

Dukat Dairy Industry Inc. Communication on Progress 2013



Statement of continued support and business challenges

It is my pleasure to present to you our second Communication on Progress, as a demonstration of the application of and commitment to the UN Global Compact principles, which covers the activities of Dukat Dairy Industry Inc. in the area of human rights, labour, environment and anti-corruption in 2013.

A responsible and transparent operation has always been the strategic focus of our company, whether it concerns the relationship with employees, consumers, business partners, social community or attitude towards the environment. Assuming the responsibilities for the role of this company and its impact on the local and broader community is an integral part of our business strategy and commitment to sustainable operations.

We systematically apply and promote the United Nations Global Compact principles in human rights protection, labour, environment and anti-corruption. Nevertheless, we emphasise that the context of the socially responsible operation of Dukat is significantly expanding. Incentives to primary and sustainable agricultural production, i.e. milk production, are of exceptional importance both for the company and for the community in which it operates. In addition, we invest our knowledge and experience in the promotion of proper and balanced nutrition and healthy habits.

For the Croatian economy, and for Dukat as the largest player in the Croatian dairy sector, 2013 was the fifth consecutive year which recorded very negative economic movements. Negative macroeconomic trends, high unemployment rate, decline in the purchasing power, as well as the changed sales structure, insolvency, the increase in fiscal and quasi-taxation charges levied on citizens and economic entities, exiting CEFTA as the consequence of the Croatian accession to the European Union, a significant growth of imports from EU countries, etc., all have a direct and negative impact on the operation of Dukat.

Despite exceptionally difficult conditions in which it operates, Dukat Dairy Industry Inc. based its operations in 2013 on responsible and transparent operations, the adjustment to the needs and possibilities of Croatian consumers, the development of new products and investment in quality. In addition, the company solidified its position in South-East Europe by the acquisition of the largest Slovenian dairy - Ljubljanske mlekarne.

We are aware that there is still room for further progress in responsible operation. Transparent reporting to our stakeholders about implemented activities is an important part of the acknowledgement of our contribution and motivation to continue improving our practice in this field. For this reason, this report, as well as the previous one, in addition to the overview of the activities related to the application of the UNGC principles, provides an answer to the GRI G3 performance indicators in accordance with the guidelines of the Global Reporting Initiative. Thereby we provide our stakeholders with a clear and relevant framework for the comparison of our responsible activities, both with regard to the previous and the future ones, about which we will continue to report.

Although 2013 was a challenging year in every respect, we remain committed to the improvement of our responsible business practice and to the adherence to the UN Global Compact principles, presented to you in the text which follows.



Alen Fontana
Director

Zagreb, May 2014

Dukat – leading dairy industry in Croatia with century-long tradition

Dukat Dairy Industry Inc. is the leading dairy industry in Croatia with a century-old tradition in the production of milk and dairy products, which, as a result of the organic growth in the markets of the region and new acquisitions, has grown into a regional company. With its 13 production plants in Croatia and South East Europe, the Dukat Group is today the leading regional dairy industry. In addition to Dukat, the Dukat Group comprises 13 associated companies in Croatia and in South East Europe.

Since 2007, Dukat has been operating as part of the Lactalis Group, the leading dairy group in the world and the leading global cheese manufacturer.

As the flagship brand for milk and dairy products, Dukat successfully responds to consumer demands and needs. Innovativeness, insisting on quality and the implementation of the latest advancements in food and dairy industry has ensured Dukat to hold the position of the market leader and the pioneer of the new trends in the dairy industry.

EC6

Dukat bases its operations on the processing of top quality milk, which is produced on Croatian dairy farms. In 2013, Dukat cooperated with over 6 thousand producers from whom 245 million kilograms of raw milk were purchased (38,5 percent of total milk collection in Croatia). This has confirmed Dukat's status as the largest milk purchaser and processor in Croatia. The product range consists of milk, dairy products and cheeses, and it comprises almost 250 products.

It was precisely the top EU quality domestic milk and investments in the development of new milk processing technologies that contributed to Dukat's entry to the markets of Africa, South America and China to which at the end of 2013 Dukat started exporting its long-life dairy desserts produced at the Zagreb plant.



This report gives an overview of the activities implemented in 2013 in Dukat Dairy Industry Inc. and it does not cover the activities of the associated companies operating within the Dukat Group.

In addition to the overview of the activities concerning the implementation of the UNGC principles, the report provides the answer to a set of Global Reporting Initiative's performance indicators in the area of labour, human rights, environment and the society as a whole.

Our corporate values

Ambition, engagement and simplicity are the corporate values on which we base our operation. They are the best confirmation of who we are, how we operate and what makes us successful. They are what drives us. By their implementation in our everyday work, we strengthen our competences, comparative advantages and corporate culture, by which we contribute to a successful and sustainable operation of our company.



Ambition

Performance. Continuous improvement. People development.

We set and achieve ambitious goals by overcoming business challenges. We adopt decisions and deliver concrete results. By constant improvement we create new values and adapt to changes.

Engagement

Entrepreneurship. Tenacity. Accountability. Loyalty.

By taking initiative and engaging in important issues, we treat our company as if it was our own. We are determined to achieve the set goals and we do not desist under any circumstances or before any obstacles. We take responsibility for our actions and our work is transparent. Through our conduct, we show respect and concern for the company, our colleagues, partners and the community in which we operate.

Simplicity

Accessibility. Transparency. Pragmatism.

We treat others with respect and without accentuating our importance. We think freely and openly and encourage others to do the same. We communicate clearly; we exchange information and are consistent in turning words into action. We are practical, efficient and sensible in everyday work and in solving problems.



I HUMAN RIGHTS



Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights within its area of influence; and
Principle 2	make sure that they are not complicit in human rights abuses.

Dukat fully respects human and labour rights based on the Constitution, laws and other regulations of the Republic of Croatia, as well as international conventions. Dukat guarantees and promotes human rights protection through a number of internal documents – Work Regulations, Regulation on the protection of confidentiality of data, the Collective Agreement and the Code of Conduct – as well as through its good business practice. Employees can access these documents through the Intranet.

HR6
HR7

Right to diversity and equal opportunities

At Dukat, differences among people, regardless of their age, nationality, ethnic origin, religion and gender, language and socioeconomic status, are accepted in an open and tolerant manner. All employees have an equal opportunity for success, and their position in the company depends exclusively on the performance and success of each individual.

In the area of human resources management, we pay special attention to adherence to the principle of diversity and equal opportunities. We respect all rights and regulations which prohibit child labour, forced or compulsory labour, which protect the dignity of the employees and guarantee non-discrimination and protection from sexual harassment, both of the employees and of the persons undergoing the recruitment process.

HR4

Protection of employees' dignity

Dukat consistently implements the regulations and directives of the European Union and Croatia concerning non-discrimination, as well as the protection of dignity of its employees. The protocol of procedure in the case of violation of dignity is embedded in Dukat's Work Regulations and the Code of Conduct. In the case of a complaint or a request for the protection of dignity, the Management Board appoints a Commission consisting of three independent members: a trade union representative, an administrative service representative and a person appointed to receive and address employees' complaints related to the protection of dignity. An identical protocol is also foreseen for all forms of discrimination and sexual harassment.

In 2013, there were no complaints concerning the protection of dignity, while in 2012 two complaints were filed which were found to have been unfounded.

Each employee is entitled to defence in the cases which are assessed as violation of employment obligations. Any written reports related to the violation of employment obligation are removed from the employee's personal file after a period of three years. This removes obstacles to the advancement and professional development of employees which would arise from isolated mistakes committed in the work process.

Code of Conduct

The Code of Conduct, which compiles the principles of the conduct of employees in accordance with ethical, moral and professional norms and generally accepted civil values, has been applied in Dukat since 1998. The Code was amended in 2003 and it serves as a framework for everyday work and conduct in the work environment, as well as the attitude with respect to other stakeholders. The revision of the existing Code began at the end of 2013, and the publishing of a new expanded version is planned in 2014.

Objectives for 2014

- Preparation of a new comprehensive Code of Conduct in accordance with the Lactalis Group values



II LABOUR



Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	the elimination of all forms of forced and compulsory labour;
Principle 5	the effective abolition of child labour;
Principle 6	the elimination of discrimination in respect of employment and occupation.

Dukat respects and guarantees all labour rights prescribed by laws and the Constitution and is systematically working on improving the quality of the work environment, education and development of its employees, the care for health and safety at work and the contribution to the community in which it operates.

HR5

Freedom of association and collective bargaining

Dukat has a 16 year-long tradition of association and collective bargaining. The largest number of employees are members of the Trade Union of the Employed in Agriculture, Food, Tobacco and Water Industries of Croatia (PPDIV), and a smaller number of employees are members of the Croatian Driver's Association (17 members in December 2013). Partnership with workers' representatives is continually improved through cooperation and communication with the local works councils and the Central Works Council.

A slight decline in the number of trade union members to 45.9 percent was recorded in 2013, from 49.5 percent in 2012, due to the reduced number of subscriptions of new members and gradual retirement of senior members.

LA4

The Collective Agreement ensures a higher level of rights arising from employment, when compared with similar companies in the region. The Agreement applies to all employees regardless of whether they are trade union members or if they have permanent or temporary employment.

A set of employee benefits is available on the basis of the Collective Agreement:

- Allowance for sick leave exceeding 90 days
- Allowance for annual vacation
- Christmas bonus
- Transportation costs reimbursements
- Jubilee award
- Assistance for days spent in hospital
- Assistance in the event of an Act of God
- Assistance to families in the case of employee's death
- Gift in-kind for Easter

In addition, employees are entitled to the following bonuses on salary: bonus for years of service, bonus for work in shifts, bonus for work on Sunday and holidays, meal allowance.

Dukat fosters regular and open communication with the trade union and the Central Works Council, and provides them with information about decisions of importance for the economic and social status of the employees. The Management Board notifies the Works Council about the Company's operating results, plans, organizational changes and other important issues on an annual basis and upon need.

Health protection and safety at work

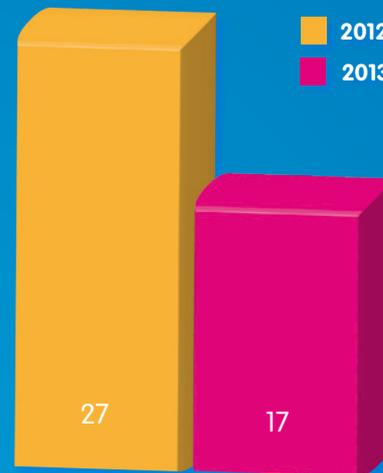
Dukat supports employee initiatives in all forms of humanitarian work and provides incentives and additionally rewards the employees who are voluntary blood donors by granting them a day off work and by organizing a joint excursion. Preventive seasonal influenza vaccination is organized in the company premises every year. Preliminary and periodic medical examinations are regularly carried out for all employees who work in special conditions.

LA6 Every 3 months, Health and Safety at Work Committee holds meetings on the topic of safety and health protection to discuss employee proposals to improve work conditions and health protection at work. Two committees (Dukat and Sirela) have 7 members, accounting for a 0.6 percent of the total number of employees.

LA7 In 2012, 27 injuries at work were registered at Dukat, while in 2013, the number of injuries fell to 17, or down by 37 percent when compared with the previous year.

Dukat shows social sensitivity by covering the costs of treatment and medical aids which are not on the reimbursement list of the Croatian Institute for Health Insurance, i.e. at a request by lower-income employees.

Number of injuries at work



In supporting the care for the health of its employees, Dukat encourages them to participate in leisure and sports activities by co-financing such employee initiatives, in particular those in which the employees account for the majority of the membership:

- Sirela Bowling Club
- Sirela Volunteer Fire-Fighting Society
- Dukat Leisure Cycling Club

Dukat Leisure Cycling Club - Dukat first bike friendly company in Croatia

Dukat Leisure Cycling Club was launched in August 2012 as part of the in-house initiative "Dukat green zone" and at employees' proposal. The aim is to raise awareness about the importance of a responsible attitude towards the environment and promote the environmentally-friendly aspect of cycling and its positive effects on health and general body condition.

At the end of 2013, the club had 130 members - the employees of Dukat and its associated companies in Croatia, who take part in different cycling events. The Dukat LCC members participated in two of Dukat's cycling races "A Healthy Habit", which took place at Bundek in 2012 and at Jarun in 2013. As a result of the club's activities, the development of a new parking space for bicycles and incentives to employees to travel to work by bicycles, in 2013, Dukat became the first bike friendly company in Croatia. The Dukat received the above certificate from the Association Cyclists' Union.

Education and development of employees

In human resources management, Dukat remains committed to its mission – to recruit and retain capable, professional and motivated employees, who are proactive in constantly changing conditions, who create new values and achieve personal and professional fulfilment.

In 2013, specialised education accounted for 68.9 percent of the total number of educations organised at Dukat, when compared with 46 percent in 2012. In 2013, legally binding trainings accounted for 68.9 percent of total education, when compared with 54 percent in 2012. In 2013, employees had 20,152 hours of education, when compared with 13,400 hours in 2012. The average number of hours of training grew from an average of 10 hours of training in 2012 to 15 hours of training per employee in 2013. A constant growth of the share of specialised education has been recorded over the past years.

LAB

In 2013, employees received training in hygiene and sanitary protection and toxicology. The employees in production also received training about personal hygiene and good production practice, in accordance with the IFS standard.

People development projects in 2013

The work on the educational and development projects launched in 2012 continued in 2013:

Sales Formula

The development and educational programme for Dukat sales force was developed in cooperation with Human Resources Department and Sales Department. One module was implemented in 2012, and four modules in 2013, during which Sales Department employees spent several days in different departments to gain a broader insight into company's operations, interdependence and the impact of sales decisions on other business segments.

New development programmes were launched in 2013:

Mozaik

24 workshops of the Mozaik educational programme were held in 2013. The programme was launched with the aim to improve team work, information, motivation and satisfaction of all employees in Production. All employees of Dukat, KIM and Sirela plants take part in the programme. Its title is an acronym which refers to the most important areas of human resources management: motivation, organisation, satisfaction, engagement, initiative and competences. About 600 employees who attended the workshops had the opportunity to express their opinion on the topic of organisational climate and room for improvement in the plants' operation.

Semi-structured interviews with managers at Production were held on the topic of human resources management. Also, focus groups - workshops were organised, where managers and employees discussed the preferred conduct and competences of successful managers and employees in production. Gathered information will be the basis for the preparation of the code of conduct, i.e. a list of conduct rules for the employees of all plants.

Education for in-house trainers

An internal competition for Dukat's in-house trainers from different segments of operation was opened in 2013. The aim is to ensure a systematic transfer of in-house knowledge and skills to the present and new employees, and to further develop Dukat's system of education and development of its employees. 12 interested employees applied for the competition and participated in presentation skills workshops to prepare themselves for the role of in-house trainers.

Quality Academy

Dukat pays special attention to food quality control by promoting competent experts who play an important role in a growingly complex and sophisticated food production and distribution system. Crisis communication, special themes concerning quality control, project management in quality control departments and the effect of personal development on changing people's habits to improve product quality, were the topics of the new development and educational programme designed for Quality Control department managers of all production plants in the Dukat Group's countries.

LESE Senior Talent Pool

This new educational programme for managers from the Dukat Group's countries was launched in 2013, with the purpose of developing management skills, key people development, supporting succession and providing incentives for networking among colleagues and disseminating Lactalis's values within the Dukat Group. The first module "Strategy" focused on the introduction to strategic planning, overview of the basic strategic concepts and analytical tools, strategy management process and its correlation with the economic creation of values.

Communication in crisis situations

Prompted by the aflatoxin crisis and more frequent needs for a well prepared and adapted communication and company's presentation to the external public, after a one-day training on crisis communication designed for general managers in Croatia, Bosnia and Herzegovina, Macedonia and Serbia, similar workshops were organised for sales directors for the markets of Croatia, Bosnia and Herzegovina, Serbia and international markets.

Induction of new employees to the company and its activities

30 new employees from all segments of the company underwent induction training in 2013 to get acquainted with the strategy, organisation, main business processes and production programme. During the induction programme, employees visit all key departments and learn about milk and dairy goods processing and production at the Dukat Plant and the Sirela Plant.

People development and international mobility

Advancement and employment at different positions within the Lactalis Group is encouraged and provided at Dukat. In 2013, one employee was promoted to a management position within the Lactalis Group, and three employees in 2012. Employees with special expertise can apply and develop their knowledge in South East European countries in which the Dukat Group is operating.

LA12 Performance appraisal

Performance and individual development of employees with recognised high work potential are appraised under the "People review" project every year. The readiness for international mobility is also appraised and agreed with the employees. 14 percent of employees in 2013 and 16 percent in 2012 were included in the performance appraisal system.

Traineeship

Like in the previous years, we continued our successful cooperation with vocational secondary schools: Food Technology School and Agricultural School in Zagreb, Dairy School in Križevci and Catering School in Bjelovar. Traineeship for 80 secondary school dairy students was organised at Dukat and Sirela production sites in 2013.

Students of the faculties of Agronomy, Food Technology and Biotechnology, Business and Economy and other faculties complete their practical training at Dukat to learn about the organisation and operation of a modern company, get the idea for the theme of their essay or thesis and gain their first work experience in the dairy industry. A total of 6 students received their practical training at Dukat in 2013.

Data about employees

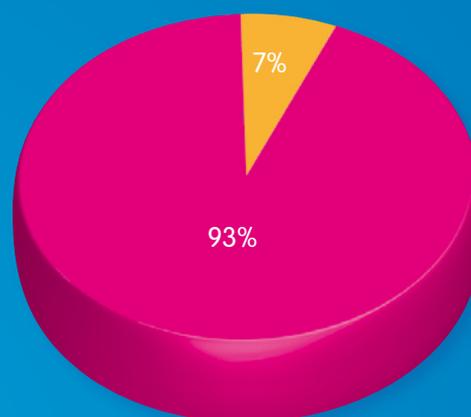
LA1
LA2
LA4

Type of employment contract

	No. of employees	Permanent	Temporary
2012	1,361	1,234	127
2013	1,161	1,081	80

In 2013, 93 percent of our employees had permanent employment contracts, compared with 91 percent in 2012. Labour rights, as well as the rights arising from the Collective Agreement apply equally to all employees, regardless of whether they are permanently or temporarily employed and whether they are trade union members or not.

The employee turnover rate in 2013 was 17 percent, whereas in 2012 it was considerably lower - 7.33 percent. The major cause for the rise in the turnover rate is based on the implemented restructuring of logistics and the separation of the delivery organisational segment during which 117 drivers left Dukat, of whom 51 drivers continued working for Dukat as private carriers.



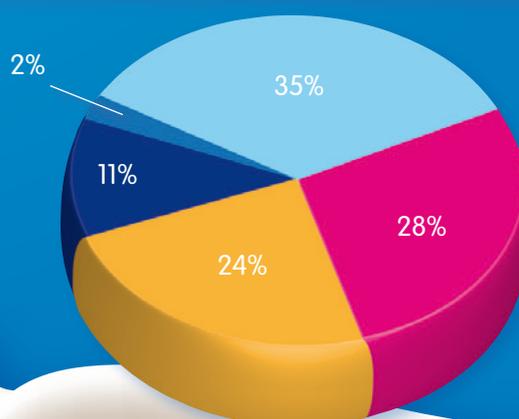
■ Permanent ■ Temporary

Age structure

Employees' age	2012	2013
< 30	188	135
31 - 40	342	274
41 - 50	482	403
51 - 60	328	320
> 61	21	29
Total	1,361	1,161

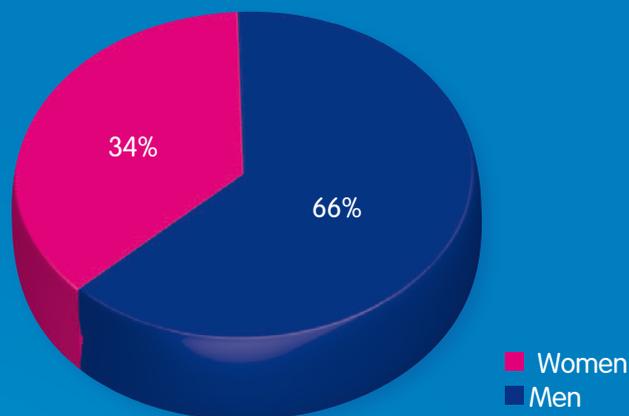
The average age of employees on 31 December 2013 was 44, and at the end of 2012 it was 43.

■ < 30
■ 31-40
■ 41-50
■ 51-60
■ > 61



Gender

Gender	2012	2013
Men	940	761
Women	421	400
Total	1,361	1,161

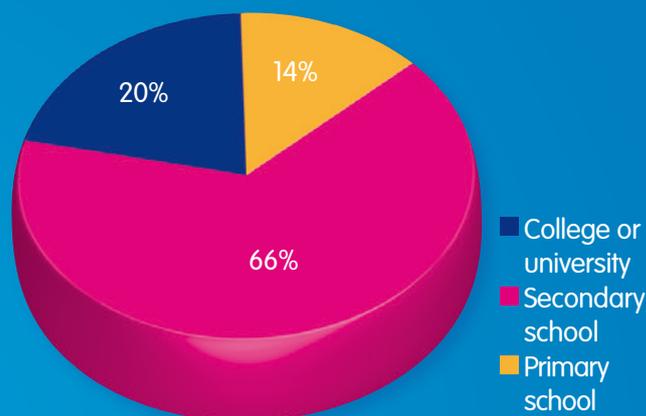


According to the gender breakdown, there were 34.4 percent of women and 65.6 percent of men in 2013, compared with 31 percent of women and 69 percent of men the year before.

LA13

Education

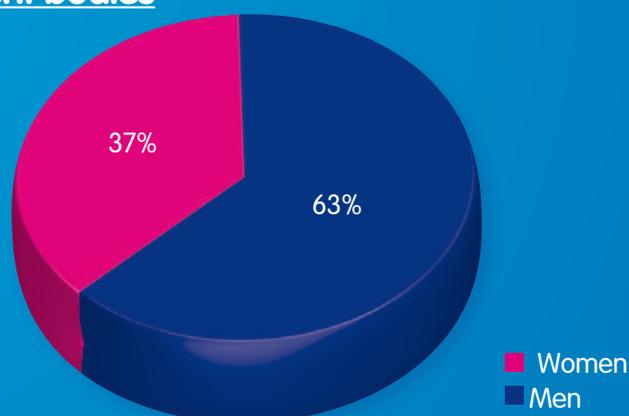
Education	2012	2013
Primary school	189	160
Secondary school	923	762
College and university	249	239
Total	1,361	1,161



The largest number of employees (66 percent) have secondary school qualifications, while 14 percent of employees have higher education.

Composition of governance and management bodies

	Gender	Average age	Number
2012	Men	45	49
	Women	44	26
2013	Men	45	45
	Women	45	26



The share of women in governance and management positions at Dukat was 37 percent in 2013, which represents a slight increase from 2012, when it was 35 percent.

EC7

We pay special attention to hiring domestic labour force and local experts, including for management positions. The share of Croatian citizens among the top management is 43 percent.

LA14

All employees have an equal opportunity for success. Their position in the company only depends on individual performance and success. The salary and employee remuneration policy are exclusively based on the type and complexity of work, responsibility, knowledge and skills required for the achievement of tasks and results, and it does not depend on gender, ethnicity or any other personal characteristics.

Internal communication

Different channels are used for the internal communication: the Intranet portal, e-mail, VPN mobile system, internal newsletter Contact, notice boards, meetings, face-to-face, etc. The local version of Contact, the in-house magazine, is intended for the employees of Dukat and its associated companies in Croatia and South East Europe. It enables them to learn more about other departments and markets, exchange information and disseminate the Lactalis Group's values. Notice boards are particularly important for employees in production and logistics without access to the Intranet. Notices and information about company events, the launch of new products, employee benefits, etc. are regularly posted on notice boards. Space for trade unions and works council's notices is also provided. In addition to the above, Dukat fosters the open door policy, which implies direct communication with departments' line managers. Except directly, employees can contribute their remarks, comments and ideas anonymously, using the boxes for comments and ideas placed at all production sites.

Contribution to the community

Dukat launches and supports projects which contribute to the improvement of the quality of life and well-being of the local community and individuals, which include health care, promotion of education and participation in humanitarian campaigns. Also, Dukat focuses on providing assistance in-kind, i.e. own products, to particularly vulnerable individuals and groups in the society.

Through donations of funds and own products in 2013, Dukat invested in:

Financial donations

- **Humanitarian causes and health care:** support to humanitarian campaigns for the medical treatment of seven children and young people, and to the humanitarian campaign Nora Fora – the fierce lion, Zagreb Rehabilitation Centre, monthly contributions for Dukat's protégés (support to persons from socially disadvantaged families and children of fallen soldiers in Croatia's Homeland War until they come of age)
- **Sports:** Sirela bowling club

Donations in own products

- **Humanitarian causes:** Zagreb Home for Children, Caritas of the Archdiocese of Zagreb, Caritas of the Archdiocese of Đakovo-Osijek, Caritas of the Archdiocese of Sisak, Rehabilitation Centre Varaždin, Red Cross Karlovac, Remar Centre, Home for mentally ill adults Vila Maria, Homes for the elderly and the disabled Volosko, Čakovec, Knin, Koprivnica and Zagreb-Trnje, Association of single parents, Svjetlo života, Lions Club Grič, Mali zmaj Association, Inicijativa Association, participation in the humanitarian campaign "Croatian dairies donate children with special needs", Caritas Kuća ljubavi, humanitarian campaign Dobro je činiti dobro (It's good to do good), Home for children with special needs Slavonski Brod, Association for assistance to patients suffering from malignant diseases Phoenix, humanitarian campaign Škola za medvjediće (School for teddy bears), Special hospital for medical rehabilitation Lipik, Special hospital for medical rehabilitation Naftalan, nine kindergartens, seven primary schools.

In 2013, Dukat helped organise a series of cultural, educational, professional, sports and gastronomic events:

- **Culture:** Cest is D Best, Trešnja City Theatre, Croatian National Theatre Osijek, Youth film festival, Photo days of young people, VAFI - Varaždin children and youth international animated film festival, Liburnia Jazz Festival, Karlovac Cinema Club, River cinema, International Knight Tournament St. Helena, Megablast dance club
- **Education:** Kikiči children's choir, Zagrepčanke i dečki dance choir, Food Technology and Biotechnology Faculty - sensory exercise, Modrave Camp, Golden Index Award
- **Symposia and conferences:** Annual meeting of the Croatian Society of Gastroenterology
- **Sports:** Strizivojna amateur chess club, Sesvete basketball club, Doping is not hOKey 2013, EuroZagreb-Mladost Open - international students tournament, Solidarity soccer boot, Ironman, HAPK Mladost, Kronometar car race, Croatian Motorcycle Federation, Princ Zagreb Softball club, Zaprešić Taekwondo club, Dukat Velebit Ultra Trail
- **Fairs and gastro events:** IAGI (International Art of Gastronomy in Istria), Chocofest, Days of babies, children and pregnancy, Merry Christmas Tram, Učka baby marathon, Gemini Golubinjak, Weekend with Karlo, Global Smurfs Day, Christmas at Vrabće

Additional projects

Creative drawing project "I love milk"

In 2012, Dukat launched a creative drawing competition entitled "I love milk!", with the aim to educate the first, second, third and fourth primary school graders about the importance of a proper and balanced diet and the role of milk in it, and to encourage their creativity in artistic expression. The competition is implemented in partnership with the Zagreb Museum of Modern Arts, under the auspices of the Ministry of Science, Education and Sports. In the past two years, pupils of primary schools from all over Croatia took part in the competition with over 2,700 drawings. The project closes on the World School Milk Day with the awards ceremony and the exhibition of the best pupils' entries selected by the MoMA selection panel.

Dukat continued with the competition's educational segment in 2013 by preparing and distributing free educational brochures for teachers and parents entitled "Why it's good to drink milk" and by organising two free creative workshops for children at the MoMA. A virtual exhibition of the selected entries is posted on Dukat's website and Facebook.

Doors open days for primary school pupils

In 2012, Dukat was the host to third and fourth graders of primary schools from the whole of Croatia as part of the "Dukat's Doors Open Days" educational and fun project. During their visit to Dukat's production plant, children had the opportunity to learn first hand about the milk's route "from the field to the table", as well as about the importance of everyday consumption of milk and dairy products for children's proper growth and development. The project is implemented under the auspices of the Ministry of Science, Education and Sports. More than 630 pupils visited Dukat's production plant in Zagreb (October 2012 - December 2013), and interest in the project continues unabated.

Large group outdoor yoga class

In accordance with the focus on and promotion of a healthy and active lifestyle, last summer, Dukat organised the first big outdoor yoga class in Croatia "The SenSia Summer Welcome". The event inspired by the popular gathering at Times Square, attracted over two hundred yoga fans in front of the Museum of Modern Arts, who saluted the summer by practicing yoga.

Objectives for 2014

- Intensify employee education with the aim to continue acquiring new and improve existing knowledge and skills which are necessary in a growingly demanding business environment
- Improve people management skills from the level of most junior positions managing teams in Production and Logistics (master craftsmen in Production, plant managers and lead warehouse managers at Logistics)
- Continue the systematic transfer of in-house knowledge and skills through training of in-house trainers
- Start the mentorship project
- Further development of education of employees with a high potential for development (Talent Pool programme)
- Continue with education of the key people in quality control of all production plants in the Dukat Group countries in the area of the development of project management skills, sharing of knowledge and best practices
- By introducing the electronic tool, facilitate and speed up the implementation of the annual performance appraisal and achieved objectives for the previous business year and setting of business goals for the following year for key employees of the company
- Inspire the activities which promote healthy habits (in particular movement) and education on the importance of proper and balanced nutrition



III ENVIRONMENT



Principle 7	Businesses should support a precautionary approach to environmental challenges;
Principle 8	undertake initiatives to promote greater environmental responsibility;
Principle 9	encourage the development and diffusion of environmentally friendly technologies.

Strategically focused on a responsible attitude towards the environment and operations in accordance with the sustainable development policy, over the years, Dukat has built its own environmental management system, continually reducing the negative impact on the environment.

Dukat's Policy of quality assurance, food safety and environmental management is the umbrella document of the environmental management system, the axis for action and the setting of objectives to improve environmental protection.

Materials

EN1 Packaging

As a large-scale producer, we take account of the environmental acceptability of our products and we strive to introduce economical and environmentally-friendly packaging materials. In compliance with the Regulation on packaging and packaging waste, Dukat prepares quarterly and annual reports on the types and volumes of packaging put in circulation, and it also prepares additional monthly reports. In accordance with the reports we bear the costs of the packaging waste disposal and management.

Data on packaging put in circulation (in kg) – Dukat Plant

Type of packaging material	2012	2013
Metal (Al bottle for whipped cream 250 ml)	33,433	32,592
Paper/glue (carton)	2,076,931	2,027,053
Multi-layer packaging with predominant paper component for milk beverages	1,683,162	1,523,914
PET	665,457	577,305
Polymers	1,978,274	1,317,137
PEHD	844,036	1,407,538
Total	7,281,293	6,885,539

In 2013, a total of 5.4 percent less packaging was put into circulation at the Dukat Plant, when compared with 2012, as a result of 5.8 percent less processed raw milk in total, when compared with 2012. The percentage of used materials as the recycled input material was below 5 percent.

Total weight of packaging put in circulation in 2013 - Dukat Inc.

Multi-layer paper packaging	Paper/carton	PET	HDPE	Other polymers (PS, PE)
1,500 t	2,000 t	580 t	1,500 t	1,500 t

Energy

EN3
EN4

Electricity

Energy consumption is approached with great care and attempts are made to achieve savings in all stages of operations: in designing energy plants and technological processes, more economical and efficient process management and regular and quality maintenance. The consumption of electricity increases in the June to September period due to the increased production in the summer months as a result of increased seasonal demand and intensified utilisation of the cooling systems.

Electricity	2012	2013
Dukat Plant	22,455,148 kWh	22,400,782 kWh
Sirela Plant	9,879,163 kWh	9,711,301 kWh

Total electricity consumption at the Zagreb Plant in 2013 was 22,400,782 kWh, or down by 0.2 percent, when compared with the consumption in 2012 (22,455,148 kWh). Total electricity consumption at the Sirela Plant in 2013 was 9,711,301 kWh, or down by 1.7 percent, when compared with 2012, when it was 9,879,163 kWh.

Steam

Steam	2012	2013
Dukat Plant	42,237 t	41,541 t

Total steam consumption at the Dukat Plant in 2013 was 41,541 tonnes, or down by 1.6 percent, when compared with steam consumption in 2012 (42,237 tonnes).

The Sirela Plant, Bjelovar, has its own thermal energy production – steam.

Gas

Gas	2012	2013
Dukat Plant	52,582 m ³	1,974,861 m ³
Sirela Plant	2,607,757 m ³	2,570,137 m ³

Two combustion plants, each of 4.4 MW in power, are installed at the site of the Zagreb Plant, which are categorised as medium combustion plants according to the Regulation on limit values for pollutants emissions into the air. The plants are fuelled by natural gas. The plants were not in function before May 2013, and the steam was purchased from the municipal heating plant; they have been in use again since May. For this reason, 1,974,861 m³ of gas was consumed at the Zagreb Plant in 2013, or up by 97 percent from the year before.

The emissions of pollutants into the air from both plants were measured in December 2013. The values meet the prescribed emission limit values according to the Regulation on limit values for pollutants emissions into the air.

In 2013, 2,570,137 m³ of gas was consumed at the Sirela Plant, or down by 1.4 percent from the consumption in 2012.

Dukat attaches great importance to water consumption and is constantly striving to find new possibilities to reduce its consumption. Both plants (Dukat and Sirela) withdraw the majority of the water from their artesian wells, while the remaining water is used from the public water supply.

At the Dukat Plant site in 2013, 99 percent of water was used from own well, and only 1 percent from the public water supply, while the ratio in 2012 was 97 percent of water from the well and 3 percent from the public water supply. At the Sirela Plant, 97 percent of water was used from the well and 3 percent from the public water supply (compared with 91 percent of water from the well and 9 percent of water from the public water supply the year before).

Water	2012			2013		
	Volume (m3)					
	Public water supply	Own well	Total	Public water supply	Own well	Total
Dukat Plant	8,932	310,925	319,857	3,227	366,960	370,187
Sirela Plant	28,717	282,958	311,675	7,058	253,908	260,966

In 2013, total water consumption at the Dukat Plant was 370,187 m3 or up by 15.7 percent from total water consumption in 2012 (319.857 m3). The consumption of water from the public water supply was 3,227 m3, 64 percent down from 2012 (8,932 m3). The consumption of water from own well was 366,960 m3, or up by 18 percent from 2012 (310,925 m3).

The index of production (IP per one kilogram of a produced product) increased to 3.47 in 2013, while in 2012 it was 2.8. This increase in the consumption of water per one kilogram of a product can be explained by technical changes in production and warehouse premises, the production of own technological steam and the production trend. 1,923 tonnes of total water consumption were utilised in products.

Total water consumption at the Sirela Plant in 2013 (260,966 m3) was down by 16.3 percent from the consumption in 2012. The consumption of water from the public water supply was 7,058 m3, or down by 75.4 percent over 2012, while the consumption of water from own well was down by 10.3 percent.

The average ratio of water consumption over processed milk in 2013 was 3.16 l of water/kg of processed milk, which is slightly lower when compared with 2012 (3.7 l of water/kg of milk).

Air emissions

Zagreb Plant

As mentioned above in the section on Gas, there are two combustion plants running on natural gas at the site of the Dukat Plant, which have been in function since May 2013.

The emissions of pollutants into the air from both plants were measured in December 2013. The values meet the prescribed emission limit values under the Regulation on limit values for pollutants emissions into the air.

Emissions into the air from fuel combustion process to obtain thermal energy in 2013

Data on the type and quantity of emissions from outlets		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Nitrogen oxides as nitrogen dioxide (NO ₂)	HRN EN 14792:2007	3,903
Carbon dioxide (CO ₂)		3,642,605
Carbon monoxide (CO)	HRN EN 15058:2008	51

Data on fuel type and consumption					
Fuel	Fuel consumption	Unit of measure	Lower heating value	Share of sulphur (mas. %)	Share of ash (mas. %)
Natural gas	1,957,432	m ³ /yr	33,338	-	-

Data on emission measurement results	
Gas fuel: Natural gas	
Substance	Measurement result (mg/m ³)
Nitrogen oxides as nitrogen dioxide (NO ₂)	199,4
Carbon monoxide (CO)	2,6

Sirela Plant

There are four sources of emissions of pollutants into the air at the site of the Sirela Plant:

- two outlets from boiler chimneys – emissions of combustion products,
- one outlet from the thermoelectric generator for the production of hot air (dried milk drying plant) - emissions of combustion products,
- one outlet of the dried milk drying plant de-duster (non-energy) - organic dust.

The emissions of pollutants into the air from plants were measured in December 2013. The values meet the prescribed emission limit values under the Regulation on limit values for pollutants emissions into the air.

Emissions into the air from production processes

Type of outlet: Whey drying tower shaft		
Data on emission measurement results		
Substance	Measurement result (mg/m3)	
Particles (PM 10)	13.6	
Data on the type and quantity of emissions		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Particles (PM 10)	HRN EN 14792:200	4,056.55

Type of outlet: Thermoelectric generator chimney		
Data on the type and quantity of emissions from outlets		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Carbon monoxide (CO)	HRN ISO 12039	42.41
Carbon dioxide (CO2)	/	717,418
Nitrogen oxides as nitrogen dioxide (NO2)	HRN ISO 10849	271.41
Particles (PM 10)	/	11.57

Type of outlet: Boiler chimney 1		
Data on the type and quantity of emissions from outlets		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Nitrogen oxides as nitrogen dioxide (NO2)	HRN EN 14792	853.09
Carbon monoxide (CO)	HRN EN 15058	125.62
Carbon dioxide (CO2)	/	2,032,687
Particles (PM 10)	/	32.77

Type of outlet: Boiler chimney 2

Data on the type and quantity of emissions from outlets

Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Nitrogen oxides as nitrogen dioxide (NO ₂)	HRN EN 14792	964.51
Carbon monoxide (CO)	HRN EN 15058	387.77
Carbon dioxide (CO ₂)	/	2,032,687
Particles (PM 10)	/	32.77

EN21

Waste waters

Zagreb Plant

At the site of the Dukat Plant in Zagreb in 2013, occasional deviations of individual parameters were recorded (oxygen chemical consumption, BPK5, pH, total oils and fats value) from the set values of the water management licence for the discharge into the public sewerage system of the city of Zagreb. Intensified efforts are made to optimise the management of incongruent products from production and products whose life has expired, which will eliminate these occasional excesses.

Technologies for reducing emissions into water

- Filters have been installed in the production plants sewers which separate labels, caps and other materials.
- Chlorine-based chemicals have been replaced by peroxide- and acetic acid-based formulas.
- Technological processes in the plant have been optimised; milk processing plants are regularly maintained to prevent the discharge of organic matter into the sewerage system.

Sirela Plant

The Sirela Plant has its own waste water treatment plant of 1100 m³/day capacity installed on its site. Processed waste water outflows meet the limit values under the water management licence. Outflowing waste waters are discharged into the public sewerage of the city of Bjelovar after the treatment procedure.

In 2013, the total of 376,555 m³ of technological waste water was processed by the waste water treatment plant, or up by 11.6 percent over 2012.

The average value of the chemical oxygen demand (COD) in water after the treatment procedure was 472 mg/l, or up by 5.4 percent over 2012, when the COD was 448 mg/l.

An increase in the waste water treatment factor (Fx) is observed, which in 2013 was on average 1.67, whereas in 2012 the average Fx was 1.53.

Waste

EN22 Waste generation and its processing

A systematic waste management is one of the fundamental components of the environmental management system. Re-usable waste is separately collected and stored. Dukat's constant objective is to manage waste in an environmentally-efficient way. Precisely for this reason, continuous efforts are directed at the prevention and constant reduction of generation of all types of waste and waste management in accordance with economic principles. It is also the company's objective to reduce communal waste generation by an increased selection of generated waste and to reduce the volume of returns from the market. In 2013, the total volume of separated waste received at the Zagreb Plant was 1,970 tonnes, or up by 18.9 percent from 2012 (1,597 tonnes). 1,959 tonnes of non-hazardous waste were collected, or up by 19.2 percent over the previous year (1,583 tonnes). The increase in the volume of waste was the result of a 100 percent selection of waste on the spot where it was generated, i.e. 400 tonnes less communal waste was dumped at the Jakuševac communal waste depot in Zagreb. In the total balance, mixed packaging was mostly collected, followed by waste paper, carton and waste multi-layer packaging. The total volume of separated and received hazardous waste in 2013 decreased to 11.6 tonnes from 14.3 tonnes in the previous year. The non-hazardous paper and carton packaging waste was mostly collected at the Sirela Plant. A total of 470 tonnes of hazardous waste was collected in 2013.

Consumption of chemicals

Dukat Plant – consumption of washing and disinfecting agents

Total volume of washing and disinfecting agents	2012	2013
	842,231 kg	942,060 kg

In 2013, 10.6 percent more washing and disinfecting agents were consumed at the Dukat Plant, when compared with the previous year. Sodium base (431 tonnes) was mostly utilised, or up by 48 tonnes over 2012. 241 tonnes of nitrate acid was utilised, or up by 29.7 tonnes from 2012. 46 tonnes of hydrogen peroxide was utilised, or down by 2.3 tonnes from 2012.

Sirela Plant – consumption of chemicals in waste water treatment plant

Total volume of chemicals utilised in waste water treatment plant	2012	2013
	147,430 kg	151,270 kg

At the Sirela Plant, the total volume of chemicals utilised in the waste water treatment plant in 2013 was up by 2.5 per cent over 2012. The consumption of Aquaklar was 141 tonnes, or up by 3.7 percent over the previous year, while 9.2 percent less of Aquaflok was consumed, when compared with 2012 (8.9 tonnes).

Noise

Noise for day and night work conditions at the Dukat Plant site range within the legally permissible values.

Since the Sirela Plant on the south-east and south-west borders with residential noise zones, a minimum exceeding of the permissible level of noise was established when noise was measured for the needs of preparing the integrated environmental requirements.

Compliance

In accordance with legal provisions, Dukat appraises the adherence to (compliance with) the legal and other environmental regulations every year.

No major deviation from legal and other regulations and requirements was recorded in 2013. Also, no extraordinary situation was recorded, and there was no need to undertake any prescribed measures in the case of incidental situations.

Supplier evaluation with regard to impact on environment

As part of the annual supplier evaluation, with regard to the impact on the environment, the following activities are appraised:

- The frequency of environmental disasters at the point of delivery (activities of suppliers or carriers did not cause any pollution at the plant in the course of last year: accidental gas dispersion or emission, spilling of liquids, fire)
- Adherence to environmental requirements (supplier or carrier adheres to prevention plans, security protocols, rules for unloading the remains of liquid cargo on the tank bottom (stripping), waste separation rules, etc.)
- The offer to reimburse for the costs incurred by damage (in the cases when the delivered product causes the generation of waste or by-products, the supplier can offer the recycling path of such waste, e.g. packaging)
- Environmental awareness (the supplier contacted us offering solutions in environmental protection - waste recycling, reduction of waste at the source, etc.)

Additional projects

Dukat employees volunteer in clean-up campaign for a second time

Under the in-house environmental project Dukat Green Zone, Dukat's employees joined the largest volunteer cleaning campaign "Green Clean-up – one day for a clean environment" in 2013. When compared to 2012, when the employees of Dukat, Zagreb took part in the campaign, in 2013, the employees of all three of Dukat plants in Croatia - Dukat Zagreb, Sirela Bjelovar and KIM Karlovac – took part in the 2013 Green clean-up, by collecting and sorting over 40 cubic metres of waste from illegal dumping sites in Zagreb, Bjelovar and Karlovac. The campaign is part of the "World Clean-up" global project and "Let's do it!" movement. In Croatia, it is implemented by Žmergo association.

Objectives for 2014

- Education and information of employees on obligations of the Dukat Plant according to new environmental legislation
- Training of new internal auditors for internal audit of the environmental management system
- Improve waste water quality

Dukat Plant

- Reduce water consumption to 2.7 m³/t of products
- Reduce electricity consumption to 198.8 kWh/t of products
- Improve existing operational waste management practice with the aim to achieve maximum selection

Sirela Plant

- Reduce water consumption in proportion to processed milk volumes by 5 percent
- Reduce gas consumption in proportion to processed milk volumes by 2 percent
- Planned cleaning of sand/grease trap tanks at the site of the Sirela Plant



IV ANTI-CORRUPTION

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.

Dukat applies strict anti-corruption standards in its daily operations, in accordance with relevant internal documents and corporate policies of the Lactalis Group, and operates in compliance with the applicable legislation and regulations. Aware of the importance of a responsible and an ethically-based conduct, Dukat has implemented and applied the Corporate Governance Code.

Dukat's anti-corruption activities can be divided into several main areas:

1. Systematic improvement of adherence to laws, rules of operation, good business practices and ethical business practice

This objective is achieved through a constant improvement of business processes and education of Dukat's employees responsible for the legality of operations and management of business processes concerning problems of business practice and constant legislative and business changes. Also, business processes are put in place and controlled so that they always comply with the mentioned principles by adopting and enforcing internal by-laws, procedures and work instructions, which are regularly communicated via e-mail and the Intranet.

2. Operations in accordance with the Companies' Act, Capital Market Act, regular adoption and implementation of the Corporate Governance Code of the Zagreb Stock Exchange

In this way, the legality, transparency and publicity of operations is protected, and corporate governance of the highest rank is ensured, which is a systematic obstacle to corruption and abuses. Dukat is quoted on the Zagreb Stock Exchange where it regularly publishes the information which is of relevance for the shareholders, investors and the business community. In addition to the Zagreb Stock Exchange, all important information is submitted to the Croatian Financial Services Supervisory Agency (HANFA), the Croatian News Agency (HINA), and is published on the company's website, in accordance with relevant regulations.

3. Implementation of practice concerning competition

Dukat approaches competition with utmost earnestness and invests great efforts to assess each economic activity from this aspect in everyday business practice. Accordingly, education for Dukat's management and the companies of the Group was organised in 2013 on the topic of competition rules and their implementation in everyday work.

As the leading dairy industry, Dukat regularly cooperates with the Croatian Competition Agency, to which it submits all data which the Agency requires and participates in the Agency's research on the milk and dairy goods market and distribution trade.

4. Internally regulated procedures and work instructions

Among other, the Code of Conduct, available to the employees on the Intranet, explicitly states that "the employee shall receive salary for his/her work at the company. Any other receiving or giving of money, inappropriate gifts or services is not in compliance with the company's by-laws and is therefore forbidden."

SO4 In 2013 like in the previous years, no reports on suspicion of corruption or cases of corruption were recorded at Dukat.

SO7 Dukat adheres to and promotes freedom of competition in its daily business practice. In 2013, Dukat was a party to a legal proceeding initiated by the Competition Agency under the suspicion of conduct contrary to the principle of free competition. The Agency suspended the proceeding because there were no grounds on which to continue the proceeding against Dukat.

SO6 It is Dukat's strategic commitment not to provide any material or non-material support to any political party or candidate, both at the national or local level.

Dukat's employees, as private persons, are free to provide material support to any political parties or candidates at their discretion, from their own funds and in their free time, which is the responsibility and decision of each individual.

Objectives for 2014

- The implementation of the Lactalis Group's policy in the segment of protection of competition and anti-corruption
- Education of key individuals in the department on competition and corruption risks and anti-corruption methods concerning all forms of corruption

Annex – overview of relevant GRI performance indicators

In preparing this report, the following Global Reporting Initiative's G3 performance indicators have been taken into consideration:

About Dukat		
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	p. 3
I Human Rights		
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	p. 6
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	p. 6
HR4	Total number of incidents of discrimination and corrective actions taken.	p. 6
II Labour		
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	p. 8
LA4	Percentage of employees covered by collective bargaining agreements.	p. 8,12
LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.	p. 9
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	p. 9
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	p. 10
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	p. 11
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	p. 12
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	p. 12
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	p. 13
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	p. 13
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	p. 13
III Environment		
EN1	Materials used by weight or volume.	p. 17
EN3	Percentage of materials used that are recycled input materials.	p. 18
EN4	Indirect energy consumption by primary source.	p. 18
EN8	Total water withdrawal by source.	p. 19
EN16	Total direct and indirect greenhouse gas emissions by weight.	p. 20
EN20	NO, SO, and other significant air emissions by type and weight.	p. 20
EN21	Total water discharge by quality and destination.	p. 22
EN22	Total weight of waste by type and disposal method.	p. 23
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	p. 24
IV Anti-Corruption		
SO4	Actions taken in response to incidents of corruption.	p. 27
SO7	Total number of legal actions for anticompetitive behaviour, anti-trust, and monopoly practices and their outcomes.	p. 27
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	p. 27

This report is available on the UN Global Compact and Dukat websites and on Dukat's Intranet portal.

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