



Network Croatia
WE SUPPORT

Statement of continued support and business challenges

It is my pleasure to present to you our sixth Corporate Social Responsibility Report, as a demonstration of application and commitment to the United Nations Global Compact principles, covering the activities of Dukat Inc. in the area of human rights, labor, environment and anti-corruption in 2017.

Responsible business operation has always been the strategic focus 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.

We systematically apply and promote the United Nations Global Compact principles in the area of human rights protection, labor, environment and anti-corruption. We also seek to incorporate the Sustainable Development Goals into our business strategy, to ensure the long-term sustainable growth of Dukat Inc. and all our stakeholders. Nevertheless, we emphasize that the context of Dukat Inc. 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.

Despite positive economic and sectoral trends, the key issue the domestic dairy sector faces remains the pressure on retail prices, especially retail prices of UHT milk and semi-hard cheese, due to increased entry of market surpluses at extremely low prices from EU and other countries.

Despite difficult conditions in which it operates, in 2017 Dukat Inc. continued to base 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 acknowledging 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, also follows the guidelines of the Global Reporting Initiative (GRI) 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.

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



Alen Fontana
Director

Zagreb, February 2018

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

Dukat 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 1,531 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 2017, Dukat has achieved revenue from sales in the amount of HRK 1.76 billion, 85.1 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 2017, Dukat cooperated with more than three thousand milk producers, purchasing 202.3 million kilograms of fresh raw milk. With 29.7 percent share in the purchase of total processed milk in Croatia, Dukat holds the position of one of the largest purchaser of fresh raw milk in the country.

Its production range consists of milk, fermented products, cream, dairy spreads, deserts, butter and cheese. In 2017, Dukat produced 192 million kilograms of products in its range, comprising 292 Dukat, Sirela, President and Galbani brand products. In 2017, 45 new products were introduced to Croatian consumers. Dukat also markets brand products of

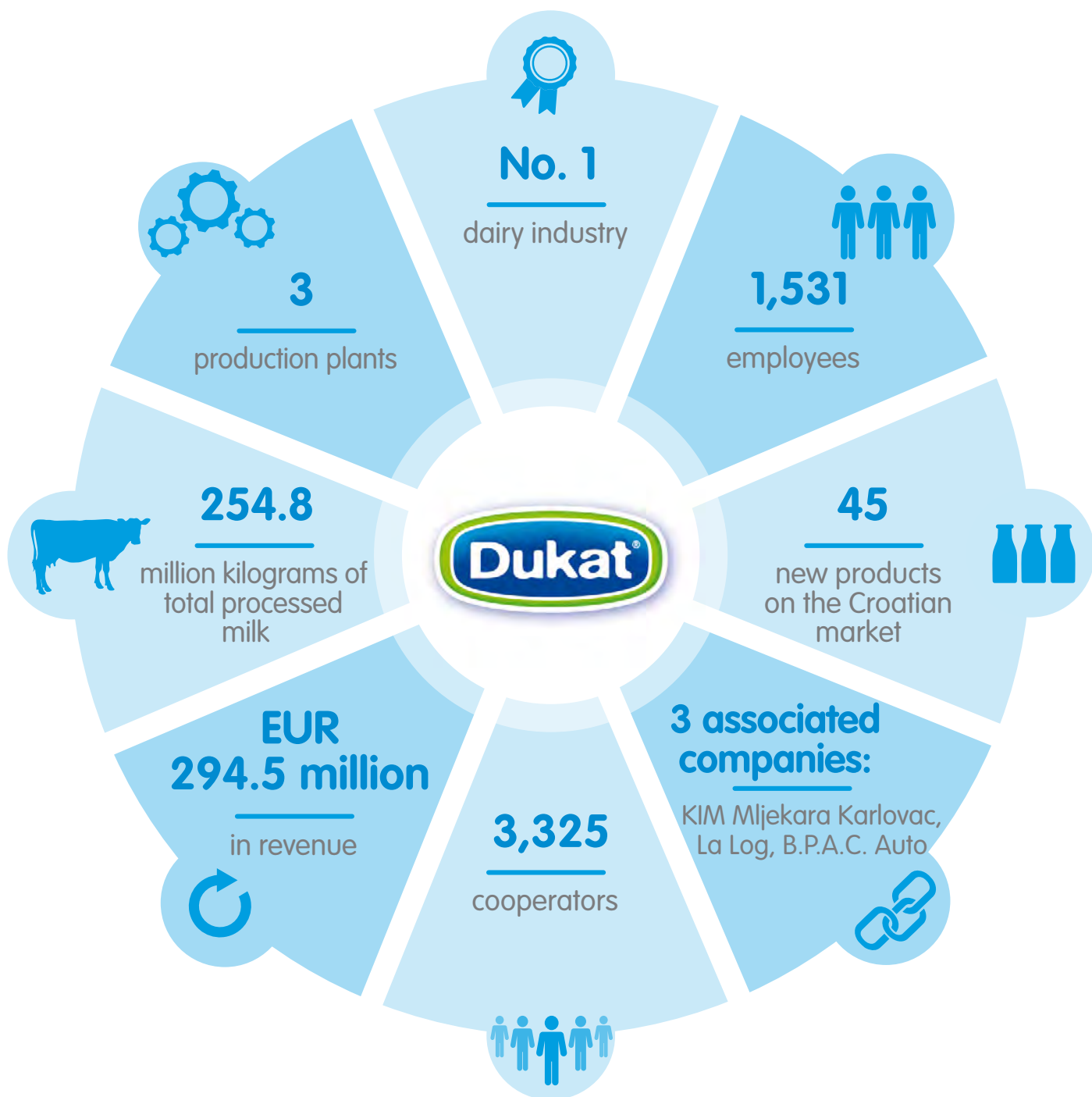
companies operating within the Lactalis Group, such as Alpsko mleko, MU, Lactel, Parmalat, Societe, Galbani Salumi etc., and its total sales range comprises more than 400 products.

It is exactly the local milk of the highest EU quality and investments into the development of new technologies that contributed to Dukat's entering approximately 80 markets in Africa, Asia, Middle East, French Overseas Territories, Central America and Europe, where it has been exporting its thermized dairy desserts produced at the Zagreb Plant since 2013. Dukat exports its products and innovations that were developed and commercialized on domestic market in 86 world countries. Exports to Italy, Serbia, Switzerland and Romania increased in 2017, resulting in export growth of 9 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 the end of 2017.

This report provides an overview of activities implemented in 2017 (01/01 - 31/12/2017) in Dukat Inc. and does not cover the activities of associated companies operating within Dukat Group.

Dukat Group in Croatia in numbers (2017)

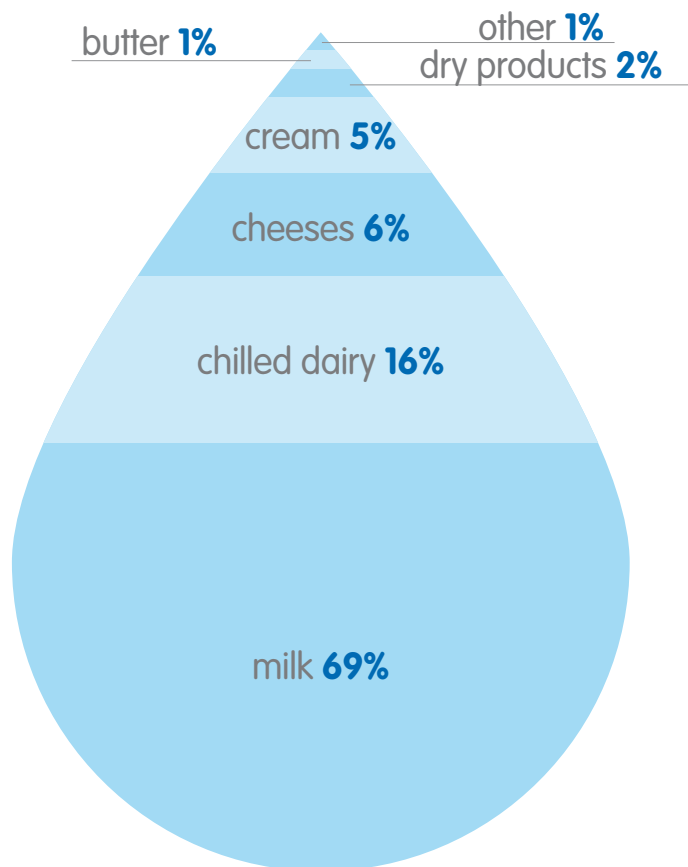


292 products

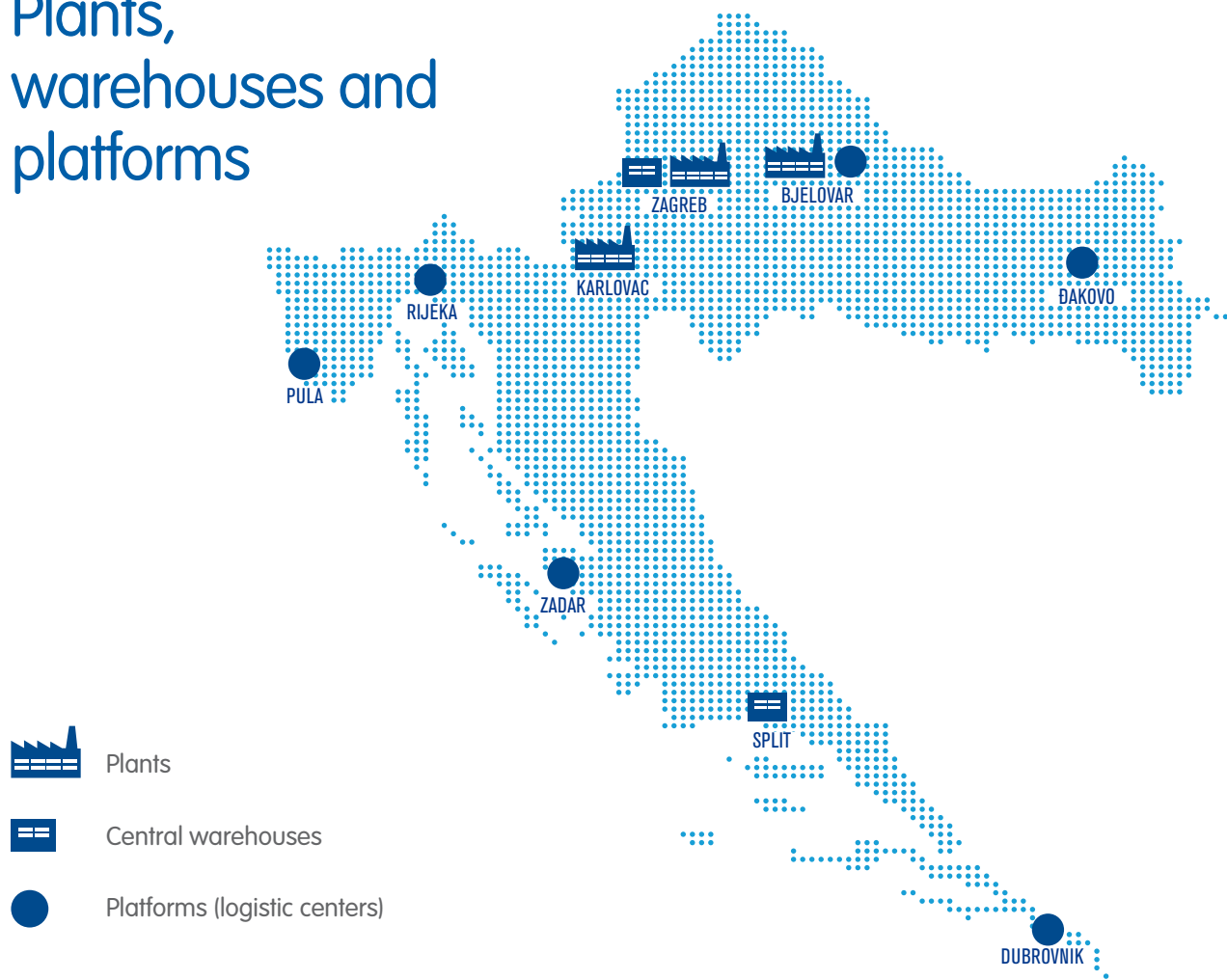
4 umbrella brands



Revenue by Product Categories



Plants, warehouses and platforms



1

HUMAN RIGHTS



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

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 labor 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 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.

There were no reported cases of violation of employees' dignity in 2017, just like there were none during the two previous years.

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.

Dukat signs Diversity Charter

At the end of 2017, Dukat signed the Diversity Charter Croatia, an initiative launched in 20 European Union countries. Thirty-eight companies and organizations signed the 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. By signing the Charter, Dukat committed to adopting the policy of respecting diversity and non-discrimination, implementing and promoting diversity principles, and reporting on activities undertaken in this area. In 2018, Dukat will produce an internal diversity policy and an action plan for its implementation.

2

LABOR



Dukat respects and guarantees all labor rights and systematically works on improving the quality of work environment, education and development of employees, and contributes to the community in which it operates

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 and

PRINCIPLE 4

the elimination of all forms of forced and compulsory labor,

PRINCIPLE 6

the elimination of discrimination in respect of employment and occupation.

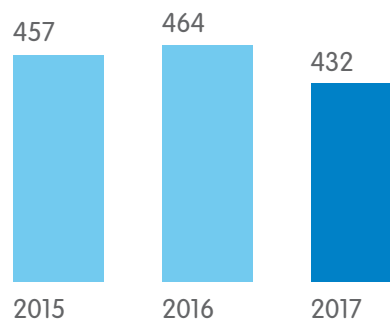
Dukat respects and guarantees all labor rights prescribed by law and the Constitution, and systematically works on improving the quality of work environment, education and development of employees, care for health and safety at work, and contribution to the community in which it operates.

Freedom of association and collective bargaining

Dukat has a 20-year-long tradition of association and collective bargaining, and 35 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 2017, 432 employees, or 40 percent, belonged to the Trade Union of the Employed in Agriculture, Food, Tobacco and Water Industries of Croatia. While the previous two years have an almost equal number of employees who were members of the Union (457 in 2015 and 464 in 2016), decrease of 7 percent in 2017 is the result of hiring new employees and retirement of some employees who were Union members.

Number of 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 2016 and 2017 was printed as pocket edition and handed to each employee of Dukat at the beginning of 2016. New Collective Agreement was signed in 2017, for 2018

and 2019, additionally expanding the material rights of employees.

A number of material rights 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

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.

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.

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.

Health protection and safety at work

Dukat supports employee initiatives in all forms of humanitarian work, 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 each year. In November 2017, 64 employees were vaccinated on three locations (Zagreb, Bjelovar and Karlovac) and in logistics centers. 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 2017, 750 employees were tested and none of those examined tested positive as carriers.

In April, May and November 2017, 176 employees attended training and have passed the hygiene minimum exam. In-house training on personal hygiene of employees, occupational hygiene and the environment, and requirements for HACCP for food transport included target

employee groups (warehouse employees, drivers), as well as all newcomers who started working in the warehouse of finished goods and production. The training included 188 employees.

Preliminary and periodic medical examinations are regularly carried out for all employees at workplaces with special working conditions. In 2017, this included 473 employees (39 percent of employees compared to 22.5 percent the year before).

New air-conditioning for the Store for Ripening of Cheese at the Bjelovar Plant

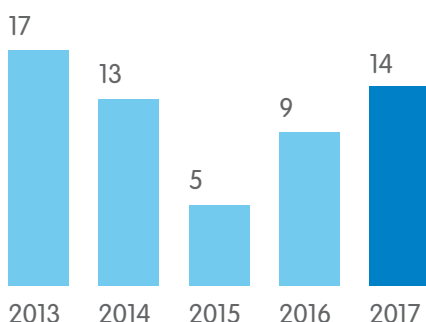
During 2017, a new air-conditioning system regulating humidity and air temperature was installed at the store for ripening of cheese, to protect the health of employees at Bjelovar Plant. Installation of the modern air-conditioning system, with associated filters, also increased air quality in packaging and cheese salting areas, thus improving the working conditions for employees. The existing locker rooms were also expanded, with the aim of improving conditions for employees rest, and additional room was added and equipped for that purpose as well.

Education on prevention of stress in the workplace

In 2017, in-house education "Stress at work and related to work" was initiated and implemented. Education included 287 employees from Bjelovar Plant and logistic centers in Pula, Rijeka, Zadar, Split, Dubrovnik and Đakovo, and 70 employees from KIM Karlovac plant. In 2018, this education will include Dukat employees in Zagreb.

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 Injuries at Work



Fourteen injuries were registered in 2017 (10 minor and 4 major), which is 55.6 percent more than the year before when there were nine injuries at work. Nine men and five women were injured, and majority of injuries (12) happened in the workplace, while two employees were injured coming to work or leaving work. The highest increase in number of injuries occurred at the Bjelovar plant, where seven workplace injuries were registered in 2017 and none the year before.

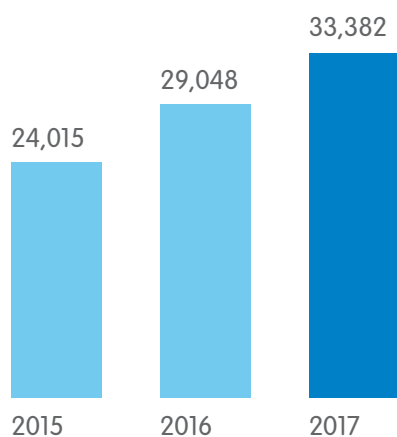
Although a significant decrease in work related injuries was recorded from 2013 to 2015, due, among other things, to systematic education of employees in production, warehouses and logistic centers, and "Safety and Health Protection

Minute" program, in 2016, and especially in 2017, the number of workplace injuries increased. Injured employees were mostly those with less work experience and seasonal warehouse workers.

To reduce workplace injuries and increase safety and health protection of employees, in 2017, Occupational Safety and Protection Policy and 12 Golden Rules of Safety at Work were introduced, and both documents are handed to new employees.

Despite an increase in the number of injuries, in 2017 there was a decrease in the number of lost work days due to injuries - from 489 work days in 2016 to 402 days in 2017.

Number of Sick Days

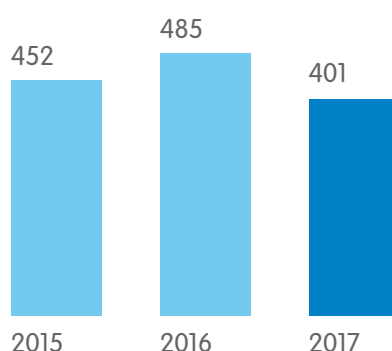


In 2017, the number of sick days increased by 15 percent compared to the year before, while in 2016 it was 21 percent higher than in 2015. Unfortunately, the trend of increase in the number of sick days since 2015 is the reflection of severe illness or surgical procedures.

In 2017, parental leave was used by 15 employees - 13 women and 2 men (five women less and one man more than in 2016), which is 27 percent less than the year before. After their parental

leave expired, 11 employees returned to work, one continued using parental leave in 2018 and two employees changed companies. Number of fathers - employees who are using parental leave has increased in the past several years: in 2015, parental leave was used by one man and 17 women, in 2014 it was used exclusively by women - 15 women and no men.

Number of Paid Leave Days



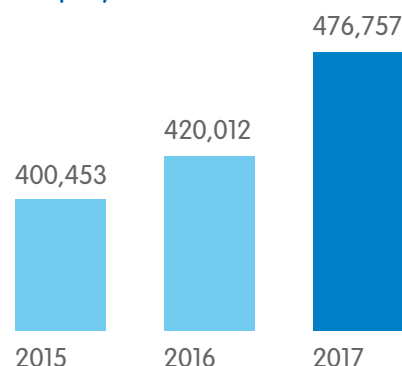
In 2017, employees used 401 days of paid leave, which was 17 percent less than the previous year. In 2016, employees

used 485 days of paid leave and in 2015 they used 452 days. Employees are entitled to paid leave based on their right 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, moving and natural disasters.

Employee Aid

Dukat helps its employees and their families overcome difficulties by providing them with financial aid in various situations, it acknowledges their requests related to the improvement of social status, medication payments, therapies, medical aides and the like. In 2017, Dukat allocated HRK 476,757 for this purpose, an increase of 14 percent compared to 2016, while HRK 400,453 were paid in 2015, signifying constant growth of financial aid to employees.

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

Tradition of blood donations by Dukat employees

Sixty employees donated blood in 2017, in two organized volunteer blood drives in the work place, which is 20 percent more than the year before. In October, a volunteer blood donor month, 30 employees of Dukat and associated companies (KIM, La Log and B.P.A.C. Auto) who are also long-time blood donors, socialized during a one-day trip to Slovenia, visiting Ljubljana, Bled and Bohinj. The excursion organized by Dukat is an almost 40-year-old tradition and sort of a reward for employees who selflessly help others by donating blood.



Dukat Leisure Cycling Club

During its sixth year, Dukat Leisure Cycling Club 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 146 members - employees of Dukat and its associated companies in Croatia.

The year 2017 was marked by numerous cycling events and races. Club members participated in six cycling events, five of which they organized themselves. They explored the beautiful scenery of Samobor, Dugo Selo, Duga Reda and its rivers, Otočac, the springs of Gacka river, Hrvatsko zagorje and the area of Brežice in Slovenia

on two wheels. Other than their common recreational rides, members of RBK Dukat also participated in four challenging mountain-bike races from the Adria Bike Series: Plitvice, Fužine, Baška, and "Catch the Wind" race on the island of Brač. While participating in cycling events and races, passing 10,000 kilometers and promoting healthy habits and active way of life, in 2017, club members have continued to proudly wear Dukat Fit colors, the line of products enriched with protein.

As in previous years, in September 2017, members of the Club participated in the organization of Dukat's sixth cycling race Dukat Fit on Lake Jarun. They also competed in the race.



Education and development of employees

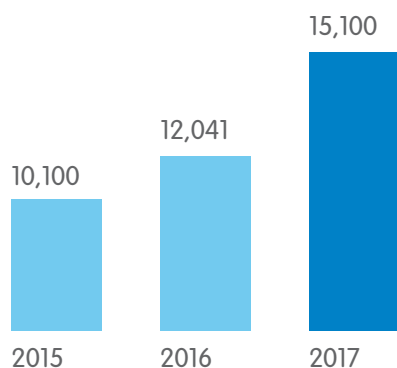
In human resources management, Dukat remains true to its mission - to recruit and retain capable, professional and motivated employees, who act proactively in constantly changing conditions, create new values and achieve personal and professional fulfillment. That is why significant means and efforts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

In 2017, specialized and development education accounted for 82 percent of the total number of educations at Dukat, which is four percent less than in 2016 and 2015. Legally required training accounts for 18 percent of total education, four percent more than in the previous two years.

In 2017, the average annual expenditure for education was HRK 1,519 per employee - education recipient (compared to HRK 1,490 the year before and HRK 1,700 in 2015), while 915 employees were included in some form of education (compared to 460 the year before and 930 in 2015).

Total number of education hours increased by 25 percent - in 2017, employees participated in 15,100 hours of education, compared to 12,041 hours of education in 2016 and 10,100 hours in 2015. Average number of education hours per employee also increased in the past three years - from 8.8 to 12.4 hours.

Education hours



Internal education

As part of internal knowledge transfer practice, total of 34 internal educations were held for 557 employees of Dukat in 2017, compared to 27 in-house educations for 674 employees in 2016 and 30 educations for 923 employees in 2015. The topics covered food safety, product safety protection and hygiene, self-control on manufacturing lines, good manufacturing and hygiene practice, safe machinery operating, and handling electrical-manual forklifter, training for employer's occupational safety Authorized Person, dairy basics and basics of maintenance in production, measurement and meaning of temperature in the cold chain process. 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 2017, in-house training included 176 employees, while in 2016 it included 117 employees and 82 employees in 2015, which is an increase of 114 percent compared to 2015.

Induction of new employees to the company and its activities

Following the already common practice, 23 new employees of Dukat underwent induction training in 2017, to get acquainted with the strategy, organization, main business processes and activities. In 2016, 12 employees and in 2015 13

employees of Dukat underwent induction training. During group and individual induction program, employees visited key departments and were introduced to milk and dairy goods processing and production in all three of the 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 2017:

Education and development program "The path of leadership"

"Path of leadership" development program, initiated in 2015, was concluded in 2017. It was intended for managers and managerial resources of various organizational Dukat units in Croatia. As part of the program, which is divided into three modules, participants discover and build their leadership potential, learn about leadership styles, goal setting and leadership roles as motivator, and they master important communication tools for successful management. Topics of the modules were the power of persuasion in leadership and management, communication skills, leadership and teamwork. By the end of 2017, about 3,000 hours of modular training were held for 60 employees from Croatia, from high management to junior positions.

Education for Call Center and Customer Relations - "Radilica"

At the beginning of 2017, "Radilica" education was held for 12 employees of the Call Center and Customer Relations. Education comprised two modular trainings that included the following topics: understanding of business communication, customer relations and quality of service and sales skills. Parallel with the trainings, eight half-day workshops on the topic of systematic call supervision were held for five employees of the same department with potential for position of call center supervisor.

Potential evaluation for Sales and Controlling - „Insight“

Assessment center, a development program, was implemented in 2017 for 34 Sales employees and 8 Controlling employees, called "Insight". Sales program included 34 directors, managers and heads of all Sales departments, and those included in the program underwent the 360° assessment of key social and technical competencies and self-assessment using the "Hogan" tool. In addition, Sales employees participated in one-day workshops guided and evaluated by a team of experts. Upon completion of

the program, each participant was given an individualized report and feedback from Human Potentials superior, and future individual and group development steps were defined.

Controlling team of 8 employees underwent the 360° assessment and is continuing the program in 2018.

Development Program "Drive"

In 2017, "Megatrends", the third, closing module of the large development project "Drive", launched in 2016, was held for 12 senior management members of Dukat. Participants were given insight into the main demographic, social, ecologic, economic, scientific and professional trends, changes and opportunities that they bring in today's business world.

"Change Management" training

Thirteen directors and managers of Shared services of Accounting, Treasury, IT, Legal Affairs, Customer Support Service and Purchasing, participated in an interactive workshop on change management. Training focused on training the participants to better manage themselves and others in times of frequent changes and professional challenges.

Development program for managers of all three plants

Following the Development centers, held in 2016 for employees of Zagreb and Bjelovar Plant, in 2017, 31 managers of Production and Maintenance at the plants participated in a large education project that includes a series of development workshops and professional lectures. The objective of this project is to further strengthen and develop professional skills, as well as human resources management skills. In 2017, four workshops were held for plant managers on the topic of "Delegating, tracking performance and giving feedback".

At the same time, lectures on professional know-how were held by Dukat in-house trainers, production directors and maintenance managers from Zagreb and Bjelovar plants. Emphasis was placed on the topic from the area of milk technology, proper operation of technological lines, basics of maintenance, hygiene and safety at work.

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 2017, 12 percent

of employees were included in the performance appraisal system, the same as in previous two years.

However, in 2017, along with the standard Management review project, performance evaluation for employees in Production,

Maintenance and Quality was also carried out, making the total percentage of evaluated Dukat employees reach 50 percent.

Professional practices and visits

As in previous years, we continued cooperation with vocational secondary schools in Zagreb and Bjelovar, and in 2017 five students completed professional practice at the Bjelovar and Zagreb plants (there were two in 2016 and three in 2015).

University students also do their internships at Dukat. In 2017, six students completed their internships at Dukat, which was four more than in 2016. Two students came from the Faculty of Chemical Engineering

and Technology, University of Zagreb, one from Faculty of Agronomy, University of Zagreb, one from Technical College in Zagreb, Velika Gorica College and one from Communication Management College Edward Bernays.

In addition to the above, Dukat also hosts professional visits of students from the Food Technology and Biotechnology Faculty, Veterinary Faculty, Chemical Engineering and Technology Faculty, as well as University of Applied Health

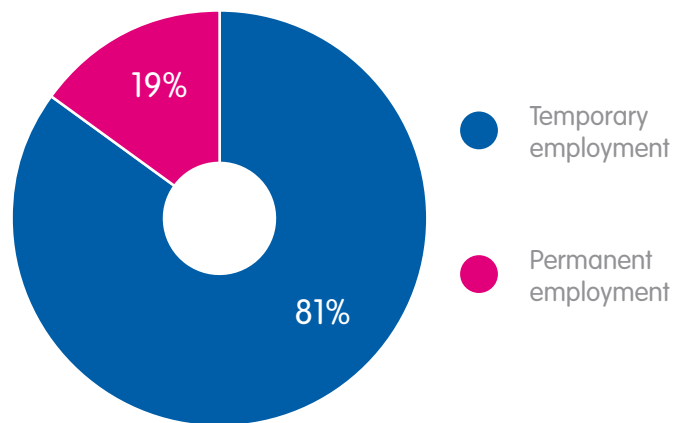
Sciences in Zagreb and University of Applied Sciences Vrn. Dukat was also visited by students of Food Technology Study Program of the University of Karlovac, Chemistry and Technology Faculty of the University of Split. During the visit, students take a tour of Zagreb Plant and are introduced to the entire production process, from reception of milk to production and storage. In 2016, Dukat hosted nine such visits and 223 students visited Dukat and its Zagreb Plant.

Employee data

Type of employment

In 2017, Dukat had 1,213 employees, which is 38 employees more than the year before. Of the total number of employees, 81 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 was 15 percent, which is 4 percent lower than the year before.

Year	Total number of employees	Permanent Employment	Temporary Employment
2015	1,152	978	174
2016	1,175	974	201
2017	1,213	980	233



Employment of young people

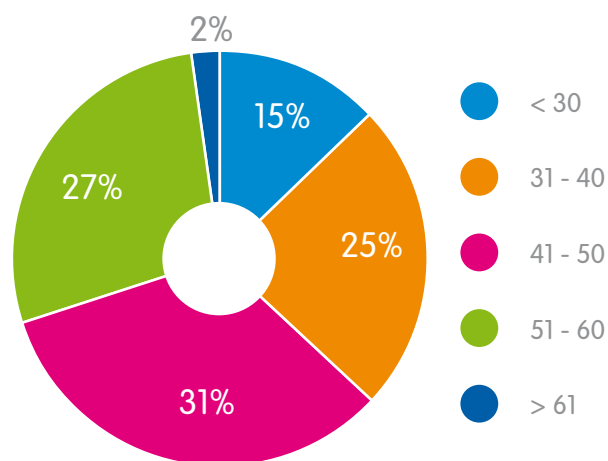
In 2017, Dukat actively participated in professional training program without employment (SOR), enabling acquisition of new knowledge and skills by young people who are just entering the labor market. At the beginning of professional training, each participant was given a one-year education and trial work framework plan, and was assigned a mentor who guided the student through the program. In 2017, 25 young SOR participants acquired their first work experience at Dukat, 10 of which have been ultimately employed, while 11 of them are still participating in the program.

Year	Participating in SOR	Employed	Active participants
2016	18	11	4
2017	25	10	11

Age structure

Age	Number of employees 2015	Number of employees 2016	Number of employees 2017
< 30	155	165	183
31 - 40	271	281	298
41 - 50	380	375	380
51 - 60	326	332	333
> 61	20	22	19
Total	1,152	1,175	1,213

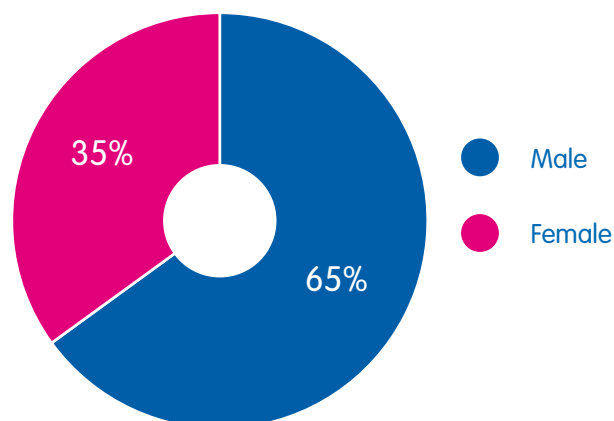
At the end of 2017, the average employee age was 43, same as in 2016.



Gender

Gender	Number of employees 2015	Number of employees 2016	Number of employees 2017
Male	751	772	791
Female	401	403	422
Total	1,152	1,175	1,213

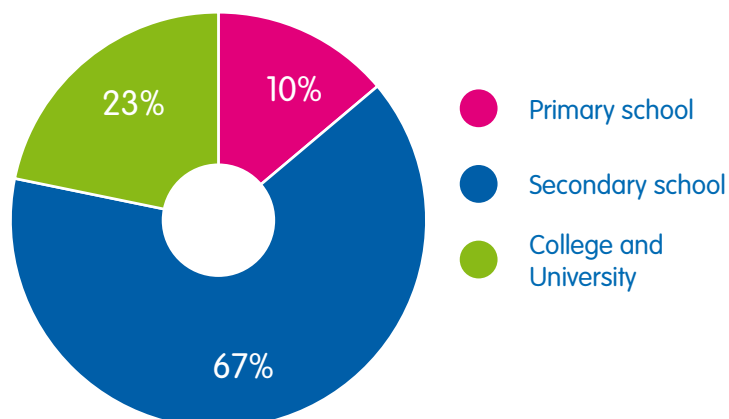
Majority of Dukat employees are men (65 percent), while women account for 35 percent, which is identical to the ratio of the year before.



Education

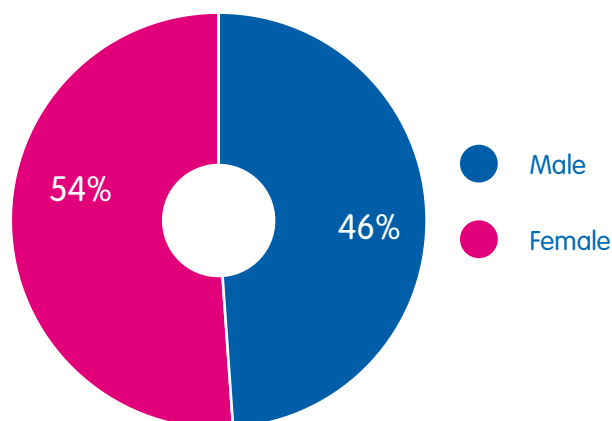
Education	2015	2016	2017
Primary school	133	160	122
Secondary school	757	762	807
College and University	262	239	284
Total	1,152	1,161	1,213

Majority of employees (67 percent) has secondary school qualifications, while 23 percent of employees have college and university degrees. Ratio is very similar to that of the years before.



Composition of governance and management

Year	Gender	Average age	Number
2015	Male	44	45
	Female	44	46
2016	Male	43	39
	Female	43	49
2017	Male	45	41
	Female	44	49



In 2017, share of women in governance and management positions at Dukat was 54 percent. The past several years show an increase trend in the share of women in governance and management positions (from 35 percent in 2012 to 54 percent in 2017).

We pay special attention to hiring of domestic labor and local experts, for management positions as well. Share of Croatian citizens in 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 policy is 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 2017, average gross salary per employee was equal to the average gross salary in 2016 and 2015, while the average net salary was 2.4 percent higher compared to 2016.

During 2017, 289 employees, or 23.8 percent were promoted to new jobs, based on their acquisition of new knowledge and skills within the framework of their job, and their taking over new responsibilities within and between departments (horizontal and vertical promotion). In 2016, total of 436 employees were promoted, majority of whom in production (262) and 174 from other departments.

Annual awards

At the end of each year, prizes are awarded to the most successful employees, managers and teams who excelled in their work, in achieved results and in 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, a new category was introduced in 2017 - young hope, for employees under 30 years of age who expressed desire to learn and achieve success. Total of 11 were awarded to individuals (six for best employees, three for young hopes and one for manager of the year and one life achievement award), one to a team with 15 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.

Local version of 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.

In May 2017, a survey was carried out among employees, on their satisfaction

with the content and the appearance of the in-house magazine. The survey was filled out by 254 employees, who provided a number of useful suggestions on how to improve future editions of Contact and increase magazine readership.

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 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, in 2017 Human Resources started the practice of informing employees about key human resources activities, promotions, new employment and organizational changes by way of an electronic newsletter. Newsletter is distributed quarterly.



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.

In 2017, same as the year before, Dukat's donations program focused on providing dairy products to especially vulnerable groups of adults and children throughout Croatia.

In 2017, through donations of funds and own products, Dukat invested in:

Financial donations

- **Sports:** Sirela sports club

Donations in own products

- **Homes for children:** Zagreb Home for Children, Home for Children "Maestral" Split, St. Frances Vugrovec House, St. Joseph Home for Children Hrvatski Leskovac
- **Humanitarian organizations and campaigns:** humanitarian association "Rijeka ljubavi" Osijek, humanitarian association "Putevi milosti" Osijek, humanitarian association "Put mira" Mirkovci, humanitarian association "Duga Vukovar", Association of Parents with Children Suffering from Malignant Illnesses "Hrabro dijete" Nova Gradiška, Association for Aiding Children with Disabilities "ADHD and I" Dugo Selo, humanitarian association "Remar Croatia", humanitarian association "fra Mladen Hrkač" Zagreb, Reto center - Friends of Hope Split, Homeless center "Milosrđe" Karlovac, Center for missing and abused children Osijek, Association of Deaf and Blind People of the City of Zagreb, Association of Disabled Križevci, Humanitarian Tennis Tournament of

Varteks Tennis Club Varaždin, Donor Evening for humanitarian association "Marijini obroci", humanitarian action "Noina staza", Christmas Fair of the International Women's Club Zagreb

- **Soup kitchens at:** Osijek Caritas, Đakovo-Osijek Archdiocese Caritas, Sisak Diocese Caritas, Požega Archdiocese Caritas, Parish of St. John Nepomuk Vrbovsko, Zagreb Archdiocese Caritas, Split Archdiocese Caritas, Šibenik Diocese Caritas, Zadar Archdiocese Caritas, St. Ante Parish Caritas in Knin, Dubrovnik Archdiocese Caritas
- **Social supermarkets:** SS Beli Manastir, SS Belišće, SS Donji Miholjac, SS "Kruh sv. Elizabete" in Rijeka, SS Siget Zagreb
- **Red Cross:** City Red Cross Buje, Ivanič Grad, Karlovac, Koprivnica, Krapina, Sisak, Solin, Županja
- **Healthcare:** Rehabilitation Center Varaždin, Rehabilitation Center Zagreb, Children's Hospital Srebrnjak, Suvag Polyclinic, Psychiatric Hospital Sveti Ivan Zagreb
- **Nursing homes:** Nursing homes in Beli Manastir, Čakovec, Oklaj, Brezovica and Pula
- **Education:** marking the Dairy Day at primary school Nad lipom organized by the Croatian Milk Association, Rijeka kindergarten, Elementary School Čučerje Zagreb, Elementary School Pakoštane, Center for Education Velika Gorica, Workshop by Croatian Healthy Meal Association, Pediatric Student Section from the Faculty of Medicine
- **Sports:** cycling event Elementary School Novi Marof, "FERgometrijada", Leda

Cup 2017, Softball Summer Camp 2017, Zagreb Dance Grand Prix 2017

- **Other:** City of Vukovar - "Free Ice Skating for Children of Vukovar" project, International Youth Week Daruvar, Oratorium Dominik Savio of the Holy Ghost Diocese Jarun - Oratorium Summer

Sponsorships

In 2017, through sponsorships, Dukat helped organize a series of cultural, educational, professional, athletic and gastronomic events::

- **Culture:** 57th International Children's Festival Šibenik, Motovun Film Festival, 55th Review of Croatian Children Filmmaking Sisak, Film Workshops for children and youth Kraljevica, Children's Festival at Cinestar Zagreb, HNK Osijek - Trubadour Opera premiere
- **Education:** Faculty of Agronomy, Faculty of Food Technology and Biotechnology - sensory exercises, Ministry of Interior - "Respect our Signs", "Čakulaonica" - Workshop for Single Parents
- **Sports:** Sport Educa; Adria Bike Series; Athletic Club Sljeme; Athletic Club Sljeme; Athletic Club dynamo Zrinjevac; European Sports Week; Festival of Sports and Recreation "Homo si teč", MNK Futsal Dinamo; Run Croatia; Terry Fox Run; Triathlon Club Split; urban Training Camp; Večernjak Bike Event; Zadar Outdoor Festival; Zagreb Athletic Association; Zagreb Ski Association; Sports Association "Piramida" -Makarska; BFF Fitness factory - Iron Friday; Cycling Club Biker

- duathlon races; Cross Hill Run Križ 2017; rower Dominik Šutalo; Society for Recreational Sports and Exercise Viking; European Week of Sport in Vukovaru; Summer Sport Camp "Žabac" (HAPK Mladost); Zadar Open 2017; "Kopačka solidarnosti" (humanitarian mini-soccer tournament); soccer tournaments NK Picolo, NK Polet, NK Rugvica, NK Sutla, Sports and Recreation Center Zamet and Sports Association Maxima; Omega School of Running, Ražanac Summer Games, Terry Fox Run 2017, 1st International Handball Tournament Rijeka

- **Symposia and conferences:** Days of Croatian Tourism, DIABLOG 2, CEO Conference Zagreb 2017, Ruđer Bošković Institute - 15th International Symposium on Aquatic Microbial Ecology, "Business in Sports" conference of the Croatian Student Association, TEDx Zagreb 2017
- **Fairs and gastro events:** Breakfast from Croatian Farms, 21st Health Fair Vinkovci, 12th Counseling of Cattle Breeders, Croatian Culinary Association, 6th International Bakery Congress INTERSLAST 2016, 10th International Congress of Pasta Experts CONPASTA 2017, ŠKMER "Split with love", Bartender Cup 2017 Rijeka, Club Gastronomists, Adriatic Gastro Show, International Enology and Gastronomy Festival WineRi 2017, Large Party in Rogoznica, Wine & Music, Zagreb Burger Festival, CCC - Buy Croatian
- **Entertainment:** Zagreb Zoo

Donations of Dukat products to humanitarian institutions

As the biggest donor of dairy products to vulnerable social groups, in 2017 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 2017, Dukat donated 247 tons of dairy products, or 3 percent more than the year before. Dukat provided dairy products for approximately 33,000 children and citizens who live in poverty and are unable to afford these products themselves, from Vukovar to Dubrovnik.

In the past three years, Dukat donated 706 tons of dairy products, worth almost HRK 7 million. Apart from influencing better quality nutrition of socially endangered population and raising the quality of life in general, with these donations Dukat is also contributing to the fight against hunger and poverty, whereby it is contributing to the realization of the 1st and 2nd Sustainable Development Goals.

Humanitarian action of Dukat employees for socially vulnerable children in Slavonia

In 2017, Dukat organized a humanitarian action involving Dukat employees and employees of its associated companies (KIM, La Log and B.P.A.C. Auto) in its desire to help and cheer up socially vulnerable children in Slavonia, after organizing two successful humanitarian actions the year before. At the beginning of September, employees collected more than 20 large boxes of clothes and shoes for babies and children, such as school supplies, toys, books and hygiene supplies. Collected items were delivered to humanitarian association "Put mira" in Mirkovci and Social Supermarket in Belišće that provide aid to over 2000 persons living in poverty, almost 500 of them being children.

Opening discount stores

Dukat is trying to meet the needs of its fellow citizens of lower material status by opening discount stores that sell Dukat, Sirela, President and Galbani brands of milk, dairy products and cheese at considerably lower prices compared to regular retail prices. In 2017, Dukat opened its third discount store in Split, in addition to the discount store at Zagreb Dolac, and one opened in Bjelovar in 2016. As the first two, the new store sells products that are about to expire, with prices 50 to 70 percent lower than regular prices.



One of Dukat's regular donations of Dukat products to the Humanitarian Association "The River of Love" in Osijek

DONATIONS to humanitarian associations

HRK 4.5 million
sales value



247 tons

241 t / 2016
219 t / 2015



34,323 BENEFICIARIES
including **9,926 children**



**39 ASSOCIATIONS /
ESTABLISHMENTS**



Caritas
95,452 kg



Hum. associations
79,039 kg



Social shops
52,914 kg

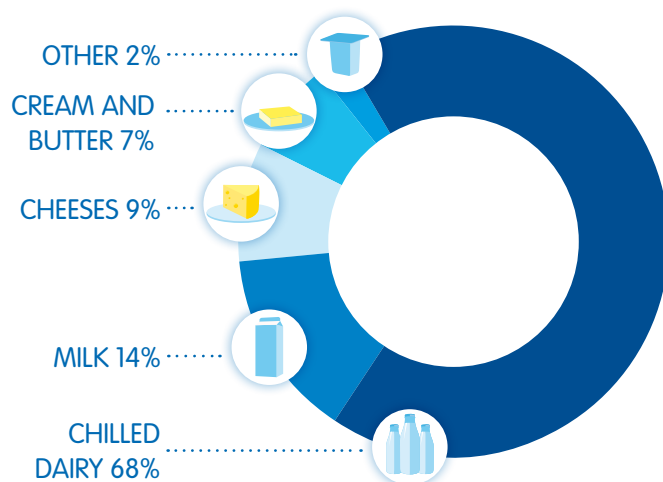


Orphanages
11,184 kg



Red Cross
8,503 kg

DONATED PRODUCTS BY CATEGORY



DONATIONS BY COUNTY

ZAGREB
OSIJEK-BARANJA
VUKOVAR-SRIJEM
SPLIT-DALMATIA
PRIMORJE-GORSKI KOTAR
BROD-POSAVLJE
SISAK-MOSLAVINA
KARLOVAC
KOPRIVNICA-KRIŽEVCI
BJELOVAR-BILOGORA
ŠIBENIK-KNIN
ZADAR
ISTRIA
KRAPINA-ZAGORJE
DUBROVNIK-NERETVA
Total sum

82,387 kg
47,364 kg
19,924 kg
18,399 kg
17,251 kg
14,011 kg
11,231 kg
9,449 kg
7,247 kg
6,577 kg
4,483 kg
4,360 kg
3,401 kg
522 kg
487 kg
247,092 kg



804 donations
out of which **592 deliveries**

HRK 312,000 logistics expense



Milk producers

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

In 2017, Dukat, one of the leading milk purchasers in Croatia, acquired 202.26 million kg of fresh raw milk, which is 1.6 percent more than the year before. Compared to that, all other milk purchasers in Croatia collectively purchased 2.6 percent less milk than the year before.

Such positive results of Dukat in the segment of fresh raw milk purchase is not surprising if we take into account 106 years of tradition and know-how in collection and processing of fresh raw milk and 3,325 large, medium and small milk producers from which Dukat purchased milk in 2017.

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 2017, Dukat subsidized the purchase of 500 heifers for its cooperators, with HRK 1.25 million of non-refundable funds, credited the

purchase of production materials for production of milk with HRK 44 million, and it subsidized adaptation of farm buildings and purchase of farmland and milking equipment with HRK 5.66 million cash funds.

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 increase in quality of milk produced within its collection area.

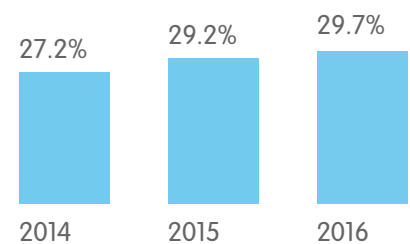
As Dukat's business is based on processing of fresh raw milk of the highest quality, produced on domestic dairy farms, Dukat milk carries the label "Milk from Croatian farms", awarded by the Croatian Agriculture Agency.

Building and nurturing long-term partnerships with milk producers, secured placement of produced milk, timely

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

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 fair market competition, are the foundation for long-term cooperation of Dukat and milk producers and for sustainability of domestic dairy sector.

Dukat milk purchase share in total quantity of milk produced in Croatia*



*Source: DG Agriculture and Rural Development based on Eurostat annual milk collection (all milk) and dairy products obtained statistics. There are no official data available for 2017 at this time.



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 Commerce, 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.

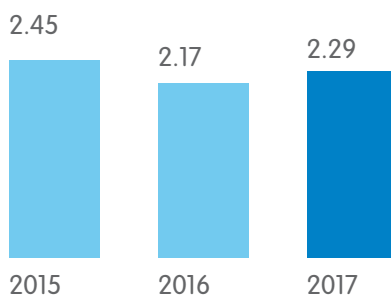
The greatest attention is paid to the quality and safety of products to fulfill the demands and expectations of consumers. Therefore, our products not only have to meet certain quality standards, such as ISO 9001, ISO 22000, IFS, HACCP, and Kosher and Halal certificates for specific product groups, but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

Customer Complaints on Million Sold Items



In 2017, 36.6 percent of the total number of complaints, comments and praises were complaints, which is 7.9 percent higher than in 2016. If we break down complaints by plants, Bjelovar Plant recorded a decrease in number of complaints by 36.8 percent and Karlovac Plant recorded a 20 percent decrease, which is the result of investments in those factories throughout 2015 and 2016. At the Zagreb Plant, however, the number of complaints grew by 31.1 percent. The same trend was recorded if we observe the number of product complaints on a million sold items. Plan of investments and educations was therefore made, to ensure a change in this trend at the Zagreb Plant.

Of the total complaints received, visit of the sales representative and replacement of the product was accepted by 47.9 percent of consumers (compared to 49.5 percent the year before), while others were satisfied with just an apology

Encouraged by consumer objections to difficulties in opening fresh milk in Elopak packaging, in mid-2017, a new model of fresh milk filler was installed at the Zagreb Plant, with a much easier way of opening. Following the upgrade, consumers contacted us satisfied that their objections were acknowledged and their opinion heard.

Investing in expert panels for sensory evaluation of products

Awareness of the importance of sensory product quality and continuous improvement of sensory skills were continued in 2017 and additional educations related to sensory area were held for employees. The first education included employees from various departments of the Bjelovar Plant, restoring and upgrading existing knowledge of employees who have already had an opportunity to participate in organoleptic evaluations. It also included new employees who were educated on the basics of sensory evaluation of products.

The second education additionally educated Croatian employees and regional representatives from departments of

Quality, Product Development, Marketing and Regulatory Affairs on the basics of organoleptic evaluation.

Expert panels, made of educated external associates, were joined by five new judges in 2017, to have 34 members, divided in two panels. Once a week, they evaluate 4 to 6 key products (so-called "pillars") of the Zagreb Plant. The aim is to make both panels functional by the end of 2018, to evaluate all 6 of Zagreb and 2 of Bjelovar key products. Members of expert panels are also continuously educated and trained, and they started evaluating some of the key products of Somoled and Ljubljanske mlekarne plants, associated companies of Dukat in Serbia and Slovenia.

Dukat also has so-called factory panels, whose members are Dukat employees (17 of them). They have been regularly evaluating the quality of products, on voluntary basis, since 2010. Following the trends in sensory properties, in 2017, members of factory panels were fully educated and trained for sensory evaluation of all six key products of the Zagreb Plant and two key products of the Bjelovar Plant.

Dukat was the first food and dairy company in Croatia to start expert panels for sensory evaluation of products comprised of "laymen" in 2016, once again proving to be the sector leader.

Open Door Days for primary school pupils

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 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 significance of everyday consumption of milk and dairy products for proper growth and development of children. In 2017, Dukat's Zagreb plant was visited by 449 pupils from 10 primary schools from Zagreb and its surrounding areas.

Since the project was launched, 2622 pupils visited the Zagreb Plant (October 2012 - December 2017), and great interest in this program is witnessed by the fact that all the terms have been fully booked for two school years in advance.



Award for affirmation of corporate social responsibility in digital channels

At the end of October, Dukat received "SJAJ" award for visibility and affirmation of socially responsible business and sustainability in its digital channels. Expert panel of judges selected Dukat, together with 9 other companies, among

20 observed that were included in the national survey. They were selected as examples of good practices in presenting socially responsible practices on their web pages. The award was presented by "GOOD CROATIA" - Business Initiative for

Affirming Corporate Social Responsibility and Sustainable Development at M.E.P., in cooperation with Croatian Employers' Association as the seat of Global Compact Network Croatia.

Sixth creative drawing contest "I love milk!"

Since 2012, Dukat has been holding the creative drawing contest "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 six years, 14,000 elementary school students and their teachers from all parts of Croatia participated in the competition.

We had a record response to the 2017 competition - almost 4,500 students from 266 elementary schools sent their

literary works on the topic of common breakfast. As part of the contest, held under the patronage of Ministry of Science, Education and Sports and Ministry of Health, quantitative research was conducted among participants on their morning eating habits and behavior, the results of which further accentuated that it is necessary to steer parents' attention towards the importance of common breakfast for emotional and physical health of children.

The four winning drawings were applied to the UHT milk packaging, as well as

yoghurt packaging for the first time. 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. All participants were sent personalized thank-you-letters, parents and teachers were sent a manual "Breakfast is more than a meal" with advice of a nutritionist and psychologist on how to turn breakfast into important and precious family moments.



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, along with the traditional cycling race on Jarun Lake, "Dukat Fit race and Dukatino race for children", in 2017, Dukat organized a cycling race in Zadar for the first time. In Zadar, at the beginning of June 2017 and in Zagreb,

in September, 600 cyclists of all ages competed in five categories in both races, with half of them being children. 6th Dukat's cycling race was held within the European Mobility Week and under the patronage of the Mayor of the City of Zagreb. Since 2012, almost 2500 cyclists, young and old, participated in seven races organized by Dukat.



3

ENVIRONMENT



Dukat has been building its own environmental management system, continuously reducing negative impact on the 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 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)	2015	2016	2017
Metal (Al bottle for whipped cream 250 ml)	34	35	35
Paper/glue (cardboard)	2,113	2,168	2,091
Multi-layer packaging with predominant paper component	1,801	1,549	1,287
PET	615	613	595
Polymers	2,610	2,621	2,754
Total	7,174	6,986	6,762

In 2017, 3.2 percent less packaging was put into circulation compared to 2016, while 2.6 percent less packaging was put into circulation in 2016 than in 2015. 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)	2015	2016	2017
Multi-layer paper packaging	1,800	1,550 †	1,280
Paper/carton	2,000	2,100	2,100
PET	600	600	600
HDPE	1,300	2,000	2,000
Other polymers (PS, PE)	1,300	560	750
Metals	33	35	35



Energy

In 2017, a system of energy management was implemented at Zagreb and Bjelovar Plants, in logistic centers in Dubrovnik, Split, Zadar, Rijeka, Pula and Đakovo, and at locations of associated companies (KIM Mljekara, LA LOG i B.P.A.C. Auto) in accordance with ISO 50001 for processes of development, production and distribution of dairy products.

For full application of the ISO 50001 standard, locations determine the

general and individual energy efficiency targets with programs for their realization, and their consistent application implements the system of energy management. Criteria for the efficiency of its implementation, or the possibility of checking the efficiency of the energy management system, is an integral part of the program.

In order for the energy management system to fully function, it is necessary to designate areas and actions by locations that are systematically monitored and

documented. Locations make annual energy consumption reports for each year that has passed, which make it possible to compare energy efficiency performance with energy base and in such way establish energy performance trends, control and point to certain deviations in the energy management system.

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.

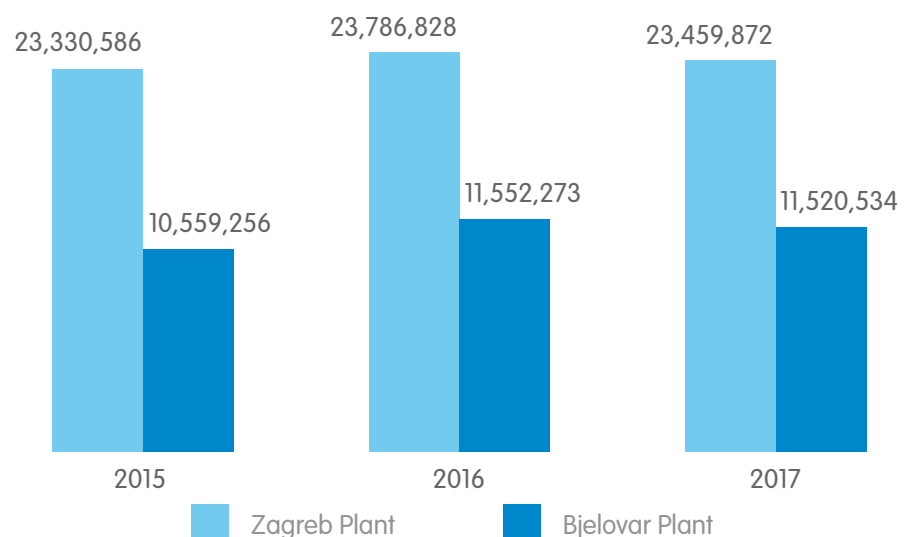
In 2016, total power consumption at the Zagreb Plant was 23,495,872 kWh, which is 1.2 percent less than in 2016. Power consumption in 2016 was 6.5 percent higher than power consumption in 2015.

Ratio of consumed power per ton of processed milk was 251 kWh/t in 2017, and in 2016 it was 229 kWh/t, meaning that nine percent more power per ton of product was consumed in 2017 than in 2016.

In 2017, total power consumption at the Bjelovar Plant was 11,520,534 kWh,

Power	2015	2016	2017
Zagreb Plant	22,330,586 kWh	23,786,828 kWh	23,495,872 kWh
Bjelovar Plant	10,559,256 kWh	11,552,273 kWh	11,520,534 kWh

Total Power Consumption (kWh)



compared to 2016 when it was 11,552,273 kWh, or 0.3 percent lower. In 2016, power

consumption was 9.4 percent higher than in 2015.

Steam

In 2017, total steam consumption was 36,324 tons, which is 8 percent lower compared to steam consumption in 2016. In 2016, steam consumption was 10.1 percent lower compared to the year before.

Steam	2015	2016	2017
Zagreb Plant	43,929 †	39,476 †	36,324 †

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, 2,926,969 m³ of gas were consumed, which is 0.4 percent lower compared to gas consumption in 2016. In 2016, 15.8 percent less gas was consumed than in 2015.

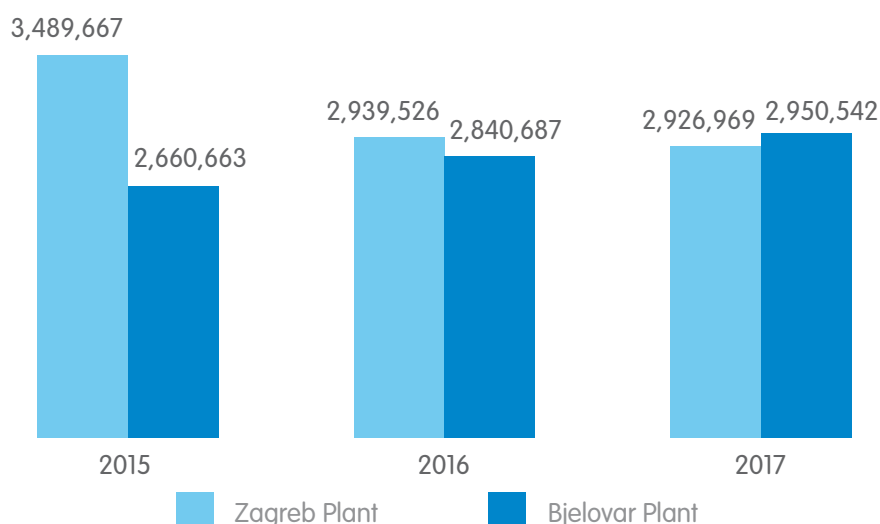
Emissions of pollutants into the air from both plants were measured in December 2017, and the values met the prescribed emission limit values according to the Ordinance on limit values of pollutants in the air.

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 2017, 2,950,542 m³ of gas was used, which is 3.7 percent more than consumption in 2016. 6.8 percent more gas was used in 2016 than in 2015.

Ratio of gas consumption to production was 32.62, while the average amount in 2016 was 31.25 m³ gas/t of processed milk and in 2015 it was 32.92 m³ gas/t of processed milk.

Gas	2015	2016	2017
Zagreb Plant	3,489,667 m ³	2,939,526 m ³	2,926,969 m ³
Bjelovar Plant	2,660,663 m ³	2,840,687 m ³	2,950,542 m ³

Total Gas Consumption



Award for heat pump project at the Zagreb Plant

At the 8th conference of European Energy Managers in Ljubljana, Željko Celić, Dukat's Investment Coordinator, was presented the award for best European Manager for heat pump project at the Zagreb Plant. The project won first place in the category of medium size enterprises, among nearly 30 nominated projects. The project is a heat pump that uses part of energy waste from the cooling system and returns it to the water heating process. The particularity of this project is that it uses ammonia as a working substance and works in limit operating mode. Using the ammonia as an ecological working substance instead of freon excludes the negative impact on environmental warming, which was one of the preconditions for the co-financing of the project by the Environmental Protection and Energy Efficiency Fund.

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	2015			2016			2015		
	Volume (m³)								
	Public Water Supply	Own well	Total	Public Water Supply	Own well	Total	Public Water Supply	Own well	Total
Zagreb Plant	5,689	411,805	417,494	4,511	372,311	376,822	7,408	367,129	374,537
Bjelovar Plant	39,440	218,176	257,616	2,910	268,640	271,550	3,520	263,261	266,781

Zagreb Plant

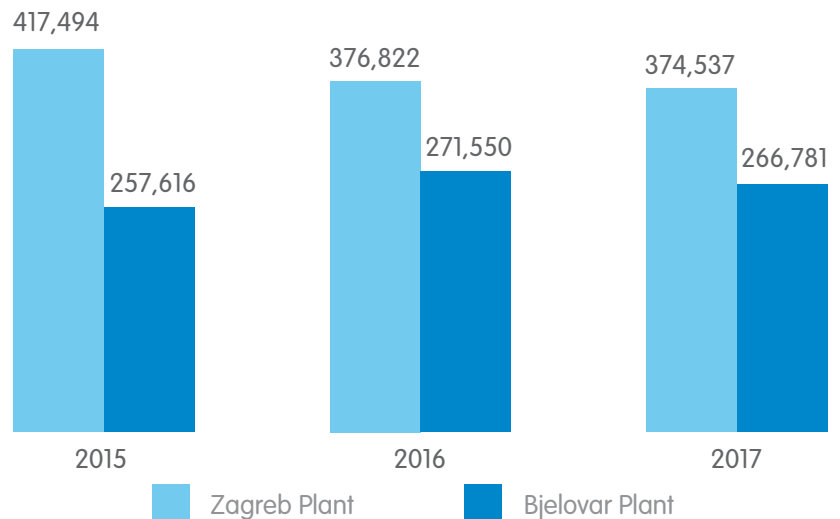
In 2017, total water consumption at the Zagreb Plant was 374.537 m³, which is 0.6 percent lower than the total water consumption in 2016. Water consumption from the public water supply was 7,408 m³, which is 64 percent higher than in 2016 (4,511 m³). Water consumption from own well was 367,129 m³ or 1.4 percent lower than in 2016 (372,311 m³). Total water consumption in 2016 was 9.75 percent lower than total water consumption in 2015.

The index of production (IP per one kilogram of a produced product) was higher in 2017 than in 2016, or 4 compared to 3.8. In 2016, the index of production was the same as the index of production the year before (3.8).

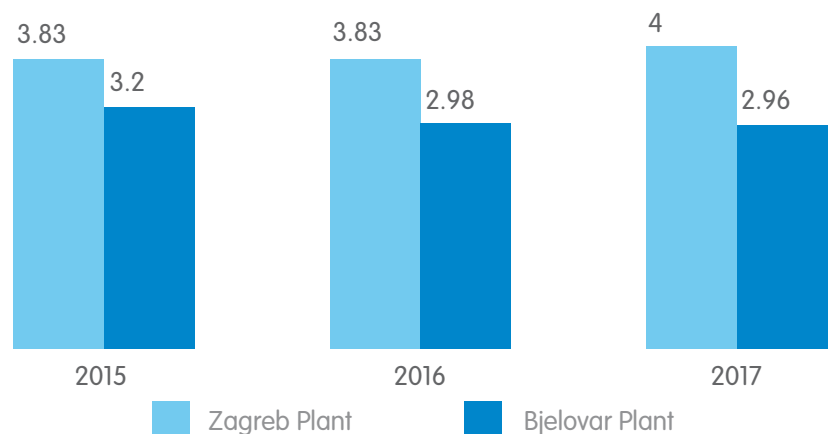
Bjelovar Plant

In 2017, total water consumption at the Bjelovar Plant (266,781 m³) was 1.75 lower than consumption in 2016 (271,550 m³). Water consumption from the public water supply was 3,520 m³, which is higher than in 2016 (2,910 m³), while water consumption from own well was 266,781 m³, which is lower than consumption in 2016 (268,640 m³). A new well has been used since 2015. Total water consumption in 2016 was 5.4 percent higher than consumption in 2015.

Total Water Consumption (m³)



Production Index (l water/kg of processed milk)



In 2017, the average ratio of water consumption over processed milk was 2.96 l of water/kg of processed milk, which is lower than in 2016, when it

was 2.98 l of water/kg of processed milk. In 2015, production index was 3.2, which is due to higher quantity 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 2017, 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 2017

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.

Investment into new cyclones for the drying space at the Bjelovar Plant

In December 2017, two additional cyclones were installed in the dehydrated product part of the Bjelovar Plant in order to efficiently purify the extract air from the drying space and capture the finest powder particles. After being commissioned, emissions of air pollutants into the air from the device were measured, and the values complied with the prescribed emission limit values according to the Regulation on the Limit Values of Pollutants in the Air. Decision on amendments to the Environmental Permit was also obtained, thereby correcting the value of permissible emissions of total powder substances from the drying space.

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	187.06
Carbon dioxide (CO ₂)	/	1,098,139.91
Nitrogen oxides as nitrogen dioxide (NO ₂)	HRN EN 14792	370.00
Particles (PM 10)	/	8.85

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	1,616.90
Carbon monoxide (CO)	HRN EN 15058	118
Carbon dioxide (CO ₂)	/	2,196,277.82
Particles (PM 10)	/	17.71

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	796.65
Carbon monoxide (CO)	HRN EN 15058	118.02
Carbon dioxide (CO ₂)	/	2,196,277.82
Particles (PM 10)	/	17.71

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 2017, total of 214,332 m³ of technological waste water was processed by the waste water treatment plant, which is 19.7 percent lower than in 2016 (256,948 m³). In 2016, 16.4 percent less water was purified than the year before (307,344 m³).

Average COD value (chemical oxygen demand) in water, after the purification process, was 173.3 mg/l, which is higher than 2016 when COD was 112.1 mg/l. Increase in output COD is the result of increased quantity of processed milk by 1.7 percent and increased total production by 2.24 percent.

In 2017, average Fx (wastewater treatment factor) was 1.15 and in 2016 it was 1.04. Increase in the wastewater treatment factor is the result of increased milk processing and increased total production in 2017.

Sludge on the wastewater treatment device is not centrifuged and is discharged with approximately 2.5 percent dry matter, and total quantity in 2017 was 10,128 m³. All the sludge is transported to the contractually agreed biogas plant in Gudovec.



Waste

Waste generating and processing

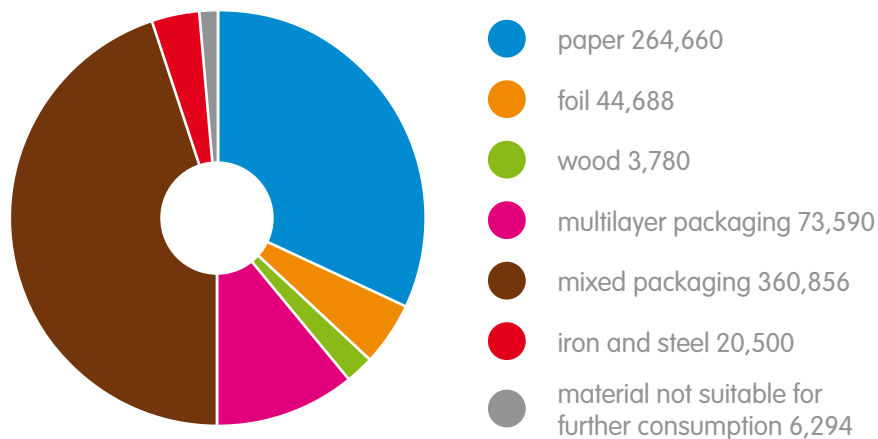
Systematic waste management is one of the fundamental components of the environmental management system. Re-usable waste, with valuable characteristics that can be used, is collected and stored separately. Dukat's constant objective is to manage waste in an environmentally efficient manner. Precisely 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 selection of generated waste and to reduce the volume of returns from the market.

In 2017, total volume of separated waste received at the Zagreb plant was 882 tons, which is 30 percent less than in 2016. In

the total balance, mixed packaging was the most collected, followed by waste paper and cardboard and multilayer packaging waste. In 2017, total volume of separated and received hazardous waste was 32 tons, or 44 percent less than in 2016 (57 tons), when 400 cooling display cases were written-off.

Waste at the Zagreb Plant by Category (kg)



At the Bjelovar Plant, plastic packaging is the type of non-hazardous waste that was collected the most. In 2017, total of 7,822 kg of hazardous waste was collected, most of all packaging that contains hazardous substances or has been contaminated by hazardous substances (4,537 kg). In 2016, total of 8,366 kg of hazardous waste were collected, which is 13.6 percent more than the year before.

Consumption of chemicals

Zagreb Plant - consumption of washing and disinfecting agents

In 2017, 3.7 percent more washing and disinfecting agents were consumed at the Zagreb Plant than the year before, and in 2016, Zagreb Plant consumed 3.6 percent more washing and disinfecting agents than the year before.

Total volume of washing and disinfecting agents	2015	2016	2017
	980,549 kg	944,975 kg	980,372 kg

Bjelovar Plant - consumption of chemicals in waste water treatment plant

In 2017, the total volume of chemicals utilized in the waste water treatment plant at the Bjelovar Plant was 19.8 percent lower than in 2016, while in 2016 it was 60 percent higher than in 2015. In 2017, consumption of chemicals in production was 3.1 percent lower than the year before.

Total volume of chemicals utilized in waste water treatment plant	2015	2016	2017
	139,695 kg	223,880 kg	179,500 kg

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 2017. 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 2017, all suppliers received the highest grade regarding impact on the environment.

Objectives for 2018

- 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

Zagreb Plant

- Reduce water consumption to 3.20 m³/t of product
- Reduce steam consumption by 3,000 t
- Reduce gas consumption by 400,000 m³, reduce CO₂ emissions by 10 percent

Bjelovar Plant

- Decrease the impact of the plant on the environment
- Decrease the amount of waste generated
- Decrease wastewater treatment chemicals

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

In 2017, 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. Sixty-nine employees from all three of Dukat plants in Croatia participated in the action and cleaned up three illegal dumping sites in Zagreb, Bjelovar and Karlovac. Along with collected waste, employees donated the total of 115 working hours voluntarily joining the clean-up. In the past six years, 412 Dukat and KIM employees participated in the action, freeing the environment from more than 160 cubic meters of waste.



4

ANTI-CORRUPTION AND CORPORATE GOVERNANCE



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

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 Zagreb Stock Exchange 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."

System of internal controls and prescribed procedures provides for impartiality and objectivity of employees and management, so the risk of corruption and bribery is minimized by:

- clearly defined and prescribed ethical standards of business conduct demanded from employees and management,
- regular evaluations of terms of cooperation with potential suppliers and buyers,
- separated competencies and processes in procurement of goods and services,
- separate decision-making levels for donations and sponsorships,
- procedure of preliminary legal and financial control of every contract the company enters into with suppliers and buyers.

There were no recorded reports on suspicion of corruption or incidences of corruption in 2017 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 2017, 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 activities in the area of corporate management 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 is 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 2017 we also actively worked on continued education of all key employees at Dukat and Dukat Group in Dukat and all its associated companies in the region (Slovenia, Serbia, Bosnia and Herzegovina and Macedonia), to provide for continuous

application of market competition rules and regulations in business operations.

In accordance with practices promoting compliance with market competition rules and regulations, Dukat continuously cooperates with the Agency for Protection of Market Competition. It provides it with all the information it request and regularly participates in Agency research on milk and dairy market, as well as distribution market.

In December 2017, Dukat also participated in the market research of milk and dairy market 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.

Implementation of Corporate Governance Code

Dukat Inc. voluntarily applies Corporate Governance Code of Zagreb Stock Exchange (ZSE), whose content is available on Dukat Inc. web page, Zagreb Stock Exchange web page and in Company's premises. Application of the Code has contributed to improvement of high corporate governance standards in the Company as well as business transparency which is completely aligned with the positive legislation.

With the aforementioned Code, the Company has defined procedures for the actions of organs in charge of decision

making, and ensured the prevention of conflicts of interest, efficient internal supervision, and an efficient system of responsibility. There is clearly established responsibility system on the Group level for every subsidiary, and parent company actively participates in all major decisions made individually by the management of the subsidiaries.

This same Code regulates the mandatory publication of financial statements and price sensitive information, all in an attempt to improve transparency of information for current and potential investors and secure the equality of conduct towards all interest holders.

Bodies of government in DUKAT Inc. apply provisions of Corporate Governance Code completely in operating business of the Company.

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

- Appropriate organization structure on all levels with segregation 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 which are related to key risks,
- Double model of corporate management comprised of Management and Supervisory Board.

The basis of the internal controls system of the Company and the Group is internal policy which defines basic principles, structure and functions of the internal controls activities, which contributes corporate governance and promotion of the transparent business activities. 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 Law

Internal audit of the Company which supervises overall activities of the Company and the Group with the aim of estimating the adequacy of established internal controls system

Following Corporate Governance Code, the Company has established Internal Audit for company's business, and Internal Audit reports are adopted by Management Board of the Company and by Audit committee of the company. Internal Audit department of the parent company Dukat Inc. is responsible for internal audit of the activities of the subsidiaries within the Group.

The Company holds 197 treasury shares which makes 0.00657% of share capital of the Company.

Supervisory Board member - workers representative holds 800 shares which makes 0.02667% of share capital of the Company.

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

Each amendment of Incorporation Act is adopted by General Assembly pursuant positive legislation and full text of Incorporation Act is available on internet website of the Company, business headquarters of the Company and Commercial Court.

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

Shareholders perform their lawful rights and have access to all business information

relevant to adopt investment decisions because Company publicly announces price - sensitive information and annual, semi - annual and quarterly financial statements at Croatian Financial Services Supervisory Agency (HANFA), Zagreb Stock Exchange (ZSE), Croatian Reporting Journalist Agency (HINA) and internet website of the Company (www.dukat.hr).

In addition to afore mentioned, shareholders receive all additional information from Stockholders Record Office in the Company.

On December 31st 2017 Company has;

- three Managing directors which run business and represent Company solely and independently,
- Supervisory Board which consists of four members, i.e. Supervisory Board president and three Supervisory Board members of which one is workers representative,
- Audit Committee which consists of three members, i.e. Audit Committee president and two Audit Committee members of which one is Supervisory Board member.

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

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Contact for Corporate Social Responsibility:

Elena Wolsperger Dolezil, elena.wolsperger-dolezil@hr.lactalis.com

Kristina Klarić Rubčić, kristina.klaric-rubcic@hr.lactalis.com

www.dukat.hr



