



SUSTAINABLE DEVELOPMENT REPORT

2018
ANNUAL
REPORT



PODRAVKA GROUP

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I. GENERAL DISCLOSURES

MESSAGE FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Podravka Group stakeholders,

In the year 2018, one of the most successful business years in Podravka's long history, we achieved record business due to the efforts of our employees and excellence across all business segments.

We closed the year with more than HRK 4.2 billion in sales revenue, a net profit of HRK 205.7 million, and revenue growth in the segments Food and Pharmaceuticals. We have also made major strides forward on our key export markets, which gives us plenty of reasons to be proud of our achievements and to face new challenges that await us with optimism. We achieved all this due to organic sales growth in combination with operating expense control, yet another confirmation of Podravka Group's successful business performance.

Among the most significant economic events in 2018 that influenced Podravka Group's business activities, I would like to underscore our active participation in the Agrokor Suppliers Association in the process of reaching an agreement on the Agrokor settlement plan. The challenge consisted in protecting and upholding the interests and the rights of the suppliers without jeopardizing the survival of Agrokor and Konzum, the biggest Croatian retail chain. The formation of the Association, with Podravka at the head of the most important domestic companies, is a confirmation of Podravka's strength and importance for Croatia's economy.

In 2018, Podravka achieved its business performance targets planned for the year, as well as the goals related to the improvement of the material conditions and the rights of its employees as the company's most valuable resource. In 2018, in order to achieve these goals, the lowest salaries in Podravka have been increased by about HRK 1000, and other measures facilitating significant improvements in the material conditions of all Podravka Group employees were also adopted.

Podravka combines a respect for tradition characteristic of all Podravka's products – some of which have already achieved a legendary status - with continuous improvement of the existing products and development of new products of Podravka, Belupo and Žito in line with the latest food and pharmaceutical trends and our customers' needs.

In addition to the excellence of Podravka's brands and products, which is confirmed every day, another aspect that distinguishes Podravka from its competitors is its cooperation with famous figures from various segments of Croatian society, for example, Zlatko Dalić, coach of the Croatian National Football Team, and his successful partnership with Lino Lada Gold, or the partnership between famous athlete Sandra Perković and Vegeta Natur aimed at promoting values like hard work, aiming high, and striving for excellence.

In addition to focusing on achieving the best possible results and creating top quality brands and products, Podravka is also committed to the community in which it operates and to caring for its employees as a responsible employer.

We promote the application of corporate social responsibility standards and the alignment of the economy with the development goals of the community and preservation of the environment for future generations.

In the future, we will focus on ensuring further organic growth and strengthening our market position on all export markets by upgrading our brands and developing new products. We consider the trust of our consumers from more than 60 countries across the globe to be our greatest success, and it is with great pleasure that we will continue to conduct our business activities with the aim of fulfilling their wishes and meeting their needs.

President of the Management Board

Marin Pucar



1.1. ORGANISATIONAL PROFILE

1.1.1. COMPANY NAME AND SEAT

Podravka prehrambena industrija d.d., Koprivnica (“the Company”) is incorporated in the Republic of Croatia. The Podravka Group consists of the parent company Podravka d.d. and all company subsidiaries. The seat of the company is located in Koprivnica, Croatia, Ante Starčevića 32.

1.1.2. BRANDS AND PRODUCTS OF THE PODRAVKA GROUP

Thanks to the trust of our consumers, Podravka has become the no. 1 food brand not only in Croatia but also throughout the region, as well as a recognisable brand in other foreign markets. Excellent raw materials, modern technological processes and know-how guarantee high-quality products.

Podravka’s products are quick and easy to prepare, leaving enough room for culinary creativity. By combining tradition with cutting-edge creative methods and technological advances, we set high standards and new trends.

VEGETA is Podravka’s best-known brand, and it has followed every step that the consumers make in the kitchen for 59 years, giving them the freedom to prepare the most delicious meals for themselves, their family and friends. The Vegeta product line has expanded significantly; today, Vegeta is a culinary brand which offers only top quality products, including all-purpose seasonings, special seasonings, cooking mixes, soups, bouillons, and spices.

PODRAVKA SOUPS are loved by our consumers, they are simple to prepare, but still leave room for creativity in the kitchen. For more than 60 years, all soup lovers, be it those who prefer cream soups or those who favour clear soups, have had the opportunity to discover their own favourite flavour.

Delicious and healthy **LINO CHILDREN'S FOOD** provides children with all ingredients necessary for their growth and development in tasty meals which are great favourites with the kids. In addition to children’s food, the Lino product line includes delicious creamy Lino Lada spreads, a perfect treat for all generations.

DOLCELA delivers a sweet touch of fantasy across the entire product line! These high-quality products make it possible to prepare quick and easy desserts starting from simple, small treats to big celebration cakes and other sweets, while ready-made cakes, cookies and other desserts are perfect to enjoy anytime

EVA and **MIRNA** encompass the widest range of fish products prepared from top quality cuts of fish. These healthy products are rich in whole proteins with essential amino acids and minerals.

A wide range of **FANT** seasoning mixes will enrich all culinary skills and significantly reduce preparation time. Fant seasoning mixes answer the question “What should I cook today?” and make even the most complicated dishes easy to prepare.

PODRAVKA TOMATO PRODUCTS are a staple in every kitchen, especially Mediterranean cuisine, and go well with various cooking ingredients. These nutritious and natural tomato products contribute to good health, promote a creative approach to cooking and make it possible to enjoy the best aspects of contemporary cuisine.

PODRAVKA FRUIT PRODUCTS have been made by processing the highest quality fruits of controlled origin, with no added flavours, artificial colours or sweeteners, for 70 years. Due to its high fruit content, Podravka's smooth plum jam is a renowned and valued traditional Croatian product, and it bears the Croatian Creation label awarded by the Croatian Chamber of Economy.

PODRAVKA VEGETABLES perfectly preserve and enrich the original flavour of vegetables, bringing them to the tables of our consumers throughout the year. Sterilized and pickled vegetables can be used all year round without any significant changes in their nutritional value. Picked at the most favourable time and prepared without additives, Podravka vegetables can be used in salads, side dishes, sauces, stews, and sandwiches.

A perfect texture and great taste make **PODRAVKA CONDIMENTS** - chutney, mustard, ketchup and horseradish – an ideal complement to a wide variety of dishes. Podravka's tasty and aromatic condiments are a versatile pantry staple for every kitchen as these simple and practical products will enrich the flavour of any meal, be it grilled meat, potatoes or pasta.

PODRAVKA TEAS are made from carefully selected ingredients, with strong and recognisable herbal and fruit flavours. In order to create Podravka teas, we have been paying close attention to the needs of true tea lovers for over four decades. The wide range of products is always expanding so that our consumers can enjoy a diverse selection of herbal, fruit and classic teas. Every filter bag is packed in an „aroma envelope“, a special foil that preserves freshness and aroma, to deliver the recognisable taste and strong aroma characteristic of modern Podravka teas.

PODRAVKA MEAT PRODUCTS and ready-made meals, with a wide range of traditional and modern flavours - pâtés, ready-made meals, meat sauces and cold cuts – are delicious meals for any time of day. With their characteristic and familiar aromas due to special spice blends, these products are an ideal solution for just about any occasion.

The **KVIKI** brand includes salty and sweet snacks. All products are baked to ensure the fullness of flavour and recognizable high quality, and carefully selected ingredients guarantee the quality of the final products.

1001 CVET has been a beloved regional tea brand for half a century. It is well known that only top quality natural ingredients are used to prepare this range of tea blends that can be enjoyed all day long. Due to the wide variety of products, every tea lover will be able to find “the one” – the perfect blend to suit their tastes.

The wide range of **GORENJKA** chocolate products will satisfy all chocolate lovers as, in addition to milk and dark chocolate, it also includes mini-rolls, squares, chocolate with puffed rice, and cooking chocolate. With ninety years of experience, Gorenjka has become a byword for top quality chocolate products made using the finest cocoa.

ŽITO – fresh bakery products include partially baked bread (par-baked), fresh bread and bread rolls. The secret of our products lies in a combination of tradition and innovative use of the finest raw materials preserving the best of Slovenian culinary tradition in combination with modern technologies.

ZLATO POLJE has become a byword for modern cuisine, with many diverse products like rice, pasta, purees, oat flakes, grits, and breakfast cereals. Zlato polje offers a wide range of products which can be used to prepare simple and effective meals any time of the day, starting from breakfast cereals packed with natural ingredients and vitamins to lunchtime meals, with Zlato polje offering the right side-dish to complement every meal. And grain mill products used to create tasty and healthy meals are the perfect choice for a light dinner.

Toffees, jelly candies, gummies, hard filled candies – both children and adults enjoy **ŠUMI** sweets. The candies are distinguished by their high content of natural fruit juice, vitamins and minerals, without artificial colours or flavourings. With 140 years of tradition, Šumi is a brand that inspires trust. Herbal candies are made according to the original recipe with a sophisticated selection of herbal flavours and natural fruit juice extract.

The world of **MAESTRO** spices is an aromatic oasis where the consumers can boldly go and find the flavours and aromas that are essential when preparing meals. Maestro offers spices, spice blends, seasonings and seasoning mixtures for food preparation that help create a harmony of flavours in every single meal.

The **NATURA** brand is synonymous with nature-friendly farming, and Bio Natura products are carefully selected organic products. They are made with natural ingredients originating from pristine natural areas, guaranteeing a healthy and safe diet.

BELUPO, a pharmaceutical company which is part of the Podravka Group, has a product portfolio which consists of three product categories: prescription drugs, over-the-counter products (OTC) and enteral nutrition.

According to the Anatomical Therapeutic Chemical Classification, Belupo's prescription drugs are divided into 12 categories: drugs affecting the alimentary tract and metabolism, drugs acting on blood and blood forming organs, drugs affecting the cardiovascular system, dermatologicals, drugs acting on the genito-urinary system and sex hormones, anti-infectives for systemic use, antineoplastic and immunomodulating agents, drugs acting on the musculo-skeletal system, drugs acting on the nervous system, antiparasitic products used to treat parasitic infections, drugs acting on the respiratory system, and drugs acting on sensory organs.

Belupo's over-the-counter portfolio includes herbal medicines (Silymarin, Hederan®), food supplements (Urosal®, Maxi Omega), cosmetics (Floceta®), non-prescription (OTC) medicines (Neofen®, Lupocet®, Herplex®, Aska pro®) and auxiliary substances. As regards the sales of OTC products in Croatia, Belupo is one of the leading companies on the market, with Neofen and Lupocet occupying the top two positions on the list of top ten most sought-after OTC drugs.

Enteral nutrition, i.e. dietary foods for special medical purposes, includes two product groups: Nutrixa and Nutribel Complex.



1.1.3. LOCATION OF OPERATIONS

The Podravka Group is a multinational group operating in 24 countries on 5 continents (Europe, North America, Asia, Africa and Australia) through its offices and subsidiaries, with significant operations in Croatia, Slovenia, Bosnia and Herzegovina, Russia and Poland.

1.1.4. OWNERSHIP AND LEGAL FORM

Podravka d.d. is a joint stock company registered as such in 1993, following its transition from the former form of a social enterprise.

The shares of Podravka d.d. were first listed on Quotation I of the Zagreb Stock Exchange on 7 December 1998, and have been traded on the Zagreb Stock Exchange since 8 December 1998.

Since 27 December 2018, the shares of Podravka d.d. shares have been listed and traded on the Prime Market of the Zagreb Stock Exchange.

The ownership structure of Podravka d.d. as of 31 December 2018 was as follows:

TABLE 1: OWNERSHIP STRUCTURE OF PODRAVKA D.D. AS OF 31 DECEMBER 2018

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE SHARE
ADDIKO BANK D.D./ PBZ CO OMF - CATEGORY B (1/1)	1,052,100	14.78
OTP BANKA D.D./ AZ OMF CATEGORY B (1/1)	902,874	12.68
CERP (0/1) / HZMO – CROATIAN PENSION INSURANCE INSTITUTE (1/1)	727,703	10.22
OTP BANKA D.D./ ERSTE PLAVI OMF CATEGORY B (1/1)	674,669	9.48
ADDIKO BANK D.D./ RAIFFEISEN OMF CATEGORY B (1/1)	625,298	8.78
HPB D.D./ KAPITALNI FOND D.D. (1/1)	406,842	5.7
CERP (0/1) / REPUBLIC OF CROATIA (1/1)	404,233	5.68
HPB D.D. (0/1) / REPUBLIC OF CROATIA (1/1)	167,281	2.35
PRIVREDNA BANKA ZAGREB D.D./ CLIENT SAFE CUSTODY ACCOUNT	105,441	1.48
Treasury account	145,775	2.05
Other shareholders	1,907,787	26.79
TOTAL	7,120,003	100.00



1.1.5. MARKETS SERVED

The operations of the Podravka Group encompass two industrial sectors, i.e. two strategic business areas (SBA): Food and Pharmaceuticals.

The SBA Food operates on domestic and international markets divided as follows:

- **ADRIA REGION**, encompassing Croatia and the countries of Southeast Europe (Slovenia, Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Kosovo, Albania, Greece), and
- **INTERNATIONAL MARKETS:**
 - Central Europe, which includes Poland, the Czech Republic, Slovakia, Hungary, Romania and Bulgaria
 - Western Europe and Overseas, which includes Germany, Austria, Switzerland, France, Great Britain, Italy, Benelux and other West European countries, Scandinavia, North American countries, Australia and New Zealand
 - Eastern Europe, which includes Russia, Ukraine, Kazakhstan, the Baltic states and other Eastern European countries

- New Markets, which include African countries (East Africa, West Africa, Central Africa), MENA countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Iraq, Iran, the Levant nations and the countries of Northern Africa) and Asian countries (India, China and other Asian countries).

The SBA Pharmaceuticals operates in Croatia and on international markets divided into the following regions:

- **ADRIA REGION**, which includes Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Slovenia, Kosovo and Albania,
- **EASTERN EUROPE**, which includes Russia, Ukraine and Kazakhstan,
- **CENTRAL EUROPE**, which includes the Czech Republic, Slovakia and Poland,
- **NEW MARKETs**, which include Turkey, Iraq and Botswana,
- **BELUPO – OUTLICENCING** (registration and sale of products through partners), which includes Denmark and Germany.

The users of Podravka products can be divided into buyers and consumers. Buyers are distributors, retail chains (wholesale and retail), drug wholesalers, drug stores, pharmacies, hotels, restaurants and catering. (HoReCa channel), and institutional buyers. Consumers are persons of various age groups, gender, religion and preferences from around the world, i.e. end-users of the abovementioned sales channels.

1.1.6. COMPANY SIZE

1.1.6.1. Total number of business activities and employees

During 2018, the Podravka Group was registered for the performance of 63 business activities and, as of 31 December 2018, it had a total of 6.517 employees.

1.1.6.2. Net sales revenues

The net sales revenues of the Podravka Group in 2018 amounted to HRK 4,232.1 million. The revenue trends and the absolute values over the past three-year period are shown in the following figure:

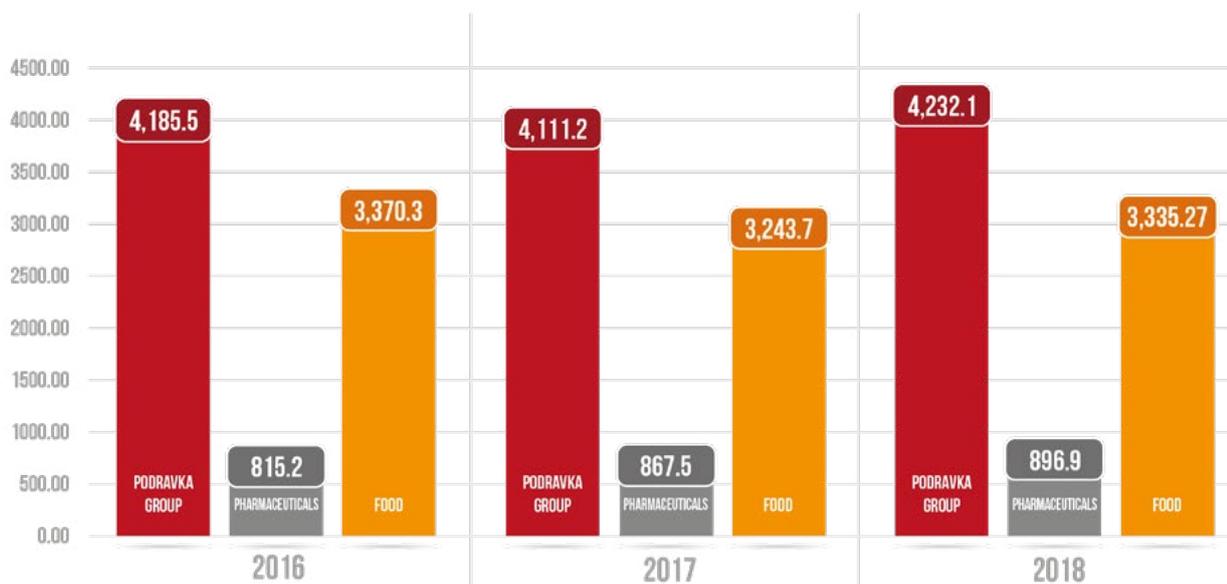


FIGURE 1: NET SALES REVENUES OF THE PODRAVKA GROUP

The sales revenue amounted to HRK 121 million due to revenue growth recorded in both business segments despite the negative impact of exchange differences amounting to HRK 50.7 million. The group's own brands delivered strong growth with HRK 124,5 million in revenues, primarily due to the business programmes Žito and Lagris, children's food, sweets and snacks, and the Culinary business programme. This is a result of the fact that the Podravka Group decided to focus its key sale activities on regional markets, having recognized an opportunity for further organic growth in the region, as well as on those international markets where it has been present for decades and where its products enjoy a strong consumer trust position. Also, primarily a manufacturer of branded food products, the Podravka Group has increased its investments in the development of its own brands through innovation and efficient marketing activities.

The financial reports with more detailed information about sales revenue trends are available on Podravka's website at

www.podravka.hr/kompanija/investitori/financijska-izvjesca

1.1.6.3. Total capitalization

The total capitalization of the Podravka Group in 2017 and in the two preceding years, broken down in terms of debt and equity, i.e. own capital and funding sources, shows that the company has a high and growing share of its own capital in total funding sources, so as to maintain low debt levels, as follows:

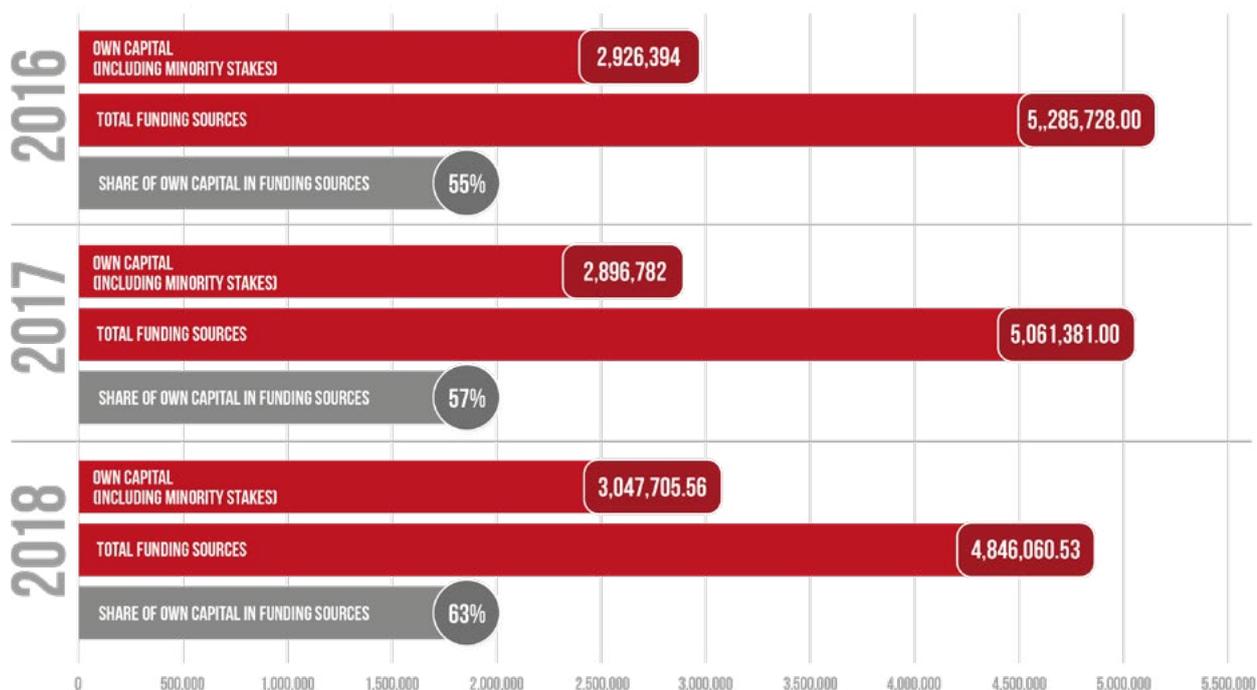


FIGURE 2: TOTAL CAPITALIZATION OF THE PODRAVKA GROUP BY DEBT-TO-EQUITY RATIO (IN THOUSAND HRK)

1.1.6.4. Quantity of produced food and pharmaceutical products

SBA Food produced a total of 247,529 tonnes of food products in 2018. Organic growth of individual product categories and reduced reliance on production partners resulted in increased food production.

SBA Pharmaceuticals produced a total of 38,995,114 boxes of pharmaceutical products, which represents an increase in production of 8.1% compared to 2017. Sales growth in the boxed products segment, as well as production capacity expansion (new factory), resulted in increased pharmaceuticals production.

An overview of the quantities of food and pharmaceutical products produced by the Podravka Group in the period 2016 - 2018 is shown in the following figure:



FIGURE 3: THE QUANTITY OF PRODUCTS PRODUCED BY THE PODRAVKA GROUP

1.1.7. INFORMATION ON EMPLOYEES AND OTHER WORKERS

1.1.7.1. Total number of workers by employment contract and gender

All workers of the Podravka Group - 6,517 in total - have concluded employment contracts and are considered as employees in accordance with the labour laws of the country in which their labour relations were established.

In terms of the type of employment contract, the Podravka Group employs workers on temporary employment contracts or workers on permanent employment contracts. At the end of 2018, there were 5.861 workers (89.9%) employed on permanent employment contracts and 656 workers (10.1%) employed on temporary employment contracts.

In terms of gender, women were somewhat better represented, with 3,356 women (51.5%) and 3,161 men (48.5 %) employed. The share of women grew by 0.6% in comparison to the previous year.

Following from the above, the total number of workers in the Podravka Group by employment contract and gender as of 31 December 2018 is shown in the following table:

TABLE 2: TOTAL NUMBER OF WORKERS OF THE PODRAVKA GROUP BY EMPLOYMENT CONTRACT AND GENDER AS OF 31 DECEMBER 2018

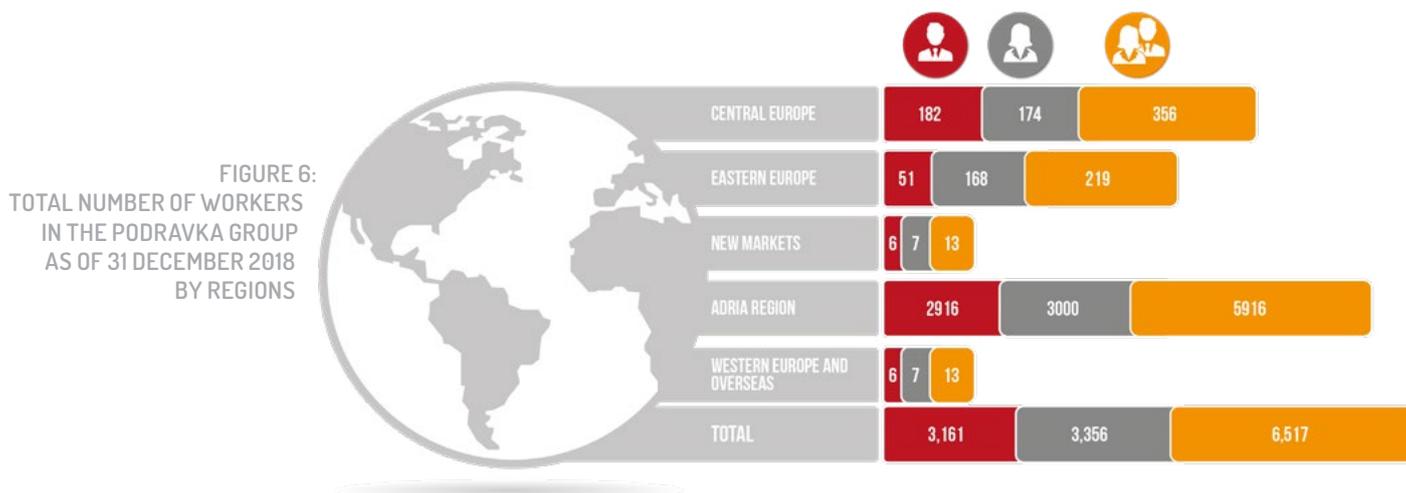
Company name	Permanent employment contract			Temporary employment contract			Total number of workers		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Belupo d.d.	354	521	875	42	58	100	396	579	975
Belupo d.o.o. Ljubljana	2	8	10			0	2	8	10
Belupo d.o.o.e.l. Skopje			0	1	1	2	1	1	2
Belupo Int. Bratislava	2	10	12		7	7	2	17	19
Farmavita d.o.o. Vogošća	55	70	125	24	29	53	79	99	178
Intes Storitve d.o.o.	59	48	107			0	59	48	107
Konar GmbH Geretsried	1	3	4			0	1	3	4
Lagris a.s.	68	45	113	22	28	50	90	73	163
Ljekarne Deltis pharm	3	38	41	2	2	4	5	40	45
Mirna d.d. Rovinj	52	71	123	45	69	114	97	140	237
Podravka d.d.	1612	1357	2969	61	33	94	1673	1390	3063
Podravka d.o.o. Beograd - SR	30	13	43	11	7	18	41	20	61

Company name	Permanent employment contract			Temporary employment contract			Total number of workers		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Podravka d.o.o. Ljubljana	47	70	117	1	0	1	48	70	118
Podravka d.o.o. Podgorica - MN	13	8	21	1	1	2	14	9	23
Podravka d.o.o. Sarajevo – B&H	52	36	88	9	8	17	61	44	105
Podravka d.o.o.e.l. Petrovec	9	6	15	3	5	8	12	11	23
Podravka Gulf - FZE	3	2	5			0	3	2	5
Podravka Int. Kft., Budapest	13	5	18			0	13	5	18
Podravka Int. Sydney	4	3	7			0	4	3	7
Podravka Int.s.r.o. Bratislava	9	20	29		9	9	9	29	38
Podravka Internat. USA	1	1	2			0	1	1	2
Podravka Polska sp.zo.o.	31	23	54	18	10	28	49	33	82
Podravka Russia	3	1	4	9	15	24	12	16	28
Belupo Branch Offices	41	161	202	11	22	33	52	183	235
Podravka Branch Offices	12	11	23	6	1	7	18	12	30
Šumi d.o.o.	21	71	92	1	7	8	22	78	100
Vegeta Podr. Limited Tanzan.			0	3	1	4	3	1	4
Žito d.o.o. Ljubljana	350	323	673	33	19	52	383	342	725
Žito Retail	11	78	89	0	21	21	11	99	110
TOTAL	2,858	3,003	5,861	303	353	656	3,161	3,356	6,517

1.1.7.2. Total number of workers by employment contract and region

Business activities of the Podravka Group take place in five regions. At the end of 2018, the Adria Region had the greatest number of employees, i.e. 5,916 workers (90.78%) with concluded employment contracts, followed by the Central Europe Region with 356 workers (5.46%), the Eastern Europe Region with 219 workers (3.36%), the Western Europe and Overseas Region with 13 workers (0.20%) and the New Markets Region, also with 13 workers (0.20%).

Following from the above, the total number of workers in the Podravka Group by employment contract and region as of 31 December 2018 is shown in the following figures:



1.1.7.3. Total number of workers by employment type and gender

According to the type of employment, the workers of the Podravka Group can be divided into full-time and part-time employees. At the end of 2018, there were 6.455 full-time employees (99.05%) and 62 part-time employees (0.95%). Regardless of the fact that the share of part-time employment in total employment figures is very small, i.e. less than 1%, it is evident that twice as many women (41) as men (21) work as part-time employees.

1.1.7.4. Workers who are not employees

The share of workers who are not Podravka Group employees (service contract, royalties) in the company is not significant. In 2018, their share in the workforce of Podravka d.d. amounted to about 1%, while in Belupo d.d., due to the specific nature of the pharmaceutical sector, the percentage of such workers amounted to about 20%.

1.1.7.5. Variations in the number of employees

There were no significant variations (oscillations) in the number of employees in the course of the year. The effect of seasonal employment on the total number of employees is not significant; typically, seasonal workers are hired mid-year to perform various tasks of a seasonal character, mostly in the Production sector, and, as needed, for logistical and sales operations tasks. Seasonal workers were mostly hired by factories, to process seasonal vegetables.

1.1.7.6. Data compilation method

Information on employees and other workers was collected using the SAP business information system and, when needed, by contacting the Human Resources and Law sector and the Corporate Accounting and Taxes sector in Podravka d.d., as well as the persons responsible for keeping records pertaining to employees working in foreign companies and branch offices.

1.1.8. SUPPLY CHAIN

1.1.8.1. Supply chain characteristics

The supply chain of the Podravka Group is based on two basic principles, Supply Category Management and Supplier Relationship Management.

The entire purchasing range of the Podravka Group is divided into procurement categories led by Supply Category Managers – they manage the category strategy, negotiate, contract, prepare umbrella contracts and monitor their implementation. Contracts for all procurement categories are awarded through calls for tenders or, in a more targeted way, on the basis of market research and competitor monitoring, by inviting potential partners, regional or global, depending on the type of goods, to submit their offers. Depending on the results of the procurement process, the purchasing volume is divided among the selected suppliers. The Ensolva application, a very significant platform for tendering and e-auctions, is used for this purpose as it helps improve the negotiation process and obtain more favourable prices of materials and services.

Supplier Relationship Management is strategically important for the Podravka Group given that the suppliers are also segmented according to their strategic importance, i.e. added value for the company. Creating strong partnerships with suppliers is one of the most important objectives of the supply chain. This ensures timely product delivery in agreed quantities and in accordance with agreed quality standards at a competitive and sustainable price. All suppliers, regardless of their geographical location, economic status or partnership level, need to comply with the same stringent quality requirements and act in line with Podravka's corporate strategy and business ethics.

Regular supplier evaluation audits required by the ISO standards are conducted with the aim of evaluating the suppliers on the basis of various criteria; these audits provide the company with the most complete picture of its suppliers. The suppliers are expected to have all necessary certifications (IFS, BRC, GLOBALGAP, FSSC 22000, ISO 9001, ISO 14001, HACCP, OHSAS 18001, AOECs and others) and support environmental protection and sustainable development.

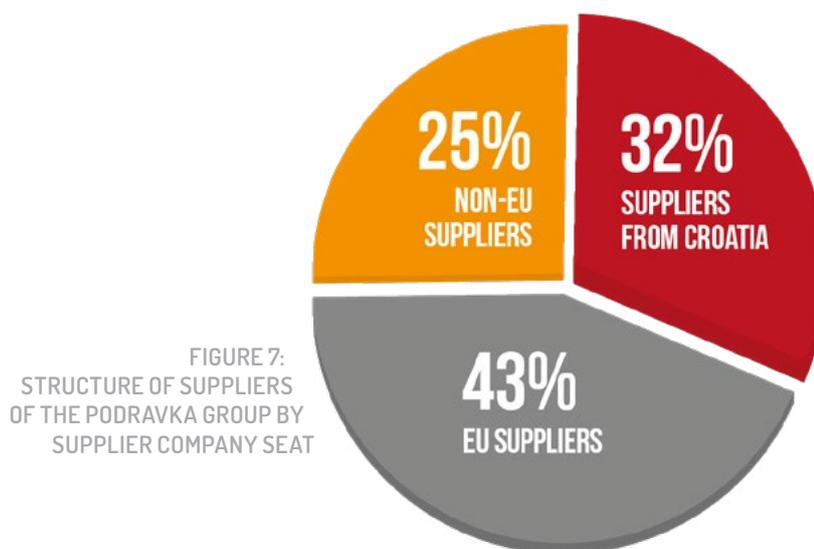
In the area of new product development, Podravka makes use of the supplier's know-how related to the innovation and/or optimization of the materials procured. It is therefore important for Podravka that its approved suppliers, in addition to meeting the necessary requirements in terms of quality, pricing and delivery times, realize their full development potential and provide solutions that incorporate the latest advances in their industries.

1.1.8.2. Types of suppliers engaged

As to the type of suppliers, the Podravka Group works with direct manufacturers, primary manufacturers, small enterprises (crafts), family farms, subcontractors, distributors, wholesalers, and big multinational companies.

1.1.8.3. Total number of contracted suppliers by geographical location

In 2018, at Podravka Group level, supplier trade activities involved 10,442 suppliers, with as many as 3,330 from Croatia (32%), as shown in the following figure:



The Podravka Group engages suppliers from over 70 countries around the world, with foreign markets accounting for the major part of its procurement activities. In the import structure, the majority of the suppliers are from the EU (4,470 suppliers), while the greatest part of the trading activity with non-EU countries involves suppliers from the region (Bosnia and Herzegovina, Serbia, Macedonia and Monte Negro), as well as Switzerland and the Russian Federation.

In line with the standards ensuring high-quality incoming raw materials, taking into account the sufficient quantity aspect, as well as technical and technological equipment requirements for packaging and raw material manufacturers, the company carries out a significant portion of its supplier-related trading activities in cooperation with local producers and primary manufacturers, thus contributing to the development and stability of local communities. According to this criterion, local suppliers accounted for as much as 63% of the total trading activities with suppliers.

1.1.8.4. Total monetary value of payments made to suppliers

The total monetary value of payments made to external suppliers in the year 2018 amounted to HRK 3.6 billion, with payments to Croatian suppliers and to foreign suppliers accounting for 37% and 63% respectively. The structure of the payments to suppliers, by supplier seat, is shown in the following figure and table:

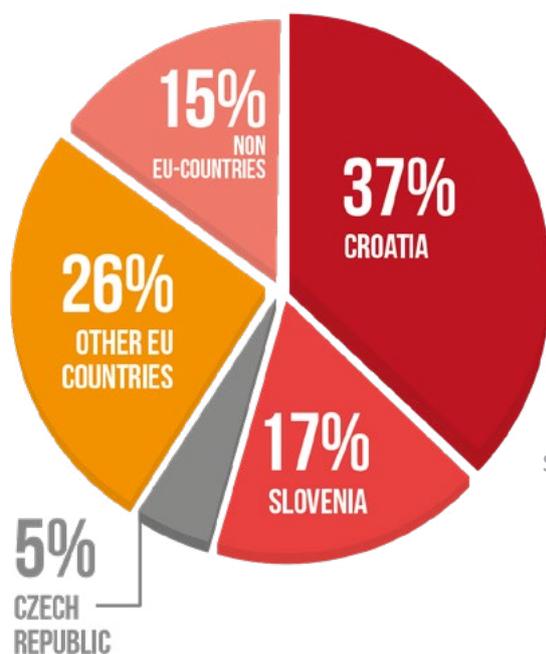


FIGURE 8:
STRUCTURE OF PAYMENTS TO
SUPPLIERS BY COMPANY SEAT

TABLE 3: NUMBER OF PODRAVKA GROUP SUPPLIERS BY HEADQUARTERS COUNTRY AND PAYMENT VALUE

Country	Number of suppliers	%	Payments in HRK million	%
Croatia	3,330	32%	1,362	37%
Slovenia	1,843	18%	608	17%
Czech Republic	726	7%	174	5%
Poland	742	7%	155	4%
Bosnia and Herzegovina	863	8%	154	4%
Italy	140	1%	153	4%
Germany	267	3%	127	4%
Hungary	149	1%	113	3%
Austria	88	1%	111	3%
Serbia	549	5%	98	3%
Other countries	1,745	17%	580	16%
Total	10,442	100%	3,636	100%

1.1.9. SIGNIFICANT CHANGES TO THE COMPANY AND IN ITS SUPPLY CHAIN

1.1.9.1. Changes in the location of or changes in operations

In the year 2018, the branch office of PODRAVKA d.d. in China (Croatia PODRAVKA Inc. Beijing Representative Office) has ceased operations.

Pursuant to the PODRAVKA General Meeting Resolution on the Amendments to the Articles of Association as of 12 June 2018, in addition to previously registered activities, the company's scope of activities also includes the following activities: Verification of legal measuring instruments and/or preparation of legal measuring instruments for verification.

1.1.9.2. Changes in the share capital structure

In 2018, there were no significant changes in the share capital structure, as can be seen in the following table:

TABLE 4: CHANGES IN THE SHARE CAPITAL STRUCTURE OF PODRAVKA D.D.

Changes in the share capital structure of Podravka d.d.			
Shareholder	31/12/2016	31/12/2017	31/12/2018
Republic of Croatia	25.4%	25.4%	25.4%
PBZ CO OMF Category B	13.0%	13.0%	14.8%
AZ OMF Category Category B	12.7%	12.7%	12.7%
Erste Plavi OMF Category B	9.3%	9.3%	9.5%
Raiffeisen Mandatory Pension Fund Category B	8.8%	8.8%	8.8%
Podravka d.d. – treasury account	2.7%	2.3%	2.0%
Other shareholders	28.1%	28.5%	26.8%

1.1.9.3. Changes in the supply chain

Given that the Podravka Group cooperates with numerous suppliers, changes in the supply chain occur on an almost daily basis. The supplier consolidation trend continues, with large multinational companies purchasing smaller ones, thus changing the situation on the market. While the company focused on selecting local suppliers during 2018, there were no significant changes in the supply chain structure or supplier relationships.

1.1.10. PRECAUTIONARY APPROACH

The Podravka Group applies a precautionary approach with the aim of avoiding and reducing negative impacts on the environment in the following manner:

- Utilization of processing by-products;
- Investing in new, “green” food production technologies (reduction of harmful emissions, waste minimisation, water consumption reduction, efficient use of resources);
- Increasing the capacity of its own technological resources by developing innovative products.

1.1.11. EXTERNAL INITIATIVES

The Podravka Group is committed to the following external initiatives:

- Corporate Management Code of the Croatian Agency for the Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange;
- Code of Business Ethics of the Croatian Chamber of Economy (CCE);
- Biotechnical Foundation of the Faculty of Food Science and Biotechnology;
- Foundation of the Croatian Chamber of Economy, Koprivnica County Chamber, for financial support for pupils and students, and
- Diversity Charter Croatia.

Furthermore, through its operations, the Podravka Group also supports the following voluntary external initiatives:

- OECD Guidelines for Corporate Management;
- The United Nations Global Compact, as the largest global initiative for socially responsible operations;
- GMO-free food policy;
- Strategic plan to reduce excessive salt intake in the Republic of Croatia 2015-2019

1.1.12. MEMBERSHIP IN ASSOCIATIONS

An overview of the main memberships of the Podravka Group in major associations is provided in the following table:

TABLE 5: MEMBERSHIP IN ASSOCIATIONS

Membership in associations (in alphabetical order)	Manner of participation
Always with a Heart Foundation	Manager and members of the Foundation Board
Association of Croatian Laboratories (CROLAB)	Participates in projects or boards
Chamber of Commerce and Industry of Slovenia (GZS) - Chamber of Agricultural and Food Enterprises (ZKŠP)	Position in the mgmt body
Croatian Agrometeorological Society (HAgMD)	Participates in projects or boards
Croatian Academy of Sciences and Arts, Scientific Council for Technological Development	Member of the Scientific Council
Croatian Business Council for Sustainable Development (HR PSOR)	Participates in projects or boards

Membership in associations (in alphabetical order)	Manner of participation
Croatian Chamber of Economy (HGK)	Position in the mgmt body, membership deemed as strategic
Croatian Chamber of Economy, Corporate Social Responsibility Association	Position in the mgmt body
Croatian Chamber of Economy, Association for Environmental Protection in the Economy	Position in the mgmt body
Croatian Chamber of Economy, Koprivnica County Chamber, Group for Safety at Work	Position in the mgmt body
Croatian Culinary Federation	Position in the mgmt body
Croatian Employers' Association (HUP)	Position in the mgmt body, membership deemed as strategic
Croatian Employers' Association, Food and Beverages Coordination	Position in the mgmt body
Croatian Employers' Association, Pharmaceutical Industry Association, Technical Working Group for Serialisation	Participates in projects or boards
Croatian Exporters' Association (HIZ)	Position in the mgmt body
Croatian Meteorological Society (HMD)	Participates in projects or boards
Croatian Microbiological Society (HMD)	Participates in projects or boards
Croatian Plant Protection Society (HDBZ)	Participates in projects or boards
Croatian Pharmaceutical Society	Participates in projects or boards
Croatian Society of Agronomists	Position in the mgmt body
Croatian Society of Chemical Engineers (HDKI)	Position in the mgmt body
Croatian Society of Food Technologists, Biotechnologists and Nutritionists (HDPBN)	Position in the mgmt body
Economic Interest Association of Vegetable Producers and Processors of Croatia	Position in the mgmt body
Economic Interest Association for Packaging and Environmental Protection (GIUPAK)	Position in the mgmt body
Eko-Ozra d.o.o.	Position in the mgmt body
Educational Centre Piramida Maribor	Position in the mgmt body
GAMMA CHEF d.o.o.	Position in the mgmt body
ISEKI Food Association	Position in the mgmt body
Ministry of Economy (MINGO), Innovation Council for Industry of the Republic of Croatia, Thematic Innovation Council for Food and Biochemistry	Member of the Innovation Council
Society of Chemists and Technologists Koprivnica (DKTK)	Position in the mgmt body
Strategic Development and Innovation Partnerships, SRIP Food, Focus Area Hygiene, Nutrition and Consumer	Position in the mgmt body

1.2. ETHICS AND INTEGRITY

1.2.1. VALUES, PRINCIPLES, STANDARDS, AND NORMS OF BEHAVIOUR

1.2.1.1. Company value system and ethical principles

Within its corporate value system, the Podravka Group operates in accordance with the principles of modern corporate governance, subject to the provisions of the Corporate Management Code of the Croatian Agency for the Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange, as well as the Rules of the Zagreb Stock Exchange.

In line with the above - with regard to ethics and integrity - the company accepted the fundamental ethical principles and ethical conduct guidelines of the Code of Business Ethics in the form and content as defined and approved by the Assembly of the Croatian Chamber of Economy (HGK). Pursuant to the recommendations from the accepted HGK Code of Business Ethics, the Company also adopted its own Code of Business Ethics at the level of the Podravka Group and, on that basis, Podravka d.d. and all its associated companies in Croatia and abroad develop their own ethical principles – based on the principles of modern corporate governance.

The Code of Ethics of the Podravka Group incorporates the company's traditional good business practices and promotes new standards in line with the best business practices, with the aim of retaining a strong reputation in all areas of operation. The Code is based on the principles of diligent and conscientious business conduct and the corporate system of values applied by the Management Board, the management and all employees of the Podravka Group – for the purpose of creating and maintaining a recognisable company identity in comparison to the competition, building consumer loyalty and trust among investors, business partners and the public as a whole.

1.2.1.2. Operating Principles of the Podravka Group

The fundamental principles of business applied by the Podravka Group in its operations are: legality and transparency of operations; work professionalism and objectivity; importance of public relations; importance of positions on the environment and the community; clearly defined procedures for the work of the Supervisory Board, Management Board and General Assembly; avoiding conflicts of interest; effective internal control and responsibility system.

As regards the environment, the company pays particular attention to sustainable development – both its own and that of the wider community - and continuously invests in environmental protection. Therefore, all employees are required to adhere to environmental standards and comply with applicable regulations in their work, treat all types of waste properly and responsibly and ensure rational use of all raw materials.

Furthermore, with regard to community relations, the company has traditionally aligned its interests with the interests of the local community in the course of its development and growth,

always taking into account the interests of the community and providing significant support to numerous charity associations, sports clubs, scientific institutions and similar organisations. Also, the company regularly participates in and supports community projects aimed at improving education, the environment, health, and social standards in the area where it operates - with significant incentives for the participation of both the Podravka Group and its employees in all charity organisations, sports clubs and similar.

With regard to conflicts of interest, all employees, especially managers, are expected to be completely loyal to the Podravka Group and are not allowed to take part in any activity, particularly of a commercial or financial nature, that might cause a conflict of interest of the employees' personal interests with the interests of the company or engage in any activity that is competitive with the business activities and operations of the company.

Dual position holding in the Podravka Group is also not acceptable, and all employees holding managerial positions should avoid serving as members of the Supervisory Board of Podravka d.d. In case of a potential conflict of interest, the employees have to immediately inform their immediate superior and/or the Management Board thereof in writing. Employees who, in addition to their job at the Podravka Group, hold positions in other organisations, civil society institutions and similar, may not take advantage of their position by extorting or demanding donations or sponsorships.

Every employee of the Podravka Group is entitled to report all potential or committed violations of these values to the competent sector director (authorized person) – and no sanctions or any form of discrimination in their future work may be imposed against them following such reports.

The provisions of the Code of Ethics of the Podravka Group set out the procedure to be followed upon receiving a violation report in detail, as well as the sanctions to be imposed by authorized persons against the persons who do not comply with or who violate the provisions of the Code.

1.3. GOVERNANCE

1.3.1. GOVERNING STRUCTURE

The Company organs of Podravka d.d. – pursuant to the provisions of the then valid Statute of Podravka d.d. (hereinafter: the Company) – are:

- General Assembly,
- Supervisory Board, and
- Management Board.

1.3.1.1. General Assembly

Shareholders – holding shares with voting rights – exercise their right to vote and adopt decisions in the General Assembly within the framework of their competencies as stipulated by law. Shareholders exercise their right to vote at the General Assembly in person or via a representative or a proxy.

Shareholders, their representatives and proxies, who have been entered into the computer system of the Central Depository and Clearing Company (CDCC) and who have applied for participation in the General Assembly no later than six days prior to the General Assembly meeting, have the right to participate and vote in the General Assembly.

1.3.1.2. Supervisory Board

The Supervisory Board has nine members, eight of whom are elected by the shareholders at the General Assembly meeting by a three-quarter majority of votes, while one member of the Supervisory Board is appointed by the Worker's Council of the Company in the manner and following the procedure described by the provisions of the Labour Act.

Members of the Supervisory Board are appointed, i.e. elected, to a four-year term. The term of office of each member of the Supervisory Board commences on the date of their election unless otherwise determined by an election resolution.

The Supervisory Board supervises business operations of Podravka d.d., and makes decisions on issues in their domain in accordance with the law, the Statute, i.e. the Articles of Association, of Podravka d.d., and the Rules of Procedure of the Supervisory Board.

More detailed information about the Supervisory Board and its members in the year 2018 can be found in the Podravka Group Annual Report for 2018, pp. 27-35, available on Podravka's website at

<https://podravka-cdn.azureedge.net/repository/files/8/1/81c6e6677dd17ce293c75a57430b7436.pdf>

1.3.1.3. Management Board

The Management Board consists of three to six members appointed by the Supervisory Board. The president and members of the Management Board must have a university degree and a minimum of five (5) years of work experience in management. The Management Board is appointed for a term determined by the Supervisory Board, but no more than five years, with the possibility of reappointment.

If the president and individual members of the Management Board are appointed in the course of the duration of the mandate of the existing Management Board, their mandate shall last until the expiry of the mandate of the Management Board as a whole. The mandate commences on the date of appointment of the Management Board unless otherwise stipulated in a decision of the Supervisory Board.

The president and members of the Management Board are appointed by the Supervisory Board. Each member of the Management Board is authorised to represent the Company individually and independently. All other Company affairs are managed by the president and members of the Management Board individually and independently on the basis of the division of tasks among members of the Management Board for specific areas of operation or scope of work. The manner of work and the division of tasks among Management Board members are determined by the Rules of Procedure of the Management Board, adopted by the Management Board. The Management Board, as the highest governing body, has no separately formed committees responsible for decision-making concerning the economic, environmental and social impacts.

More detailed information about the Management Board and its members in the year 2018 can be found in the Podravka Group Annual Report for 2018, pp. 36-41, available on Podravka's website at

<https://podravkacdn.azureedge.net/repository/files/8/1/81c6e6677dd17ce293c75a57430b7436.pdf>



1.4. STAKEHOLDER ENGAGEMENT

1.4.1. LIST OF INCLUDED STAKEHOLDER GROUPS

For the purpose of reporting for the year 2018, the Company has included the following stakeholder groups:

TABLE 6: LIST OF INCLUDED STAKEHOLDER GROUPS

LIST OF INCLUDED STAKEHOLDER GROUPS (in alphabetical order)	NAME OF INCLUDED STAKEHOLDER BY GROUP (in alphabetical order per group)
ACADEMIC, EDUCATIONAL, AND SCIENTIFIC INSTITUTIONS	Antun Nemčić Gostovinski Primary School Koprivnica, Braća Radić Primary School Koprivnica, College of Agriculture in Križevci, Đuro Ester Primary School Koprivnica, Effectus Academy, Faculty of Agronomy Osijek, Faculty of Agronomy Zagreb, Faculty of Agriculture Osijek, Faculty of Economics Osijek, Faculty of Economics and Business Zagreb, Faculty of Electrical Engineering and Computing Zagreb, Faculty of Food Technology and Biotechnology Zagreb, Faculty of Food Technology Osijek, Faculty of Organization and Informatics Varaždin, Faculty of Pharmacy and Biochemistry Zagreb, J.J. Strossmayer University of Osijek, Ruđer Bošković Institute, Secondary School Koprivnica, Smiješak Preschool Koprivnica, Sv. Josip Preschool Koprivnica, Tratinčica Preschool Koprivnica, Vocational School Đurđevac, Vrapčić Preschool Drnje, Trade School Koprivnica, University North –Koprivnica University Centre
BUYERS	City Pharmacy Zagreb, IKEA Hrvatska, Ljekarne Farmacia – Atlantik, Ljekarne Prima Pharme, Medika d.d., Phoenix Farmacija d.o.o.
CIVIL SOCIETY ORGANISATIONS	Association of Persons with Disabilities <i>Bolje sutra</i> from Koprivnica, Podravka Anglers Club, Podravka Association for Culture and Art, Podravka Bowling Club, Podravka Chess Club, Podravka Karate Club, Podravka Sport Shooting Club, Podravka Table Tennis Club, Podravka Wrestling Club, PULS Association, Red Cross branch in Koprivnica, Slaven Belupo Football Club
CONSUMERS	Potrošač - Croatian Consumer Protection Society
EMPLOYEES	Workers' Council of Belupo d.d., Workers' Council of Podravka d.d.
FINANCIAL COMMUNITY	Erste Group, European Bank for Reconstruction and Development (EBRD), Intesa Group, Privredna banka Zagreb d.d., Raiffeisen Group, Societe Generale Group, Unicredit Group
LOCAL COMMUNITY AND AUTHORITIES	City of Koprivnica, City of Umag, City of Varaždin, Koprivnica-Križevci County, Public Fire Brigade of the City of Koprivnica, Regional Energy Agency North

LIST OF INCLUDED STAKEHOLDER GROUPS (in alphabetical order)	NAME OF INCLUDED STAKEHOLDER BY GROUP (in alphabetical order per group)
MANAGEMENT	Management Board of Belupo d.d., Management Board of Podravka d.d.
MEDIA	Doma TV, Drava info, 24 sata, ePodravina.hr, FOX, Glas Podravine i Prigorja, Globus, Gloria (IN), Go to Digital, Hoteli, restorani, barovi (HRB), HRT, In Store, JA trgovac, Jutarnji list, klikaj.hr, Kopriva info, Nacional, Narodni radio, Nova TV, Otvoreni radio, Podravski list, Poslovni dnevnik, Progressive Magazine, Radio Antena, Radio Drava, Radio Koprivnica, RTL, RTL 2, RTL Kockica, Slobodna Dalmacija, Sportske novosti, Story, Večernji list, Vinkovačka TV
OWNERS AND SHAREHOLDERS	General Assembly of Podravka d.d.
PROFESSIONAL ORGANISATIONS	Association of Croatian Laboratories (CROLAB), Croatian Business Council for Sustainable Development (HR PSOR), Croatian Chamber of Economy (HGK), Croatian Chamber of Economy – Association for Corporate Social Responsibility (DOP), Croatian Chamber of Economy – Koprivnica County Chamber, Croatian Chamber of Pharmacists, Croatian Culinary Federation, Croatian Employers' Association (HUP), Croatian Employers' Association –Pharmaceutical Industry Association (HUP-UPL), Croatian Exporters' Association, Croatian Medical Chamber, Croatian Pharmaceutical Society, Croatian Society of Nutritionists, Podravka Handball Club s.d.d.
STATE ADMINISTRATION	Agency for Medicinal Products and Medical Devices (HALMED), Central Clearing Depository Company Inc., Croatian Financial Services Supervisory Agency (HANFA), Croatian Ministry of Agriculture, Croatian Ministry of Defense, Croatian Ministry of Health, Zagreb Stock Exchange Inc.
SUPPLIERS	Aero-tec d.o.o., Benussi d.o.o. Fažana, Croatia osiguranje d.d., DS Smith Unijapapir Croatia d.o.o., Dukat d.d. Zagreb, GKP Komunalac d.o.o., Grafičar d.d. Ludbreg, HEP ODS d.o.o., Hrvatski Telekom d.d., Ing inspekt d.o.o., IPROM d.o.o., Jadroagent d.d. Rijeka, KEMIS_TERMOCLEAN d.o.o., Koprivnica plin d.o.o., Koprivničke vode d.o.o., La Log d.o.o. Sesvete, Ligo grupa d.o.o., Microsoft Hrvatska d.o.o., Mikulić d.o.o. Matulji, Oprema Strojevi d.d., Piškornica d.o.o., Prehrambeno industrijski kombinat d.d. Rijeka, Sole proprietorship for transport services Transport Budiša Split, Radnik d.d., Ricardo d.o.o. Darda, SAP d.o.o., SGS Adriatica d.o.o., Siemens d.d. Zagreb, Silgan kovinska embalaža Ljubljana d.o.o., Tehnika d.d., Tetra pak d.o.o. Zagreb, TPZ d.o.o. Zagreb, Vetropack Straža d.d. Hum na Sutli, Zagrebinspekt d.o.o.
TRADE UNIONS	Podravka Concern Workers Union (SINPOD), Podravka Independent Trade Union (HUS), Trade Union of the Employed in Agriculture, Food and Tobacco Industry and Water Resources Management of Croatia (PPDIV Podravka)

1.4.2. COLLECTIVE AGREEMENTS

The Collective Agreement of the Podravka Group applies to all employees of Podravka d.d. and Belupo d.d. in the Republic of Croatia, including the Management Board and the management, and it has been concluded between the employer on one side and all three trade unions active in the Podravka Group on the other side: Trade Union of the Employed in Agriculture, Food Industry, and Tobacco Industry and Water Resources Management (PPDIV), the Podravka Independent Trade Union (HUS), and the Podravka Concern Workers Union - SINPOD.

Mirna d.d. Rovinj has a separate collective agreement, which applies to all employees, the Management Board and the management of the company as well, concluded with the Trade union of the employed in agriculture, food and tobacco industry and water resources management (PPDIV).

In 2018, negotiations were conducted within the Podravka Group between the employer's negotiation teams and the trade unions, resulting in the adoption of new measures which will further improve the material status and the rights of the Podravka Group employees starting from January 2019.

1.4.3. IDENTIFYING AND SELECTING STAKEHOLDERS TO BE ENGAGED

With the purpose of identifying and selecting stakeholders with whom to engage, the process of determining the contents of the report and topic boundaries started with a workshop of the Sustainable Development Report Drafting Team focused on the following topic: identification, selection and prioritization of the Podravka Group stakeholders.

The stakeholders of the Podravka Group are identified based on mutual influences. On that basis, from the standpoint of their respective organisational units, all members of the team carried out a dual qualitative stakeholder identification process:

- Identification of the persons, groups or organisations that could affect the operations of the Podravka Group, and
- Identification of the persons, groups or organisations affected by the operations of the Podravka Group.

In this manner, the members of the team identified more than 900 different persons, groups and organisations that could affect, or are affected by, the operations of the Podravka Group.

Thereupon, the members of the team prioritized the identified stakeholders of the Podravka Group, using the following two criteria to assess their relevance:

- The interest of identified stakeholders – the level of engagement and consistent activities carried out by the identified stakeholders to realize their interests in, and fulfil their expectations of, the Podravka Group, and
- The influence of identified stakeholders – the ability of the identified stakeholders to realize their interests in, and fulfil their expectations of, the Podravka Group.

In conclusion, in the course of the process described above, a total of 150 stakeholders of the Podravka Group have been selected and then included in the process of determining report contents and topic boundaries.

1.4.4. APPROACH TO STAKEHOLDER ENGAGEMENT

The Podravka Group included all stakeholder groups in the drafting of the Sustainable Development Report from the very beginning of the report preparation process. With the aim of collecting, examining and taking into account the stakeholders' legitimate expectations and interests, in the process of determining the contents of the report, the following steps were taken:

1. First, representatives of a total of 150 stakeholders of the Podravka Group were invited to a meeting held at the company's headquarters. This initiated a dialogue between the company and the stakeholders, with the stakeholders having the opportunity to express relevant expectations and interest in non-financial information.
2. A presentation from the meeting, with an Excel table intended for the stakeholders to express additional relevant expectations and interests for nonfinancial information in writing, was then e-mailed to all 150 stakeholder representatives invited to attend the Podravka Group stakeholder meeting.
3. In about ten following days, two more reminders were sent by e-mail to all 150 stakeholder representatives invited to attend the Podravka Group stakeholder meeting, with the aim of further encouraging them to put forward their relevant expectations and interests for non-financial information.
4. Subsequently, all 150 stakeholder representatives who were invited to attend the Podravka Group stakeholder meeting were included in the process of selecting and prioritizing the topics for the company's report on sustainable development.
5. Finally, two more reminders were sent by e-mail to all 150 stakeholder representatives who were invited to attend the Podravka Group stakeholders meeting, with the aim of further encouraging them to submit the completed form with a list of selected and prioritized topics.

1.4.5. KEY TOPICS AND CONCERNS RAISED

The following key topics and concerns have been raised through stakeholder engagement:

TABLE 7: KEY TOPICS AND CONCERNS PRESENTED BY STAKEHOLDER GROUPS

SUPPLIERS
Encouraging the use of recyclable packaging or packaging with procurement costs exceeding the costs of recycling; Reducing the use of single-use packaging that cannot be reused after consumption/use of the product; Reducing the use of multi-layer packaging that is more difficult to recycle; Placing emphasis on packaging optimisation for certain products, with the aim of reducing excess packaging; Mid-term plans to increase the presence in the existing markets and to expand into new markets so that the logistics staff would be able to prepare the capacities to meet the new needs; Maintaining or improving power supply reliability; Reconstructing some power plants owned by the company with the aim of maintaining power supply reliability; Continued use of natural gas as the primary energy source for the company's power plants, and maintaining or increasing natural gas consumption levels; Continuing with good business cooperation based on mutual understanding and cooperativeness; Using natural gas in the safest and most sustainable way; Timely performance of obligations by all sides; Supporting local manufacturing equipment vendors and ordering their goods; How much did the company invest in manufacturing equipment per year, and what is the percentage of locally procured manufacturing equipment?; Possibilities for joint development of manufacturing equipment for the company; Corporate security (relating to IT infrastructure management, primarily user identities); Preparing for potential questions from regulators, partners or users relating to GDPR as an area of special importance for the company; Market presence; Customer health and safety; Environmental protection; Occupational health and safety; Fight against corruption; Materials; Economic impact; Exchange of knowledge acquired in the framework of occupational safety, fire safety and environmental protection units; Exchange of knowledge acquired during maintenance activities and application of new technologies (LED vs. traditional lighting, end-user workplace satisfaction after improvement implementation, and similar); Conducting employee surveys when implementing changes in the workplace, and feedback on employee satisfaction; Is the company considering the possibility of using renewable sources to generate power for its own needs with the aim of reducing its power consumption and to identify as an eco-friendly manufacturer?
FINANCIAL COMMUNITY
The economic impact of the company on the local and the wider community, with special emphasis on the development of the Croatian component - domestic suppliers.
BUYERS
Description of the company's relationship with its buyers (pharmaceutical wholesalers or other distributors) functioning as intermediaries between the company and end buyers (consumers, patients); Publishing additional information about Belupo relating to material topics presented in the report; Publishing information about the most important projects carried out in cooperation with the colleagues from the Faculty of Food Technology and Biotechnology, and their impacts (especially quantifiable impacts).

LOCAL COMMUNITIES AND AUTHORITIES

What are the measures for fire prevention taken by the company, and are the prescribed measures applied in practice? Is fire prevention sufficiently funded in terms of investments?; What is the company's position with regard to the firefighters from the public fire brigades on duty in charge of facility entrances, and are investments being made to improve their working conditions?; Maintaining the highest environmental standards in the areas where production capacities are located (clean air, water, soil); The company's relationship with the environment; The manner in which the company intends to organize small farmers with the aim of producing raw materials required in its production cycle; The amount of thermal energy delivered to residential buildings in the local community of the company's headquarters in 2016 and 2017; Thermal and electric energy consumption at all company locations in the Koprivnica area; Details on the wood biomass power plant installed at Danica (capacity: thermal / electrical; generated energy).

MEDIA

Informing the expert community on achievements, news, and plans; Contents that promote product quality policy, positive impact on consumer health, and safety at work; Achieving customer satisfaction by delivering quality products; Taking into account, considering and balancing customer needs and expectations on one side and the needs and expectations of suppliers and workers on the other side; Efforts to ensure the satisfaction of all interested parties; Continuously reducing negative environmental impacts through preventive activities; Continuously introducing materials/ raw materials that generate less waste and thus reduce energy consumption during processing; Ensuring adequate working conditions for all employees in terms of health and safety; Engaging the employees and using their knowledge and experience in organisation development to the greatest possible extent; Recognizing employee contributions; Creating an environment that motivates the employees to put forth their best effort; Continuous employee training; Social responsibility; Reporting on the cooperation between Podravka and family farms in the Podravina and Prigorje area and on the quantities of acquired raw materials produced on local fields.

ACADEMIC, EDUCATIONAL AND SCIENTIFIC INSTITUTIONS

Continued donations for children in the local community; Does new product development include products with more health benefits, products that contribute to environmental preservation, products that improve consumer safety?; Are there any programmes aimed at promoting the employment of young engineers?; What about cooperation aimed at improving the level of expertise in the food industry?; Are there any programmes aimed at promoting life-long learning for workers and, if such programmes exist, what new knowledge would the workers like to acquire through life-long learning?; Are there any possibilities for promoting scientific research aimed at improving production efficiency, new product development, eco-friendly production and similar, to be co-funded by the company?; Increasing the involvement in the work of scientific institutions through projects, donations, joint workshops and life-long learning programmes; A more concrete and formalized co-operation with scientific institutions, which will not depend only on a few involved individuals; In addition to the listed activities in the past year, an overview of the goals for the following year; Including the following sustainability elements in the report: excellence, social impact and trustworthiness; Availability of requested products and information about marketed products; Maximising the use of "domestic products" in production; Operating without negative environmental impacts; Compliance with all environment-related laws and regulations; Willingness for and openness to dialogue; Informing and advising; Implemented measures necessary for ensuring safe working conditions for employees; Hiring needs of the company in the following period, and the possibilities of developing highly qualified workforce through the existing study programmes; Adapting the existing and developing new study programmes to meet the company's needs; Does the company intend to develop an organic (eco) product line?; Review of the menu for the Healthy Recess project.

CIVIL SOCIETY ORGANISATIONS

Continuing co-operation in organising on-premises blood donation campaigns and blood donor incentives for employees to reward their humanity and selflessness; Donating Podravka products near the expiration date or with damaged packaging to the social grocery store or public kitchens, to help persons in need and to avoid destroying food; Promoting volunteer work and including Podravka employees in the volunteer campaigns of the Koprivnica Red Cross with the possibility of organising corporate volunteering programmes; Corporate support for the activities of Podravka's Association of Volunteers PULS; Reporting on the activities carried out by the PULS Association in corporate electronic media; A section dedicated to the PULS Association on the company's website; Occasional use of the mascots Lino, Kviki and Šime in the activities of the PULS Association; Permission for the employees engaged as volunteers in the PULS Association to leave company premises during working hours, when needed; Incentives for employee volunteers, e.g. best volunteer award programmes and rewarding employees with time off for a certain number of activities performed.

PROFESSIONAL ASSOCIATIONS

Continuing and expanding cooperation with local suppliers and agricultural producers; Expanding production and creating new jobs in the local community; Continuing cooperation with regard to the scholarships for shortage occupations provided through the Foundation of the Croatian Chamber of Economy, Koprivnica County Chamber, for financial support for pupils and students; Company programmes and activities relating to the EU Circular Economy Package (the whole cycle from procurement and production to consumption and waste management – covering all activities aimed at reducing food waste); Company programmes and activities relating to the EU 2030 Climate and Energy Policy Framework (energy efficiency, increasing the share of renewable energy); Investments in the area of education and development of dual education; Supply characteristics with an emphasis on expanding the domestic supplier base for raw materials aimed at strengthening domestic primary production and creating higher- value products that reduce the environmental burden (shorter transport time, less packaging materials); Freedom of association and collective bargaining.

The Podravka Group responded to key topics and concerns raised by stakeholders in the course of the stakeholder engagement process in the following manner:

1. First, the team leader of the Sustainability Development Report Drafting Team examined all key topics and concerns raised, followed by research and consultation with all team members and their colleagues by e-mail.
2. Key topics and concerns raised were examined and discussed in a special workshop of the Sustainability Development Report Drafting Team.
3. Proposals for improving Podravka Group's business operations for senior management have been prepared.

1.5. REPORTING PRACTICE

1.5.1. ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The Podravka Group consists of the Company (Podravka d.d.) and the subsidiaries in which the Company has an ownership interest above 50% and control.

The list of entities included in the consolidated financial statements is publicly available and can be found in the Podravka Group Annual Report for 2018, p. 185, available on Podravka's website at

<https://www.podravka.hr/kompanija/investitori/financijska-izvjesca/>

1.5.2. DEFINING REPORT CONTENT AND TOPIC BOUNDARIES

1.5.2.1. Identifying relevant topics

After collecting stakeholders' expectations and interests, the team held a special workshop to examine and assess the topics raised in the wider context of sustainability and integrity with regard to:

- The significance of economic, environmental and social impacts; and
- The significance of the impact on shareholder's assessments and decisions.

On the basis of the team's considerations and assessments, a list of topic-specific GRI standards, presented in the following table, was used as a wider list of relevant topics for the Podravka Group Sustainable Development Report:

TABLE 8: NON-EXHAUSTIVE LIST OF TOPIC-SPECIFIC GRI STANDARDS

Economic series	200
201	Economic performance
203	Indirect economic impacts
204	Procurement practices
205	Anti-corruption

Environmental series	300
301	Materials
302	Energy
303	Water
306	Effluents and Waste
307	Environmental compliance
Social series	400
401	Employment
402	Labour/management relations
403	Occupational health and safety
404	Training and education
413	Local communities
416	Customer health and safety
417	Marketing and labelling

1.5.2.2. Selecting and determining the relative priority of material topics

With the aim of selecting material topics and determining their relative priority, after a meeting with the Podravka Group stakeholders, the team leader sent the prepared form for the selection of material topics and the evaluation of their priority level to the stakeholders and team members. The identification of material topics and the assessment of their priority has been carried out as follows:

- Identification of up to 5 material topics related to Podravka Group's sustainable development in 2018
- Prioritization of identified material topics related to Podravka Group's sustainable development using a 5-point rating scale (5 points – highest priority, 1 point – lowest priority).

Based on the form with a non-exhaustive list of topic-specific GRI standards, the process of identifying and prioritizing 5 material topics using a 5-point rating scale was carried out by:

- 42 representatives of stakeholders from different business, public and civil sector organisations, and
- 57 Podravka employees from different organisational units.

The team leader calculated the relative priority of material topics for the stakeholders (average assessment score awarded by the stakeholders) and the relative priority of material topics for the Podravka Group (average assessment score awarded by Podravka’s representatives), and created a ranking list of all material topics, starting from the highest-priority topic to the lowest-priority topic.

During the next team workshop, the team leader presented the ranking list based on the determined relative priority of material topics to the team members and proposed a threshold for topic materiality. Subsequently, the team analysed, assessed and discussed the proposed threshold, and proceeded to determine the relative priority of material topics.

After selecting material topics, a ranking list of selected material topics to be included in the 2018 Podravka Group Sustainable Development Report was created:

TABLE 9: SELECTED MATERIAL TOPICS AND THEIR DETERMINED RELATIVE PRIORITY FOR PODRAVKA GROUP STAKEHOLDERS AND PODRAVKA EMPLOYEES

RANKING	MATERIAL TOPICS FOR SUSTAINABLE DEVELOPMENT OF THE PODRAVKA GROUP IN 2018	Stakeholders - points awarded per material topic	Podravka employees - points awarded per material topic
1.	CUSTOMER HEALTH AND SAFETY	115	156
2.	ECONOMIC PERFORMANCE	55	103
3.	MATERIALS	47	102
4.	EMPLOYMENT	60	65
5.	WASTE	51	47
6.	TRAINING AND EDUCATION	49	43
7.	OCCUPATIONAL HEALTH AND SAFETY	33	50

Finally, the team members defined the boundaries of material topics by describing the areas where significant impacts of each material topic occur within and/or outside the Podravka Group, resulting from their own activities or as a result of business relations with other bodies.

1.5.3. LIST OF MATERIAL TOPICS

In the process of determining the content of the report, the following material topics for the 2018 Sustainability Development Report of the Podravka Group have been selected:

TABLE 10: LIST OF MATERIAL TOPICS

SUSTAINABILITY SERIES (DIMENSIONS)	SELECTED MATERIAL TOPICS
ECONOMIC	Economic performance
ENVIRONMENTAL	Materials
	Waste
	Employment
SOCIAL	Occupational health and safety
	Training and education
	Customer health and safety

1.5.4. RESTATEMENTS OF INFORMATION

In this report, there are no restatements of information provided in previous reports.

1.5.5. CHANGES IN REPORTING

In view of the fact that the 2018 Sustainable Development Report of the Podravka Group is the second sustainable development report prepared in accordance with the GRI Standards, there have been no changes in reporting.

1.5.6. REPORTING PERIOD

The reporting period for the information provided in the Sustainable Development Report of the Podravka Group for the year 2018 is the 2018 calendar year.

1.5.7. DATE OF THE LAST PUBLISHED REPORT

The most recent previous Sustainable Development Report of the Podravka Group was published on 29 October 2018 and prepared in accordance with the new GRI (i.e. Global Reporting Initiative) Standards on sustainability reporting.

1.5.8. REPORTING CYCLE

The reporting cycle for reporting on the sustainable development of the Podravka Group is annual.

1.5.9. CONTACT POINT FOR QUESTIONS REGARDING THE REPORT

For any questions regarding the report or its content, please contact::

Matija Hlebar

SUSTAINABLE DEVELOPMENT MANAGER

PODRAVKA d.d.

Corporate Quality and Sustainable Development

Sustainable Development

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1.5.10. CLAIMS OF REPORTING IN ACCORDANCE WITH GRI STANDARDS

This Sustainable Development Report of the Podravka Group has been prepared in accordance with the GRI Standards: Core Option.

1.5.11. GRI CONTENT INDEX

The GRI Content Index for this Report, which has been prepared in accordance with the GRI Standards: Core Option, is presented below.

TABLE 11: GRI CONTENT INDEX

GRI Standard	Disclosure	Page number and/or URL
GRI 101: Foundation 2016		
GRI 102: General Disclosures 2016	102-1 Name of the organization	Page 8
	102-2 Activities, brands, products, and services	Page 8-11
	102-3 Location of headquarters	Page 8
	102-4 Location of operations	Page 12

GRI Standard	Disclosure	Page number and/or URL
	102-5 Ownership and legal form	Page 12
	102-6 Markets served	Page 13-14
	102-7 Scale of the organisation	Page 15-16
	102-8 Information on employees and other workers	Page 17-20
	102-9 Supply chain	Page 20-23
	102-10 Significant changes to the organization and its supply chain	Page 23-24
	102-11 Precautionary approach	Page 24
	102-12 External initiatives	Page 25
	102-13 Membership in associations	Page 25-26
	102-14 Statement from senior decision-maker	Page 6-7
	102-16 Values, principles, standards, and norms of behaviour	Page 27-28
	102-18 Governance structure	Page 29-30
	102-40 List of stakeholder groups	Page 31-32
	102-41 Collective bargain agreements	Page 33
	102-42 Identifying and selecting stakeholders	Page 33-34
	102-43 Approach to stakeholder engagement	Page 34
	102-44 Key topics and concerns raised	Page 35-37
	102-45 Entities included in the consolidated financial statements	Page 38
	102-46 Defining report content and topic boundaries	Page 38-40
	102-47 List of material topics	Page 41
	102-48 Restatements of information	Page 41
	102-49 Changes in reporting	Page 41

GRI Standard	Disclosure	Page number and/or URL
	102-50 Reporting period	Page 41
	102-51 Date of most recent report	Page 42
	102-52 Reporting cycle	Page 41
	102-53 Contact point for questions regarding the report	Page 42
	102-54 Claims of reporting in accordance with the GRI Standards	Page 42
	102-55 GRI content index	Page 42-46
	102-56 External verification	Page 46
Economic performance		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page 47
	103-2 The management approach and its components	Page 47-48
	103-3 Evaluation of the management approach	Page 48
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	Page 48
Materials		
GRI 103: Management Approach 2016	1103-1 Explanation of the material topic and its boundary	Page 49
	103-2 The management approach and its components	Page 50
	103-3 Evaluation of the management approach	Page 50
GRI 301: Materials 2016	301-1 Materials used by weight or volume	Page 50-51
Waste		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page 51-52
	103-2 The management approach and its components	Page 52-53
	103-3 Evaluation of the management approach	Page 53

GRI Standard	Disclosure	Page number and/or URL
GRI 306: Effluents and waste 2016	306-2 Waste by type and disposal method	Page 53-54
Employment		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page 55
	103-2 The management approach and its components	Page 55-56
	103-3 Evaluation of the management approach	Page 56
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Page 57
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page 57-58
	401-3 Parental leave	Page 58-59
Occupational health and safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page 59-60
	103-2 The management approach and its components	Page 60-61
	103-3 Evaluation of the management approach	Page 61
GRI 403: Occupational health and safety 2016	403-1 Workers representation in formal joint management- worker health and safety committees	Page 61
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Page 62-63
Education and training		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page 63
	103-2 The management approach and its components	Page 64-65
	103-3 Evaluation of the management approach	Page 65
GRI 404: Education and training 2016	404-1 Average hours of training per year per employee	Page 66
	404-2 Programs for upgrading employee skills and transition assistance programs	Page 66-67

GRI Standard	Disclosure	Page number and/or URL
Customer health and safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	Page 67-68
	103-2 The management approach and its components	Page 68-69
	103-3 Evaluation of the management approach	Page 69-70
GRI 416: Customer health and safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Page 70

1.5.12. EXTERNAL VERIFICATION

1.5.12.1. Current practice with regard to seeking external verification for the report

The Podravka Group submits the request for external assurance, i.e. verification of its sustainability report, to the Croatian Business Council for Sustainable Development (HR PSOR). HR PSOR is a non-profit, private sector organization. It consists of 40 members who are representatives of the Croatian economy, bringing together knowledge, innovation and responsibility in seeking development paths that balance business success, social welfare and environmental protection.

1.5.12.2. Scope of obtained external verification

The external verification obtained from HR PSOR encompasses a written opinion of the verification body. The opinion constitutes an integral part of the sustainable development report, and contains conclusions on the quality of the report, the information presented in the report, and the applied reporting procedures.

1.5.12.3. Relationship between the company and the verification provider

The parent company Podravka d.d. is a regular member of HR PSOR, but does not have a representative in its governing body - the Executive Council. The verification body is a three-member committee of HR PSOR, formed separately for each sustainable development report. The committee consists of regular members of the Executive Council, who are independent of the company and therefore able to form objective and unbiased opinions and conclusions concerning the report and to publish their findings.

1.5.12.4. Involvement of senior management in seeking external verification of the report

Senior management was involved in seeking external verification of the Sustainable Development Report of the Podravka Group for 2018 through the participation of the Director of Corporate Quality and Sustainable Development.

II. TOPIC-SPECIFIC DISCLOSURES

2.1. ECONOMIC TOPICS

The economic dimension of sustainability concerns the impact of the Podravka Group on the economic conditions of its stakeholders at the local, regional, national and global levels.

2.1.1. MATERIAL TOPIC: ECONOMIC PERFORMANCE

2.1.1.1. Disclosures on the management approach

2.1.1.1.1. *Explanation of the material topic and its boundary*

The topic is material for the Podravka Group due to significant economic impacts on the shareholders, as well as the local, regional and national economic systems. The materiality of the topic is also reflected in the relevant expectations and interests of the stakeholders who put the focus of the company's business operations on its economic performance on both the local and the wider community.

With the aim of determining significant impacts related to its economic performance, the Podravka Group systematically monitors, analyses and presents its economic performance in order to communicate the significance of its impact on and contribution in the relevant industrial and geographical contexts (by sector, local, regional, national).

Significant impacts of economic performance occur in the entire Podravka Group, as well as beyond the organization, in local communities and countries where the Group operates, including its business partners.

2.1.1.1.2. *The management approach and its components*

The purpose of the management approach to the economic performance of the Podravka Group is to ensure the realization of economic performance plans.

The Podravka Group manages its economic performance with the aim of increasing the economic value of all its stakeholders. According to the Capital Market Act and the Rules of the Zagreb Exchange, the Group is required to inform the public about its financial results on a quarterly basis and to publish audited annual reports once a year. Its financial statements are prepared in accordance with International Accounting Standards.

The company does not communicate its economic goals publicly. They are considered a trade secret and confidential material information. Consequently, the company does not publish details pertaining to its economic goals, e.g. internal goal-planning policies.

Responsibility for managing the economic performance is assigned to the Management Boards of the companies from the Podravka Group.

As the parent company of the Podravka Group, Podravka d.d. has a dedicated Investor Relations department, that communicates with the investors on an ongoing basis, while the Management Board Office is in charge of communicating with all regulatory authorities. If any

grievances are received, the above-mentioned units communicate with other relevant units in the Company in an effort to respond to the grievances as soon as possible.

In the framework of its Investor Relations, the Podravka Group regularly participates in conferences and other meetings with the investors, where it communicates its business model and financial results. Within the limits of legal restrictions prohibiting the disclosure of privileged and price-sensitive information, answers to the investors' questions are provided during such meetings.

2.1.1.1.3. Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to economic performance include both internal and external mechanisms. Internal mechanisms include monthly business analyses, as well as comparisons of the planned economic performance with the achieved results. In the event of significant negative deviations, the necessary corrective actions aimed at achieving the planned economic performance are taken. External mechanisms involve collecting feedback from stakeholders, who communicate their positions and views through official and unofficial channels.

2.1.1.2. Disclosure: Direct economic value generated and distributed

The following figure shows the direct economic value generated and distributed by the Podravka Group in the 2016-2018 period:

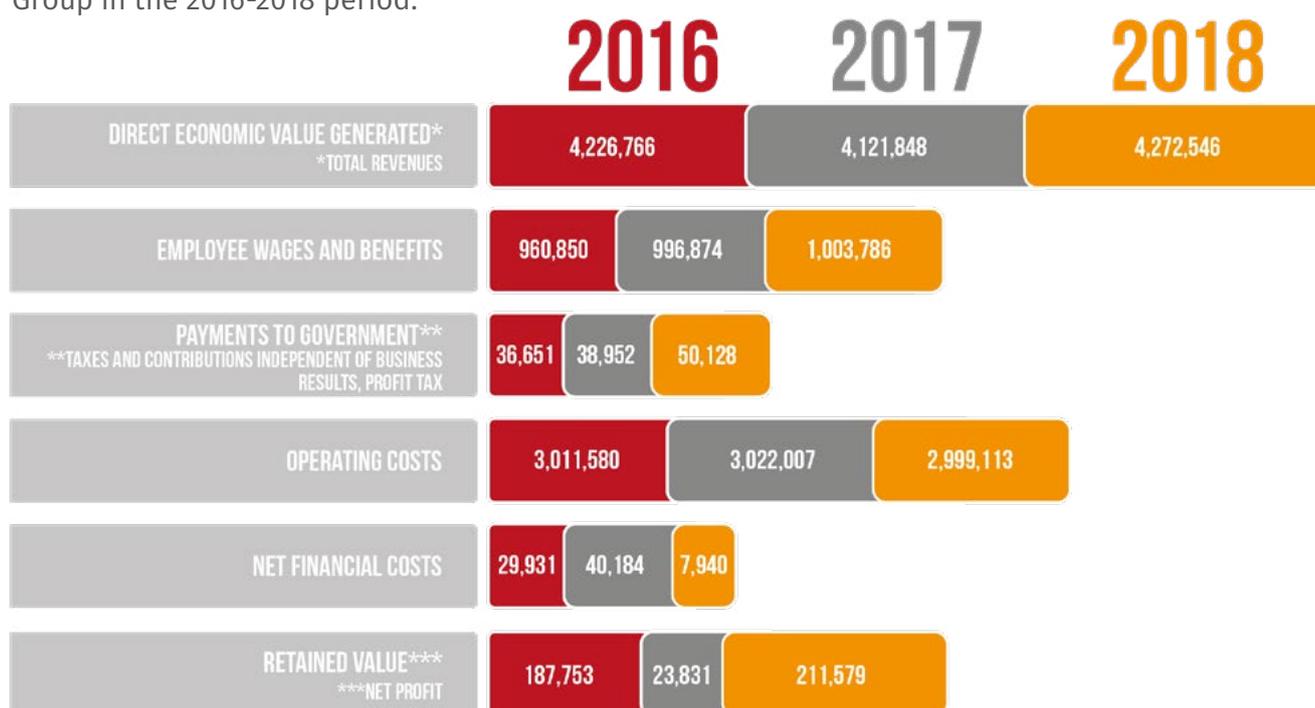


FIGURE 9: PODRAVKA GROUP'S DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

The financial reports with more detailed information on economic performance trends and Podravka Group's direct economic value generated and distributed are available on Podravka's website at

www.podravka.hr/kompanija/investitori/financijska-izvjesca

2.2. ENVIRONMENTAL TOPICS

The environmental dimension of sustainability of the Podravka Group concerns its impacts on living and non-living natural systems, including land, air, water, and ecosystems.

2.1.2. MATERIAL TOPIC: MATERIALS

2.1.2.1. Disclosures on the management approach

2.1.2.1.1. Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant environmental and economic impacts associated with materials, as well as the stakeholders' relevant interests and expectations that the company will take care of the following in a systematic manner:

- Encouraging the use of recyclable packaging or packaging with procurement costs exceeding the costs of recycling (especially when it comes to plastic packaging);
- Reducing the use of single-use packaging that cannot be reused after consumption / use of the product;
- Reducing the use of multi-layer packaging that is more difficult to recycle (e.g. foil over paper);
- Packaging optimisation for certain products, with the aim of reducing excess packaging (additional packaging on the product);
- Continuously introducing materials and raw materials that generate less waste;
- Developing new products that contribute to environmental preservation (packed in biodegradable packaging, with reduced packaging weight);
- Use of recyclable and/or biodegradable packaging materials, and
- Characteristics of the supply chain with an emphasis on expanding the domestic supplier base for raw materials with the aim of strengthening domestic primary production and creating higher-value products that reduce the environmental burden (shorter transport time, less packaging materials).

With the aim of determining significant impacts related to materials, the Podravka Group carries out regular quality controls for all materials, continuous assessments and evaluations of supplier relationships, master data management and material specification management, as well as analyses of price trend and achieved cost savings.

Significant impacts of materials, through the company's own activities or as a result of its business relationships with other entities, occur at all production sites within the Podravka Group (Podravka d.d., Belupo d.d., Farmavita d.o.o., Mirna d.d., Lagris a.s., Žito d.o.o., Intes Storitve d.o.o., Šumi Bonboni d.o.o.), as well as beyond the Group, in the local communities where the company's factories are located, at the locations of its major suppliers' seats and in their local communities.

2.1.2.1.2. The management approach and its components

The purpose of the management approach to materials is to avoid and reduce the negative impacts and enhance the positive impacts of the Podravka Group.

The management approach includes the Procurement Policy for Materials that applies to the entire company; the director of Procurement is responsible for approving this Policy. The Policy makes reference to international standards ISO 9001, FSSC 22000, IFS, BRC, ISO 14001, HACCP, OHSAS 18001 and GLOBALGAP.

The Podravka Group is oriented towards procurement of high-quality materials, and the materials management commitment is based on mandatory regulatory compliance.

The goals and purposes of materials management are: use of materials with beneficial effects on the human body and the environment; care for customer health; development of functional products; optimization of production processes, and systematic reduction of resource consumption in production.

The expected results of materials management include procurement of high-quality materials; reduction in the share and weight of packaging materials in the production of finished products; good communication with suppliers, and active cooperation with other organisational units in the company (Research & Development, Packaging Development, Marketing, Production).

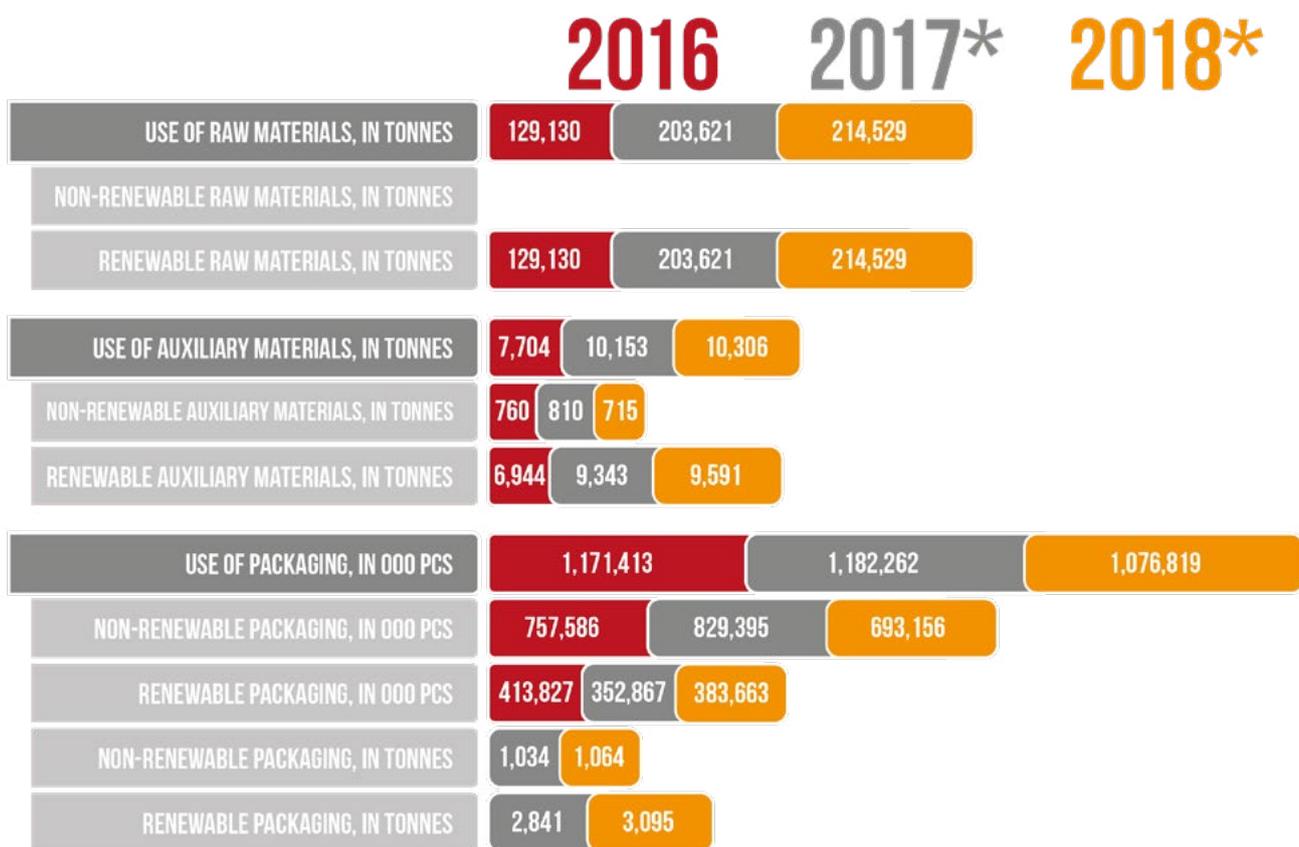
Responsibility for managing this material topic is assigned to the Procurement Sector.

2.1.2.1.3. Evaluation of the management approach

The mechanisms for evaluating the effectiveness of the materials management approach include regular quality controls for all materials; continuous assessments and evaluations of the relationships with the suppliers of these materials; master data management and material specification management, and analyses of price trend and achieved cost savings. Effectiveness monitoring is conducted on a daily, weekly, monthly and annual basis, and the responsibilities and scope of authority are clearly defined in the responsibility matrix for each monitoring process and method.

2.1.2.2. Disclosure: Materials used by weight or volume

The materials used to produce and package the products of the Podravka Group in the period from 2016 to 2018 include renewable and non-renewable materials; an overview of these materials is shown in the following figure:



*The 2017 and 2018 data also include the materials used to produce and package the products of the Žito Group, i.e. the materials used in the entire Podravka Group

FIGURE 10: MATERIALS USED TO PRODUCE AND PACKAGE THE PRODUCTS OF THE PODRAVKA GROUP

2.1.3. MATERIAL TOPIC: WASTE

2.1.3.1. Disclosures on the management approach

2.1.3.1.1. Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant environmental and economic impacts associated with waste, as well as the stakeholders' relevant interests and expectations that the company will take care of the following in a systematic manner:

- Donating products near the expiration date or with damaged packaging to the Social Grocery Store or the Public Kitchen, to help persons in need and avoid destroying food;
- Continuously introducing materials and raw materials that generate less waste;
- Developing new products that contribute to environmental preservation (packed in biodegradable packaging, with reduced packaging weight);
- Operating without negative environmental impacts;

- Minimizing the use of landfills in tonnes per year, taking care that no production waste ends up in landfills, except a minimum share of such waste in the mixed municipal waste;
- Reducing waste generation by adapting technological processes and by changing raw materials, packaging and other materials, as well as through education, without compromising product quality or increasing production costs;
- Efficient internal waste sorting system, as well as the engagement of authorized waste recovery service providers for each category of waste, and
- Managing waste and food waste reduction activities.

With the aim of determining significant impacts related to waste, the Podravka Group systematically tracks waste by type and quantity.

Significant impacts of waste occur within and beyond the Podravka Group, at its production sites in Croatia (Koprivnica, Varaždin, Umag, Rovinj) and Slovenia (Ljubljana, Lesce, Krško, Maribor, Trbovlje, Novo Mesto, Vrhnika, Gradišče).

2.1.3.1.2. The management approach and its components

Waste management in the Podravka Group is carried out through waste separation at source and temporary storage of waste in appropriate containers. Waste is delivered to authorized service providers for collection, transport, processing, recycling or disposal. Continuous improvement in terms of positive impacts is evident in reduced waste volumes. The approach to waste management improvement is based on continuous education and activities aimed at raising employee awareness, as well as finding new and more efficient waste management solutions.

The purpose of the management approach to waste in the Podravka Group includes waste avoidance (preventing waste generation), reduction (reducing the volume of municipal waste) and strengthening positive impacts (increasing the volume of usable waste separated from municipal waste).

The management approach to waste includes the Environmental Protection Policy, approved in 2014 by the Management Board President of Podravka d.d., which applies to the entire Podravka Group.

The commitment of the Podravka Group, as a waste generator, related to waste management is based on regulatory compliance and constant improvements beyond the requirements of legal regulations, where possible. In view of regulatory monitoring and continuous care for environmental protection, there were no recorded irregularities relating to compliance with environmental laws and regulations in 2018; consequently, no sanctions (fines or non-monetary sanctions) were imposed against the company.

The baseline for the goals and purpose of waste-specific management approach is based on systematic tracking of waste quantities by type and treatment method and taking into account the impact of waste disposal on local communities. The goals and purposes related to waste which are based on the Act on Sustainable Waste Management are mandatory, while others are voluntary.

Responsibility for implementing waste management activities with the purpose of complying with legal regulations on all locations is assigned to the directors of factories and organisational units at the sites.

The resources allocated for waste management include human and technological resources (waste containers and temporary waste storage areas) at all locations.

In 2018, the Podravka Group also focused on achieving a systematic improvement of the waste management system through long-term activities aimed at reducing negative impacts of waste on all locations of Podravka d.d. in Croatia. The activities are aimed at achieving compliance with waste management regulations and standards. They have been defined based on the targets set with the intention of improving the waste management system by tracking waste and preparing relevant reports.

2.1.3.1.1. Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach include inspection controls, internal and external audits, feedback from the stakeholders, and analyses of planned annual targets relating to waste.

2.1.3.2. Disclosure: Waste by type and disposal method

In 2018, the Podravka Group continued the efforts to improve its waste management system through a more efficient approach to waste sorting by placing waste separation containers in offices, reducing the input of materials and raw materials, and rationalizing the use of consumables, as well as through employee education activities, which resulted in a reduction in the volume of waste disposed at landfills compared the year 2017.

The total quantity of waste generated in 2017 was 4,256.45 tonnes (122.51 tonnes of hazardous waste and 4,133.94 tonnes of non-hazardous waste including 561.77 tonnes of municipal waste). The report only includes municipal waste generated by Podravka d.d. Koprivnica, Belupo d.d., Mirna d.d. Rovinj and the Kalnik Factory in Varaždin (starting from July 2018) due to the fact that the other counties use different measurement units and different calculation methods to express the volume of municipal waste.

In total, 60 types of non-hazardous and 34 types of hazardous waste were generated and then handed over to authorised waste collectors owning valid waste management permits in accordance with the provisions of the Sustainable Waste Management Act.

Waste generation in Podravka d.d. increased in 2018 compared to 2017. The increase in waste generation resulted from increased quantities of ash generated by the wood chip boiler installed in the industrial zone Danica Koprivnica that operated at higher capacity levels than in 2017. Additionally, in 2018, greater quantities of scrap iron and other scrap metals were generated due to machinery repair and space cleaning activities.

An overview of the total weight of hazardous waste, with a breakdown by disposal method, in the Podravka Group in the Republic of Croatia for the period from 2016 to 2018 is shown in the following figure:

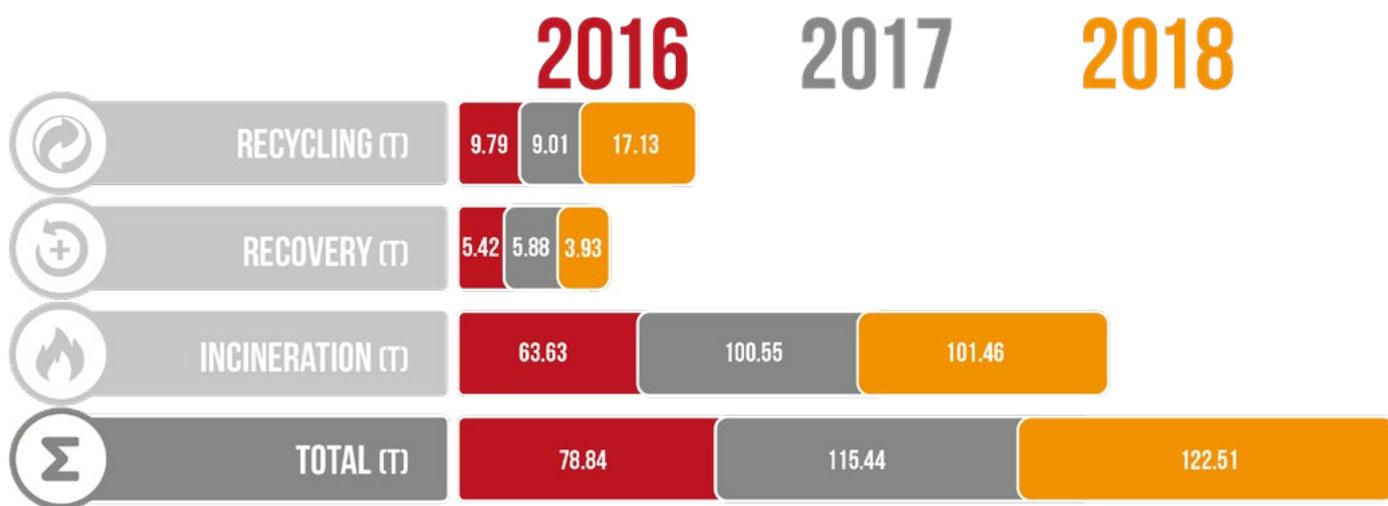


FIGURE 11: TOTAL WEIGHT OF HAZARDOUS WASTE BY DISPOSAL METHOD IN THE PODRAVKA GROUP IN CROATIA

An overview of the total weight of non-hazardous waste, with a breakdown by disposal method, in the Podravka Group in the Republic of Croatia for the period from 2016 to 2018 is shown in the following figure:

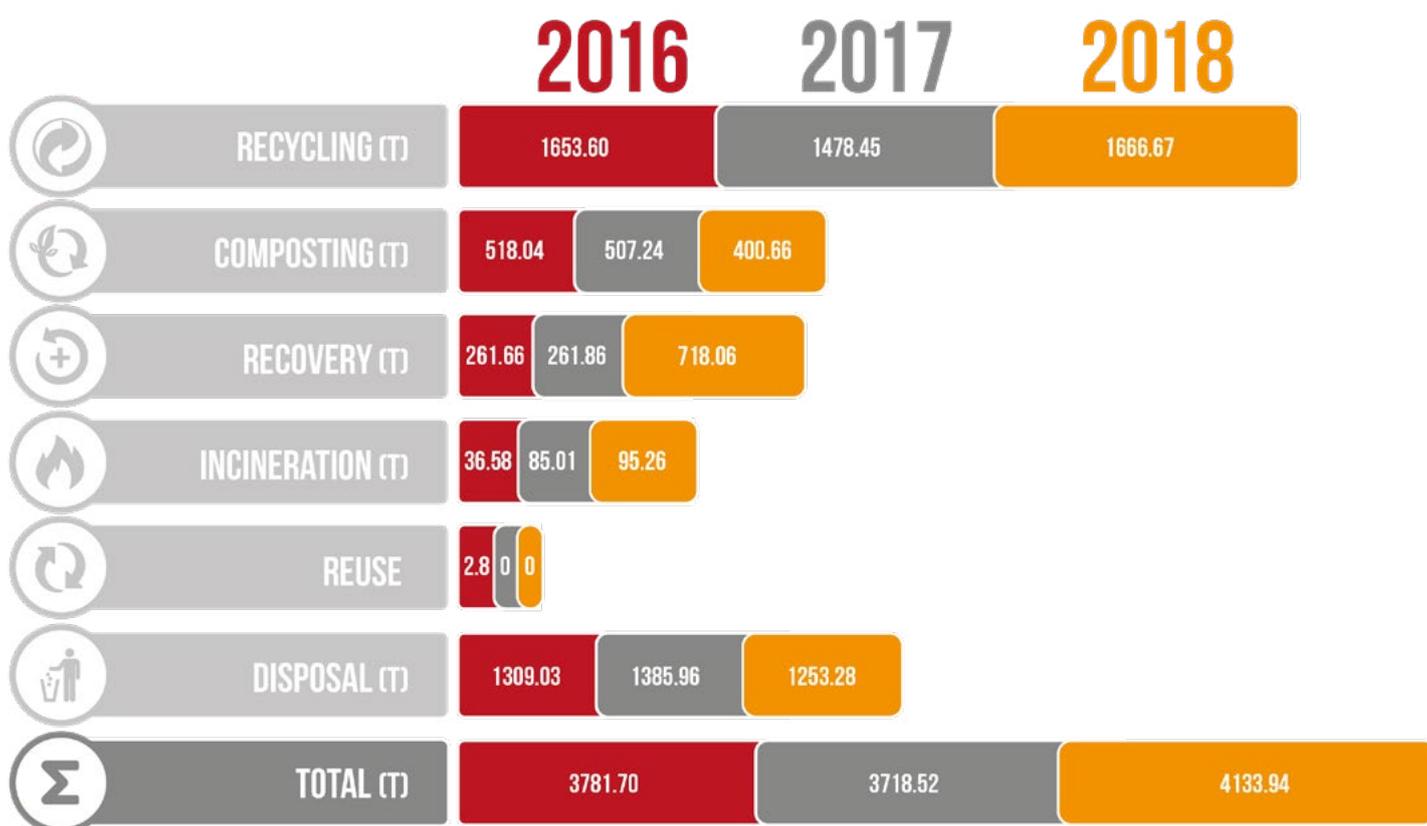


FIGURE 12: TOTAL WEIGHT OF NON-HAZARDOUS WASTE BY DISPOSAL METHOD IN THE PODRAVKA GROUP IN CROATIA

Data on waste processing and disposal methods have been collected directly from the waste collectors and their waste management permits, which may result in data inconsistencies between the above-presented data and the final waste disposal data.

2.3. SOCIAL TOPICS

The social dimension of sustainability concerns the impact that the Podravka Group has on the social systems within which it operates.

2.3.1. MATERIAL TOPIC: EMPLOYMENT

2.3.1.1. Disclosures on the management approach

2.3.1.1.1. *Explanation of the material topic and its boundary*

The topic is material for the Podravka Group because it reflects the company's significant social impacts associated with employment, local community growth and development, as well as the stakeholders' relevant interests and expectations that the company will take care of the following in a systematic manner:

- The rates of new employee hires, vacancies, sought-after professions, and
- Keeping the stakeholders informed on the rates of new employee hires throughout the year as a basis for developing school curricula and providing occupational choices for young people, providing timely information on vacancies and the possibilities of submitting job applications.

With the aim of determining significant impacts related to employment, the Podravka Group systematically develops, monitors, and analyses the Recruitment Plan which describes its short- and long-term hiring needs.

Significant impacts of this material topic occur across the Podravka Group, as well as beyond it, in all markets and countries where it operates.

2.3.1.1.2. *The management approach and its components*

The purpose of the management approach is to enhance the positive impacts of the Podravka Group by ensuring the presence of a sufficient number of workers with different types and levels of education with the aim of achieving business objectives.

Long-term recruitment planning is defined in the Podravka Group Strategy and in its recruitment plan for the current year, with regard to the main determinants of recruitment planning in terms of the required number of employees depending on the development of individual sectors and markets. The Recruitment Plan is approved by the Management Board. To secure the resources needed to achieve business goals, the plan specifies the required profiles and the number of employees per organisational unit, as well as annual costs related to new employees. The recruitment plan refers to the financial plan in connection with labour costs – including a list with information on personal income, benefits and similar. The plan is developed per employee and for one calendar year. The recruitment process in the Podravka Group is outlined in the

document Recruitment Process of the Podravka Group, which makes reference to the standards ISO 9001 and ISO 33000, IFS, BRC and HALAL BAS 1049.

The recruitment and hiring process is aligned with business needs and carried out in accordance with the legal regulations currently in force in the countries where the company operates.

The goal and purpose of employment is to ensure the optimal number of employees who have the necessary knowledge, skills and competencies as specified in their job description.

In accordance with Podravka's strategy, the responsibility for managing employment is assigned to the directors of the Human Resources and Legal department, as well as the Podravka Management Board.

The employees of the Human Resources and Legal Department are involved in the recruitment and hiring process; they carry out the required recruitment, selection, and administrative tasks involved in the process.

All available recruitment channels are used when recruiting employees and the selection process involves the collection and review of job applications, semi-structured interviews, and psychological testing. Vacancy announcements do not include any elements or indications of discrimination based on age, gender, religion, or other types of discrimination. The announcements explicitly state that both sexes may apply. All applicants are notified of the results of the selection process no later than 60 days of the vacancy announcement.

Special emphasis has been put on employment transparency. The process of recruitment and hiring is systematic, with the priorities set in accordance with business needs. Furthermore, Podravka actively hires special groups of people, e.g. persons with disabilities, with the purpose of creating a positive impact on the local community and promoting employment of groups characterised by lower employability.

2.3.1.1.3. Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to employment include internal and external audits, various internal analyses and reports (number of employees; number of vacancy announcements published and their success rate), communication with external stakeholders involved in the recruitment process and taking their feedback into account.

The results of the evaluation of the management approach to employment include audit reports that identify possible areas for improvement with regard to the hiring system and process. The recommendations from these reports are taken into account and measures aimed at their implementation are taken.

Adjustments to the management approach as a result of the evaluation of the management approach to employment include changes in the allocation of resources (internal employee transfers, internal turnover to fill the vacancies which haven't been filled externally). Specific actions include cooperation with schools and universities that provide young people with the education necessary to meet Podravka's hiring needs, cooperation with other institutions that can support the vacancy filling process, and cooperation with the media, i.e. newspapers, web-portals, radio and TV stations, with regard to vacancy announcements.

2.3.1.2. Disclosure: New employee hires and employee turnover

An overview of the total number and rate of new employee hires in the Podravka Group in the Republic of Croatia in 2018, by age group and gender, is provided in the following table:

TABLE 12: TOTAL NUMBER AND RATE OF NEW EMPLOYEE HIRES IN THE PODRAVKA GROUP IN THE REPUBLIC OF CROATIA IN 2018, BY AGE GROUP AND GENDER

Company Name	Number of employees as of 31 Dec 2018	New hires in 2018							Terminated employment contracts in 2018						
		By gender		By age			Total new hires	%	By gender		By age			Total new hires	%
		M	F	< 30	30-50	Over 50			M	F	< 30	30-50	Over 50		
PODRAVKA d.d.	3,066	120	84	108	90	6	204	6.65	133	147	90	149	41	280	9.13
BELUPO d.d.	976	32	48	51	28	1	80	8.20	20	16	5	12	19	36	28.69
Pharmacies Deltis Pharm d.o.o.	45		2		1	1	2	4.44		6	1	4	1	6	80.00
MIRNA d.d.	237	60	83	58	54	31	143	60.34	27	42	20	31	18	69	2.53
TOTAL Podravka Group in Croatia	4,324	212	217	217	173	39	429	9.92	180	211	116	196	79	391	1.60

Note: The number of employees does not include seasonal workers or workers with suspended employment rights.

2.3.1.3. Disclosure: Benefits provided to full-time employees that are not provided to temporary or part-time employees

In the course of 2018, no part-time employment contracts were concluded in the Podravka Group, and all rights provided to full-time employees are provided to part-time employees as well.

An overview of the benefits provided to all employees of the Podravka Group in the Republic of Croatia is provided in the following table:

TABLE 13: BENEFITS PROVIDED TO ALL EMPLOYEES OF THE PODRAVKA GROUP IN THE REPUBLIC OF CROATIA

Employee Benefits	
No part-time employment contracts were concluded in the Podravka Group in the course of 2018, and all rights provided to full-time employees are provided to part-time employees as well.	
1. Life insurance	Members of the Management Board only
2. Health care	In accordance with the Act on Mandatory Health Insurance
3. Disability and invalidity coverage	Lump sum payment in accordance with the Collective Agreement of the Podravka Group
4. Parental leave	Mothers are entitled to a lump sum payment per new-born baby in accordance with the Collective Agreement of the Podravka Group

Employee Benefits

5. Retirement provision	In accordance with the Collective Agreement of the Podravka Group
6. Stock ownership	Senior management only
7. Other – in accordance with the Collective Agreement of the Podravka Group:	
- Voluntary pension insurance premiums in the amount of HRK 1000 per year	
- Collective accident insurance premiums	
- Commuting expenses covered (intra-city and inter-city)	
- Christmas gifts for children up to 15 years of age	
- Jubilee bonus for years of service	
- One-time bonus for the use of vacation leave, for Christmas and Easter	
- Financial aid in varying amounts:	
a) in case of death of a close family member (spouse, child, or parent)	
b) disability	
c) remediation of consequences of a natural disaster or fire in the residential building where the employee lives	

2.3.1.4. Disclosure: Parental leave

All employees, regardless of the type of their employment relationship and gender, are entitled to all rights related to maternity and parental leave in accordance with the Act on Mandatory Health Insurance and with the Maternity and Parental Benefits Act.

An overview of the right to parental leave of the employees of the Podravka Group in Croatia in the 2016-2018 period is provided in the following table:

TABLE 14: OVERVIEW OF THE RIGHT TO PARENTAL LEAVE OF THE EMPLOYEES OF THE PODRAVKA GROUP IN CROATIA

Year	Number of employees who returned to work after parental leave		Total	Rate	Number of employees who were still employed 12 months after their return to work		Total	Stopa
	Women	Men			Women	Men		
Podravka d.d.								
2018	25	7	32	100				
2017	24	1	25	100	22	1	23	92.00
2016	14	2	16	100	13	2	15	93.75
MIRNA d.d.								
2018	1	-	1	100	1	-	1	100.00
2017	1	1	2	100	1	-	1	50.00
2016	-	-	-	-	-	-	-	-

Year	Number of employees who returned to work after parental leave		Total	Rate	Number of employees who were still employed 12 months after their return to work		Total	Stopa
	Women	Men			Women	Men		
BELUPO d.d.								
2018	16	-	16	100	15	-	15	93.75
2017	18	-	18	100	18	-	18	100.00
2016	15	-	15	100	15	-	15	100.00
Ljekarne Deltis pharm								
2018	3	-	3	100	3	-	3	100.00
2017.	1	-	1	100	1	-	1	100.00
2016	4	-	4	100	4	-	4	100.00

As regards the Podravka employees who returned from maternal or parental leaves in the second half of 2018, due to the fact that the time that elapsed between their return and the preparation of this report was shorter than 12 months, they could not have been included in the number of employees who were still employed 12 months after their return.

2.3.2. MATERIAL TOPIC: OCCUPATIONAL HEALTH AND SAFETY

2.3.2.1. Disclosures on the management approach

2.3.2.1.1. Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant social impacts associated with occupational health and safety, as well as the stakeholders' relevant interests and expectations that the company will take care of the following in a systematic manner:

- Safety at work,
- Ensuring adequate working conditions for all employees in terms of health and safety,
- Taking measures necessary to ensure safe working conditions for employees,
- Maintaining the highest environmental standards in the areas where production capacities are located (clean air, water, soil) and
- Occupational health and safety.

With the aim of determining significant impacts related to occupational health and safety, analyses and controls of health and safety risks, as well as analyses of incidents in the area of health and safety, are carried out in the Podravka Group.

Significant impacts relating to this material topic occur in the entire Podravka Group and beyond the organization in all local communities where business activities are carried out according to the employer's instructions.

2.3.2.1.2. The management approach and its components

The purpose of the management approach to occupational health and safety is to avoid the negative and enhance the positive impacts of the Podravka Group.

The company's internal Occupational Safety Rules define the manner in which occupational safety activities and procedures are organised and implemented, specifying the rights, obligations and responsibilities of all stakeholders in the occupational health and safety system. The Management Board of Podravka d.d. (the employer) transferred the implementation of occupational safety activities to its authorized persons.

An independent specialist department for occupational safety, as the expert advisory body, performs occupational safety tasks for the employer in accordance with Article 21 of the Occupational Safety Act.

In addition to the independent specialist department for occupational safety, the following bodies play an important role in the application and implementation of occupational safety rules:

- Workers' council,
- Unions,
- Occupational safety committees,
- Employer's authorized persons,
- Employees and their occupational safety commissioners.

The employer concluded a number of contracts for the performance of those tasks related to occupational safety that it cannot perform itself due to the fact that it is unable to meet the applicable requirements specified in legal regulations (inspections and tests: working equipment, installation, radiation, working environment, and different types of education and training programmes), with authorised natural persons, institutions or companies authorized to perform such tasks.

The commitment with regard to occupational health and safety management is based on compliance with the Occupational Safety Act, as well as the relevant by-laws, and extends beyond these legal requirements; also, it meets the international standard for occupational health and safety management systems ISO 45001.

The goals and purpose of the management approach to occupational health and safety include safe work conditions with a view to preventing workplace injuries, occupational diseases, work-related diseases, accidents at work, risks at the workplace, and other material and non-material damage suffered during work and related to work.

The employer and its authorized persons are responsible for managing this material topic, and this responsibility arises from the Occupational Safety Act.

Annual plans and programmes related to occupational safety measures, identifying all necessary resources, are proposed by the independent specialist department for occupational safety.

2.3.2.1.3. Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to occupational health and safety include supervision by the employer and its authorised persons, as well as competent bodies (the Labour Inspectorate in the area of occupational safety); internal supervisions conducted by occupational safety experts, external audits conducted by a certification body in accordance with all standards to which the company is certified (ISO 9001, IFS, BRC, HACCP, HALAL); external buyer's audits, and internal audits of the company's management system. Monitoring the effectiveness of the management approach is normatively regulated at the national level and by an internal act - the Occupational Safety Rules.

The results of the evaluation of the management approach to occupational health and safety include the competent authorities' reports and decisions; written reports on internal supervisions conducted by occupational health experts; certificates of compliance with standards and norms, and internal audit results. The supervision and audit reports identify potential areas for improvement in the system, as well as defects to be removed.

2.3.2.2. Disclosure: Workers' representation in formal joint management-worker health and safety committees

The President of the Management Board of Podravka d.d. adopted the Decision on the Establishment and Appointment of Occupational Safety Committees, establishing occupational safety committees at the level of organisational units (sectors, departments, factories). In these committees, the committee president is the employer's authorized person, i.e. director of the organisational unit for which the committee is founded. Proposals on the establishment of the committees and on the appointment of their members are submitted to the Management Board of the Company by the independent specialist department for occupational safety, in cooperation with the employer's authorized persons.

At its session, the occupational safety committee, as the employer's advisory body, discusses the implementation of occupational safety measures aimed at a continuous improvement of occupational safety. As a rule, the occupational safety committee meets 4 times a year, but its sessions may be convened more frequently if required (e.g. in case of serious injuries at work and similar). The Occupational Safety Act specifies the composition of the committees with the following members as a minimum: president of the committee, occupational health physician, occupational safety specialist, and the employees' commissioner for occupational health.

2.3.2.3. Disclosure: Types and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

An overview of the types and rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities in the Podravka Group in the period from 2016 to 2018, with a breakdown by gender, is shown in the following table:

TABLE 15: OVERVIEW OF THE TYPES AND RATES OF INJURY, OCCUPATIONAL DISEASES, LOST DAYS, ABSENTEEISM AND TOTAL WORK-RELATED FATALITIES IN THE PODRAVKA D.D. FROM 2016 TO 2018, BY GENDER

Ord. No.	TYPE OF DATA	PODRAVKA d.d.		
		2016	2017	2018
1.	Average number of employees	3357	3196	3159
2.	Average number of employees – men	1880	1753	1716
3.	Average number of employees – women	1477	1442	1443
4.	Total number of injured workers	66	68	79
5.	Total number of injured workers – men	42	36	43
6.	Total number of injured workers – women	24	32	36
7.	Total number of minor injuries at work	54	59	76
8.	Total number of serious injuries at work	12	9	3
9.	Total number of deaths in the workplace	0	0	0
10.	Number of workers who died from injuries sustained at the workplace en route to the healthcare institution	0	0	0
11.	Number of injuries per 1000 employees	19,66	21,28	25,01
12.	Number of injuries per 1000 employees in the branch of economic activity	15,57	17,86	18,58
13.	Share of the number of injuries in the company compared to the branch of economic activity	1,26	1,19	1,35
14.	Number of cases of occupational diseases per 10,000 workers compared to the branch of economic activity	0	-	0
15.	Number of cases of occupational diseases	0	1	0
16.	Number of cases of occupational diseases per 10,000 employees	0	-	0
17.	Number of disturbances to work processes that could have caused detrimental consequences to the health and safety of employees	0	0	0
18.	Total number of lost work days due to injuries in the workplace	1740	1521	2089
19.	Number of lost work days due to minor injuries	930	1050	1841
20.	Number of lost work days due to serious injuries	810	471	248

The ESAW (European statistics on accidents at work) methodology has been used for the purpose of reporting injuries at work. When an injury at work occurs, after the employee receives medical attention and care, the injured employee's immediate superior notifies the independent specialist department for occupational safety and the occupational safety commissioner. The independent specialist department for occupational safety determines the circumstances of the injury, i.e. the facts, and proposes measures aimed at reducing the risk or removing the cause of the injury.

The procedure for accidents and injuries at work is specified in the relevant internal instructions. Each injury at work is reported to the competent institution (using the Work Injury Report form) and recorded in the relevant database using the prescribed documents (EK-3). All documents relating to occupational safety are stored in an electronic database, and all interested parties in the Company have limited access to that database via the occupational safety portal available on the website of Podravka.

Regular data analyses of injuries over a 5-year period are carried out, and the analyses reports are presented, inter alia, at the sessions of the occupational health committee too.

2.3.3. MATERIAL TOPIC: TRAINING AND EDUCATION

2.3.3.1. Disclosures on the management approach

2.3.3.1.1. Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant social impacts related to employee training and education, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Engaging the employees and using their knowledge and experience in the organisation development to the greatest possible extent;
- Recognizing employee contribution;
- Providing continuous education;
- Programmes aimed at promoting life-long learning for workers;
- Increasing the involvement in the work of scientific institutions through projects, donations, joint workshops, and life-long learning programmes; and
- Investing in education and development of dual education.

The Podravka Group examines and analyses the scale of investment in training and education with the aim of determining significant impacts related to employee training and education.

Significant impacts of this topic occur across the Podravka Group, as well as beyond it, in all local communities and countries where it operates.

2.3.3.1.2. *The management approach and its components*

The purpose of the management approach to employee training and education is to enhance the positive impacts of the Podravka Group.

In the Podravka Group, the activities related to education are carried out on the basis of identified employee education needs and in accordance with the education process FO-HR-041-R11, which makes reference to the standards ISO 9001 and ISO 33000, IFS, BRC and HALAL BAS 1049. The education process document is available on Podravka's website and is periodically revised. It also lists all the legal frameworks regulating the education process. All obligations and duties of the participants are clearly listed in the education process and they are in line with the law.

The purpose of education process is to achieve, maintain and increase the competence level (knowledge and skills) of the workers with the aim of fulfilling work process requirements and job tasks in the best possible manner; the process sets out uniform procedures and specifies the order in which they are carried out within the planning process in connection with education-related needs, requests, approvals, realisation and monitoring.

The education process includes all forms of education, as well as the situations where the need for employee education (internal and external) exists, in all organisational units and companies of the Podravka Group in line with the Podravka Group Strategy. The process involves defining and planning educational needs; submission of applications; progress of the education process; tracking the employees and the course of the process; and recording the results of education. In the associated companies of the Podravka Group in Croatia and abroad, the responsibility lies with the organizational units where the process unfolds, in line with the strategy of the Podravka Group, according to the same principles as in the parent company and the legal regulations of the country in which the company operates.

The education process involves the adoption of three plans:

- Plan of education needs is a document drafted by the sector directors for the specific business areas for which they are responsible, based on the information on the development needs of the employees in that unit, e.g. assessment of employees' success and potential. It contains specific information on the education needs in the forthcoming year (type of education, type of programme, number of attendees).
- Annual plan of education needs is a document drafted in the organizational unit Human Resource Management on the basis of the information from the Plan of education needs for individual business areas and the HR plan based on the needs for employee development and organizational units as detected by the HR department itself. This plan contains specific information on the education needs at the level of the Podravka Group in the forthcoming year (type of education, number of attendees, education costs).
- Annual education plan and budget is a document drafted by Human Resource Management in line with the Annual plan of education needs (type of education, attendees, total education budget) and adopted in its entirety by the Management Board; this official document serves as the basis for carrying out activities in the area of education throughout the year.

The structured development path in the Podravka Group begins from the trainee programme, entitled SHAPE. Through the application of expert knowledge, development of skills, and participation in projects with the support of experienced mentors, trainees are being prepared to work independently and to contribute to the company.

The development of young people does not end with the trainee programme, but continues through the SHAPE UP development programme, directed at developing self-management competencies and strengthening links and cooperation among young people.

Employee development aimed at high-potential employees with high work efficiency is defined and developed in a structured manner through the programme 'Recipe for Excellence', which encompasses the company's internal MBA programme. Through their work on the projects, the programme participants can strengthen their business knowledge and experience.

The internal sales academy, entitled SCORE, develops sales competencies of the sales staff, builds a proactive consumer-focused culture, and contributes to further development of cooperation.

A significant focus is put on internal knowledge transfer via two programmes – 'We know, we share, we grow', where the employees share their professional knowledge and skills from their field of expertise, and 'Knowledge on a platter', intended for the development of personal skills of employees.

The possibility for the employees to attend expert study programmes is provided every two years in a transparent manner; every effort is made to recognize and reward the best among them throughout the year.

In order to ensure a competitive edge and to monitor new trends in the industry, experts are continually encouraged to attend professional seminars and conferences in Croatia and abroad.

2.3.3.1.3. Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to employee training and education include the prescribed process monitoring methods and criteria (participants evaluate the education and training programmes, their usefulness and applicability for everyday work, as well as the education providers). The responsible persons are required to monitor the criteria, and, accordingly, where necessary (greater variances or other nonconformities), take the necessary corrective and/or prevention activities, and keep the necessary records. At the end of the year, an analysis of all provided educational programmes based on participant evaluation and an analysis of education service providers are carried out by Human Resources. Additionally, annual internal and external audits of the Education Process are performed once a year.

The results of participant evaluations and service provider evaluations are useful when selecting future education service providers. If any inadequacies are identified, we notify the relevant service providers thereof directly, giving them the opportunity to improve their services. Evaluation forms are available on the intranet. We found that using a 1-5 point scale was not the best option due to its similarity to the school grading system and decided to use a 1-4 point scale, which will be implemented during the next process revision.

All necessary adjustments are made as the need arises, and process revisions are carried out in accordance with identified needs.

2.3.3.2. Disclosure: Average hours of training per year per employee

An overview of average hours of training per year per employee in the Podravka Group in Croatia in the 2016-2018 period is shown in the following table:

TABLE 16: OVERVIEW OF AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE IN THE PODRAVKA GROUP IN CROATIA

	2016		2017		2018	
	Podravka d.d.	Belupo d.d.	Podravka d.d.	Belupo d.d.	Podravka d.d.	Belupo d.d.
Average hours of training per employee	27.70	47.50	20.57	54.30	23.05	51.27
Average hours of training per female employee	22.75	48.70	21.93	45.71	24.55	42.28
Average hours of training per male employee	19.50	46.40	19.38	67.21	21.75	65.09

Note:

1. Podravka d.d. includes data for the associated companies in Croatia - Podravka d.d., Danica d.o.o., Ital Ice d.o.o., Lero d.o.o., Podravka Inženjering d.o.o., Mirna d.d.
2. Belupo d.d. includes data for the associated companies in Croatia - Belupo d.d., Ljekarne Deltis Pharm

2.3.3.3. Disclosure: Programmes for upgrading employee skills and transition assistance programmes

The programmes for upgrading employee skills and transition assistance programmes in 2018 included:

TABLE 17: PROGRAMMES FOR UPGRADING EMPLOYEE SKILLS AND TRANSITION ASSISTANCE PROGRAMMES

Ord. No.	Structured development programmes - outline
1.	FORMAL EDUCATION (applications for study programmes)
2.	DEVELOPMENT PROGRAMME FOR TRAINEES AND NEW EMPLOYEES (Welcome to Our Table)
	General presentation – basic information and processes
	Presentation of the Podravka Group's organisational structure, presentation of employee rights, corporate presentation
	Presentation of the UP department
	TRAINING: Communication skills and proactivity (Self-efficacy; self-esteem and how to improve it; taking responsibility; taking initiative; readiness for change; proactive behaviour at work; proactive strategic behaviour)

Ord. No.	Structured development programmes - outline
	TRAINING: Presentation skills (Preparing effective presentations; audience engagement techniques; laws of perception governing visual presentations; non-verbal communication during presentations; managing your own emotional state before and during a presentation; unexpected situations)
3.	MENTORSHIP
	Development programme for mentors
	TRAINING: MENTORSHIP AND THE ROLE OF A MENTOR – knowledge transfer
	TRAINING: Communication skills for mentors, feedback
4.	DEVELOPMENT PROGRAMME – SALES OPERATIONS
5.	SOFT SKILLS DEVELOPMENT
6.	IT COURSES – INTERNAL
7.	SCHOLARSHIPS FOR STUDENTS AND PUPILS
8.	LEGAL – occupations in the energy sector, hazardous chemicals, forklift operator training, safe work methods...)

2.3.4. MATERIAL TOPIC: CUSTOMER HEALTH AND SAFETY

2.3.4.1. Disclosures on the management approach

2.3.4.1.1. Explanation of the material topic and its boundary

The topic is material for the Podravka Group due to significant social impacts related to customer health and safety, as well as the stakeholders' reasonable interests and expectations that the company will take care of the following in a systematic manner:

- Positive impact on consumer health,
- Achieving customer satisfaction by delivering quality products,
- Developing new products with greater health benefits (bioactive products, products with a reduced amount of preservatives and/or salt), and
- Developing new products that enhance customer safety (using intelligent packaging).

A healthy diet is the foundation for good health. In its mission and vision statement, Podravka has committed itself to improving the quality of life for its customers on a daily basis. In line with the current recommendations aimed at fostering health preservation and helping change bad eating habits at national, European and global levels, it was in 2014 that the Podravka Group adopted its Nutritive Strategy, with an emphasis on managing the nutritional quality of its products for the period 2014 to 2024.

The objectives of the Nutritive Strategy are to reduce the amounts of table salt and sugar and completely remove trans-fatty acids from our products on one hand, and to enrich our products with health-promoting ingredients like probiotics, prebiotics, vitamins, and minerals. We developed our own nutrition criteria, validated in cooperation with the Faculty of Food Technology and Biotechnology of the University of Zagreb, for all of our product categories taking into account their share in the daily dietary intake and taking into consideration both national and international public health guidelines. We are constantly striving to improve the recipes for our existing and new products with the aim of providing new, nutritionally valuable options without compromising on quality and taste.

In the process of developing food products for babies, toddlers and children, we pay special attention to nutritional needs of these sensitive age groups. Products intended for the elderly are also being developed, as well as products for the population with special dietary needs, products with a positive impact on the digestive system and aimed at maintaining a healthy body weight, and products that help improve the customers' diet in line with the current guidelines that support a healthy lifestyle. We are also developing a range of products based on the Mediterranean diet with the aim of promoting a traditional diet in a large part of Croatia.

Our Nutritive Strategy is focused on delivering on our promises to the consumers of developing and offering health-promoting products and providing services aimed at improving the quality of life.

All employees involved in new product development are responsible for nutritional quality management which comprises systematic activities defined in the actions plans that cover the existing and new product lines.

The mechanisms for monitoring the effectiveness of nutritional quality managements arise out of the action plans defined on the basis of the number of modified and new products aligned with the Nutritive Strategy. Effectiveness monitoring mechanisms are based on systematic monitoring via the IT model and "manual monitoring" using the internal records of the relevant departments.

The impacts of this material topic occur in the entire the Podravka Group as well as beyond it, in all countries where it operates.

2.3.4.1.2. The management approach and its components

The purpose of the management approach to customer health and safety is to avoid the negative and enhance the positive impacts of the Podravka Group.

The management approach includes the Food Safety and Quality System Policy, and the GMO Policy. These policies apply to the entire company, and the President of the Management Board is responsible for their approval.

The policies make reference to international standards ISO 9001, FSSC 22000, IFS and BRC. The most recent revisions of the Food Safety and Quality System Policy and the GMO Policy were published on 7 October 2016 and on 21 December 2015, respectively.

Podravka mainly focuses on producing high-quality and safe products in accordance with good manufacturing practice and the principles of quality and food safety management. The commitment to customer health and safety management extends beyond regulatory compliance, meeting the requirements of international standards ISO 9001, FSSC 22000, IFS and BRC.

The goals and purposes of customer health and safety management are mandatory according to the Food Act and the associated regulations, as well as the international standards applied by the company with regard to:

- Maintaining and improving the existing food safety and quality system;
- Maintaining and improving communication with the customers and interested parties in the food chain;
- Continuous employee development, and
- Implementation of sustainable development principles.

The expected results are: production of high-quality and safe products; meeting the needs of consumers and customers; ensuring employee satisfaction and good communication with suppliers, buyers and interested parties in the food chain.

Responsibility for managing this material topic is assigned to the department of Business Quality and Sustainable Development, and it is linked to performance assessments.

The company has grievance mechanisms in place, i.e. prescribed processes for addressing and resolving complaints and product recalls, that specify the method of work and complaint resolution. Each complaint is handled separately, and the responsibilities and the scope of authority of individual stakeholders within and outside the company (Complaint Teams, Product Recall Teams) are specified in the procedures. The procedures include a list of criteria for process monitoring (i.e. complaint analysis).

Specific actions of the Podravka Group with regard to customer health and safety management concern Podravka's Nutritional Strategy for the period 2014-2024. The relevant activities are systematic and long-term; they are prioritized based on risk assessments. They are part of the due diligence process and aimed at avoiding negative impacts. Moreover, they are based on international norms and standards.

2.3.4.1.3. Evaluation of the management approach

The mechanisms for monitoring the effectiveness of the management approach to customer health and safety include supervision by the competent authorities (veterinary and sanitary inspection); external audits conducted by a certification body in accordance with all standards to which the company is certified (ISO 9001, IFS, BRC, HACCP, HALAL), external buyer's audits, and internal audits of the company's management system. Each management system document (processes, work instructions) specifies the mechanisms for monitoring the effectiveness of each company process.

The results of the evaluation of the management approach to customer health and safety include the competent authorities' reports and decisions; certificates of compliance with standards and norms, and internal audit results. Supervision and audit reports identify potential areas for improvement in the system, as well as non-conformances to be removed.

The adjustments to the management approach as a result of the evaluation include changes to the method of work in accordance with the evaluation.

2.3.4.2. Disclosure: Assessment of the health and safety impacts of significant product and service categories

The Podravka Group performs continuous assessments of all significant product categories to improve the impacts on customer health and safety.

For that reason, an additional 23.2 tonnes of salt and 184 tonnes of sugar have been removed from the product line in 2018, as shown in the following figure:

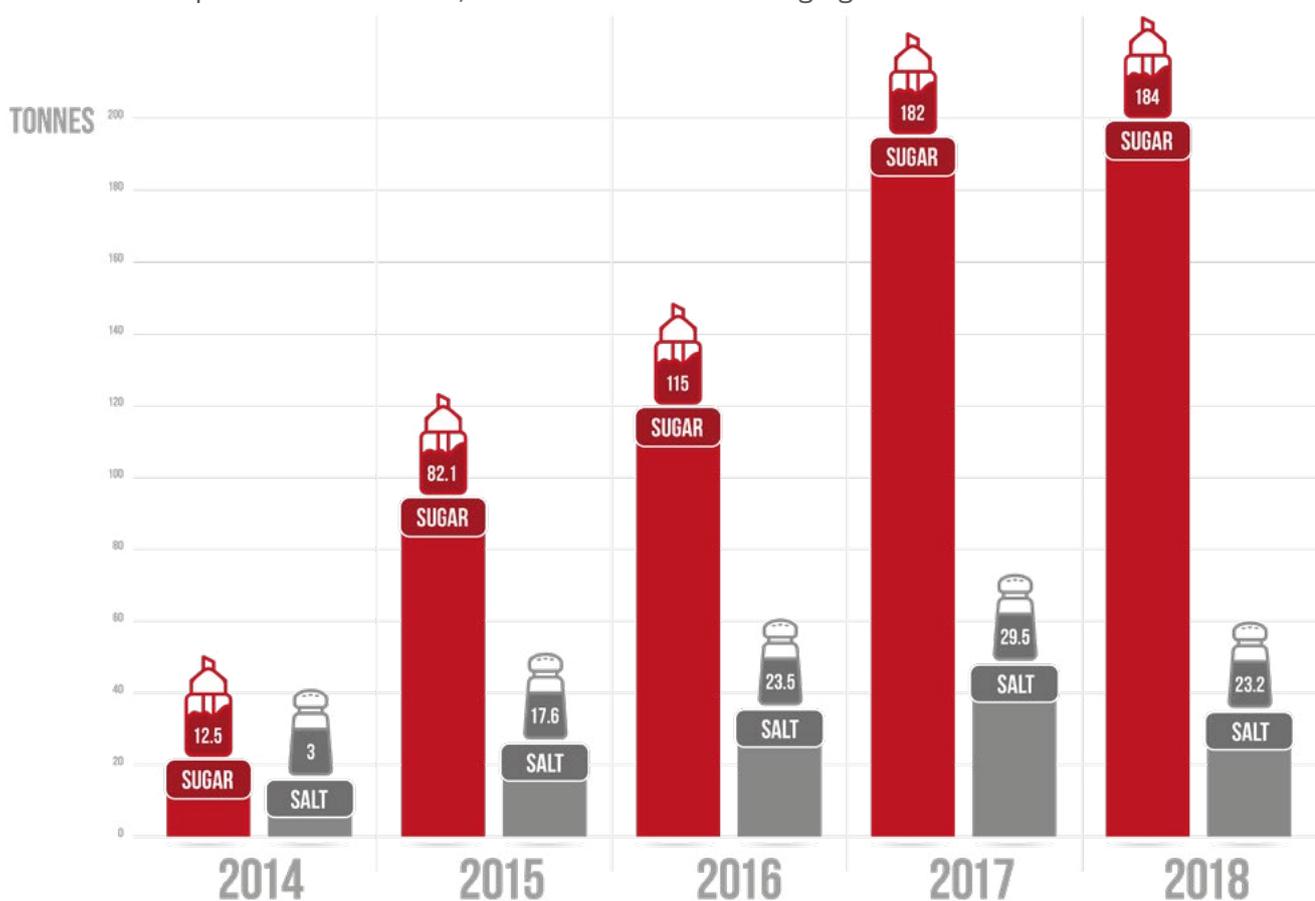


FIGURE 13: EFFECT OF THE IMPLEMENTATION OF THE PODRAVKA GROUP NUTRITIVE STRATEGY IN TERMS OF IMPROVED IMPACT ON CUSTOMER HEALTH AND SAFETY

In the observed 5-year period, 96.7 tonnes of salt 575.6 tonnes of sugar have been removed from our product line.

Trans-fats have been removed from the entire assortment of breakfast cereals, creamy spreads and snacks.

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V. REPORTING TEAM

The members and the leader of the Reporting Team that prepared the Sustainable Development Report of the Podravka Group for the year 2018 are as follows:

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VI. IMPRESSUM

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VII. EXTERNAL VERIFICATION OF THE COMMITTEE OF THE EXECUTIVE COUNCIL OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

The Sustainable Development Report of the Podravka Group for the year 2018 has been prepared in accordance with the Standards of the Global Reporting Initiative (GRI): Core Option. The report is clear and well-structured, and it follows the requirements for individual disclosures specified in the GRI Standards: Core Option precisely. The report provides a clear overview and explanations of the selected material topics, describing the company's impacts and how they are managed.

For the year 2018, Podravka selected Customer Health and Safety, Economic Performance, Materials, Employment, and Waste as 5 key material sustainability topics, reporting thereon in accordance with the GRI Standards: Core Option. With this report, Podravka reaffirmed its commitment to sustainable development and demonstrated that it is aware of its overall material impacts, which are responsibly managed by the company.

It is evident that the company puts special focus on the topic related to the supply chain, employment, education and training, as well as occupational safety; this demonstrates the excellence of Podravka's corporate standards and shows that the company recognizes the importance of these topics within the framework of its sustainable development in the long-term on both the national and the international market.

The approach to consumer health and safety management aims at avoiding the negative impacts and enhancing the positive impacts of Podravka. The company performs continuous assessments of the impact of significant categories and services on customer health and safety, which have been focused on sugar and salt reduction in accordance with its Nutritive Strategy in the previous period.

As in the previous two reports, special attention has been paid to shareholder engagement and the process of defining the material topics. The report provides a detailed and clear overview of the process, giving its readers an insight into the company's stakeholder engagement methods, as well as its approach to stakeholder feedback and prioritization of material topics. Podravka's efforts to engage a large and truly representative number of stakeholders are commendable. The Committee is of the opinion that the stakeholder engagement process described and well-elaborated in Podravka's report is the best example provided in the reports of Croatian companies. In order to improve transparency and make the report easier to understand, we suggest including proposals to be accepted and elaborated by Podravka seeing that the comprehensive list is too extensive and therefore abstruse.

Despite the fact that the stakeholder engagement process is particularly praiseworthy, the biggest improvement has been achieved in the area of the Management Approach Disclosures, which provide an excellent overview of all relevant topics, thus significantly improving the quality of the entire report.

Reporting could be further improved in the following period by including key topics and addressing open issues in accordance with the company's goals and the identified areas for further improvement with regard to sustainable development.

It would also be interesting to see how the Podravka Group applies the precautionary approach, especially as regards the company's investments in green food processing technologies, as well as the goals of and trends relating to the Podravka Nutritive Strategy 2014-2024 over the years.

The scope of the message of the President of the Management Board could also be improved by including a short outline of all Podravka's sustainability-related activities, i.e. activities aimed at reducing the risk of adverse impacts. Podravka should not only describe its leading position by presenting an outline of its strategic orientation but also, given the company's experience in sustainability reporting, integrate its financial and non-financial reporting, which would surely be a major challenge but, if implemented, it would also constitute an added value in reporting and underscore the importance of sustainable operations for the company.

Despite indicating some areas for improvement - and there is always room for improvement - it should be noted that the quality of reporting is very high, which demonstrates Podravka's maturity and experience when it comes to understanding sustainability challenges and integrating the relevant topics into its strategic development projects. We hereby thank Podravka for another informative, easy-to-read and interesting report.