

Environmental and Social Review Summary (ESRS) 13823-01 - Los Portales II - Peru

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

Los Portales S.A. ("LP" or the "Company"), established in 1996, is a company that engages directly and through its subsidiaries in all types of investments and businesses in real estate and urban development, as well as in the development and operation of parking lots and the provision of tourism and hotel services. LP's operations mainly focus on real estate, and it is the market leader in the urban development business. It develops its urban development business in 16 cities and 14 provinces of Peru. (Piura, Lambayeque, Trujillo, Santa, Barranca, Huaura, Chincha, Pisco, Tacna, Puno, Huancayo, Ica, Cañete, and Lima).

The proceeds of this second financing¹ transaction will be used to finance part of the cost of urban development and social housing projects, including the acquisition of new land to be used to develop such projects (the "Project"). LP's investment plan for 2022 foresees the acquisition of 20 plots of land in 8 cities (Chiclayo, Chincha, Ica, Lambayeque, Chimbote, Barranca, Huancayo, Chiclayo) in Peru totaling 223.2 hectares, which will be used for its urban development and social housing businesses. An estimated 150 projects will be developed during the term of the bond in approximately 18 cities in Peru. This will benefit more than 22,000 families in socioeconomic sectors C, D, and E by providing them access to first homes.

The environmental and social due diligence ("ESDD") process was based on the review of relevant environmental and social information, together with a site visit, as part of the monitoring of the current credit operation. The review included, but was not limited to, an analysis of the following topics: i) the Environmental and Social Management System ("ESMS"); ii) environmental permits and certifications in force; iii) labor conditions; iv) occupational health and safety ("OHS") programs; iv) management of hazardous and non-hazardous solid and liquid waste; v) stakeholder management; and vi) carbon footprint measurement. The process was complemented with staff interviews with the Company's Occupational Health, Safety and Environment (OHSE) and Human Capital departments.

¹ Details of the first operation, including the Environmental and Social Review Summary (ESRS) and the Environmental and Social Action Plan (ESAP), can be found at <https://idbinvest.org/en/projects/los-portales>

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 since it will likely generate the following impacts among others: i) air emissions and noise during the project construction stages; ii) potential occupational accidents due to earthworks and civil construction work; iii) claims and demands for third party labor; iv) traffic accidents due to increased vehicular and truck traffic to and from the projects; v) solid and liquid waste generation; and vi) demand for water resources.

These impacts and risks are deemed to be of medium-low intensity and were identified and analyzed in the ESRS of the previous credit operation with the Company and published on the IDB Invest² website.

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

3 Environmental and Social Context

3.1 General Characteristics of the Project's site

Through its operations, LP allows the population, particularly socioeconomic segments B-, C, and D, to access land suitable for a first home, enabling their social development and improving their quality of life. It also builds social housing for low-income families (Techo Propio and Mi Vivienda) and, through its subsidiary, multifamily projects that qualify for government subsidies (Fondo Mi Vivienda).

In other lines of business, LP develops land in the form of urban development for secondary housing (sale of lots for country or beach houses). Through its subsidiary LP Hoteles, the Company currently manages a total of 5 hotels, which are located in the main cities of Peru (Piura, Tarma, Lima, and Cusco). Through a subsidiary company, Los Portales Estacionamientos, it manages and operates its own and third-party parking lots.

3.2 Contextual Risks

In Peru, many middle- and low-income families, lacking access to the financial system, opt to purchase informal housing on the outskirts of cities, or buy plots of land from land traffickers. Although, in some cases, Los Portales' projects are located in urban areas with a significant percentage of informal housing and in areas close to illegally occupied zones, the company transforms vacant urban land and some rural properties close to urban areas, implementing drinking water and sewage systems, public lighting, electricity supply, streets and sidewalks, parks and gardens.

² <https://idbinvest.org/sites/default/files/environmental-and-social-review-51780-en.pdf>

4 Assessment and Management of Environmental and Social Risks and Impacts

4.1 Assessment and Management of Environmental and Social Risks and Impacts

The Company has an ESMS that has been developed and is being implemented as required by the commitments in the previous operation's ESAP, which is published on IDB Invest's website.³

LP's Integrated Management Policy affirms the company's commitment to risk prevention, environmental preservation, and the development of socially responsible behavior. These commitments are extended to related third parties such as suppliers, contractors, customers, and visitors. The company is also committed to the continuous improvement of its Integrated Management System and to reviewing its policy on an annual basis.

Projects are evaluated by the Ministry of the Environment in accordance with Law No. 27446 of the National Environmental Impact Assessment System ("SEIA") and its regulatory decrees. Projects are classified into three risk assessment categories; the first category (low risk) requires the submission of an Environmental Impact Statement (EIS), the second category (medium risk) requires the completion of a semi-detailed Environmental Impact Assessment (EIA Sd), while the third category (high risk) requires a detailed EIA (EIA d).

LP has plans and procedures applicable to its business units to prevent environmental, social, and occupational risks. For example, the Occupational Health, Safety and Environment ("OHSE") department in LP has implemented the following procedures: i) procedure for identifying and evaluating the management of environmental aspects; ii) internal occupational health and safety rules and identification of applicable safety regulations; iii) occupational health and safety ("OHS") corrective and preventive actions; iv) constitution and development of OHS committee functions; v) management of OHS audits; and vi) inspections of operational controls, accident and incident investigation, emergency preparedness and response, and OHSE standards for suppliers and contractors.

The OHSE Department, which reports to the Administration and Logistics Area, is responsible for ensuring compliance with the legislation in force and the organization's internal policies on safety, health, and the environment, including social issues, in coordination with the Human Capital area. The head of OHSE is responsible for the department, with the support of two coordinators and two supervisors, one for the north and one for the south region. In turn, the Resident Engineers are responsible for OHSE in each direct execution project, and the Project Managers for outsourced execution projects.

The company has a training program that is based on a needs assessment prepared in coordination with the management of each area, which considers impact requirements, type of training, and expected performance.

The Emergency Preparedness and Response procedure establishes guidelines to properly identify and respond to emergencies in all LP's operational and administrative areas, as well as for all

³ <https://idbinvest.org/en/projects/los-portales>

contractors and visitors. Emergencies include: fires, pollution, explosions, structural failures, spills, earthquakes, landslides, tsunamis, and floods. Each Business Unit has a Crisis Management Committee composed of members of management, the head of OHSE and the head of Physical Security in charge of executing actions to address the emergency.

LP conducts occupational health and safety compliance evaluations on a regular basis. The purpose of these audits is to determine whether the occupational health and safety management system has been implemented and whether it complies with the legal provisions and standards applicable to the sector.

LP monitors noise, air quality, and waste through environmental consultants registered with the competent authority. Compliance reports on its projects' environmental commitments are submitted to the General Directorate of Environmental Affairs (DGAA) of the Ministry of Housing.

Citizen participation mechanisms are governed by Supreme Decree N°002-2009-MINAM. Category I projects do not require public hearings, and this is the most frequent categorization for urban development projects. Nevertheless, LP conducts citizen participation surveys of the surrounding population identified as stakeholders to determine whether the project will have a positive or negative impact on their activities.

LP has a nationwide toll-free line (LP Ethics Line), which operates 24 hours a day and is managed by Ernst & Young (EY). This line is used as a means to confidentially report any irregularities perceived by employees or third parties. LP displays a poster in each office with the number and e-mail address for this mechanism. It is also provided to each employee on the day he/she joins the company and disseminated through the corporate e-mail.

There is a customer service center at the company's sales booths located at all projects, where community members can go or they can communicate directly with project leaders and managers.

4.2 Labor and Working Conditions

The Internal Labor Regulations regulate the labor relations between LP and its employees, establishing the main rights and obligations of both parties under the country's labor legislation. The Human Capital area has developed a series of procedures to select, hire, induct, train, evaluate, remunerate, and promote its employees, as well as to establish their benefits, obligations, and possible sanctions and terminations, which are documented in the IMS. In turn, the Code of Ethics is a guide for employees to follow LP's forms and principles, establishing rules and principles of action in their daily relationships with customers, suppliers, the community, and coworkers.

The Company complies with Peruvian labor laws. As such, it offers its employees the opportunity to affiliate to a Health Care Provider Entity by subsidizing part of the cost. The terms and conditions of the employment contracts follow the aforementioned procedures.

LP employees are not affiliated with any union.

In addition to the provisions of Peruvian law, discrimination of any kind is explicitly typified as a violation of LP's Code of Ethics and, therefore, may give rise to disciplinary sanctions and even legal action.

In addition to having access to the Company's managers, supervisors, and other senior management, employees can file complaints through the Ethics Line, which ensures anonymity and confidentiality of complaints. Access to the Ethics Line is disseminated through the company's internal means of communication (internal e-mail, Intranet, brochures, posters, etc.).

The Ethics Line is used to report any irregularities related to the Code of Ethics such as: mockery, harassment, favoritism, conflict of interest, discrimination, etc.

The minimum age for employment is 18 years, which is verified in the hiring process. In the case of contractors, service contracts require the same labor policies that LP applies, and random site visits are made to verify compliance with these policies.

LP's OHSE standards are based on Law No. 29783 on occupational health and safety. The induction processes include the procedures and programs, as well as the description of the personal protective equipment ("PPE"), required to ensure adequate protection of workers.

LP's OHSE Standards for Suppliers and Contractors, as well as the Integrated Management Policy, apply to all contractors, suppliers, service companies, and professional services that perform work or provide services for LP within or outside its facilities. Contractors have a prevention manager who is responsible for developing, implementing, and evaluating risk prevention, environmental management, occupational health, and emergency plans and programs. Compliance with standards is verified through field inspections by the OHSE department.

Through its logistics area, LP has implemented procedures to verify labor compliance throughout its supply chain. LP always prioritizes local procurement and requires suppliers to undergo external approval, which consists of an evaluation of operational, commercial, environmental, and social aspects, among others.

LP provides training to its suppliers on topics such as pollution prevention measures and efficient use of resources, and conducts campaigns to disseminate information on topics such as efficient water use. As part of the supplier approval process, the Logistics (Purchasing) area keeps an updated list of evaluated companies, which are classified into three categories by risk level. The aspects evaluated to define each company's risk level are: safety, health, environment, social responsibility, financial situation, commercial and operational aspects, among others.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

Greenhouse gas emissions are mainly generated during project construction due to the use of machinery, mainly for earthworks. When projects are completed and handed over, such generation decreases significantly.

Projects that lack public water service from a water utility company obtain the water they need from wells. Prior to land acquisition, at the feasibility study stage, LP's Territorial Reserve area evaluates the feasibility of groundwater supply and ensures that it has the corresponding authorization. In these cases, the water source is for the exclusive use of the population using the project. Once the work on the well—which includes its water use license, storage tanks, pumping units, and supply pipes to the project—is complete, it is handed over to the service company responsible for managing it. Groundwater use licenses are handled by the Local Water Authority.

Prior to the construction or expansion of a project, the Housing Unit's Product and Operations Management prepares a water demand study to calculate whether the potable water supply will be sufficient, or whether additional works will be required to guarantee the supply.

During the construction phase, if there is no water supply, water is provided by tanker trucks.

4.3.b Pollution Prevention

In real estate projects involving urban developments, LP develops the sewerage networks that are then connected to the public utilities network or to the treatment plant of the utility company, as established by the latter. New treatment plants are built only in those cases where connecting to the public service is not possible. Treated water is used for irrigation. In all cases, it must have a Discharge Authorization granted by the General Directorate of Sanitation ("DIGESA") of the Ministry of Health.

Portable chemical toilets provided by authorized companies are used during the construction stage.

LP has a methodology for managing and handling waste that establishes criteria for classifying waste according to whether it is non-hazardous (metals, glass, paper and cardboard, plastic, organic and general) or hazardous (used batteries, ink cartridges, chemical containers, hydrocarbons, batteries, fluorescent bulbs, electronic equipment, etc.).

There are segregated storage tanks for the temporary storage of solid waste. Household waste is disposed of in local municipal landfills and non-municipal waste is disposed of by solid waste management companies. The OHSE department keeps records of certificates of final disposal of non-municipal solid waste.

LP provides training in solid waste management to managers, heads, coordinators, supervisors, and workers responsible for participating in the solid waste management process.

Hazardous materials storage and handling procedures are regulated internally by a specific standard (Standard G050: Storage and Handling of Materials). Chemicals handled in LP's facilities are stored taking into account compatibility issues. Identifying labeling is available for this purpose. The personnel handling them complete the respective material safety data sheets ("MSDS"), and use PPE to and avoid any possible harmful contacts.

4.4 Community Health, Safety and Security

Due to regulatory requirements and technical specifications, multifamily buildings require fire protection systems. These systems follow the standards of the NFPA of the United States.

Since Peru is a country with seismic risk, particularly in the coastal zone, building codes incorporate this factor in the design. Structural calculations for LP buildings are performed by specialized engineering firms.

For urban developments, the risk of floods due to extreme weather conditions is evaluated in addition to seismic risk. For this purpose, hydrogeological studies are conducted to determine flood-prone areas. Tsunami risk is also assessed in the coastal zone.

LP contingency plans cover protection against emergencies that could affect any person involved in the project, whether workers, clients, or visitors.

LP does not have physical security personnel on its premises, except for its headquarters and some high-risk locations, where security personnel are not armed. The premises have an early detection alarm system, remote monitoring, and multi-risk insurance to cover potential property losses.

4.5 Land Acquisition and Involuntary Resettlement

The average size of the land required for urban development is between 5 and 20 hectares. For multifamily projects, the average range of land acquired is between 2,500 and 5,000 m². LP does not purchase occupied land.

The land required for the projects is acquired through free sale and purchase processes with individuals or companies that sell their properties at market prices and conditions and with sufficient information for such decision making. This process does not generate population or economic displacement.

4.6 Biodiversity Conservation and Natural Habitats

The land required for the projects is mostly located in heavily disturbed areas of little biodiversity importance. Nevertheless, when preparing the EIS or EIA, as required, LP hires environmental consultants to evaluate the flora and fauna species within the project's direct area of influence, in order to determine possible impacts on biodiversity or natural ecosystems.

4.7 Indigenous Peoples

LP's projects do not directly impact any Indigenous peoples.

4.8 Cultural Heritage

Prior to land acquisition, during the feasibility study stage, the LP Territorial Reserve area develops a risk matrix, which includes an evaluation of possible existence of cultural heritage. In the event that this risk is significant, such land is discarded.

For land that passes this first screening and is located in consolidated urban areas with no archaeological or historical remains, LP arranges to obtain a Certificate of Absence of Archaeological Remains ("CAAR").

In any case, LP has a Chance Finds Management Procedure in place.

5 Local Access of Project Documentation

The documentation relating to the Company can be accessed at the following link:

<https://www.losportalescorporativo.com.pe/>

6 Environmental and Social Action Plan

For this operation, the client will implement an Environmental and Social Action Plan ("ESAP") complementary to the one in force for the first operation.