



Enterprise
Investors

The United Nations Global Compact: Communication on Progress (CoP)

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i. Joint statement by the company's president and vice president



Jacek Siwicki
PRESIDENT



Dariusz Pietrzak
VICE PRESIDENT
ESG INITIATIVE LEADER

Enterprise Investors, the oldest and one of the largest private equity firms in Central and Eastern Europe, remains committed to the development of responsible investment practices. As such, our firm continues to support the ten principles of the UN Global Compact in the areas of human rights, labor, environment and anti-corruption. This report provides an update on our progress in implementing these principles.

At Enterprise Investors we ensure that the principles of the UN Global Compact form an integral element of our investment strategy and culture, and we pursue these values in direct collaboration with our portfolio companies. We also look for opportunities to share and promote responsible investment practices with our partners in the private equity sector, contributing to the positive impact on society, the environment and the economy that this industry can deliver.

This document is our first annual submission of a Communication on Progress (CoP) report. It summarizes our ongoing efforts to implement the ten principles. In response to the UNGC's requirements, we have outlined practical actions undertaken by our firm and our portfolio companies to promote human rights protection, fair labor practices and respect for the environment, and to counteract corruption. We include examples of measurable outcomes of such activities.

We are proud to share our experience in developing responsible investment practices and look forward to delivering continued positive impact in the spirit of the ten principles.

ii. Practical actions undertaken to implement the UN Global Compact principles

As a pan-CEE investor operating across a broad range of industries, we understand the breadth of impact our investment decisions and value creation practices may deliver. We are committed to assuring high standards of business responsibility toward our stakeholders, employees, society and environment when making investment decisions for our private equity funds. We are also dedicated to promoting these values within our individual portfolio companies.

Assessment of the ESG* compliance of contemplated investment opportunities has always been an important element of EI's due diligence process. During more than two decades of continued deal-making activity, we have developed and implemented investment approaches that support our commitment to business responsibility. Building on this extensive experience while also drawing on the most up-to-date industry standards, in March 2016 we produced a set of Due Diligence ESG guidelines that outline our present perspective on this topic. These guidelines, which place a formal obligation on the firm's deal team, adhere to the United Nations' Global Compact principles (to which EI is the first private equity CEE signatory). This confirms our commitment to protecting human rights, pursuing responsible labor practices, having a positive impact on the environment and countering corruption.

As a private equity fund manager, we follow a policy of not investing in enterprises engaged in activities that are harmful or detrimental to the local and global environment, society or economy. Our commitment to responsible investing extends significantly beyond this formal limitation. EI's DDESG guidelines stipulate that deal teams are to complete an ESG compliance review of each analyzed company and include conclusions from this analysis in their investment memorandums. If material ESG non-compliance issues are identified, the team presenting the investment needs to indicate how they will be mitigated or addressed following EI's investment. EI may invest in an ESG non-compliant business only if an immediate opportunity to improve in this respect through EI's investment is found. If the identified issues represent material breaches of ESG standards and cannot be addressed soon after EI's investment, this should be treated as a major reason for dropping the investment opportunity.

The examples presented below demonstrate how EI has operated over the past year in line with the UNGC's ten principles – both at the level of the fund manager and the individual portfolio businesses.

* Environmental, social and governance responsibility

Human rights

The DDESG guidelines issued in 2016 to all our deal team members obligate them to assure that our investment targets:

- / Promote equal opportunity and fair treatment with regard to employees, business partners and customers
- / Follow responsible consumer protection practices that guarantee product safety and reliability, data protection and privacy, avoidance of product mis-selling
- / Ensure that company suppliers protect human rights
- / Have a positive impact on local communities and population groups

Respect for human rights is also reflected in practical actions taken by EI's portfolio companies:

- / Netrisk.hu actively promotes consumer protection rights. The company is the founder of the Most Customer Friendly Insurance Company of the Year award. Netrisk also takes care of disadvantaged groups in society. It is one of the main supporters of a Hungarian program, the Night of a Thousand Lanterns, that tracks down missing children and raises public awareness of the need for preventive action.
- / Kofola actively supported popularization of human rights issues through its contribution to the One World festival – a major event promoting documentary film-making on topics related to human rights.
- / In 2016 Danwood co-founded a sports association that aims to popularize sports activity and healthy lifestyles in its local community. The initiative also promotes equal access to sport through development of the necessary infrastructure.

Labor

Labor-related issues are an integral element of the business review our deal teams perform in line with the DDESG guidelines. Areas of specific focus include:

- / Freedom of association and collective bargaining
- / Absence of child labor and forced labor
- / Work conditions that respect the wellbeing of employees
- / Compliance with labor, social security and occupational health and safety regulations
- / Compliant and respectful non-employee worker practices
- / Respectful employee recruitment, retention and retrenchment policies
- / Professional labor-management relations
- / Grievance mechanisms

A negative assessment of employment practices led to EI's rejection of an investment opportunity in a dynamically growing and profitable Polish e-commerce business.

El's portfolio companies also pursue numerous labor-related actions. Notable examples include:

- / Romanian retail chain Profi professionalized its career progression model by introducing career-development programs supported by a transparent organizational structure, a nine-tier job categorization model and a career progression path. Profi communicates all this clearly on its intranet site.
- / Software services firm Intive (formerly BL Stream + SMT Software) received the Employee of the Future award from the Polish Agency for Enterprise Development (PARP) in recognition of its continued efforts to create an optimal environment for employees to develop their skills and progress their careers.

Environment

El's DDESG guidelines specify how the deal teams are to assess individual investment opportunities in terms of their environmental footprint. We expect our investments to make sustainable use of resources and energy, in particular by:

- / Eliminating or reducing the production of hazardous materials, waste and emissions
- / Minimizing their contribution to climate change
- / Showing consideration for animal welfare, local flora and the natural landscape

This compliance is always assessed with the support of a specialized environmental auditor. We also rely on professional advisors when gauging the environmental impact of our existing investments. In August 2016, Ramboll-Environ completed its annual environmental review of El's portfolio companies. This comprehensive report, developed using evidence from detailed questionnaires, photographic material and documents gathered during site visits and management interviews, delivered a set of actionable recommendations that have been shared with the companies and will be followed up on in next year's review.

El's portfolio companies consistently demonstrate consideration for the environment:

- / As the first and the largest online insurance broker in Hungary, Netrisk.hu supports electronic communication and filing systems to cut down on the use of paper. These efforts have significantly reduced paper consumption by both the insurance company and its clients. Whenever paper-based documentation is required, Netrisk.hu uses PEFC-certified paper and bicycle courier services.
- / In 2016 Macon, a large Romanian producer of construction materials, launched its Macon Recycles Responsibly program, which involves all employees in the development of selective recycling practices.
- / JS Hamilton, Poland's second-largest provider of independent inspection and analytical services, encourages suppliers to submit their offers only in electronic form, to eliminate the need for paper and to minimize the environmental impact of document distribution.

- / 3S, a leading telecommunications company operating in southern Poland, introduced a proprietary “free-cooling” solution using rain water for its data center facility. The company has also invested in photo-voltaic energy generation.

Anti-corruption

El’s guidelines for deal teams performing ESG reviews include a checklist of governance standards that are aimed, among others, at reducing the risk of corrupt business practices at our potential portfolio companies. Specific requirements include:

- / Professional, compliant and transparent management structures, accounting standards and executive compensation schemes
- / Positive corporate values, preferably supported by compliance-enforcing mechanisms and the countering of anti-competitive practices, bribery and corruption
- / Reliability, transparency and acting in good faith by the company’s owners and top management
- / Business practices consistent with the law
- / High ethical standards

We have rejected very promising investment opportunities after discovering that their business practices are not compliant with our standards of transparency and integrity. Examples in 2015 and 2016 include a dynamically growing specialized retail network in the Czech Republic and a promising healthcare provider business in Romania.

Anti-corruption initiatives are also pursued by our portfolio companies:

- / Kofola is a major donor to the Czech National Anti-corruption Fund

iii. Measurement of outcomes

Numerous responsible business initiatives are continually being pursued within EI's portfolio companies. The presented examples of measurable outcomes of such activities should therefore be treated as a narrow sample of the overall achievements in this area in 2015 and 2016.

Danwood

- / In 2016 the company initiated a program of thermal efficiency improvement of its production halls, mainly by upgrading the ventilation and recuperation systems. Annual energy savings already amount to c. 290 GJ, with the expected saving at the end of the program (2018) to exceed 700 GJ. These energy savings result in lower CO₂ emissions.
- / The company has introduced a new model of handling oil-based consumables in cooperation with an external service provider. The model has reduced the production of hazardous waste by 50 kg per month.
- / By switching to a heating mode that uses existing waste as an energy source Danwood has reduced its consumption of heating oil by 35,000 liters, to 50,000 liters per annum.

Harper

- / The company invested in the world's leading non-woven fabric technology (Arvell) to deliver an expected step change in eco-efficiency versus the popular wet-wipes production technologies. The new technology promises to cut energy consumption by 57%, the impact on the ozone layer by 70% and CO₂ emissions by 63%. It also eliminates the use of water in production.

Novaturas

- / In 2016 the company introduced a fleet of new generation long-distance buses with 30% lower fuel consumption and a corresponding reduction of exhaust gases, making it the most eco-friendly fleet used by Baltic tour operators.

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