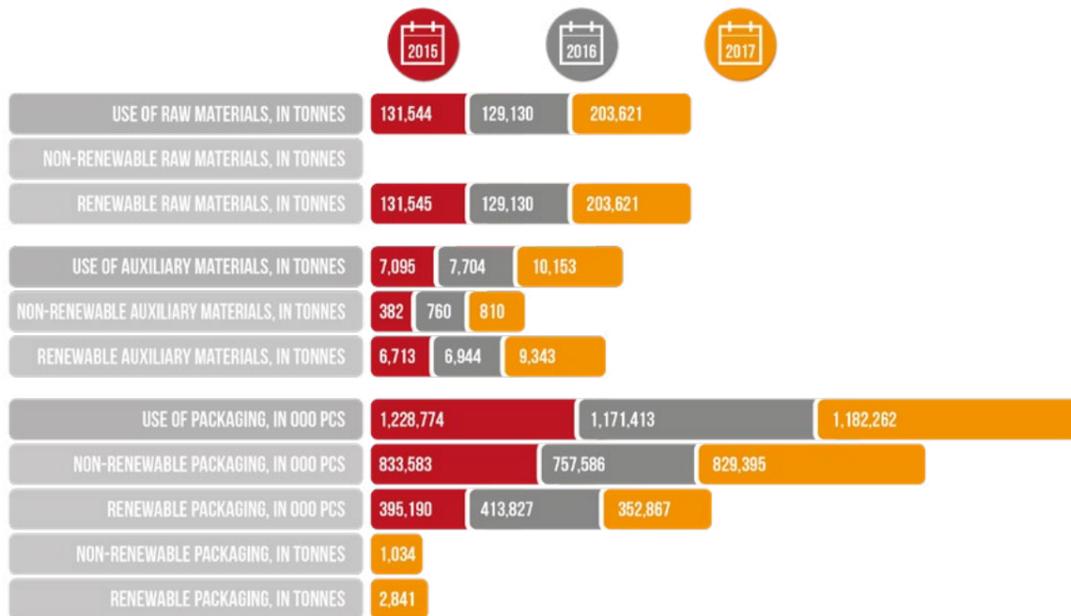
Evaluation of the management approach

The mechanisms for evaluating the effectiveness of the management approach to materials include regular quality controls for all material; continuous assessments and evaluations of the relationships with the suppliers of these materials; master data management and material specification management, and analyses of price trend and achieved cost savings. The effectiveness monitoring is conducted at daily, weekly, monthly and annual levels, and the responsibilities and scope of authority are clearly defined in the responsibility matrix for each monitoring process and method.

2.2.1.2. Disclosure: Materials used by weight or volume

The materials used to produce and package the products of the Podravka Group in the period from 2015 to 2017 include renewable and non-renewable materials, and an overview of these materials is shown in the following figure:

FIGURE 14: MATERIALS USED TO PRODUCE AND PACKAGE THE PRODUCTS OF THE PODRAVKA GROUP



*The 2017 data also include the materials used to produce and package the products of the Žito Group, i.e. show the materials used in the entire Podravka Group

2.2.1.3. Disclosure: Recycled input materials used

In the Podravka Group, recycled input materials can be used in the product packaging segment. In this manner, the company helps decrease the demand for new raw materials and contributes to preserving natural resources. Accordingly, the percentage of recycled input materials used to package the products of the Podravka Group in the 2015-2017 period is shown in the following table:

Percentage of recycled input materials in the packaging segment	2015	2016	2017
Cardboard packaging	93%	93%	93%
Corrugated cardboard	70%	70%	70%
White glass	20%	20%	20%
White metal	72%	72%	72%

2.2.2. MATERIAL TOPIC: EFFLUENTS AND WASTE

2.2.2.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant environmental and economic impacts associated with effluents and waste, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Efficiency of the wastewater treatment system at its own wastewater treatment plant, in order to avoid a more significant burden on the public sewage system;
- Donating products near the expiration date or with damaged packaging to the social grocery store or public kitchens, to help persons in need and avoid destroying food;
- Continuously introducing materials and raw materials that generate less waste;
- Developing new products that contribute to environmental preservation (packed in biodegradable packaging, with reduced packaging weight);
- Operating without negative environmental impacts;
- Minimizing the use of landfills in t/year, taking care that no production waste, except a minimum share of such waste in the mixed communal waste, ends up in landfills;
- Reducing waste generation by adapting technological processes and by changing raw materials, packaging and other materials, as well as through education, without compromising product quality or increasing production costs;
- Efficient internal waste sorting system, as well as the engagement of authorized waste recovery service providers for each category of waste, and
- Managing waste and food waste reduction activities.

With the aim of determining significant impacts related to effluents and waste, the Podravka Group systematically monitors the quality and volume of wastewater discharged, and tracks waste by type and quantity.

Significant impacts of effluents and waste occur within and beyond the Podravka Group, at its production sites in Croatia (Koprivnica, Varaždin, Umag, Rovinj) and Slovenia (Ljubljana, Lesce, Krško, Maribor, Trbovlje, Novo Mesto, Vrhnika, Gradišče).

The management approach and its components

The purpose of the management approach to effluents and waste of the Podravka Group is to:

- reduce and remediate negative environmental impacts by reducing wastewater volumes and by implementing wastewater treatment processes, and
- avoid and reduce negative impacts (preventing waste generation, reducing the volume of municipal waste) and enhance positive impacts (increasing the volume of usable waste separated from municipal waste).

The management approach to effluents and waste includes the Environmental Protection Policy, approved in 2014 by the Management Board President of Podravka d.d., which applies to the entire Podravka Group.

The commitment to manage effluents and waste is based on regulatory compliance and constant improvements beyond the requirements of legal regulations, where possible.

The baseline for the goals and purpose of the management approach to effluents and waste comprises systematic monitoring of the quality and volumes of wastewater discharged, and systematic tracking of waste by type and quantity. The goals and purposes related to effluents, i.e. wastewater, are mandatory and based on the Water Act; those goals and purposes related to waste which are based on the Act on Sustainable Waste Management are mandatory, while others are voluntary.

Responsibility for implementing effluent and waste management activities with the purpose of complying with legal regulations on all locations is assigned to the directors of factories and organisational units.

The resources allocated for managing effluents include mechanical, as well as mechanical and biological wastewater treatment plants, and the resources allocated for managing waste include waste containers and temporary waste storage areas in all locations.

Specific actions of the Podravka Group during 2017 were oriented towards improving the waste management system, with special focus on separate waste collection and employee education. With the aim of improving the system for monitoring and reporting waste by type and quantity, as well as location monitoring, a waste management software solution has been implemented on all locations in Croatia, except for Mirna d.d. and Belupo d.d.

Additionally, specific actions aimed at improving wastewater quality have been initiated in Mirna d.d. Rovinj. Two oil separators (100 l/s and 15 l/s) were installed in December, and a wastewater pre-treatment facility will be put into operation in 2018. The dimensioning of a wastewater treatment plant will be undertaken based on the results of continuous wastewater flow and pollution measurements to be carried out during 2018, and the plant is expected to start operating in 2019.

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach include inspection controls and wastewater quality monitoring by authorized laboratories and, with regard to waste, internal and external audits, inspection controls, feedback from the stakeholders, and analyses of planned annual targets relating to waste.

2.2.2.2. Disclosure: Water discharge by quality and destination

All process wastewater at the location of the Danica Industrial Zone*, generated during regular production and washing of machinery, plants and vehicles, passes through a sediment tank and separator prior to pre-treatment at the Podravka mechanical and biological wastewater treatment plant. Following pre-treatment, wastewater is released into the public sewage system through a discharge manhole, and then sent for final treatment in the city wastewater treatment plant. Other sites of the Podravka Group use physical wastewater treatment processes.

An overview of the volume of wastewater discharges by the Podravka Group in the Republic of Croatia in the period from 2015 to 2017 by destination is shown in the following figure:

FIGURE 15: VOLUME OF WASTEWATER DISCHARGES BY THE PODRAVKA GROUP IN CROATIA BY DESTINATION



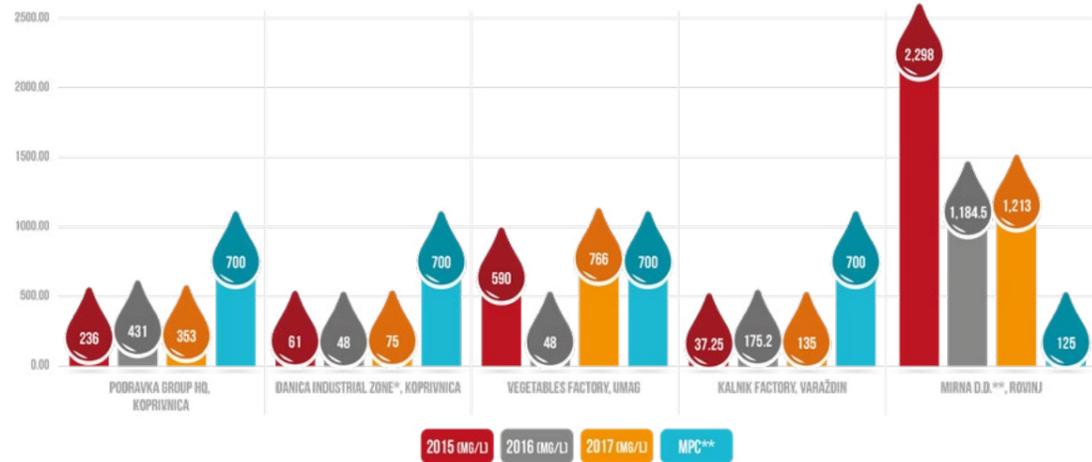
* The Danica Industrial Zone includes the Baby Food and Cream Spreads Factory, the Soup and Vegeta Factory, Transport, the Danica Factory (meat industry), and Belupo d.d.

The volume of wastewater discharged by the Podravka Group has risen in 2017 due to an increase in the consumption of water withdrawn from the public water supply system as a result of increased production due to the opening of new facilities for the production of solid, semi-solid and liquid drugs.

Pre-treatment and treatment of the wastewater discharged by the Podravka Group, analytical tests of wastewater samples (taken at the manholes) by authorized laboratories, as well as their frequency, comply with applicable legal regulations and water use permits for each site.

An overview of the quality of wastewater discharges by the Podravka Group in the Republic of Croatia in the period 2015 to 2017, expressed as total pollution load of COD, is shown in the following figure:

FIGURE 16: QUALITY OF WASTEWATER DISCHARGED BY THE PODRAVKA GROUP, EXPRESSED AS TOTAL POLLUTION LOAD OF COD



The results of the analysis of wastewater discharged by the Podravka Group meet the requirements for release into public sewage systems as specified in the water use permits and are compliant with the applicable legal regulations. As the value of COD exceeded the MPC (maximum permissible concentration) at the factory Mirna d.d. Rovinj, specific actions have been initiated in 2017, with the aim of improving the quality of discharged wastewater.

2.2.2.3. Disclosure: Waste by type and disposal method

In the year 2017, the management of waste in the Podravka Group focused on reducing the identified significant impact of using landfills as a waste disposal method. In order to reduce this negative impact, the Group carried out various activities aimed at preventing waste generation, reducing the volume of municipal waste and increasing the volume of usable waste separated from municipal waste. The activities were focused on waste separation at source and on employee education.

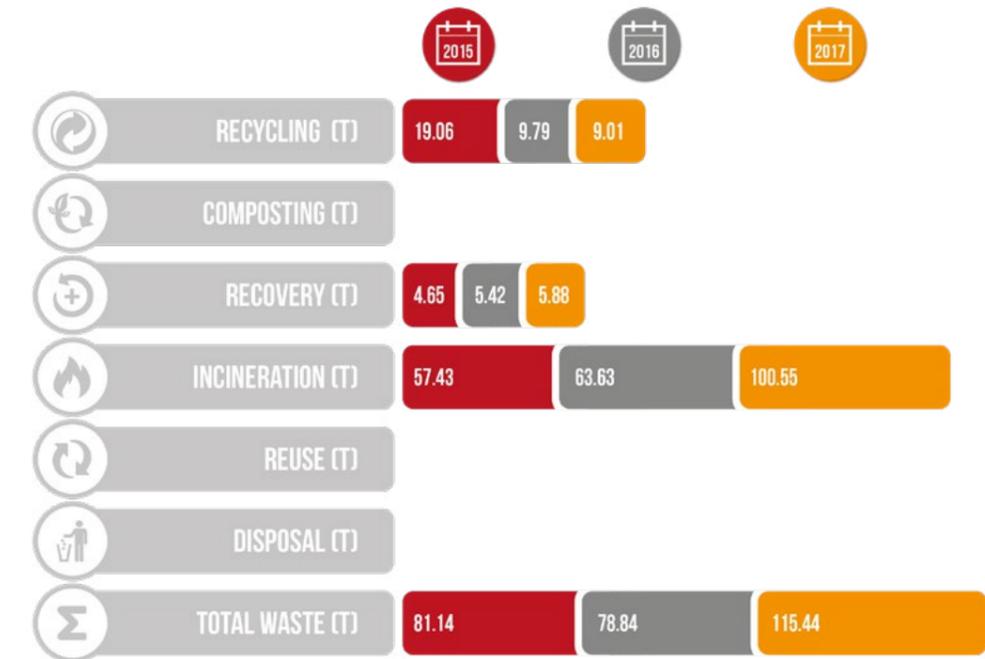
With the aim of improving the system for monitoring and reporting waste by type and quantity, as well as location monitoring, a waste management software solution has been implemented in all locations in Croatia, except for Mirna d.d. and Belupo d.d.

For Podravka d.d., the total quantity of waste generated in 2017 was 3,833.96 tonnes, with municipal waste accounting for 558.42 tonnes. Municipal waste has only been included for the Koprivnica and Rovinj sites since the other counties use different measurement units and different calculation methods to express the volume of municipal waste. In total, 36 types of hazardous and 23 types of non-hazardous waste were generated and then submitted to authorised companies in accordance with legal regulations.

Pharmaceutical operations generated the majority of hazardous waste, with increased volumes of hazardous waste compared to previous years as a result of the opening of new facilities for the production of solid, semi-solid and liquid drugs.

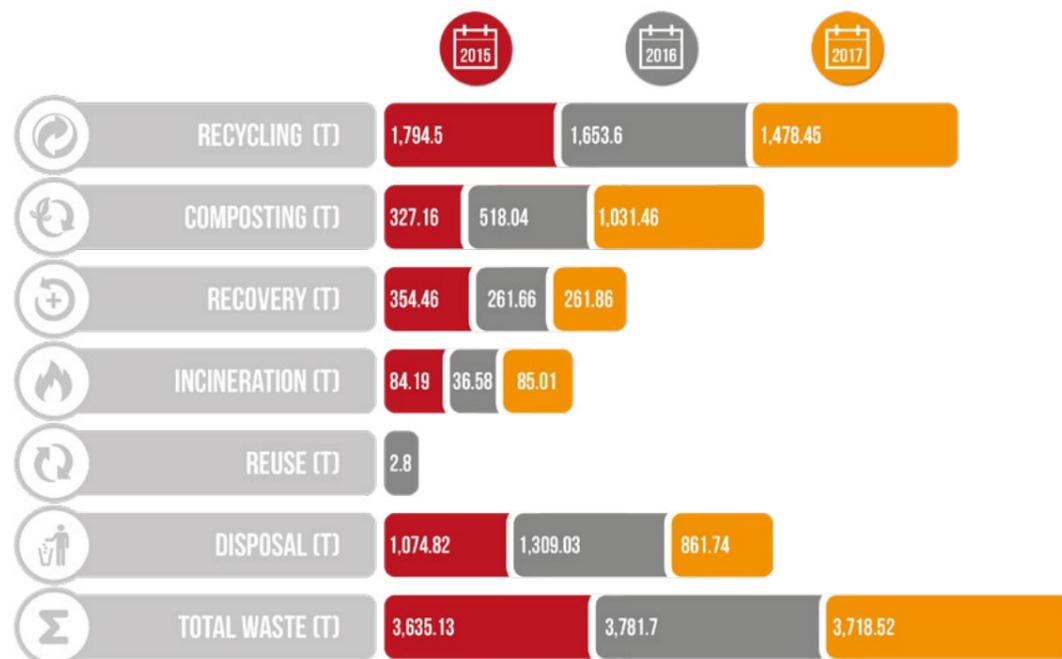
An overview of the total weight of hazardous waste, with a breakdown by disposal method, in the Podravka Group in the Republic of Croatia for the period from 2015 to 2017 is shown in the following figure:

FIGURE 17: TOTAL WEIGHT OF HAZARDOUS WASTE BY DISPOSAL METHOD IN THE PODRAVKA GROUP IN CROATIA



An overview of the total weight of non-hazardous waste, with a breakdown by disposal method, in the Podravka Group in the Republic of Croatia for the period from 2015 to 2017 is shown in the following figure:

FIGURE 18: TOTAL WEIGHT OF NON-HAZARDOUS WASTE BY DISPOSAL METHOD IN THE PODRAVKA GROUP IN CROATIA



Data on waste processing and disposal methods for the year 2015 have been collected based, in part, on prior experience and, in part, from the waste management permits of authorised companies, while data on waste processing and disposal methods for the years 2016 and 2017 have been obtained directly from the waste collectors and their waste management permits. The differences in the results compared to previous years are a result of a modified approach to data management.

2.2.3. MATERIAL TOPIC: ENVIRONMENTAL COMPLIANCE

2.2.3.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to the importance of prevention of negative environmental impacts of the Company and of compliance with environmental laws and regulations, as well as the stakeholders' reasonable expectations and interests with regard to this topic, namely that the company will comply with all environmental regulations.

With the aim of determining significant impacts related to environmental compliance, the Podravka Group systematically monitors changes in the regulatory environment,

i.e. environmental laws and regulations, analyses their impact on its operations and implements them in its internal processes and rules.

Significant impacts of environmental compliance occur across the Podravka Group as well as beyond it, in all local communities and countries where it operates.

The management approach and its components

The purpose of the management approach to environmental compliance is to avoid and reduce the negative environmental impacts of the Podravka Group.

The management approach to environmental compliance includes the Environmental Protection Policy, approved in 2014 by the President of the Management Board of Podravka d.d.; the Policy applies to the entire Podravka Group.

The commitment to manage environmental compliance is based on regulatory compliance and constant improvements beyond the requirements of legal regulations, where possible.

The baseline for the goals and purpose of the management approach to environmental compliance involves regular monitoring of legal regulations and implementing activities aimed at ensuring regulatory compliance. The goals and purposes are voluntary and mandatory, and they are based on regulations governing environmental protection, air protection, climate and ozone layer protection, as well as regulations pertaining to waste.

The Regulatory Affairs department is responsible for monitoring legal regulations, and the Ecology department is responsible for providing expert and advisory assistance to support the activities implemented in order to ensure compliance with environmental laws and regulations.

The resources for environmental compliance include human (Regulatory Affairs, Ecology, responsible persons in the factories and organisational units), technological (equipment, devices, waste containers ...), and financial resources (investments aimed at adapting to and complying with legal regulations; maintenance, training and education costs).

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to environmental compliance include inspection reports on environmental protection and external audits.

2.2.3.2. Disclosure: Non-compliance with environmental laws and regulations

As a socially responsible company, the Podravka Group carries out all of its business activities in accordance with international declarations, conventions, and treaties, as well as national, sub-national, regional and local environmental regulations.

Owing to legislation monitoring activities and a constant focus on environmental protection, no instances of non-compliance with environmental laws and regulations were identified in 2017, and, consequently, there were no sanctions (material or non-material).

2.3. SOCIAL TOPICS

The social dimension of sustainability concerns the impact that the Podravka Group has on the social systems within which it operates.

2.3.1. MATERIAL TOPIC: EMPLOYMENT

2.3.1.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant social impacts associated with employment, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Existence of programmes aimed at promoting the employment of young engineers; and
- Hiring needs of the company in the following period, and the possibilities of developing a highly qualified workforce through the existing study programmes.

With the aim of determining significant impacts related to employment, the Podravka Group systematically develops, monitors, and analyses the Recruitment Plan which describes its short- and long-term hiring needs.

Significant impacts of this material topic occur across the Podravka Group as well as beyond it, in all local communities and countries where it operates.

The management approach and its components

The purpose of the management approach is to enhance the positive impacts of the Podravka Group.

Long-term recruitment planning is defined in the Podravka Group Strategy and in its recruitment plan for the current year, with regard to the main determinants of recruitment planning in terms of the required number of employees depending on the development of individual sectors and markets. The Recruitment Plan is approved by the Management Board. To secure the resources needed to achieve business goals, the plan specifies the required profiles and the number of employees per organisational unit, as well as annual costs related to new employees. The recruitment plan refers to the financial plan in connection with the labour costs – including a list of personal income, benefits and similar. The plan is developed per employee and for one calendar year. The recruitment process in the Podravka Group is outlined in the document Recruitment process of the Podravka Group, which makes reference to the standards ISO 9001 and ISO 33000, IFS, BRC and HALAL BAS 1049.

The recruitment and hiring process is aligned with business needs and carried out in accordance with the legal regulations currently in force in the countries where the company operates.

The goal and purpose related to managing employment is to ensure the optimal number of employees who have the necessary knowledge, skills and competencies as specified in the relevant job descriptions.

The responsibility for managing employment is assigned to the directors of the Human Resources and Legal department, as well as the Podravka Management Board, in accordance with Podravka's strategy.

The employees of Human Resources and Legal are involved in the recruitment and hiring process; they carry out the required recruitment, selection, and administrative tasks involved in the process.

All available recruitment channels are used when recruiting employees and the selection process involves the collection and review of job applications, semi-structured interviews, and psychological testing. Vacancy announcements do not include any elements or indications of discrimination based on age, gender, religion, or other types of discrimination. The announcements explicitly state that both sexes may apply for the job. All applicants are notified of the results of the selection process no later than within 60 days of the vacancy announcement.

Special emphasis has been put on employment transparency. The process of recruitment and hiring is systematic, with the priorities set in accordance with business needs. Furthermore, Podravka actively hires special groups of people, e.g. persons with disabilities, with the purpose of creating a positive impact on the local community and promoting employment of groups characterised by lower employability.

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to employment include internal and external audits, different internal analyses and reports (number of employees; number of vacancy announcements published and their success rate), communication with external stakeholders involved in the recruitment process and taking their feedback into account.

The results of the evaluation of the management approach to employment include audit reports that identify possible improvement areas with regard to the hiring system and process. The recommendations from these reports are taken into account and measures aimed at their implementation are taken.

Adjustments to the management approach as a result of the evaluation of the management approach to employment include changes in the allocation of resources (internal employee transfers, internal turnover to fill the vacancies which haven't been filled externally). Specific actions include cooperation with schools and universities that provide young people with the education necessary for sought-after professions; cooperation with other institutions that can support the vacancy filling process, and cooperation with the media with regard to vacancy announcements – newspapers, web-portals, radio and TV stations.

2.3.1.2. Disclosure: New employee hires and employee turnover

An overview of the total number and rate of new employee hires in the Podravka Group in the Republic of Croatia in 2017, by age group and gender, is provided in the following table:

Podravka Group in Croatia	Number of employees as of 31 Dec 2017	Number of new hires during 2017							Number of employees whose employment contracts were terminated during 2017						
		By gender		By age			Total new employee hires	%	By gender		By age			Total new employee hires	%
		M	F	< 30	30 - 50	Over 50			M	F	< 30	30 - 50	Over 50		
PODRAVKA d.d.	2,982	46	15	28	27	6	61	2.05	36	31	26	38	3	67	2.25
BELUPO d.d.	933	39	34	32	40	1	73	7.82	6	4	2	7	1	10	1.07
Pharmacies Deltis Pharm d.o.o.	49	1	6	4	2	1	7	14.29	1	4	2	2	1	5	10.20
MIRNA d.d.	125	9	5	6	7	1	14	11.20	5	8	2	8	3	13	10.40
TOTAL	4,089	95	60	70	76	9	155	3.79	48	47	32	55	8	95	2.32

Note: The number of employees does not include seasonal workers or workers with suspended employment rights.

2.3.1.3. Disclosure: Benefits provided to full-time employees that are not provided to temporary or part-time employees

In the course of 2017, no part-time employment contracts were concluded in the Podravka Group, and all rights provided to full-time employees are provided to part-time employees as well.

An overview of the benefits provided to all employees of the Podravka Group in the Republic of Croatia is provided in the following table:

Benefits provided to Podravka Group's employees in Croatia	
Life insurance	Only members of the Management Board
Health care	In accordance with the Act on Mandatory Health Insurance
Disability and invalidity coverage	Lump sum payment in accordance with the Collective Agreement of the Podravka Group
Parental leave	Mothers are entitled to a lump sum payment per newborn baby in accordance with the Collective Agreement of the Podravka Group
Retirement provision	In accordance with the Collective Agreement of the Podravka Group
Stock ownership	Senior management only

Benefits provided to Podravka Group's employees in Croatia

- Collective accident insurance premiums
- Covered transport expenses for travel between home and work
- Christmas gifts for children up to 15 years of age
- Jubilee bonus for years of service
- One-time bonus for the use of vacation leave, for Christmas and Easter
- Financial aid in varying amounts:
 - a. in case of death of a close family member (spouse, child, or parent)
 - b. disability
 - c. remediation of consequences of a natural disaster or fire in the residential building where the employee lives

Other – in accordance with the Collective Agreement of the Podravka Group

2.3.1.4. Disclosure: Parental leave

All employees, regardless of the type of employment relationship and gender, are entitled to all rights related to maternity and parental leave in accordance with the Act on Mandatory Health Insurance and with the Maternity and Parental Benefits Act.

An overview of the right to parental leave of the employees of the Podravka Group in Croatia in the 2015-2017 period is provided in the following table:

Year	Number of employees who returned to work after parental leave ended		Total	Rate	Number of employees who were still employed 12 months after their return to work		Total	Rate
	Women	Men			Women	Men		
PODRAVKA d.d.								
2017	24	1	25	100				
2016	14	2	16	100	13	2	15	93.75
2015	30	0	30	100	27	0	27	90.00
MIRNA d.d.								
2017	1	1	2	100	1	0	1	50.00
2016	-	-	-	-	-	-	-	-
2015	1	-	1	100	1	0	1	100.00

Year	Number of employees who returned to work after parental leave ended		Total	Rate	Number of employees who were still employed 12 months after their return to work		Total	Rate
	Women	Men			Women	Men		
BELUPO d.d.								
2017	18	0	18	100	18	0	18	
2016	15	0	15	100	15	0	15	100
2015	12	0	12	100	12	0	12	100
Pharmacies Deltis pharm								
2017	1	0	1	100	1	0	1	
2016	4	0	4	100	4	0	4	100
2015	1	0	1	100	1	0	1	100

2.3.2. MATERIAL TOPIC: OCCUPATIONAL HEALTH AND SAFETY

2.3.2.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant social impacts associated with occupational health and safety, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Safety at work,
- Ensuring adequate working conditions for all employees in terms of health and safety,
- Taking measures necessary to ensure safe working conditions for employees,
- Maintaining the highest environmental standards in the areas where production capacities are located (clean air, water, soil) and
- Occupational health and safety.

With the aim of determining significant impacts related to occupational health and safety, analyses and controls of health and safety risks, as well as analyses of incidents in the area of health and safety, are carried out in the Podravka Group.

Significant impacts relating to this material topic occur in the entire Podravka Group and, beyond the organization, in all local communities where its business activities are carried out according to the employer's instructions.

The management approach and its components

The purpose of the management approach to occupational health and safety is to avoid the negative and enhance the positive impacts of the Podravka Group.

Implementation of the organisation of occupational safety is defined in the internal Occupational Safety Rules, specifying the rights, obligations and responsibilities of all stakeholders in the occupational health and safety system. The Management Board of Podravka d.d. (the employer) transferred the implementation of occupational safety activities to its authorized persons.

An independent specialist department for occupational safety, as the expert advisory body, performs occupational safety tasks for the employer in accordance with Article 21 of the Occupational Safety Act.

In addition to the independent specialist department for occupational safety, the following play an important role in the application and implementation of occupational safety rules:

- Employee's committee,
- Unions,
- Occupational safety committees,
- Employer's authorized persons,
- Employees and their commissioners for occupational safety.

The employer concluded a number of contracts for the performance of those tasks related to occupational safety that it cannot perform by itself, due to the fact that it cannot fulfil the applicable requirements specified in legal regulations (inspections and tests: working equipment, installation, radiation, working environment, and different types of education and training programmes), with authorised natural persons, institutions or companies authorized to perform such tasks.

The commitment to manage occupational health and safety is based on compliance with the Occupational Safety Act and the relevant by-laws and extends beyond it, and on compliance with the international standard for occupational health and safety management systems ISO 45001.

The goals and purpose of the management approach to occupational health and safety include safe work conditions with a view to preventing work injuries, occupational diseases, work-related diseases, accidents at work, risks at the workplace, and other material and non-material damage suffered during work and related to work.

The employer and its authorized persons are responsible for managing this material topic, and this responsibility is defined in the Occupational Safety Act.

Annual plans and programmes related to occupational safety measures, identifying all necessary resources, are proposed by the independent specialist department for occupational safety.

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to occupational health and safety include supervision by the employer and its authorised persons, as well as competent bodies (the Labour Inspectorate in the area of occupational safety); internal supervisions conducted by occupational health experts; external audits conducted by a certification body in accordance with all standards to which the company is certified (ISO 9001, IFS, BRC, HACCP, HALAL); external buyer's audits, and internal audits of the company's management system. Monitoring the effectiveness of the management approach is normatively regulated at the national level and in an internal act - the Occupational Safety Rules.

The results of the evaluation of the management approach to occupational health and safety include the competent authorities' reports and decisions; written reports on internal supervisions conducted by occupational health experts; certificates of compliance with standards and norms, and internal audit results. The supervision and audit reports identify potential areas for improvement in the system, as well as defects to be removed.

2.3.2.2. Disclosure: Workers' representation in formal joint management-worker health and safety committees

The President of the Management Board of Podravka d.d. adopted the Decision on the Establishment and Appointment of Occupational Safety Committees, establishing occupational safety committees at the level of organisational units (sectors, departments, factories). In these committees, the committee president is the employer's authorized person, i.e. director of the organisational unit for which the committee is founded. Proposals on the establishment of the committees and on the appointment of their members are submitted to the Management Board of the Company by the independent specialist department for occupational safety, in cooperation with the employer's authorized persons.

At its session, the occupational safety committee, as the employer's advisory body, discusses the implementation of occupational safety measures aimed at a continuous improvement of occupational safety. As a rule, the occupational safety committee meets 4 times a year, but its sessions may be convened more frequently if required (e.g. in case of serious injuries at work and similar). The Occupational Safety Act specifies the composition of the committees with the following members as a minimum: president of the committee, occupational health physician, occupational safety specialist, and the employees' commissioner for occupational health.

2.3.2.3. Disclosure: Types and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

An overview of the types and rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities in the Podravka Group in the Republic of Croatia in the period from 2014 to 2016, with a breakdown by gender, is shown in the following table:

Ord. No.	TYPE OF DATA	PODRAVKA d.d.			DANICA d.o.o.			BELUPO d.d.			Pharmacies Deltis pharm d.o.o.			Mirna d.d.		
		2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
1.	Average no. of employees	3099	3357	3196	350	-	-	861	876	925	46	52	49	168	138	151
2.	Average no. of employees - men	1785	1880	1753	183	-	-	526	345	386	4	3	4	62	53	61
3.	Average no. of employees - women	1314	1477	1442	167	-	-	335	531	549	42	49	45	106	85	90
4.	Total no. of injured workers	39	66	68	7	-	-	5	4	4	0	0	0	4	4	7
5.	Total no. of injured workers - men	31	42	36	3	-	-	0	3	1	0	0	0	2	2	3
6.	Total no. of injured workers - women	8	24	32	4	-	-	5	1	3	0	0	0	2	2	4
7.	Total number of minor injuries at work	35	54	59	6	-	-	5	3	4	0	0	0	3	4	7
8.	Total number of serious injuries at work	4	12	9	1	-	-	0	1	0	0	0	0	1	0	0
9.	Total number of deaths in the workplace	0	0	0	0	-	-	0	0	0	0	0	0	0	0	0
10.	Number of workers who died from injuries sustained at the workplace en route to the hospital	0	0	0	0	-	-	0	0	0	0	0	0	0	0	0
11.	Number of injuries per 1000 employees	12.58	19.66	21.28	20.00	-	-	5.80	4.56	4.32	0	0	0	23.8	28.99	46.36
12.	Number of injuries per 1000 employees in the branch of economic activity	15.24	15.57	-	15.24	-	-	15.24	15.57	17.86	0	0	0	15.24	15.24	15.24
13.	Share of no. of injuries in the company compared to the branch of economic activity	0.83	1.26	-	1.31	-	-	0.38	0.29	0.24	0	0	0	1.56	1.90	3.04
14.	Number of cases of occupational diseases per 10,000 workers compared to the branch of economic activity	0	0	-	0	-	-	0	0	0	0	0	0	0	0	0

Ord. No.	TYPE OF DATA	PODRAVKA d.d.			DANICA d.o.o.			BELUPO d.d.			Pharmacies Deltis pharm d.o.o.			Mirna d.d.		
		2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
15.	Number of cases of occupational diseases	0	0	1	0	-	0	0	0	0	0	0	0	0	0	
16.	Number of cases of occupational diseases per 10,000 employees	0	0	-	0	-	0	0	0	0	0	0	0	0	0	
17.	Number of disturbances to work processes that could have causes detrimental consequences to the health and safety of employees	0	0	0	0	-	0	0	0	0	0	0	0	0	0	
18.	Total number of lost work days due to injuries in the workplace	1205	1740	1521	114	-	106	17	15	0	0	0	166	230	324	
19.	Number of lost work days due to minor injuries	1056	930	1050	104	-	72	11	15	0	0	0	81	230	73	
20.	Number of lost work days due to serious injuries	149	810	471	10	-	34	6	0	0	0	0	85	0	251	

Note: Minor injuries are included in the injury rate, and the number of lost days means the number of work days of absence due to injury at work.

Data from the analysis of injuries at work show an increase in the number of injuries in the last two years, while the number of employees varies from year to year. Until 2015, the statistical analysis encompassed only recognised injuries; starting from 2016, unrecognised injuries have also been taken into consideration. In 2017, there were 53 injuries at work recognized (on the basis of expert medical reports of the Croatian Health Insurance Fund), 13 injuries were not recognized, and the recognition process for 2 injuries is still in course. According to the analysis of the type of injuries at work, wounds and superficial injuries account for the majority of injuries in 2017.

The ESAW (European statistics on accidents at work) methodology has been used for the purpose of reporting injuries at work. When an injury at work occurs, after the employee receives medical attention and care, the injured employee's immediate superior notifies the independent specialist department for occupational safety and the occupational safety commissioner. The independent specialist department for occupational safety determines the circumstances of the injury, i.e. the facts, and proposes measures aimed at reducing the risk or removing the cause of the injury.

The procedure for accidents and injuries at work is outlined in the relevant internal instructions. Each injury at work is reported to the competent institution (using the Work Injury Report form), and recorded in the relevant database using the prescribed documents (EK-3). All documents relating to occupational safety are stored in an electronic database, and all interested parties in the Company have limited access to that database via the occupational safety portal available on the website of Podravka.

Regular data analyses of injuries over a 5-year time period are carried out, and the analyses reports are presented, inter alia, at the sessions of the occupational health committee too.

2.3.3. MATERIAL TOPIC: TRAINING AND EDUCATION

2.3.3.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant social impacts related to employee training and education, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Engaging the employees and using their knowledge and experience in organisation development to the greatest possible extent;
- Recognizing employee contribution;
- Providing continuous education;
- Programmes aimed at promoting life-long learning for workers;
- Increasing the involvement of scientific institutions in the work through projects, donations, joint workshops, and life-long learning programmes; and
- Investing in education and development of dual-education.

With the aim of determining significant impacts related to employee training and education, the Podravka Group examines and analyses the scale of investment in training and education.

Significant impacts of this topic occur across the Podravka Group as well as beyond it, in all local communities and countries where it operates.

The management approach and its components

The purpose of the management approach to employee training and education is to enhance the positive impacts of the Podravka Group.

In the Podravka Group, the activities related to education are conducted on the basis of expressed education needs of the employees and in accordance with the Education Process, a document which makes reference to the standards ISO 9001 and ISO 33000, IFS, BRC, and HALAL BAS 1049.

The education process includes all forms of education, as well as the situations where the need for employee education (internal and external) exists in all organisational units and companies of the Podravka Group, in line with the Podravka Group Strategy. The process involves defining and planning educational needs; submission of applications; progress of the education process; tracking the employees and the course of the process; and recording the results of education. In the associated companies of the Podravka Group in Croatia and abroad, responsibility lies with the organizational units where the process unfolds in line with the strategy of the Podravka Group, according to the same principles as in the parent company, abiding by the legal regulations of the country in which the company operates.

The education process involves the adoption of three plans:

- Plan of education needs is a document drafted by the sector directors for the specific business areas for which they are responsible, based on the information on the development needs of the employees in that unit, e.g. assessment of employees' success and potential. It contains specific information on the education needs in the forthcoming year (type of education, type of programme, number of attendees).
- Annual plan of education needs is a document drafted in the organizational unit Human Resource Management on the basis of the information from the Plan of education needs for individual business areas and the HR plan based on the needs for employee development and organizational units as detected by the HR department itself. This plan contains specific information on the education needs at the level of the Podravka Group in the forthcoming year (type of education, number of attendees, education costs).
- Annual education plan and budget is a document drafted by Human Resource Management in line with the Annual plan of education needs (type of education, attendees, total education budget) and adopted in its entirety by the Management Board; this official document serves as the basis for carrying out activities in the area of education throughout the year.

The structured development path in the Podravka Group begins from the trainee programme, entitled SHAPE. Through the application of expert knowledge, development of skills, and participation in projects with the support of experienced mentors, trainees are being prepared to work independently and to contribute to the company.

The development of young people does not end with the trainee programme, but continues through the SHAPE UP development programme, directed at developing self-management competencies and strengthening links and cooperation among young people.

The development of employees with high potential and high work efficiency is detected and developed in a structured manner through the programme 'Recipe for Excellence', which encompasses the internal MBA programme. Through project work, participants are able to strengthen their business knowledge and experience.

The internal sales academy, entitled SCORE, develops sales competencies among sales staff, and builds a proactive culture in which the consumers are in the focus, and further cooperative relations are developed.

Significant attention is focused on the internal transfer of knowledge, through two programmes – 'We know, we share, we grow', where staff share professional knowledge and skills from their field of expertise, and 'Knowledge on a platter', intended for the development of personal skills of employees.

The possibility for the employees to attend expert study programmes is provided every two years in a transparent manner; every effort is made to recognize and reward the best among them throughout the year.

The possibility of developing management skills is provided for the management functions within the company, while feedback is collected via the tool Zaokret 360 and during annual performance reviews. In order to ensure a competitive edge and to monitor new trends in the industry, experts are continually encouraged to attend professional seminars and conferences, in Croatia and abroad.

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to employee training and education include the prescribed process monitoring methods and criteria. The responsible persons are required to monitor the criteria, and, accordingly, where necessary (greater variances or other nonconformities), to take the necessary corrective and/or prevention activities, and to keep the necessary records. Additionally, annual internal and external audits of the Education Process are performed once a year.

The results of the evaluation of the management approach to employee training and education include the assessments of education programmes and educators, as well as the assessments of the programmes' usefulness and suitability for everyday work activities.

2.3.3.2. Disclosure: Average hours of training per year per employee

An overview of average hours of training per year per employee in the Podravka Group in Croatia in the 2015-2017 period is shown in the following table:

	2015		2016		2017	
	Podravka d.d.	Belupo d.d.	Podravka d.d.	Belupo d.d.	Podravka d.d.	Belupo d.d.
Average hours of training per employee	15.56	33.96	27.70	47.50	15.30	56.81
Average hours of training per female employee	21.76	41.58	22.75	48.70	16.07	48.89
Average hours of training per male employee	16.05	26.79	19.50	46.40	21.40	68.04

Note:

1. The company Podravka d.d. includes data for the associated companies in Croatia - Podravka d.d., Danica d.o.o., Ital-Ice d.o.o., Lero d.o.o., Podravka Inženjering d.o.o., Mirna d.o.o.
2. The company Belupo d.d. includes data for the associated companies in Croatia - Belupo d.d., Deltis Pharm pharmacies.

2.3.3.3. Disclosure: Programmes for upgrading employee skills and transition assistance programmes

The programmes for upgrading employee skills allow the Podravka Group to plan skills acquisition that equips employees to meet strategic targets in a changing work environment. In 2017, these programmes included:

- Internal training courses (training on safe work practices for all new employees, IT workshops);
- Funding support for external training or education (training on safe work practices – safe handling of hazardous chemicals; minimum sanitary and health requirements; machinery training and other professional training courses; professional exams; IT education; foreign languages; quality management; education programmes aimed at acquiring professional and specialist knowledge; business education/trainings to further business knowledge, abilities and skills; professional meetings, congresses and conferences; working while studying – graduate and post-graduate study programmes);
- Provision of sabbatical periods with guaranteed return to employment (all employees whose education expenses (study programme, professional exams....) are covered by the company are entitled to paid leave, depending on the schedule of their educational programme; the employees who cover their education expenses by themselves are entitled to paid leave in the duration of 3 days, or 24 h per month).

The transition assistance programmes provide the employees of the Podravka Group with knowledge about the support provided to them when retiring or when they have been terminated. In 2017, these programmes included:

- Retraining for the persons who intend to continue working (the possibility of retraining when needed, through formal education);
- Severance pay, which can be based on employee age and years of service (incentive severance pay based on years of service);
- Job placement services (Human Resources and Legal);
- Assistance on transitioning to a non-working life (on an ongoing basis, the director of Labour Relations meets with all interested employees who need information on transitioning to a non-working life, performs calculations to determine whether it would be financially advantageous for the employee to leave the company before retirement, and conducts employee counselling sessions).

2.3.4. MATERIAL TOPIC: CUSTOMER HEALTH AND SAFETY

2.3.4.1. Disclosures on the management approach

Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant social impacts related to customer health and safety, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Positive impact on consumer health,
- Achieving customer satisfaction by delivering quality products,
- Developing new products with greater health benefits (bioactive products, products with a reduced amount of preservatives and/or salt), and
- Developing new products that enhance customer safety (using intelligent packaging).

With the aim of determining significant impacts related to customer health and safety, it was in 2014 that the Podravka Group adopted its Nutritive Strategy, with an emphasis on managing the nutritional quality of its products for the period 2014 to 2016. The Group has set its own nutritional criteria for all product categories, taking account of their contribution to daily dietary intakes, and in consideration of the national and international public health recommendations. The objectives of the Nutritional Strategy are to reduce the amounts of table salt and sugar, and to completely remove trans-fatty acids from the products.

The Company has been working intensively to reduce the amount of table salt used in its product line in order to help achieve the objective defined in the Strategic Plan for Reducing the Intake of Table Salt in the Republic of Croatia for 2015 – 2019. Efforts are being made to reduce the amount of sugar used in the products, particularly in those intended for children and adolescents, taking into account the recommendations of

the World Health Organisation (WHO). The primary focus has been put on reducing saturated fats in the products and completely removing all trans-fatty acids originating from partially hydrogenated vegetable fats.

Moreover, development of various products for infants and children is in course, with special attention being paid to nutritional needs of these sensitive age groups. Products intended for the elderly are also being developed, as well as products for the population with special dietary needs, products with a positive impact on the digestive system and aimed at maintaining a healthy body weight, and products that help improve the customers' diet in line with the current guidelines that support a healthy lifestyle. Additionally, a range of products based on the Mediterranean diet is also being developed, with the aim of promoting a traditional diet in a large part of Croatia.

Significant impacts of this material topic occur in the entire the Podravka Group as well as beyond it, in all countries where it operates.

The management approach and its components

The purpose of the management approach to customer health and safety is to avoid the negative and enhance the positive impacts of the Podravka Group.

The management approach includes the Food Safety and Quality System Policy, and the GMO Policy. These policies apply to the entire company, and the President of the Management Board is responsible for their approval. The policies make reference to international standards ISO 9001, FSSC 22000, IFS and BRC. The most recent revisions of the Food Safety and Quality System Policy and the GMO Policy were published on 7 October 2016 and on 21 December 2015, respectively.

Podravka mainly focuses on producing high-quality and safe products in accordance with good manufacturing practice and the principles of quality and food safety management. The commitment to manage customer health and safety extends beyond regulatory compliance, meeting the requirements of international standards ISO 9001, FSSC 22000, IFS, and BRC.

The goals and purposes of managing customer health and safety are mandatory and specified in the Food Act and the associated regulations, as well as the international standards applied by the company, with regard to:

- Maintaining and improving the existing food safety and quality system;
- Maintaining and improving communication with the customers and interested parties in the food chain;
- Continuous employee development, and
- Implementation of sustainable development principles.

The expected results are: the production of high-quality and safe products; meeting the needs of consumers and customers; ensuring employee satisfaction and good communication with suppliers, buyers and interested parties in the food chain.

Responsibility for managing this material topic is assigned to the Business Quality and Sustainable Development department, and it is linked to performance assessments.

The company has grievance mechanisms in place, i.e. prescribed processes for addressing and resolving complaints and product recalls, that specify the method of work and complaint resolution. Each complaint is handled separately, and the responsibilities and the scope of authority of individual stakeholders within and outside the company (Complaint Teams, Product Recall Teams) are specified in the procedures. The procedures include a list of criteria for process monitoring (i.e. complaint analysis).

Specific actions of the Podravka Group with regard to managing customer health and safety management concern Podravka's Nutritional Strategy for the period 2014-2024. The activities are systemic, and long-term; they are prioritized based on risk assessments. The activities are part of a due diligence process and aim to avoid negative impacts. They are based on international norms and standards.

Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to customer health and safety include supervision by the competent authorities (veterinary and sanitary inspection); external audits conducted by a certification body in accordance with all standards to which the company is certified (ISO 9001, IFS, BRC, HACCP, HALAL); external buyer's audits, and internal audits of the company's management system. Each management system document (processes, work instructions) specifies the mechanisms for monitoring the effectiveness of each company process.

The results of the evaluation of the management approach to customer health and safety include the competent authorities' reports and decisions; certificates of compliance with standards and norms, and internal audit results. Supervision and audit reports identify potential areas for improvement in the system, as well as non-conformances to be removed.

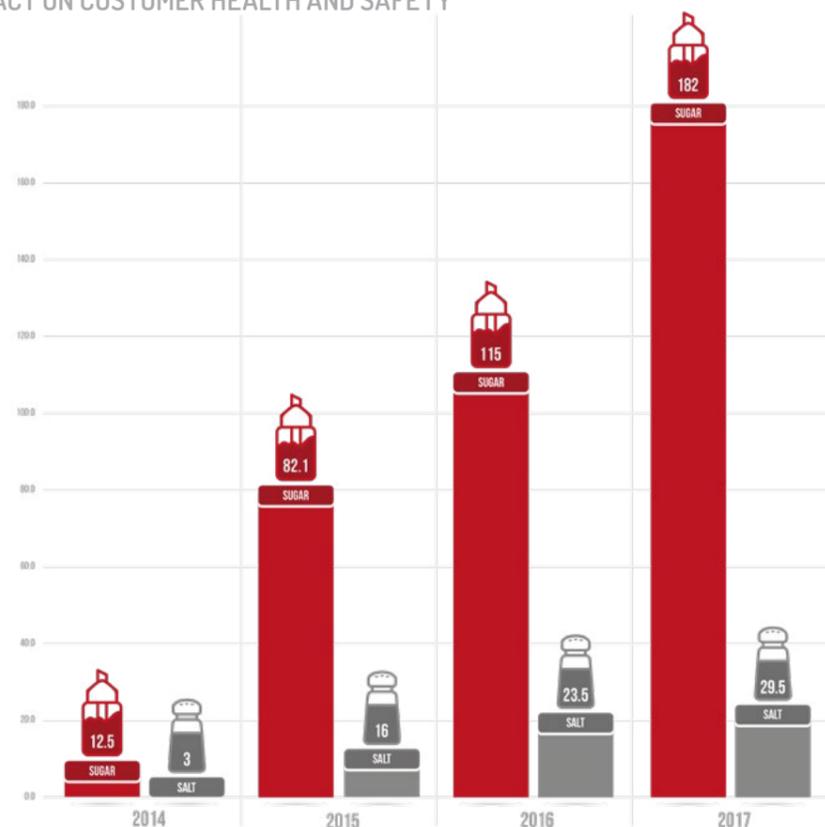
The adjustments to the management approach as a result of the evaluation include changes to the method of work in accordance with the evaluation.

2.3.4.2. Disclosure: Assessment of the health and safety impacts of significant product and service categories

The Podravka Group performs ongoing assessments of all significant product categories to improve the impacts on customer health and safety.

For that reason, additional 29.5 tonnes of salt and 182 tonnes of sugar have been removed from the product line in 2017, as shown in the following figure:

FIGURE 19: EFFECT OF THE IMPLEMENTATION OF THE PODRAVKA GROUP NUTRITIONAL STRATEGY IN TERMS OF IMPROVED IMPACT ON CUSTOMER HEALTH AND SAFETY



In the observed four-year period, 73.6 tonnes of salt and 391.6 tonnes of sugar have been removed from a total of 1101 Podravka products (SKUs).

Also, in the observed three-year period (2015-2017), trans-fats have been removed from the entire product range, except the outsourced production of waffles; according to plans, it is expected that trans-fats will be removed from the waffle products during 2018.

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The Committee of the Executive Council of the Croatian Business Council for Sustainable Development has examined the Sustainable Development Report of the Podravka Group for 2017, established that the Report includes the key requirements from the Standards of the Global Reporting Initiative (GRI) – Core Option, and confirmed its compliance with the GRI Standards – Core Option.

The Podravka Group, like every year, has clearly understood and consistently applied the GRI reporting method, but using the new version, the GRI Standards, for the first time. Podravka Group's reporting is very clear, well structured, and consistently follows the Standards, which makes the Report easy to consult and the material topics easy to find, allowing the reader to examine material topics of interest selectively.

Progress in reporting in relation to the previous reports is primarily evident in the improvement with regard to the presented overview of the management approach to material non-financial topics, one of the most significant changes introduced by the GRI Standards compared to the previous version of the reporting methodology, the GRI G4 Guidelines. To avoid reporting on the situation and encourage reporting on the management, the GRI has put a much greater emphasis on and set aside a greater portion of the report for the management approach to material topics. In Podravka's Report, the descriptions of the management approach account for a large part of the report contents dedicated to individual material topics and are very informative, which constitutes an important improvement in reporting; however, there is room for an even more detailed presentation of actions and projects implemented for the purpose of managing material non-financial topics to be included in the reports for the following years.

Podravka's traditionally consistent and extensive engagement in the stakeholder consultation process is another section of the report that should be specially mentioned. This part of the Report includes very exhaustive descriptions and shows that Podravka invested great efforts in communicating with a really large number of stakeholders, thus collecting high-quality information and proposals on how to improve Podravka's operations. It is evident that some topics have been included in the report as material topics at the stakeholders' request, and this is an example of excellent practice in the area of stakeholder consultation.

We would also like to put emphasis on the progress achieved with regard to the presentation of the supply chain, which includes a detailed overview of its structure, as well as the criteria and standards that form the basis for supplier selection. Some information included in the overview of the supply chain indicates that there is still room for improvement; nonetheless, in a very transparent manner, Podravka published this information; such transparency is highly commendable and contributes to the credibility of the Report.

In addition to these particularly valuable parts of the Report, that represent areas of significant improvement compared to previous reports, the quality and

comprehensiveness of reporting on material topics related to the environment, employment and employee education should also be underlined. In our opinion, the reporting could be further improved by providing more detailed descriptions of the measures taken to reduce waste generation instead of information on separate waste collection.

The Podravka Group has published another comprehensive and high-quality report, full of valuable information, that constitutes an improvement in terms of the methodology used and the implementation of the stakeholder consultation process in relation to previous reports. But, seeing that there is always room for improvement, we would like to point out that Podravka should address the risks and opportunities related to sustainability arising as a result of its operations in more detail, and that these topics should be included not only in the description of risk and opportunities but in the statement from the President of the Management Board as well. Additionally, with regard to the identified risks and opportunities related to sustainability, we would also like to see a clearer link between these risk and opportunities and the strategies of Podravka.

Despite the fact that there remains room for improvement - seeing that the process of reporting is primarily a process of continual improvement - we would like to avail ourselves of this opportunity to congratulate Podravka on another complex, comprehensive and informative report, which constitutes an all-around improvement in relation to the last report. We believe that this improvement process will continue in the following years, and that Podravka will remain the leading company in non-financial reporting, especially with regard to stakeholder consultation.

