

SAPONIA

odani vrhunskoj čistoći



SAPONIA D.D., OSIJEK

Annual report for the year ended on December 31st, 2020. together with independent auditor report

Content

Letter of commitment.....4

About this report.....5

Company profile6

Annual Management Report.....9

Statement of continued support 12

Business model 13

Mission, vision and corporate values..... 14

Corporate values of Saponia..... 15

Corporate governance..... 16

 Management structure 17

 Management Board..... 18

 Statement on the remuneration policy of the Supervisory and Management Boards..... 21

 Corporate functions 21

 Code of Business Conduct 21

 Saponia Stock 22

Corporate governance (continued) 23

 Statement on the application of the Corporate Governance Code 23

Expected development of the Company 25

 NEOFRESH product line 25

 26

 Nila..... 26

 Handysept i Deziclean 27

 Arf wc power – toilet cleaners and fresheners 28

 Lahor liquid soap 28

 29

 I&I Program 29

 Communication platform 29

Research and development..... 31

 Research and development at the service of consumers 31

 Research and development at the service of the environment..... 32

Quality management system 34

Risks 37

Business risks.....	37
Industry, competition and trade risk.....	38
Procurement market risks.....	38
Environmental risk.....	38
Financial risks	39
Price Risk	39
Currency Risk.....	40
Interest rate risk	40
Credit risk	40
Liquidity and cash flow risk	41
Stocks and subsidiaries	42
Stock.....	42
Subsidiaries.....	44
NON-FINANCIAL REPORT	45
Stakeholders.....	46
Environment	48
Water use and protection	49
Chemicals and biocides	49
Waste.....	50
Air	50
Noise.....	51
Resources and energy management.....	51
Implementation of environmentally friendly technologies, raw materials, packaging and product formulations.....	51
Introduction of environmentally more acceptable packaging.....	51
Projects - Horizon 2020 linked to circular economy and sustainability	52
Human resources.....	52
Community	55
FINANCIAL BUSINESS REPORT	59
Summary of key financial indicators.....	59
Financial business	59
Statement of the persons responsible for compiling the financial statements.....	59
Proposal of decision on use of profit.....	59
Decision on determining the annual financial.. ..	59
Key events of 2020.	61

New products	61
Community support	61
Business environment	62
Revenue dynamics.....	62
The comparative period has been adjusted for reporting for 2020	63
Profitability dynamics.....	66
Operating cost structure	67
Financial position.....	68
Cash flow	69



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H.E. António Guterres
Secretary-General
United Nations
New York, NY 10017
USA

Osijek, 30th June 2021.

Dear Mr. Secretary-General,

I am pleased to confirm that Saponia d.d. Osijek supports the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption. We have withdrawn due to financial obligations that we could not meet at the time, but remained true to the principles of Global Compact. With improvement of our financial situation we would like to rejoin the group of forward thinking companies.

With this communication, we express our intent to implement those principles. We are committed to making the UN Global Compact and its principles part of the strategy, culture and day-to-day operations of our company, and to engaging in collaborative projects which advance the broader development goals of the United Nations, particularly the Sustainable Development Goals. Saponia d.d. Osijek will make a clear statement of this commitment to our stakeholders and the general public.

We recognize that a key requirement for participation in the UN Global Compact is the annual submission of a Communication on Progress (COP) that describes our company's efforts to implement the Ten Principles. We support public accountability and transparency, and therefore commit to report on progress within *one year* of joining the UN Global Compact, and *annually* thereafter according to the UN Global Compact COP policy. This includes:

- A statement signed by the chief executive expressing continued support for the UN Global Compact and renewing our ongoing commitment to the initiative and its principles. This is *separate* from our initial letter of commitment to join the UN Global Compact.
- A description of practical actions (i.e., disclosure of any relevant policies, procedures, activities) that the company has taken (or plans to undertake) to implement the UN Global Compact principles in each of the four issue areas (human rights, labour, environment, anti-corruption).
- A measurement of outcomes (i.e., the degree to which targets/performance indicators were met, or other qualitative or quantitative measurements of results).

Sincerely yours,

dr.sc. Dajana Mrčela, dipl.oec.
President of the Management Board



About this report

Saponia's annual business report documents not only financial indicators and business achievements and plans, but also the results achieved in environmental protection, social and managerial responsibility in the calendar year 2020. The data in the reports refer to the period from 1.1.2020. to 31.12.2020. unless otherwise stated and cover the entire business of Saponia at all locations.

The report was prepared in accordance with all regulations and recommendations in the Republic of Croatia, and in accordance with the Guidelines for reporting on non-financial information of the European Commission. The information in this report reflects the situation as of the date of this report and has not been subsequently corrected or changed, and Saponia has no plans to make any subsequent changes. If they occur, the public will be informed and corrections will be duly marked.

Company profile

Name of the company

Saponia d.d.

Activities, brands, products and services

Saponia is a detergent and toiletries industry that places top brands on the market which have become synonymous with quality and have been indispensable in many households for decades: Faks Helizim, Nila, Rubel, Bioaktiv, Plavi Radion, Ornel, Likvi, Tipso, Arf, Vim, Bis, Lahor, Frutella, Kalodont, Di, Brinell, Skit.

Headquarters and place of production

Osijek, Republic of Croatia

Ownership and legal form

Joint stock company

Markets in which we operate

Bosnia and Herzegovina, Northern Macedonia, Kosovo, Slovenia, Albania, Montenegro, Sweden, Serbia, India, Hungary, Italy, Slovakia, Belgium, Germany, Czech Republic, Austria, USA.



Saponia, applies the precautionary principle through the following activities:

- In order to protect the environment, since the care of the environment is one of the priorities of Saponia, built into all levels of the company's business.
- In its business philosophy, Saponia advocates the protection of health and safety at work of its employees as a matter of priority and commitment:
 - assessing the risks to the health and safety of workers,
 - defining occupational safety measures that eliminate sources of risk, reduce risks, introduce technical and organizational measures and use personal protective equipment to ensure continuous reduction of the risk of injury and damage to the health of workers,
 - ensuring a safe working environment and appropriate work equipment,
 - providing preventive health examinations,
 - ensuring the performance of tasks in accordance with the instructions and under the supervision of immediate superiors,
 - ensuring appropriate training of workers,
 - timely informing workers about all risks and changes that could affect the health and safety of workers,
 - raising the awareness of all workers about the importance of health and safety at work,
 - ensuring care for the health of its employees by immediate supervisors, occupational safety experts, doctors and occupational medicine specialists,
 - continuous monitoring of regulations and guidelines in all areas related to the protection of health and safety at work and their application in practice,
 - timely consultation with workers and their representatives on protection, prevention and reduction of risks at work, improvement of working conditions, planning and introduction of new technologies and the impact of working conditions and the working environment on the health and safety of workers.
- At the beginning of the COVID-19 crisis and the first case of coronavirus infection in the Republic of Croatia, the employer issued several written instructions / notifications and decisions on the actions of workers and business partners (external contractors, visitors, external drivers, etc.) at the employer's premises to reduce risk of COVID-19 disease occurrence and spread:
 - workers were given written instructions on how to act at home, in public places and in public transport
 - written instructions / notices were posted at the entrance to the company and in all facilities of the employer, related to maintaining personal hygiene of workers and other persons within the company, and instructions with actions should be taken by workers and other persons in case that symptoms of COVID -19 occurred
 - mandatory measurement of temperature at the entrance to the company facilities was introduced, also wearing masks or medical masks in the facilities and in the open spaces of the employer (employer's decision in force from the beginning of the March 2020), passage through disinfection barriers and hand disinfection at the entrance to the factory and at the entrances to all facilities of employers in the factory, dispensers with hand sanitizer were installed at the entrances to all facilities, keeping physical distance from each other, maintaining hygiene of working and auxiliary rooms, cleaning and disinfection of work surfaces, elevators for the transport of persons, telephones, keyboards, control surfaces of machines, computers and other contact surfaces used by a large number of persons at least twice per shift, obligatory frequent ventilation of the premises, shift change was organized, in common rooms for food consumption and rest, the number and retention time of workers was limited
 - work from home was organized wherever possible

- business trips were limited
 - meetings were reduced with maximum adherence to epidemiological measures
 - control over the adherence to the measures was regularly carried out by occupational safety experts and direct managers of organizational units
 - masks were provided to all workers along with other personal protective equipment
 - daily monitoring of the number of COVID 19 infected workers, workers in self-isolation or workers who suspect that they have been in contact with a sick person and have not been officially assigned self-isolation has been introduced.
- As a precautionary measure upon entering the factory, employees report with factory cards at the entrance / exit, and all persons who are not employees of the company must register upon entry.
 - Recruitment of the best candidates is carried out through the principles defined by Saponia d.d., and for the purpose of maintaining the confidentiality of data, employees sign a statement on confidentiality.
 - Users of company applications are granted special authorities and passwords as authorization to access certain information.

By using the precautionary principle and implementation of quality system based on ISO 9001: 2015 and ISO 14001: 2015 (Environmental Management System), Saponia achieves a high level of quality management and control over business activities, control of business processes and business transparency, which resulted with authorized economic operator status AEOC status given by the Croatian Customs Administration. Saponia operates in accordance with the Code of Corporate Governance by Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange and thus applies the principles of good corporate governance in its operations.

In 2020, Saponia is a member of numerous associations (HGK, HUP, HDKK, HUND, professional chambers - Croatian Chamber of Civil Engineers, Croatian Chamber of Mechanical Engineers, Croatian Chamber of Electrical Engineers, etc.).

In the Croatian Chamber of Commerce (HGK), the President of the Management Board of Saponia is a member of the Assembly, which is the governing body of the Chamber, and the representative of Saponia is the President of the Association for Detergents and Cosmetics and Deputy President of the Association for Environmental Protection. Saponia is one of the founders of the Croatian Society of Cosmetic Chemists (HDKK) and has representatives in executive positions of HDKK bodies.

Other initiatives:

- member of the A.I.S.E International Association of Manufacturers of Soaps, Detergents and Household Cleaners
- member of the European association Cosmetics Europe (CE)
- Member of GS1 of the Croatian Association for Automatic Identification, Electronic Data Exchange and Business Process Management.

Annual Management Report

For the business of Saponia in 2020, we can say that it took place in conditions that can hardly be compared to any year in the recent history of the company. The impulse of financial and operational restructuring from 2019 was implemented in the business plan carried out in 2020. However, the fate that changed the look on lifestyle, communication, consumer mentality, and especially the concept of health care has affected the whole world and our primary goal was to preserve the health of employees and ensure normal business operations in accordance with the new business strategy.

Our business optimism, prompt decision-making, the support of the owner and the whole team had a positive impact on operations, and when the coronavirus appeared in Croatia, we focused on providing a sufficient amount of disinfectants for institutions, companies and households so we can all together return to normal life as soon as possible.

In the production program of Saponia, products for disinfection of hands and surfaces are part of the regular offer for the I&I segment, and our turnaround in production was relatively simple with challenges related to the procurement of raw materials and packaging. The effectiveness of the Deziclean and Handysept brands has been verified with the Coronavirus Efficacy Certificate issued by the J. S. Hamilton Laboratory. At the same time, in accord to the market situation, we focused on achieving business goals on key brands and projects that should ensure the prosperity and future of Saponia. Development and marketing activities were particularly intense on the new Neofresh product line, however, the impact of the project on sales results was felt more in the second half of the year when consumers also turned to normal consumption.

Saponia's market strength is also proved through stability of the sales share of our main brands. Faks Helizim, Ornel, Arf, Likvi, Nila are still among the leaders in their categories in Croatia, and some, such as Faks Helizim, Ornel and Arf, have high market shares in the markets of the region. As a result of the increased need for cleaning, washing and also disinfection of surfaces, the categories in which Saponia is present recorded an increase in value and volume last year and it is expected that this will continue in 2021. Over the past few years, there has been an increasing share of premium quality brands, and this is the segment in which Saponia is most present. Quality, modern compositions, environmental responsibility - this is the concept we incorporate into our products.

In 2020, Saponia generated HRK 543.4 million in total revenues, HRK 536.4 million in operating revenues and HRK 525.3 million in sales revenues, which is 5 percent more than in the previous year.

Although Saponia's production program is not seasonal, the tourist season significantly contributes to the sales of both the I&I segment and consumer goods. Despite the unfavorable announcements for the summer and the evident decline in retail sales, the focus on achieving the best possible sales results in all sales channels had a positive effect on total turnover, and we achieved excellent results in those months.

Saponia's export orientation is our long-term strategic determinant, and in 2020 we generated almost 45% of our revenues on export markets. Despite the pandemic that affected all markets in the area, we can



be satisfied with the results achieved because sales revenue is almost 3 percent higher than the previous year. The most important export market for us is still Bosnia and Herzegovina, which participates in exports with 36 percent, with revenue growth of 9 percent. Slovenia participates in exports by 12 percent and last year we achieved sales growth of 27 percent in that market. Saponia's traditional strong export markets remain Macedonia, Montenegro, Kosovo and Albania. In 2020, Macedonia participated with 12 percent in the export revenue with a growth of over 8 percent, Montenegro grew by 4 percent while participating with 8 percent in the export of Saponia.

All our brands have been at the very top in terms of share in sales for years, and with a quality network of distributors and trade marketing activities, we ensure their stable sales. Saponia products are also sold in other European markets, as well as in the USA and India, and opening new markets is one of our long-term goals. Our imperative throughout the year was to ensure a targeted level of revenue covering fixed costs, as much revenue dispersion as possible and a strong focus on profitable sales processes. By minimizing the effects that do not carry value, to the level of "cold drive" and optimizing human resources, a cost-effective outcome followed. There was a 7 percent drop in operating expenses compared to the previous year. Operating expenses were quantified in the financial report in the amount of HRK 454.1 million. The emphasis on a profitable production program and the ability to adapt to the new situation, resulted in an EBITDA growth of 166 percent. EBITDA for 2020 was realized in the amount of HRK 97.6 million with a margin of 18 percent. Saponia's operating profit amounted to HRK 82.2 million, while net profit amounted to HRK 66.7 million.

On December 31st 2020, Saponia has total assets of HRK 642.6 million, with a credit debt of HRK 112.9 million, a net financial debt of HRK 30.5 million and a net working capital of HRK 137.4 million.

During the observed period, HRK 80.2 million in cash flows from operating activities were generated as a result of the growth of operating operations and working capital management. CAPEX amounted to HRK 34.8 million in the observed period. The repayment of credit liabilities in the net amount of HRK 38.4 million reduced cash flow from financing activities.

Saponia's business result had a positive impact on the value of shares on the stock exchange. Stock prices and, consequently, market capitalization, recorded a growth of 48 percent during 2020. At the end of 2020, its value was HRK 420, with a further growth trend at the beginning of 2021.

In the year of the pandemic, we postponed the implementation of part of the projects, but we continued to work intensively on strategic priorities for the coming period. In order to ensure quality infrastructure for storage and distribution of products of Saponia, Kandit and Koestlin, investments were made in the reconstruction, construction and equipping of the Logistics Distribution Center in Zagreb. The investment, worth HRK 8.74 million, will meet all the specific requirements of all three companies whose distribution has been contracted by Saponia since the beginning of 2021 as part of the new business model.

Our vision is to be the leading detergent and toiletries industry in the region thanks to innovative products and the corporate principle of sustainable development with the aim of maximizing benefits for the consumer with minimal impact on the environment.

Sustainable development is integrated into our business model, and our strategic projects are aimed at reducing the high energy consumption delivered from distribution networks through the production of energy from renewable sources (RES). Through a project with a total value of HRK 50.5 million applied for the Call for Grants from the Ministry of Economy and Sustainable Development, our goal is to save 40% of delivered electricity and over 60% of energy for heating / cooling compared to the period before implementation measures for production facilities.

The process of digital business transformation continued through the implementation of the SAP system, which will contribute to further productivity, efficiency and business improvement.

Socially responsible business has been incorporated into Saponia's business policy. The situation in the past year has especially motivated us to make life easier with donations, grants and additional care for employees and motivate others to act in the same way.

Our commitment is the responsibility for the growth and development of the company, but also to act in harmony with the environment in which Saponia operates. Therefore, we see all the challenges we face as an opportunity to further develop into a technologically advanced company.

President of the Management Board

Dr.sc. Dajana Mrčela, dipl.oec.

Statement of continued support

In this Annual business report we also cover elements of Communication on Progress Report, covering our activities in the field of human and labour rights, environment protection and the fight against corruption for 2020.

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.

When we joined Global Compact we had recognized 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. 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.

President of the Management Board

Dr.sc. Dajana Mrčela, dipl.oec

Business model

Saponia is part of the Mepas Group, which has in its portfolio several significant companies producing renowned Croatian brands. Mepas d.o.o. Široki Brijeg holds 87.3 percent share of Saponia.

Over more than 125 years of existence, Saponia has developed into a leading manufacturer of detergents and personal care products in this part of Europe, with around of 750 employees. The production program contains four hundred products that can meet a variety of maintenance needs, hygienic safety of home and business facilities, as well as personal hygiene products. All products were created in the laboratories of Saponia and are the result of knowledge, innovation, monitoring of scientific achievements and applied modern technology. The recognizable and consistent quality of Saponia's products affects customer confidence, as evidenced by the continuous growth of the share of Saponia's brands in both Croatia and a dozen foreign markets with a focus on the markets of the region.

Saponia's business model is based on the concept of creating a modern, environmentally oriented production technology and packaging system for detergent products. A brand strategy has been developed based on the principles of a holistic approach to quality, meeting environmental standards and creating the visual identity of products in accordance with market trends. The strength of Saponia is reflected in its brands, and their continuous development and rise is the result of continuous investment and innovation activities..



Mission, vision and corporate values

Throughout its years of existence, Saponia has designed not only products that maintain cleanliness and hygiene, but with every innovation it has also influenced life habits and attitudes. The complexity of technological improvements that define consumers and their outlook on life, is directly reflected in the concept of products that represent the core business of Saponia. Saponia has not only influenced consumer habits with innovative products but created new habits - from the need for daily dental hygiene, the role of enzymes in laundry detergents to educating about environmental protection through compacting detergents, saving energy and recycling packaging. The focus of Saponia's business is excellence, innovation and sustainable development with the aim of continuously improving the preconditions for a better quality of life.

Saponia's mission - consumer and customer satisfaction through the creation of innovative products that encourage the development of a culture of cleanliness and health and at the same time the application of the latest knowledge in order to protect and preserve the environment.

Saponia's vision - We strive for excellence in all business segments through systematic improvement and modernization of technological processes. In line with global trends, we strive to achieve high competitiveness and long-term sustainability of business and create a portfolio of top quality products with the aim of creating new values for our consumers and business partners



Corporate values of Saponia

The fundamental values on which the positive market perception of Saponia is based are determined by two basic principles - tradition and innovation. Both principles ensure that Saponia products have a strong brand perception among consumers and in proportion to market trends loyalty to them. Most brands have been present on the market for many years and by continuous innovation in accordance with the latest achievements and market trends, they have a strong market position.

Tradition as a fundamental value of Saponia is reflected not only in the continuous development of product quality but throughout the entire business of the company. In every period of its existence, Saponia has been the leader in the development of the region's economy and is still one of the leading manufacturers of detergents and household cleaners.

Excellence is a value that is constantly being upgraded in Saponia in order to shape successful business processes and ensure a quality relationship with customers while optimizing costs. Saponia's products and the services that are provided to customers are at a high quality level with the use of tools that further improve these processes.

Innovation is the most important platform for the future of Saponia. Extremely fast technological progress and changes in life habits place before us the imperative of constant product innovation. As a global goal of the company, the emphasis is placed on the digitalization of business and technological processes and sustainable development.

Transparency in Saponia is reflected in both internal and external communication. All employees are informed about the company's operations, investments and plans for the future through employee meetings and union representatives. In external communication, special attention is paid to quality of consumer information. Product information to consumers should be clearly and timely communicated, available on a digital platform through social networks and the internet, we also respond to all comments through consumer services.

Sustainable development is a value that determines the future of Saponia and is built into the company's mission. Environmental protection for us is not only declarative, but is defined in the development policy of Saponia. The sustainability model emphasizes the maximum application of new technologies in order to renew natural resources.



TRADITION
the oldest detergent manufacturer in the region built on tradition and innovation

EXCELLENCE
constant improvement of processes and products in order to preserve the high quality of our products

INNOVATION
creativity and innovation are the reason consumers trust us

TRANSPARENCY
all our business activities are characterized by transparency, timeliness and reliability in information

SUSTAINABLE DEVELOPMENT
respect for the principles of sustainable development and systematic care for the environment are built into all levels of business activities



Corporate governance

The culture of cleanliness and health as a lifestyle, ie providing products for a cleaner, safer and healthier world around us is a guiding thought in corporate governance, and our values are what further encourages us to operate in accordance with best practices in corporate governance. In order to achieve long-term growth and development of the company, and thus the well-being of our employees, stakeholders and shareholders, we work to achieve excellent financial results through high business transparency and efficiency of all segments of work. Competitiveness, quality and reliability of products and services are the focus of all departments. On the other hand, we continuously invest in the competencies of our employees in order to provide the best to consumers with the least impact on the environment and the society in which we operate. Sustainability and social responsibility are the choice of the company and all employees.

Saponia continuously carries out activities that contribute to the goals of sustainable development. Fair business, secure working conditions, employee education, equality and equal pay and respect for human rights are just some of the values and topics that are at the heart of the company. We expect our business partners to respect the same values that we represent, and we want to be a positive example in our surroundings.

The most important topics of social responsibility have been delegated to the highest functions within the company and in agreement with the Management Board, work is being done on improving the corporate social responsibility strategy and its implementation within the entire business group. The adopted Code of Corporate Governance of Saponia enables transparency of operations and quality protection of employees, shareholders, but also appointed holders of responsible positions in the Company. Established control and supervisory mechanisms effectively prevent violations of applicable regulations in all business segments, including the areas of occupational safety, personal data protection and environmental regulations..

Management structure

Saponia's corporate governance is based on a dualistic system consisting of the Management Board and the Supervisory Board.

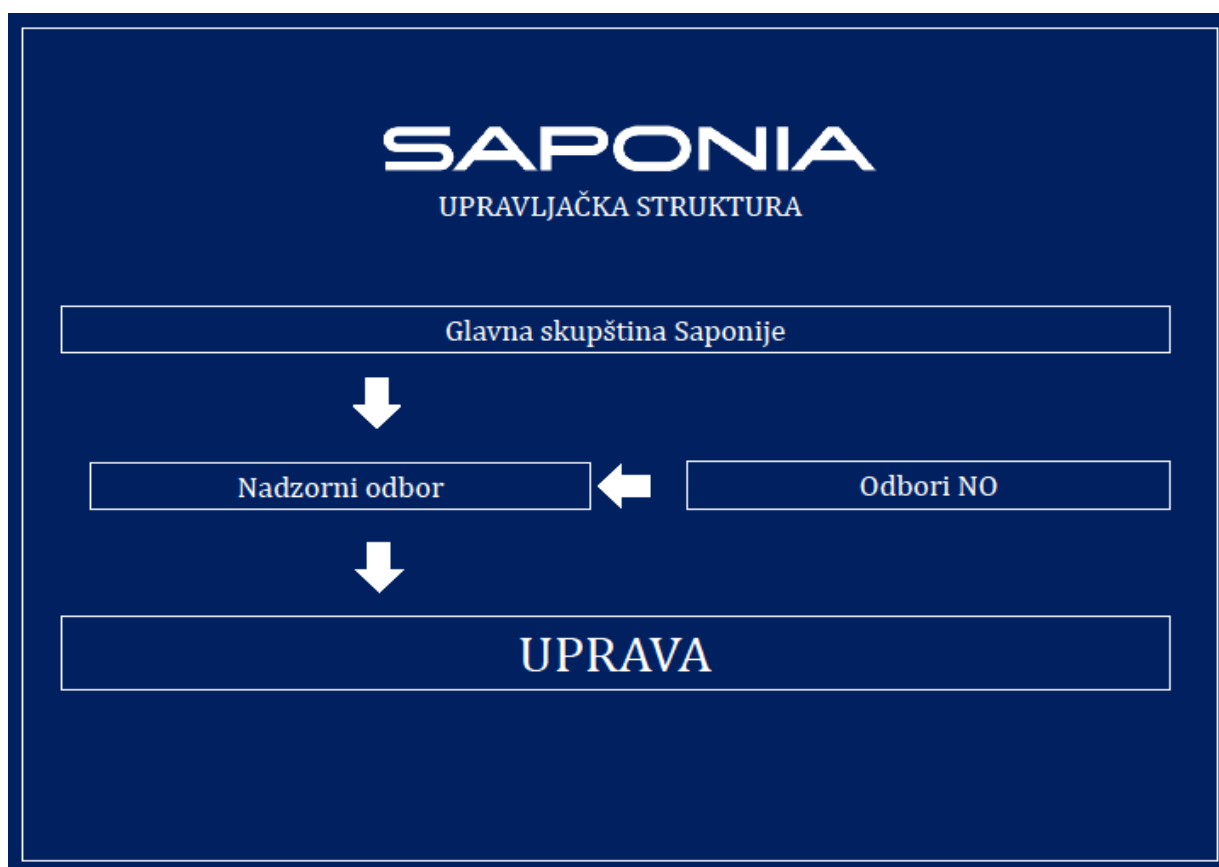


Figure 1. Saponia – management structure.

The General Assembly through which shareholders exercise their rights in managing the joint stock company is responsible for deciding on the election and dismissal of members of the Supervisory Board, giving discharge to members of the Management Board and Supervisory Board, appointment of auditors, amendments to the Articles of Association, increase and decrease of share capital and other decisions that are under the jurisdiction of the assembly by law. The regular assembly of the Company was held on July 17, 2020, at which, in accordance with the law and the Articles of Association, the Annual Report on Business and Work of Saponia, the report of the Supervisory Board on the supervision of the company's operations were presented, and decisions were made to cover losses, the appointment of the Auditor and members of the Supervisory Board, and the Remuneration Policy of the members of the Management Board was approved.

The Supervisory Board is responsible for supervising the management of the joint stock company, appointing members of the Management Board, representing the joint stock company according to the

Management Board, and performing other tasks according to the Law or the Company's Articles of Association, which do not fall within the competence of the General Meeting. The Supervisory Board has five members, one of whom is appointed by the Workers' Council, while the others are appointed by the General Assembly. All members are elected for four years and can be re-elected. According to the decision of the Assembly, the Supervisory Board does not receive remuneration for its work, although there is a possibility according to the Company's Articles of Association. The Supervisory Board operates at meetings at which it considers and evaluates the reports of the Management Board on the conduct of business and management of the Company.

Members of the Supervisory Board are:

- Zdravko Pavić, President of the Supervisory Board - member and president of the Supervisory Board since 1996, re-elected at the 2018 Assembly
- Tončo Zovko - Member of the Supervisory Board since 2000, re-elected at the 2017 General Meeting
- Ivan Grbešić - member of the Supervisory Board since 2000, re-elected in 2020
- Robert Knezović - member of the Supervisory Board since 2016, re-elected in 2020
- Željko Grbačić, employee representative - appointed to the Supervisory Board in 2017, reappointed in 2020

7 meetings of the Supervisory Board were held during 2020.

The Supervisory Board established the Audit Committee and the Nomination and Remuneration Committee. At their meetings, the committees make recommendations to the Supervisory Board, thus enabling it to make better decisions on more complex issues.

The Audit Committee reports to the Supervisory Board on the outcome of the statutory audit, monitors the financial reporting process and submits recommendations or proposals to ensure its integrity, is responsible for the selection process of the audit company, proposes its appointment and supervises the work of the external auditor. The members are Tončo Zovko, Ivan Grbešić and Robert Knezović, and they were appointed at the 104th session of the Supervisory Board on January 26, 2018. with a term of four years. The President of the Audit Committee is Tončo Zovko.

The Nomination and Remuneration Committee proposes to the Supervisory Board the remuneration policy and remuneration for members of the Supervisory Board, which is decided by the General Meeting, as well as the appropriate form and content of contracts with members of the Management Board, and proposes candidates for members of the Management Board, members of Supervisory Board and assesses the quality of work of the Supervisory Board and the Management Board. The board was established at the 115th Session of the Supervisory Board held on October 18, 2019. Members are Tončo Zovko, Ivan Grbešić and Robert Knezović, President Tončo Zovko, and they were appointed for four years. At the same time, the remuneration policy for the members of the Management Board was proposed, which was accepted at the general meeting of the company held on July 17, 2020. and which will be revised at least once every three years.

Management Board

The members of the Management Board represent the Company independently and without restrictions and are appointed and recalled by the Supervisory Board. The Management Board manages the affairs of the Company independently and makes all decisions at its own discretion, and according to the rules of the profession and in accordance with regulations. Main tasks of the Management Board are to represent the company, compile financial statements and submit them to the Supervisory Board for approval

together with the decision on the use of profits, regularly submit business reports to the Supervisory Board, prepare and convene regular annual General Assembly sessions, submit business reports, defining corporate functions and their tasks. The Management Board is responsible for the quality management of business risks, and at regular meetings it checks the economic, environmental and social impacts of the company. At regular meetings, the Supervisory Board evaluates the performance of the Management Board based on business performance indicators, maintaining and building a positive reputation of the company in public.

The Management Board of the Joint Stock Company consists of one (1) to five (5) members according to the Articles of Association, and the current convocation has two members. The term for the members of the Management Board lasts up to five years, with the possibility of reappointment without limitation of the number of terms. Each member of the Management Board represents the company individually and independently, and the members are elected in accordance with their expertise and necessary experience.

When selecting candidates, it is difficult to select those who have experience and knowledge in the field of industry in which Saponia operates, but also who are aware of the size of the company and all the tasks set by the mission and vision. A good candidate for the highest management bodies must correspond to the profile pursued by the Management Board and the Supervisory Board. In this sense, personal qualities and integrity are extremely important.



President of the Management Board

Dr.sc. Dajana Mrčela, B.Sc.

Born on July 6, 1971, Member of the Management Board since 2006, appointed to the position of President of the Management Board on December 18, 2019. Born in Osijek, where she graduated from the Faculty of Economics, she started working in Saponia in 1994 as an intern in the Marketing Department and over the years built an enviable career. She was promoted to the position of Marketing Director, then in 2006 she was appointed to the Management Board as the person responsible for commercial affairs and development institute, and at the end of 2019 she became the President of the Management Board as the first woman in that position in Saponia history. In addition to her position in Saponia, after the acquisition of Kandit, she became a member of the Management Board in charge of commercial affairs and raised business to a higher level while achieving significant results in the market. She received her PhD in 2018 at the Faculty of Economics in Osijek in the field of Managementa.



Member of the Management Board

Mirko Grbešić

Mirko Grbešić was born on August 11, 1960 in Široki Brijeg, Bosnia and Herzegovina. The business success began with the founding of the company "Mepas" in 1989, which is today one of the leading distributors in Bosnia and Herzegovina.

In 1998 he became the majority owner of the chemical, food and pharmaceutical company Saponia Osijek. In 2002, he took over the Koestlin biscuit and waffle factory, and in 2004, M. Grbešić expanded the Mepas group by buying the majority shares in Split's Brodomerkur. The following year, in 2005, he became the majority owner of Maraska. In the middle of 2011, the Kandit confectionery factory entered the system.

Kandit gained full momentum in 2014 with the opening of a new, modern factory. New Kandit is the largest post-war greenfield investment in the eastern part of Croatia, and the value of the construction and equipping project is more than EUR 20 million (HRK 185 million).

In 2012, in the center of the business zone in Mostar, Mirko Grbešić opened the largest shopping center in BiH, which covers almost 100 thousand square meters - Mepas Mall. As part of the Mepas Mall is "Mepas", a luxury 5-star hotel. Ideal location, excellent service and numerous facilities make this hotel especially attractive.

Members of the Management Board can not be members of the Management Boards or Supervisory Boards of companies engaged in business similar to that of the company without the consent of the Supervisory Board. Also, Members of the Management Board may not participate in decision-making related to any legal transaction if there is a conflict of interest between the members of the Management Board and the company. Regardless of whether they participate in decision-making or concluding a legal transaction, the members of the Management Board are obliged to inform the other members of the Management Board and the Supervisory Board about the circumstances of the conflict of interest. They shall state all relevant facts concerning the nature of their relationship with the other Contracting Party and their assessment of the existence of a conflict of interest. During 2020, 247 meetings of the Management Board were held with the Board of Executive Directors.

The goal of corporate governance is to create long-term economic value for its shareholders. In carrying out this mission, the Management Board and the Supervisory Board take into account other stakeholders. The Supervisory Board and the Management Board of the joint stock company believe that high standards of corporate governance must be maintained and care must be taken of employees, sustainable

development and environmental protection. The company has developed internal control systems at all important levels within its organizational model, in which it operates and within which all business processes take place. These systems, among other things, enable the objective and correct presentation of financial and business reports, as well as controlling the implementation of plans, analyzing the efficiency of use of funds, cost control, risk assessment and taking measures to reduce all risks.

Statement on the remuneration policy of the Supervisory and Management Boards

Members of the Supervisory Board are not paid remuneration for their work in the Supervisory Board, although the Statute of Saponia allows remuneration according to the approval of the General Assembly.

The management has managerial contracts and a salary related to the average paid gross salary of Saponia workers. A total of HRK 830,445.79 was paid to the members of the Management Board for 2020.

Corporate functions

The Management Board defines the goals and tasks of the corporate functions that are included within the organizational parts, and each of them has a clearly defined executive and appropriate management level that directly corresponds to the Management Board. At regular meetings, the Management Board is informed about the progress and execution of tasks, the heads of individual organizational units propose improvements in certain areas and regularly analyze existing and propose more advanced management methods. Business and management improvements are an integral part of the company's adopted strategies and plans.

Code of Business Conduct

In business, Saponia is always guided by professionalism and ethics, respecting the legal requirements when making decisions. All employees and associates are expected to behave in accordance with the fundamental values of Saponia and adhere to fair business practices.

The adopted and applied Code of Business Conduct is an expression of Saponia's values. It reflects the principles and policies that guide the business and provides specific guidelines for the actions of employees, associates and partners. Ethical business is reflected in the consistent treatment of core values, the Code, regulations and policies and all applicable laws. Saponia expects employees to adhere to the Code and to make decisions in their day-to-day operations that will maintain the trust gained in their operations so far.

Saponia has zero tolerance for all forms of bribery and corruption. Employees are required to report any form or suspicion of corruption to their immediate superiors, the Legal Department or a fiduciary trustee appointed by the Management Board. During 2020, and even earlier, there were no reports of any events due to suspicion of corruption, no business cooperation with partners was terminated for this reason, nor were anti-corruption disputes initiated.

All of Saponia's affiliates and employees must comply with relevant laws, regulations and standards in all countries in which we operate, comply with the Code of Business Conduct, even if it provides for higher standards than required by the laws or regulations of a country.



Saponia Stock

Significant shareholders in the Company are: the majority owner of the Company is Mepas d.o.o. Široki Brijeg, which owns 87.30 percent of the shares. Treasury shares are 0.48 percent, and other shareholders own 12.22 percent of the shares. Details on stock movements on page 39.

Corporate governance (continued)

Statement on the application of the Corporate Governance Code

a) Saponia d.d. (hereinafter: the Company) applies the Corporate Governance Code, which was jointly developed by the Management Board and the Supervisory Board of the Company, and was adopted by the Management Board Decision No. 804/08. from 7.3.2008. and the Decision of the Supervisory Board from the 39th session held on March 7, 2008. and was published on the website of the Zagreb Stock Exchange and the Company's newsletter

b) The Company also applies the recommendations of the Corporate Governance Code prepared by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d., and in this regard the Company has completed an annual questionnaire published on the websites of HANFA and the Zagreb Stock Exchange d.d.

c) In the reporting period, the Company has minor deviations from individual recommendations in such a way that the Company does not provide in the Report detailed data on all fees and other income from the company or related persons of each individual member of the Management Board, including the fee structure, but summarizes them. All members of the Audit Committee are also members of the Supervisory Board, in which case the Audit Committee is exempted from the requirement of independence as prescribed by the Audit Act in Article 65, paragraph 7. The Company does not apply the means of modern communication technology for participation and voting at the General Assembly because in practice the current way of voting has been confirmed as the optimal solution.

d) Through its open and unlimited communication with the professional services of Finance and Controlling, the Supervisory Board establishes good and quality internal control in the Company for the purpose of successful corporate governance, legality and transparency in the conduct of all business processes in the Company.

Financial and controlling professional services regularly submit timely and periodic reviews of financial statements and related documents before the public disclosure of these data, provide data on accounting policies and possible changes, as well as data on any significant discrepancies between book and actual values for individual items. The reports are compiled in a clear and concise manner. The reports include all aspects of business activities throughout the year compared to previous years and express an accurate, complete and fair presentation of assets and expenses, the financial position of the Company, as well as the plan of future operations.

The Financial and Controlling Services provide the Audit Committee, at least once a year, with information on the system of internal accounting controls. The Audit Committee evaluates the methods and procedures of internal control and their efficiency in the operation of the business system and makes recommendations on their implementation. Policies, procedures, practices, and organizational measures for internal control are implemented to provide reasonable assurance that business objectives will be achieved and that adverse events will be prevented or identified and corrected.

The Company has independent external auditors as an important instrument of corporate governance and in accordance with the basic function of external auditors to ensure that the financial statements adequately reflect the actual condition of the Company as a whole.

The Audit Committee and the Financial and Controlling Services discussed with the independent auditor about the changes or retention of accounting policies, application of regulations, important estimates and

conclusions in the preparation of financial statements, risk assessment methods, high-risk areas of activity, identified major deficiencies and significant deficiencies in internal control, the effects of external factors (economic, legal and industrial) on the financial statements and audit procedures.

e) Significant shareholders in the Company are: the majority owner of the Company is Mepas d.o.o. Široki Brijeg, which owns 87,30 percent of the shares. Treasury shares are 0,48 percent, and other shareholders own 12,22 percent of the shares.

f) Members of the Management Board represent the Company independently and without restrictions. The Management Board manages the affairs of the Company independently and makes all decisions at its own discretion, and according to the rules of the profession and in accordance with regulations. The provisions of the Companies Act and the Company's Articles of Association apply to all these relationships.

g) The General Assembly is competent to decide on the following issues: election and dismissal of members of the Supervisory Board, use of profits, discharge of members of the Management Board, appointment of auditors, amendments to the Articles of Association, increase and decrease of share capital and other issues. Shareholders exercise their rights through the General Assembly. The manner of work of the General Assembly is regulated by the Companies Act and the Company's Articles of Association.

h) Members of the Management Board and the Supervisory Board can be found on pages 16 - 18 of this report. In accordance with the Companies Act and the Articles of Association, the Management Board makes decisions at the sessions of the Management Board. The President of the Management Board and the executive directors hold daily courses for the purpose of regular reporting and monitoring of the situation in the Company. According to the law and the rules of procedure of the Supervisory Board, Saponia has an Audit Committee and a Committee for Appointments and Remuneration which assist the work of the Supervisory Board by preparing decisions made by the Supervisory Board and supervising their implementation. The Supervisory Board operates at meetings at which it considers and evaluates the reports of the Management Board on the conduct of business and management of the Company. The Supervisory Board supervises the management of the Company's affairs. It submits a report on this supervision to the General Assembly. The expert services of Finance and Controlling provided the Supervisory Board with quality information on subsidiaries and affiliates in order to influence such data on the consolidated financial statements. In order to improve the quality of work and make better management decisions, Saponia applies the diversity criteria of the members of the Management Board and the Supervisory Board. This improves their quality of work and better management decisions. The criteria for appointment are the skills and experience of the candidate, personal qualities and integrity, and diversity criteria such as gender, age, length of service and individual differences in professional and personal experiences are taken into account. The Management Board of the Company in the reporting period consists of the President of the Management Board and one member. A balance has been established according to the criteria of skills, experience and competencies, which can be seen from the CVs of the members of the Management Board.

Expected development of the Company

Planned business goals and projects that were to be realized in 2020 have been changing their dynamics under the influence of the coronavirus pandemic.

Saponia is a significant factor in the market of detergents and cleaners in Croatia as well as the region and most brands are at the top of the category, so it is necessary to continuously innovate products and develop new ones in accordance with market requirements, lifestyle changes and sustainable development principles.

The focus of development and marketing activities is directed on leading brands and product lines that, through synergy and integrated marketing activities, significantly contribute to Saponia's turnover.

NEOFRESH product line

The project, which was developed during 2019, came on the market in the first quarter of 2020 and sales results from it were expected in the first half of the year. Product line with Neofresh technology unites our top brands Faks Helizim, Ornel, Likvi, Arf and Bis. The biggest benefit that this line provides to consumers is specially developed formulations with active odor components that have been proven to remove unpleasant odors. Neofresh molecules create chemical reactions that block odor receptors and prevent odor binding. Neofresh® is based on 4 principles:

PREVENTION - stopping the creation of unpleasant odors

ELIMINATION - eliminates them depending on the purpose of the product in which it is used (on clothes, in space, on surfaces to be cleaned).

CONTROL - blocks unpleasant odors

PERCEPTIONAL INTEGRATION - changes the perception of smell

The market disturbance, as a result of epidemiological measures in the first phase of the lockdown, adversely affected the implementation of promotional activities. Trade marketing was stopped due to the impossibility of entering sales outlets, and the production of the TV spot could not be completed, so the entire campaign was done on a reduced scale.



The quality of the products and the modern concept of the Neofresh line, especially for the younger target group, made a full contribution to the realization in the second half of the year, ie from the summer of 2020. The strength of the brand and the benefits on the products attracted consumers, and we made maximum use of digital communication for promotion.

Nila

A relaunch was conducted on one of the oldest brands of Saponia, Nila fine laundry detergent, in the first quarter of 2020. Due to its special purpose, the brand is qualitatively harmonized with the latest fashion trends, types of materials, but also packaging design. The latest Nila has a richer composition with improved formulations that incorporate special ingredients that, like serums, protect and nourish the fibers and colors of clothing. In order to reduce the consumption of detergent, the product is more concentrated and the amount required for one wash is reduced. The new conceptual design further emphasizes the modern product concept, which will further influence the consumer's decision on the choice of detergent.



Nila My cute baby, also has a new formulation and is adapted for the most delicate baby skin. The quality was confirmed by hypoallergenic testing, and the examination was conducted at the prestigious Institute of Dermatological Testing.

Handysept i Deziclean



The project that marked the year and definitely confirmed the strength and readiness of Saponia for flexibility and quick response to market demands is the production of disinfectants. For more than 50 years, Saponia has been producing cleaning and disinfecting agents in hospitals, hotels, the food and beverage industry, homes for the elderly and infirm, cleaning services and many other institutions. With Bis Handysept and Bis Deziclean products, proven to be effective, Saponia has also conquered the consumer market, making the less known Saponia's brands an indispensable healthcare product to the general public, very fast.

Products from the BIS HANDYSEPT and ARF DEZI-CLEAN line are especially important for health protection because they have a certificate of effectiveness against coronavirus. This extremely important certificate is the result of the work of Saponia's development team, and thus Saponia has once again proven that products of the highest standards of quality and efficiency are being developed in Croatia as well.

After testing in the laboratories of "JS Hamilton", the third largest laboratory in Europe for testing food, feed, water, cosmetics, microbiological cleanliness of facilities and water sampling, Saponia disinfectants for general consumption (BIS Handysept - for hand disinfection and Arf Dezi Clean speed and universal - for disinfection and cleaning of water-repellent surfaces) and the whole group of BIS products (for disinfection of the hands of healthcare professionals, workers in the food industry and all those who manipulate food ...) received a virucidity certificate against coronavirus.

The production program of Handysept and Deziclean has expanded throughout the year with new products, Faks helizim Dezi-clean final, Arf Dezi-clean Toilet, Universal, Speed, Likvi Dezi-clean Blistal, and a particularly interesting

segment of wet wipes that are extremely well accepted in the market. Especially wipes for surface disinfection. It is a new category in which Saponia appears on the market and a segment that has the potential to grow and expand its program.

Under the Handysept brand, hand disinfectant gel, liquid and solid soap and hand cream have also been launched. In order to adopt the care of hygiene at school from the first day, Saponia gave the first-graders BIS Handysept gel, a product that is suitable for children's hands.

Arf wc power - toilet cleaners and fresheners



Arf is one of the leading brands of Saponia and this year the program was widened with a new line of toilet bowl cleaners. The new line has an attractive design and top quality and ensures perfect cleaning effects and will certainly contribute to the turnover of the entire brand. In addition, Saponia is entering a new category that has a growth trend and great potential in the future.

These are toilet drops - toilet fresheners. Thanks to the unique Arf WC baskets with 5 strong drops, it creates active foam with each rinse. Releasing a pleasant scent of lemon or pine ensuring a long-lasting feeling of freshness and cleanliness throughout the bathroom. ARF WC BLUE DROP DEZICLEAN POWER, with each rinse releases a blue liquid and visibly maintains the cleanliness and freshness of the toilet bowl. In addition, the chlorine-based composition allows bleaching as an additional effect of cleanliness and high hygiene.



Lahor liquid soap

In the midst of the pandemic, Saponia produced significantly higher amounts of Lahor solid soap and met the increased demand for this product. Under this well-known brand, a line of liquid soaps in several fragrant variants has been placed on the market.





I&I Program

The year 2020 was marked by a coronavirus pandemic and almost all activities were aimed at adapting the packaging of existing formulations that are suitable, not only for large institutions and industrial facilities, but also for small craftsmen and family farms, and businesses that have not needed this type of product. At the same time, the existing products gained added value with various tests that proved their effectiveness in the new conditions, which was especially important for partners whose business is related to the most sensitive social groups.

At the time of the unavailability of certain active components effective against the causes of the pandemic, new compositions and products that have the same effectiveness, but on the basis of other recommended active substances, came on the market.

As most of our customers were had reduced production and activities that are only necessary, all the way to operating on various cold drives, the year was not suitable for introducing innovations in the cleaning segment.

Therefore, we have launched several products under the following brands: BIS HANDYSEPT (30 ml, 100 ml, 150 ml, 340 ml, 400 ml, 1 l), BIS HANDYSEPT PRO (50 ml, 100 ml, 100 ml TP, 150 ml OB, 340 ml, 450 ml, 470 ml, 1 l, 5 l), BIS DEZI-CLEAN NEW 750 ml, BIS E 96 1 l, BIS HANDYSEPT ALCOHOL FREE 450 ml, BIS HANDYSEPT SAFE CLEAN 450ml, AKVAL DEZINID (100 ml, 200 ml, 200 ml PL, 300 ml, 1 l), BIS DIMAL DUO 30 kg, BIS GLASS 50 kg, BIS S 2060 DEZ 5 l, BLISTAL NEUTRAL – N 30 kg, BIS PER S 220 kg.

Communication platform

Timely and accurate information is increasingly important in communication with consumers. Consumers are looking for more than promotion - they are looking for content, the advantages of the product over the competition, the composition of the product and information about its compliance with standards and regulations.

Saponia products fall into a category that is under the special scrutiny of consumers, and all the information we present to consumers is accurate and well explained. Digital communication channels are the best medium for this type of advertising and, judging by consumer issues, they are most often used to clarify the quality and application of products.

For Saponia, it is also an opportunity for transparent and direct communication, which other media do not provide.

More and more is being invested in social networks, and within Marketing, a service has been organized that is specifically in charge of creating content for this type of communication channel.

Television still has the greatest reach and through advertising in premium terms we communicate new projects and promotions with business partners. Given the structure of the target consumer segment, in the planned budget of Saponia, television still has the largest share. In 2020, external production were realized for the Handysept and Deziclean project, while several smaller productions were realized "in house" (Nila, disinfectants, prize games, Christmas card and a series of action videos in cooperation with customers).

Trade marketing is in particularly important, especially in a situation of high supply and reduced retention time in the sales facility. Different forms of POS materials were used for better exposure and availability of products.



Research and development

Saponia has a long tradition of developing its own formulations of laundry detergents, cleaning agents, including the creation of its own fragrance compositions as an indispensable ingredient of the product and its own development of packaging. The Research Institute was founded in 1962 and since then, dozens of new or innovated consumer products, institutions and industry have been released annually. There are currently more than 400 products on the market.

Such a wide range of formulations requires experts who have been upgrading the knowledge acquired at various faculties over the years through daily hard work, taking over the experiences of older colleagues within the company. Internal transmission of knowledge from generation to generation is extremely important in order to upgrade knowledge so that each subsequent generation can respond even more successfully to the specific needs of consumers. Saponia, as a primary processing industry in the segment of detergents and cleaning agents, thanks to its long tradition and investment in its experts, can also boast about the production of fragrance compositions for its own needs and the production of plastic packaging. These two productions are actually factories within a factory, which allows the company competitiveness and flexibility and would not be achievable without narrowly specialized professionals.

During the long history of the Institute, several generations of valuable Saponia experts have built the structure of the Institute as it is today, and worked on the development of several thousand different formulations that make up the vast intellectual treasure of this company. As the amount of overall human knowledge doubles in ever shorter time intervals, according to some calculations this cycle today is no longer than five years, each generation of researchers faces new and unusual challenges. Nowadays, one of the main challenges is how to successfully respond to the individual needs of consumers with their products, and at the same time reduce the negative impact on the environment from choosing raw materials and packaging for our products, through more efficient production to educating consumers on product application and disposal instructions. packaging after consumption of the product itself.

Research and development at the service of consumers

For companies like Saponia, recognizing the specific needs of consumers and successfully responding to these needs in the form of competitive and efficient products is a guiding thread for all parts of the company, all for the function of satisfied consumers and meeting their expectations regarding cleanliness and personal hygiene and skin care. In the minds of consumers, we want to be a symbol of hygiene and fragrant cleanliness, and as it has long been known that cleanliness is next to godliness, we keep what is most important to many, and that is the health of the individual and the health of the whole family.

This was particularly pronounced during 2020 when the health of the entire world was, and still sadly is, seriously threatened by the corona virus pandemic. In record time, Saponia put into operation all its intellectual and production capacities and launched products from the Arf Dezi-Clean and Bis Handysept collections, which were literally a shield between man and virus, thanks to their effective but safe disinfection action. This was possible thanks to the long-term experience of Saponia's experts in formulating cleaning and disinfection products for use in institutions and industry. In a short time, these products were adapted to the needs of protection against coronavirus in households.

Looking to the future and the time when we will finally be able to forget about the pandemic, Saponia is intensively developing formulations that will be in line with the needs of future generations. Special emphasis is placed on the use of raw materials of natural origin, whether they are cosmetic products or products for maintaining the cleanliness of the home. With smart and balanced formulations, it is possible to make the most of every substance in a product in order to contribute to the function of the product, without having a negative effect on human health. This is where the skill and creative work of chemist formulators comes into play. An effort is made to exploit the synergistic potential of each ingredient. Cleaning and laundry products are no longer just "cleaning and washing products", they are actually cosmetic products for our clothes and our home.

In order to always be able to successfully respond to the challenges of new product development, Saponia's experts regularly participate in the work of national and international congresses and symposia. A number of experts are also educated through postgraduate scientific and specialist studies.

2020 was the year of online gatherings, and in this way Saponia's employees maintained contact with colleagues from all over the world. Saponia is active in the Society of Chemists and Technologists Osijek, in the work of the Commission for Eco-labeling, in the work of the Community for Environmental Protection, and the Community for Detergents and Cosmetics at the Croatian Chamber of Commerce.

Product safety, efficiency and quality are tested in our own or in authorized specialized laboratories in Croatia and around the world. Additional dermatological tests, which are not imposed by law, but are carried out in order to raise the protection of potential users of the product to a higher level, are also carried out in cooperation with authorized institutions.

Research and development at the service of the environment

Focus on the implementation of new solutions that will be more environmentally friendly and apply elements of the circular economy is also visible in the participation in three projects under Horizon 2020, Funguschain, Circ-pack and Embraced.

The Funguschain project, launched in 2016, with a budget of € 11 million, is co-financed by the Bio Based Industries Joint Undertaking (BBI JU) under the Horizon 2020 research and innovation program of the European Union. The aim of the project is to take advantage of new cascading processes to extract high-value molecules from mushroom production residues that will meet the needs of a range of end users. Given the findings so far, extracts obtained from mushrooms will try to be used as active ingredients in personal care and cosmetics. Studies have shown good effectiveness of chitosan-based mushroom extract as an antioxidant for natural cosmetics. The completion of the project is planned for the spring of 2021, when the results of the research will be made public.

The Circ-pack project, worth 9.2 million euros and co-financed by BBI JU, is aimed at a greener plastic cycle - improving the collection, recycling and application of new, 100% biodegradable or recyclable materials for packaging detergents, food and other products in order to save of a minimum of EUR 60 million through the application of circular economy, and was completed in the first half of 2020. As part of the project, Saponia, in cooperation with partners, valorized biodegradable plastics for cosmetics and cleaning products, as well as innovative membrane packaging for powder detergents, which, unlike

current solutions, is 100% recyclable. One of the results of the project is an online tool for assessing the extent to which packaging design in accordance with the principles of eco-design is available at the link <https://circpack.fcirce.es>.

The Embraced project, worth 17.3 million euros, is related to the recycling of absorbent hygiene products with the aim of minimizing the amount of AHP products that go to landfills. The tests that are being carried out should make it possible to use plastics, cellulose, absorption gels and obtain some industrially important chemical compounds, including limonene, which is used in the production of cleaning agents, but also as a fragrant substance.

Increasingly stringent environmental regulations, increased environmental awareness of consumers, and the pursuit of the circular economy direct the development of a new generation of detergents towards biodegradable raw materials, raw materials from renewable sources and recyclable packaging materials and new technologies with reduced environmental impact.

Research and development activities in 2020 were focused on creating more environmentally friendly products that have a reduced impact on the environment, from the selection of raw materials, through production to their use and final disposal of empty packaging. The new collection of Ecolabel-certified products is proof that Saponia is successful in its intention to take active care of the environment. We are continuously working on the development of new products that should also be applied for Ecolabel certification. By doing so, we want to ensure that consumers who truly care about the planet we live on can maintain the cleanliness of their home and clothing while at the same time harming the environment in the least possible way.

In the context of constant commitment to the selection of only the best raw materials and packaging materials, the parallel development of analytical methods is especially important in order to timely notice possible quality deviations of all raw materials that enter the production process. Quality assurance is based on complex set goals and processes, and synergy and cooperation of stakeholders in the company is inevitable. In order to make this process as transparent and efficient as possible, we are rapidly working on digitalization as one of the key tools for improving the entire business.

Quality management system

Saponia, in 2020, celebrated 20 years since the first certification of the quality management system according to the ISO 9001 standard, and in 2018 it was successfully certified according to the new ISO 9001: 2015 standard, which expects much greater commitment from the Management Board and all levels of quality management at all levels of business. The system guarantees that the Company is supervised and that the Administration and Management use the system as an objective, documented and measurable tool for planning, monitoring the fulfillment and analysis of objectives, thus ensuring risk reduction and continuous improvement.

Commitment to quality as an essential component of business is confirmed by the involvement of employees and decisions of the Management Board. By setting quality goals and their realization, we turn the requirements of the system into practical action. The policy was updated in early 2020 and is available to all stakeholders through the company's website as well as internal communication channels. It is fit for purpose, there are no new stakeholder requirements regarding quality, and the context of the organization has not changed either.

The impact of the coronavirus pandemic was reflected in the quality management system by introducing additional measures to preserve the health of workers and consumers, and improving product quality and efficiency, and given the planned introduction of SAP in Saponia's business, activities related to assessing existing processes and procedures were initiated as well as preparatory actions that will enable the reorganization of business processes and procedures during 2021 in order to effectively implement the new system.

Last year, we confirmed our compliance with the ISO 9001: 2015 standard, and continued to improve our quality management system. Greater emphasis was placed on the systematic nature of the process, good practices in the management of the entire chain and risk assessment, which is reflected in the better business results of the company. The system is continuously upgraded and improved, which is confirmed by external audits by certifiers, principals, and internal regular inspections.

Investments in production have increased product quality, achieved energy savings and improved safety at work. In addition, part of the investment is related to improving safety related to accidents by minimizing not only the possibility of accidents, but also the possible impact on the environment if it occurs.

Set quality goals were achieved as follows:

Regularly introduce new and redesigned products to the market that will complete the offer and raise the level of quality of existing products - Based on market trends, the Marketing Department defines an annual product development plan with exit deadlines, which is submitted to development services, procurement and production. The plan is subject to changes in accordance with the market situation, and the tasks in accordance with other services are adjusted accordingly. The basis for evaluating the results is the ratio of planned and developed products that are placed on the market, and their success with consumers (market share). For 2020, the Neofresh technology line is planned, which connects Saponia brands (6 products in different packages), relaunch and redesign of a number of existing ones, and development and marketing of new products. The corona crisis led to a partial change in a way that the planned launches were postponed for Fall, and products from the I&I segment were adjusted to the consumer market and placed on the market - BIS Handysept and Deziclean, and new products from these collections were planned and developed in line with new market needs. Development engineers are responsible for fulfilling the plan in the form of developing the required products, while brand managers are responsible for marketing and success in the market.

Investments in production equipment and infrastructure to improve efficiency, safety, quality and production capabilities, and reduce energy consumption - The Engineering Department, in cooperation with the Production Director, proposes an annual investment plan that is included in Saponia's budget and is responsible for carrying out activities based on orders approved by the Management Board in case of major investments, while the Production Director is responsible for smaller investments. The basis for evaluating the results is the plan of investment activities for 2020 and quarterly measurement of its implementation in terms of whether the implemented activities are in line with the planned ones. For 2020, an investment of EUR 1.200.000 is planned in the Powder Detergents Plant, 200.000 in the Liquid Detergent Plant and 170.000 in the Plastics Plant in accordance with the detailed investment plan. Investments relate to new tanks and equipment, automation of individual parts and investments that will lead to greater worker safety and better working conditions.

Increase sales revenues in domestic and export markets, and further improve the qualitative and quantitative positioning at points of sale in all categories in which Saponia is present in the consumer market, as well as strengthen the position of industrial and institutional customers - The sales plan for the next year is based on market trends and business results in the past period, and based on the planned launches of new products. The responsibility for implementing sales plans lies with the sales director and key customer and region managers. Production and Logistics are responsible for sufficient quantities of products and timely delivery to customers, and the Procurement Service for the timely arrival of raw materials. Sales targets for 2020 included:

- Growth of sales revenues on the domestic market by 5% compared to the previous business year
- Increase in the realized net invoice price per kg by 5% compared to the realized in 2019, through the correction of market prices on product groups laundry detergents, softeners, toiletries and products intended for institutional and industrial consumption, which consequently led to an increase in coverage contributions to Croatian market and had a positive impact on the company's profitability
- Strengthening focus, increasing activities and sales of existing and opening new partners in the web store channel (new sales channel)
- Increasing the share of sales in the B2B sales segment to 25% of the total sales achieved by selling products on the domestic market with the aim of a positive impact on the company's profitability
- Defense of acquired market shares in all major product groups (laundry detergents, hand dishwashing detergents, fabric softeners, cleaners, soaps, toothpastes, air fresheners).

Ensure continuous information and education of customers and consumers about products - Within its plan, Marketing defines activities aimed at customers through social networks, websites and media campaigns related to consumer education, and product design that includes pictograms and instructions related to the proper and safe use of the product. The texts are prepared in cooperation with the services within the Institute that monitor the implementation of legal and voluntary obligations related to product labeling. For 2020, it is planned to cover at least 2.000 people with trainings for customers of I&I products, increase website traffic by at least 50%, reduce the bounce rate by 5%, increase the frequency of posts on social networks and the number of followers by 20%. Marketing employees are responsible for the realization of the planned, to whom individual tasks have been assigned. The goals were achieved and exceeded, except in the segment of education for customers where the number of education was reduced due to the fact that some customers did not open their facilities and there was no need for education.

Quality policy

The goal of "Saponia" is to be the leading regional manufacturer of detergents, cleaning products and toiletries that meets the needs of consumers with quality, design and price and at the same time makes a profit.

Continuous monitoring and participation in new scientific achievements, as well as constant changes in the legal regulations of the European Union, require the continuous active participation of all our experts in the field of research and development, quality control and environmental protection. The importance of this part of the business has resulted in the adoption of more extensive policies and procedures aimed at preserving and improving product quality.

QUALITY GOALS

- Regularly introduce new and redesigned products to the market that will complete the offer and raise the level of quality of existing products
- Investments in production equipment and infrastructure to improve efficiency, safety, quality and production capabilities, and reduce energy consumption
- Increase sales revenues in domestic and export markets, and further improve the qualitative and quantitative positioning at points of sale in all categories in which Saponia is present in the consumer market, as well as strengthen the position of industrial and institutional customers
- Ensure continuous information and education of customers and consumers about products

PRINCIPLES

- Quality is a means to achieve customer trust and business success
- Responsibility for quality in the broadest sense belongs to the Management
- Each employee is personally responsible for the results and quality of their work
- The final assessment of our quality comes from customers; this assessment is respected and strives for continuous improvement of product quality and system efficiency
- In order to achieve the set goal, quality is approached systematically; it strives for the highest professional qualification of all employees, with a constant flow of information and an organization that enables continuous improvement

Osijek, February 1st, 2020.

Predsjednica Uprave

Dr.sc. Dajana Mrčela



Risks

In conducting business activities, Saponia is exposed to numerous risks in both domestic and foreign markets. Entrepreneurial activity requires precise and continuous risk management in order not to disturb the stability of business. Risk management is the prediction of potential events, effects and consequences that the Company may face in the future and the timely undertaking of control activities in order to minimize risks and reduce adverse effects.

Legislation in various markets, especially in the chemical industry, requires exceptional adaptation and professional orientation to specific areas of activity. Lack of guidance in a large number of regulations can bring significant problems. For these reasons, Saponia relies on the services of external experts to coordinate its operations within the current legal framework.

Business risks

Business environment risk

There is a wide range of risks in the national and regional markets in which the Company operates, and they include political, macroeconomic and social aspects of potential risks. Each economy is defined by different political, economic, cultural and geographical conditions. The risks that the Company faces in foreign markets include risks that arise due to differences in the characteristics of national economies. Although this type of risk cannot be influenced by individual companies and industries, events in the country and the region are continuously monitored in order to react in a timely manner to potential and negative events for the Company.

The qualification of business environment risk largely depends on macroeconomic facts as well as changes within the industry to which the Company belongs. The processing and chemical industries are characterized by stability. Nevertheless, its operations are significantly affected by macroeconomic factors such as personal consumption, disposable income, investment and employment levels, and retail trade trends. For these reasons, it is necessary to continuously and carefully monitor the trends of industry and the economy in general. Political and economic uncertainty, the rise of protectionism, regulatory uncertainty over Brexit, and the U.S. trade wars have a significant impact on chemical manufacturers around the world at this time. At the time of publication of the report, the situation has been significantly aggravated by the emergence of a pandemic and the emergence of a global recession, still of inestimable proportions.

Saponia's production takes place exclusively in Croatia, and sales is, along with the Croatian market, focused on sales in regional markets. Therefore, potential risks are most sensitive in the region, especially due to the political and social aspects. Risks are less intense at the global level, but they can be detected through the political and general social position of countries with which other commercial relations are developing, primarily relations in procurement markets.

With the occurrence of SARS-CoV-2 infection globally, the area of business risk assessment has taken on a whole new dimension. The emergence and spread of coronavirus in the first quarter of 2020 caused significant disturbances in the world economy and threatened a global recession.

The resulting situation requires a reshuffling of priorities in business decision-making aimed primarily at protecting the health of employees and the community on the one hand, and additional engagement in the production of products intended for hygiene and health with the characteristic of exponential growth of demand, on the other side.

The Saponia Crisis Headquarters was established, which prescribed new rules and procedures for the duration of the pandemic. Basic education of employees related to coronavirus infection and procedures for its prevention was provided, additional protective equipment was provided, and barriers were introduced at all key points. In the business segment, all business travel is prohibited, direct contacts are kept to a minimum, work from home is organized wherever possible and all currently available digital technology in business is implemented and raised to a new level.

Three basic principles have been implemented in all business segments: protection of the health and well-being of Saponia employees, continuous production with the aim of making high-efficiency products available to the end consumer, and support to the community and people in need.

Industry, competition and trade risk

Increased market competition in the manufacturing industry, and especially in the detergent industry, requires a variety of offers, increased product quality and the opening of new distribution channels.

The detergent industry segment depends on the purchasing power of consumers, and is characterized by the competitiveness of foreign multinational companies and their aggressive sales and marketing campaign, investment in research and development, continuous change and rapid adaptability to market demands. Saponia strives to keep pace with large manufacturers, continuously monitor competition, respond in a timely manner to changes in consumer habits and find solutions to maintain competitiveness in the market.

In the process of strengthening the competitiveness of our own brands, the constant business is capital investments aimed at raising product quality and increasing the efficiency of production capacities.

The Company's goal is to be price and quality competitive in a situation of limited market shares, negative trends in the growth rate of the chemical industry and price sensitivity. All of the above requires significant financial investment in technical and technological capacity in order to increase efficiency.

Procurement market risks

In these challenging times, it is very demanding to procure all the necessary raw materials in a timely manner, and often the offer is insufficient and the choice of suppliers is very narrow. For this reason, it is necessary to have alternative suppliers for all raw materials.

The availability and prices of raw materials we use depend on trends in the world market, and the prices of oil, palm oil, benzene, and other basic raw materials. By constantly monitoring prices and with timely purchases, we strive to minimize the price increases on the world market that we encounter.

Environmental risk

It is known that risks are an unavoidable part of human activities and every job, and that they exist in every business system. They appear from the mission, vision, determination and realization of business goals, through business processes, to the realization or non-realization of the same. There are a number of threats, which can cause negative events, and they result in unwanted consequences. To prevent this from happening, it is necessary to anticipate the risks as much as possible and take preventive measures to reduce them. Thus, the purpose of risk management is to increase the likelihood of eliminating or reducing adverse situations. It is almost impossible to eliminate the risks completely, so it is of great importance to reduce them to an acceptable level.

Knowing the above facts, it is clear that environmental risks in the chemical industry represent one of the strategic areas. Environmental risks have been identified, analyzed in detail and assessed within the Company's Environmental Management System, which is in accordance with the ISO 14001: 2015 standard. The identification of possible risks and their sources was carried out in order to record all possible events that could have a negative impact on the environment. The analysis of the identified environmental risks enabled their better understanding, consideration of causes, consequences and probabilities. In the risk analysis, the existing control measures were taken into account, and their efficiency and effectiveness were determined. Through the Environmental Management System, a risk assessment process has also been carried out, which is necessary in order to establish adequate risk management. Significant possible risks are kept under control by the established system of external and internal control, and by identifying opportunities and their realization, the impact on the environment is sought to be minimized. Significant risks relate to the possible possibility of unwanted water pollution, the case of spillage of raw materials during transport, and unwanted emissions into the air. In accordance with their position within the system, all employees are trained for preventive and control actions in order to minimize risk, as well as to act in the event of risky circumstances.

Financial risks

In the domain of financial risks, we continuously categorize risks according to the criteria of security and manageability. The synthesis of formal analyzes and information is institutionalized within the Finance and Controlling Department. The task is to provide relevant bases for business monitoring and monitoring based on key performance indicators. The information from the report refers to planned values, historical values, realized values and deviations. The report shows data on the profitability of business segments, cash flow trends, financial indicators, realized key performance indicators and deviations from the plan. The purpose is to contribute to key business and management decisions, while minimizing adverse risk outcomes.

A significant segment in corporate risk management relates to financial risks. Financial risks include unforeseen market risks through price, currency and interest rate movements, credit risk and liquidity risk.

Potential financial risks can consequently disrupt the balanced management of financial liabilities, liquidity, assets and debt. The liabilities of the company in the projections of the monthly (annual) cash flow are continuously anticipated. Saponia uses only original financial instruments in its business. The Company does not use derivative financial instruments in risk management.

Price Risk

Managing the markets for the procurement of key raw materials is one of the most important strategic areas in Saponia's business. The dependence of the chemical industry on imported raw materials represents a significant risk of the Company, especially in conditions of limited supply and dependence on price volatility.

In order to reduce the potential risks of the procurement market, the strategic tasks of the procurement function are aimed at regularly monitoring the movement of raw material prices and reacting at the right time. Otherwise, the loss from the unplanned increase in the prices of raw materials must be compensated in other strategic areas, which may lead to disruptions in the Company's operations.

One of the strategic measures in price risk management is to develop partnerships with suppliers, increase the volume of procurement without compromising the optimal level of inventory, production and liquidity, and find alternative solutions in the selection of raw materials and suppliers.

Currency Risk

Operating on the international market implies the risk of exposure to changes in the exchange rate of the kuna against foreign currencies. Risk increases when there is an imbalance between assets and liabilities in the Company's balance sheet in a particular currency.

It is mostly about the exposure to exchange rate risk between EUR and HRK, and it refers to transactions with suppliers, customers and loans denominated in foreign currency.

Negligible volatility in the movement of the euro exchange rate did not significantly affect Saponia's operations and financial protection instruments did not have to be activated. Implemented business model that enables the Company the so-called natural hedging as a protection against currency risk will be applied in 2021 as well.

Interest rate risk

Interest rate risk is the risk of changes in market interest rates relative to interest rates applicable to financial instruments. Cash flow interest rate risk is the risk that interest expense on financial instruments will fluctuate over a period of time. Saponia's interest rate risk arises from long-term loans and partly from loans granted primarily to related companies. The structure of credit indebtedness contains variable and fixed interest rates. Loans granted with variable interest rates affect cash flow risk while fixed interest indebtedness exposes the Company to fair value interest rate risk.

An integral part of business activities includes regular monitoring of changes in interest rates and analysis of alternative financing solutions. In the circumstances of significant disturbances in the financial markets, Saponia will be ready to take the necessary measures to mitigate any negative financial effects. At the moment, interest rates in the financial markets are at rather low levels and Saponia is not significantly exposed to the risk of changes in interest rates.

We are constantly monitoring the situation at the sources of financing and redefining relations with creditors in a timely manner.

Credit risk

Credit risk refers to the risk of default, which would affect the financial result of the Company. The Company's assets that carry credit risk relate to loans, trade receivables and cash. Trade receivables relate to a large number of customers. The key customers are large retail chains and the Company is not significantly exposed to only one customer, but there is a certain concentration of credit exposure

Credit risk management takes place in two phases - the assessment of the partnership and the assessment of overdue debt. Based on the available information, the creditworthiness of the customer is assessed, collateral instruments are defined and the credit limit of deliveries is determined. In the next step, the exposure to business partners is continuously monitored. Special emphasis is placed on overdue debts. The sales policy defines the limits of overdue debt, after which the stoppage of deliveries is included.

Regular analysis of business partners, in the synergy of sales and financial services, manages credit exposure in order to identify business risks in a timely manner. The assessment is made on the basis of continuous monitoring of exposures using financial and non-financial indicators. Credit risk protection measures include securing receivables through bank guarantees and debentures. Since 2014, Saponia has been insuring part of its claims with insurance companies in order to minimize potential risk.

Liquidity and cash flow risk

In contrast to credit risk, liquidity risk is the potential inability to meet obligations to creditors. This risk includes maintaining a sufficient amount of cash and working capital, securing available funds by contracting adequate credit lines and the ability to meet all due liabilities. Continuous planning and monitoring of cash flow enables the functionality of operating business. Flexible cash flow management is ensured by setting financial frameworks for liquidity risk management. By generating positive business cash flows and providing financial support to capital projects, Saponia actively controls and directs business processes to reduce liquidity risk.

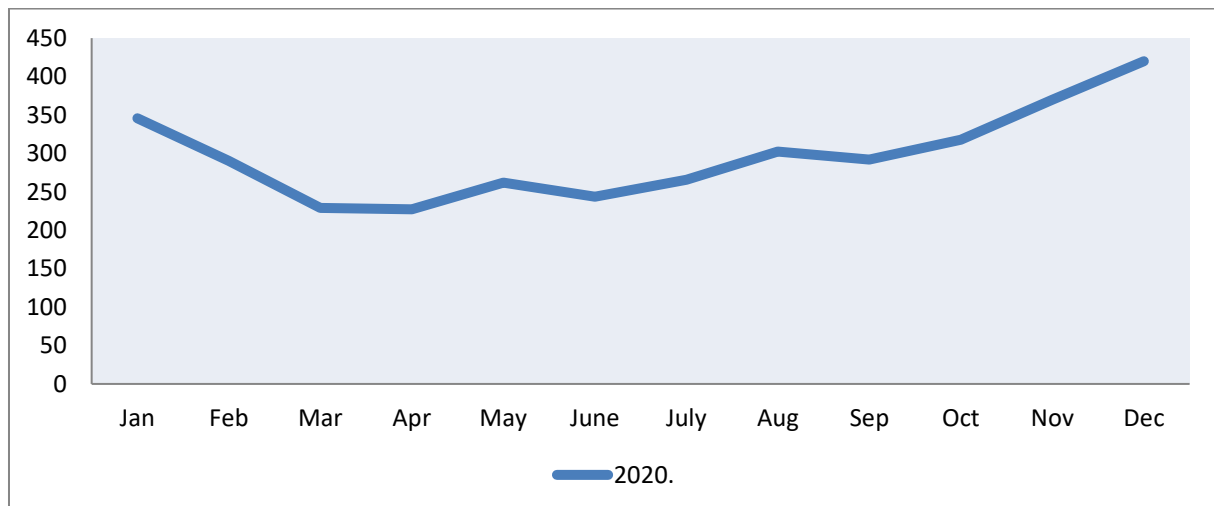
Stocks and subsidiaries

Stock

Saponija shares recorded an increase in the average price in the second half of last year. In 2020, the share recorded the highest historical price, and at the end of 2020 it amounted to HRK 420. The growth of the share price continued at the beginning of 2021.

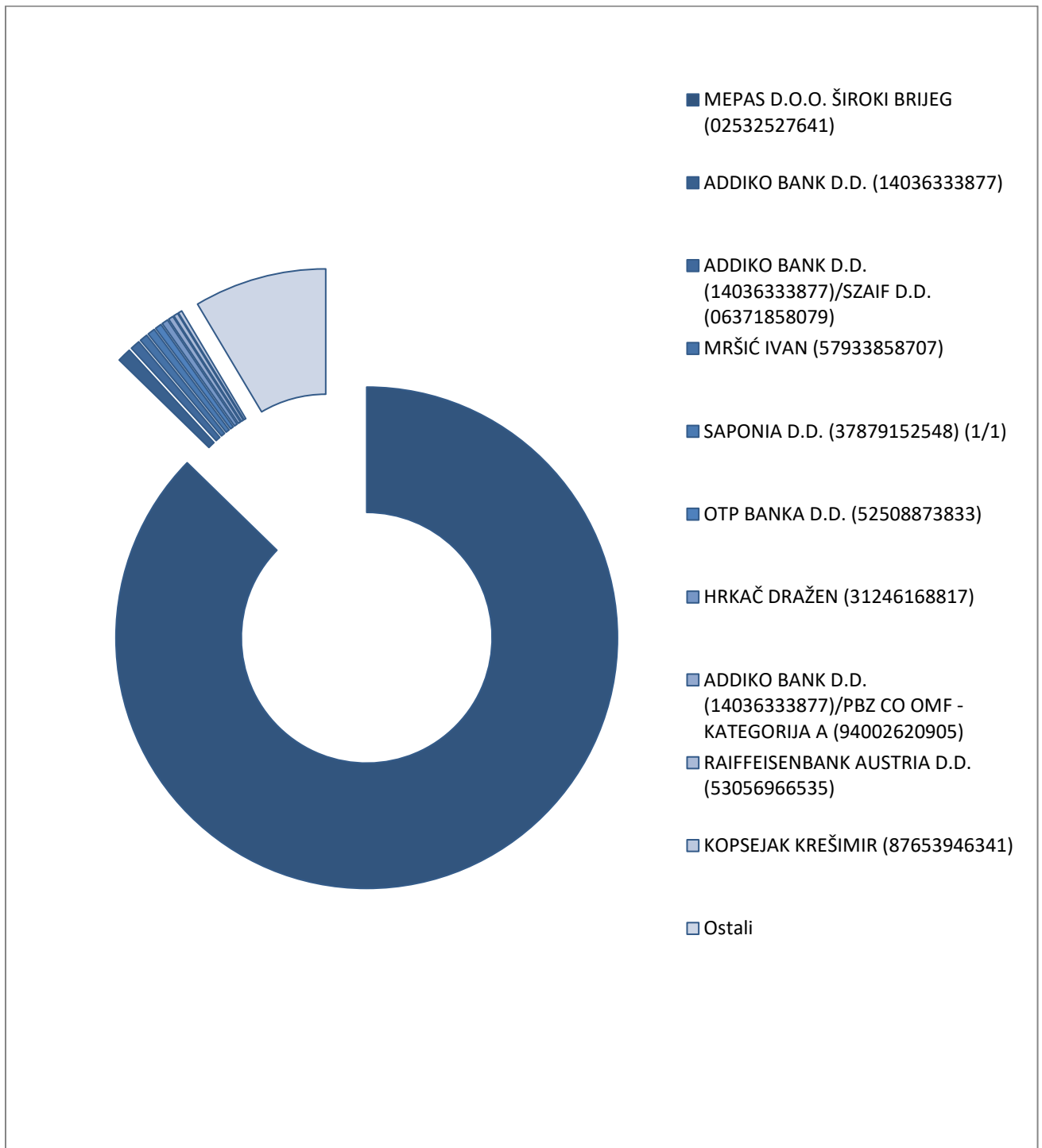
SAPN	31.12.2019.	31.12.2020.	Index
Last price	290	428	148
Average price	292	420	144
Highest price	298	428	144
Lowest price	290	418	144
Market capitalization	190.983.560	281.865.392	148

The company's share capital consists of 658.564 shares with no nominal value listed on the Zagreb Stock Exchange. On 31 December 2020, the Company's portfolio includes a total of 3.140 shares. Treasury shares make up 0.48% of the Company's total capital. The market value of capitalization in 2020 recorded a historical growth and amounted to 281.865.392.



Movement of the average share price of Saponija d.d. in 2020

Ownership structure of the Company on 31.12.2020.



Subsidiaries

The Company's capital investments in long-term financial assets relate to subsidiaries in which the Company has an ownership interest and control. Subsidiaries with which Saponia is directly owned are Saponia commerce d.o.o Belgrade Kandit d.o.o., Osijek, Maraska d.o.o., Zadar and Mercos d.o.o., Osijek.

	Percentage of ownership		Share value		Activity
	2020	2019	31.12.2020.	31.12.2019. revised	
Kandit d.o.o., Osijek	100%	100%	88.892	88.892	Production of candy and chocolate
Maraska d.d., Zadar	100%	100%	80.085	80.085	Wholesale
Mercos d.o.o., Osijek	52,9%	52,9%	3.200	3.200	Wholesale
Saponia commerce d.o.o., Beograd	100%	100%	-	-	Wholesale
			172.177	172.177	

The company has reduced the value of its stake in the subsidiary Mercos d.o.o. Osijek in the amount of HRK 7.600 thousand and in the subsidiary Saponia Commerce d.o.o. Belgrade in the amount of 82 thousand kuna. The reports for 2019 have been revised for these reductions.

NON-FINANCIAL REPORT

Stakeholders 44

Environment 46

Human resources 50

Community 53

Saponia has been reporting on corporate social responsibility since 2014. This is the fifth integrated annual report containing elements of financial and non-financial operations. What to include in the non-financial report we have determined based on a strategic assessment of the issues that interest our stakeholders the most, are most important to our business strategy and are in line with our goal to make the world around us cleaner, safer and healthier.

The basis for assessing which topics are relevant to Saponia stakeholders is an annual business risk assessment which identifies strategic, operational, financial and compliance risks that we then compare with questions, compliments or comments from consumers, suppliers, the local community, non-governmental organizations, organizations and other stakeholders, as well as topics that have emerged in communication with customers, suppliers and other partners. On the basis of all these data, an assessment is made of the environmental, social and sustainability issues of the products, which will be taken special care off in the next period.

In this way, areas of special importance such as water, waste, energy consumption, raw materials, occupational safety, human capital management and community relations were identified.

Stakeholders

In order to understand the interests and needs of our stakeholders, which differ among groups, we continuously communicate with them in different ways, through different channels, depending on the group preferences. This is most often through social media, occasional meetings or audits. Through better communication, we jointly contribute to the development, progress and sustainability of the company, and better adapt products to the wishes and needs of our stakeholders.

All who have or can have a significant interest in our business are our stakeholders, and these are:

- product users and customers,
- employees,
- unions,
- suppliers,
- shareholders,
- local and central government,
- community (universities, associations, organizations) and
- Media.

Consumers, along with employees, are the most important group of stakeholders and we have the most intensive communication with them, because without their trust, the desired results cannot be achieved. As a company that produces consumer goods, it adapts its services and products to consumers to the maximum, and builds partnerships with customers (retail) in all phases of cooperation in order for products to find the best way to consumers. Regular interaction with consumers and respect for all their comments and suggestions enables mutual successful cooperation. Media, social networks, telephone, e-mail, personal contact are used as communication channels. An important segment of the business are industrial and institutional cleaners, and consumer care is reflected in regular education of users to safely and effectively apply Saponia's products in their companies and institutions, and thus contribute to preserving their own and their customers' and workers health.

Saponia employees are behind successful products and marketing campaigns, ensuring the availability of products on the shelves, thus creating the preconditions for long-term growth and development of the

company, which makes them the most important stakeholders along with consumers and the company's greatest value. The exchange of ideas, knowledge and experiences, as well as mutual two-way communication is achieved through the use of various channels: intranet, meetings, gatherings of workers, social networks and socializing. In order for employees to achieve the set goals, special attention is paid to lifelong learning.

The full partners of the Management Board in decision-making and decision-making important for the position of workers, such as economic, social and other rights, are the Workers' Council and the Trade Union. At workers' meetings, as well as through their representatives in the Workers' Council, employees of all organizational units can ask questions and make suggestions regarding the company's operations. The president of the trade union branch is also a member of the Workers' Council, and participates in the work of the Supervisory Board as its member. In this way, he participates in supervising the work of the company and takes care of workers' rights. Collective bargaining ensures additional workers' rights above the legal minimum.

Shareholders have maximum insight into the company's activities and gain security and confidence in its future through regular and transparent information to the investment public through the company's website, as well as publications in the media and the ZSE portal.

We want to offer our consumers a higher level of quality of products and services while reducing costs and strengthening the positive impact on the environment and society as a whole, and we cannot do this without a partnership with our suppliers. Contracting business relationships and managing their quality plays a significant role in achieving the company's goals.

Without the community in which we live and work, there would be no Saponia, and workers and consumers of Saponia products come from it. Collaboration and partnership with organizations and individuals in the community with the aim of raising the quality of business and living through regular exchanges of knowledge and experience, working on projects, supporting ideas and initiatives that can help achieve community goals are woven into the core of the company. Our representatives are often invited speakers at conferences, forums and round tables organized by the Croatian Chamber of Commerce, HUP and professional associations. Through lectures to students from areas of common interest such as human resources, environmental protection and other areas, we develop regular cooperation with the university community. Local initiatives and associations are supported through donations and sponsorships, but also by personal involvement of workers in their initiatives. Saponia actively cooperates with various local and state government bodies in accordance with the company's policies and through this contributes to the improvement of the business environment and society as a whole.

The media are stakeholders with whom regular and successful cooperation is maintained, through announcements, talks and guest appearances. In the past year, regular and structured communication with the media continued and intensified in order to accurately and timely inform all stakeholders on relevant topics and changes within Saponia, and to improve the company's image.



Environment

Concern for the environment is one of the top priorities of Saponia d.d. As such, it is embedded in all levels of the company's business, implemented by promoting and applying the principles of sustainable development. Through its actions and activities, the company promotes the reduction of negative impact on the environment, and supports numerous activities in the community related to environmental protection.

The basic task is to create an economically successful, environmentally friendly and socially responsible company. Sustainable Environmental Management System, which in SAPONIA d.d. has been implemented since 2005, is based on more environmentally friendly technology, responsible management of natural resources and waste, with efforts to reduce waste.

The compliance of our own environmental management system with international standards is continuously confirmed by regular certification in accordance with the ISO 14001: 2015 standard, which sets high standards and requirements in relation to the environmental management system.

Saponia d.d. has recognized the environmental management system as one of the most important factors of the development strategy, and by adopting the Environmental Policy has committed itself to:

- continuously harmonize, respect and implement legal regulations and provisions, as well as international norms
- responsibly manage, continuously monitor and control environmental aspects with the aim of continuously reducing the impact on the environment and human health
- the rational use of natural resources, environmentally friendly energy sources, raw materials and packaging materials
- continuously conduct employee training in terms of a full understanding of the environmental protection system and raising awareness of conservation, sustainable use and environmental protection
- continuously educate and raise employee awareness of the need for safe work and safety at work
- Continuously develop and improve processes, products and services in order to reduce the negative impact on the environment
- constant communication with the environment, business partners, consumers and the local community in order to promote a responsible attitude towards the environment.

Every employee of Saponia d.d. in accordance with its powers and responsibilities, it is obliged to adhere to the Environmental Protection Policy and contribute to the achievement of the set goals.

In order to reduce the impact on the environment to the lowest possible level, we take care of our products throughout their life cycle: from the choice of raw materials, through the improvement of production processes, storage, packaging and distribution, to education and professional assistance to consumers in terms of adequate use of our products..

Water use and protection

In addition to healthy water from the public water supply system of the city of Osijek, Saponia for the needs of its technological processes also uses the captured or pumped water from the Drava River from its own water intake. A new contract for a 30-year concession was signed on August 22, 2019.

In accordance with the requirements of the Water Permit issued by „Hrvatske vode“, Water Management Department for the Danube and the Lower Drava, Saponia manages wastewater generated during the technological process.

Testing of wastewater quality to the given parameters through an authorized laboratory is carried out in accordance with the valid Water Permit. All test reports as well as the results on the prescribed forms "B2" are submitted to Hrvatske vode upon completion of the analysis. The average values of all parameters set by the water permit were in accordance with the valid Ordinance.

In accordance with the applicable regulations, data on the amount of discharged wastewater are submitted semi-annually to Hrvatske vode on the prescribed form "A1", as well as data on the amount of abstracted water from the Drava River on the prescribed form "3b".

In 2020, we had 3% less technological wastewater compared to the previous year.

The watertightness of the wastewater drainage system and associated water structures was tested through an authorized company, in accordance with the Ordinance on technical requirements for wastewater drainage structures as well as the deadlines for mandatory control of the correctness of drainage and wastewater treatment plants.

In accordance with the applicable regulations, data are regularly submitted to Hrvatske vode on the production or import of chemicals that reach the waters after use.

Internal regulations for the maintenance of drainage systems and treatment in case of extraordinary pollution have been developed: Plan of operation and maintenance of drainage water structures and wastewater treatment plants and Operational plan of measures in case of extraordinary and sudden water pollution.

By continuously monitoring water consumption per unit of product, determining the quantities of technological and cooling wastewater at the places of origin, solutions are found for the most rational use of this resource. New possibilities of water recirculation, ie reduction of the amount of wastewater, are being investigated. During 2020, we captured approximately 15% less water from the water intake on the Drava River. We are also continuously working on activities related to research on the possibilities of reducing the content of detergents in wastewater at the places of origin and in the central collection pit, ie before discharge into the public sewerage system, all with the aim of minimizing environmental impact..

Chemicals and biocides

We regularly meet our obligations in accordance with the applicable regulations on chemicals. During 2020, MSDSs were developed for all new products, sent for verification and entry in the Register of MSDSs of the Croatian Institute of Public Health of the Toxicology Service.

In accordance with Art. 95 of the Biocides Regulation, which prohibits the trade in biocidal products if the supplier of the active substance is not notified to ECHA and placed on the List of Art. 95 of all our suppliers of active substances we continuously obtain valid certificates. In the past year, we had coordinated supervision of state sanitary inspectors, as well as several inspections of our products in the field that passed without objections..

Waste

In accordance with the obligations from the Law on Sustainable Waste Management and the Ordinance on Waste Management, all waste is sorted at the place of origin and disposed of by a company authorized for that purpose. Waste is collected in designated and marked containers placed in a temporary landfill within the company, and regularly handed over to an authorized collector.

Using the network application "WasteControl", we issue accompanying sheets for all types of waste, the system automatically generates numbers of accompanying sheets for each type of waste, and automatically records each accompanying sheet or "output" in the ONTO register.

The total amount of waste in 2020 was: 24,299 kg of hazardous waste and 514,425 kg of non-hazardous waste, which were generated during the regular production processes.

In 2020 a number of activities were carried out to reduce the amount of packaging waste generated from products placed on the market. Opportunities for savings and possible further rationalizations in the field of packing and packaging, in addition to the functionality of packaging, are also related to our technological capabilities and investments in packaging technology.

In order to reduce packaging waste from products placed on the market, we invest in the technology of production of PET bottles from preforms instead of PET granules. Reductions in the weight of hand dishwashing detergent bottles have been achieved. The total savings on plastic material amounted to 17,962,709 kg. Also the reduction in the weight of the laundry detergent bottle, which is for 2020. amounted to 2,309,997 kg, and bottles for softeners 159.12 kg. Therefore, the total reduction in weight of plastic put on the market in 2020. was 20,431,826 kgc for the same amount of products compared to 2019. There has also been a reduction in packaging waste of paper by reducing the weight of the transport box for certain products. The reduction of packaging waste from paper and cardboard placed on the market for the same amount of products compared to 2019 amounted to a total of 9,894.9 kg.

Records for calculating the fee for the disposal of packaging from products placed on the market of the Republic of Croatia are kept and submitted to the Fund for Environmental Protection and Energy Efficiency, according to the valid Ordinance. In the previous year, we had the supervision of the Environmental Protection Inspector with an emphasis on the reporting of packaging waste to the Fund, The supervision passed without objections.

Air

During the regular operation of Saponia's production facilities, air emissions from all previous measurements were within the limits prescribed by law (measurements are performed by authorized laboratories). The purpose of measurements at stationary sources is to check the emission of air pollutants, the values of which are compared with the prescribed emission limit values according to the Regulation on emission limit values for air pollutants from stationary sources.

Noise

Measurement of noise, microclimate and lighting in workplaces was carried out in accordance with the legal obligations and it was determined that the working environment meets all the requirements according to the rules of safety at work.

Due to the location of the factory, preventive technical measures to reduce noise are constantly being implemented: we have fenced external fans and made sound barriers, we have installed duct silencers, regular replacement of bearings on fans, etc. As a preventive measure to reduce noise, tanks only in the first shift. The last control measurement of the noise level showed that the noise complied with the prescribed limits.

Resources and energy management

The company continuously monitors energy consumption and reduces energy consumption in relation to a ton of product.

A project to reduce energy consumption in part of the production facilities of SAPONIA d.d. was executed. The purpose of the project was to achieve energy savings through the implementation of energy efficiency measures in part of the company's production facilities.

The project was implemented in accordance with the Operational Program Competitiveness and Cohesion 2014-2020, Priority Axis 4, Promotion of Energy Efficiency and Renewable Energy Sources, Investment Priority 4b Increasing Energy Efficiency and Use of Renewable Energy Sources in the Commercial Sector, and Specific Objective 4c1 Increasing Energy Efficiency and use of renewable energy sources in manufacturing industries. This project includes the replacement of the machine for the production of PET bottles and related equipment and the reconstruction of lighting.

Implementation of environmentally friendly technologies, raw materials, packaging and product formulations

Development of product line formulations compliant with EU ECOLABEL certification criteria in accordance with Regulation (EC) No 1907/2006. 66/2010 followed in response to the increasing demands of our customers, especially hotel chains that are environmentally conscious. We have 10 products on the market certified with the prestigious EU Ecolabel certificate, ie a product line that covers all household purposes.

Due to the growing market interest in this type of product, work continues on the development of formulations with the highest possible share of natural ingredients that have benefits in terms of effects on human health, but also minimize the impact on the environment..

Introduction of environmentally more acceptable packaging

We conducted the examination of the possibility of incorporating recyclables into the packaging we are working with. So far, we have successfully conducted development and testing with the following types of materials:

- 100% rPET (granulate)
- 25, 80 and 100% r PET preforms
- HDPE 100% I'm green (sugar cane bioplastic)
- PE / PE foil for detergents with 40% recycled content in the layer

Depending on the situation, we are ready to produce this type of packaging.

Projects - Horizon 2020 linked to circular economy and sustainability

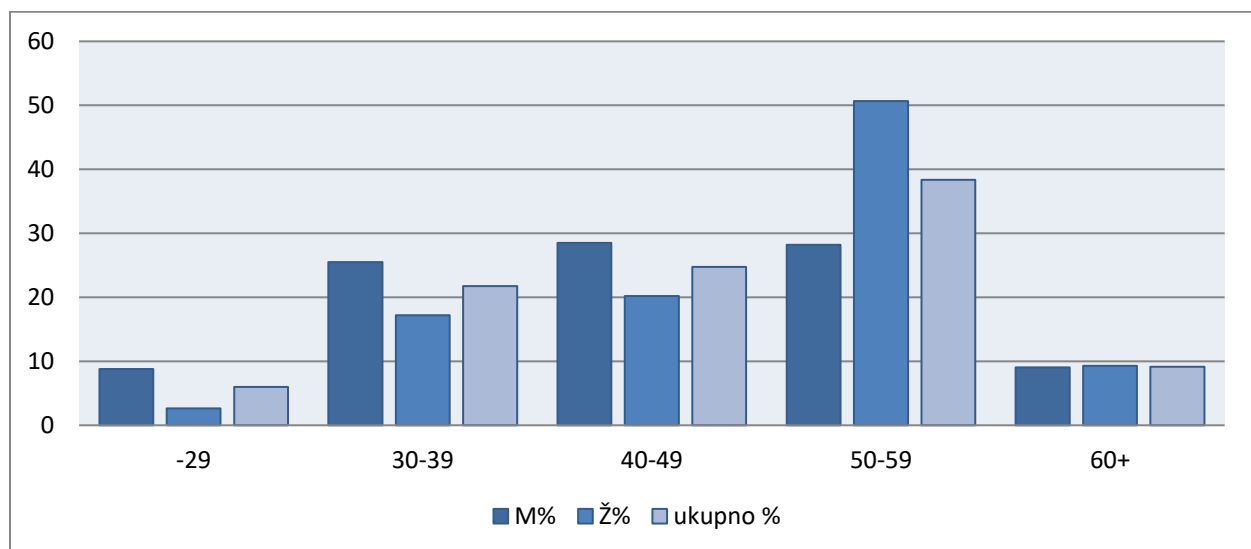
Saponia participates in three projects related to the circular economy and sustainable development: Funguschain, CIRC-PACK and EMBRACED. The projects are co-financed by Bio Based Industries Joint Undertaking (BBI JU) under the Horizon 2020 research and innovation program of the European Union. Talks are underway regarding new projects, also related to the circular economy and reducing the impact on the environment, and obtaining new, innovative materials, especially packaging.

Human resources

Respect for human and workers' rights regulated by the legislative framework of the Republic of Croatia and the European Union, as well as the principles of the UNGC is woven into the business of Saponia at all levels. Protection against discrimination of workers on any grounds is prescribed by ordinances, codes of conduct, as well as the appointment of bodies and persons tasked with the protection of workers' and human rights. During the past year, there were no reports or disputes related to the protection of the rights and dignity of workers (mobbing or harassment on any grounds). Saponia is opposed to the exploitation of child labor and the employment of minors, so the employment of persons under the age of 18 is not possible due to the employment procedure itself and the controls associated with it.

Saponia belongs to the circle of companies in which gender equality is expressed, as well as a company with a high share of women in management positions. The difference in the average salary of women and men is 3%, which is significantly lower than the Croatian average for 2019, which is 11.5%. The share of women in the total number of employees is 45%, the share of women at all management levels is 47%, but the share of women in senior management is 73%, putting Saponia in a small circle of companies with fewer women in the total number of employees and higher number in management structures.

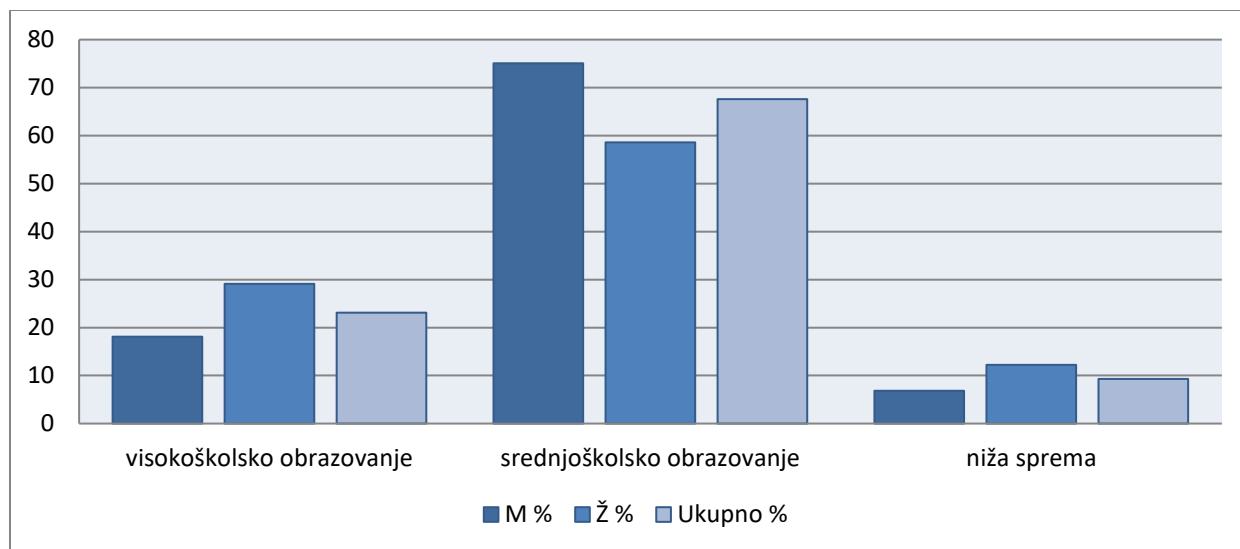
Last year, 2020, was challenging not only in the market, but also in the work environment. Ensuring safe working conditions with regard to the coronavirus epidemic was a priority for all services, the way of working changed in accordance with epidemiological conditions, and if necessary, remote work was introduced, part of the year was worked with a reduced number of hours, work tasks to preserve the health of all involved in business processes.



Structure of workers by age and sex

Despite all the challenges, the optimization and rationalization of business processes continued, which led to a reduction in the number of employees. At the end of 2020, Saponia had 667 employees, but the average number of employees during the business year was 735.

Modernization of production and introduction of new technologies have led to an increase in the number of jobs with specialist knowledge and a decrease in the number of simple jobs. Accordingly, the structure of workers is changing - it is possible to stay longer in jobs that once required early retirement due to the nature of work and difficult working conditions, while reducing the number of workers with lower levels of education. Saponia also has a significantly higher share of women over the age of 50 compared to the number of men, but it is mostly about people in specialist positions in production, quality control and administration.



Educational workers structure

One of Saponia's long-term strategic goals is to build and implement an integrated human resource management process. To achieve this, we build quality internal communication between employers and employees, work on the acquisition of new knowledge and skills, create a stimulating work atmosphere and continuously invest in the work environment and employee motivation. In addition, other material and intangible rights are ensured in accordance with the collective agreement and other regulations. We believe this is the way we can retain workers and encourage them to achieve top results.

Vocational, professional and scientific education was online last year, with rare live educations, mostly those related to practical knowledge that still cannot be presented or verified via computer. Development in professional fields and the acquisition of knowledge and skills needed to monitor rapid technological and market changes and keep pace with changes in the environment has continued despite the difficulties in organizing them. During 2020, all areas important for the company's operations were monitored, from accounting through procurement to environmental protection and detergent development.

The Occupational Safety and Health Service was one of the services with great challenges during 2020 due to the epidemic. Timely response and provision of personal protective equipment, education of people and reorganization of work avoided problems, and there were no delays in the production caused by the corona virus. In addition to extraordinary activities related to the outbreak, the service carried out all its regular activities: they systematically monitored the state of safety at work and acted on improvement through professional support, counseling and prevention work. Workers were trained to work in a safe manner, and workers were referred to professional training for work needs and work safety (forklift management, ADR regulations, work with hazardous chemicals, etc.). A total of 454 workers underwent some form of occupational safety training during the year. Employees of the OSHS service, if they noticed

incorrect work procedures and other circumstances that are not in accordance with the regulation, warned the occupational safety authorities through the supervision book and / or e-mail, and sent them notifications of any changes in legislation and risk assessments.

One of the key indicators of A.I.S.E. related to the protection of safety and health of workers monitors the frequency of accidents at work. Saponia's frequency is 0.88 while the average for all industrial production is 2 (detergent production in Europe has a frequency of 0.92), which is a decrease compared to the previous period and an indicator of better working conditions and better compliance with occupational safety rules. Of the 14 injuries at work in 2020, one was more severe and an inspection of the occupational safety inspection was conducted, which established that there were no omissions in the application of the occupational safety measure by the employer.

In human resource management, the basic task is to provide good working conditions as well as a safe working space. For this purpose, the OSHS service regularly organizes inspections of machines and installations (261 inspections in the past year), sends for regular preventive health examinations in accordance with the ordinance on jobs with special working conditions, and examinations before the start of work. Instructions for safe operation of new machines are also developed and old ones are updated in accordance with the changes. All workers borrow personal protective equipment depending on the workplace, and all workplaces are covered by hazard assessments and adequately secured. Fire protection is also at a high level, preventive inspections are carried out, workers are trained and fire extinguishers are serviced.

Special attention is paid to the balance between business obligations and free time, which indirectly creates added value for customers, investors and employees. Through the sports club, workers are provided with stress relief, as well as improved health, and the occupational safety service takes special care to ensure maximum safe conditions in accordance with the workplace by encouraging workers to apply safety rules and equipment, as well as giving instructions for investment in production aimed at increasing worker safety. The same level of compliance with the rules and obligations of occupational safety is expected from outside (foreign) workers who perform work within the business premises of Saponia, which is regularly checked by the occupational safety service and all workers are introduced to the obligations and rules they must adhere to. during work and residence in Saponia.

Saponia has very good cooperation with the EKN trade union and its representatives actively participate in the work of the Workers 'Council, collective bargaining and protection of workers' rights. The right to actively participate in the work of the union and the activities promoted by the union related to the protection of individual and collective rights of workers is guaranteed to all Saponia workers, and 60% of Saponia workers have decided to join the union. Sessions of the Workers' Council are held as needed, and at least once a quarter. The Management Board informs the Workers 'Council on all important issues for the company's operations and accepts the proposals of the Workers' Council for the improvement of operations and activities.

Motivated and satisfied employees respect the norms of excellence, cooperate with each other, share knowledge and experience and with solidarity create a community that is the strength of Saponia and its prerequisite for successful development and a source of competitive advantage.

Community

Supporting initiatives related to youth development, sports and entrepreneurship leads to the strengthening of the community in which one lives and works. For many years, key sporting events in the region have been regularly sponsored, products have been donated to associations and institutions, but direct donations have also been made to people of lower financial status. These are all small contributions that try to improve their living conditions.

As in other business segments, the past year has been challenging in community relations. The epidemic and earthquakes demanded additional engagement of all in order to overcome the problems that were put before us. Despite all and precisely because of all this, Saponia has stepped up its collaboration with the local community.

Donation of funds for the purchase of respirators to the Osijek KBC, assistance to the residents of Zagreb who were located in Cvjetno naselje after the earthquake, regular donations to Rijeka ljubavi, donation of disinfectants for safe sports, scientific and cultural events (Sunset run, Science for Youth in Vukovar, etc.), and places of worship are part of the activities in 2020. The challenging school year began with the donation of BIS handysept gel for hand disinfection to all first-graders in Croatia in order to help them step into school safely and without worries. Donations also helped after the earthquake in Sisak, but also brightened up the holidays for the employees of KBC Osijek and OB Dr. Ivo Pedišić Sisak. In cooperation with DM, the humanitarian action "Let's cheer up the children from the SOS Children's Village Ladimirevci together" was realized, where the purchase of any Faks Helizim in DM donated 5 kn for the SOS Children's Village, and in agreement with the SOS Children's Village according to their needs washing, cleaning and disinfection products were supplied.

The workers of Saponia themselves are also involved in the work of local humanitarian and non-governmental organizations through which they help to improve society and ensure the better environment in which we live. In addition, Saponia regularly organizes voluntary blood donations within the factory in cooperation with the Clinical Institute for Transfusion Medicine of KBC Osijek, to which a large number of workers always respond.

Respect for human rights is woven into all pores of Saponia's business. We adhere to all regulations and recommendations related to the protection of human rights, we do not use child labor, we ensure good working conditions and equality of all workers. To the best of our knowledge, we do not have a single supplier in the supply chain who has in any way participated in human rights violations.

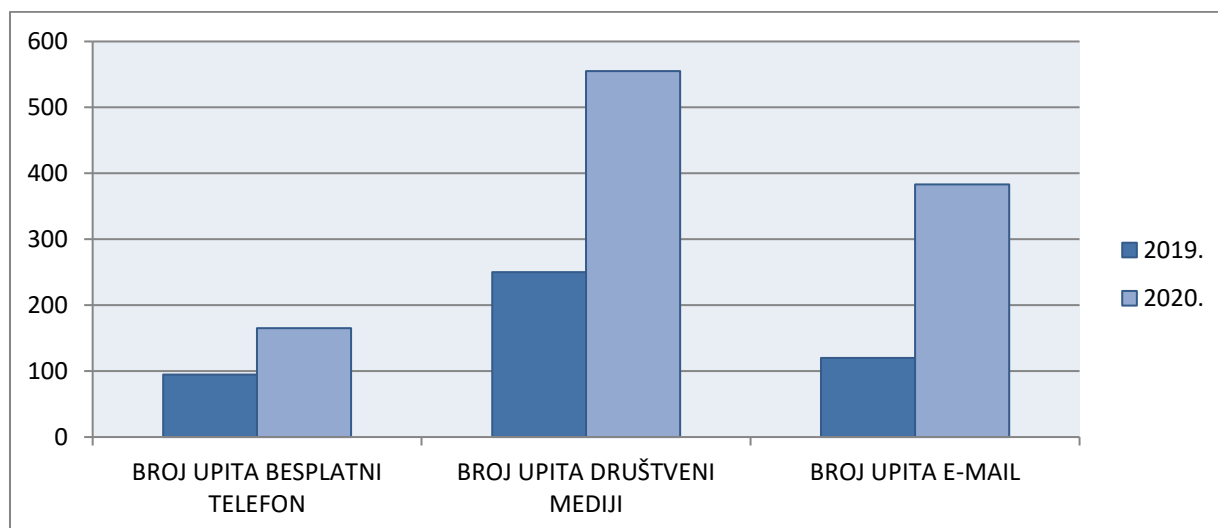
The application of the principle of social responsibility is visible in the systematic approach to the control of production and business, fair access to workers and runs through all segments of work. The effects of these activities are evident in the certificates and recognitions gained for work and working in the community. Without employees with maximum commitment to the quality of work, business and products, Saponia would not be such a successful company. Aware of this, investing in their growth and development is also an investment in the future of the company.

In normal years, Saponia hosts a dozen groups of pupils and students and at least 5-6 lectures are held in schools and colleges. The epidemic disrupted plans in that segment as well. Planned live lectures and tours have been canceled, and professional practice has been kept to a minimum to protect the health of practitioners and reduce the possibility of the virus entering production facilities. Several lectures were held through collaboration platforms and all collaboration was online. However, we did not stop, we still believe that cooperation with the University of Osijek and schools in the area is extremely important for building future quality staff and mutual exchange of knowledge and experience, and for the future it is planned to intensify cooperation by including more students in compulsory and voluntary practices in Saponia.

Saponia fights against all forms of discrimination, harassment and breaches of privacy and actively works on the flow of information so that workers are involved in all processes that affect their well-being. A safe working environment is provided, as well as training of workers to work in a safe way in order to provide the best possible working conditions. In addition to the rights from the collective agreement, Saponia workers have additional benefits at their disposal, from recreation to organizing various activities and encouraging workers to volunteer in the community to maximize workers' satisfaction with the environment in which they work and operate.

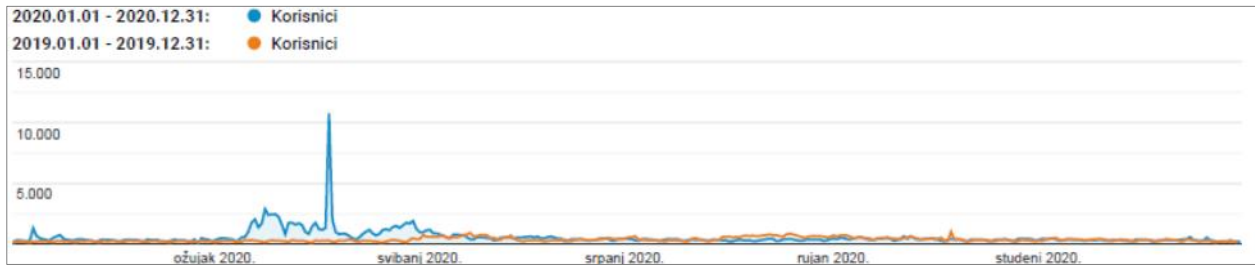
Only products that meet all positive EU regulations and recommendations related to the composition, safety, packaging and labeling of cleaning products and toiletries are placed on the market, and care is taken for the safety and health of consumers. Key performance indicators of the A.I.S.E. monitor parameters such as product safety assessment, customer and consumer safety, as well as customer and consumer information.

Last year, 1103 consumer inquiries were received via toll-free line, e-mail or social networks, mostly for information where they can get their favorite product, additional information about products or the meaning of terms and symbols, and method of use, only 1 inquiry was related to health (0.09%), and none related to product safety, which shows that the perception of Saponia's products is as safe and free of harmful ingredients that could cause consumer concern.



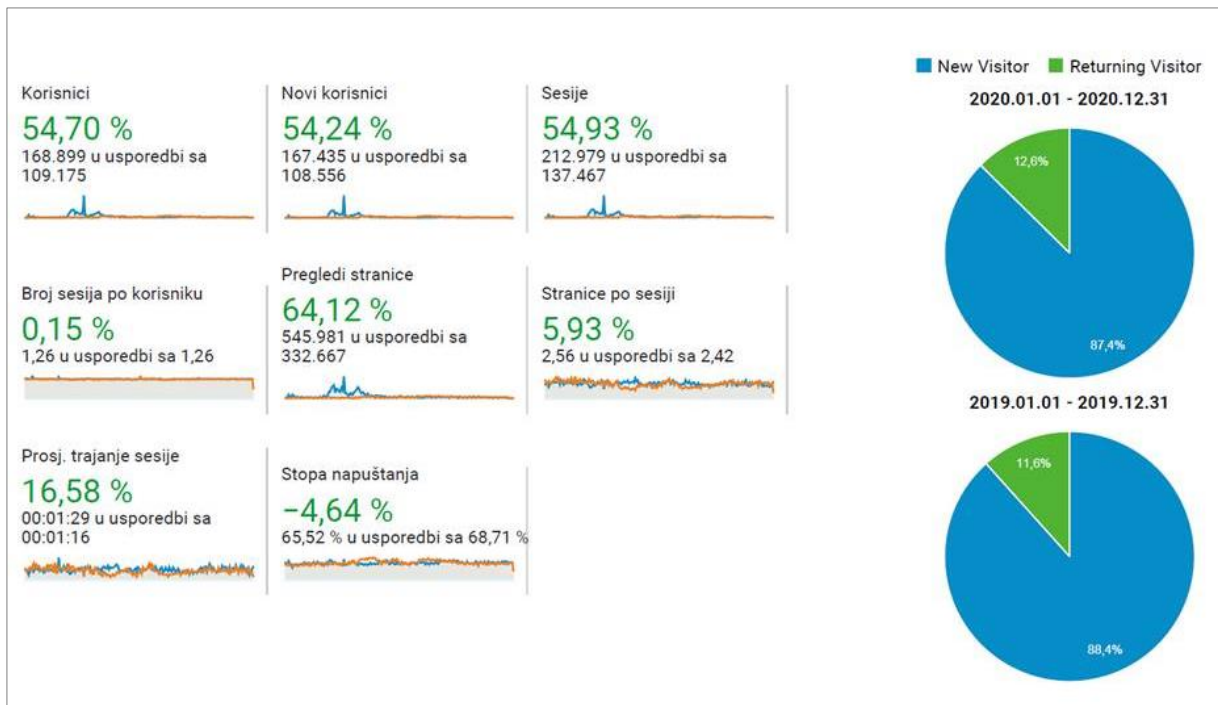
Overview of consumer inquiries

The site also recorded a significant jump in visits, by 54.7%. There was a significant increase in the number of visits during the first wave of the pandemic when consumers were informed about disinfectants and products that can preserve their own and the health of their loved ones..



Overview of daili web page visits – comparison 2019. i 2020.

Better indicators were recorded in all segments - an increase in the number of users returning to the site, longer retention on the site, review of multiple pages, lower abandonment rate, all of which shows a good strategy and quality of work with consumers.



Overview of web page visitor statistics for Saponia

All these indicators are in line with or better than the average of the detergent industry, on all products there are at least two signs related to product safety, which is better than the industry average and shows high compliance not only with obligations but also voluntary product labeling. Saponia also supports the A.I.S.E. to simplify mandatory product labeling that will allow consumers to better navigate labels and use products more safely.

Products intended for institutional and industrial consumers are marked above the rules of the profession, contain not only mandatory but also additional information that improves the safe use of products, and last year 1193 people were trained at 30 customers, of which 6 trainings were done online and included 450 workers . Due to the epidemic, a significant number of hotels remained closed, which is why there is a significant drop in the number of educations. All users are trained to safely and properly handle products and systems, thus contributing to the safety of their products and services, and thus their consumers. For all products, safety assessments and efficacy tests have been performed at home or at the Institute of Public Health, while their dermatological safety is checked at external institutions such as the

ISPE Institute in Milan. The disinfectant properties were tested at the Hamilton Institute, which gave our customers additional guarantees of effectiveness, especially against the SARS-CoV-2 virus, the cause of the pandemic. Products are tracked from the idea itself through production and use in consumer homes or institutions and industry, all the way to the end of the life cycle.

The satisfaction of direct customers about delivery times, prices, quality and urgency of Saponia employees in answering inquiries and comments was also measured. The average rating is 4.24, the same as last year, which shows that customers are very satisfied with the cooperation and products of Saponia. By comparing the indicators for 2019 and 2020, progress has been made in the categories of product information, employee kindness, product quality and urgency of response to complaints. The decline is in the category of delivery times and price positioning in relation to the competition. These are areas that will receive additional attention in the next period in accordance with the movement of prices of input raw materials and general market developments, as well as better organization of routes in cooperation with the Transport Service.

The Supply Chain in Saponia differs whether we buy raw materials for production (packaging and raw materials), other goods (spare parts and equipment, laboratory materials, office supplies, finished products, etc.) or services. Raw materials for the production of finished products are procured according to the monthly material balance, taking into account delivery times, quantities according to packaging, etc. Raw materials for production are divided into raw materials for cosmetics, raw materials for liquid detergents and raw materials for powdered detergents (although certain raw materials overlap and use for several different applications). Supplier selection is done by comparing the bids of several approved suppliers, according to the Quality Request issued by Product Development. Other materials are procured according to the user's order, and we select the most favorable supplier by comparing several offers. We constantly analyze suppliers and rank them as A, B, C suppliers (related to a number of criteria: quality - frequency of complaints, compliance with delivery deadlines, professionalism of staff, price acceptability, breadth of production program, payment currency, etc.).

Due to the specifics of production and raw materials that we use in production, most suppliers are from abroad, but we try whenever possible to give preference to suppliers from the Republic of Croatia. Also, direct suppliers (producers of raw materials and packaging, not distributors) have an advantage, because in addition to commercial advantages, we have faster and better information about materials, which is sometimes crucial in product development and production. It is extremely important for us to procure raw materials from suppliers that meet high standards related to environmental protection and sustainable development, which must be proven by the official documentation we require from them (Ecolabel, Kosher certificates - non animal origin, etc.).

Saponia fully supports the fight against corruption and the efforts of the Government of the Republic of Croatia in the fight against corruption. In addition to the publicly announced anti-corruption action plan and regulations transferring the fight against corruption to all levels of Saponia, educational activities are being implemented and planned to deepen knowledge to detect non-transparent and illegal business activities and prevent them in a timely manner. When participating in public tenders, Saponia focuses on the legality of its activities. Saponia systematically works on maintaining partnerships and fair relations with suppliers, because only together with them can customers be provided with a higher level of quality of products and services.

FINANCIAL BUSINESS REPORT

Summary of key financial indicators..

Financial business ..

Statement of the persons responsible for compiling the financial statements..

Proposal of decision on use of profit..

Decision on determining the annual financial..

Summary of key financial indicators

Indicators	2020.	2019.	Differences	
			Amount	% changes
Total income (HRK million)	543,4	509,4	34,0	6,7
Operating income (HRK million)	536,3	505,2	31,1	6,2
Sales revenues (HRK million)	525,3	499,7	25,6	5,1
EBITDA (Operating profit + depreciation) (HRK million)				
	97,6	36,7	60,9	166,1
EBITDA margin %	18,2	7,3		1094 bb
Operating profit (EBIT) (HRK million)	82,2	17,7	64,5	363,6
EBIT margin %	15,3	3,5		1182 bb
Net profit (HRK million)	66,7	11,5	55,3	481,1
Net profit margin%	12,4	2,3		1017 bb
EPS (earnings per ordinary share) - HRK	101,8	17,5	84,3	481,7
Total assets (HRK million)				
	642,6	619,4	23,3	3,8
Capital and reserves (HRK million)	413,6	346,9	66,7	19,2
Return on equity (ROE) - %	16,1	3,3		
Return on property (ROA) - %	10,4	1,9		
Current liquidity (short-term assets/short-term liabilities)	1,9	1,6		
Net working capital	137,4	98,2	39,2	39,9
Net debt	30,5	98,8	-68,3	-69,2
Net debt / EBITDA	0,3	2,7		
Net debt to equity ratio - %	7,4	28,5		

The comparative period has been adjusted for reporting for 2020

Key events of 2020.

HRK 39,1 million invested in modernization of production processes with the aim of reducing the consumption of raw materials, energy and the amount of waste material in production in order to ensure the implementation of the sustainable development strategy

- New line for refill packaging of powder detergents
- improving the packaging and production of liquid detergents - improved operation of Autome and Magic machines (reducing the weight of plastic packaging) and the operation of individual lines for packaging liquid detergents,
- tube injectors and new tools for making bottles,
- two new cardboard box machine for shelf-ready packaging (reduction of the share of paper packaging), arranged space for intermediate storage of bottles
- New and refurbished existing daily raw material tanks as well as tanks for NaOH, water glass and calcite
- Upgraded and reconstructed Žitnjak Zagreb Warehouse and purchase of storage capacities
- Investment in motor vehicle fleet expansion

Entering a new business - distribution - Saponia becomes a distributor of Kandita and Koestlin goods

New products

- Neofresh product line with odor blocking molecules and quality formulations that includes all brands
- Handysept and Deziclean products in various packaging variants - high quality disinfectants aimed at protecting people and space whose effectiveness has been verified by a coronavirus efficacy certificate by the laboratory of J. S. Hamilton
- Breeze liquid soaps with four fragrance variants
- Nila MY - a premium product in the line of liquid detergents for delicate laundry - a concentrated product with ingredients that protect the fibers and color of clothing
- Kaina Handysept moisturizing hand cream with chamomile and calendula that strengthens the skin's defense mechanism especially intended for hand care after disinfection
- Arf - a new line for cleaning toilet bowls and entering a new product category WC drops - toilet bowl fresheners in five fragrant variants
- New sales segment - Wet wipes and toilet freshener products

Community support

Purchase of respirators from KBC Osijek, donations of products to the Special Hospital for Lung Diseases Zagreb and SOS Children's Village Ladimirevci, hospital in Sisak and those affected by the earthquake in Sisak-Moslavina County.

In cooperation with Kandit, product packages for the employees of the Respiration Center and the Clinic for Infetology in Osijek

Business environment

In 2020, the Croatian economy will record a significant decline in economic activity. Total industrial production decreased by 2,7% year on year. The year is marked globally by a long-lasting fight against the coronavirus pandemic, and measures of physical distancing and restriction of movement continue. Along with the pandemic, Croatia also experienced a devastating earthquake that hit Zagreb and its surroundings in the spring months, and at the end of the year the area of Sisak-Moslavina County. The COVID-19 pandemic was absent before the tourist season, and the tourist season itself was shorter than usual due to the worsening epidemiological situation in the second half of August, which made the post-tourist season impossible.

In such extraordinary circumstances, especially in the conditions of the introduced strict measures present from March to May, and the strengthening of measures in November and December, Saponia's business is adapted to the new situation in order for the production to continue according to market needs. Thanks to quick and effective reactions to the new circumstances, production processes were not endangered at any time, we adapted and were innovative in an effort to help alleviate the consequences of the pandemic. The primary goals were to preserve the health and safety of employees and to preserve liquidity and financial stability, and the results for 2020 confirm the success of their achievement. Additional protection and security measures are prescribed in order to mitigate potential risks, and the development of the situation in all markets in which we operate is monitored on a daily basis. Although in the beginning of the mentioned crisis the conditions of procurement and even more pronounced supply of raw materials and packaging for the needs of production were very difficult, with the undertaken activities we provided sufficient quantities of raw materials for continuous production.

According to the Sectoral Analysis of the Chemical Industry for 2020 released in March 2021, the chemical industry is the fourth largest industry in the European Union with about thirty thousand active companies, and is divided into three main production areas - basic chemicals, specialty chemicals and chemical products for consumer goods which account for 14,9 percent of total sector sales.

Although in the European Union this production sector recorded a decline of 4,4 percent, in Croatia the production of chemicals and chemical products for 2020 recorded a year-on-year growth of 11,3 percent. For comparison, this industry at the level of Croatia in 2017 and 2018 achieved negative growth rates at the annual level of 14,2 and 9,9 percent, and in 2019 there was a growth of 2,3 percent. Production growth was accompanied by productivity growth (15%); wages (6%) and a slight decline in employees (-1,2%) and average prices (-1,9%). Production is still accompanied by a negative trade balance in terms of the coverage of imports by exports of only 42%, which is a reflection of the dependence of the chemical industry on imported raw materials and their price fluctuations on the world market.

Revenue dynamics

Market trends required the adjustment of business strategy and set goals, so the needs of the market, with continuous investment in key brands and development of new products, focused on products in the field of protection, disinfection and preservation of human health and space.

Saponia's total revenues generated in 2020 amount to HRK 543,4 million, which is 6,7 percent or HRK 34,0 million higher than in the previous business period.

Operating revenues in the amount of HRK 536,3 million were higher by HRK 31,1 million or 6,2 percent.

Financial revenues with the realization of HRK 7,1 million are higher by HRK 2,9 million than realized in 2019.

According to the sector analysis of the chemical industry for 2020, Saponia has the second place position in the group according to the realized total revenue.

TOTAL INCOME						
	2020.		2019.		Difference HRK million	% change
	HRK million	Proportion of sales	HRK million	Proportion of sales		
OPERATING INCOME	536,3	98,7%	505,2	99,2%	31,1	6,2%
Sales revenue	525,3	96,7%	499,7	98,1%	25,6	5,1%
- finished products	411,5	75,7%	387,0	76,0%	24,5	6,3%
- merchandise	13,5	2,5%	12,9	2,5%	0,6	4,9%
- services	2,8	0,5%	4,0	0,8%	-1,3	31,2%
- connected businesses	97,5	17,9%	95,7	18,8%	1,8	1,8%
Other operating income	11,0	2,0%	5,6	1,1%	5,5	98,7%
FINANCIAL REVENUE	7,1	1,3%	4,2	0,8%	2,9	69,6%
TOTAL INCOME	543,4	100%	509,4	100%	34,0	6,7%

The comparative period has been adjusted for reporting for 2020

Dynamics of sales revenue

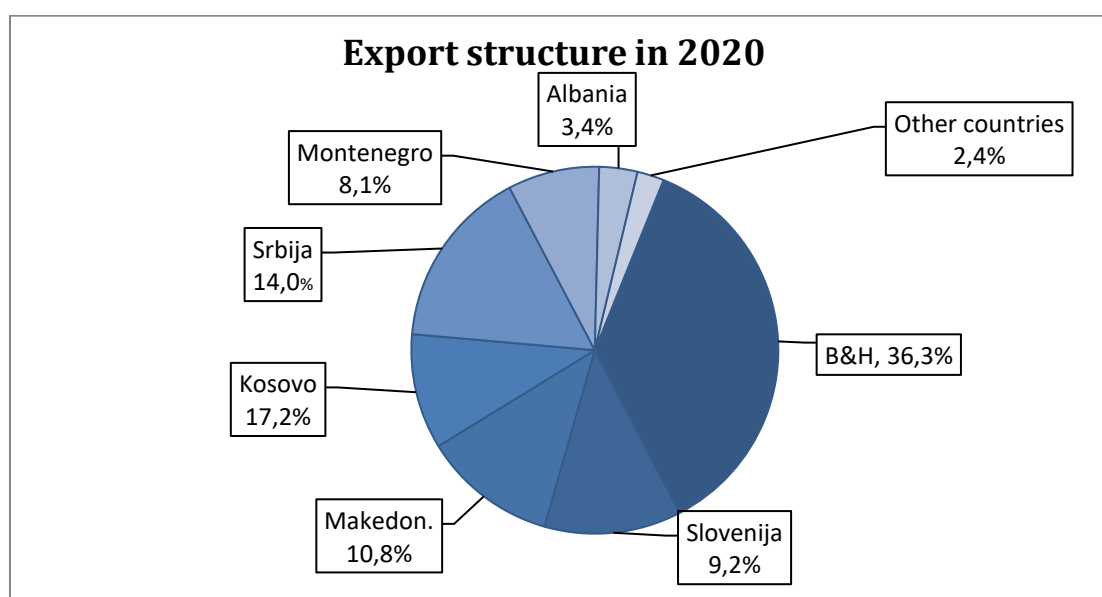
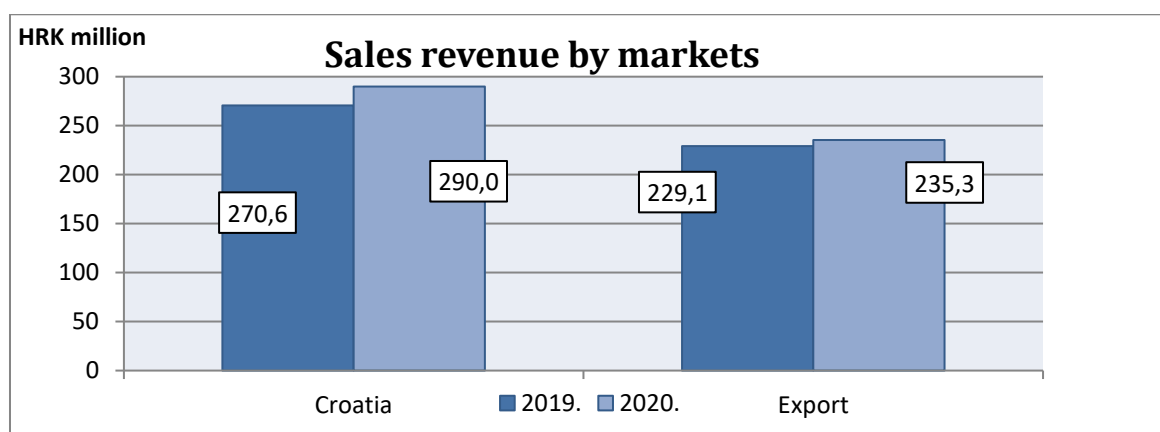
With the realization of HRK 525,3 million, sales revenues account for 96,7 percent of total revenues (97,9 percent of operating revenues), and are higher by 5,1 percent or HRK 25,6 million compared to the previous year.

HRK 290,0 million revenue was generated on the Croatian market, which is HRK 19,4 million or 7,2 percent more than in the previous year. Realized revenues on the Croatian market account for 55,2 percent of sales revenues. The increase of 5,6 percent recorded in the sale of our own products and merchandise makes a positive difference of HRK 14,7 million compared to the previous year. The decrease in total household consumption also led to reduced sales of our brands, but by adjusting to the market and turning to increased demand for disinfection products, we were able to record a positive overall sales trend in the Croatian market. Other sales revenues grew by 51,8 percent, and mostly increased due to distribution services for affiliated companies of the Mepas Group (Koestlin, Maraska and Kandit), which we started performing in the last quarter of 2020.

SALES REVENUE

	2020.		2019.		Differen ce HRK million	% change
	HRK million	Proportio n of sales	HRK million	Proportio n of sales		
CROATIA	290,0	55,2%	270,6	54,2%	19,4	7,2%
- finished products	264,8	50,4%	239,2	47,9%	25,6	10,7%
- merchandise	10,1	1,9%	9,7	1,9%	0,4	4,2%
- services	2,8	0,5%	4,0	0,8%	-1,3	-31,2%
- connected businesses	12,3	2,3%	17,7	3,5%	-5,4	-30,3%
EXPORT	235,3	44,8%	229,1	45,8%	6,2	2,7%
- finished products	146,7	27,9%	147,9	29,6%	-1,1	-0,8%
- merchandise	3,5	0,7%	3,2	0,6%	0,2	7,1%
- connected businesses	85,1	16,2%	78,0	15,6%	7,1	9,1%
SALES REVENUES	525,3	100,0%	499,7	100,0%	25,6	5,1%

The comparative period has been adjusted for reporting for 2020



Sales revenues on foreign markets in the amount of HRK 235,3 million account for 44,8 percent of sales revenues, which is HRK 6,2 million or 2,7 percent higher than in the previous year. All export markets, except the Kosovo market, have positive sales growth.

The market of Bosnia and Herzegovina grew by 9,3 percent compared to the previous year, and in addition to increased sales of disinfectants, growth was achieved in the area of powder detergents, while liquid detergents were at the level of the previous year. The group of fabric softener and detergents for manual and automatic dishwashing have a slight growth. Other product groups maintained their positions from the previous year, and the total sales on the market of Bosnia and Herzegovina were realized in a larger volume of HRK 7,2 million compared to 2019.

The 27,3 percent growth in the Slovenian market is the result of a change in distributors that has led to increased sales of key brands. We have a double-digit growth rate on powdered laundry detergents, and we are especially pleased with the increase in the average price per kilogram due to the sale of a higher quality and better positioned compacted detergent with a lower washing dose. At the same time, sales of liquid laundry detergents increased, with a strong emphasis on the Faks-gel brand. The Ornel brand maintained its position with a slight increase, while Arf cleaning agents and dishwashing detergents (Likvi and Tipso) recorded a decline in sales, the overall growth in sales was also due to increased demand for disinfectants.

The change of distributors on the Serbian market brought a better average price per kilogram and increased sales in consumer product groups. There was an emphasized growth of sales of fabric softener (Ornel), liquid detergents (ARF) and a slightly milder growth of laundry detergents. Room for greater progress is left by liquid laundry detergents, which in the observed year had a decrease in sales compared to the previous period. With increased sales of disinfectants, the total increase in sales compared to the previous year is 13,6 percent.

In the Macedonian market, while maintaining the level of sales of powder detergents at the level of sales from 2019, growth was achieved in liquid laundry detergents and fabric softeners. With the growth of detergents and cleaning products, the overall growth in the Macedonian market is 7,5 percent.

In 2019, the Kosovo market had a customs blockade of goods from Serbia, so the demand for our products increased, which is the main cause of the negative difference in the amount of sales this year of 14.3 million kuna when the market opened.

Profitability dynamics

EXPENDITURE

	2020.		2019.		Difference	% change
	HRK million	Proportion of sales	HRK million	Proportion of sales	HRK million	
Operating expenditures	454,1	98,0	487,5	98,5	-33,4	-6,9%
Financial expenditures	9,1	2,0	7,5	1,5	1,6	21,6%
Total expenditures	463,2	100,0	495,0	100,0	-31,8	-6,4%

The comparative period has been adjusted for reporting for 2020

PROFITABILITY DYNAMICS

	2020.	2019.	Difference	Change
	HRK million			
Operating income	536,3	505,2	31,1	6,2%
EBITDA	97,6	36,7	60,9	166,1%
EBIT	82,2	17,7	64,5	363,6%
Net profit	66,7	11,5	55,3	481,1%

PROFIT MARGINS

EBITDA margin	18,2%	7,3%	1094bp
EBIT margin	15,3%	3,5%	1182bp
Net profit margin	12,4%	2,3%	1017bp

The comparative period has been adjusted for reporting for 2020

With realized EBITDA of HRK 97,6 million and depreciation of HRK 15,4 million, operating profit (EBIT) amounts to HRK 82,2 million. The net financial loss in 2020 amounts to HRK 2,0 million, which resulted in an EBT of HRK 80,3 million. After paying income tax of HRK 13,5 million, the result of the business year, after taxation, amounts to HRK 66,7 million.

Operating cost structure

We ended the past 2020 with HRK 438,7 million in operating expenses, which are 6,4 percent lower than in the previous year. With the calculated depreciation of HRK 15,4 million, total operating expenses are lower by HRK 33,4 million or 6,9 percent.

In the structure of total costs, material costs stand out due to their amount, and the largest part, due to the production activity we perform, are the costs of production materials (raw materials and packaging), which in the amount of HRK 240,1 million have a share of 52,9 percent. Despite numerous turbulences in the market, the constant need to adjust in search of new procurement routes due to the pandemic caused partial market closure, but also due to innovative products with special emphasis on reducing the share of raw materials that have a negative impact on the environment, we managed to reduce raw materials and packaging by 24,1 HRK million compared to the previous year, ie 9,1 percent, and thus the average price per unit of manufactured product by 1,6 percent. The cost of goods sold is lower due to reduced purchases of transit goods. The cost of energy decreased in 2020, partly due to the fall in the price of energy, and partly due to the change of gas distributors at the end of the year, whose greater effects we expect in the coming period.

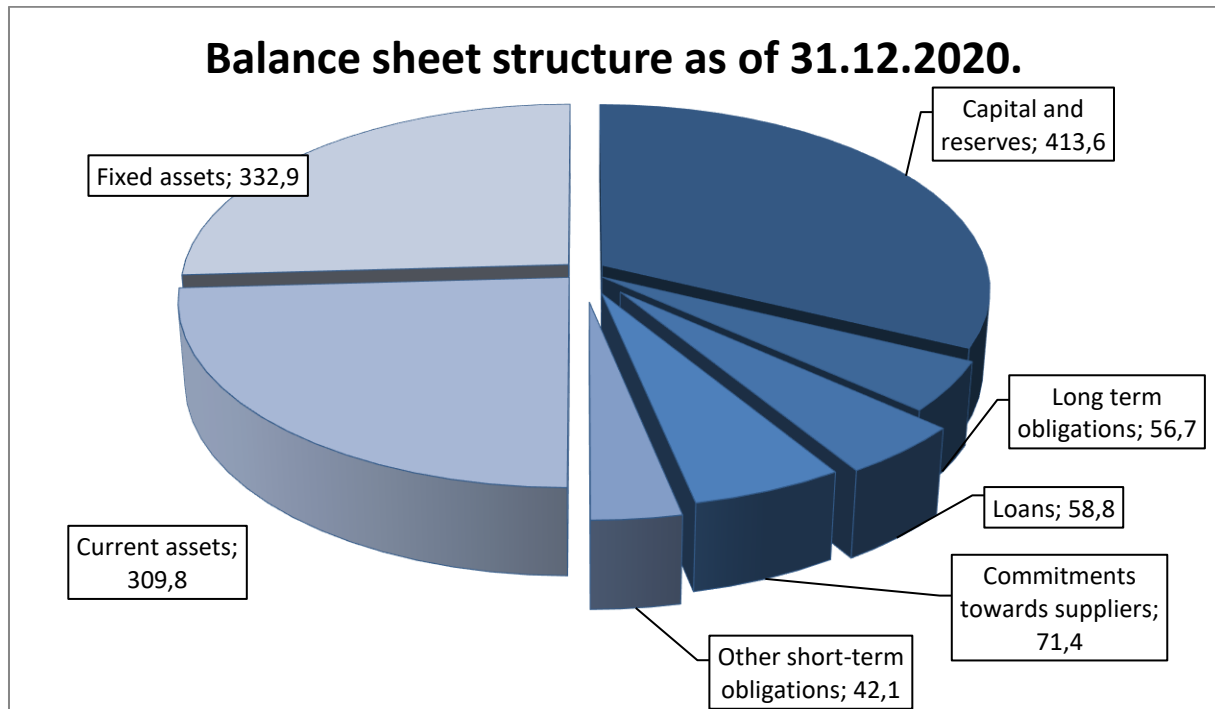
Staff costs are lower by HRK 4,2 million or 6% compared to the previous year due to a reduced number of employees, primarily by retiring at the beginning of the year. The departure of workers burdened the material rights of workers with HRK 3,5 million in incentive severance pay (in the table under "Other costs"). During the year, workers were paid a one-time bonus of 1,000 kuna for additional efforts during the corona virus epidemic. The material rights of workers have been improved by additional incentives such as a fixed allowance and the payment of jubilee awards..

OPERATIONAL EXPENSES						
	2020.		2019.		Difference	
	HRK million	% from operating income	HRK million	% from operating income	HRK million	% change
Stock changes	4,1		0,8	-0,8	-0,2	630,4%
Material costs	339,9	63,4	374,6	74,2	-34,7	-9,3%
<i>Production material</i>	240,1	44,8	264,1	52,3	-24,1	-9,1%
<i>Cost of goods sold</i>	8,9	1,7	20,4	4,0	-11,5	-56,5%
<i>Other material costs</i>	90,9	17,0	90,1	17,8	0,9	1,0%
Staff costs	66,0	12,3	70,2	13,9	-4,2	-6,0%
Other costs	25,6	4,8	21,6	4,3	4,0	18,7%
Value adjustments	2,1	0,4	2,2	0,4	-0,1	-4,9%
Other business expenses	1,0	0,2	0,7	0,1	0,3	45,5%
Depreciation	15,4	2,9	18,9	3,7	-3,6	-18,9%
Total exp. from reg. operations	454,1	84,7	487,5	96,5	-33,4	-6,9%

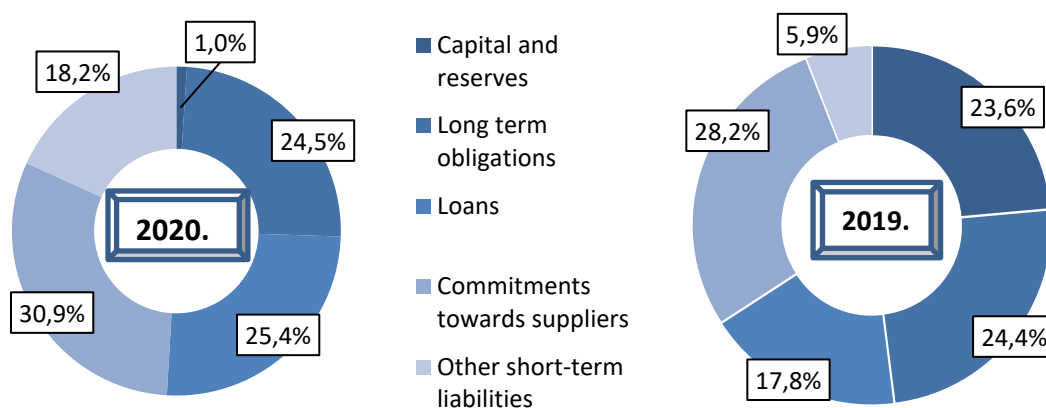
The comparative period has been adjusted for reporting for 2020

Financial position

The financial position of Saponia is defined by the total assets, which as at 31 December 2020 amounted to HRK 642,6 million and increased by HRK 23,3 million. The most significant impact on the movement of assets was made by investments in the amount of HRK 38,4 million, as well as a net decrease in deferred tax assets of HRK 13,1 million as a result of used transferred tax losses.



Comparative structure of liabilities



Saponia's equity on the reporting date amounted to HRK 413,6 million, which is 19,2 percent more than in the previous year as a result of the reported net profit of HRK 66,7 million. According to the Decision of the General Assembly held on July 17, 2020, the realized loss in 2019 was covered from other reserves of

the Company. During 2020, the financial statements of previous periods were revised in accordance with the requirements of International Accounting Standards. The determined adjustments were retrospectively corrected at the expense of capital in the amount of HRK 16,2 million. The equity structure at the end of the reporting period accounted for 64,4 percent of total capital and liabilities.

In the process of restructuring liabilities and stabilizing operations, credit liabilities decreased by HRK 34,4 million. Total financial indebtedness as at 31 December 2020 amounted to HRK 112,9 million. Loans and leases of financial institutions account for 17,6 percent of the total capital structure.

Commitments towards suppliers and other payables in the total amount of HRK 113,6 million decreased compared to the beginning of the year.

Net working capital as at 31 December 2020 amounts to HRK 137,4 million. Net debt of HRK 30,5 million was HRK 68,3 million lower than in the previous year. As a result, indebtedness indicators changed and the ratio of principal to net debt decreased to 7,4 percent. The increase in EBITDA with a decrease in net debt led to a significantly lower ratio of net debt to EBITDA of 0,3.

Cash flow

By optimizing the dynamics of working capital during 2020, there is a significant shift in cash flows and a positive cash flow from operating activities of HRK 80,2 million.

There was a decrease in cash flow from investing activities of HRK 7,9 million as a net effect of repayment of loans of HRK 26,4 million and investments in capital investments of HRK 34,8 million. The most significant investments relate to the modernization of lines for the packaging of powder and liquid detergents. Part of the capital investment is focused on the reconstruction and expansion of storage capacity, as well as the expansion of the vehicle fleet.

The generated cash flows from operating and investment activities are directed to the repayment of credit liabilities, and in 2020 a negative cash flow from financial activities of HRK 38,4 million was realized.