



Dukat Dairy Industry Inc.

COMMUNICATION
ON PROGRESS

2014



WE SUPPORT

Statement of continued support and business challenges

It is my pleasure to present to you our third Communication on Progress, as a demonstration of application and commitment to the United Nations Global Compact principles, covering the activities of Dukat Dairy Industry Inc. in the area of human rights, labour, environment and anti-corruption in 2014.

Responsible business operation has always been the strategic focus of our company, whether it concerns the relationship with employees, consumers, business partners, social community or attitude towards the environment. Assuming the 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.

We systematically apply and promote the United Nations Global Compact principles in the area of human rights protection, labour, environment and anti-corruption. Nevertheless, we emphasize that the context of Dukat's socially responsible operations is significantly wider. Incentives to primary and sustainable agricultural production, especially milk production, are of great significance for the company and for the community in which we operate. Furthermore, we invest our knowledge and experience in promotion of proper and balanced nutrition and healthy habits.

Croatian economy has faced its sixth consecutive year of deep economic crisis and its negative effects on the agricultural and dairy sectors. Negative economic and sector trends continued in 2014: from increase in unemployment rate, further decline in purchasing power and optimism of Croatian citizens to the ever weaker competitiveness of milk producers and dairy industry. Accession of Croatia to the European Union has made the local food and dairy sector face considerable pressure in goods supply from other EU member states. The Russian-Ukrainian crisis additionally undermines the import-export balance of Croatia, particularly in the dairy sector, since Croatia is becoming one of the receptive markets for European surpluses of UHT milk, butter and yellow cheese, which are the result of the Russian embargo introduction.

Despite exceptionally difficult conditions in which it operates, in 2014, Dukat Dairy Industry Inc. based its operations on the principles of sustainability, adjustment to the needs and possibilities of Croatian consumers, renovation and development of new products and investment in quality. At the same time, it continued to optimize business processes and costs, and to increase the efficiency on all levels of business operations.

However, we are aware there is still room for further progress in responsible operations, and reporting to our stakeholders on implemented activities is an important part of the acknowledgement of our contribution and motivation to continue improving our practice in this field. This report, therefore, together with the overview of activities related to the application of UNGC principles, provides the answer to a number of G4 sustainability indicators in accordance with the Global Reporting Initiative. This provides our stakeholders with a clear and relevant framework for the comparison of our activities with the previous and the future ones, which we will continue to report on.

Despite numerous challenges we face, we remain committed to sustainable operations and improvement of our responsible business practices, presented to you in the text that follows.



Alen Fontana
Director

Zagreb, May 2015

Dukat - leading dairy industry in Croatia with a century-old tradition

Dukat Dairy Industry Inc. (hereinafter: Dukat), with headquarters 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 a 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 13 associated companies in Croatia and South East Europe.

Dukat Group currently employs more than 1400 people in Croatia, 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 rental and leasing of cars. In 2014, Dukat has achieved revenue from sales in the amount of HRK 1,639 million, of which 91.3 percent 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, insisting 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 dairy industry.

Dukat bases its operations on the processing of top quality raw milk that is produced on Croatian dairy farms. In 2014, Dukat cooperated with almost 5 thousand milk producers, purchasing 239 million kilograms of fresh raw milk, 37 percent of total milk collection in Croatia, thus confirming its status as the largest milk purchaser and processor in Croatia. Its production range consists of milk, dairy products and cheese, comprising more than 400 products, part of which is exported in over 70 countries.

It is local milk of the highest EU quality and investments into the development of new technologies that contributed to Dukat's entering on the 56 markets in Africa, Middle East, Asia and Central America, where, since 2013, it has been exporting its UHT dairy desserts produced at the Zagreb Plant.

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, kosher and ISO 14001 Environmental Management. At the end of 2014, Dukat was also awarded the Halal certificate, which is another confirmation of continuous dedication to quality and excellence, along with preparedness to meet consumer demands.

This report provides an overview of activities implemented in 2014 (01/01 - 31/12/2014) in Dukat Dairy Industry Inc. and does not cover the activities of associated companies operating within the Dukat Group (excluding data on page 4).

In addition to the overview of activities related to the implementation of UNGC principles, the report also provides the answer to a number of G4 sustainability indicators of the Global Reporting Initiative in the area of labour, human rights, environment and society as a whole.



Dukat in Croatia in numbers (2014)

No. 1

dairy industry

1,424

employees

3

production plants

4,813

cooperators

239 million

kilograms of fresh raw milk collected

37 percent

of total milk
collection in Croatia

more than 400

products

4

umbrella brands



3

3 associated companies - KIM Mljekara Karlovac, LA LOG, B.P.A.C. Auto

**MLIJEKO
HRVATSKIH
FARMI**
HPA





HUMAN

RIGHTS

Principle 1

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

Principle 2

make sure that they are not complicit in human rights abuses.

Dukat fully respects human and labour rights based on the Constitution, laws and other regulations of the Republic of Croatia, as well as international conventions. Dukat guarantees and promotes human rights protection through 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 their position in the company depends entirely on performance and success of each individual.

In the area of human resources management, we pay special attention to adherence to the principle of diversity and equal opportunities. We respect all rights and regulations that prohibit child labour, forced or compulsory labour, 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

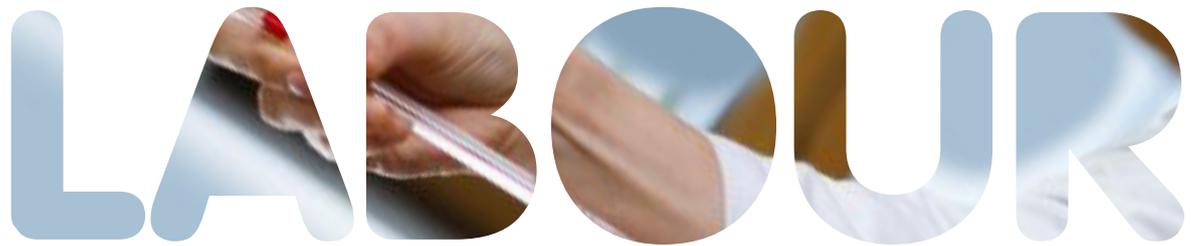
Dukat consistently implements regulations and directives of the European Union and Croatia related to suppression of discrimination and protection of employees' dignity, and procedure protocol in case of violation of dignity is embedded in Work Regulations and Code of Conduct. In the event of a complaint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

There were no reported cases of violation of employees' dignity in 2014 or in 2013.

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.





Principle 3

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

Principle 4

the elimination of all forms of forced and compulsory labour;

Principle 5

the effective abolition of child labour; and

Principle 6

the elimination of discrimination in respect of employment and occupation.

Dukat respects and guarantees all labour 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, and contribution to the community in which it operates.

Freedom of association and collective bargaining

Dukat has a 17 year-long tradition of association and collective bargaining, and 44 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 local works councils and the Central Works Council.

A slight decline in the number of trade union members was recorded in 2014 (from 46 percent in 2013 to 44 percent in 2014) due to reduced subscriptions of new members and gradual retirement of senior members.

Compared to similar companies in the region, the 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. A new addition to the Collective Agreement was signed in 2014, ensuring the same level of employees' rights and confirming the continuity of transparent organization of rights arising from employment, in unaltered form.

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

- Allowance for sick leave exceeding 90 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

Furthermore, employees are entitled to the following bonuses on salary: bonus for years of service, bonus for work in shifts, bonus for work on Sunday and holidays and meal allowance. All Dukat employees are also insured against accidents, regardless of them having permanent or temporary employment and being full-time or part-time employees.

Dukat fosters regular and open communication with the trade union and the Central Works Council, and provides them with information about decisions of importance for the economic and social status of 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

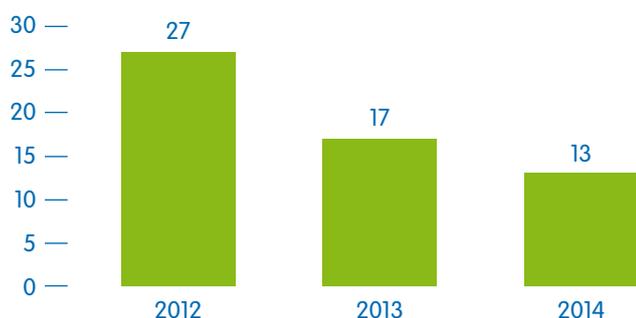
Dukat supports employee initiatives in all forms of humanitarian work and provides incentives and additionally rewards employees who are voluntary blood donors by granting them a day off work and by organizing a joint excursion. Preventive seasonal influenza vaccination is organized at the company premises every year.

Preliminary and periodic medical examinations are regularly carried out for all employees at workplaces with special working conditions, which includes 31.1 percent of employees. 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 Plant and Bjelovar Plant) have 7 members, accounting for 0.6 percent of the total number of employees.

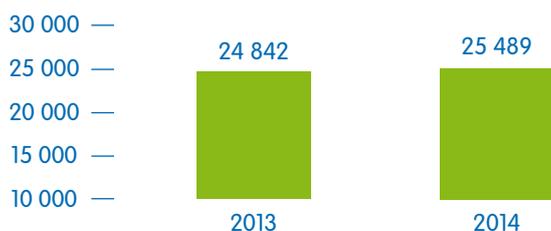
Thirteen minor injuries at work were registered in 2014, which is 23.5 percent less than the year before when there were 17 injuries at work. Eight men and five women were injured, and majority of injuries (9) happened in the workplace, while 4 employees were injured coming to work and leaving work. A significant decrease on injuries at work has been recorded in the past three years, among other things, due to systematic education of employees in production, warehouses and logistic centers, and the "Safety and Health Protection Minute" program.

In 2014, the total number of work days lost due to injuries has significantly decreased - 348 lost work days compared to 680 lost work days due to injuries in 2013.

Number of injuries at work



Number of sick days



The number of sick days slightly increased in 2014, by 2.5 percent, compared to the year before. The goal for the future is to implement activities that should have an impact on decreasing the rate of sick days.

In 2014, parental leave was used solely by women (15 of them), who returned to work after their parental leave had expired.

Dukat shows social sensitivity by covering the cost of treatment and medical aids that are not on the reimbursement list of the Croatian Institute for Health Insurance, when requested by lower-income employees.

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
- Sirela Volunteer Fire-fighting Society
- Dukat Leisure Cycling Club

Tradition of blood donations by Dukat employees

On 25 October, the World Blood Donor Day, 28 employees of Dukat - volunteer blood donors socialized during a one-day excursion for volunteer blood donors. The excursion organized by Dukat is a 36 year-old tradition and sort of a reward for employees who selflessly help others by donating blood. Dukat and its associated companies in Croatia employ approximately one hundred regular blood donors.

Dukat Leisure Cycling Club

During its third year, Dukat Leisure Cycling Club actively worked on encouraging everyday use of bicycles and promoting the environmental, health and social benefits of recreational cycling, simultaneously inspiring cooperation and team spirit among employees. The club records constant increase in the number of members, and at the end of 2014 it had 140 members - employees of Dukat and its associated companies in Croatia.

In April 2014, Dukat organized its first internal cycling race from Zagreb to Šenkovec, 50 km long, with the participation of approximately 30 club members. Cycling marathon in Plitvice, held in June, posed a real challenge for the club. Almost 1,000 competitors participated in the race, including 8 employees - club members. They successfully finished a very challenging marathon and conquered the mountainous terrain, and have once again showed team spirit and selflessness in aiding colleagues and other competitors.

Club members also participated in education on safe cycling, organized by its partner association, Cyclists' Union. They also participated in the organization and competition of Dukat's third cycling race "A Healthy Habit" that took place on Jarun in September 2014.



Education and development of employees

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

In 2014, specialized and development education accounted for 80 percent of the total number of educations at Dukat, compared to 68.9 percent in 2013, recording constant growth over the past years. Legally required training accounts for 20 percent of total education, compared to 31 percent in 2013.

In 2014, the average annual expenditure per employee for education increased to HRK 1,340 (compared to HRK 1,165 the year before), while 550 employees were included in some form of education. Due to the increase in number of shorter educations, the total number of education hours decreased - in 2014 employees participated in 8,200 hours of education, compared to 20,152 hours of education in 2013.

Certificate related education

In 2014, education of employees in production related to IFS standard has continued, with special reference to personal hygiene and good production practice.

Upon successfully completing the certification process, Dukat was awarded Halal certificate in November 2014, guaranteeing the implementation of Halal standards regarding the purchasing process, receiving and storage of raw materials, manufacturing, packaging, labelling, storage and distribution of products. Nineteen Dukat employees were educated as internal auditors for the Halal standard, and are in charge of implementation and maintenance of standard and quality required by the Halal certificate.

Internal education

As part of internal knowledge transfer practice, the total of 9 internal educations were held for 250 employees of Zagreb and Bjelovar plants in 2014. The topics covered food safety, product safety protection, self-control on manufacturing lines, good manufacturing and hygiene practice. Educations were held by Dukat's in-house trainers for production.

Induction of new employees to the company and its activities

Following the already common practice, 11 new employees of Dukat and from the countries of Dukat Group underwent induction training to get acquainted with the strategy, organization, main business processes and activities. During the individualized induction program, employees visited key departments and were introduced to milk and dairy goods processing and production in all three Croatian plants.

Employee development projects

The work on educational and development projects launched in 2013 continued in 2014:

Quality Academy

Following crisis communication, specialized topics related to quality control, and project management in quality control departments, the final module of the Quality Academy was held in 2014, on the topic of *Personal influence*. Six managers from the Quality Control departments of all production plants from Dukat Group countries attended the program.

Senior Talent Pool

Educational program for managers from Dukat Group countries was completed in 2014. The objective of the program was the development of management skills, development of key people, supporting succession, providing incentives for networking among colleagues and disseminating the values of Lactalis Group. Workshops were held by Dukat's in-house trainers-experts and external expert associates. Modules included *Project management, Controlling, Personal influence* and *Leadership*, and parallel to the workshops, 12 participants from 5 Dukat Group countries also worked on the case study of *New Category Creation*.

Mozaik

MOZAIK development program was launched in 2013 and continued in 2014 through two major stages: the first included making a system of competences for plants and implementation of assessment for senior staff of all three factories according to the 360° method. The assessment entailed evaluation of competences of directors, managers and foremen by their superiors, colleagues and subordinates. As a part of this assessment, 79 directors, managers and foremen were evaluated by 530 employees using 1900 questionnaires.

The second and final stage entailed making the educational and development program for foremen of all three plants, and setting up a new system of measurable objectives for the plant managers.

New development project was also launched in 2014:

Development center for Sales and Marketing employees

At the end of 2014, 80 Sales and 6 Marketing employees participated in the Development Center - modern development program with the objective to evaluate the development of employee competences, recognize the potential for accepting more complex tasks and responsibilities in organization, and selection of internal candidates for the new position of supervisor in Sales. The results of the program will serve to create further individual development steps and education programs for Sales and Marketing employees.

Performance appraisal

Performance is evaluated each year within the *People review* project and individual development is created for employees with recognized high work potential. Readiness for international mobility is also assessed and defined with the employees. In 2014, 10 percent of employees were included in the performance appraisal system, compared to 14 percent in 2013.

Traineeship

As in the previous years, we continued successful cooperation with vocational secondary schools in Zagreb, Bjelovar and Križevci, and 6 students of Vocational School in Bjelovar completed traineeships in the Bjelovar Plant in 2014.

Students of the faculties of Agronomy, Food Technology and Biotechnology, Business and Economy and other faculties also do their internships in Dukat, and in 2014, 3 students completed their internships in Dukat.

Partnership on the project "Experience is Gold"

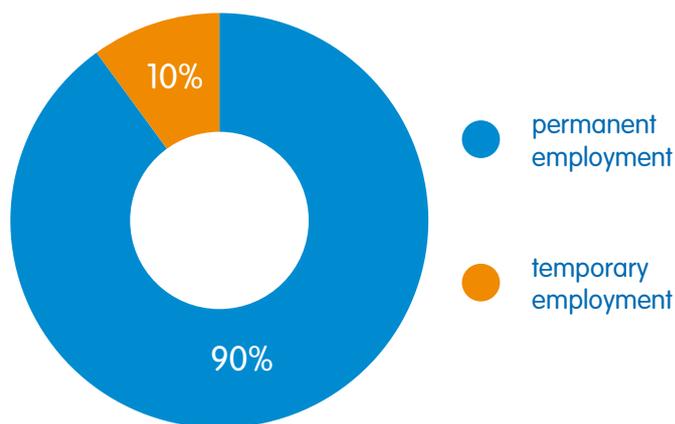
Dukat partnered up with Poslovni dnevnik on the project which proved to be the driver of inclusion of students with disabilities in the labour market, and a project that will help tear down social prejudice and barriers related to their employment. As part of the project, one student with disabilities completed her traineeship in Dukat during October and November. Otherwise, Dukat employs 28 people with disabilities, who greatly contribute to the achievement of common business goals.

Data about employees

Type of employment

Dukat has 1,116 employees, 90 percent of which have permanent employment contracts, compared to 93 percent in 2013. Labour rights, rights arising from the Collective Agreement and benefits apply equally to all employees, regardless if they have permanent or temporary employment, full-time or part-time employment, and if they are union members.

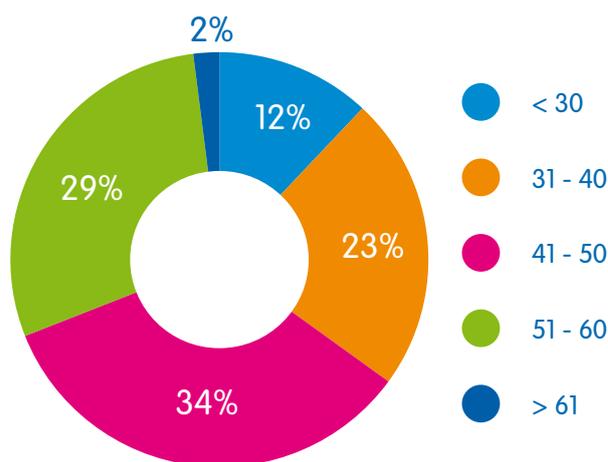
The total of 115 people were employed in 2014, 5 of which women. In 2014, employee turnover rate was 9.5 percent, compared to 17 percent in 2013. The major cause for the drop in the turnover rate lies in the implemented restructuring of logistics and separation of delivery operations in 2013.



Year	Total number of employees	Permanent Employment	Temporary Employment
2013	1,161	1,081	80
2014	1,116	1,008	108

Age structure

Age of employees	2013	2014
< 30	135	139
31 - 40	274	255
41 - 50	403	383
51 - 60	320	320
> 61	29	19
Total	1,161	1,116

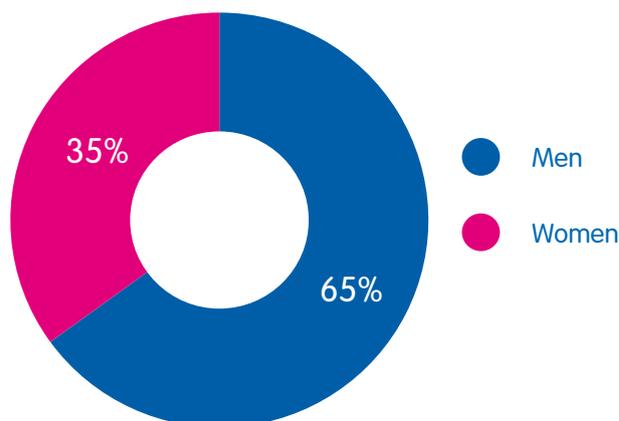


The average age of employees at the end of 2014 was 44, same as at the end of 2013.

Gender

Gender	2013	2014
Men	761	725
Women	400	391
Total	1,161	1,116

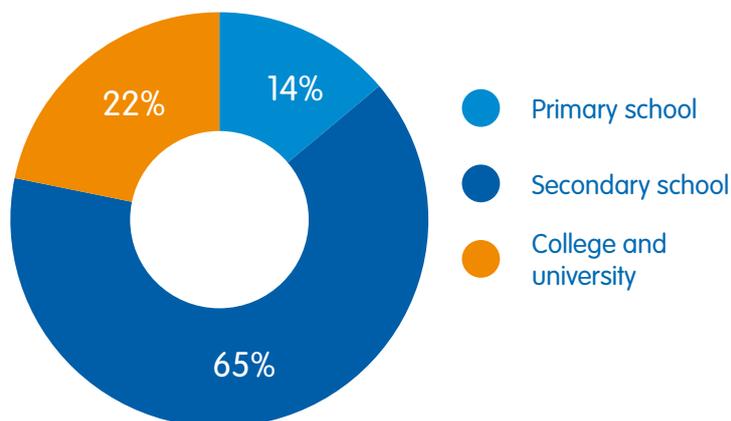
The majority of Dukat employees are men (65 percent), while women account for 35 percent, which is almost identical to the ratio of the year before (66 percent men and 34 percent women).



Education

Education	2013	2014
Primary school	160	155
Secondary school	762	720
College and university	239	241
Total	1,161	1,116

The majority of employees (65 percent) have secondary school qualifications, while 14 percent of employees have college and university degrees.

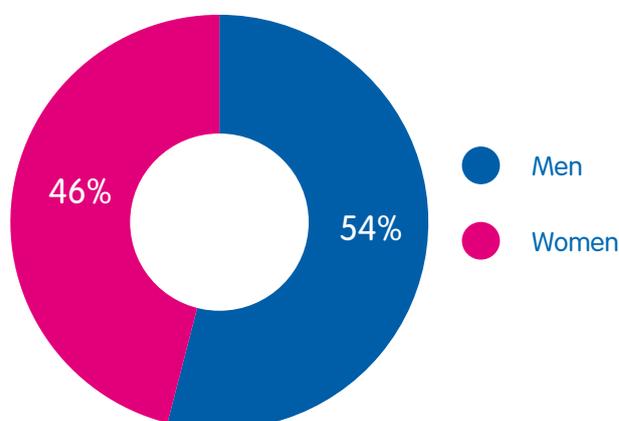


Composition of governance and management bodies

Year	Gender	Average age	Number
2013	Men	45	45
	Women	45	26
2014	Men	44	49
	Women	43	41

In 2014, the share of women in governance and management positions at Dukat was 46 percent, which is significantly higher than in 2013, when it was 37 percent.

We pay special attention to hiring of domestic labour and local experts, including for management positions. The share of Croatian citizens in the top management is 33 percent and in senior management 92 percent.



The ratio of salaries and benefits

The salary and benefits policy is based solely on the type and complexity of the job, responsibility, knowledge and skills necessary to complete tasks and results, excluding any form of discrimination based on gender, nationality or any other personal characteristic. The average gross salary per employee increased by 2 percent in 2014, compared to 2013, or 0.3 percent compared to the average net salary in 2013.

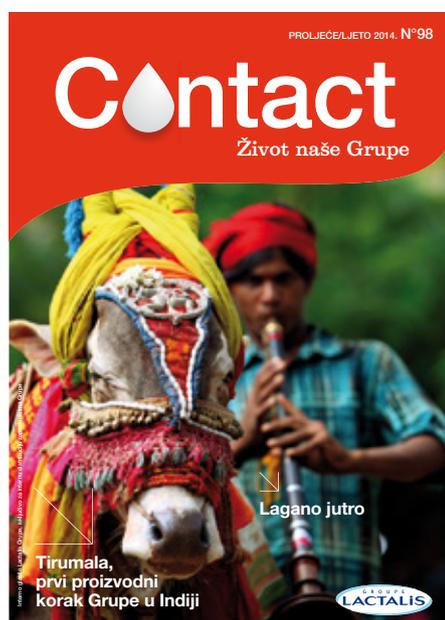
Internal communication

Various channels are used for internal communication: the Intranet, e-mail, VPN mobile system, in-house newsletter Contact, notice boards, meetings and "face-to-face" communication.

Local version of the in-house magazine Contact, published quarterly, is intended for the employees of Dukat and the Dukat Group. 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.

Moreover, Dukat fosters the 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.



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 and individuals. These projects include health care, caring for healthy habits, child care, encouraging education related to proper and balanced diet, moving, and participation in humanitarian campaigns. Dukat also focuses on assistance to particularly vulnerable society groups and individuals.

In 2014, through donations of funds and own products, Dukat invested in:

Financial donations

- **Humanitarian causes and health care:**
Zagreb Rehabilitation Center
- **Sports:** Sirela Bowling Club

Donations in own products

- **Humanitarian causes:** Zagreb Home for Children, St. Joseph Home for Children in Hrvatski Leskovac, Brezovica Home for Abandoned Children, Association ADHD i ja (ADHD and I), Remar Center, Vox Populis Initiative, House of Hope - "Daily Care Shelter", Humanitarian Association Put mira, Mali zmaj Association, Jedni za druge Association (For Each Other), Association of Disabled Persons Bjelovar, Voluntary Fire House Letovanić, Red Cross Karlovac, soup kitchens in Osijek, Slavonski Brod, Varaždin, Knin, Zadar, Šibenik and Split, Caritas Sisak, Caritas Slavonski Brod, Archdiocese of Đakovo-Osijek - Good Shepard Parish, Đakovo Monastery, Đakovo Holy Trinity Parish, humanitarian campaign Dobro je činiti dobro (It's good to do good) in Đakovo, Homes for the elderly and the disabled in Adamovec, Beli Manastir, and Čakovec, Rehabilitation Center Pustodol, Rehabilitation Center Varaždin, Center for Education Velika Gorica, Home for mentally ill persons Lobar Grad, Čakovec Hospital, humanitarian play for Zagreb homes for children, Merry Christmas Tram in Osijek, six primary schools, six kindergartens

Aid to the residents of flooded areas

In May 2014, Dukat joined the action for providing assistance to the citizens of Županja Posavina who were affected by floods. Fifteen tons of UHT milk was donated to the residents of the flooded Županja and Brod area, and employees joined the action by collecting food, hygienic supplies, clothing, water and blankets that were delivered to the local centers of Red Cross by Dukat and La Log trucks.

In 2014, through **sponsorships**, Dukat helped organize a series of cultural, educational, professional, sports and gastronomic events:

- **Culture:** Cest is D Best, Trešnja City Theatre, Silvija Hercigonja Days, Rijeka Carnival, Youth film festival, Photo days of young people, International Knight Tournament St. Helena, celebration of the French National Day, Megablast Dance Club, Carpe Diem - Youth meeting in Karlovac
- **Education:** Scholarships and Higher Education Fair - gold sponsor, Golden Index Award, Education Development Institute, Food Technology and Biotechnology Faculty - sensory exercise, French week on RTL kockica
- **Sports:** Jadran Rijeka Rowing Club, Zagreb Ski Club, Sesvete Basketball Club, Princ Zagreb Softball Club, Bjelovar Taekwondo Club, Ilovac Soccer Club, Children's soccer tournament Rijeka, Đakovo Bowling Club, Dugo Selo Auto moto Club, Cycling Union Association, Adria Bike Marathon, EuroZagreb - Mladost Open 2014
- **Symposia and conferences:** 41st Croatian Dairy Experts Symposium - main sponsor, The Power of Croatian Food
- **Fairs and gastro events:** Zagreb Coffee & Chocofest, Children's Fair Zagreb, Croatian Culinary Federation, Croatian Culinary Cup
- **Entertainment:** Zagreb Zoo, Ferenščica Days, 7th Učka mommy and baby marathon



Creative drawing contest "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. Almost 5,000 elementary school students and their teachers from all parts of Croatia participated in the competition over the course of three years.

The novelty of the third edition of the competition "I love milk" was a call to students to draw what they would like their packaging of Dukat milk to look like. We received 2,000 drawings of students from 182 primary schools from all parts of Croatia. In addition to the four winning drawings that were applied to the UHT milk packaging, the total of 100 finalist drawings were presented in the online gallery and on Dukat's Facebook page. Announcement of the winners and creative workshops for the grades of awarded students were held in the Museum of Contemporary Art, a partner in the project, and all participants were sent personalized thank-you-letters.

Open Door Days for primary school pupils

As part of the "Dukat's Open Door Days" educational and fun project, implemented under the patronage of the Ministry of Science, Education and Sports, since 2012, Dukat has been a host to third and fourth graders from Croatian primary schools. During their visit to Dukat's production plant, pupils have the opportunity to learn about the milk's route "from the field to the table" and about the importance of everyday consumption of milk and dairy products for proper growth and development of children. In 2014, Dukat's Zagreb plant was visited by almost 500 pupils from 11 primary schools, and since the project was launched, more than 1000 pupils participated (October 2012 - December 2014).





ENVIRONMENT

Principle 7
Businesses should support a precautionary approach to environmental challenges;

Principle 8
undertake initiatives to promote greater environmental responsibility; and

Principle 9
encourage the development and diffusion of environmentally friendly technologies.

Strategically focused on a responsible attitude towards the environment and operations in accordance with sustainable development principles, over time, Dukat has been building its own environmental management system, continuously reducing negative impact on the environment.

Materials

Packaging

As a large-scale producer, we take account 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.

Total weight of packaging put in circulation in 2014 - Dukat Inc.:

Multi-layer paper packaging	1,500 t
Paper/carton	2,000 t
PET	580 t
HDPE	1,400 t
Other polymers (PS, PE)	1,300 t

Data on packaging put in circulation (in kg) - Dukat Inc.

Type of packaging material	2013	2014
Metal (Al bottle for whipped cream 250 ml)	32,592	34,317
Paper/glue (carton)	2,027,053	2,076,112
Multi-layer packaging with predominant paper component for milk beverages	1,523,914	1,771,695
PET	577,305	595,918
Polymers	1,317,137	1,298,339
PEHD	1,407,538	1,377,207
Total	6,885,539	7,153,588

In 2014, 5 percent more packaging was put into circulation compared to 2013, as 5 percent more milk was processed compared to the year before. The percentage of used material as the recycled input material was less than 5 percent.



Energy

Electricity

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. The consumption of electricity is increased from June to September due to the increase in production during seasonal demand and intense usage of the cooling system.

Electricity	2013	2014
Zagreb Plant	22,400,782 kWh	22,660,752 kWh
Bjelovar Plant	9,711,301 kWh	9,447,151 kWh

In 2014, the total power consumption in the Zagreb Plant was 22,660,752 kWh, which is 1.2 percent higher compared to the consumption in 2013. Total power consumption in the Bjelovar Plant was 9,447,151 kWh during 2014, which is 2.7 percent less than in 2013.

Steam

Steam	2013	2014
Zagreb Plant	41,541 †	43,997 †

Total steam consumption in the Zagreb Plant was 43,997 tons during 2014, which is 5.9 percent higher than the steam consumption in 2013.

Bjelovar Plant has its own thermal energy production - steam.

Gas

Gas	2013	2014
Zagreb Plant	1,974,861 m ³	3,394,554 m ³
Bjelovar Plant	2,570,137 m ³	2,404,670 m ³

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 2014, 3,394,554 m³ of gas was consumed, which is 71.8 percent more compared to the gas consumption the previous year (1,974,861 m³). The reason for such increased gas consumption is greater volume of own steam produced (83 percent).

Emissions of pollutants into the air from both plants were measured in December 2014, and the values met the prescribed emission limit values according to the Ordinance on limit values of pollutants in the Air.

In 2014, Bjelovar Plant consumed 2,404,670 m³ of gas, which is 6.4 percent less than the consumption in 2013.



Water

Dukat assigns great importance to the economic water consumption and constantly strives to find new ways for reducing its consumption. Both plants (Zagreb and Bjelovar) draw most of the water from their artesian wells, while the rest is used from the public water supply.

In 2014, at the Zagreb Plant site, 99 percent of water was used from own well, same as in 2013, and only 1 percent was used from the public water supply. At the Bjelovar plant site, 58 percent of well water was used and 42 percent of public water supply (compared to 97 percent of well water and 3 percent of public water supply the year before).

Water	2013			2014		
	Volume (m3)					
	Public Water Supply	Own well	Total	Public Water Supply	Own well	Total
Zagreb Plant	3,227	366,960	370,187	8,963	402,373	411,336
Bjelovar Plant	7,058	253,908	260,966	98,520	138,266	236,786

In 2014, total water consumption at the Zagreb Plant was 411,336 m3, which is 11.1 percent higher than the total water consumption in 2013. Water consumption from the public water supply was 8,963 m3, which is 177.5 percent higher than in 2013 (3,227 m3).

Water consumption from own well was 402,373 m3, or 9.7 percent higher than the year before.

The index of production (IP per one kilogram of a produced product) in 2014 increased slightly to 3.68, from 3.5 in 2013. This increase in consumption of water per kilogram of

product is the result of technical changes in production and warehouse premises, the production of own technological steam and the production trend.

Total water consumption at the Bjelovar Plant was 9 percent lower in 2014 (236,786 m3) than the consumption in 2013.

The average ratio of water consumption over processed milk was 3.3 l of water/kg of processed milk in 2014, which is slightly more compared to the 2013 ratio (3.2 l of water/kg of processed milk).



Air emissions

Zagreb Plant

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

The emissions of pollutants into the air from both plants were measured in December 2014, and the 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 2014

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)	HRN EN 14792:2007	4,131
Carbon dioxide (CO ₂)		4,181,142
Carbon monoxide (CO)	HRN EN 15058:2008	61.7

Data on fuel type and consumption

Fuel	Fuel consumption	Unit of measure	Lower heating value	Share of Sulphur (mas. %)	Share of ash (mas. %)
Natural gas	2,374,183	m ³ /yr	33,338	-	-

Data on emission measurement results

Gas fuel:		Natural gas
Substance	Measurement result (mg/m ³)	
Nitrogen oxides as nitrogen dioxide (NO ₂)	174	
Carbon monoxide (CO)	2.6	

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)	HRN EN 14792:2007	1,927
Carbon dioxide (CO ₂)		1,893,489
Carbon monoxide (CO)	HRN EN 15058:2008	26

Data on fuel type and consumption

Fuel	Fuel consumption	Unit of measure	Lower heating value	Share of Sulphur (mas. %)	Share of ash (mas. %)
Natural gas	1,017,507	m ³ /yr	33,338	-	-

Data on emission measurement results

Gas fuel:		Natural fuel
Substance	Measurement result (mg/m ³)	
Nitrogen oxides as nitrogen dioxide (NO ₂)	174	
Carbon monoxide (CO)	2.6	

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 the production of hot air (dried milk drying plant) - emissions of combustion products,
- one outlet of the dried milk drying plant de-duster (non-energy) - organic dust.

The emissions of pollutants into the air from plants were measured in December 2014, and the values met the prescribed emission limit values under the Ordinance on limit values for pollutants emissions into the air.

Emissions into the air from production processes

Type of outlet:	Whey drying tower shaft
Data on emission measurement results	
Substance	Measurement result (mg/m ³)
Particles (PM 10)	13.6

Data on the type and quantity of emissions		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Particles (PM 10)	HRN EN 14792:200	3931

Type of outlet:	Thermoelectric generator chimney	
Data on the type and quantity of emissions from outlets		
Pollutant	Standard / methodology	Quantity of emissions: total (kg/yr)
Carbon monoxide (CO)	HRN ISO 12039	64.09
Carbon dioxide (CO ₂)	/	357,774
Nitrogen oxides as nitrogen dioxide (NO ₂)	HRN ISO 10849	640.9
Particles (PM 10)	/	5.77

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	2,579.83
Carbon monoxide (CO)	HRN EN 15058	515.96
Carbon dioxide (CO ₂)	/	2,894,564.91
Particles (PM 10)	/	43.03

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	1,105.64
Carbon monoxide (CO)	HRN EN 15058	221.13
Carbon dioxide (CO ₂)	/	1,240,527.82
Particles (PM 10)	/	35.21

Waste water

Zagreb Plant

In 2014, occasional deviations of individual parameters (oxygen chemical consumption, BPK5, pH, total oils and fats value) from the set values of the water management license for the discharge into the public sewerage system of the city of Zagreb were recorded at the site of the Zagreb Plant. Intense efforts are made to optimize the management of incongruent products from production and products with expired shelf life, which will eliminate these occasional excesses.

Technologies for reducing emissions into water

- Filters have been installed in the production plants sewers which separate labels, caps and other materials.
 - Chlorine-based chemicals have been replaced by peroxide- and acetic acid-based formulas.
 - Technological processes in the plant have been 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 m²/day, and the 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 2014, the total of 323,060 m³ of technological waste water was processed by the waste water treatment plant, which is 14.2 percent more than in 2013.

The average value of chemical oxygen demand (COD) in water after the treatment procedure was 339 mg/l, which is 28 percent less than in 2013 when COD 472 mg/l.

A decrease in the waste water treatment factor (Fx) is also noticed, as it was 1.44 in 2014 compared to Fx being 1.67 in 2013.

Waste

Waste generation and its 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 way. Precisely for this reason, continuous efforts are directed at the prevention and constant reduction of generation of all types of waste and waste management in accordance with economic principles. It is also the objective of the company to reduce communal waste generation by increased selection of generated waste and to reduce the volume of returns from the market.

In 2014, the total volume of separated waste received at the Zagreb plant was 1,147 tons, which is 42 percent lower than in 2013 (1,970 tons). There were 1,119 tons of non-hazardous waste collected, or 41.9 percent lower than the year before (1,959 tons). Decrease in the volume of waste at the Plant site was the result of warehouse relocation and de-packaging of non-conforming products from production and from the market outside the factory site.

In the total balance, mixed packaging was the most collected, followed by waste paper and cardboard and multilayer packaging waste. In 2014, the total volume of separated and received hazardous waste increased to 27.6 tons, from 11.6 tons of the year before.

Non-hazardous waste in the Bjelovar Plant mostly included paper and cardboard packaging. In 2014, the total of 1,703 tons of waste was sorted by type.



Consumption of chemicals

Zagreb Plant - consumption of washing and disinfecting agents

Total volume of washing and disinfecting agents	2013	2014
	942,060 kg	970,082 kg

In 2014, Zagreb Plant consumed 2.9 percent more washing and disinfecting agents than the year before. Sodium base was the most used, and 485 tons of it, which is 53 tons more than in 2013. There were 46 tons of nitrogen peroxide used, which is 1 ton less than the year before.

Bjelovar Plant - consumption of chemicals in waste water treatment plant

Total volume of chemicals utilized in waste water treatment plant	2013	2014
	151,270 kg	166,020 kg

At the Bjelovar Plant, the total volume of chemicals utilized in the waste water treatment plant was 9.7 percent higher in 2014 than in 2013. The consumption of Aquaklar was 117 tons, which is 17 percent lower compared to the year before, while the consumption of Aquaflok was 13.5 percent lower than the consumption in 2013 (7.7. tons).

Noise

Noise for the day and night work conditions at the Zagreb Plant site ranges within the legally permissible limits. Since Bjelovar Plant borders with residential noise zones on the southeast and the southwest side, at the time when the noise level was measured for the purpose of preparing integrated environmental requirements, minimum exceeding of permissible level of noise was established.

Compliance

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

No major deviation from the legal and other regulations and requirements was recorded in 2014. 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 with regard to impact on environment

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

- The frequency of environmental disasters at the point of delivery (activities of suppliers or carriers did not cause any pollution at the plant in the course of last year: accidental gas dispersion or emission, spilling of liquids, fire)
- Adherence to environmental requirements (supplier or carrier adheres to prevention plans, security protocols, rules for unloading the remains of liquid cargo on the 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 2014, all suppliers received the highest grade with regard to impact on the environment.

Dukat employees volunteer in clean-up campaign for the third time

In 2014, 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. Eighty employees from all three of Dukat's plants participated in the action, collecting and sorting more than 30 cubic

meters of waste from four illegal dumping sites in Zagreb, Bjelovar and Karlovac. Along with collected waste, employees donated the total of 180 working hours voluntarily joining the clean-up. In the past three years, 201 Dukat employees participated in the action, freeing the environment from 106 cubic meters of waste.

Objectives for 2015

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

Zagreb Plant

- Reduce water consumption to 3 m³/t of products
- Reduce power consumption to 195 kWh/t of products
- Improve existing operational waste management practice with the aim to achieve maximum selection

Bjelovar Plant

- Reduce water consumption in proportion to processed milk volumes by 2 percent
- Reduce gas consumption in proportion to processed milk volumes by 2 percent





ANTI-

CORRUPTION

Overview of relevant sustainability indicators (GRI G4)

In preparing this report, along with the ten UN Global Compact principles, the following sustainability indicators (GRI G4) of the Global Reporting Initiative were taken into consideration:

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I. Human Rights		
G4-HR3	Total number of incidents of discrimination and corrective actions taken	6
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	6
G4-HR6	Operation and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	6
II. Labour		
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	8
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	12
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	12
G4-LA3	Return to work and retention rates after parental leave, by gender	9
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	8
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G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	11
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	14
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With the aim of promoting healthy lifestyle and bicycle riding, in September, Dukat organized the third cycling race “A Healthy Habit” and “Dukatino race for children” on Jarun in Zagreb. More than 400 cyclists of all ages competed in five categories, and more than half were children.

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

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