



# Enterprise Investors

## The United Nations Global Compact: Communication on Progress, 2017

OCTOBER 2017

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



**Jacek Siwicki**  
CHAIRMAN AND  
PRESIDENT



**Dariusz Pietrzak**  
VICE PRESIDENT  
ESG INITIATIVE LEADER

Enterprise Investors remains committed to the development of responsible investment practices. As such, our firm continues to support the ten principles of the United Nations Global Compact in the areas of human rights, labor, environment and anti-corruption.

We ensure that the principles of the UN Global Compact are embedded in our investment strategy. At the same time, 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 report is our second annual submission of a Communication on Progress (CoP) report. It provides an update on our progress in implementing the UNGC's ten principles during the last 12 months. Specifically, 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 have also included examples of measurable outcomes of such activities performed at our portfolio companies during the last year.

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

Enterprise Investors, the oldest and one of the largest private equity firms in Central and Eastern Europe, operates across 11 countries and a broad range of industry sectors. Having invested in close to 140 enterprises, we understand the breadth of impact our investment decisions and value creation practices may deliver. Central to our approach is an emphasis on creating value for our stakeholders, employees, society and the environment that will withstand the test of time. We therefore remain committed to assuring high standards of business responsibility when making investment decisions for our private equity funds. We are also dedicated to promoting these values within our individual portfolio companies. In this spirit, we were proud to become the UNGC's first private equity signatory in CEE.

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. We continue to advance our capabilities in this space, as evidenced in EI's recently revised Due Diligence ESG guidelines, which draw on the most up-to-date industry standards. These guidelines, which place a formal obligation on the firm's deal team to complete an ESG compliance review of the analyzed company and include conclusions from this analysis in their investment memorandums, directly relate to the United Nations' Global Compact principles. All our employees share the commitment to protecting human rights, pursuing responsible labor practices, having a positive impact on the environment and countering corruption.

EI's Due Diligence ESG 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 is treated as a major reason for dropping the investment opportunity.

Our deal teams are expected to adhere to responsible business values not only while assessing new investment opportunities, but also in collaboration with our existing portfolio companies. Examples of such ESG-related initiatives pursued at the level of the fund manager and at the individual portfolio businesses are also included below.

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\* Environmental, social and governance responsibility

## Human rights

Enterprise Investors' Due Diligence ESG guidelines obligate our deal team members 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 reflected in practical actions taken by EI's portfolio companies:

- / Netrisk.hu, a Hungarian internet broker of insurance, banking and telecom products, continues as one of the main supporters of the Night of a Thousand Lanterns program. This initiative aims to provide assistance in tracking down missing children and raises public awareness of the need for preventive action in this space. The firm also provides assistance to a cultural center which offers an attractive program of events and working opportunities for people with various disabilities.
- / Danwood, a leading producer of prefabricated houses, revised its customer contract template used on the core German market, introducing clauses which better protect consumer rights.
- / Nu-Med, a Polish chain of radiotherapy and oncology clinics, actively promotes cancer prevention and treatment awareness in local communities. Over the last 12 months the company has organized or participated in over 50 events, delivering cancer-related information to high risk groups, patients undergoing treatment, and general public.
- / Kofola, a leading soft drink producer operating across CEE, actively develops various initiatives focused on consumer education with regards to consumption of beverages and healthy lifestyles. The firm is a proud partner of a Czech internet course on healthy living for kids run under the "Live healthy and have fun" (Hravě žij zdravě – <http://www.hravezijzdrave.cz/>) slogan. This program was also started in Slovakia (<http://www.hravozizdravo.sk/>). In Poland, through its "Trzymaj Formę" program, Kofola advocates better nutrition and healthy lifestyle choices among high-school children (<http://www.trzymajforme.pl/>). Kofola is also central Europe's biggest operator of fresh bars, through which it promotes consumption of healthy fresh juices, salads and soups.

## Labor

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

- / Freedom of association and collective bargaining
- / Absence of child labor and forced labor

- / Work conditions including occupational health and safety, employee accommodation and worker oversight practices that respect the wellbeing of employees and are compliant with or exceed the applicable regulations
- / Fair living wage
- / Compliant and respectful non-employee worker practices
- / Respectful employee recruitment, retention and retrenchment policies
- / Professional labor-management relations
- / Grievance mechanisms

El's portfolio companies consistently demonstrate consideration for the wellbeing of their employees:

- / Intersport ISI, a dynamically expanding Balkan network of sports-equipment and sportswear stores, is particularly mindful about its suppliers' labor practices. The company purchases its private label offering exclusively through its franchisor organization, which requires every new supplier to provide a BSCI audit for each factory. Standard supplier contracts govern ethical employment standards. The franchisor organization also maintains a large team of quality inspectors (c. 140 employees in Asia) who inspect the factories at random to assure ESG compliance at all times. Intersport's key suppliers are widely considered as leaders in terms of ESG compliance in the apparel/footwear industry.
- / Netrisk.hu offered its workers a flexible employment model to help them meet their family obligations. Over 20% of the firm's employees chose to work part-time and a further 10% chose flexible working hours.
- / Danwood introduced a revised remuneration model for its construction crews, which resulted in average pay increasing by 20%. Danwood's salaries exceed by close to 140% the average for construction sector workers in the company's home region.

## Environment

El's Due Diligence ESG guidelines specify how the deal teams are to assess individual investment opportunities in terms of their environmental footprint. We expect the companies we invest in to make sustainable use of resources and energy, in particular by:

- / Eliminating or reducing the production of hazardous materials, waste and emissions, coupled with competence in handling such materials or agents
- / Promoting the use of renewable energy sources and optimizing efficient use of energy to minimize the contribution to climate change
- / Reducing usage of rare resources and contribution to water scarcity, deforestation and land degradation
- / Showing consideration for animal welfare, local flora and the natural or urban 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 June 2017, Ramboll-Environ completed its annual environmental review of EI's portfolio companies. This comprehensive report delivered a set of actionable recommendations that have been shared with the companies and will be followed up on in next year's review.

Our commitment to limiting any negative impact on the environment is evident in practical measures taken by EI's portfolio companies:

- / Danwood slashed its emissions of climate-affecting gases by reducing its use of combustion engines and combustion-based energy sources. Specifically, the company replaced its diesel-powered side forklifts for timber transport with electrical ones, and cut the run-time of oil-powered generators by developing a new electrical connection.
- / Intersport ISI is committed to maintaining an optimized energy footprint of its retail outlets. All new locations need to meet strict environmental standards in terms of heating, A/C and lighting installations. The company also continues to replace traditional lighting systems with LEDs across its network, and all new stores are fully equipped with LEDs.
- / Macon, a large Romanian producer of construction materials, operates dedicated recycling material collection points for its employees in locations where local municipalities lack the necessary waste management infrastructure. The company has also constructed a new depot for collecting recyclable production waste.

## Anti-corruption

EI's guidelines for deal teams performing ESG reviews include a checklist of governance standards aimed, among others, at reducing the risk of corrupt business practices in 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
- / Transparency and acting in good faith by the company's owners and top management
- / Business practices consistent with the law
- / High ethical standards
- / In 2017 we dropped an opportunity to invest in a well-developing aircraft maintenance, repair and overhaul company. Our reference checks indicated a significant risk of the existing owners' business practices not being compliant with our transparency and integrity standards.

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

- / Kofola continues to be 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 2016 and 2017.

3S

- / In August 2017, 3S opened a new photovoltaic farm on the roof of one of its data centers. This new installation's 19 kWp electricity output will supplement the existing 21 kWp ground-based installation at the same facility. The new photovoltaic farm is expected to reduce the annual demand for external energy by 17,000 kWh, with annual carbon dioxide emissions dropping by 11,600 Mg and with nitrogen oxides, sulphur dioxide and carbon monoxide emissions dropping correspondingly.

Kofola

- / The company is limiting the contamination caused by exhaust gases generated by its transport fleets. 26.5% of Kofola's lorries have been converted to run on CNG.

Danwood

- / The company has developed a new installation that allows water to be separated from the waste produced at its outer-wall finishing unit. Previously, this production line generated 7 to 8 tonnes of hazardous waste per month. Currently, waste output is reduced sixfold and is no longer classed as hazardous.
- / Danwood has developed a new heating installation for its second production facility, switching from LPG-based heat radiators to a water-based system that uses production-line waste (sawdust). This will reduce the company's liquid gas usage by a further 15,000 to 20,000 liters per annum.

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