

POLICY ON MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASPECTS

1. BACKGROUND

It is Arpwood's (defined later) endeavour to be a good corporate citizen by investing responsibly and engaging with communities where Arpwood works and invests. 'Responsible Investing'¹ is a key guiding philosophy for Arpwood. Arpwood recognizes that Environmental, Social and Governance ("**ESG**") aspects are among the key influencers of the value of any company. Arpwood is thus committed to implementation of ESG policies within its own organization and also organizations that it partners with and invests in.

This Policy on Management of Environmental, Social and Governance Aspects ("**ESG Policy**") defines Arpwood's approach to ESG related issues within its own organization and the integration of ESG risks and value creation opportunities into the investments that it makes. It sets forth the guidelines for creating effective ESG management systems and adopting internationally recognised standards of best practice.

2. SCOPE AND APPLICABILITY

This ESG Policy applies to Arpwood Partners and each of its affiliated entities (collectively the entities are referred to as "**Arpwood**"). This ESG Policy also extends to the all Arpwood-contracted investment advisory/management entities and the portfolio companies of Arpwood. The ESG Policy sets down the guidelines for Arpwood personnel to effectively evaluate ESG aspects at the time of making investments and also to effectively monitor and improve the ESG aspects of potential portfolio companies. It also gives directions for each of the portfolio companies to ensure complete compliance with the ESG requirements of Arpwood. Employees of Arpwood are required to adhere to the policies and procedures set forth in this ESG Policy.

3. WHAT IS ESG?

The term 'ESG' is used to refer to Environmental, Social and Governance matters relevant to a company's strategy and operations. Each of the three elements of ESG are explained in a bit more detail below.

3.1 Environmental

Environmental matters look at how a company performs as a steward of the environment. Environmental factors / criteria for any company refer to the manner in which any company deals with the environment, waste management, effluents, emissions, pollution, use of energy and water, use of natural resources, hazardous materials, greenhouse gas emissions,

¹ Responsible Investing is an approach to investing that aims to incorporate environmental, social and governance factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

climate change, bio diversity, etc., including compliance with all local laws and or the 'International Finance Corporation ("IFC") Performance Standards on Environment and Social Sustainability'. This also covers environmental risks that might affect a company and how the company is managing those risks.

3.2 Social

Social matters examine how a company manages its business relationships - with employees, suppliers, customers and the communities where it operates. Social factors / criteria refer to compliance with labour laws, issues of labour and working conditions such as child labour, slavery, minimum wages, discrimination, diversity, etc.; and health and safety factors such as human rights, working conditions, safety record, employee relations, protective measures, training, product safety and liability, etc.

3.3 Governance

Governance factors comprise of business integrity matters such as transparency, corruption, bribery, money laundering, political lobbying and donations, etc.; and corporate governance matters such as board constitution, political connections, shareholder rights, internal controls, tax evasion, etc.

4. ESG INDUSTRY DEVELOPMENTS AND GUIDELINES

Driven by societal demands, fiduciary responsibilities, regulations and a better understanding of the potential materiality of issues, ESG consideration is now approaching mainstream. The focus on ESG considerations have developed alongside investors' growing appreciation of the impact that non-financial factors can have on value creation, long-term company performance, and the health of society at large.

Over the past decade, this rising level of awareness has been spurred on by several organizations and industry bodies that have developed guidelines on best practice. The United Nations supported Principles of Responsible Investment ("UNPRI"), drafted by an international network of investors, provides a framework for incorporating sustainability and ESG management best practices into investment decisions and ownership practices across asset classes. In coordination with the UNPRI, the Private Equity Growth Capital Council ("PEGCC") developed Guidelines for 'Responsible Investment' focusing on environmental, health, safety, labour, governance and social considerations specifically in the context of private equity investment.

In setting out the principles included in this ESG Policy, particular attention has been paid to the following guidelines and industry principles:

- IFC Performance Standards – IFC Performance Standards comprises IFC's Policy and Performance Standards on Environmental and Social Sustainability and describes IFC's commitments, roles, and responsibilities related to environmental and social sustainability. IFC's Performance Standards are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including

stakeholder engagement and disclosure obligations of the client in relation to project-level activities.

- UNPRI – A set of six principles that aim to help investors integrate consideration of ESG issues into investment decision-making and ownership practices. There are over 1,400 signatories to the UNPRI principles - asset owners, asset managers and service organizations.
- The UN Global Compact - The UN Global Compact supports companies to do business responsibly by aligning their strategies and operations with ‘Ten Principles’ on human rights, labour, environment and anti-corruption; and take strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals, with an emphasis on collaboration and innovation. The UN Global Compact has over 12,000 signatories (corporates and non-corporates) in 170 countries and offers a wide spectrum of best practices and resources.
- PEGCC – The PEGCC has adopted responsible investment guidelines to be applied to investing in companies and during their ownership period.
- Other industry guidelines – These include the IFC ESG Procedures Manual, CDC ESG Toolkit, ILPA governance principles, guidelines for increased transparency (e.g. BVCA Walker Guidelines) and various other initiatives at international and national PE/VC associations.

An overview of some of the above mentioned ESG guidelines are provided in **Appendix A**.

5. GUIDELINES FOR RESPONSIBLE INVESTING AT ARPWOOD

Arpwood has drawn-up a set of guidelines for ‘Responsible Investing’, adopted from the PEGCC and these draw a variety of existing internationally recognized norms and guide the decision-making process at Arpwood both within the organization and those relating to investments. The following are set of ‘Responsible Investing’ guidelines at Arpwood:

1. Remain committed to compliance with IFC Performance Standards, applicable national, state, and local labour laws in the countries in which Arpwood operates and/or invests in.
2. Commit to continuous improvement with respect to management of environment, social and governance matters.
3. Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership.
4. Seek to be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.
5. Seek to grow and improve the companies in which Arpwood invests for long-term sustainability and to benefit multiple stakeholders, including on environmental, social and governance issues.
6. Seek to use governance structures that provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest and to implement compensation and other policies that align the interests of owners and management.
7. Support payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformance with national and local laws; and apply relevant international best practice standards.

8. Maintain policies that prohibit bribery and other improper payments to public officials consistent with the US Foreign Corrupt Practices Act, 1977; UK Bribery Act, 2010; The Prevention of Corruption Act, 1988; similar laws in other countries, and the OECD Anti-Bribery Convention.
9. Respect the human rights of those affected by its investment activities and take steps to ensure that its investments do not flow to companies that utilize child or forced labour or maintain discriminatory policies.
10. Provide timely information to Arpwood's limited partners on the matters addressed herein, and work to foster transparency about the activities of Arpwood.
11. Encourage portfolio companies of Arpwood to advance these same principles in a way which is consistent with the fiduciary duties of Arpwood.

All employees are requested to follow these guidelines for 'Responsible Investing' at Arpwood without fail.

6. ESG POLICY OF ARPWOOD

Arpwood will follow a comprehensive ESG policy which will ensure that all its operations are in strict compliance with globally accepted best practices on ESG related matters. Arpwood reckons that ESG aspects are also important determinants to the value of any company, and hence has integrated ESG aspects into the various stages of its investment process. The following paragraphs describes the compliance with ESG related matters within Arpwood and also the manner in which ESG related aspects are integrated into the investment process at Arpwood.

6.1 Implementation of ESG within Arpwood

Arpwood is committed to adhering to the highest standards of ethical and legal conduct of its business operations. Arpwood shall ensure that its operations (including that of its Investment Manager and Investment Advisors), are in full compliance with all applicable local laws, and will be guided by the principles of 'Responsible Investing' in its functioning.

The primary responsibility of ensuring compliance with the ESG Policy at portfolio companies is that of the investment professionals. The investment team at Arpwood will be supported by a designated officer ("**ESG Officer**"). The ESG Officer will:

- ensure that various Arpwood entities are in compliance with this ESG Policy;
- employees are made aware of the 'Responsible Investing' guidelines of Arpwood from time to time and contribute to the integration of ESG factors into the broader investment process of Arpwood;
- ensure that employees at Arpwood are clear on the various ESG related checks to be followed at each stage of the investment process;
- ensure that all investment decisions are supported by due diligence of ESG related factors appropriate to the company and the industry and the same is documented in 'Investment Memo';
- be a part of the ESG due diligence team where the ESG diligence where potential portfolio company is categorized as having 'Medium-High' or 'High' risk;

- be subjected to training programs on a periodic basis and/or undergo training programs conducted by investors / limited partners from time to time;
- provide training on a need basis;
- track implementation of ESG related matters at various portfolio companies of Arpwood; and
- measure performance on periodic basis as listed in this Policy.

The ESG Officer shall be one of the principals or an investment professional and be notified to employees separately within 60 days of this ESG Policy coming into effect. This ESG Policy may be reviewed and amended by the ESG Officer from time to time. Doubts and questions about this ESG Policy, instances requiring clarification on any of the Arpwood guidelines on 'Responsible Investing', ESG related checks at various stages of the investment process and the processes to be followed, should be directed to the ESG Officer at esg@arpwood-partners.com.

6.1.1 Environmental Policy Considerations

Arpwood shall aim to:

- Avoid / minimize adverse impacts on human health and the environment;
- Inspire the efficient use of energy and natural resources in order to reduce the impact on the environment; and
- Promote the improvement of the environment wherever possible.

Arpwood shall consider these above mentioned factors in the build out of its office and related infrastructure and its day to day functioning.

6.1.2 Social Policy Considerations

Arpwood recognizes the impact that its operations will have on its stakeholders and is committed to ensure the following:

- Provide fair labour and working conditions;
- Ensure compliance with all applicable national, state and local labour laws;
- Respect human rights;
- Protect the health and safety of workers, surrounding communities, and consumers;
- Not employ or make use of forced labour and not employ or make use of child labour;
- Pay wages which meet or exceed industry or legal national minima;
- Ensure that all benefits that employees are eligible to are clearly communicated to them;
- Not discriminate in terms of recruitment, progression, terms and conditions of work and representation, on the basis of gender, race, colour, caste, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, marital status, membership of workers' organisations, legal migrants, or HIV status; and
- Make available a redressal mechanism for employees in respect of the above.

Where Arpwood uses employees on a contract basis, Arpwood shall ensure that it obtains appropriate certification from its contractors to the effect that contractor is in compliance with all applicable national, state and local labour laws, does not employ or make use of

forced labour and does not employ or make use of child labour; pay wages which meet or exceed industry or legal national minima; and that such contractor shall provide fair labour and working conditions to its employees.

To achieve the above mentioned objectives, Arpwood has implemented a set of policies which include a 'Sexual Harassment Policy', 'Code of Conduct', and a 'Whistleblower Policy'.

6.1.3 Governance Policy Considerations

At Arpwood, integrity, transparency and trust form part of the core beliefs of all activities. Arpwood also believes that its reputation and brand name is a valuable asset and critical to its success. Arpwood requires its personnel to observe high standards of business and personal ethics in the conduct of their duties and responsibilities, practice integrity in fulfilling their responsibilities and comply with all applicable laws and regulations.

Arpwood is guided by the following governance policy considerations:

- Adopt high standards of professional conduct, business integrity and excellence;
- Exhibit integrity, fairness and respect in all business dealings;
- Adopt and implement policies to prevent extortion, bribery, fraud, corruption and financial crime;
- Use information received from its business partners only in the best interests of the business relationship and not for personal financial gain;
- Properly record, report and review financial and tax information;
- Enhance the good reputation of the firm / company;
- Manage business affairs prudently and with due skill, care and diligence; and
- Deliver superior returns to investors and shareholders.

To ensure that Arpwood follows the highest standards of governance, it has put in place a number of policies and procedures which include:

- 'Policy on Compliance with Anti-Corruption and Anti-Bribery Laws';
- 'Code of Conduct';
- 'Whistleblower Policy';
- 'Sexual Harassment Policy';
- 'Anti-Money Laundering Policy';
- 'Code on Prevention of Insider Trading'.

The objectives of setting-put these policies in detail is to reduce ambiguity, lay down clear procedures and implement global governance best practices. Arpwood employees shall need to be familiar with these policies at all times. In case of doubt or queries in respect of the above mentioned policies, the employees can reach out to the relevant authority under each of the policies.

6.2 Integrating ESG Considerations into the Investment Process

Arpwood' approach to 'Responsible Investing' starts with assessing the ESG risks associated with its investments. By understanding and reducing risks, companies can become more resilient, enabling them to be better investments. Incorporation of ESG factors into the

investment process and at portfolio companies has many direct benefits - from financial benefits (such as reduced energy costs, employee turnover related-costs, and reduced worker's compensation costs) to social benefits (such as fewer safety incidents, increased job satisfaction and a more productive workforce) to an overall alignment of interests through better governance infrastructure.

It is important that the Arpwood investment team engages carefully with the potential investee company with regards to ESG factors to establish deeper trust and greater awareness. This can be done by starting conversations about ESG at the beginning of the investment process, being clear that ESG matters are central to the business process and describing how ESG improvements can result in improved efficiencies, better worker relations and productivity, better management and improved oversight.

Arpwood has thus integrated ESG factors into its investment process, wherein the various aspects of ESG are assessed and identified through the different stages of the investment process namely - (i) initial screening; (ii) due diligence; (iii) investment decision; (iv) legal documentation and definitive agreements; and (v) post investment monitoring & reporting. At every stage of the investment life-cycle the Arpwood deal team will check for relevant ESG requirements which need to be considered and met prior to moving on to the next stage. The following is a schematic representation of the various ESG related checks conducts at each stage of the investment process.

	Initial Screening	Due Diligence	Investment Decision	Legal Documentation / Definitive Agreements	Investment Monitoring	Reporting
Activities	- Identify businesses in Exclusion List - Media search & reference checks - Look for other negative factors - high level of political connections, dubious reputation of Founders, multiplicity of businesses, high level of government contracts / intervention, high levels of labour intensity etc. - Plan DD & allocate resources	- Reputation and background check on the Founders and key management team members - ESG factors in Accounting & financial due diligence - ESG factors in Legal due diligence - ESG due diligence using external consultant where applicable - Identify issues and develop Action Plan	- Reporting Findings to Board / designated authority along with Action Plan and feasibility / cost implications of Action Plan - Investment decision to be made considering ESG factors	- Negotiate ESG terms with the company - Incorporate appropriate clauses and undertaking in legal documentation / definitive agreements including implementation of Action Plan where needed - Formal undertaking on implementation of ESG policies / standards	- Adopt formal ESG policy and identify dedicated ESG officer - Periodic review of ESG policies, compliance & secretarial audit - Compliance certificate at Board meetings - Make Board accountable for ESG policies - Conduct site visits - Collect ESG info. on periodic basis - Manage unplanned events	- Annual ESG related reporting to investors / shareholders - ESG related incident reporting at portfolio companies - Other periodic reports on ESG
Output	- Identification of 'no-go' and key ESG issues - E&S categorisation (Subject to approval by the Board or any other designated Authority)	- Final E&S categorization - ESG Action Plan - Summary findings for Investment Memo - DD report findings	- Decision of designated authority mintued - Satisfactory completion of conditions precedent - Update designated authority in case of material changes post approval	Shareholder's agreement or equivalent that includes appropriate ESG clauses & clearly outlines how ESG matters will be handled during the life of the investment	- Appropriate influence and oversight - Record monitoring engagements including site visits, external review, etc.	- Annual ESG related reporting to investors / shareholders - ESG related incident reporting at portfolio companies - Non-routine event communication

6.2.1 Initial Screening of Investment Opportunities

Arpwood will focus on identifying key ESG risks at the initial screening stage itself. The primary activity at this stage will be to identify high level deal-breakers, by checking if the investment opportunity falls within the businesses / sectors listed in the Exclusion List. **Appendix B: Exclusion List** contains a list of activities, businesses and sectors into which Arpwood or its affiliate fund shall not make or consider an investment. Investment professionals at Arpwood are requested to strictly adhere to the Exclusion List and not consider or make any

investments in businesses / activities / sectors listed in the 'Exclusion List'. Further, investment professionals shall upon discovering that any part of the potential portfolio company is engaged in businesses / activities listed in the Exclusion List, (a) promptly notify the partner on the transaction; and (b) disengage immediately forthwith from the transaction.

During the initial deal screening process, Arpwood personnel shall conduct initial reference checks and screen (including a media search) for other factors listed below. **It is the responsibility of every investment professional at Arpwood on a transaction to make sure he or she screens for these initial factors and highlights any adverse findings during a deal discussion or where a note is put-up, highlight the same in the relevant deal notes.**

- nature of the industry and related risks;
- labour intensity;
- review of working conditions during factory / site visits;
- nature of liaison with government institutions;
- quantum of revenues from government contracts;
- political connections of the Founders / Sellers of the businesses;
- level of cash in the business operations, reputation of the Founders / Sellers in the market, etc.

Factors such as high level of political connections, dubious reputation of Founders / Sellers, high level of government contracts / government intervention, high levels of labour intensity are significant negative factors for Arpwood while evaluating a transaction. Depending on the nature of the issue, the feedback received during the initial screening and reference checks, and an internal deal discussion, the transaction is either dropped or moved to the next stage for further due diligence.

The deal discussion note on every potential investment shall contain a categorization of ESG related risk in the proposed investment. The investment opportunity shall be rated as 'Low', 'Medium' or 'High' based on the following criteria for categorization of the ESG related risk.

- **'Low Risk'** – The proposed investment can be categorized as 'Low Risk' where the business activities of the potential portfolio company have minimal or no adverse environmental or social risks ("**E&S Risks**") or impacts. In such cases, E&S Risks and impacts are generally limited to common issues such as occupational health and safety, labour standards and, in some cases, energy efficiency in office environments. In case a proposed investment is categorized as 'Low Risk', the usage of an external ESG consultant is not mandatory unless the investment team thinks otherwise.
- **'Medium Risk'** – The proposed investment can be categorized as 'Medium Risk' where the business activities result in limited adverse E&S Risks or impacts that are few in number, generally site specific, largely reversible, and readily addressed through well-known mitigation measures. The investment team may also grade the risk as 'Medium-Low' or 'Medium-High' depending on the severity of the impact. In case a proposed investment is categorized as 'Medium-Low Risk', the usage of an external ESG consultant is not mandatory unless the investment team thinks otherwise. However, in cases, where the proposed investment is categorized as 'Medium-High', the usage of an external ESG consultant is mandatory and the scope of the due diligence by the external ESG consultant shall be decided by the investment team.

- **‘High Risk’** – The proposed investment can be categorized as ‘High Risk’ where the business activities have significant adverse E&S Risks or impacts that are diverse, irreversible or unprecedented; impacts cannot be mitigated, or, if they can be mitigated but only at significant cost. For such investment opportunities classified as High Risk, Arpwood will conduct an Expert ESG DD (defined later) to clearly understand the implications of the E&S risks/impacts, possible mitigating factors and the costs involved. Arpwood will proceed with such proposed investments only if the Expert ESG DD can identify clear mitigating factors, which can be implemented with a satisfactory level of confidence.

Appendix C contains a clear description of the key factors to be considered in the risk categorisation along with examples and hints / tips. Investment professionals at Arpwood are requested to also clearly state the reason for categorizing each risk as ‘Low’, ‘Medium’ or ‘High’.

6.2.2 In-depth review of ESG factors during due diligence

Once a transaction passes the initial screening and Arpwood executes a non-binding term sheet, more resources shall be allocated to the deal to conduct a detailed due diligence on the opportunity. During this phase, the investment team and the investment advisory team shall carry out a detailed due diligence on the potential portfolio company. The due diligence exercise would depend on the nature, size and complexity of the transaction but would typically be comprised of the following set of diligence activities. Since Arpwood has integrated ESG related factors into its due diligence process, each of the following due diligence exercises shall cover a number of ESG related issues as part of the scope of the due diligence exercise:

- Reputation and background check on the Founders / Sellers and key management team members;
- Accounting and financial due diligence;
- Legal due diligence; and
- Due diligence of ESG related matters using a specialized external ESG consultant (“**Expert ESG DD**”), where applicable.

The various aspects of ESG related matters will be covered in each of the above mentioned due diligence exercises. The following paragraphs list out the ESG related matters that need to be covered by Arpwood employees during the due diligence exercise.

6.2.2.1 Reputation and Background Check

Arpwood attributes enormous importance to due diligence on the founder / seller and management of the potential portfolio company. The reputation, track record and integrity are *inter-alia* some of the important factors which are analysed by the investment team. For any given investment opportunity, a satisfactory diligence on the founders / sellers and management of the company is the single-most important investment criteria. Formal background checks on the founder / seller and the key management team will be done through reputed firms to get information about the past and unearth potential issues. This

will be done using reputed external resources based upon local and international public records, key in-country sources, global compliance databases, and shall cover the following:

- Background and current activities of potential portfolio company and related individuals;
- Reputation of potential portfolio company and related individuals;
- Character, integrity, and reputation of the key founders;
- International sanctions check (Blacklists, Politically Exposed Persons Lists, Sanctions, Terrorist Lists, etc.);
- Review of public registration records;
- Political connections/issues;
- Litigation and bankruptcy history; etc.

Arpwood employees are requested to refer to the 'Policy on Compliance with Anti-Corruption and Anti-Bribery Laws' for a detailed procedure to be followed by the Arpwood investment team in this regard during the investment process, including reporting of the findings and related documentation.

6.2.2.2 Accounting and Financial Due Diligence

Whilst an accounting and financial due diligence typically covers the financial aspects of any portfolio company, the scope of the diligence exercise shall cover the following ESG related matters.

- Review and comment on book keeping processes and cost capture;
- Review and comment on the internal controls, and specifically test large cash transactions;
- Comment on adherence and compliance with labour laws and retirement related compliance – employee provident fund, employee state insurance, minimum wages, superannuation, gratuity, leave encashment, etc.; and
- Withholding tax and other direct and indirect tax compliance and exposure on account thereof.

The said due diligence exercise shall be carried out by an external audit firm and typically a big four accounting firm. The findings of the due diligence exercise form an important input in the investment decision process and shall be specifically captured in the 'Investment Memo'.

6.2.2.3 Legal Due Diligence

The legal due diligence would be carried out by a reputed legal firm (in India and where applicable even outside of India). The scope of the legal due diligence shall part from a review of legal matters *inter-alia* include the following ESG related matters:

- Review and comment on the various licences to be obtained and compliance by the potential portfolio company against such licences;
- Review specific compliance with applicable labour laws, including compliance with minimum wages;
- Secretarial audit to review compliance and identify remedial measures from a secretarial and corporate law perspective; and

- Devise a due diligence questionnaire to assess operations and anti-corruption internal controls, get on a call or meet with the management team and go over the questionnaire. Arpwood employees are requested to refer to the 'Policy on Compliance with Anti-Corruption and Anti-Bribery Laws' for a detailed procedure to be followed in the said assessment process and the reporting of the findings from the said assessment.

Again as in the case of a financial due diligence, findings of the legal due diligence exercise form an important input in the investment decision process and shall be specifically captured in the 'Investment Memo'.

6.2.2.4 Expert ESG DD

In cases where the categorization of risk by the investment team is 'Medium-High' or 'High', the Arpwood investment team shall ensure that an ESG DD is mandatorily carried out with the help of an external ESG consultant (defined as Expert ESG DD earlier). However, depending on inputs / views of the Arpwood investment team, the Expert ESG DD may also be extended to potential investments where the risk categorization is 'Low' or 'Medium-Low'. **Appendix D** contains an indicative scope / areas of focus of an Expert ESG DD and the terms of reference ("ToR") to the external ESG consultant for the Expert ESG DD. The Arpwood investment team shall work closely with the external ESG consultant to determine the scope of the due diligence exercise and such an exercise shall encompass those listed in the IFC Performance Standards. The scope and the ToR is only representative and shall be modified to suit the requirement of each investment opportunity, industry / sector, geographical region, and business model of the target company.

Reporting Findings

Upon completion of the above mentioned processes, the deal team shall prepare a report summarizing the work performed, narrative of the findings, ESG related issues and an assessment of the risks arising therefrom. A format of the said report is attached as **Appendix E**. This report shall also be accompanied by a questionnaire prepared by the deal team on the evaluation of the ESG systems at the potential portfolio company. A template of questionnaire to be filled in by the deal team is attached as **Appendix F**.

Where any of the above mentioned due diligence exercises uncovers inadequate standards, systems and/or processes for a potential portfolio company, Arpwood and the management of the potential portfolio company (assisted by industry experts as appropriate), will identify appropriate mitigating measures. The deal team will formulate an action plan detailing the areas of ESG concern ("**Action Plan**") with the IFC Performance Standard, action item, the order of priority, time-frame, proposed responsibilities and costs involved. A format of the Action Plan report is provided in **Appendix G**.

During this phase, it is important for the Arpwood investment team to emphasise to the potential portfolio company that the goal is to integrate ESG management into existing business practices. The Arpwood investment team may also need to work with financial controllers to quantify how addressing ESG risks and impacts can positively influence financial performance.

Arpwood will seek the specific buy-in of the management team at the potential portfolio company to this Action Plan.

All the above mentioned reports shall accompany the 'Investment Memo' on the transaction.

6.2.4 Investment Decision

Upon completion of the due diligence, the Arpwood deal team shall submit a report to the Board of Arpwood (or such other authority as may be designated from time to time to approve an investment) in connection with the proposed investment. The report shall contain an overview of the business of the company, market analysis, the growth prospects, financial projections, key investment highlights, key risks, review of the issues identified during due diligence, exit scenarios and any additional conditions to be fulfilled (should the KMPs decide to approve the transaction).

The said report shall be accompanied by **Appendix E**, **Appendix F** and **Appendix G** discussed above and such other documents and information as may be stipulated by Arpwood in its various policies and procedures. Arpwood employees are also requested to refer to the 'Policy on Compliance with Anti-Corruption and Anti-Bribery Laws' for templates of information and documentation that needs to accompany the 'Investment Memo'. Along with the traditional financial and business performance aspects of the opportunity, the Board will consider the ESG aspects, the Action Plan, and the feasibility/cost implications of the Action Plan before taking a final decision on the investment opportunity.

6.2.5 Legal Documentation and Definitive Agreements

The Arpwood deal team shall take care that appropriate clauses are included in legal documentation and definitive agreements (shareholder's agreement, share subscription agreement, etc.) to ensure that each portfolio company is fully committed to incorporating good ESG practices into its business activities. Key elements of the Action Plan shall also be captured in the definitive agreements. Specifically, these shall cover the following:

- Representation and warranties on compliance with applicable laws and regulations;
- Formal written undertaking from portfolio companies that they shall implement and adhere to a set of ESG standards that are in line with the 'Responsible Investing' guidelines of Arpwood (including ESG international standards such as IFC Performance Standards and World Bank EHS Guidelines). A format of the said undertaking is provided in **Appendix H**;
- Representation that the company shall adhere to and implement the Action Plan in a time bound manner; and
- Anti-corruption and anti-bribery representations and warranties, and obligations on issuance of a compliance certificate. Arpwood employees are also requested to refer to the 'Policy on Compliance with Anti-Corruption and Anti-Bribery Laws' for templates of clauses that need to form part of the definitive agreements.

6.2.6 Post Investment Monitoring and ESG Related Reporting

Once any investment is made, Arpwood will focus on monitoring the portfolio company closely on ESG aspects during the holding period so that the principles of ‘Responsible Investing’ are upheld and the value of the portfolio company is maximised at the time of Arpwood’ exit. Active monitoring is key to reducing risks and realising opportunities to add value to investments through continuous improvements.

6.2.6.1 Post Investment Monitoring

During the investment period, the Arpwood deal team shall:

- Work with portfolio companies to set-up an ESG programme, which could include drafting a policy and setting-up processes to manage ESG activities;
- Depending on the size of the portfolio company, advise management to engage external technical consultants to achieve operational ESG improvements;
- Integrate ESG related issues and the Action Plan into the business plan of the portfolio company and formulate a roadmap with a three to five-year horizon which identifies clear key performance indicators, milestones and targets, including possible certification schemes on ESG related matters;
- Prioritise the relevant ESG issues and focus on the most important issues in the short or medium term;
- Ensure that the portfolio company implements a robust anti-corruption and anti-bribery policy;
- Make the portfolio company’s Board of Directors accountable for ESG initiatives;
- Check the portfolio company’s on-going compliance with applicable laws and regulations by undertaking periodic secretarial and compliance audit;
- Conduct periodic site visits. Site visits at least every 6 months can help the Arpwood team to verify the portfolio company’s reported information and reveal the full extent of the portfolio company’s ESG activities;
- Monitor and record serious incidents involving portfolio companies that result in loss of life, serious injury, material effect on the environment or material breach of law, and promote appropriate corrective actions; and
- Collect information on ESG developments from portfolio companies and seek periodic reporting of ESG matters from the portfolio company.

6.2.6.2 ESG Related Reporting

Arpwood will report annually to its shareholders on ESG related matters. This report will present information regarding ESG aspects in an understandable and meaningful way, and will be representative and comprehensive for Arpwood’ portfolio companies. A sample format of the annual report is provided in **Appendix I**.

Apart from the above mentioned regular reporting, Arpwood will also immediately report to its investors / shareholders any serious incidents involving portfolio companies that result in loss of life, material effect on the environment, or material breach of law. Such ad-hoc reports will be in the format provided in **Appendix J**.

7. REPORTING OF VIOLATIONS

Arpwood encourages all its employees including those of its Investment Manager to raise violations of the ESG policy at Arpwood, its investment manager, or in any of its portfolio companies, by writing to the Whistleblower committee at whistleblower@arpwood-partners.com.

8. AMENDMENTS TO THE ESG POLICY

Arpwood reckons ESG factors as important determinants of a company's value, and will enforce this ESG policy in in line with the 'Responsible Investing' guidelines of Arpwood. Arpwood will also review its ESG policy periodically, and modify it as required needed.

The policies and procedures set forth in this ESG Policy are supplementary to other policies and procedures set forth by Arpwood including the Whistleblower Policy, Policy for Prevention of Sexual Harassment, Policy on Compliance with Anti-Corruption and Anti-Bribery Laws, Anti-Money Laundering Policy, Code of Conduct for Prevention of Insider Trading, Books and Records Policy, and such other policies that Arpwood may implement from time to time.

ESG INDUSTRY GUIDELINES AND DEVELOPMENTS – AN OVERVIEW**IFC Performance Standards**

IFC's Sustainability Framework articulates IFC's strategic commitment to sustainable development, and is an integral part of IFC's approach to risk management. The Sustainability Framework comprises IFC's Policy and Performance Standards on Environmental and Social Sustainability, and IFC's Access to Information Policy. The Policy on Environmental and Social Sustainability describes IFC's commitments, roles, and responsibilities related to environmental and social sustainability. IFC's Access to Information Policy reflects IFC's commitment to transparency and good governance on its operations, and outlines IFC's institutional disclosure obligations regarding its investment and advisory services. The Performance Standards are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities. IFC uses the Sustainability Framework along with other strategies, policies, and initiatives to direct the business activities of the Corporation in order to achieve its overall development objectives.

There are altogether eight Performance Standards established by IFC which are as follows:

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts;
- Performance Standard 2: Labour 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 People; and
- Performance Standard 8: Cultural Heritage.

The World Bank Group Environmental, Health and Safety Guidelines ("**EHS Guidelines**") are technical reference documents with general and industry-specific examples of good international industry practice. The EHS Guidelines contain the performance levels and measures that are normally acceptable to IFC, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology. The General EHS Guideline contains information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. It should be used together with the relevant industry sector guideline(s).

UNPRI

The United Nations-supported Principles for Responsible Investment initiative ("**UNPRI**") is an international network of investors working together to put the six principles for 'Responsible Investment' into practice. Its goal is to understand the implications of sustainability for

investors and support signatories to incorporate these issues into their investment decision making and ownership practices. The principles are voluntary and aspirational. They offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes. 'Responsible Investment' is a process that must be tailored to fit each organization's investment strategy, approach and resources. The principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.

The six principles of 'Responsible Investing' by the UNPRI are:

1. Incorporate ESG issues into investment analysis and decision-making processes;
2. Be active owners and incorporate ESG issues into ownership policies and practices;
3. Seek appropriate disclosure on ESG issues by the entities in which one invests;
4. Promote acceptance and implementation of the principles within the investment industry;
5. Work together to enhance effectiveness in implementing the principles; and
6. Report on activities and progress toward implementing the principles.

UN Global Compact

The UN Global Compact supports companies to do business responsibly by aligning their strategies and operations with 'Ten Principles' on human rights, labour, environment and anti-corruption; and take strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals, with an emphasis on collaboration and innovation.

The following are the ten principles of the UN Global Compact:

- Human rights
 1. Businesses should support and respect the protection of internationally proclaimed human rights; and
 2. Make sure that they are not complicit in human rights abuses.
- Labour standards
 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
 4. Elimination of all forms of forced and compulsory labour;
 5. Effective abolition of child labour; and
 6. Elimination of discrimination in respect of employment and occupation.
- Environment
 7. Businesses should support a precautionary approach to environmental challenges;
 8. Undertake initiatives to promote greater environmental responsibility; and
 9. Encourage the development and diffusion of environmentally friendly technologies.
- Anti-Corruption
 10. Businesses should work against corruption in all its forms, including extortion and bribery.

PEGCC

The PEGCC members have adopted a set of comprehensive responsible investment guidelines that they will apply prior to investing in companies and during their period of ownership. The guidelines cover environmental, health, safety, labour, governance and social issues. The guidelines grew out of a dialogue between PEGCC members and a group of the world's major institutional investors, which took place under the umbrella of the UNPRI.

Other Industry Guidelines

Guidance on implementation and monitoring ESG is emerging with a range of organizations, including funds, consultancies, multi-lateral agencies and public institutions working to develop metrics and guidelines. The International Finance Corporation in the United States, CDC in the United Kingdom, ADB in Asia have produced tools and guidelines for ESG management which often serve as important tools and reference points for investors and fund managers looking to implement a robust ESG policy.

EXCLUSION LIST

The Exclusion list identifies sectors, businesses or activities that Arpwood will not invest in since they are judged to be inherently unsustainable and / or not in line with the ethical vision of Arpwood and investors in Arpwood.

The following businesses, sectors or activities form part of the Exclusion List for Arpwood:

- 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:
 - chemicals, pesticides and wastes which are hazardous to life/environment,
 - 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.
- production of or trade in arms, (i.e., weapons, munitions or nuclear products, primarily designed or primarily designated for military purposes);
- production of, use of or trade in un-bonded asbestos fibres;
- production of, or trade in, radioactive materials; and
- prostitution.

Any business, if any of the following activities represents a substantial portion of such business (“substantial portion” for companies means more than 10% of their consolidated balance sheets or earnings, and for financial institutions it means more than 10% of their underlying portfolio volumes):

- pornography; and
- tobacco or tobacco related products.

E&S Inherent Risks / Impacts categorisation

<u>Risk Category</u>	<u>Hints & Tips</u>	<u>Examples</u>
<u>Low</u> Business activities with minimal or no adverse E&S risks or impacts. E&S risks and impacts are generally limited to common issues such as occupational health and safety, labour standards, and, in some cases, energy efficiency in office environments.	Basic E&S DD will still be done. Arpwood will carry out basic checks (e.g. labour rights, occupational health and safety) during DD, monitoring and ownership in order to verify the adequacy of the company's E&S management practices and to ensure that the E&S risks and impacts have not significantly changed over time.	• Office based businesses. • Professional services (e.g. law firms, management consultants, accountants). • Small educational facilities. • Where certain service activities have significant indirect impacts, the indirect impacts will be taken into account in the overall risk rating.
<u>Medium</u> Business activities with the potential for limited adverse E&S risks or impacts that are few in number, generally site specific, largely reversible, and readily addressed through well-known mitigation measures.	This category will be further divided into Medium-Low and Medium-High, on the basis of the scale and diversity of the risks and impacts identified. In the case of Medium-High risk transactions, Arpwood shall appoint external specialists to assist with the DD.	<i>Infrastructure</i> • Smaller-scale dams, reservoirs, forestry and agriculture. • Smaller infrastructure or industrial developments (e.g. light industrial parks). • Moderate construction (usually renovation or expansion within an existing business footprint). • Small to medium-scale upgrades to existing infrastructure. • Telecommunications. <i>Tourism and hospitality</i> • Hospitals and medical facilities of small to medium scale. • Smaller-scale power facilities (refer to High-risk threshold). • Medium-scale, road-based logistics companies for non-hazardous cargo. <i>Manufacturing</i> • Food and beverage processing. • Manufacturing of fast-moving consumer goods (FMCG). • Injection moulding. • Textiles. • Automobile components (small scale)

<u>Risk Category</u>	<u>Hints & Tips</u>	<u>Examples</u>
High Business activities with significant adverse E&S risks/impacts that are diverse, irreversible or unprecedented. Impacts cannot be mitigated, or, if they can be mitigated but only at significant cost. Businesses that trigger extensive application of IFC Performance Standards	These investment opportunities are not necessarily ‘no-go’ deals. Arpwood will evaluate the E&S risks and impacts in further detail, typically with the help of external consultants. Arpwood will proceed with the transaction only after getting convinced that the E&S risks and impacts identified can be mitigated through realistic tools and means. Irrespective of the sector, investments in this category would typically include some or all of the following: • Major labour and working conditions and/or pollution prevention concerns (e.g. child labour risks or major air emissions). • Significant, potential adverse impacts on the health, safety, security and/or livelihood of local communities (e.g. resettlement). • Significant, potential adverse impacts on biodiversity and ecosystem services (e.g. significant impacts on critical habitats). • Significant, potential adverse impacts on indigenous peoples and/or cultural heritage.	<i>Infrastructure</i> • Railways, ports, harbours and terminals, airports, toll roads and long-distance pipelines. • Large dams, new or existing thermal or run-of-the-river power plants (>50MW) and wind parks (>100 MW). • Waste management/waste treatment facilities. <i>Oil & gas</i> • Offshore/onshore oil and gas development. • Liquefied natural gas (LNG) facilities. • Large-scale primary production (plants/animals). • Forestry and plantations. • Agriculture and aquaculture. <i>Heavy manufacturing/chemicals</i> • Cement and lime and glass manufacturing. • Foundries, steel mills and base metal smelting and refining. • Pulp and paper mills. • Coal, natural gas and oleo chemicals processing. • Pesticides and nitrogenous and phosphate-based fertiliser production. • Petroleum refining and large-volume, petroleum-based polymers and/or organic chemicals manufacturing. • Large-volume, inorganic compounds manufacturing. • Textiles (large scale). <i>Mining</i> • Mining, both open-pit and underground. Brownfield expansions may be considered as Medium risk in some circumstances.

INDICATIVE SCOPE OF EXPERT ESG DD

The following is an indicative scope of the Expert ESG DD. The scope for the said due diligence exercise shall be tailored for each transaction based on the risk categorisation, industry / sector, geographical region, and business model of the target company, and shall encompass those areas of due diligence covered in the IFC Performance Standards.

<u>Environmental factors</u>	<u>Social factors</u>
• Pollution control regulatory approvals	• Labour and working conditions, including vulnerable labour
• Water and air pollution related matters including emission	• Compliance with minimum wages and retirement benefits
• Energy use and use of natural resources	• Discrimination, representation and unions
• Sewage treatment plant and compliance with effluent discharge norms and applicable regulations	• Types and level of health and safety risks; protective measures, procedures and equipment, safety record, training, etc.
• Water and natural resources use	• Corporate use of security force
• Other environmental areas – land clearance, forests or habitats, biodiversity loss, climate change, etc.	• Other social factors – relocation and resettlement, retrenchment, sensitive cultural heritage issues, community consultation, impact on local communities, risk of adverse impact for indigenous people, etc.

The governance related matters are not covered in the scope as most of the governance related due diligence areas are mandatory and will be covered as part of the background check, accounting & financial, and legal due diligence.

ToR for the external ESG consultant

The ToR for external ESG consultants will be tailored based on the risk categorisation of the transaction, and other factors such as geography, sector etc. While finalising the ToR for external ESG consultants, Arpwood shall include the following points.

Context:

- Background information and set the context for the due diligence exercise that Arpwood intends to commission;
- An introductory passage about Arpwood, its ESG policy and strategic focal areas; and
- Introduction to the portfolio company or facilities to be investigated.

Nature and purpose of the study:

- The nature and purpose of the study required is specified, stating the purpose of the study and what the information provided would be used for (e.g. to determine compliance, to investigate opportunities to add value, to assess possible liabilities prior to acquisition, or to identify strengths and weaknesses in the Environmental and Social Management Systems (“ESMS”));
- The audience for whom the information/study is designed;
- Provide enough information to allow the proposed ESG consultant to plan man-hours of appropriate team members with relevant expertise and costings for travel and other inputs. Overviews of existing or likely ESG risks and impacts are important;
- Introduce the applicable requirements against which the study should be undertaken. Specify that the IFC Performance Standards and ILO conventions are the benchmark for the due diligence exercise; and
- Include a minimum list of documents to be reviewed.

Timing and scope:

- Provide clear guidance on the timing of the investigation and other project milestones. Indicate when the study is likely to be commissioned and when the final report and presentation should be given;
- Give clear guidelines as to the minimum number of sites to be visited, along with clear instructions as to which sites are essential. Alert the company to imminent site visits.
- Ensure the consultant is fully briefed on any expected future growth plans for the company, especially where this involves new sites, as this will impact on the management systems that will need to be in place.

Expected outputs:

- Include a list of headings or draft contents page for the final report;
- Ask for separate recommendations for what the company should do and recommendations for what Arpwood could do to support the company;
- Indicate the maximum length of the final report; and
- Indicate that a final presentation and discussion of findings will also be required.

ESG DD SUMMARY REPORT

Project [XYZ] – ESG DD Summary

- Summary of findings
 - Legal DD conducted by [ABCD] law firm.
 - *Findings of the legal DD report on ESG related matters*
 - [ABCD] conducted background / reputational review.
 - *Findings of the background check / reputation review*
 - Accounting and financial due diligence conducted by [ABCD]
 - *Findings of the accounting & financial DD report on ESG related matters*
 - Specialist ESG DD conducted by [ABCD], where applicable

Template language

The [ABCD due diligence] did not identify any specific ESG related risk “red flags”. *[ABCD due diligence and management interviews identified potential red flags”. The issues and suggested remedial action points are detailed below].*

Particulars	Issue	Assessment of risk	Suggested remedial measures	Remarks
Environmental	Xxx			
Social	Yyy			
Governance	Zzz			

ASSESSMENT OF THE TARGET COMPANY'S ESG MANAGEMENT SYSTEM
(TO BE COMPLETED BY DEAL TEAM)

Name of target Company:		Industry:	
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AREA OF ASSESSMENT	YES	NO	REMARKS
<u>Policy and processes</u>			
Are there formal policies and systems to manage ESG?			
Does the company pro-actively identify opportunities for ESG improvements?			
Does the company provide an appropriate risk assessment for its operations which can be used as a basis for on-going monitoring?			
Are formal action plans drawn up to address ESG issues?			
Are there defined processes in place to manage / monitor ESG matters and the implementation of the Action Plans?			
<u>Roles and Responsibilities</u>			
Does the company have an allocated ESG professional on staff?			
Has ESG responsibility been established at all levels up to the company's board?			
Are specialist consultants / external technical experts used to assess and monitor ESG issues (particularly for high risk companies)? If so, when and who?			
Does the company organise training for its staff on ESG?			
<u>ESG performance management</u>			
Are there key performance indicators in place to measure and track ESG performance?			
Does the company have a good safety record? Have there been accidents? Were issues subsequently addressed?			
Is there an established procedure to follow up any serious incidents to prevent their reoccurrence?			

<u>Reporting</u>			
Are there defined lines of communication in place to report ESG issues to the company's management and board?			
Is ESG performance reported on to investors at least annually?			
<u>Stakeholder management</u>			
Does the company have a good relationship with the local community?			
Does the company have good labour relations (e.g. have there been strikes)?			

ACTION PLAN

[Reference standard]	Actions <i>(examples)</i>	[Priority Low, Medium, High]	Responsibility	Deadline	Completion indicator	[Cost]
IFC Performance Standard 3	<i>Develop and implement emissions control plan for the concrete batch plant (air and water),</i>	<i>Medium</i>	<i>Head of (Environmental, Health and Safety) EHS unit</i>	<i>Prior to plant operations. Maintain throughout operation of the plant.</i>	<i>Emissions control plan</i>	<i>[XXX]</i>
[STANDARD]	[ACTION 2]					
[STANDARD]	[ACTION 3]					
[STANDARD]	[ACTION 4]					

PORTFOLIO COMPANY INVESTMENT UNDERTAKING

(on the letterhead of the portfolio company)

Date

Arpwood entity

Address

Dear Sirs,

Re: Environmental, Social and Governance (“ESG”) compliance undertaking

We refer to the _____ agreement [*name of agreement*] between _____ [*name of the party*] and _____ [*name of the party*] dated _____ [*date*] wherein _____ [*name of the Arpwood entity*] has agreed to subscribe to _____ [*name of security*] in _____ [*name of the company*].

We acknowledge that a condition precedent to your obligation to complete and fund your subscription to shares is that we deliver to you a signed undertaking regarding compliance with the set of ESG standards annexed to this letter. Therefore, by this letter we undertake at all times until Arpwood ceases to be a shareholder of _____ [*name of the company*], _____ [*name of the company*] shall operate its business in accordance with a set of ESG guidelines and standards attached (**Annexure H-1**) which are in line with the ‘Responsible Investing’ guidelines of Arpwood (**Annexure H-2**).

We further agree that you may send a copy of this undertaking to your shareholders.

Yours sincerely,

_____ [*name of portfolio company*]

By: _____

Name: _____

Title: _____

ESG STANDARDS

_____ [name of company] (including its subsidiaries, joint ventures and any company under the common control of _____ [name of company]) hereby undertakes to implement and comply with the following set of ESG standards in the conduct of its business.

A. General

1. Comply with applicable national, state, and local labour laws in the countries in which _____ [name of company] operates in;
2. Operate in compliance with relevant international sanctions, including those of the European Union and the United Nations (“International Sanctions”)²;
3. implement management systems, appropriate to the size and nature of the business, that ensure a systematic approach to ESG risk assessment, addressing relevant risks, monitoring and reporting on progress and, to the extent possible, involving stakeholders³
4. Achieve continuous improvement with respect to management of ESG related matters.
5. Agree not to commit capital to or invest capital in any of the following business activities:
 - 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 wastes⁴,
 - ozone depleting substances⁵;
 - endangered or protected wildlife or wildlife products⁶; 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;
 - production of or trade in arms, (i.e., weapons, munitions or nuclear products, primarily designed or primarily designated for military purposes);
 - production of, use of or trade in un-bonded asbestos fibres;
 - production of, or trade in, radioactive materials⁷; and
 - prostitution.

² Refer http://www.hm-treasury.gov.uk/fin_sanctions_index.htm for a full list

³ Refer IFC PS1 for guidance

⁴ As specified in the 2004 Stockholm Convention on Persistent Organic Pollutants (“POPs”), refer www.pops.int; the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, refer www.pic.int; the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int and WHO Recommended Classification of Pesticides by Hazard Class 1a (extremely hazardous); or 1b (highly hazardous) http://www.who.int/ipcs/publications/pesticides_hazard/en/; as may be amended from time to time.

⁵ As specified in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, refer www.ozone.unep.org, as may be amended from time to time

⁶ As specified in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna (“CITES”), refer www.cites.org, as may be amended from time to time

⁷ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment in which the radioactive source could reasonably be considered to be trivial or adequately shielded.

6. Agree not to commit capital to or invest capital in in any business, if any of the following activities represents a substantial portion of such business⁸ :
 - gambling, gaming casinos or equivalent businesses;
 - pornography; and
 - tobacco or tobacco related products⁹.
7. Inform Arpwood about incidents that result in loss of life, material effect on the environment, or material breach of law, and any corrective actions taken.

B. Environment matters

1. Minimise adverse impact and consider the potential for positive environmental impacts from business activities.
2. Achieve efficient use of natural resources, protection of the environment wherever possible and support the reduction of greenhouse gas emissions that contribute to climate change.
3. Identify potential risks and appropriate mitigating measures through an environmental impact assessment where business operations could involve loss of bio-diversity or habitat, emission of significant quantities of greenhouse gases, severe degradation of water or air quality, substantial solid waste or other significant negative environmental impacts.

C. Social matters

1. Ensure compliance with all applicable national, state and local labour laws including IFC Performance Standards.
2. Prohibit the employment or make use of forced labour¹⁰ of any kind.
3. Prohibit the employment or make use of child labour¹¹.
4. Pay wages which meet or exceed industry or legal national minima¹².
5. Provide safe and healthy working conditions for employees and contractors of the company, working hours that are not excessive and clearly documented terms of employment¹³, and in situations where workers are employed in remote locations for extended periods of time to ensure that such workers have access to adequate housing and basic services.
6. Ensure that all benefits that employees are eligible to are clearly communicated to them.

⁸ For companies, “substantial” means more than 10 % of their consolidated balance sheets or earnings. For financial institutions, “substantial” means more than 10% of their underlying portfolio volumes.

⁹ Except, in the case of tobacco production only, with an appropriate timeframe for phase out.

¹⁰ As covered by the ILO Forced Labour Convention (No. 29) and the Abolition of Forced Labour Convention (No. 105). See www.ilo.org/ilolex/english/docs/declworld.htm.

¹¹ As defined by the ILO Minimum Age Convention (No. 138) and the Worst Forms of Child Labour Convention (No. 182). Refer www.ilo.org/ilolex/english/docs/declworld.htm.

¹² Refer <http://www.ilo.org/dyn/travail/travmain.home> for guidance.

¹³ Respecting any collective bargaining agreements that are in place or where these do not exist or do not address working conditions, make reference to conditions established, by collective agreement or otherwise, for work in the trade or industry concerned in the area / region where the work is carried out and local or national law. Refer <http://www.ilo.org/dyn/travail/travmain.home> and IFC Performance Standard 2 for guidance. For working hours, refer also the ILO Hours of Work (Industry) Convention (No.1) http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:C001

7. Treat employees fairly in terms of recruitment, progression, terms and conditions of work and representation, irrespective of gender, race, colour, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status¹⁴.
8. Implement compensation and other policies that align the interests of owners and management.
9. Assess the health and safety risks arising from the business activities including potential adverse effects and mitigating measures through a social impact assessment in cases involving resettlement, critical cultural heritage, indigenous peoples, and non-local labour.
10. Implement a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the reporter.
11. Provide an appropriate grievance mechanism that is available to all workers and where appropriate other stakeholders¹⁵.

_____ [name of the company] shall also ensure that items 1 to 5 (of Social matters) above also implemented by contractors of _____ [name of the company] and appropriate certifications shall be obtained in respect hereof.

D. Governance matters

1. Uphold high standards of integrity and honesty;
2. Exhibit fairness, diligence and respect in all business dealings.
3. Implement strong employee code of conduct, ethics policies, anti-corruption and anti-bribery policies to prevent bribery (covering US Foreign Corrupt Practices Act, 1977; UK Bribery Act, 2010; The Prevention of Corruption Act, 1988; similar laws in other countries, and the OECD Anti-Bribery Convention), prohibit contributions to political parties or political candidates, and prohibit employees from making or receiving gifts of substance in the course of business.
4. Implement a mechanism to determine that none of the portfolio companies deal with anyone listed on the US Treasury Department Office of Foreign Assets Controls Specially Designated Nationals and Blocked Persons and Foreign Sanctions Evaders List.
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.
8. Properly record, report and review financial and tax information.
9. Deal with regulators in an open and co-operative manner
10. Use effective systems of internal control and risk management covering all significant issues, including environmental, social and ethical issues.

¹⁴ As covered by the ILO Equal Remuneration Convention (No. 100) and the ILO Discrimination (Employment and Occupation) Convention (No. 111), allowance could be made where positive discrimination is mandated in law and is intended to address a historical imbalance. Refer www.ilo.org/ilolex/english/docs/declworld.htm.

¹⁵ Refer IFC Performance Standard 2 and the "Effectiveness Criteria for Non-Judicial Grievance Mechanisms" within the UN Guiding Principles on Human Rights http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf for guidance

E. Additional guidelines for specific activities

If the activities of the company involve or could be reasonably expected to involve:

- significant air emissions (including of Green House Gases – GHGs), use of water or generation of liquid effluents, generation of hazardous or other solid wastes; or resource use inefficiencies;
- transactions that generate adverse community health and safety impacts;
- the acquisition and/or use of land that result in economic or physical displacement;
- significant negative impacts on biodiversity, habitats or ecosystem services¹⁶;
- impacts to indigenous peoples (or other marginalised and vulnerable groups);
- impacts cultural heritage; or
- other significant negative environmental or social impacts;

then such company shall ensure that it (i) implements the relevant IFC Performance Standards, (ii) an appropriate stakeholder engagement plan is developed¹⁷, and (iii) an environmental and social impact assessment and/or issue specific action plan (e.g. a resettlement action plan)¹⁸ is developed for such activities.

If the activities of a company could reasonably be expected to involve:

- significant risks to the health and safety of workers or to other stakeholders, including affected communities, assess and mitigate those risks, for example through a Health and Safety audit and action plan, in line with the relevant IFC's Performance Standards and World Bank EHS Guidelines;
- microfinance, then endorse and apply the SMART Campaign Client Protection Principles¹⁹;
- coal-fired power, ensure the use of coal is justified by the investment's development impact²⁰; and
- significant emissions of greenhouse gases, ensure that adequate measures to reduce emissions to the extent possible and mitigate adverse climate impacts are implemented and that the company reports on its emissions.

¹⁶ As defined in IFC PS 6, paragraph 2. These include but are not restricted to (a) provisioning services such as food or timber; (b) regulating services such as water flow regulation; (c) cultural services such as sacred sites; and (d) supporting services such as soil formation.

¹⁷ Refer IFC Performance Standard 1 for guidance.

¹⁸ The audit should be carried out in line with the appropriate IFC PS, any relevant World Bank Group EHS Guidelines (<http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>) and the requirements in this section.

¹⁹ <http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>

²⁰ Refer CDC's Policy on Coal Power.

ARPWOOD 'RESPONSIBLE INVESTING' GUIDELINES

1. Remain committed to compliance with IFC Performance Standards, applicable national, state, and local labour laws in the countries in which Arpwood operates and/or invests in.
2. Commit to continuous improvement with respect to management of environment, social and governance matters.
3. Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership.
4. Seek to be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.
5. Seek to grow and improve the companies in which Arpwood invests for long-term sustainability and to benefit multiple stakeholders, including on environmental, social and governance issues.
6. Seek to use governance structures that provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest and to implement compensation and other policies that align the interests of owners and management.
7. Support payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformance with national and local laws; and apply relevant international best practice standards.
8. Maintain policies that prohibit bribery and other improper payments to public officials consistent with the US Foreign Corrupt Practices Act, 1977; UK Bribery Act, 2010; The Prevention of Corruption Act, 1988; similar laws in other countries, and the OECD Anti-Bribery Convention.
9. Respect the human rights of those affected by its investment activities and take steps to ensure that its investments do not flow to companies that utilize child or forced labour or maintain discriminatory policies.
10. Provide timely information to Arpwood' limited partners on the matters addressed herein, and work to foster transparency about the activities of Arpwood.
11. Encourage portfolio companies of Arpwood to advance these same principles in a way which is consistent with the fiduciary duties of Arpwood.

ANNUAL REPORTING ON ESG MATTERS

The annual report will contain the following two sections:

- Section 1 – ESG report on the fund; and
- Section 2 – ESG reporting on the portfolio companies.

Section 1: ESG Report on the Fund ESMS and Governance & Business Integrity (“G&BI”) Systems
Fund ESG policy / processes

Were any investments declined on E&S and Governance and Business Integrity (G&BI) grounds since the last report?	
Have there been any updates to the Fund’s E&S and G&BI policies or process since the last report?	<i>If yes, highlight principal changes highlighted</i>
Has Arpwood worked with any other DFI (e.g. IFC, DEG, FMO) with respect to developing Arpwood’ E&S and G&BI systems or processes in the past year?	<i>Details if any work was done in this regard</i>
Actions and next steps that Arpwood is planning to undertake with regards to the implementation of the ESG policy / approach in the next 12 months.	

Fund Capacity

Details of who is responsible for the implementation of E&S, G&BI policies within Arpwood.	• Individual with senior level oversight of E&S and G&BI: • Individual with operational level E&S and G&BI responsibility: • Role of deal officers with respect to E&S and G&BI.
Summary of specific training provided to Arpwood staff related to E&S and G&BI issues undertaken since the last report	
What training related to E&S and G&BI issues has been provided to or undertaken	

by portfolio companies since the last report?

Due Diligence and Monitoring

Description of general terms how Arpwood monitors E&S and G&BI performance in portfolio companies and with what frequency?

Section 2: E&S, G&BI and Economic and Employment Data: Annual report for [Portfolio Company]

Section 2 shall be an ESG report on each portfolio company in the format below provided below:

- Name of the Portfolio Company:
- A brief description of the business:

Country	Industry Sector	Rating of E&S and G&BI risks		
		E&S	G&BI	
Reporting period for data	Influence (equity stake % and listed / unlisted)	Board Seat (Yes/ No)	Action Plan included in legal or other documents (Yes/No)	
Currency of financial data	Total assets (current year)	Sales revenue/turnover	Cost of goods sold (COGS)	EBITDA

Direct employee numbers (full time equivalents)	Number of female employees (FTEs)	Number of youth employees (under 25 years old) (FTEs)	Total cost of employees (wages & other costs)	Taxes paid
Third party E&S consultant used for DD and/ or monitoring?	<i>Name of the firm, if applicable</i>			
E&S and G&BI issues and opportunities identified at the time of investment	<i>Each action item defined along with target dates</i>			
E&S and G&BI improvements achieved				
Status / Further actions to be undertaken with timeframe				
Specific Improvements to company's E&S and G&BI management systems				
Have there been any serious E&S and G&BI incidents (environmental,				

fatality/ corruption) at the company since the last report?	
What channels are used to monitor and influence E&S and G&BI in this investment?	
Directors and Major (20%+) Shareholders names	

REPORT ON ESG ISSUE / INCIDENT IN A PORTFOLIO COMPANY

A report about a serious incident either at Arpwood or any of its portfolio companies shall be provided to the investors containing the following elements:

SHEET A: REPORT ON ESG SERIOUS INCIDENT FOR INVESTORS [NAME OF COMPANY]	
Date of report	
Date of investment	
Date and time of accident / Date of notification to fund	_____ [Date, Time] _____ / _____ [Date/ explanation of delay]
Type of accident	(e.g. Fatality, major oil spill, explosion)
Victims and damage	• Fatalities (including number deceased and differentiating between employee/ contractor fatalities and members of the public). • Number injured (mention hospitalisations/ loss of limb). • Loss/ damage to company facilities or operating environment. • Environmental damage (e.g. Water pollution).
Immediate response	
Description of issue	Covers the following items where available or relevant: • names of involved (if fatalities) • witnesses (including relevant staff, unions, police, other authorities and other parties) • routine/non-routine activity being undertaken • factual statement of what happened • scene inspection photos/notes • sequence of events pre-dating accident • immediate cause • unsafe acts in sequence • unsafe conditions in sequence • underlying causes of unsafe acts/conditions (initial view) • root cause(s) • corrective / preventive action for EACH significant cause • actioned, timed-bound plan (can be attached) • Interim preventive measures • Other interim actions required cross-check to other activities / locations for lessons learned • Any negative publicity (including media) resulting from the incident
Concluding statement	• Outline of accident, key causes, corrective/ preventative actions, final position, and lessons learned
Follow-up by fund manager	• Sheet B based on preliminary investigation

SHEET B: FOLLOW-UP CHECKLIST	
Areas where further clarity is desired based on current information:	
Further information awaited (utilising third party expertise where necessary):	
Critical review of accident and investigation status	
Credibility of causes and corrective /preventive actions identified	
Outcome based on above:	1. Accept report / findings Or 2. Conditionally accept report / require additional / different corrective actions Or 3. Reject report
Key follow up points	Schedule to check / verify implementation of corrective and preventive actions. Include dates.
Additional plans for verification / close-out of actions?	Is third party expertise required?
Lessons learned that could be shared with other portfolio companies?	