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Project Identification:

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IFC’s Disclosure Requirements:

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Overview of IFC’s scope of review:
The IFC’s appraisal of this project included the review of the holding company Scholz AG (“Scholz Group) which is based in Germany and relevant group companies operating in Romania, Albania and countries of former Yugoslavia including Bosnia-Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia. Scholz AG is the major shareholder of two local companies, namely C.I.O.S. Group based Croatia and Remat Scholz based in Romania which oversee Scholz Group operations in the countries listed through a number of different operating companies.

Visits by IFC to the selected sites were performed for the review of environmental and social policy and practices at the sites. The visits included;

- C.I.O.S. Group Zagreb headquarters and following companies’ sites overseen by the CIOS Group:
  - CE-ZAR Croatia scrap yard and processing facility in Zagreb,
  - CIAL Croatia Aluminum smelting plant using aluminium scrap,
  - Felis Produkti Steel Foundry using scrap steel in Sisak, Croatia;
  - C.I.B.O.S Bosnia, Bosanski Brod or Gradacac branch, scrap feeding (collecting and transfer) facility;
  - C.I.N.O.S. Serbia central scrap yard and processing facility in Belgrade;

- Remat Scholz Bucharest headquarters and following branches:
  - Filiala Moldova, scrap yard and processing facility in Galati;
  - Filiala Oltenia, scrap yard and processing facility in Drobeta Turnu Severin,

- Scholz AG headquarters and scrap yard in Essingen, Germany.

Meetings were held with Scholz AG Executive Board Members, Corporate Finance Officers, Project and Quality Management Officer, and executives and managers of the CIOS and Remat Scholz subsidiaries.

Environmental and social documents including Environmental & Social (E&S) questionnaires for Croatia, Serbia, Bosnia and Romania facilities, internal regulations, operational permits, emission and discharge permits, ambient noise level permits, drinking and waste water analyses, emission measurements, ISO 9001, ISO 14001 and OHSAS 18001 management system certificates, supplier forms, supplier contracts, collective agreement were reviewed.

Project Description:

Scholz AG, based in Essingen, is one of the leading metal waste management and recycling company in Europe and Balkan countries with developing presence in Asia, Central America, Middle East and North Africa. The project of approximately US$ 120 million is to support operations of Scholz A.G. Germany (“Group” or the “Sponsor”) in Croatia, Serbia, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Romania and Albania (referred to as the “Balkan” countries or the “Region”) over the next three years. The IFC investment will consist of a loan up to US$60 million in Euro equivalent. The investment will finance modernization and working capital needs of the Group in the Region. The project includes increase of processing capacity and product mix, installation of post-shredder technology in Croatia, investments in two new sites in Bosnia, restructuring of metal recycling company owned by Scholz in Albania and provision of maintenance capex in Albania, Croatia, FYR Macedonia, Montenegro and Romania.
Identified Applicable Performance Standards:
While all Performance Standards are applicable to this investment, IFC’s environmental and social due diligence indicates that the investment will have impacts which must be managed in a manner consistent with the local regulations as a minimum and following Performance Standards:

PS1 – Social and Environmental Assessment and Management Systems;
PS2 – Labor and Working Conditions;
PS3 – Pollution Prevention and Abatement;
PS4 – Community Health Safety and Security;
PS5 – Land Acquisition and Resettlement

The Companies’ facilities are located in the vicinity of urban areas and industrial zones, therefore, no issues have been identified in relation with PS6, PS7 or PS8, namely biodiversity conservation and sustainable natural resource management, indigenous people and cultural heritage. Nevertheless, the Companies will incorporate all IFC Performance Standards on Social and Environmental Sustainability into its management systems and will accordingly evaluate new expansion projects to ensure operation in full compliance with IFC requirements.

E & S Categorization Rationale:

The key environmental, social and occupational health & safety issues reviewed with this investment include: Labor and working conditions including occupational health and safety considerations relating to Scholz’ employees and within the supply chain, relevant treatment of vulnerable groups which may include underage workers, management of storm-water run-off from scrap metal collection and processing centers, soil and groundwater pollution control, handling and storage of hazardous materials, transportation safety, expansion of collection and processing capacity that may require land acquisition, avoidance of involuntary resettlement.

The Project has limited potential adverse environmental and social impacts which can readily be addressed through effective implementation of good international industry practices and requirements of IFC’s Performance Standards and Environmental, Health and Safety (EHS) guidelines. This proposed investment is therefore a Category B project according to IFC’s Environmental and Social Review Procedures.

Existing and proposed measures to manage and mitigate these risks are described below and in the Environmental and Social Action Plan agreed with the Companies.

Description of key Environmental and Social Issues and Mitigation:

PS1: Social and Environmental Assessment and Management Systems

Management Systems and Assessment:
Operations are driven by the regulations and the Companies have acquired required environmental, transport and scrap collecting licenses from the local authorities. Upgrading activities are planned and gradually undertaken at existing sites in order to ensure full compliance with the most recent regulations adopted from the EU directives. The process for acquisition of wastewater discharge permits is on-going at certain sites in accordance with the latest
The Companies will incorporate IFC’s Performance Standards on Environmental and Social Sustainability into their management system and will conduct social and environmental due diligence to ensure compliance to the IFC’s performance standards, for all new projects, acquisitions and operational changes.

Best available technologies are inquired for new developments and have been implemented at sites recently established including particularly the processing facility in Zagreb, Croatia. Furthermore, this proposed investment includes installation of post-shredder technology which will enable to increase the current recycling ratio of 75-80% to 95% by 2016 for old cars, which is in line with the EU target. The similar approaches will be implemented in upcoming modernization projects and future developments.

Facilities in Croatia and Romania are certified to ISO 9001, ISO 14001 and OHSAS 18001 and committed to operate in line with these international quality, environmental and occupational health and safety management system standards. Serbia facility has so far acquired ISO 9001 quality management system. Beside the standards listed, Remat Scholz in Romania targets certification for SA 8000 Social Accountability system.

The Companies will expand implementation of these management systems to all countries of operations.

**Organization:**

Environmental and social management systems are leaded by President and Vice-President level at Scholz AG, C.I.O.S. and Remat Scholz Group Companies to whom Project Review, Quality, Regulatory Affairs and EHS Coordinators are directly reporting. Each facility has its own staff and different organizational structure to oversee occupational health and safety (OHS) and environmental responsibilities. For instance, support division employees at scrap yard processing facilities in Croatia, including a full time OHS expert are responsible for coordinating EHS (Environment, Health and Safety) aspect of the operations whereas those responsibilities are delegated to platform managers, environmental engineers and safety officers at Romanian facilities. In Serbia, it was reported that an environmental program team and a safety department is available with five employees reporting to the General Manager. The Companies will review organization and ensure that each site in the Region is adequately staffed and responsibilities are defined and documented and there is a central unit setting minimum corporate standards, enabling information sharing and benchmarking between sites in different countries and tracking performance on environmental and social sustainability.

**Training:**

The Companies have established training programs to provide necessary induction and periodic trainings for all of its direct and contractor employees on EHS aspects related to its operations, including but not limited to PPE (Personal Protective Equipment) usage, safe use of machinery, vocational trainings, environmental awareness, etc. It is reported that all training activities are carried out by specialized personnel and/or authorised institutions and learning institutes. Scholz and the Companies in the Region will review and extend the training program on identification, communication and appropriate handling of hazardous materials which can be encountered in the supplied scrap. Hazardous compounds can include but are not limited to asbestos, PCBs, mercury, other toxic chemicals, explosive, flammable or corrosive materials. This training will cover staff at all sites and countries. The Companies will develop social dialogue with its suppliers at risk and regularly share information about mitigation of occupational risks.

**Monitoring and Reporting:**

All companies undergo periodical and occasional external audits from authorized parties and regulatory entities. Effluent discharges, air emissions, solid wastes, noise, energy and water consumptions, lost time accidents, trans-boundary waste movement and radioactivity of scrap metal are among the regularly monitored parameters for the various operations at all plants, in compliance with the regulatory requirements of the relevant country. Reporting of quality indicators is done internally at department and management board meetings per the requirements of the regulations.
Reporting of EHS indicators is done internally as per the requirements of the certified management system and externally to the national regulatory agencies requiring EHS monitoring. The Sponsor and the Companies will regularly submit to IFC an Annual Monitoring Report on Environmental and Social Performance prepared in accordance with the IFC’s Performance Standards and guidelines.

**PS2: Labor and Working Conditions**

*Human Resources Policy and Management:*

The Companies manage their human resources in accordance with various internal regulations and procedures that cover all aspects, including recruitment process, job descriptions, training, working conditions, general rules governing the rights, obligations and responsibilities arising from employment, performance evaluation, social benefits, disciplinary actions and dismissal. Upon employment, each staff member is provided with their labor contracts, comprehensive handbooks related to working principles and instructions, internal rules, occupational health and safety and code of conduct.

The minimum age of employment is 18 at all facilities and the Group does not use forced labor. Part-time trainee students are employed in cooperation with their vocational high schools and working conditions are applied as per relevant regulations.

Contracted workforce is employed at certain locations, particularly for tasks relating to the procurement of a special category of waste or secondary raw material, processing of special categories (scrap vehicles, waste tires, electric and electronic waste), transport (trucks, wagons, vessels), scrap metal cutting and demolishing of buildings and has established mechanisms to control contractor operations to be in line with the national labor laws and internal labor regulations.

*Workers’ Organization:*

The Companies reported that the freedom of association of workers is respected and each employee is free to join a worker organization. The union is active in Bosnia and at one site in Croatia of CIOS group companies. Although there is no trade union active at Remat Scholz branches in Romania, there are collective agreements set up at both Oltenia and Moldova branches as imposed by the Romanian legislations and the employees nominate a committee to act as a liaison between the workers and the management.

*Working Conditions:*

Employees at scrap yards of C.I.O.S. Group companies in Croatia work five days a week in two shifts whereas work is organized in three shifts in the aluminium smelter plant and steel mill. At the scrap yards located in Bosnia, Serbia and Romania, daily work is generally organized in one shift of eight hours. When overtime or shift work is needed occasionally, workers are compensated for such work with additional payment, pursuant to the provisions of the labour contract and the labour law that govern overtime and shift work. Employees cannot exceed the overtime working limits defined at relevant Labour laws.

*Non-Discrimination and Equal Opportunity:*

It is reported that the Companies are equal opportunity employers, and do not make employment decisions on the basis of personal characteristics unrelated to inherent job requirements. The Companies also comply with the relevant national labor laws requirements for non-discrimination.

*Grievance Mechanism:*

The Companies adopt an open door policy and a formal employees’ grievance mechanism exists. As reported, employees can directly communicate their concerns to chiefs and platform managers and have the right to establish worker committees at several facilities. Aside from internal grievance mechanism, external worker protection
mechanisms are ensured by the national labor laws and union activities where relevant.

Retrenchment:
There is no significant retrenchment plans by the Companies, on contrary, there are plans to open new yards in Romania and expand the volume of certain scrap types, therefore, around 10-20 percent increase is expected in the number of workforce for the next two years.

Occupational Health and Safety:

The Companies operate with the aspects of the operating countries’ occupational health and safety (OHS) requirements covered under applicable regulatory norms. The Companies work with certified experts to identify and mitigate OHS risks at workplaces. There are OHS representatives designated at the facilities for implementing occupational safety measures and ensuring the protection of employees at risk.

In Croatia and Romania there are systematic risk assessment programs and this will be extended to other locations in the Region where the Sponsor and the Companies operate, as a minimum in compliance with the regulations and implementation acts of each country.

It is the responsibility to the employers to ensure proper working order of work equipment. The Companies reported that employees are only given properly functioning work equipment produced in compliance with the valid standards and other regulations, and only such equipment may be used. Vocational trainings are carried out for specific tasks such as cutting and forklift operating. All employees receive training in occupational safety and provided with the required PPE (Personal Protective Equipment) and appropriate work cloths. Occupational safety provisions and training programs will be further developed as indicated in the previous paragraphs and in the attached Environmental and Social Action Plan.

There are no occupational physicians or nurses available on sites, however the Companies have organised the provision of first aid for employees receiving occupational injuries until the injured person can be transported to the nearest health care facility. Employees carrying out tasks for which a periodical health exam is prescribed are regularly referred for health examinations in authorised institutions. All workers assigned to jobs with special working conditions, or which are assigned to tasks that require four or more hours of computer work per day are referred for a health examination prior to employment and sent for a vision exam with the selected occupational health physician every two years.

Workplace measurements are conducted for relevant parameters such as noise, level of illumination and micro-climate conditions in accordance with the respective regulations and evaluations of risk level.

Preventive maintenance of technical equipment is organized as; inspection before use, weekly inspection performed by employees, periodical inspections of motor vehicles performed by an authorized institution and internal workshop and annual technical inspections carried out by authorized institutions, as reported by the Companies. Documentation of the preventive maintenance programs and record keeping will be further improved.

The Companies have drafted evacuation and rescue plans and layout of the plants are made in visible throughout offices and scrap facilities. A number of staff is trained for offering first aid to employees. The Companies will ensure that at all sites in the Region, an adequate number of employees to address emergency conditions, the emergency plans are prepared / approved by responsible regulatory authority as in line with the regulation and implementation act of each particular country, and drills and tests are regularly conducted and documented.

Fixed and mobile radiation screening of scrap metal through detector systems are used at scrap yards and processing facilities. Radioactivity control mechanisms are being enhanced throughout the facilities according to the latest regulations in all countries of operations. It is reported that specialized personnel are equipped with portable detector units at all project sites to detect any significant level of radioactivity. The record keeping of radioactivity...
controls will be improved. External control of radioactive scrap metal is performed by accredited institutions at the
delivery of wastes for the purpose of the trans-boundary movement in line with the regulatory requirements.
Screening mechanisms will be further developed for other hazardous materials as indicated in the previous
paragraphs, in priority for detection of explosive devices. Appropriate training will be provided and technical
control systems will be established in line with the local regulations and internationally agreed standards.

Supply Chain:
The companies rely primarily on industrial suppliers and on collection of scrap metal as primary sources of raw
materials for processing at its recycling facilities. The chain of collection for a significant portion of the ferrous and
non-ferrous scrap recycled in Balkans begins at the street level and includes self-employed, informal collectors who
gather small quantities of recyclable materials including metals from residential and business areas in large urban
centers as well as more organized collectors who use small trucks to collect more significant quantities. The
individual street collectors sell their materials to mid level collectors for consolidation in greater quantities and
resale to larger intermediaries.

In Croatia, the document entitled “Organisational Instructions on compulsory actions by authorised persons in
commercial, production and warehousing activities, logistics and transport, technical support and maintenance”
outlines operating instructions and limitations for the company staff who is authorised to make procurements of
basic resources, spare parts and expendable supplies. In Bosnia, the control of the supply chain is carried out by the
Commercial Service (company management board) through the control of prices (verification of procurement and
purchase invoices) and occasional controls of the quality of procured goods. In Serbia, similarly to Croatia,
authorized persons are allowed limited independent acquisition of raw materials-goods, fixed assets, spare parts and
operation supplies to a certain amount, while the procurements of amounts above the allowable limit require the
approval of the direct manager, i.e. the director of the Company. There is also a similar approach in Romania,
where, furthermore, Remat Scholz had initiated in the past a number of activities to control and working conditions
of the individual scrap collectors.

The Companies will develop a respective communication mechanism for their suppliers at risk with the aim to
control and mitigate possible risks in regard to labor and working conditions (e.g. employment of underage labor).

PS3: Pollution Prevention and Abatement

Air Emissions

In Croatia, at C.I.O.S. Zagreb location, there is a central heating boiler with the capacity of 600KW and a 225 kVA
electric power generator. Regular measurements are conducted by an accredited company authorized by the
Ministry of Environmental Protection and Physical Planning for conducting the monitoring of air emissions from
stationary sources. The offices at Zagreb possess one stationary source of emissions from a small heating device
and regular monitoring is conducted in line with the local regulations. Emissions from Zagreb scrap yard operations
are sourced from exhaust lines for de-dusting the plant for the chopping and separation of metal from non-metal
components of materials. Measurements are conducted once a year and no incompliance has been reported. Other
C.I.O.S. scrap yards in Croatia do not have stationary air emissions sources.

In Bosnia, the Ilijaš business unit has an installed diesel generator and a boiler with the capacities of 50 kW and 240
kW respectively. Periodical monitoring and control of air emissions are carried out by authorized institutions,
exclusively for the branches/business units that perform production and processing of secondary raw materials.

In Belgrade, Serbia, regular measurement of air emissions from stationary sources are performed by authorized
institutes and laboratories once a year and the company has declared compliance with the emission limit values
under the regulatory requirements. The Schroeder shear system has water and air filters and cyclones that prevent
emissions into the air above the prescribed level.
In Romania, the heating system used at the Oltenia and Moldova branches are supplied by wood fire condensing boilers and air emissions are regularly monitored by the company and the regulatory authorities.

The Companies will review process air emissions monitoring and control programs at all scrap yards in the Region and enhance control measures if any deficiency is identified.

**Water and Waste Water Management:**
Wastewaters generated at all operations within the project context are mainly surface runoff waters and sanitary wastewaters. Sanitary wastewaters are either discharged directly to the municipal sewage systems or collected at septic tanks for final disposal.

C.I.O.S. Group Zagreb operations have wastewater collection systems consisting of an impermeable internal sewage network and oil and grease separators for treatment of the surface runoff water. Following the treatment, wastewaters are discharged into the public sewage system. Zagreb, Varaždin, Koprivnica and Sisak sites have water use permits for the release of wastewaters issued by Croatia Waters. Vukovar, Slavonski Brod, Šibenik, Split and Kistanje sites are in the process of obtaining the water use permit for the release of wastewaters to the sewage system. Due to the lack of a public sewage system, wastewater at Karlovac site is released to the surface waters with the permit obtained from Croatian Waters.

In Bosnia, the water used in the process is collected and settled for treatment, and then returned to the system. At Sarajevo, Ilijaš business unit, Tuzla branch, Zenica branch, Doboj branch and Gradacac branch, runoff waters are collected in the runoff drainage and are directed to an oil separator where they are treated and then released to the receiving body. Cleansing of separator water is carried out periodically and as needed by an authorized entity.

At several locations in Serbia, there are oil and grease separators with sedimentation tanks and devices that are used for the treatment of process and surface run-off waters before discharging into the public sewerage. Monitoring of waste water is carried out by regular analysis and measurements conducted by accredited laboratories and institutes, as reported by the company.

Surface runoff water generated at Remat Scholz facilities in Romania are treated at installed oil and particles separators at the exit of the yards and sent to the local sewage system which is ultimately connected to the city municipal system.

As indicated in the ESAP, the Companies review water monitoring programs and ensure that consistent programs based on best practices are established at all locations in the Region.

**Non-Hazardous and Hazardous Waste Management:**
Solid non-hazardous waste and hazardous waste management at all plants visited is in general adequate, involving waste segregation and reduction. Non-recyclable waste produced on sites are temporarily stored by type, capacity and physical state in the appropriate containers or barrels and treated in accordance with the provisions of the regulations on the disposal of waste from production process at each country of operation.

Hazardous waste is stored separately from non-hazardous waste in special labeled containers for hazardous fluids to avoid the interaction of hazardous substances with soil and water. Scrap yard at Zagreb is covered with impermeable groundwork resistant to the effects of stored waste and oils and this practice will be applied at other project facilities as well. The pavement will be also improved at project sites, where needed. Oil and chemical storage will be provided with secondary containment at each facility as needed.

Certain types of waste utilized from car dismantling activities such as batteries/accumulators, tires, waste antifreeze and waste oil are stored appropriately on site and delivered to licensed operators along with the Document of the Waste / Hazardous Waste Movement containing the data on waste. The car dismantling facilities in Zagreb/Croatia
are of highest standards and will set example to other project sites for further improvement.

Analysis of physical and chemical characteristics of waste are conducted by accredited laboratories for each trans-boundary movement of waste as part of the documents accompanying the application for a permit or certificate for the trans-boundary movement of hazardous waste for import or export of waste.

A plant for processing big cooling devices with a capacity of 4,000 tons/year operates as part of the CIOS Group at Zagreb facilities. This completely closed system enables processing of cooling devices while drawing out the CFC compounds (Freon) under controlled conditions. This process prevents emission of CFC compounds into the atmosphere meeting the highest standards of regulatory requirements.

At certain locations, suppliers to the Companies are responsible to remove the non-metallic hazardous parts of the scrap vehicles, household or other equipment. The Companies supply chain control system will establish mechanisms for improved management of scrap materials by the suppliers.

As indicated previously in the section related to PS1, Scholz and the Companies will review and extend their training and communication programs for its employees, contractors and suppliers at risk, about identification and appropriate handling of hazardous materials which can be encountered in the supplied scrap. Hazardous compounds can include but are not limited to asbestos, PCBs, mercury, other toxic chemicals, explosive, flammable or corrosive materials.

PS4: Community Health, Safety and Security

There are no immediate households or neighbors in the vicinity of most of the sites constructed on industrial zones. However, the Companies take necessary precautions to avoid any disturbances for the surrounding communities such as insulating the shredders or planting the periphery of the scrap yards. Noise measurements are conducted as necessary and shearing and shredding equipment have been isolated comply with the regulatory requirements.

The Companies contract unarmed private security personnel from licensed companies and ensure that they are regularly trained and certified as per the local regulatory requirements.

Raw materials and finished products are delivered in bulk via trucks. The Company will ensure that adequate internal controls, specifically on radioactivity are in place to ensure that the supplies entering and leaving Company facilities are well tracked and in good condition. Control mechanisms for other hazardous materials will also be extended further as described in the previous sections.

The Companies will ensure that traffic rules and vehicle maintenance periods are strictly followed and old vehicles are replaced with the new ones as necessary.

PS5- Land Acquisition and Involuntary Resettlement

There are expansion plans in Bosnia actually involving two land acquisitions. Scholz and C.I.O.S. Group will provide IFC with the environmental and social review of the proposed sites and description of the land acquisition processes which will be undertaken in accordance with the regulations and PS5 requirements. In case future expansion projects also involve land acquisition, the Companies will have systems in place to assess and to address potential impacts in accordance with the local regulations and PS5 requirements.

Client’s Community Engagement:
C.I.O.S. Group engage in ad hoc and informal community engagement through various channels such as supporting students by scholarships, providing donations to schools, establishing programs of intercultural exchange and sport competitions. C.I.O.S. Croatia has organized an ecological campaign "Let's clean Croatia from car wracks", together with several partners for pick up and recycling of end-of-life (EOL) vehicles. The company increased the number of vehicles checked in by reimbursing the owners of the integral EOL vehicles with relatively higher amounts (half a Kuna per kilo of handed EOL vehicle) than the refunds prescribed by the state regulation. EOL vehicles were either picked-up upon calling the toll free number or delivered by the owner to the recycling center of C.I.O.S and recycled free of charge.

In Remat Scholz Romania, there are also community engagement programs focusing especially on educational institutions to increase awareness on waste recycling.

The technical content of the ESRS and the ESAP will be translated into local languages of the project countries and utilized to convey assessment and remedial measures to the local community as part of stakeholder engagement program. Local disclosure of the information will be publicly accessible. Additionally, the Companies will publish notification of the availability of these documents in local newspapers.

Local access of project documentation

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