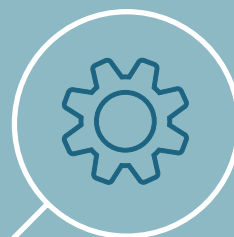




HUMAN
RIGHTS



LABOR



COMMUNITY



ENVIRONMENT



ANTI-CORRUPTION



WE SUPPORT



CORPORATE SOCIAL RESPONSIBILITY **REPORT 2018**

STATEMENT OF SUPPORT AND BUSINESS CHALLENGES

Behind us is the seventh year of membership and application of the United Nations Global Compact (UNGC) principles, whereby we improve socially responsible business operation of our company in the area of human rights, labor, contributions to the community, environmental protection and fight against corruption.

Responsible business operation, in accordance with the UNGC principles, has been the strategic direction of our company, whether it concerns the relationship with employees, consumers, business partners, cooperators, social community or attitude towards the environment. Assuming the responsibility for the role and influence of our company on the local community and wider is an integral part of our business strategy and commitment to sustainable business operation.

Furthermore, we also seek to incorporate the Sustainable Development Goals into our business strategy, to ensure the long-term sustainable growth of Dukat and all our stakeholders. Nevertheless, we emphasize that the context of Dukat Inc. corporate social responsibility is significantly wider than the UNGC principles on which we primarily report. Incentives to primary and sustainable milk production are of great significance for the company and the rural areas where our farmers live and work, as well as the entire economy of our country.

In addition, we invest our knowledge and experience in promotion of proper and balanced nutrition and healthy habits. However, focus on the quality and safety of our products, as well as constant innovation and improvement in all areas, are the cornerstone of our development and sustainability.

Despite positive economic trends, in 2018 we continued to record unfavorable sectoral trends from previous periods. The Croatian dairy sector has been recording a steady decline in the number of milk producers, fresh milk production and the increasing lack of own milk production for the past nine years.

At the same time, domestic dairy sector is burdened by the placement and import of finished dairy products, especially UHT milk and semi-hard cheese from the European Union countries and beyond, which are marketed at extremely low prices with which the domestic dairy industry cannot compete.

Despite difficult conditions in which it operates, in 2018 Dukat Dairy Industry Inc. continued to base its operations on the principles of corporate social responsibility and sustainability. Furthermore, we strive to adapt the range of milk, dairy products and cheese to the needs and resources of consumers of all age groups, insisting on their top quality. Innovations, product and recipe reinventions confirm our long-standing position of an innovator and leader of new trends in the domestic dairy industry.

We are aware there is room for further improvement in the area of responsible business operations and reporting to our stakeholders on the activities carried out is an important part of recognizing our contribution and motivation to further improve our business practices. Together with the overview of activities related to the application of UNGC principles, this report also follows the Global Reporting Initiative (GRI) Standards and European Commission guidelines on non-financial reporting. This provides our stakeholders with a clear and relevant framework for comparing our activities with the previous and the future ones, that we will continue to report on.

Marek Marcin Warzywoda
Director

Zagreb, March 2019

DUKAT INC. – LEADING DAIRY INDUSTRY IN CROATIA WITH A CENTURY-OLD TRADITION

Dukat Dairy Industry Inc. (hereinafter: Dukat), with registered office in Zagreb, is the leading dairy industry in Croatia with a century-old tradition in production of milk and dairy products, which has grown into a regional company as the result of organic growth and acquisitions. With 8 production plants in Croatia, Slovenia, Bosnia and Herzegovina, Serbia, and Macedonia, Dukat Group is currently the leading regional dairy industry. In addition to Dukat, Dukat Group comprises 14 associated companies with registered offices in Croatia, Slovenia, Bosnia and Herzegovina, Serbia, Macedonia, Kosovo and Bulgaria.

In Croatia, Dukat Group currently employs 1592 people in three production plants: in Zagreb, Bjelovar and KIM Mljekara Karlovac, which is also its associated company, and in two associated companies - LA LOG for transport and distribution and B.P.A.C. Auto for car rental and leasing. In 2018, Dukat has achieved revenue from sales in the amount of HRK 1.86 billion, 84.7 percent of which on the domestic market.

Since 2007, Dukat has been operating as part of Lactalis Group, the leading global dairy group and the leading global cheese manufacturer, which makes it

the center for development and expansion of dairy industry in Croatia and South-East Europe.

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

Dukat bases its operations on the processing of top-quality raw milk produced by Croatian dairy farms. In 2018, Dukat cooperated with more than three thousand milk producers, purchasing 190.4 million kilograms of fresh raw milk, confirming its status of one of the largest purchasers of fresh raw milk in the country.

Its production range consists of milk, fermented products, cheese, cream, dairy spreads, desserts and butter. In 2018, Dukat produced 195.2 million kilograms of products in its range, comprising 353 Dukat, Sirela, President and Galbani brand products. In 2018, 48 new dairy products were introduced to Croatian consumers. Dukat also markets brand products of

companies operating within the Lactalis Group, such as Alpsko mleko, MU, Lactel, Parmalat, Societe, etc., and its total sales range comprises more than 450 dairy products.

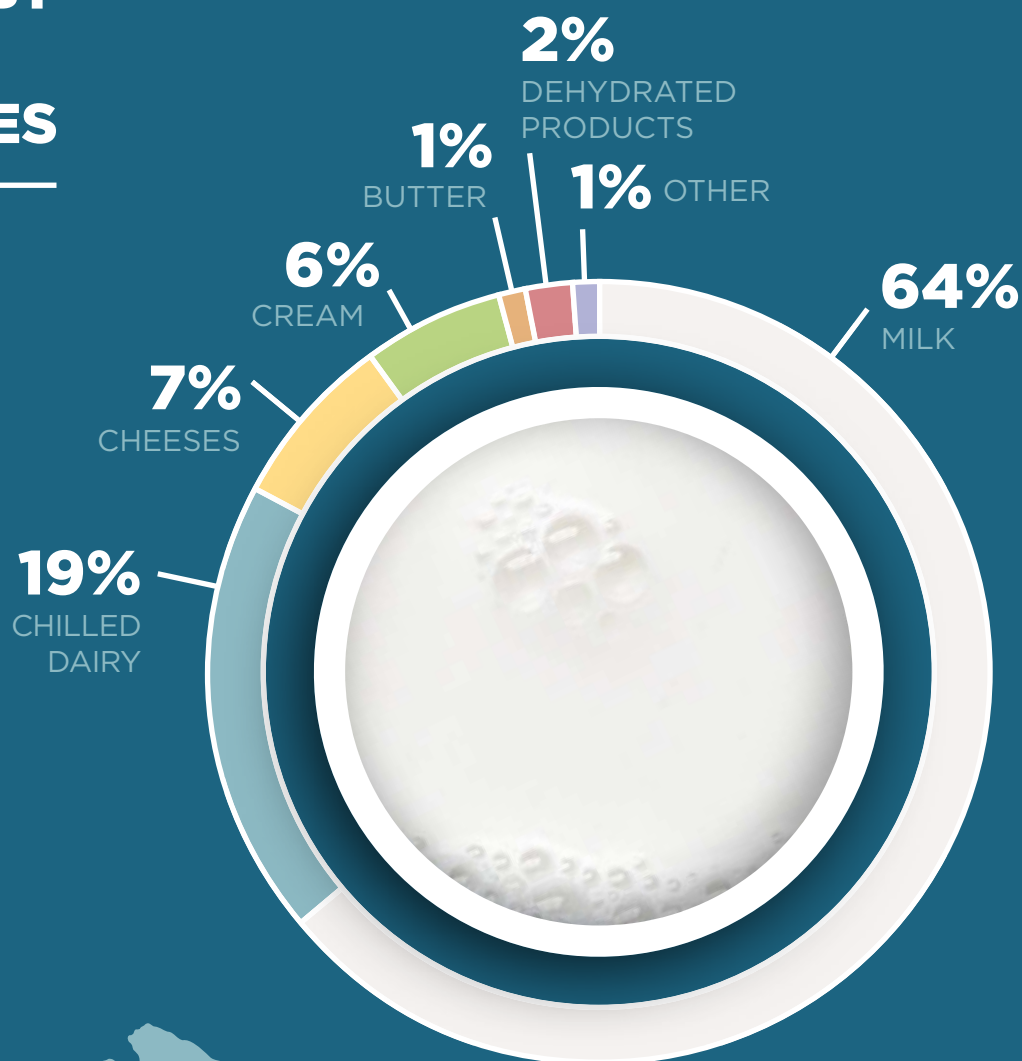
Dukat exports its products and innovations developed and commercialized on domestic market to approximately 80 countries around the world: in Europe, Africa, Asia, Middle East, French Overseas Territories, and Central America. Exports to Slovenia, Bosnia and Herzegovina, Serbia, Italy, Spain, Portugal and UK increased in 2018, resulting in export growth of 10 percent, compared to the year before.

Dukat has implemented international standards that ensure top quality, safety and food safety: ISO 9001 Quality Management Systems, ISO 22000 Food Safety Management, IFS, HACCP, as well as Kosher and Halal certificates for specific product groups. Dukat also has the ISO 14001 Environmental Management System certificate, as well as ISO 50001 Energy Management System since 2017.

DUKAT GROUP IN CROATIA IN NUMBERS (2018)



REVENUE BY PRODUCT CATEGORIES





Dukat fully respects human and labor rights based on the Constitution, EU directives, international conventions, and internal documents

HUMAN RIGHTS

PRINCIPLE 1

Businesses should support and respect the protection of internationally proclaimed human rights within its area of influence

PRINCIPLE 2

make sure that they are not complicit in human rights abuses

Dukat fully respects human and labor rights based on the Constitution, laws and other regulations of the Republic of Croatia, EU directives as well as international conventions. Dukat guarantees and promotes human rights protection through good business practice and a number of internal documents – Work Regulations, Ordinance on the protection of confidentiality of data, Collective Agreement and Code of Conduct. These documents are available to employees on the Intranet.

RIGHT TO DIVERSITY AND EQUAL OPPORTUNITIES

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

depends entirely on performance and success of each individual.

In human resources management, we pay special attention to adherence to the principle of diversity and equal opportunities. We respect all rights and

regulations that prohibit child labor, forced or compulsory labor, and protect dignity of employees by guaranteeing equality and protection from sexual harassment of employees and persons undergoing the recruitment process.

PROTECTION OF EMPLOYEES' DIGNITY

Dukat consistently implements regulations and directives of the European Union and Croatia, related to suppression of discrimination and protection of employees' dignity, and procedure protocol in case of violation of dignity is embedded in Work Regulations and Code of Conduct. In the event of a complaint and a request for 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 protection of dignity. Identical protocol is also planned for all forms of discrimination and sexual harassment.

In 2018, there were four reported cases of violation of employees'

dignity. This is the result of Dukat's efforts to raise the awareness of employees on the importance of respecting diversity, nurturing high quality interpersonal relations and cooperation, and generally on building a positive organizational culture. There were no reported cases of violation of employees' dignity in 2017 or in 2016.

CODE OF CONDUCT

Dukat has had the Code of Conduct since 1998, integrating the principles of employees' conduct in accordance with ethical, moral and professional

standards and generally accepted civil values. The code was amended in 2003 and it serves as a framework for daily activities and conduct in

the workplace, including the attitude towards other stakeholders.

DIVERSITY CHARTER

As a company whose relationship with its employees rests on non-discrimination and respect for diversity, at the end of 2017, Dukat signed the Diversity Charter in Croatia. The aim of the initiative is to promote diversity as one of fundamental values of modern society, enabling each person to realize their full potential. It is one of the prerequisites for development of creativity, innovation and individual talents in the workplace. As a signatory of the Charter, Dukat is working on internal policies of respecting diversity and an action plan for its implementation.



Dukat respects and guarantees all labor rights and systematically works to improve the quality of work environment, education and development of employees, health and safety at work

LABOR

PRINCIPLE 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

PRINCIPLE 5

the effective abolition of child labor

PRINCIPLE 4

the elimination of all forms of forced and compulsory labor

PRINCIPLE 6

the elimination of discrimination in respect of employment and occupation

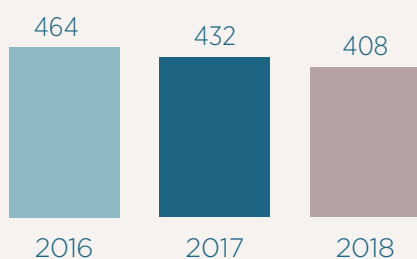
Dukat respects and guarantees all labor rights prescribed by law and the Constitution, and systematically works on improving the quality of work environment, education and development of employees, care for health and safety at work.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

Dukat has a 20-year-long tradition of association and collective bargaining, and 32 percent of its employees are members of the Trade Union of the Employed in Agriculture, Food, Tobacco and Water Industries of Croatia (PPDIV). Partnership with the representatives of workers is continuously improved through cooperation and communication with the Works Council.

In 2018, 408 employees, or 32 percent, belonged to the Trade Union of the Employed in Agriculture, Food, Tobacco and Water Industries of Croatia. The number of union members continued to decrease in 2018 (2 percent less members than in 2017). Such trend is the result of hiring new employees to replace those who left or retired.

UNION MEMBERS



Compared to similar companies in the region, Collective Agreement ensures a higher level of rights arising from employment. The Agreement applies to all employees, regardless of them being trade union members, having permanent or temporary employment, working full-time or part-time. Collective Agreement signed for 2018 and 2019 was printed as pocket edition

CORPORATE VALUES

Ambition, engagement and simplicity are the key values of Dukat that are strongly woven into the corporate culture of the company and into everyday work of our employees. By applying these values in their work, our employees contribute to the vision that we share with other employees of the Lactalis Group: to provide the best of milk to as many people as possible.

Our employees are the backbone of our business, corporate culture and success. We inspire them to constantly learn and develop by investing in education and development of specialized skills. In the desire to reach their full potential and ambitions, we enable them to develop their career within Dukat and other associated companies, as well as international surroundings of the Lactalis Group.

and handed to each employee of Dukat at the beginning of 2018. It additionally expanded the material benefits of employees, especially when it comes to supporting parents of infants and young children (allowance for each infant, paid day off work for child's first day of kindergarten and school) and employees who are ill (allowance for sick leave exceeding 120 days increased by 66 percent).

A set of employee benefits is available to employees based on the Collective Agreement:

- Allowance for sick leave exceeding 120 days
- Allowance for annual vacation
- Christmas bonus
- Reimbursement of transportation costs
- Jubilee award
- Assistance for days spent in the hospital
- Assistance in the event of an Act of God
- Assistance to families in the event of employee's death
- Gift in-kind for Easter
- Allowance for each infant (new-born child)

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

All Dukat employees are also insured against accidents, regardless of them being permanent or temporary, full-time or part-time employees.

Based on the Collective Agreement, supplement for night work increased for the season, between April and October, by 5 percent (from 40 to 45 percent).

Dukat fosters regular and open communication with the trade union and the Central Works Council and provides them with information about decisions of importance to the economic and social status of employees. Management Board informs the Works Council on the business results, plans, organizational changes and other important issues annually and when necessary.

HEALTH PROTECTION AND SAFETY AT WORK

Dukat pays special attention to health protection and safety at work, encourages employees to engage in recreational activities and sports. It supports and additionally rewards employees who are volunteer bold donors by giving them a day off and organizing an excursion.

Preventive seasonal influenza vaccination is organized at the company premises each year. In November 2018, 77 employees were vaccinated on three production locations (Zagreb, Bjelovar and Karlovac) and in logistics centers, which is 20.3 percent more employees than the year before. Dukat also regularly performs carrier tests, for protection of food safety and for checking the health status of employees participating in production process, storage and food transport. In 2018, approximately 750 employees were tested, same as the year before, and none of those examined tested positive as carriers.

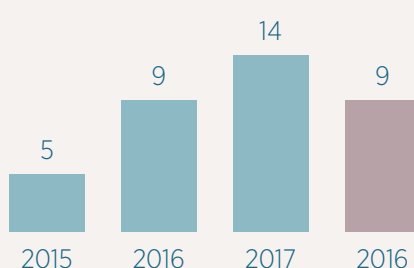
In May and November 2018, 94 employees attended training and have passed the hygiene minimum exam. In-house training on personal hygiene of employees, occupational hygiene and the environment hygiene, and food transport requirements according to HACCP included target employee groups (warehouse employees, drivers), as well as all newcomers who started working in the warehouse of finished goods and in production. In 2018, twice as many employees participated in training than the year before, or 381 employees compared to 188 in 2017.

Preliminary and periodic medical examinations are regularly carried out for all employees at workplaces with special working conditions. In 2018, this included 387 employees

(18.2 percent less than the year before).

Every three months, Health and Safety at Work Committee holds meetings on the topic of safety and health protection to discuss the proposals of employees on improvement of work conditions and health protection at work. Two committees (Zagreb and Bjelovar Plant) have 7 members, accounting for 0.6 percent of the total number of employees.

NUMBER OF WORKPLACE INJURIES



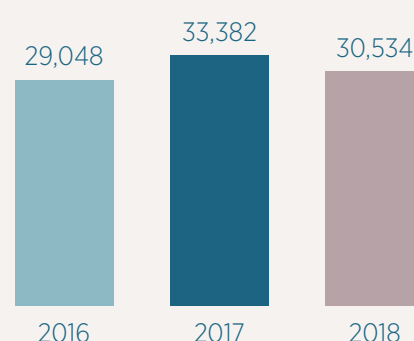
Nine workplace injuries were registered in 2018 (seven minor and two major), which is 35.7 percent less than the year before when there were 14 workplace injuries, while in 2016 there were also nine workplace injuries. Eight men and one woman were injured, and all injuries happened in the workplace. The highest decrease in number of injuries occurred at the Bjelovar Plant, where two workplace injuries were registered, one of which major workplace injury. In 2018, number of injuries per 1000 employees was 7.1 compared to 11.4 the year before.

Dukat is constantly working on systematic education of employees in production, warehouses and logistic centres in order to decrease the number of workplace

injuries and increase safety and health protection of employees. Occupational Safety and Protection Policy and 12 Golden Rules of Safety at Work have been implemented for the third year in a row, and both documents are handed to new employees.

Despite significant decrease in the number of injuries, in 2018 there was an increase in the number of lost work days due to injuries – from 402 days in 2017 to 697 days in 2018, which is an increase of 73.4 percent.

NUMBER OF SICK DAYS



In 2018, number of sick days decreased by nine percent compared to the year before, while in 2017 it was 15 percent higher than in 2016. Decrease in the percentage of sick days is the result of leaving or retirement or employees who were using extended sick leaves. Significant absence of employees is noted due to sick leave, but for significantly shorter periods of time.

PARENTAL LEAVE

In addition to providing a safe workplace, Dukat makes sure its employees have a carefree parental leave, regardless of gender. In 2018, parental leave was used by 14 employees – 12 women and 2

50 YEARS OF VOLUNTARY FIRE BRIGADE SIRELA BJELOVAR

Voluntary Fire Brigade Sirela Bjelovar (DVD Sirela), operating within Sirela, currently Bjelovar Plant, celebrated 50 years of work at the end of 2018. In 2018, DVD Sirela has 107 members, 71 of whom are employed at the Bjelovar Plant and 31 retirees - former plant employees. They regularly train and perform evacuation and rescue exercises. As part of the celebration, a commemorative monography "50th Anniversary of DVD Sirela Bjelovar (1968-2018)" was presented, created by two authors who are also employed at the Bjelovar Plant and are also award-winning, deserving members. Dukat, whose former and current employees are members of the management and supervisory boards of the DVD Sirela, has been financially supporting the work of DVD Sirela for a number of years, and has co-financed the monography printing.

men (one woman less than in 2017), which is almost the same as the year before. After their parental leave expired, three employees returned to work, ten continued using parental leave in 2019 and one employee left the company. Number of fathers – employees who are using parental leave stayed the same as the year before, with two men using parental leave in 2018 and two in 2017.

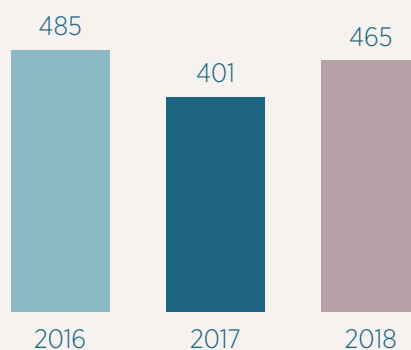
Several measures of family-responsive and gender-aware policies were introduced in 2018, the first two of which were defined by the new Collective Agreement. These are:

- Allowance for each new-born child
- Paid day off for the child's first day of kindergarten and school
- Day off for pregnant women to perform their prenatal examinations once a month

In 2018, 136 employees took a day off for their child's first day of kindergarten or first grade of elementary school, while 31

employees received allowance for a new-born child.

NUMBER OF PAID LEAVE DAYS



In 2018, employees used 465 days of paid leave, which was 16 percent higher than the previous year. In 2017, employees used 401 days of paid leave and in 2016 they used 485 days. Employees are entitled to be absent from work in the event of marriage, birth of a child, death of

a family member, serious illness or emergency treatment of close family members, voluntary donation of blood, moving and natural disasters. Furthermore, in 2018 employees were granted paid leave for the first day of their child's kindergarten or school.

EMPLOYEE AID

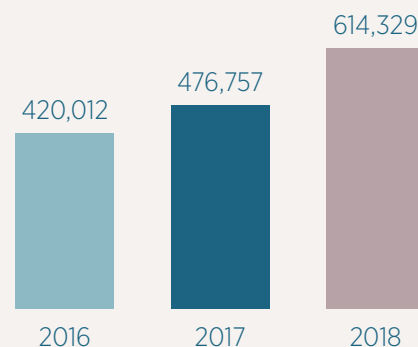
Dukat helps its employees and their families overcome difficulties by providing them with financial aid in various situations, and alongside using the rights to different types of aid from Collective Agreement, it acknowledges their requests related to the improvement of social status, medication payments, therapies, medical aides and the like. In 2018, Dukat allocated HRK 614,329 for this purpose, an increase of 29 percent compared to 2017, while HRK 420,012 were paid in 2016, signifying constant growth of financial aid to employees.

TRADITION OF BLOOD DONATIONS BY DUKAT EMPLOYEES

Thirty-nine employees donated blood in 2018, in two organized volunteer blood drives in the workplace, compared to 60 employees who donated blood the year before. The number of blood donors decreased since some who volunteered were prevented from donating blood for health reasons and significant number of employees - blood donors retired over the past several years. In October, a volunteer blood donor month, about 20 employees of Dukat and associated companies (KIM and La Log) who are also long-time volunteer blood donors, socialized during a one-day trip to Austria, visiting Graz and Zotter chocolate factory. The excursion organized by Dukat is an almost 40-year-old tradition and a reward of sorts for employees who selflessly help others by donating blood.



Amount of financial aid to employees (HRK)



Supporting the care for the health of its employees, Dukat encourages them to participate in recreational and sports activities, including coming to work by bicycle, co financing such employee initiatives, especially those in which employees account for the majority of members:

- Sports Club Sirela
- Voluntary Fire Brigade Sirela Bjelovar
- Dukat Leisure Cycling Club
- Dukat Futsal Team
- Participating in Ljubljanske Mlekarne Sports Games in Ljubljana

DUKAT LEISURE CYCLING CLUB

During its seventh year, Dukat Leisure Cycling Club (RBK Dukat) continued to actively work on encouraging everyday use of bicycles and promoting environmental, health and social benefits of recreational cycling, simultaneously inspiring cooperation and team spirit among employees. The club has 152 members – employees of Dukat and its associated companies in Croatia.

The year 2018 was marked by numerous cycling events and races. Club members participated in eleven cycling events, three of which they organized themselves. They explored the beautiful scenery of Vrbovečka Dubrava, Turopolje and Varaždin on two wheels. Other than their common recreational rides, members of RBK Dukat also participated in six challenging mountain-bike

rides: Plitvice, Fužine, Baška races, “Catch the Wind” race on the island of Brač, “Krka Trophy” in Drniš and in legendary Tour de Tur race in Velika Gorica. Members of RBK Dukat also co-organized cycling event Dukat Fit Occupy in Samobor highlands, welcoming several hundred cyclists. While participating in cycling events and races, cycling more than 10,000 kilometers and promoting healthy habits and an active lifestyle, in 2018 club members continued to proudly wear Dukat Fit colors, the line of products enriched with protein.

As in previous years, in September 2018, members of the Club participated in the organization of Dukat's seventh cycling race Dukat Fit on Lake Jarun and they competed in the race.



EDUCATION AND DEVELOPMENT OF EMPLOYEES

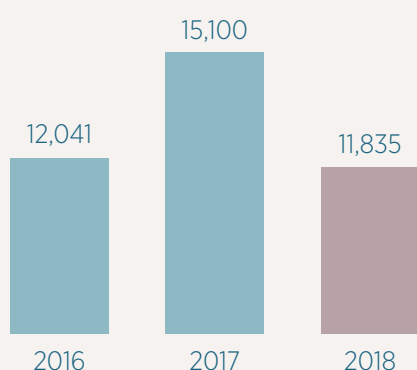
In human resources management, Dukat remains true to its mission – to recruit and retain capable, professional and motivated employees, who act proactively in constantly changing conditions, create new values and achieve personal and professional fulfillment. That is why significant means and efforts are invested in education and training of employees.

In 2018, specialized and development education accounted for 77 percent of the total number of educations at Dukat, which is five percent less than in 2017 and 2016. Legally required training accounts for 23 percent of total education, five percent more than in the previous two years.

In 2018, the average annual expenditure for education was HRK 1,533 per employee (compared to HRK 1,519 the year before and HRK 1,490 in 2016), while 940 employees were included in some form of education (compared to 915 the year before and 460 in 2016).

In 2018, employees participated in 11,835 hours of education, compared to 15,100 in 2017 and 12,041 in 2016. Average number of education hours per employee was 9.4 hours in 2018, compared to 12.4 hours in 2017 and 8.8 hours in 2016.

Education hours



INTERNAL EDUCATION

As part of internal knowledge transfer practice, total of 49 internal educations were held for 640 employees of Dukat in

2018 (15 percent more than in 2017), compared to 34 in-house educations for 557 employees in 2017 and 27 educations for 674 employees in 2016. The topics covered food safety, product safety protection and hygiene, self-control on manufacturing lines, good manufacturing and hygiene practices, safe machinery operating, handling electrical-manual forklifter, MS Excel, good practices in management of human resources, and occupational safety. All educations were held by Dukat's in-house trainers.

Training related to hygiene and food and employee safety is also continuously carried out for new employees in Production and Logistics (focusing on operators, auxiliary workers, warehouse workers and drivers). In 2018, in-house training included 163 employees, while in 2017 it included 176 employees and 117 in 2016.

INTRODUCING NEW EMPLOYEES TO THE COMPANY AND ITS ACTIVITIES

Following the already common practice, ten new employees of Dukat underwent induction training in 2018, to get acquainted with the organization, main business processes and activities. In 2017, 23 employees and in 2016 twelve employees of Dukat underwent induction training. During group and individualized induction programs, employees visited key departments and were introduced to milk and dairy goods processing and production in all three Croatian plants.

EMPLOYEE DEVELOPMENT PROJECTS

Dukat is systematically investing in development and professional training of employees. We list the following educational and development projects that took place in 2018:

DEVELOPMENT AND EDUCATION PROGRAM TALENT POOL JUNIOR

In 2018, a new cycle of traditional Dukat programs for talented employees and potential was initiated, this time for 20 employees under the age of 30 who joined the company within the last three years at most. The program focuses on understanding Dukat's business context and environment, values and manner of work, development of fundamental managerial skills, understanding the principles of controlling and development of business communication and personal influence. A project management module was held in 2018 and online self-assessment of program participants was carried out, followed by result reports and individual development interviews.

DEVELOPMENT PROGRAM FOR SALES, MARKETING AND CONTROLLING - INSIGHT

Activities within the large "Insight" project for Sales, Marketing and Controlling, initiated in 2017, continued in 2018. The program included distribution of reports and communication of individual feedbacks of the 360° assessment, as well as development workshops for Marketing and Controlling on

“360 Communication”. Fifty-eight employees participated in the program.

DEVELOPMENT PROGRAM FOR MANAGERS OF ALL THREE PLANTS

Large development program for managers of Croatian plants started in 2017 and was concluded in 2018. Thirty-four managers of Production and Maintenance from all three plants (Zagreb, Bjelovar and Karlovac) participated in the program, with the objective to further strengthen and develop professional skills, as well as human resources management skills. In 2018, four workshops were held on the topic of successful communication and conducting meetings, as well as two in-house workshops on the topic of good practices in human resources management and good practices in safety at work.

PROJECT PULS 2019 – FOCUS WORKSHOPS FOR LOGISTICS AND THE ZAGREB PLANT

Project “Puls 2019” was initiated at the end of 2018, aiming at the highest possible quality preparation for the 2019 summer season. The first part included workshops with employees of the Zagreb Plant and Logistics to collect opinions, experiences and suggestions of

employees and inspire improvement in day-to-day activities on all levels of the organization. Twenty workshops, so-called focus groups, were held in November 2018, including 148 employees from all positions, up to managerial level, of the Zagreb Plant, Zagreb and Split warehouses, accounting for 85 percent of invited employees.

INTERNAL KNOWLEDGE TRANSFER AND DAILY LOGISTICS MANAGEMENT

To successfully meet the needs and respond to challenges of the summer season, training was carried out for 5 of Dukat’s in-house trainers at the Zagreb and Split warehouses in March 2018. The objective was to provide new in-house trainers with tools for effective structuring and transfer of internal knowledge and effective motivation of new warehouse employees.

Additionally, training for 26 warehouse managers and shift leaders was organized on the topic of communication and day-to-day management. Training put emphasis on giving and receiving feedback, the role of warehouse managers and shift leaders in successful communication, and on increasing employee motivation through positive and proper communication.

MAINTENANCE ACADEMY

The first season of the regional education program for Maintenance managers -Maintenance Academy- started in 2018 and was completed at the end of the year. Twelve Maintenance managers and coordinators from Slovenia, Serbia, Macedonia, Bosnia and Herzegovina, Hungary and Croatia participated in professional education organized in cooperation with Lactalis internal forces and French educators in this area. All three program modules focused on the strategy of preventive maintenance and efficient spare parts management, and great advantage of this program was that theory was combined with practical work at the Zagreb Plant.

INDUSTRIAL ACADEMY

Industrial Academy, the great Lactalis’ educational program for Production managers of the European division plants of the Lactalis Group, and Croatian organization had its participant in the education. Five education modules and five plant visits, from France and Italy to Sweden and Croatia, were held for 14 participants from 13 European countries in 2018. The final academy module was held in Croatia, so the colleagues from Europe had the opportunity to visit the Zagreb Plant.

PERFORMANCE APPRAISAL

Performance is evaluated each year within the Management review project and individual development plan is created for employees with recognized high potential. Readiness for international mobility is also assessed and defined with

the employees. In 2018, 14 percent of employees were included in the performance appraisal system, two percent more than in the previous two years. In addition to the standard Management review project,

performance evaluation for employees in Production, Maintenance and Quality, started in 2016, was also carried out in 2018, making the total percentage of evaluated Dukat employees greater than 50 percent.

PROFESSIONAL PRACTICES AND VISITS

We continued cooperation with vocational secondary schools in Zagreb and Bjelovar, and in 2018 one student completed professional internship at the Bjelovar plant.

University students also do their internships at Dukat. In 2018, nine students completed their internships at Dukat, which is three more than in 2017. Four students from the Faculty of Chemical Engineering and Technology, University of Zagreb, three from the Faculty of Agronomy, University of Zagreb, one from

Polytechnic in Požega and one from College of Economics in Križevci completed their internships at Dukat.

Furthermore, Dukat also traditionally hosts professional visits of students from the Food Technology and Biotechnology Faculty (dairy science and nutrition engineering programs), Veterinary Faculty, Agronomy Faculty, Chemical Engineering and Technology Faculty at the University of Zagreb, University of Applied Health Sciences in Zagreb and Faculty of Food Technology at the

University of Karlovac. Together with students attending faculties associated with dairy science, students attending the Public Relations program at the Croatian Studies also visited Dukat. During the visit, students take a tour of the Zagreb Plant and are introduced to the entire production process, from reception of milk to production and storage. In 2018, Dukat hosted nine such visits and 328 students (47 percent more than in 2017) visited Dukat and its Zagreb Plant.

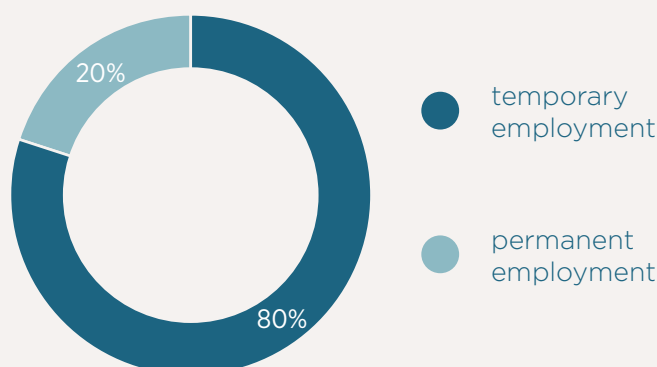
EMPLOYEE DATA

TYPE OF EMPLOYMENT

In 2018, Dukat had 1,267 employees, which is 54 employees or 4.5 percent employees more than the year before. Of the total number of employees, 80 percent are permanently employed. Work rights, as well as rights under the Collective Agreement and benefits, are applied equally to all employees, regardless of them being permanent or temporary, full or half-time employees, members of the union or not.

Employee fluctuation rate is 21 percent, which is 6 percent higher than the year before, mostly due to the large number of seasonal employees with temporary employment during the summer season.

Year	Total number of employees	Permanent employment	Temporary employment
2016	1,175	974	201
2017	1,213	980	233
2018	1,267	1,008	257



EMPLOYMENT OF YOUNG PEOPLE, PERMANENT SEASONAL EMPLOYEES AND WORKPLACE TRAINING

In 2018, Dukat continued to use active employment measures of the Croatian Employment Service. It continued its participation in the professional training program without employment (SOR), enabling young people who are just entering the labor market to acquire new knowledge and skills. In 2018, 11 young SOR participants acquired their first work experience at Dukat, six of which were ultimately employed.

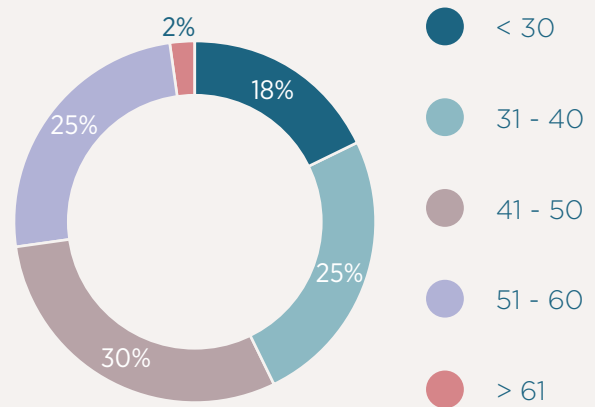
Young people aged 18 to 30 make up 18 percent of Dukat employees, and 165 new people under 30 were employed in 2018 – 92 remained employed, while 73 who were mostly seasonal workers left. Also, 39 employees under 30 years of age transitioned from temporary to permanent employment in 2018.

Lack of qualified workers and difficulties in finding necessary workforce for seasonal employment were the reason for joining the “permanent seasonal employee” measure. This option secured trained workers, twelve of them, since 2017 when Dukat joined this measure.

From March to September 2018, Bjelovar Plant used the “workplace training” measure involving unemployed persons with high school education who have no work experience in the field of milk processing. The objective of this measure is to enable unemployed persons to carry out industrial cheesemaker operations at the cheese melting plant and the cheese ripening plant by developing their knowledge and their skills. Nine persons were trained, seven of whom were employed.

AGE STRUCTURE

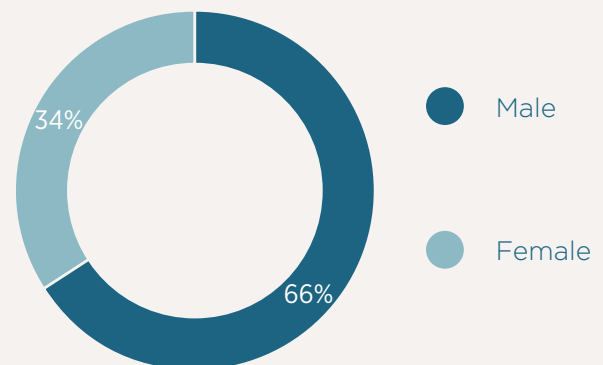
Employee age	Number of employees 2016	Number of employees 2017	Number of employees 2018
< 30	165	183	227
31 - 40	281	298	316
41 - 50	375	380	378
51 - 60	332	333	323
> 61	22	19	23
Total	1,175	1,213	1,267



At the end of 2018, the average employee age was 42, one year younger than in the previous three years. The trend of gradual rejuvenation of employees is visible in the past seven years (in 2013, the average age was 44), which is the result of hiring young people and older employees retiring. In 2018, the largest increase in the number of employees is visible in the age group under 30 (24 percent more compared to the year before), and if we add the age group of 31 to 40, the growth is 30 percent.

GENDER

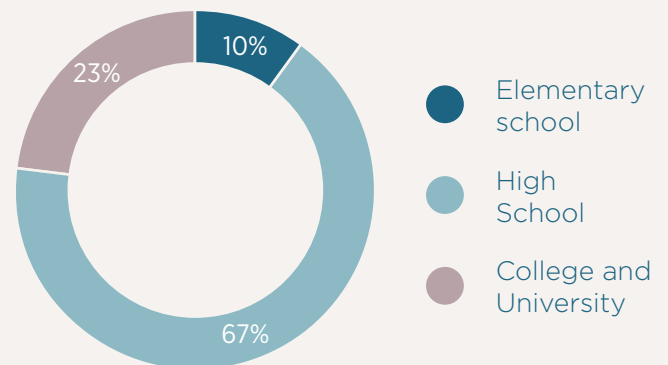
Gender	Number of employees 2016	Number of employees 2017	Number of employees 2018
Male	772	791	836
Female	403	422	431
Total	1,175	1,213	1,267



Majority of Dukat employees are men (66 percent), while women account for 34 percent, which is one percentage point more in favor of men, compared to the year before.

EDUCATION

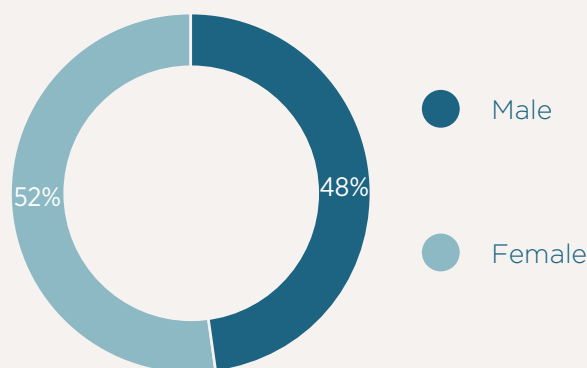
Education	Number of employees 2016	Number of employees 2017	Number of employees 2018
Elementary school	160	122	131
High school	762	807	844
College and University	239	284	294
Total	1,161	1,213	1,267



Majority of employees (67 percent) has a high school diploma, while 23 percent have college and university degree, which is the same as the ratio of the year before.

COMPOSITION OF GOVERNANCE AND MANAGEMENT

Year	Gender	Average age	Number
2016	Male	43	39
	Female	43	49
2017	Male	45	41
	Female	44	49
2018	Male	45	43
	Female	46	47



In 2018, share of women in governance and management positions at Dukat was 52 percent, 2 percent less than in 2017. The past several years show an increase trend in the share of women in governance and management positions (from 35 percent in 2012 to 52 percent in 2018).

High percentage of women is represented in managerial positions – 23 percent in executive positions and 29 percent in managerial positions. Six women were

promoted to leadership, management and executive positions in 2018.

We pay special attention to hiring of domestic labor and local experts, for executive and management positions as well. Share of Croatian citizens in the top management (Supervisory Board and Dukat Inc. directors) is 29 percent, and in senior management (executive and regional directors) 75 percent.

RATIO OF SALARIES AND BENEFITS

Salary and benefits policies are based solely on the type and complexity of the job, responsibility, knowledge and skills necessary for carrying out tasks and achieving results, excluding any form of discrimination based on gender, nationality, religion or any other personal features.

In 2018, the average gross salary per employee was 2 percent higher than in 2017. Total non-taxable expenses increased by 31 percent compared to the year before.

During 2018, 469 employees, or 37 percent were promoted to new jobs, based on their acquisition of new knowledge and skills within the framework of their jobs, and taking over new responsibilities within and between departments (horizontal and vertical promotion). In 2017, total of 289 employees were promoted.

ANNUAL AWARDS

At the end of each year, prizes are awarded to the most successful employees, managers and teams who excelled in their work, achieved results and application of corporate values throughout the year. Rewarding exceptional individuals and teams is a 20-year-old tradition of Dukat and all employees are invited to nominate their colleagues and project teams. In addition to the three already traditional prize categories (the most successful employees, manager and team) and the most successful “young hope”, a new category was introduced in 2018 – the most successful sales representative. Total of 13 individual awards were presented to individuals (eight for the best employees, three for young hopes and one for the sales representative, one for the manager of the year and one lifetime achievement award) and two awards were presented to teams comprised of more than 60 employees.



INTERNAL COMMUNICATION

Various channels are used for internal communication: Intranet (internal web), e-mail, VPN mobile system, in-house newsletter Contact, notice boards, meetings and “face-to-face” communication.

The in-house magazine Contact, published quarterly, is intended for employees of Dukat and associated companies in Croatia. Representatives of various departments and associated companies participate in creating it, and other employees may also participate with their stories and photographs.

Notice boards are particularly important for employees in production and logistics, as they

have no access to the Intranet. Information about company events, 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.

Furthermore, Dukat fosters an open-door policy, which implies direct communication with department management. Except directly, employees can contribute their remarks, comments and ideas anonymously, using boxes for comments and ideas placed at all production sites.

To improve internal communication, at the end of 2017, Human Resources started the practice of informing

employees about key human resources activities, promotions, new employment and organizational changes, changes related to legislation and employees' rights by way of an electronic newsletter. Newsletter is distributed twice a year.

In 2018, Marketing also launched a newsletter to inform employees of new products that were launched on the market, as well as the most significant marketing campaigns. The newsletter is distributed quarterly, and apart from the e-version it is also placed on the bulletin boards.



RENOVATED PLANT RESTAURANT IN ZAGREB

A renovated plant restaurant at the Zagreb location was opened at the end of October. In addition to the restaurant being renovated, the daily menu selection also improved in accordance with the results of an in-house questionnaire that was used by the employees to express their desire for a more versatile menu selection.

Two additional dishes were introduced, in addition to the two existing ones, as were the self-service salad

bar and sandwiches. The restaurant now also offers free WiFi for employees and guests. A special novelty is the introduction of a “cheese day”, held on the last Monday of the month, when employees and restaurant guests have the opportunity to taste President, Sirela and Galbani brand cheese. Following the renovation, the number of visitors to the restaurant increased and employees have started spending more time in its pleasant ambiance.



EMPLOYEE BENEFITS

Dukat offers its employees and employees of associated companies in Croatia a number of benefits as an additional benefit and stimulus to spend quality leisure time, while generating savings at the same time. As a long-time sponsor of the Zagreb ZOO, Dukat employees have access to free passes to the ZOO all year round. The list of benefits is expanded each year, so employees get cheaper passes to the Museum of Illusions, reprise shows at the Croatian National Theatre in Zagreb and shows at the Culture Center “Histrionski dom”. Permanent discount was arranged for Dukat employees in four Ghetaldus optics stores, on the entire line, and FlixBus offers cheaper bus tickets for travel to two thousand destinations. Employees can also benefit from arranged discounted prices to swimming pools and the World of Saunas at Terme Tuhelj. These benefits apply to employees and to their family members or friends in their company.



Dukat launches and supports projects that contribute to improving the quality of life and well-being of the community, families and individuals, and it systematically invests in the promotion of primary milk production and product development and quality

COMMUNITY

CONTRIBUTION TO THE COMMUNITY

Dukat launches and supports projects that contribute to the improvement of quality of life and well-being of the local community, families and individuals. These projects include health care, caring for healthy habits (moving, recreation and sports), child care, encouraging education related to proper and balanced diet. It also systematically invests in the promotion of primary milk production, product development and quality, and supports the community in which it operates.

In 2018, same as the previous three years, Dukat's donations program focused on strategic donations of dairy products to humanitarian institutions who care for especially vulnerable groups of adults and children throughout Croatia.

In 2018, through donations and sponsorships in own products and financial means, Dukat invested in:

DONATIONS

- **Financial:** Sirela sports club, PPDIV Union – Rovinj sports competition, support to the organization of the 2nd stage of Tour of Croatia (City of Karlovac), Partner Association – project “Small lighthouse for big people”

Donations in own products

- **Humanitarian organizations and campaigns:** Association for Children and the Promotion of the Life of Children and Families – Project of Happiness, Center for Dialogue Culture Association, Christmas Fair of the International Women's Club Zagreb, Dystrophy Association Zagreb, Women's Association Gudovac, “Citizens' Initiative Old Paper for a New Smile” – project “Big Hearted Drivers”, Association of Hearing Impaired Persons of Bjelovar-Bilogora County – “Deaf party” masked ball, Association of Deaf and Blind Persons Zagreb, Student Pediatrics Section – “Pediatric Christmas Spell”, “Temple of Love” Varaždin
- **Health:** Rehabilitation Center Zagreb, Rehabilitation Center Varaždin, Clinical Hospital “Sveti Duh”
- **Nursing homes:** Nursing home Vila Maria, Nursing home Čakovec, Nursing home Villa Brezovica
- **Education:** student exercise “Sensory evaluation of cheeses” at the Faculty of Food Technology and Biotechnology Zagreb,

Center for Education Lug, Center for Education Velika Gorica, competition “the best volunteers of Medical School Bjelovar”, marking the Dairy Day at elementary school Josip Matoš Vukovar, Student home Karlovac, DV “Bubamara” Glina, DV “Lojtrica” Velika Gorica

- **Culture:** Folklore Ensemble “Ivan Goran Kovačić”
- **Sports:** Tennis tournament for children under 10 – TC Futur, Scout Meet Trogir, FERgometrijada
- **Other:** Parish of Mary the Helper of Christians – winter oratorium, support to “Little Lighthouse” project of the Partner Association”

SPONSORSHIPS

- **Financial:** 43rd Croatian Symposia of Dairy Experts, Association of Waiters and Bartenders of Croatia, 7th International Bakery Congress INTERSLAST, KOMferencija – 19th annual conference of the Croatian Public Relations Association, Croatian Agricultural Agency – 13th counseling of cattle breeders in the Republic of Croatia, Sport Educa

Sponsorships in own products

- **Culture:** Festival of Children's Music Creation, Days of the City of Novi Marof (Elementary School Novi Marof), System Orchestra of Children and Youth “El Sistema” – World Music Day, Motovun Film Festival, Multipak 2018 Pakrac, International Children's Festival Magic Flute, Children's Theatre Branko Mihaljević – premiere of the show “The penguins do not know how to bake a cake with cheese”, 58th International Children's Festival Šibenik, Tourist Board of the City of Bakar – “Margaret's Summer”
- **Education:** Career Days at the Faculty of Agronomy in Zagreb, Faculty of Natural Sciences and Mathematics Zagreb – European Symposium of Biology Students,

Student Association of the Faculty of Natural Sciences and Mathematics Zagreb “Probion”, Elementary School Novi Marof – state competition “Young Padovec”, eSTUDENT Smartup, Elementary School Ivan Filipović – “English language camp for partner cities” in Hungary

• Sports:

Cycling: “Catch the Wind” 2018; Dukat Fit Occupy; Gro Alps Bike Marathon 2018; Recreational Sports Association “Fly”; Cycling Union Association (Pedalafest); Cycling event of Municipality Brdovec; Giro de Banovina 2018; “Like for Bike” 2018; Turopolje Mile (VG Tour Team); Gorski kotar Bike Tour 2018; “Hit the Pedal”; Adria Bike Series races (AB Marathon Plitvice; Fuzine 2 Sea; Krk ‘n’ Roll); BK Biker; BK Gema; BK Mura (Halicanum marathon); Children's Summer Cycling Camp Mura Avantura

Running: Sports Association of Medical Students (“162 stairs” race); Run Croatia (3rd international Island of Pag half marathon, Hvar Wine Run, Cross Hill Run Križ 2018, Glow Run Nerezine, Kids Run Pag 2018, Mountain Madness – Ravna Gora); Zagreb Athletic Association (Holjevka); Athletic Club Sljeme – Sljeme Run (Sava Hendrix half marathon; Hill race Boroša; MedvedRUN 2018; Samsung Sljeme Marathon 2018; Grawe Night Marathon); ŠRC Mukinje (33rd Plitvice Marathon); Sports and Recreation Festival “Homo si teć”; “Ivanič Ten”; Ultramarathon Club Mazator – SB RUN; “539 jump” – race on Trsat stairs; Bibinje Summer Run; Half marathon Riviera Gradac; Athletic Club Noga (NovskaRUN); Youth Associations Mataferčak (Forest run); SRD 315 Sjeverozapad (Ravna Gora Trail 2018); Karlovački cener

Triathlon and biathlon: 20th “Marjanski diir” (Triathlon Club Split); Triathlon Club Maksimir

(Croatian Championship in cross biathlon); PD Đakovo (Triathlon Borovik); Triathlon Club Swibir

Clubs, tournaments and competitions: Soccer Club Zelina; Basketball Club Larus; Basketball Club Sesvete; Handball Club Kozala; Handball Club Čavle – 6th International Easter Mini Handball Tournament; Hockey Club Medveščak; Hockey Club Mladost – 14th Open Ice Hockey Championship of the City of Zagreb; Tennis Club for Persons with Disabilities “Sirius”; Rhythmic Gymnastics Club Leda - Leda Cup 2018; Softball Club Princ; Wrestling Club Zadar; Kick boxing club Old Lion – “Gladiator Night”; Dance Club Spin; International Taekwondo Tournament 2018 - Ozalj 2018; University of Zagreb Rowing Team – preparations for European University Games in Coimbra; CrossFit Team of 6 people - Hypertrophy 2018; Papuk Extreme Challenge; Zagreb Athletic Alliance; Zagreb Open Indoor Championship

Other: International Sports Convention “Be Different Be Strong” Osijek; Children’s Summer Camp 2018 Jarun; Sports and Recreation Center Zamet; 28th Independent Society of Scouts “Dubrava”; “Dražen Mađarević – Mađar” Memorial

• **Fairs and gastronomy events:** Croatian Culinary Association: State pizzaioli championship, “Bilogorsko kolo 2018”, Youth Culinary Cup “Golden Apple”; Association of Chefs and Confectioners Bilogora; HPA – “Our homemade, now and in the future”, “Lunch from Croatian Farms”; Croatian Chamber of Economy – “Buy Croatian”; Bartender Cup 2018; Adriatic Gastro Show; Gibaj fest; ŠKMER – Diocletian’s Amphora 2018; Barista Competition “Latte Art Challenge Sarajevo”; International Beekeeping Fair and Exhibition of Wine and Vineyard Equipment 2018

• **Symposia and conferences:** “Business in Sports” conference of the Croatian Student Association; FIAMC Congress Zagreb 2018

• **Entertainment:** Zagreb ZOO

DONATIONS OF PRODUCTS TO HUMANITARIAN ORGANISATIONS – REGISTERED INTERMEDIARIES

- **Humanitarian associations:** humanitarian association “Rijeka ljubavi” Osijek, humanitarian association “Friends of St. Martin” Beli Manastir, humanitarian association “Putevi milosti” Osijek, humanitarian association “Put mira” Mirkovci, Association of Parents with Children Suffering from Malignant Illnesses “Hrabro dijete” Nova Gradiška, Association for Aiding Children with Disabilities “ADHD and I” Zagreb, humanitarian association “fra Mladen Hrkać”, Homeless center “Milosrđe” Karlovac – Center for homeless people Karlovac, City of Valpovo Roma Association, Roma Association “Sara” Torjaci, Association Veličanka
- **Soup kitchens:** Caritas soup kitchens in Osijek, Slavonski Brod, Vinkovci, Daruvar, Sisak, Zadar, Šibenik, Split, Knin and St. Anthony of Padua Parish in Zagreb
- **Social supermarkets:** Social supermarket Siget, Social supermarket Belišće, Social supermarket GDCK Krapina, Social supermarket „Kruh sv. Elizabete“ Rijeka, Social supermarket Karlovac
- **Caritas and Diocese:** Caritas of the Zagreb Archdiocese, Caritas of the Dubrovnik Diocese, Vrbovsko Parish
- **Red Cross:** Ivanić-Grad Red Cross, Buje Red Cross, Solin Red Cross, Čakovec Red Cross, Sisak Red Cross, Županja Red Cross
- **Homes for Children:** Zagreb Home for Children, Home for Children “Maestral” Split, St. Joseph Home for Children, St. Frances Vugrovec House, Vladimir Nazor Service Center, Home for Education of Children and Youth in Karlovac
- **Other:** Remar Croatia Association, Reto center Split, Home for Addicts – “Meeting” community, Center for Rehabilitation Rijeka, Karlovac Women’s Group “Step”

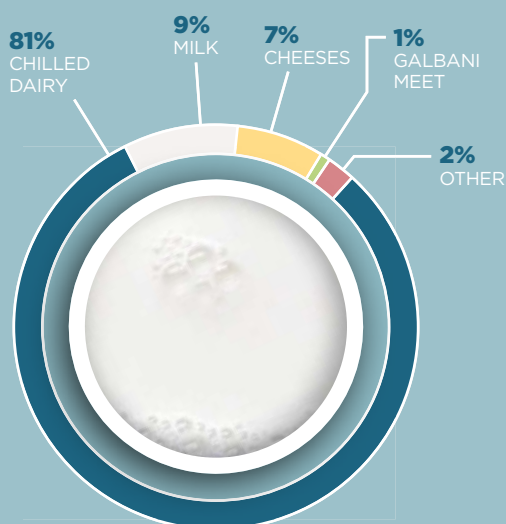
DONATIONS OF DUKAT PRODUCTS TO HUMANITARIAN ORGANISATIONS

As traditional donor of dairy products to vulnerable social groups, in 2018 Dukat continued regular donations of its products to soup kitchens, social supermarkets and humanitarian associations who care for disadvantaged citizens and children across Croatia. In 2018, Dukat donated 192 tons of dairy products, or 22.7 percent less than the year before. The opening of two new discount stores and increased placement of products at specially lowered prices due to close expiration dates, the quantity of donated products decreased by 56 tons in 2018, compared to the year before. Through its regular donations program, Dukat provided almost 40,000 children and adults who live in poverty and are unable to afford these products themselves with more than 970 dairy meals, from Vukovar to Dubrovnik.

In the past four years, Dukat donated 900 tons of dairy products of HRK 8.2 million in purchase value (without VAT) and over HRK 13 million in sales value (without VAT). Apart from influencing better quality nutrition of socially endangered population and the quality of life in general, these donations of Dukat also contributed to the fight against hunger and consequences of poverty, thus contributing to the achievement of goals 2 and 3 of the UN Sustainable Development Goals (Goal 2: Zero hunger and Goal 3: Good health and well-being for people). At the same time, with these donations Dukat lowered the quantity of discarded products and along with positive social and humanitarian impact, the project also generated positive environmental impact, thus contributing to the UN Sustainable Development Goal target 12.3 on food loss and waste (12. Sustainable consumption and production patterns; target 12.3. calls for cutting food waste at the retail and consumer level and reducing food losses along production and supply chains).

DONATIONS OF DAIRY PRODUCTS TO HUMANITARIAN ORGANISATIONS IN 2018

DONATED PRODUCTS BY CATEGORY



HRK 2.54

million sales value
(no VAT) HRK 10.8 million in the three previous years (2015-2017)

192 tons

708 tons 2015-2017



50 organisations / intermediaries

HRK 287,560

logistics expense

572 donations
out of which
412 shipments

39,351 beneficiaries
including
10,830 children

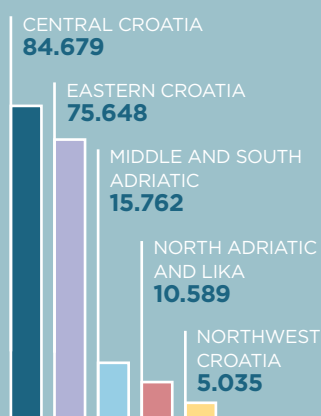
DONATIONS BY COUNTY - IN KG

CITY OF ZAGREB	66,316
OSIJEK-BARANJA	35,077
VUKOVAR-SRIJEM	22,964
BROD-POSAVLJE	17,002
SPLIT-DALMATIA	9,376
PRIMORJE-GORSKI KOTAR	8,326
SISAK-MOSLAVINA	7,544
BJELOVAR-BILOGORA	5,484
KARLOVAC	5,335
ŠIBENIK-KNIN	2,680
ZADAR	2,539
MEĐIMURJE	2,409
ISTRIA	2,262
KOPRIVNICA-KRIŽEVCI	1,936
DUBROVNIK-NERETVA	1,167
KRAPINA-ZAGORJE	690
POŽEGA-SLAVONIA	604

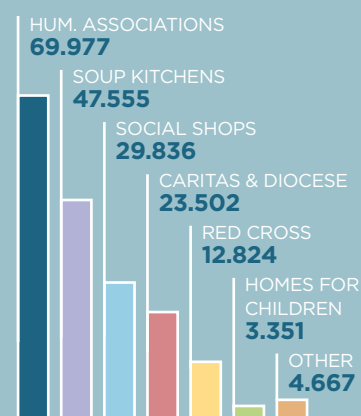
TOTAL kg

191,712

DONATIONS BY REGIONS - IN KG



DONATIONS BY TYPE OF RECIPIENT - IN KG



“THE BEST DONOR” RECOGNITION FOR BEING THE LARGEST DONOR OF FOOD IN CROATIA

Dukat's leadership role in food donations in Croatia was recognized by the public in May 2018, when Dukat was given the “The Best Donor” award. Dukat deserved this recognition as the largest single donor of food in Croatia in 2017, donating 41.5 percent of the total donated food, and as the largest donor in the category of producers. This recognition was initiated by the MEP, Biljana Borzan, and “Food Network” platform, with the aim of rewarding the greatest donors, increasing awareness of food donation issues and inspiring other companies to donate, and the award ceremony was held at the European Parliament in Brussels. The basic selection criteria were the data on donations in the previous year, which the companies are required to report under the Ordinance on conditions, criteria and methods for donating food.

OPENING DISCOUNT STORES

Trying to meet the needs of its fellow citizens of lower material status, in 2018 Dukat continued to expand discount stores that sell Dukat, Sirela, President and Galbani brands of milk, dairy products and cheese at considerably lower prices compared to regular stores. In addition to the discount stores at Zagreb Dolac and in Bjelovar (opened in 2016), two more stores like this were opened in 2018: in Slavonski Brod and at the Jarun Lake market in Zagreb, employing four new saleswomen. With the above said, all Dukat discount stores also sell products that are about to expire, with prices 50 to 70 percent lower than regular prices. Dukat's discount store in Split closed at the end of September.

MILK PRODUCERS

Encouraging development of primary milk production in Croatia is one of strategic determinants of Dukat's socially responsible business.

In 2018, Dukat, one of the largest milk purchasers in Croatia, acquired 190.4 million kg of fresh raw milk from local dairy farms, which is 5.9 percent less than the year before. Decrease in milk purchase is the result of declining milk production in Croatia, a negative trend recorded by the domestic dairy sector for a number of consecutive years. With decreased milk production, in 2018 the domestic dairy sector also witnessed a drop in the number of milk producers.

In 2018, Dukat purchased milk from 2,869 large, medium and small milk producers all across Croatia. Dukat nurtures long-term partner relationships with majority of these milk producers, contributing to the development of rural Croatia.

Furthermore, Dukat continuously invests significant amounts of its own funds in stimulation and development of business of the milk producers it works with, as well as stimulation of milk production in

Croatia in general. In 2018, Dukat subsidized the purchase of 900 heifers for its cooperators, with HRK 2.25 million of non-refundable funds, credited the purchase of production materials for production of milk with HRK 46 million, and it subsidized adaptation of farm buildings and purchase of farmland and milking equipment with HRK 7.80 million cash funds. In 2018, Dukat invested 10.1 percent more in subsidizing milk production in Croatia than in 2017.

Thanks to Dukat's continuous investment in the domestic primary sector, in terms of investing its own financial resources and in terms of counseling and support by Dukat's team of veterinaries and agronomists, Dukat has been recording continuous increase in quality of produced milk within its collection area.

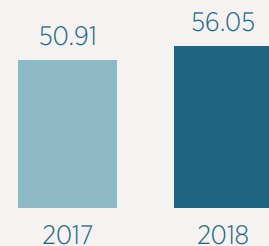
As Dukat's business is based on the processing of fresh raw milk of the highest quality, produced on domestic dairy farms, Dukat milk carries the label "Milk from Croatian

Dukat, one of the leading milk purchasers in Croatia, is an important factor for stability and sustainability of the domestic dairy sector.

farms", awarded by the Croatian Agriculture Agency.

Building and nurturing long-term partnerships with milk producers, secured placement of produced milk, timely payment of financial obligations towards milk producers, professional education and counseling, improvement of milk production through higher quantities and better quality of produced milk, as well as free market competition, are the foundation for long-term cooperation of Dukat and milk producers and for sustainability of domestic dairy sector.

Total investments in subsidizing primary milk production (HRK million)



MEMBERSHIPS IN ASSOCIATIONS THAT PROMOTE SUSTAINABLE DEVELOPMENT

In 1998, Dukat was one of the founders, and since then a member of the Croatian Business Council for Sustainable Development (HR BCSD), a non-profit institution of the private sector encouraging sustainable development in economy. Along with its long-standing membership in HR BCSD, Dukat is also an active member of other associations that promote sustainable development and environmental protection, such as Community for CSR and Community

for environmental protection in economy of the Croatian Chamber of Economy, EKO-Ozra and GIUPAK (Economic interest grouping for packaging and environmental protection).

Since 2012, Dukat has been a member of the United Nations Global Compact, the world's largest corporate social responsibility initiative, as well as Croatian Network of Global Compact.

In 1998, Dukat was one of the founders, and since then a member of the Croatian Business Council for Sustainable Development (HR BCSD), and since 2012 a member of the United Nations Global Compact and Croatian Network of Global Compact.

FOCUSING ON PRODUCT QUALITY

Dukat is the first dairy industry and one of the first in the Croatian food industry to introduce a free hotline for consumers in 1998, currently Customer Service, which includes telephone, email and communication.

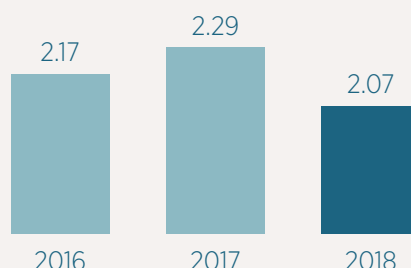
The greatest attention is paid to the quality and safety of products to fulfill the demands and expectations of consumers. Therefore, our products not only have to meet certain quality standards, such as ISO 9001, ISO 22000, IFS, HACCP, and Kosher and Halal certificates for specific product groups, but they strive to exceed them in accordance with internal quality standards.

Quality policy of the Lactalis Group specifies guidelines for continuous improvement of product quality and strengthening of customer and consumer satisfaction. Dukat's quality, environmental and food safety management policy relies on Lactalis' quality policy and confirms the focus on continuous improvement of quality on all business levels, as well as use of appropriate energy sources and raw materials, to achieve the satisfaction of consumers, all employees, suppliers, business partners, generate positive effects on the community and financial results of the company.

Having recognized the importance of two-way communication with consumers, ensuring timely and complete response, Dukat has had a free Consumer Phone since 1998, and was the first dairy industry and one of the first in Croatian food industry to introduce a free hotline for consumers. This communication channel (current Customer Service), which in addition to phone and e-mail also includes communication via Dukat's Facebook page, is open to opinions, comments and inquiries by consumers about products, and as such present valuable source of information and incentive for

continued improvement. It also represents one of important internal tools for tracking consumer satisfaction and product quality.

Consumer complaints on million items sold



In 2018, 30.9 percent of the total number of complaints, comments and praises were complaints, which is 10.2 percent lower than in 2017. If we break down complaints by plants, Bjelovar Plant recorded a decrease in number of complaints by 22.4 percent and Zagreb Plant recorded a 10.2 percent decrease, while the number of complaints at the Karlovac Factory remained the same as in 2017. The same trend was recorded if we observe the number of product complaints on a million sold items (ppm). Bjelovar and Zagreb plants recorded a decrease in number complaints on a million sold items, while Karlovac Plant is at the same level as in 2017.

Of the total complaints received, visit of the sales representative and replacement of the product was accepted by 58.4 percent of consumers (compared to 47.9 percent the year before), while others were satisfied with just an apology.

At the Croatian market level, 2018 recorded the best score in regard to received consumer complaints since this indicator has been monitored - only 2.07 complaints per million products sold. This is the result of constant listening to consumers' needs and expectations, as well as efficient and focused action regarding observed causes of quality deviations. For example, the number of complaints regarding hard cheese fell from over 60 complaints in 2016 to 13 complaints in 2018, with a trend of further decline. Decline in the number of complaints regarding hard cheese is the result of timely and precisely detected causes, investing in line control equipment (e.g. leak pointer that can detect the slightest leakage of bag joints), as well as targeted and continuous training of employees on the production line.



CONTINUING ACTIVITIES RELATED TO SENSORY EVALUATION OF PRODUCTS

Sensory evaluation of Zagreb and Bjelovar plant key products, as well as some of the key products of Somboled and Ljubljanske mlekarne plants, was successfully continued in 2018.

To make the management of expert and plant panels, and collection and analysis of sensory evaluation results faster and more reliable, sensory analysis software was successfully installed in May – Fizz WEB. Panel members now enter their grades on tablets, and sophisticated statistical and graphic tools provide instantaneous results and feedback on evaluations.

In 2018, an initiative was launched by the sensory department to form the Association of Southeast European Sensors, with members being sensors from the food industry and part of scientific institutions in the region. Establishment of the association and the first congress are planned to happen in 2019. Furthermore, several visitor groups and practitioners visited the sensory department in 2018, whereby Dukat contributed to raising awareness on the significance of sensory properties for the overall product quality and provided higher education professional institutions to witness in practice the application of

scientific knowledge and statistical tools for processing collected data on all flavors, scents and other characteristics of the sampled product.

Dukat was the first food and dairy company in Croatia to launch expert panels for sensory evaluation of products in 2016, comprised of specially trained external associates. In addition to two panels with 33 panelists total, products are also regularly evaluated by 17 Dukat's long-term tasters – employees who are members of the two plant panels.

OPEN DOOR DAYS FOR ELEMENTARY SCHOOL STUDENTS

As part of “Dukat's Open Door Days”, educational and fun project, implemented under the patronage of the Ministry of Science, Education and Sports since late 2012, Dukat has been the host to third and fourth graders from Croatian elementary schools. During their visit to Dukat's production plant, students have the opportunity to learn about the milk's route “from the field to the table” and about the significance of everyday consumption of milk and dairy products for proper growth and development of children.

In 2018, Dukat's Zagreb plant was visited by 417 pupils from seven elementary schools from Zagreb. Among them were 48 school children of Dukat employees, who visited Dukat in April 2018.

In addition to the regular program of plant visit, educational and entertainment games, they also had the opportunity to visit their parent's workplaces at the Zagreb location. Also, as part of this project, Dukat marked the International Day of the Child on November 20th. On this occasion, elementary school students had the opportunity to ask questions and propose new Dukat products for

children and adults, and 3000th child visitor received an award.

Since the project was launched, 3039 students visited Dukat and its Zagreb Plant (October 2012 – December 2018), and great interest in this program is witnessed by the fact that all the terms have been fully booked for almost two school years in advance.



SEVENTH CREATIVE DRAWING PROJECT “I LOVE MILK”

Since 2012, Dukat has been holding the creative drawing competition “I love milk!”, to encourage the public to create proper dietary habits and draw attention to the importance of daily milk consumption, especially among children of school age. In the past seven years, 20,000 elementary school students and their teachers from all parts of Croatia participated in the competition.

Following an extremely successful 2017 competition, 2018 competition saw a record-breaking response – 6,112 art works from 353 schools

entered the competition. The four winning drawings of cow Šara, selected by an independent jury, were applied to the limited series of UHT milk packaging. Announcement of the winners and creative workshops for the grades of awarded students were held at the Museum of Contemporary Art, partner in the project who has been part of this project since its inception. The competition is held under the patronage of Ministry of Science and Education and Ministry of Health. All participants were sent personalized thank-you-letters.



BREAKFAST IS MORE THAN A MEAL

To draw attention of parents and the public to the importance of adopting proper nutrition habits, and particularly to the significance of common daily breakfasts for physical and emotional growth and development of children, at the end of 2017 Dukat launched the project "Breakfast is more than a meal". Its starting point was quantitative research on the morning eating habits and behavior of elementary school children – participants in the creative drawing project "I love milk!", results of which showed that majority of parents

are aware of the importance of common gathering around the table, but do not regularly do this during the work week. Therefore, at the end of 2017, webpage www.DorucakJeViseOdObroka.hr was presented along with the handbook "Breakfast is more than a meal" with advice of a nutritionist and psychologist on how to turn breakfast into important family moments. In the first three months of 2018, Dukat distributed approximately 50,000 handbooks to parents, teachers and their employees.

To encourage parents to adopt quality familiar morning habits, Dukat presented family video-stores in which two families talk about the significance of joint breakfasts and communication around the table, and 15 workshops were held with parents of kindergarten children in several Zagreb kindergartens. Educational significance of the project was recognized by the Ministry of Science and Education, which is the patron of the project.



CYCLING RACES DUKAT FIT AND DUKATINO RACE FOR CHILDREN

With the aim of promoting urban cycling as an ecologically acceptable manner of transport and an activity that positively influences health of individuals and families, in 2018 Dukat once again organized "Dukat Fit" race and "Dukatino race for children" in two cities – Zadar and Zagreb. In both races, Zadar in

May and Zagreb in September, 833 cyclists of all ages competed in five categories, which is 52 percent more than the year before, and more than half the contestants were children.

Seventh Dukat cycling race in Zagreb was held within the European Mobility Week and under

the patronage of the Mayor of the City of Zagreb. Since 2012, more than 3000 cyclists, children and adults, participated in nine races (seven in Zagreb and two in Zadar) organized by Dukat.





Dukat has been building its own environmental management system, continuously reducing its impact on the environment

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 responsible attitude towards environment and operations in accordance with sustainable development policy, over time, Dukat has been building its own environmental management system, continuously reducing negative impact on the environment. ISO 14001 and 50001 certificates are evidence of Dukat's efforts and continuous improvements in the area of environmental protection and efficient energy management.

MATERIALS

PACKAGING

As a large-scale producer, we take care of the environmental acceptability of our products and strive to introduce economical and environmentally friendly packaging

materials. In compliance with the Ordinance on packaging and packaging waste, Dukat prepares quarterly and annual reports on the types and volumes of packaging

put in circulation, and it prepares additional monthly reports. We bear the cost of packaging waste disposal and management in accordance with the reports.

DATA ON PACKAGING PUT IN CIRCULATION (t) – DUKAT INC.

Type of packaging material (t)	2016	2017	2018
Metal (Al bottle for whipped cream 250 ml)	35	35	40
Paper/glue (carboard)	2,168	2,091	2,065
Multi-layer packaging with predominant paper component	1,549	1,287	1,299
PET	613	595	593
Polymers	2,621	2,754	2,729
Total	6,986	6,762	6,726

In 2018, 0.5 percent less packaging was put into circulation compared to 2017, while 3.2 percent less packaging was put into circulation in 2017 than in 2016. The percentage of material used as the recycled input material was less than 3 percent.

TOTAL WEIGHT OF PACKAGING PUT IN CIRCULATION (t) – DUKAT INC.

Type of packaging (t)	2016	2017	2018
Multi-layer paper packaging	1,550	1,280	1,300
Paper/carton	2,100	2,100	2,100
PET	600	600	600
HDPE	2,000	2,000	1,300
Other polymers (PS, PE)	560	750	1,400
Metals	35	35	33



ENERGY

Since 2017, a system of energy management according to ISO 50001 for processes of development, production and distribution of dairy

products is being implemented at the Zagreb and Bjelovar plants, at logistic locations in Dubrovnik, Split, Zadar, Rijeka, Pula and Đakovo, and

at locations of associated companies (KIM Mljekara, LA LOG i B.P.A.C. Auto).

POWER

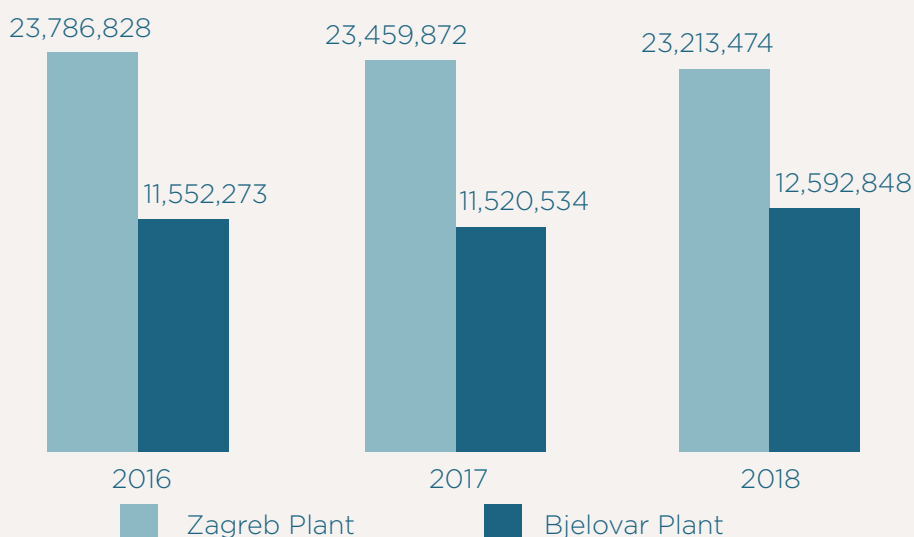
Energy consumption is approached with great care and efforts are made towards savings in all stages of operations: in designing power plants and technological processes, rational and efficient process management and regular and quality maintenance. Power consumption is increased from June to September due to increase in production during seasonal demand and intense usage of the cooling system.

In 2018, total power consumption at the Zagreb Plant was 23,213,474 kWh, which is 0.3 percent less than in 2017. Power consumption in 2017 was 1.2 percent lower than power consumption in 2016. Ratio of consumed power per ton of processed milk was 247 kWh/t in 2018, and in 2017 it was 251 kWh/t, meaning that nine percent more power per ton of product was consumed in 2017 than in 2016.

In 2018, total power consumption at the Bjelovar Plant was 12,592,848 kWh, or 8.5 percent higher than in 2017, while in 2017 it was 0.3 percent lower than in 2016. Ratio of consumed power and production was 137 kWh/t in 2018, and was

Power	2016	2017	2018
Zagreb Plant	23,786,828 kWh	23,495,872 kWh	23,213,474 kWh
Bjelovar Plant	11,552,273 kWh	11,520,534 kWh	12,592,848 kWh

Total power consumption (kWh)



higher by 11 kWh/t than in 2017 (126 kWh/t), and the total average is

higher than the average in the past five years.

STEAM

In 2018, total steam consumption was 38,257 tons, which is 5 percent higher compared to steam consumption the year before. In 2017, steam consumption was 8 percent lower than in 2016.

Steam	2016	2017	2018
Zagreb Plant	39,476 t	36,324 t	38,257 t

GAS

Two combustion plants, each of 4.4 MW, are installed at the site of the Zagreb Plant, which are categorized as medium combustion plants according to the Ordinance on limit values for pollutants emissions into the air. The plants are fueled by natural gas.

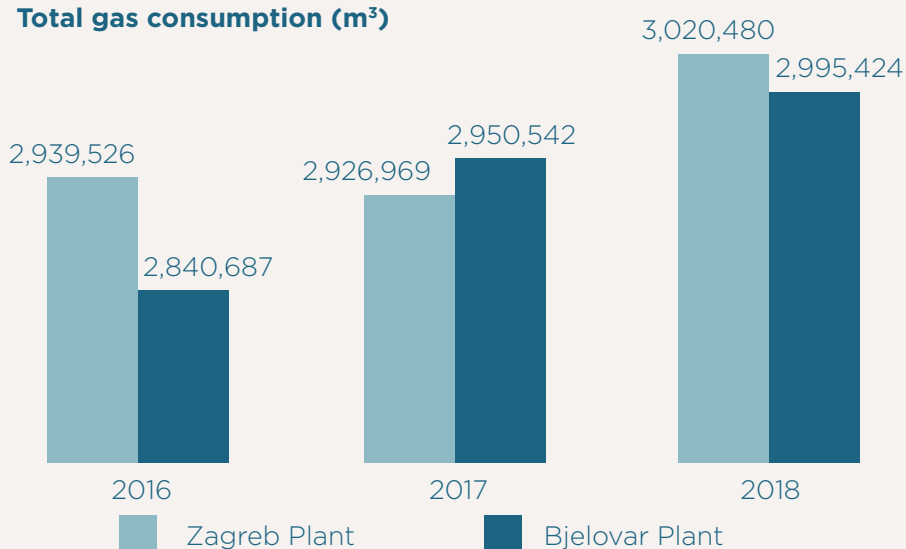
In 2017, 3,020,480 m³ of gas were consumed, which is 3.2 percent higher compared to gas consumption in 2017. In 2017, 0.4 percent less gas was consumed than in 2016.

Emissions of pollutants into the air from both plants were measured in December 2017, and the values met the prescribed emission limit values according to the Ordinance on limit values of pollutants in the air.

Bjelovar Plant has its own production of heat energy – steam in two boilers of total power 14.3 MW and one 1.16 MW thermogen for producing hot air. In 2018, 2,995,424 m³ of gas was used, which is 1.5 percent more than consumption in 2017. The consumption is greater due to general production increase of 0.5 percent. In 2017, 2,950,542 m³

Gas	2016	2017	2018
Zagreb Plant	2,939,526 m ³	2,926,969 m ³	3,020,480 m ³
Bjelovar Plant	2,840,687 m ³	2,950,542 m ³	2,995,424 m ³

Total gas consumption (m³)



of gas were consumed, which is 3.7 percent higher than in 2016.

Ratio of gas consumption to production was 32.92, while the

average amount in 2017 was 32.62 m³ gas/t of processed milk. In 2016, the average amount of gas consumption per ton of processed milk was 31.25.

WATER

Dukat assigns great importance to the economic water consumption and constantly seeks to find new

ways for reducing its consumption. Both plants (Zagreb and Bjelovar) draw majority of water from their

artesian wells, while the rest is used from the public water supply.

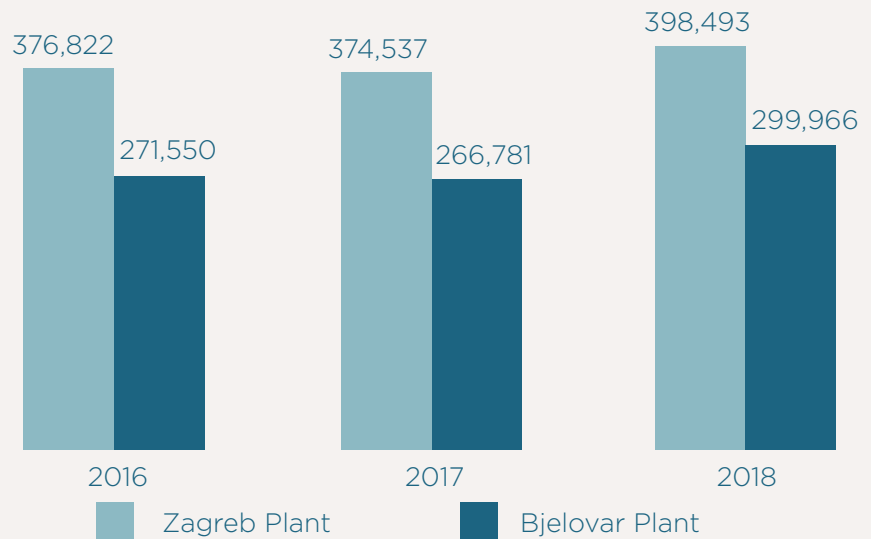
Water (m³)	2016			2017			2018		
	Količina (m³)								
	Public water supply	Own well	Total	Public water supply	Own well	Total	Public water supply	Own well	Total
Zagreb Plant	4,511	372,311	376,822	7,408	367,129	374,537	5,519	392,974	398,493
Bjelovar Plant	2,910	268,640	271,550	3,520	263,261	266,781	21,408	278,558	299,966

ZAGREB PLANT

In 2018, total water consumption at the Zagreb Plant was 398,497 m³, which is 6.4 percent more than the total water consumption in 2017. Water consumption from the public water supply was 5,519 m³, which is 25 percent lower than in 2017. Water consumption from own well was 392,974 m³ or 7 percent more than in 2017. Total water consumption in 2017 was 0.6 percent lower than total water consumption in 2016.

The index of production (IP per one kilogram of a produced product) was higher in 2018 than in 2017, or 4.2 compared to 4 in 2017. In 2016, the index of production was 3.6 and was the same as the index of production the year before.

Total water consumption (m³)

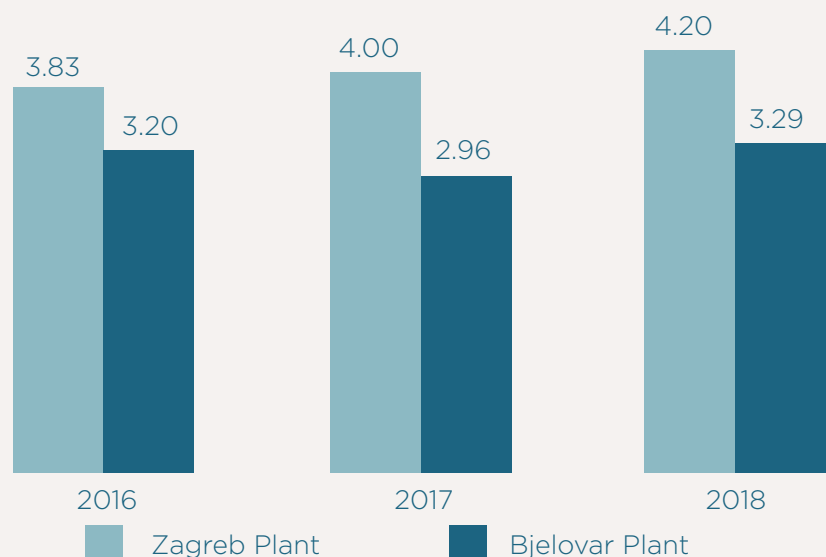


BJELOVAR PLANT

In 2018, total water consumption at the Bjelovar Plant (299,966 m³) was 11.1 percent higher than consumption in 2017 (266,781 m³). Water consumption from the public water supply was 21,408 m³, which is significantly higher than in 2017 (3,520 m³), while water consumption from own well was 278,558 m³, which is 5.8 percent higher than consumption in 2017. Total water consumption at the Bjelovar Plant was 1.8 percent lower in 2017 (266,781 m³) than in 2016. Water consumption from the public water supply was 3,520 m³ in 2017, higher than in 2016 (2,910 m³), while water consumption from own well was 266,781 m³, which was lower than consumption in 2016 (268,640).

In 2018, the average ratio of water consumption over processed milk was 3.3 l of water/kg of processed milk, which is higher than in 2017, when it was 2.9 l of water/kg of processed milk. In 2016, index of production was 3.2 of water/kg of processed milk.

Index of production (l water/kg of processed milk)



EMISSIONS IN THE AIR

ZAGREB PLANT

As mentioned above in the section on Gas, there are two combustion plants running on natural gas at the site of the Zagreb Plant.

The emissions of pollutants into the air from both plants were measured in 2018 and values meet the prescribed emission limit values

under the Ordinance on limit values for pollutants emissions into the air.

EMISSIONS INTO THE AIR FROM FUEL COMBUSTION PROCESS TO OBTAIN THERMAL ENERGY IN 2018

Data on the type and quantity of emissions from outlet 1		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Nitrogen oxides as nitrogen dioxide (NO ₂)	HR EN 14792:2007	2,150
Carbon dioxide (CO ₂)		2,723,414
Carbon monoxide (CO)	HR EN 15058:2008	146
Data on fuel type and consumption		
Fuel	Fuel consumption	Lower heating value
Natural gas	1,463,485 m ³ /god.	33,338
Data on emission measurement results		
Gas fuel	Natural gas	
Substance	Measurement result (mg/m ³)	
Nitrogen oxides as nitrogen dioxide (NO ₂)	147	
Carbon monoxide (CO)	10	

Data on the type and quantity of emissions from outlet 2		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Nitrogen oxides as nitrogen dioxide (NO ₂)	HR EN 14792:2007	1,568
Carbon dioxide (CO ₂)		2,723,414
Carbon monoxide (CO)	HR EN 15058:2008	146
Data on fuel type and consumption		
Fuel	Fuel consumption	Lower heating value
Natural gas	1,463,485 m ³ /god	33,338
Data on emission measurement results		
Gas fuel	Natural gas	
Substance	Measurement result (mg/m ³)	
Nitrogen oxides as nitrogen dioxide (NO ₂)	107	
Carbon monoxide (CO)	10	

BJELOVAR PLANT

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

- two outlets from boiler chimneys – emissions of combustion products

- one outlet from the thermoelectric generator for 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.

NEW INVESTMENT AT THE BJELOVAR PLANT

In 2018, the old combustion plant (boiler 1) was replaced by a new 5.48 MW combustion plant, or a medium combustion plant that uses gas fuels. The new plant has a higher degree of energy efficiency and the ability to operate all year (higher capacity).

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 EN 15058	112.65
Carbon dioxide (CO ₂)	/	661,270.82
Nitrogen oxides as nitrogen dioxide (NO ₂)	HRN EN 14792	222.80
Particles (PM 10)	/	5.33

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 (NO ₂)	HRN EN 14792	1,263.28
Carbon monoxide (CO)	HRN EN 15058	145.20
Carbon dioxide (CO ₂)	/	2,702,119.82
Particles (PM 10)	/	21.78

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	832.81
Carbon monoxide (CO)	HRN EN 15058	118.80
Carbon dioxide (CO ₂)	/	2,210,825.31
Particles (PM 10)	/	832.81

WASTE WATER

ZAGREB PLANT

There were no deviations of individual parameters (oxygen chemical consumption, BPK5, pH, total oils and fats value) in 2017 from the set values of the water management license for the discharge into the public sewerage system of the city of Zagreb recorded at the site of the Zagreb Plant.

Technologies for reducing emissions into water

- Filters have been installed in production plants sewers that 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 optimized; milk processing plants are regularly maintained to prevent the discharge of organic matter into the sewerage system.

BJELOVAR PLANT

Bjelovar Plant has its own waste water treatment plant with the capacity of 1100 m³/day, and processed waste water outflows meet the limit values under the water management license. Outflowing waste water is discharged into the public sewage of the City of Bjelovar after the treatment procedure.

In 2018, total of 239,128 m³ of technological waste water was processed by the waste water treatment plant, which is 10.4 percent more than in 2017 (214,332 m³). In 2016, total of 256,948 m³ of technological waste water was processed, or 19.7 percent more than in 2017.

Average COD value (chemical oxygen demand) in water, after the purification process, was 297.7 mg/liter, which is higher than in

2017 when COD was 173.3 mg/liter. Increase in output COD in 2018 is the result of increased quantity of processed milk by 0.3 percent and increased total production of cheese by 0.5 percent. Average output COD in 2017 was 112.1 mg/l.

In 2018, average Fx (wastewater treatment factor) was 1.12 and in 2017 it was 1.15. Decrease in the wastewater treatment factor is noticed in 2018, compared to 2017, which is the result of increased efficiency of the processing plant. Average Fx in 2016 was 1.04.

Sludge on the wastewater treatment device is discharged with approximately 2.5 percent dry matter, and total quantity in 2018 was 9,496 m³, compared to 10,128 m³ in 2017, or 6.2 percent less than the year before. All the sludge is transported to the contractually agreed biogas plant.



WASTE

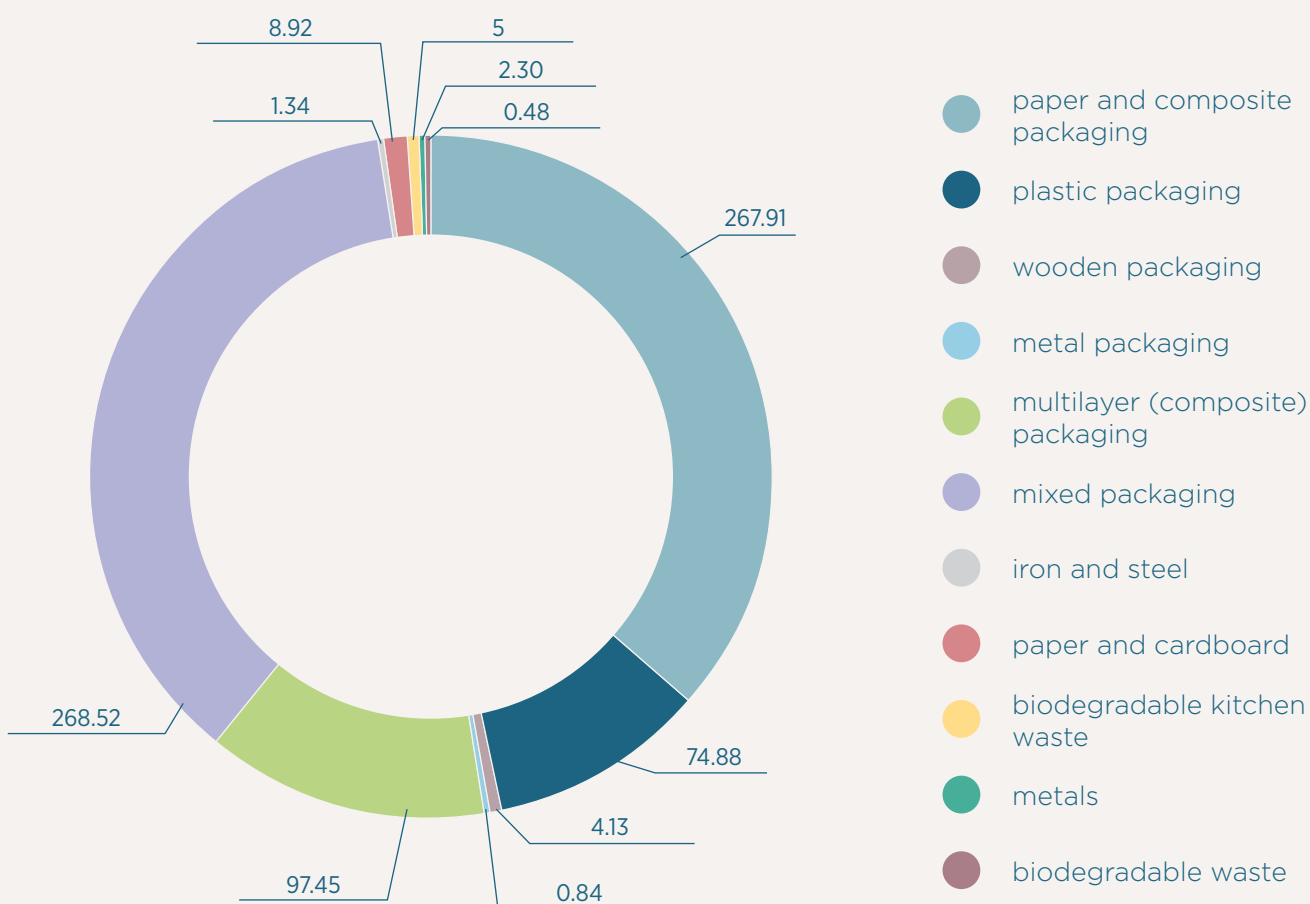
WASTE GENERATING AND PROCESSING

Systematic waste management is one of the fundamental components of the environmental management system. Re-usable waste, with valuable characteristics that can be used, is collected and stored separately. Dukat's constant objective is to manage waste in an environmentally efficient manner. Precisely for this reason, continuous

efforts are directed at the prevention and constant reduction of generating all types of waste and waste management in accordance with economic principles. It is also the objective of the company to reduce communal waste generating by increasing the selection of generated waste and to reduce the volume of returns from the market.

In 2018, total volume of separated waste received at the Zagreb plant was 814 tons, which is 1 percent less than in 2017. In the total balance, mixed packaging was the most collected, followed by waste paper and cardboard and multilayer packaging waste.

WASTE AT THE ZAGREB PLANT BY CATEGORY (t)



At the Bjelovar Plant, plastic packaging is the type of non-hazardous waste that was collected the most (63,720 kg). In 2018, total of 8,479 kg of hazardous waste were collected (8.4 percent more than in 2017), most of all packaging that contains hazardous substances or has been contaminated by hazardous substances (4,800 kg). In 2016, total of 8,366 kg of hazardous waste were collected.

WASTE SELECTION TRAINING

In September 2018, employee training for waste selection was initiated and it included 11 employees who are responsible for discharging the waste containers from office, production and warehouse areas. Other employees were notified by email on separation of waste in its origin location, and containers for collection of paper, plastic and other, communal waste were placed in key administrative space positions.

CONSUMPTION OF CHEMICALS

ZAGREB PLANT - CONSUMPTION OF WASHING AND DISINFECTING AGENTS

In 2018, 10 percent more washing and disinfecting agents were consumed at the Zagreb Plant than the year before, and in 2017, Zagreb Plant consumed 3.7 percent more washing and disinfecting agents than in 2016

Total volume of washing and disinfecting agents	2016	2017	2018
	944,975 kg	980,372 kg	1,081,123 kg

BJELOVAR PLANT - CONSUMPTION OF CHEMICALS IN WASTE WATER TREATMENT PLANT

In 2018, the total volume of chemicals utilized in the waste water treatment plant at the Bjelovar Plant was 23 percent lower than in 2017. Consumption of caustic soda was 12.1 percent lower in 2018 than in 2017 due to the new manner of work of the waste water treatment plant.

Total volume of chemicals utilized in waste water treatment plant	2016	2017	2018
	223,880 kg	179,500 kg	138,200 kg

Total quantity of consumed chemicals utilized in the waste water treatment plant was 19.8

percent lower in 2017 than in 2016. In 2017, consumption of chemicals

in production was 3.1 percent lower than in 2016.

NOISE

Noise for the day and night work conditions at the Zagreb Plant site ranges within the legally permissible limits.

Based on the measured noise levels within the Bjelovar Plant and based

on the acoustic requirements, the noise level does not exceed the permissible values for "day-night" time period. Also, thanks to the noise protection measures taken, by repairing the compressor holes and by turning off noisy devices

during night work (ice water compressor and ventilation on the street-facing façade), noise levels in night conditions do not exceed the permissible values.

COMPLIANCE

In accordance with legal provisions, Dukat makes an annual assessment of adherence to (compliance with) the legal and other environmental regulations.

No deviation from the legal and other regulations and requirements was recorded in 2018. There were also no extraordinary situations

recorded, and there was no need to undertake any of the prescribed measures in the event of incidents.

SUPPLIER EVALUATION REGARDING THE IMPACT ON ENVIRONMENT

As part of the annual supplier evaluation, regarding the impact on the environment, the following activities are assessed:

- 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 bottom of the tank (stripping), waste separation rules, etc.)
- The offer to reimburse the costs incurred by damage (in cases when the delivered product generates

waste or by-products, the supplier can offer a recycling path for such waste, e.g. packaging)

- Environmental awareness (supplier contacted us offering solutions related to environmental protection - waste recycling, reduction of waste at the source, etc.)

In 2018, all suppliers received the highest-grade regarding impact on the environment.

OBJECTIVES FOR 2019

- Education and information of employees on obligations of Dukat according to the new environmental legislation
- Commitment to lasting improvement of energy efficiency

- through monitoring the realization of established EPIs (energy performance indicators)
- Design that improves energy efficiency

- Decrease the impact of plants on the environment
- Decrease the amount of waste generated

DUKAT EMPLOYEES VOLUNTEER IN CLEAN-UP CAMPAIGN FOR THE SEVENTH TIME

In 2018, Dukat employees once again joined the largest volunteer cleaning campaign “Green Clean-up – one day for clean environment”, part of the global “Let’s do it!” movement. Thirty-six employees from Bjelovar Plant and KIM mljekara Karlovac (KIM) participated in the action and cleaned up three illegal dumping sites in Bjelovar and Karlovac. Along with collected waste, employees donated the total of 70 working hours voluntarily joining the clean-up. In the past seven years, 448 Dukat and KIM employees participated in the action, freeing the environment from more than 170 cubic meters of waste.







Dukat applies strict anti-corruption standards in accordance with relevant internal documents and corporate policies

ANTI-CORRUPTION AND CORPORATE GOVERNANCE

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 laws and regulations. Aware of the importance of responsible and ethically-based conduct, Dukat implemented and it applies the Corporate Governance Code.

FIGHT AGAINST CORRUPTION

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

- **Systematic improvement of adherence to laws, rules of operation, good business practices and ethical business practice**

This objective is achieved through constant improvement of business processes and education of Dukat employees responsible for the legality of operations and management of business processes related to business practice issues and constant legislative and business changes. Business processes are also set and monitored so that they are always in compliance with the principles mentioned in the introduction, by adopting and enforcing internal by-laws, procedures and work instructions that are regularly communicated by e-mail and the Intranet.

- **Internally regulated procedures and work instructions**

Code of Conduct, available

to employees on the Intranet, expressly 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."

The system of internal controls and prescribed procedures ensures impartiality and objectivity of employees and management, and risk of corrupt actions and bribery is minimized through:

- clearly defined and prescribed ethical standards of business conduct required of employees and management
- regularly assessing the conditions of cooperation with potential suppliers and customers
- separate competences and processes in the process of procurement of goods and services
- separate levels of business decision making on donations and sponsorships

- the procedure of prior legal and financial control of each contract entered into with suppliers and customers.

There were no recorded reports on suspicion of corruption or incidences of corruption in 2018 or the previous years.

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

Dukat's employees, as individuals, are free to provide material support to any political party or candidate of their choice, from their own funds and in their free time, which is the responsibility and decision of each individual.

In 2018, Dukat was not a party in any of the procedures initiated for conduct that is contrary to the free market competition principle, anti-trust or monopoly practices.

CORPORATE GOVERNANCE

Dukat's corporate management activities include:

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

In this way, the legality, transparency and publicity of operations are protected, and corporate governance of the highest rank is ensured, posing systematic obstacle to corruption

and abuses. Dukat is quoted on the Zagreb Stock Exchange, where it regularly publishes relevant business information for 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.

- **Implementation of practice concerning competition**

Dukat approaches competition as one of its top priorities in operations and invests great effort in everyday business practices to assess each economic activity from this aspect as well. Accordingly, in 2018 we also actively worked on continued education of all key employees at Dukat and Dukat Group and all its associated companies in the region (Slovenia, Serbia, Bosnia and Herzegovina

and Macedonia) in order to ensure continued application of competition rules in business.

In accordance with the practice promoting respect for the rules of competition, Dukat cooperates with the Croatian Competition Agency on regular basis, submitting all data required by the Agency and regularly participating in Agency's research on the milk and dairy goods, and distribution trade markets.

In December 2018, Dukat participated in the research of contractual relations in the milk and dairy product sector in Croatia, carried out by the Agency for Protection of Market Competition. It submitted all the requested information, documentation and responses within the set deadline to the Agency for Protection of Market Competition.

IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE

Dukat Inc. (hereinafter: Dukat) voluntarily applies the Corporate Governance Code of the Zagreb Stock Exchange, which is available on Dukat and Zagreb Exchange websites, and in Dukat's administrative offices. Application of the Code has contributed to improvement of high corporate governance standards and business transparency, which is completely aligned with the positive legislation.

The Code establishes procedures for the actions of organs in charge of decision making, and ensures prevention of conflicts of interest, efficient internal supervision, and an efficient system of responsibility. There is a clearly established responsibility system for every subsidiary on the Group level, and parent company actively participates in all major decisions made individually by the management of the subsidiaries.

The Code regulates mandatory publication of financial statements and price sensitive information, all in an attempt to improve transparency

of information for current and potential investors and to ensure equal conduct towards all interest holders.

Dukat's decision-making bodies fully apply provisions of the Corporate Governance Code in managing company operations.

Overall internal control systems of Dukat and of the Group include:

- Appropriate organization structure on all levels, with separation of duties and defined reporting mechanisms towards upper management
- Internal controls integrated into business processes and activities
- Accounting and administrative policies and procedures within control functions related to key risks
- Double model of corporate management comprised of Management and Supervisory Board

The basis of the internal controls system of Dukat and the Group is internal policy that defines basic principles, structure and functions of the internal controls activities, which contributes to regular corporate governance and promotion of transparent business. The main features are as follows:

- Set of accounting policies related to the preparation of the Annual report in accordance with the International Financial Reporting Standards adopted in EU and Accounting Act
- Internal audit of Dukat that supervises overall activities of Dukat and the Group, with the aim of estimating the adequacy of established internal controls system

Internal Audit reports and findings are adopted by the Management Board and the Audit committee of Dukat. Internal Audit department of the parent company Dukat Inc. is also responsible for internal audit of activities of the subsidiaries within Dukat Group.

Dukat holds 197 treasury shares which make 0.00657 percent of share capital of the Company.

Supervisory Board member – workers' representative holds 800 shares, which makes 0.02667 percent of the company share capital.

Managing directors and Supervisory Board members are appointed pursuant to positive legislation and Corporate Governance Code.

All amendments of the Statute are adopted by the General Assembly pursuant to the positive legislation, and the full text of the Statute is available on the company website, at the business offices of Dukat and the Commercial Court.

General Assembly acts in accordance with positive legislation, Statute of the Company and the Corporate Governance Code.

Shareholders realize rights guaranteed by laws and regulations, and have access to all information relevant to business operations of the company and making appropriate investment decisions by publishing reports and information in accordance with applicable regulations, by way of Croatian Financial Services Supervisory Agency (HANFA), the Zagreb Stock Exchange (ZSE), the Croatian News Agency (HINA), as well as the company website (www.dukat.hr). Furthermore, shareholders receive all additional information from the Shareholders Record Office kept by the company.

On 31 December 2018, the company has:

- three Managing directors who run business operations and represent Company severally and without limitations
- Supervisory Board that consists of four members, or Supervisory Board president and three Supervisory Board members, one of which is the representative of workers
- Audit Committee that consists of three members, or Audit Committee president and two Audit Committee members, one of which is the Supervisory Board member

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