



PODRAVKA GROUP



# SUSTAINABLE DEVELOPMENT REPORT

2016 ANNUAL REPORT

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## MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

*Dear Podravka employees, dear shareholders,*

*Since taking over at the helm of Podravka in early 2017, my team in the Management Board and I have been holding intensive discussions on new challenges, plans and strategies. Podravka is not the market leader in the food segment by chance. For more than 80 years, we have successfully adapted to the circumstances and challenges we have faced. Our goal is to ensure even greater success, despite the demanding economic, environmental and social circumstances.*

*The values we all share at Podravka – creativity, trust, passion, excellence and partnership with our customers and consumers – is what drives us.*

*We have concluded that only a holistic approach to sustainability, focused on social, ecological and economic management, can ensure that our attainable but demanding goals can be achieved. The most important goals include the satisfaction of our customers and consumers, motivation of our employees, sustainable financial results, and responsible and sustainable investments into the local community.*

*Sustainable development, in our view, means balancing economic priorities, the needs of society and environmental protection. For that reason, we operate in accordance with the highest ethical standards and corporate social responsibility. We are constantly working to improve our production processes, to minimise the quantities of non-renewable resources consumed, and to minimise waste generation. We take particular care of the environment and its conservation. We are focused on change and improvements. Some are already underway, others will take place in the near future.*

*We are proud of our products, which are a synonym of quality. We monitor and constantly adapt to the desires, needs and requirements of our consumers. Their safety and health is our top priority.*

*We are proud of the integrity and dedicated work of our employees, and we are always working to improve working conditions and employee safety.*

*We are proud of the strong relations we have with our suppliers and business partners, based on mutual respect, trust and cooperation.*

*Before you is the Podravka Group Sustainable Development Report for 2016. This report will provide a summary overview of the most important material aspects that are significant both to us and our shareholders. The Podravka employees and shareholders have jointly determined which aspects are critical for the responsible and sustainable operations of Podravka. It is my hope that you will obtain a clear overview of our approach to sustainability, which aim to align the company's business interests with the interests and needs of our shareholders.*

Chairman of the Management Board

Marin Pucar

I GENERAL STANDARD DISCLOSURES

1.1. ORGANISATIONAL PROFILE

1.1.1. COMPANY NAME AND SEAT

The Podravka Group is a food and pharmaceuticals company seated in Koprivnica, Croatia. It is one of the leading food companies in Southeast, Central and Eastern Europe.

The company Belupo d.d. is under 100% ownership of the Podravka Group. In terms of its market share, Belupo is the second largest pharmaceutical company in Croatia. Belupo currently operates on 16 European pharmaceutical markets. With contemporary technology and ongoing development, Belupo is among the most modern pharmaceutical companies, and its high standards of operation secure this position in the field, and opens up new markets.

1.1.2. MAIN BRANDS AND PRODUCTS

1.1.2.1. Podravka brands and products

Thanks to the faith of our consumers, Podravka has become the No. 1 food brand, not only in Croatia, but throughout the region. Our brands are recognizable and are loved on the Croatian and foreign markets. Their high quality is guaranteed by excellent raw materials, modern technological processes, and knowledge. 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. Through the ongoing expansion of product lines, we adapt to market and consumer needs. Combining tradition with the most contemporary creative methods and technological accomplishments, we have set high standards and created many new trends.

The Podravka product line consists of the following brands:

Vegeta

Thanks to its quality, innovations in production, products, communications and monitoring the newest nutritional trends, Vegeta is recognizable worldwide on five continents. Vegeta has won, and continues to win over, the hearts of consumers, by listening to their dietary needs and preferences, and fitting in with the specificities of different national cuisines. With its premium and continuous quality, confirmed by numerous prizes and recognitions, Vegeta is also an inspiration and a must have product for every kitchen. As the unwavering market leader, it leaves many domestic and global brands behind. Vegeta has expanded its product line with numerous

seasonings. These products and their high quality ingredients and recipes ensure excellent flavour of many diverse dishes.

Podravka soups

The homestyle flavour is the key value of Podravka soups. The best loved soups are easy to prepare, while still leaving room for the chef’s own creativity. Enriching Podravka soups with fresh ingredients creates a homestyle soup that is quick and easy to prepare. Podravka soups continually follow the newest dietary trends, and clear or cream soup lovers are sure to find their favourite flavours within the diverse product line. The newest additions to the Podravka soup product line are our well known soups, now without added flavour enhancers.

Lino

Lino children’s food provides all the ingredients necessary for a child’s growth and development, while at the same time being a beloved treat. The gentle, diverse flavours and mild consistency of purees make these products acceptable and delicious food for babies, easy to swallow and perfect for introduction to solid foods. The Lino children’s food line has been expanded with the 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 enabling the quick and simple preparation of desserts, from the simple desserts we offer our family during the week, to demanding cakes that are the crown of any grand celebration. The Dolcela products make dough lighter, and make creams creamier and longer lasting. The Dolcela line has been expanded with decoration products that allow consumers to be creative in the final decoration of desserts and cakes.

Eva

Eva is the widest range of fish products prepared from the highest quality fish, rich in high value proteins containing essential amino acids and minerals. Tasty, healthy and natural meals based on Mediterranean cuisine contribute to the health of consumers, enabling creativity in the preparation of dishes, and the enjoying of the best that nature and the sea have to offer.

Fant

The wide selection of Fant seasonings is sure to enrich all culinary skill, while substantially reducing preparation time, leaving free time to spare. The ideas provided by Fant will encourage consumers to prepare dishes they previously believed to take too much time or skill.

Podravka tomato products

Tomatoes are the fruit of paradise: in addition to their full flavour and delicate, creamy texture, their true wealth lies in their unsurpassable nutrition. Processed tomatoes are a better source of lycopene than fresh ones, since they are more easily



utilized by the body. Thanks to this exceptionally rich and diverse product line, the Podravka tomato products have become a mandatory ingredient in the modern diet.

#### **Podravka fruit products (jams, compotes, honey)**

Carefully prepared from high quality fruit picked at the peak of freshness, these products stand out for their characteristic aroma, flavour and colour, without the addition of artificial colouring or sweeteners. Podravka plum jam is a product of recognizable quality that bears the mark “Originally Croatian”, and the high fruit content with small added sugar content gives this jam a pronounced and rich flavour.

#### **Podravka vegetables**

Produced from strictly controlled fresh vegetables using recipes based on traditional flavours, Podravka vegetable products make delicious salads and side dishes to a wide range of dishes.

#### **Podravka condiments**

As a natural and high quality addition to any meal, Podravka’s tasty and aromatic condiments are a mandatory product in every kitchen, and *ajvar* (pepper relish), mustard, ketchup and horseradish are the perfect accompaniment to so many dishes. They are often used as ingredients in the preparation of many meals.

#### **Podravka tea**

Podravka teas are produced from carefully selected ingredients, with strong and recognisable herbal and fruit flavours. The tea product range was expanded in 2015 with a line of special purpose teas.

#### **Podravka meat products and ready-made meals**

With the wide range of traditional and modern flavours, our pâtés, ready-made meals, meat sauces and cold cuts make a delicious meal at any time. Each product is enriched with special blends of spices to give it a characteristic and recognizable aroma, for the best enjoyment of the gourmet flavours.

#### **Kviki**

The Kviki product line is produced exclusively from ingredients of plant origin, all products are baked and not fried to ensure fullness of flavour and recognizable high quality. Podravka’s tradition of salty snack product dates back to 1975, and the 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 meet all the chocolate lovers’ needs, since the Gorenjka product line includes milk and dark chocolate, mini rolls and squares, chocolate with puffed rice and cooking chocolate.

#### **Zlato polje**

Rice, pasta, oat flakes, semolina, breakfast cereals... Zlato polje is a synonym for contemporary cuisine. The Zlato polje rice line offers a wide range of products that are sure to enrich all types of dishes, from the traditional and homestyle dishes, to the exotic. These products stand out for the top quality of only the best rice varieties, which are always a tasty and healthy choice. The Zlato polje pastas are produced from natural, proven and tested ingredients – from the best durum wheat, which have a higher protein, mineral and vitamin content than traditional wheat.

#### **Šumi**

Caramels, jelly candies, filled candies – both children and adults will enjoy the Šumi candy line. These candies stand out for the high ratio of natural fruit juice, vitamins and minerals. They contain no artificial colours or flavours.

#### **Maestro**

The Maestro line includes spices, spice blends, seasonings and seasoning mixtures for food preparation, used to achieve a harmonious flavour in the tasty meals you will serve to family and friends at your table.

### **1.1.2.2. Belupo brands and products**

The Belupo pharmaceutical products are represented in 12 groups of the anatomical, therapeutic and chemical classification system. Each year, some forty million packages of solid, semisolid and liquid forms of medicinal products are produced.

In Croatia, Belupo is the leader in the cardiovascular and dermatological segments, with the two best selling drugs: a drug to treat high blood pressure and a drug to prevent cardiovascular disease. Belupo is the market leader in subgroup D07 (topical corticosteroids) in the Republic of Croatia, and a mandatory partner on focus foreign markets where it has begun to export these products.

Belupo expands its non-prescription product line every year, including products that are available over-the-counter (OTC) and herbal and dietetic products. Belupo is among the leading pharmaceutical companies on the Croatian OTC market. Among the ten best-selling OTC products in Croatia, the first two spots are held by the Belupo products Neofen and Lupocet. The OTC programme also includes many well-known brands such as: Herplex, Aska pro, Rinil, Ginkgo Belupo, Maxi Omega 3, Silymarin, Urosal, Belodin A, Hederan and many others.

Belupo’s primary efforts are focused on the development of new and innovative products, as in addition to expanding onto new markets, innovativeness is considered

the key to success against the competition. In 2016, Belupo expanded its production programme on the Croatian market by a whole new category – special medical needs food, i.e. enteral nutrition, under the product name Nutrix. In the middle of 2016, two new products/flavours (vanilla and chocolate) were released to the market, with two additional flavours released (coffee and strawberry) at the end of the year.

In the segment of prescription medicines, the company has strengthened its cardiovascular programme with the new medicinal product Lacidipin Belupo, while the antibiotics line has received the new member Beloximom, and the existing product Bonna, intended for the treatment of osteoporosis, has received a new, stronger dose (75 mg) and new packaging options (2 and 6 tablets). The OTC segment received four new products: Fersan Junior drops, Urosal Man capsules, larger packaging of Lupocet Flu Forte effervescent tablets, and the RojazolDerm cream, a miconazole topical cream that is the first to be switched from Rx to OTC status.

On the Russian market, new products released to market are Amofin 50 mg/ml, intended for the treatment of nail fungal infections, and MONLAST®, which alleviates the symptoms of asthma, helps to keep asthma under control and alleviates the symptoms of seasonal allergies. On the Czech market, Belupo has been strengthened with new OTC products: Belmiran Dan, Belmiran San and Urosal Lady. On the Macedonian market, the new product Fersan Junior drops was introduced, while the Serbian market was strengthened with the product Alomax 5%.



### 1.1.3. COUNTRIES IN WHICH WE HAVE SIGNIFICANT OPERATIONS

Podravka Group is a multinational group operating in more than 50 countries worldwide, on five continents (Europe, North America, Asia, Africa and Australia). The key region for operations is the Adria region, and the most important countries for Podravka Group operations are Croatia, Slovenia, Bosnia and Herzegovina, Russia and Poland. Belupo is present on 16 European pharmaceutical markets.

### 1.1.4. OWNERSHIP STRUCTURE 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 2016 was as follows:

SHAREHOLDERS	NO. OF SHARES	RATIO
ADDIKO BANK D.D./ PBZ CO OMF - CATEGORY B (1/1)	925,602	13.00
SOCIETE GENERALE-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
CERP (0/1) / REPUBLIC OF CROATIA (1/1))	673,845	9.46
SOCIETE GENERALE-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
ZAGREBAČKA BANKA D.D./ AZ PROFIT VOLUNTARY PENSION FUND (1/1)	111,752	1.57
ADDIKO BANK D.D./RAIFFEISEN DMF (1/1)	99,965	1.40
ZAGREBAČKA BANKA D.D./STATE STREET BANK AND TRUST COMPANY, BOSTON	80,930	1.14
TREASURY ACCOUNT	194,900	2.74
OTHER SHAREHOLDERS	1,705,126	23.95
<b>TOTAL</b>	<b>7,120,003</b>	<b>100.00</b>





North African states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Iraq, Iran, the Levant nations and northern Africa), and Asian countries (India, China and other Asian countries).

The SBA Pharmaceuticals is geographically divided into two organizational units: Croatian market and International market. The International market of the SBA Pharmaceuticals is divided by regions as follows:

- Southeast Europe: including Bosnia–Herzegovina, Serbia, Montenegro, Macedonia, Kosovo and Albania
- Eastern Europe: including Russia, Ukraine and Kazakhstan,
- Central Europe: including Czech Republic, Slovakia, Slovenia and Poland,
- New markets: including Turkey

In addition to the above markets, Belupo also exports its products to Denmark and Germany, under outlicensing contracts.

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 worldwide, i.e. the end users of the stated sales channels.

#### 1.1.5. MARKETS WHERE WE OPERATE

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

The SBA Food operates on international markets divided into four groups of markets based on geographic region:

- Adria region – including Croatia and the countries of Southeast Europe (Slovenia, Serbia, Macedonia, Montenegro, Kosovo, Albania, Greece),
- Europe region – including the countries of Central (Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria) and Western Europe (Germany, Austria, Switzerland, France, Great Britain, Italy, Scandinavia, Benelux and other European countries),
- Russia, Commonwealth of Independent States (CIS) and Baltic region – includes Russia, Ukraine, Kazakhstan, Commonwealth of Independent States, and the Baltic countries,
- New Markets region – which includes North America, Australia and New Zealand, African countries (East Africa, West Africa, Central Africa), Middle East and





## 1.1.6. SIZE OF THE PODRAVKA GROUP

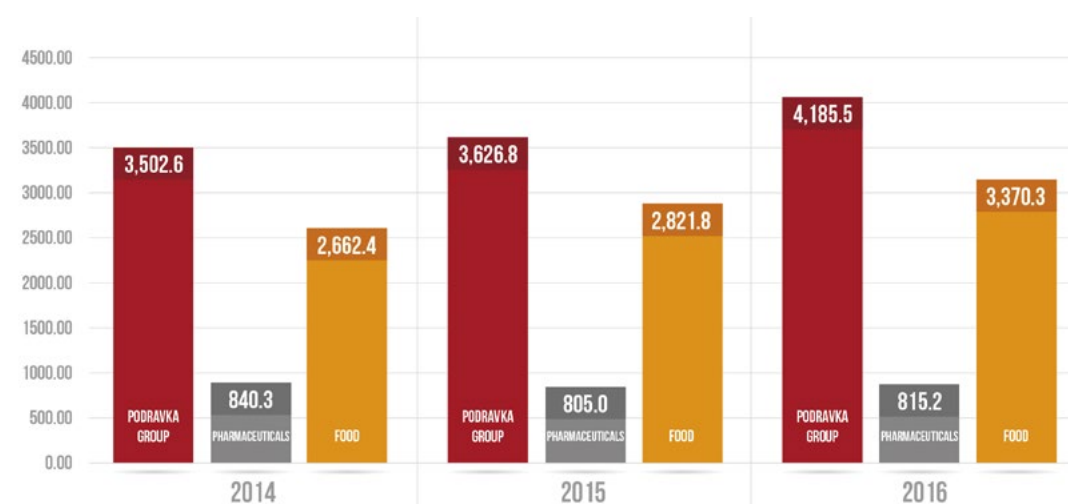
### 1.1.6.1. Total number of business activities and employees

During 2016, 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 2016, the Group employed a total of 6404 persons.

### 1.1.6.2. Net sales revenues

The net sales revenues of the Podravka Group in 2016 amounted to over 4.18 billion kuna. The revenues trends and the absolute values over the past three-year period is provided in the following figure:

FIGURE 1. NET SALES REVENUES OF THE PODRAVKA GROUP



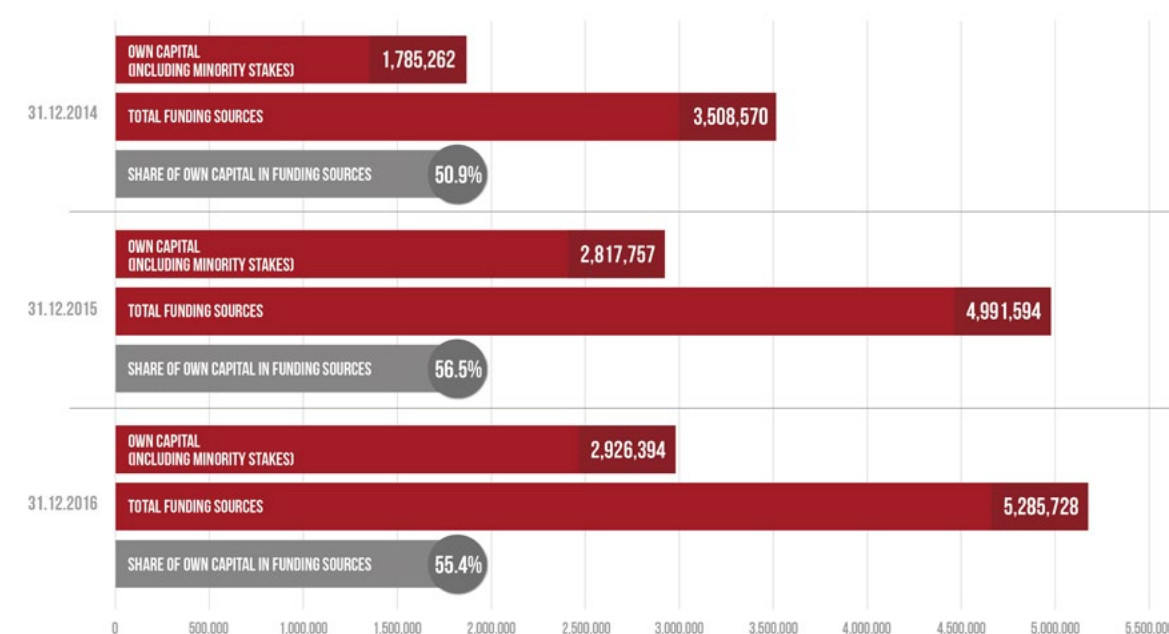
As of 1 January 2016, the Podravka Group changed its revenue reporting policy. Prior to that date, certain fees and authorisations approved for customers for various promotional and marketing were listed as marketing costs. Since such activities are defined within the framework of sales contracts, and appear with the goal of generating sales revenues, as of 2016, the Group has listed these costs as deductions from sales revenues, by which the Group now more realistically lists its sales revenues and aligns its accounting policies with the generally accepted practices of other companies in the sector of the sale of mass consumption goods. In accordance with the new policy of listing sales revenues, the sales revenues for 2015 were also reclassified. In light of these changes, the revenue data from 2014 are not comparable with other years.

In 2015, the Podravka Group achieved the largest acquisition in its history, purchasing the Slovenian food company Žito Group. Since the Žito Group was consolidated into the Podravka Group in the fourth quarter of 2015, this had a positive impact on net sales revenues for the SBA Food for the fourth quarter of 2015 and for the whole of 2016. The SBA Pharmaceutical achieved growth in 2016, primarily due to an expansion of business cooperation on the Russian market.

### 1.1.6.3. Total capitalization

The total capitalization of the Podravka Group in 2016 and the two years preceding, analysed in terms of share of capital in fund sources, shows that the company has a high and growing share of its own capital in total fund sources, with the aim of retaining low indebtedness, as follows:

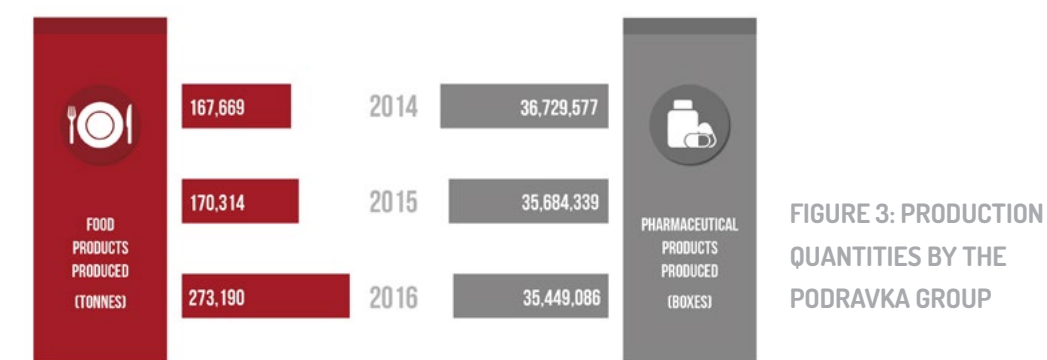
FIGURE 2: TOTAL CAPITALISATION OF THE PODRAVKA GROUP ANALYSED BY SHARE OF CAPITAL IN FUNDING SOURCES (IN THOUSAND HRK)



### 1.1.6.4. Quantity of produced food and pharmaceutical products

In the SBA Food, a total of 273,190 tonnes of food products were produced in 2016, which is a substantial growth resulting from the acquisition of the food company Žito Group. The SBA Pharmaceuticals produced a total of 35,449,086 boxes of pharmaceutical products, representing a slight drop in comparison to 2015.

A review of the quantities of food and pharmaceutical products produced by the Podravka Group in the period 2013 to 2015 is shown in the following figure:

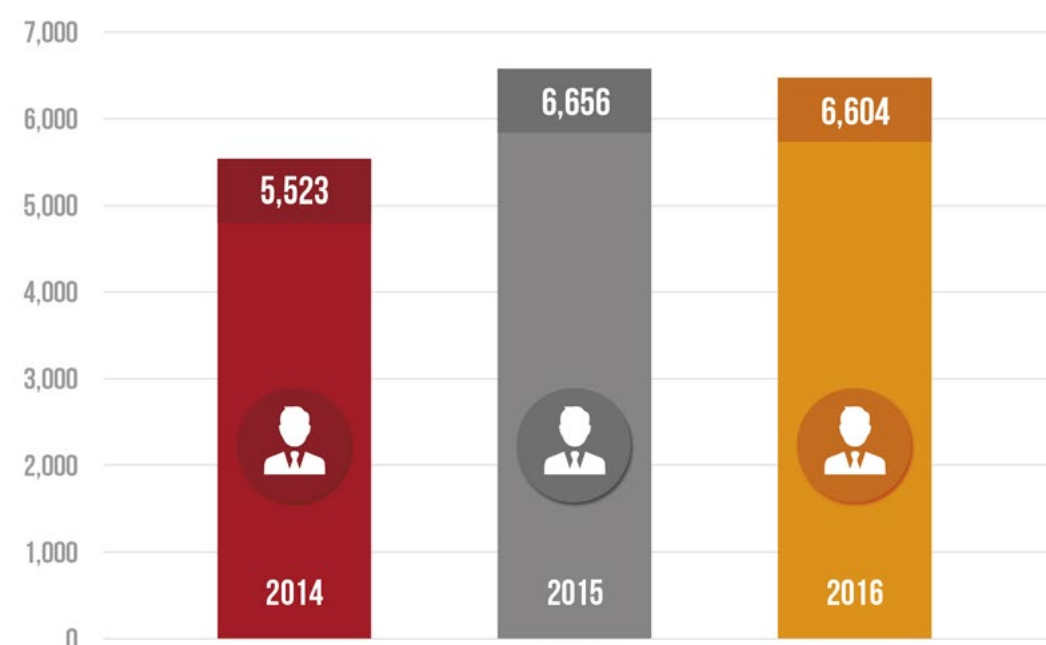


### 1.1.7. SIZE AND ANALYSIS OF LABOUR FORCE

#### 1.1.7.1. Size and analysis of labour force by type of contract, employment and gender

All workers of the Podravka Group, a total of 6404, have concluded labour contracts and are considered employees in accordance with the labour laws of the country in which their labour relations were established. In the examined three-year period, there is a noticeable growth trend in the labour force of the Podravka Group, primarily due to the acquisition of the Žito Group, as shown in the following figure:

FIGURE 4: NUMBER OF EMPLOYEES IN THE PODRAVKA GROUP



In terms of the type of labour contract, the Podravka Group employs workers on limited time contracts or on unlimited contracts. At the end of 2016, there were 5785 workers (more than 90%) employed on unlimited contracts and 619 workers (less than 10%) employed on limited time contracts. In terms of gender in the total number of workers employed on limited and unlimited time contracts, women and men are equally represented, with 3224 men (50.3%) and 3180 women (49.7%).

In terms of the type of employment, the Podravka Group employs workers in full-time and part-time positions. At the end of 2016, all workers, male and female, employed on unlimited contracts (5785 persons, 90%) had the status of full-time workers. In the Republic of Croatia, all workers in the Podravka Group are employed on a full-time basis.

Following from the above, the analysis of the labour force of the Podravka Group, by type of labour contract, employment and gender, as of 31 December 2016, is shown in the following table:

Number of workers in the Podravka Group	Workers on unlimited contracts			Workers on limited time contracts			Total
	Men	Women	Total	Men	Women	Total	
Belupo Int Bratislava	2	11	13	1	5	6	19
Belupo d.d.	319	479	798	46	59	105	903
Belupo d.o.o. Ljubljana	3	7	10				10
Belupo d.o.o.e.l. Skopje				1	1	2	2
Farmavita d.o.o. Vogošća	51	65	116	20	16	36	152
Intes Storitve d.o.o.	66	53	119				119
Konar GmbH Geretsried	1	3	4				4
Lagris a.s.	65	43	108	25	25	50	158
Ljekarne Deltis pharm	4	41	45		2	2	47
Mirna d.d. Rovinj	48	76	124	2	12	14	138
Podravka d.d.	1606	1335	2941	120	85	205	3146
Podravka d.o.o. Sarajevo - BiH	53	35	88	6	2	8	96
Podravka d.o.o. Beograd – SR	27	13	40	14	7	21	61
Podravka d.o.o. Ljubljana	43	72	115	1	1	2	117
Podravka d.o.o. Podgorica – MNE	11	8	19	1	1	2	21
Podravka d.o.o.e.l. Skopje	22	7	29	10	7	17	46
Podravka Gulf - FZE	3	1	4	1	1	2	6
Podravka Int Kft. Budapest	15	5	20				20
Podravka Int Sydney	3	4	7				7
Podravka Int s.r.o. Bratislava	11	24	35		5	5	40
Podravka Internat. USA	1	1	2				2
Podravka Polska sp. zo.o.	28	19	47	20	17	37	84
Podravka Russia				11	14	25	25
Branch offices of Belupo	49	158	207	13	10	23	230
Branch offices of Podravka	11	11	22	8	5	13	35
Sumi d.o.o.	25	80	105	6	1	7	112
Vegeta Podr. Limited Tanzania	1		1	12	2	14	15
Žito d.d. Ljubljana	385	311	696	1	3	4	700
Žito retail	6	64	70	2	17	19	89
<b>TOTAL PODRAVKA GROUP</b>	<b>2,859</b>	<b>2,926</b>	<b>5,785</b>	<b>321</b>	<b>298</b>	<b>619</b>	<b>6,404</b>

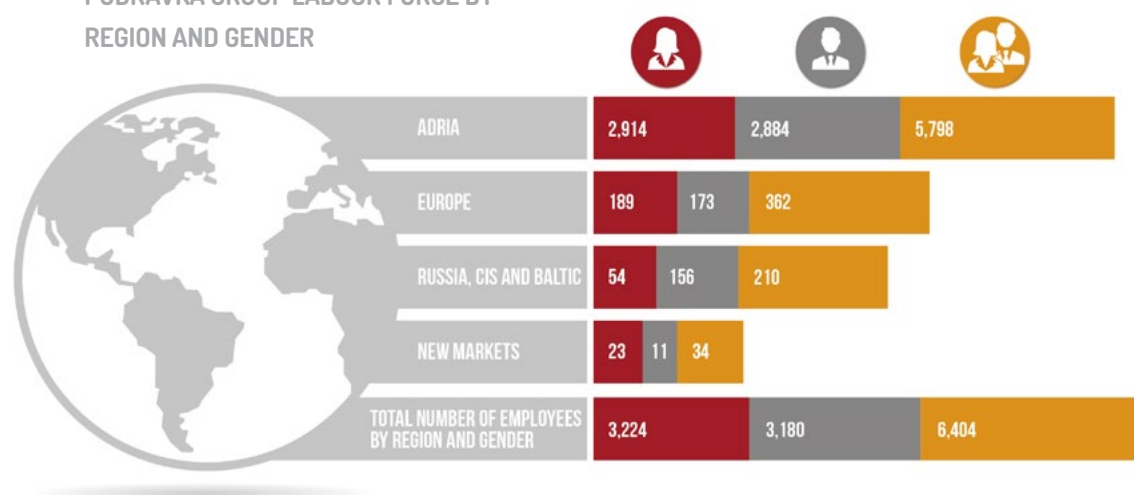


### 1.1.7.2. Size and analysis of labour force by region and gender

The workers of Podravka Group are distributed into four regions. At the end of 2016, the Adria Region consisted of 5798 workers (90.5%), Europe region of 362 workers (5.7%), Russia, CIS and Baltic Region of 210 workers (3.3%) and New markets region of 34 workers (0.5%). By gender, in each region, there was an equal number of female (49.7%) and male (50.3%) workers.

From this, an analysis of the labour force of the Podravka Group by region and gender as of 31 December 2016 is shown in the following figure:

FIGURE 5: SIZE AND ANALYSIS OF THE PODRAVKA GROUP LABOUR FORCE BY REGION AND GENDER



### 1.1.7.3. Workers legally considered to be self-employed

Workers legally considered to be self-employed or freelancers (work contract, author's fees) do not perform a significant share of the work in Podravka Group. Due to the specificity of operations, the exception is Belupo d.d., where this type of worker has made up about 20% of all workers in the past three years. In Podravka d.d., the share of these workers is about 2%, while in the remainder of the Podravka Group in Croatia, there were no concluded work contracts or author fee contracts in the period from 2014 to 2016. Following from the above, the overview of workers in the Podravka Group in Croatia that are legally considered to be self-employed, for the period 2014 to 2016 is shown in the following table:

No.	Name of company/ type of contract	2014			2015			2016		
		No. of self-employed workers	Total employed and self-employed 31.12.2014	%	No. of self-employed workers	Total employed and self-employed 31.12.2015	%	No. of self-employed workers	Total employed and self-employed 31.12.2016	%
Podravka d.d.										
1.	author's fees	19			19			31		
2.	work contract	19			23			21		
Total:		38	2,878	1.32	42	3,430	1.22	52	3,198	1.63
Belupo d.d.										
1.	author's fees	209			207			217		
2.	work contract	14			11			10		
Total:		223	1,085	20.55	218	1,099	19.84	227	1,130	20.09
Danica d.o.o.										
1.	author's fees	1								
2.	work contract	0								
Total:		1	496	0.20						

### 1.1.7.4. Oscillations in the number of employees

There are no significant oscillations in the number of employees in Podravka Group. Seasonal workers are continually hired to perform tasks of a seasonal character in the Production sector, and as needed for logistical tasks and sales operations tasks.

### 1.1.7.5. Employees covered by collective agreements

The collective agreements cover 100% of the total number of employed workers of the Podravka Group in Croatia. The provisions of the collective agreements apply to all employed workers, the Management Board, and management.

## 1.1.8 SUPPLY CHAIN

### 1.1.8.1. Organisation and characteristics of the supply chain

The supply chain of Podravka Group is organized on the principles of Supply Category Management, i.e. procurement categories run by Supply Category Managers. These managers cover the entire Group, lead the category strategy, negotiate, contract, develop main contracts and following their execution.

Managing supplier relations is of strategic importance for the Podravka Group. Suppliers are segments according to their strategic importance, i.e. according to their added value for the company.

For all procurement categories, efforts are made to ensure there are at least two suppliers, one of which is usually larger, and the second is a challenger. For this reason, as a rule, suppliers are given general contracts without an expiry date, and every year, the new quantities and prices for that year are defined in an annex, following the tender procedure.

### 1.1.8.2. Activities in the supply chain

For all procurement categories, tenders are issued, or offers are requested from targeted potential partners, based on market research and following the competition, depending on the type of good, in the immediate area or from around the world. Since 2016, the e-Ugovaranje (e-Contracting) application has been in use, and has quickly proven to be a significant platform for tenders and e-auctions, enabling higher quality management of negotiations and achieving better prices for raw materials.

The overall situation with suppliers is best achieved through the ISO audit, which assesses suppliers on the basis of a number of criteria. It is exceptionally important that suppliers have all the necessary certificates (IFS, BRC, GLOBALGAP, FSSC 22000, ISO 9001, ISO 14001, HACCP, OHSAS 18001 and others), and that these companies include environmental protection and sustainable development in their operations.

### 1.1.8.3. Number and locations of suppliers in the supply chain

In 2016, at the level of Podravka Group, trade was achieved with 8599 suppliers, of which 3172 were domestic (36%) and 5427 foreign (64%), as shown in the following figure:



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

In abiding by the high-quality standards for incoming raw materials, the company achieves a significant portion of its trade with suppliers with local producers, and primary manufacturers in this way contribute to the development and stability of the local community.

The Podravka Group achieves trade with suppliers from over 60 countries around the world, of which the majority of total trade in procurement is achieved on foreign markets. In the import structure, the majority of suppliers are from the EU, while most of the trade with non-EU countries is with producers from the region (Bosnia-Herzegovina, Serbia and Macedonia), and also with Hungary, Denmark and Switzerland, as shown in the following table:

Zemlja	No. of suppliers	%	Trade in mil. HRK	%
Croatia	3172	37%	1585	49%
Bosnia-Herzegovina	839	10%	193	6%
Czech Republic	659	8%	150	5%
Serbia	557	6%	134	4%
Germany	191	2%	130	4%
Poland	828	10%	127	4%
Italy	79	1%	113	4%
Slovenia	442	5%	105	3%
Austria	63	1%	81	3%
Spain	44	1%	69	2%
Other countries	1725	20%	516	16%
Total	8599	100%	3201	100%

### 1.1.8.4. Types of suppliers

By type of supplier, the Podravka Group cooperates with producers, primary producers, subcontractors, distributors, wholesalers and consultants.

### 1.1.8.5. Monetary value of payments to suppliers

The total trade with external suppliers (i.e. monetary payouts to suppliers) in 2016 was HRK 3.201 billion, with 49% paid out to Croatian suppliers, and 51% to foreign suppliers. The structure of the monetary value of payouts to suppliers, by seat of the supplier, is shown in the following figure:



FIGURE 7: PAYMENTS TO SUPPLIERS OF THE PODRAVKA GROUP BY COMPANY SEAT



1.1.9. SIGNIFICANT CHANGES DURING THE REPORTING PERIOD

1.1.9.1. Changes to the site of operations or activities

During 2016, the company Žito d.d. was merged into the company Podravka d.o.o. (as of 31 December 2016, the company Žito d.d. was changed to Žito d.o.o.), and 100% of the shares of the company Studenac d.o.o. were transferred to the company Radenska d.o.o.

1.1.9.2. Changes to the equity structure

In 2016, the Norwegian investment fund Skagen sold 517,852 shares of Podravka d.d. The shares were predominantly purchased by domestic pension funds, as seen in the following table:

Changes to the equity structure of Podravka d.d. in 2014 to 2016			
Shareholder	31.12.2014	31.12.2015	31.12.2016
State Asset Management Office (Croatian Pension Insurance Fund)	10.6%	10.2%	10.2%
State Asset Management Office (Republic of Croatia)	9.9%	9.5%	9.5%
Erste Plavi OMF category B	9.5%	9.3%	9.3%
AZ OMF category B	9,0%	12.6%	12.7%
PBZ COOMF category B	8.9%	10.7%	13.0%
Custodian account for UniCredit Bank Austria AG	8.0%	7.7%	0.4%
Kapitalni fond d.d.	5.9%	5.7%	5.7%
Other shareholders	38.2%	34.3%	39.2%

1.1.9.3. Changes in the supply chain

Considering the large number of suppliers that the Podravka Group cooperates with, changes in the supply chain occur virtually at the daily level. The trend of consolidation of suppliers is ongoing, such that large multinational companies are purchasing smaller ones, thus altering the situation on the market. However, during 2016, there were no significant changes concerning the location of suppliers, structure of the supply chain, or in relations with suppliers.

1.1.10. OBLIGATIONS ENSUING FROM EXTERNAL INITIATIVES

1.1.10.1. Precautionary approach

The Podravka Group applies a precautionary approach in the management of human resources through the following activities:

- Implementation of health supervision over persons who, in the scope of performing tasks at their workplace, come into direct contact with food and objects that have been in direct contact with food, or drinking water
- Protection of the occupational health of employees – those employees working at jobs with special working conditions are sent for regular check-ups in occupational medicine
- For the purpose of safety and preventing unauthorised entry into the company, the entrance of all employees is documented using cards, enabling records of the precise time of entrance and exit, while those persons who are not company employees are required to report their arrival
- For the purpose of protecting confidential information, all employees are required to sign a nondisclosure statement, and users of the SAP system are assigned authorisation that enables access only to designated information
- For the purpose of employing the best candidates, recruitment and selection is conducted in the manner as defined by the Podravka Group Employment Process
- For the purpose of transparency of operations, procedures are in place to regulate business processes.

Furthermore, the company applies precautionary measures for the purpose of environmental protection and for the purpose of resolving potential impacts on the environment. The precautionary approach is applied in operations as a measure to avoid all possible risks from the use of new technologies, until there can be complete knowledge and understanding of its impacts on the environment and human health.

1.1.10.2. Charters, principles and other external initiatives

During 2016, the operations of Podravka Group consisted of commitments towards the following external initiatives:

- Corporate Management Code of the Croatian Agency for the Supervision of Financial Services (HANFA);
- Corporate Management Code of the Zagreb Stock Exchange;
- Ethics Code of the Croatian Chamber of Economy (CCE);

- Biotechnical Foundation of the Faculty of Food Science and Biotechnology, and
- Foundation of the Croatian Chamber of Economy, Koprivnica County Chamber, for the financial support of pupils and students.

Furthermore, through its operations, 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, and
- National Guidelines for the nutrition of pupils in primary schools.

**1.1.10.3. Membership in associations and interest groups**

An overview of the membership of the Podravka Group in associations and interest organisations is provided in the following table:

Membership in associations and interest organisations	Manner of participation
Koprivnica Agriculture Society	Position in the mgmt body
Centre for food innovation – INNOTECH d.o.o.	Position in the mgmt body
Koprivnica Chemical Technologists’ Society (DKTK)	Position in the mgmt body
Geopodravina d.o.o.	Position in the mgmt body
Economic interest association of Croatian beverage producers (GIUPPH)	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, membership deemed as strategic
Occupational Safety Group of the CCE, Koprivnica County Chamber	Position in the mgmt body
Croatian Chamber of Economy (CCE)	Position in the mgmt body, membership deemed as strategic
Croatian Association of Procurement Activities (HUND)	Position in the mgmt body
Croatian Employers Association	Position in the mgmt body, membership deemed as strategic
Croatian Competitiveness Cluster in the Food and Processing Sector	Participates in projects or boards

Croatian Chef’s Association	Position in the mgmt body
Croatian Business Council for Sustainable Development	Position in the mgmt body, membership deemed as strategic
State Office for Metrology (HZN)	Position in the mgmt body
Croatian Plant Protection Society (HDBZ)	Position in the mgmt body
Croatian Agriculture Society	Position in the mgmt body
Croatian Society of Chemical Engineers	Position in the mgmt body
Croatian Society of Food Biotechnologists and Nutritionists	Position in the mgmt body
Croatian Pharmaceutical Society	Participates in projects or boards
Croatian Microbiological Society	Participates in projects or boards
National Foundation to support pupil and student standards	Position in the mgmt body
Football Club Slaven Belupo	Position in the mgmt body
Croatian Pharmacopeia Committee	Participates in projects or boards
Handball Club Podravka	Participates in projects or boards
Technical Working Group for Serialisation before HUP-UPL	Participates in projects or boards
Association of Croatian Laboratories (CROLAB)	Position in the mgmt body
Croatian Exporters’ Association (HIZ)	Participates in projects or boards
Society of Drug Manufacturers, before the Croatian Employers’ Association	Position in the mgmt body, membership deemed as strategic
Firefighting Society of the Town of Koprivnica	Position in the mgmt body
Society for social corporate responsibility, before the Croatian Chamber of Economy	Position in the mgmt body
Society for environmental protection in the economy, before the Croatian Chamber of Economy	Position in the mgmt body
Žitozajednica d.o.o.	Participates in projects or boards
Žitozajednica d.o.o.	Participates in projects or boards



1.2. IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

1.2.1. ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL REPORT

The Podravka Group is comprised of the Company (Podravka d.d.) and associated companies in which the Company possesses a majority and controlling ownership share (over 50%).

The list of entities included in the consolidated financial report is publicly available on p. 144 of the document "Podravka d.d. and associated companies, Koprivnica, Annual report and consolidated financial report for 2016", available at the following link:

Annual report and consolidated financial report for 2016

1.2.2. PROCEDURE TO DETERMINE THE CONTENT OF THE REPORT AND ASPECT BOUNDARIES

The procedure to determine the content of the report and the aspect boundaries began with a workshop of the Team assigned with drafting the Podravka Group Sustainable Development Report for 2016 on the topic "Recognising and including stakeholders".

The Team leaders provided all Team members with an explanation on how to properly conduct the process of recognising Podravka stakeholders, as this process encompasses the recognition of persons, groups or organisations that can affect, or that can be affected by, the activities and business results of Podravka Group. Furthermore, the Team leader explained the importance of managing Podravka stock to all those present.

Based on this, the Team members implementing the stakeholder recognition process to recognise a total of 120 different people, groups and organisations that could affect, or be affected by, the decisions, activities and business results of the Podravka Group.

From here, the Team members undertook an analysis of the perspective business relations with the recognised stakeholders, based on their assumed expectations and interests, to determine just how important the recognised stakeholder is to the Podravka Group. This process resulted in the identification of a total of 88 key stakeholders, who were then included in the further procedure to determine the content of the report and aspect boundaries.

1.2.2.1. Identification and determination of boundaries for significant topics

The procedure to determine the content of the report was continued with the inclusion of the key stakeholders of the Podravka Group into the process of non-financial reporting, via a specially organised meeting held on 9 June 2017 at the company headquarters in Koprivnica.

A total of 122 stakeholder representatives were invited from 88 different organisations from the corporate, public and civil sectors. The objective of the meeting was to open dialogue to learn about the expectations and interests of stakeholders towards sustainable development and activities of the company, as this represents the premise for the selection of significant topics (future material aspects) in the process of non-financial reporting.

In order to identify the important topics and to determine the borders for each important topic, following the meeting with the key Podravka Group stakeholders, the Team leader sent each key stakeholder a prepared table to be filled out and returned, outlining their expectations and interests.

Once the expectations and interests of the key stakeholders were received, the Team members considered and assessed:

- justification of the expectations and interests, and the topics that affect the assessment and decisions of key stakeholders, and
- significant economic, environmental and social effects of the company in the broader context of sustainability.

On the basis of these considerations and assessments, the list of all GRI aspects from the G4 guidelines were applied for the initial, broad list of significant topics for sustainable development of the Podravka Group:

CATEGORY AND ASPECT GUIDELINES				
Category	Economic		Environmental	
Aspects	Economic performance Market presence Indirect economic impacts Procurement practices		Materials Energy Water Biological diversity Emissions Wastewaters and waste Products and services Compliance Transport General Supplier assessments regarding environmental impact Dispute resolution regarding the environment	
Category	Social			
Subcategory	Labour relations and decent work	Human rights	Society	Responsibility for product
Aspects	Employment Employee and management relations Occupational health and safety Training and education Diversity and equal opportunity Equal pay for men and women Supplier assessment concerning labour relations Dispute resolution in labour relations	Investment Non-discrimination Freedom of association and collective bargaining Child labour Forced or compulsory labour Security practices Local population rights Assessment Supplier assessments regarding the abidance of human rights Dispute resolution concerning human rights	Local community Combatting corruption Public policy Conduct contrary to free market principles Compliance Supplier assessments concerning impacts on society Dispute resolution regarding impacts on society	Customer health and safety Labelling products and services Marketing communications Customer privacy Compliance

Following this, the team members determined the borders of the identified topics or areas having an impact (within, outside or within and outside the Podravka Group) for each identified significant topic.

### 1.2.2.2. Determining priority aspects and identifying material aspects

For the sake of simplicity, the identified significant topics in the first step are hereafter referred to as aspects.

In order to determine the priority aspects and to identify the material aspects, following the team workshops on the topic of Material aspects, the team leader prepared a table with the list of all significant topics (GRI aspects) to each key stakeholder, for their analysis and assessment of the importance of each aspect with regard to:

- effect on the assessment and decisions of key stakeholders, and
- significance of the economic, environmental and social impacts of the Podravka Group.

The analysis of the importance of each aspect was assessed on a scale of 1 to 10, where 10 indicates the highest importance, and 1 indicates the lowest importance. This assessment was made by the following stakeholders:

- 44 representatives of key stakeholders from 39 different organisations in the corporate, public and civil sectors, and
- 30 members of the Team from 25 different organisational units of the Podravka Group.

Following this, the Team leader calculated the average score of the importance of each aspect, and creating a ranking list of all aspects, from the aspect with the highest to the aspect with the lowest average score, with regard to:

- effect on the assessment and decisions of key stakeholders, and
- significance of economic, environmental and social impacts of the Podravka Group.

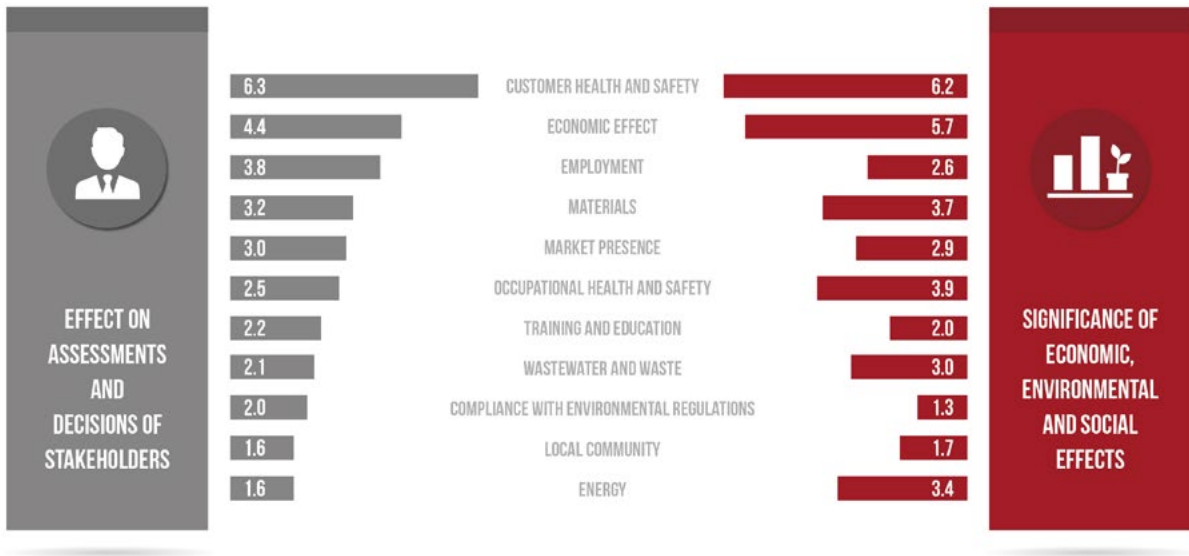
At the next team workshop on the topic of Managing material aspects, the Team leader presented the ranking list to all team members, and proposed the threshold (criteria) that make an aspect material. This was followed by team analysis, assessment and discussion on the thresholds of material aspects, and the lower threshold for the materiality of an aspect was designated as an average score of the aspect of 2.00.

Additionally, the team decided that it would consider, for the purpose of the report, aspects as material if they are:

- very important for key stakeholders with regard to their own expectations and interests, and/or
- reflect significant economic, environmental or social influences of the Podravka Group.

Further, the material aspects were identified and the ranking list made of the identified materials aspects that should be included in the Podravka Group Sustainable Development Report for 2016:

FIGURE 8: MATERIAL ASPECTS OF THE PODRAVKA GROUP



### 1.2.2.3. Determining the validity of the report content

With the aim of determining the validity of the identified materials aspects, at the workshop Managing material aspects, the teams assessed all the identified material aspects with regard to:

- area of application – scope of aspects encompassed in the report,
- aspect boundaries – description of the area in which the influence of each individual material aspect is achieved,
- time – completeness of selected information with regard to the reporting period.

Furthermore, teams considered the assessments of the importance of each identified materials aspect as provided by the stakeholders of the Podravka Group.

In abidance with the described procedures and assessments, a list of the identified materials aspects was then confirmed by the director of the service and director of the sector of the company.



Finally, the list of all identified materials aspects to be included in the Podravka Group Sustainable Development Report for 2016 was drawn up, thereby completing the procedure of determining the content of the report.

1.2.3. IDENTIFIED MATERIAL ASPECTS

In the procedure to determine the content of the report, the following economic, environmental and social materials aspects were determined for the Podravka Group in 2016:

SUSTAINABILITY CATEGORY	IDENTIFIED MATERIAL ASPECTS
ECONOMIC	Economic performance Market presence
ENVIRONMENTAL	Materials Energy Wastewater and Waste Compliance
SOCIAL	
Subcategory Labour relations and decent work	Employment Occupational health and safety Training and education
Subcategory Society	Local community
Subcategory Responsibility for product	Consumer health and safety

1.2.4. MATERIAL ASPECT BOUNDARIES

For each identified material aspect, the boundaries of the aspects within and outside the Podravka Group are listed as follows:

MATERIAL ASPECTS	ASPECT BOUNDARY WITHIN PODRAVKA GROUP	ASPECT BOUNDARY OUTSIDE PODRAVKA GROUP
Economic performance	All entities within the company	Local,regional and national community (town and country where company operates), all company stakeholders
Market presence	All entities within the company	Local community (town in which company has significant operations)

Materials	Podravka d.d., Belupo d.d., Farmavita d.o.o., Danica d.o.o., Studenac d.o.o., Mirna d.d., Lagris a.s., Podravka-Polska Sp.z o.o., Sana d.o.o., Žito d.d., Intes Storitve d.o.o., Šumi Bonboni d.o.o.	Local community (town and country in which company has factories), town of seat of large suppliers, and their local communities
Energy	All entities within the company	Local communities (town and country in which the company has representative offices and factories)
Wastewaters and Waste	Podravka d.d., Belupo d.d., Farmavita d.o.o., Danica d.o.o., Studenac d.o.o., Mirna d.d., Lagris a.s., Podravka-Polska Sp.z o.o., Sana d.o.o.,	Local communities (town and country in which the company has factories)
Compliance	Žito d.d., Intes Storitve d.o.o., Šumi Bonboni d.o.o.	Local,regional and national community (towns and countries where company operates)
Employment	All entities within the company	Local community (town and country in where the company operates)
Occupational health and safety	All entities within the company	Not material outside the company
Training and education	All entities within the company	Educational institutions and training companies in Croatia and abroad
Local community	All entities within the company	Local communities in all towns and countries where the company operates
Customer health and safety	All entities within the company	Company markets, buyers and consumers

All specific limitations pertaining to aspect boundaries within and outside the Podravka Group are listed as follows:

SPECIFIC LIMITATIONS	ASPECT BOUNDARIES WITHIN PODRAVKA GROUP	ASPECT BOUNDARIES OUTSIDE PODRAVKA GROUP
Energy	Central Energy Dept has no data on the management of this material aspect in entities outside of Croatia that have manufacturing as a core activity	The impact of energy consumption is not known

Wastewaters and Waste	Ecology Dept has no data on the management of this material aspect in entities outside of Croatia that have manufacturing as a core activity	Considering the low level of emissions in the share of total emissions at the national level, impacts are not known
Occupational health and safety	Podravka d.d. has no data on the legal regulations and implementation of measures for occupational safety in entities outside of Croatia	
Training and education	Education is conducted in line with needs in Croatia and in all countries where Podravka d.d. has entities	

1.2.5. POTENTIAL AMENDMENTS AND SIGNIFICANT CHANGES TO THE CONTENT OF THE REPORT

Considering that the Podravka Group Sustainable Development Report for 2016 is the second prepared in accordance with the G4 Guidelines of the Global Reporting Initiative, there was an effect with regard to data from the previous report.

Following from this, this report contains significant changes with regard to the area of application in comparison to the previous reporting period. The reason for this significant change with regard to Area of application is the attained knowledge and skills through last year’s reporting process on the sustainable development of the Podravka Group, which resulted in a better procedure this year in defining the content of the report.

1.3. STAKEHOLDER ENGAGEMENT

1.3.1. LIST OF GROUPS OF STAKEHOLDERS INCLUDED BY THE COMPANY

For the purpose of determining the content of report, the Company informed various stakeholder groups:

STAKEHOLDER GROUPS	NAME OF ENGAGED STAKEHOLDERS
EMPLOYEES	Podravka d.d. Management Board, PULS association, KUD Podravka, Union for workers in the agricultural, food and tobacco industries and in water management (PPDIV Croatia), Independent union (HUS Podravka), Podravka worker's group union (SINPOD), Podravka d.d. labour council
BUSINESS PARTNERS	GKP Komunalac d.o.o., Koprivničke vode d.o.o., DC Smith Unijapapir Croatia d.o.o., NFO d.o.o., Aluflexpack Novi d.o.o., Genos DNA d.o.o., Koprivnica plin d.o.o., RWE Plin d.o.o., HEP Opskrba d.o.o., HEP ODS d.o.o., Bilokalnik IPA d.d., Piškornica-sanacijsko odlagalište d.o.o., TPZ d.o.o. Zagreb, Benussi d.o.o. Fažana, KTF Tahotrans Koprivnica, Lagermax AED Croatia d.o.o., Logistika Šurić Koprivnica, Dukat d.d. Zagreb, Siemens d.d. Zagreb, Lotus 91 d.o.o. Jalkovec, Tranport Budiša Split, Mikulić d.o.o. Matulji
LOCAL COMMUNITY	Town of Koprivnica, Koprivnica-Križevci County
NON-GOVERNMENTAL ORGANISATIONS	Potrošač–Croatian consumer protection society, Association of consumer protection societies of Croatia, Consumer protection society of the Town of Koprivnica and Koprivnica-Križevci County, Koprivnica Red Cross civil society, Bolje sutra association, Ludens Theatre, Society of the Disabled Persons of Koprivnica-Križevci County, Latica association, Drava Documentation Centre, Our Children Society from Koprivnica, Koprivnica Ecological Society, Baobob Society, Terra Podraviana, Koprivnica Youth Society, Koprivnica Volunteers and Activists Initiative, Kopriva Society
ACADEMIC, SCIENTIFIC AND EDUCATIONAL ORGANISATIONS	Đuro Ester Primary School, Koprivnica, Koprivnica, Braća Radić Primary School, Koprivnica, Antun Nemčić Gostovinski Primary School, Koprivnica, Tratinčica Preschool, Koprivnica, Smiješak Preschool, Koprivnica, Sveti Josip Preschool, Koprivnica, University of Zagreb, Faculty of Food Technology and Biotechnology, Koprivnica Secondary School, Fran Galović Gymnasium Secondary School, Koprivnica, University North, Faculty of Pharmacy and Biochemistry, University of Zagreb, University of Zagreb, Faculty of Economics, Vrapčić preschool Drnje

ASSOCIATIONS	Croatian Chamber of Economy – Sector for Agriculture, Food Industry and Forestry, Croatian Chamber of Economy – Association for Corporate Social Responsibility, Croatian Chamber of Economy – Koprivnica County Chamber, Croatian Pharmacist’s Chamber, Croatian Business Council for Sustainable Development
FINANCIAL COMMUNITY	Zagrebačka banka d.d.
REGULATORY BODIES	Croatian Agency for Supervision of Financial Services (HANFA)
MEDIA	Radio Koprivnica, ePodravina.hr, Dravainfo, Klikaj, Glas Podravina i Prigorje, Poslovni Dnevnik, Podravski list,
STATE ADMINISTRATION	Ministry of the Interior, Koprivnica-Križevci Police Administration, Koprivnica Police Station, Croatian Ministry of Agriculture, Croatian Ministry of Health, Croatian Food Agency, Ministry of the Economy – Directorate for the Processing Industry, Regional Energy Agency Sjever, Croatian Health Insurance Fund (HZZO)

1.3.2. BASIS FOR THE RECOGNITION AND SELECTION OF ENGAGED STAKEHOLDERS

The basis for recognizing and the selection of included stakeholder groups was the established relationships with the Podravka Group, which was used in the team’s assessment of the persons, groups or organisations that could influence, or which influence decisions, activities and business results of the Podravka Group.

With the objective of determining the stakeholders and selection of included stakeholders, the procedure of determining the content of the report and the aspect boundaries began with the workshop of the Team for the drafting of the Podravka Group Sustainable Development Report for 2016, on the topic of Recognising and including stakeholders.

The Team leader first explained to all team members why and how to properly carry out the process of recognising Podravka’s stakeholders. Pursuant to this, the team members recognized a total of 120 different persons, groups and organizations that could influence, or are influenced by the decisions, activities and business results of the Podravka Group.

Then the team members conducted an assessment, from the perspective of business relations with the recognized stakeholders, and based on their assumed expectations and interests, just how important each recognized stakeholder is for the Podravka Group, and identified a total of 88 key stakeholders that were then included in the further procedure of determining the content of the report and the aspect boundaries.

1.3.3. COMPANY APPROACH TO STAKEHOLDER ENGAGEMENT

The Podravka Group included its stakeholders in the drafting of the Sustainable Development Report as part of the report preparation process, through the following procedure of determining the content of the report and the aspect boundaries:

- identification of significant topics and determination of the boundaries for significant topics (meeting with key stakeholders, discussions with key stakeholders within the community, written communications with key stakeholders)
- determining the priority aspects and identification of the material aspects (written and verbal communication with key stakeholders)
- determining the validity of the identified material aspects (assessment of the importance of each identified material aspect by key stakeholders).

1.3.4. KEY TOPICS AND INTERESTS ARISING FROM STAKEHOLDER INCLUSION

The inclusion of the stakeholder groups of Podravka Group raised the following key topics and interests, as listed in the following table:

EMPLOYEES
Ongoing release of information on ecological topics on the intranet and in the company journals; Information and education of employees on the management and disposal of waste; Waste separation in the workplace; Care for employees; Care for the environment; Informing and educating employees on sustainable development; Corporate volunteering; Stimulating Podravka employees to volunteer and help the community, thereby further developing corporate social responsibility; Support to the Podravka Volunteers Association PULS in holding charity events and other projects; Building the PULS brand
OWNERS
Meeting the owner and stakeholder interests for growth and development of operations and internal efficacy; Transparent corporate efficacy founded on modern principles; Further internationalisation of operations – to become the leading food company on strategic markets; Growth and development of the Podravka Group, operational and cost efficacy and restructuring, long-term profitability; Expanding operations through organic and inorganic growth – through acquisitions and strategic alliances; Quality management of the key brands and insistence on product quality, stimulating innovation, research and development of products; Stimulating employment and strengthening total internal knowledge and competencies among employees of the Podravka Group; Synergy of the business areas Food and Pharmaceuticals at the level of the Podravka Group; Corporate social responsibility and care for sustainable development, ethics and corporate culture; Efficiency management of investments and risks; Constant care for health and the environment.



BUSINESS PARTNERS
Rational water use; Focus on ecological and economic interests through the use of recyclable materials; Clearly controlled types and quantities of waste generated by Podravka as a manufacturer, with planned and preferred disposal methods; Environmental and social components of operations; Reducing the thickness of materials for clear broths; Reuse of reusable materials such as palettes and rolls; Development of pouch packaging instead of foils due to savings in waste materials generated at Podravka, and instead of glass jars due to savings in space and transport of packaging.
LOCAL COMMUNITY
Establishment of broader cooperation with local family farms for the procurement of raw materials; Initiatives to stimulate small local producers to grow the required raw materials; Stimulating organic production; Integrating local products into the school menus of all primary and secondary schools in the Town of Koprivnica.
NON-GOVERNMENTAL ORGANISATIONS
Social responsibility; Range of HRN EN ISO certifications; Organising campaigns and cooperation concerning donating blood in Podravka premises and accompanying factories, and rewarding employees for their humanity and nobility in helping others; Donating Podravka products with a short period to expiry or with damaged packaging to the Social food shop or Public kitchens, to help persons in need and to avoid the destruction of food; Promoting volunteer work and including Podravka employees in volunteer campaigns of the Koprivnica Red Cross, and the possibility of organising corporate volunteering programme.
ACADEMIC, SCIENTIFIC AND EDUCATIONAL INSTITUTIONS
Assistance with the menus of all city schools – listing allergens; All city schools have a recycling area for sorting materials – we recommend that all city schools should receive containers for sorting and the containers collected; Proper disposal of packaging waste of varying origin – cardboard, glass, metal, frying oil, after procurement and consumption of goods; Improving the health habits of all pupils; Educating consumers about the management and appropriate disposal of packaging waste from food products; Educational workshops for parents about recycling packaging; Giving directions for a healthy diet, especially for children; Sponsorship programmes for sports projects; Making Podravka available for visits; The need for responsible conduct with food, particularly taking care not to throw food away. This has become a serious social, economic and environmental issue at the global level; Linking Podravka with entities within the local community to reduce the waste of food products that are suitable for human consumption; Cooperation with secondary schools and opening opportunities for student practical exercises at Podravka; Continuation of mutual cooperation in ensuring quality diets for children; Continuation of Podravka activities in the areas of ecology, environmental care and the use of recycled materials; Interactive workshops on the proper disposal of waste and recycling; Lino mascot visits aiming to promote a healthy diet, sport, drinking water and healthy beverages; Sponsoring and active participation of Lino in sporting activities in children’s preschools and in other teaching activities.

ASSOCIATIONS
Greater inclusion of local businesses among company suppliers; Perception of the company as “domestic” within the local community; Constant proactive approach to finding solutions to reduce negative impacts on the environment and society, and to strengthen positive impacts; Tabling a larger number of sustainability topics on the agenda of the Management Board and creating better visibility of the ties of the Management Board with corporate social responsibility and the responsibility of the Management Board with non-financial influences; Evidence that the Management Board participates in defining the content of the sustainability report; Active participation in Podravka in the HR PSOR and contribution to activities, development of knowledge and documenting and disseminating good practices in the field of corporate social responsibility.
FINANCIAL COMMUNITY
Environmental and social sustainability; Respecting the rights of workers and the affected local population, regardless of the country of operations; Activities designed and implemented in compliance with the valid legal regulations and examples of good practices pertaining to environmental protection, social sensitivity and rights; With respect to economic issues, the objective is to ensure constant contribution to continuous operations, to lead the company on the principles of good stewardship, and to perform operations with due care and efficiency.
REGULATORY BODIES
Proper and timely application of legal provisions, European Union regulations, Corporate Management Code of the Croatian Financial Services Supervision Agency (HANFA) and Zagreb Stock Exchange, and the Code of Ethics in operations of the Croatian Chamber of Economy (HGK); Further development of transparent corporate management; Active participation in the drafting of legislation and bylaws regarding the capital market – particularly in the sense of increasing transparency of operations and preventing abuses on the capital market.
MEDIA
Podravka’s activities to create better living conditions for the local community; How Podravka affects the creation of a more positive business environment; Investments in local sports; Reporting on specific projects within the local community; Media presentation of business successes of the Podravka Group; Managing the entities in Podravka ownership; Expanding and improving cooperation between Podravka and the media; Reports on quantities of fruits and vegetables from the Koprivnica area and surrounding areas have been processed at Podravka, the numbers of suppliers from the Podravina and Prigorje areas; How the company ensures environmental protection, how it cooperates with schools in the area, how it participates in local events and projects, which programmes it supports.
STATE ADMINISTRATION
Protection and corporate security of the Podravka Group: inspection tasks to oversee fire protection and to oversee security activities, measures to prevent criminal acts (theft, corruption, computer fraud), measures and actions to protect the intellectual property of Podravka

The company responded to key topics and interests as raised by the included stakeholders in their reports, and this was considered and discussed by the team for the drafting of the sustainable development report, with expert presentations made and proposals drafted for higher management to improve the operations of the Podravka Group.

## 1.4. REPORT PROFILE

### 1.4.1. REPORTING PERIOD

The reporting period for the information provided in the Podravka Group Sustainable Development Report for 2016 pertains to the 2016 calendar year.

### 1.4.2. DATE OF THE LAST PUBLISHED REPORT

The last Podravka Group Sustainable Development Report was published on 17 November 2016, and was prepared in compliance with the G4 Guidelines of the Global Reporting Initiative (GRI) on sustainability.

### 1.4.3. REPORTING CYCLE

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

### 1.4.4. CONTACT CONCERNING THE REPORT

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

**Matija Hlebar**

**Sustainable Development manager**

PODRAVKA d.d.

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### 1.4.5. GRI INDEX

#### 1.4.5.1. Alignment options

The Sustainable Development Report for the Podravka Group for 2016 has been aligned with the Guidelines for Sustainability Reporting GRIG4–Core option.

#### 1.4.5.2. Index of the content of the GRI for the selected alignment option – Core option

The table below outlines the index of the contents of the GRI for the Core option of preparation:

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1.4.6. VERIFICATION

1.4.6.1. Company practice regarding the submission of requests for external report verification

The Podravka Group submitted a request for external verification of the report to the Croatian Business Council for Sustainable Development (HR PSOR). HR PSOR is a non-profit, private sector organization consisting 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.

1.4.6.2. Scope of obtained external verifications

The obtained external verification by HR PSOR encompasses a written opinion and report of the verification body. The opinion and report are publicly availableand contain conclusions on the quality of the report,the information contained within, and the procedures of drafting the report. The written report also contains a description of the

responsibilities of persons drafting the report and those verifying it, and explains the nature of verification that is provided in the verification report.

1.4.6.3. Relationship between the company and the verification body

The parent company Podravka d.d. is a regular member of HR PSOR, but does not have a representative in the governing body, the Executive Council. The verification body is a three-member committee of the HR PSOR that is formed individually for each sustainable development report. The committee is comprised of regular members of the Executive Council who are independent of the company, and therefore able to provide an objective and unbiased opinion or conclusions concerning the report, and to publish their findings.

1.4.6.4. Engagement of senior management in the submission of the request for report verification

Senior management was engaged in the submission of the request for verification of the Podravka Group Sustainable Development Report for 2016 via the director of the corporate service, Corporate Quality and Sustainable Development.



1.5. GOVERNANCE

1.5.1. GOVERNING STRUCTURE

Pursuant to the provisions of the valid Statute of Podravka d.d. (hereinafter: the Company), the Company organs of Podravka d.d. are:

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

1.5.1.1. Management Board

The Management Board consists of four members appointed by the Supervisory Board. The Chairperson 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 Chairperson 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 start of the mandate is calculated from the date of appointment of the Management Board, unless otherwise stipulated in a decision of the Supervisory Board.

The Chairman and members of the Management Board are appointed by the Supervisory Board. Each member of the Management Board is authorised to individually and independently represent the Company. All other Company tasks are managed by the Chairman and members of the Management Board individually and independently on the basis of the division of work between members of the Management Board for specific areas of operation or for a specific scope of work. The manner of work of the Management Board and the division of tasks among members of the Management Board is governed by the Rule Book on the work of the Management Board, which is 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.

The members of the Management Board of Podravka d.d. during 2016 were:

No.	Name	Function	Mandate
1.	Zvonimir Mršić	Chairman of the Board	24.02.2012.
2.	Olivija Jakupec	Member of the Board	24.02.2012.
3.	Miroslav Klepač	Member of the Board	24.02.2012.-31.03.2016.
4.	Iva Brajević	Member of the Board	01.04.2016.
5.	Hrvoje Kolarić	Member of the Board	20.12.2012.

1.5.1.2. Supervisory board

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

Members of the Supervisory Board are elected or appointed to a four-year term. The start of the mandate for each member of the Supervisory Board is calculated from the date of election, unless otherwise determined by a decision on election.

The Supervisory Board oversees the execution of Company business, and decides on issues from its area of competence in accordance with the law, the Statute of Podravka d.d., and the Rule Book on the work of the Supervisory Board.

The members of the Supervisory Board of Podravka d.d. during 2016 were:

No.	Name	Function	Mandate
1.	Dubravko Štimac	Chairman of the Supervisory Board	24.02.2012.
2.	Mato Crkvenac	Deputy Chairman of the Supervisory Board	24.02.2012.
3.	Ivo Družić	Member of the Supervisory Board	23.02.2012.
4.	Ivana Matovina	Member of the Supervisory Board	06.07.2012. – 06.07.2016.
5.	Petar Miladin	Member of the Supervisory Board	07.09.2010.
6.	Dinko Novoselec	Member of the Supervisory Board	07.09.2010.
7.	Milan Stojanović	Member of the Supervisory Board	06.07.2012. – 06.07.2016.
8.	Petar Vlaić	Member of the Supervisory Board	07.09.2010.
9.	Ksenija Horvat	Member of the Supervisory Board	01.07.2015.

1.5.1.3. General Assembly

Shareholders – those holding shares with the right to vote – achieve that right and decision-making at the General Assembly within the framework of competency as stipulated by law. Shareholders achieve the right to vote at the General Assembly in person or via a proxy.

The right to participate and achieve the right to vote at the General Assembly is held by shareholders, and shareholder proxies, under the condition that the shareholders are registered in the database of the Central Clearing Depository Agency (SKDD) and that they register their participation at the General Assembly to the Company a minimum of six days prior to the holding of the General Assembly.

## 1.6. ETHICS AND INTEGRITY

### 1.6.1. COMPANY VALUE SYSTEM AND ETHICAL PRINCIPLES

The Podravka Group conducts its operations, in its corporate value system, on the principles of modern corporate government, with the application of the provisions of the Corporate Management Code of the Croatian Agency for the Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange and its rules.

Accordingly, with regard to ethics and integrity, the company has accepted the fundamental ethical principles and guidelines of ethical conduct of the Business Ethics Code, in the content and text as confirmed and adopted by the Assembly of the Croatian Chamber of Economy (CCE). Pursuant to the recommendations from the accepted CCE Business Ethics Code, the Company also adopted its own Business Ethics Code at the level of the Podravka Group, based on which Podravka d.d. and all its associated companies in Croatia and abroad have developed their own ethical principles – based on the principles of modern corporate governance.

The Code of Ethics of the Podravka Group contains the traditional good business practices of the company, and promotes new standards in line with the best business practices, with the aim of retaining a strong reputation in all areas of operation. This Code is based on the principles of conscientious business conduct and a corporate set of values that are 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, creating consumer loyalty and trust among investors, business partners and the public as a whole.

### 1.6.2. PRINCIPLES OF OPERATION OF THE PODRAVKA GROUP

The fundamental business principles by which the Podravka Group abides in its operations are legality and transparency of operations, work professionalism and objectivity, the importance of public relations, significance of the stance towards the environment and towards the social 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.

In the stance towards the environment, the company invests particular care, both on the environment and in the sustainable development of the community as a whole, and makes ongoing investments in environmental protection. Therefore, all employees are obliged to abide by ecological standards and the valid regulations in their work, and to properly and responsibly deal with all types of waste and to ensure the rational use of all raw materials.

In relations with society, in its growth, the company has traditionally aligned its interests with those of the local community, always considering the interests of the community and supporting the significant development of numerous charity associations, sports clubs, scientific institutions and similar organisations. Furthermore, the company regularly participates and supports projects of the social community

aimed at improving education, the environment, health and social standards in the area where it operates, with significant encouragement for the participation of the Podravka Group and its employees in all charity organisations, sports clubs and similar organisations.

With regard to conflicts of interest, all employees and particularly managers are expected to give their complete loyalty to Podravka Group, and participation in any activity, particularly those of a commercial or financial nature, that could cause a conflict of interest of an employee with the interests of the company are not permitted. Nor is it permitted for employees to perform activities that compete with the company operations.

Nor is the dual holding of positions acceptable within the Podravka Group, and any employees holding managerial positions should avoid being members of the Supervisory Board of Podravka d.d. If there is a case of a potential conflict of interest, the employee must immediately inform his direct superior and/or the Management Board in writing thereof without delay. Employees who perform activities in other organisations, civil societies and similar institutions, in addition to their work at Podravka Group, may not use their position by extorting or demanding donations or sponsorships.

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

The procedure following the submitted report is stipulated in detail in the provisions of the Code of Ethics of the Podravka Group, with a listing of sanctions by authorized persons for those committing violations of the Code provisions.

## II SPECIFIC STANDARD DISCLOSURES

### 2.1. ECONOMIC CATEGORIES OF SUSTAINABILITY

The economic categories of sustainability of the Podravka Group pertain to the effects of the company on the economic situation of stakeholders and on the economic systems at the local, national and global levels.

#### 2.1.1. ASPECT: ECONOMIC PERFORMANCE

The Podravka Group is a profit organization, and for that reason, economic performance is a material aspect. The company achieves economic performance (directly generated economic value), distributed via salaries and compensation to employees, payments to the state, payments of operative and financial expenditures, and payments to other stakeholders in direct or indirect ways. In order for the company to distribute this economic value, it must achieve a positive financial result.

The company governs its economic performance by creating a plan of operations each year for the following year, and then monitoring its execution at the monthly level. During the year, at least one additional assessment of operations is performed on the basis of the newest data and information. The plan and assessment of operations serve for the planning of future to achieve the economic (financial) indicators, and for identifying and eliminating the impacts that could arise by failing to execute the plan.

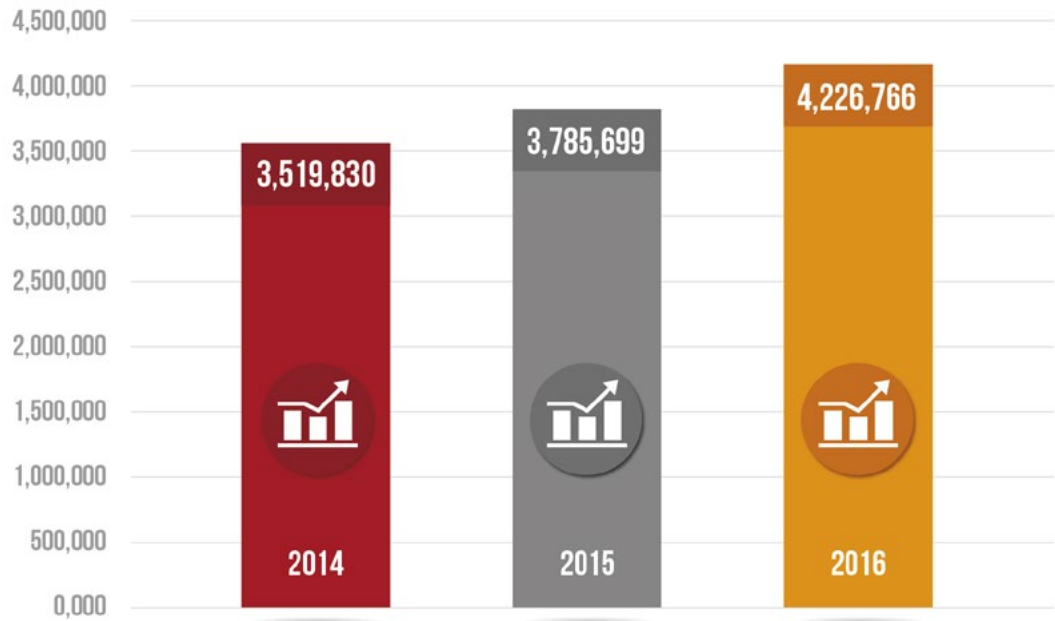
The entire company participates in the drafting of the plan and assessment, since each department is required to give an assessment of costs and revenues to be achieved in the next year. All included departments receive deadlines for the submission of data. The Controlling Sector finally sums all the estimates into a single report that represents the business plan for the following year.

As stated, an assessment of the achievement of results is performed at least once per year, and more often as required. The objective is to see whether the achieved results are aligned with the business plan prepared the previous year. If the assessment shows derogations, attempts are made to identify and remove the impacts that could lead to non-fulfilment of the plan.

##### 2.1.1.1. Directly generated and distributed economic values

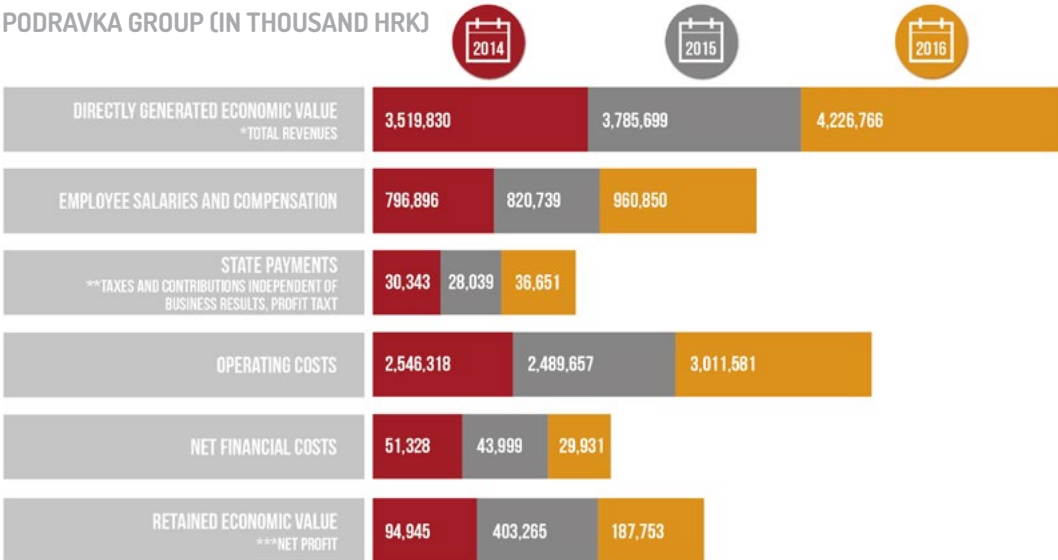
In the observed three-year period, a positive trend of growth is evident in the achieved economic value of the Podravka Group, due largely to the acquisition of the Žito Group, as shown in the following figure:

FIGURE 9: TREND OF DIRECTLY GENERATED ECONOMIC VALUE OF THE PODRAVKA GROUP (IN THOUSAND HRK)



Following the above, the following graph shows the directly generated and distributed economic value of the Podravka Group in the period from 2014 to 2016:

FIGURE 10: DIRECTLY GENERATED AND DISTRIBUTED ECONOMIC VALUE OF THE PODRAVKA GROUP (IN THOUSAND HRK)





As of 1 January 2016, the Podravka Group changed its sales revenue reporting policy. Prior to that date, certain fees and authorisations approved for customers for various promotional and marketing were listed as marketing costs. Since such activities are defined within the framework of sales contracts, and appear with the goal of generating sales revenues, as of 2016, the Group has listed these costs as deductions from sales revenues, by which the Group now more realistically lists its sales revenues and aligns its accounting policies with the generally accepted practices of other companies in the sector of the sale of mass consumption goods. In accordance with the new policy of listing sales revenues, the sales revenues for 2015 were also reclassified. In light of these changes, the data on directly generated economic value and operating costs from 2014 are not comparable with other years.

In 2015, the Podravka Group achieved the largest acquisition in its history, purchasing the Slovenian food company Žito Group. Since the Žito Group was consolidated into the Podravka Group in the fourth quarter of 2015, this had a positive impact on the directly generated economic value in 2015 and 2016.

With the acquisition and consolidation of the Žito Group, the number of employees of the Podravka Group was increased by the employees of the Žito Group, which resulted in increased salaries and compensations to employees, particularly in 2016. Payments to the state were reduced in 2015 due to the use of tax losses in previous periods, while in 2016 payments to the state increased. Operating costs in 2016 were higher due to the consolidation of the Žito Group. The net financial costs showed a significant decline over the last three years, which is associated with the payment of part of credit obligations, and the refinancing of credit obligations at more favourable commercial terms.

In 2015, record levels of retained economic value were achieved, and it should be noted that this is largely due to the effects of the consolidation of the Žito Group, and of the delayed tax revenues of the Belupo Group after receiving a subsidy for the construction of a new pharmaceutical factory. The retained economic value in 2016 reflects the operations of the entire year of the Podravka Group.

**2.1.2. ASPECT: MARKET PRESENCE**

The aspect Market presence is material for the Podravka Group, as it demonstrates the contribution of the company to the economic prosperity of employees in significant operating areas. Also, this material aspect gives an indication of the competitiveness of company salaries, and provides the opportunity to assess the effects of the salaries on the local labour market. The offer of above minimum salaries by Podravka Group is one of the factors in employee loyalty, in building stronger relationships with the community, and in strengthening the social permits for the company's operation.

**2.1.2.1. Share of starting and minimum salaries in significant business areas**

In determining the level of salaries within the Podravka Group, regardless of whether posts are stationed in Croatia or abroad, it is important to state that evaluation

is conducted for the work post and type of work, and not based on gender. As such, employee salaries are independent of gender, and are equal for men and women.

In Croatia, all significant business areas have the same rules in the determination of salaries for an individual work post. For each work post, the internal regulations determine the required qualifications the worker must meet, and the minimum coefficient based on the required qualifications used for salary calculation.

Pursuant to Article 7 of the Minimum Wage Act (Official Gazette 39/13), the Government of the Republic of Croatia adopted a new Regulation on the minimum wage. The minimum wage for the period from 1 January 2016 to 31 December 2016 is determined in the gross amount of HRK 3120.00 for full time employment. In abiding by the legislation, no employees in Croatia receive less than the legally stipulated minimum wage, as seen in the following table:

Qualifications	2014			2015			2016		
	Gross salary	Min. gross salary in RH	% (Gross salary/Legal minimum)	Gross salary	Min. gross salary in RH	% (Gross salary/Legal minimum)	Gross salary	Min. gross salary in RH	% (Gross salary/Legal minimum)
No qualification (seasonal worker)	3,030	3,017.61	100%	3,030	3,029.55	100%	3,120	3,120.00	100%
No qualifications	3,203	3,017.61	106%	3,203	3,029.55	106%	3,203	3,120.00	103%
Secondary	4,431	3,017.61	147%	4,431	3,029.55	146%	4,431	3,120.00	142%
Higher school	5,454	3,017.61	181%	5,454	3,029.55	180%	5,454	3,120.00	175%
University	6,743	3,017.61	223%	6,743	3,029.55	223%	6,743	3,120.00	216%

**2.1.2.2. Share of senior management employed from the local community in significant business areas**

For the purposes of this report, senior management is considered the Management Board and sector directors. Local management is the sum of all employees in management positions that are nationals of the state in which they are employed. Significant business sites for the Podravka Group are the whole of the Republic of Croatia, and all countries where associated companies and Podravka branch offices are located.

In Podravka Group in Croatia, all employees in managerial positions are from the local community, i.e. Croatian nationals. In associated companies and branch offices abroad, management from the local community accounts for about 70% of employees in managerial positions, while about 30% is management staff from Croatia.

## 2.2. ENVIRONMENTAL CATEGORIES OF SUSTAINABILITY

The environmental category of sustainability of the Podravka Group pertains to the impacts of the company on the biotic and abiotic natural systems, including the soil, air, water and ecosystems.

### 2.2.1. ASPECT: MATERIALS

The Materials aspect is material for the Podravka Group for the reason that the consumption of usable materials has a significant role in the costs of finished products that the company produces, and is subject to the effects of price changes on the food and pharmaceutical products markets.

Governing this material aspect in the Podravka Group is directed, via Category Management, at reducing risks ensuing from market changes, or primarily, avoiding negative impacts. In situations of pronounced volatility on the food and pharmaceutical product markets, the management of this aspect is aimed at mitigating negative effects, and improving the existing positive effects. By consolidating procurement volumes, through the full use of Commodity Risk Management, by implementing tenders and the use of new import regimes, the Podravka Group acts to reduce material costs, and in so doing manages this material aspect.

In the Podravka Group, close cooperation with suppliers is aimed at adapting and optimizing all materials used (raw materials, auxiliary materials, packaging), so as to obtain the best quality and most suitable finished product for the end customer. Following from this, suppliers themselves occasionally suggest new materials that are more acceptable for the environment and society. Furthermore, using raw materials with beneficial impacts on the human body and the development of functional products, ensures care for consumer health.

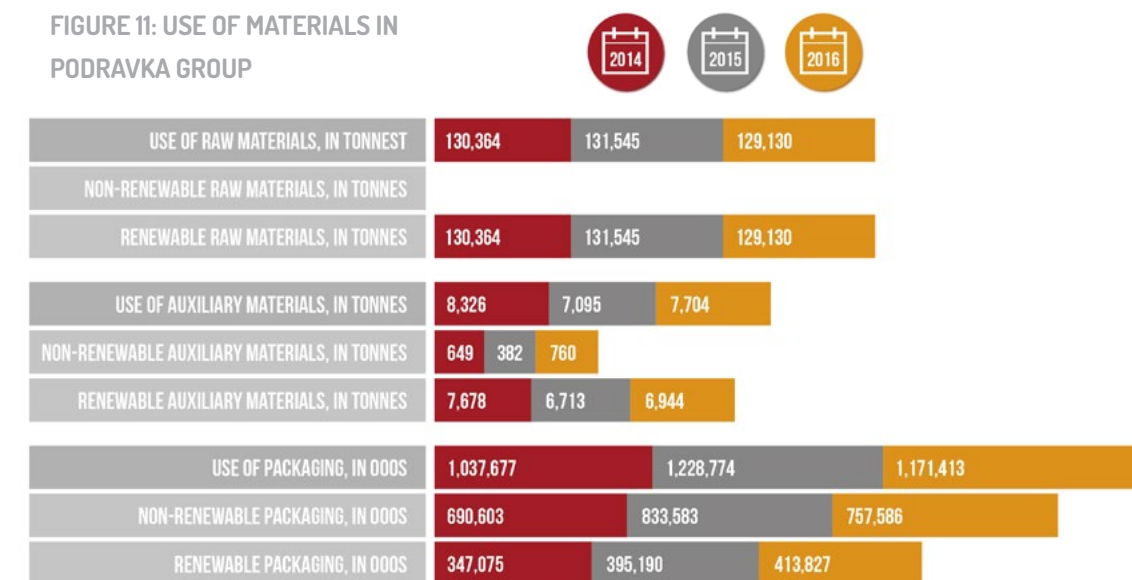
Additionally, the optimization of production processes is aimed at developing products that directly or indirectly result in savings in materials, energy and water, which will systematically reduce the consumption of resources in production. Above all, Podravka's experts are dedicated to reducing the share and mass of packaging materials used to make finished products.

The methods and mechanisms of monitoring the efficacy of management of this aspect include regular verifications of quality control of all materials, ongoing evaluation and assessment of relations with suppliers delivering the said materials, managing the main information on materials, specifications of materials, and analysis of price trends and achieved savings. Monitoring efficacy is conducted at the daily, weekly, monthly and annual levels, and the responsibilities and authorities are clearly defined in the responsibility matrix for each individual process and monitoring method.

#### 2.2.1.1. Materials used

The total consumption of materials used in the production and packaging of products of the Podravka Group in the period from 2014 to 2016, by the use of non-renewable and renewable materials, is shown in the following figure:

FIGURE 11: USE OF MATERIALS IN PODRAVKA GROUP



#### 2.2.1.2. Use of recycled entry materials

In the Podravka Group, there is the possibility of using recycled input materials in the segment of product packaging. As such, the company helps to reduce demand for new raw materials and contributes to the conservation of global resources.

The initiative to use recycled packaging materials primarily comes from the Packaging Development service, however, the experts from the sectors Research and Development, Marketing, and Production are also actively involved.

Following from this, the percentage of recycled input materials used in product packaging in the Podravka Group in the period from 2014 to 2016 is shown in the following table:

Percent of recycled input materials in packaging segment	2014	2015	2016
Cardboard packaging	93%	93%	93%
Corrugated cardboard	70%	70%	70%
White glass	20%	20%	20%
Green glass	50%	50%	50%
White metal	72%	72%	72%

2.2.2. ASPECT: ENERGY

The Energy aspect is material for the Podravka Group as this aspect significantly reflects on the economic, environmental and social impacts of the company. The energy sources used by the company are: electricity, natural gas, compressed gas and technological steam. Through continuous improvements to energy efficiency and more rational use of individual energy sources, the company achieves a better economic impact and ensures its responsible conduct towards society and the environment.

The Podravka Group does not possess a specific written procedure for energy management, instead performs management at the level of the Central Energy Department, based on an internal procedure consisting of planning, verification and corrections. One of the main activities of Central Energy is the production of technological steam (from natural gas) and compressed air (from electricity), such that energy management differentiates the external costs of electricity and natural gas from the internal costs of technological steam and compressed air. With regard to external costs, the final confirmation of spent quantities is the invoice of the supplier of the energy source, and the information on the invoice must coincide with the information in the internal monitoring of energy consumption.

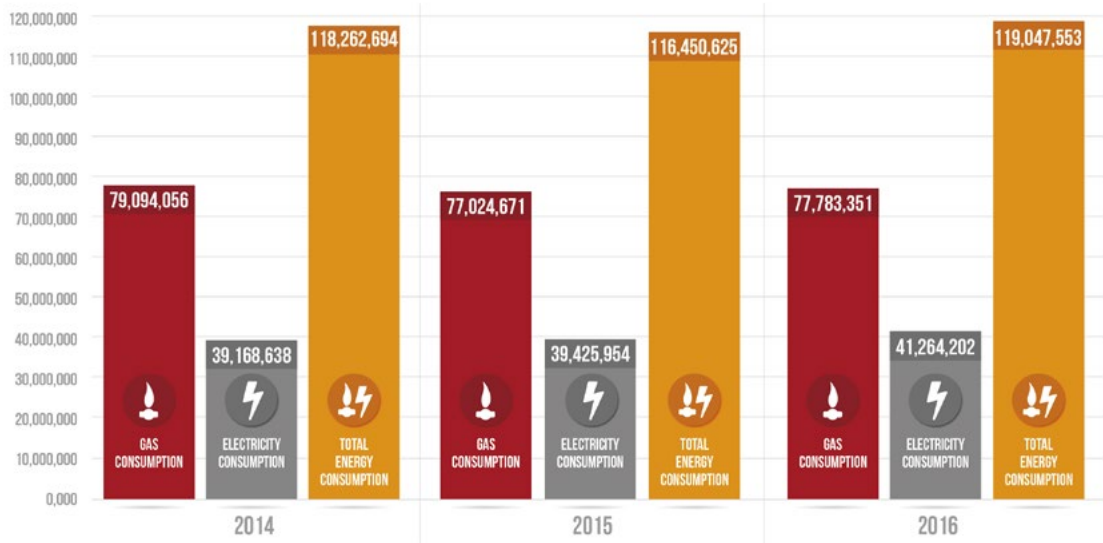
The internal procedure of Central Energy Department is the management and assessment of the approach to energy management is shown in the following table:

Component for the management and assessment of the approach to energy management	Objectives
Energy planning (daily, monthly, yearly)	Production planning and/or energy consumption is kept within the limits of $\pm 10\%$ of the planned amounts
Verification – supervision (daily readings of measurement devices; analysis of production / consumption)	Raise awareness of employees to ensure more rational use of energy, i.e. to use only the necessary amount
Corrective and preventative actions	Protect employees, reduce costs and avoid possible disasters;
Verification of success (verifying whether levels are within the expected limits with regard to production / energy consumption)	Overview of results submitted to superiors on a monthly basis – key indicators are effects for steam and compressed air

2.2.2.1. Energy consumption within the company

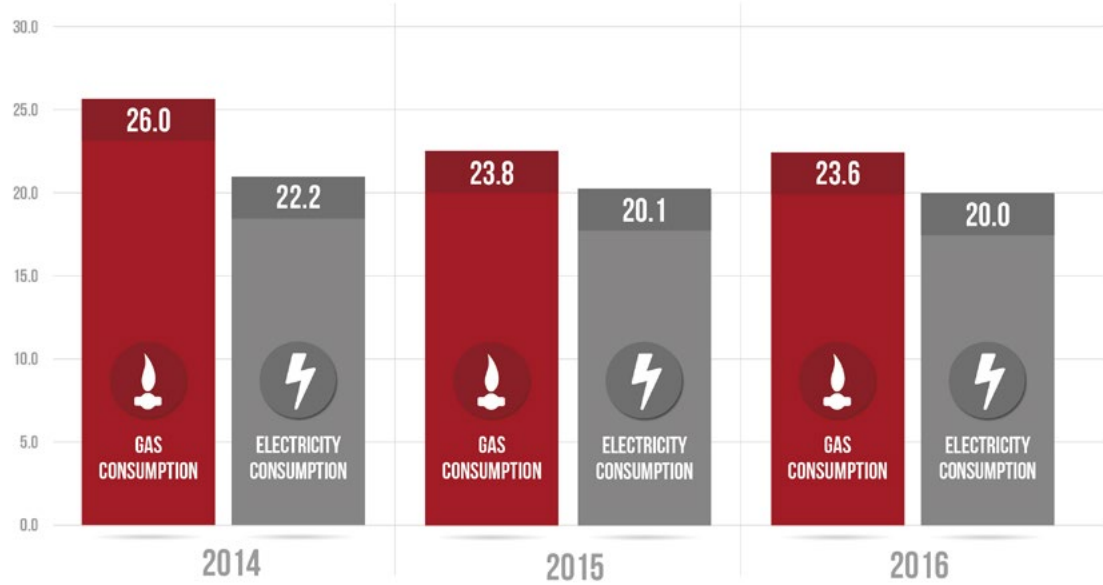
In order to provide an overview and an understanding of the impacts of energy consumption of the Podravka Group on the community in which the company operates, the following figure shows the energy consumption within the Podravka Group in the Town of Koprivnica (local community) in the period from 2014 to 2016:

FIGURE 12: ENERGY CONSUMPTION OF THE PODRAVKA GROUP IN THE LOCAL COMMUNITY



Looking at the relationship of gas and electricity consumption of the Podravka Group in the local community (where the company is seated and has the largest share of production of food and pharmaceutical products), with the total gas and energy consumption of the local community as a whole, it can be concluded that the Podravka Group has a significant impact on energy consumption in the local community, as seen in the following figure:

FIGURE 13: IMPACT OF PODRAVKA GROUP ON GAS AND ELECTRICITY CONSUMPTION IN THE LOCAL COMMUNITY (%)





Within the Podravka Group, heat energy is used for production processes, heating and heating water for use. Considering that the production processes, heating and hot water are prepared using heat energy from the central boiler facility, there is no measurement limitation on the spent heat energy for production processes, heating and hot water. Limitations of consumption of heat energy can be assumed on the basis of the analysis of consumption of heat energy in the summer and winter period.

The consumption of electrical energy within the company is measured on electricity meters, and readings are recorded and subsequently checked at the time of verification of invoices for electrical energy. Invoices list the readings by the distributor, thereby reducing any risks of incorrect meter readings.

2.2.3. ASPECT: WASTEWATERS AND WASTE

2.2.3.1. Release of wastewaters by location and quality

The Wastewater aspect is material for the Podravka Group due to the direct impact on the environment and the local community, and the indirect effects on the company's financial impacts.

Management of the Wastewater aspect is based on the corporate Environmental Protection policy, which contains the obligation to manage wastewaters. Through the internal approach to environmental management, the company aims to reduce its negative impacts through ongoing improvements to quality and the reduction of wastewater emissions.

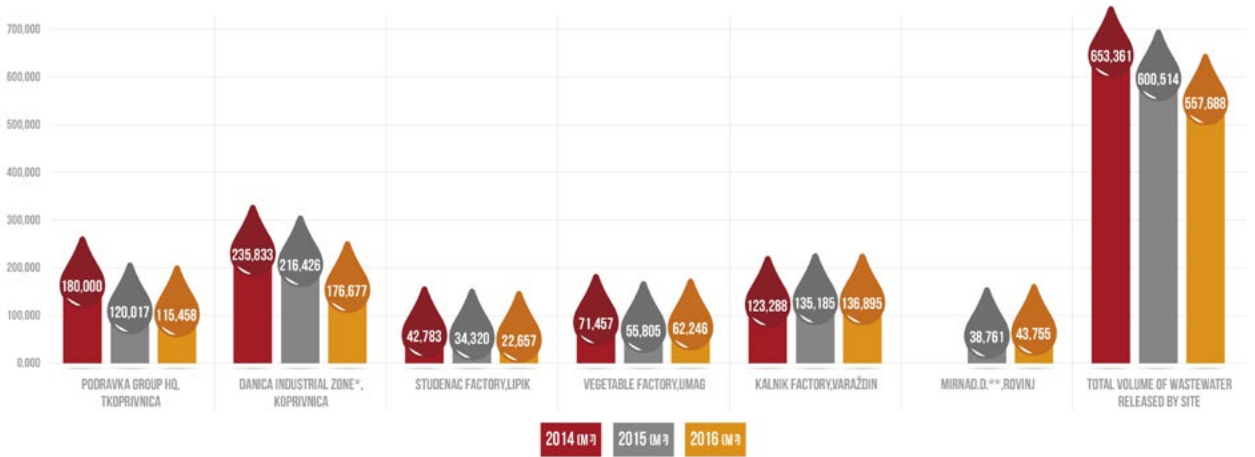
The assessment of the approach to managing the Wastewater aspect in the Podravka Group is performed by monitoring and comparing results with previous years, and the efficacy of the management system and achievement of targets is verified via external audits.

For the Podravka Group, maintaining water quality is a requirement for life and development, and a national and international commitment. This is ensured through a series of policies, legal and sociological procedures and measures, planning and management, with the application of scientific methods and technological procedures.

Technological wastewaters of factories at the site of the Danica Industrial zone in Koprivnica are generated during regular production, washing of machinery, plants and vehicles, and are run through a sediment tank and separator prior to pre-treatment at the Podravka mechanical and biological wastewater treatment plant. Following pre-treatment, wastewaters are released through the control shaft into the public sewage system, which is then sent for final treatment in the city wastewater treatment plant. Other sites of the Podravka Group use physical procedures for the treatment of wastewaters.

An overview of the volume of wastewaters released by the Podravka Group in the Republic of Croatia, by site in the period 2014 to 2016 is shown in the following figure:

FIGURE 14: VOLUME OF RELEASED WASTEWATER OF THE PODRAVKA GROUP IN CROATIA BY SITE (IN M³)

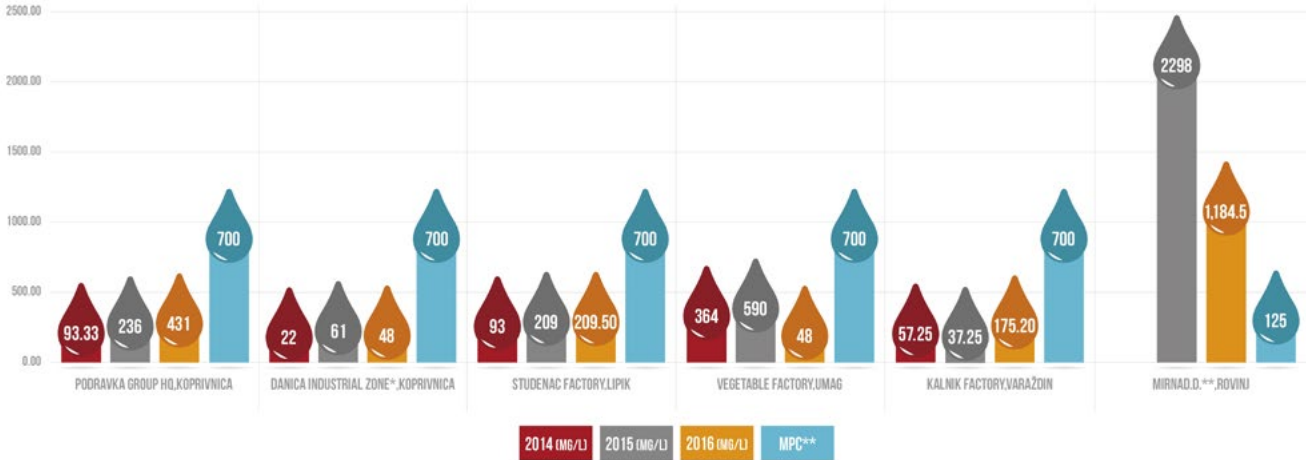


The data on the release of wastewater by the Podravka Group in the Republic of Croatia by site clearly shows a decrease in wastewater emissions at all sites in the period 2014 to 2016, which is the result of rational water use and a reduction in the number of employees. The increase in the volume of wastewaters at the Kalnik factory in Varaždin is the consequence of an increase in production volume, while an increase in wastewater volumes was recorded in the Umag vegetable factory in comparison to 2015 due to increased precipitation (i.e. storm waters).

Pre-treatment and treatment of the wastewaters of the Podravka Group, analytical testing of wastewater samples (taken from control shafts) by an authorized laboratory, and their frequency, is carried out in accordance with the valid legal regulations and water use permits for each site.

An overview of the quality of released wastewaters of the Podravka Group in the Republic of Croatia, expressed through total pollution as COD in the period from 2014 to 2016, is shown in the following figure:

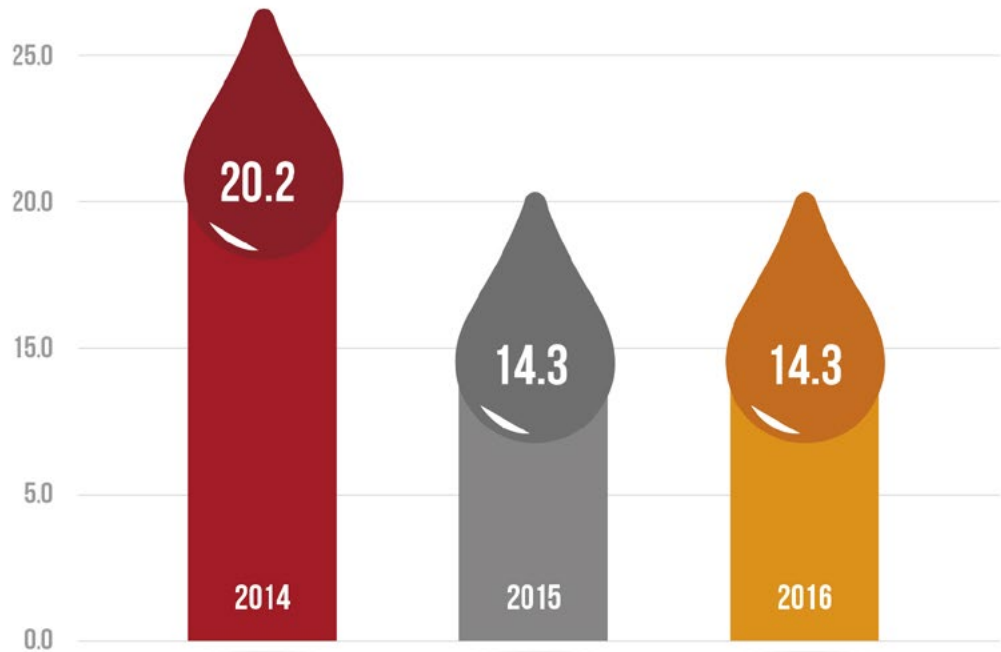
FIGURE 15: QUALITY OF RELEASED WASTEASTERS OF THE PODRAVKA GROUP IN CROATIA, EXPRESSED AS TOTAL POLLUTION AS COD (MG/L)



The results of the wastewater analysis of the Podravka Group meet the requirements from the water use permits for release into public sewage systems and are compliant with the valid legal regulations. Derogations over the MPC are seen only in the COD values for the Mirna d.d. Rovinj factory, however, investments in the sewage system and improvements in technological processes in 2016 resulted in reductions in pollution in comparison to 2015.

With the objective of gaining insight and understanding the effects of released wastewaters of the Podravka Group on the local community where the company is seated and has the largest share of food and pharmaceutical productions (City of Koprivnica), it can be concluded that the Podravka Group has a significant impact on the release of wastewaters in the local community, as seen in the following figure:

FIGURE 16: IMPACT OF THE PODRAVKA GROUP ON THE RELEASE OF WASTEWATER IN THE LOCAL COMMUNITY (%)



2.2.3.2. Quantity of waste by type and disposal method

The Waste aspect is material for the Podravka Group due to the direct impact on the environment and on the local community, and the indirect impact on the financial effects of the company.

Management of the Waste aspect is based on the corporate Environmental Protection policy, which contains the obligation of waste management. Through the internal approach to environmental management, the company aims to reduce its negative impacts through the ongoing reduction of all types of waste.

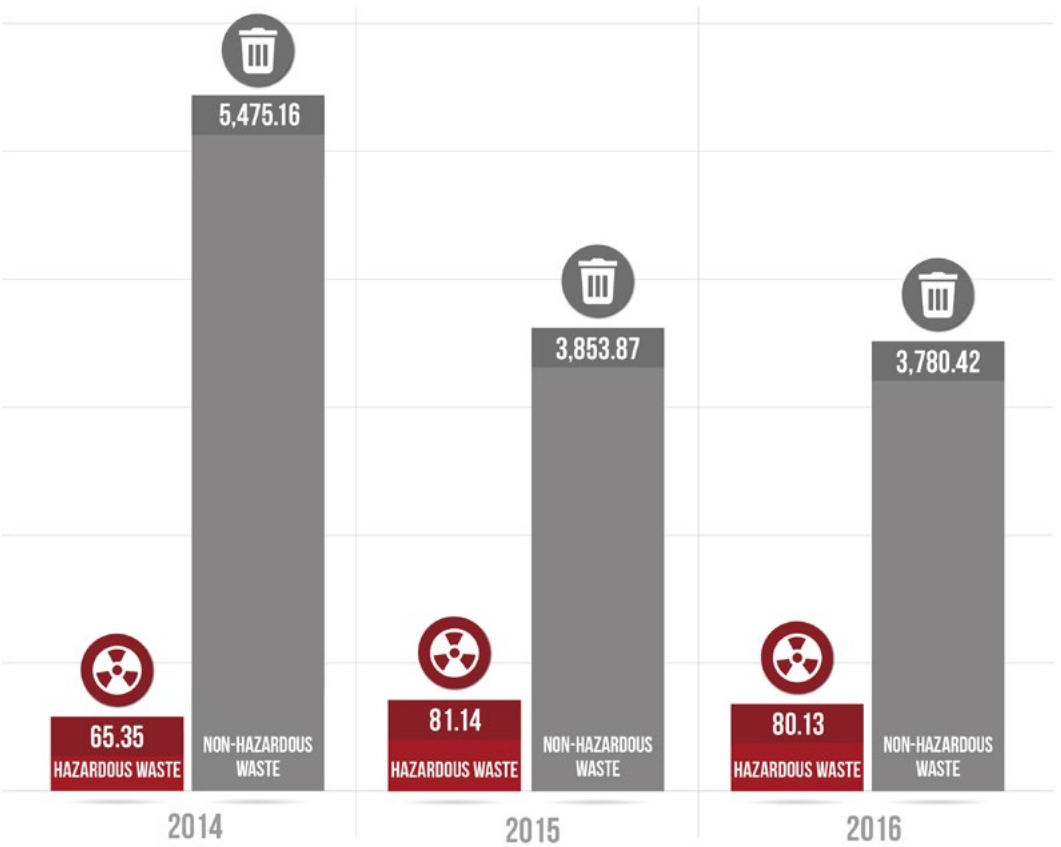
The assessment of the approach to the management of the Waste aspect in the Podravka Group is carried out through the monitoring and comparison of results with those of previous years, and the effectiveness of the management system and achievement of goals if verified by external audits.

In order to reduce the total quantity of waste generated at the Podravka Group, waste is sorted at the site of generation by type, temporarily stored and handed over to the authorized person for the collection, transport, processing, use or disposal of waste.

The systematic management of waste has led to a declining trend of non-hazardous waste, thanks to the ongoing education and increased awareness of employees on the proper sorting of waste by type at the site of generation.

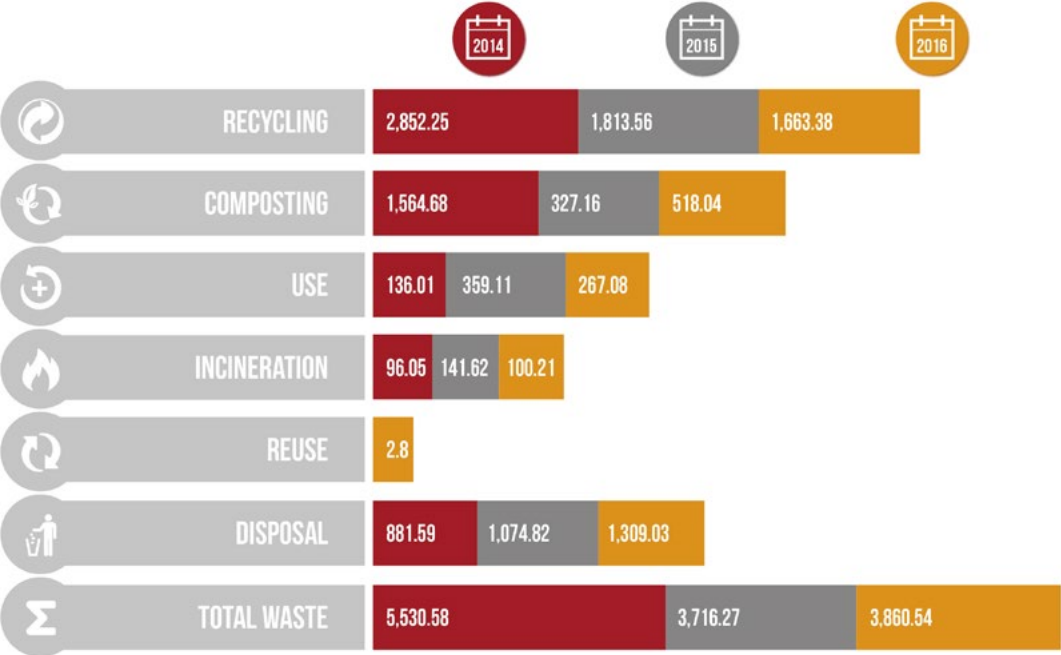
An overview of the quantity of waste by type in the Podravka Group in the Republic of Croatia for the period 2014 to 2016 is shown in the following figure:

FIGURE 17: QUANTITY OF WASTE BY TYPE IN PODRAVKA GROUP IN CROATIA (T):



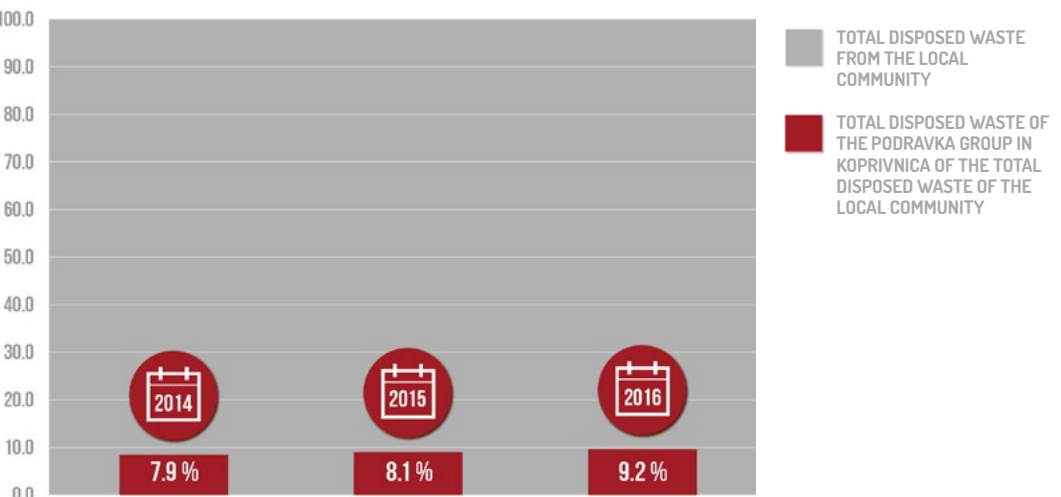
An overview of the quantity of waste of the Podravka Group in the Republic of Croatia, by disposal method, in the period from 2014 to 2016, is shown in the following figure:

FIGURE 18: QUANTITY OF WASTE OF THE PODRAVKA GROUP IN CROATIA BY TYPE OF DISPOSAL IN THE PERIOD 2014 TO 2016



In order to obtain an overview and an understanding of the impacts of disposed waste of the Podravka Group on the local community where the company is seated and where the majority of food and pharmaceutical production occurs (Town of Koprivnica), it can be concluded that the Podravka Group has a significant impact on waste disposal in the local community, as shown in the following figure:

FIGURE 19: IMPACT/SHARE OF DISPOSED WASTE OF THE PODRAVKA GROUP IN THE TOTAL DISPOSED WASTE IN THE LOCAL COMMUNITY (%)



2.2.4. ASPECT: COMPLIANCE

The aspect Compliance is material for the Podravka Group, as by ensuring compliance to laws and regulations, the company avoids the financial risks that arise directly from monetary fines and non-monetary sanctions or indirectly through the effects on the company image. Compliance with the laws and regulations reduces risks of negative consequences on the environment that directly affect the local community, and a degradation of the company's reputation directly impacts all the significant stakeholders.

The laws and regulations in the area of environmental protection are systematically applied with the aim of reducing negative impacts on the environment, while prevention activities are taken so as to reduce all economic and environmental negative impacts to the greatest possible extent, or to fully eliminate them.

For the purpose of timely information of employees of the obligations ensuing from the laws and regulations in the area of environmental protection, the Podravka Group continually follows and systematically updates the List of laws and regulations, which monitors all legislative amendments in the area of environmental protection. All obligations ensuing from the valid laws and regulations in the area of environmental protection are implemented in the existing internal system of environmental management.

The efficacy of implementation of the laws and regulations in the area of environmental protection is measured on the basis of the reports of inspection supervisions, external audits and any citizen complaints.

2.2.4.1. Penalties and sanctions for the non-compliance of laws and regulations in the area of environmental protection

The Podravka Group, as a socially responsible company, implements all prescribed activities in accordance with the valid national and international laws and regulations in the area of environmental protection, and according to international standards and guidelines.

In monitoring the legal regulations and through ongoing care for environmental protection, in 2016 there were no irregularities recorded concerning non-compliance with the laws and regulations in the area of environmental protection, and accordingly no monetary fines or non-monetary sanctions were imposed.



## 2.3. SOCIAL CATEGORIES OF SUSTAINABILITY

The social categories of sustainability deal with the impacts the Podravka Group has on the social systems in which it operates. This category of sustainability within the company consists of the following subcategories:

- Labour practices and decent work
- Human rights
- Society
- Responsibility for the product.

### 2.3.1. ASPECT: EMPLOYMENT

The Employment aspect is material for the Podravka Group. In order to secure the necessary human resources to achieve its business goals, plans are made for specific profiles and necessary numbers of implementers for individual organizational units, and the annual costs for new recruitment.

The recruitment process in the Podravka Group is standardized and described in the official document Recruitment process of the Podravka Group, which is compliant with the standards ISO 9001 and ISO 13001, IFS, BRC and HALAL BAS 1049. The document Recruitment process of the Podravka Group precisely defines the authorities, responsibilities and procedures in hiring. The Annual Plan for recruitment provides a detailed outline for the current year and reflects the long-term strategy to fill work posts.

Long-term recruitment planning is defined by the Strategy of the Podravka Group, which pertains to the main determinants in planning the number of employees, depending on the development of individual sectors and markets. In addition to information on the requested profile and number of implementers, the department and work post in question, approximate expected date to fill the work post, the plan also includes information on annual expenses. The recruitment plan is linked with the financial plan associated with labour costs – personal earnings, benefits and more are listed. The plan is developed per employee and is drafted for the calendar year in cooperation with the sectors Controlling and Corporate accounting and taxes, and is approved by the Management Board.

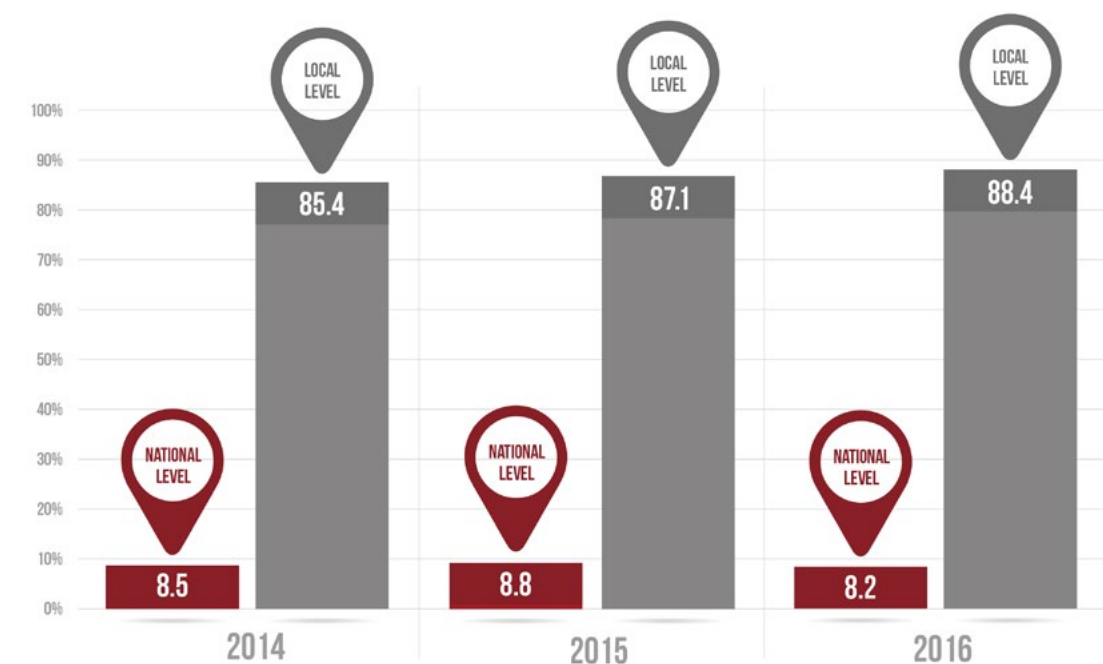
Recruitment is planned at the annual level for the entire Podravka Group by the Central service that coordinates the process and manages recruitment in accordance with the Recruitment process of the Podravka Group. In the recruitment and selection process, a psychologist is always included to carry out the selection testing procedure and interviews. Each step of the selection process has been defined, as have the persons involved in individual steps of the selection process. The procedure is structured and transparent and closely follows the company's need in terms of the number of new recruits and expertise. The recruitment and selection process is run by the Human

Resources Department, and includes the person/sector that will be responsible for the future employee. Long-term recruitment is defined in the Strategy of the Podravka Group.

For individual groups of employees, the ways to assess the approach to managing the Employment aspect are defined. For trainees, this is the assessment of the trainee examination, for seasonal workers the assessment by their supervisor, and for all new recruits, the assessment of their supervisor.

For the purpose of overview and understanding of the influence of the Podravka Group on employment in the Food and Pharmaceutical industries at the national (Republic of Croatia) and local (Town of Koprivnica) levels, it can be concluded that the Podravka Group has an exceptionally strong influence on employment in the local community, as shown in the following figure:

FIGURE 20: EFFECT OF THE PODRAVKA GROUP ON EMPLOYMENT IN THE FOOD AND PHARMACEUTICAL INDUSTRY: NATIONALLY AND LOCALLY



2.3.1.1. New recruitment and fluctuations of employees

An overview of the total number and rate of new recruitments in the Podravka Group in the Republic of Croatia in the period from 2014 to 2016 is shown in the following table:

Podravka Group in Croatia	Number of new recruits in 2014	Number of employees as of 31 Dec 2014	%	Number of new recruits in 2015	Number of employees as of 31 Dec 2015	%	Number of new recruits in 2015	Number of employees as of 31 Dec 2015	%
Belupo d.d.	28	862	3.25	53	881	6.02	60	903	6.64
Deltis Pharm pharmacy	1	44	2.27	6	47	12.77	5	47	10.64
Podravka d.d.	406	2,840	14.30	990	3,388	29.22	549	3,146	17.45
Danica d.o.o.	2	495	0.40	18	0	0.00			
Mirna d.d.				1	151	0.66	22	138	15.94
<b>TOTAL</b>	<b>437</b>	<b>4,241</b>	<b>10.30</b>	<b>1,068</b>	<b>4,467</b>	<b>23.91</b>	<b>636</b>	<b>4,234</b>	<b>15.02</b>

\* Number of new recruits in Podravka d.d. in 2015 includes 487 employees transferred from Danica d.o.o. in the integration process.

Caring for surplus workers is a continuation of the restructuring process, aimed at achieving optimisation of costs and increasing operational efficacy in order to ensure the sustainability of the remaining work posts.

The Management Board of Podravka passed a decision to implement the programme to care for surplus workers with the payout of stimulative severance packages in 2016. Surplus workers were cared for in a humane and socially sensitive way, and those workers deciding to leave the company as part of the care programme received a stimulative severance payment above the amount stipulated by law. Pursuant to a decision of the Management Board, in all the companies of the Podravka Group, a stimulative severance payment was made to employees in the amount of HRK 5000 for each year of uninterrupted service in Podravka Group.

An overview of the total number of employees of Podravka Group in the Republic of Croatia who received stimulative severance payments in the period from 2013 to 2015 is shown in the following table

No.	Podravka Group in RH	Number of workers receiving stimulative severance payments		
		2014	2015	2016
1.	PODRAVKA d.d.	247	99	131
2.	DANICA d.o.o.	126	16	
3.	BELUPO d.d.	21	63	1
4.	LJEKARNE DELTIS-PHARM d.o.o.	2		
5.	ITAL-ICE d.o.o.	3		
7.	MIRNA d.d.		38	18
<b>TOTAL:</b>		<b>399</b>	<b>216</b>	<b>150</b>

2.3.2. ASPECT: OCCUPATIONAL HEALTH AND SAFETY

The aspect Occupational Health and Safety is material for the Podravka Group. The fundamental purpose of occupational safety is to ensure a secure working environment and to prevent incidents in the company, primarily relating to accidents and injuries on the job, professional diseases and disturbances in work processes. Positive effects of effectively implemented occupational health and safety measures include preserving the work capacity of employees, reduced number of injuries, reduced costs, better working conditions, and more, all of which contribute to improve company operations and improved competitiveness on the market.

The annual plan and programme of occupational safety, the annual action plan of measures and activities, and the five-year flow chart of activities of the Independent professional service for Occupational Safety plans the finances, objectives, and definition of tasks and activities for Podravka d.d. Within these plans, internal control is performed continuously over the application of occupational safety rules, and in cases when certain shortcomings are observed or injuries occur at work, solutions are proposed for the aim of reducing risks or removing the causes of injury, accident or disturbances to work processes, etc. Any work-related injuries are analysed to determine how they occurred, and measures to be taken to prevent the occurrence of injuries and work-related disease. Work means, work equipment and the work environment are tested, measured and inspected at the prescribed intervals. Employees under health supervision are sent for regular medical check-ups. Staff training is performed regularly in the area of Occupational Health and Safety. The Occupational Health and Safety Board meets regularly to discuss current topics in the field. Occupational safety experts also participate in the drafting of risk assessments and these are updated as needed.

Pursuant to the Ordinance on occupational safety, the organisation of implementation of occupational safety and the rules of occupational safety, and the rights and responsibilities of the employer, its representatives and employees at Podravka d.d. are determined. Through the annual plan and programme of occupational safety measures, and the annual Action Plan of measures and activities, the prescribed, planned and directed measures and activities are implemented in accordance with the regulations and needs in the company. Costs are also planned within the framework of the said plans.

The objective is to establish an efficient system based on the principles of the standards OHSAS 18001, and the future standard ISO 45001. The result of active implementation of occupational health and safety measures is to reduce the number of work-related injuries in relation to the activity in question per 1000 employees, to improve working conditions, and to better train employees for the safe execution of their work.

2.3.2.1. Injuries, occupational diseases, lost days, absences and cases of death associated with work-related injuries, by gender

An overview of the type and rate of injuries, occupational diseases, lost days, absences and cases of death associated with work-related injuries in the Podravka Group in the Republic of Croatia by gender in the period from 2014 to 2016 is shown in the following table:

No	Type of data	PODRAVKA d.d.			DANICA d.o.o.			BELUPO d.d.			Ljekarne Deltis pharm d.o.o.			Mirna d.d.	
			2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2015	2016
1.	Average no. of employees	3012	3099	3357	526	350		859	861	876	46	46	52	168	138
2.	Average no. of male employees	1731	1785	1880	276	183		334	526	345	4	4	3	62	53
3.	Average no. of female employees	1281	1314	1477	255	167		525	335	531	42	42	49	106	85
4.	Total number of injured workers	55	39	66	13	7		4	5	4	0	0	0	4	4
5.	Total number of injured male workers	37	31	42	5	3		0	0	3	0	0	0	2	2
6.	Total number of injured female workers	18	8	24	8	4		4	5	1	0	0	0	2	2
7.	Total number of minor injuries at work	46	35	54	12	6		4	5	3	0	0	0	3	4
8.	Total number of serious injuries at work	9	4	12	1	1		0	0	1	0	0	0	1	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 to 1000 workers	18,26	12,58	19,66	24,71	20,00		4,66	5,80	4,56	0	0	0	23,8	28,99
12.	Number of injuries to 1000 workers in economic branch	14,78	15,24		14,78	15,24		14,78	15,24	15,57	0	0	0	15,24	15,24
13.	Share of no. of injuries in company in comparison to that in economic branch	1.24	0.83		1.67	1.31		0.32	0.38	0.29	0	0	0	1.56	1.90
14.	Number of cases of professional disease to 10,000 workers in comparison to that in economic branch	0	0	0	0	0		0	0	0	0	0	0	0	0

No	Type of data	PODRAVKA d.d.			DANICA d.o.o.			BELUPO d.d.			Ljekarne Deltis pharm d.o.o.			Mirna d.d.	
			2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2015	2016
15.	Number of cases of professional disease	0	0	0	0	0		0	0	0	0	0	0	0	0
16.	Number of cases of professional disease to 10,000 employees	0	0	0	0	0		0	0	0	0	0	0	0	0
17.	Number of disturbances to work processes that could case 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	1478	1205	1740	199	114		272	106	17	0	0	0	166	230
19.	Number of lost work days due to minor injuries	1031	1056	930	193	104		67	72	11	0	0	0	81	230
20.	Number of lost work days due to serious injuries	447	149	810	8	10		205	34	6	0	0	0	85	0

**Note:** Data pertain only to recognised workplace injuries.

From the data from the analysis of workplace injuries, it is evidence that the number of injuries in 2015 was significantly lower than the number of injuries per 1000 workers in the economic branch the company belongs to (processing industry), while a slight increase in the number of workplace injuries is seen for 2016. This is due to the fact that until 2016, only recognised injuries were included in the statistical analysis, while from 2016, unrecognised injuries were also taken into consideration.

This is certainly the result of many years of efforts of the employer, and particularly of the Independent occupational health office, whose activities have successfully influenced the improvement of working conditions in all areas.

### 2.3.3. ASPECT: TRAINING AND EDUCATION

The aspect Education and Training is material for the Podravka Group. Investments in education and development as a model of raising employee competency and company development is one of the key pillars of the strategy for human resource management ensuing from the company strategy. Employee competency influences growth and development of the company and influences its long-term sustainability. Education in Podravka Group is performed based on the expressed needs for worker education, and in accordance with the Education process, as the document based on the standards ISO 9001 and ISO 33000, IFS, BRC and HALAL BAS 1049. The Plan of education needs, Annual plan of education needs, and Annual plan and budget for education are drafted.



The structured development path in the Podravka Group begins from the trainee programme, entitled SHAPE. Through the application of expert knowledge, the development of skills, and participation in projects with the support of experienced mentors, trainees are prepared to work independently and to contribute to the company. The development of young people does not end with the completion of 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 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.

Every two years, employees may be sent, in a transparent manner, to expert study programmes. Throughout the year, the best among them are recognized and rewarded.

For management functions within the company, the development of management skills is important, and feedback is received through the tools Zaokret 360 and through 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.

The education process includes all forms of education and situations in which there is a need for worker education (internal or external education) in all organizational units and companies of the Podravka Group, in accordance with the Podravka Group strategy. The process regulates the definition and planning of education needs, the submission of applications, education process, monitoring workers and the course of the process, and reporting on education results. In the associated companies of the Podravka Group in Croatia and abroad, the organization units are responsible, 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 implies 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 development needs for employees in that unit, e.g. based on the assessment of success and potential of employees. 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 organization unit Human Resources Management, on the basis of the data contained within 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 the Human Resources Management department pursuant to the Annual Plan of education needs (type of education, attendees, total education budget), and is adopted in its entirety by the Management Board, making this an official document by which education is actualized throughout the year.

The education process prescribes the methods and criteria for process monitoring. The responsible persons are required to monitor the criteria, and accordingly, where necessary (large derogations or other irregularities occurring), to take the necessary corrective and/or prevention activities, and to keep the necessary records.

2.3.3.1. Average number of employee training hours per year, by gender

An overview of the average number of employee training hours per year, by gender, in the Podravka Group in the Republic of Croatia in the period from 2014 to 2016 is shown in the following table:

	2014		2015				2016			
	Podravka d.d.	Belupo d.d.	Podravka d.d.	2015/ 2014	Belupo d.d.	2015/ 2014	Podravka d.d.	2016/ 2015	Belupo d.d.	2016/ 2015
Average number of training hours per employee	14,20	18,61	15,56	9.58%	33,96	82.48%	27,70	78.02%	47,50	39.87%
Average number of training hours per woman	19,06	23,26	21,76	14.17%	41,58	78.75%	22,75	4.55%	48,70	17.13%
Average number of training hours per man	10,46	12,19	16,05	53.44%	26,79	119.77%	19,50	21.50%	46,40	73.20%
* 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. The company Belupo d.d.includes data for associated companies in Croatia - Belupo d.d., DeltisPharm pharmacy.										

The Podravka Group places great importance on the training and education of its employees, which is seen in the increase in the annual average number of training hours per employee and by gender from year to year.

2.3.4. ASPECT: LOCAL COMMUNITY

The aspect Local Community is material for the Podravka Group, as the company conducts its with social responsibility in the local communities in which it operates. It actively supports and carried out various social programmes through the organisation of public events, various social campaigns, the Belupo School of Health, the internet, educational articles in the journals Podravkin list and Glasilo Belupo, etc.

Furthermore, the Podravka Group is also the initiator and organizer of Tomato Days in Umag, Vegetable Days in Koprivnica, and Wheat Field Days in Hlebine, which directly influences the development and advancement of agricultural production in these local areas, so as to support the survival of agricultural producers in the local environment and enable the placement of their products.

These events are primarily of an educational and promotional character, aiming to provide the local population with professional assistance in production, and to promote their products, which are used as ingredients in the making of Podravka's processed food items.

Attempts to include as many ingredients of agricultural origin from domestic products, through professional assistance in production, good organization of purchasing, and timely payments for purchased products, helps the local agricultural population to survive in rural areas.

There is increased interest of the local population for cooperation with the Podravka Group, resulting in an increased share of domestically produced agricultural products in the total company needs for raw materials of agricultural origin.

2.3.4.1. Inclusion of the local community, assessment of impacts, and development programmes

The Podravka Group actively includes the local community, and assesses the impacts and development programmes in all activities that enable sustainable economic, environmental and social impacts.

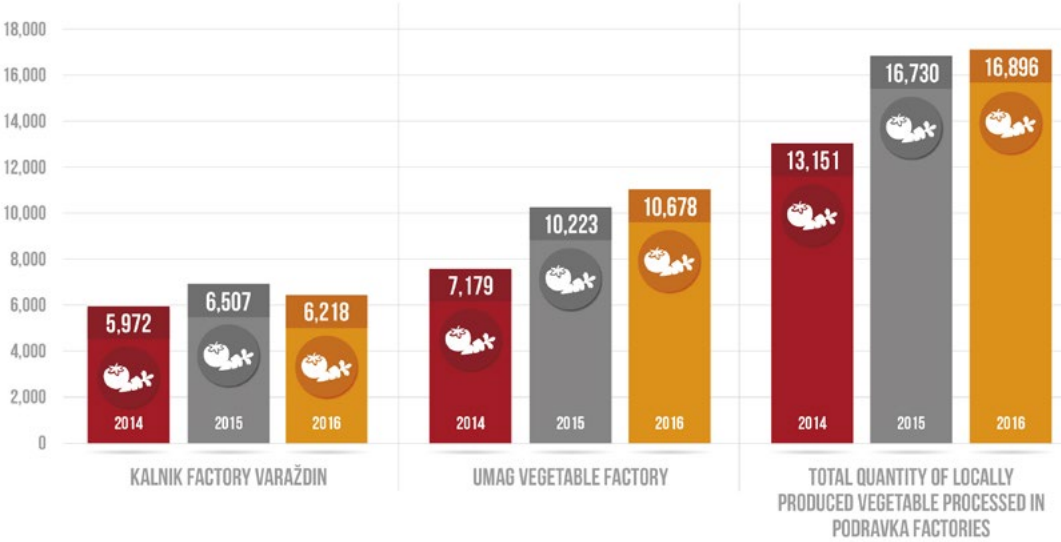
The company aims to secure the greatest possible amount of raw materials through the contracted production by partners from the areas near the processing facilities (in the vicinity of the Koprivnica, Varaždin and Umag factories), which has a significant impact on the economic development of the local rural areas. In terms of value and quantity, the organized production of vegetables, grains and fruit is most important for the local community, encompassing several hundred family farms.

The Podravka Agricultural development service works to improve the agricultural production through the education of famers, the use of contemporary production technology, organised introduction of adequate varieties, monitoring contracted production during the entire vegetation period, providing expert advice, and cofinancing production by securing seeds, fertiliser and the necessary plant production compounds.

This approach in the organisation of agricultural production of the necessary raw materials, was shown to be effective in the growing quantities of locally produced vegetables processes in the Podravka factories in 2014 to 2016.

An overview of the quantity of locally produced vegetables processed in the Podravka factories in the Republic of Croatia in the period from 2014 to 2016 is shown in the following figure:

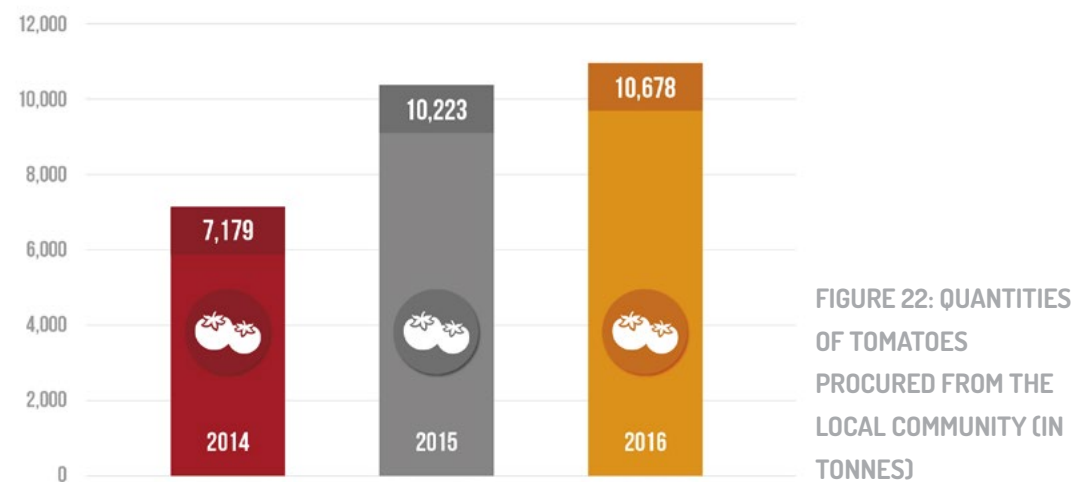
FIGURE 21: QUANTITY OF LOCALLY PRODUCED VEGETABLES PROCESSED IN PODRAVKA FACTORIES IN CROATIA (T)



Education of producers is performed via regular annual meetings prior to the start of the production season, with tours of established production during the vegetation season, and the organisation of Field days.

For the purpose of improving production and the use of processed tomatoes in Umag, the site of the majority of production and the only Croatian tomato processing plant, for the past 18 years, Podravka has been organizing Tomato Days prior to the start of the processing season, as an educational and promotion event with a charity character as well.

The overall production of 10,678 tonnes of tomatoes processed in 2016 at the Podravka plant in Umag originated from contracted production in the Istria region. The value of production is HRK 9 million. About two-thirds of the produced quantities of tomatoes are grown in the direct vicinity of Umag, while the remainder are grown in southern Istria. Cooperative production was contracted at 34 family farms. In comparison to 2015, when 37 partners produced 10,223 tonnes, this marks a slight increase. However, the increase is significant over 2014, when the total production by 31 partners was 7179 tonnes of tomatoes, as seen in the following figure:

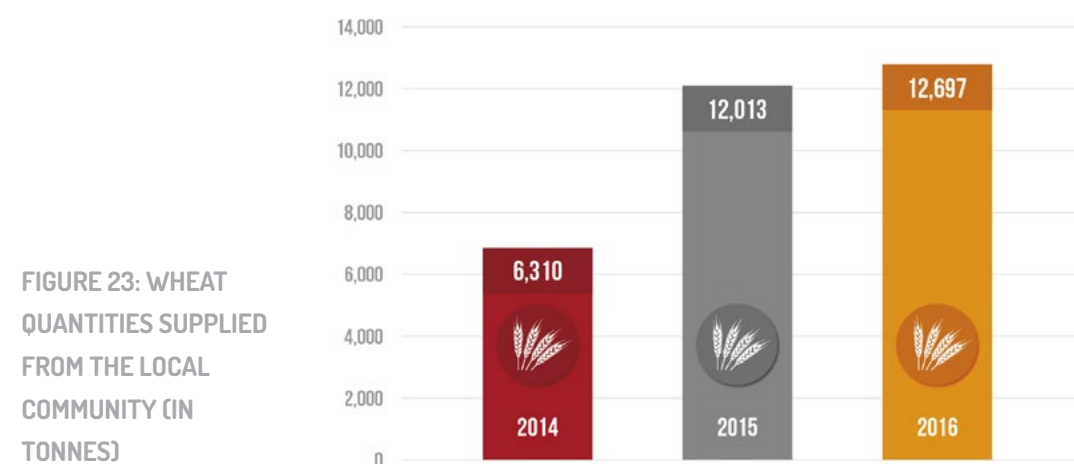


**FIGURE 22: QUANTITIES OF TOMATOES PROCURED FROM THE LOCAL COMMUNITY (IN TONNES)**

For the past four years, Podravka has organized the Wheat Days in Hlebine, for the purpose of improving the production of wheat in the local area. Each year, a larger number of local farmers takes part in this professional gathering and tour of experimental and production lands under wheat crops.

In 2016, of the total wheat buyoff of 13,881 tonnes, Podravka performed buyoffs of 12,697 tonnes of wheat harvested from the local Koprivnica area, with a total value of HRK 13.5 million. The majority of this wheat was grown in the contracted area on some 150 family farms, with an additional 400 smaller farms from the Koprivnica area individually delivering their wheat to Podravka, primarily in trade for milled products or seeds.

The trend of wheat quantities supplied from the local community is shown in the following figure:

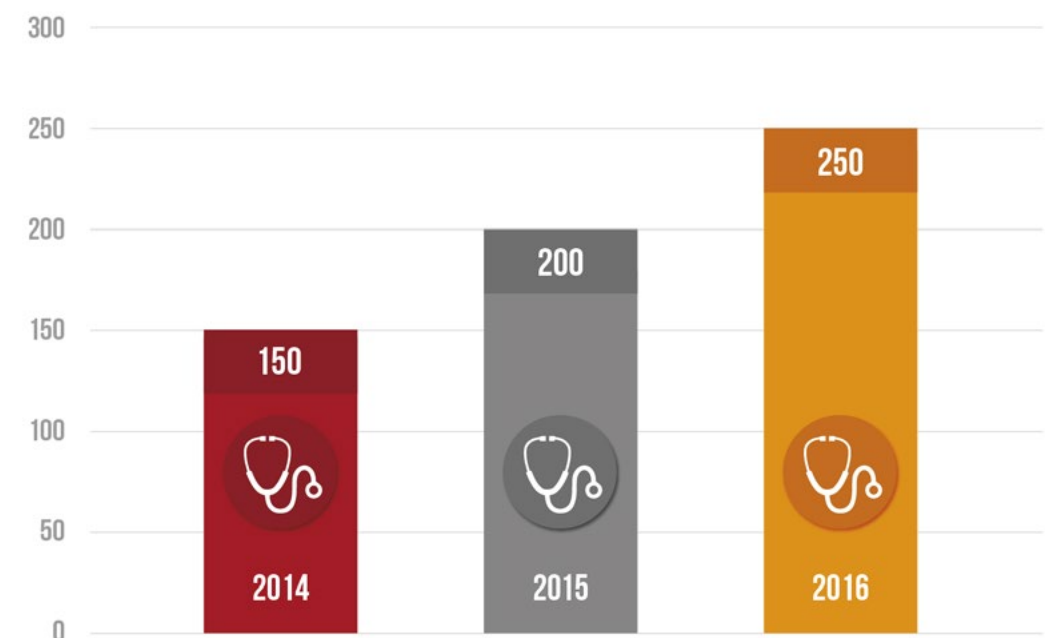


**FIGURE 23: WHEAT QUANTITIES SUPPLIED FROM THE LOCAL COMMUNITY (IN TONNES)**

For the past ten years, the pharmaceutical part of the company, Belupo d.d. has traditionally organized a public health event in April, health month, to measure health on the main square in Koprivnica. The primary objective of the activity is to promote a healthy lifestyle, to show the importance of prevention, and of timely treatment.

Belupo aims to establish strong values of the culture of health in the community where we live and work. In the Belupo five mini doctor's offices, testing is performed to detect early changes to the skin, assess the risk of osteoporosis, measure eye and blood pressure, and measure blood sugar and fat levels. Each year, there is growing interest for this service, with more and more men and women of Koprivnica becoming aware of the importance of preventing disease and preserving health, as shown in the following graph:

**FIGURE 24: TREND OF THE NUMBER OF VISITORS TO BELUPO'S HEALTH MEASUREMENTS IN THE LOCAL COMMUNITY**



The effects of Belupo's health measurements on the local community are visible and measurable through several segments:

- A 25% increase in the number of visitors in 2016 over the previous year, indicating that a larger number of citizens have received important information about their health, and the awareness is being raised of the importance of caring for one's health and treatment possibilities;
- Investments in the promotion and organisation of events, whereby support is provided directly to local entrepreneurs (service providers), while also achieving greater efficacy of Belupo's investments.



The total social benefit is certainly greater than simply the number of visitors. This is best seen in the fact that the public health campaigns are organised from year to year, which contributes to raising awareness in the local community about specific health issues.

In cooperation with Podravka, Mobility Week is celebrated every year, with Belupo joining in the campaign with free blood pressure measurements for participants from Koprivnica.

Belupo actively supports the work of many local health care organisations, educational and cultural establishments, and sports clubs and individual athletes. The company achieves its mission to protect health through donations to equip health care institutions. In this way, the company is helping those who need help most. Additionally, the company is a sponsor of the first league football team from Koprivnica, Slaven Belupo Football Club, and a regular sponsor of the Podravka Handball team.

Further, every year, Belupo enables the citizens of Koprivnica to take part in winter joy on the main town square, by supporting the installation of a free skating rink.

### 2.3.5. ASPECT: CUSTOMER HEALTH AND SAFETY

The aspect Customer Health and Safety is material for the Podravka Group as it is tied to the company's responsibility for its brands and products. A balanced diet is the foundation of good health. In its mission and vision, Podravka has committed to improving the daily quality of life of its customers. In following the contemporary guidelines for producing health and through its contributions to change poor dietary habits, in 2014, Podravka adopted the Nutritional Strategy, directed at managing nutritional quality of its products for the period 2014 to 2016.

The Nutrition Strategy represents the system of managing the nutritional quality of the brands and product lines, by which the consumer is offered products that meet their needs, which will help them improve their diet, and which will be in compliance with the national and global health guidelines. The objectives of the Nutritional Strategy is to reduce the amounts of table salt, sugar and to completely remove trans-fats from our products. We have set up our own nutritional criteria for all product categories, taking account of their contribution to daily meals, and in consideration of the national and international public health recommendations. We are improving recipes on existing and new products in order to provide new nutritionally valuable versions, without losing any quality or flavour.

We are working intensively to reduce the share of table salt in our product line, to contribute to achieving the objective defined in the Strategic Plan for reducing the intake of table salt in the Republic of Croatia for 2015 – 2019. We have reduced sugar in our products, particularly in those intended for children and adolescents, taking into account the recommendations of the World Health Organisation (WHO). We have decided to reduce saturated fats in our products, and to completely remove all trans-fatty acids originating from partially hydrogenated vegetable fats, based on the recommendations of global authorities such as the World Health Organisation.

We are developing products for infants and children, taking special account of nutritional needs of these sensitive age groups. We have committed to develop products for the elderly, and products for the population with special dietary needs, products with a positive impact on the digestive system and maintaining a healthy body weight, and products that help to improve the diet of our customers, in line with the current guidelines that support a healthy lifestyle. We are developing a range of products based on the Mediterranean style diet, thereby promoting the traditional diet in a large part of Croatia.

The focus of the Nutritional Strategy is the achievement of the goals that we have set through our promises to our customers, that our products will be products to promote health, and that our services will be focused on improving the quality of life.

Managing nutritional quality is the responsibility of all our employees engaged in the product development process, and represents a systematic activity that is defined in the action plans, and which applies to the existing and new product lines.

The mechanisms for monitoring the efficiency of managing nutritional quality are the results of action plans based on the number of innovative and new products that are aligned with the Nutritional Strategy. Mechanisms for monitoring efficiency are based on systematic monitoring through information management models and manual monitoring via internal service records.

#### 2.3.5.1. Product assessments to improve impacts on health and safety

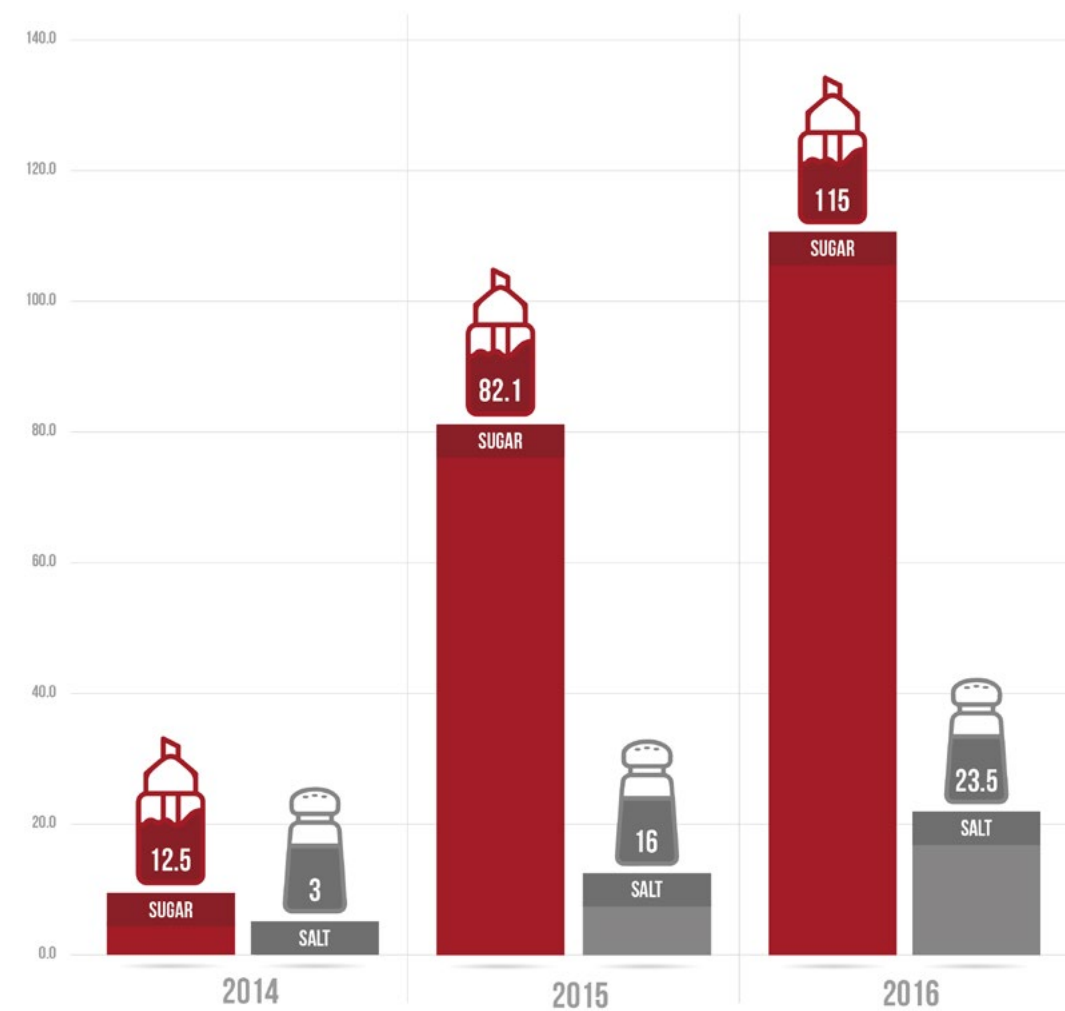
The Podravka Group performs ongoing assessments of all significant product categories, to improve the impacts on health and safety.

Following from this, in 2016, we removed a total of 23.5 tonnes of salt and 115 tonnes of sugar from our product line, as seen in the following figure:

In the observed three-year period, we achieved reductions in salt of 42.5 tonnes, and reductions in sugar of 209.6 tonnes from a total of 384 Podravka products (SKUs).

Also, in 2016, we removed trans-fats from the complete product line of cream spreads and the complete product line of breakfast cereals.

FIGURE 25: REDUCTIONS OF SUGAR AND SALT (T)



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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 2016, and established that it is compliant with the requirements for the core level of the G4 Guidelines of the Global Reporting Initiative, and that it represents a transparent overview of the nonfinancial effects of the Podravka Group in the analysed year. The report contains an overview of the efforts invested by Podravka to align its operations with sustainable development through application of the corporate social responsibility programme.

The report begins with the reporting of the excellent business results of Podravka. The data on growing revenues, new acquisitions and other business actions by which Podravka has deserved its leading position in food production in Croatia are impressive.

In addition to strong business results, the impression of report quality is expressed through the excellent graphical solutions that clearly depict the material results of the company throughout the report, making the report easier to read and understand.

The 2016 report is the second annual report of the company drafted in line with the GRI G4 Guidelines, putting the company alongside some 20 reports using this methodology in Croatia at the annual level. As in previous years, the Podravka Group report is among the best in the quality of outlining the report drafting process and the engagement of stakeholder groups to express their interest in defining the content of information included in the report. In this process, Podravka contacted over 100 stakeholder organisations, with more than 80 taking active part in this process. It should be stated that no other report in Croatia to date has outlined such a detailed process pursuant to the GRI Guidelines. Though there is room for improvement in the overview of the process, this report is certainly an example of good practice.

This is one of the first reports to determine the aspect boundaries for each individual material aspect covered in the report. Though each individual effect could receive a more detailed analysis, it is a novelty that the topic has been approached in this way. We congratulate Podravka on the significant steps forward in the quality and consistency in applying the GRI Guidelines.

Progress in relation to the previous report of the Podravka Group is also seen in the overview of the approach to managing material effects and aspects of the report. The management approach and the reporting area are properly determined, though more detail is required in how this is outlined, with a need for a more detailed explanation of the approach to managing the nonfinancial effects at the level of business strategy, to better describe this area.

The greatest shortcoming observed in this report is the lack of consistency in the limits of the entire report. A part of the information of social categories pertains to the whole of the Podravka Group, while the majority of the environmental aspects pertains only to the territory of the Republic of Croatia, while certain data are provided only for the Town of Koprivnica. Further, data on the legal regulations and occupational safety

measures are shown only for Podravka activities in Croatia. This shortcoming impacts the report quality and makes it difficult to compare with other food industries, and fails to provide a clear overview of the complete nonfinancial impacts of the Podravka Group as a whole. We propose that the additional efforts be invested during the next reporting period to ensure that the materials aspects of Podravka are outlined for the entire Group.

Regardless of the reporting shortcomings, this is a document that properly follows the GRI Guidelines and provides a very comprehensive, easy to read and clear overview of the nonfinancial effects of Podravka. We hope that other companies drafting nonfinancial reports will follow Podravka's thorough approach to outlining the process of determining the report content, better quality dialogue with stakeholders, determining aspect boundaries, and other sensitive areas from the reporting methodology.

We would like to thank Podravka on its consistent and serious approach to the reporting process in its entire complexity, and for the efforts invested to ensure that the report abides by the GRI requirements as consistently as possible, and abides by the reporting obligations prescribed by the European Commission's Directive on nonfinancial reporting and the accompanying Guidelines for nonfinancial reporting. We believe that this process will produce an even higher quality and more comprehensive nonfinancial report of the Podravka Group in the year to come.

*Committee of the Executive Council of HR PSOR*

