

# **ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY STATEMENT AND FRAMEWORK**

**Effective Date: January 15, 2024**

## **PREAMBLE**

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Palo Alto, California 94304 (the "Company"), develops and deploys artificial intelligence and machine learning solutions for industrial applications;

WHEREAS, the Company recognizes its responsibility to conduct business operations in a manner that promotes environmental sustainability, social responsibility, and sound governance practices;

WHEREAS, the Company seeks to establish comprehensive environmental, social, and governance ("ESG") policies and procedures that align with its business objectives while meeting stakeholder expectations;

NOW, THEREFORE, the Company hereby adopts this Environmental, Social and Governance Policy Statement and Framework (this "Policy") as follows:

## **1.0 ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY STATEMENT**

### **1.1 Purpose and Scope**

This Policy establishes the Company's comprehensive framework for managing environmental, social, and governance matters across all business operations, subsidiaries, and controlled affiliates. The provisions herein shall apply to all employees, officers, directors, contractors, and agents acting on behalf of the Company. This Policy further extends to third-party vendors, strategic partners, and other entities engaged in material business relationships with the Company, to the extent permitted by applicable law and contractual arrangements.

### **1.2 ESG Principles and Objectives**

The Company hereby commits to:

- (a) Developing and deploying artificial intelligence solutions in an environmentally responsible manner, including the implementation of energy-efficient computing practices, sustainable data center operations, and carbon footprint reduction initiatives;
- (b) Upholding the highest standards of ethical AI development and implementation, including bias detection and mitigation, algorithmic transparency, and responsible innovation practices;
- (c) Protecting data privacy and security in accordance with applicable regulations, including GDPR, CCPA, and other relevant data protection frameworks;
- (d) Promoting diversity, equity, and inclusion throughout the organization through targeted recruitment, development programs, and inclusive workplace policies;
- (e) Maintaining transparent and accountable corporate governance practices, including regular stakeholder engagement and comprehensive ESG disclosure;
- (f) Ensuring responsible supply chain management through vendor ESG assessments and sustainable procurement practices;
- (g) Supporting community development initiatives and maintaining positive stakeholder relationships in operational jurisdictions.

### **1.3 Integration with Business Strategy**

The Company shall integrate ESG considerations into:

- (a) Product development and deployment decisions, including environmental impact assessments and ethical review processes;
- (b) Customer engagement and service delivery, emphasizing transparency and responsible AI deployment;
- (c) Operational planning and resource allocation, incorporating sustainability metrics and social impact objectives;
- (d) Risk assessment and management processes, including climate-related risks and social responsibility factors;
- (e) Performance evaluation and incentive structures, linking ESG performance to compensation where appropriate;
- (f) Investment decisions and capital allocation strategies, considering long-term sustainability and social impact;
- (g) Research and development initiatives, prioritizing sustainable innovation and ethical technology advancement.

## **1.4 Governance Oversight**

The Board of Directors (the "Board") shall maintain ultimate oversight of ESG matters through:

- (a) Regular review of ESG strategies and performance, including quarterly assessment of key performance indicators;
- (b) Approval of material ESG policies and commitments, ensuring alignment with corporate objectives;
- (c) Monitoring of ESG-related risks and opportunities, including emerging regulatory requirements;
- (d) Evaluation of ESG program effectiveness and implementation progress;
- (e) Establishment of dedicated ESG committees or working groups as deemed necessary;
- (f) Regular engagement with management on ESG initiatives and challenges;
- (g) Review and approval of public ESG disclosures and reporting;
- (h) Oversight of ESG-related stakeholder communications and engagement strategies;
- (i) Integration of ESG considerations into strategic planning and risk management frameworks;
- (j) Annual review and updates to this Policy as required to maintain effectiveness and relevance.

## **2.0 ENVIRONMENTAL IMPACT AND SUSTAINABILITY**

### **2.1 Carbon Footprint Measurement**

The Company shall:

- (a) Measure and track Scope 1, 2, and material Scope 3 greenhouse gas emissions according to the following specifications: (i) Direct emissions from owned or controlled sources, including on-site fuel combustion; (ii) Indirect emissions from purchased electricity, steam, heating, and cooling; (iii) Value chain emissions, including upstream and downstream activities;
- (b) Utilize recognized protocols including the Greenhouse Gas Protocol Corporate Standard, with: (i) Annual baseline recalculation when structural changes exceed significance thresholds; (ii) Documentation of calculation methodologies and emission factors; (iii) Regular internal audits of data collection processes;
- (c) Obtain third-party verification of emissions data through: (i) ISO 14064-3 accredited verification bodies; (ii) Annual assurance statements at minimum limited assurance level; (iii) Resolution of material discrepancies within 60 days;

(d) Report emissions data to stakeholders annually, including: (i) Absolute emissions by scope and category; (ii) Year-over-year performance trends; (iii) Progress against reduction targets.

## **2.2 Energy Efficiency Initiatives**

The Company commits to:

(a) Optimizing AI/ML model training for energy efficiency through: (i) Implementation of automated model compression techniques; (ii) Scheduling of training during off-peak grid hours; (iii) Regular efficiency benchmarking against industry standards; (iv) Documentation of optimization methodologies;

(b) Implementing green computing practices in development operations, including: (i) Server virtualization with minimum 80% utilization targets; (ii) Code efficiency reviews for energy impact; (iii) Automated power management protocols; (iv) E-waste reduction and responsible disposal programs;

(c) Utilizing renewable energy where commercially feasible by: (i) Direct procurement of renewable energy certificates (RECs); (ii) On-site generation where practical; (iii) Virtual power purchase agreements (VPPAs); (iv) Regular review of renewable energy opportunities;

(d) Setting science-based targets aligned with: (i) 1.5°C warming scenarios; (ii) Net-zero commitments by 2050; (iii) Interim reduction targets every five years.

## **2.3 Data Center Standards**

All Company data center operations shall:

(a) Meet or exceed ENERGY STAR® certification requirements through: (i) Quarterly performance monitoring; (ii) Implementation of identified efficiency measures; (iii) Documentation of certification maintenance;

(b) Implement best practices for power usage effectiveness (PUE) including: (i) Maximum PUE target of 1.5 for new facilities; (ii) Continuous monitoring and optimization; (iii) Annual efficiency improvement targets;

(c) Utilize efficient cooling and power management systems by: (i) Implementing free cooling where climate-appropriate; (ii) Maintaining hot/cold aisle containment; (iii) Deploying smart temperature management; (iv) Regular maintenance and optimization schedules;

(d) Prioritize locations with access to renewable energy through: (i) Grid carbon intensity assessment; (ii) Local renewable energy availability evaluation; (iii) Climate risk assessment for site selection.

## **2.4 Environmental Reporting**

The Company shall report environmental performance through:

- (a) Annual sustainability reports aligned with GRI Standards, including: (i) Material environmental topics; (ii) Management approach disclosures; (iii) Performance data and metrics; (iv) External assurance statements;
- (b) CDP climate change questionnaire responses covering: (i) Governance and strategy; (ii) Risks and opportunities; (iii) Emissions data and targets; (iv) Verification and assurance;
- (c) TCFD-aligned climate risk disclosures addressing: (i) Physical and transition risks; (ii) Financial impact assessments; (iii) Scenario analysis results; (iv) Risk management strategies;
- (d) Quarterly updates to key stakeholders on: (i) Progress against environmental targets; (ii) Material environmental incidents; (iii) New initiatives and programs; (iv) Regulatory compliance status.

### **3.0 SOCIAL RESPONSIBILITY AND ETHICS**

#### **3.1 AI Ethics Guidelines**

The Company shall adhere to the following AI ethics principles:

- (a) Transparency in AI decision-making processes, including: (i) Documentation of algorithmic decision pathways; (ii) Regular publication of AI system performance metrics; (iii) Clear communication of automated processes to affected stakeholders; (iv) Maintenance of detailed audit trails for AI decisions; (v) Implementation of explainable AI methodologies where technically feasible.
- (b) Fairness and non-discrimination in algorithm design, encompassing: (i) Regular algorithmic impact assessments; (ii) Implementation of fairness metrics across protected characteristics; (iii) Documentation of training data composition and potential biases; (iv) Establishment of remediation procedures for identified discriminatory outcomes; (v) Independent third-party validation of fairness measures.
- (c) Human oversight of AI systems, requiring: (i) Designated human supervisors for all automated systems; (ii) Clear chains of accountability for AI-driven decisions; (iii) Emergency override protocols; (iv) Regular human review of system outputs; (v) Documented escalation procedures for system anomalies.
- (d) Regular bias testing and mitigation, including: (i) Quarterly bias assessment protocols; (ii) Demographic impact analysis; (iii) Corrective action procedures for identified biases; (iv) Documentation of mitigation efforts; (v) Stakeholder feedback incorporation mechanisms.

#### **3.2 Workforce Diversity**

The Company commits to:

(a) Increasing representation of underrepresented groups through: (i) Establishment of specific diversity targets; (ii) Implementation of targeted recruitment strategies; (iii) Development of mentorship programs; (iv) Creation of employee resource groups; (v) Regular assessment of representation metrics.

(b) Maintaining pay equity across demographics by: (i) Annual compensation analysis; (ii) Standardized promotion criteria; (iii) Regular pay adjustment reviews; (iv) Transparent salary bands; (v) Third-party equity audits.

(c) Implementing inclusive hiring practices, including: (i) Diverse interview panels; (ii) Standardized assessment criteria; (iii) Bias training for hiring managers; (iv) Inclusive job description requirements; (v) Diverse candidate slate requirements.

### **3.3 Data Privacy and Security**

The Company shall:

(a) Maintain compliance with applicable regulations through: (i) Regular compliance audits; (ii) Updated data protection impact assessments; (iii) Appointment of data protection officers; (iv) Implementation of privacy-by-design principles; (v) Regular policy updates and reviews.

(b) Implement industry-leading security measures, including: (i) Multi-factor authentication protocols; (ii) Encryption standards for data at rest and in transit; (iii) Regular penetration testing; (iv) Incident response procedures; (v) Employee security training programs.

(c) Conduct privacy impact assessments addressing: (i) Data collection necessity; (ii) Processing purposes; (iii) Data minimization principles; (iv) Retention periods; (v) International transfer requirements.

### **3.4 Community Engagement**

The Company shall:

(a) Support STEM education initiatives through: (i) Educational grants and scholarships; (ii) Equipment donations to schools; (iii) Employee volunteer programs; (iv) Curriculum development support; (v) Internship opportunities.

(b) Provide AI ethics training resources, including: (i) Public education materials; (ii) Workshop series; (iii) Online learning platforms; (iv) Industry partnerships; (v) Research funding.

(c) Partner with workforce development programs by: (i) Providing technical training opportunities; (ii) Offering apprenticeships; (iii) Supporting skill development initiatives; (iv) Creating job placement programs; (v) Establishing industry partnerships.

### **3.5 Implementation and Monitoring**

The Company shall:

(a) Establish oversight mechanisms including: (i) Regular board reporting; (ii) Independent advisory committees; (iii) Stakeholder feedback channels; (iv) Annual impact assessments; (v) Public progress reports.

(b) Maintain accountability through: (i) Clear performance metrics; (ii) Regular internal audits; (iii) External verification processes; (iv) Remediation procedures; (v) Transparency reporting.

## **4.0 GOVERNANCE STRUCTURE AND OVERSIGHT**

### **4.1 ESG Committee**

The Company shall maintain an ESG Committee that:

(a) Reports directly to the Board on a structured quarterly basis, with additional reporting obligations as circumstances require;

(b) Includes C-suite representation, specifically: (i) Chief Sustainability Officer or equivalent; (ii) Chief Financial Officer; (iii) Chief Operating Officer; (iv) Chief Legal Officer;

(c) Meets at least quarterly, with additional meetings convened as necessary, maintaining detailed minutes and action items;

(d) Reviews and approves ESG initiatives, including: (i) Annual sustainability targets and metrics; (ii) Strategic ESG investments; (iii) Stakeholder engagement programs; (iv) Public ESG disclosures and reports.

### **4.2 Board Oversight**

The Board shall:

(a) Review ESG performance quarterly through: (i) Standardized performance dashboards; (ii) Progress reports against established targets; (iii) Material risk updates; (iv) Stakeholder feedback summaries;

(b) Approve material ESG commitments, including: (i) Long-term sustainability goals; (ii) Capital allocation for ESG initiatives; (iii) Strategic partnerships and collaborations; (iv) Public position statements on ESG matters;

(c) Ensure adequate resources for ESG programs through: (i) Annual budget review and approval; (ii) Staffing assessments; (iii) Technology and infrastructure requirements; (iv) External expertise engagement;

(d) Monitor ESG risk management via: (i) Quarterly risk assessment reviews; (ii) Independent assurance reports; (iii) Regulatory compliance updates; (iv) Emerging risk evaluations.

### **4.3 Risk Management**

The Company shall:

- (a) Maintain an ESG risk register that: (i) Identifies and categorizes all material ESG risks; (ii) Assigns risk owners and mitigation responsibilities; (iii) Tracks risk evolution and mitigation progress; (iv) Updates quarterly or as conditions warrant;
- (b) Conduct annual ESG risk assessments incorporating: (i) Internal stakeholder consultations; (ii) External expert reviews; (iii) Peer benchmarking; (iv) Scenario analysis;
- (c) Implement risk mitigation measures through: (i) Documented action plans; (ii) Clear accountability assignments; (iii) Regular progress monitoring; (iv) Effectiveness evaluations;
- (d) Report material risks to the Board, including: (i) Quarterly status updates; (ii) Emerging risk alerts; (iii) Mitigation strategy reviews; (iv) Impact assessments.

#### **4.4 Compliance Monitoring**

The Company shall:

- (a) Track applicable ESG regulations through: (i) Regulatory monitoring systems; (ii) Legal counsel updates; (iii) Industry association memberships; (iv) Regulatory authority engagement;
- (b) Conduct regular compliance audits: (i) Quarterly internal reviews; (ii) Annual external audits; (iii) Ad-hoc assessments as needed; (iv) Post-incident investigations;
- (c) Maintain compliance documentation including: (i) Regulatory filings and correspondence; (ii) Audit reports and findings; (iii) Corrective action records; (iv) Training and awareness materials;
- (d) Report violations promptly through: (i) Established notification protocols; (ii) Root cause analyses; (iii) Corrective action plans; (iv) Stakeholder communications.

## **5.0 IMPLEMENTATION AND MONITORING**

### **5.1 Key Performance Indicators**

The Company shall track and report the following metrics with specified frequency and methodology:

- (a) Environmental metrics including: (i) Scope 1, 2, and 3 greenhouse gas emissions; (ii) Energy consumption and efficiency ratios; (iii) Data center Power Usage Effectiveness (PUE); (iv) Water usage and conservation metrics; (v) Electronic waste disposal and recycling rates.
- (b) Social metrics including: (i) Workforce diversity statistics across all organizational levels; (ii) Employee training hours and completion rates; (iii) Workplace safety incidents and resolution rates; (iv) Community engagement program outcomes; (v) Supply chain labor compliance assessments.



(c) Governance metrics including: (i) Policy compliance rates and violations; (ii) Board composition and diversity metrics; (iii) Ethics hotline reports and resolution statistics; (iv) Risk assessment completion rates; (v) Regulatory compliance audit results.

(d) AI ethics metrics including: (i) Algorithm bias testing results and remediation; (ii) AI system transparency assessments; (iii) Data privacy compliance metrics; (iv) AI safety incident reports; (v) Model fairness evaluation scores.

## **5.2 Reporting Requirements**

The Company shall maintain comprehensive reporting procedures:

(a) Annual ESG reports shall: (i) Follow Global Reporting Initiative (GRI) Standards; (ii) Include Sustainability Accounting Standards Board (SASB) metrics; (iii) Align with Task Force on Climate-related Financial Disclosures (TCFD); (iv) Provide quarterly progress updates; (v) Be publicly accessible on the Company website.

(b) ESG data disclosure controls shall include: (i) Documented data collection methodologies; (ii) Internal verification procedures; (iii) Chain of custody documentation; (iv) Data quality assurance protocols; (v) Error correction procedures.

## **5.3 Audit Procedures**

Regular audits shall be conducted according to the following requirements:

(a) Internal audits shall occur quarterly and include: (i) Documentation review; (ii) Process validation; (iii) Employee interviews; (iv) Compliance testing; (v) Performance metric verification.

(b) External audits shall be conducted annually by: (i) Certified third-party auditors; (ii) Independent ESG consultants; (iii) Accredited certification bodies; (iv) Subject matter experts as required.

## **5.4 Stakeholder Engagement**

The Company shall maintain comprehensive stakeholder engagement through:

(a) Regular dialogue mechanisms including: (i) Quarterly stakeholder forums; (ii) Annual sustainability summits; (iii) Online feedback platforms; (iv) Community advisory panels; (v) Employee resource groups.

(b) Feedback incorporation processes including: (i) Structured feedback analysis; (ii) Action plan development; (iii) Implementation tracking; (iv) Progress reporting; (v) Outcome assessment.

## **5.5 Continuous Improvement**

The Company shall maintain ongoing program enhancement through:

(a) Regular policy reviews and updates; (b) Best practice benchmarking; (c) Technology advancement assessment; (d) Stakeholder feedback integration; (e) Performance trend analysis.

## **5.6 Non-Compliance and Remediation**

The Company shall address policy violations through:

(a) Documented investigation procedures; (b) Corrective action planning; (c) Implementation monitoring; (d) Effectiveness verification; (e) Preventive measure development.

IN WITNESS WHEREOF, this Policy has been executed as of the date first written above.

[Signature block and appendices remain unchanged]