

Zubr Capital Fund I (The Fund) ESG Policy

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1. Introduction

Zubr Capital Fund I (The Fund) invests in companies with high potential for value growth of business in different sectors of Belarusian economy including telecommunications, retail, durable goods and innovative technologies. The Fund invests in manufacturing companies focused on or showing potential for exporting their products to the CES.

As an investor, The Fund is uniquely equipped to shape the environmental, social and governance (ESG) policies and systems of portfolio investments during their formative years.

The Fund strongly believes that an effective approach to ESG goes beyond mere compliance, and is fundamental to the long-term sustainability and success of a portfolio companies.

2. ESG Risks in the Context of Belarus Region

The Fund invests in private companies based in Belarus. That is why it is better to analyze ESG-risks in case of private Belarusian companies.

2.1. Social risks in Belarus Region

1. Now the share of private companies is 28%. The share of the state companies will decrease and the number of the unemployed will increase in Belarus because now state companies mainly performs social function. The percent of unemployment approximately will increase from 0,4 to 5%.
2. Now educational system in Belarus does not change under modern realities. Even now, we can see the efficiency of experts in hi-tech spheres.
3. Small and middle private companies not always observe requirements for labor protection and social protection. Lack of labor protection and social protection system may be the deal breaker after E&S due diligence. The minimum that The Fund require: compliance with local law and compliance with [International Labour Organization](#).
4. Market laws do not work at the state plants and factories. In case of closing of such companies, it is high risk of appearance of large number unskilled personnel.
5. There is a retirement-age increase in Belarus. But now there is no the working programs of retraining and adaptation of people of a retirement age. However, in modern companies their skills are not applicable.
6. There are many state universities, which prepares unclaimed specialists.
7. There is no institute of financial consultation and tax consultation of private business in the country. Tax authorities perform the controlling function, but not expository function.

8. The tax system and the system of the legislation in the sphere of small and medium business are very unstable. Many changes are accepted annually, and there is no confidence for small and medium business that their business plan will be implemented and relevant even in the short term.
9. Private business is concentrated in the capital and regional cities.
10. The bureaucratized system is even at the simplified tax system.

2.2. Environmental risks in Belarus Region

1. The legislation in the sphere of ecology and environment in Belarus is difficult for understanding, implementation and can have several representations. The experts, which create ecological documentation for the companies, sometimes have problems understanding legal instruments and laws. As the result, documentation can be created with violations.
2. Even large companies not completely observe the ecological legislation because they do not understand the importance of environmental issues. The Fund needs to pay attention to environmental issues.

2.3. Human Rights in Belarus region

1. The situation of human rights in the country has not undergone a systemic change and remains a subject of concern for many international organisations. In addition, it influences on business and investment activity in the region. On the one hand, it is the subject for concern; on the other hand, it is an opportunity for The Fund because The Fund know how to work at this market and are able to improve it.
2. Among the actual issues in human rights, there are death penalty, freedom of assembly, freedom of expression and freedom of Association. At the same time, some international organisations noted a constructive role of Belarus in the region and authorities showed more openness to discussing human rights.

3. The Fund Core ESG Principles

Fund ZCFI and its investee companies will:

1. Comply with all applicable laws and with the [IFC Performance Standards](#) as appropriate;
2. Minimize adverse impacts and enhance positive effects on the environment, workers, and all stakeholders;
3. Commit to continuous improvements with respect to management of the environment, social matters and corporate governance;
4. Apply relevant international best practice standards, with appropriate targets and timetables for achieving them;
5. Employ management systems, which effectively address ESG risks and consider ESG opportunities as a fundamental part of a company's value.

4. Objectives and policies

4.1. Environment

Objectives:

1. To minimize adverse impacts and enhance positive effects on the environment, as relevant and appropriate, from the businesses in which The Fund invested.
2. To encourage the businesses in which The Fund capital is invested to make efficient use of natural resources and to protect the environment wherever possible;
3. To support the reduction of greenhouse gas emissions from the businesses in which The Fund capital is invested;
4. At the minimum follow the IFC Performance Standards
5. To review resource efficiency aspects like energy efficiency, water optimization, waste minimization, optimum use of materials, and sustainable supply chain management, as relevant and applicable for each of the investee company.

Policy

Businesses in which The Fund capital is invested will:

1. Operate in compliance with applicable local and national laws (as a minimum).
2. Identify potential risks, adopt necessary mitigation measures where activities/ operations can potentially involve loss of biodiversity or habitat, emission of greenhouse gases, environmental releases and any other identified environmental and social impacts.
3. At the minimum follow the IFC Performance Standards;
4. Take appropriate interventions to mitigate environmental risks and improve the overall environmental/ sustainability performance.

4.2. Social

Objectives:

1. To require the businesses in which The Fund's capital invested to treat all their employees and contractors fairly and to respect their dignity, well-being and diversity.

2. To encourage the businesses in which The Fund’s capital is invested towards compliance with the International Labour Organization (“ILO”) Fundamental Conventions¹, the IFC Performance Standards and EHS Guidelines and with the United Nations (“UN”) Universal Declaration of Human Rights.²
3. Identify potential adverse effects and appropriate mitigating measures through a social impact assessment.

Policy

Businesses in which The Fund’s capital is invested will:

1. Comply with applicable local and national laws (as a minimum);
2. At a minimum, follow the International Labour Organization (“ILO”) Fundamental Conventions³, the IFC Performance Standards and EHS Guidelines and with the United Nations (“UN”) Universal Declaration of Human Rights;
3. Not employ or make use of forced labor of any kind;
4. Not employ or make use of child labor;⁴
5. Pay wages which meet or exceed industry or legal national minima;
6. Treat their employees fairly in terms of recruitment, progression, terms and conditions of work and representation, irrespective of gender, race, color, disability, political opinion, sexual orientation, age, religion, social or ethnic origin.

4.3. Health and safety

Objectives

1. To attain safe and healthy working conditions for employees and contractors of the businesses in which The fund’s capital is invested.
2. To safeguard the health and safety of all those affected by the businesses in which The fund’s capital is invested.

Policy

Businesses in which The fund’s capital is invested will:

1. Comply with applicable regulatory requirement (as a minimum);
2. At the minimum follow the IFC Performance Standards and EHS Guidelines;
3. Assess all potential health and safety risks arising from work activities; and
4. Take appropriate measures to eliminate or reduce risks to health and safety.

¹ The ILO Fundamental Conventions are the Conventions on Freedom of Association and Collective Bargaining; Forced Labour; Child Labour; and Non-Discrimination, as may be amended from time to time. See www.ilo.org/ilolex/english/docs/declworld.htm for the texts of these Conventions and a list of the countries that have ratified each of them.

² See www.un.org/Overview/rights.html

³ The ILO Fundamental Conventions are the Conventions on Freedom of Association and Collective Bargaining; Forced Labour; Child Labour; and Non-Discrimination, as may be amended from time to time. See www.ilo.org/ilolex/english/docs/declworld.htm for the texts of these Conventions and a list of the countries that have ratified each of them.

⁴ As defined by the ILO C138 Minimum Age Convention from 1973 and the ILO C182 Worst Forms of Child Labour Convention from 1999. See www.ilo.org/ilolex/english/docs/declworld.htm

4.4. Governance: business integrity and good corporate governance

Objectives:

1. To ensure that The fund, and the businesses in which The fund's capital is invested, exhibit honesty, integrity, fairness, diligence and respect in all business dealings.
2. To encourage available best practices in relation to corporate governance⁵ in the businesses in which The fund's capital is invested; and
3. To develop and put in place relevant and robust processes, systems, procedures to enhance Corporate Governance in which The fund 's capital is invested

Policy

The Fund, and the businesses in which its capital is invested, will:

1. The Fund requires the investee companies at a minimum to follow: commitment to Corporate Governance; Structure and Functioning of the Board of Directors; Transparency and Disclosure; Shareholder Rights; Business Integrity.
2. Comply with all applicable laws and promote international best practice, including those laws and international best practice standards intended to prevent extortion, bribery and financial crime.
3. Prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest.
4. Properly record, report and review financial and tax information;
5. Promote transparency and accountability grounded in sound business ethics;
6. Use information received from its partners only in the best interests of the business relationship and not for personal financial gain by any employee.
7. Clearly define responsibilities, procedures and controls with appropriate checks and balances in company management structures; and
8. Use effective systems of internal control and risk management covering all significant issues, including environmental, social and ethical issues.

⁵ Corporate Governance Development Framework <http://cgdevelopmentframework.com/>

5. ESG management system

5.1.Overview

1. The Fund assesses the impact of all new investments on ESG matters as an integral part of the investment appraisal process.
2. In assessing prospective investments, The fund evaluates the investments for environment, health & safety and social risks using appropriate standards. These typically include IFC Performance Standards, applicable national and local regulatory requirements, and any other applicable standards, as the case may be.
3. If an investment is made despite identified shortcomings in relation to ESG issues, or if any material ESG issues should arise during the investment period, The Fund works with the Portfolio Company concerned to develop an action plan to address such issues, with appropriate targets and timelines for improvements.

The Fund would decide to decline investment in companies where:

- The attached exclusion list may potentially get triggered.
- ESG risks are judged to be unmanageable.
- ESG shortcomings in the existing company are such that the Investment Team does not believe that these shortcomings can be addressed in reasonable time and effort, or have costs that does not justify commercial risk returns excessive costs; or
- Investment Team does not have confidence in the ability of the prospective Company's management to demonstrate leadership and foster a culture of enhanced worker health and safety, environmental and social responsibility, and corporate governance.

5.2.Risk Categorization

The Fund will follow the risk categorization process as identified under the IFC Guidelines. Accordingly, projects will be categorized as:

Category A: Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.

Category B: Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

Category B+: Business activities with potential adverse environmental or social risks and/or impacts that are generally beyond the site boundaries, largely irreversible and can be addressed through relevant mitigation measures.

Category C: Business activities with minimal or no adverse environmental or social risks and/or impacts.

The Investment Team (“Team”), defined as a core sub-group of the team managing a particular investment prospect, expects, primarily most of the investments to be made in either Category B, B+ or C projects.

Once an investment is made, the Team supports the Company’s management in the implementation of an E&S and Corporate Governance Action Plan, and further encourages the Company managers to work towards continuous improvement with the action plan and other appropriate targets. Where applicable, The Fund uses its seats on the Board of Directors of portfolio companies to maintain ongoing accountability on ESG issues. Further, a dedicated ESG manager will be appointed for any investment made in the Categories A and B+. For Categories B and C, dedicated ESG accountability role will be given to a competent professional within the investee company.

6. Roles and Responsibilities

6.1. Investment Committee

The Investment Committee for each Fund has ultimate decision-making responsibility for each investment, including managing risks related to ESG matters. In the context of the investment process, the ESG responsibilities of The Investment Committee include:

- Reviewing the Investment Memo for each proposed investment, including ESG due diligence reports and findings;
- Assessing ESG related risks and opportunities of each proposed investment;
- Requesting more information as needed;
- Reviewing annual ESG monitoring reports for each Portfolio Company; and
- Recommending investment actions that are consistent with this ESG Policy.

6.2. Investment Team

The Investment Team is responsible for searching, evaluating, negotiating, closing, and monitoring investments. The Investment Team works closely with the ESG Manager through the life cycle of the Investment Process, as outlined below. The investment team is obliged to report to the ESG manager and investment committee about all considerable violations in Zubr Capital portfolio companies.

6.3. Company Management

Company managers having adequate capacity to identify, mitigate and manage E&S risks will be the key implementing partners on ESG matters. They should:

- Establish and foster a culture of corporate responsibility on environment, health & safety and social aspects;
- Disclose and manage ESG related risks through implementation of the ESAP and other relevant action plans, and ;
- Seek opportunities for continuous improvement in ESG areas;
- Report annually to The Fund on ESG matters.

6.4. Environmental, Social and Governance (ESG) Manager

ESG Manager plays a led role in providing ESG management system.

- Contributing to the continual development and implementation of the Zubr ESG Management System; working closely with portfolio companies to secure engagement and support for these activities.
- Providing all necessary monitoring reports and any other information required by lenders on ESG issues.
- Providing active support for Zubr portfolio companies concerning ESG Management System.

7. Reporting

The Fund will report annually to its Limited Partners on the implementation of the ESG management system and on the ESG related performance of portfolio companies per the necessary requirements of the LP's (including the EDFI reporting requirements and any other relevant formats/ templates).

8. Grievance Mechanism

The Fund will have a dedicated Grievance Mechanism put in place, which will include any concerns to be sent via email to the ESG Team. The Fund requires the portfolio companies to establish a robust grievance redressal mechanism for its internal and external stakeholders to raise concerns on matters that may potentially affect or impact them.

Grievances can be filed by:

- individually as a manager or employee of a portfolio company
- an individual or group authorized to act on behalf of the complainant(s).

Each portfolio company will establish a formal mechanism of obtaining grievances and will adopt a system that best works for them. Each portfolio company can contact with Zubr ESG-manager to help develop a complaints system if it appropriate.

Typically, individuals filing a complaint will be required to provide:

- Their contact details;
- Indicate the role of the complainant;
- Provide the Company information;
- Describe the nature of the complaint;
- Provide the details of the actions taken so far;
- Provide any other relevant information of the concern.

Grievance mechanism will be setup at fund level. Grievances can be filed individually or group authorized to act on behalf of the complainant(s). Individuals filing a complaint will be required can send information to the email dk@zubrcapital.by or in the feedback form. Individuals filing a complaint will be required to provide the same information as manager or employee of a portfolio company (described above).

Once a complaint has been accepted as eligible for investigation, it will be expected by the investee company (along with The Fund support, as necessary) to begin a process of investigation. The Fund will encourage the designated company management to work with the complainant, if the complainant agrees, as part of a process of finding an appropriate resolution to the problem.

Throughout this process, The Fund will closely monitor the investigation process with the investee company and will expect that the Company proactively updates The Fund on the progress. Such updates will be further included on the annual report.

ANNEX A – Exclusion List

1. Production or trade in any product or activity deemed illegal under host country laws and Belarus or regulations or international conventions and agreements.
2. Production of, or trade in, any product or activity deemed illegal under applicable local or national laws or regulations or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements such as certain: – hazardous chemicals, pharmaceuticals, pesticides and wastes; – ozone depleting substances; – endangered or protected wildlife or wildlife products; and – unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 kilometres in length;
3. Production or activities involving forced labour⁶ or child labour⁷
4. Trade in wildlife or wildlife products regulated under CITES⁸
5. Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
6. Destruction⁹ of Critical Habitat¹⁰ and any forest project under which no sustainable development and managing plan is carried out.
7. Production or use of or trade in hazardous materials such as asbestos fibers and products containing PCBs¹¹.
8. Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances¹² and other hazardous substances subject to international phase-outs or bans.
9. Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.
10. Production or trade in
 - a. arms, weapons and munitions
 - b. tobacco
 - c. hard liquor for human consumption.
11. Gambling, casinos and equivalent enterprises
12. Any business relating to pornography or prostitution.
13. Any activity involving significant altercation, damage or removal of way critical

⁶ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

⁷ Employees may only be taken if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

⁸ CITES: Convention on International Trade in Endangered Species or Wild Fauna and Flora.

⁹ Destruction means the (1) elimination or severe diminution of the integrity of a habitat caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the habitat's ability to maintain its role (see footnote 10) is lost.

¹⁰ Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species or as defined in any national legislation; areas having special significance for endemic or restricted-range species; sites that are critical for the survival of migratory species; areas supporting globally significant concentrations or numbers of individuals of congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes or provide key ecosystem services; and areas having biodiversity of significant social, economic or cultural importance to local communities. Primary Forest or forests of High Conservation Value shall be considered Critical Habitats.

¹¹ PCBs: Polychlorinated biphenyls, a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

¹² Ozone Depleting Substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in "holes in the ozone layer". The Montreal Protocol lists ODs and their target reduction and phase-out dates.

cultural heritage¹³

14. Production and distribution of racist, anti-democratic or with the intent to discriminate part of the population.

15. Exploitation of diamond mines, and commercialization of diamonds, when the host country has not adhered to the Kimberley¹⁴, or other similar international agreements (actual or to be formed), on similar extractive resources.

Any sector or service subject to United Nations, European Union and/or French embargo without limitation.

ANNEX B. Investment Process

The ESG process is integrated into the fund's standard deal process per the following key steps:

Product	Action
Initial Investment Summary ("IIS")	The deal team sends a copy of the IIS to Investment Committee and to ESG Manager. The IIS typically includes a brief environmental rationale for the investment (based on mutual discussions with the ESG-manager). The ESG Manager or to Investment Committee may further discuss with the deal team any additional potential ESG issues that should be reviewed as the investment moves forward.
Term Sheet	The Term Sheet includes general environmental and social expectations for the deal. At this stage, the ESG Team typically identifies a broad scope of work that will apply to the portfolio company as a precursor to the diligence process.
Due Diligence Plan and Budget	The deal team and ESG manager together will put up a due diligence plan along with an appropriate timeline and the necessary budgets for the same.

¹³ Consists of internationally and nationally recognised historical, social and/or cultural heritage.

¹⁴ The Kimberley Process Certification Scheme (KPCS), is a certification standard for diamond production that concerns governments; the diamonds are controlled at each stage of the production chain, from extraction through to retail of the finished product. The KPCS was created to prevent and stop conflict diamond trade. It is designed to certify the origin of diamonds from sources which are free of conflict fueled by diamond production. Member states adhere to adopt national laws on the issue, and to put in place the necessary export and import control mechanisms to implement the KPCS. More than 75 countries involved in the production, commercialization, and transformation of diamonds participate.

<p>Environmental & Social Due Diligence Scope of Work</p>	<p>For Environmental & Social Due Diligence The Fund propose the following list of actions:</p> <ul style="list-style-type: none"> • Legal due diligence includes also Environmental Due Diligence, which is carried out by the chosen independent contractor (law firm). • HR due diligence includes Social Due Diligence, which is carried out by Zubr HR department. • If the investment team, the investment committee or the ESG manager understand necessity of additional ESG Due Diligence for potential portfolio company, The Fund engages appropriate consultants. • When no independent environmental/social due diligence is required, this process will be internally undertaken by the Fund team (HR managers, ESG Manager, Investment team).
<p>Environmental Due Diligence Report</p>	<p>Based on the due diligence findings, the ESG Manager will further support in refining the Investment Team thought process on environmental and social risks in the Investment Memo, any need for an ESG Action Plan, and covenants/mitigants in the documentation.</p>
<p>ESG Action Plan</p>	<p>The ESG Manager will work together with the Company Management to design an ESG Action Plan to address any areas of ESG concerns within a reasonable period of time and allocate appropriate budgets.</p> <p>Include ESG findings to the Investment memo. Typically, investment memo consists of the following three elements concerning environmental and social issues.</p> <ul style="list-style-type: none"> • The resource efficiency rationale for the investment: the case that this investment will have a positive environmental and social impact. • Any identified environmental and social risks. • The proposed The Fund covenants to mitigate environmental and social risks for the portfolio company and a summary of ESG Action Plan to bring the company in compliance to the identified ESG risks

Annual reporting	<p>For each investment, the ESG Team will focus on:</p> <ul style="list-style-type: none"> • Compliance with ESG Action Plan; • Value creation on identified ESG aspects (eg. reduced carbon footprint, resource efficiency, creation of jobs and others); • Development impacts arising out of the investment. <p>The Fund will refer to relevant reporting templates of the LP's and will use that as a general format for reporting purpose.</p>
Immediate reporting	<p>The Investment Team immediately reports to the ESG Manager any incident involving Portfolio Companies that result in loss of life, material effect on the environment, or material breach of law, corporate governance and business integrity related breach along with corrective actions taken.</p>
Monitoring Mechanism	<p>The Fund intends to monitor all portfolio companies on a quarterly basis for the first year. From the second year onwards, the monitoring will take place biannually. The ESG team will make site visits to the companies, basis the risk perception of the investment and the operations of the Company. This will be purely undertaken at the discretion of the ESG team. However, apart from the above, THE Fund will seek quarterly updates on the ESAP and other relevant plans from the Company. For Categories A and B+, The Fund may consider at its discretion using an external consultant for an annual ESG performance audit.</p>