

Innova Capital

Beyond Profit

Responsible Investment Policy
July 2024

Table of Contents

I. Introduction	3
II. Organisational structure and areas of responsibility.....	6
III. Investment appraisal and management.....	7
A. Pre-investment stage.....	7
B. 100 Day Plan.....	10
C. Portfolio Management	11
D. EXIT.....	11
IV. Reporting	12
V. Climate change approach.....	13
VI. Diversity, equity & inclusion matters.....	14
VII. Grievance mechanism	14
VIII. ESG guidelines / reference materials.....	14
IX. United nations principles for responsible investing (UNPRI)	18

I. Introduction

Innova is proud of its position as a pioneer and innovator in the relatively young market of Central European private equity. Since its origins in 1994, it has strived to provide superior returns to investors while endeavoring to have a positive impact on its environment and community.

All projects in which Innova invests must at a minimum comply with all applicable ESG laws and regulations of the host country in which the investments are located and operated. Over and above adhering to legal requirements, Innova will consistently strive to achieve best practices in all its ESG activities at fund and portfolio company level. ESG is a rapidly advancing area, and the speed of change will make it challenging to maintain best practice. The procedures outlined in this document should help Innova to meet this challenge.

Innova Capital was one of the first fund managers in the region to introduce formal reporting of environment, social and governance issues. ESG procedures are incorporated in the four critical stages of investment: pre-investment stage, 100-day plan, post-investment stage and exit. This focuses both the companies' managements and Innova's investment team. The overall goal is to ensure that the ESG risk maturity of the portfolio company improves over the life of the investment. This ensures that the company's stakeholders are protected, Innova's reputational risk is minimized, and economic value is added to the investment.

Innova Core Values

The Group's conduct is governed by Innova's seven core values, not only in the drive for success and commitment to excellence but also the spirit of mutual respect towards society in general. The Group aims to encourage these values at portfolio companies in co-operation with the management and employees. With great satisfaction it has also been noted that for Innova's investors, investing is no longer only about risk and return; it is now about risk, return and making an impact. Innova is proud of the impact it makes on the societies in which it operates and, by providing its investors and other interested parties with ESG reports, it seeks to ensure that its voice is heard by all stakeholders and participants in Innova's business. An additional component of the ESG policy is Innova and its portfolio companies' engagement with local communities through the life of the investment project.

In the process of contemplating any acquisitions Innova always addresses questions which are laid down in clear and simple terms in its seven core values, in particular a decision must be made if, by investing, everybody is "doing the right thing" and acting with "mutual respect". These questions need to be asked frequently by Innova employees, co-investors, and the management in the portfolio companies, at all stages of the investment process, and at any time that their decisions may impact others. In particular:

1. Workers in portfolio companies should expect to be treated with respect.
2. The environment should be protected in order to ensure that money invested brings no harm to society.
3. Customers are happy and safe when buying products or services from the portfolio companies.

Background

This manual should provide a 'one-stop shop' for anyone wanting to use or review Innova's ESG processes. The process from pre-investment to exit is described in detail, examples of all standard documentation and other tools are provided, Innova lines of ESG responsibility and the evaluation process are all clearly set

out. As in all its activities, Innova welcomes any feedback or comments, which readers may have regarding these procedures.

Setting standards

Any procedures in private equity need to strike a careful balance of encouraging the inherently entrepreneurial character of such businesses and incorporating the discipline necessary to ensure that certain basic rules and standards are applied universally.

Innova's ESG processes have evolved over a period since the first formal approach was made in **2012**. A basic toolkit for the team was established and knowhow was disseminated to ensure that the risks could start to be more clearly identified and reported. The processes have developed considerably since 2012 and the ESG Annual Report was introduced in **2014** to increase Innova's transparency with regard to environmental, social and governance issues. In **2016**, Innova became a UNPRI signatory, further underlining its commitment to responsible investing. In **2022**, following outstanding Investor's feedback, we decided to go one step further – General Partner responsible for Innova/7 Fund became a signatory to IFC Impact Principles.

We believe in constant development. That's why we assess and update our ESG Procedures on a regular basis. As a part of current review process, we decided to reflect in our documentation matters that were on our radar for the last several months:

- Climate change matters,
- Diversity, Equity & Inclusion, and
- Grievance mechanisms.

ESG is expected to play an even more significant role in the Value Creation Process and strategy for Innova/7, than in previous funds. That's why we see the necessity of full integration of ESG criterial in the Value Creation Process and strategy, including both detection and migration of ESG-related risks and leveraging opportunities connected with responsible investing and sustainability trends in the economy.

Exclusion policy

https://innovacap.com/assets/uploads/EXCLUSION%20LIST_INNOVA%20CAPITAL.pdf

Innova operates an exclusion policy confirming that it will not invest in:

- Production or trade in any product or activity deemed illegal under host country laws or regulations
- or international conventions and agreements, or subject to international bans, such as
- pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products
- regulated under CITES
- Production or trade in weapons and munitions
- Production or trade in alcoholic beverages (excluding beer and wine)
- Production or trade in tobacco
- Gambling, casinos and equivalent enterprises
- Production or trade in radioactive materials
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of
- bonded asbestos cement sheeting where the asbestos content is less than 20%
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
- Production or activities involving harmful or exploitative forms of forced labor/harmful child labor
- Commercial logging operations for use in primary tropical moist forest

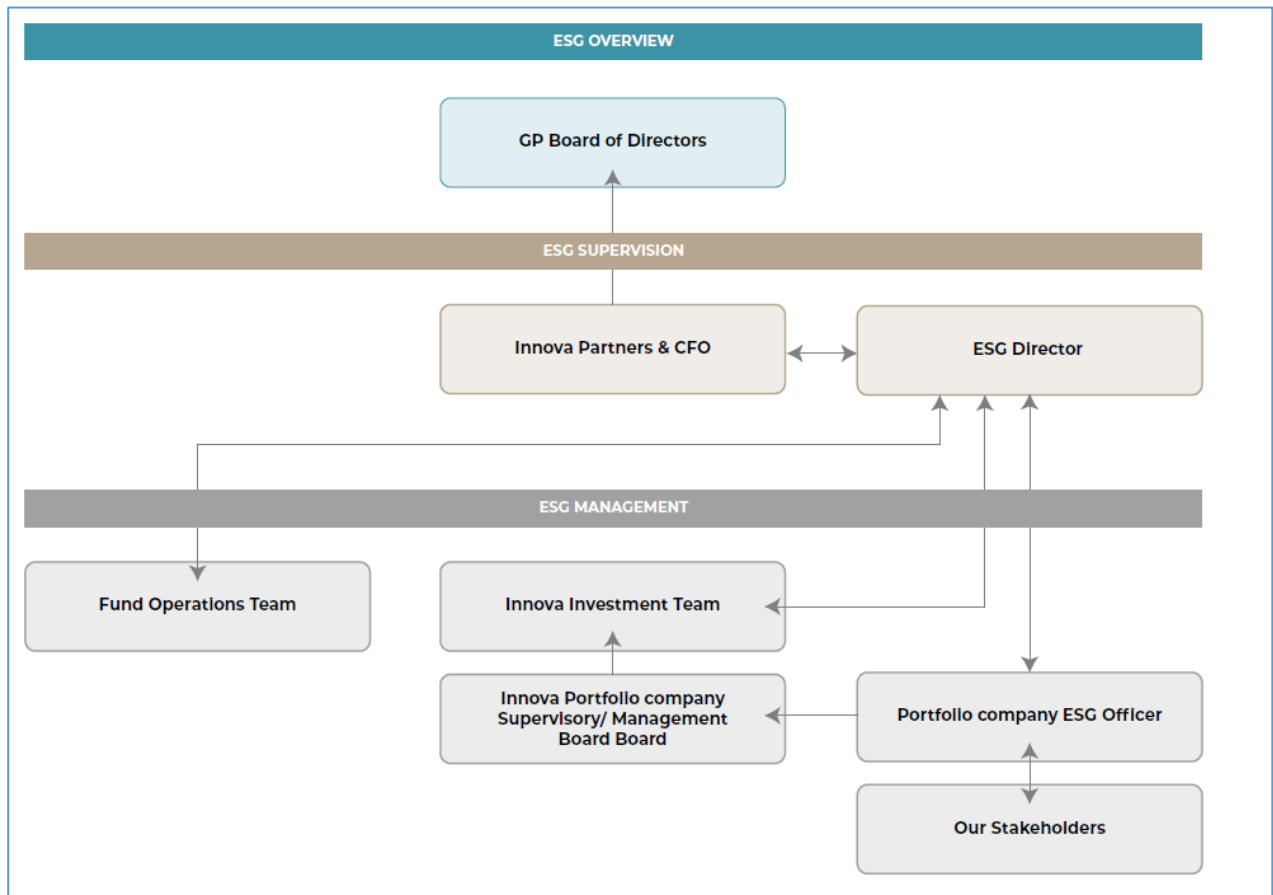
- Production or trade in wood or other forestry products other than from sustainably managed forests.

In addition, it will not invest in any entity subject to:

- a) Any economic, financial and trade restrictive measures and arms embargoes issued by the EU pursuant to Chapter 2 of Title V of the Treaty on the EU as well as Article 215 of the Treaty for the Functioning of the EU (TFEU) as available in the official EU websites: http://eeas.europa.eu/cfsp/sanctions/consol-list_en.htm, as amended and supplemented from time to time or on any successor page; or
- b) Any economic, financial and trade restrictive measures and arms embargoes issued by the United Nations (UN) Security Council pursuant to Article 41 of the UN Charter as available in the official UN website http://www.un.org/sc/committees/list_compend.shtml, as amended and supplemented from time to time or on any successor page.

Moreover, we will consider constraints on the investment scope as outlined in agreements with LPs, which set forth additional limitations. Innova retains the right to modify this approach to align with investor preferences.

II. Organisational structure and areas of responsibility



III. Investment appraisal and management

A. Pre-investment stage

1. Key ESG issues are identified already at the 'Deal Alert' stage where a decision on committing resources to a due diligence process needs to be taken. If ESG risks for a particular investment do not fit the Innova Capital ESG risk profile then the investment should be rejected at this stage;
2. ESG issues are included in the Innova Capital due diligence framework, which is used for establishing the due diligence process and briefing advisers;
3. If there are significant ESG issues, typically related to specific environmental or social risks, these would be examined by specialist advisers;
4. There is a separate ESG section in the Deal Status Report, which is the key document for the Investment Committee and General Partner when recommending a new investment. This includes risks to be mitigated or perceived opportunities built into the deal base case;
5. It is possible, although unusual in practice, that a prospect, having undergone due diligence, carries such a significant ESG risk that it would be disqualified from entering the portfolio.

Innova attaches significant importance to ESG issues in its portfolio companies, both with regard to risks and possible opportunities. Therefore ESG is addressed comprehensively during the due diligence prior to completion of the investment but with a level of engagement appropriate to the particular business.

From a practical point of view, this means that the following procedures are observed for each potential investment:

I. Deal Alert

The initial document describing a potential investment is the 'Deal Alert'. This is completed by the deal team prior to any due diligence expense being incurred and sets out in brief terms (2-3 pages) the key elements of the investment premise. The deal team is required at this stage to identify any major ESG risks or opportunities, which could have a significant impact on the return to be achieved or the level of ESG risk which could provide a threat to the successful execution of the investment premise. It should be confirmed that the investment does not violate Innova's exclusion criteria. The planning of due diligence is carried out at this stage and any specific ESG review by external advisors should be incorporated in the overall plan.

II. Due Diligence Processes

The ESG due diligence review of a prospective investment should closely observe Innova's ESG management policies and procedures.

It is Innova's policy that all projects in which the Fund invests will comply with all applicable ESG laws and regulations of the host country in which the prospective investment is located and operates.

If a consultant carries out ESG due diligence, then he or she must have substantial experience in ESG review of projects located in Central Europe. He or she must be thoroughly knowledgeable of the Innova's ESG policies and procedures and the IFC Performance Standards.

For new investment appraisals, the tasks carried out during due diligence should include:

1. Preliminary Review. A review of all available information and documentation related to ESG impacts and risks. Preparation of a list of additional information and/or questions that will be needed to continue the appraisal.

2. Site Visit and Further Review. Site inspections, review of facility-based records, and interviews with key staff, including both sponsor personnel and relevant stakeholders (regulatory officials, community leaders, suppliers, and customers).
3. ESG performance gaps and corrective actions analyses. Analysis of environmental and social performance in relation to Innova’s ESG policy, including IFC Performance Standards. Identify any gaps and corresponding corrective actions that will be necessary. Prioritize and recommend acceptable and justified implementation schedules.
4. Due Diligence Documentation. Prepare a report summarizing the results of the ESG due diligence. The report shall include a summary of the impacts and risks associated with the project, including the related performance gaps and corresponding correcting actions if any that will be necessary in order for Innova to invest.

The level of ESG due diligence shall be based on the project’s ESG risk profile and potential impacts. The due diligence will typically be contracted to an external consultant, for which the Innova should prepare the Terms of References.

The ESG due diligence shall typically consist of:

- (i) review of all relevant documents and information provided by the investee and other sources; and
- (ii) site reconnaissance comprising visual observations of relevant areas and meetings and interviews with relevant stakeholders
- (iii) The initial assessment by the ESG Specialist should include a short description of factors taken into account while preparing the categorization including industry type, scale, location, sensitivity and magnitude of impacts. If the investment is initially assessed to be falling into the A or B category and such categorization is confirmed by the ESG team the following actions should be taken:
 - The categorization is discussed with the deal team and action points to address the E&S risks are confirmed with the deal team
 - In case of a category A investment – a full Environmental Impact Assessment (EIA) will be conducted and external, qualified consultants will be engaged to perform such EIA. The ESG Partner will then notify the GP board and the GP board will notify the Investor Committee in any fund before approving any Portfolio Investment about the Category A investment. Together with the assessed categorization a full conducted ESDD report and a copy of ESAP in respect of such Portfolio Investment will be made available to Investor Committee Members. A conference call with Investor Committee will be scheduled if required by the Investor Committee and the ESDD findings together with the ESAP will be discussed.

Or

- In case of Category B investment – environmental assessment focusing on the anticipated impacts will be prepared and the issue will be discussed with Investment Committee. Any mitigation of risks / action points to address the findings will be proposed.

Upon completion of the due diligence, the findings, conclusions, and recommendations shall be presented in the ESG due diligence report. The recommendations should include the necessary actions which must be implemented for the proposed investment to proceed to completion. At a minimum, these shall consist of a set of mitigation, management, monitoring, and institutional measures to be taken during project implementation and operation to address any gaps with the Fund’s Environmental and Social Policy.

Any mitigating actions addressed in the ESG due diligence report should clearly indicate the level of environmental compliance with the policy, the existing performance gaps, and the corrective actions that need to be taken to close these gaps along with reasonable timelines and should be thoroughly discussed and agreed with the deal lead. Innova should remain engaged in the due diligence process and involve other investors or stakeholders in reviewing the due diligence report and determining the soundness of the corrective actions. Additional reviews or due diligence work may be triggered as a result of such stakeholder engagement. Finally, the results of the ESG due diligence should be presented to the investment committee with the results of the other due diligence in the Deal Status Report (see below).

The corrective action plan prepared for the investment should be available prior to the presentation of the Deal Status Report to the Investment Committee.

III. Deal Status Report (DSR)

The DSR is the comprehensive document produced at the conclusion of the main due diligence work and is the material used by the Investment Committee and General Partner to decide to commit funds to an investment. A section is included in the DSR to address all significant ESG risks and opportunities. Even if there are only limited or immaterial ESG issues with regard to a particular investment, then this also needs to be stated in the ESG section of the DSR.

As a minimum requirement, the ESG section of the DSR should include analysis of the following issues (or confirmation that the areas have been covered and no risk or opportunity identified):

1. **Environmental issues**
 - a. Adherence to environmental laws and regulations and any risks of non-adherence;
 - b. Emissions of noxious and greenhouse gases;
 - c. Conservation of energy;
 - d. Effluent and waste treatment;
 - e. Water usage;
 - f. Sustainability.

2. **Social concerns**
 - a. Health and safety
 - b. Equal rights / diversity;
 - c. HR policy (minimum wage, employee contracts, succession and training)
 - d. Redundancy programs (past or future);
 - e. Supplier monitoring;
 - f. Consumer rights;
 - g. Local community engagement (positive or negative);

3. **Corporate Governance;**
 - a. Internal procedures and controls;
 - b. Transparency (with regard to reporting);
 - c. Possible exposure to corruption;
 - d. Executive compensation;
 - e. Ethical code / code of conduct;
 - f. Possible exposure to political influence;
 - g. Tax and structuring issues.

4. **ESG Reporting and Management**
 - a. Existence of formal policies and systems to manage ESG

- b. Responsibility within the company for ESG
- c. Does the company have a proactive approach to ESG opportunities?

5. Categorization of the Investment is assessed

A summary of the findings of any specific environmental or social impact assessment performed during due diligence should be included.

IV. ESG Conditions to Investment (in case of Innova being a controlling investor)

Innova should negotiate and agree ESG provisions and investment conditions in the term sheet and investment agreements. These typically consist of standard ESG terms applicable to all investments, and project-specific conditions identified during the ESG due diligence of a proposed investment. They are represented in legal documents as general ESG definitions, representations and warranties, disbursement conditions, and/or covenants regarding compliance with the requirements as defined by the Innova's ESG Policy. Critical mitigating actions that address gaps with the Innova's ESG Policy must be included in the investment agreement as conditions of investment. These actions may be represented in an action plan, as appropriate. Post-investment reporting requirements for the investee, particularly on the status of the implementation of the mitigating measures should be included as covenants in the investment agreement as well. The investee should be made aware of Innova's ESG reporting requirements.

Innova should ensure that any ESG conditions of investment tied to disbursement of funds are met before disbursing funds. This sometimes necessitates further ESG evaluations or site visits. Innova should be extremely careful in granting waivers and exceptions and make sure that all other stakeholders are properly informed and that such waivers or extensions will not significantly affect the investee's commitment to mitigation of the project's ESG's risks, as well as its ability to perform consistently with Innova's ESG policy requirements.

B. 100 Day Plan

The framework of the 100 Day Plan is constructed prior to a decision to proceed with closing a transaction. Details are supplied between the signing of binding contracts and completion. This means that on completion (or exceptionally already earlier) the 100 day plan can be executed immediately.

- A section relating to ESG is included in the 100 Day Plan;
- Within 100 days of the transaction completing, additional information is obtained from portfolio companies using a tailored questionnaire and interviews with the company. Fund Operations carries out this exercise normally with the CFO of the portfolio company and the support of the deal team;
- Using data from the questionnaire and interviews
- ESG objectives for the life of the investment are established and targets for the current period incorporated into the budgeting process;
- Responsibility for the execution of ESG objectives will be allocated to specific managers and deal team members.

During the implementation of the 100 Day Plan, these activities are critical to the establishment of objectives for the life of the investment, targeted at the reduction of key risks and realization of opportunities within the business.

Within the first 100 days of the investment, the ESG Director is responsible for organizing the distribution of the standard Innova ESG questionnaire to the new portfolio company management. On receiving the

completed questionnaire, the ESG Director with the external consultant analyses the results and proposes an agenda for a meeting with the portfolio company management. This should focus on issues raised by the questionnaire as well as other issues which Innova may identify from the character of the sector in which the business operates (see V ESG Guidelines below). In particular the list of governance tools should be reviewed and an implementation plan created for introducing those which are missing. Alternatively, external consultant is conducting a comprehensive ESG Due Diligence process prior to transaction closing.

The meeting with the company should preferably take place at its premises. Representatives from the deal team as well as fund operations and company management should be present at the meeting. During and after the meeting (but prior to the expiry of the 100 day period) the following issues should be agreed:

- Key ESG risks and opportunities
- Appropriate ESG KPI's for the business, taking into account objectives to be achieved
- Any initiatives for raising awareness of ESG at the company

C. Portfolio Management

Having already established the levels of risk and opportunities, areas for monitoring and improving specific issues and having allocated responsibility, ESG matters are treated in the same way as any other part of the business during the investment period. Goals established during due diligence and the 100 Day Plan are monitored and adjusted as required. New issues arising are addressed by the board to which Innova Capital will appoint directors and also through ESG reviews carried out directly with managers of the company.

Specific ESG procedures executed during the portfolio holding include:

- Annual setting of a limited number of ESG-related objectives (within the context of the overall ESG objective set in the deal base case). These objectives should be established during the annual budgeting process of the company and should be approved by the Supervisory Board (or other appropriate organ of the company) at the same time as the budget. These may be consulted with Fund Operations and/or the ESG Director as these numbers will be published in the Annual Report.
- Reporting of ESG Key Performance Indicators (including common KPIs).
- Inclusion of ESG matters on the agenda of at least two board meetings per year, regardless of whether or not specific issues have emerged.
- Holding at least one meeting annually between the ESG Director and the responsible company officer of the portfolio company.
- During the lifetime of the investment Innova (both the Deal Team and Fund Operations) works consistently with the company management to mitigate identified risks, report and assess any new risks, which may arise in the course of the investment, and exploit opportunities associated with ESG issues. Reporting procedures relating to the investment are included in the Reporting section below.

D. EXIT

ESG data is included in any vendor due diligence exercise.

Detailed ESG information and progress with regard to specific issues is available to investors and other possible interested parties (insurance, banks, buy side advisors etc.).

In certain cases, a pre-divestment environmental and social audit may be needed to determine whether there are any potential issues requiring attention prior to disposal.

IV. Reporting

A. ESG ANNUAL REPORT

The ESG Annual Report is the key document produced by Innova which relates to ESG. Each year it contains the following sections:

1. Letter from Innova Partners/ ESG leader
The ESG Director emphasizes Innova's commitment to responsible investing and highlights how he has perceived the previous year from the perspective of ESG development
2. Responsible Investing
3. ESG Reports (Individual Portfolio Companies)
This constitutes the main body of the report. For each company there is a standard format report, which includes the following sections:
 - Company Overview
 - ESG Performance

The ESG report is compiled as follows:

- At the end of the calendar year, an ESG review is carried out (usually in January), coordinated by ESG Director and including members of the deal team and management team for each individual portfolio company. The review evaluates the progress made during the year with regard to objectives set at the beginning of the period. Having identified the key areas and events of the previous period, the review then focuses on the year ahead and agrees objectives and specific key performance indicators for this period.
 - The ESG Director edits the information gathered during the portfolio company ESG reviews and enters it to the standard format report in the ESG Reports section of the Annual Report.
 - The ESG Director provides his 'letter' for the year.
 - The report is submitted to the Innova Partner Group for review.
 - Finally, the relevant General Partner approves the report for publication
 - The ESG Annual Report is published in the Strategy – Responsible Investing section of the Innova Capital website and can be found under the following link: [Responsible Investing | Innova Capital](#)
-

V. Climate change approach

Defining a clear and transparent climate change strategy, which will identify goals, targets and activities for improvement is the foundation for us. We aim to publicly report on our progress, use scientific climate commitments to set targets that are in line with the ambitions of the Paris Agreement, and disclose in detail the assumptions we use. We will play a leading role in overcoming barriers and strive to be among leaders in CEE Private Equity funds.

Our climate related ambitions and commitments

Due to the severity of the climate change crisis, we need to take decisive action and tangible steps in the right direction. We have an opportunity to create the foundation for the coming growth while ensuring a more sustainable future through:

- Establishment of Top Management responsibility for climate issues within Innova and our portfolio companies.
- Declaration of definition of climate neutrality and emissions reduction targets in line with Paris Agreement levels.
- Commitment to establish climate targets both on Innova organization level as well as for our portfolio companies.
- Commitment to include climate issues among other areas of business strategy and business decisions (integrated into strategy and decision-making processes).

Setting reduction targets at the portfolio level, as well as at a portfolio company level, should be in line with the 1.5°C ambition level according to the Paris Agreement Targets should be set both for our own operations (Scope 1+2 according to the GHG Protocol) and for the value chain (Scope 3 according to the GHG Protocol). As a result of the above declarations, the targets should include reduction goals in the medium term (5-10 years from a base year) as well as a Net Zero target not later than 2050.

VI. Diversity, equity & inclusion matters

The primary objective of Innova's Diversity, Equity & Inclusion policy is to promote positive attitudes and inclusive behaviours, maintain staff diversity and foster a sense of empowerment among employees, regardless of their talents. Implementing the Policy will help to synchronise plans of programmes and initiatives, both at the level of the managing company and the portfolio businesses.

Our objective is to address the needs and challenges associated with diversity at all points of interaction with employees:

- **Talent acquisition** - to reach the widest possible range of talents whose (complementary) skills can be used to generate as much added value as possible at every stage of our operations
- **Retention and promotion** - to maximize the growth opportunity for each of our and our portfolio companies team members
- **Well-being at the workplace** - to create a working environment that supports employees to deliver outstanding results and overcome their constraints.

VII. Grievance mechanism

Innova has implemented a whistleblowing system and procedure on the fund level. A link to the whistleblowing system is available on Innova Capital's website. All Innova portfolio companies are obliged to implement a whistleblowing system recommended by Innova (Linia Etyki).

VIII. ESG guidelines / reference materials

Innova requires from its staff and contractors to get accustomed with the following materials:

- Innova Code of Conduct
- ESG Annual Reports
- Annual reporting of KPIs and ESG objectives included in the quarterly financial reporting

Additionally, Innova recommends a number of sources for its staff to use as reference and implementation tools for the practical application of ESG procedures. The various sources mentioned below only provide a very limited sample of the huge amount of material, which is now available relating to ESG and responsible investing. Most of the references and material have been selected because of the pragmatic approach to ESG management and reporting. Additional material will continue to be added to this section as appropriate.

With regard to standards being upheld by Innova, these should always be in line with the IFC Performance Standards and United Nations Global Compact, which are set out below, along with reference points for more detailed information.

IFC

Guidelines provided by IFC are among the most comprehensive available. Specifically, the following references are particularly relevant:

Performance Standards on Environmental and Social Sustainability

http://www.ifc.org/wps/wcm/connect/115482804a0255db96fbffd1a5d13d27/PS_English_2012_Full-Documents.pdf?MOD=AJPERES

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts

Performance Standard 2: Labor and Working Conditions

Performance Standard 3: Resource Efficiency and Pollution Prevention

Performance Standard 4: Community Health, Safety, and Security

Performance Standard 5: Land Acquisition and Involuntary Resettlement

Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

Performance Standard 7: Indigenous Peoples

Performance Standard 8: Cultural Heritage

Environmental, Health, and Safety Guidelines

IFC also provides these EH&S guidelines, which are technical reference documents with general and industry-specific examples of Good International Industry Practice.

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/EHS-Guidelines

These are divided into the four sections shown below:

1. Environmental
2. Occupational Health & Safety
3. Community Health & Safety
4. Construction & Decommissioning

Also available on the link shown above are the industry-sector guidelines, which are useful when considering specific issues relating to an investment in a particular business sector.

Another set of overriding principles to which Innova complies are the 10 principles of the UN Global Compact (although it is not a formal signatory):

<https://www.unglobalcompact.org/what-is-gc/mission/principles>

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

While environmental and social issues are likely to generate more dramatic reputational risk, it is Innova's experience that the most consistent value added can be generated by enhancing governance in portfolio companies. The stage of development of Innova's investments, which are frequently founder succession and/or growth buyouts, means that a key element is to ensure that the organisation and its processes are able to deal with current and future growth. The future acquirers of these businesses, which are often strategic European corporations or large PE firms, have high expectations with regard to corporate governance. Taking this into consideration, the following governance tools should be considered for implementation in all Innova portfolio companies:

- Code of conduct / ethics, including:
 - Conflicts of interest
 - Whistleblowing policy
 - Gift / entertainment register
 - Complaints policy
 - Disclosure policy (for public information)
- Anti-bribery / anti-money laundering training program
- Cartel practice awareness program
- Record of media coverage
- Transfer pricing documentation
- Audit Committee (potentially also other board committees)
- Succession plan for management board members
- Internal audit function
- Risk management system (including a risk map)

It is possible that not all the tools above are appropriate or essential for every company but possible introduction of missing elements should be considered during the 100 day post-completion period and an implementation plan with deadlines should be produced.

IFC also has a library of technical resources on sustainability available in its webpage (IFC+Sustainability/publications) organized as Reports, Handbooks and Toolkits, Case Studies, Good Practice Notes and Lessons of experience that provide additional valuable references. Innova staff should make full use of the reference material available here.

Other reference sources for ESG tools and best practices include the following:

EBRD

E&S Risk Management Toolkit for Financial Intermediaries. In particular the Site Visit Checklist is useful for reviewing health and safety issues for due diligence or the post-completion review.

Global Reporting Initiative

<https://www.globalreporting.org/gri-20/Pages/default.aspx>

GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. It is an independent international organization that has pioneered sustainability reporting since 1997. The website is maybe too extensive for Innova's rather limited requirements but it is probably the leading source for applied sustainability reporting.

IX. United nations principles for responsible investing (UNPRI)

Since 2016, Innova is a signatory of the UNPRI program, which recognizes its commitment to responsible investing and a systematic and transparent approach to managing this obligation. As an active signatory to the program, Innova is obliged to submit a comprehensive electronic report. Certain sections of this report are in the public domain. The UNPRI reporting system is designed to be used by a wide range of investment organizations and therefore only part of it is relevant to Innova. The sections completed by Innova relate to:

- Basic information
 - o organizational structure
 - o assets under management
 - o asset types
 - o confirmation that ESG is built into the management process
- Strategy and governance
 - o Investment policy
 - o objectives and strategies
 - o governance and human resources
 - o promoting responsible investment
- Direct – Private Equity (specific section relating to the practices carried out in portfolio companies)
 - o fundraising of private equity funds
 - o pre-investment (selection)
 - o post-investment (monitoring)
 - o communication

For the 2017 report, relating to the reporting year 2016, Innova was also obliged to complete two additional sections: Direct - Listed Equity Incorporation and Direct - Listed Equity Active Ownership. This resulted from the fact that two investments, representing more than 10% of assets under management were listed on the Warsaw Stock Exchange. This is expected to be an exceptional situation and in most years these sections will not need to be completed.

This policy will be reviewed and amended as appropriate from time to time.

July 2024
