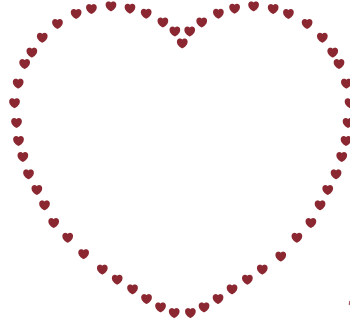


## LETTER TO OUR STAKEHOLDERS

Sustainable development is the greatest challenge of the society and it rests on achieving balance between economic growth, social development and care for the environment. The effect the companies have to the development of society as a whole as well as to the environment makes them one of the most responsible actors in creation of the future tailored to man. But in order to be able to respond to all the challenges of the modern times, the importance of socially responsible behaviour needs to be recognized in all structures of the society.

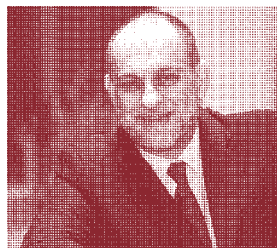


Primary role of the companies, to create profit and wealth with their activities, is being complemented by the demands to integrate the principles of socially responsible business into their strategies. Integration of those principles is voluntary and it represents the striving of the companies to use their activities in expanding legal frames in regards of economic, social and environmental effect.

That way such companies constantly add more and more value to their products and services, using less resources, producing less waste and less pollution. In order for the companies to be able to achieve goals set, integrating at the same time the principles of socially responsible business, their strivings need to be supported by other institutions, on governmental, regional and global level.

Developed markets need to give out clear signals and recognize the price of the product and services in compliance to social, economic and environmental effect, the same as financial markets need to evaluate the companies not just by the profit they gain, but also according to their investment into long term sustainable development. Other institutions, primarily government institutions, but also NGO's and organizations at regional and global level need to encourage acceptance of the principles of socially sustainable business through cooperation with the business community.

Seeing it globally, the emphasis has far too long been given to the analyses of the existing situation and processes definition and it



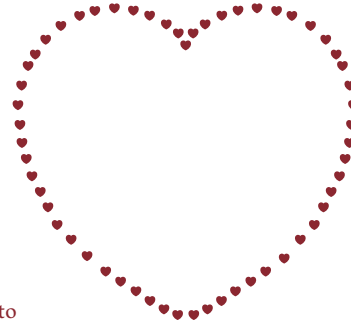
needs to be shifted to a more transparent measuring of the results individual companies contribute in the battle against violating social terms and against environment protection, which should lead to recognizing those companies that voluntarily invest their efforts to satisfy the demands of sustainable development.

Taking into account GRI guidelines, Podravka has in the past year reported about its business in 2005. Experts from all segments of Podravka participated in building of this report. Their team work revealed some of the challenges that Podravka needs to face in the upcoming period. Some of those challenges were already replied and hopefully our stakeholders will recognize this in the 2006 Report before you, built following new GRI guidelines.

The year behind us was marked with a restructuring process. With the purpose of rationalizing business, Podravka's companies in Poland were merged, production in Slovakia and Czech Republic was merged into production in Czech Republic, and sales operative divisions were merged in Croatia.

The Management Board made the decision to continue with the outsourcing process of spinning off parts of the company that deal with non-basic activities, so green surface maintenance and office building cleaning services were outsourced. The process of spinning off Koprivnička tiskarnica d.o.o. - Podravka owned press company - was also completed. The processes were led in a dialogue of the employees, unions and Workers' council, and funds for severance payments were insured for all of those wanting to leave for early retirement and for those wanting to leave Podravka. Such management of the restructuring process proves that Podravka is committed to socially responsible business conduct.

A series of challenges await us in the upcoming period which we will try to answer by working in compliance to socially responsible business.



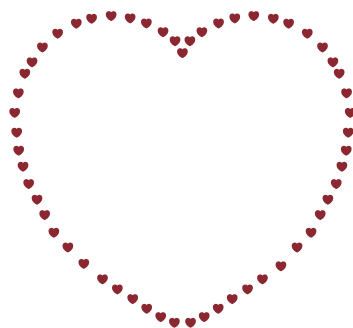
Always with a heart!  
Management Board President  
Darko Marinac

Handwritten signature of Darko Marinac.



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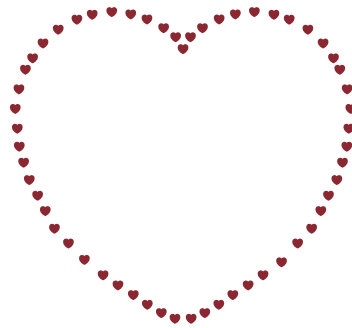


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**PODRAVKA**



# A PROFILE

## MISSION

Creating high quality branded products that win the trust of clients and consumers.

Apart from profitable business, it is Podravka's goal to do business according to the principles of sustainable development.

## VISION

To be the leading food company in knowledge, consumer relations and revenues among companies headquartered in the region of Southeast, Central and Eastern Europe, as well as a pharmaceutical company which achieves more through a distinctive partnership approach.

Only by having clearly defined vision and fundamental values Podravka can reach its ultimate goal - to satisfy the interests of owners by constant growth of share value.

## STRATEGY

Key areas to base Podravka's strategy are: consumer relations, managing brands, quality, employee loyalty, educational development of the employees and community, sales development, research and development and constant costs control. Over the years our company has successfully built a positive image among its stakeholders by emphasizing values such as consumer satisfaction and employee loyalty. Podravka is a company that aspires for excellence and as such it pays special attention to assure the quality of all of its products and a continuous care for environment. The environment in which we do business is getting more and more competitive and dynamic, and changes in the macroeconomic field significantly influence all companies. By constant communication, supervision of the key areas and their adapting to new situations on the market, Podravka will continue to responsibly act and increase its credibility towards all stakeholders.

The most important aspects of sustainable development Podravka is facing:

### 1. Caring for healthy alimentation

Our main stakeholders, customers, suppliers and community, are exposed to modern life style which includes fast rhythm of living, often accompanied by unhealthy and irregular diet. It is our goal as a food company to increase the level of awareness of how important healthy diet is as a foundation of healthy living and to offer our consumers high value and innovative products.

Without a good relation and care for the consumers, Podravka surely would not be one of the leading companies in making modern trends in this region. We feel this is the only way to build trust and long term sustainable connection with all stakeholders.

### 2. Optimizing the exploitation of natural resources and environment preservation

It is Podravka's goal to increase the care for environment by optimizing the use of natural resources and by advancing the technologies and work processes. Care for the environment has the

highest effect on the community in which Podravka operates, and together with the central and local authorities on individual markets on which it operates, it finds new ways for business more successful and sustainable for the environment.

### 3. Caring for constant education of the employees and society

One of the important aspects contributing to Podravka's sustainability is the care for our employees which we encourage to continuously learn and aspire to professional excellence. Investment into education is one of our highest values and ground for differentiation, and it is therefore our goal to constantly improve educational structure of our employees but also of the community in which we operate. Here we try to apply active approach by developing our own education programs focused on long term learning and development. Podravka enables its employees to achieve their full potential, both individually and in teams, and the management sees the possibility to achieve business goals of the company in supporting and encouraging such aspirations.

### 4. Caring for the members of the community with decreased working abilities

Podravka is the company with a heart and as such it cares for its employees, especially for those with decreased working abilities. That way we show that Podravka is a socially responsible company and in cooperation with the community in which it operates, the unions and various NGO's, it tries to integrate employees of decreased working abilities into its standard operating procedures and that way contribute to their social inclusion.

## SUSTAINABLE DEVELOPMENT OF PODRAVKA'S MAIN PRODUCT GROUPS AND BRANDS

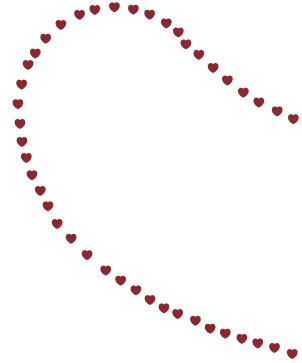
### Food seasonings

Vegeta brand is the most significant Podravka's brand being sold on every continent of the world. Its importance is confirmed by numerous independent agency researches proclaiming Vegeta brand the strongest and most recognized brand in Croatia and South Eastern Europe.

Vegeta is the most renowned original Croatian product and number one universal food seasoning in Europe, and is a guaranty of all the carefully selected ingredients. Vegeta is a unique mixture of spices and several kinds of dried vegetables, a coupling of culinary experience and healthy natural ingredients. A spoonful of Vegeta achieves the unique fullness of taste.

In 2006 the market saw Vegeta limited edition as well as Vegeta piquant. In Australian market, for the first time in history, Vegeta is launched as liquid stock, which is a specific trait of this market.

Vegeta piquant is based on Vegeta with added chilli peppers and several kinds of aromatic herbs and spices, packaged in deltapack with a zip. Vegeta piquant is a universal food seasoning for meals



of exceptional quality, and in compliance to food trends (trendy cooking) intended for consumers who care for a piquant (mildly spicy) taste and supreme flavour of a dish.

In May 2006 Podravka launched to the Australian market four new products – liquid stock under Vegeta brand: vegetable, chicken flavour, chilli and garlic flavour. Liquid stock are the new products of the Vegeta brand and were developed in cooperation of Podravka D.D. and Podravka International Sydney which operates in Australian market since 1994.

#### **Meat and meat products**

Podravka's offering of meat and meat products is completely adjusted to modern lifestyle. Pates, ready meals, cold meats, meat-based meals, durable and semi-durable smoked and cured products, fresh and frozen formed meat are just some of Podravka's meat products satisfying the demands of a simple but exceptionally tasty meal, eaten at home, at work or outdoors. The products are made from highest quality ingredients and are in compliance to high world standards in food production.

Meat and meat products group was in 2006 enriched with two new products – Goulash Soup, ready-made meal, and dried product - Sudžuk sausage. Goulash Soup is the product of a characteristic spicy domestic flavour, and added potatoes and meat make it a complete ready-made meal.

#### **Baby food, sweets and snack**

Lino is one of the most recognizable Podravka's brands. Products under the Lino brand are exported to more than 20 countries around the world and have a leading position in Croatia and other countries of South East Europe. Lino baby food contains cereal flakes with various supplements, adapted to tastes of children. It is rich in minerals and vitamins necessary for children's growth and development, without preservatives, colours and other additives. For 35 years Podravka has been researching baby food taking care of its high quality, safety and reliability.

In 2006 a new line of Lino baby food with prebiotic was launched, adapted to babies which are just getting to know their first food after mother's milk (after 6th month of age), and is enriched with minerals and vitamins (iodine, iron, calcium, magnesium) and oligosaccharides in the form of a prebiotic. The innovative products are Corn, Rice and corn, Rice with banana and apple, Rice with 5 types of fruit. The product Banana Čokolino was also created under Lino brand – a new combination of irresistible flavours of Čokolino and banana.

In the category of breakfast cereals under the brand Čokolino new products were launched last year - Čokolino Crunch and Čokolino Maxi, and among cream spreads Čokolino spread. Čokolino Crunch are cereal balls with chocolate flavour. They are rich in calcium, iron and vitamins, they are easy to prepare, and also are delicious, natural and nutritious. Čokolino Maxi is a special treat for gourmants, consisting of a mixture of cornflake cereals and chocolate rice balls, chocolate scales and flakes of your favourite Čokolino. Čokolino cream spread provides a mysteriously good flavour and a completely new experience of chocolate with hazelnuts. Next to a glass

of milk is a source of energy and health. It is an ideal treat for any time of the day.

Dolcela products enable fast and easy preparation of imaginative sweets. A dessert is more than food. It is magic, delight, imagination. Dolcela follows that idea with its quality, design and simplicity of preparation. Creams and cream mixtures, puddings and sweets creams, cake toppings enable simple and creative preparation of various sweets.

Dolcela sweets were in 2006 enriched with two new pudding flavours: forest fruit and rum-punch.

Kviki, a range of salted long-life snacks, comes in variety of shapes: pretzels, maxi pretzels, sticks and fish. A traditional method of preparation ensures the fullness of the taste, high quality, crispy structure and freshness of the product. Kviki products are delicious, of recognizable taste and quality, they can be shared and enjoyed with friends and family at any moment, any where.

Novelty in the range is Podravka crispy corn chips prepared by modeling traditional Mexican snack, and is produced in three flavours: salted, chili and cheese. It can be consumed on its own or with a dip.

#### **Podravka dishes**

Podravka dishes include Podravka packet soups and stock cubes, instant soups Fini-Mini, semi-ready meals based on pasta with sauces under the brand Talianetta, Fant sauces, gastro range of soups, bouillons, stocks and sauces as well as soup supplements and Spaghetti Milanese.

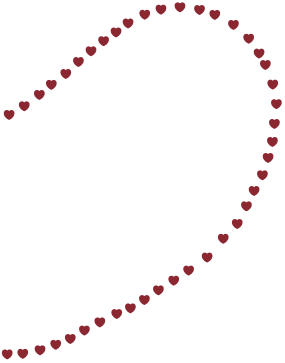
In 2006 Podravka launched a new range of ready-made meals comprised of six products, representatives of world cuisines: Paella with chicken and sea fruit, Chilli con Carne with rice, Lasagne Bolognese, Lentil with sausage, Tuna with tomato sauce and Veal in white sauce. High value ingredients, only the selected pieces of meat and vegetables are a guaranty of a delicious and fresh meal.

#### **Fruits and vegetables**

Podravka fruit products are a high value food, preserving natural wealth of fruit flavour. Delicious and nutritious high-quality products are a result of half a century old tradition, experience and the latest technology. Fruit program consists of marmalades, jams, teas, honey and compotes.

New products in 2006 are Low calorie jam raspberry, Low calorie jam blueberry, Extra-jam sour cherry, Extra-jam forest fruit, Extra-jam orange-strawberry, Extra-jam cranberry, Fruit tea forest fruit, Plum compote and Sour cherry compote. All extra-jams contain an exceptionally high share of fruit, they are low on calories and completely sweetened with natural sugar fructose. Extra-jam cranberry is a functional product – cranberry is rich in vitamins and minerals and is a natural antioxidant and antibiotic. Fruit tea forest fruit is of a recognizable taste of continental and Mediterranean fruit and provides relaxation and refreshment.

Podravka vegetable products are products without preservatives, prepared according to the recipes of our grandmothers. The range is completed with pasteurized and sterilized vegetable products.



In 2006 the range was enriched with Bolognese sauce, Tomato dip mild and hot, Chopped tomatoes with basil and oregano, Chopped tomatoes with olives, Chopped tomatoes with garlic and olive oil and Sterilized champignons.

Bolognese sauce is prepared from tomato and peppers with added minced meat.

It is packaged in sleeved bottle, and its design follows the range of sauces based on tomato. Dip is a tasty sauce based on tomato, with added vegetables and spices, it is produced in mild and hot variation, it is low on calories and contains no preservatives. Following the trends in consumer habits, Podravka launched the range of four new products of fresh tomatoes, packaged in Tetra Recart, unique in Croatian market because it preserves the original value and product taste, it is easy to open and it enables easier disposal of packaging.

### **Beverages**

Studena is natural spring water which has preserved its natural purity in the heart of the Earth and untouched for thousands

of years springs to the surface of Bukovac. It is perfectly refreshing, and it maintains the organism healthy and vital. Studena with lemon, green apple and strawberry flavours and Studena

SPORT PLUS are flavoured waters based on

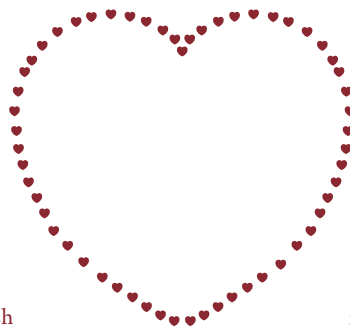
pure spring water Studena. It is without preservatives, low on calories compared to similar products, and of exceptional nutritive value.

Studenac is natural, pure and refreshing mineral water drawn from the well in the center of a hundred year old Lipik park and comes to the surface as a potable, impeccably clean with abundance of minerals. Studenac preserved its

natural purity at the depth of more than 300 m, where the analyses confirm that there is no mixing with the rainfalls and contemporary pollution and that the

water entered the underground more than 37,000 years ago.

Ice teas Studena with flavours of lemon, peach and cranberry-apple are refreshing, non-alcoholic beverages of herbal extracts based on spring water Studena. They do not contain theine, the substance having the effect similar to caffeine in coffee, so ice teas Studena are recommended to children as well.



Ice tea rooibos was launched to the market in 2006 as a non-carbonated, refreshing, non-alcoholic beverage from herbal extract rooibos, in compliance with food trends, intended to consumers who appreciate natural products and enjoy rooibos flavour.

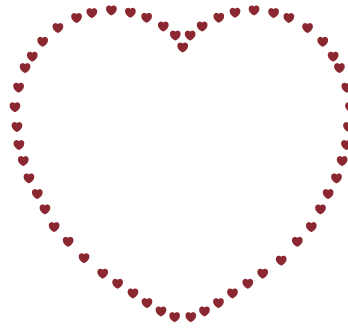
Return packaging for 0,25 l was also introduced for Studena spring water, Studena lemon, Studenac and Studena ice teas. The main purpose of introducing return packaging is to create effect in reducing environment pollution. Return packaging also makes the product more affordable for the consumers.

### **Belupo pharmaceutical products**

#### **Medicines**

According to ATK classification (anatomical-therapeutic-chemical), Belupo's medicines are present in 8 groups. The highest strategic value and share take the following groups of medicines: medicines with effect on heart and blood vessels, medicines with effect on skin, muscles and bones, nervous system and medicines for treating systemic infections, then medicines with effect on digestion and urogenital system, sexual hormones

and medicines for treating infections caused by parasites. In 2006 there were 3 new products in the medicines group – one with heart effect, one in the group of muscular and bone system and one in the group with effect on nervous system.



#### **Over-the-counter products**

Over-the-counter products include medicines issued without prescription, food supplements and special purpose cosmetics. Belupo medicines issued without prescription belong into the following groups: for the nervous system (Lupocet, Ginkgo, Aktivin H), digestion system (Aminflourid, Belomet, Belosept, Portalak, Fitolax, Silymarin, Target 10), respiratory system (Belodin, Tabex, Tabex forte, Eusin, Orasept), dermatics (Herplex), bones-nerves (Neofen, Neofen Forte, Luboreta) and urogenital system (Urosal, Urosal M+). Food supplements are Favors sljez, Favors timijan, Bevital, Bevital Sun, Maxi Omega, Fersan Forte, Vitaseng, Urosal Lady and Fit-lax, and Floceca among special purpose cosmetics.

Three new products were launched to the market in 2006 – Neofen forte, Fit-lax and Lupocet Flu.



## PODRAVKA'S MARKETS

Podravka's subsidiaries and representative offices can be found in 17 countries in the world (Bosnia&Herzegovina, Serbia, Macedonia, Montenegro, Kosovo, Czech Republic, Slovakia, Poland, Hungary, Russia, Ukraine, Latvia, Romania, Slovenia, Germany, Australia, USA), production facilities in 5 countries

(Croatia, Poland, Slovenia, Czech Republic and Slovakia), while Podravka's own distribution network spans from Adriatic to North Sea.

Markets are grouped according to similarity of individual countries and according to Podravka's position in those markets. In 2006 the scope of individual market groups was changed with the purpose of better management. Next to Croatian as



the domicile market, groups of markets are: South East Europe (B&H, Serbia, Montenegro, Macedonia, Kosovo and Albania), Central Europe (Poland, Czech Republic, Slovakia, Hungary), Eastern Europe (Russia, Ukraine, Romania, Baltic region, Bulgaria, Kazakhstan, Belorussia, Moldova) and Western Europe I (Slovenia, Germany, Benelux, Austria, Switzerland), Western Europe II (France, Great Britain, Scandinavian countries, Italy,

Spain) and overseas countries (Australia, USA, Canada, Israel, Egypt, Kuwait, Turkey, Jordan).

Besides the Croatian market, Belupo operates in the markets of Slovakia, Macedonia, Slovenia, Serbia, Kosovo, Bosnia and Herzegovina, Russia, Czech Republic and Romania. Belupo d.d has subsidiaries and representative offices in Slovakia, Macedonia, Slovenia, Serbia, Kosovo, Bosnia and Herzegovina, Russia and Czech Republic.



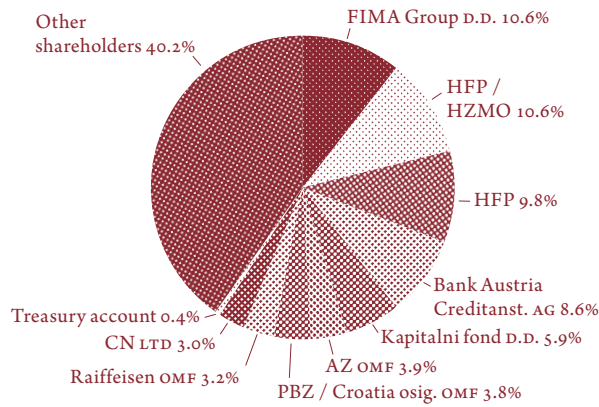
## PODRAVKA'S ORGANIZATIONAL STRUCTURE

Business organization of Podravka consists of three strategic business areas: Food and beverages, Pharmaceuticals and Services together with corporate support functions and managing services. The purpose of such an organization is to achieve a

more efficient and faster completion of processes, clearer definition of responsibilities and improvement of horizontal communication, which were the key shortcomings of the organization so far. Important principles of such new organization is to achieve a shallow organization without unnecessary hierarchy, flexibility and ensuring the responsibility for the entire process on all levels.



## SHAREHOLDER STRUCTURE



Shareholder structure on 31 December 2006

On 31 December 2006 the largest ten shareholders hold 62% of equity. The biggest individual shareholder is the State with 26.4% through its funds HFP (Croatian Privatization Fund), HZMO (Croatian institute for pension insurance) and Kapitalni fond d.o.o. (Capital Fund). Second largest individual shareholder is FIMA Group with 10.6% equity, and the third largest shareholder is Bank Austria Creditanstalt AG with 8.6% equity. Treasury shares make up for 0.4% of equity, 73.2% of equity is in free float.

Average share price grows significantly in the past three years. The same as in 2005, the year 2006 also saw substantial turnover growth and share prices growth on Croatian capital market. Podravka's share realized 35% average price growth, while Podravka's share turnover growth was 44.4%.

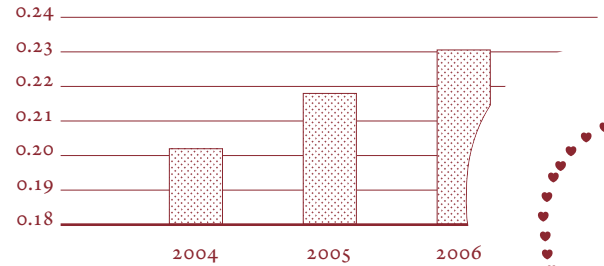
	2004	2005	2006
Average price (HRK)	198.04	296.69	399.69
WACP change compared to last year	7.40 %	49.80 %	35 %
Share turnover at Zagreb Stock Exchange (MLN HRK)	266	465.2	671.8

Waded average close price (WACP) of Podravka's PODR-R-A and turnover at Zagreb Stock Exchange

## BASIC INFORMATION ABOUT PODRAVKA

	2004	2005	2006
Employees	7,279	7,181	6,989
Production (T)	216,530	211,681	202,996
Production value (MLN HRK)	1,478	1,566	1,614

Number of employed, amount and worth of produced products



Production value per employee (MLN HRK)

The year 2006 was marked by the restructuring process, the same as two years before, which results in reduced number of employees. As one of the most significant events is the outsourcing of Koprivnička tiskarnica d.o.o. to Grafičar D.D. company from Ludbreg. Koprivnička tiskarnica d.o.o. deals with printing business, which is not Podravka's basic activity and its outsourcing from Podravka is part of the strategy according to which non-basic activities will gradually be outsourced from Podravka. Having successfully completed the outsourcing process of Koprivnička tiskarnica, Podravka's Board decided in the second half of 2006 to continue the outsourcing process of other non-basic activities such as office building cleaning, perimeter and drains cleaning, laundry, green surfaces maintenance, catering, continuing the restructuring process, which also included the reduction of the number of employees in non-basic activities. Considering that such restructuring has an inevitable effect on economic and social position of the employees, in a dialogue with unions and Workers' Council the employer made and agreement on the protection of workers rights and all changes are made in compliance to agreed terms, which proves how Podravka's concern for its employees comes first.

Apart from restructuring business in Croatia in 2006, some processes in foreign markets were also rationalized, which also resulted in reduced number of employees. Podravka's company Sana d.o.o. Hoče in Slovenia was discontinued, while in Poland there was a merge of Podravka International Export-Import Sp.z o.o. with the headquarters in Warszawa and the company Podravka Polska Sp. z o.o. headquartered in Kostrzyn. Lagris production facilities were merged in Czech and Slovakia, moving production from Slovakia to Czech Republic, which also resulted in reduced number of employees and production rationalization.

The reasons of reduced production of Podravka's products in tons through the last three years we find in process optimization and technology modernization (reduced squandering, breakage, splintering) and in production outsourcing for some products (teas, waffles) for which it was estimated that it was more cost effective to produce them in cooperation with other manufacturers.

## SIGNIFICANT REWARDS FOR OUTSTANDING ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACTS IN 2006

### Podravka - "Superbrand" in Slovakia

Podravka was awarded "Superbrand Slovakia" in Bratislava. Choosing Superbrands in Slovakia was organized for the first time



in this market where Podravka has been present since '60s of the last century. This prestigious recognition Podravka was awarded by the leading Slovak brand experts ranking it among top 35, the very peak of the competition constituted of 1200 brands on Slovakian market.

#### Podravka's share the Best Industrial Share in Croatia

The Regent Esplanade Hotel in Zagreb was the venue for the traditional, ninth in the row, award of the Golden share. Podravka was awarded for the best industrial share for its results on Zagreb and Varaždin Stock Exchanges in the category of food and pharmaceutical industry.

#### Belupo receives Golden Marten award as the most successful company

Belupo was proclaimed the most successful company in Koprivnica- Križevci county at the session of the economic Council of the County Chamber of Economy in Koprivnica. In 2006 Belupo celebrates 35th anniversary of successful business and is the leading pharmaceutical company in Croatia for sales of medicines with effect on cardiovascular system and skin. For a number of years it organizes and participates in public health actions during which it warns patients about importance of timely and correct healing, which makes a continuous effort in advancing people's health. Belupo's responsibility is confirmed in active participation in sport and culture.

#### KUD Podravka receives recognition by Croatian Parliament of Culture

Croatian Parliament of Culture awarded a diploma to KUD Podravka for their 25-year long successful work on advancement of cultural and artistic amateurism and Croatian culture. On the occasion, individual acknowledgements were awarded to sections of KUD Podravka: Mixed singing choir for 25 years and Literary section for 30 years of existence.

#### KUD Podravka receives a plaque from the town of Koprivnica

Cultural and art society Podravka for its exceptional contribution and continuous advancement of cultural-art creative work was awarded with a plaque from the town of Koprivnica, as decided by the City Council.

## THE SCOPE AND PROFILE OF PODRAVKA'S SUSTAINABLE DEVELOPMENT REPORT

All information stated in this report are based on Podravka's economic, environmental and social impacts in the year 2006. This report on sustainable development includes overall spectrum of operations and activities of the company, where ever that was possible, as well as all the relations that Podravka builds in the process. In relation to previous sustainability report, this report was built in compliance with the latest Sustainability Reporting Guidelines by the Global Reporting Initiative from 2006 ([www.globalreporting.org](http://www.globalreporting.org)), currently the most relevant global frame for reporting on sustainability.

Last Podravka's Sustainable Development Report issued in 2006 was written and structured in compliance with Sustainability Reporting Guidelines by the Global Reporting Initiative from 2002 and it included business actions in the year 2005.

According to Podravka's strategy and aspects of sustainable development, as well as subjects and areas in the latest Sustainability Reporting Guidelines, we defined content and subjects of priority within the report on sustainable development.

Data presented in this report were gathered by internationally recognized analytic methods by authorized laboratories, programs for tracking waste flow KEO (environment emissions cadastre), installed flow gauges and invoices by the suppliers for used power resources and authorized institutions. Emissions from the boiler rooms and furnaces were measured by institutions authorized by government bodies for performing such measurements and issuing reports, and smaller part of the emissions (about 10%) emerging on vehicles were estimated, but based on recommendations by vehicle manufacturers - CO<sub>2</sub> emission per kilometers traveled.

External verification of Podravka's sustainable development report is realized in cooperation with Croatian business council for sustainable development (HR PSOR), and the idea was to establish a verification procedure with IBLF-International Business Leaders Forum. Croatian business council on sustainable development is an economic organization founded by Croatian companies in mid '90s in order to use joint powers and to encourage the application of sustainable development and growth concept in Croatian economy, and Podravka has been a HR PSOR member for a number of years. In 2006 Podravka became the first Croatian member of IBLF.

		In Accordance 2006	C	C+	B	B+	A	A+
Mandatory	Self Declared				✓			
Optional	Third Party Checked				✓			
	GRI Checked							
				Report Externally Assured		Report Externally Assured		Report Externally Assured

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## MANAGEMENT, DUTIES AND INVOLVEMENT

### MANAGEMENT

Based on Companies Act and Company by-law, the General Assembly of Podravka D.D. makes the decision on election and recall of the members of the Supervisory Board of Podravka D.D.

Any shareholder, whether personally or via an authorized person, can participate in the work of the General Assembly and in the debate on individual item on the agenda of General Assembly, to state their attitudes, or make recommendations or guidelines to the Board. Shareholders represented in the Supervisory Board of Podravka D.D. are authorized to make recommendations or guidelines to the Management Board in the form of a conclusion of the meeting.

In compliance to authorizations determined by the Companies Act and Company by-law, as well as Rules of procedure of the Supervisory Board, the Supervisory Board supervises managing the affairs of Podravka D.D. by holding meetings and making decisions at those meetings. The Supervisory Board of Podravka D.D. considers strategy and plan of business for associated companies of Podravka in cooperation with Podravka's Management Board. The Supervisory Board of Podravka D.D. consists of 11 members. The chairman of the Supervisory Board of Podravka D.D. is not also a member of the executive management of the company. The Supervisory Board of Podravka D.D. counts 11 members. 8 members are independent, they are not members of the executive part in the organizational structure, and 1 member is a workers representative for three years in the row. Informing and counseling workers about employment in Podravka is done through Workers Council according to the Labor law.

In 2006 the decision was made to form four subcommittees of the Supervisory Board: Audit Committee, Remuneration Committee, Strategic Committee and Human Resources Committee. At their meeting the existing Supervisory Board makes a proposition to elect new members to the Supervisory Board, taking into account their expertise and ethics, and directs it to the General Assembly for approval.

Supervisory Board of Podravka D.D. monitors economic, environmental and social impacts through the Audit Committee. According to the Article 28 of Audit Act, The Audit Committee is in charge of following the procedures of financial reporting, tracking efficiency of the internal control system, internal audit, risk management system, supervision of auditing annual financial and consolidated reports, tracking of independence of auditors or auditor companies performing audits, and especially contracts on additional services, providing recommendations to the Assembly on the choice of independent auditor or auditor company and discusses plans and annual reports of the internal audit and other significant issues relative to this area.

In corporate management system in Croatia, the Management Board and the Supervisory Board are two separate bodies with separate management and supervisory functions.

Management Board (hereinafter Board) of Podravka D.D. manages affairs of Podravka D.D. and makes decisions about Podravka's

strategy and plan of business, business organization and supervision over the management operations, about reporting by the Supervisory Board and General Assembly in compliance to the law and Rules of Procedure of Podravka D.D., about preparation before holding a General Assembly and propositions of decisions to be passed by the General Assembly.

### Mechanisms for avoiding conflict of interest for the highest management body

Corporate Management Code (Article 3.), Duties and responsibilities of the Management Board, and the Supervisory Board of Podravka D.D.) define the following: "Members of the Management and the Supervisory Board must always declare their personal interest in any transaction important for the business of the company. Accordingly, members of the Management and the Supervisory Board must inform the Board if using information or company asset for personal benefit. It must be approved from the Supervisory Board, and interested members of the Board have no right in decision making. That kind of a decision must be presented to the shareholders. Disrespect of the rules that involve personal benefits may cause withdrawal or indemnification of damage."

Ethic Code of Podravka (Article 5 Conflict of interest) defines the following:

"Dual performance of duties within Podravka is not acceptable, and it is therefore necessary to avoid that employees at managers positions in Podravka also be members of the Supervisory Board of Podravka D.D."

### VALUES, BEHAVIOUR CODES AND POLICIES

#### Podravka's basic values

Podravka's basic values are: innovation, will for learning, loyalty, activity, ambitiousness, winning spirit, team work, self confidence and professionalism.

#### Behaviour codes and principles

Podravka accepts basic ethical principles and guidelines of ethical behaviour of the Ethics Code in business which was determined and made by the Assembly of Croatian Chamber of Economy since 23 May 2005. Ethics Code compiled in the same year determines the basic business principles which have a direct influence on sustainable development. First of all, they include: relation towards environment, towards social community and toward public. According to these principles, all employees are obliged to respect ecological standards and are encouraged to build positive identity of Podravka in communication with its external surroundings. Podravka and its employees are also encouraged to participate in all charitable institutions, sport clubs and similar organizations. With the purpose of acting according to this Code, the Commission for enforcing the Code was founded. Podravka also has a Corporate Governance Code, in compliance to which the transparency of business policy of the company is being encouraged, partnership relations with the media maintained, information is published to the public in timely manner, and systematic tracking of changes of all legal provision is performed in order that Podravka's business be in compliance to the legislative and to the welfare of the community.



Basic business principles of Podravka are founded on policies and codes accepted by the Management and all employees are obliged to abide by them. Basic policies are Corporate Policy, Quality Policy, Consumer-client Satisfaction Policy. Behaviour codes accepted by the Management Board are Ethics Code and Corporate Governance Code. Enforcing the Quality Policy and Consumer-Client Satisfaction Policy, the company ensures high level of its services to consumers and clients and ensures necessary quality of products in compliance to international standards.

### Corporate Policy

Podravka is an international, basically food company, the leader of its region. Our innovativeness enables us to create new quality products that win the trust of consumers. Podravka's employees are its greatest strength and their loyalty is this company's basic value.

Food industry is Podravka's basic activity. In the food industry we wish to be an innovative leader of our region, encompassing South East, Central and Eastern Europe. Significant activity is Pharmaceuticals where in recognizable partnership approach with selected therapeutic groups we ensure growth and long term values for employees, users and society as a whole. Podravka is also present on international markets where we see an opportunity for fast growth. Growth is one of the basic postulates of the company, and the goal is constant, above-average growth and company's development. That way we will satisfy owners and attract future investors. With the goal to achieve growth Podravka wishes

to preserve its high reputation on markets where it does business. We strive for exceptional quality in all of our business processes. We have based our growth on quality, our consumers and partners acknowledge our quality and it is quality that we will keep. We base our business on excellence.

In creating our products we devote special attention to simplicity of preparation and consumption, practicality and contribution to consumers' health. We continue to recognize and satisfy the needs of consumers. Knowledge will be our leverage in achieving competitive advantage. We are able to create a critical mass of knowledge and to be better than our competition. Investing into people and new knowledge will be our basic investment for the future. We build tendency and desire for learning. Next to innovativeness, loyalty of the employees and a desire for learning, key values we build in our company are ambitiousness, entrepreneurship, desire to win, cooperative spirit, self-confidence, professionalism, successfulness and business morale.

Further on, Podravka operates on principles of sustainable development. Preserving the environment is a precondition to society development in general. In our development we also take care about the development of the community and region we operate in.

### Quality Policy

All of our products and business processes are based on principles of quality management and we are committed to grant the

requests of our clients and consumers and constantly improve the quality of our products and business processes.

As we take constant and systematic care about proper health state and safety of our products, in compliance to legal provision of the Republic of Croatia, European Union and all of the countries in which we operate, we place a high emphasis on knowledge, expertise and constant care on personnel, which ensures innovative products and processes for global market.

Internal quality standards set are stricter than national provisions and regulations on quality applicable in the EU, which shows an exceptional concern for the quality of our products and care for our clients satisfaction.

### Consumer/Client Satisfaction Policy

Podravka is a food company focused on achieving the highest level of satisfaction of its clients and consumers who are aware that even after they have completed their sale, they have a series of other services at their disposal. Our present and future clients and consumers are our most valuable potential and we therefore approach them with special attention in an open and responsible communication and that way we create trust with the employers and also our clients and consumers.

### Environment Protection Policy

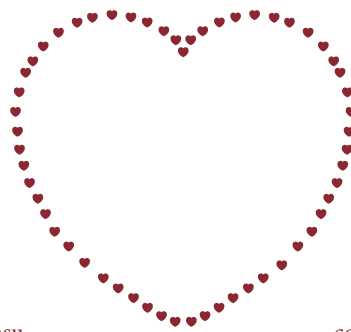
Environment protection is one of Podravka's priorities and it is applied on the principles of sustainable development and clean production. All of the activities have to be in compliance with the valid national regulations regarding environment protection as well as regulations of the countries in which the company operates. In case of non-existing own legal provisions, international standards apply. Specific actions conducted are based on the Environment Protection Action Plan subject to constant improvement.

Podravka is obliged to rational use of best resources of energy and raw materials, waste management as well as constant prevention of a negative effect on environment, production, products and services. Podravka Group will continue to operate in its environment according to Podravka D.D. Environment Protection Policy.

Podravka is committed to constant reporting of the public regarding environment protection as well as to education and motivation of employees to constantly improve environment protection.

Environment protection as such presents overall solution for all Podravka's wholes:

- Waste water treatment
- Waste management in the widest sense
- Hazardous material management
- Air emissions
- Keeping pollutant records
- Managing raw materials, finished products and packaging which for any reason do not comply



- Cooperation in choosing “clean technologies” and fitting into ecological standards during facility planning and reconstruction
- Draining and treatment of the sewage system
- Laboratory control – authorized laboratory.

When solving problems, the biggest with heavier consequences take priority, followed by other. The goal of resolving other known issues as well as those to be expected is to get Podravka closer to European standards of environment protection.

### **Sustainable Development Charter**

Sustainable development of Podravka D.D. primarily presents the care for environment via environment protection policy and adequate use of all resources and active contribution to long-term economic, social and ecological stability of the communities in which it operates via commitments defined in documents such as: Corporate Policy, Corporate Governance Policy, Ethics Code, Consumer-Client Satisfaction Policy, Human Potential Policy, work of the Board for protection against discrimination and work of the “Zlata Bartl” Foundation.

Being completely aware of our social role and responsibility, we conform to legal provisions and good practice in all countries and environments we operate, and we ask the same of our business partners. In the Clean Production Program we use raw materials, other materials and processes that minimize possible harmful effects to the environment. We also identify and evaluate potential effects in advance in order to reduce possible

harmful effects to the lowest possible level, i.e. to sustainably acceptable level.

We also ensure a safe and healthy environment for all employees.

We encourage and take into account the suggestions made by Podravka’s shareholders, workers, local communities, users, non-governmental associations, business partners, government bodies, government and the society as a whole.

Any form of discrimination or judging people by their race, colour of their skin, origin, gender, religious orientation or ethnic belonging is totally unacceptable for

Podravka and to ensure this commitment we guarantee equal opportunities and conditions for all. We work together as a team and make perfect the sense of belonging to the company because we are aware that this is one of the significant advantages in global environment. We constantly support education projects and humanitarian initiative which promote the well being of the community, health, and prevention of possible harmful trends.

We constantly strive for our products and services to be above expectations of our users. By consistently preserving integrity of everything we do, we demand of ourselves, but also of others, to apply highest ethic standards.

### **OBLIGATIONS TOWARDS EXTERNAL INITIATIVES**

#### **Acknowledging the caution approach**

Business planning in Podravka is one of the basic processes of company’s short and long term future management. Planning

process includes the most important business areas with the purpose of achieving targets set. It is possible to have deviations from set targets with regards to process complexity, irregularities in business environment and internal factors. In order to set these deviations to a minimum, during planning processes we must define the most important internal and external risks. Defined risks are then easier to handle during implementation of set strategies.

In 2006 in Croatia was discovered the virus which causes avian influenza with wild water birds (swans). Podravka instantly set up a working group for monitoring. State institutions took due measures to keep influenza from spreading to domestic poultry. That secured safe production conditions.

### **ECONOMIC, ENVIRONMENTAL AND SOCIAL CHARTERS, PRINCIPLES AND INITIATIVES SUPPORTED BY PODRAVKA**

#### **Podravka the only Croatian member of World Business Council For Sustainable Development**

On the global scale Podravka has for a long time (since 2001) been a full member of WBCSD - World Business Council for Sustainable Development, world umbrella organization that promotes and encourages the application of principles of sustainable development in world economy. One of the basic goals of WBCSD

is preservation and reasonable usage of world

natural resources. Podravka is today the only Croatian member of WBCSD. In

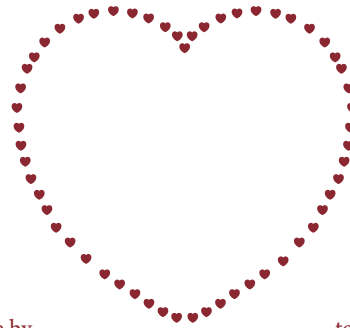
2006 Podravka was visited by dr. Brigitte Monsou Tantawy, WBCSD representative. As the vice-chairwoman of

Organization Effectiveness at Unilever N.V. she formally joined WBCSD on

1 May 2006 as the new manager of Council’s Business Role Focus Area. According to her

words, it is of utmost importance for companies to contribute to society progress in sustainable way,

at the same time improving their reputation.



#### **Podravka becomes the first Croatian member of International Business Leaders Forum (IBLF)**

In early July 2006 Podravka became the first Croatian company member of International Business Leaders Forum – IBLF. On the occasion Darko Marinac, Podravka Management Board President, was elected to the IBLF Council, in which there are 55 other presidents or Board members of leading world companies.

Founded in 1990 IBLF has focused on resolving social problems of globalisation, forming partnerships as the most efficient method of including companies into development as well as helping companies in more than 60 countries around the world in finding the best business models of sustainable development.

#### **Podravka one of the founders of Croatian Business Council For Sustainable Development (HR PSOR)**

Podravka’s mission is to conduct business that is in the best interest of clients and consumers, so within HR PSOR concrete measures are



being undertaken to influence current legal regulations, exchange actual experiences and incite present members of HR PSOR to actions with the purpose of improving life in the community.

Darko Marinac, Podravka Management Board president and current member of the Management Board was elected new chairman to the management council of HR PSOR in 2006. This election is another grand confirmation and acknowledgement to Podravka for its contribution so far in development of economy, social community and environment protection.

#### **Croatian Business Council for Sustainable Development Charter**

Podravka is among forty members of Croatian Business Council For Sustainable Development (HR PSOR), non-profit organisation in economy sector, founded with the purpose of promotion of sustainable development in the Republic of Croatia. HR PSOR accepted the principles of doing business according to sustainable development contained in the Charter. The HR PSOR charter was awarded to Podravka at the 6th Annual Assembly held in 2002. Accepting this Charter, Podravka is committed to take activities with the purpose of creating environment which encourages sustainable development, support constant inter sector dialogue, be a leader in knowledge and experience on the road towards sustainable development and strengthen the reputation of HR PSOR with its actions.

#### **Podravka member of the Community for Socially Responsible Business at Croatian Chamber of Economy**

This Community was founded in 2006 with the purpose of promoting the concept of socially responsible business in the overall Croatian economy and is one of the widest set in the system of the Chamber. The basic intention is to approach this concept to big business systems and to small and middle businesses, because socially responsible business will be of more significance for domestic economy, particularly with the purpose of achieving more competition and closer connections with partners in European Union. Podravka is represented in the Council of the Community via its representatives.

#### **Podravka supports presentation of Guidelines for Reporting on Sustainable Development**

Croatian Business Council for Sustainable Development (HR PSOR) and GRI - Global Reporting Initiative presented in Zagreb the Croatian translation of Global guidelines for reporting on sustainability of companies, and Podravka participated as a partner in realization of this significant international gathering.

GRI guidelines for reporting on sustainability contain recommendations regarding concrete information related to success in environment protection, social community and economic development, and their basic task is to elevate the level of reporting on sustainability to the same level the financial reporting is. Since 1999 when GRI published its first Guidelines, each year the number of companies that are using them in their reporting on sustainable development is increasing. So today GRI is recognised as the leading world standard for reporting on socially responsible practices that contribute to sustainable development.

#### **Podravka the host to 5th business leadership conference, under the name "Economy and sustainable development – European perspectives"**

5th business leadership conference was held on the occasion of international environment protection day in Koprivnica. The purpose of the conference was to exchange experiences and knowledges in the area of sustainable development in the context of complex processes of including Croatia into European and world trends. Business leadership conference presented attitudes and challenges as well as the possibilities of joint cooperation of all parts of the society: economy, interest associations, academic community and national, regional and local institutions whose representatives were present at the conference.

#### **Joining with initiative of Croatian Chamber of Economy and Croatian Association of Employers**

Podravka participates in work and initiatives of HGK (Croatian Chamber of Economy) and HUP (Croatian Association of Employers) on preparations, adjustment and application of legal changes, familiarizing with terms and possibilities of using EU funds with the purpose of good preparation and transformation of the society and the business sector to market terms of EU and participation via its representatives in actions of the working groups for individual chapters on preparation of negotiations of Croatia accession to EU.

#### **Podravka participates in development of business plans for environment protection projects in Croatia**

Domestic and foreign financial institutions are showing increasing interest in projects concerning environment protection and energetic efficiency, goals that are proportionally followed by increase in funding. Consequently the Norway Ministry of Foreign Affairs approved the funds for co-financing the program of development business plans for environment protection in Croatia. Main goals of the project were to make a business plan draft for the environment protection project, to introduce the business plan to financial institutions and to cooperate with financial institutions in detailing of the business plan. Next to economic advantages, these projects also carry benefits in environment protection, such as savings in raw materials, energy resources or water, as well as less waste and emissions into environment in general. Following program closure, the business plan has been introduced to financial institutions at the closing ceremony that has taken place in CCE (Croatian Chamber of Economy) premises, where Podravka presented the project named "Water saving in the sterilization process by implementing water recirculation system".

#### **Podravka helps in demining Croatia**

According to Croatian Mine Action Center estimations, there are almost 300,000 mines in Croatia scattered across 12 counties, and state budget holds scarce funds for covering cost of demining such a vast area, considering that demining of one square meter costs 10.96 kunas. Hence, donations and actions like the project "Cooking against mines" contribute to abatement of this large social problem. Podravka supported this action in 2006 with 120 thousand kunas.



### **Podravka in A Pilot-Project For Environment Protection**

During the process of drafting a pilot-project “Registration for single authorization for facilities in accordance with legal IPPC directive for the Vegeta factory in Koprivnica”, familiarizing with the Directive was necessary as well as an estimation of future responsibilities toward EU and the time needed for adjustment. Vegeta factory in Koprivnica was selected as the first facility of Podravka D.D. in which implementation possibilities of extensive requirements of IPPC directive were assessed, mainly because Vegeta factory is newly built and works in accordance with norms: ISO 9001, HACCP, IFS and BRC. Implementation of IPPC directive in the factory proves that all the protective methods of prevention of water, air and soil polluting have been used, that best available technologies and techniques have been utilized and the same goes for emission standards and environment protection procedures.

### **Podravka and Croatian Culinary Association signed cooperation contract**

Common goals of this cooperation are the advancement of Croatian culinary art, building of recognizable gastronomic offer and joint promotional activities on development of complete gastronomic activities in Croatia and worldwide. Croatian Culinary Association as the umbrella organization, gathers through county associations more than 2000 renowned chefs in Croatia. Academia culinaria Croatica, Croatia Culinary Cup “Vegeta kup”, state competition of chefs “Golden chef” and numerous other projects by national representation of chefs are some of the main activities of the Croatian Culinary Association, and Podravka will take active participation in implementation of their activities.

### **INFO day held in Podravka to the subject: 7th research and development framework program**

In cooperation with the Ministry of Science, Education and Sports of the Republic of Croatia, Podravka organized an information gathering of the 7th research and development framework program, participated by representatives of Podravka and Belupo’s research and development, technologies development, production, human resources and representatives of business subjects and local government units from Koprivnica-Križevci county. The purpose of this initiative is timely information, familiarizing and active involvement into courses and practices of EU business. 7th framework program is the main program of the Community for research and technologic development of European union, to encourage innovation and competition, and is based on encouraging of joint cooperation of the company and industry through connecting with academic community and research institutions.

### **Businessmen familiarized with the situation in the area of free movement of goods and public procurement**

The purpose of this gathering organized by Podravka and Croatian Chamber of Economy was to enable wider information of the local government and economy representatives of the county on the situation with free movement of goods and public procurement. Selected speakers directly included in the

negotiation process of Croatia’s EU accession have spoken on the current situation and dynamics so far in these chapters, as well as on the tasks to be performed with the purpose of harmonizing with European legislative and fulfilling the demands to become a full member.

### **Fund for helping severely ill persons**

Funds collected via voluntary donations are used for treatment and rehabilitation of its members. In the beginning the members of this Fund were only employees of Podravka, and their membership fee was paid to a giro account or it was withheld from their salaries. The Fund for supporting severely ill persons outgrew the scope of Podravka, and in time was transformed into a Fund with County significance. Fund users are people affected by serious and malignant illnesses, whose treatment is long-lasting and expensive. The Fund is included in helping members when the patients need it the most or when there are some administrative or financial obstacles.

### **Eureka project of the European Union**

As a part of the international project of the European Union E – 3289, Nature guardian, researches have been conducted on the possibility of substituting a part of mineral fertilizers with the new generation of manufactured organic fertilizers for cucumbers, paprika and tomato for further processing, with the purpose of tracking yield, quality, nitrates residues and changes in the soil.

### **SEEDNet project – preservation of herbal genetic resources**

As part of the SEEDNet project, financed by the Swedish agency for international development, continues the work on gathering, evaluating and sustainable use of old domestic types of vegetables whose seeds will be deposited in the future bank of herbal genes of the Republic of Croatia. Over 9,500 samples of seeds were gathered. Educational billboards and presentations in schools, as well as awards for the most successful gatherers are multi useful - above all for children who took serious the message of this action for preserving the worth of nature for their own future and for those of the future generations.

### **Technical cooperation of USAID and Podravka – advancement of production technology of vegetables for processing**

As part of the agreement on technical cooperation between USAID and Podravka, a pilot project was started for advancement of cucumber production for processing at the farming cooperative Imbriovec.

### **Belupo**

Belupo has been developing a successful cooperation with competent institutions and establishments with which it endeavors to contribute to public health campaigns with the purpose of increased cares for health and awareness of people’s health such as:

- public health campaign on advancement of positive health attitudes with the purpose of reducing children’s fear of doctors in the project “Hospital for teddy bears- who is still afraid of the doctor” organized by the association of medical students,



- public health action “Zagreb and Europe in pain suppression” in cooperation with City Office for Health, Labour, Social Welfare and Homeland War Veterans and , Zagreb City Institute of Public Health,
- public health action in cooperation with Croatian association of nurses and technicians, - program for pregnant and breast-feeding women, symposium on breastfeeding, donating materials with health-educational topics, thermometer for nurses in the field, help with public health and upbringing process,
- cooperation with Faculty of Dentistry, Croatian Association for Dental Traumatology in the action of preventing caries with children in primary school, in cooperation with the Croatian Association for Preventive and Children’s Dentistry.

Belupo also continuously cooperates with the following associations: Nurses Association, Catholic Nurses Association, Nurses in the Field Association, Pharmaceutical Technicians Association, and so on.

#### Podravka member in associations and advocating organisations

Apart from the already stated organizations and initiatives, Podravka is an active representative in the work of different industrial associations in this field (in individual sectors of food and pharmaceutical industry), council, commissions, work groups and a series of other organizations such as:

- KONDIN, for development and advancement of confectionary industry,
- Economic interest association of beverages manufacturers,
- Grouping of production and processing of fruit, vegetables, flowers, seed and planting materials of the Croatian Chamber of Economy,
- Croatia Stočar, economic interest association for production, processing and traffic of cattle, cattle products and cattle food,
- Žitozajednica, advancement of production of cereal crops and flour,
- EFQM (European foundation for quality management),
- EOQ (European organisation for quality),
- HDK (Croatian association for quality),
- HDMK (Croatian association for quality managers),
- AESGP (The Association of European Self-Medication Industry), European association of OTC manufacturers.

#### STAKEHOLDERS’ INVOLVEMENT

##### Podravka’s stakeholders

Considering Podravka’s spheres of influence and its effect on its environment, the stakeholders can be divided into several main groups: employees, unions as employees’ representatives, owners

(shareholders), Supervisory Board as owners’ representative, legislative and regulatory bodies, markets (buyers, suppliers, investor community and other partners) and society (local community, non-governmental organizations and other).

Strategic business areas in food and pharmaceutical industry also determine the most important groups of stakeholders, depending on the intensity of mutual influence.

##### 1. End consumers

- continuous communication with consumers, gathering and researching their needs, ideas, requests, adjustment of existing and testing of new product solutions

- marketing, sales, corporate communications: research and communication with the market, marketing services; toll-free number, web site, sales advancement department

##### 2. Customers

- development of partnership relations with key customers
- sales departments; intense cooperation with trade and distributors with the purpose of creating valuable offer adjusted to the needs of customers and consumers
- education of doctors and pharmacists through organized conventions, congresses, symposiums and workshops (Belupo’s school of health)

##### 3. Employees

- human resources department: establishing a system of whole life education, profiling and motivating employees with the purpose of satisfying company’s clients
- as an employer of choice Podravka invests into its employees and new knowledge, builds tendency towards learning and a desire for knowledge, encourages ambitiousness, enterprising spirit, desire to win, self confidence, professional behaviour, success and business morale

##### 4. Unions

- unions are included into making decisions and tracking the application of collective agreement which includes all employees

##### 5. Shareholders

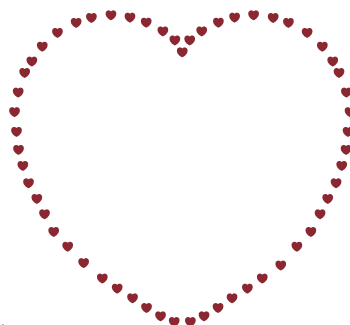
- Investors’ relations take care of timely and transparent informing about business results through conferences with investors and use of internet
- active participation in making and implementation of business policy through representatives in the Supervisory Board or participation in the work of Shareholders Assembly

##### 6. Suppliers

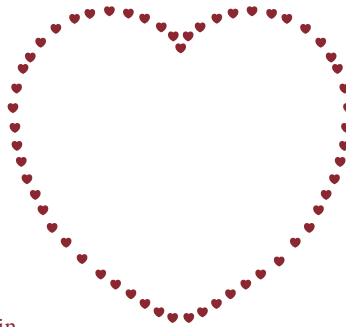
- systemic development of supplier relations
- efficient management of the procurement chain
- development of partnership relations through mutual dedication to sustainability and respect of high level of products quality as well as processes and standards of doing business

##### 7. Communities

- systemic development and enriching of relations in the community we operate
- social engagement of employees



- solving problems with the purpose of raising life quality in local community
  - 8. Central and local authority
    - aligning national legislature with EU legislature
    - participation in operations of work groups in preparing Croatia for negotiations on EU accession
    - creating environment favourable for efficient business
    - cooperation that enables legal compliance and removes unsustainable practices
  - 9. Non-governmental organizations
    - non-governmental organizations have an increasing influence over forming of public opinion and that way intermediately affect the improvement of life quality
    - cooperation with individual non-governmental organizations through expert assistance, donations and sponsorships
- Podravka is trying to offer support and motivate citizens and associations to get more actively involved into promotion of quality of living



the educational structure, the workers were given the opportunity to continue their education and participate in various expert educations. Not one of the rights realized till this day since 1996 was never terminated, nor reduced. On the contrary, it is expected that the next series of negotiations between the unions, which represent and protect the interests of the workers, and Podravka Management Board resulted in some new improvements of the material status of the workers. Apart from the novelties in the basic salary, they are also expected in social security of the workers, warm meal and protection at work.

#### **Expectations and interests of the investors**

Investor relations office operates since 2004 as part of the Management Board president office, and tries to communicate regularly with the shareholders providing timely and accurate information.

In 2006 two presentations were arranged with Podravka Group business results for analysts and investor public as well as for the members of the press. The presentations were related to business results in 2005 and Group results for the period 1 – 9, 2006.

At the General Assembly held on 20 July 2006 in Koprivnica accepted were Podravka Group business results for 2005, members of the Supervisory Board were relieved from their duties and new members elected, confirming at the same time the terms for the existing members of the supervisory Board. (Existing members to the Supervisory Board: Marko Ećimović, Boris Hmelina, Goran Gazivoda, Milan Artuković, Ksenija Horvat, Franjo Malletić; newly elected members: Mladen Vedriš – president of the Supervisory Board, Josip Pavlović, Dražen Sačer, Damir Felak, Dubravko Štimac).

On the corporate web site in the Investors section Podravka continuously and consistently prepares and publishes releases for the stock exchange, business results presentations, key financial indicators and answers to the most frequently asked questions by the investors, while daily it is being reported on the share turnover at the Zagreb Stock Exchange, emphasizing current financial news and weekly updates on the shareholder structure. This year the site provides for better information, both in quality and quantity, by separating financial news, providing continuous information on latest published corporate presentations and changes in shareholder structure. Additional activities are planned for next year in order to elevate the communication with the investor public to higher level via Internet.

Podravka also participates at significant investor events whenever it can, where it gets the chance to present the company, next to other solvent and growing stocks, and provide an opportunity to interested analysts and fund managers to comment on the results on organized meetings with the representatives of Podravka and ask specific questions to executive management.

#### **Expectations and interests of the employees**

The tradition of a social dialogue and advancement of industrial democracy is one of the biggest characteristics of Podravka, because the dynamics and development of these processes provides us with arguments to proudly emphasize Podravka's motto that "employees are Podravka's greatest value". The information that in spite of the decreasing trend of union membership also speaks of that, and in Podravka today more than 60% of its employees is organized in a union, and the workers have their representatives in supervisory boards of Podravka's companies.

First Worker's Council was elected at a workers' referendum shortly after Croatia gained its independence, and in 1996 first Collective Agreement was signed between the employer and unions registered within the company. It included more than 10,000 Podravka's employees at the time, and its significance was that for the first time it arranged for the minimum wage for the interest parties in the collective, together with other material rights, whose magnitudes were up to that point regulated exclusively by acts of the employer.

Basic salary and other material rights of the workers at the time were continuously increasing in a dialogue of social partners till this day, of course, in compliance to the means of the company, and in 2006 celebrating the 10th anniversary of the existence of the First Collective Agreement we signed the new one, with even more value in the segment of basic salary, vacation days and Christmas bonus, and for the first time we arranged for the first time for the workers to have a right to participate in the company profit, as well as to provide motivating bonuses to workers in compliance to evaluated results of their work.

Due to the continued restructuring process of the company, stimulating severance payments have been set at HRK 6,000 per year of work in Podravka, and with the purpose of improving





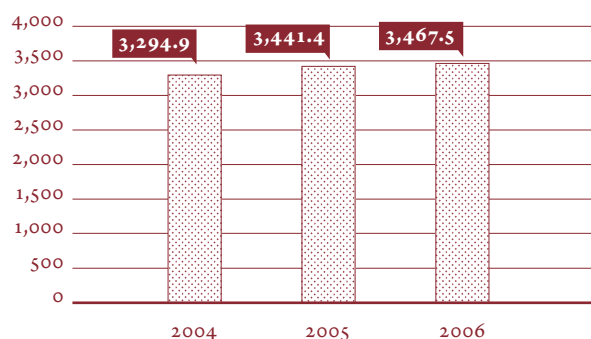
**PODRAVKA  
IMPACT IN**



# ECONOMIC DICATORS

## REALIZED REVENUES

(MLN HRK)	2004	2005	2006
Total revenues	3,359.3	3,492.1	3,523.9
Sales revenues	3,294.9	3,441.4	3,467.5



Sales revenues (MLN HRK)

Podravka Group revenues grew last year by 1%, and growth was slowed down, compared to the one achieved in 2005, when Group revenues grew 4% relative to 2004. The reason of growth decrease is discontinued contract with Nestle company for sales and distribution of their products for the markets of Bosnia and Herzegovina and Macedonia, and partial discontinuation for the market of Serbia in the last quarter 2006. Sales drop conditioned by the discontinued contract is mostly manifested in the markets of South East Europe, where commercial group of products marked significant drop (Nestle products being among them) of 13%. Yet, increasing the sales of its own products, Podravka managed to compensate for reduced incomes from commercial goods. Thus organic growth in the markets of South East and Western Europe was 7%, Eastern Europe 5%, and Croatian market grew 4%. Investing into marketing and research and development, and through acquisitions of new brands Podravka is committed to organic growth. Thus in 2006 a series of new products was launched and started negotiations for the purchase of EVA brand (canned fish) from Croatian company Adria and brands Warzywko and Perfecta (universal and special food seasonings) from Polish company Kamis.

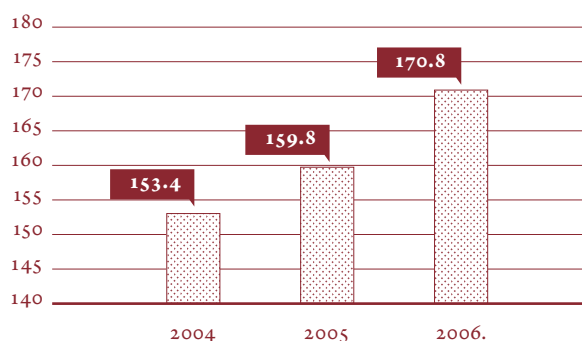
## TOTAL OPERATIVE COSTS

(MLN HRK)	2004	2005	2006
Costs of products sold	2,003.0	2,104.5	2,116.3
Sales and distribution costs	812.3	899.4	906.0
General and administrative costs	339.6	359.2	359.2
<b>Total</b>	<b>3,154.9</b>	<b>3,363.1</b>	<b>3,381.5</b>

Operative costs in 2006 increased by 1% comparing to 2005. Costs structure remains unchanged. Sales and distribution costs and costs of goods sold grew by 1%, with the note that the sales and distribution costs also contain marketing costs with increased growth trend, looking at 2004 and onwards.

## CAPITAL, LIABILITIES AND RETAINED PROFIT

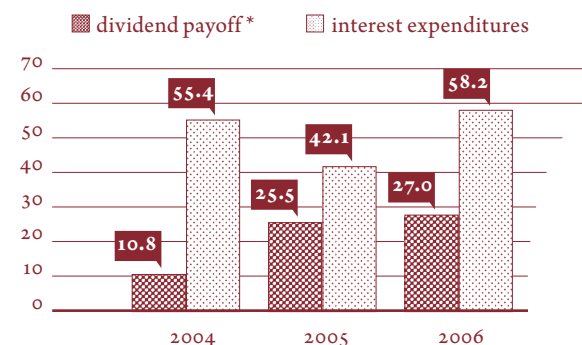
(MLN HRK)	2004	2005	2006
Equity + Liabilities	3,416.5	3,412.8	3,700.5
Equity	1,879.4	1,921.2	1,746.7
Liabilities	1,537.1	1,491.7	1,953.8
<b>End period retained profit</b>	<b>153.4</b>	<b>159.8</b>	<b>170.8</b>



Retained profit (MLN HRK)

Increased credit indebtedness of the Podravka Group due to preparations for acquisitions is the main reason for increased total liabilities. Credit indebtedness was increased by 18% compared to 2005, which also resulted in increased financing costs.

## AMOUNTS PAID TO CAPITAL PROVIDERS



Payments to capital providers (MLN HRK)

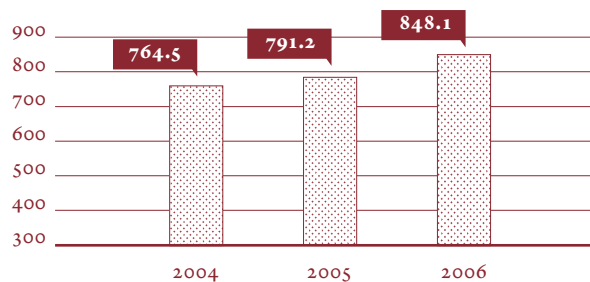
\* Dividend payoff is shown differently than in the last Sustainable development report. Amounts stated represent real amounts in the current year for the past year, and not projected amounts for dividend payoff in the current year, as it was the case in last report.



Dividend payoff only to preferential shares holders (EBRD held 10% of Podravka equity in the shareholder structure through preferential shares) for 2003 was performed in 2004 and the total amount paid was HRK 10.85 mln. In 2004 EBRD leaves the shareholders structure of Podravka. Podravka buys off and annuls preferential shares and in 2005 pays the dividend for 2004 to preferential shares holders in the amount of HRK 5 per share, and the same dividend amount was also paid in 2006 for 2005. In compliance to the Decision on distribution of Podravka's profit realized in 2006, which was accepted at the General Assembly held on 10 July 2006, dividend will be paid to Podravka's shareholders in the amount of 5 HRK per share.

Podravka's indebtedness increased in 2006, together with costs of interests per credits. Although not significant, the contribution of increased interest per credits is also the increase of credits by business banks compared to the year before.

### LABOUR COSTS



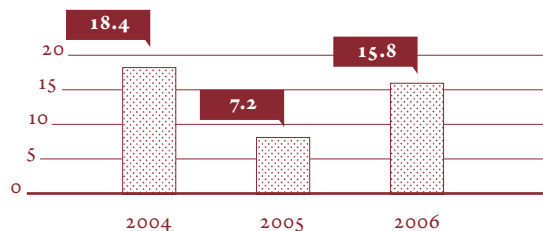
Labour costs (MLN HRK)

Labour costs include gross salaries (net salaries increased for taxes and contributions from and to the salaries) and other benefits such as traveling expenses, anniversary awards, Christmas and Easter bonuses. As a result of collective negotiations between the employer and employees representatives i.e. unions, in the observed period basic salary was increased twice in Podravka. Thus on 1 January 2005 the increase was from HRK 1,630.00 to HRK 1,710.00, and on 1 January 2006 from HRK 1,710.00 to HRK 1,760.00.

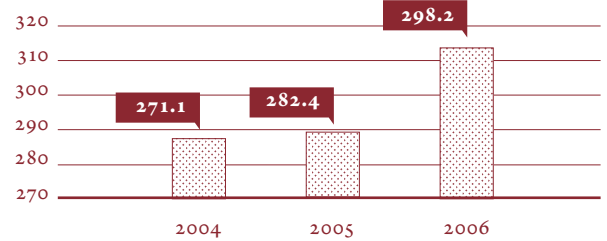
At the same time there was an increase of taxable and nontaxable reimbursements, i.e. the amount added to the salary for the purpose of yearly vacation, per day of vacation the worker is entitled to in a calendar year.

Significant increase in gross salaries and benefits was, besides already stated in 2006, influenced by the improvement of the qualifications structure of the employees, paying overtime hours, increased results, incentives, and increase in other gross incomes.

### TAX PAYMENTS



Profit tax (MLN HRK)



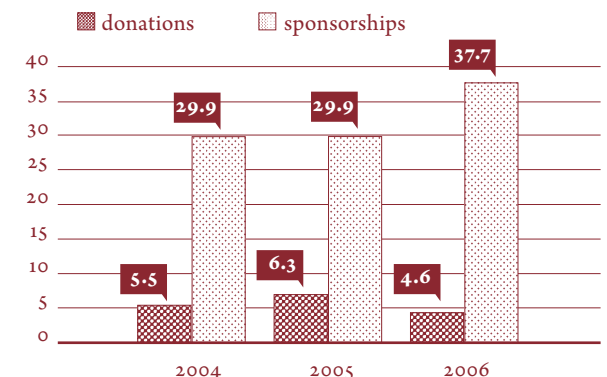
Tax and contributions from and to salaries (MLN HRK)

(000 HRK)	2004	2005	2006
Profit tax	18,365	7,215	15,788
Croatia	15,999	14,984	26,885
South East Europe	995	756	215
Central Europe	739	-9,266	-12,160
Western Europe, overseas countries and Orient	632	667	704
Eastern Europe	0	74	145

Information for 2005 differs from the one provided in last year's report for HRK 9.7 mln of tax benefits from the area of Central Europe (HRK 9.7 mln – HRK 418 mln (of paid profit tax) = HRK 9.3 mln in the table).

### DONATIONS AND OTHER COMMUNITY INVESTMENTS

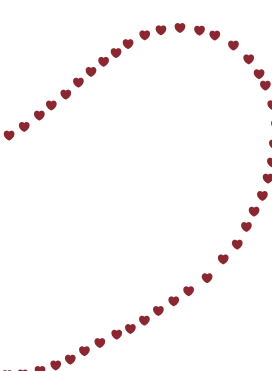
For years now Podravka sets aside part of its financial resources and goods for donations and sponsorships. Podravka allocated in 2006 for donations and sponsorships more than HRK 42 mln continuing the growing trend of earmarking for donations and sponsorship from 2005.



Donations and other community investments (MLN HRK)

Podravka's funds for donations and sponsorships are focused on many social areas:

- children and youth,
- aged and feeble,
- health,
- culture,



- science,
- education,
- sports,
- humanitarian activities,
- publishing activities,
- environment protection,
- economy.

Like many other distinguished and successful world companies, besides profit, Podravka's goal is to contribute to advancement of society and quality of citizens' living, i.e. to behave socially responsible. In all of the environments it operates

Podravka has proved to be a desirable social partner that takes care about the local community.

It is habitual that Podravka co-finances various humanitarian, sport and cultural projects in Koprivnica, where the company is headquartered, but also to support development of business plans for environment protection projects in Croatia, to present guidelines for reporting on social responsibility, to continuously demine Croatia, to support the pilot project of environment protection on the national level,

to celebrate international Women's Day, to advance Croatian culinary art, to found an association for socially responsible behaviour, to help Croatian homeland defenders, children of homeland defenders who have died in war and their widows, to help purchase the new device for Children's diseases clinic in Zagreb and general hospital "dr. Tomislav Bardek" in Koprivnica, to support sport encounters for Union members, to make donations for children of Kosovo, to purchase a computer for Eko-school "Antun Nemčić Gostovinski" in Koprivnica, to help Oncology ward at the Clinical hospital in Split, to help the Fund for severely ill persons, to support the work the Croatian Caritas and so on. In 2006 Belupo donated almost a million kunas for the purchase of medical and IT equipment and professional literature, and Investing into advancement of health will continue to be the priority in Belupo's donation policy.

Podravka also attaches importance to investment into education and science, and for the past six years it participates in the project Top scholarships for top students by the weekly magazine Nacional that awards the highest scholarships to students in Croatia. Podravka is one of the founders of Biotechnical Foundation at the Faculty of Food Technology in Zagreb, and through the work of "prof. Zlata Bartl" Foundation Podravka additionally supports students of graduate and postgraduate studies.

Numerous cultural events in the country would not be possible without Podravka's support. Apart from big projects, for 25 years now Podravka supports activities of the cultural club (KUD) Podravka, which makes it one of rare such companies in Croatia that has its own club, and the club features activities of the tamburitza band, singing choir, literary and visual art sections.

The heart is not only Podravka's logo but also a mode of behaviour and it therefore supports projects intended for education and planning of leisure time for children and youth, helps children and the young with special needs and it often donates associations of the blind, associations of disabled, mentally disabled, and other.

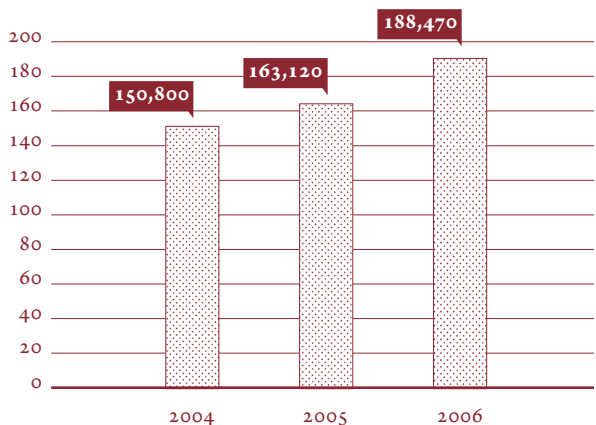
### "Prof. Zlata Bartl" Foundation

In 2001 Podravka founded the "prof. Zlata Bartl" Foundation to honor Professor Zlata Bartl who created an original universal food seasoning Vegeta in Podravka's research labs in late 1950's with her team of experts.

"Prof. Zlata Bartl" means promotion and encouragement of creative and innovative work of highly educated young people, citizens of Croatia, regardless of their profession and place of studying. Basic criteria for awarding scholarships and subsidies of this Foundation are candidates' excellence in study and science-research work.

So far there have been three invitations to send applications for scholarships and supports for regular students of graduate and postgraduate studies. The first was announced in 2004, and during the past three years students were awarded with 57 scholarships and subsidies, in the amount of more than half a million kunas.

The Foundation is used for continuous investing into development of young Croatian experts, scientists and researchers and that way Podravka systematically contributes to the development of local community as a whole. In 2006 students were awarded scholarships and subsidies worth HRK 188,470 which was significantly more compared to scholarships and subsidies awarded in 2005.



Scholarships and subsidies of "prof. Zlata Bartl" Foundation (HRK)



**Scholarships for students of Faculty of Pharmacy and Biochemistry**

Belupo D.D. mostly hires doctors, pharmacists, experts in related natural sciences and economists. Considering that pharmacists are scarce today in Croatia, Belupo D.D. wants to make sure in time to have enough of highly educated experts. Management Board of Belupo D.D. decided in 2004 to start the project of scholarships for regular students of Faculty of Pharmacy and Biochemistry. Since 2002 Belupo D.D. organizes guided tours for these students around the modern facility, including providing information on what can a pharmacist do at Belupo. Belupo D.D. plans to continue the scholarships project, as well as to continue working with the Faculty of Pharmacy and Biochemistry in composing education programs for pharmacists in compliance to the needs of the medicines industry.

**RISKS AND OPPORTUNITIES RELATIVE TO CHANGES OF CLIMATE**

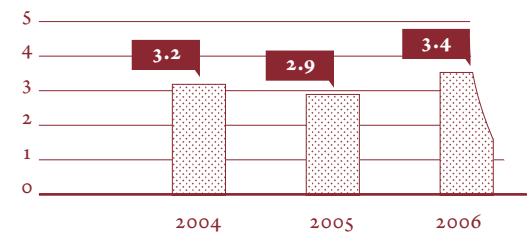
Ecological changes affecting Podravka's business are first of all global warming that continued in 2006, causing further climatic changes, reflected in a relatively warm winter and rainy summer period. Such changes represented a risk and were reflected on sales in beverages segment. Such long term trends could reflect upon production of high quality raw materials and their shortage. As an end result, it can lead to higher prices of raw material, and subsequently of products as well. On the other hand, dry spells and shortage of potable water in the world presents an opportunity for Podravka, but also for other manufacturers of water in Croatia. Following ecologic trends, in 2006 Podravka introduced return packaging in beverages segment as well. Introducing return packaging has an impact on reduced environment protection and makes the product more affordable for the consumers.

Epidemics such as swine fever and avian influenza that have appeared in Croatia create additional limitations for import and export of such products. Naturally, these are the threats for the meat industry, and for Podravka as well. On the other

hand, this is also an encouragement to reduce the risk in the way to increase the share of individual meat types, in order to reduce the effect of such events.

**FINANCIAL AID RECEIVED FROM THE GOVERNMENT**

In 2006 Podravka received no significant financial aid from the Croatian government nor in any other country in which it does business. Smaller amounts of subsidies and grants were received in the segment of meat and meat products (Podravka's meat industry Danica d.o.o.), in the markets of Croatia, Australia, Serbia, Slovenia, Poland and Germany.



Subsidies and grants received from Government (MLN HRK)

**COMPARISON OF SALARIES IN PODRAVKA WITH AVERAGE IN CROATIA**

	2004	2005	2006
Podravka Croatia (Podravka D.D. and related companies in Croatia)	4,708.62	4,965.88	5,290.31
Republic of Croatia	4,173.00	4,376.00	4,603.00
Processing industry	3,711.00	3,934.00	4,189.00
Food and beverages production	4,166.00	4,383.00	4,517.00

The table shows average net salaries of Podravka Croatia and the Republic of Croatia (Croatian Statistics Office of the Republic of Croatia).

If we compare the average net salary in Podravka Croatia and average for the Republic of Croatia in the last couple of years, it is obvious that Podravka holds significantly higher average net salary than average in Croatia. The difference is even bigger if Podravka Croatia is compared to the average in the processing industry, while average net salary in Food and Beverages production is on the same level as the average salary in the Republic of Croatia.

**POLICIES, PRACTICES AND CONSUMPTION SHARE ON PRODUCTS AND SERVICES OF DOMESTIC SUPPLIERS**

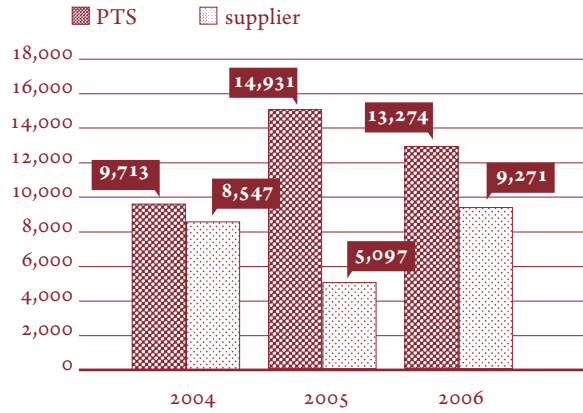
Podravka's policy towards suppliers presupposed in 2006 the concentration of product range (joint negotiations within Podravka) and contracted amounts with one supplier, with possible alternatives. When choosing the supplier, and considering the speed in delivery and related costs of shipment, the decision often involves domestic suppliers and suppliers of the region. Yet the range of



used raw and packaging materials and the concentration of manufacturers resulting in increased efficiency, necessarily presupposes also to check the European and world markets. The cooperation then most often spreads to Western European manufacturers, and the materials mostly imported are those which are impossible to get in the country. Podravka is the company with deeply developed ecological consciousness and takes care on choice of suppliers which will contribute to cleaner future.

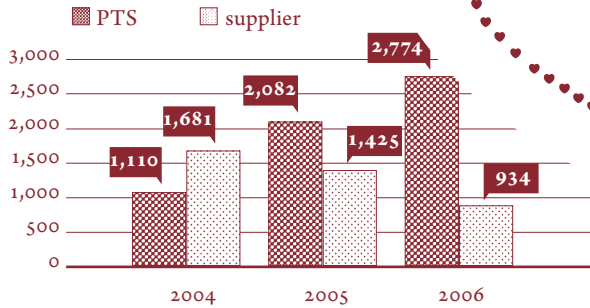
**Cooperation development strategy in meat segment**

Ever since 2001, Podravka's meat industry Danica d.o.o. develops business-technical cooperation (PTS) for bullocks and heifers and hogs with the purpose to control the quality of raw material basis for its own needs. The purpose of PTS in the future is to completely ensure planned meat quantities

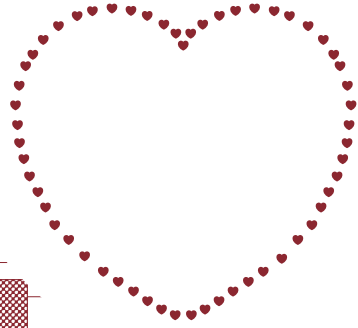


Hogs (IN HEAD)

es for its own needs from cooperation deals, providing cooperation partners help to expand their production capacities. It would be a complete contractual production with precisely defined inputs and outputs of the animals from fattening process, with precisely arranged number of days spent in fattening and the contractual price. Transport of animals and



Bullocks and heifers (IN HEAD)



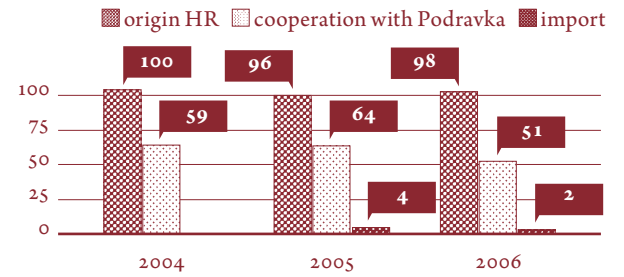
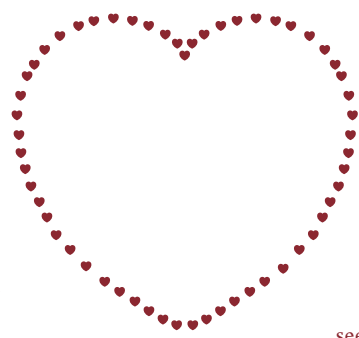
the conditions at the farms, as well as feeding is performed in compliance to all legal provisions and standards (humane treatment of live animals).

**Raw material basis development in the segment of vegetables, fruit and cereals**

Podravka is a significant processor of vegetables, fruit and cereals in Croatia, witnessed by the fact that about two thirds of total vegetable production for industrial processing is processed in Podravka's factories.

In the period from 2004 to 2006, primary raw materials (vegetables, fruit, cereals) make 54 - 57% of total supply of raw materials of Podravka D.D. Of the total amounts of primary raw materials 96 - 100% is of Croatian origin, primarily from the counties of North-Western part of Croatia, Slavonia and Istria, where 46 - 64% was produced in cooperation with Podravka. Such approach ensures the selection of types, supervision over the application of agronomic and technical measures, high quality of raw materials and acceptable prices.

The department in charge for the development of



Primary raw material and import share in Podravka D.D. (in %)

raw materials is an expert and operative link between Podravka and agricultural manufactures with the following roles:

- it performs soil analysis and provides recommendations for fertilizing, taking into account the demands of an individual culture and the need to gain high quality, taking care of soil protection,
- expert supervision of crops and organizing seeds and seedlings of vegetables,
- performs analyses and health correctness of seeds and planting materials
- it performs monitoring over established production of vegetables for the processing purposes in Podravka's factories.

Long term research and applied technologies, selection of types and protection of agricultural cultures, as well as educational work with the stakeholders gains the trust of manufacturers and is a motivation for development and application of the best agricultural practices.





# PODRAVKA EN IMPACT IN

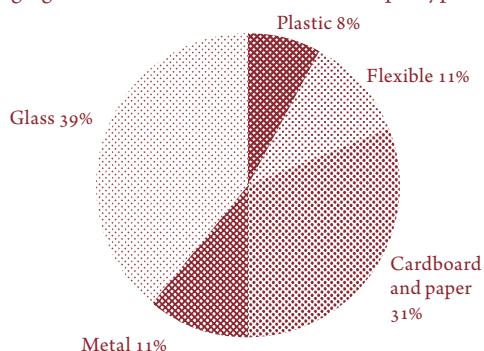


# VIRONMENTAL DICATORS

Environmental impact indicators of Podravka for 2006 differ in comparison to those shown in the Report on sustainable development of Podravka Group in 2005 due to changed scope of reporting. Podravka operates on the principles of sustainable development. Preserving the environment is a precondition to society development in general. Podravka is a renowned company producing food products and medicines (Belupo) of a standard quality, safety and efficiency – apart from achieving consumer satisfaction and profit, an important segment of business policy is its constant care for the environment. In performing its business activities Podravka is committed to sustainable development and pays special attention to environment protection with existing production activities, new products and technologies development and building new plants. Under the stated circumstances, raw material, energy and power sources consumption, collection and recycling of waste and emissions into environment, Podravka has made positive progress, regardless of multiple increase of production facilities at new factories. Healthy and clean environment is the heritage we leave to our future generations. Constant progress in environment protection is achieved by continuous education of employees. The basic purpose is to enlighten on education, and advance in business processes the relation of every worker towards the environment and increase the efficiency – to create knowledge and climate where each worker would feel personally responsible for the environment in their work and will be able to evaluate their personal contribution.

#### PACKAGING MATERIALS USED

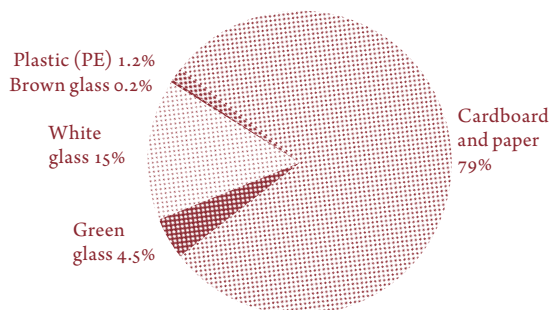
Packaging materials used in Podravka in 2006 per types:



Significant rationalization processes have been implemented in 2006 in usage of flexible packaging materials with the purpose of economizing used resources and reducing environment impact. Series of modifications have been applied in foil specification in order to use thinner foils (paper of reduced weight, reduced polyethilen) and usage of replacement materials (metalised polypropilen instead of aluminum foil).

#### RECYCLED INPUT MATERIALS

Share of recycled materials (%) in total used materials in Podravka in 2006 per packaging types:



In 2006 the following has been done:

- reduced mass of used PET preforms in water and beverages production,
- replaced cap for PET bottled with an aluminum liner with a standard cap without an aluminum liner, achieving a positive impact on possible recycling and material reuse,
- return glass bottle of 0.25 l introduced. Although the initial increase of unit price per bottle was present, long term positive results are expected due to multiple bottling and distribution of a single bottle (it is important to mention that in the production of glass packaging for food industry in Croatia, the share of used broken glass grows by the year).
- 30% share of reused materials in plastic crates production.

#### DIRECT ENERGY CONSUMPTION

Direct energy consumption at Podravka represents the consumption of all primary forms of energy for its own business, as well as for production and delivery of energy products to others. Reduced energy consumption is an important goal of Podravka, because we are aware that that way we have a direct impact on environment protection. Podravka's striving to reduce energy consumption is visible when planning plants where more efficient solutions are being applied, but also through daily care on energy consumption, for example continuous improvements in production processes usage and introduction of new maintenance methods

AMOUNT (Gj)	2004	2005	2006
Natural gas	457,200	412,200	426,343
Heating oil	18,540	19,003	18,557
Motor fuels	67,004	75,319	72,763
Propane-butane gas	6,358	6,498	6,246
Electric energy	144,231	148,812	170,790
<b>Total direct energy</b>	<b>693,333</b>	<b>661,832</b>	<b>694,699</b>

Total direct energy



The above shows that total direct energy consumed in 2006 is for the major part natural gas (61%), followed by electric power (25%), motor fuels (10%), heating oil (3%) and propane-butane gas (1%). Natural gas is used partly in direct production (30%), and in major part (70%) in energy plants for production of heating energy in the form of steam, which is further used in production (about 69%) and for heating of office buildings (about 31%). Heating oil is used in only one factory and as a replacement fuel in two power plants (Studenac in Lipik and Kalnik in Varaždin). Using propane-butane gas in forklift trucks we also contribute to protection of our work environment.

#### INDIRECT ENERGY CONSUMPTION

Indirect energy consumption in Podravka represents a part of the total energy spent for production and delivery of other forms of energy and energy products.

AMOUNT (GJ)	2004	2005	2006
Natural gas	443,484	399,834	472,423
Heating oil	18,540	19,003	18,557
Electric energy	40,817	42,114	48,333
<b>Total indirect energy</b>	<b>502,841</b>	<b>460,951</b>	<b>539,313</b>

*Total indirect energy*

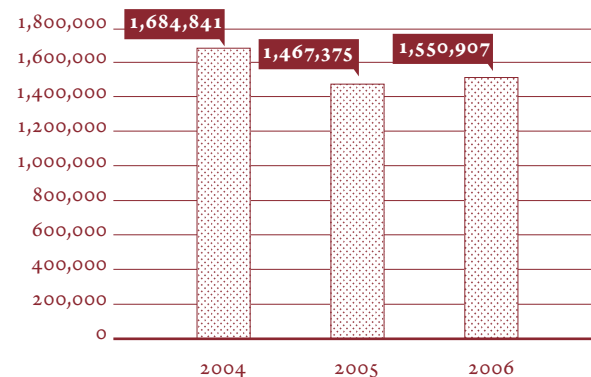
Also with indirect energy consumption the majority takes natural gas, which is used in power plants for production of heating energy in the form of a steam or hot water. The fact that natural gas takes the major part in energy production and its consumption comes from the character of food industry where different heating processes are used (cooking, baking, drying, steaming, sterilization and heating), and which require heating energy in the form of a steam, and thus gas consumption. Reduction of indirect energy consumption in Podravka is achieved in applying more modern energetic facilities or building new ones, and then regular and high quality maintenance. For that matter it is planned to make improvements for the energetic plant in Danica d.o.o. since it is the main supplier of steam at Danica industrial area, and that will result in reduced energy for production and reduced emissions into the environment.

#### ENERGY SAVINGS AND IMPROVEMENTS OF ENERGY EFFICIENCY

Podravka constantly monitors the operations of energetic facilities trying to increase their efficiency by reducing relative energy consumption per unit of product and reducing greenhouse gas emissions into the environment. Much before the reporting period in Podravka there have been numerous actions performed with the purpose of achieving savings and increase of efficiency of energetic plants (upgrading the economizer with steam boilers and replacement of their burners, systematic replacement of condensed agents drainage, using water for compressor cooling

as the power-supply water, replacement of thermal gas collection chamber, usage of various waste heats and similar) where only at the location in Ante Starčević street more than 300,000 m<sup>3</sup> of gas was saved in a year or about 6% of annual consumption at that location, which at the same time means much reduction of gas emissions into the environment. With the purpose of increasing energetic efficiency and more efficient environment protection, Podravka has decided to unite the energetics, as one of the more important activities having effect on the environment, on all locations, so that way energy production would be lead and analyzed in the same way and from the same place, as well as spotting downsides and work on their elimination, to plan development and to maintain the production facilities. Belupo also constantly monitors the operations of energetic facilities trying to increase their efficiency by reducing relative energy consumption per unit of product and reducing greenhouse gas emissions into the environment. After in 2005 grand savings have been achieved due to reconstruction of own boiler room which increased steam production efficiency for about 20% (about 12% savings in total energy score), Belupo continued to improve the efficiency of its plants by investing into modern equipment, but also by better supervision of the facility with the purpose of reducing losses.

#### WATER CONSUMPTION



*Water consumption (M<sup>3</sup>)*

Water consumption in Podravka is monitored with great care, and various activities are undertaken to reduce it (installing flow gauges, using water recirculation system with additional cooling, installing fine quality fittings which reduce losses, detailed examination of leakage spots and their repair above and below ground, change of employees' awareness about water as a strategic resource), affecting simultaneously waste waters discharged into the environment. Water for energy resources is prepared at own facilities, and any discharge is rigorously controlled and is subject to neutralization. Waste water is treated with special attention. Water is one of the most precious, but also one of the most endangered natural resources. In its production facilities

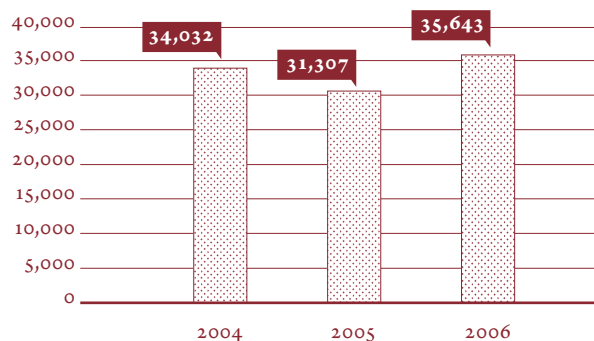


Belupo uses water mostly for production processes and for washing the equipment; for maintaining production conditions (air moisturising in facilities), for steam production and for general use (personal hygiene, washing and cleaning of the facilities). Reasons of reduced water consumption are water recirculation in cooling systems and periodic production which minimizes washing of equipment and production facilities, reducing water consumption at the same time.

### RECYCLED AND REUSED WATER

At Podravka there is no water recycling, but the system of recirculation is used wherever that is possible (example: saving water for cooling in “dumplings” production facility, cooling of the compressor in power plant, the same is planned to be put in use in Fruit factory where the water is being recirculated through cooling devices, and that way over 200,000 m<sup>3</sup> of water is being saved annually, and the same amount is not discharged in the drains). This recirculation at the ready-made meals factory – “dumplings” production facility - resulted in reduced consumption from 130,000 m<sup>3</sup>/g to 2 m<sup>3</sup>/g which is 1% of total water use in Podravka, worth about HRK 1,040,000 per year.

### GREENHOUSE GAS EMISSIONS



CO<sub>2</sub> emissions (t)

Greenhouse gas and other emissions in the air primarily originate in energy facilities by burning of the natural gas as the basic power resource and emissions from running engines with internal combustion are also included. Authorized institutions perform yearly measurements and air emissions control and these emissions are the result of these measurements, which are within allowed limits.

### INITIATIVES TO REDUCE

#### GREENHOUSE GAS EMISSIONS

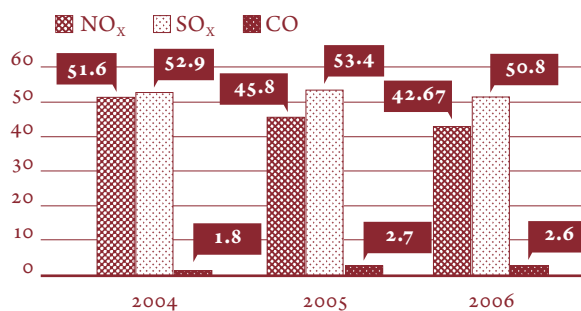
Greenhouse gas emissions (CO<sub>2</sub>, water vapor) mainly depend on amounts of fuel consumed, and all initiatives are related to reduction of fuel use for the same amount of energy, and this is achieved through

increasing efficiency in all production facilities which produce emissions and their regular and high quality maintenance.

### EMISSION OF OZONE-DEPLETING SUBSTANCES

At Podravka there are no gas emissions harmful to the ozone layer. Within the company there was an internal order issued not to purchase any refrigerating or other devices containing gasses harmful to the ozone layer. The Maintenance Sector has been authorized by the Ministry of Environmental Protection to handle gasses depleting the ozone layer. That way a complete control and supervision over means that could damage the ozone layer has been established.

### OTHER SIGNIFICANT AIR EMISSIONS

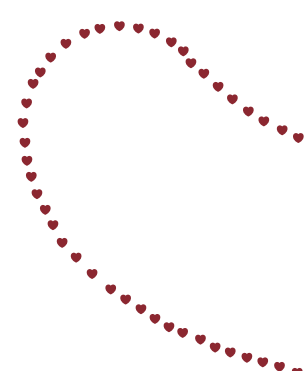


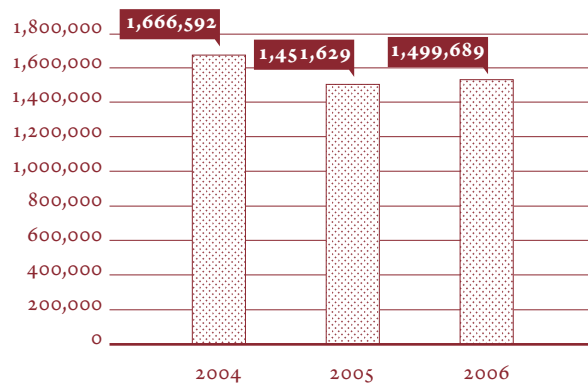
Other significant air emissions (T)

Emissions are regularly and significantly lower than the limits allowed by law, and they consist of emissions from energetic facilities and technological processes. These emissions are also under regular control by the authorised institutions and are always significantly lower than the allowed limits, and total control is established.

### WATER DISCHARGE RELATIVE TO QUALITY AND DESTINATION

Waste waters at all locations are being discharged into systems for public waste water discharge and waste water treatment, and the device for pre-treatment is located at Danica industrial zone in Koprivnica. All the waste waters comply to maximum allowed limits (MDK) for discharging into system for public discharge, and at Danica, where the device for pre-treatment is located, the results are 7 – 8 times better than MDK. Water for energy resources is prepared at own facilities, and any discharge is rigorously controlled and is subject to neutralization.





Water discharge\* (M³)

\* Data shown is not comparable to last year's results because they apply to Podravka as a whole

#### TOTAL WASTE PER TYPE AND DISPOSAL

IN TONS	2004	2005	2006
Total waste	7,763	7,528	7,428
Non-hazardous waste	7,598	7,498	7,343
Hazardous waste	31	30	26
Thermally processed waste	1,149	1,174	1,564
On dump	5,692	5,406	5,250
Recycled	804	921	594

Indicators show that the total amount of waste is reduced.

Following the principle of waste management, all the waste is disposed in a safe and ecologically acceptable way or processing, and only the municipal waste is being transported to the dump site. Separating waste by types at the point of its origin resulted in reduced amounts of municipal waste and increased amounts of thermally processed waste. Applying the new law on waste, Podravka disposes of all types of waste. Major part of it becomes secondary raw material, which is aligned with the goal of preserving natural resources. All waste flows are under constant control, which is re-

gistered in logs based on which corrections and constant improvements are being performed. Supervisory institutions of the County are being regularly reported on all waste flows through the accompanying documentation. As part of the waste management, Belupo included providing for old medical supplies from home collections of medicines. Two drug stores have storage tanks for medicines with overdue validity period and provide an informative flyer on treatment of old medicines. In the prepared tanks the citizens can dispose of their overdue medicines. Although the share of Belupo's old medicines is between 10 to 15%, the citizens can dispose of all the medicines and empty packaging.

#### NUMBER AND VOLUMES OF SIGNIFICANT SPILLS

There were no significant spills at Podravka. Treating chemicals, oils and fuels in Podravka is defined by internal regulations and applying them there were no significant spills in the observed period.

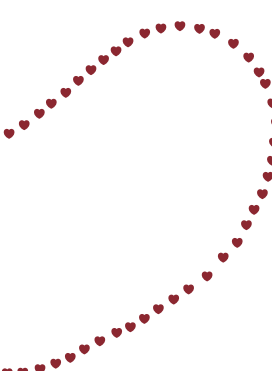
#### INITIATIVES FOR MITIGATING ENVIRONMENTAL IMPACTS

Planning and rational procurement procedures manage the amounts of raw and production materials. With the purpose of reducing waste during producing, optimization of technological processes and improvement of technological equipment is being performed. Considering the features and application (alimentation of people) of Podravka's products, they have no harmful effect to the environment. Packaging labels are used to inform the consumers how to treat the packaging after the product has been consumed.

#### RETURN PACKAGING PRODUCTS

In 2006 return packaging of 0.25 l was introduced for Studena spring water, Studena lemon, Studenac and Studena ice teas. The main purpose of introducing return packaging is to create effect in reducing environment pollution. Return packaging also makes the product more affordable for the consumers. The table shows significant share of return packaging in sales of beverages:

%	Quantitative share in realization	Financial share in realization
Return packaging	59.47	39.52
Non-return packaging	40.53	60.48



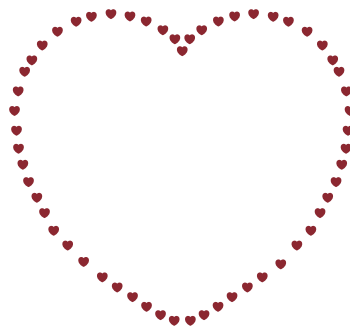
**SIGNIFICANT PENALTIES FOR BREACH OF LAWS AND REGULATIONS ON ENVIRONMENT PROTECTION**

No factory within Podravka had any significant penalties for

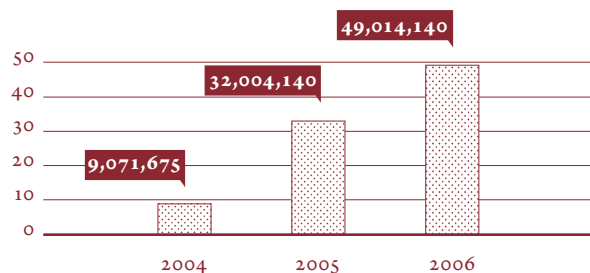
breach of laws and regulations. Upholding all legal provisions related to environment protection, in spite of frequent inspections in Podravka, there were no penalties or reprimands.

**TOTAL COSTS AND INVESTMENT INTO ENVIRONMENT PROTECTION PER TYPE**

Investment type (HRK)	2004	2005	2006	2004 (%)	2005 (%)	2006 (%)
water treatment device	3,000,000	3,000,000	3,000,000	33.07	9.37	6.12
disposal of different kinds of waste	2,400,000	2,200,000	1,400,000	26.46	6.87	2.86
municipal waste removal	900,000	900,000	900,000	9.92	2.81	1.84
waste management	150,000	200,000	200,000	1.65	0.62	0.41
packaging waste - Fund	-	24,000,000	25,000,000	-	74.99	51.01
air emissions measurement	50,000	-	50,000	0.55	-	0.10
water supply fees	700,000	700,000	700,000	7.72	2.19	1.43
lab equipment for water testing	100,000	150,000	120,000	1.10	0.47	0.24
environment protection department	850,000	850,000	850,000	9.37	2.66	1.73
waste containers	10,675	4,140	31,140	0.12	0.01	0.06



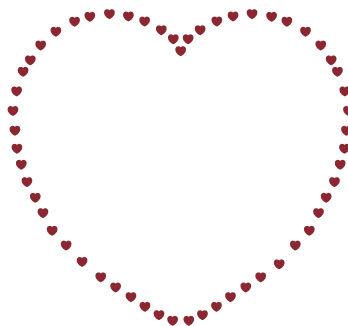
Investment type (HRK)	2004	2005	2006	2004 (%)	2005 (%)	2006 (%)
sludge separator reconstruction	364,000	-	-	4.01	-	-
decay field reconstruction	529,000	-	-	5.83	-	-
return packaging line	-	-	16,000,000	-	-	32.64
boiler room reconstruction	-	-	763,000	-	-	1.56
aeropollution measurement	18,000	-	-	0.20	-	-
<b>TOTAL</b>	<b>9,071,675</b>	<b>32,004,140</b>	<b>49,014,140</b>	<b>100</b>	<b>100</b>	<b>100</b>



Total investment into environment protection (HRK)

The stated shows that investments into environment protection are growing in the past three years, i.e. in 2005 they are higher for 250% compared to 2004, and in 2006 they were increased for additional 50% compared to the year 2005.

The major part in total investment into environment protection in 2004 is the investment into water treatment device (33%), followed by disposal of different kinds of waste (26.5%). In 2005 as much as 75% of total investment in environment protection was intended for disposing of packaging waste, while the second place takes the investment in water treatment device (9.37%). In 2006 half of the investments intended for environment protection was spent on packaging waste, while 32.6% of total investment into environment protection was spent on the production line for return packaging at Studenac factory, because glass packaging of 0.25 l was introduced. At the moment we are investing into Ital Ice factory where freezers with ecologically acceptable freon are being installed, worth about HRK 827,000.





# PODRAVK IMPACT IN



# A SOCIAL DICATORS

## PODRAVKA'S LABOUR

	2004	2005	2006
<b>Total labour Podravka Croatia</b>	6,010	6,109	6,053
Indefinite period	5,416	5,581	5,559
Definite period	538	488	441
Trainee for definite period	56	40	53
<b>Podravka-International</b>	1,269	1,072	936
<b>TOTAL</b>	7,279	7,181	6,989

Number of workers in the observed period was about 7,000, of which 6,000 is employed in Croatia, and the remaining part in

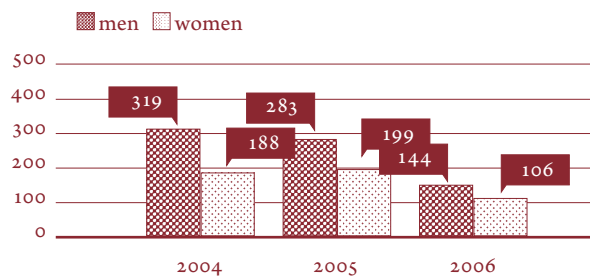


Podravka's international offices around the world. Podravka generally employs workers for full time and majority of workers is thus employed for an indefinite period. According to the Collective Agreement, trainees are employed for a definite period.

## LABOUR FLUCTUATION RATE

YEAR	AGE STRUCTURE OF NEWLY EMPLOYED						NEWLY EMPLOYED PER GENDER		
	18	19 - 29	30 - 39	40 - 49	50 - 60	61 - 65	Men	Women	Total
2004	10	309	119	56	13	0	319	188	507
2005	15	272	124	55	16	0	283	199	482
2006	1	173	59	14	3	0	144	106	250

YEAR	AGE STRUCTURE OF WORKERS TERMINATING THEIR EMPLOYMENT						WORKERS TERMINATING EMPLOYMENT PER GENDER		
	18	19 - 29	30 - 39	40 - 49	50 - 60	61 - 65	Men	Women	Total
2004	5	202	106	145	157	12	369	258	627
2005	9	190	110	55	24	0	243	145	388
2006	1	89	75	91	48	3	197	110	307



Number of newly employed workers per gender

Number of employed at Podravka in Croatia in 2006 compared to 2005 is reduced, which is the consequence of constant restructuring and abandoning non-basic activities of the business. Number of employed at Podravka representative offices around the

world is reduced comparing to the same period last year due to significant reduction of workers at Sana d.o.o., Hoče, Slovenia factory. Observing the age structure, age range for the highest number of workers is from 40 to 49. Employment trend in the observed period is declining due to reduced number of seasonal workers, which is the consequence of technological modernization of production facilities. The majority of newly employed ages from 19 to 29 and here is the window for hiring young, highly educated people.

## ADDITIONAL BENEFITS FOR WORKERS

Podravka's Collective Agreement assures for its employees a series of benefits and advantages which exceed legal frameworks and employer's obligations. By fulfilling certain preconditions



stated in the Collective Agreement, every Podravka's worker has the right to those agreed. Comparing to 2005, some rights have changed to the advantage of the employees:

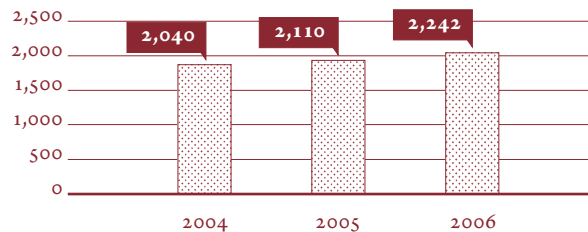
- severance compensation – when the worker meets the requirements for retirement - HRK 10.000,00 (8.000,00 in 2005)
- bonus on salary for using vacation – HRK 100 (HRK 95 in 2005) per day of annual leave the worker is entitled to in a calendar year
- repairing consequences of natural disasters or fire – HRK 2,000.00 (1,750.00 in 2005)
- anniversary award (depending on number of years spent working in Podravka) – up to 4,000.00 (HRK 3,000.00 in 2005)

Other rights that remain the same as in 2005:

- one-time bonus for Christmas – HRK 1,000.00 net
- one-time bonus for Easter – HRK 400 net
- aid in case of death of a close family member – HRK 2,500.00-sick-leave longer than 90 days – HRK 2,500.00
- for any child till the age of 15, having social security realized through their parent working in Podravka is entitled to an annual present worth about HRK 400,00

Apart from material incomes deriving from Collective Agreement, as decided by the Management Board, Belupo D.D. pays to their female workers giving birth a one-time compensation in the amount of HRK 10,000.00, confirming thus its social sensitivity and dedication to socially responsible behaviour.

In the Collective Agreement Podravka obliges to workers who have spent in Podravka at least five years and then retired, to give a yearly grant of HRK 24.00 per year of service in Podravka. Annual gathering with Podravka's retirees is held each year on the "Podravka Pensioners' Day" – where they also receive an appropriate package with Podravka products.



Podravka pensioners invited to "Pensioners' Day"

### EMPLOYEES INCLUDED IN THE COLLECTIVE AGREEMENT

The Collective Agreement of Podravka applies to all Podravka's workers in Croatia, regardless of their union membership. The Agreement also includes workers who were sent from Croatia to work at any of Podravka's international offices.

Domicile workers are subject to legal provisions of their individual country.

### INFORMING EMPLOYEES ON SIGNIFICANT CHANGES IN BUSINESS

Workers' Council is also active within Podravka and it works in compliance to Labour Act to inform, consults and is asked for its approval in making important decisions related to:

- work rulebook
- hiring, transfer and dismissals plan
- education plan
- health protection and occupational safety regulations,
- introduction of new technologies and changes in work organization,
- yearly vacation plan,
- night labour
- remunerations for inventions and technical improvements
- working schedule
- surplus workers compensation program

A member of the Workers Council is also a representative of workers at the Supervisory Board. Apart from the Workers' Council, Podravka's workers are informed about the decisions important for company business through weekly magazine "Podravka", and Belupo's workers are informed through monthly magazine "Glasilo".

Apart from this, at least two times a year there is a gathering of all workers where the Management Board and the executive management report to workers of previous events, business results and Podravka's plans for the upcoming period.

### TRACKING AND ADVISING ON HEALTH PROTECTION PROGRAMS AND OCCUPATIONAL SAFETY

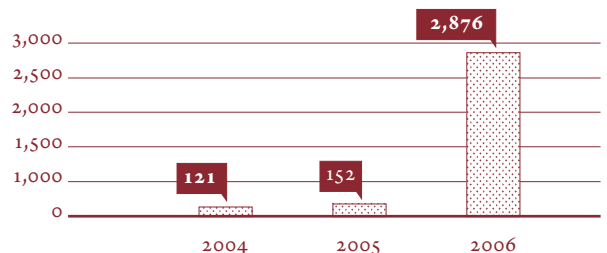
Compliant to Occupational Safety and Health Act, occupational safety committees have been formed. They function within all organizational wholes of Podravka, and they employ more than 50 workers.

25 committees have been formed within Podravka, which is one committee more than in 2005.

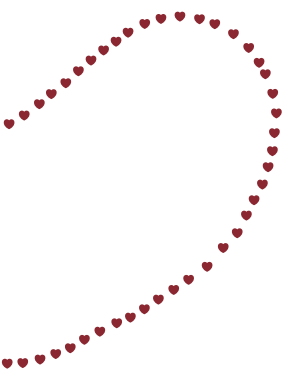
Occupational Safety Committee consists of:

- Person authorized by the employer (Committee president)
- Occupational safety specialist
- Occupational medicine specialist
- Workers' commissioner for occupational safety

According to Article 62 of the Occupational Health and Safety Act, Podravka hires six nurses providing first aid in three dispensaries at different locations. In organizational wholes having up to 20 employees, 1 worker has been educated to provide first aid, and on every other 50 workers another one worker has been educated to provide first aid. Through this program of educating workers for providing first aid, 420 workers have been educated within three years. The significance of work ability as an important economic factor in economy is confirmed in Podravka through constant elevation of the level of health and safety protection. Their systematic and constant improvement is a part of Podravka's preventive policy. The data shows the number of workers undergone this program in the past three years.



Number of workers educated for occupational safety



Occupational safety specialists in cooperation with persons authorized by the employer continuously perform education on occupational safety within Podravka.

In the observed period the increased number of workers undergone education program of occupational safety during 2006 is increasing. Namely, in 2006 almost 19 times more employees was included into this program comparing to previous two years. The reasons for it are the changes in the Rulebook for workers education. Compliant to changes of the Rulebook on conditions for workers education, the employer is obliged to inform and additionally educate workers for safe operation in case they change their place of work, which is a frequent case in production segment.

#### STANDARD INJURIES, LOST DAYS, ABSENTEE RATES

	2004	2005	2006
Work injuries	93	110	91
Lost days	2,212	2,847	1,740
Occupational illnesses	0	0	1
Work related fatalities	0	0	0
Standard injuries (no. of injuries per 1000 employees / no. workers)	21.53	25.57	21.85
Standard injuries in food industry	22	23	22

According to stated statistical data, one can see the reduced number of work injuries compared to previous year when the number of standard injuries per 1000 employees in Podravka was higher than the number of standard injuries per 1000 employees in the Food and beverages segment in Croatia. The reasons for it are that the employer makes serious efforts to improve work conditions in order to reduce risks of work injuries and professional illness.

Total number of injuries in 2006 was partly influenced by the employment of seasonal workers through temporary employment agency, whose workers have significantly less experience.

At Belupo also all work places are included in this procedure of evaluating danger, confirming the risk level of work injuries, professional illnesses, illnesses related to work and disturbances in the work process that might cause harmful consequences to workers health and safety:

- Technological procedures and systems of handling materials have been designed in such a way to ensure workers protection from production materials, as well as the protection of products from the production environment,
- The principle of disabling cross-contamination has been observed.

#### INVESTING INTO EMPLOYEES' EDUCATION

Podravka continuously invests into education, which



derives from the mission which points out that the employee is the company's greatest value. In today's turbulent business environment, knowledge is one of the critical factors and the pillar of survival and development of each company, and Podravka is truly aware of that. As a confirmation of that is also the information that about 4000 of employees is yearly included in some form of education program. All of the employees have the possibility and an obligation to get involved in various forms of educations. Particularly big share take the internal educations.

There is also the possibility of financing further education (graduate and post graduate studies), taking courses at Podravka's Management Academy, taking various internal and specialist seminars, foreign language courses and computer knowledge courses. The process of internal knowledge transfer is particularly encouraged, meaning that anyone taking any course can present the knowledge gained to the colleagues in a team. All of the external educations try to be reinterpreted internally.

In cooperation with the Faculty of Economy and Business in Zagreb Podravka's Management Academy has been formed called POMAK with the purpose of developing managers' knowledge, capabilities and skills. The second generation of Podravka's Management Academy was enrolled in 2005, during which 220 hours of lectures were held regarding "hard" economic knowledge, while in 2006, 200 hours of lectures regarding development of leader skills and capabilities was held. Almost all of the attendants of the second generation successfully completed the program and gained their POMAK diplomas.

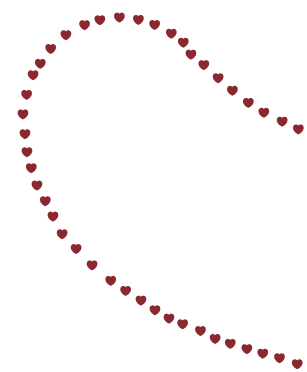
Apart from POMAK, Podravka invests into other forms of education, so in various postgraduate studies there is about 60 of our employees and in various graduate studies about 50. Workers with lower qualifications are directed to various forms of requalification compliant to need at work.

Yearly investments into education in the observed period were as follows:

	2004	2005	2006
Investment (HRK)	10,435,000	8,494,000	9,108,864
Number of employed	7,279	7,181	6,989
Expert education per employee (HRK)	1,434	1,183	1,303

Number of employed included in various forms of education every year in the stated period for Podravka D.D. is shown in the following table. It is obvious that in the observed period there is an increase in foreign languages courses, development of key company competencies and expert-specialist knowledge, which is in compliance to educational needs of Podravka.

For example, we estimate that in 2006 over 95% of Belupo employees was included in some form of education and expert development. 41 hours of education is yearly held in average per employee.



	2004	2005	2006
Formal education by legal provisions	862	599	3.246
Foreign languages	171	210	183
Formal education and work	102	99	89
Postgraduate studies	18	6	9
PhD	2	3	3
POMAK	0	30	30
Lectures, seminars	216	339	237
Conferences	169	238	175
<b>Total:</b>	<b>1,540</b>	<b>1,524</b>	<b>3,972</b>

\* total number of educational programs without IT courses

### Podravka's trainee program

Compliant to Labour Act, internship for personnel with college education is 9 months, while for university education it is 10 months, and the way highly educated young people are introduced in their work has a significant impact over their further professional development. It is for that reason that great attention is paid to organization and internship application in the company. During 2006 all of the interns of high education were included in Podravka's internship program. The program includes familiarizing with procedures, company standards, tasks and functions of all the parts of the company and gaining expert knowledge with the purpose of independent conducting of future work. For interns, and other young people not holding the status of interns, Educational program was formed, and subjects covered are devoted to development of communication skills.

### Cooperation with schools and faculties

Cooperation of Podravka with high-educational institutions in the country and abroad goes back for many years and is continuous, and the purpose is to connect modern business with the trends of economic, technological or IT theory. The Company participates in numerous researches performed by high-education institutions, and Podravka's experts are often guest lecturers at universities and scientific gatherings. Belupo fulfills its cooperation with the Pharmaceutical school in Koprivnica and Pharmaceutical-biochemical Faculty in Zagreb and other educational institutions, supporting the education of pupils and students enabling them to visit Belupo's production facilities, perform their student training and build their graduation thesis.

### REGULAR EVALUATION OF WORK PERFORMANCE AND INDIVIDUAL DEVELOPMENT

The system of awarding Podravka's employees was enriched in 2005 by introducing the SRCE (Heart) project. SRCE is the branded project of corporate management of human resources and the abbreviation stands for systemic development, defining goals and their evaluation. The purpose of the project was to establish a better system in setting company and individual goals, measuring their realization and managing business development through de-

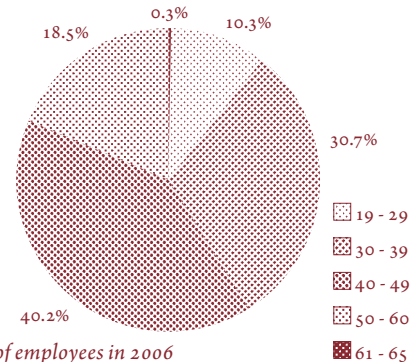
fining individual actions. The basic task of this project is to achieve an overall development of business by assuring concordance and development of business efficiency and development of professional knowledge and skills. For all the key positions included in the evaluation, an objective rewarding principle has been assured, depending on employee efficiency. The system of managing employees potential gained worth, because through evaluating work capability system set this way, both vertical and horizontal communication among employees is stimulated. In 2006 the system was successfully implemented to a majority of positions, while for all of the remaining positions the start of this evaluation process is planned in 2007. This is an individual evaluation of work contribution of employees based on several generic criteria by several evaluators, in order for the evaluation to be more objective. The efficiency of all the employees is being evaluated and rewarded through the mentioned processes based on one-year evaluation period.

### Employee and management body structure

Podravka Management Board issued a Rulebook on rewarding employees who contribute their ideas to improve the processes within the company. The Board wishes to motivate its employees and reward them for their ideas and creativity. Any employee can make a suggestion on how to advance a business process, and their propositions are being evaluated by a specially formed commission of experts.

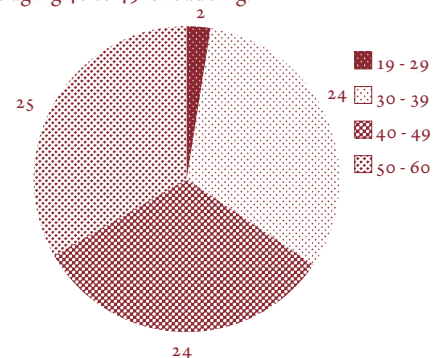
### EMPLOYEE AND MANAGEMENT BODY STRUCTURE

Looking at employees age structure, the majority falls in the range of 40 to 49.

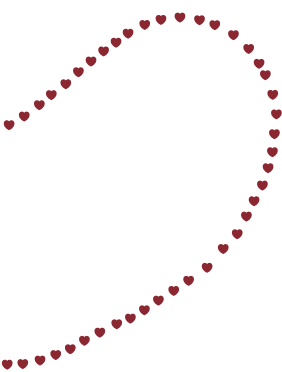


Age structure of employees in 2006

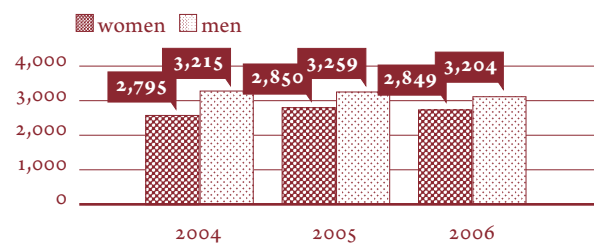
Total number of managers in 2006 is somewhat higher than previous years, but in the same year a change in age structure is noticeable. Namely, the number of managers aging 30 to 39 is growing in comparison to the previous period, while the number of managers aging 40 to 49 is reducing.



Age structure of Podravka's managers

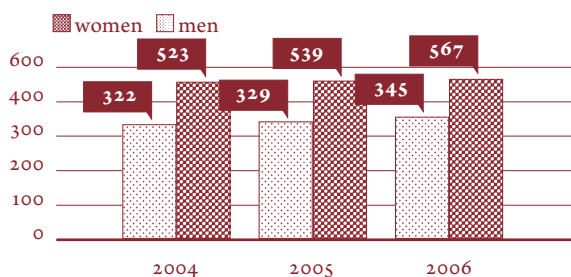


At Podravka Croatia there is somewhat more employed men than women. The reason for it is the productive activity of the company. The share of women is constant.

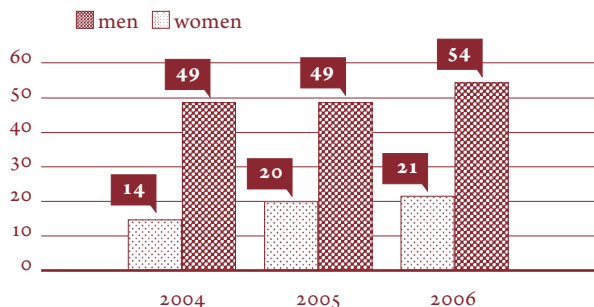


Employees gender structure in Podravka Croatia

Belupo D.D. hires more women, which is explicable by the fact that in occupations largely employed by the pharmaceutical industry women take the greater share.



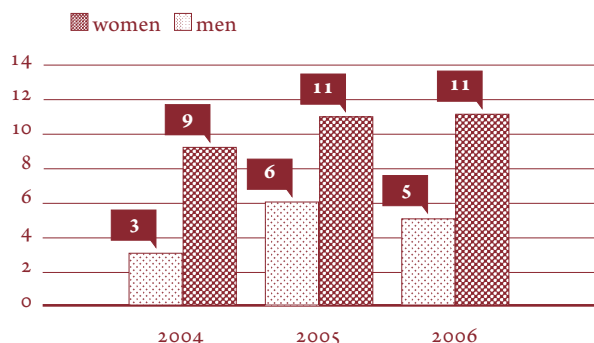
Employees gender structure in Belupo D.D.



Share of women at managers positions in Podravka

The observed period shows the growth of women at managers positions in the last two years comparing to 2004.

The share of women at managers positions at Belupo D.D. is rather high, and is higher than the share of women in the total number of employees.



Share of women at managers positions in Belupo

## HUMAN RIGHTS

All of the aspects of human rights relevant for Podravka's business have been additionally substantiated by the Corporate Governance Code and Ethics Code passed in 2005, respecting previous laws and regulations of countries in which we do business.

In its contracts Podravka holds no clause on human rights, but when selecting suppliers and manufacturers, discrimination is absolutely excluded on any grounds and the principle of equality applies. When evaluating suppliers and manufacturers, the following is taken into consideration:

- Good Manufacturing Practice – GMP,
- Quality Management System (ISO 9001),
- Tracking and evaluation,
- The list of approved manufacturers,
- Manufacturers Audit,
- Evaluation criteria – quality, price, delivery lead time, payment period and the range of products.

## DISCRIMINATION AND MEASURES TAKEN

The Rulebook on procedures and protective measures for employees' dignity passed in 2004 determines those rules, with the purpose of ensuring employment conditions where nobody would be exposed to discrimination or any form of harassment. In order to make sure this Rulebook is applied, there has been a commission appointed to protect the dignity of workers.

Should there be a complaint by an employee, within eight days from the day the complaint was received, the commission would investigate the circumstances and take appropriate measures in order to prevent further discriminating behaviour, harassment or sexual disturbing. Commission members are thus authorized to make a temporary decision about measures to be taken to protect the worker before the termination of the period necessary to resolve the complaint. All of the participants in the procedure are obliged to keep the information as a secret.

All new workers before starting an employment are familiarized with regulations about occupational safety and with an obligation of an appropriate conduct, compliant to the exam passed before they started the employment.

## FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

	2004	2005	2006
Workers union members in PPDIV	3,776	3,794	3,602
Workers union members in HUS	648	686	708
Workers union members in SINPOD	198	201	205
Total workers in unions	4,622	4,681	4,515

In the Collective Agreement Podravka obliges to provide an undisturbed work of unions and union commissioners. Moreover,



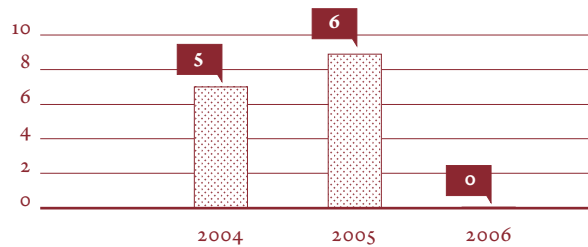
it states that Podravka cannot pass an act to limit workers in associating or joining unions.

Within Podravka there are altogether three unions:

- PPDIV – Union of Agriculture, Food, Tobacco and Water Management Allied Workers
- HUS – Podravka’s Independent Union
- SINPOD – Podravka Group Workers Union

### CHILD LABOUR EXCLUSION

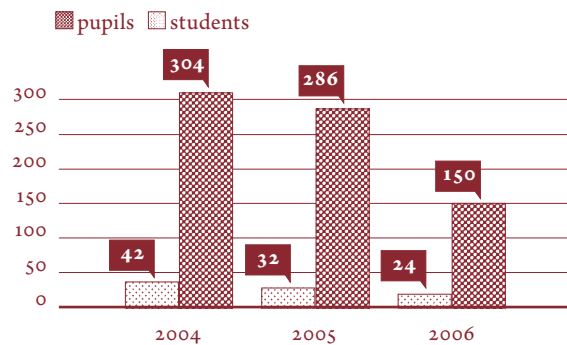
Company policy excludes any form of child labour and employs exclusively workers who have come of age, as shown in the table.



Number of 18 - year olds in Podravka

Podravka participates in the education process of pupils and students enabling them to perform their student practice. Continuous cooperation with high schools (Trade school Koprivnica, High school Koprivnica, Vocational school Đurđevac, High school “Ivan Seljanec” Križevci, Electromechanical engineering school Varaždin, and so on) and faculties (Faculty of Economy and Business Zagreb, Faculty of Food Technology in Zagreb and Osijek, Faculty of Organization and Informatics Varaždin) continues also in 2006.

Next to performing student practice, and visiting production facilities, Podravka also provides pupils and students help in building their graduation thesis or seminars.



Pupils and student at practice in Podravka

The observed period shows reduction of pupils and students at training in Podravka. The reason for it is that relatively large number of pupils from vocational schools perform their practice at small private companies, where they have better opportunity for employment. Reduced number of students is explained through generation fluctuation, enrollment quota at faculties and selected courses of students, whose demands for performing student training do not comply to Podravka’s opportunities.

The Collective Agreement also states payment of rewards (based

on a contract) to pupils and students for performing training at our company in the amounts determined for 174 hours of practical work according to the table. For pupils and students Podravka provides free warm meal for every day they stay and perform their training at Podravka.

For a number of years Podravka takes care of children of employees who passed away or died by accident. Every child of such an employee has a right to a scholarship, i.e. support for the period of his/her regular school education, and in average there are about 50 of such children yearly. The support is being paid in monthly amounts depending on the year of going to school for a particular school year, where the children have no obligation to return this amount after they finish their education.

### PREVENTION OF COMPULSORY WORK

In organizing work Podravka upholds the Labour Act and Rulebook on procedures and protective measures for employees’ dignity. The work is organized and based on 40-hour work week. Following the Collective agreement, the employees are entitled to a bonus on their basic salary if they work in heavy (physical conditions in the work environment) and special work conditions (night time labour, overtime labour, working Sundays, working in the second shift and working in split shift) and working on holidays and bank holidays determined by law.

### MANAGING IMPACTS OF BUSINESS ACTIVITIES ON SOCIAL COMMUNITY

Podravka has a significant role towards social society. Following consumer trends and needs, high quality, practical and safe products are being produced, and that way it influences the forming of eating habits and contributes to improved quality of living. What is important for healthy and good living is high quality alimentation satisfying body needs for energy and necessary amount of nutritive and protective substances, which presupposes the consumption of diverse food in moderate amounts.

Alimentation should provide the sense of satiety and pleasure during food consuming, and therefore special attention is paid to the composition and sensory features of products. Products are distinguished in fast and simple preparation, contributing to easier satisfying the need for food, so the consumers are left with more for themselves and for their family. Sanitary compliance of the product goes without say, and it is an important presupposition for health of individuals and the community. Cooperating with agricultural manufacturers we contribute to the advancement of agricultural production (education of manufacturers, soil control, recommended fertilizing and protection with herbicides, controlled seed origin), and that way we assure good and healthy raw materials for production and traceability in production. Podravka supports the compliance of Croatian regulation with European legislation, and Podravka’s experts actively participate in workgroups for building Croatian food regulations and their compliance with EC directives. Podravka’s experts also participated in building the draft of the action plan for prevention and



reduction of overweight with the Ministry of Health and Social Welfare, whose one of the basic tasks from 2007 to 2011 is to contribute to reduction of risk factors for development of non-contagious diseases, which are the consequences of irregular diet and reduced body activity in all age groups of the population in the Republic of Croatia. The list of non-gluten products compiled in cooperation with the Celiac Society informs consumers with celiakia on Podravka's products that do not contain gluten. Cooperation of Podravka and the Celiac society is a form of partnership. On the one hand Podravka's experts are included in communication, they gain new knowledge and on the other hand the consumers are via the Celiac Society informed about the products intended especially for them.

### ANALYSIS OF RISKS RELATED TO CORRUPTION

Business Supervision Sector performed in 2006 14 audits or analyses which included international markets, internal processes or litigations. In every case the possibility of corruption was being investigated. Revision plan for 2006 was achieved completely. Plan of this Sector in 2007 is to implement Risk Management within Podravka D.D. and danica d.o.o. After the extensive training of the executive management, what follows in late 2006 is a detailed description of internal control systems and risks.

### PARTICIPATION IN DEVELOPMENT OF PUBLIC POLICIES AND LOBBYING

Podravka and its representatives formally participate in the work of international, national and local organizations and institutions with the purpose of promoting the importance and advancement of socially responsible behaviour practice in the community, together with the promotion of international initiatives on the national and local level.

Exchange and sharing of good practice, own engagement in recognizing key challenges and seeking solutions, Podravka and its employees provide an active contribution to sustainable development of the communities in which they operate.

Podravka included part of its resources into the adjustment process and preparation of negotiations for EU accession, with the purpose of better and faster transformation and adjustment of Croatian society.

### PENALTIES AND NON-CASH REPRIMANDS FOR VIOLATING LAWS AND REGULATIONS

No factory within Podravka had any significant penalties for breach of laws and regulations. Podravka's international offices (Bratislava, Budapest, Belgrade and Podgorica) had minor financial penalties, and they had no non-financial penalties in 2006.

### PRODUCT LABELING

Podravka's products are labeled in compliance to legal provisions on labeling, measurement provisions for packaging in the Republic of Croatia, European Union and all the co-

untries in which Podravka operates. The labels exhibit truthful, complete, clear and non-ambiguous information on products' composition, origin, application method, shelf life and product series, leaving the consumer with the freedom of choice. Special attention is paid to labeling the ingredients which cause allergic reactions or intolerances with certain groups of consumers. For products with exhibited nutritional values on the label, during its presentation and/or advertising, the values are stated in compliance to regulations (energetic value of the food and nutritive substances effecting energetic and biological value of food – proteins, carbon-hydrates, fats, fibers, sodium, vitamins and minerals present in significant amounts). Also for the American (compliant to FDA regulations) and Australian market (Australian Food Standards Code) it is obligatory to state the tables with nutrition facts. This principle is trying to be applied also with the products for which it is not legal obligation. Informing the consumer about the product via non-obligatory declaration encourages consumers to pay more attention to product composition and its additional value.

Podravka developed a specific system "Podravka Quality" conditioning the exact quality level determined by the experts and consumers, which Podravka's products need to satisfy before they are launched to the market.

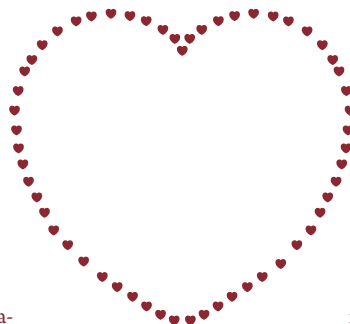
Belupo is also a pharmaceutical company oriented towards the consumer – it provides PATIENT FRIENDLY directions for users for all OTC products. In its advertising materials solely scientifically proven and verified facts are used, such as monographies WHO, ESCOP, PDR, Commission E – guidelines and published works in recognized CC scientific magazines.

### CONSUMER/CLIENT SATISFACTION PRACTICE

In compliance to ISO standards, each year consumer satisfaction is examined by the Market of Croatia sector. The questionnaires are delivered to our biggest business partners. Data gathered is processed and systemized. Based on consumer satisfaction report, corrective measures are undertaken in segments where the grades are not satisfactory.

Consumer satisfaction is continuously monitored through toll-free number and every contact with consumers id registered, analyzed and responded to. It is also important to mention that the toll-free number is also intended so that the consumers could easily and directly express their satisfaction or dissatisfaction. Criticism is something one should not run away from, so Podravka accepts it in a positive manner and provides a fast and efficient reaction to it.

Coolinarika.com is a culinary web site in whose creation users also take part, and Podravka enables them to talk about food culture, health and culinary art. For Podravka this means satisfying a broad range of consumer needs related to food and health. Podravka's culinary web site Coolinarika.com is positioned as a partner to the demanding and intelligent consumer who always wants to learn and experience more.



Analyzing consumer habits, expectations, needs and desires, we have developed a consistent and differentiated strategy of their satisfaction. The initial question is not “what will the consumer give to the meal” but “how the consumer decides what to eat” and “where the consumer is at that moment, how much time he has, what sort of environment he rather eats in”...

The contents of the dynamic web site Coolinarika.com includes recipes, cooking advices, articles, fun stuff and is current with subjects in the lives of our consumers. Web site is completely dedicated to user inclusion and encourages interaction. The basic idea of Coolinarika.com is to perceive every user as an individual with particular characteristics and lifestyle. The second important principle is to encourage active participation of every user together with an interactive communication between Podravka and its consumers.

#### **Tracking consumer satisfaction at Belupo**

Toll-free line and web site “Be healthy” remain at the service of users and operate with the purpose of widening their knowledge, provide necessary advice on how to preserve health, what way to approach treatment in case of illness. The purpose of the web site is to provide users with current and useful information about health.

For the purposes of easier and simpler education during 2006 Belupo issues a series of educational material with the goal of developing sense of illness, prevention and responsible self-treatment, such as: With Belupo against pain, How to lower fever appropriately, Menstrual calendar, For teeth without caries till old age, Pollen calendar, Healthy diet pyramid, Educational flyer for persons with increased cholesterol.

Continuous tracking of contacts received through toll-free line and via Internet web site prove increased interest and the number of users for getting answers to their question.

#### **RESPECTING ADVERTISING STANDARDS**

During 2006 Podravka received no substantiated claim nor was involved in a litigation process based on complaints by end consumers, organizations or authorized institutions regarding breach of consumer privacy or lost data on consumers.

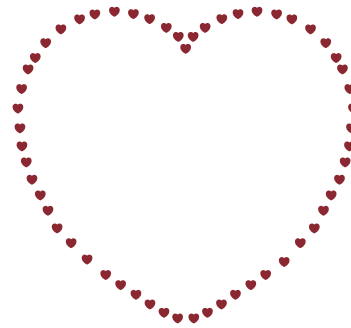
Cooperation between Podravka and marketing agencies complies with the rulebook of HURA (Croatian Association of Advertising Agencies) as well as with Croatian Consumer Protection Association. One of the main tasks of Podravka’s department for market communication is strict control of advertising with the purpose of upholding all the codes and provisions relative to it. In 2006 only in the markets of Croatia and South East Europe 35 media campaigns were launched. All the information and data on consumers is being protected in compliance to Consumer Protection Act.

Advertising of OTC medicines has been set by the Rulebook on advertising and information on medicines, homeopathic and medicinal products, which is the subdocument of the Law on medi-

cines and medical products. Advertising of diet products is not defined by any particular act.

#### **FINANCIAL PENALTIES FOR NONCOMPLIANCE OF LAWS AND REGULATIONS REGARDING SUPPLY AND USE OF PRODUCTS AND SERVICES**

No factory within Podravka had any significant penalties for breach of laws and regulations. Only minor violations occurred with our customers without significant effect on laws and regulations related to offer and use of products and services.



#### **PODRAVKA'S FUTURE ACTIVITIES ON SUSTAINABILITY PLAN**

Podravka will continue to report on all plans and activities taken with the purpose of sustainable business development, in order for all of the interested parties to get a complete insight into impacts of Podravka’s business in the economic, environmental and social aspects of sustainability.

Some of Podravka’s most important activities in the area of sustainability in 2007 will be focused on:

- active participation in the local community, non-governmental associations, community service, supporting sport and cultural associations, participation in the work of expert and scientific conferences, joint projects, participation in global-local activities dedicated to fighting diseases, ecological actions and other,
- participation in the work of expert and scientific conferences, joint projects, connecting with scientific and research institutions,
- including Podravka’s representatives in building a Local Agenda 21 for the town of Koprivnica, the strategy of sustainable development of the local community,
- participation of Podravka’s experts in work groups helping Croatia prepare to join European Union,
- continuous education of employees on importance of sustainable development
- implementing employee rewarding system,
- rewarding innovativeness of Podravka’s employees,
- continuing the practice of satisfying consumers/clients on key markets,
- taking corrective measures with the purpose of continuous maintenance and client satisfaction growth,
- preparation for introduction of an integral Environmental Management System ISO 14001,
- better disposal of concentrated sludge via waste water treatment at Danica,
- better disposal of waste from the slaughter house for more rational energy management,
- receiving Halal certificate.
- kvalitetnija obrada klaoničkog otpada radi racionalnog gospodarenja energijom,
- dobivanje certifikata Halal kvalitete.



**ENCLOSURE 1  
GRI INDICATORS IN THE TEXT**

<b>GRI INDICATOR</b>	<b>TEXT LOCATION</b>
Strategy and analysis 1.1. - 1.2.	p. 2-3, 8
Organization profile 2.1. - 2.10.	p. 4-15
Report parameters 3.1. - 3.11	p. 16
GRI index 3.12	p. 50
Verification 3.13	p. 51
Management, duties and involvement 4.1. - 4.17	p. 17-23
<b>Economic Impact Indicators</b>	
<i>Economic impact</i>	
EC1.	p. 26
EC2.	p. 29
EC3.	p. 27
EC4.	p. 29
<i>Market presence</i>	
EC6.	p. 29
EC7.	Not applicable
<i>Indirect economic impacts</i>	
EC8.	p. 27
EC9.	p. 28-29
<b>Environmental Impact Indicators</b>	
<i>Materials</i>	
EN1.	p. 34
EN2.	p. 34
<i>Energy</i>	
EN3.	p. 34
EN4.	p. 35
EN5.	p. 35
EN6.	p. 35
<i>Water</i>	
EN8.	p. 35
EN10.	p. 35
<i>Biodiversity</i>	
EN11.	Not applicable
EN12.	Not applicable
<i>Emissions, effluents, waste</i>	
EN16.	p. 36
EN17.	Not applicable
EN18.	p. 36
EN19.	p. 36
EN20.	p. 36
EN21.	p. 36
EN22.	p. 37
EN23.	p. 37
<i>Products and services</i>	
EN26.	p. 37
EN27.	p. 37
<i>Upholding regulations</i>	
EN 28.	p. 37
<i>General</i>	
EN30.	p. 38-39

<b>Social Impact Indicators</b>	
<i>Labour Practices and Decent Work Indicators</i>	
<i>Employment</i>	
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LA2.	p. 42
LA3.	p. 42
<i>Labour/management relations</i>	
LA4.	p. 43
LA5.	p. 43
<i>Health and occupational safety</i>	
LA6.	p. 43
LA7.	p. 44
LA8.	p. 44-45
<i>Training and education</i>	
LA10.	p. 44-45
LA12.	p. 45
<i>Diversity and equal opportunity</i>	
LA13.	p. 45-46
LA14.	Not applicable
<b>Human Rights Indicators</b>	
<i>Investment and procurement practice</i>	
HR1.	p. 46
HR2.	Not applicable
<i>Non-discrimination</i>	
HR4.	p. 46
<i>Freedom of association and collective bargaining</i>	
HR5.	p. 46-47
<i>Child labour</i>	
HR6.	p. 47
<i>Forced and compulsory labour</i>	
HR7.	p. 47
<b>Social Impact Indicators</b>	
<i>Community</i>	
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<i>Corruption</i>	
SO2.	p. 48
SO3.	Not applicable
SO4.	p. 48
<i>Public Policy</i>	
SO5.	p. 48
<i>Upholding regulations</i>	
SO8.	p. 48
<b>Product Responsibility Impacts</b>	
<i>Consumers health and safety</i>	
PR1.	p. 48
<i>Information and labeling of products and services</i>	
PR3.	p. 48
PR5.	p. 48-49
<i>Marketing communications</i>	
PR6.	p. 49
<i>Respect for consumer privacy</i>	
PR8.	p. 49
<i>Upholding regulations</i>	
PR9.	p. 49



## ENCLOSURE 2

### INDEPENDENT OPINION TO THE SUSTAINABLE DEVELOPMENT REPORT OF PODRAVKA GROUP FOR 2006

Independent check of Podravka's Sustainable Development Report for 2006 shows that by building this report Podravka used Level B of the reporting guidelines by the Global Reporting Initiative, GRI 3. In accordance to GRI guidelines, Podravka analyzed its management approach to all the key aspects of sustainability and showed its results on more than 20 individual impact indicators. The profile and management structure is also shown in accordance to Level B requirement. This year's report presents a significant improvement than the last year's. Podravka took much more seriously the GRI guidelines and provided answers to all the significant indicators. Particular progress is obvious in the social component of the report, which not only provides detailed information on all the key social impacts, but it also shows that in practice Podravka tries to keep track with the global trends of responsible business by introducing new initiatives. In the environmental area there is still room for progress and by stricter application of GRI principles, data could be shown to a wider audience of stakeholders in a more acceptable and understandable way. Likewise there is still room for better and more specific involvement of stakeholders in the participation process. In spite of this room for improvement, it seems that this year Podravka has made a step closer to a more consolidated publishing of data, which together provide a balanced and non-biased display of company's impacts in the previous year. Publishing significant economic, environmental and social impact, the stakeholders get the opportunity to evaluate the impacts of the organization in the stated reporting period. With this report Podravka once more proves that having business responsibility simply means to have a good management approach. Ensuring occupational safety, reduced water and energy consumption which in turn reduces environment impact, educating employees, community involvement, Podravka gains its business results and assured satisfaction of highly educated and expert labour, which again in turn assures a secure market position. As an international company, Podravka proves that it is aware of global challenges. Yet sustainability issues are rather complex and they demand cooperation and an open dialogue with the government, but also other business entities and non-governmental organizations. Podravka includes in a dialogue a substantial number of own human resources, but also its stakeholders, and by uniting powers it tries to create conditions for safe development of not just the company, but the society as a whole. Sustainability is much more than managing risks; it is a proactive and partnership work on all levels of the society on seeking solutions to challenges which we face together. With its actions and with this report Podravka is constantly contributing to seeking those solutions.

Mirjana Matešić  
HR PSOR manager

## ENCLOSURE 3 INDEX

**Quality system certificate** – a receipt (by an accredited certification authority) that the quality management system complies with requested norms

**FDA** – Food and Drug Administration

**GMP** – Good Manufacturing Practice

**GMO statement** – a statement confirming that the product does/does not originate from genetically modified organisms

**GRI guidelines** – Guidelines for reporting on sustainability

**HACCP** - Hazard Analysis and Critical Control Points (food safety management tool). HACCP is a preventive and systematic food safety management system used in identifying and controlling critical control points

**Halal certificate** – receipt on complying with demands of Halal standard

**HR PSOR** – Croatian Business Council for Sustainable Development

**HURA** – Societies for Market Communication Association

**HUS** – Podravka's Independent Union

**HZN** – Croatian Standards Institute

**IBLF** - International Business Leaders Forum

**ISO 9001** – International standard ISO 9001 contains quality management systems requirements applicable to company's internal needs or as a certificate or contractual specification. It focuses on quality control system efficiency in satisfying customer demands

**ISO 14001** – International standard ISO 14001 as an Environmental Management System

**Podravka** – Podravka Group

**Podravka D.D.** – parent company Podravka prehrambena industrija D.D.

**Podravka Croatia** – all of the related companies of Podravka Group in the territory of the Republic of Croatia

**POMAK** – Podravka's Management Academy

**Compliance certificate** – a certificate confirming that something ordered by specifications is in compliance.

**PPDIV** – Union of Agriculture, Food, Tobacco and Water Management Allied Workers

**SINPOD** – Podravka Group Workers Union

**SRCE** – employee rewarding system – systemic development, goals and evaluation

**WBCSD** – World Business Council for Sustainable Development





**ENCLOSURE 4**  
**QUESTIONNAIRE “WITH THE HEART”**

**Your comments and answers will be carefully considered and taken into account. We thank you in advance!**

1. Do you feel this report is:

- a) transparent
- b) non-transparent

2. Would you agree that this report is informative?

- a) yes
- b) no

3. Which information in this report did you find particularly interesting and useful? \_ \_ \_ \_ \_

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4. What other information and data would you like to find in this report in the future? \_ \_ \_ \_ \_

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5. Please evaluate the following characteristics of this report with ratings from 1 to 5 (note: 1 – bad, 5 – excellent)

• substantiality of reported information	1	2	3	4	5
• quality of reported information	1	2	3	4	5
• reliability of reported information	1	2	3	4	5
• accessibility of reported information	1	2	3	4	5

6. Which group of Podravka’s stakeholders do you belong to:

- a) end consumers
- b) buyers
- c) employees
- d) unions
- e) shareholders
- f) suppliers
- g) communities
- h) central and local authority
- i) non-governmental organizations

7. Your suggestions and comments: \_ \_ \_ \_ \_

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*We kindly ask you to fax this questionnaire “With the heart” to: 00 385 48 622 008 or mail it to: Podravka D.D., A. Starčevića 32, 48000 Koprivnica addressed to “Sustainable Development Team”*

You can also fill out the questionnaire on Podravka’s web site at [www.podravka.com](http://www.podravka.com).



## ENCLOSURE 5 SUSTAINABLE DEVELOPMENT TEAM

### **Podravka D.D.**

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Tatjana Gojšić, Quality Assurance  
Štefa Skupnjak, Quality Assurance  
Anđelko Čiković, Procurement  
Jasminka Škrobica, Marketing  
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Tatjana Kalodžera, OTC products  
Miloš Selak, Quality Control  
Nada Čižmak, Quality Control  
Janko Križanić, Quality Control

### **Danica D.O.O.**

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