



# Enterprise Investors

## The United Nations Global Compact: Communication on Progress, 2018

OCTOBER 2018

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UN GLOBAL COMPACT

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

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



**Jacek Siwicki**  
CHAIRMAN AND  
PRESIDENT



**Dariusz Pietrzak**  
VICE PRESIDENT  
ESG INITIATIVE LEADER

Socially responsible investment practices have been a cornerstone of Enterprise Investors' strategy since the firm's foundation in 1990. Today we pride ourselves on consistently delivering on that promise.

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 UNGC principles are embedded in our investment strategy, deal-making process and in our collaboration with EI fund portfolio companies. We also 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 is our third 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. We provide examples of specific measures undertaken by Enterprise Investors and our portfolio companies in terms of human rights protection, fair labor practices, caring for the environment and counteracting corruption. The tangible impact of our activity in these areas is illustrated with examples of measurable outcomes reached.

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 is the oldest and one of the largest private equity firms in Central and Eastern Europe. We specialize in mid-market succession-driven buyout transactions and provision of expansion financing to high-growth enterprises. Active for 28 years, we have raised nine funds with total capital exceeding EUR 2.5 billion. These funds have invested EUR 1.8 billion in 142 companies. We operate across a broad range of industry sectors in 11 countries. With such a wide footprint, our business activities have a material impact on the local economies and societies. We continuously strive to ensure that such impact is positive, in line with our high standards of corporate responsibility.

We seek opportunities to share best practice, practical experience and proven approaches with other market participants. In that spirit, back in 2015 we were proud to become the UNGC's first private equity signatory in CEE. In 2018, with the aim of propagating responsible business practices, EI became a founding participant of the Polish Private Equity Association's ESG\* Committee. During the Committee's proceedings, we have introduced the Global Compact framework to other participants and we seek to communicate it further across our industry.

We carefully assess of the compliance of contemplated investment opportunities with our corporate responsibility values. EI's Due Diligence ESG guidelines 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. If material ESG non-compliance issues are identified, the team presenting the investment needs to indicate how these will be mitigated or addressed following EI's investment. EI may invest in an ESG non-compliant business only if an immediate opportunity is found that will improve the potential target in this respect through EI's investment. 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.

EI's Due Diligence ESG guidelines directly relate to the United Nations' Global Compact principles, but also draw on other current industry standards, such as EBRD's Performance Requirements and Integrity Due Diligence and Monitoring Guidelines. Our deal teams are expected to adhere to the guidelines and the values they build upon not only while assessing new investment opportunities but also when working with our existing portfolio companies. Examples of such ESG-related initiatives pursued at the level of the fund manager and individual portfolio businesses are presented below.

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\* Environmental, social and governance responsibility

## Human rights

Enterprise Investors' Due Diligence ESG guidelines obligate our deal team members to ensure 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 and in EI funds' investment decisions:

- / PAN-PEK, a large Croatian producer of bakery products, offered employment opportunities to refugees seeking asylum in the EU. In 2018 the Balkan countries became a primary route for Syrian and other Middle-Eastern refugees fleeing war, crime and poverty in their home countries. As the SEE governments were unprepared for migration on such an unprecedented scale, many refugees struggled to make ends meet. PAN-PEK offered a group of refugees a stable income that allowed them to support themselves and their families and to adapt to the new environment. To respect the human rights of the new workers, the firm also introduced Muslim prayer rooms.
- / Nu-Med Grupa, a Polish chain of radiotherapy and oncology clinics, continues to actively promote cancer prevention and treatment awareness in local communities. The company delivers cancer-related information to high-risk groups, patients undergoing treatment and the general public during events organized or attended by the firm. The firm also ensures that patients have equal access to treatment irrespective of gender, location, economic status (including possession of insurance or lack thereof) and disabilities.
- / We dropped an opportunity to invest in a highly successful provider of consumer loans after learning about the adverse impact of the company's business model on disadvantaged groups within society. The firm provides loans to consumers with poor credit rating and charges them very high interest, thereby compounding their poor financial situation.

## 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.

EI's portfolio companies consistently demonstrate consideration for employee wellbeing:

- / Intersport ISI, a highly successful network of sports-equipment and sportswear shops active across the former Yugoslavia region, takes pride in ensuring that its labor practices meet the highest standards. The company introduced a general employment act setting out its governing rules and conditions of employment, including equal pay provisions, transparent practices with regards to promotion and strict control of working hours. The firm has also introduced measures against discrimination and harassment at work, including grievance procedures. Intersport's code of conduct provides binding guidelines that ensure full compliance of all business operations with the firm's high ethical standards. Starting from 2018, the firm has piloted a new remuneration program that provides employees with increased financial incentives in recognition of their contribution to the firm.
- / Following EI investment in CBA, a large Slovak chain of grocery stores, the company equalized pay for its store personnel across all regions irrespective of the local social or economic background.
- / Danwood, a leading producer of prefabricated houses, further improved its occupational health and safety practices. The firm introduced new Work Safety Instructions for tool and machine operators, making them an integral element of the internal SOI (Standard Operating Instructions) system. The firm also reviewed its general workplace safety measures and reassessed the level of chemical risk in the workplace. Both reviews confirmed the appropriate compliance (i.e. with the ISO18002 standard and with the COSHH EC Regulation, respectively). The firm is currently monitoring sound intensity in production halls and is evaluating techniques and tools for noise reduction in the workplace. Danwood has also developed first-aid training for employees and has increased its range of protective clothing and footwear for production, warehouse and construction employees.

## Environment

El's Due Diligence ESG guidelines specify how the deal teams are to assess the environmental footprint of individual investment opportunities. We expect the companies we invest in to:

- / Eliminate or reduce the production of hazardous materials, waste and emissions, and to be competent in the handling of such materials or agents;
- / Promote the use of renewable energy sources and optimize efficient use of energy to minimize the contribution to climate change;
- / Reduce usage of rare resources, and minimize contribution to water depletion, deforestation and land degradation;
- / Show consideration for animal welfare, local flora and the natural or urban landscape.

Environmental compliance of El's investment targets is assessed with the support of an independent specialized environmental auditor, Ramboll-Environ. In May 2018, Ramboll-Environ completed its annual environmental review of El'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 El's portfolio companies:

- / Wento, a Polish builder of wind farms and photovoltaic (solar) farms, has developed a relationship with an engineering company specializing in energy efficiency consulting for industrial customers. The company performs energy efficiency audits primarily for the manufacturing sector and has a very strong track record in identifying opportunities to materially reduce energy consumption. Thanks to Wento's financial support, the consulting firm will carry out projects targeting energy savings such as upgrades to heat recovery installations, modernization of cooling systems and improved efficiency of manufacturing support functions. The expected energy savings will also significantly reduce the carbon footprint of the firm's customers' facilities.
- / Noriel, a leading Romanian toy and baby products retailer, has introduced a selective waste collection program in its stores. In direct cooperation with specialized recycling companies the firm now collects toner cartridges, carton packaging, old furniture and electronic waste, which are then recycled instead of being sent to landfill.
- / Intersport ISI largely replaced the packaging materials it used for shipping online purchases with flexible bags that are suitable for packaging apparel, footwear and selected small hardware items. Given the dynamically increasing scale of Intersport's online channel, the new solution has delivered a material reduction of the company's carbon footprint. The weight of packaging materials has been reduced from 70–380 g per cardboard box to 10–30 g per soft bag. The bags are made from environmentally friendly LDPE, which is 100% recyclable. Despite achieving such an improvement, the firm continues to upgrade its packaging materials to reduce their environmental impact even further. In September 2018 the company introduced a new 100%-recyclable e-commerce

box to replace the existing standard cardboard boxes for items that cannot be shipped in LDPE bags. For larger items, the company continues to reuse packaging material whenever possible.

- / Nu-Med Grupa maintains the highest safety standards related to the use of ionizing radiation in the workplace, and provides employees with regular safety training in this regard. All cytotoxic medication is handled in closed production systems, thus eliminating potential exposure of employees to this harmful material.

## Anti-corruption

El'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.

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

- / Intersport ISI has drawn up binding guidelines to ensure regulatory compliance of its business operations and to raise employee awareness regarding the prevention of corruption and other illicit business practices such as money laundering and conflicts of interest.
- / Following El's recent investment, CBA Slovakia performed a detailed review of email and written communication between the firm's purchasing department and its suppliers to assess compliance with business transparency and competitive practice requirements. The review was followed by a staff training program to make sure the company's supplier management conforms to the highest standards. The firm has also introduced strict control procedures to prevent business relationships being formed with firms that are likely to be engaged in tax evasion or other illicit practices.

### 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 during the last 12 months.

#### Wento

- / The firm continues to be one of the most active Polish developers of windfarm and photovoltaic projects. During the last 12 months the company developed more than 40 MW of new capacities. New farms are expected to deliver over 43,000 GW of green energy per annum in an economy that predominantly relies on highly polluting coal-based energy sources.

#### Intersport ISI

- / During store expansion and upgrade projects, Intersport – a leading Balkan sports goods and apparel retailer – seeks to improve the energy efficiency standards in its stores. The main upgrades relate to heating, A/C and lighting installations. During the last 12 months the company opened and/or refurbished 25 stores with a total area of 12,700 sqm. By equipping all of them with LED lighting Intersport achieved savings in energy consumption that reduced the stores' carbon footprint by 30%.

#### Noriel

- / The firm has invested in improving the energy efficiency of its stores. It has equipped 45 newly opened or refurbished stores with highly efficient LED lighting sources, reducing the lighting-related energy consumption by up to 70%. Most of the remaining halogen-based lighting solutions will be replaced with environmentally friendly LEDs during the next 12 months.

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