

1. Scope of the Environmental Review

Los Portales S.A. (“LP” or “the Company”) is a company founded in 1996 and active in the housing and hotel business in Peru. LP’s operations are primarily based on real estate activity and it is a leader in the urban development business market. It is currently developing its businesses in 18 cities and 13 provinces in Peru (Piura, Chiclayo, Trujillo, Chimbote, Huacho, Barranca, Tarma, Cusco, Huancayo, Juliaca, Ica, Cañete, and Lima).

LP brings added value to vacant lands for urban use and some rural properties close to urban areas, setting up drinking water and sewer systems, public lighting, the electricity supply, streets and sidewalks, parks and gardens. Through its operations, LP enables the population, particularly those in socio-economic sectors B-, C, and D, to gain access to legally cleared and financed land suitable for their first home, facilitating their social development and providing a better quality of life. It also builds social housing for low-income families (*Techo Propio* and *Mi vivienda*) and multi-family projects.

Urban development projects involve moving earth for improved access to the project, parks and landscaping, and development of water, sanitation, and electrical networks, culminating with streets and sidewalks. Social housing consists of constructing one-story houses on 60 to 90 m² of land, with reinforced concrete structures and basic finishings and ready for occupancy. The multi-family projects are in towers of varying heights according to the zone.

In other business lines, LP develops lands using the urban development method for secondary housing (sale of lots for country homes or beach houses) and investment activities and hotel services operations in Peru. The Company currently manages a total of five hotels located in Peru’s main cities (Piura, Tarma, Lima, and Cusco). Through a subsidiary company, Los Portales Estacionamientos, it manages and operates both its own and third party parking lots.

2. Environmental and Social Categorization and Rationale

- According to IDB Invest’s Environmental and Social Sustainability Policy, this is a Category B project, as the magnitude and importance of its environmental and social risks are medium to low and can be managed via measures that are readily available and feasible to implement in the context of the operation. The Project activates the following International Finance Corporation (IFC) Performance Standards (PS): PS 1: Assessment and management of environmental and social risks and impacts;
- PS 2: Labor and working conditions;
- PS 3: Resource efficiency and pollution prevention;
- PS 4: Community health, safety, and security.

3. Environmental and Social Context

For the urban development and social housing projects, LP usually purchases between 5 and 20 hectares of land located outside of but close to the city centers. This land is typically agricultural or unused land awaiting urban expansion, which is reflected in its real estate value. The projects developed by the Company are generally located less than 10 kilometers from urban centers in areas with very low population density. Based on urban development, much of this land is transformed into urban centers with the incorporation of formerly non-existent services (water, electricity, sewers) and improved land-use planning.

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

4.1 Assessment and Management of Environmental and Social Risks and Impacts

- a. Environmental and social assessment and management system. LP has an Integrated Management System (IMS). The IMS includes occupational health and safety, human capital, and environmental regulations and procedures. LP does not have international certifications, although the proposal has been made to begin the process of implementing the requirements of the ISO 45001 standard in 2020 and then to proceed to apply for certification.
- b. Policy. LP's Integrated Management Policy affirms the company's commitment to risk prevention, environmental preservation, and development of socially responsible behavior. These commitments extend to related third parties such as suppliers, contractors, clients, and guests. In addition, the company assumes the commitment to continuously improve its Integrated Management System and review its policy every year.
- c. Identification of risks and impacts. The IMS includes a procedure for hazard identification, risk assessment and controls (HIRAC) in all activities, processes, installations, and services related to the company, so as to prevent personal injuries and establish corporate-level dissemination and implementation methods (HIRAC Management).

Projects are assessed by the Ministry of the Environment in accordance with Law No. 27446 on the National Environmental Impact Assessment System (*Sistema Nacional de Evaluación de Impacto Ambiental* - SEIA) and its regulatory decrees. Projects are classified under three categories based on the risk assessment; the first category (low risk) requires the submission of an Environmental Impact Statement, the second category (medium risk) requires the conduct of a semi-detailed Environmental Impact Study, and the third category (high risk) requires a detailed Environmental Impact Study.

d. Management programs. LP's IMS has plans and procedures applicable to the business units for preventing and managing environmental and social risks, as well as occupational risks. As an example, in the area of Occupational Health and Safety, and the Environment (OHSE), LP has implemented the following procedures:

- Procedure for Identification and Assessment of Environmental Aspects
- HIRAC Management
- Internal Occupational Safety and Health Regulations
- Identification of Applicable Safety Regulations
- Corrective and Preventive Occupational Health and Safety (OHS) Actions
- Establishment and Development of Functions of the OHS Committee
- OHS Audits Management
- Inspections of Operational Controls
- Investigation of Accidents and Incidents
- Emergency Preparedness and Response
- OHSE Standards for Suppliers and Contractors

e. Organizational capacity and competency. The mission of the OHSE Department, a division of the Office of Administration and Logistics, is to ensure compliance with current legislation and the organization's internal policies in the area of safety, health, and the environment, including social issues in coordination with the Human Capital area. The OHSE Department Head is responsible for this, with the support of two coordinators and two supervisors, one for the north and another for the southern region. The Resident Engineers are in turn responsible for OHSE in each project being directly executed, and the Project Managers are responsible for OHSE in projects where execution is outsourced.

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

f. Emergency preparedness and response. The Emergency Preparedness and Response procedure establishes the guidelines for correct identification and response to emergencies in all the operational and administrative areas of LP, as well as all its contractors and guests. The following are considered emergencies: fires, contamination, explosions, structural defects, spills, earthquakes, mudslides, tsunamis, and floods. Each Business Unit must have an Emergency Preparedness and Response Plan that will define the necessary procedures for responding to emergencies and preventing or mitigating their adverse consequences. There is a Crisis Management Committee for each Business Unit consisting of members of management, the OHSE chief and the Physical Safety chief responsible for carrying out actions to deal with emergencies.

g. Monitoring and review. LP periodically evaluates compliance with occupational safety and health requirements. The purpose of these audits is to determine whether the occupational safety and health system has been implemented and whether it is consistent with legal provisions and standards applicable to the sector.

From an environmental perspective, LP monitors noise, air quality, and waste using environmental consultants registered with the competent authority. The reports on projects' compliance with environmental commitments are submitted to the General Directorate for Environmental Affairs (DGAA) of the Ministry of Housing. Audits are periodically carried out by various entities for financing social housing and green bond, to verify compliance with the established requirements.

h. Stakeholder engagement. Community participation mechanisms are governed by Supreme Decree No. 002-2009-MINAM. Public hearings are not required for Category I projects and this is the most frequent category among the urban development projects. Community participation surveys are conducted on the surrounding population identified as an interest group to determine whether the project will affect their activities positively or negatively and the results are submitted as part of the requirements for the Environmental Impact Statement. Suggestions boxes are also deployed in the projects.

i. External communication and grievance mechanisms. LP has a free line at the national level (LP Ethics Line) that operates 24 hours a day and is managed by Ernst & Young (EY). This line is used as a means for confidential reporting of any irregularity perceived by employees or third parties. LP has put up a poster in each office with the phone number and e-mail address for this mechanism. It is also provided to each employee on their entry date and disseminated through corporate e-mail.

In the company's sales stands located in all the projects there is a client service center. All community members can turn to this center or communicate directly with project heads and managers.

4.2 Labor and working conditions

a. Working conditions and management of workers relationships

i. Human resources policies and procedures. The internal Work Rules govern labor relations between LP and its employees, establishing the main rights and obligations of both parties according to the country's labor legislation. The Human Capital area developed a series of procedures for selecting, hiring, inducting, training, evaluating, compensating, and promoting LP employees, as well as establishing their benefits, obligations, and possible sanctions and severance payment

documented in the IMS. The Code of Ethics is, in turn a guide to ensure that employees comply with LP forms and principles, establishing standards and operational principles for their daily relations with clients, suppliers, the community, and coworkers.

ii. Working conditions and terms of employment. Peru's labor regulations are applied. The Company provides the opportunity to join a Health Provider Entity, subsidizing part of the cost. Labor contract terms and conditions follow the above-mentioned procedures.

iii. Worker's organizations. LP's employees are not affiliated with any union.

iv. Non-discrimination and equal opportunity. In addition to the provisions of Peruvian legislation, discrimination of any kind is explicitly described as a violation of LP's Code of Ethics and can thus lead to disciplinary sanctions and even legal action.

v. Grievance mechanism. In addition to having access to chiefs, supervisors, and other leaders in the company, workers may submit their complaints through the Ethics Line, which ensures anonymity and confidentiality of reports and is administered by a professional entity (EY) independent of LP. Access to the Ethics Line is informed through the company's internal communications media (internal e-mail, Intranet, disclosure books, posters, etc.).

The Ethics Line is used to report any irregularity related to the Code of Ethics such as: mockery, harassment, favoritism, conflict of interests, discrimination, etc. EY evaluates the information and investigates the case. If necessary, it refers the matter to the Ethics Committee.

b. Protecting the workforce. The minimum employment age is 18, which is verified in the contracting processes. In the case of contractors, services contracts require the same labor policies as those applied by LP, and random visits are made to construction sites to verify compliance with these policies.

c. Occupational health and safety. LP's OHSE standards are based on Law No. 29783 on occupational health and safety. Procedures and programs as well as the description of the personal protective gear (PPG) required to ensure adequate protection of workers are included in the IMS documentation and disseminated during the induction process.

d. Workers engaged by third parties. The OHSE Standards for LP Suppliers and Contractors, as well as the Integrated Management Policy, are applicable to all contractors, suppliers, service companies, and professional services that carry out works or provide services for LP inside and outside its installations.^[1] Contractors must have an individual responsible for prevention, acceptable to LP, who is trained and takes charge of the development, implementation, and evaluation of risk prevention, environmental management, occupational health, and emergency plans and programs. Compliance with standards is verified through field inspections carried out by the OHSE Department.

e. Supply chain. Through its logistics area, LP has implemented supplier management, procurement management, and incoming supplies procedures. LP always gives priority to local procurement and requires that suppliers go through an external qualification process^[2] consisting of an evaluation of operational, commercial, environmental, and social aspects, as well as other aspects. That qualification process is carried out by an independent company (Corporación Hodelpe SAC).

LP provides training to its suppliers on topics such as pollution prevention measures and efficient use of resources and conducts campaigns to publicize issues such as efficient water use. As part of the suppliers' qualification process, the Logistics area (Procurement) maintains an updated list of evaluated companies, which are classified in three categories according to their risk level. The

aspects evaluated to determine each company's risk level are: safety, health, the environment, social responsibility, financial situation, commercial and operational aspects, among other aspects.

4.3 Resource Efficiency and Pollution Prevention

a. Resource efficiency.

i. Greenhouse gases. Greenhouse gases are mainly generated during the project construction phase due to the use of machinery, primarily earth moving equipment. When the projects are completed and delivered, this generation diminishes appreciably.

ii. Water consumption. Projects that do not have public drinking water from a service provider company (SPC) need to get water from wells. Before acquiring land, in the feasibility study stage, LP's Territorial Reserve area evaluates the feasibility of obtaining water from wells and has the respective authorization. In these cases, the water source is exclusively for the use of the project's user community. Once the well works are completed and have their water use license, the storage areas, pumping units, and the pipelines to the project are handed over to the SPC, which is responsible for managing them. Underground water use licenses are arranged with the local Water Authority.

Before constructing or expanding a project, the Housing Unit's Product and Operations Office develops a water demand study to determine whether the drinking water supply will be sufficient or additional works will be needed to guarantee the supply.

If there is no water supply during the construction phase, water is supplied by tank trucks.

The social housing and multifamily projects promote water conservation by installing water saving nozzles. The installation of these devices is also part of the requirements in dwellings that qualify for a My Green Home Voucher (*Bono Mivivienda Verde*).

b. Pollution prevention

i. Liquid effluent management. In LP's real estate projects that involve urban developments, LP develops the sewer systems that it later connects to the public services network or treatment plant of the service provider company, according to what that company establishes. New treatment plants are constructed only in those cases where there is no possibility of connecting to the public service. The treated water is used for irrigation. In all cases, there must be a Discharge Permit granted by the General Sanitation Directorate (DIGESA) of the Ministry of Health.

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

ii. Solid waste management. The Solid Waste Management document of the IMS establishes the methodology for developing correct waste management and handling. The methodology establishes classification criteria depending on whether the waste is non-hazardous (metals, glass, paper and cardboard, plastic, organic, and general) or hazardous (used batteries, ink cartridges, chemical containers, fuels, batteries, florescent bulbs, electrical equipment, etc.).

There are segregation tanks for the temporary storage of solid waste. Household waste is disposed of with the local municipalities and non-municipal waste is disposed of with the Solid Waste Operating Companies. The OHSE department maintains records of final disposal certificates for non-municipal solid waste.

LP provides training in solid waste management for managers, chiefs, coordinators, supervisors, and

workers with responsibility for participating in the solid waste management process.

iii. Hazardous materials management. The hazardous materials storage and handling procedures are described in a specific standard (Standard G050: Materials storage and handling). Chemical substances handled within LP installations must be stored taking into account their incompatibility and identified with labels. The staff that manages them must have the respective materials safety data sheets (MSDS) as well as the necessary implements (PPG) to avoid any type of contact in the event they are harmful.

4.4 Community health, safety and security

a. Community health and safety

i. Infrastructure and equipment design and safety. Based on regulatory requirements and technical specification, multifamily buildings require networked firefighting systems. These systems follow the standards of the United States National Fire Protection Association (NFPA).

As Peru is a country with seismic risk, particularly along the coast, building codes incorporate this risk in design. The structural calculations for LP construction projects are done by specialized engineering companies.

For urban development projects, besides seismic risk, flood risk due to extreme weather events is evaluated. This is done through hydrogeological studies conducted to determine flood areas, as well as the characteristics and depths of the necessary foundations. In coastal areas, the risk of tsunamis is also evaluated.

ii. Hazardous materials management and safety. Hazardous materials are handled during the construction stage, and there is a specific procedure for this (see 4.3.b.iii).

iii. Emergency preparedness and response. LP's contingency plans provide for protection against emergencies that could affect anyone linked to the project, whether workers, clients, or guests.

b. Security personnel. LP does not have physical security personnel on its premises, with the exception of its central headquarters and some high-risk sites, where security personnel are not armed. Sites have early detection alarm systems, remote monitoring, and multi-risk insurance to cover potential asset losses.

4.5 Land Acquisition and Involuntary Resettlement

a. General. The size of the properties needed for urban developments is between 5 and 20 hectares. For multifamily projects, the lands acquired average between 2,500 and 5,000 m². These are buying and selling operations with individuals or companies that are selling their properties at market prices and conditions, and with sufficient information to make such decisions.

b. Displacement. There is no displacement of people or economic activities. LP does not buy occupied land.

4.6 Biodiversity Conservation and Natural Habitats.

For preparation of the Environmental Impact Statement or Environmental Impact Study, when required, LP contracts environmental consultants who evaluate the flora and fauna species found within the direct area of influence of the project to be carried out, in order to determine possible effects on biodiversity or natural ecosystems. None of LP's projects are located in sensitive

conservation areas.

4.7 Indigenous Peoples

No indigenous peoples are affected.

Cultural Heritage

There are no effects on cultural heritage. Before purchasing land, in the feasibility study stage, LP's Territorial Reserve area develops a risks matrix in which it evaluates the possibility of the existence of cultural heritage. If this risk is significant, the land is rejected. Lands that are accepted require a Certificate of the Non-Existence of Archeological Remains (*Certificado de Inexistencia de Restos Arqueológicos - CIRA*), except for consolidated urban areas with no archeological or historic background. LP also has a Management Procedure for Chance Archeological Finds.

5. Environmental and Social Action Plan (ESAP), Please see attached.

CONTACT INFORMATION

For project inquiries, including environmental and social questions related to an IDB Invest transaction, please contact the client (see **Investment Summary tab**), or IDB Invest using the e-mail at requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or by calling +1(202) 623-3952.

[1] Applicable for works and services in amounts greater than S/100,000 (one hundred thousand soles), or approximately U\$S30,000.

[2] Required for contractors with annual services greater than S/500,000 (five hundred thousand soles), or approximately U\$S150,000.