Environmental, Social and Corporate Governance Policy

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1. Introduction

Usaldusfond 2C Ventures Fund 1 (the "Fund") is an alternative investment fund registered in Estonian and managed by 2C Ventures Fund 1 GP OÜ ("2C Ventures").

The Fund is a fully dedicated clean tech venture capital fund and will only invest in early-stage companies that are developing technologies that contribute to pre-defined environmental objectives (please see section 2.1). Therefore, the objective of the Fund is to only make sustainable investments.

Analysis of sustainability risks is embedded in the investment evaluation and decision-making processes. Post-investment, 2C Ventures will support its portfolio companies in establishing and enhancing their ESG practices appropriate for early-stage companies.

The purpose of this document is to define a framework for making sustainable investments, creating long-term value, and ensuring appropriate reporting.

Date of latest revision: 15 January 2024

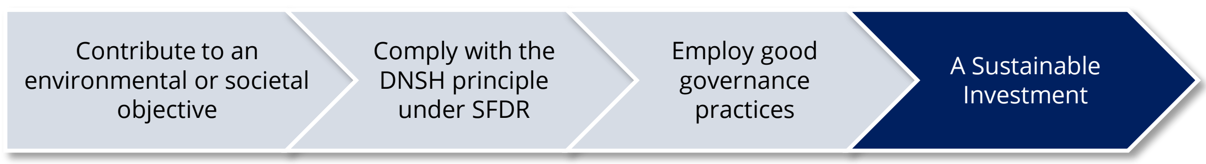
Responsible person: Hendrik Reimand

2. Investment Approach

2.1 Key Investment Criteria

The Fund will only make sustainable investments as defined under the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088; the "SFDR"). To meet the sustainability criteria, an investment has to contribute to at least one environmental or societal objective, adhere to the "do no significant harm" ("DNSH") principle and employ good governance practices.

Sustainable investment criteria



Environmental Objectives

2C Ventures is dedicated to making clean tech investments and all investments must contribute to an environmental objective. The investments can, but do not necessarily have to, contribute to additional societal objectives. The Fund will only invest in early-stage companies that are developing an innovative or research-intensive technology that contributes to at least one of the following Environmental Objectives:

1. Climate change mitigation;
2. Climate change adaptation;

3. The sustainable use and protection of water and marine resources;
4. The transition to a circular economy;
5. Pollution prevention and control;
6. The protection and restoration of biodiversity and ecosystem.

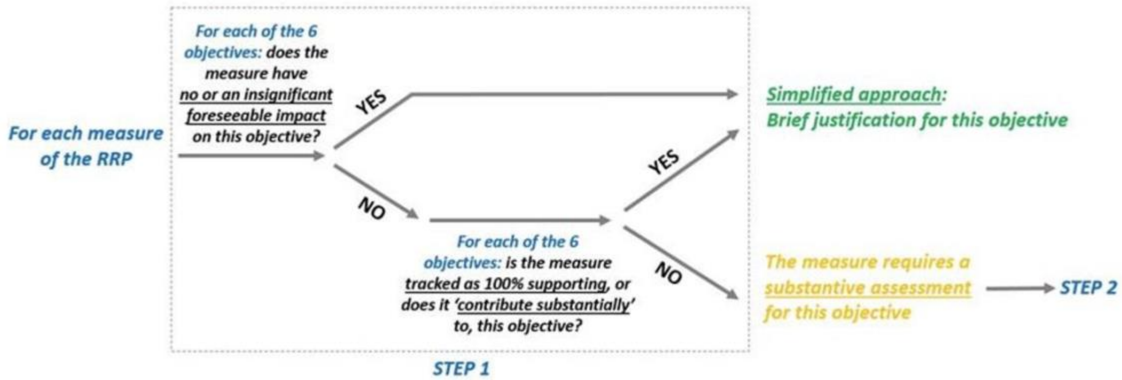
Detailed description of the environmental objectives is provided in Section 4.1 of this document.

DNSH Principle

2C Ventures will follow the process outlined in Technical Guidance (2021/C58/01) to determine compliance with the DNSH principle. As part of each investment evaluation process, the team will verify that the target company's activity does not cause significant harm to any of the six environmental objectives covered by the Taxonomy Regulation:

- An activity is considered to do significant harm to climate change mitigation if it leads to significant greenhouse gas (GHG) emissions;
- An activity is considered to do significant harm to climate change adaptation if it leads to an increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature or assets (6);
- An activity is considered to do significant harm to the sustainable use and protection of water and marine resources if it is detrimental to the good status or the good ecological potential of bodies of water, including surface water and groundwater, or to the good environmental status of marine waters;
- An activity is considered to do significant harm to the circular economy, including waste prevention and recycling, if it leads to significant inefficiencies in the use of materials or in the direct or indirect use of natural resources, or if it significantly increases the generation, incineration or disposal of waste, or if the long-term disposal of waste may cause significant and long-term environmental harm;
- An activity is considered to do significant harm to pollution prevention and control if it leads to a significant increase in emissions of pollutants into air, water or land;
- An activity is considered to do significant harm to the protection and restoration of biodiversity and ecosystems if it is significantly detrimental to the good condition and resilience of ecosystems, or detrimental to the conservation status of habitats and species, including those of Union interest.

In the evaluation, the deal team will follow the decision tree as included in Technical Guidance (2021/C58/01):



Good Governance Practices

To meet the eligibility criteria of a sustainable investment, the potential target company must employ good corporate governance. In practice, the Fund will be investing early-stage companies and such small companies are unlikely to have robust corporate governance practices in place. Therefore, 2C Ventures will work with the portfolio companies to implement sound corporate governance practices appropriate for the size and development stage of the portfolio company.

2.2 ESG Risks and Risk Appetite

Environmental, social and corporate governance (ESG) related risks have become critically important for all companies and especially so for companies in the clean tech sector. As a clean tech focused venture capital fund making only sustainable investments, 2C Ventures has a very low appetite for ESG risks. Not only is our core mission to be sustainable, we also strongly believe that ESG risks pose a great hurdle to companies, both in terms of internal development as well as in terms of their ability to raise further financing in later financing rounds. Therefore, identifying, measuring, mitigating and avoiding ESG risks forms a key part of the investment evaluation process as described in Section 2.3.

During its investment evaluation process, 2C Ventures will consider the following ESG risks and indicators.

Environmental Risks

All investments that the Fund makes must meet the Key Investment Criteria: contribute to an Environmental Objective and comply with the DNSH principle. In addition to verifying compliance with the Key Investment Criteria, 2C Ventures will also assess the following Environmental Indicators (among others), where appropriate given the development stage of the target company.

- Carbon removal potential of the underlying technology
- Greenhouse gas emissions
- Other types of air pollution
- Volume of waste and recycling practices
- Supply chain sustainability, use of raw materials, including renewable materials
- Energy consumption and energy efficiency
- Water usage and pollution
- Impacts on biodiversity and the ecosystem
- Other negative impacts on the environment

Social Risks

As an investor, 2C Ventures strives to be not just environmentally sustainable, but also socially sustainable. We strongly believe that avoiding social risks is a key prerequisite for building a successful and scalable company. 2C Ventures will assess the following Social Indicators (among others) where appropriate given the development stage of the target company.

- Diversity and inclusion in the workplace
- Code of conduct, values and mission

- Any forms of discrimination
- Data security and privacy
- Health and safety risks and work related accidents
- Employee well-being and customer satisfaction
- Product safety and quality

Governance Risks

2C Ventures regards good corporate governance, appropriate for the development stage of the company, as critically important. The Fund will most likely be a minority investor and thus ensuring proper minority shareholder protections and good corporate governance is of utmost importance. Furthermore, the portfolio companies will likely need to raise additional financing from other investors in the future and having good corporate governance in place from the start will benefit the investors as well as the company and other stakeholders. 2C Ventures will evaluate the following Governance Indicators (among others), where appropriate given the development stage of the target company.

- Governance structure
- Corporate housekeeping practices
- Internal policies and regulations
- Stakeholder engagement
- Existing or pending litigations, penalties and fines
- External audits and reports

2.3 Investment Evaluation Process

Deal Origination and Preliminary Screening

The Fund will only make sustainable investments. Therefore, evaluating whether a prospective target company contributes to the predefined Environmental Objectives forms a key part of the deal origination and preliminary screening phase. The Fund will not proceed with further review of an investment opportunity if contribution to the Environmental Objectives is not established.

ESG Due Diligence Review

Before completing an investment, the Fund will always conduct customary ESG Due Diligence to further verify compliance with the outlined Key Investment Criteria: contribution to Environmental Objectives, compliance with the DNSH principle and good governance practices. In addition, during the ESG Due Diligence 2C Ventures will evaluate the ESG indicators outlined in Section 2.2 and grade each ESG risk with a "low", "medium" or "high" risk rating. As a general rule, the Fund will avoid investments that receive a "high" risk rating for any category. However, it is important to note that the Fund is investing in very early-stage companies and measuring with confidence some of the indicators outlined in Section 2.2 may not be useful, practical, or even possible. Thus, 2C Ventures will use a stage appropriate approach and where quantitatively measuring an ESG risk is not possible or practical, the investment team will give a qualitative risk rating, using the available information and its best judgement. Nevertheless, ESG Due Diligence must always verify the following:

- Contribution to Environmental Objectives
- Compliance with the DNSH principle
- Good Governance Practices

- Limited other ESG related risks

The Fund may involve outside advisers throughout the Due Diligence process.

2.4 Fund Level Initiatives

We strive to be a responsible investor when it comes to our own operations and make a positive impact directly and continuously in a number of ways:

- Provide staff annual training on sustainability topics to help the employees fulfil the firm's ESG commitments.
- Maintain the highest level of integrity in our actions and communications, both internal and external, emphasizing transparency as a foundational principle to foster trust among stakeholders.
- Build an inclusive and diverse workplace. This includes but is not limited to equitable pay across all levels of staff, diverse leadership and continuous personal development opportunities.
- Monitor annual GHG emissions and carbon footprint and take pro-active steps to reduce our emissions.
    - Reduce waste (food, general, digital, electronic and other waste) and maximise recycling of any waste generated from our operations.
    - When possible, opt for renewable energy.
    - Avoid unnecessary travel.
- Maintain a zero tolerance for all forms of corruption and follow the highest standards of conduct.

3. Portfolio Support & Reporting

3.1 Supporting Portfolio Companies

2C Ventures will invest in early-stage companies and we acknowledge that such companies may not have robust ESG practices in place at the time of investment simply due to their size and development stage. Therefore, 2C Ventures will support the portfolio companies in defining and adopting stage appropriate ESG practices. Initial steps may already be agreed at the time of investment and 2C Ventures will continuously monitor the companies to ensure that they employ appropriate best-practice ESG standards. The goal is to minimize ESG related risks, which will in effect de-risk our investment while also helping the portfolio companies attract financing from larger investors in later financing rounds.

3.2 Company and Fund Level Reporting

To monitor ESG level risks at portfolio companies, 2C Ventures will require its portfolio companies to report certain KPIs on a regular basis. Such KPIs may include the Environmental, Social and Governance Indicators outlined in Section 2.2 as well as company specific indicators that may be highly relevant for a certain company, but not applicable for other companies. Thus, 2C Ventures will tailor the reporting requirements to individual companies considering company specific risks as well as the development stage of the company.

2C Ventures will publish annually on its website a Fund level ESG report, consolidating the data collected from the portfolio companies and summarising the ESG developments in portfolio companies and the Fund as a whole.

Additionally, the Fund will report on a pre-contractual, periodic and ad-hoc basis to its investors as outlined under SFDR and agreed with investors.

In case 2C Ventures identifies any significant ESG risks or incidents, whether at Fund or portfolio company level, the Fund will immediately notify all relevant stakeholders, at minimum the Limited Partners' Advisory Committee (LPAC). In case of any incidents, the Fund will perform an evaluation process of the incident and assess potential measures to avoid or mitigate similar risks from realising in the future.

3.3 PAI Statement (SFDR Article 4)

While 2C Ventures will only make sustainable investments as defined in Section 2.1 of this Policy, 2C Ventures does not currently consider the adverse impacts of our investment decisions on sustainability factors, as defined by Article 4 of the EU Sustainable Finance Disclosure Regulation (SFDR). The Fund will invest into small early-stage companies that are not required to report the required indicators and therefore the Fund does not have the means to ensure consistent reporting across its portfolio. There is also substantial uncertainty regarding the new legislation and related requirements. 2C Ventures will be monitoring the situation and we may reassess our approach as the regulation develops.

3.4 Remuneration (SFDR Article 5)

2C Ventures is a small and lean organisation where the remuneration policies are designed to align the interests of our employees and investors while not encouraging excessive risk taking with regards to sustainability risks.

4 Appendices

4.1 Environmental Objectives in Detail

Climate change mitigation
• Generating, transmitting, storing, distributing renewable energy • Improving energy efficiency • Increasing clean or climate-neutral mobility • Switching to the use of sustainably sourced renewable materials • Carbon capture and storage technologies • Strengthening land carbon sinks • Infrastructure for decarbonisation of energy systems • Producing clean and efficient fuels from renewable or carbon-neutral sources

Climate change adaptation
• Adaptation solutions that reduce the impact or the risk of impact from current or future climate events on economic activity • Adaptation solutions that reduce the risk of adverse impact from climate change on people, nature or assets
The sustainable use and protection of water and marine resources
• Protecting the environment from the adverse effects of urban and industrial waste water discharges • Protecting human health from the adverse impact of any contamination of water intended for human consumption • Improving water management and efficiency • Ensuring the sustainable use of marine ecosystem services or contributing to the good environmental status of marine waters
The transition to a circular economy
• More efficient use of natural resources in production • Increasing the durability, reparability, upgradability or reusability of products • Increasing the recyclability of products • Reducing the content of hazardous substances in products throughout their life cycle • Increasing the use of secondary (recycled) raw materials in products • Development of waste management infrastructure for re-using and recycling products • Minimising incineration and disposal of waste and litter
Pollution prevention and control
• Preventing or reducing pollutant emissions into air, water or land • Improving air, water or soil quality • Preventing or minimising any adverse impact on human health and the environment of the production, use or disposal of chemicals • Cleaning up litter and other pollution
The protection and restoration of biodiversity and ecosystem
• Conserving nature & biodiversity • Using and managing land sustainably • Applying sustainable agricultural practices • Applying sustainable forest management

4.2 Exclusion Lists

The Fund shall not invest into companies engaged in any activity, production, use, distribution, business or trade involving sectors and activities provided in the ESG exclusion list of SmartCap as published on its website and as may be amended from time to time. The list can be accessed here: https://smartcap.ee/wp-content/uploads/2022/09/esg-exclusion-list-v2-14-10-2020.pdf