

## Environmental and Social Review Summary (ESRS) EL ROSADO - ECUADOR

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### 1. General Information of the Project and Scope of IDB Invest's Environmental and Social Review

This operation consists of a long-term loan to finance part of the sustainable investment plan of Corporación El Rosado S.A. (hereinafter "CER", "the Company" or "the Client"). The Company, which is focused on the retail sector and also has businesses in the entertainment, restaurant, and real estate<sup>1</sup> sectors, is headquartered in the city of Guayaquil, Ecuador. However, it has a nationwide presence, with most of its stores located in the coastal region. The financing includes: (i) the installation, in 2 phases<sup>2</sup>, of photovoltaic (PV) panels with a total power of around 20 MW in shopping centers and supermarkets in Guayaquil and other cities, to generate energy for self-consumption; (ii) the adaptation and automation of the new Distribution Center for the Sierra region in the Alóag sector, Pichincha; (iii) the expansion of new commercial premises and the adaptation of existing stores; (iv) the purchase of land for future developments; and (v) the financing of other projects that are part of CER's 2021-2022 investment plan (the "Project").

As part of the environmental and social due diligence (ESDD), IDB Invest conducted the review of relevant environmental and social information, which included, but was not limited to, the review of the following relevant documents: i) manuals; ii) procedures; iii) environmental licenses and permits; iv) operating permits; v) environmental reports; and vi) certifications. As part of this process, IDB Invest held several virtual meetings with company officials and, with the support of a local consultant, visited the company's facilities. This visit included a tour of the facilities of: i) the Distribution Center (DC), located at km 18 ½ on the road to Daule; ii) the Los Ceibos II Shopping Center; iii) the Mi Comisariato Vía a la Costa store; and iv) the Chili's restaurant, located in the Ceibos I Shopping Center. It should be noted that CER's main activities take place in the Guayaquil, Daule, Durán and Samborondón cantons, among others, located in the province of Guayas.

### 2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with BID Invest's Environmental and Social Sustainability Policy. During the operation and maintenance of the distribution centers (DCs), retail stores, entertainment venues (movie theaters) and restaurants, the risks and impacts are estimated to be of low to medium-low intensity and correspond to: (i) generation of solid and liquid, hazardous and non-hazardous waste; (ii) generation of environmental noise and air emissions due to emergent electrical generation; (iii) potential accidents and impacts on the health and safety

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<sup>1</sup> As of December 2020, the company had 109 stores and 212 outlets distributed in 11 provinces and 35 cities in the country, making it the group with the second largest retail market share in Ecuador.

<sup>2</sup> The first phase, which will be implemented in 9 shopping centers by the end of 2021, will have an installed capacity of 11.2 MW. The second, scheduled for the third quarter of 2022 and with a total power of 8MW, will be implemented in 7 shopping centers.

of direct and indirect workers;<sup>3</sup> (iv) potential accidents affecting clients and users;<sup>4</sup> (v) demand for resources such as energy and drinking water; and (vi) traffic accidents due to transportation of merchandise to and from the DCs.

The Performance Standards (PS) triggered by the Project are: i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; and iv) PS4: Community Health, Safety, and Security.

### **3. Environmental and Social Context**

#### **3.1 General Characteristics of the Project's site**

The Company began operations in 1936 in downtown Guayaquil with a small bakery, which soon became a well-known restaurant. The business continued to grow with an imported products store, and then moved into the sale of groceries and sundries in self-service mode until it became known as "Supermercados El Rosado" (El Rosado Supermarkets). CER currently has 295 stores that include all the aforementioned lines of business, and is present in 35 cities in 11 provinces of Ecuador.<sup>5</sup> In addition, through the "e-commerce" business line, it serves 221 cities in the 24 provinces of the country.

The solar panels for self-generation of electricity<sup>6</sup> will be installed at 16 locations,<sup>7</sup> 9 in Guayaquil and 7 in other provinces, all in commercial areas.

The construction of the new DC foresees the use of an area of 13,200 m<sup>2</sup> of land with Industrial land use belonging to the company YANBAL ECUADOR S.A. ("YANBAL") and located in the parish of Alóag, canton Mejía, province of Pichincha.<sup>8</sup> YANBAL will be in charge of the construction of the new DC, which, once completed, will be transferred to CER under a lease agreement. The DC will be equipped as required by national regulations and international industry best practices.

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<sup>3</sup> In Maintenance Shops, Distribution Centers and retail store warehouses.

<sup>4</sup> Shopping centers, movie theaters and restaurants.

<sup>5</sup> Guayas, Manabí, El Oro, Santa Elena, Los Ríos, Cañar, Chimborazo, Santo Domingo, Pichincha, Tungurahua and Cotopaxi.

<sup>6</sup> The regulation covering the introduction of photovoltaic systems in Ecuador is Regulation No. ARCONEL - 003/18: Photovoltaic generation for self-supply of final consumers of electricity and Resolution No. ARCONEL - 042/18, which gives a transitory provision to Regulation No. ARCONEL 003/18.

<sup>7</sup> 9 sites to be implemented in 2021: i) Riocentro Sur: 2000 kW; ii) Albán Borja: 750 kW; iii) Riocentro Dorado: 1000 kW; iv) Paseo Shopping Daule: 1000 kW; v) Paseo Durán: 1000 kW; vi) Paseo Shopping Península: 1000 kW; vii) Riocentro Norte: 1000 kW; viii) Riocentro Los Ceibos: 1000 kW; and ix) Hiper Vía a la Costa: 935 kW and 7 sites (out of 8 in the portfolio) to be defined and implemented in 2022, in the "Paseo Shopping" shopping malls of: i) Machala, ii) Babahoyo, iii) Quevedo, iv) Santo Domingo, v) Portoviejo, vi) Ambato, vii) Bahía, and viii) Riobamba.

<sup>8</sup> The boundaries are: north, Metropolitan District of Quito; south, Aloasí Parish; east, Machachi and Tambillo parishes; and west, Manuel Cornejo Astorga Parish (TANDAPI).

### **3.2 Contextual risks**

According to DINASED data,<sup>9</sup> the province of Guayas is among the five most unsafe provinces in Ecuador, registering a rate of 11.4 deaths per 100,000 inhabitants. Its capital, Guayaquil, with a population of 2.7 million, suffers from violence and insecurity, where crime has increased significantly since 2017 and has become a city where some drug gangs dispute territory. According to the Ministry of Government<sup>10</sup> of Ecuador, in 2019 there was a 15.82% increase in intentional homicides.

## **4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures**

### **4.1 Assessment and Management of Environmental and Social Risks and Impacts**

#### 4.1.a E&S Assessment and Management System

The Company has developed regulations, manuals and procedures in order to legally comply with CER's environmental obligations in all its lines of business. However, it still lacks a formal environmental and social management system (ESMS).

#### 4.1.b Policy

CER, as part of its regulations, maintains an Occupational Health and Safety (OHS) Policy through which it is committed to: i) compliance with current OHS legislation; ii) the allocation of resources necessary for compliance; iii) continuous improvement; and iv) the provision of safe conditions for workers, clients and the general public. However, there was no evidence of a formal and systematic dissemination of this policy to the Company's direct and indirect employees.

CER still lacks environmental, social and human resources policies.

#### 4.1.c Identification of Risks and Impacts

Risks and direct impacts are identified as part of the environmental regularization processes, by means of environmental impact assessment (EIA) processes of the projects, works or activities carried out by CAR. The Environmental Management Plans (EMPs) resulting from the EIAs set out prevention and mitigation measures for the impacts identified, according to their level of risk. The Company, however, has yet to develop a matrix of environmental risks and impacts for each of its lines of business.

As regards environmental permits, the Company has 39 environmental control instruments granted: i) in favor of the different companies belonging to CER; and ii) in favor of their legal

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<sup>9</sup> National Directorate of Crimes against Life, Violent Deaths, Disappearances, Extortion and Kidnappings (DINASED, for its acronym in Spanish) of Ecuador.

<sup>10</sup> <https://www.primicias.ec/noticias/sociedad/homicidios-suben-primera-vez-desde-2010/>

representatives.<sup>11</sup> The Company, however, does not keep track of compliance with the obligations required by each of these permits. CER will therefore prepare a matrix for recording and monitoring compliance with the obligations arising from these instruments, and will designate the necessary personnel to carry out the obligations set out in these permits.

To manage the direct OHS risks related to its activities (retail stores, entertainment and restaurants), the Company will designate specific safety personnel and will develop, for each of its lines of business: i) an occupational risk matrix for each job or activity; ii) an emergency plan; and iii) a health surveillance plan. CER will also identify and assess other indirect OHS risks associated with its supply chain, transportation fleet and third-party personnel,<sup>12</sup> and design measures to manage them.

#### 4.1.c.i Gender Risks

In 2019, in the province of Guayas where most of CER's activity is located, a gender-based violence rate (physical, psychological, sexual, patrimonial, and gynecological-obstetric) of 63.1% was recorded. That is, 6 out of every 10 women over the age of 15 have suffered some form of violence.<sup>13</sup>

The Constitution of the Republic of Ecuador<sup>14</sup> provides for a life free of violence for all Ecuadorians and sets forth the necessary measures to prevent, eliminate and punish all forms of violence, especially violence against women, children and adolescents, the elderly and persons with disabilities. The National Plan for the Eradication of Gender Violence against Children, Adolescents and Women, approved in 2015, and the Comprehensive Organic Law to Prevent and Eradicate Violence against Women, issued in 2018, are other instruments to combat gender violence.

To date, the Project has 2,445 women in operational positions (representing 33% of CER's total direct employees) and 893 women in administrative positions (41% of total employees). At Management level 2 (senior level), which reports to the Vice President and Executive President, there are 4 women, representing 50% of the positions.

CER provides Personal Protective Equipment (PPE) and work uniforms, in accordance with current regulations and workers' gender. Nevertheless, CER will manage the occupational risks of its employees, including those who are pregnant, considering this population in occupational risk exposure measurements. The Company will also develop a gender risk and impact matrix, taking into account that approximately 50% of the staff is female, and will implement IDB Invest's "Gender Risk Assessment Tool"<sup>15</sup> (GRAT) to prevent and manage gender-related risks in its operations.

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<sup>11</sup> 11 environmental licenses belonging to Inmobiliaria MOTKE S.A, 22 environmental registrations belonging to Gad Czarninski, 2 environmental registrations belonging to Inmobiliaria Lavie, 2 environmental registrations belonging to Inmobiliaria Meridional, 1 environmental file belonging to Johnny Czarninski and 1 environmental certificate belonging to Pazmiño Peñarreta.

<sup>12</sup> Contractor workers and suppliers.

<sup>13</sup> INEC National Institute of Statistics and Census. Gender Violence Survey 2019 [https://www.ecuadorencifras.gob.ec/documentos/webinec/Estadisticas\\_Sociales/Violencia\\_de\\_genero\\_2019/Principales%20resultados%20ENVIGMU%202019.pdf](https://www.ecuadorencifras.gob.ec/documentos/webinec/Estadisticas_Sociales/Violencia_de_genero_2019/Principales%20resultados%20ENVIGMU%202019.pdf)

<sup>14</sup> Constitution of the Republic of Ecuador, Art. 66(3)(b) A life free of violence in the public and private sphere. The State shall adopt the necessary measures to prevent, eliminate and punish all forms of violence, especially against women, children and adolescents, the elderly, persons with disabilities and all persons in situations of disadvantage or vulnerability; identical measures shall be taken against violence, slavery and sexual exploitation.

<sup>15</sup> The document can be downloaded at the following link: <https://www.idbinvest.org/en/publications/gender-risk-assessment-tool>.

#### 4.1.c.ii Climate change exposure

Climate change-associated risks and natural hazards to CER's supermarkets in the Coastal CER region have a propensity to worsen as a result of climate change, especially in terms of moderate to high changes in precipitation patterns, flooding, and heat waves. The Company will review and update its Emergency Preparedness and Response Plans accordingly, as well as the measures to manage these risks in its facilities, including procedures to define, transfer and include them in the environmental and social (E&S) management of the supply chain.

#### 4.1.d Management Programs

To control and manage undesirable environmental impacts, CER has an Environmental Management Plan (EMP) for each of its commercial sites. These plans have been approved by the corresponding entities: the Ministry of the Environment of Ecuador, the Municipality of Guayaquil, the Provincial Directorate for the Environment of Guayas and the Provincial Directorates corresponding to each commercial establishment.

In general, CER's activities have been categorized as medium-low impact, which requires a type II environmental license corresponding to an environmental register. The EMPs include: i) impact prevention and mitigation plan; ii) contingency plan; iii) communication and training plan; iv) monitoring and follow-up plan; v) community relations plan; vi) occupational health and safety plan; vii) rehabilitation plan; and viii) closure and abandonment plan.

The Client, however, has yet to develop management programs at the corporate level. Accordingly, it will develop and implement, among others, the following programs: (i) environmental monitoring and follow-up; (ii) integrated solid and liquid waste management, which emphasizes measures to store and dispose of, in an environmentally friendly manner, any waste that cannot be reduced, reused and recycled; and also provide special management measures for hazardous waste, such as oils, greases, paints, solvents, medicines, disinfectants, or any other product requiring special handling that is used during the operation and maintenance (O&M) activities of each branch, based on national environmental and sanitary standards; iii) management and prevention of occupational risks for all its lines of business; iv) operating procedures for its contractors and suppliers; and v) risk plan for the community during the implementation of its activities.

#### 4.1.e Organizational Capacity and Competency

Responsibility for the Company's E&S matters is distributed among several positions: (i) environmental management,<sup>16</sup> is under the responsibility of an environmental technician who is part of the Legal Management; (ii) safety management reports to a head position under Human Resources Management, although safety management in the shopping centers is shared with security personnel; and (iii) occupational health management is overseen by an external company, although there is a social worker who reports directly to Human Resources Management and who,

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<sup>16</sup> This mainly consists of: i) obtaining environmental permits and certifications; ii) complying with current environmental regulations; and iii) implementing environmental management plans in each of the commercial premises and DCs.

among other aspects, is responsible for looking after health issues. Community relations and social issues management do not have a specific position in the Company's organization chart.

The Company will therefore: i) define a person responsible for the integration of the ESMS to lead the development, implementation and monitoring of all environmental, social and health and safety management plans, programs and procedures, including contractors and suppliers; ii) define and ensure the provision of the necessary human and financial resources to address the development and implementation of the ESMS, in accordance with the scale of current and future operations; and iii) regularly evaluate the effectiveness and adequacy of the assigned skills and competencies.

#### 4.1.f Emergency Preparedness and Response

Each of CER's retail stores, movie theaters, restaurants and shopping centers has an Emergency Plan approved by each jurisdiction's Fire Department. The main objective of this plan is to identify, prevent, act and respond to possible emergency situations. Each plan identifies the equipment, machinery and electrical systems that may generate possible fire risks; defines the alarm systems, intervention protocols, the formation of brigades and the resources available for emergency response; identifies the most probable natural (earthquakes, floods, etc.) and anthropogenic (fires, sabotage, etc.) emergency situations; and describes the type of inter-institutional coordination required to address these situations.

Despite the above, the Company, for each of its commercial premises and lines of business (stores, cinemas, restaurants): i) will form an emergency brigade according to the level of risks and scenarios in each of its operations; ii) will develop a Brigade Training Program; and iii) will implement a schedule of drills, in accordance with each of its Emergency Plans.

#### 4.1.g Monitoring and Review

The Company, for each store or commercial location and in compliance with the management measures described in the EMPs, implements Monitoring and Follow-up Plans for: i) effluents; ii) solid waste; iii) water quality; iv) environmental noise; v) air emissions; vi) energy consumption; vii) water consumption; viii) hazardous materials; and ix) hazardous waste. In addition, in fulfillment of its environmental legal obligations, CER regularly submits to the authority: i) environmental compliance reports (ECR), in the case of stores or commercial premises that have an Environmental Register; or ii) an Environmental Compliance Audit (ECA) report for stores or commercial premises with an Environmental License.

Nevertheless, the Client shall develop a compliance matrix that includes all legal and contractual obligations and that includes: i) the competent authority to issue the authorization, permit or license; ii) the dates of issuance and validity of the licenses and permits; and iii) the Legal Requirements Compliance Procedure, in order to define the guidelines, responsibilities and methodology to be followed to identify, access, update, communicate, evaluate and monitor compliance with legal requirements pertaining to the Client's line of business.

The Company will verify, either through internal or external audits, compliance with all environmental, social and OHS policies and measures applicable to its operations, through the analysis of predefined key performance indicators (KPIs).

CER does not currently maintain statistics on frequency (LTIFR) and severity (LTISR) rates, nor on occupational hazard (accident) rates associated with its operations.

#### 4.1.h Stakeholder Engagement

CER, through its environmental regularization processes, holds social participation events with the communities in its area of influence. This procedure, however, is only applied as a requirement for obtaining environmental licenses.

CER works in coordination with the National Police to manage the physical security of its commercial premises. It also cooperates actively in all the provinces where it operates with public entities such as: municipalities, governors' offices, prefectures, fire departments and health centers. Nevertheless, CER will develop a stakeholder engagement procedure that will include: i) a stakeholder map; ii) stakeholder communication records; iii) consultation and informed participation processes; and iv) a stakeholder management plan.

#### 4.1.i External Communication and Grievance Mechanisms

CER has a customer service department that receives and attends to complaints, suggestions and claims related to the quality of service for all its lines of business. It has therefore implemented the following communication channels: i) in person, at the place where the complaint is filed; ii) by telephone; iii) e-mail; and iv) social media. Complaints are handled through an incident manager, who forwards them to the appropriate department for analysis and investigation, ending with the final response to the customer. This complaint system allows anonymity. It does not, however, handle complaints that may arise from its operations' environmental and social risks.

The Company will adapt the existing procedure for managing external complaints, according to their nature and seriousness, and will include the following elements: (i) complaint reception points; (ii) a documentation system to record, follow up on and analyze complaints and solutions; (iii) response forms and procedures; (iv) mechanisms for communication and disclosure to external stakeholders; (v) review mechanisms to enable senior management to evaluate the effectiveness of the system; (vi) inclusion in public reports of complaints filed and resolutions; (vii) mechanisms for extending the procedure to suppliers and contractors; and (viii) formalization of key stakeholder participation to receive and manage complaints.

CER's advertising department (through an external company), which handles external communications,<sup>17</sup> focuses primarily on transmitting the retail business strategy, as well as on communicating actions and initiatives aimed at preserving the environment, such as the rational

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<sup>17</sup> External communications are channeled through the following tools: i) digital communication through its portal and social media such as Facebook, Twitter, Instagram; ii) institutional spokesperson; and iii) printed publications.

use of plastic bags, clean energy generation and activities that are part of its corporate social responsibility program.

Nevertheless, the Company will: i) formulate a procedure and assign personnel to report to affected communities on significant risks of its actions and corresponding action plans; ii) provide multiple channels to inform communities; iii) conduct a survey to learn what information is useful to communities; iv) report the results of the Company's performance; v) provide statistics on the complaint resolution process; and vi) publish an annual environmental and social report following international best practices such as the Global Reporting Initiative (GRI).

## **4.2 Labor and Working Conditions**

### 4.2.a Working Conditions and Management of Worker Relationships

During 2020, CER had 8,249 direct employees, distributed in the following divisions: i) administrative; ii) operations; and iii) maintenance. Similarly, from 2020 to date, the number of part-time workers has increased due to the need to adapt to the COVID-19 pandemic. In addition, an increase of approximately 200 jobs is expected as a result of the new investments, which will employ men and women in equal proportions

CER has an Internal Labor Regulation (ILR)<sup>18</sup> that provides for: i) employee hiring; ii) work schedules in daily rotating shifts; iii) working hours; iv) rules regarding shifts, remuneration and overtime; iv) paid annual leave and paid and unpaid leaves of absence; v) types of faults and penalties; and vi) obligations and prohibitions of the employee and employer.

CER provides transportation and meals for both stores and DC employees working night shifts. The Company also inducts new personnel on the responsibilities of their positions; however, it has not defined a training plan for its personnel to strengthen the necessary skills of its employees, including the development of soft skills for leadership positions.

#### 4.2.a.i Human Resources Policies and Procedures

The Company lacks a formal Human Resources Policy. In this sense, CER will develop fair and equitable procedures to establish employment benefits and wages through an analysis of the social and economic reality, regardless of gender, with the aim of attracting and retaining talent. It will also adopt equity, anti-harassment and anti-discrimination policies, compatible with Ecuadorian legislation, international human rights conventions and the conventions of the International Labor Organization (ILO).

#### 4.2.a.ii Working Conditions and Terms of Employment

CER complies with the labor regulations in force in Ecuador, and incorporates the provisions contained in the ILO conventions, its ILR and Workers' Health and Safety Regulations, which refer to

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<sup>18</sup> Approved by the Ministry of Labor by Resolution MDT-DRTSP5-2015-2892-R2-ME in February 2015. This regulation must be renewed every 2 years.



the rules and conditions related to employee recruitment and hiring; working hours and rest periods; paid annual leave; paid and unpaid leaves of absence; flexible work schemes to promote collaboration and productivity; wages and benefits; rights and obligations of both the employer and the employee; behavior and disciplinary measures; risk management; flexible work schemes to promote collaboration and productivity; behavior and disciplinary measures; occupational risk management; and disabled workers, among other aspects.

#### 4.2.a.iii Workers' Organizations

Ecuador is a signatory to several ILO conventions and international treaties related to workers' rights, including freedom of association and the protection of the right to organize, the right of association and the right to collective bargaining. Despite the fact that Ecuadorian labor legislation does not limit but, on the contrary, promotes this type of association, CER currently has no labor unions.

#### 4.2.a.iv Non-discrimination and Equal Opportunity

The Company makes no distinction based on gender; rather, it provides equal opportunities to its employees in order to achieve its objectives and goals. It currently has 8,300 employees, 35% of whom are women and 65% men, with a balanced distribution among management positions.

#### 4.2.a.v Grievance Mechanism

CER currently has the following channels for capturing internal grievances: i) directly through human resources selection personnel; and ii) through social workers. Once the grievance is received, the stores are visited to verify the information, its follow-up and resolution. This information, however, does not generate corrective action plans.

The Company will therefore develop and implement an internal grievance procedure, which will determine: i) how and through what means a grievance is received from any worker, including contractors and subcontractors; ii) how these grievances are evaluated; iii) how responses are provided and followed up, concluding with the closure of the grievance; iv) how the mechanism is evaluated and improved; and v) how it is communicated and disclosed. This mechanism will allow anonymity, will be independent and will guarantee confidentiality. The Company will also implement a training program on the use of this mechanism for all its personnel, including contractors and subcontractors.

#### 4.2.b Protecting the Workforce

CER, in observance of current regulations and international conventions and treaties ratified by Ecuador, regulates labor relations through its ILR, establishing the minimum rights and duties of employers and employees. Nevertheless, the Company will implement, as part of its ILR, specific rules that ratify the prohibition of child labor, and other provisions contained in the ILO conventions

ratified by Ecuador.<sup>19</sup> Likewise, through its RIT, the Company will extend and ensure the prohibition of child and forced labor in the hiring of third party personnel (contractors, subcontractors and suppliers).

The ESDD did not find any evidence of child or forced labor practices.

#### 4.2.c Occupational Health and Safety

CER has an Occupational Health and Safety (OHS) Policy and an Occupational Health and Safety Regulation, which determine: (i) the general obligations of the employer; (ii) the obligations and rights of employees; (iii) the prohibitions of the employer and employees; (iv) the obligations of the person responsible for occupational health and safety; (v) the obligations of the providers of complementary activities; (vi) the responsibility in shared spaces between companies and institutions; (vii) how occupational risk prevention is managed; (viii) the joint bodies; ix) how to manage occupational risks through identification, measurement, evaluation, control, planning, execution, follow-up and continuous improvement; x) risk management of high-risk jobs; xi) prevention of natural hazards and anthropogenic risks; xii) occupational health management; xiii) prevention programs; xiv) registration, investigation and notification of accidents and occupational diseases; and xv) information, training, certification of competencies and training in risk prevention.

A Work Plan that determines the following OHS actions is implemented in each DC: (i) monitoring contractors' occupational safety compliance; (ii) forming and training emergency brigades; (iii) assessing the current situation in terms of resources available for emergency response; (iv) planning drills and training in how to use emergency response equipment; (v) forming the Joint Subcommittee; and vi) monitoring compliance with the Employee Health and Safety and Work Environment Improvement Regulations regarding the implementation of signage, training and education, publication of evacuation maps, induction of new personnel, and visitors, among others.

CER has a Contractor Risk Prevention Manual whose main objective is to establish the technical requirements and guidelines necessary for the safe execution of high-risk tasks.

With regard to occupational health, CER does not provide direct medical services, but has a contract with an external company<sup>20</sup> that provides services related to pre-occupational, periodic and post-occupational examinations of employees. The Company has a Medical Assistance and Care Plan in case of sudden illness or accident, which is provided by an external service provider.

The Company, in order to comply with the requirements set forth in the occupational health regulations in force,<sup>21</sup> shall: i) work closely with the industrial safety (IS) department to prevent occupational risks; ii) study and monitor the environmental conditions at the work sites, in order to obtain and maintain the best possible values for ventilation, lighting, temperature and humidity; iii)

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<sup>19</sup> These include: Convention 138 on Minimum Age; Convention 182 on the Worst Forms of Child Labor and specific standards concerning the prohibition of forced labor; Convention 29 on Forced Labor; and Convention 105 on the Abolition of Forced Labor.

<sup>20</sup> Medigreen S.A. Contract for the Provision of Medical Services.

<sup>21</sup> Ministerial Agreement 1404, Regulation of Company Medical Services, Art. 7.

carry out entry, periodic, special and post-occupational occupational examinations; and iv) have an occupational physician in accordance with the size of the company.

The Company will therefore develop and implement: i) an Occupational Health and Safety Management System (OHSMS), which will include procedures, manuals, instructions and records that allow it to comply with regulations and maintain adequate management for the identification, measurement and control of occupational risks; ii) an education and training program for its workers; iii) a plan for monitoring occupational risk factors that identifies resources for adequate attention to occupational emergencies; and iv) a health surveillance plan for the prevention of occupational diseases and the promotion of health.

#### 4.2.d Provisions for People with Disabilities

The Company will include specific rules and provisions for people with disabilities in its ILR, which will be compatible with the provisions of ILO Convention 111 on Discrimination in Employment and Occupation and aligned with the regulations in force.<sup>22</sup>

#### 4.2.e Workers Engaged by Third Parties

In order to minimize the possible effects on people, equipment, facilities and the environment generated by high-risk activities, CER has developed a Risk Prevention Manual for Contractors, which establishes compliance with local occupational health and safety regulations for contractors.

#### 4.2.f Supply Chain

The Company consistently promotes market opportunities for micro and large companies. In 2020, number of suppliers increased by 4.73% and 8.89%, respectively, compared to 2019.

The Company provides training to its suppliers on the provisions established in its Suppliers' Guide to inform them of basic quality guidelines and directives and to ensure the safety of products or foodstuffs during the logistics process carried out at the Distribution Center. It does not, however, currently manage the E&S risks associated with its supply chain. In this regard, it will develop and implement a Supplier Policy and a Supplier Management Procedure, which will include: i) the identification and management of its main suppliers' risks and impacts; ii) a training plan to help manage environmental and social issues; iii) E&S performance monitoring to review the purchasing policy; and iv) the design of E&S capacity-building programs for its suppliers.

This project does not provide for the manufacture, design or use of custom solar panels. The purchase of solar panels is expected to be "off the shelf" and under the customer's responsibility. Because of this and the difficulty in identifying solar panel suppliers with no allegations of forced labor in the supply chain, IDB Invest will monitor the solar panel procurement processes developed by the client, and will continue to provide guidance and technical assistance to prevent the purchase of solar panels from suppliers that may involve the use of forced or child labor.

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<sup>22</sup> In accordance with Labor Code Art. 42(33), obligation to hire personnel with disabilities.

### 4.3 Resource Efficiency and Pollution Prevention

#### 4.3.a Resource Efficiency

In recent years, the Company has implemented actions to reduce energy consumption in its operations through self-generation of photovoltaic renewable energy, which has already been implemented in two locations: i) the DC, where it supplies 40% of the energy demand, and ii) in Mi Comisariato de Yaguachi.

This operation calls for the implementation of photovoltaic solar panels for self-generation in several<sup>23</sup> commercial premises, 9 to be implemented in 2021, one of which (the Hiper Vía a la Costa) had already begun construction at the date of the ESDD site visit.

To date, the Company has obtained the Leadership in Energy Efficiency and Sustainable Design (LEED<sup>24</sup>) certification at two of its commercial premises.

#### 4.3.a.i Greenhouse Gases

CER has implemented some actions to reduce its carbon footprint and minimize greenhouse gas (GHG) emissions. These include: i) installing solar panels in its DC and retail stores, which will reduce CO2 emissions by 5,626 tons; ii) replacing refrigeration equipment with refrigerants that use non-ozone depleting gases; iii) carrying out advertising campaigns such as the "eco-box", which promotes the use of recyclable plastic bags; and iv) using packaging material made from recycled material.

CER also has LEED carbon neutral certifications for Paseo Shopping Babahoyo and Riocentro El Dorado, based on the following evaluation criteria: i) sustainability; ii) water efficiency; iii) energy and atmospheric impact; iv) materials and resources used; v) quality of the interior environment and innovation and design process.

The Company will, however: i) conduct a GHG emissions inventory of all its retail, entertainment and restaurant stores; ii) maintain an annual record of its GHG emissions; and iii) incorporate energy efficiency concepts in the design of its new retail, entertainment and restaurant stores, as well as in the new DC in Alóag, Pichincha.

#### 4.3.a.ii Water Consumption

The Company's premises are supplied with drinking water and sewage services by the municipalities in which they are located. In 2 shopping centers,<sup>25</sup> however, it has installed and operating wastewater treatment plants. In addition, in order to meet the LEED certification requirements for the Babahoyo and El Dorado shopping centers, water efficiency and water consumption reduction measures have been implemented, such as the installation of toilets and sinks that allow up to 60%

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<sup>23</sup> Solar panels will be implemented in 16 locations, 9 in Phase 1 and in 7 locations to be defined in Phase 2 in 2022.

<sup>24</sup> Certified by the Green Building Certification Institute GBCI®.

<sup>25</sup> Riocentro El Dorado and Paseo Shopping Duran Outlet

savings in water consumption. Likewise, at the Hipermarket vía la Costa, water quality analyses are conducted annually to guarantee the quality of drinking water.

Nevertheless, the Company will incorporate water efficiency standards in the design of its retail stores, DCs, entertainment rooms, restaurants and maintenance shop (own transportation fleet).

#### 4.3.b Pollution Prevention

CER, through its EMP, performs the following preventive measures, in observance of the environmental regulations in force, such as: (i) domestic wastewater treatment prior to discharge to the public sewer, via phase separation with grease traps; (ii) domestic wastewater treatment via a Wastewater Treatment Plant (WWTP), prior to discharge of effluents to the municipal sewer; (iii) air quality monitoring; (iv) ambient noise quality monitoring; and (v) hazardous and non-hazardous waste management.

##### 4.3.b.i Waste

Both in the retail stores and in the DC, CER recycles only cardboard, which is delivered to authorized external managers. Entertainment venues (movie theaters), however, have a waste sorting system in place for their customers. The Company also applies a specific procedure for the return of products that are in poor condition (wet, bruised, broken, stained, split); that do not meet hygiene and quality specifications and conditions; that exhibit physical contamination (e.g., pieces of glass, pieces of metal, etc.); or that are chemically contaminated (infiltration of pesticides, fertilizers or other similar substances into the foodstuffs). This procedure states that these products must be returned to the supplier and that the latter is responsible for managing their treatment and final disposal. Common waste is managed by the corresponding municipality's public collection and disposal service.

Nevertheless, CER will develop and implement a specific program to manage recyclable, non-hazardous, hazardous and special waste for all of its retail, entertainment and restaurant stores, its Distribution Center and Maintenance Workshop, which will allow it to trace its waste for each center and increase such wastes' recycling levels. It will also implement specific temporary waste storage points in different areas of the shopping centers.

##### 4.3.b.ii Hazardous Materials Management

The transportation, treatment and disposal of hazardous waste is currently handled by qualified managers authorized by the Ministry of Environment, Water and Ecological Transition (MAATE, for its acronym in Spanish). These managers generate a waybill and a certificate of final disposal.

CER will implement a procedure to maintain traceability of the hazardous waste generated by each type of business premise, including city and province. In addition, in order to comply with the environmental regulations in force, it will obtain the hazardous waste generator's registration for all its premises that generate this type of waste.

#### 4.3.b.iii Pesticide Use and Management

CER has an integrated pest management procedure that requires that the products used must be approved by the Ecuadorian Ministry of Public Health and the U.S. Environmental Protection Agency (EPA) since they must be suitable for use in the food industry. The procedure is based on the consolidated standards of the National Pest Management Association (NPMA) and the AIB<sup>26</sup> international standards, which reflect the best industry practices and contain the key requirements for food processing and distribution facilities to maintain the health and safety of the environment and its products.

### **4.4 Community Health, Safety and Security**

#### 4.4.a Community Health and Safety

##### 4.4.a.i Infrastructure and Equipment Design and Safety

Retail stores, entertainment (movie theaters) venues, restaurants, shopping malls, and the existing DC shall comply with current fire prevention regulations.<sup>27</sup> The new DC shall also comply with the National Fire Protection Association (NFPA) international standards for life and fire safety (L&FS) system(s) or facilities. In this regard, for this building the Client will: (i) will ensure compliance with applicable national and international construction and safety guidelines, standards and codes; (ii) provide certification from a qualified professional verifying that the design of the fire protection facilities of the new branches, comply with the L&FS requirements of the IFC General EHS Guidelines, NFPA international L&FS codes, the Fire Defense Law and Ecuador's INEN standards; and (iii) after construction, provide a certificate issued by a qualified L&FS professional that the new distribution center was constructed and operates in accordance with the approved L&FS design, and all L&FS devices were installed and tested as designed.

##### 4.4.a.ii Hazardous Materials Management and Safety

In the DC, products containing hazardous materials are stored and classified according to the compatibility of the chemicals they contain. Nevertheless, the Company will implement the following actions: i) have Material Safety Data Sheets (MSDS)<sup>28</sup> on site to identify the prevention and safety measures for each product stored; ii) identify the hazardous products indicated in the safety diamond according to NFPA 704 or the globally harmonized system for proper classification in retail store warehouses; and iii) maintain traceability of the management of hazardous products that must be destroyed.

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<sup>26</sup> AIB (American Institute of Baking) defines the standards by which compliance with certain food safety standards must be ensured.

<sup>27</sup> Such as the Fire Defense Law of Ecuador and the standards of the Ecuadorian Institute for Normalization (INEN, for its acronym in Spanish).

<sup>28</sup> Material Safety Data Sheet.

#### 4.4.a.iii Community Exposure to Disease

To face the challenges generated by the COVID-19 pandemic and as required by the National and Cantonal Emergency Operations Committee (COE, for its acronym in Spanish), CER has developed a biosecurity protocol to prevent contagion and avoid the spread of the disease. This protocol, which is mandatory for administrators, managers, employees, suppliers, tenants and visitors in general who have access to shopping centers and warehouses, establishes a sanitary control point at each location to check body temperature, control the use of face masks, sanitize footwear and dispense alcohol, prohibiting the entry of persons who present symptoms associated with COVID-19 and those who fail to follow the biosecurity measures. CER has also implemented a comprehensive vaccination plan for its staff.<sup>29</sup>

#### 4.4.a.iv Emergency Preparedness and Response

The Company currently lacks a community Emergency Preparedness and Response Plan. The risk and impact assessment does not include community emergency scenarios and fails to consider situations that may require a coordinated response with the community. CER will therefore: i) conduct a community risk assessment prior to the development of new and existing projects; and ii) develop and implement an Emergency Preparedness and Response Plan that addresses risks to customers and communities in the area of influence of its operations.

#### 4.4.b Security Personnel

The Company has a Security Management Office that is responsible for the surveillance of all its commercial premises nationwide. The company's own security personnel, prior to performing their duties, receive training and instruction on the Security Management Manual and the Emergency and Contingency Plans. This training, among other topics, covers the following: (i) internal procedures for supervisors; (ii) procedures with guards; (iii) procedures and recommendations for theaters; (iv) fire safety measures and procedures; (v) instructions to be followed in all premises; (vi) industrial safety, use of firefighting equipment, handling and use of fire extinguishers among others; (vii) electronic safety; (viii) procedure in case of activation of the assistance button; (ix) occupational safety-first aid; and (x) evacuation procedure during natural disasters.

The management has two heads, one for the Coastal region and one for the Highlands region, to whom the Supervisors, responsible for the security of each retail store, report. These supervisors are in charge of: i) security guards, responsible for security outside the stores, inside the malls; and ii) "door supervisors", responsible for security inside the stores. For entertainment venues (movie theaters and restaurants), the Company has a contract with an external security service provider. These workers engaged by third parties, in turn, receive training on CER standards, procedures and instructions. These personnel have a permit and are authorized to carry firearms.

To ensure the correct performance of the security personnel hired, the Company will include, as part of the training to be provided, topics on professional ethics and human rights. The contracts entered into with security companies will also include provisions that allow CER, among other

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<sup>29</sup> 91% of its staff had been vaccinated.

things, to: i) conduct reasonable investigations to ensure that security personnel do not have criminal records and have not participated in criminal activity in the past; ii) verify details of the necessary training<sup>30</sup> on the use of force; iii) verify restrictions on the use of firearms; and iv) identify details of training on environmental and social awareness, including issues related to respect for human rights.

#### **4.5 Land Acquisition and Involuntary Resettlement**

The Project does not involve any involuntary resettlement or economic displacement of any kind.

#### **4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

All existing branches of CER have their Certificate of Intersection that certifies that the facilities do not intersect the National System of Protected Areas, Protective Forests, and State Forest Heritage.

#### **4.7 Indigenous Peoples**

The Project will not affect any indigenous peoples or afro-descendant populations.

#### **4.8 Cultural Heritage**

The Project does not include any construction or expansion activity; therefore, there is no impact on cultural heritage.

### **5. Local Access of Project Documentation**

The documentation relating to the Company can be accessed at the following link: <https://www.elrosado.com/>

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<sup>30</sup> As per the International Finance Corporation (IFC) Good Practice Handbook. Use of Security Forces: Assessing and Managing Risks and Impacts. Guidance for the Private Sector in Emerging Markets.