

The logo for UNiC, featuring the letters 'UNiC' in a white, sans-serif font. The letter 'i' is stylized with a green dot above it and a green vertical bar extending downwards from the dot.The logo for KERNEL, featuring the word 'KERNEL' in a white, sans-serif font, enclosed within a white rectangular box.

COMPLIANCE AS AN IMPORTANT TRUST COMPONENT FOR EXTERNAL INVESTORS

Compliance with the rules of ethical business will help companies to enter international markets, get investments, and improve business reputation in the national market.

Projects with a high level of investment confidence should meet the social and environmental standards of investment institutions, as well as the priorities of investor countries. In addition, they should be correlated with global goals, such as economic development, employment growth, and environmental protection. They also need to be technically viable and profitable. For example, projects that ensure environmental and social sustainability are among the highest priorities of the European Bank for Reconstruction and Development (EBRD).

Key aspects that financial institutions pay attention to:

- **Integrity and compliance**
- **Environmental and social sustainability of the company**
- **Ensuring equality of opportunity, diversity, inclusion, and gender equality in the company**

One of the priority areas for Ukrainian business remains the issue of compliance culture and the ability to demonstrate commitment to responsible business. After all, a prerequisite for obtaining external investments is confirming the sustainability of the company's compliance function. A business that has a built-in compliance system and is constantly expanding its compliance strategy in line with ESG (Environmental, Social, and Corporate Governance) best practices is becoming more attractive to investors and other financial institutions.

The presence of a compliance system opens up opportunities for attracting additional capital and subsequently, facilitates communication with potential investors.

Recommendations for starting the compliance program implementation

At the initial stages, the following main areas should be covered in the compliance program:

1. "Tone from the top", a zero tolerance policy for bribery and corruption, along with a policy for the development of practical and effective internal control systems and monitoring of policy implementation, approved by the Board of Directors or other relevant company body. Compliance with international principles of transparency in doing business within the framework of combating bribery.

2. Corporate governance policy, which means adapting the corporate governance structure under which decisions are made at the level of senior management, which establishes and adheres to anti-corruption and compliance standards.

3. The formalized list of prohibited actions in the company, which means protecting the company from possible corrupt, fraudulent, coercive, intentional, and obstructive actions, including embezzlement and misuse of future financing.

4. Countering bribery and corruption, which means the necessity to carry out a thorough check of counterparties and third parties and control of employees involved in processes with high corruption risk. All contracts and agreements must have an anti-corruption and sanction clause.

5. The compliance management structure, which means the creation of a position responsible for building a compliance system and monitoring compliance risks. The Compliance Manager shall report to the Chairman of the Board of Directors and/or the company's CEO and shall be responsible for the day-to-day Compliance Program implementation.

6. The Corporate Code and other codes of conduct, which should be mandatory for all company employees, including senior management.

7. Reporting, which means developing mechanisms and procedures for reporting to the Board of Directors and CEO on violations and risks, as well as improving the compliance system.

8. Hotline and whistleblower protection, which means ensuring the systematic operation of the Hotline, the incident handling mechanism, and the elimination of violations. One should introduce a whistleblower protection mechanism that will allow employees and external applicants to report suspicious actions.

9. The disciplinary mechanism, which means developing a transparent and fair disciplinary mechanism that will ensure proper investigation of bribery cases or situations of misconduct in accordance with the investigation procedures, as well as ensure recovery of penalty from the guilty party for corrupt behavior or other violations.

10. Training of employees, which means conducting regular trainings for employees on combating corruption and adhering to the rules and principles of the Corporate Code. All employees are obliged to be present at such trainings, regardless of their title or position. If possible, counterparties and agents should be also involved in trainings.

11. Control of Supply Chain Management, which directly contributes to increasing efficiency, transparency and minimizing potential risks both today and in the future.

Accordingly, the company should have updated/developed processes and controls, integrated necessary policies, and developed measures to minimize negative impacts.

Before the qualitative introduction of the compliance program, a number of actions must be taken. Among them are:

1. Assessment of risks associated with the company's activities, together with an assessment of internal control. After the assessment, an indicator of the level of risk, excess/deficit of control (residual risk) is derived. Based on the results, the Compliance Program Road Map is created.

2. Creation of the Road Map and activities to be carried out. If the company follows all the recommendations, the control will be sufficient to cover the potential risk, and the Compliance Program will be considered effective. Collectively, these measures can be the material for passing a successful Due Diligence from the investor.

3. Internal control audit, which means determination of the potential risk associated with the company's activities together with the application of control assessment, which determines the degree of risk minimization or excess/deficit of control.

4. Checking the effectiveness of controls after the implementation of the Compliance Program and recommendations.

An example of questions in the Due Diligence questionnaire from investors in terms of compliance

The Due Diligence, which is conducted by the investor, is a mandatory stage in attracting investment. An important tool for business research is a survey conducted by a potential investor. Such questionnaires, together with the provision of supporting documents, are a source of information on the company's investment attractiveness and image. Each investor has their own questionnaire which contains a wide range of questions. Usually, about 25 % of them belong to the compliance and compliance control block.

An example of such a questionnaire:

1. Describe any current relevant regulatory situation or expected regulatory changes that may have a significant impact on the company's business, the competitive environment in which it operates, and/or market barriers to entry. Focus on the last ten years and pay attention to the issues in the context of the five control areas (Control Areas): anti-corruption; economic sanctions; export controls; anti-money laundering or related laws; fraud, insider trading, and other financial crimes or offenses.

2. Have charges been brought internally or externally against the company or any of its business partners (e.g. through an audit, hotline, internal investigation, risk assessment, whistleblowers, media screening, etc.) for possible violations of compliance laws, regulations, or policies related to any of the control areas? If so, how were these problems solved?

6. Share a copy of the Road Map to improve compliance risk management at the corporate level.

3. Describe the assessment and management of compliance risks.

4. Provide the structure of the compliance system and responsible compliance control participants.

7. Describe the community engagement, such as the Stakeholder Engagement Plan and the Grievance Redress Mechanism.

5. Provide the updated information about your work plan for 20_ and 20_ and share a copy of the previous work plan.

8. Share the company's risk assessment and source management procedures to ensure effective timely implementation of the Corporate Code and Supplier Code of Conduct.

Kernel's experience, including in the compliance area

2022 MY (marketing year) Kernel is in TOP 5 sustainable companies of Ukraine during the war

2021 MY Award from the Association of Ecologists of Ukraine EKOTransformation 2021

2021 MY UN Global Compact Award for Kernel Bee Pollination Project

2021 MY Award from the European Business Association for the company's contribution to the promotion of the UN Sustainable Development Goals in Ukraine

2021 MY Victory in the Agrosector nomination according to the results of the National Quality Rating of Corporate Reputation Management "Reputational ACTIVists"

2018/2019 Kernel is the company No. 1 in the agricultural exporter rating

2018 Kernel is in the TOP 3 largest taxpayers in Ukraine

2018–2021 The company is included in the Ukraine's best employer rating

2017/2018 MY Successful completion of an independent audit of the Compliance System for 40 indicators in key areas

2018/2019 MY Successful completion of an independent assessment of the effectiveness of the compliance system by external investors based on international benchmarks. Joining UNIC

2019/2020 MY Accession to the UN Global Compact; signing of the Declaration on Gender Equality and the Prevention of Domestic Violence; Kernel is the author of the Compliance in Agribusiness digest for UNIC

2020/2021 MY Expansion of the compliance strategy in accordance with the ESG best practices; actualization of compliance risk assessment; actualization of compliance policy procedures

2021/2022 MY Achievement of compliance performance indicators based on risk appetite targets of up to 5 compliance risks. Rapid assessment and updating of internal rules for the current situation, identification of potential opportunities, rapid response to the needs of business, both present and future

In 2022, Kernel produced UNIC's first Environmental Compliance Digest. This is a practical guide for all companies

Despite wartime difficulties, Kernel continues to adhere to certain business development priorities, including compliance.