

SAPONIA DD OSIJEK

Communication on progress

2015./2016.



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Statement of support

Dear readers,

You are holding our second Communication on Progress Report prepared according to the UN Global Compact guidelines, which covers our activities in the field of human and labour rights, environment protection and the fight against corruption for 2015/2016.

As a leading detergent and personal hygiene company, Saponia is aware of its role and overall influence on the broader community in which it operates. Saponia is a dynamic and modern detergent manufacturer, which monitors the requirements of the market and its clients. Our strategy of growth and development aims at creating stable and sustainable values in an economic, financial, social and ecological sense, and is founded on the confidence of all our stakeholders and on our common corporate values.

Two years ago we joined the Global Compact initiative, recognizing the 10 principles and values as same as those on which we base our business and our effort to operate as a socially responsible company. We systematically support numerous activities and programs aimed at improving the quality of life in Croatia, especially in our local community. We are active participants in many charitable initiatives and support many cultural, social, educational and sporting institutions.

It is our pleasure to mention that we have made significant progress in the area of reducing waste and have intensified our efforts in managing and protecting the environment. We endeavor to raise awareness of the problems of global warming, energy consumption and issues related to environment protection – issues which are becoming key for our future survival.

Looking ahead, the mid-term forecasts indicate further uncertainties, but also very challenging opportunities. Business conditions are difficult and we expect that the general situation will continue to be under pressure, despite recent growth of GDP and slight market recovery. Strict risk management and appropriate management of capital and costs will remain the priorities of our operations.

We believe that joining this initiative has given us an added incentive to continue our development in socially responsible business and in the next period we will invest additional effort in promoting the Global Compact Principles through our operations.

Damir Skender
President of the Board



Brief description of nature of business

Saponia's history goes back to 1894 when Samuel Reinitz founded family soap production workshop that in last over 120 years grew into leading detergent and personal hygiene producer in this part of Europe employing over 850 employees with subsidiaries in several countries and exporting within and outside EU. Our product portfolio comprise home care, personal care and industrial products - everything you need to keep your home and business clean and safe.

Saponia is part of Mepas group comprising of several croatian companies - Mepas d.o.o. owns 87,4% of its share capital.

All the challenges of todays croatian market, increasing market dynamics, fast and often technological and customer habits changes, demand finding and applying new business and organizational models and swift reaction to business risks and events. Under such conditions Saponia managed to grow each year, despite declining detergent market in Croatia and region. Last years turnover reached 753,6 million kuna, representing 7,9 % growth compared to previous year. First half of the year 2016 showed growth of 1 percent compared to same period in 2015.

Saponia's business success lies in good and timely business decisions, expertise of people making those decisions, long tradition of doing business, unquestionable quality of our products and parter relations with our customers and suppliers. Success lies in constant investments in technology, business processes, people, as well as in good cost management.

Business success achieved in last couple of years will be used for further growth and development of the company. Our goals of business growth and profitability in 2016. will be achieved by executing planned strategic tasks, among others, those of strengthening the position on existing markets, expanding to new ones and seizing new consumers. Therefore marketing is key element of corporate governance, as well as innovative development of new products and modernisation of manufacturing and business practices.

Saponia will continue to maintain its position of regional leader in detergent and personal care sector and work on seizing European union markets. Thanks to innovative products and corporate responsibility toward community as a whole, Saponia will satisfy the needs of its clients as well as secure the prospect of its workers, shareholders and stakeholders alike with basic mission of improving everyday living by developing the culture of hygiene and health as a way of life.

Vision, Mission, Corporate values

Mission

To improve everyday living by developing the culture of hygiene and health as a way of life.

Vision

Saponia will be the leading detergent and personal hygiene products manufacturer in the region. Due to our innovation and superior products and our corporate responsibility toward the surrounding as a whole, Saponia will not only satisfy the needs of its customers but will exceed their expectations, as well as ensure the prosperity of its employees, shareholders and the environment in which the company operates.

Corporate values

Tradition

We are proud of our tradition as the oldest detergent manufacturer in the region who is also innovative and modern in the same time.

Excellence

Continuous improvement of our processes and products, farsightedness, high quality, recognizing and rewarding merit are key to our success.

Innovation

Creativity aimed at innovation and product improvement drives us forward to be the first choice of our buyers.

Transparency

We are committed to making transparency the basis of our activities, advertising and contracts in order to allow all our stakeholders to make independent and informed decisions.

Responsibility in the use of resources

We aim to use all our resources carefully, promote behavior based on the best use of resources and reducing waste. We give priority to choices that take sustainability into account in order to achieve our goals.

Key impacts, risks and opportunities

Business environment risk is determined by political, economical and social conditions in the country, regional and other markets where Saponia does its business. This environment is quite stable, especially after Croatia's entrance in the EU. The risk is mainly tied to macroeconomic elements as well as to changes and stability of detergent industry sector. Decline of consumer purchasing power, height of disposable income, level of investments and employment, as well as the movements in retail sector all have influence on Saponia's business. Therefore, Saponia will continue to monitor those trends and act accordingly.

Competitiveness of foreign multinational companies and their aggressive sales and marketing practices, demand investments in research and development with fast adjustment to market requirements. Stronger market competition requires diversification of offers, increase in product quality and opening of new distribution channels. All this leads to significant financial investments in order to sustain and improve competitiveness of our brands. Saponia as a whole with clearly defined strategy unquestionably has the strength necessary to retain competitive position and ready answers to demands of domestic and foreign markets.

Corporate strategy is directed to distribution segment as well, in order to reduce the pressure from retail chains as much as possible. The goal is to improve the negotiation position of the company by strengthening own brands and introducing recognizable negotiation strategy while reducing the additional cost of intensifying the business cooperation with major distributors.

Environmental risks have been elaborated in detail within environmental aspects assessment during ISO 14001 certification and are evaluated continuously since.

As the Company most of its raw materials sources from foreign markets, prices are regularly monitored on world markets and it tries to react at most appropriate moment. Exposure to exchange rate risk in operational activities is minimized as the business model of the Company enables so called natural hedging as the protection from exchange rate risk.

In the business year 2015 the Company used only cash financial instrument that influenced corporate actions. The Company did not use the derivative financial instruments for risk management.

Sales policy of doing business with only liquid partners and securing additional insurance instruments to reduce the risk of financial loss due to nonpayment has been adopted, while closely monitoring all information available to additionally reduce the risk of nonpayment. In 2015 Company has additionally insured part of its claims with insurance company to reduce potential risk to minimum. Claims from clients refer to large number of them. Key customers are large retail chains and Company is not significantly exposed to one customer only.

Continuous planning and monitoring of cash flow while determining the frame for liquidity risk management results in flexible and successful management of growing financial and liquidity demands.

Principles – actions taken

Human Rights & Labour

- PRINCIPLE 1 BUSINESS SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS**
- PRINCIPLE 2 BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHT ABUSES**
- PRINCIPLE 3 BUSINESS SHOULD UPHOLD FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING**
- PRINCIPLE 4 BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR**
- PRINCIPLE 5 BUSINESS SHOULD SUPPORT THE EFFECTIVE ABOLITION OF CHILD LABOUR**
- PRINCIPLE 6 BUSINESS SHOULD SUPPORT THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION**

Saponia completely respects all guidelines related to respect for human and labour rights which are regulated by the laws and Constitution of the RoC. Moreover, we continuously improve the quality of our working conditions, education and satisfaction of our employees. All employees are protected from any kind of discrimination by the Saponia Labour Relations Code and all decisions, regarding the employees, are approved by the Labour Council.

We take all the necessary measures to protect our clients and improve our relationships with our suppliers.

Actions taken:

Code of Conduct

Saponia recognizes the principles established by international conventions and has adopted the protection and maintenance of human rights as established by the Universal Declaration of 1948, as the values of the Company that are built up in all relevant codes and rules.

Our Codes and internal regulations are founded on a common system of values recognized by society as fair and just. It is the framework within which we shape our everyday operations in relation to our stakeholders. We continuously undertake activities aimed at promoting and establishing these common values amongst our employees.

Working conditions

According to the principles of the Global Compact, respect for human rights is also seen in all the measures taken to ensure good working conditions and a safe and comfortable working environment for our employees.

The activities we undertake in this context are:

- Selection procedure and employment

Employment policy is based on objectivity and transparency ensured by use of psychometric methodology consisted of psychological tests (intellectual ability, numerical and verbal reasoning, personality profile) and motivational interview. All candidates go through the same steps during their evaluation: application, psychological testing, interview, hiring. The selection procedure enables equal opportunities for all candidates. All personal data of candidates are protected and confidential.

Job posts are announced through the corporate web site, local Croatian job portals and daily newspapers.

- Structure of employees and management bodies

→Total employment:

State as on 1st Sept 2015: 864 employees

Structure (1st Sept 2015): 458 men (53%) and 406 women (47%)

→Education

Break-down of work force according to level of education and gender:

Level	Total (%)	Men (%)	Women (%)
University Degree (Bachelor, Master)	24,3	43	57
High school	64,1	59,2	40,8
Other	11,6	40	60

→Age structure

Break-down of employees by age and gender:

Age	Women	Men	Total
-29	23	75	98
30-39	50	143	193
40-49	103	73	176
50-59	208	136	344
60+	22	31	53
Total	406	458	864

According to the age and grade, average Saponia employee is 46 years old and has a high school degree.

Middle and senior management counts for 114 positions of which 58 are held by women (50,9%).

- Education and development of employees

Saponia carefully and thoroughly plans the development and training of all employees, investing in creating a pleasant work environment, and endeavors to enable the fulfillment of the professional goals of individuals. Alongside the standard programmes, in cooperation with external experts, we offer courses in foreign languages, information technology, specialist programs and programs aimed at developing managerial skills.

In 2015/2016 the total number of participants in various educational programs was 258, and a total of 415 days of training were held. Regularly, about 30% of our employees is involved in the programs.

- Trade unions

The right to participate actively in activities promoted by the Trade Union organization for the protection of the rights of the individual and the collective is guaranteed to all employees. Two unions are active (EKN and Independent Union) in Saponia and actively participated in collective negotiations.

- Incentives

Saponia has no special incentive system, but all employees get Easter, Holiday and Christmas bonuses. Saponia also has a range of non material motivators that it offers to employees.

Safety at work and health

Health care activities are organized within the Legal department, Health and Safety Office (health checks for employees). In line with the Safety at Work Act, a Safety at Work Committee has been founded, and the responsibilities of the committee are regulated by a Book of Rules.

The role of the committee is also to supervise the application of safety at work regulations, informing employees of the situation regarding safety at work, and implementing policies to prevent injuries and occupational diseases.

There is a sports and recreation association in Saponia, which offers various sports and recreational programs for employees and members of their families.

- Saponia sports club

Saponia sports club is an association whose registered scope of activity includes organization of recreational and sports-educational activities for Saponia employees. Use of organized recreation is also open to the immediate families of our employees, meaning their spouses and children.

It strives to provide recreation through as many sports as possible so as to stimulate our employees to socialize with each other and jointly contribute to the achievement of set goals, as well as to strengthen their team spirit and make them aware of the fact that it is easier to achieve such goals with joint forces. The Association has been active for over 30 years and currently has about 400 members.

- Internal communications

The internal communications system is very well developed through various channels: Intranet, email and the internal magazine "Saponia". They contain all relevant information and interesting details from the life of Saponia and in this way contribute to a feeling of belonging for this group.

Also, all employees are invited to contribute to the content of the internal communication channels. This year we have enriched our Intranet with some new sections.

Security and safety

We believe that protecting the security and safety of our customers and products is not only a primary duty but also the basis of the trusting relationship that we wish to maintain with them and we:

- undertake to protect persons and products in such a way as to provide service and products that completely meets the requisites of reliability and safety.

- guarantee constant compliance with the law
- observe criteria of absolute transparency in informing our customers about products and services. Saponia implements physical and technical security, fire safety and other measures that ensure the protection of our visitors and employees, and our products. All security and safety measures are completely compliant to the legal regulations, and some even meet higher security standards than those required by law.

Suppliers' chain

We guarantee equal opportunity in the selection of suppliers, taking into account their compatibility with the size and needs of our company. We undertake to make sure that the contracts stipulated with our suppliers are based on fairness, especially regarding terms of payment and administrative compliance.

Future goals:

In the future period we will continue to promote company unity and increase transparency in employee relations through internal communication channels. Also, our goal is to adopt policies and offer conditions that will result in a first-rate working environment for all employees.

In relation to our suppliers, we will ensure that the process of supplier selection is transparent and fair and establish a cooperative relationship based on dialogue and mutual trust.

Environment

PRINCIPLE 7 BUSINESS SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

PRINCIPLE 8 BUSINESS SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY

PRINCIPLE 9 BUSINESS SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

Environmental protection is one of major concerns of Saponia and with our actions and activities we do our best to lower our environmental impact. We also support various community based programmes and activities related to environmental protection.

Saponia is a company whose business is based on promotion of sustainability. Our basic task is to create economically successful, ecologically acceptable and socially responsible company. Systematic care of our environment and environmental protection principles are built in all business activities of the company.

Actions taken:

Environmental management, as one of most important elements of corporate development strategy, Saponia has confirmed by adopting Environmental Policy, committing itself to::

- respect and implement environmental laws and regulations of RoC, international conventions, protocols and contracts signed by RoC, regulations and requirements of local community and all other requirements Saponia has obliged to respect,
- continuously monitor of emissions, aspiring to constantly improve our environmental impact,
- continuously reduce negative environmental impact thru product and manufacturing process development and by use of raw materials and packaging with lower environmental impact,
- permanently educate employees for utmost understanding of environmental management system and raising awareness about impact of their actions on the environment,
- constantly communicate with surroundings and provide public availability of Environmental Policy.

Development of concentrated detergents with usage of ecologically acceptable raw materials and their introduction to the market lowers our environmental footprint by reducing packaging waste and influence on wastewater. Projects on wastewater management and implementation of new filters also contribute to lowering environmental footprint and increasing the quality of life of citizens in our community. Constant investments in improving manufacturing and packaging lead to lower environmental impact, but also increase workers safety and improve working conditions.

During the building and reconstruction of premises we use systems and equipment with low level power consumption and high level energy utilization. In accordance with the environmental protection and waste disposal regulations, Saponia ensures the disposal of dangerous and environmental endangering waste (used oils, chemicals, neon bulbs, etc.) in appropriate manner. Reduction of paper consumption is reached by implementing multifunctional devices where appropriate. Waste paper is gathered separately and collected by a contracted company that recycles it, as well as plastic, metal and other recycable materials. Non-recycable waste going to a landfill constitutes less than 5% of our total waste.

Hazardous waste are sorted separately and collected by a contracted company which does business in compliance with laws and regulations.

During the training of employees in fire protection and safety at work one of the topics is environmental protection. Through various tools, ranging from intranet to corporate newsletter and library, we are building the awareness of employees about environmental issues.

Future goals:

We will continue to promote responsible use of environmental resources, especially efficient use of energy and paper and proper waste management. Also,

we will increase employee training and information on environmental issues to raise awareness.

Anti-Corruption

PRINCIPLE 10 BUSINESS SHOULD WORK AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY

Actions taken:

Corporate Governance

Saponia systematically monitors best practice principles in the field of corporate governance, which are incorporated into Saponia's operations in accordance with the principles of good manufacturing practice. The principles of corporate governance are implemented through the principle of publicly accessible operations, the powers of the Management Board and the Supervisory Board, internal control systems and co-operation between the Management Board and the Supervisory Board. An integral part of the company's internal control systems is the compliance function. Along with risk control functions and internal audits, it is a system of processes established with the goal of insuring that the Company operates pursuant to all relevant legal and regulatory requirements and adopted professional practices. The compliance function guarantees the existence of rules, procedures and operating practices which efficiently prevent the breach or violation of applicable regulations in all business activities, including the areas of anti-money laundering, transparency, embargo, payment systems, safety and health at work, personal data protection, as well as regulations in the area of environmental protection.

Legal department investigates complaints or anonymous reports which may be sent by any employee on significant irregularities, illegal and/or unethical conduct. Department will insure, on the basis of such reports and pursuant to the internal regulations, an independent investigation and adequate activities to follow up such an investigation. Concerning these investigations, employees who report irregularities, illegal and/or unethical conduct in good faith, are protected from disciplinary measures or any other procedure or any other activity which might threaten the legitimate rights of such persons.

Policies, Systems and Commitments that support anti-corruption principle include:

- Croatian Chamber of Commerce Business Code of Ethics
- Anti-corruption action plan

Anti –Money Laundering, Combating Terrorism and Embargo

The Republic of Croatia, with the aim of preserving or re-establishing international peace and security, has adopted restrictive measures and embargos imposed by the United Nations Security Council Resolution, resulting in the partial or full

suspension or weakening of economic relations with one or more third world countries. When rendering decisions on implementing restrictive measures and embargos the Republic of Croatia also acknowledged the common position or joint action of the member countries of the European Union.

The repression of corruption in all its forms is an integral part of measures and activities conducted by Saponia to minimize potential risks and to protect the good name and reputation of our Company. Saponia is according to new "Anti Money Laundering and Terrorist Financing Law" not obliged to adopt the Rulebook on Measures and Actions for the Prevention of Money Laundering and Terrorism Financing which defines measures, actions and regulations to fight money laundering and terrorism financing, but has implied such measures in applicable form in everyday business procedures.

Training

The main purpose of Saponia's training programs/activities is to introduce the basic values and principles which all employees should adhere to when performing their duties and professional tasks and obligations. Saponia uses various channels of internal communication to remind its employees on necessary actions to be taken to prevent corruption, including Intranet based guides.

Future goals:

Since the Saponia Group does not tolerate any form of corruption or bribery, it continuously strive to pass on its corporate values to all employees (training etc) and to efficiently implement measures of control. Actions will be taken to improve and develop adequate procedures.

Membership

Saponia is member of:

- Croatian Employers Association
- Croatian Chamber of commerce,
- AISE
- GS1
- CROMA
- Croatian association for water protection
- Croatian association of accounting and financial workers

Our employees are members of various professional associations and NGO's.

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