

SAPONIA DD OSIJEK

Communication on progress

2016./2017.



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Statement of support

Dear readers,

With our third Communication on Progress Report, covering our activities in the field of human and labour rights, environment protection and the fight against corruption for 2016/2017, we believe that we have gained momentum in maintaining the goals of Global Compact.

Saponia is leading detergent and personal hygiene company in the region, aware of its role and overall influence on the broader community in which it operates. We are dynamic and modern detergent manufacturer, monitoring the requirements of the market and our 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.

Three 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 are currently involved in three Horizon 2020 projects in the field of circular economy with goals of achieving zero waste, rise in bio-based chemicals and obtaining novel products from waste materials. 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 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. Last years turnover reached 743,8 million kuna, representing 1,3 % decline compared to previous year. First half of the year 2017 showed decline of 8 percent compared to same period in 2016 due to controlled reduction of sales and focus on profitability, but increase in profits of 1% .

Saponia's business model is based on a concept of creating modern, environmentally friendly production technology and detergent packaging systems. A brand strategy has been developed that relies on the holistic approach to quality, meeting the environmental standards and creating a visual identity of the products in line with the market trends. Saponia's strength is mainly in its brands, and their on-going development and growth is a result of continuing investments and innovation efforts. It'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.

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 2017. 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

The economic growth in 2016 has brought fresh optimism, but the structural issues inherent to the Croatian economy call for prudence. The economic situation in Croatia and the Adriatic region countries considerably affects the entrepreneurial activity. Despite that Saponia has managed to remain the leading regional detergents and hygiene product company in the region thanks to its well-thought out business strategy.

The trend of successful operations continued in 2016 in spite of all the economic challenges and macroeconomic developments. Under the aggravating market circumstances, all the planned projects were implemented, the set targets were achieved, which, along with the positive operating result, speak in support of a continuing success and a strategy focused on business excellence. Production continues to feature cumulative year-over-year growth, and the responsible management of operating cost, financial assets and total debt of the Company reflected through positive year-end financial performance indicators, the stability indicator and the efficiency ratio.

The plan for the next year is to continue working on improving the overall performance by innovative revenue generation efforts and marketing initiatives. The focus is on preserving the stable position on the domestic market and intensify the efforts to penetrate foreign markets. According to customer experience, the growth will be focused on ensuring a steady quality and expanding the line of products on offer. Technological competitiveness and continuing investment efforts are the drivers of Saponia's growth and development as a modern and successful producer. The next year's plan includes investments as part of a new investment cycle focused on improving the quality of products and increasing the efficiency of the production capacities.

Despite the critical moments in the Croatian economy and all the objective difficulties expected in the next year, the ability and power of Saponia constitute the foundation of its further successful growth and development.

In carrying out the business activities, Saponia is exposed to many risks, both on the domestic and international markets. Saponia's organisational structure has been translated to its organisation of the risk management function. Risks are most effectively managed at their source, which allows the various professionally trained staff to respond promptly and timely to any identified risk.

The differing legislation prevailing on the market, particularly in the chemical industry, requires a high level of flexibility and professional focus on the specific areas of operations. The regulatory costs in the production of soaps and detergents are estimated to account for 11.4 of the added value. Lack of orientation in such a large body of regulatory requirements may bring significant problems. This is why Saponia, apart from relying on its own resources, sources external professional services to align its operations with the current legislation.

Operational risks

Business environment risk is the risk associated with the markets on which the Company operates. Developments in the country and the region are constantly followed to respond promptly to any potential risk in the surroundings. The production and chemical industries

feature a high level of stability. Still, they are significantly exposed to macroeconomic factors such as personal consumption, the amount of the disposable income, the level of investment and employment, which requires a constant and close observation of the trends in the industry, the national economy and economics in general. An increasingly strong competition in the industry requires a diverse offer, increasing the quality of product and opening of new distribution channels. The detergent industry segment depends on the consumer power and is characterised by competing foreign multinationals and their aggressive sales and marketing campaigns, research and development expenses and fast adaptation to market requirements. Saponia seeks to keep pace with largest producers, continuously follow the competitors, respond promptly to changing consumer habits and find appropriate response to all the challenges of market competition.

To improve the competitiveness of own brands, capital investments to enhance product quality and improve the efficiency of the production processes remain a constant. In a situation of limited market shares and price sensitivity, it is the objective of the Company to remain competitive, both in terms of prices and in quality, which results in considerable financial investments.

The Company's strategy is also focused on the distribution segment in order to minimise the pressure put by shopping malls. The target is to increase the negotiating position and reduce additional costs of intensifying business cooperation with leading distributors by strengthening own brands and implementing a clearly identifiable marketing strategy.

Environmental risks are one of the strategic areas of the chemical industry. Stricter regulatory requirements have a considerable impact on the Company's operations, and the specifics of the production activity impose the need to engage subject-matter experts outside Croatia. The environmental risks have been detailed as part of the environmental assessment in the process of ISO 14001 certification and are continuously reviewed. Major risks are those associated with potential water pollution with effluents before they are treated as well as with potential spillage and leakage during transport and there is also the risk of air pollution in case of an accident affecting filters. The employees are trained to respond appropriately in case of such incidents, but there are also a number of preventive and control measures intended to minimise the risk of environmental accidents.

Financial risks include unforeseen movements in prices, foreign exchange and interest rates, which constitute market risk. Financial risks also include credit risk, liquidity risk and cash-flow risk. In 2016 the Company used only primary financial instruments, which affected its operations. No derivative financial instruments were used. Price risk relates to movements and changes in market prices, specifically those of key inputs. In the course of its operations, Saponia is focused on input suppliers on foreign markets, mostly the EU market. The purchase function is charged with managing the price risk and it is responsible for monitoring input prices regularly and responding at the right time. Otherwise, a loss incurred as a result of unplanned input price increases has to be offset by reconsidering other strategic areas, which may cause disturbance of the Company's business.

A strategic measure for managing price risk is building partnership with suppliers, increasing purchase volumes without nibbling away the optimum level of inventories, production and liquidity and seeking alternative solutions in selecting in-process materials and suppliers. Foreign exchange risk arises from the fact that the Company operates internationally, which exposes it to changes in the exchange rate of the Croatian kuna against other currencies. The risk increases whenever the on-balance sheet assets and liabilities denominated in a certain currency become disproportional. The highest

exposure arises from changes in the exchange rate of the kuna against the euro in transactions with suppliers, customers as well as foreign-currency denominated loans.

Given the circumstances, Saponia had no need to resort to any hedging instruments. A decrease in the 2016 average exchange was not such that it would lead to a potential use of hedging instruments. The implemented business model enables the so-called natural hedge against the foreign exchange risk and will be applied in 2017 as well. Saponia's interest rate risk arises from its long-term borrowings. The loan debt comprises both variable-rate and fixed-rate borrowings. Variable-rate borrowings influence the cash-flow interest rate risk, whereas fixed-rate borrowings expose the Company to the fair-value interest rate risk. The operational activities include monitoring interest fluctuations and analysing alternative funding solutions regularly. In case of significant disturbances on financial markets, Saponia will be ready to take any required measures to mitigate any potential negative financial effects.

Credit risk is the risk that the counterparty will default on its contractual obligations in a manner that would impact the Company's financial result. The assets that expose the Company to credit risk are given loans, deposits, trade receivables and cash. Trade receivables include a large number of customers. Key customers are large shopping centres and malls; hence, the Company's exposure is not concentrated on a single customer. Credit risk is managed by the sales function in two stages: assessing a partnership and any past due debt. Customer creditworthiness is assessed based on available information, and security instruments as well as the credit limit for deliveries are defined. The next step includes on-going monitoring of the Company's exposure to its business partners. A particular emphasis is placed on past due debt. The sales policy defines past due debt limits, which, once exceeded, trigger the discontinuation of deliveries as well as the involvement of persons responsible for the process. Credit exposure is managed by means of regular analyses of business partners carried out in synergy between the sales and finance functions to identify timely risks arising from operations. Customer creditworthiness is assessed based on available information. The assessment is a result of continuous monitoring of the exposures through financial and non-financial performance indicators.

Protection against credit risk implies obtaining collateral in the form of a bank guarantee and debenture. Since 2014 Saponia has been arranging insurance coverage for a part of its receivables to minimise the potential risk. Protection against all other contingent credit risk beyond the Company's control is sought within the framework of the applicable national legislation and international regulations.

Credit risk arising from liquid assets and financial instruments is limited. This is because of the business relationships being built with financial institutions of high credit rating. Liquidity and cash flow risks imply maintaining sufficient levels of cash and working capital, obtaining adequate funding using available lines of credits and the ability to settle liabilities as they fall due. Continuous planning and monitoring of cash flows enables a smooth running of the operations. Flexibility in managing cash flows is provided by defining financial facilities for managing liquidity risk.

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 31st Aug 2017: 870 employees

Structure (1st Sept 2015): 472 men (54%) and 398 women (46%)

→Education

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

Level	Total (%)	Men (%)	Women (%)
University Degree (Bachelor, Master)	22,6	46,1	53,9
High school	66,4	59,2	40,8
Other	11	42,7	57,3

→Age structure

Break-down of employees by age and gender:

Age	Women	Men	Total
-29	22	79	101
30-39	55	146	201
40-49	92	76	168
50-59	206	138	344
60+	20	33	53
Total	395	472	867

According to the age and grade, average Saponia employee is 45 years old and has a high school degree.

Middle and senior management counts for 113 positions of which 58 are held by women (51,3%).

- 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 2016/2017 the total number of participants in various educational programs was 272, and a total of 402 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. New collective agreement has been signed and new workers rights were included in it.

- 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.

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.

The increasingly stringent environmental protection regulation, the higher environmental awareness among consumers as well as the desire to adhere to the circular economy principles have driven the development of a new generation of detergents with a shift to bio-degradable inputs, recyclable packaging materials and new technologies with reduced environmental impact. The 2016 research and development activities were focused on further consolidation and concentration of powder and liquid detergents, which helped reduce the required dosage for machine-washing of laundry from 100 g to 65 g a wash load. This will result in lower emissions of hazardous chemicals, a decreased number of transport deliveries as well as lower CO2 emission levels. Along the entire line of products application research has been performed for environmentally friendly, bio-degradable inputs as well as more environmentally friendly packaging. This type of research has resulted in a number of new and innovative products within the lines of powder and liquid detergents, cleaning as well as hygiene and cosmetic products. Saponia is also partner on three Horizon 2020 projects falling into domain of circular economy using various wastes to obtain valuable new bio-based materials with higher recyclability and biodegradability compared to conventional ones.

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 applies the best corporate governance practice. It is based on its Corporate Governance Code, which complies with the Croatian legislation and adopted international standards and EU directives. Saponia's Corporate Governance Code ensures transparency of its operations and the deserved level of protection of its employees, shareholders as well as appointed leaders of the corporate functions. The objective of the Corporate Governance is to bring long-term economic value to the Company's shareholders. In executing the Mission, Saponia's Management and Supervisory Boards take into account the interests of other stakeholders. Both the Supervisory Board and the Management Board are committed to maintaining high corporate governance standards and taking care about their employees, sustainable development and environmental protection.

The adopted principles have been derived from a responsibility-based governance aimed at establishing high corporate governance standards to ensure building open, professional and transparent relationships with all investors and the general public that would allow the Company to evolve further in line with the modern corporate governance principles. The established control and monitoring systems are effective in preventing any regulatory non-compliance in the areas of, among others, occupational health and safety, personal data and environmental protection.

The Finance and Controlling provide regular periodic financial and related summaries on a timely basis before they are made available to the public, as well as the information about the accounting policies applied and any changes, which also includes information about any material departure between the carrying

amounts and the actual amounts of individual items. The reports are prepared in an easily understood and concise manner. They cover all the aspects of the operations in a year and compare them with the prior-year status while providing an accurate, complete and fair view of the Company's financial position and its business plans for the future. The Finance and Controlling provide to the Supervisory Board data about the internal accounting control system at least annually. The Supervisory Board assesses the measures and internal control procedures as well as their operational effectiveness as part of the entire business organisation and provides recommendations regarding their implementation. The Company's internal control policies, procedures, practice and organisational measures as part of the internal control system are executed so as to provide reasonable assurance that the business objectives and targets will be achieved and any undesirable events prevented or identified and removed.

The Company's external auditors represent a key corporate governance tool given their key responsibility to make sure that financial statements reflect adequately the actual state of affairs at the company as a whole.

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
- Code of Corporate Governance prepared by the Croatian Financial Services Supervisory Agency (CFSSA) and Zagrebačka burza d.d. (the Zagreb Stock Exchange)

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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