



INNOVA
C A P I T A L

Innova Capital Disclosure Statement
Operating Principles for Impact Management
JUNE 2023

Innova/7 GP Sarl

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19 June 2023

Innova/7 GP Sarl hereby affirms its status as a Signatory to the Operating Principles for Impact Management. ¹ The disclosure relates to the following assets: the fund Innova/7 SCA SICAV-RAIF located in Luxembourg, which was launched in August 2023.

As of June, 2023 the fund has not yet made investments, and therefore doesn't have any assets under management in alignment with the Impact Principles. First investments are expected to be closed during summer 2023.

Innova/7 GP Sarl

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¹Disclaimer

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For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

INTRODUCTION

About Innova

Innova/7 SCA SICAV-RAIF

The Impact Principles signatory is Innova/7 GP Sarl, the General Partner to Innova Capital's seventh fund, Innova/7 SCA SICAV-RAIF.

Innova has a clearly defined investment sweet spot aligned with prioritized macro trends. We have maintained a single-minded commitment to mid-market buyouts in Poland and Central Europe.

We focus on making control investments in companies with EV's of €50–150 million with equity tickets of €25–40 million. The main sectors, where Innova invests, are: industrials with tech-driven angle, business services and consumer & lifestyle sector.

The fund held its first closing in Q3/22 and is pro-actively seeking new investment opportunities in accordance with its investment policy. The first investment was signed in May'23 and is expected to be completed before the end of the summer.

The seasoned ESG process established in the organization with additional improvement and modifications – as described below – will be applied to all potential and existing investments in Innova/7.

Innova ESG Process & history

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 rating 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 and ESG impact is added to the investment.

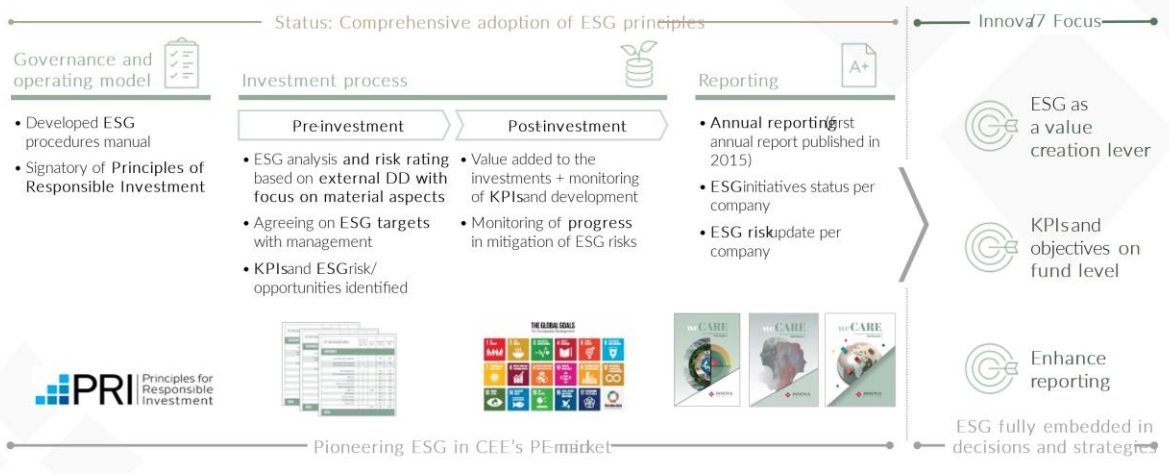
Innova – Seven Core Values

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.

Clear approach to ESG - a pioneer in the region in ESG focus and reporting, with ambition for more



PRINCIPLE 1:

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

Over the years, the ESG process at Innova has evolved from being primarily focused on detection and mitigation of ESG-related risks towards exploring opportunities and impact potential connected with responsible investing and sustainability trends in the economy.

We are seeking to promote ESG progression with bespoke roadmaps and action plan list for each portfolio company with individual targets based on SDGs criteria and measurable targets. Different companies are at different stages in their readiness and progress with ESG good practices and objectives and we recognize that ESG objectives must be tailored to the specific nature of operations and size of the company, including the stakeholders demands and market it operates in.

ESG & Impact action plans are designed after the ESG due diligence and before the investment is pursued. Thereafter they are included in the 100 days plan for each investment and action plans are included in the overall strategy for each deal.

Additionally, Innova's refined investment strategy also covers investment targets which operate in the sectors which can provide positive impact such as: green energy, focus on sustainable environment solutions, digital and IT, healthcare, and healthy lifestyle.

The main SDGs (but not the only ones) which we aim to cover with the new, refined investment strategy for Innova/7 fund and ESG policy are listed below:

(i) Gender Equality (SDG 5)

Diversity has long been one of the driving forces behind the dynamic growth of Innova Capital and our portfolio companies. We promote diversity within the organization and portfolio and established a diversity policy. A target we set up for Innova capital is to include women at all levels of the investment team and achieve at least 20% female representation in all our portfolio companies' boards.

(ii) Industry, innovation and infrastructure (SDG 9)

Innova seeks to promote innovation and sustainable innovation by including in its value creation plans for each portfolio company digital initiatives and innovation targets. Innova/7 fund agreed with its LPs to have a specific measurable target of investments in the areas which will provide innovation, digitalization, or educational technologies to industry (at least €28 million).

(iii) Affordable and Clean Energy (SDG 7) & Climate action (SDG 13)

Due to the severity of the climate change crisis, we decided to take decisive action and tangible steps in the right direction – by introducing the carbon footprint measurement policy and defining long term carbon neutrality targets for both the management company and the portfolio.

We also encourage our portfolio companies to take actions towards energy savings and green energy resources. As a part of our strategy in Innova/7 we are seeking to identify ‘Green Investments’ (either directly or made by the Fund’s Portfolio Companies) as part of the fund’s sustainable development plan for our investments in an aggregate amount of at least EUR 30 million for the entire fund.

Additionally, Innova/7 fund operates an exclusion policy confirming that it will not invest in several sectors which can negatively impact environment and society. This policy is attached to the Limited Partners Agreement for Innova/7 fund and all potential investments are first verified in accordance with the exclusions list.

PRINCIPLE 2: **Manage strategic impact on a portfolio basis.**

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Innova attaches significant importance to ESG issues in every one of its portfolio companies, both regarding risks and possible impact opportunities.

Innova Capital ESG Procedures were adopted by the organization to manage the ESG impact in the portfolio and create the unified processes and procedures which must be closely observed by deal teams and management teams in each portfolio company. Actions are planned for each new portfolio company related to the materiality of risks or opportunities identified on entry.

It is considered that at the fund level, the Partner responsible for ESG as well as the (planned) ESG Officer along with the investment team members responsible for individual portfolio companies will all have part of their bonus targets in their annual remuneration related to ESG and the achievement of impact. The same structure of the compensation incentives will apply for portfolio companies' managements.

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

Pre - investment stage and Due Diligence Processes

ESG and impact criteria are addressed comprehensively during the due diligence prior to completion of the investment but with a level of engagement appropriate to the particular business.

The ESG due diligence review of a prospective investment should closely observe Innova's ESG management policies and procedures. The deal team is required at this stage to identify any major ESG risks or impact and ESG value creation 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.

The DD needs to be provided by an external party with a thorough knowledge of the Innova's ESG policies and procedures and the IFC Performance Standards.

At the end of this stage, it is required to prepare a report summarizing the results of the ESG due diligence. The report shall include a summary of the impacts opportunities and risks associated with the project, including the related performance gaps and corresponding correcting actions if any that will be necessary for Innova to invest.

The impact objectives and measurable KPIs directly aligned with one or more of the SDGs are proposed at this stage. Finally, the results of the ESG due diligence should be presented to the Investment Committee with the results of the other due diligence work in the Deal Status Report.

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

Post-investment stage

- **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:

- Using data from the questionnaire and interviews, the ESG impact opportunities, targets and risks are rated using a standard, internally developed scoring system and relevant SDGs and target exit ratings are assigned;
- ESG objectives for the life of the investment are established and targets for the next period incorporated into the budgeting process;
- Responsibility for the execution of ESG objectives will be allocated to specific managers and
- Any initiatives for raising awareness of ESG at the company are planned.

Portfolio Management

Having already established the levels of risk and impact 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 through ESG reviews carried out directly with managers of the company.

Specific ESG procedures executed during the portfolio holding period include:

- ✓ Annual setting of a limited number of quantitative or qualitative 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.
- ✓ Reporting of ESG Key Performance Indicators and impact measurements and progress towards the achievement of SDGs.
- ✓ Inclusion of ESG matters on the agenda of at least two board meetings per year.
- ✓ ESG targets are included in the annual targets together with business and result oriented goals in the assessment process and performance bonuses for top-management and ESG Officers in portfolio companies.

During the lifetime of the investment Innova 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 impact and SDG principles.

Reporting procedures relating to the investment are included in the ESG procedure summarized in the annual ESG reports available on www.innovacap.com.

EXIT stage

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

PRINCIPLE 3:
Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Innova Capital recognizes the need for clear and transparent reporting on the manager's contribution to impact achievement.

The following actions are intended for Innova/7 ESG impact reporting to establish clearly the Manager's contribution to any achievements (but also problems encountered):

1. Detailed ESG value creation and impact plans for each investment agreed between Innova and management teams and attached to the overall strategic creation plan for a particular portfolio company.
2. Annual and semi-annual ESG reporting to LPs and stakeholders, included also on Innova website. This will include progress with achievements of individual and portfolio-wide impact targets and KPIs.
3. Quantitative analysis of benefits in the projects financed by Innova/7 – including diversity, climate and investment targets described under Principle 1 (on an annual basis reported to LPs) and investments allocations in impact related investments.
4. Qualitative narratives in the Innova ESG Annual Report and at the time of exit outlining the main impact achievements for each investment and any lessons learned while accomplishing them to serve as examples and aspirations for future portfolio companies.

PRINCIPLE 4:

Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

Innova created a specific procedures and guidance to monitor the ESG impact progression and targets within its portfolio in a very systematic way.

The ESG targets and impacts are measured in accordance with Innova's proprietary system and entry level, current level and exit level targets are set and monitored to be achieved.

The annual ESG reports available on:

https://innovacap.com/assets/uploads/reports/ESG_2022_INNOVA-CAPITAL.pdf

(final section) give a description of Innova's ESG risk rating system, which has been developed in-house to meet the requirement of having measurable ESG objectives throughout the life of an investment. It includes a worked example of the rating of one of the portfolio companies.

Trajectory and achievement of designed and targeted KPIs and objectives are verified on a semi-annual and annual basis. During this review any risks to achieving the targets are addressed and mitigating action may be taken. If additional opportunities are identified relating to the original objective, then these can also be incorporated into the process and assessed at the subsequent review. We also work with portfolio companies to identify opportunities to increase the impact of their investment, which are included in their Environmental and Social Action Plans (ESAPs). Targets in respect to time and KPIs are assigned in ESAPs.

Additionally, on an annual basis we are verifying the impact of the overall fund's portfolio – in connection with designed targets in respect to carbon footprint, diversity, job creation, green initiatives and capex deployed in respect to energy efficiency targets and other fund-level impact criteria.

PRINCIPLE 5:

Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Pre- investment stage and Due Diligence Processes

Innova is applying a rigorous risk assessment process before any acquisition is completed and any significant ESG DD findings need to be discussed with Investment Committee in the pre-deal stage at the time of issuing a Deal Alert paper and preliminary Deal Status Report. At the same time also, it is requested to provide the committee with proposed steps towards addressing and minimizing such risks in the future.

Any proposed actions towards the identified risks are also included and the Investment Committee resolves on this base if it wants to pursue a specific investment and discusses the proposed solutions for addressing and minimizing such risks. In some cases, deals with inherent non-curable ESG risks were not pursued.

Innova Capital generally invests in companies with low or medium environmental and social risks. And will not pursue deals where there is a significant ESG risk involved which cannot be cured or is an inherent part of the market that any potential portfolio company operates in.

Additionally, there is a strict policy included in Innova/7 SCA SICAV-RAIF LPA (Supplement) which prohibits investing in certain sectors with advanced negative impact on any ESG criteria (i.e. coal mining, oil distribution or handling, production of alcohol or tobacco, gambling, energy intensive or high CO2 emissions sectors etc).

Where negative impact is identified and can be cured, this is highlighted as part of the initial screening process and mitigating initiatives established.

Post-investment stage

Any ESG risks identified in the investment process are included in the ESAP plan and progress with addressing and elimination is reviewed by the deal time with reports to the ESG team. Each company is expected to have a risk monitoring map with time targets to address them.

Progress is being reported internally – through quarterly portfolio meetings and on supervisory boards and externally – in the ESG reporting to LPs.

Enhanced risk management is a key element of the Innova governance toolkit and is an important step in the creation of more mature SME's. This includes addressing ESG and impact risks.

PRINCIPLE 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Impact Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

In Innova/7 fund ESG data will be collected from the following sources:

- By deal teams and the ESG specialist – directly from the portfolio companies (standard KPI's for all portfolio companies as well as certain agreed KPIs specific for each company - based on the methodology agreed with companies' managements and consistent through the investment holding period).
- By external specialist companies to create an accurate methodology to calculate carbon footprint emissions. Values will be collected and reported with emissions data stated starting in 2024 and also the targets and progress with the reduction of the environmental impact will be reviewed and reported as well.

Principle 4 framework will be reviewed and when necessary, the current procedure will be changed.

Innova is also seeking to apply a new IT tool solution which would support the ESG data collection, validation, and consistency in reporting.

PRINCIPLE 7:
Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Innova believes its consistent and well-organized and documented ESG process will be a significant plus in and a value creation lever for any future potential buyers of the portfolio investments.

We will be seeking to provide buyers with an exit VDD report including the impact achievements and targets delivery in accordance with the original expectation included in ESAPs.

The investment premise and story will also include any further impact and ESG value creation routes and ideas which can support the further ESG agenda after the company is sold.

Additionally, exit ESG issues and lessons learnt should be included on the agenda of each Deal Postmortem meeting, organized following the completion of an exit by deal team and discussed by the Portfolio Committee.

PRINCIPLE 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

Innova's intention is to monitor and document ESG impact process and use this as a valuable tool for value creation in existing investments and as a lesson learnt from the prior investments to improve the current process.

The review process is structured as follows:

- An ESG and impact review should be included on the agenda of at least two supervisory board meetings per year in each portfolio company, and more frequently should there be material issues to address. If no significant change to ESG risks and opportunities has been noted since the previous review, this fact should also be documented.
- The review of ESAP plan and impact initiatives is discussed and reviewed on an ongoing basis by the ESG team and ESG specialist in each portfolio company.
- Critical ESG agenda is discussed during the quarterly portfolio meetings with the senior team at Innova.
- At least once a year a meeting is called for the full investment team. At this meeting (usually shortly before or after publication of the ESG Annual Report), key issues from the portfolio from the previous year are discussed as well as ensuring that processes remain fit for purpose and new ESG topics are introduced by ESG team. If any processes have changed or are being changed, they will be presented at this meeting.
- The review of the current portfolio in accordance with ESG goals and ways to address the ESG impact criteria is provided by external providers on an annual basis together with some training for the whole Innova team.
- At least once a year, the Audit and Risk Management Committee features on its agenda ESG and checks that the processes and reports being issued are fit for purpose and also appropriate to the level of overall risk in the portfolio.

PRINCIPLE 9:**Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.**

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Statement on Innova/7 portfolio alignment of fund's ESG policies and procedures with the Impact Principles will be provided on an annual basis and will be updated after the end of each year.

Independent verification will be first undertaken by an independent third party once Innova/7 closes its first year of investing (i.e. based on 2023 actions). The first independent verification will be provided by 31 December 2024.