

Environmental and Social Review Summary (ESRS) Arteche Energy & Transmission Supply Chain Finance - REGIONAL

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1. General Information of the Project

Arteche Lantegi Elkartea S.A. (the “Group”, “Arteche” or the “Company”) has requested IDB Invest financial assistance to set up an uncommitted revolving credit line (the “Line”) to encourage financial support and financing for the suppliers of its supply chain in Mexico, Brazil and Argentina, by acquiring the debt collection rights payable (the “Project” or the “Transaction”).

2. Scope of the Environmental and Social Review of IDB Invest

The environmental and social (E&S) review of the proposed transaction consisted in a documentary review of the Company's environmental and social (E&S) performance over time, with an emphasis on compliance with the following Performance Standards (PS): 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 Categorization and Rationale

In compliance with IDB Invest’s E&S Sustainability Policy, the Transaction has been classified as Category C, as it will generate almost no environmental or social adverse risks or impacts or, if it does, they will be very limited and of very low intensity.

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

4.1 Assessment and Management of Environmental and Social Risks

The Company, a multinational corporation based in Mungia, Spain, offers design, integration and global delivery of electric solutions and equipment for the measurement, protection, automation, and control sector, mainly within the electricity industry (generation, transmission, and distribution with special focus on developing renewable energies and smart grids).

The Group, with over 2,400 employees in 4 continents, has a network of global distribution and equipment installed in 175 countries, with 13 factories and research and development (R&D) facilities. Moreover, its customer base includes over 1,500 public utility companies worldwide.

Arteche divides its operations into three business units: i) development, installation and operation of measurement and monitoring systems (high- and medium-voltage transformers, digital networks and voltage sensors); ii) automation, and transmission and distribution systems (for instance, substation

automation systems, relays for railway tracks); and iii) reliable network and turnkey projects of electric engineering services and facilities.

The Group has a clear strategy of sustainability across the board, which is extended to its three business units and is aligned with the Sustainable Development Goals (“SDG”)¹. As a result, the Company has developed a robust integrated management system, based on ISO² requirements including: i) mission; ii) vision; iii) 4 corporate values (customers, people, excellence and innovation); and iv) an overarching policy. The system is implemented as per a sustainability policy, equally supervised by the Board of Directors, a Sustainability Committee and a Management Committee, and organized around 8 core pillars: i) financial strength; ii) people; iii) society; iv) environment; v) human rights; vi) transparency and good governance; vii) innovation; and viii) communication.

The Company reviews and updates its interest groups³, their expectations and main communication channels every year. Moreover, following a materiality analysis based on the priority SDGs for the operations, it focuses actions on: i) labor; ii) diversity and inclusion; iii) corporate governance and risk management; iv) ethics and transparency; v) quality; vi) health and safety; vii) COVID-19; viii) supply chain; ix) climate change mitigation and adaptation; x) local commitment and development; and xi) R&D.

The Company’s sustainability results are measured and monitored with 6 key environmental performance indicators and 6 social performance indicators presented in an operation control dashboard.

As part of its E&S commitments in Mexico, Brazil and Argentina, the Company provides the local environmental control agencies with regular reports on the operations’ compliance with the applicable environmental regulations. In this regard, the Company has significantly and continuously submitted its reports in compliance with the terms and conditions of the environmental impact statements (Manifestaciones de Impacto Ambiental, “MIA”) and the Environmental Impact Assessments (EIAs) as required by the local environmental authorities and regularly got the annual operation documents (Cédulas de Operación Ambiental, “COA”) or environmental impact licenses for its facilities (as appropriate).

The Company has several digital communication instruments to communicate with the external stakeholders⁴, which work both as information and accountability tools. These include: Annual Sustainability Reports, news and events dissemination, blogs, and social media⁵.

¹ The Sustainability Strategic Plan 2022-2030 is based on 6 SDGs as described in the sustainability reports. These reports have been published since 2018. The 2021 report can be accessed in: <https://www.artech.com/en/sustainability>

² ISO45001:2018: Occupational health and safety management systems; ISO14001:2015: Environmental management systems; ISO9001:2015: Quality management system; ISO27001:2017: Information security management system; ISO26000:2010: Social Responsibility guidelines; and ISO19601:2017: Management system for criminal compliance.

³ They include: i) employees and family members; ii) the trade unions and Company committee; iii) customers; iv) suppliers; v) shareholders, analysts and investors; vi) society; and vii) the education and R&D centers.

⁴ <https://www.artech.com/es/noticias>

⁵ https://www.instagram.com/grupo_artech/; <https://www.facebook.com/GrupoArteche>; <https://www.linkedin.com/company/artech/>; <https://www.youtube.com/channel/UCnUcPXUxmjjQ03ThjxgwNYA>;

4.2 Labor and Working Conditions

The general working conditions and aspects are very well regulated in the labor and occupational, health and safety (OHS) legislation of Mexico⁶, Brazil and Argentina, in terms of working schedules, salary, holidays, workers' compensation, labor systems, safe working conditions, etc. In this regard, Arteche has in place a Code of Ethical Behavior and a People Management Framework Policy, which are meant to guide the behavior of all Company members, as well as encourage personal and professional growth of everyone belonging directly or indirectly to the Group's team.

The Code seeks to guarantee compliance with all local laws, rules and regulations, as well as all internationally accepted ethical practices (international labor and human rights treaties and conventions applicable in the countries where it operates). It determines the acceptable conduct, and the commitments to good behavior and responsible practices in the Company, which can be summarized in the following 15 general principles: i) respect for the law; ii) honest professional behavior and conflict of interests; iii) anti-corruption measures; iv) fair employment practices: equal opportunity and non-discrimination; v) information transparency; vi) customer and supplier relationships; vii) health and safety; viii) protection of proprietary and third-party assets; ix) anti-trust practices; x) environment; xi) use of the Company's goods and services; xii) confidential information and trade secrets; xiii) sustainable development; xiv) financial control; and xv) engagement with authorities and officers.

The People Management Policy, which establishes the general human capital management guidelines and the optimal working conditions for workers, includes provisions in key issues such as: i) diversity, inclusion and gender equality; ii) prohibition of child labor; iii) prohibition of forced labor; iv); the right of freedom of association; v) prohibition of harassment and discrimination; and vi) health and safety. In connection with the latter, staff protection measures and protocols are implemented to face the COVID-19 pandemic.

The Company's suppliers must observe, share and apply the provisions in the Code of Ethical Behavior, and align with the governance and SDG management guidelines. To this end, the Company considers its suppliers a core element for sustainable growth and keeps seamless bidirectional communication with them and encourages teamwork and support to this end. In 2021, Arteche engaged with 938 suppliers⁷ in the countries where it operates. All suppliers were chosen and assessed in the light of the suppliers' Qualification and Verification Procedure and the Suppliers' Performance Assessment Procedure⁸.

As to claims or grievances, the Company has the Ethics Channel⁹, available for its staff, suppliers and other stakeholders, which can be used to send a personal or anonymous enquiry related to the Code of Ethical Behavior, the regulations and internal policies. The enquiries and grievances received through this channel are dealt with under strict confidentiality by a Committee of Ethics and managed with an unbiased, independent stance; the Company commits to specifically prohibit retaliation against anyone that submits an enquiry or grievance.

⁶ The Federal Labor Act, as amended (latest amendment published in the Federation's Official Bulletin [DOF] on November 30, 2012), and the Federal Occupational Health and Safety Regulations (DOF of November 13, 2014).

⁷ The Company sourced 80% of its needs locally.

⁸ The assessment also includes environmental, social and health and safety issues.

⁹ Arteche's Code of Ethical Behavior and Ethics Channel are available on their website: www.arteche.com

4.3 Resource Efficiency and Pollution Prevention

The Company has strategies in place to preserve resources and to prevent and reduce pollution, which involve monitoring six key environmental performance indicators: i) diesel B consumption; ii) hazardous waste generation; iii) non-hazardous waste recycle; iv) Scope 1 - Greenhouse Gases Emissions ("GEI") measurement; v) Scope 3 - GEI measurement; and vi) environmental incidents and non-conformities.

The Company has in place an Environmental Management System (EMS) certified under ISO 14001:2015 for its operations in Mexico, Brazil and Argentina.

As this Transaction involves financing for the Company's suppliers by acquiring the collection rights, it will not generate any additional pollution or demand for natural resources utilization.

4.4 Community Health, Safety and Security

The Company's Corporate Social Responsibility and sustainability practices come to ratify its strong sense of support, empathy and solidarity towards the communities.

The main positive impacts caused by the Company's activities are related to the indirect employment of the local communities, contractors and the supply chain; tax redistribution; and better quality of life in the communities (thanks to the electrification projects and the training events for local professionals). It is worth mentioning that in 2021 Arteché got involved in many local development education, cultural and sports projects in Mexico, Brazil and Argentina.

5. Local Access of Project Documentation

Additional information about Grupo Arteché's sustainability can be accessed by clicking on <https://www.arteché.com/es>

6. Environmental and Social Action Plan

The Environmental and Social Action Plan (ESAP) is summarized in [Annex 1](#).

Annex 1: E&S Action Plan (ESAP)

No.	Aspect	Action	Deliverable	Delivery Date
PS1: Assessment and Management of Environmental and Social Risks and Impacts				
1.1	Project Compliance with Applicable Standards	Prepare a consolidated report on environmental and social performance and the status of compliance with the national (Mexico, Brazil and Argentina) environmental, social, occupational health and safety (OHS) regulations applicable to the Project, including IDB Invest’s Environmental and Social Sustainability Policy.	Performance Report	As part of the Environmental and Social Compliance Report (ESCR)
1.2	Grievance Mechanism	Ramp up the dissemination of the existence of the Ethics Channel through the media onto the communities in the area of influence of the plants in Mexico, Brazil and Argentina.	Evidence of dissemination	Within 90 days after the first disbursement