

Arcor Group Sustainability Report, 2005



**Arcor Group
Sustainability Report, 2005**

Message from the President of Arcor Group

In 1951, when a group of young entrepreneurs founded a candy factory in Arroyito, a small town in the province of Cordoba, Argentina, they created something bigger than what today is one of the most important industrial conglomerates in Latin America. They founded a corporate philosophy that promoted economic progress together with social development and the conservation of the Earth's resources.

The spirit of that foundation has remained unchanged throughout the years. For over half a century, we have conducted our business in the hope of playing an active role in the development of the communities we are now a part of.

This is reflected in our decisions, attitude and policies. One example worth mentioning is the social investment projects we have started - that we have carried out through the Arcor Foundation for the last 14 years, and more recently through the Arcor Brazil Institute as well - which have benefited over a million children.

There are more examples of these policies: our significant investments in the professional development of the 18,000 associates which form part of Arcor Group's global staff, our leadership in environmental commitment, our solid relationship with our sales channels, the continuous development of our customers and suppliers, our excellent consumer service, and our active and constant participation in different councils, organizations and forums for the discussion of the private sector's role in economic, social and environmental development.

We have built a solid reputation and we are known as a company that develops its business operations in an ethical, transparent and socially responsible manner. This is what makes Arcor and its people proud, but it is also a major commitment.

In 2005, we decided to further this development, to remain true to the tradition that began over fifty years ago in a small town in Argentina.

More precisely, the Group established a Corporate Social Responsibility (CSR) Program. This program integrates the Company's different operations into one social program related to its business. Specifically, we want to make CSR a guideline for our corporate activities.

This program will help strengthen the Company's social profile, broaden the impact of its actions and consolidate its bonds with the different groups it works with.

It is in within the framework of these policies that we have prepared Arcor Group's first Sustainability Report, which reflects the Group's operations and results in 2005, together with the challenges we face in the consolidation of a socially responsible company.

We have yet a long way to go, and we are aware of this. The CSR is not a temporary program, but a permanent process, and we are convinced that it will increase the value of our business and of those who work with us. We have adopted a model of development based on the creation of economic, social and environmental value.

This report reflects our commitment, our continuation of Arcor's tradition. We hope that you enjoy it.

Luis A. Pagani
ARCOR Group

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Chapter I

Arcor Group's Profile

Bringing good taste to the world

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Arcor Group Today

- Arcor Group is the world's top candy producer.
- It has 35 plants in Latin America, all of which are considered to be first-rate in their category.

Plants	Country
27	Argentina
4	Brazil
3	Chile
1	Peru

- Arcor Group produces over 2 million kilograms [*about 4,409,245 pounds*] of products a day.
- It has 18,000 associates all over the world. It has become one of the most important industrial employers in Argentina.

Because of its international orientation, Arcor Group's top level management is comprised of specialists of different cultures and origins. These professionals interpret the needs of consumers worldwide and create working teams to provide the best answer in the shortest time.

- In addition to its production units in South America, Arcor Group has offices in Bolivia, Canada, Colombia, Ecuador, Spain, USA, Mexico, Paraguay, Uruguay and Venezuela.
- It exports its products to over 120 countries worldwide. It is the main confectionery exporter in Argentina, Brazil and Chile, and the main candy exporter in Peru.
- Arcor's production units comply with ISO 9000 and ISO 14000 standards.

- Top regional brands such as Butter Toffees, Mogul, Bon o Bon, Águila, Sonrisas, and Criollitas, among others, are part of Arcor Group.
- Together with Danone Group, it has formed Bagley Latinoamérica S.A., the largest cookies corporation in South America.
- It is vertically integrated for strategic inputs.
- It is the main producer of corrugated cardboard in Argentina.
- It is a large sugar producer. Its production at La Providencia refinery in Tucumán, Argentina amounts to 120,000 tons a year.
- It is one of the main milk producers in Argentina.

It has	
7	dairy farms
2,900	dairy cows
It produces	
90,000	liters of milk/day
26,000,000	liters of milk/year

- Arcor Group is the main Argentine producer of grain alcohol.
- In 2005, its turnover amounted to USD 1,301 million.

Arcor Group has decided to face the challenge of bringing good taste to the world by becoming Latin America's top cookie and confectionery producer and a solid international player.

Arcor Group's History

In 1951, a group of pioneers led by Fulvio Salvador Pagani founded Arcor: a candy factory for producing quality food products at a fair price for consumers all over the world.

Arcor developed its main businesses through steady growth and focused on producing confectionery products, cookies, chocolates and food products. It also began performing different industrial activities and became vertically integrated with a clear goal: providing the Company with strategic inputs.

This is how it became a leading group in the national production of raw materials and packaging, and a top manufacturer of mass market products in Latin America. Arcor became the world's number one candy producer and the largest cookie manufacturer in South America through Bagley Latinoamerica S.A., a company formed by Arcor Group and Danone Group.

In order to consolidate its growth in the international markets, Arcor Group established business units all over America and Europe. By means of a successful retail distribution system, which is also applied in other regions, it markets its products in over 120 countries in all five continents. This has allowed Arcor Group to consolidate itself as the main confectionery exporter in the area. Likewise, its continuous participation in the most important international trade shows helps to promote its growing product lines and to strengthen commercial bonds with its customers all over the world.

Arcor Group is a world leader in this sector and Latin America's top producer, with a turnover of 1,301 million dollars and over 1,000 million dollars in accumulated investments over the past eleven years. Its leadership is based on sustainable process management, the systematic search for continuous progress, and operational flexibility, all of which allow Arcor Group to offer immediate answers. This is why it has a group of hardworking specialists in each field who develop renowned brands for each consumer segment.

The Foundations of our Activities

Arcor Group is considered one of the main "multi-Latin" companies in the area, and is an example of internationally-oriented business.

This leadership is based on a set of factors which are characteristic of the Group's operations and tradition:

- Its policy of exportation and constant reinvestment of profits in industrial, technological and commercial development.
- The commitment of all of its associates.
- Its creation of a successful retail distribution model in Argentina, which has been applied in other countries of the area.
- The extension of its brands and the constant creation of new products. Arcor Group believes in a new role in the world for Argentina's industry and that of the region, maintaining its constant commitment to quality, innovation and the consolidation of each of its brands.
- The vertical integration of its strategic inputs allows the Group to maintain strict control over its products' components and to provide the best quality at the fairest price.
- The development of sustainable process management.
- Its systematic contribution to the creation of human and social capital.

Arcor Group Philosophy, Vision and Values

From the beginning, the group of pioneers that founded Arcor shared a philosophy which constituted the basis of the company's actions in accordance with the values and principles that still guide its business operations today. This is how Arcor was able to create an "Arcor Culture", a culture whose organizational dynamics are based on the consolidation of common corporate goals, which is reflected in its commitment to "bringing good taste to the world".

The attitudes and actions of Arcor Group can be seen in the company's mission and vision, and more recently, in its Ethics Code and Code of Conduct, which are used to put its mission and vision into practice.

Mission

To give people throughout the world the opportunity to enjoy quality products at a fair price, creating value for our shareholders, associates, customers, the community, suppliers, and the environment by means of sustainable process management.

Vision

To be the Number 1 confectionery and cookie company in Latin America and to consolidate our international market share.

Values

- Integrity
- Commitment
- Reliability

Arcor's Development

From a group of pioneers to a top multinational company

1951 Arcor was founded on July 5.

1958 It produced 60 thousand kilos of confectionery products a day.

1959 It started supplying itself with strategic inputs.

1960 Arcor opened a flexible packaging plant in Villa del Totoral, Córdoba, Argentina.

1964 It started exporting.

1970 It opened a plant in Tucumán, Argentina. / It took part in the ISM trade show for the first time in Cologne, Germany.

1972 It opened a food products plant in San Rafael, Mendoza, Argentina.

1975 It opened a cookie plant in Villa del Totoral, Córdoba, Argentina.

1976 It opened its offices in Paraguay.

1978 It opened a food products plant in San Pedro, Buenos Aires.

1979 It opened its offices in Uruguay.

1980 Cartocor S.A. was founded with the opening of a corrugated cardboard plant in Entre Ríos, Argentina.

1981 It opened its offices in San Pablo, Brazil with through the acquisition of Nechar Alimentos Ltda.

1989 It opened its offices in Santiago de Chile through the acquisition of Alimentos Indal.

1990 It started its business operations in Bolivia.

1991 The Arcor Foundation was created as a result of the Group's social responsibility policies.

1993 Mr. Luis A. Pagani became the President of Arcor Group. / It acquired Aguila Saint, an Argentine chocolate company. / It opened its offices in USA.

1994 It opened a chocolate plant in Colonia Caroya, Córdoba, Argentina. / It established a sugar refinery called La Providencia in Tucumán, Argentina.

1995 It opened a model cookie plant in Salto, Buenos Aires, Argentina.

1996 It opened a confectionery plant in Chancay, Peru.

1997 It opened a third corrugated cardboard plant in Luján, Buenos Aires, Argentina. / It acquired LIA, a renowned Argentine cookie company. / It opened the Arcor Museum in Arroyito, Córdoba, Argentina.

1998 It acquired Dos en Uno, a leading Chilean cookie and confectionery company. / It became the world's number one candy producer. / It opened its offices in Ecuador.

1999 It opened a chocolate plant in Bragança Paulista, Brazil. / It renewed its corporate image designs.

2000 Luis A. Pagani, President of Arcor Group, became the first Latin American businessman to be accepted into the NCSA's Candy Hall of Fame. / It opened new offices in Mexico and Colombia. / New Distribution Center in Chile.

2001 Arcor's 50th anniversary. / New offices in Canada. / Luis Pagani became the first non-American businessman nominated for the Kettle Award, granted by the Candy Industry magazine. / ArcorSales.com was created, a mass consumer e-business site, which made it a world pioneer in this type of activity. / It signed a production agreement with Brach's, a top American company. / It acquired the following Brazilian brands from Nestlé: Kid's, Poosh, Amor, Pirapito and 7 Belo.

2002 It opened its offices in Europe. / It signed a production and marketing agreement with Nestlé Argentina S.A.

2003 Cartocor S.A. received the Total Production Maintenance Award in Japan. / Arcor do Brasil launched the Tamar-Ibama Project, one of the most outstanding scientific and environmental projects today. / Arcor Group became one of Wal-Mart's 50 strategic suppliers worldwide, and was recognized as the best supplier in Argentina.

2004 It opened the third Converflex flexible packaging plant in Luján, Buenos Aires, Argentina. / The Arcor Brazil Institute was founded. / New e-commerce online sites: ArcorBuy and ArcorNet. / It started producing juices.

2005 Bagley Latinoamérica S.A., the largest cookie company in South America, was created through Arcor Group's alliance with Danone Groupe. / Cartocor S.A. acquired a state-of-the-art machine, the first one to be operating in the world. / Arcor started producing ice-cream.

Corporate Governance

Arcor SAIC's governing body is the Shareholders' Meeting, where every common class A share grants its holder the right to five votes, and every common class B share grants its holder the right to one vote. In each case, as well as in the cases established in the last paragraph of Section 244 of the Argentine Business Associations Law, for the election of Regular and Alternate Statutory Auditors, all common shares, including those conferring multiple votes, grant their holders the right to one vote each.

Arcor Group Leadership and Management

1. The Board of Directors

Arcor SAIC is directed and managed by a Board of Directors currently composed of nine Regular Directors and two Alternate Directors, as set forth in a resolution issued by the Shareholders' Meeting. Directors remain in office for three years, and may be indefinitely reelected. According to the Corporation's Bylaws, the Board has extensive powers to manage the business of Arcor SAIC. The Directors meet when convened by the Chairman, no less frequently than every three months, and record their resolutions in a minutes book to that effect duly registered as established in the Argentine Code of Commerce.

The Board of Directors of Arcor SAIC is currently composed of the following members:

Chairman	Luis Alejandro Pagani
Vice chairman	Alfredo Gustavo Pagani
Secretary	Jorge Luis Seveso
Regular Directors	José Enrique Martín Hugo Enrique Lafaye Antonio Domingo Maranzana Fulvio Rafael Pagani Luis Roque Otero Monsegur Víctor Daniel Martín
Alternate Directors	Zunilda Ramona Giordano de Maranzana María Rosa Pagani de Babini

2. Internal Control

The internal control of Arcor SAIC is carried out by the Controlling Body, which is currently composed of three Regular Statutory Auditors and three Alternate Statutory Auditors, all elected by the General Meeting of Shareholders to remain in office for three years. They may be indefinitely reelected, as established in the Corporation's Bylaws.

The Controlling Body of Arcor SAIC is currently composed of:

Regular Statutory Auditors	Oswaldo Héctor Canova Gerardo Rubén Scorza Alcides Marcelo Francisco Testa
Alternate Statutory Auditors	Guillermo Harteneck Gabriel Horacio Grosso Carlos Gabriel Gaido

3. Internal and External Auditing

Arcor Group has internal systems and procedures created in accordance with the highest international standards for internal audits. To that effect, the Corporation has efficient control over its budget so as to monitor its business and detect and prevent any kind of problems.

The Group's Internal Audit Management is accountable to the Board of Directors and its purpose is to help minimize the potential impact of operational risks in the pursuit of the Corporation's objectives by offering support to the different areas by means of the implementation and optimization of controls and procedures.

The General Meeting of Shareholders annually appoints independent external auditors, who are responsible for auditing and certifying the Corporation's financial statements and documents.

Arcor Group's Core Business

The segments that constitute Arcor Group's core business are confectionery, cookies, chocolate and food products. Furthermore, the Group is vertically integrated: it produces agro-industrial inputs which are an important part of its end-products, and it manufactures the packaging for all of its products.

Confectionery

The manufacturing of confectionery products was the Corporation's very first business activity back in the mid 19th century and the business which has most contributed to the Corporation's international prestige. Arcor is currently the world's number one candy producer.

In 2005, the total confectionery market share increased by 8% in terms of volume compared to the previous year. Within this context, the Confectionery Division outperformed market with a 10% increase in terms of sales volume. The Production Division has once more outperformed its production record of 128 thousand tons with a 2.1% increase in relation to 2004.

Arcor is a leader in the confectionery market in Argentina, where it is a solid competitor in nine different segments. In Chile, Dos en Uno has become one of the main confectionery companies and the top producer of gum and candy. In Brazil, Arcor produces 240,000 daily kilograms of confectionery products and is the top producer of chewing gum for children with renowned popular brands such as Big Big, Poosh, Bolín Bola and Huevitos, among others.

Cookies

Arcor Group, in association with the Danone Group, merged both companies' cookies, alfajor, and cereal bar businesses in Argentina, Brazil, and Chile for the development of these and other markets in South America, with the management and control of Arcor Group under the name Bagley Latinoamerica S.A., the largest cookie company in South America.

In 2005, the Group fulfilled its sales and profitability goals and was able to overcome the challenges of launching this type of operation. In Argentina, there was a 6% increase in sales in terms of volume, which consolidated the Group's leadership in all the segments in which it competes. In Brazil, sales in terms of volume remained stable: Aymoré continues to be the top brand in the Minas Gerais market and Triunfo recovered its market share in the San Pablo area.

In Chile, the business grew stronger as an important player in the local market with an 18% increase in sales in terms of volume and a 3 point rise in its market share.

Chocolates

Both the popularity of traditional brands and the development of more recent brands are evidence of the company's creativity and ability to innovate. Arcor Group is the number one chocolate producer in Argentina, it is one of the top producers in the Chilean market and is a growing player in the Brazilian market, with an important position in the children's products sector.

In 2005, the Chocolates Division increased its sales by 38.7% compared to last year, thanks to growing domestic demand and an increase in foreign market sales. Arcor Group maintained its leading position in the local market.

Ice creams

During 2005, Arcor Group launched a new line of ice creams in Argentina. This was carried out through the Group's distribution channel, composed of retail convenience stores and gas stations, which allowed the Group to achieve rapid distribution of this line on a national level.

This new line includes 29 products with the distinctive and specific characteristics of top brands: Bon o Bon, Rocklets, Aguila, Cofler, Tofi, and Mr. Pops. This product offer was completed with the creation of specific brands for the Ice cream market: Slice, Space and Kopa.

In its first year in the market, the Ice cream line became the top line in retail points of sale. It is estimated that sales will increase 19% the following year and the Group plans to extend the line to other countries in the area.

Food Products

Arcor Group gives great importance to the manufacturing of food products. Its strict selection of raw materials and its application of technological processes have allowed the company to offer quality products and have made it a preferential brand among Argentines.

In 2005, the Food Products Division continued to be a leader in the precooked corn flour and corn oil segments and its sales volume rose 1%, including all of the segments and the different businesses in which it participates in the local market. In domestic sales, it is important to note that there was an 87.5% increase in the fruit preserves segment and an 11.6% increase in the frozen food segment.

Furthermore, in late 2005 the Group directly and indirectly purchased the total shares of the companies of Benvenuto SACI, a company organized and registered according to the laws of Argentina. This operation is subject to the approval of the Argentine Anti-trust regulatory authorities. The new acquisition has consolidated the Group's market position in the main segments and categories of the Food Products business through the popular brand "La Campagnola."

Agroindustry

Arcor Group's self-supply of raw materials has allowed it to maintain its unique commitment to consumers of offering the best quality at the right price. Many of the basic raw materials – like fructose, glucose, flour, semolina and milk, among others – and the input that the company uses in its products are produced by this Division. Many of these are sold to third parties and Arcor has become a leader in some of these businesses.

With regard to the business areas of this Division, it is important to note that in 2005, the Ingenio La Providencia Sugar Mill (Río Seco, Tucumán) reached the highest level of sugar production in history: 122,350 tonnes, which is 8.7% higher than the previous year.

Paper and Cardboard Flexible Containers

From its beginnings, Arcor has always strived to achieve high quality products. This characteristic was strengthened by its early export policy, which led it to compete with the main companies in the world. This is why, besides manufacturing products to meet international requirements, the Group needed packaging whose quality, cost, technological development, prompt delivery and design would add value to its products. Cartocor S.A. and Converflex S.A. are the companies that the Group uses to supply itself with corrugated cardboard and flexible containers in order to produce competitive packaging in line with the company's high quality products.

In 2005, the flexible container business continued developing its third party market, with a 64% increase in sales in terms of volume compared to the previous year. With the recovery of demand in the local market, the Paper and Cardboard Division increased sales to third parties in the domestic market by 10.2% in terms of volume (12% in terms of value).

In the foreign market, sales increased 8.1% in terms of volume (15% in terms of dollar value). In conclusion, Arcor Group continues to grow in this area as in previous years. It has maintained its leadership in the supply of cardboard containers in the domestic market and it has increased its participation in regional markets.

Packaging

Corrugated Cardboard

Cartocor S.A. was created as a result of the Group's significant development and for the purpose of consolidating its position as a significant player in the sector focused on services to third parties. Today Cartocor S.A. has four production units in Argentina, with a total capacity of 250 thousand tonnes a year of paper and corrugated cardboard. Only 10% of its production is used by the Group, while the rest is sold to external customers in Argentina, Chile, Brazil, Uruguay, Peru and Bolivia.

Group investments are also significant in this area, in which Cartocor S.A. has become a number one leader in Argentina and exports to other countries in the region.

Flexible Containers

Flexible containers are essential in the marketing of food products. Aside from containing, preserving and protecting their quality, they are a key element in communication with consumers. For this reason, Arcor Group considers it to be a strategic component and has been developing its own packaging for 40 years.

In addition to supplying products for the Group, Converflex S.A., which is dedicated to creating innovative solutions in flexible containers, has actively participated in third party markets for years. It has five plants in Argentina: one for the manufacturing of rotogravure cylinders, another which produces PVC rigid film and three flexible material conversion plants. It has a capacity of 12 thousand tonnes a year.

International

The international development and expansion of mass market business has been and continues to be one of the main strategic goals of Arcor Group. The early adoption of an export policy in the '60s – carried out even in unfavorable circumstances – made it possible to maintain Arcor Group's share in the markets in which it participates.

Arcor Group's efforts towards regional expansion, with production units and commercial offices in the region and in other continents have made Arcor one of the Latin American companies that has reached the most markets in the world, selling its products in more than 120 countries in the five continents.

Its production units in Argentina, Brazil, Chile and Peru supply different mass markets and also produce specific products for important and renowned international customers.

The establishment of commercial offices in strategic countries is the result of its ability to meet the needs of local consumers. This way, the Group provides immediate answers to the changing economic situations that are characteristic of the region and which affect consumer habits.

Arcor Group, a leader in its industrial sector.

The aim of Arcor Group brands is to establish a relationship with consumers worldwide based on quality, security, guarantees, reliability and preference.

Since 1968 the International Division has grown continuously and it has been characterized by significant increases in export values, a growing share in new markets, the consolidation of global products and the development of specific export strategies.

In this region, Mexico and Brazil constitute, because of their size and potential, the Group's target market for achieving leadership in Latin America. In just three years, Arcor Mexico has become a leader among the main confectionery companies in the market. During this year, the Group signed a manufacturing agreement with Bimbo Group in order to produce some confectionery products and chocolates which are currently produced by both companies in a shared plant.

Table 1. Arcor Group has a wide range of products and it supplies and meets the requirements of the various markets in which it has a share.

Business Unit	Country	Production Units per Country	Range of Products	Popular Brands
Confectionery	Argentina	4	Candies (with filling, hard and sour, sugared, soft), lollipops with different shapes, chewing gum (with sugar and sugarless), bubble gum, jellies, nougats, hard candies, toffees and marshmallows.	Butter Toffees, Topline, Menthoplus, Cowboy, Menta Cristal, Mr. Pop's, Big Big, Dinovo, Mogul, Butter'n Cream, BigTime, Dos en Uno, Alka, Poosh, Frutigelatin, Gorby and Fruti Fru
	Chile	1		
	Brazil	1		
	Peru	1		
Cookies	Argentina	4	Snacks, crackers, cereal crackers, assorted, filled, sweet, plain biscuits and wafers, sweet bread, cakes.	Maná, Hogareñas, Saladix, Formis, Selz, Arcor Cereal Mix, Sonrisas, Merengadas, Rumba, Amor, Rex, Criollitas, Traviata, Opera, Aymoré, Triunfo and Bon o Bon, Tofi and Cabsha Alfajores, among others.
	Brazil	2		
	Chile	1		
Chocolates	Argentina	4	Chocolate bites, chocolate mini-bites, chocolate-covered nuts and sweets, moulded bars, children's products, baking chocolate, seasonal chocolate (Easter and Christmas) and chocolate-coated wafers.	Bon o Bon, Aguila, Rocklets, Cofler, Tofi, Cabsha, Tatín, Gody, Hamlet, Privilegio, Golpe and Nikolo, among others.
	Chile	1		
	Brazil	1		
Food products	Argentina	6	Canned tomatoes and tomato sauces, solid jams, canned fruits and vegetables, dessert mixes, jams and jellies, powdered cocoa, polenta, corn flour, oils, frozen foods and juices.	Arcor, Prestopronta, Godet, Noel, Arcoa and Dulciora
	Chile	1		
Agroindustry	Argentina	7	Sugar, flour, glucose, fructose, semolina and cereal ethyl alcohol.	
Packaging	Argentina	4	Corrugated cardboard	Cartocor S.A.
		5	Flexible containers	Converflex S.A.

Some of Arcor Group's Prizes and Awards

***Clarín* Newspaper**

Arcor came first in the business ranking "The 100 Most Admired Companies in Argentina" [*Las 100 empresas más admiradas de la Argentina*] for the third consecutive year (2003, 2004 and 2005.)

Arcor came third in the ranking "The 200 Brands Admired by Argentines" [*Las 200 marcas que admiran los argentinos*] (2005.)

***Apertura* Journal**

Arcor came first in the image ranking "The 100 Best Companies" (2003, 2004, 2005.)

Luis Pagani was chosen the "CEO of the year." The survey was carried out among 153 executives of the country's most important companies (2004.)

Arcor came second in the Top Brand ranking "The Country's Top Brands" [*Las mejores marcas del país*]

***Fortuna* Journal**

Luis Pagani was chosen "Businessman of the Year" (2004.)

Arcor was chosen "The Best Food Company" [*La mejor empresa de la industria alimentaria*] (2004.)

Arcor Group was granted a prize for "The Merger of the Year" (2004.)

***Prensa Económica* Journal**

Luis Pagani was granted an award for his "Business Achievements" (2005.)

Arcor was granted the "Argentine Exports" award (2005.)

Arcor came first in the "Total Prestige" ranking (2003, 2004 and 2005.)

Some of Arcor Group's Prizes and Awards

Brand Marketing Journal

Arcor was chosen the "Brand of the Year" (2005.)

Latin France Magazine (USA)

Luis Pagani was chosen the "CEO of the Year" (2002.)

La Nación Newspaper

Luis Pagani was chosen the "Best Agroindustry Businessman," in the agricultural excellence awards granted by the newspaper *La Nación* (2003.)

Security Award

Luis Pagani was chosen the "Businessman of the Decade" (2003.)

Imagen Journal

Arcor came first in the "Corporate Transparency" ranking (2003 and 2004.)

EcoGestión Journal

Arcor came first in the category "Companies most identified with environmental protection" (2000.)

IRAM

Arcor received a special mention because it was the first company to be granted IRAM 3800 certification (2002.)

Arcor Group's Economic Performance in 2005

The Group's consolidated sales rose 21% in terms of volume with regard to the previous year, while the increase in terms of value was 36.8%. The percentage of foreign subsidiary companies sales with regard to the Group's total sales continues to be significant: 41.7% as of December 31, 2005.

Argentina's economy has continued to recover. Consolidated domestic sales increased 7% compared to the previous year in terms of physical volume in the mass market business sector, while they have remained stable in the industrial business sector. Exports have also continued to rise steadily, with a 5% increase in sales.

In foreign subsidiaries, mass market product sales have also risen in terms of volume, with a 6.5% increase compared to 2004. In Brazil, domestic sales in the confectionery and chocolate business increased significantly, by 14% in terms of volume and 27% in terms of value. In Chile domestic sales rose by 7.4% compared to 2004 in terms of volume and by 21.2% in terms of value.

With regard to the rest of the Group's foreign subsidiaries, it is important to note the steady increase in sales in Mexico, which rose by 54% in terms of volume compared to the previous year, where a manufacturing association agreement was signed with Bimbo Group.

Arcor Group continued to have positive results in 2005.

Arcor Group's total consolidated sales in 2005 were 3,784 million pesos, with a net profit of 2.8% over sales. EBITDA (operative results + depreciation and amortization) was 337.6 million pesos, that is 8.9% over sales, with a 4.2% increase compared to the previous year.

In addition, the negotiation process was completed with the International Finance Corporation – World Bank Group – and the Group signed a financing schedule that will allow it to substantially improve the conditions and amortization terms of its debts, thereby maintaining a sound financial structure.

In conclusion, Arcor Group continued to have positive results in 2005. Sales levels increased in Argentina and in foreign subsidiaries; it reached adequate levels of profitability and investment to accompany its growth; it successfully coordinated operations performed as a result of its regional association with Danone in the cookie business; it signed a financing program with the International Finance Corporation – World Bank Group – and it completed the acquisition of Benvenuto S.A.C.I., subject to the approval of the Anti-trust authorities, which consolidates Arcor Group's leadership in the food products market.

Case: A Distinctive Characteristic of Arcor Group Its Integral Management System (SGI)

Arcor Group is convinced that any type of industrial production must guarantee the quality of its products, aim at the improvement of the population's quality of life by establishing a harmonious and friendly relationship with its environment, and ensure the good health and hygiene of the people who perform operations at their plants. For this reason, Arcor Group carries out its operations according to an Integral Management System (SGI.)

The Group's SGI is a system which was designed – by and for Arcor – for the management of industrial operations, taking into consideration the company's particular characteristics and the different management tools used throughout the world.

The SGI is based on six components:

- MANAGEMENT COMMITMENT AND LEADERSHIP
- ORIENTATION TOWARDS CUSTOMERS AND THE COMMUNITY
- PROCESS MANAGEMENT
- COMMITTED HUMAN RESOURCES
- RELIABLE SUPPLIERS
- CONTINUOUS IMPROVEMENT

The joint application of international management standards, the integration of the most important concepts of each one, and the organization of each component has allowed the Group to optimize the company's performance, ensuring continuously good results.

Arcor Group applies the System in all industrial establishments, in order to achieve the best results in the efficiency of its operations and processes, loss reduction, and environmental care, ensuring the best quality that the consumer can buy, a hazardless working environment and the personal and professional growth of its employees based on constant learning.

The SGI has been implemented gradually, by phases, and continuously with the active participation of personnel on all levels, in order to consolidate the Group's achievements as it progresses.

Certifications Obtained at the Industrial Establishments

The SGI ensures that the plants obtain the following certifications based on international standards in each phase: Quality Management ISO 9001, Environmental Management ISO 14001, Occupational Health and Safety OHSAS 18001 and IRAM 3800 and demanding Food Safety certifications, like HACCP, IFS, BRC and AIB. The table below shows the main certifications obtained at Arcor Group's industrial establishments.

Table 2: Certifications obtained by Arcor Group in each industrial complex.

ISO 14001 – Environmental Management System

Company	Complex/Establishment	Plant
Arcor	Arroyito (Arroyito, Córdoba)	Hard candies Toffies Gums and wafers Wet corn milling Flavors Distribution Center Thermal power station main services, effluent treatment plant.
Cartocor	Arroyito (Arroyito, Córdoba)	Paper Corrugated Cardboard
Arcor	San Pedro (San Pedro, Buenos Aires)	Silos Corn milling Oil Alcohol Main services
Bagley	Salto (Salto, Buenos Aires)	Cookies
Bagley	Villa Mercedes (Villa Mercedes, San Luis)	Cookies

OHSAS 18001 / IRAM 3800 – Occupational Health and Safety Management System

Company	Complex / Establishment	Plant
Bagley	Salto (Salto, Buenos Aires)	Cookies
Arcor	San Pedro (San Pedro, Buenos Aires)	Silos Corn milling Oil Alcohol

ISO 9001 – Quality Management System

Company	Complex/Establishment	Plant
Arcor	Arroyito (Arroyito, Córdoba)	Hard candies Toffies Gums and wafers Wet corn milling Flavors
	Lules (San Isidro de Lules, Tucumán)	Candies Wet corn milling
	San Pedro (San Pedro, Buenos Aires)	Silos Corn milling Oil Alcohol
	Colonia Caroya (Colonia Caroya, Córdoba)	Chocolates
	San Rafael (San Rafael, Mendoza)	Fruit pulp
Arcor do Brasil	Rio das Pedras (San Pablo)	Candies and gums

Company	Complex/Establishment	Plant
Arcor do Brasil	Bragança Paulista (San Pablo)	Chocolates and candies
Alica	Recreo (Recreo, Catamarca)	Dessert mixes
Candy	Recreo (Recreo, Catamarca)	Candies
Carlisa	Recreo (Recreo, Catamarca)	Flour products
Cartocor	Arroyito (Arroyito, Córdoba)	Paper Corrugated cardboard
	Luján (Luján, Buenos Aires)	Corrugated cardboard
	Paraná (Paraná, Entre Ríos)	Corrugated cardboard
Converflex	Villa Mercedes (Villa Mercedes, San Luis)	Film printing
	Villa del Totoral (Villa del Totoral, Córdoba)	Film printing Printing cylinders
Dulciora	Villa Mercedes (Villa Mercedes, San Luis)	Sweets and jams
Frutos de Cuyo	Frutos de Cuyo (Rawson, San Juan)	Preserves
Bagley	Córdoba (Córdoba City, Córdoba)	Cookies
	Villa del Totoral (Villa del Totoral, Córdoba)	Cookies
	Salto (Salto, Buenos Aires)	Cookies
	Villa Mercedes (Villa Mercedes, San Luis)	Cookies

Company	Complex/Establishment	Plant
Tricamp Alimentos	Campinas (San Pablo, Brazil)	Cookies
	Contagem (Mina Gerais, Brazil)	Cookies

Food Safety Standards

HACCP

Company	Complex / Establishment	Plant
Alica	Recreo (Recreo, Catamarca)	Dessert mixes
Arcor	Arroyito (Arroyito, Córdoba)	Hard candies Toffies Gums and wafers
	Lules (San Isidro de Lules, Tucumán)	Candies
	Colonia Caroya (Colonia Caroya, Córdoba)	Chocolates
	San Rafael (San Rafael, Mendoza)	Fruit pulp
Candy	Recreo (Recreo, Catamarca)	Candies
Dulciora	Villa Mercedes (Villa Mercedes, San Luis)	Sweets and jams
Estirenos	Estirenos (San Luis City)	Chocolates Candies and gums
Frutos de Cuyo	Frutos de Cuyo (Rawson, San Juan)	Preserves

International Foods Standard (IFS)

Company	Complex / Establishment	Plant
Arcor	Arroyito (Arroyito, Córdoba)	Toffies

BRC Global Standard – Food

Company	Complex / Establishment	Plant
Frutos de Cuyo	Frutos de Cuyo (Rawson, San Juan)	Preserves

AIB American Institute of Baking

Company	Complex / Establishment	Plant
Bagley	Villa Mercedes (Villa Mercedes, San Luis)	Cookies

TPM Excellence Award First Class, granted by the Japan Institute of Plant Maintenance (JIPM)

Company	Complex / Establishment	Plant
Cartocor	Paraná (Paraná, Entre Ríos)	Corrugated cardboard
Arcor	Arroyito (Arroyito, Córdoba)	Hard candy
Arcor	Colonia Caroya (Colonia Caroya, Córdoba)	Chocolates
Cartocor	Arroyito (Arroyito, Córdoba)	Corrugated Cardboard
Converflex	Villa del Totoral (Villa del Totoral, Córdoba)	Film printing

Chapter II

Arcor Group and Corporate Social Responsibility

A half-century long tradition

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At Arcor we believe in the initiative of man and in solidarity. We believe in helping each other without measuring efforts or results, simply moving forward. It is the best legacy we can leave behind to those who will follow.

These words said by Fulvio S. Pagani almost 20 years ago reflect the spirit that has characterized Arcor Group for over half a century. Since its foundation, the company has created a culture of work based on the understanding that economic progress is necessarily associated with social development and the conservation of natural resources.

This has been the philosophy behind all of the company's activities since it began. Its social initiatives with regard to the communities around the first company plants (it is characteristic of Arcor Group to set up its factories in small districts far from large cities); its profound respect for ethical values; its constant public participation in forums and industrial organizations; its continuous concern for the personal and professional development of its employees; its federal spirit, above all – the company has branches in 9 out of 23 Argentine provinces – and its efforts towards regional integration as well – the Group today includes people from practically all of Latin America-, have made Arcor one of the first companies to understand that the role of businesses in society should be more than creating economic value. And even more importantly: that this other aspect of businesses is the key to achieving their sustainable development.

Pioneers in Commitment

One of the milestones in the Group's efforts to "move forward" and in business innovation was the creation of the Arcor Foundation in 1991. This initiative reflected once again the Group's orientation towards community development: its foundation made it possible to carry out more articulate and professional community work, which has had excellent results during the fourteen years of its existence. Almost one million children and young men and women have benefited from its activities. A similar initiative was carried out by the Instituto Arcor Brasil [*Arcor Brazil Institute*] in 2004, which works for the education of children and teenagers in that country.

Through these and other initiatives, Arcor Group has honored the tradition of corporate responsibility. Arcor Group is conscious of its role and as such has a socially responsible management that seeks to achieve a balance between its own business activities and the interests of the different people it works with.

In 2005, Arcor Group established its Corporate Social Responsibility Policy as a way of sustaining and determining the foundations of a long-lasting program.

Its Public Role: a continuous concern for Arcor Group and its management

Arcor Group actively participates in discussions on the role of the private sector in economic, social and environmental development.

In the different countries where they operate, Arcor Group companies are members of more than 50 organizations, including industrial councils, associations, organizations and foundations. In many cases company officials also hold management positions in many of these institutions. Some of these organizations are Asociación Empresaria Argentina (AEA) [*Argentine Business Association*], Unión Industrial Argentina (UIA) [*Argentine Industrial Association*], Coordinadora de las Industrias de Productos Alimenticios (COPAL) [*Coordinator of Food Product Industries*], Cámara de Industriales de Productos Alimenticios (CIPA) [*Food Product Industries Association*], Fundación Carolina de Argentina [*Argentine Carolina Foundation*] and Grupo de Fundaciones (GDF) [*Group of Foundations*], among others.

With regard to the institutions that are specifically related to CSR, Arcor Group is a member of the following organizations, among others: Consejo Empresario Argentino para el Desarrollo Sostenible (CEADS) [*Argentine Business Council for Sustainable Development*], Instituto para el Desarrollo Empresarial de la Argentina (IDEA) [*Argentine Business Development Institute*], Asociación Cristiana de Dirigentes de Empresa (ACDE) [*Christian Business Leaders' Association*], Instituto Ethos [*Ethos Institute*], Instituto Argentino de Responsabilidad Social Empresaria (IARSE) [*Argentine Institute of Corporate Social Responsibility*] and Red América [*America Network.*]

In addition, Arcor Group adheres to the principles of the United Nations Global Compact and is a member of the Global Compact Board in Argentina.

A Step into the Future: Arcor Group's CSR program

In late 2004, Arcor Group decided to take another big step. In keeping with the transformations of the societies in which it operates, and also with its own business dynamics, the Group decided to consolidate its responsible performance. The Group decided to integrate CSR into all of its activities as a part of its program, so that it would form an integral part of its business and activities.

At that moment, the Group's president, Luis A. Pagani, sent the following message to his collaborators: **"Although Arcor is recognized as a company that carries out its business in an ethical and socially responsible manner, it still has not established an integral CSR policy. We must do this to adapt,**

survive and grow in the present circumstances, so as to increase the satisfaction of the different groups with which we work and in order to have a greater social impact through the activities we carry out.”

In early 2005, a coordinator was appointed and an interdisciplinary team composed of 14 professionals representing different countries and functional areas of the company to which was added a group of renowned CSR consultants. This is how Arcor Group's Corporate Social Responsibility program started out with the intention of transforming the company's activities into a social program related to its business.

The program's First Steps: the CSR policy, the Ethics Code and the Code of Conduct

In 2005, Arcor Group's CSR program was set up on the basis of two major goals. The first was to provide orientation for the Group's CSR strategy and the other was to perform different activities to create awareness and provide training with regard to CSR.

A survey was organized to analyze the company's practices and interviews and focus groups were organized with people from different areas. This made it possible to make a common diagnosis. On the basis of this diagnosis, the Group established a CSR policy and a plan was created for the following years.

Arcor Group established its Corporate Social Responsibility Policy as a way of sustaining and determining the foundation of a long-lasting program. The policy included the company mission, the establishment of the Ethics Code and the Code of Conduct and the objectives of the CSR program.

Since its foundation, the company has created a culture of work based on the understanding that economic progress is necessarily associated with social development and the conservation of natural resources.

Ethics Code: This is the means of carrying out the company's mission and the framework within which it carries out its business. It includes four fundamental values and eight principles of collective action that summarize its actions and philosophy.

Code of Conduct: This is used to put the Ethics Code into practice and it is composed of regulations that constitute guidelines for the company's activities and those of its employees in order to achieve ethical and responsible operations. The purpose of this Code is to ensure that correct decisions are made in conflictive situations or dilemmas.

Arcor Group's Ethics Code

The success of our business is the result of Arcor Group's relationship with its shareholders, customers, consumers, employees, suppliers, environment, community and with the society in general. It is based on the values that constitute our identity and the principles that guide our actions.

Arcor Group Values

Integrity: we are honest, clear, coherent, austere and responsible.

Commitment: we believe in business based on continuous progress, stimulating interaction and effort and the contribution of our people.

Reliability: we establish relationships on the basis of personal and professional respect, providing support and security to all those with which we work.

Modesty: we have a prudent attitude that orients us toward growth with constructive criticism aimed at self-improvement and awareness of our virtues and weaknesses.

Arcor Group's Ethics Code and Code of Conduct

Arcor's Social Responsibility Workgroup (RSA) was particularly established within the framework of the 2005 RSA Program and included the following areas:

- Corporate Institutional Communication (Argentina)
- Corporate Training and Development (Argentina)
- Cookie Quality (Argentina)
- Corporate MAHPI (Argentina)
- Arcor Foundation (Argentina)
- Marketing (Brazil)
- Arcor Brazil Institute (Brazil)
- Purchases (Argentina)
- Corporate Financial Planning (Argentina)
- Human Resources (Chile)
- Packaging Human Resources (Argentina)
- Corporate Marketing (Argentina)
- Corporate CSR (Argentina)

Ethical principles

1. Operate honestly and respecting the agreements established with the different people with which the company works, promoting long-lasting relationships based on trust.
2. Attain the highest quality and service standards in order to satisfy our customers and consumers.
3. Create innovative means of growth and development to provide added value to the company and its shareholders.
4. Promote communication based on true information and facts.
5. Create a safe and healthy working environment to stimulate initiative, creativity and the continuous growth of the company's human capital.
6. Contribute to the integral development of the communities in which we work and of the society in general, respecting their cultures and customs.
7. Establish sustainable process management based on a balance between the economic, social and environmental aspects.
8. Respect national and international laws and conventions, integrating our value chain according to this commitment and promoting a sustainable and competitive business framework.

The CSR Training Process

Aside from the orientation of the Group's CSR strategy, the other main goal was to introduce CSR issues to the whole company.

As a result, the Group carried out management awareness and training activities: courses were carried out on all management levels in Argentina, Chile and Brazil.

Furthermore, the Group added CSR units to its corporate training courses: Management Development Postgraduate Course, Young Professionals (three groups), Professional Updating Course (two groups) and Secretariats (two groups).

This general CSR training process was carried out through 16 different activities with the participation of 480 people and comprised about 3000 man-hours of training.

Arcor Group's CSR Action Plan

The first diagnosis and policy guidelines were used to create an action for the purpose of enhancing Arcor's profile as a responsible company. The Group's challenge for the next few years is to consolidate its CSR practices among the different groups it works with and in all aspects of its business.

The Three Main Goals of the Action Plan

Implementation of Institutional Strategic CSR Actions:

These actions will provide the foundations for continuous CSR practices to guarantee participative and integral operations. They will be progressively implemented in all business units and in all the countries in which Arcor Group operates. These, in turn, have been divided into three groups: training, communication, monitoring and evaluation.

Implementation of Specific Projects or Actions:

In addition to the projects that are already being implemented, Arcor Group will add other projects that will involve the different groups that the company works with. These will be implemented in each business area or country as pilot projects in order to be applied in the future in other areas.

Strategic incorporation of CSR practices to all of the company's operations:

Among other things, the Group plans to create a Corporate CSR Management which will be interrelated to all of the business areas and integrated to the Group's general management.

Chapter III

Arcor Group and its Human Resources

A key asset

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Case: Education for All

Arcor Group believes that its human resources are a key asset. It is for this reason that it makes significant investments in the continuous development and training of its employees. Today, Arcor Group is one of the main industrial employers in Argentina.

Arcor Group's efforts towards multinational integration have helped to promote a unique corporate culture that favors the employment of people of different nationalities, religions, gender and marital status. Arcor's employees constitute a diverse group of people that work together in an environment in which each individual's choices are taken into consideration.

Arcor Group is aware that mutual respect is a key value in the performance of any activity and it promotes freedom to become a member and participate in workers' unions. This is carried out through the execution of conventions and agreements and through the implementation of policies that aim toward the training and development of all of its employees. The objective of these policies is to ensure a safe, decent, fair working environment to promote personal and professional development with high performance levels. For this purpose, the company has specific programs for all levels of the company to enhance the professional and personal skills of each employee.

Today the Group is at a stage of diagnosis and detection of opportunities for improvement and optimization of processes related to its human resources.

Arcor Group Structure

Table 3. Arcor Group employees per country*

Country	No. of employees	Characteristics	
Argentina	12,109	Male	78.4%
Bolivia	63		
Brazil	3,831	Female	21.6%
Chile	1,476		
Colombia	8	Average age	34
Ecuador	71		
Spain	16	Percentage above 45 years of age	17%
Mexico	76		
Peru	186	Average seniority	9.14 years
Paraguay	33		
Uruguay	42		
United States of America	34	Union membership	80%
TOTAL	17,945		

* Data as of December 31, 2005

Human Resources in Line with Business

A key factor in the Integral Management System (SGI) that Arcor Group implements in its daily production work is its commitment to its human resources: a commitment by all of its employees to make human resources a competitive advantage. Some elements that are necessary for achieving highly skilled employees and a strong sense of belonging are training, acknowledgement, development of skills and abilities, constant motivation to create maximum potential, promoting self-learning and self-management.

Unity in Diversity

Arcor Group carries out different activities aimed at its employees which vary according to the situation in each country. These activities, which in some cases include the employees' families, are performed for the purpose of improving the quality of life and promoting the growth and integral development of the employees while respecting the particularities and cultural diversity of the regions in which it operates.

Arcor Group performs different activities with the same goal: the integration of its employees.

Education and Training

In Chile, Arcor Group implemented, among others, a digital literacy program with the participation of more than 400 workers and a crafts workshop for the wives of its employees. At the Chancay plant in Peru, the Group carried out a workshop on small family enterprises for the wives and mothers of employees.

Health

Arcor do Brasil [Arcor of Brazil] has implemented a quality of life program. The company offered dental assistance to its employees and their families and different training activities were carried out in relation to disease prevention and healthcare. In Perú the Group launched vaccination campaigns (against tetanus and the flu, etc.) for employees and their families. In addition, and for the purpose of promoting exercise, the Group in Chile has carried out a gymnastics workshop for female employees and employees' wives, and has established a sports school for their children.

Family Integration

In Argentina the Group has carried out different programs for the integration of employees' families. These have included visits to the workplace, seminars on different topics (home accident prevention, cooking courses and courses on healthy eating habits) and workshops. The Group has also carried out recreational and integration activities for all of the Group's employees. In 2005, hundreds of employees participated in the 2005 Arcor Sports Event, which included three different sports: soccer, tennis and bowls.

Corporate Training Programs: Optimizing Performance

The Group's business dynamics, international growth and development of competitive advantages make it necessary to implement continuous and systematic training plans to ensure effective professional work. The Group's corporate training programs help to increase knowledge on management, develop an international approach and integrate people from different businesses.

Programs

- They focus on global competitiveness and are based on long-term objectives and the anticipation of scenarios.
- They have a cross-cultural and interdisciplinary approach.
- They include activities which promote development on the basis of different jobs and businesses.
- They facilitate the implementation of what is learnt in the workplace through application activities.
- They are associated to the stage in the participants' careers, their profiles and business needs.
- They are totally in line with the business.

Corporate Training Activities in 2005	
Activities requiring attendance	57
Distance learning	32
Participants	1,525
Man-hours of training	34,366

Types of Training Programs

Integration Programs

These are based on a generalist approach and are divided into:

Training Programs

These programs generally last more than 80 hours and focus integrally on the different skills required for the performance of a role or function.

Updating Courses

These are shorter and they complement the training courses in order to regularly update employees on recent issues and information in the field of management.

Specialized Programs

These are programs on special subject areas for groups of employees carrying out similar functions in different Group businesses.

Table 4: Training Activities in 2005

Training Activity	No. of participants	Man-hours of training
English Immersion Course	15	600
Young Professionals Training Course	93	9,300
Professional Updating Course (at Universidad de San Andrés)	158	4,336
Professional Management Development Program for Middle Management (at Universidad Empresarial Siglo 21)	36	5,183
Postgraduate Course on Management Development (at Universidad Torcuato Di Tella)	40	5,760
Masters Degree in Food Technology (in company, Universidad Católica de Córdoba)	31	5,456
E-learning Course (distance learning)	780	2,224
Course on Benchmarking in Human Resource Management	28	224

Course requiring attendance on Performance Management System	288	835
Training for Secretaries and Receptionists	56	448
Support Training on the implementation of the Information Security Policy (special campaign)	3936	7,872
Corporate Social Responsibility Awareness (special campaign)	480	2,937

Internship System: Joining the Team that Brings Good Taste to the World

Arcor Group in Argentina has implemented an internship system to contribute to the professional training of university high school and college students and/or professors and teachers. This system makes it possible to learn from practices according to the particular characteristics of each specialization and to provide access to the company's resources (technology and information) and it also promotes direct interaction with experienced professionals.

The internship system was established with the following objectives:

- To do research or implement company procedures with suitable interns.
- To meet temporary employment needs with clear opportunities for learning and added value to the interns' professional training.
- To create a system for early incorporation and loyalty-building among high-potential students.
- To incorporate the interns with the best performance to the Young Professionals Plan through early detection and evaluation of skills that can only be observed in practice.
- To establish a stronger bond with the academic institutions of greater interest for the development of Group business.

Case: Education for All Completion of Primary and High School Education

Arcor Group feels that it has become what it is today thanks to the effort of its employees, who devote a large part of their time to the performance of their

activities within the company. These people – who in many cases have not completed their primary education – have found in the different plants a decent working environment in which they can develop their skills and progress. This way, Arcor Group's employees have accompanied its growth as it contributed to the communities in which it operates.

During the nineties, Arcor Group grew significantly and this made it necessary to carry out a process for the integral professionalization of its operations. This process, which included the Group's personnel on all levels, opened the company's doors to a significant number of university graduates who became a part of the Young Professionals Program.

In addition, this progress and continuous improvement led the Group to make a thorough analysis of its structure and of the profiles required for its operation. The Group then detected a lack of professionalization – mainly in leadership and operational positions – related to the lack of training of a significant group of employees. The company included at that time a large number of employees that had not completed their primary and high school education, but who were very willing to work and keep learning.

This issue had to be dealt with, although it implied the risk of affecting daily work which required greater participation and independence. The solution was to become involved in the progress and education of its people. Arcor Group began to take action to remedy the situation. As a result, it signed agreements with the Ministry of Education, private institutions and union authorities where the plants were located (Córdoba, Buenos Aires, Mendoza, Catamarca, San Juan, San Luis, Tucumán, Brazilian and Chilean headquarters) and established the Education Program which is jointly coordinated with different public and private institutions.

The aims of the Education Program for Arcor Group employees that did not complete their primary and high school education are the following:

- To provide employees who have not been able to complete their education with the opportunity to improve their knowledge potential.
- Improve personnel training in the skills required to more effectively perform their tasks according to the greater demands of the processes and autonomy models applied.
- Increase workers' employability through a combination of their formal education and their professional work within the company.

The activities for the fulfillment of these objectives have been and are carried out continuously.

Implementation of the Employee Education Program	
Brazil	1994
Chile	1998
Argentina	2001

Number of Graduates as of December, 2005 (primary school / high school / college)	
Argentina	522
Brazil and Chile	1,000

Chapter IV

Arcor Group and its Commitment to Occupational Safety and Environmental Conservation

Ecoefficient operations and safety at each job

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Case: Ecoefficiency in Practice

For Arcor Group, the search for excellence in environmental management and the control of labor risks are necessary conditions for the sustained growth of the company.

This viewpoint materialized completely in 1994, with the creation of a specific area to manage environmental issues and safety: The Cooperative Environmental, Hygiene and Industrial Protection Management [*MAHPI, its Spanish Acronym*] and the Departments that are responsible for these issues in each of the establishments.

Since then, Arcor Group has been working to attain common goals adapted to the distinguishing characteristics of each industrial complex, which vary in terms of the type of production and the location of each complex: raw materials, products, technology and organization, social conditions, natural resources, legislation and customs.

Integral Management System (SGI)

In order to make efficient and constant progress in environmental and safety improvement, a fundamental strategy is to include these concepts in the daily tasks of all of the members in the organization. For this purpose, the Integral Management System (SGI) is implemented, designed by and for Arcor for the management of industrial operations. The system is gradually applied in accordance with a plan that considers the characteristics of each establishment, and that is evaluated by means of external audits. The results of the audits are approved by the certifications granted by international organizations.

The SGI considers the company's individual characteristics and the bases of the different management tools implemented worldwide:

ISO 9001 (International Standard for Quality Management Systems)

ISO 14001 (International Standard for Environmental Management Systems)

TPM (Total Productive management)

5 S (Japanese Methodology for Order and Cleanliness)

BPM (Good Manufacturing Practices)

HACCP (Hazards and Critical Control Points Analysis)

OHSAS 18001 e IRAM 3800 (Standards for Job Security and Health Management Systems)

MGEE (Business Excellence Management Model that contains defined criteria regarding the National Quality Award)

SIX SIGMA (Statistical tool used for problem-solving)

Environmental Management

Arcor Group's environmental management is based on the orientation of processes toward ecoefficient work practices.

Ecoefficiency: Technique adopted by companies and based on generating value with a smaller environmental impact, or, in other words, a technique that makes it possible to improve both the economic and ecological efficiency of companies at the same time.

In order to carry out an ecoefficient industrial activity, the key is to apply its components, which become basic rules in order to seek opportunities in which economic and environmental gain go hand in hand. The seven components are:

- 1 – To reduce the dispersion of toxic substances.
- 2 – To reduce the intensity of the use of materials in goods and services.
- 3 – To reduce the intensity of energy use in good and services
- 4 – To improve the recycling capacity of materials
- 5 – To maximize the sustainable use of renewable resources.
- 7 – To increase the intensity of service in goods and services.

In factories, the application of ecoefficiency components materializes in the development of environmental improvements that create task forces in which people of different areas and hierarchic levels participate (see case).

At the same time, the factories and the communities in which these operate perform joint operations. These activities include, among other things, participation in community environmental campaigns and projects as well as training for school institutions or other establishments.

On a corporate level, environmental policy and care are basically expressed through the development and distribution of management results from different environments.

Hygiene and Safety Management

The principle sustained by management is the focus on manufacturing processes aimed toward the practice of hygiene and security in each job post. This means

that the concepts of health, hygiene and security are known to all with the aim of involving employees in the prevention of job accidents and illnesses, and in the improvement of jobs.

The improvement process is implemented with the participation of personnel, which contributes with creativity, not only in the analysis of the problem and the proposal of solutions, but also in the design and preparation of ads, information on results and bulletin boards in order to advertise and prepare for campaigns on specific issues.

2005 Community Work

During 2005, several activities were carried out together with associations or representatives of the communities in which Arcor Group owns factories. The following are a few examples:

At the Arroyito Complex (Córdoba, Argentina)

Arcor Group supported the "Reciclado de Plásticos" [*"Plastic recycling"*] project for eight primary schools in Arroyito, and sponsored the "Pongámonos las Pilas" [*"Let's get started"*] campaign, which was promoted by the special school, Carolina Tobar García.

In the case of plastic products, the company distributed information on the recycling of that waste, provided the schools with containers for garbage, organized training sessions, collected the garbage and managed the material that was collected by students. As an incentive, the company stipulated a price for each kilogram of recycled plastic, and with the total amount, it purchased the construction materials that each school requested.

During the "Pongámonos las Pilas" campaign, materials were provided, students were trained and the piles of garbage collected were recycled.

At the Recreo Complex (Catamarca, Argentina)

Arcor Group participated, together with the environmental subsecretariat of the government of Catamarca and the Recreo Municipality, in the improvement of green areas. Within the framework of that campaign, it placed waste containers, planted trees and collaborated in the cleaning of ten squares in the Recreo area.

At the Dos en Uno Complex (Chile)

Arcor Group collaborated with the reconstruction of a public space located in the La Pintana commune, and in that way participated in the project promoted by the winners of the 2nd Social Responsibility Contest for university students.

At the Villa del Totoral Complex (Córdoba, Argentina)

The municipality of Villa del Totoral, the local Transit Bureau and Arcor Group organized the first defensive driving course. The course trained 80 short and long distance bus drivers as well as cab drivers in the area.

At the Villa Mercedes Complex (San Luis, Argentina)

Arcor Group was one of the sponsors of the 4th Emergency Interbrigades Meeting, a training and camaraderie session that gathered 22 brigades from Villa Mercedes, San Luis and Córdoba, as well as members of the voluntary firefighters brigade from Villa Mercedes. Together, they discussed criteria on how to achieve an effective response in the event of an emergency.

Indicators

The environmental and security indicators to be used in all of Arcor Group's plants have been defined. These make it possible to compare the results between the different production units and those obtained in other countries on a national and international level.

The **environmental indicators** selected are:

- Water consumption per production unit
- Consumption of electrical power per production unit
- Consumption of natural gas per production unit.
- Organic charge (DQO) of the raw liquid effluent per production unit (which gives you an idea of the quantity of organic material that is discarded as a liquid effluent)
- Solid, semi-solid and liquid waste generated per production unit
- Percentage of hazardous waste
- Percentage of recycled or reused solid waste

Table 5. Consumption of electrical power and gas in cookie factories in 2005.

Spanish	English
EE (KW/Ton)	EP (kw/ton)
Gas (m3/Ton)	Gas (m ³ /ton)
CEE/P y CG/P	Electrical Power Consumption / Production and Gas Consumption / Production

Table 6. Waste generated and recycled in ISO 14001 certified plants in 2005.

Spanish	English
RS/P (kg/ton)	SW/P (kg/ton)
RR (%)	RW (%)
Residuos Sólidos / Producción y Residuos Reciclados (%)	Solid Waste / Production and Recycled Waste (%)
Complejo	Complex

The **safety indicators** considered are two:

1 – Accident indicators

- Total Frequency Index (IFT)
- Incapacitating Frequency Index (IFI)
- Gravity Index (IG)
- Incidence Index (II)

2 – Prevention Indicators

- Closed alarm (incident) cards
- Accident treatment rate (identification of causes and definition of corrective actions)
- Number of security patrols carried out

Case: Ecoefficiency in Practice

This chart shows how the components that make up an ecoefficient management were implemented by means of specific practices.

Case	Plant/Complex	Ecoefficiency Component Applied				
		Reduce the dispersion of toxic substances	Reduce the intensity of material use	Reduce the intensity of energy consumption	Improve the recycling capacity of materials	Maximize the sustainable use of renewable resources
Mechanization of the cane harvest and reuse of sugar production waste	Arcor, La Providencia Mill					
Reuse of corn waste for the production of ethyl alcohol	Arcor San Pedro Complex (4 plants)					
Corrugated cardboard scrap minimization and recycling	Cartocor, Plantas Paraná Arroyito Luján					
Recovery of fibers from liquid effluent and reuse of the clarified effluent	Cartocor, Paper plant Arroyito					
Recovery of the liquid waste solvent generated in the process of film printing	Converflex Villa Mercedes					
Reuse of industrial liquid effluent for watering of crops	Dulciora Villa Mercedes					
Reuse of tomato waste, corn waste and others types for the feeding of livestock	Frutos de Cuyo San Juan					
Recycling of scrap generated in the elaboration process of bio-oriented polypropylene	Vitopel Villa del Totoral					
Reduction of water consumption	Arcor Arroyito Complex (7 plants)					
Reduction of steam consumption and the generation of waste	Hard candy Arcor plant Arroyito					

Case	Plant/Complex	Ecoefficiency Component Applied				
		Reduce the dispersion of toxic substances	Reduce the intensity of material use	Reduce the intensity of energy consumption	Improve the recycling capacity of materials	Maximize the sustainable use of renewable resources
Reduction of aluminum scrap production during film metallization, and reduction of adhesive scrap used in the lamination process	Converflex, Villa del Totoral					
Reuse of hard candy waste	Estirenos San Luis					
Improvement of boilers	Villa Mercedes Complex (4 plants)					
Environmental advantages of the installation of a diffuser for the production of sugar cane	Arcor, Ingenio La Providencia					
Reduction of power consumption for the generation of cold water	Arcor Colonia Caroya					
Optimization of solvent use	Converflex, Villa del Totoral					
Recovery of soft water	Frutos de Cuyo, San Juan					
Optimization of liquid effluent management	Cartocor Arroyito corrugated cardboard plant					
Improvement in the recovery of ethyl acetate	Converflex Villa del Totoral					

In order to make constant and efficient progress in environmental and security improvement, a fundamental strategy of Arcor Group is to include these concepts in the daily activities of all of the members in the organization.

Chapter V

Arcor Group and Social Investment

Commitment to Growth and Growth Promotion

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“There can be no successful companies in failing societies.” This phrase by Luis A. Pagani, President of Arcor Group, can summarize a tradition of social investment that is essential to the Group. Starting with its founders and continuing today, the company has invested human, financial, logistical and infrastructure resources to serve the societies that compose it. The aim has always been the same: to promote the generation of social capital as the best guarantee of sustainable growth that benefits everyone.

That is why, throughout its existence, Arcor Group has provided a sustained contribution to people’s progress and well-being. Its plans and initiatives have helped to resolve the needs of different populations, especially those of young people and children. In this sense, access to education as a tool to promote opportunities has been a sustained priority for the Group.

Arcor Foundation and Arcor Brazil Institute: Expert Builders of Social Capital

The starting point of this policy was the creation of Arcor Foundation in 1991, in response to the company’s wish to achieve a more organized and effective articulation of all of the actions carried out in Argentina, in a way that would create a greater scope and enhanced efficacy.

Arcor Foundation, lead by a staff of experts and with professional expertise, has benefited almost one million Argentinean Children. Its mission is mainly oriented to promoting the integral development of children, adolescents and young people by means of education, this being a valuable tool for development and equal opportunities.

The mission of Arcor Foundation and Instituto Arcor Brasil is to contribute so that education may be a tool to promote equal opportunities for young people.

For this purpose, it encourages community work and promotes – in many cases together with other organizations – strategies, programs and initiatives that favor social inclusion.

Arcor Foundation believes that its task is not only to support the community in order to provide for a specific need, but mainly, to promote within that community the initiatives necessary to organize themselves and autonomously deal with other needs. In its 14 years of existence, it has supported more than 1,350 educational projects in Argentina.

The Arcor Brazil Institute has carried out similar activities, with the creation of the Arcor Institute in 2004, which also works mainly in the area of education.

Arcor Foundation: 14 years of work

- 100% coverage in Argentina
- Almost a million children and young people benefited
- 1,350 educational projects
- 6,550 organizations involved

Throughout its history, Arcor Group has made a sustained contribution to people's progress and well-being.

Arcor Foundation is led by a staff of experts with professional criteria and has benefited almost one million Argentinean children.

Recent Prizes and Awards Granted to Arcor Foundation

Corporate Citizenship Award (1)

- **Corporate Citizenship Award 2001**
Category: Education provided through the Program "My School Grows".
- **Corporate Citizenship Award 2000**
Category: Community participation through the program "Overcoming obstacles"
- **Corporate Citizenship Award 1999**
Category: Community Participation in Programs Training, Education, Prevention and Community Integration, as well as Childhood and Development.
- **Special Mention 1999**
Category: Education of the Program "Overcoming obstacles".

Charitable Entrepreneur Award

2004 and 2005 editions

Category: Education

Program: Community education opportunities

Awarded by the Foro EcuMénico Argentino [*Argentine Ecumenic Forum*]

Award to the Company with the Greatest Social Responsibility

1999, 2000 and 2001 editions

Award granted by the journal *Punto a Punto*, on the basis of subscribers' votes.

1999 Mecenass de Oro Award

Awards granted by Fundación Pro Arte Córdoba, in recognition of the constant support provided by Arcor Group to the activities carried out by the Foundation, over more than 20 years.

Notes:

1. Award granted by the U.S. Chamber of Commerce in Argentina, destined to recognize and stimulate the work of companies and corporate foundations that develop projects in favor of the community.

Arcor Foundation: Its 2005 Performance

Arcor Foundation groups its tasks in three categories: creation of community management strategies – which is in itself divided into two categories; *community approach* and *strengthening of organizational skills* – systematization and distribution of experiences, and social mobilization and public influence. The Foundation's work in 2005 is presented in accordance with these axes.

1. Development of Community Work Strategies

a) Community Approach

Plans in this category are those which are aimed to transform each community into a network of opportunities for its children and young people. That is to say, to build a management method that can contribute to making the community an autonomous protagonist that is capable of creating the opportunities that it needs.

In accordance with this framework, the Oportunidades Educativas Comunitarias and Juntos por la Educación [*Together for Education*] initiatives are developed.

Oportunidades Educativas Comunitarias – OEC [Community Education Opportunities]: This program is the result of the cooperation agreement signed between the Arcor, Antorchas, Interamericana and Arcor Group corporations. It aims to strengthen the work of community institutions, creating ties to promote better local opportunities for children and young people in precarious living conditions.

During 2005, 22 new projects were approved, 15 of which were started in areas with strong industrial company infrastructure. These community proposals gather 194 local organizations, and their beneficiaries include 11,840 boys and girls. A total of over two million pesos was invested, of which 816,855 pesos were offered by the initiative.

In 2005, Fundación Acindar joined to finance projects in the city of Villa Mercedes, San Luis, while Fundación Nicolás provided financing for the Province of Mendoza, and Fundación Navarro Viola financed projects in the Northeast region of the country.

Together for Education: This initiative was created in 2003 due to the confluence of two programs that were being developed by the Arcor and Minetti foundations: the Programa Infancia y Desarrollo [*Childhood and Development Program*], and the Fondo Tendiendo Puentes [*Building Bridges Fund*]

As in previous years, during 2005, the program contributed to improving the educational opportunities of disadvantaged children in the city of Córdoba and Gran Córdoba. It did not only provide financial support, it also provided technical assistance, professional support as well as information to the different work areas, between which it encouraged an exchange of experiences.

In 2005, local projects were supported in two areas of the city of Córdoba, involving 25 organizations and directly benefiting 1,200 boys and girls. These projects implied the investment of 149,620 pesos, of which Juntos por la Educación provided 48,840 pesos.

b) Consolidating Organizational Skills and Professional Independence

In this category, we include the stages of training and exchange of experiences. During 2005, Arcor Foundation contributed with the professional training of 10,072 people, in which 626 organizations took part.

2. Organizing and Sharing Work and Learning Experiences

Arcor Foundation actively works to produce, recover and distribute conceptual knowledge and methodologies related to child education. During 2005, 18 new publications were issued. Thirteen of these publications reflect the work done by the organizations and the experiences gained from projects that received support; five of the publications reflected the processes of systematization and the Foundation's practices. A study was also published on the investment of public provincial resources for children.

3. Social Work and Public Influence

The Foundation actively promotes children's issues in the public agenda, and seeks to obtain partners and allies in its task, as one of its distinguishing characteristics. Over the past few years, the Foundation has signed agreements with private organizations and public institutions. In 2005, it worked together with UNICEF

Argentina, Fundación Acindar, Fundación Bunge y Born, Fundación C&A, Fundación Interamericana, Fundación Minetti, Fundación Navarro Viola, Fundación Noble of Grupo Clarín, Fundación Nicolás and Save the Children (Sweden).

With regard to public institutions, Arcor Foundation promoted and signed agreements with different institutions in accordance with the framework of its community training and community approach strategies. Particularly, agreements were reached with the Municipalities of Rosario (Santa Fe), Concordia (Entre Ríos), Córdoba and the ministry of Education of Entre Ríos, as well as with the municipalities of San Martín and San Rafael (Mendoza), Allen (Río Negro) and Villa Totoral (Córdoba).

Additionally, the Foundation organized, together with Unicef Argentina, the first Argentine study on public social investment in children and adolescents on a provincial level, starting with Córdoba, although it is expected to be repeated in other provinces. This study constitutes an analysis of the investment of public resources that was made by the Province during the 2000 – 2004 period, aimed at children and adolescent tasks and policies.

Together with Save the Children, Fundación C&A and Unicef, the Foundation launched the first exploratory study on Argentine private social investment in children, an investigation which is being managed by CEDES (Centro de Estudios de Estado y Sociedad).

Both initiatives constitute an innovative step in Argentina, as there are no similar past experiences.

Lastly, over the course of this year, the Foundation continued its support for the Agencia de Noticias por los Derechos de la Infancia – ANDI [*News Agency for Childhood Rights*], which is being managed by the NGO, Periodismo Social [*Social Journalism*]. This initiative, which is being carried out together with Unicef Argentina and Fundación C&A, promotes the defense of children's rights via social communication media.

Since the start of its activities, the agency has classified more than 50,000 news pieces regarding childhood and it has produced 18 special theme reports. Also, Periodismo Social granted the Journalist for Childhood [*Periodista amigo de la infancia*] award to nine newspaper journalists from Buenos Aires, Córdoba, Mendoza, Rosario and Río Negro, and published the first investigation, Childhood and Adolescence in the Argentine Press.

Arcor Foundation figures during 2005:

- 105 approved projects
- 1,262 organizations supported
- 112,291 directly benefited children
- 56,771 adults involved in programs
- 1,836,866.80 pesos invested
- 3,593,713,80 pesos mobilized

Arcor Brazil Institute: Its 2005 Performance

Created in 2004, Instituto Arcor Brasil is in charge of all of the social investment programs and projects in the country. This new organization, which is true to the philosophical principles that guide Arcor Group's activities, also concentrates its efforts in the creation of educational opportunities for children, by means of its own programs and building alliances.

1. Institute Programs

Mi Escuela Crece [My School Grows] Program: This program, which has been implemented since late 2003, repeated the Argentine experience in Brazil. Its aim was to support small projects at public schools and to promote the mobilization of coordination and education organizations, training them in the creation of projects.

In 2005, 33 projects were presented, 13 of which were selected. The implementation of these projects benefited 6,513 children. Support for these initiatives has demanded R\$ 43,725 and R\$ 14,688 for the training sub-program.

Vida, Luz y Sonido [Life, Light and Sound] Project: This initiative is the result of a joint effort between Arcor, Instituto Arcor Brasil, municipal and professional secretariats in the health and trade area of the region. Created in 2003, in the city of Río das Pedras, it provides access of children from grades one to four in conditions of poverty to vision and hearing tests.

During 2005, 634 children were benefited.

Dulce Arcor Program: This programs promotes the donation of products to poor populations, mainly in communities in which the company's industrial plants operate.

By means of the donation of 17,000 kilograms of products (equivalent to R\$ 77,000), 297 organizations were supported in 2005.

2. Shared Programs

Everyone together for Education Fund: This 1.5 million dollar fund was created in August 2004 by Vitae, Instituto C&A and Instituto Arcor Brasil, to provide continuity to the Complementary Education Program for Needy Children and Adolescents from 7 to 16 years of age, implemented by Fundación Vitae for six years.

As from the seventh edition of the program, Instituto Arcor Brasil undertook management. In 2005, it selected 13 projects that, funded by a contribution of R\$ 727,978, benefited 2,738 children.

Alliance with WCF-Brazil: For the past three years, Arcor do Brasil has sustained an alliance with the Brazilian branch of the World Childhood Foundation, an institution which was founded in 1999 by Queen Silvia from Sweden, with the support of a group of businessmen from her country. Its aim is to work towards providing a better quality of life for children and adolescents that suffer from violence, abuse or sexual exploitation. Apart from the financial contribution, Arcor actively participates in the Administration Council and in the technical committees of the WCF.

In the year 2005, R\$ 100,000 were donated to the fund, which supported 18 projects in 14 Brazilian states.

The figures corresponding to Instituto Arcor Brasil in 2005

- **300** organizations with direct contact
- **10,323** beneficiaries of its own programs and programs implemented by means of alliances
- **20** municipalities in three states which were covered by means of the executed projects.
- **845,000** reals invested
- **3,677,036** mobilized reals

Case: Amigos del Mar [*Friends of the Sea*] Program

The Amigos del Mar Program is a marketing case related to a cause, complemented with an environmental education initiative for the preservation of sea turtles and aquatic life in general.

It was launched by Arcor do Brasil in 2003, in association with the Tamara-Ibama project. Between 2003 and 2004, the company invested R\$ 3.3 million in this project. In order to raise awareness on the preservation of the species, Arcor

Group produces Tortuguita Taminha, a chocolate which comes in the shape of an endangered sea turtle.

As from 2003, the project provides Tamar-Ibama with the donation of a fixed monthly contribution for the maintenance of its headquarters in Ubatuba, San Pablo, and Arcor do Brasil contributes 2% of its monthly profits from the sales of the Tortuguita Taminha product.

In 2005, R\$ 100,000 were contributed to provide support to the maintenance of Ubatuba and more than 8,100,000 units of Tortuguita Taminha were sold, representing a donation of R\$ 35,409, which corresponds to 2% of its income.

Case: A Network of Opportunities in Mercedes, Tucumán, Argentina

In Mercedes – a locality in the Province of Tucumán, Argentina – a group of organizations has built a **community network**, that relies on the support of *Oportunidades Educativas Comunitarias – OEC* [*Community Education Opportunities*]. This program is the initiative that is being implemented by different foundations across the country, such as Arcor, Antorchas, Interamericana and Arcor Group.

This community project has the aim of helping children and young people recover their rights, by means of programs for inclusion and continuity in the educational system, as well as for training, employment and participation in the recovery of the cultural heritage of their community. In order to implement that task, the project tasks are articulated in accordance with two large groups:

- Children between the ages of 11 and 15, that attend the Nuevo Sol school.
- Young people between the ages of 16 and 21 that do not study or work.

The Tasks: Providing Tools

The tasks carried out with regard to the second group aim to improve educational opportunities. The tasks focus on two main aspects: to strengthen the IT area and to raise the awareness of families with regard to the importance of their children's education. In order to accomplish these aims – which are a priority in the development of opportunities for children and young people – a Training Center will be established in the Nuevo Sol school, which will function in one of the classrooms of this institution and will include eight computers. "The aim is to provide the children with training so that they may have more tools to their advantage when job-seeking," explained Sergio Reynoso, project technician. "Also," he adds, "to generate skills that may guide them in the selection of a degree, if they choose to continue their studies."

The Center is open to the entire community and it will be developed in two stages. In the first stage, the students that attend the school will participate.

Later, the plan is to work with a group of around 30 young people from the community, that have participated in the specialized workshops in search of a job, which are taught in accordance with the project framework by the AMIA delegation of Tucumán.

Additionally, the work carried out with the group of young people aims to facilitate the development of skills for their insertion into the job market, allowing them to participate in organizations and promote activities which tend to reinforce historical-cultural expression. The recovery of the Music Band, which for decades constituted a vanguard in Tucumán, is one of them.

Two Accounts of the Community Network

A good way to assess the impact of community network projects is through the words of their own protagonists.

This is the testimony of Félix Sosa, who is 74 years old and is the drum player for the band pertaining to the Mill at Tucumán, which closed in 1996: **"In Mercedes, we breathe music. So, in order to attract the young people who would waste their free time, we decided to recover the Mill's band. It's a great sign; we're very enthusiastic about it."**

As for Mónica Nieto, a training and development analyst at Arcor Misky, Tucumán, she emphasizes the increased community participation generated by OECs: **"If there is one thing that should be highlighted about OEC, it's firstly the opportunity that was created when we started working on the project, both the company and the Foundation; and also the capacity that was created for community participation. The community organizations works have been very beneficial. In the past, each organization would request what it needed, and the Plant would make specific donations or interventions in accordance with those demands. The OEC, on the other hand, offered a different view point - that of the association between institutions, so that they could advance a little more than what they are capable of advancing on their own. It takes a lot of effort, but it's worth it."**

Chapter VI

Arcor Group and the Value Chain

A long-standing quality relationship

Relationship with Suppliers

Types of Suppliers

Activities in Favor of Suppliers

Arcor Group and its Suppliers in 2005

Case: The Benefits and Value of an Associative Program

Relationship with Customers

Activities in Favor of Customers

Types of Arcor Group Customers

Case: ExpoArcor 2005: the Power of Distribution

Consumer Service

Consumer Service (SAC)

Sabores Nuestros [Our Flavors] Magazine

Participation in Organizations and Associations

Case: Consumer Service (SAC) in Argentina

Arcor Group promotes its way of working and its beliefs in all environments and in all the relationships it establishes. The Group prioritizes the coexistence of different thoughts and visions and encourages exchanges which contribute to conceiving new and better ideas, both in society and in business. And that is one of the keys of the Group's quality. The quality of its products and manufacturing processes is supported by a harmonious relation with the various groups with which it works: customers and suppliers, consumers and the community in general.

Strengthening these value-adding ties is the main goal of the company and this is achieved by sharing its management philosophy with suppliers, orienting all activities towards customers and the community and creating in all of them a sense of belonging. An environment of respect and reliability is therefore created based on listening, suggestions, performance and correction so as to achieve its goals in everyday work.

Relationship with Suppliers

Arcor Group considers its suppliers to be one of the fundamental components for achieving management success. That is why there are clearly defined policies for their selection, evaluation and the detection of development opportunities. These policies are sustained by standards of competitiveness, quality, service and innovation capacity.

The Purchases, Development and Engineering departments are in charge of regularly visiting all the Group's suppliers to become familiar with their business perspectives and gather relevant information for decision-making in connection with supply strategies.

Among other aspects, these departments evaluate:

- Food safety and infrastructure, facilities, production capacity and level of activity;
- Product quality and the application of suitable manufacturing practices;
- Employees' work conditions;
- Environmental responsibility and care (use of pesticides and other chemical agents, biological control agents, erosion prevention and water resource preservation).

Types of Suppliers	
Active suppliers	8,000
Origin	6,000
Argentina	
Other countries: (mainly Brazil, Chile, Uruguay, Peru, Colombia, United States of America, Europe and Southeast Asia, including China).	2,000
Large Companies (Multinational companies in general)	300
Small and Medium Enterprises [<i>Pymes</i>] (Producers of sugar cane, grain, vegetables, fruit, chemical products, plastic packaging, toys, materials for points of sale, promotion materials, miscellaneous services, etc.	7,700

Activities in Favor of Suppliers

Arcor Group promotes and invests in suppliers' development through different means:

- **Meetings with Large Companies and Small and Medium Enterprises:** with the purpose of contributing to creating business relations, Arcor Group actively participates in Meetings with large companies and Small and Medium Enterprises regularly organized by the Fundes Argentina Foundation with financial support from the Interamerican Development Bank.
- **Substitution of Imported Raw Materials:** Arcor Group has developed a Gradual Substitution Plan for imported raw materials for inputs and materials from Argentine suppliers, generally Small and Medium Enterprises, therefore contributing to Argentina's economic development.
- **Development of ArcorBuy.com Platform:** in 2004, Arcor Group developed the portal www.arcorbuy.com, an integral part of the Group's e-commerce project. This B2B (company by company) web site is devoted to the purchase of raw materials and inputs and to hiring services and provides valuable information to create opportunities for company suppliers, either current or potential, from Argentina or abroad.
- **Financial Support to Farming Producers:** Arcor Group provides financial support in favor of farming producers in many ways, for example, delivering seeds and tomato plants and advancing money used for harvest payments and other exploitation expenses. To achieve greater efficiency in production and harvesting, technical support is also provided, from the selection of seeding alternatives and farm work calendars to harvesting through mechanical means.

- **National Quality Award:** with the purpose of contributing to the continuous improvement in suppliers' business quality, Arcor Group actively promotes the participation of Small and Medium Enterprises in the National Quality Award, sponsored in Argentina by the National Quality Award Foundation [*Fundación Premio Nacional de la Calidad.*]

ArcorBuy.com

This website provides suppliers with a technological solution which:

- allows them to directly contact an Arcor Group purchaser, specialized in the input or service they wish to offer. Companies which have not yet sold their products or services to the Group may enter through the website.
- offers them the possibility of participating in an Electronic Quotation or Bid and in an Electronic Inverse Auction. **Electronic Quotation** means the purchase of a product or hiring of a service through a system of quotations and comparisons made within the mentioned platform. **Electronic Inverse Auction** means the purchase of a product or hiring of a service where the purchaser, through this platform, contacts two or more suppliers simultaneously and in real time during a very short period of time (an hour approximately).

Arcor Group and its Suppliers in 2005

- The Group established new suppliers to substitute foreign materials.
- It provided training to and adapted Small and Medium Enterprises to make them regular and reliable suppliers of Arcor Group.
- It registered more than 30 daily website visits to **ArcorBuy.com**
- It confirmed more than 80 important purchase operations made through electronic means with the participation of 80 new suppliers.
- It acquired more than 40,000 items, including raw materials, packing materials, grain, fruit and vegetable-based products, additional products, computing, computer inputs, promotion and marketing materials, miscellaneous services, counseling and training.

- It applied approximately 600 million dollars to the purchase of different items for all company divisions in the four countries where Arcor Group has production facilities.
- It incorporated 130 new suppliers through different steps and contacts.
- It made 4,000 visits to suppliers. In a two-year period, it visited all of the Group's suppliers.

Case: Arcor Group The Benefits and Value of an Associative Program

SOURCE: Text taken from the case developed by the Argentine Institute for Corporate Social Responsibility (IARSE) published in the handbook of *First Steps for Small and Medium Enterprises 2005*. Supplemented by management reports prepared by Servicom Group.

The Production Revitalization Program, applied to the Employees' Cooperative (CTU)⁽¹⁾ from Campo Herrera, Province of Tucumán, Argentina, was the means chosen by Arcor Group in 2003 to improve competitiveness and for the industrial growth of one of its main sugar suppliers.

The project is carried out by Arcor Group, the United Nations Industrial Development Organization (ONUDI) and the Italian Government, which finances a part of the undertaking, in order to improve and consolidate a working structure already in existence but which needed support in the strategic, operational and organizational areas. To this end, each participant provided its main capital: knowledge and accumulated work experience. So while the United Nations Industrial Development Organization provides consulting, technology and equipment, Arcor Group provides input for farming production, raw materials, technological consulting, training and financing and accompanies the process of obtaining national and international credits.

For the purpose of achieving the best use of its resources and greater work stability, a support program has been proposed and structured in the following way:

- **Sugar Cane.** It is considered the main production unit of the Employees' Cooperative. During 2005, sugar cane volumes delivered to Ingenio La Providencia⁽²⁾ have tripled compared to sugar cane volumes at the beginning of the program (approximately 20,000 tons); in 2006, harvest deliveries are expected to exceed the record again and reach 77,000 tons.

- **Strawberries.** This new work unit, which included the donation of an IQF (*individual quick frozen*) fruit-freezing chamber by the United Nations Industrial Development Organization, was developed with the purpose of creating more jobs, and diversifying production and risk.

Arcor Group agreed to provide training as regards quality and to purchase IQF produced strawberries. During the year 2005 campaign, the program outperformed projections and five batches of frozen IQF strawberry were distributed to the Dulciora plant (Villa Mercedes, Province of San Luis, Argentina).

- **Season Employment.** Through coordination support by Arcor Group, a group of members from the Employees' Cooperative (between 20 and 40 people) is selected each summer and taken to the fruit harvest in different areas of Argentina. This was carried out in 2004 and 2005 in Cuyo and Río Negro, respectively.

- **Organizational Focus.** Great progress has been made in this field, with the creation of a Human Resources department which is already implementing a Training Program for Leaders of the Employees' Cooperative and a computer management system as well as Good Farming Practices processes in the different production units (sugar cane –as a pioneer in this area- strawberry, citrus and strawberry packaging).

The Production Revitalization Program of the Employees' Cooperative is a success. Aside from its local results, the initiative reflects the benefits and value of an associative program which allows supplier companies to manufacture with greater added value, quality and international competitiveness. Perhaps, the best definition for this initiative is clearly reflected by the words of a member of the United Nations Industrial Development Organization: ***"Businesses and the initiative of small and medium enterprises constitute one of the most active ways to lead a positive change, to consolidate a dignified way of life and working conditions, the value of human rights within the workplace and environmental conservation"***.

NOTES

1. The Employees' Cooperative (CTU) was founded in 1967 as an initiative by 118 former employees, upon the closing of Ingenio Bella Vista. They acquired lands with their own compensations and became strongly committed to the creation and development of this undertaking. Currently, the cooperative is composed of 126 members, employs 300 people and is the support of a community of 2000 inhabitants in the town of Campo Herrera, Argentina. Today it faces, like many Argentine Small and Medium Enterprises, the challenge of sustainable growth.

2. Ingenio La Providencia of Arcor Group (Province of Tucumán, Argentina) produces 120,000 tons of sugar per year.

Relationship with Customers

Arcor Group markets its products not only through large chains of supermarkets and wholesalers of which it is a main supplier but also through a unique retail distribution model made up of a distributors' network, marketing a large variety of its products on an exclusive basis.

Arcor Group's Official Retail Distribution Model

This model is considered as a world-class model and represents one of the main competitive advantages of the company. It is based on offering affordable food products to consumers and seeks to create differential proposals, strengthening relations with retailers, such as ensuring the broadest coverage at a competitive commercial cost.

Created in Argentina during the 60s, such a model is being replicated in other regions and is projected towards the rest of the world through the business offices the company has set up in strategic countries.

Activities in Favor of Customers

The relationship and communications between Arcor Group and its distributors, as well as its suppliers, is very close. It is in their favor that many actions are carried out so as to consolidate relations and encourage reliability.

For this purpose, customers:

- regularly receive internal communications;
- participate in specific training programs coordinated by the company;
- have communication channels which simplify marketing processes, including the case of **ArcorNet**.

ArcorNet

Another factor which has consolidated Arcor Group's relationship with its customers was the release in 2004 of the ArcorNet portal, a new communication channel which allows people to perform business operations exclusively from the Internet thereby improving marketing processes and service quality.

ArcorNet is Arcor Group's e-commerce branch for distributors from Argentina which aims at efficiently selling its products and providing customers with information, services and news. The site gives distributors the possibility of

following up on the development of each transaction, obtaining information about the shipments and requesting samples, purchase orders and statements of account, among others.

Types of Arcor Group Customers

Today Arcor Group's official retail distribution structure in Argentina has 160 official distributors, 1,000 distribution vehicles from the sales department and 2,500 sellers who visit more than 240 thousand points of sale throughout Argentina nearly three times a week.

The Group's goal is to extend the successful coverage experience achieved within Argentina and become a favorite supplier in the retail market in different countries.

The following are some examples:

- In Chile, the Group's marketing is carried out through chains of supermarkets which own 36 accounts. The wholesale channel concentrates a significant sales volume because of its history linked to *Dos en Uno*, a company acquired by the Group in 1998 and which already has 434 accounts throughout the country. Although the Distribution model used by Arcor Group in Argentina has been replicated for only six years, Chile has 30 official distributors and reaches more than 45,000 points of sale.
- Brazil has a network of 130 official distributors, 1,957 sellers, 683 promoters and more than 900 distribution vehicles.
- In Peru, marketing is carried out through 17 chains of supermarkets and 268 wholesalers where the Group is one of the main distributors of confectionary products and chocolates and conducts confectionary and food product business. In addition, since 2005, Arcor Group has been developing an official distribution network. Ecuador has 41 official distributors who visit 30,500 points of sale throughout the country.
- In Mexico, the official distribution network is composed of 100 distributors in charge of more than 214 thousand points of sales.

Case: ExpoArcor 2005 The Power of Distribution

ExpoArcor is an important exhibition organized by Arcor Group in Argentina for building customer loyalty and promoting its business.

ExpoArcor 2005 was carried out for a second consecutive year from Monday February 28 to Sunday March 6 and addressed to official distributors and retail customers from Buenos Aires.

The purpose of this trade show was to strengthen the company's image within the retail channel, consolidate relations between the "Official Arcor Distributor" and customers and remain at the forefront of exhibition development at the point of sale, showing the differential service rendered by its official distributors. Participants were informed of sales techniques and saw new retail shop design models and got the chance to see the different product lines grouped together in more than one thousand categories.

ExpoArcor 2005 Data

- It was carried out in Centro Costa Salguero (Buenos Aires, Argentina) in a 7,000m² area.
- More than 22 thousand people participated, 10 thousand of them were convenience store owners and 5 thousand were minimarket owners, who constitute 30% of retail shop owners from the metropolitan area and 8% of the whole country.
- Distributors from different countries including Brazil, Chile, Uruguay, Paraguay, Mexico and the United States attended as guests.

"ExpoArcor reflected the Group's growth as well the continuous work through many years of dedication, effort and perseverance with a relationship of great understanding and commitment between distributors and Arcor. Customers, sellers, distributors and agents of Arcor Group had the opportunity to strengthen their business relationship at this event where the customer plays the main role and receives preferential treatment, thereby creating a pleasant environment which is favorable for transactions."

Luis Galindo, Distributor from Concepción, Chile.

Consumer Service

Arcor Group maintains a close relationship with its consumers. Due to the fact that it is a part of the food industry and as it is aware of the importance of its products in the community, the company has created several channels to remain in contact with consumers and provide them with a permanent support service.

Consumer Service (SAC)

Consumer Service (SAC) is one of the most important services of the market. Its management is based on the following principles:

- To answer promptly to any requirement by consumers and customers.
- To offer all means of communication necessary to channel any claims, concerns and opinions and provide such information to the rest of the organization.
- To begin and activate the resolution process for disagreements as regards products and services and inform consumers of the results of the problem research.
- To cooperate with the different company departments in obtaining information about consumer habits and preferences.
- To provide personnel with training, instilling awareness regarding quality and everyday work excellence.
- To carry out activities within the frame of an ethical and transparent management.

The company considers Consumer Service to be an instrument of vital importance since it is the means through which direct and personalized contact is provided. Likewise, it constitutes a strategic factor for strengthening the Group's image. To that end, it has been provided with all physical and human resources necessary to optimize relations between the company and its consumers.

<p>Additional information: Consumer Service figures in Brazil: -2,824 claims -88 complaints -98 compliments -2,546 requests for information</p>
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SAC in Chile

During the first semester of 2005, a module in the System AS/400 was implemented in Chile, which sets forth the different register indicators of phone calls by consumers to an 800 line. During this year, 731 claims in connection with product quality were received (an average of three claims per day).

Nuestros Sabores [Our Flavors] Magazine

Arcor Group, through Argentina Consumer service, prepares and distributes the quarterly *Nuestros Sabores* magazine among its consumers with free home delivery. In Argentina, this magazine is distributed to consumers registered through the Consumer service. In 2005, 10,000 people received the four magazine editions.

Participation in Organizations and Associations

Arcor Group is a member of the Brazilian Association of Advertisers (ABA) and actively participates in the Argentine Advertising Board, Argentine Marketing Association and the Argentine Association of Advertisers, where it has agreed to the principles established in the Ethics and self-regulation advertising code prepared by the Argentine Self Regulation Advertising Board (CONARP).

Case: Consumer Service (SAC) in Argentina

Consumer service is addressed to consumers and its main function is receiving and channeling suggestions, claims, requests for recipe books and information or any other inquiry related to Arcor Group's products. Product and service satisfaction surveys are also conducted and a register of suggestions and congratulations is kept. These inquiries can be made through 0800 lines, fax, web page or e-mail.

Within the frame of the Consumer service, consumers are invited on a monthly basis to participate in Consumer Day at company offices so as to meet them personally and exchange ideas and opinions.

Consumer Service in Argentina, which is responsible for consumer service for Argentina and Affiliates in Uruguay, Paraguay and Bolivia, achieved the ISO 9001:2000 standard certification for Consumer Services in 2003.

Consumer Service in 2005

- It received 16,289 phone calls and 3,032 e-mails.
- It coordinated more than 10 direct marketing actions, held regular meetings with consumers with the participation of 55 people, held raffles, made promotions and product and service satisfaction surveys through the webpage.
- It underwent three audits.
- It fully complied with the projected goals for 2005: 97% of the phone calls was answered before the third ring, 100% of the e-mails and letters was answered within two business days after reception and the average claim circuit time was 19 days.
- With regard to the claim circuit, consumers gave Consumer Service a general score of 9.3 points; 9.2 points for product restocking and 9.6 points for telephone service (10 is the highest score).

- The Customer Service System was implemented, which is a new management tool through which the different company departments may access a combined database which facilitates the exchange of information related to consumers.

Chapter VII

The Future of Arcor Group and Social Responsibility

Promoting the CRS global movement

Promoting the CSR Global Movement

Arcor Group is known as an institution that has carried out responsible operations throughout its entire lifetime. From the beginning, it determined that its main objective was to achieve a balance between its business activities and the interests of the different groups with which it works.

On the basis of fundamental values and principles, Arcor Group showed throughout its history its shared responsibility with regard to sustainable development, promoting the preservation of natural resources, the development of its personnel and the communities it belongs to.

Having inherited such a tradition and been honored by the commitment it represents, in 2005 Arcor Group implemented a CSR program to merge all of its responsible actions into a social program related to business. From this point on, CSR will serve as a guideline for its business practices.

The CRS Program and its Objectives

Carrying out this initiative has involved a profound analysis of the company's vision, attitudes and conduct as well as of Arcor Group's relationship with different groups and fields of interest.

With this perspective, the Group has established the following goals to orient its CSR strategy for the upcoming coming years:

- To spread the meaning of Social Responsibility and any related matters, practices, instruments and methodologies on the basis of sustainability. The company's target audiences will be trained, especially focusing on increasing employees' active participation.
- To create a continuous communication process for the activities reflecting the company's social responsibility to foster interaction and integration among its target audiences, prioritizing the domestic audience.
- To create a monitoring system for operations and results so as to improve the program.
- To evaluate existing operations, policies and projects so as to improve them in accordance with the company Ethics Code and Code of Conduct, perform new actions and conceive new projects to ensure the fulfillment of the CSR Policy.

- To set up a Management Structure for the coherent and professional implementation, conduction, monitoring and evaluation of operations, including training and communication operations.

In order to achieve the maturity and sustainability of CSR practices, it is necessary to become aware of the meaning of this concept for Arcor Group and society, to learn about innovative CSR practices, accompany this company process and develop projects which express effective CSR practices.

We are aware that these are ambitious and long-term objectives which imply a joint commitment. But we are prepared for this challenge. We are encouraged by our own identity and supported by the strengths that we have developed throughout more than 50 years to lead this process that aligns Arcor Group with the global CSR movement.

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We look forward to receiving your comments, suggestions and questions at:

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